



Hungry for Yield? These 3 Restaurant Stocks Will Whet Your Appetite

Description

Warren Buffett has traditionally loved the fast-food business. Not only does he currently own both common and preferred shares of **Restaurant Brands International**, but his company **Berkshire Hathaway** owns Dairy Queen.

There are a few reasons why Buffett likes investing in food so much. He understands the business. There's always going to be demand for people eating. A good brand name can really make a difference, and Buffett is king of figuring out which brands will succeed. Most fast-food chains still have good growth potential, both domestically and internationally. And most importantly, they tend to churn out predictable and generous profits.

Our fast-food chains in Canada have many of the same advantages, along with one more not so readily available to U.S. investors—huge dividends. Many of Canada's fast-food stocks are leftover remnants of the income trust age: an era where attractive dividends were commonplace. No management team wanted to be the one to cut payouts, so dividends were made a priority.

Here is a closer look at three of Canada's best restaurant stocks.

A&W

A&W Revenue Royalties Income Fund ([TSX:AW.UN](#)) has quietly become one of Canada's more interesting growth stories.

A few years ago, the company was struggling. Same-store sales were tepid. Customer growth was okay, but it was nothing exciting. So management began to make some changes. Marketing started to focus on the high quality of ingredients. Cash was invested to spruce up a tired restaurant design. And plenty of time and energy was dedicated to nostalgia.

The strategy has worked better than anyone could have hoped. In 2014 same-store sales growth leaped by 6.4%. And 2015 was even better with the same metric increasing by 7.6%. And thus far in 2016, growth continues to be impressive—it's up 5.4%.

Management is passing on much of these sales increases to investors in the form of higher dividends. In early 2013, the company paid investors a dividend of 11.7 cents monthly per share. These days the monthly payout has increased to 13.3 cents per share. That's a yield of 4.5%.

Pizza Pizza

Although the chain continues to feel the pressure from a struggling Albertan economy, **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) is still posting solid results.

Canada's largest pizza chain has increased total sales by 2.4% thus far in 2016 with same-store sales increasing 1.7%. Results are very much a tale of two markets; Alberta same-store sales are down 7.9%. Results are much better at namesake Pizza Pizza restaurants, which delivered a 3.8% growth in stores open at least a year.

Dividend growth has been slow but steady. A year ago, the company paid out a monthly dividend of 6.8 cents per share. After two increases, the monthly payout is now 7.13 cents per share. Dividend growth of 4.9% won't get a company headlines, but it's still a solid performance for a stock that currently yields 5.7%.

Boston Pizza

Although **Boston Pizza Royalties Income Fund** ([TSX:BPF.UN](#)) isn't a fast-food joint—its food comes on real plates, after all—but it has a great deal in common with its faster competitors.

Like Pizza Pizza, the chain is struggling with sales in Alberta, but recent results have still been pretty solid. Overall sales increased 3.9% in its latest quarter with same-store sales up 2.1%. Based on earnings thus far in 2016, the company looks like it can easily afford its 6.5% dividend.

One of the advantages Boston Pizza has compared to other restaurants is its size and marketing clout. System sales surpassed \$1 billion in 2015, making it Canada's largest fast casual chain. Many of its marketing dollars went towards advertising its online order system, which is rapidly becoming a big advantage over mom and pop restaurants.

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:PZA (Pizza Pizza Royalty Corp.)

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