Should You Buy Restaurant Brands International (TSX:QSR) at These Levels?

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR), a holding company that owns Tim Hortons, Burger King, and Popeyes Louisiana Kitchen brand restaurants, has returned over 95% after bottoming out in March. Investors' optimism over the company's investment in expanding its digital channels, reopening of the economy, and quantitative easing measures announced by various central banks have led to an increase in the company's stock price.

Despite the increase, the company still trades over 13% lower for this year. So, I believe it would provide an excellent entry point for long-term investors, given the company's improving sales metrics.

Restaurant Brands's improving sales metrics

During its recently completed second quarter, the company's top line had declined by over 25% amid the negative comparable sales growth from Tim Hortons and Burger King. Also, its adjusted EPS fell 53.5% to US$0.33 per share.

However, by the end of the quarter, the comparable sales growth of all three brands showed significant improvement from their March lows. The company's investments in expanding its digital channels, such as drive-thru and delivery services, have led to an improvement in the company's sales metrics. Year over year, the company's digital sales grew over 120%, while on a sequential basis, it increased by 30%.

Since February, the company has added delivery service in over 3,000 restaurants across the United States and Canada to increase the number of restaurants offering delivery service to over 10,000 in its home market. Also, the company is working on driving mobile app adoption by enhancing user experiences and improving its loyalty programs through more personalized offerings.

I believe these investments could act as a tailwind for the company in the long run. Also, the company could benefit from the shift in customers' preferences towards digital channels.

Meanwhile, the company had reopened 93% of its restaurants by the end of the quarter. It has also started to reopen its dining rooms as per local authorities' guidelines. In the United States and Canada, it had opened dining rooms in about one-third of the restaurants, while maintaining the necessary safety protocols.

Liquidity position looks strong

Amid the uncertainty created by the pandemic, Restaurant Brands had drawn US$1 billion of revolving credit in March. However, with the sharp recovery in its business, the company fully paid off its revolving debt. Still, the company's cash and cash equivalents stood at US$1.54 billion at the end of the second quarter. So, the company's liquidity position looks strong.

However, the company's net debt stood at US$11.3 billion, which is on the higher side. Meanwhile, the company could benefit from the low interest rates, with a decline in its interest expenses. The company's board had announced a quarterly dividend of US$0.52 per share for the third quarter. So, the company's forward dividend yield stands at 2.9%.

Bottom line

Recently, Restaurant Brands has received mixed reactions from investment moguls. Warren Buffett's **Berkshire Hathaway** has completely sold off its stake in the company.

However, **Pershing Square Capital**, owned by Bill Ackman, has increased its stake in Restaurant Brands by buying 10 million shares in its second quarter. Overall, Pershing Square Capital owned 25.1 million shares of Restaurant Brands at the end of the second quarter.

Meanwhile, I would go with Bill Ackman, given the company's improving sales prospects, strong liquidity position, and attractive valuation. At a forward price-to-earnings multiple of 22.1, the company provides an excellent buying opportunity.

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