



Forget Restaurant Brands International Inc.: Buy This Restaurant Stock Instead

Description

I've never been a fan of Tim Hortons' coffee, opting instead for the higher-priced stuff sold at **Starbucks Corporation** ([NASDAQ:SBUX](#)). That said, I'm not going to engage you in a discussion about which coffee is better because it's entirely subjective.

However, when it comes to deciding whether to own the stock of **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), Tim Hortons' parent company, or Starbucks' stock, I'll tell you why you ought to choose the latter.

Night and day management

Comparing the management style of Restaurant Brands to Starbucks is like comparing Bill Belichick to almost any NFL head coach; there's just no comparison.

In Starbucks, you have a company that treats its employees with respect, decency, pay raises, and excellent benefits.

"According to a new benchmarking study Starbucks commissioned, performed by Aon, a leading global professional services firm providing a broad range of risk, retirement and health solutions, the benefits awarded to partners who work 20 hours or more per week at Starbucks rank above any other retailer in the study and are three times more valuable than any other retailer in their study," stated the company's January 24 press release outlining the US\$250 million in wage and benefit increases for more than 150,000 employees in the U.S.

In Restaurant Brands International, you have a company that will do everything in its power to lower costs, neglecting both [front-line employees](#) working in the thousands of franchised locations across the world and in the Oakville, Ontario, head office.

I have no doubt, as analysts suggest, that Tim Hortons' traffic will go back to normal in a few months once people have moved on with their lives. While this might be true, the actions displayed by Restaurant Brands since buying the company in 2014 — from the mass firing of head office employees in 2015 to the communications-challenged manner in which it handled the minimum wage hike — are

lacking in fundamental Canadian values.

Values aside

In the end, investors are buying small pieces of public companies based on their financial performance in the past, present, and future. For many investors who don't have a responsible investing bent, it's all about dollars and cents.

So let's consider both companies.

As I write this, Starbucks stock is off by more than 6% on weaker than expected Q1 2018 results. Analysts were calling for global same-store sales of 3%; they were 2%. As for revenue, analysts expected \$6.18 billion; Starbucks came in at \$6.07 billion — \$110 million below estimates.

As a result of the miss, its stock is now in negative territory over the past 52 weeks. By comparison, Restaurant Brands' stock is up 20% in the same period.

What has it done to earn this appreciation? Not much, in my estimation.

Regarding same-store sales, two out of three of its restaurant brands had negative comps through the first nine months of fiscal 2017 — Popeye's and Tim Hortons were lower by 1.5% and 0.2%, respectively — with Burger King saving the day, up 1.7%.

Over the same nine-month period, Starbucks had global same-store sales growth of 3.0%. While Restaurant Brands doesn't break out its overall same-store sales growth, it's safe to say they weren't as strong as Starbucks through the first nine months of fiscal 2017.

In terms of revenue and operating profits, Restaurant Brands delivered 10.1% and 4.7% growth through the first months compared to 7.0% and 5.7% over the same period.

Considering the size of Starbucks — about five times Restaurant Brands' revenue — it's still doing very well relative to its peer.

You would think that with three restaurant concepts, Restaurant Brands would be able to outgrow Starbucks, but that's not happening, especially when you compare Tim Hortons directly with Starbucks in a coffee-to-coffee analysis. Add in the potential deterioration of Tim Hortons' brand value due to the minimum wage protest and I have a hard time understanding why investors have been favouring its stock over Starbucks.

Bottom line on the two companies

With everything happening in China at Starbucks along with its strong customer loyalty — 42% of the transactions carried out in the first quarter were with Starbucks cards — I see it being in a league of its own compared to Restaurant Brands.

With the latest pullback in Starbucks stock, I'd be a buyer. However, I can't say the same for Restaurant Brands' stock.

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