Warren Buffett Warning: Sell Canadian Stocks!

Description

For the longest time, Warren Buffett held not more than two Canadian stocks in **Berkshire Hathaway's** portfolio. The legendary investor prefers equities from the home field over non-U.S.-based publicly listed companies. **Suncor Energy** remains his value stock in the TSX after Berkshire increased its holdings in the oil sands king in Q2 2020.

Buffett lost his appetite for a top Canadian fast-food chain operator, despite performing better than Suncor. On June 30, 2020, Berkshire had zero holdings in **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). His conglomerate provided US$3 billion in equity financing in 2014 so that Burger King could merge with Tim Hortons.

COVID-19 spooked Buffett. He dumped businesses that were gravely impacted by the shutdowns. Some analysts say the decision to part ways with Restaurant Brands is a warning for people to avoid Canadian stocks.

The assumption might be overblown, because Berkshire also bought shares of Canadian miner **Barrick Gold** to bring his Canadian stock holdings back to two.

A glimpse of Q3 2020 performance

Restaurant Brands is losing by only 5.5% year to date, while Suncor is struggling with -62%. Meanwhile, Barrick Gold is outperforming with its 52% gain. The $22.99 billion company is due to report its Q3 2020 earnings on October 26, 2020, although it released preliminary figures.

For the flagship Burger King, management expects comparable sales to drop 7% for the quarter versus the same period in Q3 2019. In the prior quarter, the decline was higher at 13.4% due mainly to dine-in operations closure.

Burger King unveiled a new restaurant design last September with touchless features, mobile ordering, and curbside pick-up services. The purpose is for consumers to avoid crowded areas and rely on delivery to prevent coronavirus spread.

The company expects comparable sales of breakfast chain Tim Hortons to drop by 12.5% during the quarter. But the saving grace is Popeyes Louisiana Kitchen, which is experiencing robust sales. Sales for the quarter are likely to increase by 17.4%. The chicken joint is compensating for the weakness of Burger King and Tim Hortons.

Popeyes chicken sandwich is the hottest fare on the menu that's attracting new customers. The total combined revenue estimate for the group is between $1.32 billion and $1.34 billion. The company expects the range to be between $555 million and $565 million on adjusted earnings before interest, taxes, depreciation, and amortization.

Best-valued restaurant stock

We don't know if Warren Buffett miscalculated on the ability of Restaurant Brands to recover from its massive contraction due to the pandemic-induced shutdowns. Restaurant closures abroad remain a major threat to the business. Nonetheless, business is improving dramatically, thanks to Restaurant Brands's impressive drive-thru performance.

The comparable sales trends in Burger King are improving, while Popeye continues to demonstrate impressive sales growth. Restaurant Brands has a competitive advantage in recession if it can maintain its value pricing or inexpensive menu. Likewise, its contactless dining creates social distancing and, therefore, cost-conscious customers will keep coming.

Many did not follow Warren Buffett when he sold his QSR shares. I agree with some analysts that Restaurant Brands International is among the best-values restaurant stocks in 2020.

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