Revealed: This High-Quality Stock Is a Huge Buy Today

Description

The last few weeks haven't been kind to **A&W Revenue Royalties Income Fund** (TSX:AW.UN), one of the top holdings in my account. In fact, ever since hitting a new all-time high in the $46 per share range back in June, A&W shares have fallen approximately 20%.

The main reason for the decline involves the **Beyond Meat** burger, which provided A&W with a huge boost over the last year. Back in 2018, A&W was the first major fast food chain to serve the plant-based burger to customers, creating a huge hype.

Millions of Canadians — myself included — went to A&W to try the new sandwich to see if it measured up to all the buzz. Personally, I thought it was pretty good, but nothing spectacular.

That momentum is long gone now that other restaurant chains have introduced their own Beyond Meat sandwiches. Some of these subsequent launches went well, while some others have flopped.

Tim Hortons, for instance, recently made the decision to drop its own plant-based sandwich in every province other than Ontario and B.C. after what most suspect was lackluster sales.

Now **McDonald's** has announced that it's going to test its own veggie burger in Canada — a move many see as a direct assault to A&W, its largest competitor here.

There's no doubt that this sandwich, which is scheduled to start testing on September 30 in a limited number of restaurants in Ontario, will have an impact on A&W. The only question is how bad the short-term pain is.

I don't see it being that bad. In fact, I view today as a terrific buying opportunity for A&W shares. Here's why.

Excellent results

Investors who think A&W is nothing more than hype surrounding a Beyond Meat sandwich couldn't be more wrong. The company is posting excellent results because of a number of factors.

Yes, I'll be the first to admit the new sandwich drove results in 2018. Everyone had to try it. But I'm not seeing huge line-ups of people clamoring for veggie burgers in 2019.

The customers at A&W restaurants I visit opt for burgers, fries, and onion rings because they're delicious, marketed well, and made with higher-quality ingredients than the average fast food joint.

This translates into a higher cost per customer, but it's obvious that hungry Canadians dining at A&W don't care. Same-store sales have surged more than 10% so far in 2019, suggesting that A&W has excellent pricing power. You don't visit the chain for a cheap meal.

A&W has also done a good job leveraging the various food delivery apps to help boost its top line.

Finally, an affordable valuation

Despite posting excellent results, however, A&W shares are currently trading at a cheap valuation. The stock trades hands for approximately 15 times trailing earnings, which is approximately the same level as the **TSX Composite Index**.

This makes zero sense to me. When we factor in new restaurant openings, A&W is poised to deliver 15% growth this year. That deserves more than a market multiple, does it not?

Even if same-store sales growth is cut in half, to 5%, and franchisees don't open any additional restaurants, I'd still argue A&W shares should be worth more than 15 times earnings.

A&W would still be growing more than the average Canadian company. It boasts a solid management team, a well-known brand, and a great dividend. Does it get zero credit for these qualities?

The bottom line

Today is a great buying opportunity to load up on A&W shares. The company is finally trading at a reasonable valuation after being expensive for years, and the stock offers a 4.9% dividend.

Dividend growth has been excellent as well, including dividend increases in the last six quarters. I just bought more shares for my long-term freedom fund. I don't think you'll regret it if you do the same.

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nelsonpsmith