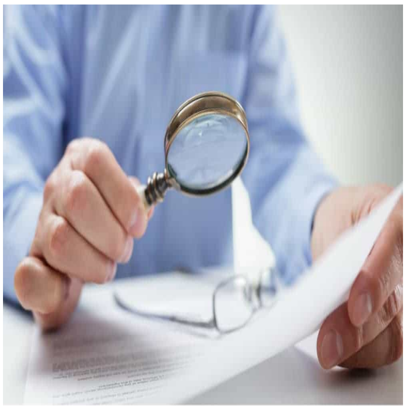

Down Almost 20% Off its High, Is A&W Stock Worth Buying Today?

Description

For years, **A&W Revenue Royalties Income Fund** (TSX:AW.UN) has been an excellent dividend-growth stock that Canadian investors can own confidently. A&W is one of the most popular quick-service restaurant chains across Canada and has consistently grown in popularity, as its healthier products resonate with consumers.

default watermark

Because of this consistent growth and the fund's structure, A&W has been an ideal dividend-growth stock to buy and hold in your portfolio for years.

Of course, the pandemic understandably impacted it. However, as with almost every other stock, it eventually recovered from the pandemic, and its system sales in 2021 exceeded its revenue from 2019.

However, with a recession now looming, the stock's been selling off again. So, you may be wondering if this high-quality dividend stock is worth buying in this environment or if there is more risk that A&W could lose money before it recovers.

A&W stock's consistent growth has been impressive

Until the unprecedented global pandemic and all the shutdowns, A&W had been on a roll.

From 2014 to 2019, the last year before the pandemic, A&W's annual distribution increased from $1.40 to $1.85 — a compound annual growth rate (CAGR) of 5.7%.

This impressive and consistent distribution growth resulted from the company's continued expansion across Canada. In fact, during that stretch from 2014 to 2019, its restaurant locations increased at a CAGR of 3.7%. In addition, its total system sales increased at a CAGR of 8.7% over that period.

A&W now has over 1,000 restaurant locations across the country, making it the second most popular quick-service restaurant chain in the hamburger segment.

However, while its growth has been impressive and its sales have recovered from the pandemic's impacts, there could be more risk ahead with all the uncertainty about the economic environment in 2023.

Is A&W worth buying today?

Although A&W stock mostly moved along with the market in 2022, it continued to recover and grow its sales. Its distribution is now the highest it's ever been, and the stock has now grown its sales for seven consecutive quarters since the pandemic.

But with a potential recession looming, many investors are concerned about how A&W could be impacted. Of course, cutting down on eating out is one of the easiest ways Canadians can save money, as inflation continues to impact our budgets, and unemployment will almost certainly rise throughout the year.

However, with A&W's continued growth lately, and with the stock price losing value, tracking the market throughout the last year, A&W stock is now trading at one of its lowest valuations in years.

Trading at just 16.3 times its trailing earnings is one of the lowest valuations it's had (aside from the pandemic) since 2018. In fact, its 10-year average price-to-earnings ratio is upwards of 20 times.

default watermark

In addition, aside from the pandemic, A&W's yield also hasn't been above 5% since 2018. Although there is increased risk in this environment, because of the discount it offers, investors can buy with a slight margin of safety.

Is the distribution safe?

As we saw in the pandemic, a significant impact on A&W's sales can certainly impact the amount of cash that it returns to investors.

When the pandemic hit and forced lockdowns, A&W's distribution was at first suspended and then eventually reinstated at roughly 37% lower.

What's positive about A&W is that the stock has only minimal expenses. For example, its operating profit over the last four quarters was 98.2%. That means that a minor impact on sales won't have a major impact on profitability.

However, because A&W pays out the majority of its profits and has historically kept its payout ratio close to 100%, any impact on sales would result in the distribution being trimmed.

Today, the stock is in much better shape. In addition to having a safer payout ratio at just 85% of its earnings, the stock has also been growing its cash position in recent quarters, giving itself some much-needed breathing room should the economic environment worsen this year.

Therefore, considering the discount that you can buy A&W at today and the fact that its distribution isin much better shape, it’s certainly one of the best stocks to buy now, especially if you plan to hold for years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

default watermark

PP NOTIFY USER

1. danieldacosta
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/08/12
Date Created
2023/01/06
Author
danieldacosta

default watermark