



5 Reasons Why Canada's Restaurant Stocks Make Great Investments

Description

Over the years, uber investor Warren Buffett has been a big player in the restaurant industry.

Through his holding company **Berkshire Hathaway**, the Oracle of Omaha owns all of Dairy Queen as well as a big chunk of **Restaurant Brands International**. Remember that Restaurant Brands now has three brands under its roof — Tim Hortons, Burger King, and Popeyes. Buffett also has owned other fast-food stocks in the past, including a stake in **McDonald's**.

Canadian investors should channel their own Warren Buffett and check out some of Canada's best restaurant stocks. Here are five reasons why.

Great businesses

Buffett isn't really attracted to the restaurant business. He knows operating a restaurant is hard. You have to deal with staff and their quirks, annoying customers, and making sure the restaurant is clean, among dozens of other issues.

Instead, Buffett just owns the parent company, which collects a fee on every sale the franchisee generates. This allows an investor to pocket a consistent cash flow without having to take on the risk of running a restaurant.

Powerful brands

There's a reason why chain restaurants are consistently packed, while delicious, smaller operators struggle to get customers. Folks know exactly what they're getting when they go to a chain. These companies then use savvy marketing to maintain mind share.

The result is a powerful advantage, which ensures a steady stream of customers during good times and bad. These brand names are some of the best competitive advantages out there. Everybody knows the top fast-food chains. Hardly anybody knows about your neighborhood's hidden gem.

Plenty of growth

Canada's top fast-food brands seemingly have restaurants everywhere. Yet that isn't stopping some of them from posting terrific growth numbers.

Take **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)), which has nicely positioned itself as Canada's second-largest burger chain. It recently posted same-store sales growth of 13% versus the same quarter last year, powered by a revolutionary veggie sandwich and new partnerships with various delivery services.

That 13% growth rate doesn't even factor in new restaurant openings. If we include new locations, sales grew a whopping 18%. These are truly spectacular results.

Succulent yields

Many of Canada's top restaurant stocks are royalty trusts, which means investors get first dibs on some of the franchise fees paid back to the parent company. The royalty company — which is separate from the parent company — then pays the vast majority of these fees to investors in the form of dividends.

This results in some of the best dividends out there. **Pizza Pizza Royalty** ([TSX:PZA](#)), which gets royalties from both Pizza Pizza and Pizza 73 restaurants across Canada, currently pays a 10% yield.

Such a high dividend might seem dangerous, but the company actually has a history of increasing its payout. It raised distributions annually from 2012 to 2016. And since the royalty company doesn't need to invest back into the business, [the stock's 100% payout ratio isn't much of a concern](#).

Fast casual too

Investors looking to get exposure to nicer restaurants also have a few options.

My favourite fast casual stock in Canada is **Boston Pizza Royalties Income Fund** ([TSX:BPF.UN](#)). Boston Pizza is Canada's largest fast casual restaurant chain with some 400 locations doing more than \$1 billion in business. The company is one of Canada's top marketers, and it's constantly switching up parts of its menu to find better products. Shares pay an 8.4% dividend, too.

The bottom line

I'm a big fan of Canada's restaurant stocks. They pay consistent dividends through thick and thin, offer a truly compelling business model, and the sector is easy to understand. These companies have great brands that are highly valued by consumers. Adding at least some of them to your portfolio is a no-brainer, especially during this market sell-off.

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