



If You Don't Buy This Fast-Food Stock Today, You'll Be Kicking Yourself Later

Description

I can't believe how quickly the narrative has changed for the average Canadian fast-food stock.

It was just a couple of months ago that we were all a little concerned a tepid local economy was leading to weakness in the sector. Even high-quality fast-food stocks — like **A&W** ([TSX:AW.UN](#)), which this analyst thinks is the best in Canada — were reporting slightly negative same-store sales.

COVID-19 and the recent stock market crash have completely changed the landscape. Restaurants across the country are only allowed to do take-out and drive-thru orders, restrictions that are obviously hurting the top line. People are also cooking almost exclusively at home, as they follow government orders to practice social distancing.

Investors focused on the short term sold their fast-food stocks almost immediately, which created huge downward pressure. Most names in the sector [fell at least 50%](#), with some of the weaker players down up to 75%.

I'm the first to admit that things look bleak in the short term. It looks we'll be in this situation for at least another month, and maybe into June, too. And even then, the recovery could be slow if business doesn't ramp up as quickly as expected.

But over the next one to two years, I think the industry will bounce back completely as life goes back to normal. This translates into a fantastic buying opportunity for investors with a long-term timeline.

A&W continues to be my top fast-food stock, and I'm adding more to my portfolio today. Here's why I think it's such a compelling opportunity.

Valuation

A&W is a great operator — more on that later — but the real reason to buy today is about more than the company's excellent execution skills. You're getting these great qualities at a bargain price.

In 2019, A&W earned \$1.85 per share. This year would likely have been better, too, as more locations come online. The number of restaurants in the royalty pool is now approaching 1,000; just two years ago, the company had around 900 locations.

In other words, you're getting a company with solid long-term growth potential at just a hair over 12 times trailing earnings. That's a fantastic bargain.

Quality

A&W's business plan is as simple as it is powerful. This fast-food stock focuses on delicious food, fresh ingredients, nice restaurants, and exciting promotions that are marketed well.

That's really about it. You can summarize the company's whole strategy in just a couple of sentences.

Where A&W really shines is the execution of its strategy. Everyone from top management to franchisees really buy into the concept. The food is consistently good, and the chain's value proposition is solid. I don't mind paying a little extra to go to A&W, and the chain's long-term success shows I'm not alone with that opinion.

The dividend

Income investors looking to collect a fat dividend while this fast-food stock recovers are out of luck. A&W recently told investors it was temporarily suspending dividends to help take pressure off its franchisees.

But once the worst of this is over, cash will once again start accumulating inside the company's accounts. Remember, A&W shares get first dibs on the franchise fees paid back to corporate. The publicly traded stock is a royalty company, meaning it doesn't have any of the expenses associated with running a fast food chain.

This all translates into one important point for dividend investors looking at A&W today. Shares should begin paying a dividend again relatively soon, likely with bolstered cash reserves from money trickling in over the next few months.

The bottom line on this fast-food stock

At approximately \$25 per share, A&W stock is down almost 50% from recent highs. That's a very compelling entry point for this long-term winner.

Add in the company's excellent operational skills, its dirt-cheap valuation, and its soon-to-be-reinstated dividend, and the conclusion is simple: today might be the [best time in a generation](#) to load up on shares. I know I've been buying.

CATEGORY

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