



Dividend Investors: Nothing Tastes Better Than These 3 Restaurant Stock Yields

Description

Warren Buffett is a big investor in the restaurant business. It's easy to see why.

Keep in mind that Buffett only invests in a certain part of the restaurant sector. He has very little interest in owning a physical restaurant. He knows competition is tough and an operator needs to spend aggressively on marketing to get ahead.

Instead, the Oracle of Omaha is a big investor in franchisers. He knows the head office is first to get paid — revenue that's virtually guaranteed by the franchise agreement. Most operators also put an additional portion of their sales into a marketing fund, meaning they pay for it. Oh, and the parent company can force a franchisee to purchase products from an approved supplier, who will often give a kickback in exchange for an exclusive contract.

Buffett's restaurant holdings include purchasing Dairy Queen outright for **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) in 1997 as well as a large ownership stake in **Restaurant Brands International**.

There's no reason to reinvent the wheel. If Buffett likes the restaurant business, then you and I should like it, too. Here are three excellent Canadian restaurateurs that would look good in anyone's portfolio.

The Keg

Keg Royalties Income Fund ([TSX:KEG.UN](https://www.scribd.com/document/444444444/TSX:KEG.UN)) is the parent company of 100 franchised restaurants in Canada and the United States. The Keg is best known for its steaks, and the typical cost of an entree is \$40 or \$50. It's a higher-end restaurant.

Sales growth is of the utmost importance to Keg investors, since royalties are tied to the top line. Through the first three quarters of 2016, revenue increased \$9.59 million, or 2.3%. Results were even better in the latest quarter with sales increasing 4.8%.

These results were good enough that the company recently announced a dividend increase, upping the payout 2% from nine cents per month per share to 9.18 cents. The company also rewarded

shareholders with a 12.18 cent per share special dividend in December. Shares currently yield 5.3%.

Pizza Pizza

Pizza Pizza Royalty Corp. ([TSX:PZA](#)) continues to be my favourite Canadian restaurant stock. It is Canada's largest pizza joint with 736 locations split between its Pizza Pizza and Pizza 73 banners. Stores should sell about \$540 million worth of pizza in 2016.

Same-store sales growth has been solid in 2016. The company reported an increase of 1.9% through the first three quarters of the year. These are solid, albeit unspectacular, results.

Pizza Pizza is a dividend-growth machine. It has hiked its dividend each year since 2011 and looks poised to do so again in 2017. Shares currently pay 7.13 cents per month, which is good enough for a 4.9% yield.

A&W

A and W Revenue Royalties Income Fund ([TSX:AW.UN](#)) is more expensive than both Pizza Pizza and the Keg, which translates into a lower yield. Shares only pay a 4.2% dividend, which is lower than virtually all of its peers. It's still a pretty decent payout, however.

There's a reason why shares trade at a higher valuation. A&W is growing at a much faster clip than any of its competitors. It added 30 new restaurants to the royalty pool in 2016 and increased same-store sales by 4.3% through the first three quarters of 2016. Total royalty income increased a whopping 10.3% in the same period. It's obvious customers are responding to A&W's efforts to build a better burger.

In fact, A&W has quietly become Canada's second-largest burger chain with nearly 870 locations spanning from coast to coast. If it can continue growing at a feverish pace, it could eventually overtake the 800-pound gorilla, **McDonald's**.

The bottom line

Many prominent investors like restaurant stocks, not just Warren Buffett. Canada's royalty trusts are some of the best restaurant stocks out there. These are great brands that are enjoyed by thousands of Canadians each and every day. And they also pay terrific dividends. It doesn't get much better than that.

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:AW.UN (A&W Revenue Royalties Income Fund)
4. TSX:KEG.UN (Keg Royalties Income Fund)
5. TSX:PZA (Pizza Pizza Royalty Corp.)

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