Why I Think Restaurant Brands Stock Has Market-Beating Potential

Description

It's not too hard to beat the TSX Index consistently over the long run, as long as you're willing to stay patient and picky when it comes to stock selection. Indeed, the energy and material sectors have helped buoy the TSX in what's been a rather rough year for the global indices. Though there's no telling which sectors will shine brightest in the new year, I'd argue that contrarians have a lot to gain by going bargain hunting right now with some of the TSX's best deals.

With a recession on the horizon, you should think defensive. In that regard, **Restaurant Brands International** (TSX:QSR) stock, I believe, stands out as an intriguing name for Canadian investors looking to get the best of both worlds: a great defensive value and a growing dividend.

Undoubtedly, Restaurant Brands aren't nearly as well known as the fast-food brands it houses. With Burger King, Tim Hortons, Popeyes Louisiana Kitchen, and Firehouse Subs (the least-known brand), QSR has a lot of bottom-line growth prospects, as it looks to drive same-stores sales growth (SSSG) while increasing the store count.

Restaurant Brands: Tailwinds up ahead?

Indeed, driving such growth requires considerable investment. For Restaurant Brands, a firm whose managers previously shied away from making big investments, the firm has pivoted in a big way in recent years. The company is willing to spend money in order to make money to make its brands intriguing again in a fast-food market that's grown quite crowded in recent years.

With inflation and recession pushing us to eat at cheaper restaurants (think fast-food joints over dine-in), QSR has a golden opportunity to double down on its growth. Burger King is the burger giant that could make huge strides in 2023, with a US$400 million investment commitment (for renovations and marketing) and new upper-level employees.

Indeed, Burger King has gone through a huge revamp, with a new (retro) logo, intriguing new menu items, and restaurant renovations. Even if Restaurant Brands can't make ground over its fast-food rivals, I view industry tailwinds as too strong to pass the stock up at current valuations.

Too cheap to ignore

The stock trades at 23.9 times trailing price to earnings and three times price to sales. Both metrics are well below industry averages. Finally, the 3.58% dividend yield is rich and more than 1% above industry averages. With a mere 81.1% payout ratio, the dividend seems more than safe.

The Foolish bottom line

Restaurant Brands stock has been a laggard for many years now. Many investors are fed up, but I think now is the worst time to give up on the firm, as it embarks on its turnaround. Yes, Burger King and Tim Hortons have their work cut out for them. But with capable managers and a strategic plan, I think QSR can deliver again for shareholders.

In the meantime, a recession should make things very interesting for the fast-food underdog. I'd look for promos and value to help drive store traffic through the roof. As customers discover the new experiences to be had in revamped stores, I think QSR could be in a spot to win over a wave of consumers who will be regulars during and after the recession ends.

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Author
joefrenette