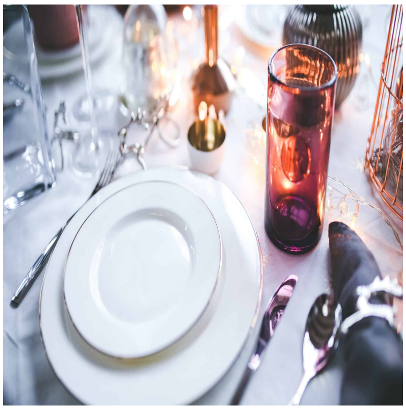

Will These 2 Restaurant Stocks Continue to Go in Opposite Directions?

Description

Shares of **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) rose 1.29% to open the trading week on October 16. The stock briefly reached an all-time high of $85.68 in the morning hours before settling below the $84 mark. Shares have climbed 31% in 2017 and 45% year over year.

Restaurant Brands has been locked in a bitter dispute with its Tim Hortons franchisees over changes made by leadership to improve efficiency. In September, the company accused franchisees of leaking confidential and sensitive corporate information to the press. The Great White North Franchisee Association responded by filing its second class-action lawsuit against the parent company, this time for $850 million, alleging intimidation.

The stock has fared surprisingly well during this tumultuous period. In a recent conference call, CEO Daniel Schwartz was optimistic that the changes instituted have improved operating costs. The company released its second-quarter results on August 2. Revenues were up to $1.13 billion compared to $1.04 billion in Q2 2016.

Comparable sales growth was up 3.9% at Burger King, 2.7% at Popeyes, and 0.8% at Tim Hortons. The company also posted adjusted net income of $241.7 million, or $0.51 adjusted diluted earnings per share. Tim Hortons has been a weak link the first six months of 2017, adding to tensions between Restaurant Brands leadership and franchisees.

The stock also offers a dividend of $0.24 per share, representing a dividend yield of 1.1%. Since its December 2014 initial public offering the stock has climbed 105%. Sales growth at Tim Hortons franchises will be a very interesting release ahead of third-quarter earnings later this month.

The Toronto-based fast casual restaurant **Freshii Inc.** (TSX:FRII) debuted on the TSX in January 2017. Since then, shares have dropped 53.8%. The company has been plagued by disappointing results and an adjusted forecast that put a huge dent in the share price.

The company released its second-quarter results on August 3. Same-store sales growth was 4.2% compared to 7% growth reported in the second quarter of 2016. Revenue remained flat at $4.7 million from Q2 2016. In this earnings call, CEO Matthew Corrin was optimistic about the remainder of 2017 for Freshii, projecting 150-160 net new franchise openings and annual same-store growth between 3% and 4%.

On September 26, Freshii shares plunged over 30% after adjusting its forecast due to setbacks in its U.S. and U.K. expansions. Freshii adjusted its original store openings projection to 90-95 net new stores in 2017. The company expects to open up to 760 stores in fiscal 2019 — down from its original forecast between 810 and 840. It also adjusted its sales forecast by almost $100 million for next year.

Buy the dip or ride the wave?

The next earnings call for Restaurant Brands International will be crucial. Its Burger King chains have recorded tremendous sales growth for several quarters now, but investors will want to see improvement in its two smaller chains. At its current valuation, I am taking profits and standing pat.

Freshii has seen its stock take a beating after a forecast adjustment. This is not uncommon for a fast-growing newcomer. Fast casual restaurants are growing in popularity, especially among younger consumers, and its health-conscious business model also carries growing appeal. Now could be a great time to stack this cheap stock.

CATEGORY

1. Investing

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2. TSX:QSR (Restaurant Brands International Inc.)

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