1 Cheap Stock That Could Grow Earnings Into a Recession

Description

The growth sector may be heavily out of favour these days, but don't overlook the quality companies that are more than capable of growing their earnings over the next five years and beyond. In an era of rising rates, sales growth means less. Investors want to see earnings, making the high-flyers of 2021 among the riskiest of plays.

Recently, many such speculative tech plays without earnings have sold off violently. Eventually, they'll be oversold and will reach a turning point. However, for Canadian investors who are already dealing with ample volatility, it may be a better idea to batten down the hatches in case the second half of 2022 is no less volatile than the first half.

We're in the middle of one of the most nerve-rattling earnings seasons in recent memory. The nervousness of the average investor is almost palpable. For those with a longer-term horizon, I'd look to the quarterly flops (or those plunging in sympathy with other stocks within their industry) as more of a long-term buying opportunity than a signal to sell before things worsen.

Earnings in full swing

Interest rates have settled down in recent weeks. This could help provide a bit of relief to various growth stocks. Remember, higher rates mean earnings in the future are worth somewhat less. As rates begin to settle and the band-aid that is earnings season is ripped off, even volatile markets could work for you going into year's end.

Simply put, now is not the time to let fear and panic dictate your actions. Instead, volatility opens up entry points for long-term investors looking to give their decade-ahead returns a jolt.

In this piece, I'm a big fan of companies that can grow their earnings through good times and bad. Consider **Restaurants Brands International** (TSX:QSR)(NYSE:QSR).

Restaurants Brands International

Restaurant Brands is an underrated fast-food firm that sports one of the most impressive brand portfolios in the industry. Burger King, Tim Hortons, Popeye's Louisiana Kitchen, and Firehouse Subs are the four brands powering QSR. As the firm looks to capitalize on a potential recession tailwind (consumers tend to eat cheaper fast food during tough times), we could see QSR steer its earnings growth back into the double digits.

In the latest quarter, QSR saw its EBITDA (earnings before interest, depreciation, and amortization) grow by 10%, while EBITDA margins came in at a sub-par 36.5%, missing the mark of 38% set by analysts. I find it remarkable that QSR was able to keep its earnings growth in the double-digits with the inflation and labour cost impacts weighing heavily on margins.

Moving forward, I expect QSR will overcome its transitory inflation-related headwinds. As it does, the appetite for its low-cost menu items could rise, adding fuel to a stock that I believe to be undervalued.

At writing, shares of QSR trade at 19.6 times price-to-earnings (P/E), far lower than the restaurant industry average of 26.9 times. Relative to peers, QSR is cheap, likely because investors underestimate management's capabilities following the EBITDA margin shortfall in the last quarter.

Restaurant Brands still boasts incredibly high operating margins, currently at 31.64% and much higher than the 25% industry average. Such better-than-average operating margins could translate into impressive earnings growth prospects over the years to come.

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