2 Royalty Funds Providing Stable Passive Income

Description

Deciding between royalty companies can be a difficult task. Each company offers its own perks as well as draw backs in regard to long-term investments.

It's important to look for a long-term trend of growth in sales, especially for funds that receive a top line royalty.

The companies in that industry have historically done well, returning tons of cash to shareholders and growing the business.

Two top companies are **A&W Revenue Royalties Income Fund** (TSX:AW.UN) and **Boston Pizza Royalties Income Fund** (TSX:BPF.UN), but which is the better buy?

A&W

A&W owns the trademarks used at all the quick service restaurants across Canada. The fund receives a 3% royalty on all top-line sales from its more than 900 restaurants.

Looking at its past performance, A&W has done well to gain market share in Canada to become one of the leading choices for fast food.

Since 1998, it's grown its total system sales at a compounded annual growth rate (CAGR) of 7.4%. This has led A&W to nearly double its store count in the last 20 years.

When analyzing its growth over time, it's clear the fund gets just as much growth from same-store sales as it does from adding new stores to its network, which is very promising.

Its stock has come down roughly 10% since the start of August, giving investors a nice buying opportunity. At today's prices, the fund yields just under 5% and is known to grow its dividend annually.

Since 2014, the company has increased its annual dividend rate by more than 35%, or a CAGR of more than 7%.

Boston Pizza

Boston Pizza is Canada’s number one casual dining brand with almost 400 locations nationwide. The fund owns the trademarks to Boston Pizza and receives a top-line royalty of 4% of all system wide sales.

It has a long history of earning superior returns. An investor who bought shares at its inception and reinvested all the dividends would have seen a 12.3% CAGR in their investment.

Since the IPO in 2002, the fund has raised its dividend 18 times. The trouble with Boston Pizza is more recent.

The company’s same store sales have been flat at best and this has pushed its payout ratio above 100%. Year to date, same-store sales are actually down roughly 1.3%.

If the company isn’t able to increase its dividend it may have to cut it soon, especially if same-store sales continue to fall modestly.

The trouble can be spotted in the dividend, which although has a history of being raised, hasn’t been increased since 2016.

Its stock has felt the pressure as well, and has been mostly flat this year after falling almost 30% in 2018.

Currently, the dividend yields almost 8%, and the stock is trading near the top of its 52-week range.

Bottom line

In businesses like these, the growth in sales or lack thereof is key. Since the dividend of both companies essentially relies on a royalty from sales, flat or negative growth spells trouble for future distributions.

That’s why A&W is the better choice for long-term investors. Although at today’s prices it’s offering a smaller yield, over time it will grow its dividend and ultimately investors a much higher yield down the road.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/07/22
Date Created
2019/09/21
Author
danieldacosta