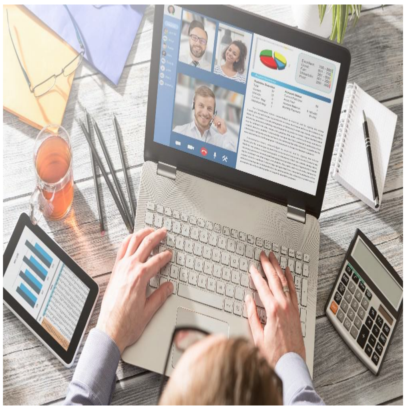

Warren Buffett Made a Smart Move in 2020 by Dumping This Canadian Stock

Description

Warren Buffett did several things this year that can be considered off-pattern for him. He bought gold, which caused quite a stir since he has been against holding the metal for so long. He also invested a significant amount in the Japanese market, a bit odd for an investor who spent decades advocating on behalf of or betting on the U.S. market.

He also sold his stake in the major Canadian stock **Restaurants Brand International** (TSX:QSR)(NYSE:QSR). That move came as a shock — and not just because the stock was recovering adequately — especially given the difficulties that the fast-food sector is going through due to the pandemic. It was also a surprise because unlike Buffett's airline exit (a sector he has been skeptical of for ages), he leans toward the food and restaurant businesses.

In the light of RBI's third-quarter results, Buffett's decision makes more sense.

Third-quarter results

To be fair, the third quarter results of RBI aren't *as* bad as they could have been, all things considered. The revenue fell by US$121 million and the net income by US$128 million. It's bad enough that it increased the slope angle for the company's already falling stock (investors might have started unloading before the bad earnings call came through). But the losses are not enough to destabilize the company.

However, the company is still looking into closing more branches. The decision is based on the performance of the branches. The locations that are producing revenues 30% lower than the regional average might be closed down. This might also help the company keep the operating cost down and absorb some of the losses without sagging the fourth quarter's numbers.

Is RBI a losing bet?

If we are to follow Buffett's advice and his decision to exit the company: Yes, RBI might be a losing bet.

Buffett said, "The most important thing to do if you find yourself in a hole is to stop digging." He cut his losses at the right time, and now that the stock is dropping, his move makes more sense. But that still doesn't mean that RBI is a complete waste of space in your investment portfolio.

It's still a dividend aristocrat and hasn't slashed or stopped paying dividends yet. The stock is dropping and might keep on falling for a while now, as the investor sentiment would be swayed by the combo of unappealing quarterly results and the second wave of the pandemic hindering business. But that doesn't mean it's going to stay down forever.

The company is experimenting with digital drive-thru menus, alternative payment methods, new loyalty programs, and AI to offer better suggestions, especially for the brand integrated into consumers' daily routine: Tim Hortons. As the e-commerce boom, if this new trend stays even after the pandemic is over, it can be a massive success for RBI and help the company grow faster.

Foolish takeaway

If you have been disenchanted by the company and want to exit your position, wait a while. RBI displayed its decent recovery potential after the first crash, and it will (most likely) do so again if the market crashes for a second time. If you wait for a few months, you might be able to sell your stake at a better price.

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