The Best and Worst Restaurant Stocks

Description

With a recent minimum wage hike hitting the province of Ontario, revenues and profits from some of Canada's fast-food companies may suffer much more than expected. Investors are quick to realize that many employees who earn minimum wage will have fewer dollars to spend on disposable items (as their hours have been cut), and, of course, the expenses for the already very competitive industry are going to increase.

Investors should also take into consideration the loss in customers that many fast-food restaurants will suffer as a result of sub-par services delivered by demoralized employees.

If we take **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) as an example, the company which is already a low-cost provider, has a number of very hard-working employees who are carrying out their duties as fast as possible during peak times. With fewer breaks and/or shorter shifts, the end result is very clear: the restaurant needs to get more out of every employee for what is now a higher cost. Employees are now expected to work even harder, which will inevitably make them more tired. Service throughout the duration of their entire shift will be impacted negatively.

With the challenges as of late, investors seeking good investments to purchase and not-so-good investments that could potentially be shorted may find what they are looking for in Canada's restaurant industry.

To begin with, shares of Restaurant Brands (which is the corporate name given to Tim Hortons) currently trade at more than $75 per share and pay a minuscule dividend of approximately 1%, which accounts for 68% of net profit for the first three quarters of the current fiscal year. As franchise owners are saddled with higher costs, the reality is that there will have to be cuts somewhere, or the potential reward for investing into a Tim Hortons franchise will no longer be worth the effort for many owners.

Although we are a long ways away from it, if company management is not careful, the end result may be similar to that of Dunkin Donuts (in Canada).

On the flip side, shares of **Pizza Pizza Royalty Corp.** (TSX:PZA) have recently pulled back to a price of less than $14.50 per share and now pay a dividend yield of almost 6%, as the company continues to pay out close to 100% of its cash flows from operations, which it has done for close to five years. As a result of higher interest rates, shares have pulled back over the past few weeks in an effort to maintain the same spread between the risk-free rate of return and the dividend yield, which is paid on a monthly basis.

Although there remain challenges across the board, it should be noted that the lowest-cost producer (as long as franchise owners are happy) often wins the match.

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