1 Buffett Stock to Beat the Coronavirus

Description

Renowned investor Warren Buffett recently dumped his stock in the four major U.S. airlines. This is part of his strategy of boosting cash and reducing exposure to industries that will perform poorly in a post-coronavirus world.

One Buffett stock which will thrive even during a coronavirus recession is **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). It has recovered strongly from the March 2020 stock market crash to be down 14%, the same as the **S&P/TSX Composite Index**.

There are indications that now is the time to buy Restaurant Brands before its stock rallies during the second half of 2020.

Better-than-anticipated results

The quick-service restaurant company meets many of Buffett’s requirements for investing in a stock, including a strong brand, wide economic moat and easily understood business. Restaurant Brands recently reported its first- quarter 2020 results.

Despite non-existent system-wide sales growth, total revenue declined just 3% year over year and net income was 9% lower. Despite in-house dining restrictions, Restaurant Brands’ ability to maintain delivery, pick-up and drive-at many of its operations serves to cushion it from the coronavirus fallout.

Restaurant Brands recently boosted its capital by adding US$500 million of debt to its existing US$2.5 billion of cash at the end of the first quarter, which will ensure that Restaurant Brands restaurants survive the fallout from the pandemic and related recession.

The restrictions implemented to contain the coronavirus will trigger worse second-quarter earnings, although a rebound should be expected during the second half 2020.

Buffett expects another market crash

There are emerging signs of another stock market crash ahead. Buffett’s preferred [stock valuation] indicator shows that U.S. stocks are overvalued. The Oracle of Omaha appears to be anticipating another crash by boosting his cash gold holdings by selling non-performing stocks including the four major U.S. airlines.

Economic fundamentals indicate that there’s worse ahead for stocks. The International Monetary Fund anticipates that Canada’s 2020 gross domestic product will contract by 6.2%, while for the U.S. it will shrink by 5.9%, with unemployment rising at a rapid clip as external shocks impact the economy. This will weigh on consumer spending habits and consumption.

Buffett likes recession-proof businesses

Buffett is attracted to recession-resistant businesses. What many investors fail to realize is that a recession triggered by the coronavirus will be a tailwind Restaurant Brands.

You see, quick-service restaurants and other budget dining options become more popular during economic slumps, which will act as a tailwind for Restaurant Brands’ earnings as sales rise because of a growing volume of budget-conscious consumers.

During the 2008 Great Recession, the sharp rise in popularity of budget restaurants saw many chains expand their presence to meet growing demand. The powerful presence of the company’s restaurants will also protect earnings and attract diners during a recession.

Such options as delivery, drive-through and takeaway will allow Restaurant Brands' iconic quick-service restaurants to keep serving customers for as long as the coronavirus lockdown remains in place. The company's scaling up of its digital presence has allowed it to keep meeting customer demand and generating earnings.

There is an increasing push in Canada to lift many restrictions and reopen businesses, including restaurants for in-house dining. Some jurisdictions are proposing that restaurants can reopen at half capacity with a minimum of two metres distance between tables. When that occurs, it will boost Restaurant Brands' earnings.

For these reasons, the company's financial performance will improve during the second half of 2020.

Foolish takeaway

It's easy to understand why Restaurant Brands has received the Buffett tick of approval as an investment. It operates an easy-to-understand business that thrives even during economic downturns.

Restaurant Brands has used marketing and its iconic quick-service restaurant brands to build a wide economic moat, protecting the business from competition and helping Restaurant Brands remain profitable during the coronavirus pandemic.

For the aforementioned reasons, now's the time to buy Restaurant Brands and profit from an economic recovery. There is every likelihood that Restaurant Brands will experience a solid lift in earnings.

While waiting for the economy to return to growth you will be rewarded by its dividend yielding a juicy 4%.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

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1. Business Insider
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Date
2025/08/24
Date Created
2020/05/13
Author
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