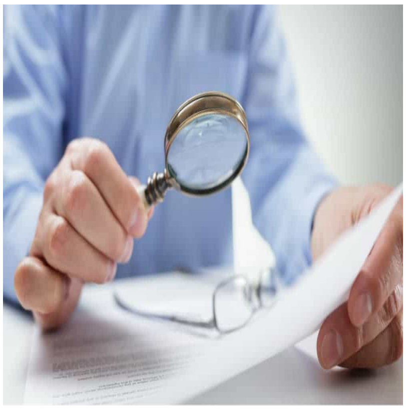

Market Crash: $4,000 in This TSX Dividend Stock Pays More Than $500 a Year

Description

The past few weeks have been a great opportunity for investors to improve their portfolios. Whether it be averaging down on some old positions or adding new stocks, now is a major opportunity to gain exposure. It's especially exciting when high-quality dividend stocks become this cheap.

Not only do the investments present great value, but the dividend yields are often extremely attractive. And the more the stocks decline, the higher the dividend yield grows.

Sometimes the increase to the yield is a reflection of the risk the market sees in the stock over the short term. This may be the market predicting the company will have operational issues and need to trim or halt the dividend.

However, sometimes stocks are just oversold with the rest of the market in a panic. It's those stocks that are the ones that present the best opportunities.

One stock that has a dividend yield upwards of 13%, even after Tuesday's major rally, is **Pizza Pizza Royalty** (TSX:PZA).

Classic dividend stock

Pizza Pizza is a restaurant royalty company and a classic dividend stock. The company aims to pay essentially all of its income out, so almost all of the returns investors will get will come from its dividend.

Each location in its nationwide pool of restaurants pays a royalty on total sales to the company. The company then pays the administration expenses of the fund (about 2% of revenue) and a small amount of interest. After that, it pays tax on the income and pays out the rest to shareholders.

Because the expenses are so small, and the tax rate is essentially fixed, Pizza Pizza's net margin is consistently 75%. This means that basically the only thing driving the dividend is its sales.

Why it's a top dividend stock

There are more than 750 stores in Pizza Pizza's royalty pool, so its revenue is highly diversified. And because sales only grow or decline by small percentages each quarter, the dividend is extremely stable.

A constant stream of income is inevitable with an investment in Pizza Pizza. And with a major yield this size, finding another dividend stock that's this attractive will be tough to beat.

Over the short term, Pizza Pizza may have to trim its dividend, but the amount it would need to cut would be slight. Another option it could take would be to halt the dividend altogether for a couple of months, something **Boston Pizza** just did.

While that's not ideal, if it helped to keep the yield at these levels once the economy starts to open back up again, it could be the best option on the table for Pizza Pizza.

Worst-case scenario

Forget what will happen over the next few months, since that's irrelevant to long-term investors. When stores open back up again and society starts functioning like normal, the economy could be in recession.

If that's the case, it's likely that although all of its stores could open again, royalty pool sales would probably see a slight decline.

Pizza Pizza at least has the advantage of being a lower-cost option, which means if consumers are cutting their discretionary spending, it's likely they'll cut more expensive food options first.

Assuming even a 20% drop in sales, which would be extreme, an investment at today's prices would still yield you more than 10%.

10% is still considerably higher than what Pizza Pizza's dividend normally yields. This just goes to show what an incredible opportunity it is to buy this attractive dividend stock.

Bottom line

A $4,000 investment in Pizza Pizza as of Tuesday's close was paying more than $520 a year. That means even if you didn't reinvest the dividends, it would take you just over seven-and-a-half years to get back your money.

High-quality dividend stocks with attractive yields like this don't come around very often, so don't miss your chance to lock in this massive dividend yield today.

CATEGORY

1. Coronavirus

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