



Yield Alert: Lock In This 9.7% Dividend by January 31

Description

As much as I love a good buy-and-forget portfolio filled with [Canada's best stocks](#), there's one big downfall with the strategy.

You'll miss out on fantastic buying opportunities for good companies if you take a completely hands-off approach to the market.

I don't believe in a rigid dollar-cost averaging strategy. The time to buy a stock is when nobody else wants it and it's flirting with a new 52-week low. This one decision can add 1-2% annually to your total investment returns, which is a pretty big deal when achieved consistently for a few decades.

Let's take a closer at one such stock — a Canadian institution currently trading at a bargain-basement price.

A top restaurant chain

Boston Pizza Royalties Income Fund ([TSX:BPF.UN](#)) owns the trademarks of Boston Pizza, Canada's top fast casual restaurant chain. Boston Pizza boasts 395 locations, more than \$1.1 billion in system-wide sales, and some of the best pizza you'll ever eat.

Here's the way the investment works. As part of the franchisee agreement, Boston Pizza restaurant operators pay 5% on all sales back to the parent company. In exchange for licensing the trademarks to the parent, the Boston Pizza Royalties Income Fund gets first dibs at a percentage of that income.

It works out to be an extremely steady income stream. And since the income fund doesn't have much for operating expenses, it can pay out almost every dollar it takes in back to investors in the form of generous distributions.

The current yield is an jaw-dropping 9.7%.

One reason why the dividend is so high is, Boston Pizza has been going through some challenging

times operationally. Same-store sales, a key metric in the restaurant business, have been particularly weak in 2019, as the chain's [Alberta](#)-based locations suffer from a poor local economy. Increased competition in the fast casual restaurant space hasn't helped, either.

Through the first nine months of 2019 — expect full-year results out sometime in February — same-store sales fell by 2.3%. Total system-wide sales, which includes sales from new restaurants that haven't hit the one year milestone yet, were also down.

2020 results may be similar. The company reported it added five new restaurants to the mix in 2019, but it also saw six more close. Competition will still be strong. And although crude oil continues to rally, deep cuts proposed by the Alberta provincial government may cause the tough economy in that area to persist.

The safety of the dividend

Ultimately, the dividend is the reason people own a stock like Boston Pizza Royalties Income Fund. But can this stock maintain its generous payout?

At first glance, you might not think so. Over its last four quarters, it has paid out just over 103% of earnings back to shareholders. That kind of payout ratio simply can't be maintained over the long term.

The last thing management wants to do is cut the dividend, so there is a reserve fund in place to deal with short-term payout ratio issues. That balance today is \$2.2 million, meaning the company can continue to pay the current dividend for two or three more years before depleting the cash.

In other words, management has time for things to recover.

And investors should remember that Boston Pizza has increased its dividend 18 times since its 2002 IPO.

Ultimately, a 9.7% dividend is never going to be the safest payout going. But I'm confident the company can find a way to get through these tough times. And at just 11.9 times trailing earnings, Boston Pizza isn't just a yield play. It's a value play as well. This means investors could also see some nice upside potential with their succulent dividends.

Just don't delay. You'll have to lock in a position by the end of January to be eligible for the next dividend.

CATEGORY

1. Dividend Stocks
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1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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