



Income Investors: Sink Your Teeth Into This 8.2% Yield

Description

Many Canadian investors own shares of Canada's largest restaurant chains for a number of important reasons.

First, many pay fantastic dividends. It's common to see these restaurant stocks paying at least a 5% yield, with some even higher. The restaurant business isn't really something that needs a lot of capital reinvestment — the strength is primarily in the brand — so these stocks can afford to reward shareholders with high yields.

These companies franchise virtually all of their locations, which provides numerous benefits. Running a restaurant is hard work with all sorts of risk. It's better to offload that risk to an owner operator, and a chain can expand much quicker by having franchisees put up most of the capital needed. Franchise agreements ensure the parent company is the first to get paid, even before the operator makes payroll. Finally, investors much prefer this business model, which helps the stock price.

Put all this together and it creates a compelling investment opportunity. Personally, I own several top Canadian restaurant stocks, content in knowing these strong brands should continue to excel over time.

One of my favorite restaurant stocks is **Boston Pizza Royalties Income Fund** ([TSX:BPF.UN](https://www.bse.com/quote/TSE/BPF.UN)). Here's why I think you should join me in owning it.

A fast casual monster

Boston Pizza has come a long way since Jim Treliving was kneading pizza dough in Edmonton during the 1970s.

The company recently surpassed \$1.1 billion in gross system-wide sales, spread out over approximately 400 locations. This translates into more than \$2.5 million in sales for an average restaurant, making Boston Pizza Canada's largest fast-casual restaurant chain.

Same-store sales have increased by 2.5% annually since 2002 — performance that's aided by the

addition of new restaurants. This important metric has slowed lately, with 2018's same-store sales showing a paltry increase of just 0.1%. This is primarily due to weakness in markets with a lot of oil and gas influence, which is where Boston Pizza's focus has historically been.

Once we factor in new restaurant openings, Boston Pizza had a 1.5% sales increase in 2018.

The company's days of major growth are largely behind it, but that doesn't mean this stock is doomed to be a crummy investment.

The bull case today

One of the biggest reasons why I loaded up on shares back in 2018 was Boston Pizza's compelling valuation.

The company generated \$28.2 million in distributable cash last year, which translates loosely to free cash flow. The fund has a market cap of \$367 million. This puts shares at just 13 times distributable cash, which is a pretty cheap valuation for a capital light company with a history of rewarding shareholders.

I'm also confident shares will head higher once the Alberta economy recovers. Remember, Boston Pizza shares were consistently above \$20 each in 2015, 2017, and 2018, and shares aren't trading much above a five-year low today. This is exactly the time you want to be buying.

Finally, there's the dividend, which currently sits at \$0.115 per share on a monthly basis. That works out to a \$1.38 per share annual dividend, which represents an 8.2% yield. Although the company has been slow on the dividend increases lately, it has raised the distribution 18 times since its 2002 IPO.

The bottom line

I like to view Boston Pizza shares as my 8% bond with some upside potential. The chain is well cemented as a dominant force in fast-casual today, and I don't see anything that will knock it off that throne. This ensures the current dividend is safe, despite a 100% payout ratio. Once same-store sales see an improvement, the share price should move accordingly.

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1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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