Forget Starbucks (NASDAQ:SBUX) Stock and Buy This 1 Competitor

Description

Starbucks (NASDAQ:SBUX) announced this week that it will be closing, moving, or otherwise reformatting 400 stores across North America. Half of the stores impacted will be in Canada.

While it's hard to gauge precisely what this means in terms of store closures, at the very least it signals a major disruption to normal operating practices. The stock ditched 4.5% on expectations that the company lost US$3.2 billion in revenue last quarter.

So should investors be worried about a store closure contagion in the fast food space? Let's examine **Restaurant Brands** (TSX:QSR)(NYSE:QSR) for signs of weakness before deciding whether it's a better buy than Starbucks.

In terms of performance, Restaurant Brands barely outstrips Starbucks with three-month gains of 6.8% versus the latter's 5.5%. Restaurant Brands' share price is down 13% year-on-year – a sharper contraction than Starbucks' 3.5% dip.

In terms of price, Restaurant Brands is the better value play, with its share price of $77 weighing in at 25 times earnings,versus Starbucks' $78.50 eclipsing earnings by over 32 times.

Restaurant Brands is also strong play for a mixture of dividend reliability and appealing growth potential . Its payment has been stable through the last five years, growing steadily and covered by an 87% payout ratio. Its 2% forward annual dividend yield is also suitably tasty.

A fast food stock with healthy returns

At the end of the day, there are two sides to every stock: its stats and its story. A company's story tells investors how that stock might behave based on real-world activities.

A stock's stats tells investors how an investment might pan out based on a company's debt, track record, earnings, and outlook relative to both its sector and to the market.

Restaurant Brands' status as an essential industry stock means that investors have been able to watch some real-world behaviour overlaid with market performance — two factors which do not always add up to the same thing.

Compare and contrast with any business that has been forced to close brick-and-mortar shops and you'll see that Restaurant Brands is relatively easy to predict.

Still, Starbucks' announcement this week throws a spanner in the works when it comes to these kinds of predictions. A major player in the fast food space suddenly closing or otherwise repurposing so many North American stores is suggestive of a weakening industry.

However, Restaurant Brands shareholders may want to look at the ways in which their company differs from Starbucks before becoming concerned.

Most obviously, Starbucks is heavily weighted by its beverages. It is, first and foremost, a coffee outlet. Restaurant Brands, by contrast, is geared to food. Burger King and Popeyes are focused on food, not coffee-based drinks.

Even Tim Hortons is fairly evenly balanced between coffee and snacks. This diversification reduces risk through broader exposure to consumer staples asset types.

Neither stock is bulletproof, though. Consider Restaurant Brands' high debt-to-equity ratio of 356%, for instance. Or consider its overvaluation by around 15% compared with projected future cash flows, and high market ratios.

Still, in terms of passive income, outlook, and track record, Restaurant Brands is nevertheless an appetizing investment.

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