



These 3 Warren Buffett-Inspired Stocks Offer Some of Canada's Best Yields

Description

It's no secret [Warren Buffett](#) loves restaurant stocks. And not just because he's a big fan of the food, either.

Buffett likes restaurants because of the franchise business model. A parent company owns the brand, and in exchange for using that powerful intellectual property, the operator of the restaurant has to pay the owner a residual income stream. This usually comes right off the top line, ensuring the parent gets paid first.

The tough part of the business is left to the person actually running the restaurant. They have to order supplies, keep cranky customers happy, retain staff, make sure the place is clean, and a million other small tasks that add up to a big job.

Which would you rather own: the parent company or the franchise location itself? Buffett would much rather own the franchisor, and I agree wholeheartedly. In fact, Buffett's **Berkshire Hathaway** conglomerate owns Dairy Queen, one of North America's largest quick-service restaurants.

Let's take a closer look at three restaurant stocks that would likely interest Buffett if they were just a bit bigger — well-known Canadian brands are well entrenched in our market.

A&W

A&W Revenue Royalties Income Fund ([TSX:AW.UN](#)) owns the trademarks for Canada's second-largest burger chain. A&W now boasts more than 900 locations from coast to coast and has used innovative techniques like expanding into small towns or using small kiosk-type locations in large cities to increase its top line.

Another thing A&W does really well is its continued focus on good food, quality ingredients, and interesting promotions. Last year, sales were boosted significantly by the introduction of a plant-based burger. The company hopes to replicate that success in 2020 with [plant-based](#) chicken nuggets.

A&W has been one of the best-performing stocks on the entire Toronto Stock Exchange over the last decade. Including reinvested dividends, shares posted a compound annual growth rate of 15.76%. That's enough to turn a \$10,000 investment made in early January 2010 into something worth \$43,192 today.

And remember, A&W's dividend is one of the best out there, too. It has been steadily increased over the years, including a streak fairly recently of six consecutive quarterly raises. Shares currently yield an even 5%.

Boston Pizza

Boston Pizza Royalties Income Fund ([TSX:BPF.UN](#)) owns the trademarks for the Boston Pizza chain of restaurants. The brand is Canada's top fast casual restaurant chain and it recently surpassed \$1 billion in total system-wide sales.

Unlike A&W, which has posted consistently excellent results, Boston Pizza is struggling a bit today. Same-store sales, the all-important metric in the restaurant sector, have been tepid lately. A big culprit is the chain's Albertan exposure. Crude oil continues to struggle, weighing down results in Alberta with it. And there's plenty of new competition coming online — chains aggressively looking to increase market share.

The good news is, this sell-off has really boosted Boston Pizza's dividend yield. The current payout is 10.1%. The payout looks to be safe, for now, and the company has the ability to borrow to maintain the distribution if weakness persists.

The Keg

Like Boston Pizza, **Keg Royalties Income Fund** ([TSX:KEG.UN](#)) has sold off lately. Disappointing short-term results have created an interesting long-term buying opportunity.

The parent of Canada's largest chain of steakhouses reported same-store sales were 3.6% lower in its most recent quarter and 0.9% lower for the year. Management blamed increased competition and a tepid economy, with the latter poised to hit a high-end chain like The Keg particularly hard.

Investors don't have to worry about the security of the dividend. Yes, the current payout is ever so slightly above 100% of earnings, but the company has ample reserves to cover the excess until underlying results turn to growth. In the meantime, investors can take advantage of the weakness and collect a 7.3% yield.

The bottom line

Each of these three leading restaurant stocks has sold off significantly of late, making today a great time to buy. Remember, Buffett is a value investor. Emulate him in two different ways and buy these excellent companies at a bargain price. Your future self will thank you.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
4. TSX:KEG.UN (Keg Royalties Income Fund)

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