



## Buy Alert: An Income Fund for Your TFSA Portfolio

### Description

With lockdown restrictions being lifted in tranches, people are once again heading out and meeting in small groups. Favourite meeting places for people have always been restaurants and eating joints. Right now, these meeting places are coming off one of the roughest quarters they have faced. But things might just be starting to turn around. A&W Revenue Royalties Income Fund ([TSX:AW.UN](#)) seems like it has started to put the pandemic behind it.

### Tough Q2 as expected

A&W Revenue Royalties Income Fund reported sales for the second quarter ended June 14, 2020. The quarter was tough for them with gross sales dropping 28% to \$253.2 million, compared to \$351.8 million in 2019. Year-to-date sales were \$561.9 million, a 15% drop from 2019.

Same-store sales dropped by 31.6% as compared to the prior quarter in 2019. For the six months to date, same-store sales decreased by 18.7% compared to 2019.

### Green shoots for the income stock

Out of 971 restaurants that A&W has in its royalty pool, 230 were temporarily closed since March 1, 2020. As lockdown restrictions have lifted, the number of restaurants opening up has improved. At the end of the quarter on June 14, 109 restaurants were still closed.

When the company declared results on July 22, 88 out of the 109 restaurants had opened up and only 21 remained closed. Most of the 21 restaurants closed are located in malls, which accounts for roughly 20% of A&W restaurants.

Sales figures have improved as the number of restaurant openings have continued to rise. Same-store sales were down 45% in the first four weeks of the second quarter and sales decline narrowed to 20% in the last four weeks.

Most of the sales push has come through the 700 restaurants with drive-thrus. Pre-COVID months saw roughly half the fund's business come from drive-thrus, and this percentage has gone up.

It has also helped that many of the fund's freestanding restaurants have outdoor or patio space, and some restaurants have been able to extend or use parking space that has doubled up as a patio.

Customers and franchisees are taking a liking to patios in warm weather. A&W has also opened six new restaurants this year, and has 23 more under construction.

## What next for investors?

The fund's trustees had suspended payment of monthly royalties for the second quarter. They have [resumed the monthly distributions](#) to unitholders starting with \$0.1 per unit payable on July 31, 2020.

According to an amendment in the agreement between A&W Food Services and A&W Trade Marks Limited Partnership, late royalty payments accrue an interest rate of 2% per annum over the prime rate. Both parties have agreed that the repayment of the amount plus interest will take place by December 31, 2021.

The resumption of the royalty payout at \$0.1 per month means the fund has a forward payout of 4.19%. As more restaurants open up and sales figures increase, A&W stock will do better, particularly since it is in the quick-service segment.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

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### Date

2025/07/02

### Date Created

2020/07/25

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