



TSX to Decline by 50%? Hold this Dividend Stock in a Market Crash

Description

Pizza Pizza Royalty Corp ([TSX:PZA](#)) is a franchise-oriented restaurant business operating primarily in Ontario in which it dominates the [pizza quick service restaurant](#) segment. Of the 655 Pizza Pizza restaurants, 646 are franchised or licensed and 9 are owned and operated as corporate restaurants.

The company trades inexpensively with a price to earnings ratio of 11.07, price to book ratio of 1.04 and market capitalization of 228 million.

Debt is minimal, with a debt to equity ratio of just 0.16. The company has excellent performance metrics with an operating margin of 98.55% and a return on equity of 9.41%.

Pizza Pizza Limited (PPL) is a privately-held company and provides a [high level of service and operational support](#) to restaurant operators, including turn-key restaurants, a central food distribution centre, which supplies all food and non-food items used in Pizza Pizza restaurant operations, and monitoring systems intended to ensure product and service quality and operational consistency across the chain.

There are 107 Pizza 73 locations principally in Alberta. The majority of the traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses.

Of the 87 traditional restaurants, seven are franchised or licensed and 80 are jointly-owned by PPL and an independent owner or operator. There are 20 non-traditional locations which have limited operating hours and a limited menu.

Pizza 73 currently has seven traditional locations outside Alberta; four in Saskatchewan, two in British Columbia and one in the Yukon.

Sales through a centralized call centre and online ordering, together account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes a newly built, central food distribution centre in Edmonton.

The company owns the trademarks and trade names used by PPL in the Pizza Pizza and Pizza 73

restaurants. The Pizza Pizza trademarks and other intellectual property were licensed to PPL in 2005 for 99 years for which PPL pays the Partnership a royalty equal to 6% of the system sales of Pizza Pizza restaurants in the Royalty Pool.

A key attribute of the company is that revenues are based on top-line system sales of the restaurants in the Royalty Pool and not on the profitability of either PPL or the restaurants. Moreover, the company is not subject to the variability of earnings or expenses of either PPL or the restaurants.

The company's only expenses are administration expenses, interest on debt, and income taxes. Thus, success depends primarily on the ability of PPL to maintain and increase System Sales of the Royalty Pool and to meet royalty obligations.

A key metric for yield growth of the company is sales growth, which is dependent on maintaining operational excellence within each restaurant, general market conditions, pricing, and marketing programs undertaken by PPL.

Sales growth decreased slightly by 0.1% in Q3 2019, which was driven by the change in the customer check and customer traffic, both of which are affected by changes in pricing and sales mix. In Q3 2019, the restaurants in the Royalty Pool increased to 772 and system sales increased 0.4% to \$406.6 million.

Overall, Pizza Pizza appears to be a great business trading inexpensively during to the Alberta economic downturn.

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