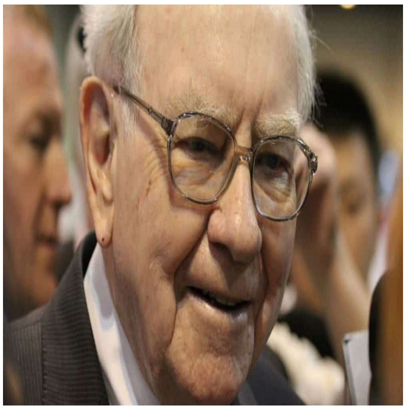

Why Warren Buffett Likes This Canadian Stock

Description

Warren Buffett is not known for investing outside his home turf. Although he has made a few international acquisitions, he mostly tends to keep his money in the United States, which is why **Berkshire Hathaway's** (NYSE:BRK-A)(NYSE:BRK-B) international holdings are all the more worth copying. Buffett doesn't invest internationally unless he has an exceptionally good reason to do so, so any Canadian stocks in his portfolio are likely to be extremely good businesses.

Enter **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). Restaurant Brands is based in Toronto and is listed on the TSX. Although the stock's origins are both Canadian and American (it originated from the $12.5 billion merger between Burger King and Tim Hortons), and the company's largest owner is Brazilian, the company itself is legally domiciled in Canada.

Buffett made headlines in 2017 for redeeming $3 billion worth of Restaurant Brands preferred shares at a tidy profit. However, in November of last year, Berkshire Hathaway's 13-F filing showed that the firm still owned about $500 million worth of them, making it the third-largest shareholder. So Buffett is still betting big on Restaurant Brands. To understand why that's the case, we need to look at the details of 2017's repayment.

About the repayment deal

When Buffett redeemed $3 billion worth of QSR preferred shares, it was under special circumstances. Buffett's investment in Restaurant Brands included stipulations that allowed him to redeem the shares at a 9.9% premium, so he sold above the market value. Additionally, Buffett wanted to increase his cash pile to finance further acquisitions at the time, which means that his cash-out does not imply that he no longer liked the shares. The fact that he still owns around $500 million worth of them.

Why Buffett is still holding

Buffett hasn't publicly commented on why he continues to own Restaurant Brands shares. However, we can make some inferences.

First, the company is a solid dividend producer, with a 3.26% yield (as of this writing) and a whopping 109% payout increase between 2017 and 2018. Although Buffett isn't exactly a dividend worshipper–Berkshire pays no dividend–he does have a tendency to invest in dividend stocks to increase his cash horde.

Second, Restaurant Brands is a winner by many of the metrics that Warren Buffett likes. Notably, it has a 23% return on equity–ROE has often been described as Buffett's favourite profitability metric–and an operating margin of 37% in the trailing 12-month period. In terms of growth, Restaurant Brands isn't one of the hottest stocks you'll find, but Buffett has stated that he'll invest in stocks that represent good value even if earnings growth isn't red-hot.

Bottom line

Restaurant Brands is a solid company with three great brands under its belt. Although Tim Hortons has been struggling lately, the company's other two subsidiaries are still kicking with nearly double-digit sales growth. Combine that with the hearty ROE and operating margin figures, and it's not hard to see why Warren Buffett likes Restaurant Brands.

CATEGORY

1. Dividend Stocks
2. Investing

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