Get Tasty +5% Dividends From These 4 Restaurant Stocks

Description

Some of the world's greatest investors are heavily invested in one sector that never seems to show any weakness–restaurants.

Billionaire investor Warren Buffett has a few different investments in the sector. **Berkshire Hathaway** acquired Dairy Queen back in 1997, a deal worth $585 million. Berkshire also owns large stakes in other food companies like **Kraft**, **Heinz**, and **Restaurant Brands International**.

The man many call "Canada's Warren Buffett" is also a big investor in the restaurant business. Prem Watsa, CEO of **Fairfax Financial**, has made a large investment in **Cara Operations Ltd.** Fairfax owns a 41% equity interest in Canada's third-largest restaurateur, which owns chains such as Swiss Chalet, Harveys, and New York Fries. Fairfax also owns a big stake in another chain we'll look at more closely later.

There are plenty of other restaurant stocks in Canada, representing some of our finest brands. These companies also pay some terrific dividends. Here are four potential choices for your portfolio, each with yields of at least 5%.

Boston Pizza

Boston Pizza Royalties Income Fund (TSX:BPF.UN) gets paid directly from franchise fees collected from the 370+ locations from coast to coast.

Boston Pizza has grown from humble beginnings to become the largest fast-casual restaurant chain in Canada. Growth has been somewhat muted lately, but sales are going up approximately 4% a year based on a combination of improved same-store sales and the opening of new restaurants.

This bodes well for the company's dividend. It pays a 7.4% yield, which is one of the best out there. Virtually all of its earnings go towards paying the dividend, but that hasn't stopped it from hiking the payout aggressively. Since 2011 the dividend has been hiked an average of once a year, going from $0.084 per share each month to $0.115. That's an annual growth rate of 7.5%, which is fantastic for a stock yielding above 7%.

A&W

A&W Revenue Royalties Income Fund (TSX:AW.UN) has quietly become the second-largest hamburger chain in Canada, franchising more than 840 locations across Canada. Only **McDonald's** has a larger presence.

Last year was a good year for the company. Same-store sales spiked 7.6%, and that's after the same metric was up 6.3% in 2014. Sales in the royalty pool passed $1 billion for the first time in 2015, which was a 10.8% increase compared with 2014. Those are terrific results in a market that many investors view as almost saturated.

A&W pays a dividend of $0.125 per share each month, which is good enough for a 5.3% yield. It has hiked that distribution twice in the last year alone, paying $0.117 per share monthly a year ago.

The Keg

When it comes to steak in Canada, there's The Keg and then there's everywhere else. The Keg is well known for its quality food and great service. Prem Watsa liked the business so much that Fairfax Financial became the 51% owner of the company in late 2013.

Investors can buy into the company via **Keg Royalties Income Fund** (TSX:KEG.UN), a stock that pays a 5.7% dividend. Same-store sales numbers were up substantially for 2015, rising more than 8% as restaurants passed on the higher cost of beef to customers.

One interesting wild card for Keg investors is the company's presence in the United States. Although the store count is only 10 south of the border, it's obvious that's where the bulk of the expansion opportunities will come in the future.

Pizza Pizza

Pizza Pizza Royalty Corp (TSX:PZA) has a dominant position in the Ontario pizza market, a solid position in Alberta via its Pizza 73 brand, and the growth potential to really expand the concept nationally.

The company has approximately 730 restaurants across Canada with more than 550 located in Ontario. An additional 97 are in Alberta. In Quebec alone, there's potential for at least a hundred additional locations. There's less than 40 locations in the province currently.

Even without this potential, same-store sales are chugging along nicely, increasing 4.5% in 2015. Based on this strength, the company hiked the dividend twice, increasing it 1.95% in April and 2.5% in November. The yield today is 6.2%.

Restaurant stocks are attractive because they offer consistent dividends, steady businesses, and there are always expansion opportunities. It’s for these reasons that I’d recommend an investor have exposure to at least one such stock in their portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
3. TSX:KEG.UN (Keg Royalties Income Fund)
4. TSX:PZA (Pizza Pizza Royalty Corp.)

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