Growing Dividends From 2 Restaurant Stocks

Description

Investing is not always smooth sailing. The reality can be full of bumps along the way.

The foot traffic to restaurants dropped dramatically during the COVID-19 pandemic due to economic lockdowns and the encouragement to limit gatherings and going out, and to keep socially distanced.

Restaurant Brands increased its dividend

How many of you have reduced or eliminated your visits to Burger King, Tim Hortons, or Popeyes Louisiana Kitchen? They're all restaurant brands under, well, **Restaurant Brands International** (TSX:QSR)(NYSE:QSR).

Unfortunately, the global restaurant company witnessed system-wide sales falling 8.6% year over year in 2020 due to the pandemic.

Effectively, Restaurant Brands's revenue fell 11% to less than US$5 billion. This translated to adjusted EBITDA, a cash flow proxy, falling 19% to north of US$1.8 billion, adjusted net income falling 26% to US$948 million, and adjusted earnings per share dropping 34% to US$2.03 per share.

RBI's free cash flow generation fell off the cliff. It was US$804 million in 2020, down 43% versus 2019. As a result of the disrupted economy, the restaurant stock's net leverage was bumped up from 4.7 times in 2019 to 6.1 times at the end of 2020.

To the relief of shareholders, Restaurant Brands is sticking to its dividend-growth culture. RBI increased its quarterly dividend by 1.9% last week to an annualized payout of US$2.12 per share.

As vaccine programs roll out and the hope that herd immunity is achieved, there's a good chance Restaurant Brands could experience a strong rebound in earnings this year to cover that dividend with a margin of safety.

Investors with an investment horizon of more than three years should see a steady rise in their QSR stock while enjoying a nice yield of 3.5% from the boosted dividend.

A&W also sees improvement

A&W Revenue Royalties Income Fund's (TSX:AW.UN) same-store sales (SSS) dropped 14.3% in 2020. In the previous nine years, its SSS were either resilient or increased.

Due to the pandemic disruption, A&W was, unfortunately, forced to cut its cash distribution. Specifically, it suspended its monthly cash distribution of $0.159 per unit from April to June 2020.

As soon as the macro environment improved, A&W resumed a regular cash distribution and paid out $0.10 per unit from July 2020 to February 2021. It showed it cared for its unitholders by paying out special distributions, totaling $0.50 per unit in Q4 2020. Investors who bought A&W before the pandemic would have seen their income effectively dropping by 20% in 2020.

I don't know about you, but I personally find A&W burgers tastier than other fast-food chains', perhaps due to its quality ingredients. Whenever I make my errands close to an A&W restaurant, I'm tempted to pick up my favourite Mozza burger as a snack.

A&W is on a path to recovery. It increased its monthly payout (payable in March) to $0.135 per unit, and it's only a matter of time before its distribution is restored and surpasses the $0.159 level.

The restaurant sees a bumpy recovery. Temporary closures of some of its restaurants from increased restrictions due to the resurgence of COVID-19 cases in certain geographies can still occur. For example, as of February 16, 2021, 30 restaurants (out of the 971 in its royalty pool) were temporarily closed.

At writing, at $34.15 per unit, A&W yields 4.7% from an annualized payout of $1.62 per unit. Like QSR stock, I expect A&W shares to appreciate over time.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/06/30
Date Created
2021/02/19
Author
kayng