



## Why Have Alaris Royalty Corp. Shares Popped 8.5%?

### Description

Earlier this month, I [wrote](#) that **Alaris Royalty Corp.** (TSX:AD) may finally be turning around. I think investors were most concerned about the sustainability of its dividend, which yielded north of 8% due to its compressed share price at the time.

The shares have popped 8.5% on Wednesday as of this writing. There's no doubt it has to do with the news that improved the safety of its high yield.

Here's a quick overview of what the business is about.

### Alaris Royalty's business overview

Alaris Royalty offers capital to private businesses that want to maintain the ownership in their companies but can't get the capital they need from traditional means. In return, Alaris Royalty receives monthly cash distributions from them.

Alaris Royalty has about 70% of its investments in U.S.-based companies, which will benefit from the tax reform that will bring the corporate tax rate in the U.S. from 35% to 15% if the reform happens.

### Why have Alaris Royalty shares jumped 8.5%?

I wrote in previous articles that Alaris Royalty can turn around by resolving the issues in four of its revenue streams and signing potential new streams.

On Wednesday, Alaris Royalty announced great progress on both fronts. First, the company will be receiving \$9.8 million of cash proceeds and \$20.7 million of secured notes from one of its problem streams, KMH. Alaris Royalty will also receive principal payments of about \$80,000 per month on these notes starting July 15, 2017.



Second, Alaris Royalty has contributed US\$20 million to a new partner, Accscient, which provides IT staffing, consulting, and outsourcing services, in exchange for US\$3 million per year, which is a whopping yield of 15%.

Accscient will account for about 4% of Alaris Royalty's annualized revenue. The contribution was funded by the KMH proceeds and Alaris's revolving credit facility.

The new contribution will bring down Alaris Royalty's payout ratio from about 97% previously to below 90%, which greatly improves the safety of its dividend.

#### **Is there more room to run?**

After the run-up, the shares now trade at a multiple of about 13, which is much cheaper than its long-term normal multiple of 20. That said, investors should require a big margin of safety in Alaris Royal shares before buying due to the problems we saw that it can face. With the latest developments though, the worst has probably passed.

Before today's news, the analyst consensus at **Thomson Reuters** had a 12-month target of \$23.40 on the stock, which represents about 7.5% of upside potential. With the latest developments, that target will likely be raised.

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2. Investing

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