An 8% Dividend No One Is Looking At

Description

Exchange Income Corporation (TSX:EIF) operates in the manufacturing and aviation industries, two areas not well known for their large or stable dividends. So, with an 8% dividend yield, it's important to know whether or not that payout is here to stay.

Fortunately, not only does the company have a long and consistent history of paying out rising dividends, but its underlying businesses are actually quite stable despite volatility in their respective industries overall.

A rising dividend for over a decade

Since 2004 Exchange Income has boosted its dividend from $1.08 per share to the current $1.74 without cutting the payment once. The company bases its payout on free cash flow (real earnings that can be distributed anywhere) minus maintenance capital expenditures (the amount of expenses needed to keep the existing businesses running).

This year the company's dividend payments only equal 80% of this benchmark. That means that even after accounting for the massive dividend and the investments needed to keep the company running, there is still 20% of the free cash flow left over to put towards growth projects.

Stable dividend results from diversified, low volatility businesses

The Exchange Income was created to invest in profitable, well-established companies with strong cash flows operating in niche markets. To do this it invests in companies for the long term with no intention of selling, retaining the original management teams who know each business best.

The original plan, which has thus far been very successful, was to distribute a majority of its earnings as a monthly cash dividend to shareholders. Over the past five years alone, both revenue and operating income have more than doubled, with the dividend rising to match.

Since its inception, the company now operates 12 subsidiaries that act as offsetting hedges against economic volatility. Its business lines range from medevac transportation services and after-market aviation parts, to cell tower construction and high-pressure water cleaning systems.

Many of their businesses focus on selling/leasing after-market parts and equipment to aviation and telecommunications companies. These parts are typically based on usage and wear and tear, both of which are significantly less volatile than new equipment orders. After-market parts are usually more profitable than new equipment sales as well. This gives Exchange Income the ability to charge premium prices and have more sales stability than many of its peers.

Plenty of room left to continue dividend growth

Even after its long history of remarkable growth, management is still finding new ways to grow the business while maintaining a disciplined approach. In 2014 alone the company made over $500 million in transactions.

For example, last year Exchange Income purchased Provincial Aerospace for $246 million. The entirety of this business is complementary to the company's existing segments and boasts a reliable customer set, which includes the U.S. Coast Guard, the Royal Dutch Navy, and **ExxonMobil**.

In the first quarter of 2015 the firm increased its bank credit line to $450 million to help fund the pipeline of acquisition candidates management has identified.

Don't sleep on this company

While it doesn't get much press due to its generic name and disparate businesses, Exchange Income has quietly been one of the best long-term performers in the TSX. With a current 8% dividend and room to grow, shares look attractive.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)

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