



BOSTON PIZZAS ROYALTIES (BPF.UN.TO)

Business Model

Boston Pizza is a well-known casual restaurant in Canada with over 391 restaurants. It operates mainly with franchisees (387 of its locations are franchise operations). The restaurant chain shows over \$1 billion in sales. BPF offers three dining experiences: Restaurant, Sports Bar and Take-out/Delivery. It is engaged in the operation and franchising of Boston Pizza restaurants in Canada. The Trust distributes all available cash from operations to the Trust unit holders to the maximum extent possible. The company receives revenue in the form of royalty income.

The Company in a Nutshell

- Its three dining experiences reach different clientele from families to sport event driven customers.
- Management makes sure to establish long-term relationships with its franchisees to ensure steady growth.
- BPF can't find a way to grow its sales anymore.

Investment Thesis

Boston Pizza used to be a good option for a stable and monthly dividend payer. The company is well established in its market and keeps renovating its restaurants to attract customers. With three different types of dining experiences and a mobile app to improve take-out and delivery experience, Boston Pizza reaches all Canadians. Unfortunately, a few disappointing quarters hurt the stock as same restaurant sales aren't what they used to be. Management hasn't proven it can reverse the trend and post solid growth again. We decided to sell our shares in our Retirement portfolio (Q2 2019). We think the dividend is at risk as the situation doesn't improve quarter to quarter. The current yield is over 10%; this screams "RED FLAG!"

VALUATION

Dividend Growth Rate Years 1-10: 2.00%

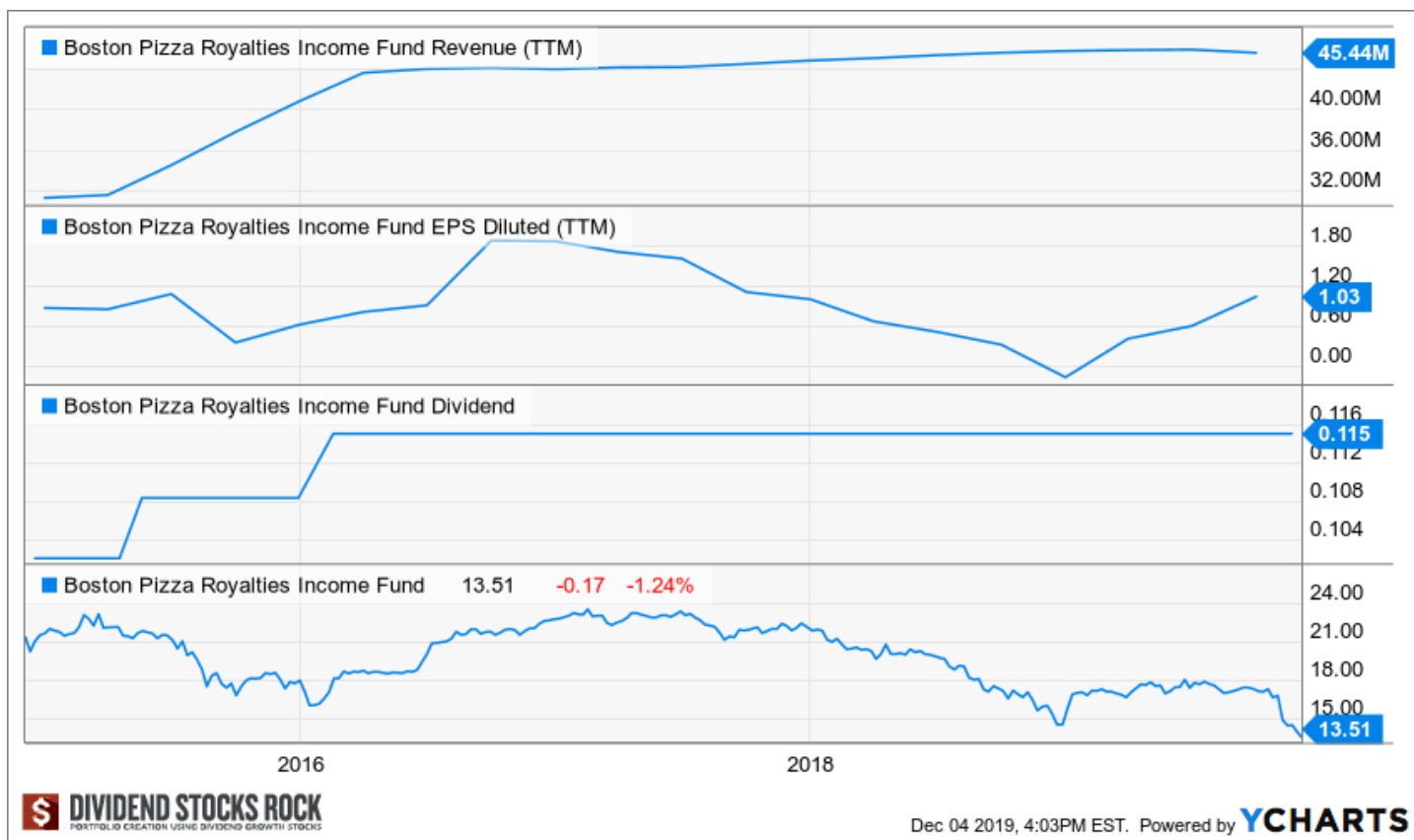
Terminal Dividend Growth Rate: 2.00%

	Discount Rate (Horizontal)		
Margin of Safety	10.00%	11.00%	12.00%
20% Premium	\$16.56	\$15.05	\$13.80
10% Premium	\$15.18	\$13.80	\$12.65
Intrinsic Value	\$13.80	\$12.55	\$11.50
10% Discount	\$12.42	\$11.29	\$10.35
20% Discount	\$11.04	\$10.04	\$9.20



DSR STOCK CARD

12/09/2019



Potential Risks

There's a limit in Boston Pizza's growth in Canada. BPF is already the #1 brand in casual dining and is in all important markets. Same-Store-Sales don't grow for a while, and this has become a serious problem. With nearly 400 restaurants in Canada, it will have to find other countries to implement its brand. This could become a costly venture. As management aims for a 100% payout ratio (adjusted numbers), there is little room for mistakes.

Dividend Growth Perspective

Since BPF went public in 2002, it increased its dividend payment 18 times. The company took a break in 2010 and cut its dividend following a SIFT tax. Boston Pizza is a good pick for an income-seeking investor with its monthly payment and relatively high yield. Management aims at a 100% payout ratio to focus on generating income. BPF posted a payout ratio of 113.9% compared to 113.1% in the same period one year ago and 103.4% on a trailing 12-month basis. There is no dividend growth coming out of this.