The Restaurant Industry is Evolving: Are These 2 Stocks Worth Buying?

Description

In September 2017, I'd discussed how millennials, now the largest demographic in North America, were reshaping the restaurant business. Millennials have turned away from casual dining and in favour of order delivery or quick-serve restaurants. These new trends are great news for mobile delivery services like UberEats and SkipTheDishes, but create a a challenging environment for casual dining establishments.

Millennials are also reportedly more geared to prefer local food, communal dining, and restaurants with a good deal of menu customization. Larger chains will be forced to adjust to these new trends. How should investors respond to shifting consumer behaviour? Today we'll look at two companies embedded in fast food chains and casual dining chains, respectively.

Restaurant Brands International (TSX:QSR)(NYSE:QSR)

Restaurant Brands International stock was up 0.83% in early afternoon trading on August 16. RBI is the parent company of Tim Hortons, Burger King, and Popeyes' fast food chains. The company has fought an internal battle with Tim Hortons franchisees' for over a year. A number of franchises have struggled to adjust to the 3G Capital transformation. In the first quarter, RBI announced its "Winning Together" plan that aims to improve the customer experience at Tim Hortons. This includes the introduction of all all-day breakfast, a move that bolstered results at **McDonald's Corp**.

RBI released its second-quarter results on August 1. Burger King continued to beat out the other two chains, posting system-wide sales growth of 10.7% and total system-wide sales of $5.4 billion. Tim Hortons showed slight improvement from the prior quarter, reporting system-wide sales growth of 2.2% and total system-wide sales of $1.74 billion. Total adjusted EBITDA for RBI fell marginally from $563.1 million in Q2 2017 to $562.1 million in this most recent quarter.

The board of directors declared a dividend of $0.45 per share representing a 2% dividend yield.

Recipe Unlimited (TSX:RECP)

Recipe Unlimited recently changed its name from CARA Operations. The stock was up 0.17% in early afternoon trading on August 16. The Vaughan-based company owns and operates a number of casual dining chains including Kelseys, Swiss Chalet, East Side Mario's, Milestones, and others. The company released its second-quarter results on August 9.

System sales increased 32.2% year-over-year to $874.2 million on the back of the acquisitions of Burger's Priest, Pickle Barrel, and most recently The Keg. Adjusted basic earnings per share rose to $0.49 from $0.44 in the prior year. The board of directors also declared a dividend of $0.1068 per share, representing a 1.4% dividend yield.

Recipe Unlimited has been able to rely on acquisitions to power its earnings in recent years. However, anemic growth as casual dining chains remains a concern. This reality has kept the stock in a period of stagnation since late 2015 and early 2016.

Which stock should you bet on today?

RBI has committed to resolving its challenges at Tim Hortons with its “Winning Together” plan. More encouraging is the success seen at Burger King, by far its largest chain with over 17,000 locations across North America. RBI boasts a solid dividend and the stock has posted impressive gains since being listed in 2015. It is the superior option of the two we have reviewed today.

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2. TSX:QSR (Restaurant Brands International Inc.)
3. TSX:RECP (Recipe Unlimited)

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