Will Inflation Cause Restaurant Stocks to Trim Their Dividends?

Description

Inflation has been one of the biggest topics on investors' minds this year. It's one of the most significant factors impacting many stocks. In addition, it's also what's causing interest rates to rise rapidly, which is another major factor affecting stocks. Not only does inflation have the potential to impact sales, but it can also impact margins and even potentially cause dividend stocks to trim their payouts.

There are many reasons inflation is so strong right now. However, for investors, all that matters is how it may impact your stocks.

Canadian consumers have to deal with inflation, and many plan to do so in different ways. One of the most significant changes that Canadians plan to make is to dine out less often.

Therefore, with many restaurant stocks still recovering from the pandemic and dealing with their own costs rising significantly, if restaurants were to see a considerable slowdown in revenue, they could see major problems arise with their businesses.

So, let's look at some of the most popular restaurant stocks for dividend investors to see how safe each of their dividends is.

Pizza Pizza has long been one of the best dividend stocks you can buy

Pizza Pizza Royalty (TSX:PZA) is an attractive restaurant stock that's always been an ideal hold for dividend investors. The company typically aims to pay out all the profit it generates, so any major impact on sales, such as the pandemic, would normally result in the dividend being trimmed.

Today, however, Pizza Pizza is still recovering, and management has erred on the side of caution when it comes to dividend increases. Let's look at how safe Pizza Pizza's dividend is.

Over the last four quarters, the stock has earned $0.76 in earnings per share (EPS). Meanwhile, currently, Pizza Pizza's dividend payout is sitting at $0.78 for the full year. That puts the stock's payout ratio at roughly 103%. So, there's not much room for error.

With most dividend stocks, a 100% payout ratio would suggest the dividend is severely at risk. However, Pizza Pizza's sales have been quite sticky in the past. Furthermore, the stock has been known to pay out slightly more than it's bringing in if it believes that the impacts on its business are only temporary.

So, while Pizza Pizza is a stock to keep an eye on in this environment, for now, it looks like it could still weather the storm and make it through this period of high inflation without trimming its dividend.

Boston Pizza is another popular stock for passive-income seekers

Boston Pizza Royalties (TSX:BPF.UN) is another stock much like Pizza Pizza. While Boston Pizza is a dine-in restaurant chain, it still receives a top-line royalty payment, meaning that investors really only have to worry about whether or not its restaurants can continue to generate sales.

Because Boston Pizza is a dine-in restaurant, it was understandably much more affected by the pandemic than Pizza Pizza. So, while both are still recovering, Boston Pizza could potentially be more at risk.

One thing Boston Pizza has going for it, though, is that its distribution is nowhere near where it was before the pandemic. For comparison, Pizza Pizza's dividend payout is 91% of what it was before the pandemic.

Boston Pizza, though, is currently only paying out about 74% of what it did before the pandemic. Nevertheless, we can still look at Boston Pizza's numbers to see how safe its dividend is.

And currently, it looks as though Boston Pizza's lower distribution may come in handy during this tough economic environment.

Over the last four quarters, Boston Pizza has reported cash from operations of $31 million. Therefore, with the company paying out just under $24 million over the last four quarters, there's some room for error.

Keep in mind, Boston Pizza does have some other financial obligations. However, even after returning $24 million to investors in the last 12 months, the stock has still managed to earn a positive net change in cash of just over $2 million.

Therefore, at the moment, Boston Pizza's distribution looks fine. However, if the stock was to see a considerable impact on sales, especially one that lasts multiple quarters, it may be forced to trim its distribution once again.

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Date
2025/08/22
Date Created
2022/06/03
Author
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