Warren Buffett: Sell This Canadian Stock

Description

Warren Buffett ditched one TSX stock in the second quarter of 2020, increased his stake in another, and took a Canadian gold stock position. Surprisingly, **Berkshire Hathaway** sold all its holdings in resurging **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) and kept struggling **Suncor Energy**. **Barrick Gold** is the latest addition to the billionaire's stock portfolio.

Should investors follow Buffett's move and sell the quick-service restaurant stock, too? Bill Ackman of Pershing Square Capital dumped his entire Berkshire shares while increasing his position in Restaurant Brands. The parent company of Burger King, Tim Hortons, and Popeyes is one of only seven stocks in Ackman's market-beating portfolio.

Financial backer

The acquisition of Canadian coffee and donut chain Tim Hortons by Burger King in 2014 was made possible through Buffett's financial assistance. Berkshire pumped in US$3 billion so the merger could materialize. Restaurant Brands agreed to purchase Popeyes Louisiana Kitchen earlier in the year to complete its stable of brands.

In the 2020 pandemic, Buffett had a change of heart and soured on the fast-food chain owner. He started shying away from businesses severely affected by shutdowns. Berkshire also trimmed stakes in bank stocks, fearing a backlash from mortgage payments deferral and likely loan defaults.

Back in business

Berkshire's closing of its position in Restaurant Brands had no adverse effect on the stock. The company reported recovering 90% of pre-coronavirus sales levels in the second quarter of 2020. Likewise, takeout and delivery operations in 93% of the restaurants have resumed and compensated for dine-in restrictions.

During the quarter, net income fell 36.6% to $163 million, which is understandable. While revenue plunged 25% due to the pandemic, Popeyes same-store sales grew by almost the same percentage. Its chicken sandwich is the most popular item on the menu and sells like hotcakes.

The stock is down 9.5% year to date, although its current price of $56.48 represents a 101.8% rally from the COVID low of $27.99 on March 18, 2020. For would-be investors, analysts forecast a price climb of 34.6% to $76 in the recovery phase. Restaurant Brands is also paying a respectable 3.82% dividend.

Makeover in the works

Even loyal followers were astonished by Buffett's decision. The $17.11 billion operator of three global brands is well positioned and preparing for the post-pandemic environment. Since indoor dining isn't coming back soon, Burger King is launching touchless ordering prototype restaurants.

The remodelling or redesigning of selected BK outlets aims to make the walk-up window and drive-thru a better experience. It also ensures customers' safety. Restaurant Brands is adapting well to the rapidly changing technological advances in and design of restaurants.

Restaurant Brands is a stalwart in the quick-service restaurant industry. Each of the independently operated brands has over 45 years of corporate existence. Collectively, the group delivers approximately $32 billion in annual system-wide sales. There are over 27,000 restaurants serving customers in more than 100 countries and U.S. territories.

Hold, don't sell

Warren Buffett has reasons for turning his back on Restaurant Brands when it's making a resounding comeback. We'll find out soon if it was a mistake. However, you can't dismiss the visible growth potential of the stock. I would hold on to it instead of selling it.

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

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