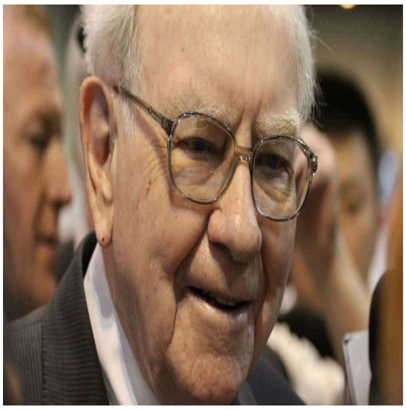

1 Warren Buffett Canadian Dividend Stock Is a Better Buy Today

Description

It's pretty common knowledge by now that Warren Buffett, the value investor legend, owns shares of none other than our Canadian dividend stock darlings, **Suncor** (TSX:SU)(NYSE:SU) stock and **Restaurant Brands** (TSX:QSR)(NYSE:QSR) through **Berkshire Hathaway**.

But which is a better buy today?

Did Mr. Buffett give us a hint? He owns a bigger stake in Restaurant Brands — in nominal amount, weighting in the portfolio, and the percentage of outstanding shares of the respective companies. Specifically, Buffett has about US$538 million in Restaurant Brands versus US$493 million in Suncor.

Since both are dividend stocks, I'll look at them with a focus on their dividends.

Free cash flow

Free cash flow is the cash that's left from operating cash flow after subtracting capital spending. Instead of looking at a single year's free cash flow generation, we can get a better sense of their dividend coverage by reviewing free cash flow generated over several years.

From 2016 to 2019, Suncor stock generated $11,550 million of free cash flow while paying out about $9 billion of dividends. That is, it paid out more than 77% of free cash flow as dividends.

Notably, Suncor generated negative free cash flow of about $900 million in 2016, but since then, it was able to increase its operating cash flow by more than 80%, which was a strong driver for the substantial free cash flow generation subsequent to 2016.

In the period, QSR stock generated US$5,074 million of free cash flow while paying out US$2.8 billion of dividends (nearly 56% of free cash flow). Notably, Restaurant Brands generated free cash flow of more than US$1 billion every year.

This review of Suncor and QSR's recent cash flow generation history suggests that QSR is a more predictable business than Suncor, which makes sense given that Suncor's profitability is more or less affected by the gyrations of energy prices.

In contrast, Restaurant Brands's profitability should be pretty reliable, even during economic downturns, because it's very economical to grab a quick bite from any of its three brands, Burger King, Tim Hortons, and Popeyes Louisiana Kitchen. So, people consistently go to its locations.

Dividend growth and dividend yields

From 2016 to 2019, Suncor and QSR, respectively, paid 39% and 67% more in dividends to their shareholders. On a per-share basis, Suncor stock and QSR stock increased their common stock dividends by 49% and 3.25 times, respectively since 2016.

At writing, Suncor stock offers a yield of 4.7%. Its annualized payout of $1.86 per share is supported by a payout ratio of 63% based on this year's estimated earnings and 57% based on this year's estimated free cash flow.

QSR yields 3.1%. Its annualized payout of US$2.08 per share is supported by a payout ratio of 70% based on this year's estimated earnings and 65% based on this year's estimated free cash flow.

The market appears to categorize Suncor as a riskier stock and therefore requires a higher yield on the stock. Additionally, it's fine for QSR's payout ratio to be higher than Suncor's due to QSR having greater predictability in its profits.

Which is a better buy today?

Investors probably can't go wrong buying either stock today, given their abilities to generate substantial cash flow and pay generous and growing dividends.

After all, Warren Buffett wouldn't buy the stocks in the first place unless he believed their dividends to be safe (he loves dividends, and so do I!), and he wouldn't be holding them now if he doesn't think they can continue generating value.

But if I must choose only one, I'd go with the more conservative, safer investment in Restaurant Brands , which offers a lower yield but greater certainty.

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