Kevin O'Leary's Favourite Royalty Stock

Description

The Keg Royalties Income Fund (TSX:KEG-UN) operates as an unincorporated open-ended limited purpose trust. The company invests in The Keg Rights Limited Partnership, which owns the trademarks, trade names, operating procedures and systems, and other intellectual property used for the operation of Keg steakhouse restaurants and bars.

It operates 105 Keg restaurants in North America. The Keg Royalties Income Fund was incorporated in 2002 and is headquartered in Richmond, British Columbia.

The company is fairly valued and has a price-to-earnings ratio of 19.26, a price to book ratio of 1.93 and market capitalization of 181 million.

Debt is very rarely used at Keg Royalties Income Fund, as is evidenced by a debt to equity ratio of just 0.15. The company has excellent performance metrics with an operating margin of 98.7% and a return on equity of 16.39%.

The Keg has been the industry leader on the full-service restaurant category in Canada for the last 47 years. Keg Royalties Income Fund's management team have always looked to maintain and improve the restaurant's high standards that have built the brand throughout North America.

The company has a huge focus on The Keg's high-quality menu, unmatched hospitality and marketing innovation. Keg Royalties Income Fund has consistently demonstrated the ability to deliver growth in both system sales and same-store sales over the long term, providing stability and growth in distributable cash and distributions to the company's shareholders.

In Canada, Restaurants Canada has forecast sales in the full-service restaurant category, the category in which The Keg operates to increase by an average of 4.1% between 2017 and 2021, or 1.2% on an inflation adjusted basis.

In the United States, the National Restaurant Association (NRA) has not issued a long-term forecast. Given the close historical relationship between disposable income and food service spending, management of Keg Restaurants Ltd. expects that as economic conditions and consumer sentiment continue to improve in North America, sales for The Keg will also improve, leading it to once again outperform the full-service category with respect to same-store sales growth.

The gross sales reported by the 105 Keg Restaurants in the Royalty Pool were $165.8 million in the most recent quarter, an increase of $3.8 million, or 2.4% from the comparable quarter of the prior year.

These gross sales include the sales of the net two new Keg restaurants opened during the period, which were added to the Royalty Pool on January 1, 2019 and same-store sales increases of 1.8% for the quarter. Royalty income increased by $207,000 or 3.2% from $6.48 million to $6.68 million.

Distributable cash available to pay distributions to public shareholders increased by $113,000 from $3.75 million (33.1 cents per share) to $3.87 (34.1 cents per share) for the quarter. Distributions paid to shareholders remained the same during the quarter at $3.2 million (28.4 cents per share).

The payout ratio for the quarter was 83.3% as compared with 85.8% for the comparable quarter of the prior year. The company appears to be positioned well, financially, with cash on hand of $2.55 million and a positive working capital balance of $3.97 million.

This is a great stock for an investor to get portfolio exposure to a high-quality name in the Canadian restaurant industry.

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