Warren Buffett: Brace Yourself for a Canadian Market Crash

Description

Is something bugging Warren Buffett these days? Since the onset of the pandemic, the GOAT (greatest of all time) of investing didn't make purchases but did a lot of significant selling. **Berkshire Hathaway** dumped its entire holdings in airline companies. His next moves were uncharacteristic, if not cryptic.

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Ditching Canadian stock **Restaurant Brands International** (TSX:QSR)(NYSE: QSR) is perhaps the most puzzling call of all. If the fast-food chain operator isn't doing badly as airline stocks, the sale seems to suggest Buffett has reservations about the TSX. Should investors brace for a stock market crash in Canada?

If the legendary investor were wary of Canadian stocks, he would have dropped **Suncor Energy** and not added more shares of the energy stock in Q2 2020. Likewise, Berkshire took a new position in Canadian mining stock **Barrick Gold**.

Impressive comeback

Rebalancing or de-risking a portfolio is understandable if the value of investments is diminishing. The airline industry is unlikely to rebound anytime soon, given the travel restrictions and weak demand. However, in particular, the food business or quick-service restaurants have better chances of recovering after the shutdowns.

COVID-19 disrupted the restaurant industry on a grand scale, especially dine-in restaurants. Social distancing prevents customers from returning or reluctant for fear of contracting coronavirus. For Restaurant Brands, its drive-thru and delivery operations are in full harness. Digital channels are also driving sales to return to pre-coronavirus levels.

In terms of stock performance, the stock is currently trading at $77.52 per share. It's a remarkable 94.33% rally from the COVID low of $39.89 on March 18, 2020. Restaurant Brands is down by only 3.55% year to date. Investors are delighting in the 3.64% dividend.

Bright outlook

Restaurant Brands’s revenue fell 25.1% during the temporary shutdowns. The revenues in Burger King and Tim Hortons fell 13.4% and 29.3%. Popeyes Louisiana Kitchen was the revelation after posting a 24.8% year-over-year growth. Its chicken sandwich is the hottest fare and is enjoying robust demand. Buffett might regret turning his back on the operator of the iconic global brands.

The home markets are turning in stellar results. Restaurant Brands’s digital sales soared 120% year over year. All brands reported triple-digit comps growth. At the close of Q2 2020, total sales 90% of prior year system-wide sales.

Innovations are forthcoming, and the company will seize the moment. Its growth opportunity is the shift to the off-premise business model. In the contactless and budget-conscious environment, Restaurant Brands’s digital investments should pay off. The company has a prototype restaurant with no indoor dining. It would be the future of fast-food chains.

Negligible impact

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Warren Buffett’s decision to drop his entire holdings in Restaurant Brands did not influence investor sentiment. For billionaire Bill Ackman, the quick-service restaurant stock is a compelling investment case. His investment firm Pershing Square Capital boosted its stock position in Q2 2020 and sold all its Berkshire shares.

I’m giving the GOAT of investing the benefit of the doubt. He can influence investors, because he has a good grasp of the stock market. However, analysts view Restaurant Brands as one of the best-valued restaurant stocks today. The business fundamentals are improving, which should strengthen its competitive position and deliver bounteous liquidity.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

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