2 Strong Brands: Will You Buy on the Dips?

Description

The stocks of **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) and **Cineplex Inc.** (TSX:CGX) have declined meaningfully from their 52-week highs. Restaurant Brands has dipped ~11%, while Cineplex has retreated ~28%.

Both companies have strong market positions in their respective industries. The recent setbacks should be seen as good opportunities to buy on dips.

The strong brands

Restaurant Brands is one of the largest quick-service restaurant companies in the world. Its iconic brands include Burger King, Tim Hortons, and Popeyes Louisiana Kitchen, which have all operated for more than 40 years. Altogether, Restaurant Brands has more than 23,000 restaurants in over 100 countries and more than $29 billion in system sales.

Burger King is the second-largest fast-food hamburger chain in the world, and it serves over 11 million guests every day. Tim Hortons is the biggest quick-service restaurant chain in Canada. In the country, its locations are more than the number of **McDonald’s** and **Starbucks** combined! Popeyes is one of the largest global quick-service restaurant chicken concepts with more than 2,600 locations in the U.S. and around the globe.

CINEPLEX

Cineplex has about 77% of the box office market share in Canada.

The company’s box office revenue has grown in the long run at a pace which is more or less in line with inflation.

Premium experiences accounted for nearly 44% of the box office revenue in the last quarter. So, the company has been expanding its premium offerings where applicable.

The problem is that Cineplex can’t control the movies it shows. As a result, attendance at the theatres has declined. Compared to Q3 in 2016, in 2017, attendance declined 6.7%.

That said, Cineplex has one of the top loyalty programs in Canada. One in five Canadians is a SCENE member. The SCENE program encourages holders to watch movies and to spend on snacks and food such as poutines and popcorns. So, when blockbuster movies are made available, such as *Star Wars: The Last Jedi*, Cineplex’s performance should improve.

Cineplex is more than a movie business. It opened the first location of The Rec Room in September 2016. The Rec Room is where family and friends can get together, play games, have fun, and enjoy good food. With the popularity of its four locations, Cineplex plans to open more locations.

Investor takeaway

The dips in the stocks make Restaurant Brands and Cineplex more attractive as investments. Between the two, analysts see more upside in Restaurant Brands in the near term.

The Street consensus from **Thomson Reuters** has a 12-month target of US$74.50 on the stock, which represents ~22% upside. For Cineplex, there’s ~11% upside. Notably, Cineplex offers more income with a yield of ~4.3% at the recent quotation of ~$39.20 per share.

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