1 Restaurant Stock That's Reinstated Its Dividend: A Great Contrarian Buy Today?

Description

The COVID-19 pandemic's hit the restaurant industry particularly hard. Businesses are operating at a fraction of the capacity that they were at before the pandemic hit, and they also need to spend more money on social distancing and sanitizing their stores to ensure they're sufficiently protecting their employees and customers.

That's why many restaurant stocks are down by the double digits this year even though the **TSX** has declined by a modest 3%. While the markets are proving to be resilient amid the pandemic, that isn't the case for all industries.

However, there are signs of hope for the industry, especially for fast-food chains where customers can still easily order from restaurants without needing to go inside. And with plenty of food delivery apps to choose from, customers don't even need to leave their homes, either.

Fast food stock back to paying a dividend

One stock that's showing signs of recovery already is **A&W Revenue Royalties Income Fund** (TSX:AW.UN). And on April 1, the fund announced that it would be temporarily suspending its monthly dividend payments due to the COVID-19 and the uncertainty it was creating for A&W and the restaurant industry as a whole.

The fund would later go on to release its first-quarter results of 2020 on April 29, where same-store sales growth was a negative 4% for the quarter. And that was only up until March 22, not even a month after the World Health Organization declared COVID-19 a pandemic.

Despite the gloomy outlook for the near future, however, the dividend suspension wouldn't last for long. On July 7, the fund announced that it would be reinstating its monthly payouts. Shareholders would be receiving $0.10 per unit of the fund that they owned with the first payment resuming on July 31.

And with shares of the company trading at around $29, investors today can still earn a strong dividend yield of more than 4% per year.

The reinstatement of the dividend doesn't mean that A&W's all of a sudden become a safe stock to hold again; in its most recent quarterly results released on July 22, the fund's same-store sales growth was a negative 31.6%. During the same period a year ago, the growth rate was 10.3%.

But the positive takeaways are that A&W still posted a profit in Q2 and that it was continuing to generate distributable cash for its shareholders.

These are good signs that show that fast-food chains like A&W may be resilient enough to survive the COVID-19 pandemic even under harsh conditions. And while they may struggle in the short term, investors shouldn't count these stocks out as quality long-term investments.

Should you invest in A&W?

Year to date, the A&W fund is still down around 24% and it's only up 4% from where it was five years ago. For long-term investors, it could be a great opportunity to buy the stock at a discount. Trading at 15 times its earnings, it's a cheap buy given that its earnings will likely rebound once the pandemic's over.

Although investing in the fund is a bit of a contrarian buy today, it could pay off years from now once the economy stabilizes and people are back to eating out at restaurants more regularly.

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djagielski