



## Buy These 3 Restaurant Stocks Over Restaurant Brands International Inc.

### Description

Even though investing heavyweights Warren Buffett and Bill Ackman own shares of **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), I'm not a huge bull on the company.

It has nothing to do with the quality of assets. Tim Hortons is an especially good brand with a dominant presence across Canada. When you think of coffee in this country, you think of a cup of Timmy's. The company has also done an excellent job expanding from a coffee and doughnut place to somewhere folks go for both breakfast and lunch.

Burger King is no slouch either. The company has the fifth-biggest market share in the U.S. fast food market, and is third in hamburger joints. Burger King also has a solid international presence, with huge growth potential in markets like China. Together, it and Tim Hortons are a formidable competitor.

Then why am I bearish on the company? The answer is valuation.

Over the last 12 months, the company has lost \$1.99 per share. Even after adjusting for one-time items, the company's profitability is hardly impressive. Analysts aren't especially bullish either; collectively, they predict earnings of \$1.44 for 2015 and \$1.73 for 2016. That puts company shares at a forward P/E ratio of almost 30, which is pretty expensive.

I understand paying for quality, but the fact is Restaurant Brands isn't the only great fast food brand in Canada. There are other great restaurant chains that are worthy of your investment dollars that don't trade at sky-high valuations.

### Pizza Pizza

Is there a more perfect food than pizza? I don't think so.

**Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) is Canada's largest pizza chain, with 730 restaurants coast to coast. There are 630 restaurants under the Pizza Pizza banner, while the other 100 are Pizza 73 restaurants, which operates in Alberta and Saskatchewan.

The pizza business has been a good one, especially lately. The company reported a same-store sales increase of more than 6% in the most recent quarter, while adjusted earnings popped more than 10%. Investors have been worried that a lacklustre economy in Alberta would push down Pizza 73 sales, but that doesn't seem to be the case.

Perhaps the most attractive part of an investment in Pizza Pizza is the dividend. Shares yield 6.1%, with a solid, albeit unspectacular, history of growth.

## **MTY Food Group**

The growth story of **MTY Food Group Inc.** ([TSX:MTY](#)) has been nothing short of extraordinary.

Over the last decade, the number of locations has increased from 428 to nearly 2,800. Owned brands include Manchu Wok, Mr. Souvlaki, Country Style, Thai Express, Yogen Fruze, Taco Time, Jugo Juice, and Koryo Korean BBQ, plus others. Put all together, and these chains generate approximately \$115 million annually in franchise fees for the owner.

Growth expectations are big, too. There are still dozens of small fast food chains in Canada that the company could gobble up. There's also hundreds of other opportunities if management decides to move a little upscale, or if the company decides to move into the traditional restaurant space. The sky is the limit.

Investors aren't really paying that much for this growth potential either. Shares trade hands at right around 20 times earnings, which isn't terribly excessive when compared with peers. They also pay a 1.3% dividend which has been increased each year since 2011.

## **The Keg**

**Keg Royalties Income Fund** ([TSX:KEG.UN](#)) has a very similar structure to Pizza Pizza. Investors are entitled to 4% of gross sales of Keg restaurants included in the royalty pool.

Not only does the Keg have a terrific brand and high-margin dishes, but it's also a reasonably priced stock. The company is on pace to generate approximately \$22 million in cash from operating activities in 2015, compared to a market cap of just \$206 million. That puts shares at a very attractive 9.4 times funds flow.

It also means the 5.6% dividend is safe. Thus far in 2015 the company has paid \$5.5 million in dividends, which is easily covered from cash flow. With that combination of attractive yield and low valuation, it's little wonder that famous value investor Prem Watsa owns a big chunk of the stock.

Plus, I'm told investors get a \$25 gift card each year with their annual report. That's a nice touch.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **POST TAG**

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:KEG.UN (Keg Royalties Income Fund)
3. TSX:MTY (MTY Food Group)
4. TSX:PZA (Pizza Pizza Royalty Corp.)
5. TSX:QSR (Restaurant Brands International Inc.)

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