Better Buy: Pizza Pizza Stock vs. A&W

Description

Fast food could be recession resistant. The demand for convenient and cheap meals is likely to be steady regardless of the economic climate. That's what makes these companies a prime target for investors seeking robust passive income.

However, if you're looking for the best fast-food dividend stock to buy right now, here's a comparison of two industry leaders.

Pizza Pizza stock

Pizza Pizza Royalty (TSX:PZA) is a Toronto-based pizza franchise with over 500 locations across the country. Year to date, the stock is up 7.7%, while quarterly revenue and earnings are up 19% and 21%, respectively.

Royalty income is steadily rising this year. Pizza Pizza's portfolio of restaurants generated $17.05 million in the first half of 2022 — 16.1% higher than last year. This steady growth in sales is expected to continue in 2023. That's good news for investors who rely on the stock's lucrative dividends.

Pizza Pizza offers a 6.3% dividend yield. The payout ratio is 85%, which means the shareholder rewards are sustainable. However, the dividend yield is roughly on par with the stock's earning yield of 6.25%. That means investors should expect mediocre dividend growth in the near future.

Nevertheless, the stock is undervalued, trading at just 15.9 times earnings per share.

A&W stock

A&W Revenue Royalties Income Fund (TSX:AW.UN) is an incredibly attractive passive-income stock. The stock currently trades at $33 and offers a 5.6% dividend yield. This dividend is paid out every month, which is convenient for passive-income investors.

The British Columbia-based burger chain operates 1,025 restaurants in Canada with annual revenue of over $1.6 billion. Sales and dividends have been steadily expanding over the past decade. A&W's dividend has grown by 3% compounded annually over the past decade. Meanwhile, the stock price has delivered a compound annual growth rate of 13.57% over the past 20 years.

The company recently struck a deal with British sandwich brand Pret a Manger to test the brand in three locations across Canada. If successful, this new brand could help the company expand sales further and continue rewarding shareholders with lucrative dividends.

Currently trading at 15.2 times net income, A&W stock is worth a closer look.

Bottom line

Pizza Pizza and A&W are both well-known fast-food brands in Canada. This sector of the economy could be more insulated from the upcoming recession. However, A&W looks slightly more attractive because of its track record of steady growth and new partnership with Pret-a-Manger that could propel sales growth.

If you're looking for a higher dividend yield, Pizza Pizza is a better option. But if you're looking for some capital appreciation, consider A&W Royalties.

CATEGORY

1. Investing

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2. TSX:PZA (Pizza Pizza Royalty Corp.)

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