



3 Restaurant Stocks: 2 Dividend Stocks to Buy

Description

Restaurant stocks are usually recession resistant. Here are three restaurant stocks for consideration today. Two appear to be attractively priced for investors.

A dividend stock with international growth

As the ticker implies, **Restaurant Brands International** ([TSX:QSR](#))([NYSE:QSR](#)) is in the quick-service restaurant space. It consists of a global network of franchisees across four brands, including Firehouse Subs, which was acquired in December 2021. QSR is growing internationally with more restaurants and benefits from system-wide sales growth.

It just reported its 2021 results last week. For the full year, it experienced a rebound of results from COVID-19 pandemic impacts:

- System-wide sales growth of 13.8% to US\$35.5 billion
- Revenue growth of 15.5% to US\$5.7 billion
- Adjusted diluted earnings per share of US\$2.82 (up from US\$2.03 in 2020)
- Adjusted EBITDA, a cash flow proxy, of US\$2,248 million that increased 17.1% organically

Because of its franchise business model, the dividend stock generates substantially free cash flow. In 2021, it generated US\$1,726 million of cash from operating activities. This translated to free cash flow of US\$1,620 million of which management returned US\$1,525 million to shareholders through dividends (about 64% of the US\$1.5 billion) and common stock buybacks (about 36%).

At US\$56.05 per share at writing, QSR stock yields 3.85%. It's a good [dividend stock](#) that's undervalued. The analyst consensus 12-month price target suggests near-term upside potential of 26% is possible.

MTY Food Group stock

MTY Food Group ([TSX:MTY](#)) also appears to be an interesting idea. The pandemic impacts seem to be behind it, as it restored and began increasing its dividend again. You might recall that [MTY Food Group](#) franchises and operates quick-service, fast casual, and casual dining restaurants under more than 80 different banners primarily in Canada and the United States. You can find many of its brands in the food courts of shopping malls.

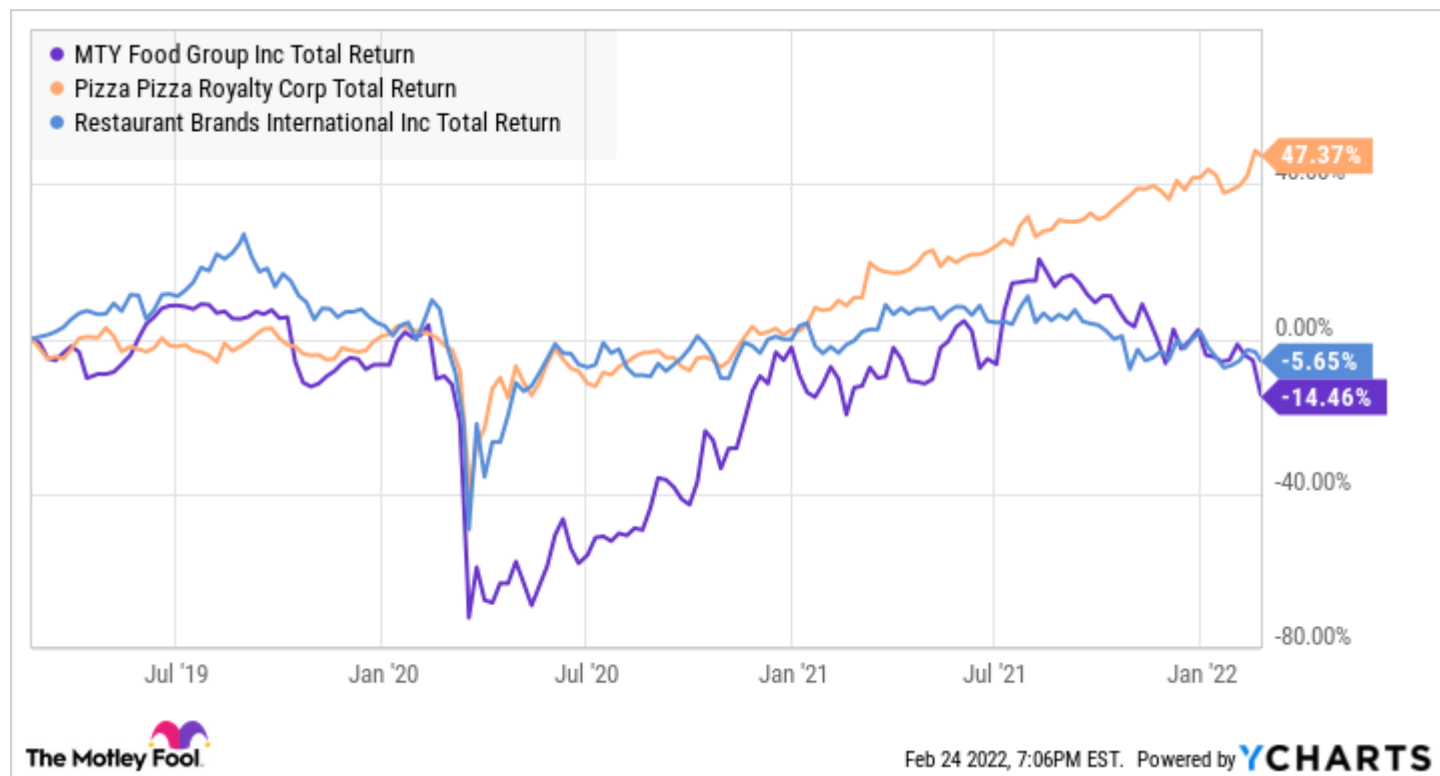
Last week, it reported its 2021 results. For the year, 22% of its system sales were digital sales, an increase from 18% in 2020. Its 2021 system sales were \$3.6 billion, which led to revenue of \$551.9 million and adjusted EBITDA of \$168.6 million. The adjusted EBITDA margin of 30.6% was an improvement from 2020's 27%. It also generated free cash flow of \$139 million, which was down 1.2% year over year.

In 2020, MTY Food Group eliminated its dividend, as it operated at a loss. However, once it swung back to profitability, it restored its dividend in July 2021. It followed up with a 13.5% dividend increase in January 2022.

The market views the low-yield dividend stock as more of a growth stock. Analysts project price gains potential of 34% over the next 12 months on the 1.6%-yield stock.

Pizza Pizza Royalty stock

Pizza Pizza Royalty ([TSX:PZA](#)) has been the best stock of the three restaurant stocks over the last three years and through the pandemic. You can imagine that the pizza royalty business was the most resilient to pandemic impacts because pizza takeout was already popular before the pandemic hit. Therefore, despite its solid business and juicy yield of 6.2%, interested investors are better off waiting on the sidelines for a meaningful correction in the stock.



Total Return Level data by YCharts

Analysts anticipate a 4% downside in PZA stock over the next 12 months. This implies there's no margin of safety in the stock right now. Therefore, investors should either wait or put new money in more attractive opportunities such as QSR or MTY stocks if they're looking for a restaurant stock for their diversified portfolios.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:MTY (MTY Food Group)
3. TSX:PZA (Pizza Pizza Royalty Corp.)
4. TSX:QSR (Restaurant Brands International Inc.)

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Date

2025/08/22

Date Created

2022/02/27

Author

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