Restaurant Brands International (TSX:QSR) Stock: Should You Buy?

Description

The parent of Tim Hortons and Burger King, **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), has not created any meaningful value for long-term investors in the last few years. While many stocks have breached their pre-pandemic highs, QSR stock has been lingering around its typical range of $70-$80 apiece. In the last 12 months, the stock has lost 3% and 8% in the last five years.

Is QSR turning around?

The $35 billion Restaurant Brands International is one of the biggest quick-service restaurant chains in the world. It operates more than 27,000 restaurants in over 100 countries.

It generates revenues from royalties from franchises as a percentage of its revenues and property revenues that it leases to franchises. Apart from these two, sales at company-operated restaurants also contribute to the company's revenues. Notably, its large global presence and unique value proposition play well for its long-term business growth.

Restaurant Brands is seeing decent recovery in many of its geographies as COVID-related restrictions waned in the last few quarters. Its revenues in the last 12 months grew 11% compared to the previous comparable period. Its fast-growing brands, Tim Hortons and Popeyes Louisiana Kitchen, will likely keep seeing encouraging growth going forward.

Financials

During the second quarter (Q2) of 2022, the company reported US$1.64 billion in revenues, a 14% surge year over year. For the same period, its net income came in at US$346 million.

Burger King reported comparable sales growth of 10%, Tim Hortons saw 12%, and Popeyes saw it at 1% year over year.

In the last five years, Restaurant Brands International has reported a 7% sales compound annual growth rate (CAGR) and a 12% net income CAGR. Apart from earnings, the company's debt has also significantly increased in this period. In 2016, it had a total debt of US$8.8 billion, which has now ballooned to US$14.5 billion at the end of Q2 2022. Its net debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio comes around a concerning 6.2, while debt is more than three times equity.

This could be a problem in the long term if the company's profitability is not increased markedly. To be precise, the company spends more than 25% of its operating profit on interest expenses.

Driven mainly by its steep financial leverage, Restaurant Brands's average return on equity comes in at a decent 28%. However, its average return on capital is at a measly 9%. Having these profitability ratios above 15% is an important yardstick to invest in a stock.

Valuation

QSR stock has shown some recovery of late, gaining 24% since June. It is currently trading 22 times its earnings and looks fairly valued compared to peers. Its enterprise value-to-EBITDA ratio is at 14 and does not look too attractive. Note that QSR stock pays a handsome dividend yielding 3.8%.

Given the unique product range and scale, QSR seems an attractive bet. However, its large debt could continue to weigh on its profitability. So, when looked at its poor return on capital and highly leveraged balance sheet, the stock does not look like an appealing long-term buy.

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