



This Severely Undervalued 8.6% Yielder Is Poised to Soar!

Description

With shares now down 45% from 2017 all-time highs, [Pizza Pizza Royalty \(TSX:PZA\)](#) looks like an intriguing contrarian investment to give yourself a big raise without risking your shirt on a difficult-to-understand business in dire financial shape.

Unlike many other stocks, trusts, or funds that have fallen into “accidentally high yielder” territory, Pizza Pizza’s royalty stream continues to look delicious (a mouthwatering 8.6% yield) amid [competitive pressures that have plagued the entire quick-serve restaurant \(QSR\) space](#). With a sluggish Canadian economy acting as a drag on sales, the perfect storm of exogenous issues has indeed hit the Canadian pizza king, which I see as having brands that are strong enough to fuel a significant rebound as headwinds gradually fade.

The appetite for pizza hasn’t suddenly faded away, nor is Pizza Pizza’s management team asleep at the wheel. Pizza Pizza has embraced two powerful trends that I believe could give same-store sales growth (SSSG) a jolt in the new year.

Pizza Pizza’s cauliflower-based crust is back by popular demand and will benefit from the consumer trend that’s seen consumers gravitate towards “healthier” food alternatives. Moreover, the Canadian pizza powerhouse has also jumped on the plant-based meat substitute bandwagon with the addition of a variety of fake meat toppings.

While the “meatless meat” hype has died down in recent months (has everyone gotten sick of **Beyond Meat** burgers already?), I think there’s still ample opportunity to be had from a vegetarian market that has a newly acquired craving for the taste of (fake) meat. Gone are the days where the only option for vegetarians are cheese and veggie pizzas!

Given that Pizza Pizza is a royalty play (all cash goes towards financing the massive distribution), the company doesn't nearly have as much capital to reinvest, putting the name at a sizeable disadvantage to its peers in the pizza space. Despite this, Pizza Pizza has been able to beef up its website (I still don't see it on par with its tech-savvy competitors) while sprucing up existing stores to keep up with appearances.

With a strong national brand and fairly reasonable value proposition, I see Pizza Pizza as one of the firms that will come roaring back when the Canadian economy finally gets back into high gear.

At the time of writing, Pizza Pizza trades at just 11.6 times trailing earnings, which is a significant discount to its bigger brothers in the pizza space. Although the quality of Pizza Pizza's product is up for debate, I think the quality of the distribution is higher than most other nearly 9% yielders out there!

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