How to Make $400/Year in Passive Income on a $5,000 Investment

Description

Chances are, if you're reading this, you've caught a game or celebrated a get-together with friends at a Boston Pizza location at least once in your life. So, if you're a fan of this very Canadian restaurant chain, you'll be pleased to know that it's also one of the best monthly income payers currently trading on the market via the **Boston Pizza Royalties Income Fund** (TSX:BPF.UN).

Why the drop?

Before we continue, it's worth addressing that BP is 25% off the highs made in 2017. Most of the stock's losses can largely be attributed to lagging same-restaurant sales, which have been under pressure for the past while due to shifting consumer preferences and the energy sector downturn, which impacted sales for locations in the oil-producing provinces. Last quarter saw more of the same, with same-restaurant sales coming in at negative 1.2% year over year, while sales on a franchise basis, which is the basis upon which royalties are paid out to the fund, were negative 0.3% for the comparable period.

Is the dividend safe?

Thanks to the poor stock performance, BP is currently paying a hefty yield of 8%. Naturally, based on the sluggish same-restaurant sales numbers, one might wonder if this dividend is safe.

I believe it is based on three reasons. While BP cannot directly control macro economic factors, it has, however, addressed changing consumer trends by partnering up with third-party take-out/delivery partners and capitalizing on e-commerce solutions. BP has also overhauled its menu items to include popular healthy options such as quinoa.

The second reason why I believe BP's dividend is safe is simply because the company has never suspended its payout over the past 17 years. That's right; going back to 2002, the fund has delivered 18 distribution increases and 205 consecutive payout increases totaling $324.4 million. Moreover, although unit performance might be down, BP has outperformed major indices such as the S&P 500 for the past 17 years, rewarding investors with annualized returns of 12.3% compared to the former's 7% return over the same period.

And finally, BP's latest quarter pointed to an uptick in performance that could set the tone for the future. For example, franchise sales by royalty pool restaurants increased to $216.9 million in Q2, up from $215.4 million in the year prior. Furthermore, royalty income rose to $8.7 million compared to last year's $8.6 million, while total revenues came in at $11.54 million versus $11.49 million in 2018. This naturally bodes well for BP's cash balances, which, due to its structure as a royalty income fund, are paid out entirely to shareholders.

The bottom line

Boston Pizza is a household brand and will not go away anytime soon. With an 8% yield, income investors can participate in the re-branding of this iconic chain, while getting paid approximately $400 per year for every $5,000 you invest into it. And that, to me, is a tasty proposition.

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