



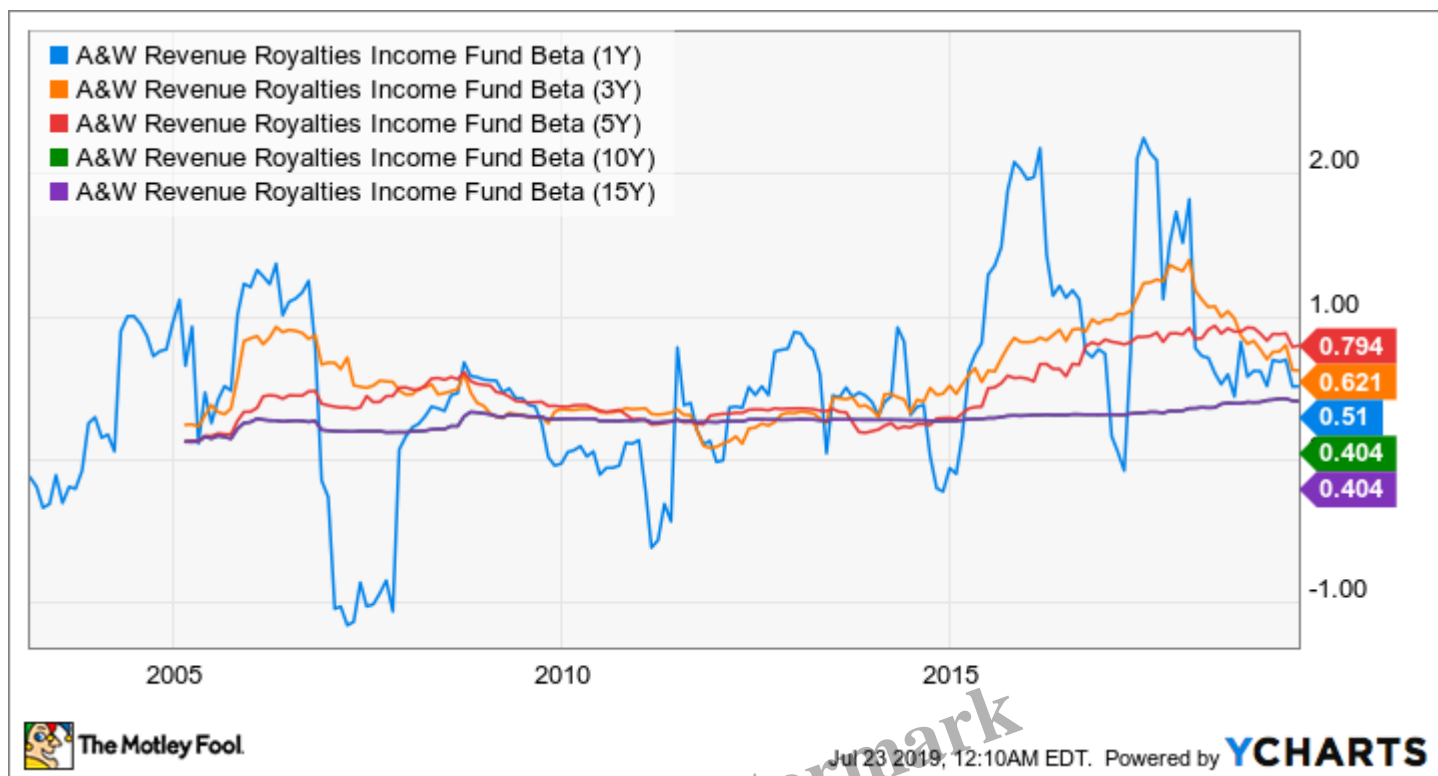
## When Should You Buy This Great Dividend Stock?

### Description

Long-term investors have done very well with **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)) while getting a market-beating dividend and [above-average returns](#).

A&W stock has delivered total returns of 13.4% per year since 2007 through the last recession. In the same period, the U.S. market (using **S&P 500** as a proxy) delivered returns of only 7.1%, while the Canadian market tends to underperform the U.S. market.

What's more to like about A&W is that the stock has a below-average beta, which means it experiences lower volatility than the market and is a low-risk stock due to its capital-light business model.



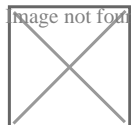
AW.UN Beta (1Y) data by YCharts.

## The business

A&W is a burger chain royalty trust with about 900 stores in Canada. Essentially, it earns a 3% royalty of sales. It's a capital-light business, because the franchisees are the ones that put up capital to build new stores.

A&W aims to position itself to differentiate from its competitors through innovation with fresh, quality ingredients and delivering better customer experience. Doing so should consequently lead to improved market share and increased royalty income.

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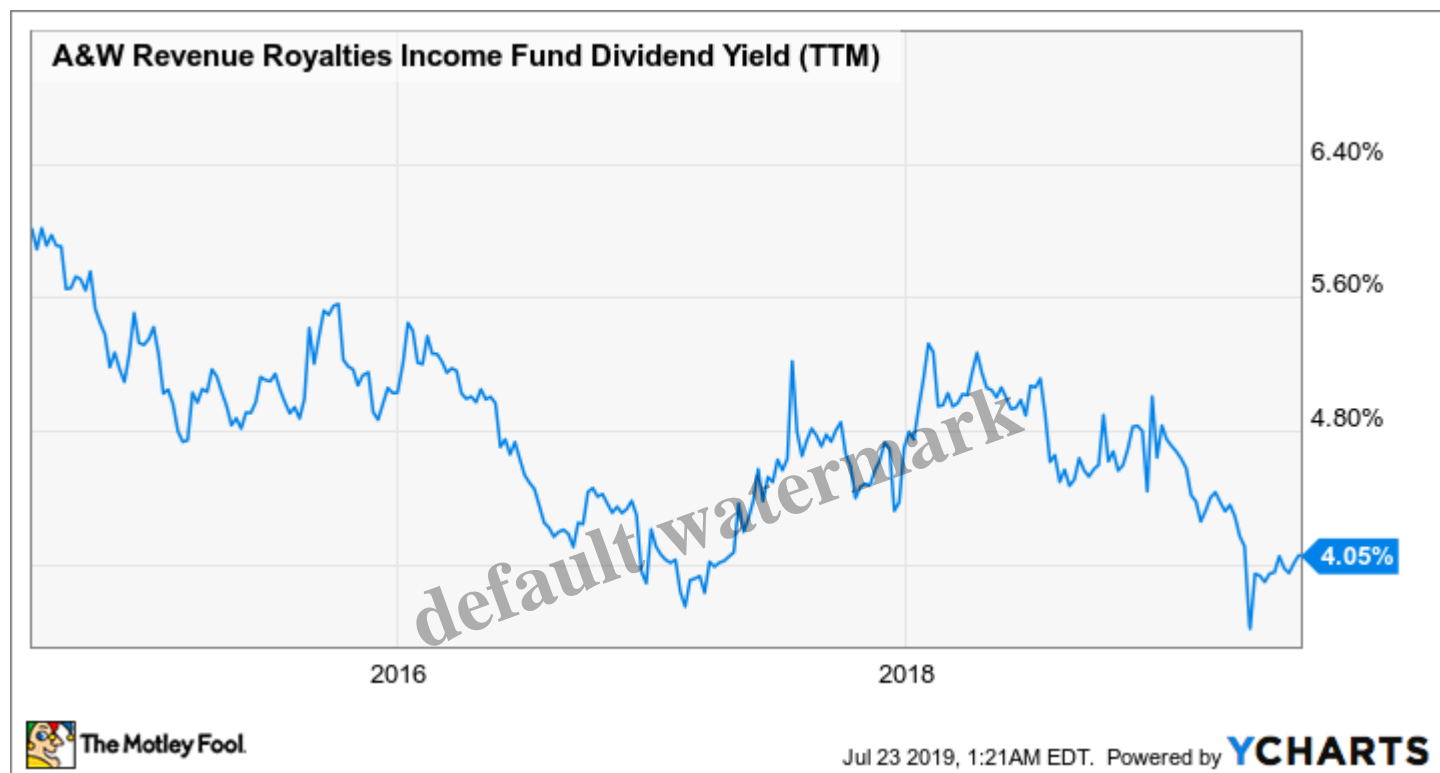
## Profitability and strong dividend track record

A&W's three-year royalty income growth was 8.7%. Last year, same-store sales growth of 9.8% was very strong, which was a result of the successful execution of the company strategy.

Because of its capital-light business model, the company generates strong free cash flow. Therefore, it's not surprising that A&W has maintained or increased its cash distribution since 2005 with the monthly cash distribution per unit climbing 71% since then.

Last year, A&W's payout ratio was only about 67%. So, there's room to grow the dividend. As of writing, the stock offers a safe yield of 4.3%, which is 1.5 times that of the Canadian market and 2.4 times that of the U.S. market.

Recent history shows that it would be a good opportunity to buy the safe income stock at a yield of roughly 5%. This target yield implies a buy price of about \$37 based on the most recent monthly cash distribution of \$0.154 per unit (equating to \$1.848 per year).



AW.UN Dividend Yield (TTM) data by YCharts.

## Foolish takeaway

A&W is [a low-risk income stock you can trust](#). Currently, it offers a safe yield of 4.3% at \$43.22 per share as of writing. To be honest, though, the stock looks fully valued at about 16.7 times cash flow.

The higher multiple is due to the company's recent exceptional results. Only one analyst covers the stock likely due to its small-cap and illiquid nature. The sole analyst has a \$45 price target on the stock, which represents only 4% upside.

Therefore, interested investors are encouraged to wait for a lower entry point of below \$40 per unit and to remember to set a limit order when buying.

## CATEGORY

1. Dividend Stocks
2. Investing
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## TICKERS GLOBAL

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