Should You Buy Restaurant Brands Post-Earnings?

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR) reported earnings for the period ending March 31 earlier today. Let's take a dive into those results and determine whether investors should buy RBI post-earnings.

First, some more about RBI

For those that are unfamiliar with Restaurant Brands International, the company is the name behind three of the largest fast-food chains in Canada and around the world. Specifically, the company owns Tim Hortons, Burger King, and Popeyes Louisiana Kitchen.

The arrangement between the three brands is unique, as each brings something to the company table, which the other members can leverage. Tim Hortons, for example, has enjoyed a loyal following in the domestic market but struggled to expand internationally.

At least that was the case, until Tim Hortons leveraged Burger King's successful master franchise model, which allowed the coffee chain to reach new markets abroad. Among the various countries that Tim Hortons has expanded into in recent years, the U.K., Spain, Mexico, the Philippines, and China are standout examples.

That same model is now being applied to Popeyes. The company announced an aggressive expansion plan to open 1,000 restaurants over the next decades in India, Mexico, Saudi Arabia, and the United Kingdom. That feat alone might signal some investors to act and buy RBI post-earnings, but there's still more.

Onto the results…

In the most recent quarter, Restaurant Brands reported revenues of US$1,260 million. This surpassed the US$1,225 million in revenue reported in the same period in Q1 2020. During the quarter, adjusted earnings came in at US$257 million, or US$0.55 per diluted share. When compared to the same period last year, adjusted net earnings increased by US$30 million, or US$0.07 per share.

Perhaps the most important piece of information from the quarterly update related to growth. Specifically, Restaurant Brands is now in a position whereby the company is displaying growth over pre-pandemic results posted in 2019. During that quarter, Restaurant Brands reported 148 net new restaurants. That level of growth is second only to Q1 2018, which was a record-breaking quarter for the company.

Tim Hortons has always been a weak link in Restaurant Brands's portfolio. The coffee chain had its share of franchise-owner problems over the years. Those issues also gave way to complaints about menu-tinkering. That led the company to invest heavily in a "Back-to-Basics" plan. That plan included a simplified menu, new coffee roasts, and using freshly cracked eggs in breakfast sandwiches.

Following that major investment, the company also reported that digital sales at Tim Hortons represented a whopping 31% of the chain's sales in Canada. Digital sales stem from the Tim Hortons mobile app, which recorded two million downloads just in March. Incredibly, those digital sales came in at nearly double the level they were last year and surpassed any of RBI's brands across Canada and the United States. That could be an indicator of future growth and, again, signifies an opportunity to buy RBI post-earnings.

Should you buy RBI post-earnings?

Restaurant Brands is an intriguing investment with plenty of potential. Incredibly, there's still one more reason for investors to consider it. Restaurant Brands provides investors with a handsome quarterly dividend, which currently works out to an appetizing 3.19% yield. While this isn't the most impressive yield on the market, it is one that has shown growth over the years and will continue to do so for the next few years.

If for no other reason, investors can also turn to the defensive appeal of Restaurant Brands. Fast-food outlets are notoriously defensive, enjoying gains during both market growth and contraction years. In other words, including Restaurant Brands as part of a well-diversified portfolio makes sense, particularly if you have a decade or more to invest.

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