Will Restaurant Brands Stock Soar After its Q2 Earnings?

Description

Some of the **TSX** stocks witnessed a much faster recovery post-COVID-19 crash. **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) was one of them. The stock has more than doubled since its record lows in March.

Hospitality is among the hardest-hit industries amid the coronavirus outbreak. And as economies re-open after weeks-long lockdowns, restaurant stocks like Restaurant Brands have seen sharp recoveries.

However, much of this recovery came in March and April, and the stock has been trading range-bound recently. What will drive Restaurant Brands stock to break this narrow range? The answer is its upcoming second-quarter earnings.

Restaurant Brands International: Q2 earnings

The top quick-service restaurant operator Restaurant Brands International is expected to report its quarterly earnings on July 29. Analysts expect its revenues to decline by 25%, while its earnings to fall by 50% compared to the same quarter last year. Lockdowns primarily dominated the second quarter, so earnings will likely be lower.

However, Restaurant Brands's management expressed that the company is recovering relatively faster from the pandemic shock. It expanded its delivery services and digital presence during the pandemic, which saw a significant demand boost. The drive-thru experience also witnessed a positive impact throughout North America and will likely continue, as movement restrictions are gradually easing.

What's next for Restaurant Brands?

Almost all Burger King restaurants re-opened recently, while 90% Tim Hortons opened in Canada. These have seen significant sales growth compared to mid-March levels, mainly caused by the drive-thru. Popeyes Louisiana Kitchen achieved impressive growth as well.

Quick-service restaurants like Restaurant Brands International will likely exhibit a relatively faster recovery compared to fine-dining restaurants. The value proposition and convenience offered by Restaurant Brands stand tall in the current scenario. Other factors, like tweaks in mobile applications and a seamless drive-thru experience, will also play a major role in its recovery.

In the long term, there might not be any meaningful change in people's eating-out trends. More importantly, Restaurant Brands's scale and geographically extensive presence will support a faster recovery. A $35 billion company operates more than 27,000 quick-service restaurants spread across 100 countries.

Restaurant Brands stock seems expensive after its recent rally. If we assume that the company's earnings drop by a quarter this year compared to 2019, then the stock is trading 35 times its 2020 estimates. This is higher compared to peers as well as its historical average. Notably, its upcoming earnings will pave the path for its stock in short to intermediate term.

Restaurant Brands stock pays above-average dividends and yields 3% at the moment. It started paying dividends in 2015 and has exhibited a superior dividend growth in all these years.

The Foolish takeaway

Near-term challenges might weigh on Restaurant Brands. However, things have already started improving for it, as economies are gradually re-opening. Also, a faster-than-expected vaccine launch could substantially change the sentiment and could boost its growth prospects even higher. As earlier stated, Restaurant Brands's scale, wide global presence, and quick adaptability to changing consumer behaviour will play a big role in its recovery.

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