1 Future TSX Dividend King Worth Buying Right Now

Description

When it comes to future TSX dividend kings, it's hard not to think about battered fast-food behemoth **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), which not only has a bountiful upfront dividend yield of 3.3% but a means to grow it consistently at an above-average rate over the long term.

The business of fast food and quick-serve restaurants is simple enough.

Undoubtedly, they provide a means for investors to get consistent quarterly payments and annual raises, with less regard for how the broader economy fares. When it comes to Burger King and Popeyes Louisiana Kitchen, two of the three top brands under Restaurant Brands, a recession may actually beef up (no pun intended) sales and earnings growth.

COVID-19 delivers a left hook straight to the TSX dividend king's chin

The pandemic was a different beast, though. COVID-19 lockdowns caused restaurants to take a massive hit to the chin. Many restaurant owners never saw it coming. For the big-league restaurants with strong balance sheets, the pandemic wasn't nearly as bad as it could have been. Restaurant Brands wasn't nearly as agile as the fast-food leaders in 2020. And the nature of its Tim Hortons brand (people don't normally have coffee delivered to their homes) made it difficult for the firm to adapt in an era dominated by drive-thru and delivery.

Once this horrific pandemic ends, so too will the overhang on Tim Hortons and Restaurant Brands stock. All the while, the company is funneling money in modernization initiatives that should better prepare it for the next pandemic, or future resurgences of COVID-19 variants of concern. Restaurant Brands is reinventing Burger King, with new store layouts and a fresh new (or should I say old) logo and a slate of new and tasty product offerings.

As Burger King and Tim Hortons look to play catch-up to their industry peers and Popeyes Louisiana Kitchen, the strongest of QSR's three brands, I think things will be looking up for shares of the beatendown Canadian dividend-growth stud.

What about valuation?

At the time of writing, QSR stock trades at 5.9 times sales and 37.6 times trailing earnings, with a 1.18 beta, which means shares are just a tad more volatile than the broader equity markets. The valuation seems steep, but the pandemic's impact is clouding the real value to be had in the name.

Once COVID-19 is conquered, Restaurant Brands strikes me as one of the fast-food plays with the greatest upside. At the same time, I view the stock as having far less downside risk than some of the more aggressive reopening plays that are not ready for more waves of COVID-19 lockdowns.

Moreover, I find many investors are underestimating the capabilities of management. It's easy to dismiss QSR as the firm behind the struggling Tim Hortons chains, which have seen brutal same-store sales comps for quite some time. But if you look at Tim Hortons as more of a turnaround play led by the managers behind the profound industry breakthrough that is Popeyes, only then does it become apparent that QSR stock is actually a severely undervalued play with one of the better margins of safety out there in today's expensive market.

Once the company's sales get back into high gear, prepare for dividend hikes from the TSX dividend king in the making.

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