



1 Battered Stock I'm Never Selling

Description

Restaurant Brands International Inc. ([TSX:QSR](#))([NYSE:QSR](#)) recently fell into bear market territory (~21% peak-to-trough decline) despite solid Q4 2017 results and a [very generous 114.3%](#) dividend increase. The stock now has a massive 3.35% dividend yield that is far greater than that of many of its competitors, including **Starbucks Corporation** ([NASDAQ:SBUX](#)), which currently has a 2% yield.

A series of unfortunate events

The +20% decline is mainly attributed to a series of unfortunate developments that's plagued the stock and has made some Tim Hortons' regulars pass on their daily double-double. It seems like there's no pleasing the Great White North Franchisee Association, which has threatened to take legal action regarding a countless number of issues from computer bugs to unfair supply price hikes.

To say the relationship between Restaurant Brands and its Canadian franchisees is toxic would be a vast understatement. Same-store sales growth initiatives for Canadian locations appear to have hit a roadblock amidst the spat, with the franchisee association resisting the parent company's plans to split renovation costs in order to revitalize existing locations. Meanwhile, the media has been buzzing over the controversial denial of a licence renewal for a Toronto-based franchisee Mark Kuziora.

More recently, Ottawa announced its intention to probe franchisee claims that Restaurant Brands had breached conditions put forth by the federal government prior to the Tim Hortons' acquisition in 2014. The office of Navdeep Bains, Minister of Innovation, Science and Economic Development, said that they're "...analyzing the takeover documents to find evidence of wrongdoing."

This must be concerning to shareholders; however, given the stock's recent +20% decline, it appears that fears are blown way out of proportion. Even if the Tim Hortons' brand has lost its lustre with some Canadians, the fact remains that "boycotts" typically don't last over the long run.

Sure, the countless negative developments could be reason enough for an investor to sell the stock of Restaurant Brands; however, when looking at the stock's undervaluation and its rapidly accelerating cash flow from the fundamentals, Restaurant Brands is an absolute steal! Worst-case scenario is if Restaurant Brands is found guilty of breaching the terms of its acquisition of Tim Hortons.

The sentiment is overly pessimistic

Moreover, even if every Canadian boycotted Tim Hortons for years to come, I still think the stock is a bargain, because while the buzz has been focused on Canadian Tim Hortons' locations, the public is completely ignoring the global potential of the Tim Hortons' brand. And let's not forget that Burger King and Popeye's Louisiana Kitchen are both absolute cash cows slated to return a profound amount of cash back into the pockets of its shareholders.

Sure, Tim Hortons is a company with firm Canadian roots; however, as an investor, one must check their emotions at the door and consider investment decisions objectively. The herd is running to the exits and locking in their losses over concerns that I believe are short term in nature. Spats between franchisees are nothing new, and embarrassing boycott-worthy events seldom have long-lasting effects to a company's top-line.

Look at Starbucks and the protests over the arrest of two African-American men who simply wanted to use the washroom. It's a PR nightmare that's probably more boycott-worthy than most of Tim Hortons' hiccups.

Starbucks management was quick to respond, however, with the shutdown of 8,000 stores for an afternoon of racial bias training. It's this quick response that Restaurant Brands is lacking, allowing its stock to free-fall. In time, however, I do believe that Restaurant Brands will bounce back and that Tim Hortons will regain its lustre with Canadians with a new leader at the helm.

Newly appointed Tim Hortons' President Alex Macedo definitely has some large wrinkles to iron out as the relationship with franchisees is at a low point, but I'm confident that the brand is not beyond repair as some believe.

With this in mind, I welcome any further declines to add to my position. Restaurant Brands is still an absolute [cash cow](#) with a high-growth ceiling and nothing about that has changed.

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