



Time to Buy the “Royalty” Portfolio

Description

How many stocks trade on the TSX with the word “royalty” or “royalties” in the corporate name?

I count 11, but there are probably more. However, I restricted my search to stocks with a market cap of \$100 million or more. Of the 11, four are valued at more than \$1 billion with the rest under \$1 billion. **PrairieSky Royalty Ltd.** ([TSX:PSK](#)) is the biggest at \$7.6 billion, and **SIR Royalty Income Fund** ([TSX:SRV.UN](#)) is the smallest at \$125 million.

The one thing they all have in common is they pay a dividend of some description, which should get the attention of income investors coast to coast.

I call it the “Royalty” Portfolio, but you can call it whatever you’d like. I just know that it has delivered an average one-year return of 18.7% over the last 12 months — 5.1% dividend yield and 13.6% capital appreciation — which is 730 basis points better the TSX Composite Index.

Royalty Portfolio one-year performance

| Company | Yield | One-Year Return | Company |
|--|-------|-----------------|--|
| PrairieSky | 2.4% | 13.9% | Pizza Pizza Royalty C (TSX:PZA) |
| Freehold Royalties Ltd. (TSX:FRU) | 4.1% | 16.5% | Boston Pizza Royaltie (TSX:BPF.UN) |

| | | | |
|---|------|-------|---|
| Osisko Gold Royalties Ltd. (TSX:OR)(NYSE:OR) | 1.2% | 22.9% | Diversified Royalty C (TSX:DIV) |
| Labrador Iron Ore Royalty Corporation (TSX:LIF) | 4.9% | 66.5% | Keg Royalties Income (TSX:KEG.UN) |
| Alaris Royalty Corp. (TSX:AD) | 7.9% | 1.0% | SIR Royalty |
| A&W Revenue Royalties Income Fund (TSX:AW.UN) | 4.6% | 4.9% | Average |

Source: Morningstar.ca

There are several companies in the royalty portfolio that I have specifically written about over the past year and I continue to like going forward.

Alaris Royalty

Alaris Royalty continues to be one of the most vexing stocks on the TSX. Yielding an impressive 7.9% at the moment, it sprung a leak starting in July 2016 when it announced it was experiencing payment problems from some of its partner companies that would shrink the amount of investment income the company would receive in the months ahead.

While it's worked through most of these problems, its stock has lost about one-third of its value since July a year ago. While I'm confident it will rebound, my September article [expressed](#) frustration with the slow pace.

Diversified Royalty

Over at Diversified Royalty, a much smaller company that makes money through royalties on the trademarks it owns on Air Miles, Sutton Realty, and Mr. Lube, I [recommended](#) its stock in December 2016, calling it one of three small caps to hold in 2017. Up 31% year to date, it's been a real winner.

Unfortunately, the other two stocks in that article have gotten whacked in a big way and might not recover from 2017's losses.

Pizza Pizza Royalty

Last October, I'd [suggested](#) that the pizza industry in North America was undergoing consolidation and wondered if Pizza Pizza, the operator, was a buyer or seller and if the royalty business's stock would benefit from the M&A action.

So far, nothing has materialized, but Pizza Pizza Royalty's 16.8% total return over the past year is a nice reward for patient investors waiting for the inevitable. I can't tell you what's ahead for 2018, but what I can say is that PZA will continue to deliver above-average capital appreciation on top of its tasty 5% yield.

You have to love the Royalty Portfolio. I know I do.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:OR (Osisko Gold Royalties)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:AW.UN (A&W Revenue Royalties Income Fund)
4. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
5. TSX:FRU (Freehold Royalties Ltd.)
6. TSX:KEG.UN (The Keg Royalties Income Fund)
7. TSX:LIF (Labrador Iron Ore Royalty Corporation)
8. TSX:OR (Osisko Gold Royalties)
9. TSX:PSK (PrairieSky Royalty Ltd.)
10. TSX:PZA (Pizza Pizza Royalty Corp.)
11. TSX:SRV.UN (SIR Royalty Income Fund)

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1. Investing

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