2 High-Yield Royalty Stocks for High-Income Seekers

Description

Dividend-paying royalty companies are alternative options in today's investment climate. Royalty companies such as **Freehold** (TSX:FRU) and **Pizza Pizza** (TSX:PZA) are two high-yield royalty stocks for high-income seekers. Both are also ideal if you wish to supercharge your tax-free or tax-sheltered accounts.

These royalty companies are unique in the sense that they own intellectual properties (trademark or patent) or mineral properties (oil and gas). Royalty contracts, with scope and limitations are executed between the royalty firms and users or operators of the properties.

Royalty from oil, gas, and minerals

Freehold made its market debut in 1996 and was able to raise $264 million. For 24 years, it has been receiving royalties for oil, gas, and mineral properties. Freehold charge royalties based on units, such as barrels of oil per day (boe/d), tons, and the like.

Throughout the period, production growth has nearly doubled from 5,000 boe/d to over 10,000 boe/d. The strategy from the beginning was to serve as a low-risk income vehicle that provides a sustainable dividend, growth in production, and maintain low debt levels. The plan remains the same to this day.

The size of Freehold royalty lands is about 6.8 million gross acres that extend from northeastern British Columbia to southern Ontario. There are over 300 industry operators in the more than 44,000 wells. Freehold spends nothing on operations and drilling activities as the operators pay 100% of the costs.

As of this writing, Freehold is trading at a ridiculously low price of $7.91per share, albeit yields a fantastic 8.04% dividend. Your money can double in nine years if the company can sustain the current yield.

Pizza Pizza has a market capitalization of $245.7 million and operates in the quick-service restaurant industry. This small-cap royalty stock is a powerhouse when it comes to dividend payments.

At $9.98 per share and 8.7% yield, your $6,000 TFSA contribution limit in 2020 can generate a tax-free yearly income of $522.

Royalty from restaurants

Management claims that Pizza Pizza is Canada's favourite pizza chain. Many of its more than 500 pizza joints are popular in several Canadian hometowns. Increasing competition, however, is a significant risk as it could lead to a decline in market share.

The only consolation at the moment is people's eternal love for pizza. Pizza Pizza is a local icon, although there should be more positive catalysts for this royalty company to have better growth.

Pizza Pizza is a pure dividend play as the high yield can generate higher-than-market returns. A dividend cut might happen if the business goes stale. Income-wise, Pizza Pizza has never been in the red since 2014.

Royalty companies enjoy high-profit margins, as there are no fixed or variable costs to consider. Users or operators shoulder the brunt of the costs. Revenues or royalties come from negotiated contracts or franchise agreements.

High income sources

While Freehold and Pizza Pizza aren't high-flying stocks, they're excellent sources of passive income. Investors who bought Freehold and Pizza Pizza three years ago lost 31.75% and 29.31%, respectively. Still, underperformers that pack high yields are attractive to income seekers.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FRU (Freehold Royalties Ltd.)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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