COVID-19 Market Crash: Is it Time to Buy Restaurant Stocks?

Description

The COVID-19 lockdowns across North America and the rest of the developed world triggered one of the quickest descents into a bear market in history. Meanwhile, the aftermath could see markets rebound into one of the fastest returns to a bull market. The whirlwind of events may have left investors dizzy, but it is not time to relax just yet.

Several key industries have been ravaged in recent weeks. For example, top oil and gas producers are pursuing sharp production cuts, while the Canadian government is reportedly mulling over a sizable bailout. Similarly, financials have been hammered by volatility. Consequently, there are fears of a domino effect in the real estate industry, as retail tenants seek broad rent relief. Today, I want to discuss a sector that has arguably been hit harder than any other.

Restaurants pressured by COVID-19 lockdown

Opening a restaurant as a small business owner is always a risky endeavour, even for those who are highly skilled with a vision. Profit margins in the industry are notoriously thin. Even the most successful restaurants and bars face this harsh reality. The COVID-19 lockdowns in major cities across Canada will prove to be an enormous challenge for restaurant and bar owners.

Fast-food chains, like those operated by **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), may be more resilient. However, even these brands are far from safe. Shares of RBI have dropped 24% month over month as of close on March 25. This pushed the stock into negative territory for 2020.

Many restaurants have turned to solely offer take-out, drive-thru, and delivery service. On March 15, Tim Hortons announced that it would close all dining room seating and focus on these methods to serve its customers. This is in response to the COVID-19 outbreak. Tim Hortons has consistently lagged among the three brands at RBI. This broad pause is unlikely to produce a positive outcome in the near term.

Earlier in March, I'd targeted RBI, as it was one of the stocks investing legend Warren Buffett was betting on. RBI will anxiously await the end of this lockdown, but for the time being it looks undervalued and boasts a 4.6% dividend yield.

Casual dining and quick-service restaurants may be more of a wild card in this environment. Therefore, quick-service restaurants would appear well-suited. Unfortunately, the mass closure of malls will take away a big chunk of revenue in the near term. **MTY Food Group**, which owns brands like Thai Express, Country Style, Sushi Shop, and others, will be exposed to this risk.

Recipe Unlimited is probably the most dangerous hold of the stocks I've covered today. It is focused more on the casual dining space, which includes brands like The Keg, Kelseys, and Montana's. These restaurants have suffered mass closures and may suffer from the demand squeeze even after this lockdown concludes. Shares of Recipe Unlimited have plunged 51% month over month and 67% year over year.

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