



Better Buy: Pizza Pizza vs. Boston Pizza?

Description

If you're a dividend investor, there are many different types of investments for you to consider for your portfolio. And some stocks, such as **Pizza Pizza Royalty** ([TSX:PZA](#)) and **Boston Pizza Royalties** ([TSX:BPF.UN](#)) are made specifically for dividend investors.

Both stocks earn top-line royalties from the restaurants in their respective royalty pools. Furthermore, both stocks aim to pay nearly all of their income back to investors each year.

So, which is the better buy for dividend investors today: Boston Pizza or Pizza Pizza?

The two stocks have similar business models, despite having much different operations

Although both stocks earn royalties from the sales their restaurants make, and although investors will be most concerned with how well each of these companies can grow their total royalty pool sales, the two companies have considerably different operations.

First off, Pizza Pizza is a quick-service restaurant (QSR), colloquially known as a fast-food franchise. Boston Pizza operates a chain of dine-in restaurants. Therefore, while they both operate in the restaurant industry, they aren't quite competing against each other.

And in this environment, where inflation is skyrocketing, but also many believe a recession could be on the horizon, there's certainly increased risk for each of these two stocks.

Both could certainly see negative impacts on their revenue due to inflation. A survey the [Bank of Canada](#) did back in August showed that almost 50% of consumers are expected to buy less this year to deal with the effects of inflation. Furthermore, 35% of respondents said they plan to only spend on essentials.

At the same time, though, both companies have been able to increase their food prices as a result of rising costs at their franchises. And since the royalty that investors earn is on sales, these price

increases could potentially have a positive impact.

Nevertheless, eating out is one of the first and easiest costs that consumers can cut when budgets are being squeezed, so these stocks certainly have some risk in this environment. But with Pizza Pizza being a QSR, and because it's a lower-cost option for consumers, you'd have to give its business model the edge in this economic environment.

Which dividend stock has the better financials?

Although both stocks are at risk in this environment, it hasn't been smooth sailing over the last few years either. Both companies were impacted by the pandemic and restaurant closures because of stay-at-home orders.

At the worst point, Pizza Pizza's revenue fell by 15% year over year, and management elected to trim the dividend by 30%. Meanwhile, Boston Pizza saw its revenue fall 50% year over year at its worst point, and the distribution that the fund pays was cut by over 40%. This goes to show the divergence in performance between a dine-in chain like Boston Pizza vs. a QSR like Pizza Pizza.

Over the last year, though, both stocks have recovered well. In the last four quarters, Pizza Pizza's revenue was at 95% of where it was before the pandemic. And with its [margins](#) still intact, its income is also at 95% of where it was prior to the pandemic. Therefore, it's no surprise that Pizza Pizza's dividend is roughly 94% of what it was before the pandemic.

Boston Pizza's sales have recovered well too, and its margins are also strong. However, its distribution is at just 87% of where it was before the pandemic.

Which stock offers more value today: Boston Pizza or Pizza Pizza?

Because Boston Pizza is the dividend stock that has slightly more risk in this environment, it's not surprising to see its yield at 7.8% today vs. Pizza Pizza's at 6.4%.

But while a higher yield can be more enticing, if Boston Pizza is impacted severely in this environment and has to cut its distribution again, investors could see major losses in the price of the stock.

So, while both are valued similarly, and although Pizza Pizza offers a slightly lower yield in this economic environment, with all the risk today, Pizza Pizza stock would have to get the edge.

However, while Pizza Pizza may be the best restaurant stock in Canada to buy, there are plenty of other high-quality dividend stocks to consider in this environment.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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