Here's a Stock With the Potential for a Massive Upside Surprise

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) is a stock that many investors and analysts despised just a few months ago. The negative developments kept adding up, compounding the pessimism of the general public until the stock took a significant hit in spite of decent earnings results (thanks, Burger King).

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As a shareholder myself, I relished the opportunity to be able to pick up more shares at a discounted price. Although shares have bounced back slightly, I believe the bar has been set so low due to excessive pessimism over Tim Hortons (comps, lawsuits, and the like) that a mere improvement in comps numbers could trigger a surprise upside correction.

As a value investor, I have no fewer than four reasons why I was confident in initiating a fairly large contrarian position in Restaurant Brands at its time of turmoil.

First, I thought the diminishing reputation amongst Canadian consumers was greatly exaggerated.

Sure, the Tim Hortons brand fell several places in the most recent ranking of Canada's most admired brands, but over the longer-term, Tim Hortons is still a Canadian icon, and as long as it offers compelling food options, the customers will likely return.

Tim Hortons is a Canadian staple, and it's going to take a lot more than a few isolated incidents to derail a brand that's found a place with many Canadians over the course of decades. I'm in the camp of "build it, and they will come." As long as Tim Hortons can deliver innovative new menu items (poutine, chocolate-chip iced caps) that work, I believe a vast majority of consumers will return.

Of course, in the process, Tim Hortons will have its fair share of blunders, but I'm sure you'd agree that the model is profoundly less risky than that of almost any other business that can't afford to keep "trying and failing" when it comes to innovative new offerings.

Second, I think investors have discounted the potential alleviating effects of the “Winning Together” strategy, a plan that aims to better communicate with all franchisees to improve franchisee-franchisor relations and put an end to the never-ending flow of lawsuits.

While some bears, including fellow Fool Will Ashworth, are skeptical over Tim Hortons’ “turnaround plan,” I’d argue that the worst has already happened. Given the recent response from management, there’s an opportunity to make amends as management attempts to reboot the relationship for the better.

Third, Tim Hortons is just one piece of the Restaurant Brands puzzle.

Thus far, Burger King has primarily done most of the heavy lifting, and although investors are concerned over slowed comps at Tim Hortons, I think a longer-term horizon is necessary to witness a meaningful return back to significant comps growth numbers. After all, shifting gears between different brands isn’t trivial.

Fortunately, management has recognized this, which is why newly appointed President Alex Macedo has been tasked with winning back the trust of both Tim Hortons’ franchisees and customers.

Fourth, some people have taken their hatred of the new Tim Hortons a bit too personally. Sure, the new management team had its fair share of hiccups, but it’s important to take your emotions out of the equation when it comes to investing.

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Over the last few months, there’s been no shortage of appalling and barbaric incidents dominating the headlines. Before letting such events influence your investment decisions, however, it’s important to take a step back and consider how such an adverse occurrence impacts the bigger picture. Sometimes it pays enormous dividends to consider how bad (or good) news fits in the grander scheme of things.

Tim Hortons is a beloved brand in Canada, true staple. And the recent downward spiral of the chain has been very upsetting on a personal level to many. This frustration can cause us to break up with a stock that’s not faring as poorly as negative stock movements would suggest.

As such, I think Restaurant Brands is irrationally undervalued and is overdue for an upside surge as investors gradually forget about why they were mad at the brand (and the company behind it) in the first place.

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