Should You Invest in A&W Revenue Royalties Income Fund for its 5.1% Dividend Yield?

Description

You can create an alternative stream of income by investing in high-quality dividend stocks. There are several TSX stocks that pay investors tasty yields, making them attractive to income-seeking investors.

One such dividend stock on the TSX is **A&W Revenue Royalties Income Fund** (TSX:AW.UN), which offers shareholders a dividend yield of 5.1%. Let's see if this TSX stock is a buy right now.

What does A&W Revenue Royalties Income Fund do?

The fund was established as a trust to invest in A&W Trade Marks, which indirectly owns the trademarks used in A&W's quick-service restaurant business. The trademarks are then licensed to A&W Food Services of Canada for a 3% royalty on the sales of restaurants part of the royalty pool.

Further, A&W Food Services of Canada is a privately held entity that franchises A&W restaurants in Canada. Almost all A&W restaurants (other than the 10 that are corporate owned) in Canada are operated by independent franchisees.

So, the fund is a top-line fund, as income is based on restaurant sales, protecting the company from fluctuations in profit margins and interest payouts. It currently pays shareholders a monthly dividend of $0.16 per share, translating to a dividend yield of 5.1%.

A&W is Canada's second-largest burger-based, quick-service restaurant chain. It generated $1.6 billion in system sales in 2021 across +1,000 outlets. The company has managed to increase sales from $40.4 million in 2020 to $47 million in 2021. In the last 12 months, its sales grew to $50.91 million.

Due to its asset-light model, A&W's operating expenses are minimal, allowing it to report an operating profit of $50 million in the last four quarters.

Is A&W Revenue Royalties Income Fund a buy?

A&W has strong relationships across the value chain ranging from franchise owners to suppliers and distributors. For instance, around 70% of new A&W restaurants opened in the last three years were opened by existing franchise owners.

The company's longstanding relationships with its suppliers and distributors have allowed it to navigate a challenging macro environment easily. Despite supply chain disruptions and inflation, A&W has been able to maintain a fill rate of 99% in 2021 and 2022. Additionally, its prudent cost management has helped minimize inflation impacts on menu prices.

Despite restaurant closures amid the COVID-19 pandemic, same-store sales for A&W have surged 5% in the third quarter (Q3) of 2022, compared to the same period in 2019 due to an increase in drive-thru revenue.

The company's royalty pool from same-store sales was up 9% in the first three quarters of 2022, while royalty income was up almost 12% compared to the year-ago period.

A&W Revenue Royalties Income Fund ended Q3 with a payout ratio of 80.3% compared to a payout ratio of 77.5% in the prior-year period. It aims to maintain a sustainable payout ratio providing the company with enough financial flexibility to keep increasing dividends over time.

The Foolish takeaway

Down 21% from all-time highs, the TSX stock has returned 67% to investors in the last 10 years. After accounting for dividends, its total returns are closer to 180%. Comparatively, the TSX is up less than 130% in this period.

A&W's strong brand value, asset-light business, and generous dividend payout make it a top stock to buy right now.

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