1 Scary Number That Should Have Investors Thinking Twice About Retail and Restaurant Stocks!

Description

The worst may not be over for retailers, as the coronavirus pandemic is still nowhere near over. Many businesses have significantly scaled back their operations over the past six months, but a second wave of COVID-19 could wipe many out for good. **Yelp** released its latest Economic Impact Report earlier this month, which included a look at businesses in the U.S. that closed due to the pandemic.

One of the most troubling figures from the report:

60% of business closures since the pandemic are permanent

While many shutdowns are temporary, a clear majority of them have been permanent. As of the end of August, more than 160,000 U.S. businesses closed since March, and most of them (60%) won't be opening back up. Although the report didn't offer data on Canadian business, it's a good gauge nonetheless of just how long term of an impact COVID-19 is having on businesses. A big bulk of the business closures have been coming from the restaurant industry, followed by shopping and retail companies.

A second wave of COVID-19 could be what sends those businesses that are still hanging on today into permanent shutdowns. And so it shouldn't come as much of a surprise that Warren Buffett's **Berkshire Hathaway** sold off its holdings in **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) recently. Although the company owns popular chains Tim Hortons, Burger King, and Popeyes, it's not immune to COVID-19. Tim Hortons is a staple in Canada, and in Restaurant Brands's most recent quarterly results, its sales were down more than 33% from the prior-year period. Burger King also saw declines of more than 25% year over year.

However, Restaurant Brands is still one of the safer restaurant stocks to hold right now, as its businesses offer drive-thru options for consumers and can adapt to the changing dynamics of a pandemic. The company recorded a profit of US$106 million, despite the challenges in the most recent quarter. Restaurant Brands typically nets a profit margin of at least 10%, and Q2 was no exception.

Key takeaway for investors

Restaurant Brands is the exception, not the norm when it comes to restaurant stocks. With strong brands and a loyal customer base, it's not facing the same challenges that smaller companies in the industry will have to deal with.

The retail industry is another sector investors should be careful with investing in. With fewer shoppers in malls and people looking to minimize their shopping trips, big-box chains are likely to dominate in the event of a second wave. Some of the big names to already close locations in Canada this year include **DavidsTea**, GNC, The Children's Place, **Starbucks**, and many others.

Investors will want to take a close look at retail stocks that may suffer prolonged declines due to COVID-19 before deciding to invest in them. **Canadian Tire** has reported losses in two straight quarters, as shutdowns have impacted its performance this year. And with many competitors for consumers to choose from, its stores may not see a lot of traffic if people stick to larger department stores that sell a wider range of products (e.g., **Walmart**). While Canadian Tire may not go out of business, that's not enough of a reason for buy shares in the company, either.

With many safe, stable investments out there to choose from, investors may want to steer clear of the restaurant and retail industries altogether.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2020/09/23
Author
djagielski