# This 7% Dividend TSX Stock Just Soared 47% — Here's Why It's Not Done Rallying

### Description

The COVID-19 pandemic has battered the restaurant industry over the last couple of months.



In an earlier piece, I went into detail about the main restaurant sub-industries and highlighted the fact that a take-out-oriented restaurant like **Pizza Pizza** (TSX:PZA) was in *much* better shape than its non-take-out-oriented peers amid the coronavirus crisis. For that reason, I thought shares of Pizza Pizza did not deserve to be punished as severely as they were.

"Buy take-out-oriented restaurant stocks," I said, outlining the largest opportunities within the restaurant space. "We have take-out-focused restaurants like Pizza Pizza, which will hold their own during and after the pandemic. Pizza is made to order, and it's a perfect option for a self-isolating person who's sick of cooking on their own."

Pizza Pizza shares imploded 42% from peak to trough in the crash. However, the shares were quick to rebound on the broader market rally. Shares are now up a whopping 47% since the March bottom.

Despite the recent rally, however, shares are still down 54% from their 2017 all-time highs. This is because of company-specific issues that have yet to be ironed out by management. Although there's still baggage with the name, I think it's a must-buy at current levels. The stock is still stupidly cheap at 0.7 times book.

## Pizza Pizza trims dividend amid turbulent times

The company announced just over a week ago that it cut its April dividend from $0.0713 to $0.05 per share. This was following a 6.1% decline in quarterly royalty pool system sales. While management points the finger at COVID-19, I'd argue that management is also partially to blame. After all, the pressures on Pizza Pizza stock existed years before the COVID-19 crisis.

Moreover, the mid-single-digit decline in system sales is not too bad. Many of the non-take-out-oriented restaurants could be in for larger comparable sales declines for the first quarter.

I believe Pizza Pizza is the top play for those looking to play a further bounce off what could be some better-than-feared numbers in the next pandemic-plagued quarter.

Sure, the recent dividend trimming is disheartening for income-oriented investors who depend on the income. But as things gradually return to normal, I do think Pizza Pizza could be in a position to re-raise its dividend a lot sooner than most think.

And given the terrific value proposition to be had with Pizza Pizza and Pizza 73 and their relatively cheap pizzas ($9.73 for unlimited two-topper medium pizzas), I think many investors and analysts may be discounting the "inferior good" nature of Pizza Pizza's products. An "inferior good" tends to see increased demand when consumer income falls thanks to the substitution effect.

## Foolish takeaway

Many laid off and furloughed Canadian consumers are going to need every dollar to go that much further. With Pizza Pizza's value-conscious offerings, I think we could see an increased appetite for Pizza Pizza over many of the pricier take-out alternatives out there.

As such, Pizza Pizza stands out as a play that could continue surging higher, even with another hideous quarter of earnings on the horizon.



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**Date**
2025/08/26
**Date Created**
2020/04/28
**Author**
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