Is Restaurant Brands International (TSX:QSR) Stock a Good Value Pick?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

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Although everyone likes to find a good, undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, wide economic moats, solid financial ratios, and good management.

Restaurant Brands International

Restaurant Brands International (TSX:QSR)(NYSE:QSR) owns and operates some of the most recognizable food brands in Canada and the U.S. such as Tim Hortons, Burger King, Popeyes Louisiana Kitchen, and Firehouse Subs. QSR currently owns more than 29,000 restaurants in over 100 countries in the form of both corporate and franchisee stores.

The company sells all sorts of products, ranging from coffee, tea, and espresso-based hot and cold specialty drinks, fresh baked goods, including donuts, Timbits, bagels, muffins, cookies and pastries, grilled paninis, classic sandwiches, wraps, soups, and others.

Valuation

QSR is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share prices.

Currently, QSR has been extending gains since Monday as of writing and is currently trading at $64.12, which is far below its 52-week high of $85.43. The current share price is actually close to its 52-week low of $63.45, making this a potentially good entry point.

QSR current has a market cap of $21.83 billion with approximately 38.81 billion shares outstanding. This gives it an enterprise value of $34.13 billion with an enterprise value-to-EBITDA ratio of 22.41, which is similar to peers in the consumer discretionary restaurant industry.

For the past 12 months, the price-to-earnings ratio of QSR was 29.1, with a price-to-free cash flow ratio of 15.03, price-to-book ratio of 8.67, price-to-sales ratio of 3.93, and book value per share of approximately $8.09. These metrics suggest that, even despite the recent correction, QSR remains fairly valued.

QSR is currently covered by a total of 26 analysts. Of them, 13 have issued a “buy” rating, two have issued a “sell” rating, and 11 have issued a “hold” rating. This is generally a considered a mixed to bullish sign, given the roughly equal amounts of buy and hold ratings.

QSR has a Graham number of 20.95 for the last 12 months — a measure of a stock’s upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, QSR does not look undervalued.

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Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won’t matter as much if QSR continues its strong track record of growth and profitability. QSR’s brands are widely recognized and enjoyed by consumers. Barring a gross strategic mistake, QSR will likely enjoy good market dominance for years to come. Consistently buying shares of QSR, especially if the market corrects, can be a great way to lock in a low cost basis.

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