



The Keg Royalties Income Fund (KRIUF)

Updated May 19th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.14	5 Year Annual Expected Total Return:	1.6%	Market Cap:	\$221.3 M
Fair Value Price:	\$10.20	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	05/21/2025
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	05/30/2025
Dividend Yield:	6.2%	5 Year Price Target	\$10.20	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Consumer Discretionary	Rating:	Sell

Overview & Current Events

The Keg Royalties Income Fund is a publicly traded income trust that earns revenue via a 4% royalty on the gross sales of Keg Steakhouse & Bar restaurants included in its Royalty Pool, rather than operating restaurants itself. As of the end of March, the Fund's Royalty Pool comprised 104 Keg locations across Canada and the U.S. Last year, the Fund generated \$719.5 million in sales. The Fund's sole purpose is to provide stable, tax-efficient monthly cash distributions to its unit holders, supported by the enduring strength of The Keg brand.

Regarding the restaurant, operated by Keg Restaurants Ltd., The Keg holds a strong market position in the full-service dining category, committed to upholding high standards of food quality and guest experience. The trust pays monthly distributions. It has a market cap of \$221.3 million. It reports financials in CAD, but we have converted all numbers in this report in USD unless otherwise noted. Shares trade on the Toronto Stock Exchange and OTC.

On May 7th, 2025, The Keg Royalties Income Fund reported its Q1 results for the three months ended March 31st, 2025. For the period, the 104 Keg restaurants in the Royalty Pool generated approximately \$139.5 million in sales, reflecting a 6.9% increase from the comparable quarter of the prior year. This rise was primarily driven by strong same-store sales growth of 9.2%, despite the closure of one restaurant.

Royalty income came in at \$5.58 million or \$0.263 per unit, up from Q1 2024. We see FY2025 DCF/unit of \$0.85.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
DCF/Unit	---	\$0.84	\$0.92	\$0.85	\$0.88	\$0.59	\$0.46	\$0.80	\$0.88	\$0.87	\$0.85	\$0.85
DPS	---	---	\$0.88	\$0.83	\$0.87	\$0.51	\$0.57	\$0.84	\$0.86	\$0.79	\$0.81	\$0.81
Shares¹	11.4	11.4	15.0	15.4	15.8	16.2	11.4	11.4	16.8	11.4	11.4	11.4

In the years leading up to 2020, The Keg Royalties Income Fund was a model of consistency. From 2016 through 2019, The Keg brand thrived in a strong economic environment growing its Royalty Pool from 100 to 106 locations. Canadians and Americans alike continued to flock to the steakhouse for celebrations and casual dining, and as new spots opened, more restaurants were added to the Royalty Pool. Same-store sales growth was healthy, and with no disruptions to operations, the Fund comfortably delivered steady monthly distributions.

Then came 2020, and with it, everything changed. The COVID-19 pandemic struck with sudden force, shuttering dining rooms across North America. KRIUF was forced to close all of its locations for extended periods, and while they eventually pivoted to takeout and meal kits, the impact on sales was severe. Distributions were slashed to preserve liquidity, and for the first time, the Fund's predictable stream of income faltered.

By 2022, however, the lights were back on and all 107 Keg restaurants were open again. The Fund quickly resumed its pre-pandemic distribution levels. Distributable income per unit rebounded to \$0.80 USD, and climbed to \$0.88 in 2023, thanks in part to a fiscal year with 53 weeks of royalty income. In 2024, the Royalty Pool shrunk to 105 locations.

¹ Share count is in millions.

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Although total sales dipped slightly due to the absence of the extra week and FX headwinds were heavy for U.S. investors, the Fund still managed to hold distributable income at a strong \$0.87 per unit.

Moving forward, we believe the Trust can maintain its monthly distribution at CAD 0.0946, whose annualized rate of CAD \$1.1352 translated to \$0.81 today. We don't forecast any growth in the DCF/Unit and distributions per unit as any gains from potential restaurant openings and same-store-sales growth could be offset by potential closures and FX.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/DCF	---	16.7	17.4	17.7	14.7	12.7	26.6	15.4	12.6	12.4	15.5	12.0
Avg. Yld.	---	---	5.5%	5.5%	6.7%	6.8%	4.6%	6.8%	7.8%	7.3%	6.2%	7.9%

The Fund has historically traded at a P/DCF multiple in the mid-to-high teens. Post-pandemic, as operations normalized, the multiple compressed. However, it now hovers at a rather elevated 15.5x for 2025. Despite the Fund's stable cash flow, full restaurant recovery, and consistent distributions, we believe the trust is overvalued at current levels. We have set our fair multiple at 12.0x. The dividend yield is quite substantial today and it will likely be the primary driver of returns for investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

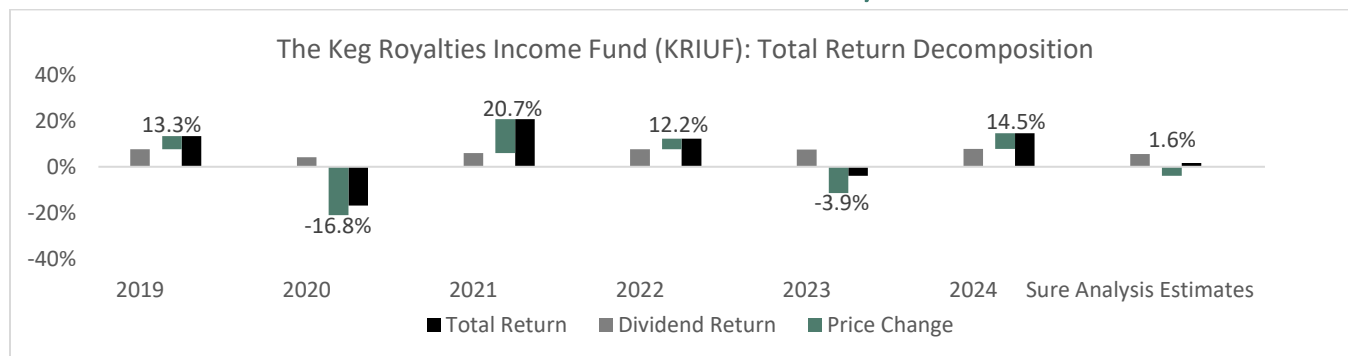
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	95%	98%	99%	87%	123%	105%	98%	91%	95%	95%

The Fund enjoys a structurally attractive business model based on high-margin, frictionless royalty income. In contrast to the restaurant operators, the Fund is not exposed to labor, food, rent, or energy cost pressures — its 4% royalty is tied directly to gross sales, not profits. This means that even if restaurant-level margins decline, the Fund's revenue remains stable. Also, through gradual inflation, rising menu prices can actually increase gross sales, allowing royalty income to grow without added operational risk. However, in a recession, consumer discretionary spending may decline, leading to reduced restaurant traffic and lower sales. We saw distributions getting slashed during the COVID-19 pandemic, although that was an extremely unique period for the restaurants industry. For now, we believe the Fund can sustain its distributions. The payout ratio is poised to be high due to the Fund aiming to distribute all of its cash available for distribution over time.

Final Thoughts & Recommendation

The Keg Royalties Income Fund offers a unique combination of income stability and yield. Its high-margin royalty model provides consistent cash flow with minimal operating risk, while The Keg's strong market position and premium dining experience support long-term demand. Despite a history of resilient performance and distributions, with the current valuation above historical averages, the trust presents a not-so-attractive investment case. Keg earns a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	18	17	19	20	19	10	14	21	22	21
Operating Profit	18	17	18	19	19	10	13	20	22	21
Operating Margin	98.1%	98.3%	98.4%	98.4%	98.5%	96.9%	97.4%	98.2%	98.4%	98.4%
Net Profit	9	1	13	23	13	17	(4)	4	19	6
Net Margin	48.3%	5.5%	70.2%	115%	67.0%	160%	-31.2%	19.6%	84.8%	29.3%
Free Cash Flow	17	17	18	19	18	13	13	20	20	20
Income Tax	4	3	4	4	4	2	2	4	4	4

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	164	168	183	176	188	197	199	192	197	181
Cash & Equivalents	2	1	2	2	2	2	2	2	2	1
Accounts Receivable	2	2	2	2	2	1	2	2	3	2
Goodwill & Int. Ass.	118	122	134	130	140	149	151	145	148	137
Total Liabilities	100	111	119	104	110	105	119	122	116	110
Accounts Payable	0	0	0	0	0	0	0	0	0	0
Long-Term Debt	10	10	11	10	11	11	11	10	11	10
Shareholder's Equity	64	57	65	72	78	92	81	70	81	71
LTD/E Ratio	0.16	0.18	0.17	0.14	0.14	0.12	0.14	0.15	0.13	0.14

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.0%	0.6%	7.5%	12.5%	7.0%	8.6%	-2.2%	2.1%	9.6%	3.3%
Return on Equity	12.5%	1.6%	21.5%	33.0%	17.1%	19.6%	-5.0%	5.4%	24.7%	8.1%
ROIC	10.8%	1.4%	18.3%	28.6%	15.0%	17.4%	-4.4%	4.7%	21.7%	7.2%
Shares Out.	11.4	11.4	15.0	15.4	15.8	16.2	11.4	11.4	16.8	11.4
Revenue/Share	1.23	1.18	1.25	1.27	1.21	0.64	0.83	1.24	1.31	1.25
FCF/Share	1.18	1.13	1.22	1.22	1.17	0.80	0.81	1.22	1.18	1.20

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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