



This Almost 12% Yield Stock Is Ready Made for Canada's Stay-at-Home Order

Description

With stay-at-home orders rippling across Canada, restaurants are feeling the heat. Both small eateries and large restaurant chains have been forced to close to dine-in customers. In order to remain open, restaurants must adapt to takeout and delivery options. Unfortunately, this has caused disruption for employees and is risking the survival of many establishments.

Pizza chains, on the other hand, which are designed primarily for takeout and delivery, are swamped with customers. **Domino's Pizza** (NYSE:DPZ), America's largest pizza chain, is looking to hire 10,000 new workers to keep up with demand.

Domino's, with total [sales of over \\$14.3 billion in 2019](#), is one of the world's top restaurant brands, with more than 17,000 stores in over 90 markets worldwide.

Here in Canada, **Pizza Pizza** ([TSX:PZA](#)) is the country's most popular pizza franchise. With more than 750 locations across Canada, the company operates two banners – Pizza Pizza and Pizza 73. This franchised quick-service restaurant has locations in Ontario, Quebec, Nova Scotia, and Western Canada.

Earnings growth

As reported in the company's most recent fourth quarter and year-end earnings release, sales increased 3.8% to \$146.9 million from \$141.5 million in the same quarter last year. In 2019, yearly sales increased 1.3% to \$553.5 million. Same-store sales growth increased by 2.0% for the quarter, increasing by 0.5% for the year.

Pizza Pizza relies on digital orders for most of its business. Of the company's total delivery and pickup orders, nearly 60% were placed through one of the company's digital channels.

The company believes recent improvements to its website helped drive demand for digital orders. Approximately 60% of the chain's business is delivery, while the remaining 40% is walk-in and pickup.

The company is also revamping its successful Club 11-11 loyalty program. Currently the program is in the review process with its franchisees and customers before the program is relaunched to the public.

Corporate structure

Pizza Pizza Royalty Corporation indirectly owns the Pizza Pizza and Pizza 73 brands and trademarks through a subsidiary, Pizza Pizza Royalty Limited Partnership. Pizza Pizza Royalty Corporation owns 77% of the partnership and Pizza Pizza Limited, a private company, owns the remaining 23%.

The Royalty Corporation relies on royalties derived from increased restaurant system sales from Pizza Pizza Limited. Increases in the restaurant sales are driven by opening new restaurants and increasing same-store sales growth.

Shareholder dividend

Pizza Pizza currently has an enormous yield of \$11.95%. While this yield looks enticing, keep in mind that shares of Pizza Pizza suffered a [massive 50% decline between 2017 and 2018](#). As of this writing, the stock is trading at \$7.02, down almost 30% year to date.

On December 31, 2019, the company's working capital reserve was \$3.6 million. The company is targeting an annual payout ratio around 100%. In 2019, the payout ratio was 103%.

The bottom line

Note that the fourth-quarter sales growth of Pizza Pizza was reported before the outbreak of COVID-19 and stay-at-home orders were in effect. We won't know the full impact of the virus for several months.

However, if the success of America's largest pizza franchise is any indication, Canada's most popular pizza franchise should be a winner too. There are few restaurants more suited to a lockdown mandate than pizza delivery chains.

CATEGORY

1. Coronavirus
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1. NASDAQ:DPZ (Domino's Pizza)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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Date

2025/08/23

Date Created

2020/04/07

Author

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