Investor Alert: Tim Hortons Could Tank Restaurant Brands' Stock

Description

As far as my top picks on the **TSX** go, **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) is right near the top of the list. There's a lot to like about the long-term growth at a reasonable price this company provides. However, I think this pandemic has raised some concerns among investors about the quality of the holding company's banners. Indeed, it's important for every investor to consider not only what their own opinions are, but what the broader market thinks when making investment decisions.

Do I think Restaurant Brands has the ability to hit $100 per share this year? Yes. Do I also think that significant downside could present itself over the near-term? Again, yes.

Tim Hortons a pain in the side of Restaurant Brands

The issue with Restaurant Brands' right now is its high level of exposure to Tim Hortons, which makes up a significant percentage of this conglomerate's total revenue. Accordingly, investors (Canadian or not) need to consider the growth profile of Tim Hortons first, and the other banners second. From this perspective, Tim Hortons has really lagged its fellow banners in terms of growth.

The initial merger of Burger King and Tim Hortons that created Restaurant Brands has provided a great deal of growth for the combined entity over the years. That said, in recent years, Tim Horton's has underperformed on a number of levels. The pandemic has accelerated problems that existed in years past, such as slow same-store sales growth. As a result, there's still a significant amount of pessimism in financial markets around the ability of Restaurant Brands' management team to right the ship.

Tim Hortons' core business relies heavily on the breakfast rush hour. The coronavirus pandemic has significantly impacted this part of the company's business. The work from home secular trend has resulted in fewer trips to the Tim's drive-thru on the way to work. I expect this secular trend to continue to drive underperformance in Tim Hortons at least through 2021. Investors in Restaurant Brands therefore need to look further down the road to see the upside with this stock.

Other banners outperforming (the real story here)

The rate at which Burger King and Popeyes Louisiana Kitchen have performed has really created the long-term growth thesis for owning this stock, at least for me. Burger King now posts sales that have regained losses from the coronavirus pandemic, and I expect these sales to continue to grow over the long-term. Additionally, Popeyes has done an incredible job of driving growth through this pandemic. Menu innovation at both banners have been superb. Those who may have not checked out an Impossible Whopper or Popeyes Chicken Sandwich are missing out.

Accordingly, margins and profitability for both of these banners remains strong. Investors in Restaurant Brands need to have a long-term thesis of outsized growth coming from the company's two smallest banners making up for Tim Hortons' lackluster performance.

Additionally, if an acquisition is on the horizon (which I think it might be), the growth story would be renewed. Restaurant Brands has the balance sheet room to do another acquisition, and has proven itself as a smart acquirer in the past. After all, the company's stock price wouldn't be where it is today without the recent Popeyes' acquisition.

Bottom line

I remain a firm believer in the long-term potential of Restaurant Brands as a great defensive growth play on the TSX. I think the company has a lot of work to do with its Tim Hortons' banner, which means that near-term downside could be on the horizon for investors.

That said, long-term investors should rejoice at the idea this stock could dip again. Restaurant Brands is a great long-term buy-and-hold growth play, so I think we'll see a lot of buying through any dips on the horizon.

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