Restaurant Brands International (TSX:QSR) Is up Over 100%: Time to Book Profits

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR), which owns Burger King, Tim Hortons, and Popeyes brand restaurants, has made a significant recovery from its March lows by rising over 100%. Investors' optimism over the reopening of economy, acceleration in the digitization process, and stimulus packages from various governments across the globe drove the company's stock price. If you had caught the rally, you would be sitting on good profits.

However, the upside for Restaurant Brands is limited given the weak sector outlook, its high debt levels, and expensive valuation multiple.

Restaurant Brands's near-term weakness

Last month, Restaurant Brands announced that it had opened nearly all of its restaurants in the home market. However, in other markets, such as the Middle East and Africa, Asia Pacific, and Latin America, the company had opened approximately 60%, 85%, and 50%, of its restaurants, respectively. Most of the open restaurants were operating with limited capacity.

Although the comparable-sales growth in all three brands showed improvements, the comparable-sales growth of Tim Hortons in Canada and Burger King in the U.S. were still negative in the second quarter until the third week of May. Popeyes's comparable-sales growth was up over 40% in the United States. Readers should note that Restaurant Brands excludes restaurants that are closed for a significant amount of time in a month while calculating its comparable-sales growth.

With COVID-19 infections continue to rise, I believe the company has to persist operating under limited capacity and restricted time frame for an extended period. So, this could be a drag on the company's revenue.

Although the company operates almost all of its restaurants through franchisees, the decline in comparable-sales and restaurant closures could lower its supply chain revenues and royalties paid by franchisees. Amid the outbreak, the company moved to a 100% variable rent format for the locations that it owns. Weak sales could drag the company's rental income down, as they are linked to franchisees' sales. Also, I expect the company's margins to be under pressure due to a decline in sales.

High debt levels and valuation multiple

Restaurant Brands is a highly leveraged company. Its total debt stood at US$13.4 billion at the end of the first quarter. Its debt-to-equity ratio is over six times, which is on the higher side. The company's debt-to-EBITDA ratio, which indicates the company's ability to service its obligations, is close to 25. It is also on the higher side with the company's EBITDA expected to be under pressure in the near term.

As of June 24, Restaurant Brands was trading at a higher forward P/E (price-to-earnings) multiple of 23.3. Comparably, its average forward P/E multiple for the past three years stands at 22.6. So, given the near-term challenges, the company's valuation looks stretched.

Bottom line

Although Restaurant Brands's long-term growth story remains intact, I believe the recent surge in its stock price has pushed the company into overbought territory. The expectation of weak sales, lower margins, and high debt levels cap the company's upside potential. So, I believe it's the right time for investors to book their profits. If you have not invested and looking to buy the stock, I think you should wait, as you would get better entry levels.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/23
Date Created
2020/06/25

Author
rnanjapla