Restaurant Stocks: Top Dividend Heavyweights to Buy Right Now

Description

Restaurant stocks have been crushed, as investors brace for double-digit comp declines that could be on the horizon. With many small dine-in restaurants standing to go under, some are of the belief that current pressures plaguing all restaurants will remain forever. While it seems like it in the heat of the moment, I believe that over time, consumer habits will gradually return to the way they were before the pandemic.

Deep value in restaurant stocks

If you seek value in the restaurant scene, you can spread your bets across a broad range of names and probably do very well over the long haul. Some of the smaller, less financially flexible players in the space could stand to go under amid the coronavirus crisis, as operating costs come rolling in while revenues collapse by 75% or more.

Although it's hard to find anything to be bullish about in the restaurant scene, it's worth remembering that not all restaurants are built the same. Some have deeper pockets and more than enough liquidity to ride out a downturn relatively unscathed, with a lost quarter or two.

Others are more vulnerable to collapse and could stand to suffer in an economic contraction that could drag on well after the coronavirus is eradicated. As such, value investors should pick their spots carefully to tilt the risk/reward trade-off heavily in their favour.

AVOID: Upscale dine-in restaurant stocks

First, upscale dine-in restaurants like Swiss Chalet, The Keg, East Side Mario's, Montana's Cookhouse, and Kelsey's (all brands under the **Recipe Unlimited** umbrella) ought to be avoided, as they'll be most affected during and after this pandemic. Upscale dining isn't just breaking the rules of social distancing during a pandemic, but these restaurants are also positioned to underperform through the recession that the coronavirus is going to leave behind.

It's one thing to ask people to dine in the year of a pandemic; it's another thing to ask financially strapped consumers to pay a considerable premium for service, restaurant décor, and a gratuity of at least 15%. Many belt-tightening Canadians aren't going to be able to afford to dine out at the Keg until the recession is over, as they'll need every dollar to go as far as it can during the tough times. So, that rules out upscale dine-in restaurant stocks.

BUY: Well-established fast-food stocks

Up next, we have fast-food firms that derive a considerable amount of sales from dining in. Warren Buffett play **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) will suffer over the near term, as consumers will be unable to dine in at the local Tim Hortons or Burger King. After the pandemic is over, however, Restaurant Brands stock is in a spot to come roaring back, potentially as sharply as it crashed.

Fast food is an inferior good, meaning it tends to sell well when times are tough. In a recession, the demand for value menu items and all the sort will increase, and that could help Restaurant Brands rise out of its funk and potentially make up for two quarters of lost business.

The stock sports a 5% yield at the time of writing and has no business being down 45% from its highs. The fast-food kingpin may not be the most liquid amid the crisis, but it's got what it takes to survive and thrive in a post-pandemic environment.

BUY: Take-out-oriented restaurant stocks

Finally, we have take-out focused restaurants like **Pizza Pizza**, which will hold their own during and after the pandemic. Pizza is made to order, and it's a perfect option for a self-isolating person who's sick of cooking on their own.

Although Pizza Pizza cites that COVID-19 has negatively affected the royalty pool system sales, I'd argue that given the take-out-oriented nature of the restaurant that management is as much to blame for slowed sales as the coronavirus. Just have a look at shares of Pizza Pizza, and it screams that there were substantial issues far before the pandemic arrived. With **Domino's Pizza** is near its all-time highs, I don't buy that COVID-19 is the sole reason for Pizza Pizza's shortcomings.

Foolish takeaway

Of all restaurant stocks, I see Restaurant Brands as the best bargain for your buck. It's oversold, undervalued, and ripe to rebound to $100 by year-end.

Stay hungry. Stay Foolish.

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