Recession Proofing 101: 2 Cheap Fast-Food Stocks With Fat Dividends!

Description

The price of admission to many defensive dividend stocks (like utilities) has gone significantly up in recent months thanks to the supposedly higher risk of recession.

There's no telling when exactly stocks are due to fall off a cliff, but if you're looking to protect yourself, fast-food stocks are a compelling way to play defence, and after their recent slide, they look like screaming bargains.

You see, fast food is classified by economists as an "inferior good," meaning that its demand is slated to increase in a recession and vice versa. If a recession does come to fruition over the next two years, fast food stocks could prove to be severely undervalued at today's levels.

Consider buying the dip at **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) and **A&W Revenue Royalties Income Fund** (TSX:AW.UN), two quick-serve restaurant juggernauts that have sold off 16% and 20%, respectively, alongside many the broader basket of fast food stocks.

Restaurant Brands International

The problems at Restaurant Brands all started when 3G Capital started offloading a considerable amount of their shares beginning in August.

Before the massive round of insider selling, things were going well, with positive comps trends across the board in the latest quarter. Burger King was firing on all cylinders, Tim Hortons rebounded from a quarter of negative comps, and menu innovation was starting to show potential for Popeyes.

Meanwhile, the company has been rapidly expanding its store count across the globe, with new partners on board to aid a move into promising markets like Thailand, China, and Spain. The magnitude of capital-light growth that the company is capable of is massive.

The company isn't even operating all its chains in an "optimal fashion," with Burger King, and Popeyes taking turns doing the heavy lifting in any given quarter, yet the company continues to grow its cash flows like it's nobody else's business

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Once all three brands are firing on all cylinders, Restaurant Brands stock could soar, and not even an economic slowdown would be able to stop Restaurant Brands in its tracks.

For now, there’s a 3% dividend yield to collect while the stock continues falling alongside its fast-food peers.

A&W

Up next, we have A&W Revenue Royalties Income Fund, which surrendered a huge chunk of the gains posted in the former half of the year.

Similar to Restaurant Brands, A&W has been continuing to innovate with new products that go beyond **Beyond Meat**. Its new line of gouda burgers could entice Canadians to return to its stores as Beyond Meat burgers lose their lustre, but it’s going to be tough to a magnitude of hype that’s comparable to Beyond Meat in its prime.

For the third quarter, A&W clocked in 1.2% in same-store sales growth (SSSG), which was much lower than the 13% SSSG it posted over the same period a year earlier.

While menu innovation is still alive and well at A&W, investors are going to need to reset their expectations, because unlike Restaurant Brands, A&W doesn’t have as high a growth ceiling and should be seen as a Steady Eddie stalwart for those looking for seeking high income and stability through uncertain times.

At the time of writing, A&W Royalties Income Fund trades just north of 20 times next year’s expected earnings, a fair price to pay given the bountiful 5.1% yield you’ll get and the defensive traits that could keep your portfolio above water in an economic downturn.

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TICKERS GLOBAL

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2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
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