TSX Stocks: 1 Industry I’d Avoid in 2020

Description

Day by day, we continue to realize just how much coronavirus is changing our lives. At first, there was the initial shock that sent **TSX** stocks plummeting. Still, soon after the initial shock set in, it seemed like it would pass quickly.

However, as reality sets in, it’s becoming clear that this new environment will be here far longer than anyone expected.

Governments have worked tirelessly to help stimulate workers and balance both public health and economic livelihoods of all their citizens.

While this effort to balance life for everyone is essential, it will result in a new normal far from what we remember.

These changes could have a significant impact on TSX stocks, so it’s crucial investors understand what the new normal will look like for the next while.

One of the biggest changes that we will continue to see are restaurants operating substantially below capacity.

The restaurant industry

Restaurants have always been an extremely competitive business. So with businesses operating only through takeout over the last few weeks, things are becoming dire.

But even as economies reopen, restaurants will likely be capped to 25% capacity.

While this would be a start to getting things back to normal, the speed at which things do get back to normal could decide the fate of a lot of these restaurants.

With most restaurants struggling to break even at full capacity, if 25% capacity was to last too long, you could start to see several restaurants close down.

TSX restaurant stock

So what does this mean for a stock like **Boston Pizza Royalties Income Fund** (TSX:BPF.UN)?

Boston Pizza, as the name suggests, is a royalty company. So rather than own the restaurants, the fund receives a royalty from sales of the restaurants in its pool.

By receiving a top-line royalty, the fund is generally a lot less risky. There's less risk because it doesn't rely on the profitability of individual restaurants. Instead, it relies solely on a stable stream of revenue coming in across all the locations it has in Canada.

During normal economic circumstances, the level of sales has very little volatility. The TSX stock has therefore traditionally taken all that money it's received, paid what little administrative expenses it had and returned the rest of the cash to shareholders.

Restaurant stocks going forward

I mentioned before that this type of business is substantially less risky. The fund doesn't need to worry about the individual success of each restaurant.

Because even if sales are declining all across the country, for the fund, it may only see a 1% or 2% dip in sales.

Where that risk grows substantially is in an environment such as today. While in the past, Boston Pizza didn't have to worry about individual locations, today that's become a serious risk.

If restaurants are unprofitable for longer than they can withstand, we could start to see massive closures.

And once a restaurant has closed its doors, the fund loses a substantial amount of revenue, especially when this is happening on a broad scale.

Boston Pizza already had to suspend its dividend earlier this year after sales were virtually completely wiped out.

But if we see this environment last, and businesses are having a tough time surviving, it could spell trouble for the TSX stock company long term.

Bottom line

It's starting to become clearer which TSX stocks can handle this new environment, and which will feel the pressure.

Make sure before making any investment today; you do, not only your normal due diligence, but also look for any risk the current economic environment may pose.

This way, you won't get caught off guard owning a business that may have serious problems in the near future.

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1. Coronavirus
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TICKERS GLOBAL

1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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danieldacosta