TSX Investors: How Risky Are Restaurant Stocks in 2020?

Description

The S&P/TSX Composite Index enjoyed a fantastic week ending April 10. However, Canadian restaurants are still facing a catastrophic situation, as we move into the middle of the month. Do restaurant stocks make sense for TSX investors right now? Let's dive in.

Many Canadian restaurants are on the brink

It is difficult to find a sector that has been harder hit than restaurants in this crisis. The government-mandated lockdowns were immediately felt in hospitality. This is especially true for small business owners. Restaurants often operate on razor-thin margins to begin with. The impact of weeks of lost revenue for these business owners is incalculable. The federal government is taking steps to provide relief, but it will not be enough for many in this sector.

The Canadian food service sector laid off an astonishing 800,000 people in the month of March. Restaurants Canada, the industry association which conducted this revealing survey, has warned that nearly 30% of restaurants will not re-open if the situation remains unchanged throughout the month of April. Many restaurateurs have argued that the 75% wage subsidy and $40,000 loans for small businesses will not account for damage that will take "a generation" to recover from.

These restaurateurs are lobbying for an industry-specific package to prevent a catastrophic scenario.

Restaurant stocks to watch today

Many restaurants have been forced to resort to take-out due to the lock downs. Fast-food restaurant stocks look like the best bet to stay resilient due to their structure. This is good news for **Restaurant Brands**, which owns and operates Burger King, Tim Hortons, and Popeyes. Even still, investors should expect a sharp pullback in activity. Shares of RBI have dropped 12% month over month as of close on April 10, but the stock bounced back 24% over the past week.

Restaurants that rely on in-room dining have moved to offer take-out as well, but they will feel the brunt of the drop in foot traffic. **Recipe Unlimited** owns and operates casual dining chains like East Side Mario's, Kelsey's, Montana's, and The Keg. Its stock has dropped 30% over the past month, even with a 23% bump over the last week.

Companies are making cuts

In late March, the company announced that it would suspend compensation for its board of directors as well as for its CEO. It will also suspend all further dividend payments. This came with a series of other dramatic actions that have been in response to the loss in revenue that will stretch to a month this week.

MTY Food Group is a mixed bag for TSX investors right now. It operates a mix of casual dining, fast casual, and quick-service restaurants. Shares of MTY Food Group have dropped 50% over the past month. This comes after a 25.9% spike on April 10.

On April 6, MTY announced that it would rely on exemptions recently granted by the Canadian securities regulatory authorities to delay its first-quarter earnings release. It suspended its dividend, laid off over half of its global workforce, and capital and operating spending has been reduced to a minimum.

There is too much uncertainty when it comes to the length of the lockdowns to trust Recipe Unlimited or MTY Food Group right now. RBI, however, is more well equipped to tackle this crisis.

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