2 Oversold Dividend Stocks to Buy for Passive Income

Description

Investing in [dividend stocks] that have a monthly payout is a good strategy to create a passive-income stream. While you benefit from a steady stream of recurring dividend payments each month, investors will also have the opportunity to grow their wealth via long-term capital gains.

There are a few royalty income funds in Canada that have a monthly dividend payout. Further, investing in quality income funds will diversify your equity portfolio.

The two companies discussed here provide Canadians access to the quick-service restaurant (QSR) market in Canada, which attracts the highest traffic in the country's commercial food service industry.

In fact, quick-service restaurants account for 56% of all meals and snacks sold in Canada and generated $30.7 billion in sales, serving 4.6 billion customers last year. Chain brands dominate this market and account for 87% of total traffic.

The COVID-19 pandemic negatively impacted QSR sales due to lockdowns imposed in Canada, which exacerbated the selloff. But these oversold stocks are well positioned to stage a comeback and deliver outsized gains to investors in the next year.

A&W Revenue Royalties Income Fund

In 2021, the Canadian QSR burger market generated sales of $10.7 billion, indicating a share of 35% of total QSR sales.

Now, **A&W** (TSX:AW.UN) is the second-largest QSR burger chain in Canada in terms of traffic, sales, and outlets. In the second quarter (Q2) of 2022, A&W Royalties Income Fund increased revenue by 15.9% year over year, as same-store sales surged by 12.2%. Further, gross sales from 21 new restaurants were added to the royalty pool in early 2022.

With over 1,000 restaurants part of the royalty pool, A&W's sales in the last 12 months surpassed $50 million. Due to an asset-light model and stable cash flows, A&W Revenues Royalties Income Fund pays investors a monthly dividend of $0.155 per share, indicating a forward yield of 5.2%.

In the last 10 years, the company has returned close to 180% to investors after adjusting for dividends. Its dividend payouts have also risen by 3.1% annually since September 2012. The fund's distribution rate was increased three times in 2021 due to the relaxation of COVID-19 restrictions and the reopening of the Canadian economy.

Boston Pizza Royalties Income Fund

Boston Pizza is one of Canada's largest casual dining brands. The first outlet was opened in 1964 in Edmonton, Alberta, and **Boston Pizza Royalties Income Fund** (TSX:BPF.UN) ended Q2 with 383 restaurants as part of its royalty pool.

After falling close to 28% year over year in 2020, same-store sales in 2021 surged by 8.5%. The annual gross sales per restaurant in 2021 stood at $2.13 million, which is still lower than the $2.84 million figure in 2019.

It offers investors a monthly dividend payout of $0.10 per share, indicating a forward yield of 7.6%. Further, the stock is trading at a discount of 15% compared to average analyst price target estimates.

Its total sales in the first six months of 2022 grew 50.5% year over year. Additionally, distributable cash flow increased 53.4% to $6.2 million in Q2 of 2022.

The Foolish takeaway

In case recession fears come true, restaurant stocks might underperform the broader market. But QSR outlets may continue to see an uptick in traffic numbers due to the low cost of products. The two companies remain attractive bets due to tasty dividend yields and their popularity in Canada.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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