



Investors: Lock in Succulent Dividends From These 3 Restaurant Stocks

Description

It seems like everyone has an opinion about the restaurant business.

Most people think about the operating side with many dreaming of one day opening their own bistro. After all, most of us can make at least one delicious dish. Have you tried my meatballs? They're to die for.

But operating a restaurant is a tough business. Cooking is the easy part. An owner has to make sure the staff all get along (and aren't stealing the place blind), keep unruly customers happy, and ensure enough people show up. Oh, and there are hundreds of competitors in most places.

No wonder so many restaurants go under.

Passive investors have it much better. We can easily invest in some of Canada's top franchises—restaurants with hundreds of locations from coast to coast. These are royalty trusts, which means investors are paid directly from royalties from franchisees. These fees come right off the top of every sale.

Since there aren't many other associated expenses, investors can count on these stocks to pay handsome dividends. Let's take a closer look at three of Canada's top restaurant stocks.

Pizza Pizza

I own **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)), the parent company of close to 700 Pizza Pizza and Pizza 73 locations across Canada.

There's a lot to like about the company. First of all, it serves pizza, which is probably the perfect food. Pizza is also easily ordered via the internet or a smartphone app—a market Pizza Pizza has done a nice job tapping into. This trend will continue, much to the chagrin of folks who answer the phones.

Same-store sales have been decent thus far in 2016, increasing 1.9% despite weakness in Alberta. Total sales have increased 2.5% after the company opened 10 new locations.

This slow and steady top-line growth has translated into investors getting decent dividend increases. Since 2011, when the company was forced to convert from an income trust to a corporation, it has hiked the payout by 22.4%—not bad for a company that currently pays a 5.2% dividend.

Boston Pizza

Pizza Pizza is almost strictly a pizza joint. Although **Boston Pizza Royalties Income Fund** ([TSX:BPF.UN](#)) has pizza in its name, its menu is much more diverse.

Boston Pizza is Canada's largest fast-casual restaurant chain. Its +370 locations recently surpassed sales of \$1 billion and have grown same-store sales by 0.7% thus far in 2016. That's a little disappointing, but total sales growth of 2.6% is a much better result. Distributable cash earned per unit also increased, rising by nearly 4%.

The company has one of the best dividends out there; it currently pays \$0.115 per share each month—good enough for a 6.2% yield. And, like Pizza Pizza, it has hiked its payout regularly since 2011, increasing the distribution five times.

A&W

A and W Revenue Royalties Income Fund ([TSX:AW.UN](#)) has been one of the best-performing stocks on the TSX over the last five years. Including reinvested dividends, a \$10,000 investment in the company back in 2011 would be worth \$23.866 today—an annual return of 19%.

The company has done a nice job marketing higher-quality ingredients to customers, which is causing some impressive same-store sales growth. The top line shot up 6.3% in 2014, 7.6% in 2015, and 5.4% thus far in 2016. A&W is now Canada's second-largest burger chain.

The only problem with all this growth is that investors are happier to accept a lower dividend yield. A&W shares currently yield 4.4%. That's a decent payout, but it doesn't really compare to the dividends offered by Boston Pizza and Pizza Pizza.

The bottom line

There's a lot to like about the restaurant business, especially royalty trusts. These companies have great brands, fantastic locations, and regular customers. They also pay succulent dividends and offer just enough growth to ensure income investors get steady raises. It really doesn't get much better than that.

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.)

Category

1. Dividend Stocks
2. Investing

Date

2025/08/26

Date Created

2016/12/08

Author

nelsonpsmith

default watermark

default watermark