

Restaurant Brands International (NYSE: QSR, \$64 April 4, 2025)

12-Month Price Target: \$80

Rating: BUY

2027 Price Target: \$87, 13% annualized return (incl. dividend)

Business Description

Restaurant Brands International (RBI) is one of the world's largest quick-service restaurant companies, franchising over 32,000 restaurants across more than 120 countries and generating nearly \$45 billion in annual system-wide. RBI owns four brands: Burger King, Tim Hortons, Popeyes Louisiana Kitchen, and Firehouse Subs. Its ~95% franchised business model provides a stable, high-margin royalty stream for the company.

Investment Thesis

- **Visible EPS Growth & Burger King Turnaround:** RBI offers strong earnings growth visibility. Management targets 8%+ annual operating profit growth, and 2024 delivered ~9% organic operating income growth (excluding the impact of the Carrols acquisition, which temporarily inflated reported figures due to company-operated stores now being transitioned for refranchising). This momentum is poised to continue (or accelerate) as temporary headwinds abate and Burger King's U.S. turnaround gains traction. The multi-year "Reclaim the Flame" initiative at Burger King U.S. (over \$400M invested in marketing and remodels through 2024) is stabilizing the brand and improving franchisee profitability, which should translate into better same-store sales and higher earnings going forward.
- **International Unit Expansion Driving Sales:** Robust international growth underpins RBI's outlook. The company is expanding its restaurant footprint by roughly 5% net new units annually, led by Popeyes and Tim Hortons in new markets. Popeyes, for example, saw international system-wide sales surge +47% in 2024, highlighting the substantial global whitespace for RBI's brands. Continued unit expansion (including the nascent rollout of Firehouse Subs overseas), combined with expanding digital capabilities (ie mobile ordering and loyalty apps), is driving sustained mid-single-digit system-wide sales growth for RBI.
- **Discounted Valuation & Capital Returns:** QSR's stock trades at an attractive valuation relative to peers. It is valued at only ~18x forward earnings, over a 30% P/E discount to global quick-service peers like McDonald's and Yum! Brands despite similar long-term average growth forecasts (~8% profit growth). This discount provides a significant upside in PE expansion as QSR performs and investor sentiment resultingly catches up. Moreover, RBI returns substantial capital to

shareholders via dividends and buybacks. The stock yields roughly 4% (with a 2025 dividend of \$2.48 per share declared and RBI returned ~\$1 billion to shareholders in 2024, underscoring a shareholder-friendly approach that juices total returns.

Valuation

- **Earnings Multiple:** RBI is currently trading around 19× 2024 adjusted EPS (~\$3.34 and approximately 17–18× 2025E earnings – a notable discount to the ~25× average P/E of large-cap fast-food peers. The stock’s PEG ratio is about 1.3, reflecting a growth-at-a-reasonable-price profile given its high single digit EPS growth rate.
- **Price Target Rationale:** Our 2 year price target of \$87 is based on a partial re-rating of the stock closer to peer valuation levels. This target implies ~22× forward earnings, still at a discount to sector leaders and reasonable for RBI’s franchise-driven cash flows. At \$87, the implied upside is ~32% from the current price (excluding future share buy backs impact), supporting our Buy rating.

Key Risks & Mitigants

- **Franchise Model Dependence:** ~95% of RBI’s restaurants are franchised, meaning RBI relies on independent franchisees for execution. Underperformance or financial stress among franchisees (especially in the Burger King U.S. system) could hurt sales; to mitigate this, RBI provides support (the BK revitalization plan) and enforces high operational standards for franchisees.
- **Macroeconomic & FX Exposure:** As a global consumer business, RBI faces risks from inflation, currency fluctuations, and economic downturns. Higher food, labor, and energy costs can pressure franchisee margins, while a strong dollar can reduce reported revenue. Geographic diversification and the generally resilient demand for value-focused fast food help buffer these effects, but prolonged macro pressures could still weigh on system sales and earnings.
- **Competitive Industry Dynamics:** RBI’s brands compete in intensely competitive segments (coffee, burgers, chicken, etc). Aggressive promotions or new offerings from rivals could limit RBI’s sales growth. Mitigants include ongoing menu innovation and increased marketing/digital engagement (for instance, Popeyes’ popular chicken sandwich and Burger King’s stepped-up advertising) to defend customer traffic and loyalty.
- **Execution of Growth Initiatives:** The success of RBI’s growth plans – from the Burger King U.S. turnaround to accelerating international development – is not

