Warren Buffett Sold Canadian Stock in 2020: Should You, Too?

Description

Warren Buffett thinks long term. And since we should judge a person by their actions rather than by their words, we can look into his investment moves to endorse the notion of his long-term thinking rather than the wisdom he shares with the other investors. Buffett indeed tends to stay with good companies for as long as they remain good companies and doesn't think much about market fluctuations.

When he thinks that a business might not be a good long-term holding, he doesn't waste much time divesting himself from it, even if he has to bear a loss. This can be seen from his airline exodus. This is one of the reasons why value and long-term investors scrutinize Buffett's sales and purchases and try to learn whether a company is a good long-term holding or not.

And it's one of the reasons why his **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) exit was so perplexing.

An adequate recovery

RBI hasn't fully recovered yet, and the stock is still over 6% down from its start-of-the-year valuation and 12% down from its yearly peak. It's not ideal, but it's also not as bad as it could have been considering what the fast-food industry has been through during the pandemic. It has grown about 90% after the pandemic and hasn't slashed its dividends yet. The balance sheet is strong, and the net income has been steadily increasing.

For the last two quarters, the revenue has shrunk slightly, but the loss is still in single digits. All in all, it seems that the company has hit a rough patch, but that's a long way from being a weak long-term holding with doomed prospects. But if you look at the individual constituents of the RBI brand, things look a bit different.

Weakening underlying assets

RBI's three brands are among the top 25 largest food restaurant chains in the world, and during the recession, the smallest of the three brands (Popeyes) was the only brand that is seeing its sales rising, especially in the United States. Tim Hortons has been having problems with its sales numbers for about two years now, and in the third quarter, Burger King's sales declined as well.

This might also be the reason why RBI stock hasn't been growing since early June (when it hit its recovery peak). If we compare to other chains like **Starbucks** and **Yum Brands** (KFC's parent company), the stock price trajectory of RBI is relatively stagnant.

But that might not be the actual reason behind Buffett's exit from the company. He prefers a business that has a loyal clientele and unique business advantages. And if he believes that the two underlying RBI brands are losing their touch and consumer loyalty, then his reason for exit becomes more apparent.

Foolish takeaway

RBI is still a Dividend Aristocrat and is currently offering a decent 3.5% yield. Even if the stock doesn't pick up the pace, the probability of dividends going down when the net income increases are relatively low, so RBI might still be worth holding on to, for now. Though if the stock starts to slip down and continues on that path, you may consider selling it before accumulating too much loss.

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