



## Who Wants a Safe 5.7% Yield at a Good Value?

### Description

With the low-interest rate environment, more people have turned to the stock market for higher income. **Alaris Royalty Corp.** (TSX:AD) offers a safe, above-average yield and is priced at a good value today.

### The business

Alaris provides cash financing to the best-in-class private businesses in North America. These businesses want to maintain their current equity ownership and operational control.

In exchange for the financing, Alaris receives a monthly cash distribution from the companies. These distributions are adjusted annually based on top-line performance metrics.

### Dividend

Since the cash distributions to Alaris are reviewed every year, it's not surprising that since 2009 Alaris has increased its dividend by almost 93%, equating to an annualized growth of 9.8%.

In its May presentation, Alaris stated, "Alaris's long-term goal is to create the optimal dividend stream available for investors."

Its payout ratio is 77%, but that has a lot to do with the strong U.S. dollar. For comparison, from 2012 to 2014 its normal payout ratio was 92%.

Alaris pays eligible dividends that are more favourably taxed than ordinary income in a non-registered account.

### At the helm

Steve King is the president and CEO of Alaris. He has helped private businesses raise capital for more than 12 years. In 2003 he came up with the idea for Alaris to offer alternative financing to entrepreneurs who wanted to maintain control of their businesses. Eventually, Alaris became a public company in 2008.

### **Performance and track record**

The stronger U.S. dollar against the Canadian dollar benefits Alaris. It earns 69% of its revenue from the U.S. Of the 31% of the revenue it earns in Canada, western Canada contributes 6%.

Since 2008 Alaris has returned total returns of almost 280%, equating to an annualized rate of return of 19.2%. Its dividend contributed almost 25% of its returns.

### **Risks**

Alaris's future performance, inclusive of revenue growth, earnings growth, and dividend growth (which lead to price appreciation) is dependent on multiple factors.

These include Alaris's ability to identify and make arrangements with new partners as well as the performance of its partners.

On top of all that, Alaris's revenue stream is only diversified across 16 partners. To some, that may not be diversified enough. The top three partners contribute 38.4% of its annual revenue with the top partner contributing 15%.

### **Conclusion**

There are underlying risks when investing in any company. However, Alaris trades at a fair valuation to a slight discount of about 15%.

Additionally, Alaris has been income-investor friendly. So, it's a good candidate to consider for a diversified income portfolio. The company stands out for its safe 5.7% yield, which is growing, and for its reasonably priced shares.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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kayng

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