# Hungry for Dividends? These 3 Restaurant Stocks All Deliver +7% Yields

### Description

One of Warren Buffett's go-to investments over the years has been the restaurant sector.

It's easy to see why the Oracle of Omaha likes restaurant stocks so much. The franchise model is easy to understand, and it's obvious the arrangement benefits both the parent company and the restaurant owner. These restaurants deliver predictable revenue, which translates into a secure source of ongoing fees for the parent. And Buffett only invests in restaurants with strong brands — something that will inevitably separate a winning investment from a losing one.



Certain Canadian investors figured this out long ago and have been quietly collecting some fantastic dividends from our biggest restaurant chains for years now. Perhaps it's time you joined them. Here are three of Canada's top restaurant stocks, which all pay more than 7% annually.

## Boston Pizza

Let's start with Canada's largest fast-casual restaurant chain. **Boston Pizza** (TSX:BPF.UN) is the parent company of nearly 400 restaurants from coast to coast, which collectively do more than $1 billion in annual sales.

Same-store sales, the all-important metric in the restaurant business, have struggled a bit lately — something most analysts blame on the chain's Albertan focus. More than 25% of locations are in Canada's energy powerhouse, and a part of the country that is still struggling with poor economic numbers and higher unemployment.

The good news is the company continues to open new locations, so the top line is slowly expanding as a whole. Boston Pizza is also excellent at innovation; there's something new on the menu every time I show up. And the stock has performed well since its 2002 IPO, with the total return including reinvested dividends at close to 12% annually.

Shares are also undervalued today, trading at just 12.6 times 2018's distributable cash flow. Thanks to a current sell-off, the stock now yields a robust 8.1%. It's an excellent time to add shares to your portfolio.

## Pizza Pizza

Who doesn’t love pizza? It’s pretty much the perfect food.

**Pizza Pizza** (TSX:PZA) owns the trademarks of both its namesake brand as well as the Pizza 73 brand out west. Like Boston Pizza, Pizza Pizza is struggling with weakness in Alberta, which has really impacted Pizza 73 results. The company is also dealing with weakness in its core delivery business, which has been impacted by the various restaurant delivery apps. Hungry Canadians can now get delivery from virtually any restaurant.

The company is fighting back, including creating healthier options like a cauliflower crust and giving customers the option of plant-based pepperoni. It is also investing in technology, improving the customer experience on its website and app.

Second-quarter results saw a surprise improvement from Pizza 73, which increased total same-store sales from both chains by 1.6%. That was a huge beat compared to last year’s results, which saw same-store sales decrease by 3.3%.

Investors should be a little bit concerned with the payout ratio, which is a little above 100% of earnings, but the company has cash reserves in place to cover the difference. The current dividend is 8.9%.



## The Keg

**Keg Income Royalties Fund** (TSX:KEG.UN) owns the trademarks used by 103 The Keg restaurants in Canada and the United States. The Keg is by far the most popular steakhouse chain in Canada and is well known as an iconic high-end restaurant brand.

2018 was a good year, with total sales increasing 5.2% compared to the year prior. Total royalty income increased 4.4%, which was good news for the dividend. In fact, the company paid a special dividend of $0.03 per share in the fourth quarter.

2019 hasn’t been as good so far, with same-store sales creeping up a mere 0.4% through the first two quarters of the year. The good news is the U.S. division is doing well, with same-store sales up 2.6% after adjusting for currency. There’s potential for The Keg to be much bigger in the U.S. compared to Canada, but management is taking a slow path. That might end up being the best long-term decision, but it’s frustrating to investors who want immediate growth.

The good news is the stock pays a nice dividend of $0.0946 per share each month, which translates into a 7.1% yield. That’s a nice consolation prize.

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2. TSX:KEG.UN (Keg Royalties Income Fund)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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**Date**
2025/08/20
**Date Created**
2019/10/22
**Author**
nelsonpsmith