



3 Reasons Why Restaurant Brands International (TSX:QSR) Is in Good Shape for the Rest of 2020 and Beyond

Description

Restaurant Brands International ([TSX:QSR](#))([NYSE:QSR](#)) is [the parent company](#) of Burger King, Tim Hortons, and Popeyes. RBI, like other restaurant chains, is struggling to deal with nation-wide lockdowns and limited store traffic. However, as the economy re-opens, the company should do well due to the sub-segment of the restaurant industry that it operates in, the ability to potentially refinance its debt at lower rates, and the strength of the Popeyes brand.

The quick-service restaurant category is well positioned for a post-quarantine world

As economies around the world begin to slowly crawl back to life, there will undoubtedly be changes in our everyday living, eating, and recreation habits. However, one thing that is unlikely to change is the fact that many of us live busy lives, balancing multiple roles, and trying to accomplish as much as we can within the 24 hours that we have every day.

Naturally, when we get busy with some things, we must spend less time on others, and food preparation is often one of the first things to go. Even though we are likely to see changes to our dining habits in a post-quarantine world, it is unlikely that the demand for quick and cheap (albeit slightly unhealthy) food will be going anywhere anytime soon.

Debt servicing will likely get cheaper

As central banks around the world adjust monetary policy to respond to the financial fallout from the COVID-19 crisis, interest rates have taken a nosedive, as the central banks rush to gobble up debt like they're playing a game of *Hungry Hungry Hippos*. This should result in lower borrowing rates for companies once default fears in the broader market subside.

RBI carries a significant amount of leverage, with a net leverage ratio (net debt/FCF) of 4.8 times.

While this isn't an uncommon amount of leverage within the industry, it nonetheless resulted in US\$584 million in interest expenses in 2019, when the company's average interest rate was 5%. As opportunities present themselves to refinance this debt at a lower rate, you can be sure that RBI will jump at the opportunity to save millions in annual interest expenses.

RBI has a strong presence in both Canada and the United States. However, the company also has European exposure, with over 1,000 Burger King locations in Europe. Since the Burger King brand has significant recognition in Europe, RBI could conceivably issue Euro-denominated bonds in the European Union. There is a myriad of reasons why it may not do this, despite lower rates, but the point is that RBI has tremendous flexibility when it comes to raising debt capital, as it can turn to the Canadian, U.S., or E.U. debt markets to refinance its debt.

Popeyes will continue to be an explosive driver of growth

RBI acquired Popeyes in 2017 for US\$1.8 billion, and Popeyes is quickly becoming the crown jewel of RBI's portfolio. With an absolutely mind-blowing 32% growth in system-wide sales in Q1 2020 (this included up to March 31, and at least one full week of COVID-19 impacts), Popeyes is squarely in the driver's seat of RBI's growth and currently appears set to overtake Tim Hortons in terms of global sales by the end of 2020. Considering the difficulties that Tim Hortons has had in cracking international markets, Popeyes, which is present in over 25 countries, may be just what RBI needs in terms of a second truly global brand.

Takeaway

The COVID-19 pandemic is likely to change our consumption and dining behaviours for years to come. However, our busy lifestyles are likely not going anywhere, and quick-service restaurants will continue to fill demand for quick and cheap food on the go. With record-low interest rates and a rapidly growing brand like Popeyes in its roster, RBI appears to be in a good position for the rest of 2020, as the world slowly returns to some semblance of normalcy.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/18

Date Created

2020/05/15

Author

kwalton

default watermark

default watermark