2 Income Stocks to Buy in September

Description

Generating income has never been more difficult than it is in the current market environment. This is a market for debtors, not savers, making this an extremely difficult time for those who are entering retirement. Traditional savings vehicles that are supposed to provide safety and security in your golden years have been driven to the point where they offer no real solution to those in need of steady income.

This has left high-yield stocks as the last hope for income-seeking individuals. But the spectre of a recession makes the prospect of investing in stocks less appealing since the economic downturn tends to punish equities.

Two food stocks that might be worth a look for income are **A&W Revenue Royalties Income Fund** (TSX:AW.UN) and **Boston Pizza Royalties Income Fund** (TSX:BPF.UN). Together, these royalty providers pump out a lot of income. But are they good holdings and income generators that will help you make it through the next recession?

There are two things to consider with these two royalty companies when it comes to buying these as income-producing assets. The first is their diversification, or possibly the lack thereof. The second is their yields in terms of both growth and initial size.

Diversification

Diversification does not happen if you buy both of these stocks as income generators. Yes, they have operations that span the nation, but that does not make a well-diversified holding.

The problem with these stocks on a diversification basis is that they are both fully dependent on the fate of the Canadian economy, with most of their earnings coming from major urban centres. Should the economy fall into a recession, a very real risk considering the debt-laden Canadian consumer, both Boston Pizza and A&W may see reduced traffic, which negatively impacts their earnings.

Of the two stocks, A&W most likely has a better risk profile since consumers with reduced cash flow may be more likely to eat at a fast-food restaurant than go to a sit-down restaurant like Boston pizza.

Distributions

Both of these companies are appealing in terms of their distributions, although, once again, I would prefer the yield from A&W as opposed the greater yield from Boston Pizza. Boston Pizza, at first glance, appears to be the better buy. Its yield is sitting at around 8% currently as opposed to the 4.5% yield offered by A&W.

But there is more to the story. Boston Pizza's share price has essentially gone nowhere over the past five years. It can't seem to break through its high of around $24 a share and has currently fallen to about $17. So, even though you are getting a higher yield, you are paying for it with a stagnant share price.

A&W's shares, though, have been climbing steadily for years, with the past five years resulting in a near doubling of the share price in addition to the high dividend. The combination of high yield and an increasing share value has packed a punch for long-term investors.

Both companies have a history of increasing distributions over time, which is encouraging for unitholders of either company. Earlier this year, A&W increased its monthly payout by 4.7%. Boston Pizza has increased its 18 times in the past, although recently the distribution has not grown from the 11.5-cents-a-month payment.

Boston Pizza does have another positive point in its favour that A&W does not possess. Over the past few years, Boston Pizza has been reducing its shares outstanding. Given its reduced share price, this is probably a good idea for returning value to shareholders.

The bottom line

Both companies are appealing as monthly income plays. If you are a retiree, both should continue to deliver strong cash flow. Overall, though, I'd say A&W is the better long-term play due to its distribution growth and capital appreciation of the shares.

Include both of these as part of a diversified portfolio. A ratio of 75% A&W royalties to 25% Boston Pizza should give you a boost from growth and slightly higher distribution yield.

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Date
2025/07/22
Date Created
2019/08/29
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