Warren Buffett: Avoid Canadian Stocks at All Costs?

Description

Should investors give meaning to Warren Buffett's decision to sell his entire holdings in **Restaurant Brands International** (TSX:QSR)(NYSE:QSR)? Is the legendary investor telling people to avoid Canada's equities market at all costs? Many are wondering what his motivations are after he supported the fast-food chain operator for decades.

If you compare the year-to-date performance of the TSX with the three main U.S. exchanges, you might say Buffett was correct to make a move. As of October 1, 2020, the NASDAQ (+26.23%), S&P 500 (+4.64%), and Dow Jones (-2.53%) are outperforming the TSX (-5.15%).

However, I believe it's more of Buffett's bleak outlook for quick-service restaurants, not the TSX in particular. Although **Berkshire Hathaway** sold all Restaurant Brands shares in Q2 2020, the company bought more shares of Canadian oil kingpin **Suncor Energy** (TSX:SU)(NYSE:SU).

Challenged business

Restaurant Brands is a major player in the quick-service restaurant space globally, but COVID-19 disrupted its operations in the first quarter of 2020. Buffett is veering away from businesses that are gravely affected by shutdowns. His divestment didn't influence investors much as operations came back to life in the next quarter.

Despite the unprecedented challenges due to the pandemic, Restaurant Brands posted 90% of prior year's system-wide sales in Q2 2020. About 93% of its restaurants worldwide have resumed operations. According to Jose Gil, RBI's CEO, drive-thru, digital, and delivery channels were important differentiators.

The risk to RBI going into the fourth quarter is the sharp rise in COVID-19 cases. In Canada, the average daily case counts are approaching the peak levels in April. Canada's chief public health officer, Theresa Tam, said things have escalated quickly and can escalate further. Nationwide closures of restaurants and bars might follow.

Better value

Why did Buffett dump Restaurant Brands and keep struggling Suncor Energy? The GOAT (greatest of all time) of investing builds his wealth over the long term. He sees the oil company as a better value proposition, especially when crude prices rebound.

Thus far, the energy sector is the worst performer (-57.03%) on the TSX. Meanwhile, Suncor investors are losing 62.44% year to date versus the -4.45% of RBI investors. The headwinds are strong due to the twin impact of the COVID-19 and depressed oil prices.

Suncor’s operating loss widened to $1.49 billion in Q2 2020, following the $309 million operating loss in Q1 2020. From a top line of $9.5 billion in Q4 2019, revenues sank to $7.4 billion and $4.2 billion in Q1 2020 and Q2 2020. Because of the declining top and bottom lines, management cut dividends.

For prospective investors, the 5.42% dividend is still above the average yield on the S&P 500 Index in the U.S. Neil Mehta, an analyst at **Goldman Sachs**, says Suncor maintains a healthy balance sheet. The margin-enhancing projects through 2025 can potentially deliver $2 billion in cash flow growth. Many analysts recommend a buy rating for the cheap but embattled energy stock.

Not betting against the TSX

I don’t think you should bet against TSX stocks yet. If that is what Warren Buffett is suggests, Berkshire Hathaway won’t boost its holdings in Suncor Energy. Also, the conglomerate purchased 20.9 million shares of Canadian mining stock **Barrick Gold** in Q3 2020.

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