



Income Investors: These 3 Restaurant Stocks Offer Mouth-Watering Yields

Description

Many of the world's best investors have, in part, used restaurant stocks to build their fortune.

The franchising business is especially powerful. Not only does a franchisor get paid through thick and thin—thanks to an agreed upon royalty payment, a percentage of sales—but the head office also gets other perks, including getting franchisees to pay for their own advertising and getting a cut of supplies sold to each individual restaurant.

It's little wonder the sector has been popular with investors over the years. Once a restaurant hits a certain mass, it's almost impossible not to make money.

Here are three Canadian restaurant stocks that offer consistent earnings, attractive brands, and perhaps most importantly, some of the tastiest dividends around.

Pizza Pizza

I first bought **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) shares about 15 months ago, paying about \$13.50 each. It's been a rock-solid performer, delivering a total return of 15%, including dividends.

There's a lot to like about Canada's largest pizza chain. Most stores are located in Ontario and Alberta with locations in the latter province operating under the Pizza 73 banner. That leaves plenty of potential expansion opportunities in the rest of the country.

It has been a decent year so far, despite the weakness in Alberta hitting Pizza 73 sales. Overall sales are up 2.4% with same-store sales up 1.7%. Since Pizza 73 sales only represent about 20% of revenues, it's easy for the company to shrug off those weak results.

These solid results have translated into three different dividend increases since the beginning of 2015. Shares currently pay investors 7.13 cents per month, which is good enough for a yield of 5.6%. Pizza Pizza has yet to miss a dividend as a publicly traded company, although it was forced to cut the dividend when it converted from an income trust to regular corporation in 2011.

Boston Pizza

Boston Pizza Royalties Income Fund ([TSX:BPF.UN](#)) has grown into a restaurant powerhouse since Greek immigrant Gus Agioritis opened the first location in Edmonton in 1964.

The company is now Canada's largest fast-casual restaurant chain with sales exceeding \$1 billion in 2015. It has more than 370 locations in Canada as well as a smattering of restaurants in the United States and Mexico.

Same-store sales increased by 1.8% in 2015 and 2.1% thus far in 2016. Like Pizza Pizza, the chain is suffering a bit from tepid sales in Alberta, but it continues to have success rolling out its online ordering system and various new menu items.

Boston Pizza has done a nice job growing its dividend. It paid \$1.229 per share in 2014, \$1.364 per share in 2015, and is on pace to pay investors \$1.38 per share in 2016. Since its IPO in 2002, Boston Pizza has paid investors total dividends of \$17.53 per share. The company currently yields 6.4%.

A&W

A and W Revenue Royalties Income Fund ([TSX:AW.UN](#)) has grown into Canada's second-largest burger chain with approximately 850 locations from coast to coast.

Most fast-food restaurants are posting decent same-store sales growth. A&W is doing much better. Through the first three quarters of 2016, it increased sales in stores open at least a year by 4.3%. And that was after disappointing third-quarter numbers.

A&W has invested heavily in higher-quality ingredients. It serves hamburgers from cows raised without the use of hormones and steroids. It uses eggs from hens that are fed a diet without animal by-products. And any bacon in an A&W restaurant is from pigs raised without the use of antibiotics.

Its food is delicious too, which certainly helps.

A&W's solid sales growth has led to steadily increasing dividends. The company has hiked the payout twice in 2016 alone, raising the monthly distribution from 12.5 cents to 13.3 cents per share. The current dividend yield is 4.5%.

The bottom line

Over the last decade, including reinvested dividends, these three restaurant stocks have delivered approximate annual returns of 12% (Boston Pizza), 16% (Pizza Pizza) and 18% (A&W). They've been terrific long-term holds.

Or to put it another way, \$10,000 invested in each back in 2006 would be worth \$127,710 today, including reinvested dividends.

Needless to say, Canada's restaurant stocks are capable of delivering some tasty returns.

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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