



## Why Alaris Royalty Corp. Has Fallen 11% Intraday

### Description

**Alaris Royalty Corp.** (TSX:AD) has fallen as much as 11% so far today. Should you avoid or load up the truck?

First, let's take a look at its business.

### The business

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

### Why have shares fallen?

Although Alaris chooses the private businesses it partners with carefully and aims to partner with them for a long time, sometimes it doesn't work out. That is what has happened with its partnership with KMH, a healthcare company operating 12 diagnostic imaging clinics (nuclear medicine, cardiology, and MRI) in Ontario and eight clinics in the United States.

Since 2010 Alaris has acquired \$54.8 million of preferred partnership units in KMH, but KMH stopped paying regular distributions to the company in November 2014. Alaris has been working with KMH to solve the issue such that Alaris can receive a meaningful value for its KMH units, which, as of the most recent negotiations, could result in about \$28 million of cash payment up front. And an impairment of \$7 million was recognized through earnings in the second quarter.

### Second-quarter results

Compared to the same quarter in 2015, Alaris's revenue per share increased by 25.4% to \$0.69, normalized EBITDA per share increased by 25.6% to \$0.54, and dividends per share increased by 6.6% to \$0.405.

However, net cash from operating activities per share fell 2.9% to \$0.34. This doesn't cover the dividends paid during the quarter. The lower cash from operating activities was due to annual tax payments to Alberta and the U.S. of \$3.4 million and distributions from partners that were not received in the quarter but are expected to be paid in the next year of \$3.5 million.

## Revenue streams

Excluding KMH, Alaris still earns revenue streams from 15 partners. Its top five partners contribute about 50% of its total revenues. No partner contributes more than 15%; the top three partners account for more than 10% of revenue each. That said, Alaris's goal is to have no revenue stream accounting for more than 10% of revenue.

## Dividend

Alaris's annualized payout ratio is at about 80%, assuming it collects all accrued distributions over the next 12 months. At the end of June Alaris had current assets of \$36.5 million, of which \$11 million of cash alone covered the \$8.1 million of current liabilities, including \$4.9 million of dividends payable.

Alaris has hiked its dividend per share at an average annual rate of 9.9% since 2010.

## Conclusion

[Last month](#) I said that it would be a great entry point to buy Alaris at the \$26 level, and we're here now. The shares have fallen due to a temporary issue that I think will be fixed over time. Today investors can get a share of Alaris's diversified revenue stream at about \$26 per share for a yield of 6.2%.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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## Date

2025/08/18

## Date Created

2016/07/27

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