



## Income Investors: 2 Great Restaurant Stocks With Oversized Yields

### Description

Canadian investors are searching for juicy yield, and anything better than 5% is considered a tasty payout these days.

Let's take a look at **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) and **Keg Royalties Income Fund** ([TSX:KEG.UN](#)) to see why they are attractive picks.

#### Pizza Pizza

Pizza Pizza has been the staple diet of many Canadian students for years, and there is little evidence the trend will change.

As of June 30 there were 636 Pizza Pizza restaurants and 100 Pizza 73 restaurants in the royalty pool. Sales for Q2 2016 came in at \$132.3 million—up from \$130.3 million in Q2 2015. Operating earnings for the quarter were \$8.42 million compared to \$8.37 million last year.

Earnings attributable to shareholders were \$6.45 million, or \$0.21 per share—up from \$5.33 million, or \$0.17 per share, in Q2 2015.

Overall, the company reported steady results.

Pizza Pizza has raised its payout at a steady pace for the past five years. The last increase, which brought the monthly distribution up to 7.13 cents, came in November of last year. The payout ratio has historically been about 95%, but drifted up to 103% in the most recent quarter. That could be a short-term event, but investors might not see another distribution hike until the company gets the payout ratio back down to the previous level.

The current distribution offers a yield of 5.7%.

#### The Keg

The Keg targets the other end of the spectrum when it comes to its customer base, providing high-end

food in a cozy and sometimes lively atmosphere. You can enjoy a private meal in one of the booths or socialize with the staff and other patrons at the large bar.

They might not admit it, but many of the Keg's well-heeled regulars once lived off Pizza Pizza.

The Keg has done a great job of surviving economic cycles and changing consumer tastes over the years. The first restaurant opened in the early 70s, and Canadians have remained loyal to the great steaks and tasty bread ever since.

Royalty income from the 100 locations rose 1.8% in Q2 2016 compared with the same period last year.

Management is committed to paying consistent and sustainable distributions to unitholders. The payout increased three times in 2015, and investors also received a one-time special payment at the end of the year.

The fund raised the monthly distribution again in May, and the payout currently sits at \$0.09 per unit. That's good for a yield of 5.3%.

The Keg is often recognized as one of Canada's top restaurant chains in the full-service category, and investors should see the strong results continue in the coming years.

### Is one a better pick?

Pizza Pizza offers a slightly higher yield, but I would go with the Keg as my first choice. The steakhouse has a better track record of dividend increases and is less at risk of being hit by new entrants to its market segment.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:KEG.UN (Keg Royalties Income Fund)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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### Date

2025/08/26

### Date Created

2016/08/31

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