Alaris Royalty Corp.: I'm Tired of Following the Bouncing Ball. Are You?

Description

Opening without a care in the world August 30, **Alaris Royalty Corp.** (TSX:AD) stock started dropping like a stone around noon; by the end of the day, it was off by 8.4%.

It's a happening made worse by the fact that there seemed to be little news to explain the substantial decline in its stock price on a day when the TSX was up almost half a percent.

If you're a long-time shareholder, you've got to be tired of the volatility that's hit the stock over the past 12-18 months. It's almost as if the market gods have it out for Alaris.

Is there any relief in sight?

In my last article about Alaris in early August, I thought the news about its partner, Sequel Youth and Family Services, redeeming all of its preferred shares was cause for celebration because it demonstrated that Alaris's business model works for both the borrower and the lender.

It was a real win/win situation — something that's become rare in business today.

Unfortunately, investors just don't believe this to be the case. They see a company that's just lost a significant amount of cash flow necessary to pay its monthly dividend of 13.5 cents. End of story.

"We believe the main concern from investors relates to resumption of growth (i.e., net investments)," said **Canaccord Genuity Group Inc.** analyst Scott Chan at the time of the Sequel news. "Pro-forma, our 2017 net investment estimate is negative $20 million. We would get more positive on the stock once the growth traction resumes, which might take some time."

CEO Steve King tried to change the narrative by emphasizing the fact its balance sheet was much stronger as a result of the redemption. While he's 100% correct, I think investors wanted to hear with some confidence that replacement cash flow was at hand, not just something that would be acquired shortly.

Of course, that doesn't explain why the latest drop came when it did.

Ex-dividend

It's possible that a large investor decided to implement a dividend-capture strategy by buying Alaris stock after it dropped 7.7% on the Sequel news August 3. Riding it higher through the month to August 30, the day after its ex-dividend date, they unloaded the stock at a price higher than the average paid, getting the dividends for nothing.

A stock generally drops by the amount of the dividend, but that's not written in stone. It's a risky and, not to mention, costly maneuver that's only recommended for people with deep pockets.

I'm not saying that's what happened here, but it certainly shouldn't be discounted just because the stock dropped a lot more than typically occurs in this situation.

Stock volatility

Over the past 18 months, Alaris stock has seen monthly declines of 5% or more on five different occasions, as it's traded between a high of $31.20 in June 2016 and a low of $17.80 in November 2016.

Its 52-week range is $6.59 — between its low of $17.80 and high of $24.39.

That might not seem like a lot, but when you're going in a downward direction as opposed to a higher one, it's a fair amount of choppiness to expose yourself to.

It's not easy holding steady when your stock is dropping close to double digits in a single day of trading for no apparent reason.

Bottom line on AD stock

Nothing surprises me when it comes to the markets. However, given how little volatility we've seen in the bull market of the past eight years, what's happening to Alaris is certainly hard to comprehend.

Where it heads next is anybody's guess.

Although, the news August 31 after the markets closed that it had secured a new partner to the tune of US$85 million and first-year contributions of US$11.1 million suggests it just might be going higher for a change.

While I like what Alaris is doing, I don't recommend it for nervous investors, because this one continues to be a real nail-biter.

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1. Investing

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