Runaway Inflation Could Stall the Rebound of 2 Restaurant Stocks

Description

Statistics Canada reports that restaurant and bar sales in Canada rose 6.5% $6.8 billion in March 2022 versus the previous month. The 6.8 billion total sales also surpassed pre-pandemic levels. On a year-over-year basis, the percentage increases compared to March 2021, 2020, and 2019 were 35%, 62.9%, and 4.9%.

Restaurant Brands International (TSX:QSR)(NYSE:QSR) and **MTY Food Group** (TSX:MTY) reported strong revenue growth to start 2022. Unfortunately, the rebound of these restaurant stocks could be in peril. Chris Elliot, a senior economist for the industry group Restaurants Canada, said, “While sales are up, restaurants are also facing higher operating expenses.”

Elliot warned that restaurant operators might see their sales decline when more households start to feel the bite of runaway inflation. A survey of resto operators by Restaurants Canada lists food costs, labour costs & shortages, and supply disruptions as the greatest challenges. Notably, restaurant food prices jumped 5.4% in March 2022 compared to March 2021.

Meanwhile, Restaurant Brands (-13.66%) and MTY Food (-16.43%) underperforms year to date. An uptrend might not be possible if consumer spending drops and a market correction occurs. However, **RBC’s** Consumer Spending Tracker reports that in the first two weeks of April 2022, the number of transactions at restaurants shot up almost 20% from a year ago.

Resurgence post-pandemic

José Cil, RBI’s CEO, noted the strong resurgence in comparable sales, record first-quarter new restaurant openings, and the highest level of digital engagement across home markets in Q1 2022. In the three months ended March 31, 2022, total revenue increased 15% to $1.45 billion.

While net income dropped slightly to US$270 million (-0.37%), system-wide sales increased 14% year over year to almost US$1 billion. Tim Hortons Canada and Burger King International led the way in sales performances, posting double-digit comparable sales growth during the quarter. For Burger King U.S., management said the segment is laying the foundation for the return to long-term, sustainable growth.

At $65.61 per share, the $29.67 billion quick-service restaurant companies pay an attractive 4.18% dividend. Based on market analysts' forecasts, QSR has an upside potential of 47.95% ($97.07) on average.

Resilient network

MTY franchises and operates quick-service, fast-casual, and casual dining restaurants not only in Canada but also in the U.S. and other international markets. Currently, this $1.28 billion company has around 80 restaurant brands. The restaurant stock trades at $52.48 per share, while the dividend offer is a modest 1.58%. Given the low 16.11 % payout ratio, the dividend should be safe.

In Q1 2022, system sales increased 16.37% versus Q1 2021. As result, revenue and net income climbed 18.1% and 24.18% year over year, respectively. MTY's free cash flow climbed 22.01% to $36.97 million compared to the same quarter last year. Its CEO, Eric Lefebvre, said, "Our network showed great resilience again in the first quarter of 2022."

Lefebvre added, "As always, we're opportunistically seeking acquisitions to supplement organic growth in order to generate added value for shareholders." Analysts covering MTY have a 12-month average price target of $69.14 (+31.75%).

Pent-up demand

No one sure if the inflation today will suppress pent-up demand for goods and services. RBC economist Rannella Billy-Ochieng said that Canadian households spent 35.63% more in April 2022 than in 2019, before COVID.

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