1 Canadian Restaurant Stock to Buy Today and 1 to Avoid

Description

A lot of restaurant stocks were sold off throughout last year, as the industry deals with a lack of growth in sales. So, how do you know which stocks will be fine and which you need to avoid?

With restaurant stocks, there are specific metrics you'll want to watch that will tell you the health of the business and help to forecast the direction of the stock.

With every restaurant stock, one of the most important metrics of gauging the success of the business is same-store sales growth (SSSG). SSSG is especially important with companies that are growing their restaurant numbers, because the total overall revenue is going to be increasing as more restaurants are added, even if revenue at the existing restaurants is falling slightly. By analyzing SSSG, you can see how well a company is doing and if it continues to grow its popularity with consumers, or if it's slowly losing it for one reason or another.

Two restaurant companies to analyze today are **Boston Pizza Royalties Income Fund** (TSX:BPF.UN) and **A&W Revenue Royalties Income Fund** (TSX:AW.UN).

Boston Pizza

Boston Pizza has long been the number one casual dining restaurant brand for Canadians, but as sales begin to slip, can Boston Pizza keep its dominant industry position?

Boston Pizza Royalties Income Fund receives a royalty on all system sales from the Boston Pizza restaurants, excluding sales of alcohol. Because it receives a royalty on sales, this makes the SSSG metric even more important for gauging the health of the business. In the first three quarters of 2019, SSSG was negative in each of the quarters, with the third quarter being the worst at -4.2%. On an annual basis, up until the end of the third quarter, SSSG was down 2.3%.

The decrease in same-store sales led to a decrease in system-wide sales, which meant there was a decrease in revenue the fund received as a royalty.

And because the fund aims to pay out 100% of its earnings, and its earnings declined from the same levels the year prior, Boston Pizza's payout ratio has been creeping up higher and, as of the end of September, was 103.7%.

If something isn't done soon to increase sales, the dividend will inevitably have to be cut. That's easier said than done, however, and the market is clearly expecting the worst, as the stock's dividend now yields more than 9.5%.

It's possible Boston Pizza could still turn it around, and investors who buy today will be rewarded largely, but if you want a lower-risk a stock, I'd stay away from Boston Pizza and consider buying A&W.

A&W

A&W is a royalty company, just like Boston Pizza, deriving its income from a royalty on the sales coming from the more than 950 restaurants in its revenue pool across the country. Unlike Boston Pizza and a number of other restaurant companies, A&W is still seeing positive SSSG, reflecting the company's strong brand and image in Canada.

The sales up until the end of the third quarter in 2019 hadn't grown as fast as they did in 2018, when the SSSG was a whopping 9.8%, but the growth was still strong so far at 6.9%.

The strong growth in sales is a direct result of the company's strong marketing campaign and high-quality food offerings resonating with consumers, and goes to show why it had the second most sales of any burger chain in Canada in 2018.

The continuous growth in revenue allows it to keep growing its dividend annually, putting it on the prestigious Canadian Dividend Aristocrats list, and making it an even more attractive investment.

You can buy this dividend-growth stock with a yield of nearly 5% today.

Bottom line

Although A&W's 5% dividend may not be as attractive as Boston Pizza's 9.5% dividend today, because it's growing the dividend rapidly, in just a few short years, the tables could easily be turned.

Since A&W is continuously increasing the yield and Boston Pizza looks to be on the verge of a cut, it's likely that an investment in A&W today will yield more in just a few short years, despite it being so much lower today.

This goes to show why dividend-growth stocks can often be better investments than high-yield dividend stocks.

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1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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