



Better Buy in December: Restaurant Brands International (TSX:QSR) or MTY Food Group (TSX:MTY)?

Description

Stocks that sell services that everyone needs can be great income generators. Feeding people is a pretty decent business idea, since people need to eat, right? This definitely holds true in the case of grocery stores, but those companies are a bit slower growing and might not give people the pop they want from their portfolios. To gain some of that extra growth, many investors have turned to restaurant-style businesses as their income and growth vehicles of choices.

Historically, I have been more inclined to purchase shares in restaurant-style businesses when I want to get a little more growth from both capital appreciation and dividend increases. These companies benefit from people's need to eat in the same way as grocery stores, but they can also charge a premium for the service side of their business.

There are a number of great businesses to choose from, so which should you buy? For this article, I want to take a look at two companies that are in the fast-food service business but have different growth models and operational strategies. Two contenders for the quick-service restaurant space in your portfolio are **MTY Food Group** ([TSX:MTY](#)) and **Restaurant Brands International** ([TSX:QSR](#)) ([NYSE:QSR](#)).

Operations

While there are some differences between the two stocks, the one thing both companies have in common is a desire to expand beyond Canada's borders. Both QSR and MTY are pushing into the United States and abroad, bringing their brands to the world. Either company can give investors a degree of diversification.

That being said, there are two major differences to point out between the companies. The first is the difference in the variety of their businesses. QSR has three businesses at the moment: Popeyes, Burger King, and Tim Hortons. MTY, however, [has a multitude](#) of businesses that span pretty much every type of food style there is. They own desert places, Thai restaurants, coffee shops, and more.

This means that QSR's fortunes can swing dramatically with the outperformance or underperformance of one of its three segments. This was apparent after its Q3 earnings report, when results from Tim Hortons underwhelmed investors, sending the share price down. MTY, however, has its revenue spread out broadly over many different franchises.

But QSR gives investors something that MTY cannot yet match. It has scale and market capitalization that dwarfs the much smaller MTY. At the time of this writing, QSR commanded a market capitalization of \$40 billion, while MTY only has a market cap of around \$1.4 billion.

Dividend

While both companies possess a good dividend yield, QSR's is over twice as MTY group's dividend at around 3%. That being said, both stocks have been excellent dividend growers. In January of this year, MTY increased its dividend by 10%. QSR did the same, increasing its payout by 11.1%.

Valuation

For this category, I cannot really recommend one over the other. Both stocks are somewhat expensive on a price-to-earnings (P/E) basis. With QSR's trailing P/E ratio of 26 and MTY sporting a P/E of about 20, it is practically a draw.

On a price-to-book basis, however, QSR comes out as quite a bit more expensive trading at eight times its book value, while MTY is only trading at a book value of around two.

Both companies also have a lot of debt on their balance sheets. So far, the debt has been used effectively for expansion. Both companies have acquired other businesses, although QSR's rate of acquisition pales in comparison to the number of companies that MTY has been purchasing over the past few years.

Foolish takeaway

I am partial to QSR at the moment, primarily due to [its dividend](#) being somewhat larger and the fact that it is a bigger company with a large shareholder base. It's also less acquisitive, which, in my mind, is a positive. For now, I think it's better to stick with QSR but continue to monitor MTY group and see where its growth is headed.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:MTY (MTY Food Group)
3. TSX:QSR (Restaurant Brands International Inc.)

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