



Create Your Own Junk-Food Empire (Just Like Warren Buffett)

Description

Over his +60-year career as an investor, Warren Buffett has made an awful lot of money on junk food.

One of the first major investments Buffett made as the head of **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) was See's Candies, which was bought outright in 1972. Buffett also purchased Dairy Queen for Berkshire Hathaway in 1998.

Berkshire currently owns shares in **Coca-Cola**, **Restaurant Brands International** ([TSX:QSR](#))([NYSE:QSR](#)), **Kraft Heinz Foods**, and **Mondelez International**. He's also owned shares of **McDonald's** in the past.

Upon first glance, it's easy to see why Buffett likes the junk-food sector so much. The man picks up his breakfast from McDonald's every morning and washes it down with a Coke. He reportedly drinks five Cokes a day. Junk food is well within Buffett's circle of competence.

But there's more to it than that. Junk food is a great business. Any eater will agree; there's nothing better than their favourite snack. No substitute will do. That's the kind of brand loyalty most businesses can only dream of.

While most dominant junk-food brands are from the United States, Canada has its own unhealthy giants. Here are three that will simultaneously expand both your wallet and your waistline.

Pizza Pizza

Pizza Pizza Royalty Corp. ([TSX:PZA](#)) is the parent company of more than 750 Pizza Pizza and Pizza 73 locations across Canada.

Same-store sales, which are a key metric for the restaurant sector, continue to chug along nicely. Through the first three quarters of 2016 — full-year results aren't out yet — same-store sales increased 1.9% and total royalty pool sales increased 2.5%. Results have been consistently this good for years now.

Another thing to like about the pizza business in the future is the ease of online ordering. It's simple to order pizza through an app or a website, and Pizza Pizza has done a fine job making the required investment in its brand.

Shares also pay a 4.8% dividend — a tremendous dividend in today's low interest rate world.

Cineplex

Don't kid yourself. **Cineplex Inc.** ([TSX:CGX](#)) isn't in the movie business. It's in the junk-food business.

Despite attendance falling 3.2% in 2016, total revenues increased by nearly 8% on the strength of the concession business as well as increases in the company's other media division. It turns out we just can't resist the smell of popcorn when we head into the theatre. That's the kind of business that can withstand inflation.

Cineplex has been a dividend-growth machine. The company just increased its annual dividend to \$1.62 per share, which is good enough for a 3.2% yield. The payout was \$1.29 in 2012 — an increase of 26% over the last five years.

Restaurant Brands

Restaurant Brands International recently announced plans to acquire **Popeyes**. This purchase is a much bigger deal than it appears on first glance.

There are thousands of worldwide fast-food brands out there. Many are struggling to expand. Restaurant Brands can use its worldwide expansion experience to take these brands to the next level. Remember, the company has already expanded Burger King to more than 100 nations around the world.

The next step is to expand the company's other main brand, Tim Hortons. The chain already has some 800 locations in the United States, as well as 56 in the Middle East. Expansion plans include markets like Mexico, Philippines, and the U.K.

Restaurant Brands shares trade at a very reasonable 21 times trailing free cash flow. That's about average in the sector today, but keep in mind that most restaurant stocks don't have as much growth potential.

The bottom line

Junk-food stocks have been some of the best investments of all time. There's a reason why Buffett keeps going back to the sector.

You too can join the Oracle of Omaha, all without leaving the friendly confines of the TSX. Some of the world's finest junk-food stocks are available to Canadian investors. What are you waiting for?

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3. NYSE:QSR (Restaurant Brands International Inc.)
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Date

2025/08/24

Date Created

2017/03/07

Author

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