Oversold: 2 Canadian Restaurant Stocks That Could Soar in the Second Half

Description

The recent rally in the broader markets caught many investors by surprise. The shallow short-term forecasts you've heard from the so-called pundits proved to be wrong thus far. It would be foolish (that's a lower-case 'f') to rule out another correction between now and year-end, on the assumption that we're out of the woods with this COVID-19 crisis. But I do think it makes sense to scoop up bargains as they come along, regardless of where the broader market is now or where you think it's headed next.

You see, we're all about buying pieces of businesses at considerable discounts to their intrinsic value here at the Motley Fool. Whenever the market pitches an opportunity to get a lot for less, we'll be tempted to swing.

The broader markets may be a tad on the expensive side after the recent relief rally. Consider the following two deeply undervalued stocks that still have more than just pessimism baked into their share prices. It likely won't take much to move the needle to the upside over the next year and beyond.

MTY Food Group

MTY Food Group (TSX:MTY) is a food court kingpin that's taken a bad hit in the coronavirus-driven downturn. Amid national lockdowns, mall traffic has plummeted. With it have gone sales at the food courts. Shares of MTY lost nearly 75% of their value from peak to trough, as investors grew wary.

As the economy re-opens for business over the summer months, MTY is one of the stocks with a lot of room to run as sales recover. While the world will return to some form of normalcy as infection rates trend downward, investors must not rule out a second wave of infections.

In an earlier piece, I pounded the table on MTY shares, noting that the stock was way too cheap at around 0.8 times book. I also noted that the firm was in a good spot to come roaring back once pessimism gradually turns to optimism. If you don't believe that the coronavirus is the final nail in the coffin for shopping malls and dine-in restaurants, MTY is nothing short of a steal.

Restaurant Brands International

Sticking with the restaurant theme, **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) is another severely undervalued share that could rally in a big way once the coronavirus is contained.

With shares trading at 7.7 times book and 13.4 times EV/EBITDA, QSR hardly looks like a steal, even after the recent damage. Heck, you could argue that the stock is still expensive given the new risks.

But as the brilliant Warren Buffett once said, “price is what you pay, value is what you get.” And in terms of Restaurant Brands stock, you’re getting three of the most powerful fast-food brands (Tim Hortons, Popeye’s, and Burger King) for a relatively modest multiple.

QSR stock provides investors with a front-row seat to some of the hottest trends in the fast-food world. In Popeye’s, the company has a tremendous organic and inorganic growth opportunity that may prove to be unrivalled in the world of fast food. Only when you gain a better understanding of QSR’s capital-light growth story, does it become clear that the stock is severely undervalued from a longer-term perspective.

For those willing to ride out the volatility, there’s a juicy 3.8% yield to collect while you wait.

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1. Coronavirus
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TICKERS GLOBAL

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