3 Reasons to Buy Restaurant Stocks Today

Description

The restaurant industry in Canada has been put through the worst crisis in its history due to the COVID-19 pandemic. As of late March, restaurant closures had neared 10,000 according to Restaurants Canada. This industry acts as a support system to many more service sector workers that have been forced to rely on government programs.

The third lockdown in Ontario has frustrated restaurants owners even more, mere weeks after they had been permitted to reopen in preparation for the spring. Despite this grim atmosphere, I want to look at three reasons investors may want to jump on restaurant stocks today.

Target restaurant stocks that are malleable in this environment

In February, I'd discussed the best restaurant stocks to buy in the late winter. At the time, I'd suggested that investors should target restaurants that were positioned to survive and even thrive in the face of the pandemic. Fast food franchises have managed to beat back the worst of the crisis.

Restaurant Brands (TSX:QSR)(NYSE:QSR) is a great example in this sector. Its shares have climbed 8.6% in 2021 as of early afternoon trading on April 14. The stock is up 39% from the prior year. Restaurant Brands has significantly bolstered its digital footprint over the course of the pandemic. Global digital sales rose to $6 billion in 2020. Digital sales more than doubled in domestic markets.

RBI's earnings are on track for solid growth in the quarters ahead. This restaurant stock achieved its ninth consecutive dividend increase in Q4 2020. It now offers a quarterly dividend of $0.53 per share, which represents a 3.2% yield.

The United States is reopening at a fast pace

Canada has struggled mightily on the reopening front, largely due to its poor vaccine rollout. The opposite has been true in the United States. This is good news for Canadian restaurant stocks that boast locations south of the border. Restaurant Brands boasts franchises with a strong U.S. footprint like Burger King, Popeyes and Tim Hortons.

MTY Food Group (TSX:MTY) is a Montreal-based company that operates quick service and fast casual brands like Country Style, Extreme Pita, Tutti Frutti, and many others. Its shares have climbed 134% from the prior year. However, its first quarter profit fell $19 million compared to Q1 2020. The company took a huge hit as sales in malls and office towers fell precipitously due to COVID-19 closures.

System sales at MTY Food Group dropped 48% in Canada. However, system sales were only down 4% in the United States. MTY Food Group and Restaurant Brands may rely on U.S. growth in the months ahead.

Restaurant stocks could benefit from a summer reopening

Frustrations are starting to boil over in Canada after Ontario’s third lockdown was enacted. Canadian officials have vowed that the vaccine rollout will pick up significantly in the early summer. If this portends a summer reopening, there may be a bright future ahead for the restaurant space.

Recipe Unlimited (TSX:RECP) is another restaurant stock that has performed well in the face of challenging conditions. Its shares have climbed 22% in 2021 and 90% from the prior year. It owns and operates casual dining chains like East Side Mario’s, Milestones, The Keg, and others. Off-premise system sales rose 44% year over year to $500 million in 2020. Meanwhile, Recipe managed to achieve positive operating EBITDA of $113 million for the full year. A return to indoor dining will give Recipe and its peers an even bigger boost going forward.

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1. Investing

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1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:MTY (MTY Food Group)
3. TSX:QSR (Restaurant Brands International Inc.)
4. TSX:RECP (Recipe Unlimited)

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