



## Value Investors: Is it Time to Start Buying Canada's Restaurant Stocks?

### Description

I doubt any sector has taken the coronavirus news any harder than Canada's restaurant stocks. Some of these names were down 60-70%, although the sector has recovered a bit. Still, it hasn't been a good month for a normally stable industry.

It's easy to see why Canada's restaurant stocks are so depressed. Restaurant visits have fallen off a cliff as people aren't allowed to enter the dining room. Sure, takeout sales continue, and delivery is an option, but people in isolation are mostly choosing to eat at home.

The good news is the draconian measures implemented by governments seem to be working. If social distancing proves to be an effective way to fight coronavirus, then restaurants will reopen again in just a few weeks. Millions will go back to work and this downturn will be only temporary.

With this piece of good news in mind, I think it's time to buy Canada's restaurant stocks today. Here are a couple that [I've recently added in my own portfolio](#).

### A&W

I firmly believe **A&W** ([TSX:AW.UN](#)) is the best of Canada's restaurant stocks. Management just consistently does a good job.

The company operates on a few timeless themes that have worked pretty well over the long-term. It focuses on quality ingredients and tasty food. Its restaurants are nice and kept clean. While it might not be the cheapest chain out there, a meal at A&W is generally good value, and the company's promotions are usually top-notch.

In short, A&W is just a good operator. This leads to consistently good results with a few home runs mixed in, like 2018's introduction of a plant-based burger. Remember, A&W was the first North American chain to promote such an item, and it was so popular it sold out in no time.

Many of A&W's locations are using drive-thru as a way to mitigate some of today's damage, but we'll

still likely see a brutal quarter or two. That's a concern, but it shouldn't matter a whole lot to investors with a five to 10-year holding period.

The recent selloff has boosted the yields of Canada's restaurant stocks nicely, and A&W is no exception. Shares currently yield a little less than 8%. That's an [excellent payout](#) that should be sustainable.

## Recipe Unlimited

**Recipe Unlimited** ([TSX:RECP](#)) might be the cheapest of Canada's restaurant stocks. This company earned plenty of free cash flow before the sector blew up, and I would expect it to do so again once things normalize.

Recipe owns many of Canada's top restaurant brands including Swiss Chalet, Harvey's, New York Fries, Montana's, Kelsey's, and others. Together, these brands span some 1,400 locations across Canada and do about \$3.5 billion in sales during normal periods. Obviously, 2020's results won't be that good, but I wouldn't be surprised to see 2021's top line return to that level.

Despite 2019 being a bit of a lackluster year, Recipe still posted solid results. It generated \$2.52 per share in free cash flow and spent some \$100 million buying back what management thought were undervalued shares.

Although the share buyback doesn't look like a great decision today, I think investors will be happy with it five years from now.

This also highlights Recipe's dirt-cheap valuation. Recipe shares currently trade hands for about 3.5 times trailing free cash flow. No, that's not a typo. You're really getting one of Canada's best restaurant stocks for such a low valuation.

Recipe doesn't just offer a cheap valuation. It also offers a solid 5.7% yield, a payout that was just increased in February.

## The bottom line on Canada's restaurant stocks

A&W and Recipe Unlimited both look like solid buys today. But I should caution investors that the short-term could still be rocky. Brace yourselves for a volatile few months.

The long-term, meanwhile, looks a whole lot better. In fact, it's easy to envision a scenario where Canada's restaurants are largely back up and running just a few months from now.

So if you have a five- to 10-year investing horizon, most of Canada's restaurant stocks are a screaming buy today – especially A&W and Recipe Unlimited.

### CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:RECP (Recipe Unlimited)

## PARTNER-FEEDS

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