The Bottom Is In For Brinker International

The market for Brinker International put in a bottom following the fiscal Q4 earnings release.

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Brinker International Clears A High Bar

Brinker International's (NYSE: EAT) Q4 revenue and earnings were not that impressive in the eyes of the analysts. The revenue was only as expected and adjusted earnings fell slightly short of the mark but there is something to consider. The analyst consensus for Brinker International has steadily risen over the past year and gained more than 100% from its low at the peak of the pandemic scare. We'd like to see the company exceed expectations, that is without a doubt, but setting that aside the company's results are robust, point to continued success, and cleared a very high bar. In our view, that has the market set up to rebound and rebound strongly.

Brinker International Had A Good Fourth Quarter

Brinker International had a good fourth quarter despite its lackluster appearance. The company reported a cool $1 billion in consolidated revenue with strength in all operating segments. The company's core Chili's segment, which came in at 90% of the revenue, grew by 60%. Sales were underpinned by an increase of dine-in dollars as well as take-out spending. The Maggiano's segment, which accounts for most of the rest of the

company’s income, grew by 147% with similar strength seen in the same channels. More importantly, revenue in these segments is up strongly over the past two years driving a 20% increase in the top line. Notably, there was an extra week in the Q4 reporting period this year which added about 700 basis points to the top line YOY growth and $0.34 per share to the bottom line.

The key detail within the report is the margin. The company reports restaurant-level operating margin increased by more than 1,000 basis points to 16.9% and near a company record. Operating margins were driven by the robust increase in traffic and sales as well as internal efficiency and we see these gains sticking in the near-term at least. The company is expecting to see inflation running in the mid-single digits for the foreseeable future so we expect to see pricing increases to match. On the bottom line, both the adjusted and the GAAP earnings increased significantly, reversing losses in the prior year and growing on a two-year basis. The bad news is that GAAP EPS of $1.58 missed the consensus by a dime while the adjusted $1.68 missed by a nickel.

Brinker International Is On The Verge Of Resuming Its Dividend

Brinker International had a healthy history of dividends including regular dividend increases but that ended with the pandemic. The company quit paying out a dividend to preserve capital which was a good idea but now they’re in a great position to bring it back. The pre-COVID payout is worth about 54% of fiscal 2021 earnings and 30% of the consensus for fiscal 2022 so should be an easy distribution. Regardless, the company’s decision to restart its $300 million repurchase program is a clear sign that it is in a good capital position. We expect to see the company resume the dividend in the not-too-distant future.

The Technical Outlook: Brinker International Has Hit A Bottom

Price action in Brinker International slipped in the pre-market session but bargain-hungry investors were ready to gobble up the shares. Price action has risen steadily from the early low and created a large green candle forming a Bullish Piercing Pattern. The Bullish Piercing Pattern is nearly as strong as the Bullish Engulfing Pattern and suggests not only a bottom is in but that a strong rebound could begin as soon as the next trading session. This assessment is backed up by the indicators which are both showing significant diversion from the new low. These divergences are consistent with support and a reversal that should have price action back above the short-term moving average fairly soon.



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