2 Dividend Stocks to Beat the Market

Description

Are you willing to take on a little more risk and uncertainty for the chance to get higher returns in the near term? If so, you might be interested in **Dream Office Real Estate Investment Trst** (TSX:D.UN) and **Alaris Royalty Corp.** (TSX:AD).

Both companies have pulled back from their recent highs. Dream Office has declined about 24% in the last year. Alaris Royalty has declined about 25% since June. The companies now offer enticingly high yields as a result.

Who needs income?

You can get high yields of almost 9.4% and 7.3% from Dream Office and Alaris Royalty, respectively. A $10,000 investment in Dream Office would generate an annualized income of almost $940. A $10,000 investment in Alaris Royalty would generate an income of almost $730 per year.

Both companies pay safe yields. Dream Office's funds from operations payout ratio is expected to be 63% for the year. Alaris Royalty's payout ratio is expected to be 77% based on the revenue it expects to earn for the year.

It's great that the companies offer nice returns from their cash dividends, but what are the risks?

Risk and uncertainty

Dream Office's business performance and share price have been dragged down by its real estate portfolio in Alberta, from which it generates 27% of its net operating income. Commodity prices have fallen and remain low, and the Albertan economy suffers as a result.

Alberta's seasonally adjusted unemployment rate in July was 8.6%, which was 2.4% higher than it was a year ago. Comparatively, Canada's unemployment rate was 6.9% last month, which was 0.1% higher than it was a year ago.

It's uncertain where commodity prices will go next, so there is more uncertainty and higher risk in investing in Dream Office.

Alaris Royalty offers capital to businesses that wish to maintain the ownership in their companies. In exchange, Alaris Royalty receives monthly cash distributions from these partners.

Alaris Royalty continues to experience problems with one of its partners, who stopped paying regular distributions in November 2014.

However, thanks to the strong U.S. dollar against the Canadian dollar and due to the fact that it generates 69% of its revenue from the U.S., there's a cushion in Alaris Royalty's payout ratio. Then again, you can argue that if the loonie strengthens, there will be less margin of safety for Alaris Royalty's dividend as its payout ratio will head higher.

Conclusion

Dream Office's net asset value (NAV) per unit was $23.64 at the end of the second quarter, which indicates it's discounted by roughly 32% at about $16 per unit.

If the situation in Alberta improves, Dream Office's Albertan portfolio should also fare better. If Dream Office trades at about $23 again, close to its NAV, it implies a price appreciation of more than 40%. And don't forget its 9.4% yield would add to returns.

Alaris Royalty's dividend is sustainable based on the revenue streams it receives from its 15 partners (excluding the problematic one). If it solves this issue or a new stream comes on board, its shares will likely head higher. In fact, **Thomson Reuters's** report indicates a mean price target (across 10 analysts) of $30 in the next 12 months. If that materializes, it'd be a total return of 40%.

Investors should view Dream Office and Alaris Royalty as opportunistic investments that could potentially deliver high returns in the next year to three years while they get a high yield.

However, they will probably be more volatile than the market as the companies face their problems head on. So, investors shouldn't bet the farm on them, even if they like the companies for income or other reasons.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)

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