Why Investors Need to Look Past Earnings With Restaurant Brands

Description

Investors continue to be optimistic about the long-term performance of reopening plays like **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). And for good reason.

Indeed, sentiment appears to be growing more bullish as we near the end of this pandemic tunnel. That said, restaurant businesses still have a long way to scale their pre-pandemic highs.

In this regard, I think investors need to look past earnings and focus on the growth prospects of such stocks. Here's why I think doing so could help investors make their endeavour more fruitful.

Should Tim Hortons's poor sales concern investors?

Perhaps the biggest headwind to Restaurant Brands stock right now is the company's Tim Hortons's banner. Indeed, "stay-at-home" regulations and provincial lockdowns in Canada have dented sales at Tim Hortons in a big way.

On a two-year basis, Tim Hortons Canada saw revenues plunge sharply by 14%, thereby becoming a cause of worry for the parent company.

In Q1, the comparable sales parametre of restaurants in suburbs and rural regions was flat to positive on a year-over-year basis. However, this staple Canadian brand is banking that positive trends in a post-pandemic world will allow this chain to recover. Indeed, this banner is continuing to focus on its digital adoption, menu upgrades, and improved services. If Tim Hortons can execute these changes to perfection, I think it could emerge as a strong rebound play and surpass its pre-pandemic highs in no time.

Why are some investors bullish?

I think there are many reasons to be pessimistic about Restaurant Brands stock right now. The company isn't growing as it once was, and the pandemic continues to provide a serious problem for the company at present.

However, I think these factors precisely indicate the kind of turnaround potential with this stock that makes it lucrative at these levels.

Looking past Tim Hortons, we see growth in the company's other two banners. Both Burger King and Popeyes Louisiana Kitchen surpassed revenue expectations this past quarter, and actually managed to increase their sales compared to last year.

That's certainly a good thing.

I think investors need to keep their eye on the prize with Restaurant Brands right now. This is a company with a world-class portfolio of banners unlike any of its peers. Consequently, I think Restaurant Brands has a rather wide moat right now and is a great growth play at a reasonable valuation.

For investors seeking a long-term growth play, Restaurant Brands is on sale right now.

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Date
2025/07/21
Date Created
2021/05/15
Author
chrismacdonald