My Top Pick for the 2nd Half of 2020

Description

Most stocks have taken a decent beating of late. This may make us feel overly pessimistic in regards to the long-term outlook for equities. It is human nature to project forward our recent experiences. However, I think there are a few winners in this carnage. They will come out ahead in the next six to 12 months. My top pick in this group right now has to be **Restaurant Brands International** (TSX:QSR)(NYSE:QSR).

Defensive nature

One of the key reasons I've touted Restaurant Brands stock in recent years is precisely due to the company's defensive business model. If one has been concerned about an upcoming recession (as I have been since 2018), investing in companies that offer "inferior goods" seems like a good idea. *Inferior goods* is a term economists use for goods that are sold in higher volumes when money is tight for folks. Examples include Kraft dinner, cans of soup, or hamburgers.

I don't think the collective North American consumer is likely to go on a diet all at once during a time of stress like this — quite the opposite, actually! This view enhances the company's investing value proposition greatly, in my view.

Bears will argue that in-restaurant dining has been shut down at nearly all locations across the company three banners: Tim Hortons, Burger King, and Popeyes Louisiana Kitchen. I have two key responses to this.

A post-coronavirus world

The first is related to Restaurant Brands's fast-growing and highly pervasive drive-thru business model. The company has been seeing a higher percentage of business through this modality in recent years. This pandemic may indeed simply expedite a move to greater drive-thru penetration within the company's portfolio — a transition that was already underway. This transition will also allow for smaller average restaurant footprints, with less square footage dedicated to in-restaurant dining. Therefore, there will be additional opportunities for both cost savings and expansion.

Furthermore, I would retort that many Chinese locations have recently re-opened. This is important for two reasons. The first reason is this regional re-opening will allow management to template a model for similar re-opening procedures globally. China will essentially be a test case. Second, China is still the largest market for growth for Restaurant Brands.

Growth potential

Whether internationally or domestically, Restaurant Brands will undoubtedly have excellent growth potential coming out of this pandemic. There are a few reasons for this. As mentioned, with the Chinese market getting back to business now, the Chinese government is likely under domestic and international pressure to spur growth. Therefore, I would expect to see various government growth incentives offered to companies willing to grow. This could be a potentially lucrative opportunity for Restaurant Brands and its shareholders.

Closer to home, I see significant near-term opportunities for growth in the next six to 12 months. These opportunities stem mainly from cheap real estate and various growth incentives which are likely to be handed down by governments. These growth incentives are likely to focus on the restaurant/retail space.

In addition, the company has a relationship with 3G Capital and Warren Buffett. Therefore, it’s very possible Restaurant Brands could add a fourth or fifth banner in the coming months. Distress often breeds opportunity for well-capitalized companies with strong cash flow generation like Restaurant Brands.

Stay Foolish, my friends.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. canada
2. coronavirus
3. drive thru
4. fast food

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

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