Which Royalty Stock Is the Better Buy? Diversified (TSX:DIV) or Pizza Pizza (TSX:PZA)

Description

Should Canadians consider investing in royalty companies? Are they good investment prospects in 2021? Perhaps the deciding factor is if the business model of the royalty partners is robust.

On the **TSX, Diversified Royalty** (TSX:DIV) and **Pizza Pizza** (TSX:PZA) are attractive to income investors because both are high-yield dividend stocks. However, let's size up and compare the royalty companies to see which one is a better investment in Q3 2021.

Different geographic exposure

Diversified Royalty has a market capitalization of $342.83 million. The royalty stock trades at an absurdly low price of $2.79 but pays a generous 7.27% dividend. This multi-royalty corporation acquires top-line royalties from well-managed multi-location businesses and franchisors in North America.

Currently, it has six royalty partners that should be familiar to Canadians. Air Miles is the largest coalition loyalty program where customers redeem travel and other rewards from retailers and sponsors. The Sutton Group is a leading provider of services to residential real estate REALTORS. It generates cash flow from franchise fees.

Mr. Mikes operates in the full-service casual dining restaurant industry, while Mr. Lube, a quick-lube provider, also offers automotive maintenance services. Nurse Next Door offers home and nurse care across the country. Last, Oxford Learning is a leading franchise in tutoring services.

The royalty partners have different geographic exposure and are well-established in their respective industries. They are positive factors for the multi-royalty company. Diversified has been the business for nearly 30 years.

Iconic pizza chain

Pizza Pizza is 54 years old, with a market capitalization of $353.63 million today. This royalty stock trades at $10.99 per share and pays a hefty 6.01% dividend. The franchised Canadian pizza quick-service restaurant competes with the likes of Pizza Hut and **Domino's Pizza**.

Currently, the royalty pool consists of 622 Pizza Pizza restaurants and 103 Pizza 73 restaurants. The shutdowns and social distancing measures during the pandemic affected operations with 24 closures. However, all traditional Pizza Pizza and Pizza 73 restaurants were open for delivery and pick-up customers.

Pizza Pizza was the first to adopt the centralized single-number ordering system. The marketing technique was so effective that it paved the way for the chain's expansion in Ontario. If the pandemic effects lessen considerably, management will proceed with new restaurant construction or restaurant network expansion and increase renovations for the rest of 2021.

Head-to-head comparison

In Q1 2021 (quarter ended March 31, 2021), Diversified's revenue increased 4.8% to $7.6 million versus Q1 2020. From a net loss of $11.7 million, management reported $4.1 million in net income. Pizza Pizza's total systems sales and royalty income fell 13.93% and 13.82% compared to Q1 2020.

Diversified President and CEO Sean Morrison is optimistic about a meaningful recovery of its royalty partners when government relaxes restrictions and Canada's economy stabilizes. Notwithstanding the declines in the top and bottom lines, Paul Goddard, Pizza Pizza's CEO, said the Q1 results reflect the brands' resiliency during turbulent times on balance.

Happy investors

Investors in either royalty stock should be happy with the stock performances year-to-date. Diversified Royalty is up 21.99%, while Pizza Pizza loyalists enjoy a 23.32% gain.

The choice boils down to preference. If you want royalty streams from various industries, Diversified is the logical choice. However, if you prefer an established pizza chain and monthly dividend payments, not quarterly, scoop Pizza Pizza now.

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