This TSX Dividend Stock Is Looking Cheap

Description

One of the top investment strategies for long-term investors is dividend investing. **TSX** dividend stocks are always companies investors are on the lookout for.

Dividend stocks, however, become even more attractive when the market thinks the economy may be headed for a recession.

Companies with solid businesses that can be relied upon through a recession usually perform the best. There is little to no risk to the dividends, so investors can count on them to provide passive income. This is important, as most stocks will lose value in a recession.

So, dividend stocks can help investors to build up a cash position. Then that cash can be used to find other exciting long-term businesses that are trading cheap.

One of the top TSX dividend stocks to consider adding to your portfolio today is **Pizza Pizza Royalty** (TSX:PZA).

Stable dividend stock

In general, Pizza Pizza is the type of stock that has an extremely stable dividend. Because it's a royalty company, the changes in income it gets from its franchises only fluctuate slightly each quarter.

This keeps cash flow remarkably consistent for Pizza Pizza, which allows the company and investors to have a good idea of the dividend's reliability.

Although the stock is generally reliable, the current shutdown caused by the coronavirus is an unprecedented situation that has caused a significant decline in sales temporarily.

Restaurant business

In the past, I have been most bullish on Pizza Pizza in the Canadian restaurant sector. This was in large part because of it being the most defensive business in the space.

Those defensive attributes are what have allowed Pizza Pizza to outperform almost every other restaurant and QSR dividend stock on the TSX.

Not only is Pizza Pizza seeing less of a drop-off to sales (albeit still a significant drop), but its dividend has also remained more resilient than most of its peers.

Many restaurant royalty stocks have had to resort to suspending the dividend altogether. Pizza Pizza, however, has only temporarily reduced its dividend and by just 30%.

A 30% dividend cut is more than most investors and analysts had expected, but so too is Pizza Pizza's drop-off in sales.

Risks to watch for this dividend stock

The main risk that I see is prolonged shutdowns or a second wave of shutdowns. This could have two different consequences.

A shutdown that lasts longer than normal could eventually see sales erode enough that this dividend cut is no longer sufficient.

Currently, Pizza Pizza can withstand a drop off in sales of roughly 30%. However, we are already seeing 10% of sales gone from non-traditional restaurants and management, pointing to almost a complete drop off in walk-in sales.

In total, this could end up being a decrease in sales of closer to 40%. Plus, the longer the shutdowns go on, the worst I'd expect that to become.

And if the economy stays shut down long enough, franchisees may go out of business. If this were to happen and a significant number of locations had to close, royalty income could take a major hit.

While both of these are possibilities, in my view, the chances of either materializing are still minimal.

Bottom line

At this point, the TSX dividend stock is still a buy and offers a yield of 6.8% at these levels. Plus, if everything works out, and the economy can open up again soon, that dividend could be raised back close to pre-coronavirus levels.

Just because it's the best-positioned restaurant stock on the TSX doesn't mean it has no risk, though. So, make sure to stay conservative and diversify your investments well, especially in an uncertain time like this.

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1. Dividend Stocks
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