COVID-19 Investing: Is it Time to Buy Restaurant Stocks as Provinces Reopen?

Description

The COVID-19 pandemic has ravaged the Canadian economy, but investors are starting to see a light at the end of the tunnel. Provinces across the country are pursuing reopening, but some are moving slower than others. Ontario, Canada's most populous province, has pursued a very cautious approach. Many regions will move into stage two of its reopening later this week, which will include the opening of restaurant patios.

COVID-19 pandemic: Can restaurants rebound quickly?

Restaurant owners have reason to be optimistic, as provinces pursue reopening, but there are still obstacles on the horizon. Aside from the glacial pace of reopening, restaurant owners will also need to battle consumer concerns. The COVID-19 pandemic has rattled Canadians, and recent surveys show that many may still not be comfortable with going out, even as regulations are loosened.

Today, I want to look at two restaurant stocks that are worth watching as we approach the beginning of summer.

One booming restaurant stock

In late March, I'd suggested that investors may want to consider buying low on restaurant stocks. **MTY Food Group** (TSX:MTY) was one of the stocks I'd focused on. The company operates as a franchisor and operates brands like Thai Express, Country Style, Extreme Pita, and many others. Shares of MTY Food Group have climbed 80% month over month as of close on June 8.

The company released its first-quarter 2020 results on May 1. EBITDA rose 45% year over year to $41 million, while net income increased 29% to $19 million, or $0.76 per share. Management affirmed that COVID-19 had minimal impact on its Q1 results, but that the company will be negatively impacted in Q2 and Q3. Regardless, this is a promising start to the year.

Shares of MTY Food last had a favourable price-to-earnings (P/E) ratio of 11 and a price-to-book (P/B) value of 1.4. It announced the temporary suspension of its dividend in its Q1 report. Shares have built nice momentum after its Q1 report, but investors should be careful not to burn themselves on this stock. Investors have yet to see how the pandemic will impact MTY's business in Q2 and Q3.

Why fast food is reliable

Earlier this spring, I'd discussed why fast-food stocks were still a solid bet in this environment. The COVID-19 pandemic has forced many restaurants to switch to delivery and curbside pick up, while the transition for fast-food companies is not as challenging. **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) owns and operates there top fast-food chains; Burger King, Tim Hortons, and Popeyes Louisiana Chicken.

Shares of RBI have only dropped 2.7% in 2020 so far. The stock is up 10% over the past month. In its Q1 report, Burger King continued to be a model of consistency. The biggest surprise was Popeyes, which delivered amazing system-wide sales growth of 32%. RBI stock last possessed a high P/E ratio of 25 and a P/B value of 8.1.

On the bright side, RBI declared a quarterly dividend of $0.52 per share in its Q1 report. This represents a 3.6% yield. The buy-the-dip opportunity in March has passed by investors, but RBI is still a quality stock to own in this sector going forward.

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