



TFSA Investors: This Is a Must Read

Description

A&W Revenue Royalties Income Fund ([TSX:AW.UN](#)) is a [limited purpose trust](#) founded in 2001 and holds an ownership interest in A&W Trade Marks Inc., which, through an ownership interest in A&W Trade Marks Limited Partnership, owns the A&W trade-marks used in the A&W quick service restaurant business in Canada.

A&W Trade Marks Inc. licenses A&W trade-marks to A&W Food Services of Canada Inc. The company has 934 A&W restaurants.

The company has a price-to-earnings ratio of 20.06, a price-to-book ratio of 3.53 and a market capitalization rate of 536 million. Debt is very cautiously used at A&W Revenue, as is evidenced by a debt-to-equity ratio of just 0.4. The company has excellent performance metrics with an operating margin of 98.45% and a return on equity of 15.4%.

The Partnership has provided Food Services a licence to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services pays a royalty of 3% of the gross sales reported to Food Services by A&W restaurants in the Royalty Pool.

A key attribute of the Fund is that the distributable cash available to make distributions to unit-holders is based on the gross sales of the A&W restaurants in the Royalty Pool, less operating expenses associated from operating the Fund, interest and taxes.

The Fund is a top-line fund, meaning that it is not affected by variability of earnings or expenses associated with an operating business. Growth in the Fund is achieved in two ways: first, and most important, by increasing the same-store sales of the A&W restaurants in the Royalty Pool, and second by adding new A&W restaurants to the Royalty Pool annually.

Ontario's recent minimum wage hike is expected to increase food prices and [A&W sales](#). Higher expenses due to higher wages does not impact the Fund. This is a huge benefit.

The number of A&W restaurants in the Royalty Pool was increased at the start of the year from 896 to 934, with an additional 38 net new restaurants being added to the Royalty Pool.

This continued growth, when added to the over 13.0% same store sales growth earned in Q3 2018 has brought the two-year stacked same-store sales growth to +14.2%.

Same-store sales growth, along with the sales from 38 net new restaurants added to the Fund's Royalty Pool at the start of the year resulted in a 5.8% increase in gross sales reported by A&W restaurants in the Royalty Pool and royalty income for the quarter.

Same-store sales growth was led by strong growth in British Columbia, Quebec and Ontario. Year-to-date distributable cash per equivalent unit has increased by 4.3 cents to \$1.299 in 2019 from \$1.256 for 2018 year to date.

The company has undertaken several strategic initiatives that include repositioning and differentiating the A&W brand through innovation with high-quality ingredients, continued rapid new restaurant growth, and delivering an industry leading guest experience.

The successful execution of this strategy could result in A&W outperforming other Canadian restaurant stocks and is key to the company improving market share in the quick service restaurants burger market, and increased royalty income to the Fund.

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