Beat the Market With This Unloved (Even Hated) Canadian Stock

Description

Of all the Canadian stocks that have been reported on by the Canadian media of late, perhaps none have been hit as hard as **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR). In a case of the "little guy" vs. the "big bad bully," Tim Hortons has apparently been taken hostage by Warren Buffett and a group of Brazilian thugs who want nothing more than to suck the profitability out of franchisees' pockets and siphon those profits back into their own.

Making matters worse, provincial governments intent on forcing small- and medium-sized businesses to share more of their wealth with minimum wage workers have, inadvertently, caused said franchisees to cut back on the very workers these politicians were trying to affect.

The Tim Hortons brand has thus somehow become the poster child for the worst of capitalism and socialism at the same time.

What has gotten lost in the ensuing (and rather heated) pro-labour vs. pro-business debate is the fundamentals of Restaurant Brands's overall business. Remember, Restaurant Brands also owns Burger King and Popeyes Louisiana Kitchen — two businesses which "double-double" Tim Horton's in size and are the fundamental drivers of earnings for the conglomerate.

The urge to equate Restaurant Brands solely with Tim Hortons is, in my opinion, a uniquely Canadian problem. Separating the pieces of the companies from each other (and taking a look at the dang financial statements!) will show that Restaurant Brands is one heck of a big company, with Tim Hortons playing a second- or third-line role in carrying the team.

Tim Hortons is a growing business with lots of room to expand internationally — the problem is, the company operates and competes in the low-cost segment of the market and has had problems in the past with raising prices to increase profitability. The high-volume, low-cost model has resonated well with Canadians for decades (the same Canadians who are currently boycotting the brand), and I expect these same customers to continue to visit Tim Hortons locations in the future to pick up their coffee and Timbits for pocket change, despite near-term concerns that this regional boycott (select locations around the country) will take down a conglomerate of Burger King, Popeyes, and Tim

Hortons.

Bottom line

From a strategic perspective, given the clear direction of Tim Hortons's parent company in increasing market share by keeping costs low and expanding internationally, it makes sense in some way to think about the response (or lack of any real response) from Restaurant Brands as rational. While some may question the ethics of such a move, the reality is that Tim Hortons has grown exponentially stronger as a result of this merger, joining two other brands with the potential to provide growth over the long term for investors who are willing to hold on for the ride.

When I think of Restaurant Brands, I think of the competitive advantage for an investor buying into a Burger King franchise or Popeyes location, or maybe even a Tim Hortons somewhere around the world. The growth trajectory of Restaurant Brands internationally is combined with a solid and growing North American market share and a recession-proof business model (when money is tight, I'm betting more folks will be going for the "2 for $5" whopper deals).

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/02
Date Created
2018/04/27

Author
chrismacdonald