



## One Stock That is Oversold, Cheap, and Has a Dividend Yield of 8.8%

### Description

Shares of **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) are trading at \$9.53. The stock has gained 10% in the last 12 months and has underperformed the **S&P 500 Index**, which has returned 13% in the same period.

PZA stock has burnt significant investor wealth over the years. It has declined 32% in the last five years and 46% since December 2016. So, is the stock an attractive investment at the current price? Let's look at the company's earnings, revenue, valuation, and more.

### Pizza Pizza is a royalty-based restaurant business

Pizza Royalty Corp. operates the Pizza Pizza restaurants as franchise-oriented outlets, while the Pizza 73 restaurants are owned and operated as independent businesses. PZA receives royalty income from the franchises. The royalties from Pizza Pizza System sales stands at 6% while it is 9% for Pizza 73.

In the June quarter, PZA managed to increase royalty pool sales by 2.4% while same-store sales rose 1.6% year over year. Its restaurant network decreased by nine outlets in the second quarter. In the first six months of 2019, royalty sales rose 0.7%, while the restaurant network decreased by 12 locations.

The key drivers for PZA are the expansion of franchises and new stores. Sales depend on the average cheque size and customer traffic. The company was satisfied with the growth in traffic in the June quarter, which was driven by new product offerings and promotional campaigns.

During the last earnings call, PZA claimed, "For several consecutive quarters, the average customer check has moderated as a result of value-driven pricing on the lead pizza offerings as PPL executed on its strategy to grow customer traffic at both brands."

Analysts expect PZA sales to grow by 3.5% to \$419.5 million in 2019 and 2.5% to \$430.1 million in 2020. The earnings growth for 2019 and 2020 is estimated at 3.1% and 3%, respectively.

Compare this to PZA's forward price-to-earnings multiple of 13.8 times and we can see that the stock

is reasonably valued after accounting for its dividend yield of 8.8%.

## PZA announced dividends of \$0.0713 per share in September

In the second quarter, PZA declared shareholder dividends of \$5.3 million or \$0.2139 per share. This Q2 2019 payout ratio stood at 107%, compared to 110% in the prior-year period.

In the first six months, PZA paid \$10.5 million dividends or \$0.4278 per share. The annual dividend stands at \$0.8556 per share. PZA's working capital reserve in the June quarter was \$3.5 million, a fall of \$732,000 since December 2018. Though the decline was attributed to the company's high payout ratio, the company expects sales to pick up in the second half of this year allowing it to maintain its dividend payout.

PZA has stated that its [low capital expenditure and employee base](#) allows the majority of net profits to be distributed among shareholders.

## The verdict

Is the high dividend yield for PZA attractive for investors? The company still needs to keep opening outlets to increase royalty income. PZA has increased the number of restaurants in its royalty pool by 14 locations in 2019 to a grand total of 772 at the end of June 2019.

The financials for PZA remain strong. At the end of the June quarter, PZA had a cash balance of \$3.2 million and a debt balance of \$47 million. Its operating cash flow was \$27.53 million, providing it with enough reserve to lower debt or increase payouts.

Income investors can look at the stock for a stable stream of income but PZA will struggle to beat market returns going forward.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:PZA (Pizza Pizza Royalty Corp.)

### PARTNER-FEEDS

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

### Category

1. Dividend Stocks
2. Investing

**Date**

2025/08/27

**Date Created**

2019/10/25

**Author**

araghunath

default watermark

default watermark