



As Consumers Tighten Their Belts, Are Any Restaurant Stocks Worth an Investment?

Description

As consumer debt is on the rise and each day a recession seems more likely, it's natural for consumers to tighten their belts. Naturally, many would assume that consumers will cut back on discretionary spending, in favour of a higher savings rate, or to pay down some debt.

Although food is a necessity and a staple, one of the top industries for [discretionary spending](#) is the restaurant industry.

It has become more of a trend the last few years to eat out or order in, as our lives become busier and especially with the introduction of a number of delivery services, that bring food right to your home.

Although this can be convenient at times, if consumers are watching and reducing their spending, eating out at restaurants is one of the easiest habits to cut.

So, let's examine three restaurant stocks to see if any are worth investing in today.

Boston Pizza Royalties Income Fund ([TSX:BPF.UN](#))

Boston Pizza is the leading casual dining restaurant chain in Canada. The fund receives royalties from nearly 400 restaurants nation-wide.

The company serves more than 50 million customers a year and boasts 18 dividend increases since its IPO in 2002. In reality, however, the fund has had some trouble in the last couple years.

Since 2015, its payout ratio has been increasing considerably and was more than 103% in 2018.

Its main issue has been a lack of same-store sales growth, which hasn't been positive since the second quarter of 2018. In fact, year-to-date 2019, the company's same-store sales have declined by 2.3%.

If Boston Pizza can't figure it out, the dividend will eventually have to be cut. Given the outlook for the economy over the next few years, Boston Pizza's prospects don't look promising, however.

SIR Royalty Income Fund ([TSX:SRV.UN](#))

SIR Royalty has had a rough year already. The stock is down roughly 40% year-to-date as it has struggled with same-store sales growth similar to Boston Pizza.

SIR owns a royalty portfolio of well-known restaurants, mostly in Ontario, with its Jack Astor's brand accounting for roughly 70% of the company's revenue. In the first half of 2019, Jack Astor's same-store sales are down by 3.7%, a substantial amount for a royalty company.

At the same time, the company has been investing heavily in restaurant upgrades and renovations, which had a positive impact on sales immediately. As it now faces industry headwinds from reduced consumer spending, the capital spending could actually hurt the company.

Although things don't look great now, it's still in a better position than Boston Pizza, as its payout ratio for 2018 was 97.7% which is still manageable, especially for a company that aims to payout as much as possible.

It's definitely a stock to watch though, as continued negative same-store sales growth could end up being a major problem.

A&W Revenue Royalties Income Fund ([TSX:AW.UN](#))

A&W is not in as bad a shape as the other two companies. As it's a quick service restaurant that offers meals for considerably less than a restaurant, it will likely be less impacted by a reduction in consumer spending.

Furthermore, even if the industry as a whole suffers a reduction in spending, A&W has been growing its market share through strong product offerings and an impressive marketing strategy.

The numbers show just how different A&W's story is. In the third quarter, its same-store sales were up 1.2%, while year-to-date its same-store sales increased a whopping 6.9%.

Its stock has come down well off its 52-week high and currently yields more than 5%, so now may be the perfect opportunity to gain a little exposure. But remember: although it's better positioned, it doesn't mean that the stock is risk free.

Bottom line

Although all these stocks are based on a top line royalty relying on sales, which mitigates risk and allows investors not to have to worry about profitability, long-term issues with individual restaurants could cause multiple closures.

If the restaurants close, this will impact sales, so profitability is a concern for investors to some extent.

Given the industry economics and looking at the numbers, it's clear that only A&W is worth an investment today.

CATEGORY

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2. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
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Author

danieldacosta

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