Will Restaurant Stocks Hold Up in a Slowing Canadian Economy?

Description

In an early October article, I told investors to be wary of restaurant stocks due to slipping economic growth and the trend of Canadian consumers moving away from casual dining.

The recent Statistics Canada August GDP report did not show improvement from July for the food and beverage industry. Food and beverage stores saw a 2% contraction in activity as the industry saw a broad withdrawal. However, there is reason for some optimism. The most significant declines have been in supermarkets and groceries, convenience stores, and beer, wine and liquor stores. Specialty food stores continue show some strength, so it may not be prudent to write off restaurant stocks just yet.

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) is an Ontario-based multinational fast-food company. It owns and operates Burger King, Tim Hortons, and Popeyes Louisiana Chicken franchises. The company has been mired in some controversy, as Tim Hortons franchisees in Canada have formed a coalition in opposition to top-down changes made to improve efficiency.

I recently covered an attempt by Restaurant Brands to confront its franchisees on the basis that confidential information was leaked. However, the Great White North Franchisee Association (GWNFA) actually increased its membership in October to half of all Tim Hortons franchisees in Canada.

Restaurant Brands released its third-quarter results on October 26. It posted revenues of $1.20 billion compared to $1.07 billion in Q3 2016. Restaurant Brands saw comparable sales rise 3.6% and 0.3%, respectively, at Burger King and Tim Hortons and drop 1.8% at Popeyes. Burger King also continued to demonstrate the most impressive system-wide sales growth at 11.8%, while Tim Hortons and Popeyes lagged behind at 3% and 4.5%.

Net income was reported at $91.4 million compared to $86.3 million in the third quarter of 2016. The stock offers a dividend of $0.27 per share with a 1.2% dividend yield.

MTY Food Group Inc. (TSX:MTY) is a Montreal-based franchisor of quick-serve restaurants. Some of its subsidiaries include Groupe Valentine, Croissant Plus, Tutti Frutti, Yogen Früz, and others.

Although casual dining has declined in popularity among younger generations, quick-serve restaurants are spiking in popularity. Has this translated to success for MTY?

The company released its third-quarter results on October 10. Systems sales jumped 54% in the third quarter due to the closure of several acquisitions that occurred in 2016. Same-store sales year to date were down 0.9%. Revenue increased to $73.6 million from $52.8 million in Q3 2016. Net income attributable to shareholders dipped 5% to $15 million.

Shares of MTY have been largely flat in 2017 and have climbed 7.7% year over year.

Freshii Inc. (TSX:FRII) has seen its stock price decline over 50% after spiking initially after its initial public offering in January 2017. It dropped its forecast after announcing a drawdown on its plans for U.S. expansion. The fast casual restaurant presents an interesting opportunity for investors on the hunt for a bargain in this industry. The stock was punished for an adjusted forecast, but this is not uncommon for a newly listed company.

CATEGORY

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