Dividend Investors: This Stock Yields More Than 8.5%, Yet No One Is Talking About it

Description

The days of finding a company with a nice dividend yield that is stable and growing are long gone. Nowadays, the quality dividends don't yield all that much, growth is hard to come by, and the dividends that do yield higher rates are priced that way because of the risk associated with the sustainability. Every now and then, though, you stumble upon a well-known company that has been beaten up badly. Royalty companies are the best ones, since their cash flow is repetitive and easy to forecast. The best example would have to be a company like **Pizza Pizza Royalty** (TSX:PZA).

Throughout 2018, shareholders were taken on a wild ride. At the lows in October of 2018, Pizza Pizza was down almost 50% from the highs 12 months earlier. The negative price action of the stock has undoubtedly gotten investors worried about the high-yielding dividend. As same-store sales (SSS) growth is declining, and with the payout ratio exceeding 100%, investors have wondered if Pizza Pizza will be able to sustain the dividend.

Royalty structure

Pizza Pizza, as the name suggests, is a pure royalty play off the stores in its pool of restaurants. The "Pizza Pizza" branded stores pay 6% of their revenue to the royalty corp, and in Alberta the "Pizza 73" brand of stores pay 9% of their revenue to the royalty corp. This topline royalty structure is a lot more stable and ensures that as long as there is foot traffic and sales in the restaurants, investors are getting paid. It also reiterates the fact that SSS figures are one of the most important indicators when valuing the company as a potential investment.

SSS growth

Although Pizza Pizza stores had negative SSS growth for 2018, the Pizza 73 stores saw SSS growth increase for the first time in three years. Moreover, Pizza Pizza has been working to improve these numbers by rebranding and reintroducing key menu items. This may seem a bit skeptical to potential investors, however; Pizza Pizza has the time to do it, as the reserve cash on the balance sheet can make up some shortcomings should the payout ratio stay above 100% in the short term.

Balance sheet strength

The company currently had more than $4 million in the reserve fund at the end of 2018. At the current rate, that $4 million would be able to support the 104% payout ratio for another five years. This suggests Pizza Pizza has a few years to get its act together before a dividend cut would actually be considered.

New plans for the brand

Pizza Pizza has recognized the need to improve its menu offerings to customers, especially as the market in Canada evolves and gets more competitive. The company has been working on refining its marketing and improving its online infrastructure. It has also been reinvigorating the food it offers in an effort to make the menu more appealing to a broader group of consumers.

Another advantage to the stability of Pizza Pizza's revenue is its positioning as a large well-known brand in Canada. Although competition has gotten more intense over the years, the brand is best known among consumers as a reliable, convenient, and low-cost option.

The bottom line

With a top-line royalty and a solid well-known brand, a dividend yielding over 8.5% is hard to pass up. The alignment of investors' interests with ownership is also a positive. The largest shareholder of the royalty is "Pizza Pizza Ltd," the private franchise company that owns almost a quarter of the shares. As a potential investor, that's definitely something you want to see. Over the next couple months, if it continues to get beaten up, this stock is definitely a must-have.

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