Canadian Investors: The Best Dividend Stock to Buy Today!

Description

Dividend stocks are some of the best long-term stocks you can own. Earning passive income from your investments is one of the best feelings there is.

That's why many investors favour dividend stocks. You know when you buy a dividend stock that the company has strong and resilient earnings, especially if it's paying a significant dividend.

In addition to a continuous stream of passive income, though, the only thing that can make it better is when that income grows.

Each time one of your investments raises its dividend, it increases the cash flow your portfolio is generating. So, every time one of your stocks increases its dividend, it's like you're getting a raise.

Plus, companies that are raising their dividends usually aren't in a risky position. So, an increasing dividend is another positive sign for long-term investors.

A top dividend stock to buy today

One of the top dividend stocks to buy today is **Pizza Pizza Royalty** (TSX:PZA). Pizza Pizza is attractive as an income stock, because rather than owning all the locations in Canada, the company receives a royalty from each location instead. The royalty Pizza Pizza receives is based on sales the location does rather than the net income.

This makes Pizza Pizza a lower-risk investment. Investors don't have to worry about the risk of several locations being unprofitable and therefore unable to pay the royalty. Instead, investors generally only have to watch the level of sales that Pizza Pizza's system of restaurants generates.

However, the risk isn't completely eliminated. If several locations are unprofitable and close, there will be no restaurants to pay a royalty.

Pizza Pizza experienced a bit of this through the pandemic. In the last year, more stores closed than usual. In total, 34 restaurants closed, while 10 opened for a net loss of 24 stores. The dividend stock now has 725 restaurants in its royalty pool, and management wants to grow that by over 5% in 2021.

With just a 3.2% decline in restaurants, the impact on Pizza Pizza's business has only been minor. Plus, sales are already recovering rapidly.

Rising sales will inevitably lead to an increasing dividend

Before the pandemic, the dividend stock was earning and paying out roughly $0.21 per share each quarter. When the pandemic hit and shutdowns were first announced, management took the prudent step of reducing the dividend to preserve cash.

The dividend was lowered to $0.05 per month, or $0.15 per quarter. However, Pizza Pizza's sales have been more robust than anyone thought.

Earnings per share have only dropped slightly to $0.19 as of the third quarter in 2020. In response to these resilient earnings, Pizza Pizza has already increased the dividend by 10%.

However, at today's quarterly payout of $0.165, it's still well short of the $0.19 in earnings it's been generating the last few quarters.

The dividend stock has yet to release fourth-quarter earnings. However, if earnings continue to show resiliency, Pizza Pizza could increase the dividend again when it reports earnings.

Bottom line

Even at today's prices, Pizza Pizza is a top dividend stock offering a 6.75% dividend. However, when you consider there is potential for more dividend increases in the short term, it's one of the top Canadian income stocks you can buy today.

CATEGORY

1. Dividend Stocks
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