



Want to Secure a +5% Yield? Get Alaris Royalty Corp. Today

## Description

**Alaris Royalty Corp.** (TSX:AD) aims to create a secure dividend stream for investors. How is it achieving that?

### The business

Alaris partners with profitable, private businesses by offering capital to them in exchange for monthly cash distributions.

Alaris chooses these businesses carefully and partners with them for a long time. So, these businesses can focus on their long-term goals in creating value while keeping their equity ownership and operational control.

Alaris generates about 69% of revenue from U.S. partners, so it benefits from a stronger U.S. dollar.

Alaris uses equity offerings to fund accretive investments. So far this year, it has invested more than \$83 million.

### Partner selection

Alaris looks to partner with well-run businesses that tend to provide needed products or services and are profitable in different economic cycles.

Additionally, these businesses should show a track record of generating free cash flow. Moreover, these businesses typically have low debt levels and do not require excessive spending to maintain their current cash flows.

### Secure dividend stream

Multiple factors help secure Alaris's dividend stream to shareholders.

First, since Alaris owns preferred shares in these companies, it gets paid first before other equities.

Second, the partners pay Alaris a monthly distribution, and this distribution is updated every year based on the partner's business performance. So, if the businesses do well, they will pay a higher revenue stream to Alaris.

Third, as of May Alaris's revenue stream is diversified across 16 partners. In the long term, Alaris aims to earn less than 10% revenues from all of its partners.

Lastly, Alaris's partners have historically been able to grow their revenues by 1-5% each year. The growing cash flows allowed Alaris to hike its dividend 10 times since April 2010.

### **Top three partners**

Alaris's top three partners contribute 38.4% of the firm's total annual revenue.

Sequel, a healthcare company founded in 1999 that develops and operates programs for people with behavioural, emotional, or physical challenges contributes 15% of revenue.

DNT, an industrial company that provides civil construction services contributes 13.3% of revenue.

Federal Resources, an industrials company based in Maryland that provides mission critical products and solutions to defense, first responder, homeland security and maritime end users contributes 10.1% of revenue.

### **Conclusion**

As of May Alaris's payout ratio was 77% thanks partly to the strong U.S. dollar. So, there's a margin of safety for its dividend.

Alaris trades at an inexpensive multiple of about 16.2. At \$28.70 per share, the company offers a high yield of 5.6%. If it dips to the \$26 level, it will be a great entry point.

It pays an eligible monthly dividend of 13.5 cents per share. This equates to an annual payout of \$1.62 per share. An investment of \$10,000 would generate an annual income of \$564.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:AD.UN (Alaris Equity Partners Income Trust)

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**Author**  
kayng

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