



This TSX Stock Could Have 100% Upside As the Canadian Economy Reopens

Description

As the Canadian economy reopens, some of the hardest-hit stocks on the **TSX Index** could finally face a bit of relief.

At ground zero of the coronavirus crisis, we have the battered travel business, which could take many years to return to pre-pandemic norms.

On the other end of the spectrum, we have firms like **Shopify** that stand to outperform for the duration of the pandemic thanks to the invaluable services that act as a lifeline to small businesses that are most at risk.

And in between, we've got firms, such as the restaurants, that have suffered massive declines as a result of the pandemic but are in a position to recover relatively quickly once the economy re-opens in return to semi-normalcy.

While I don't suspect people will crowd to restaurants once the federal government gives the green light to do so, I do think that over the next several months, we could witness a slow and steady recovery that could fuel a rebound in some of the harder-hit restaurant stocks on the **TSX Index**.

The hardest-hit segment of the restaurant industry

Consider shares of **Recipe Unlimited** ([TSX:RECP](#)), a restaurant operator (primarily focused on upscale dine-in) formerly known as Cara Operations. It's the firm behind popular Canadian chains such as The Keg, Harvey's, Swiss Chalet, Montana's, and Milestones, among other brands.

The company is a play on the dine-out experience, which has been ravaged by the coronavirus pandemic.

Although take-out options are still available at upscale dine-in restaurants, dine-in-focused firms have taken a brunt of the damage amid this pandemic. In a prior piece, I warned investors that upscale dine-in stocks like Recipe Unlimited were to be avoided in favour of fast-food or take-out-oriented restaurant

stocks.

“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,” I [wrote](#).

“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%.”

The risks are too high, even given the massive upside potential

As the pandemic drags on, a majority of investors would be best-served continuing to avoid firms within the upscale dining restaurant sub-industry. There are just too many uncertainties in the era of coronavirus.

While the economy is on the verge of re-opening, investors must consider what could be two or more years of intermittent lockdowns before a vaccine can eradicate the insidious coronavirus that causes COVID-19.

That could mean dine-in restaurants could have many more typhoons to deal with, even after the economy begins re-opening for the summer.

If you’re aware of the risks and are still keen on placing a bet on upscale dine-in, Recipe Unlimited could be a name that could easily double should [more COVID-19 treatments](#) that go beyond Remdesivir be discovered on route to a vaccine.

Moreover, better preparedness and testing could mean that a second breakout could be more muted in nature, making it safe for consumers to continue going to dine-in restaurants at half capacity or something of the sort.

Foolish takeaway

The risks involved with an investment in Recipe Unlimited is ridiculously high, but so too are the rewards. In terms of liquidity, the company isn’t in the best shape to ride out a worst-case scenario.

Recipe Unlimited has a mere 0.55 quick ratio, just \$40 million in cash, and \$1.3 billion worth of total debt weighing down the balance sheet. Cash flows are going to take a hit, and Recipe Unlimited stock could implode much further if the coronavirus pandemic were to drag on for longer than expected.

While Recipe could more than double in a best-case scenario, I’m still not a fan of the stock, even at these depressed valuations. As such, I’d only urge speculators to buy Recipe Unlimited stock at this juncture given the all-or-nothing scenario.

As the economy re-opens, the stock could pop over the near-term, but that doesn’t mean it’ll be smooth sailing here on out.

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