Value Investing: Fast Food Has Never Looked So Cheap

Description

The fast-food and restaurant industry is suffering, and while online delivery companies have attempted to fill the gap, it is not enough to maintain the same amount of food sales as before the coronavirus. Fast-food chains, restaurant chains, and other non-essential services have been ordered to shut down across Canada, making sales targets unachievable and dividend cuts probable. As you know, you can't pay a dividend if you aren't generating any free cash flow!

But while this global pandemic is having a heavy impact on food sales, I believe the sell-off on food companies is overdone. Once the virus is defeated, businesses will return to normal. There is no reason for sales not to continue where they left off, as I don't foresee there being any reason for consumers to drastically change their eating habits due to the coronavirus events. As a result, I believe **Restaurant Brand International** (TSX:QSR)(NYSE:QSR) and **MTY Food Group** (TSX:MTY) are good buys today.

Burgers, coffee, and chicken

Restaurant Brand International (RBI) owns Burger King, Tim Hortons, and Popeyes. Burger King's and Popeyes's operations are predominately international, tapping into many different global economies. RBI has evolved from owning solely Burger King to acquiring Tim Hortons and Popeyes, and the changes made are evident. RBI's business model changed from being an operator and franchiser, to strictly a franchiser. This has allowed RBI to increase profit margins, lower the capital intensity of investments, and generate strong same-store sales revenue growth.

Now to look at RBI's growth prospects: from 2010 to 2018, RBI has increased the business net restaurant growth from $173 million to $1,337 million. There is no shortage of growth opportunities for RBI, as the restaurant owner has charted a path to increase the number of restaurants from 26,000 to 40,000 by 2023 through international expansion. In 2019, RBI saw Popeyes's sales grow by 18.5%, Burger King's sales grow by 9.3%, and Tim Hortons's sales decrease by 0.3%. While Tim Hortons is currently struggling to generate revenue growth, I believe Popeyes and Burger King will continue topick up the slack for RBI and generate stellar earnings for years to come.

What's cooking in the kitchen?

MTY Food Group (MTY) is one of the largest franchisors in Canada's restaurant industry, owning over 75 brands. MTY's brands are diversified, offering coffee, Asian food, Indian food, American food, Italian food, Mexican food, Mediterranean food, breakfast, frozen treats, and sandwiches. MTY's approach to growth is by consolidating with disciplined acquisition strategies. This differs from RBI, which has chosen a brand-enrichment strategy to grow. MTY has 2,828 franchisers in Canada, 4,092 franchisers in the United States, and 521 in international markets.

From 2010 to 2019, revenue has grown from $67 million to $531 million. MTY has same-store sales growth of 0% in 2019, which is an improvement from previous years averaging at -0.5%. This might be seen as a deterrent as an investor, but MTY is dedicated to improving this important metric in future quarters.

Foolish takeaway

RBI and MTY will continue to execute growth strategies, regardless of the virus, and share prices will recover. As of writing, RBI boasts a dividend yield of 4.6%, and MTY boasts a dividend yield of 3%. Share prices of RBI and MTY have both seen a share price reduction of 35% and 65%, respectively. These low share prices and high yields won't last long, so consider investing soon!

CATEGORY

1. Investing

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2. TSX:MTY (MTY Food Group)
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