



This Nearly 9% Yield Stock Seems to Be Bottoming

Description

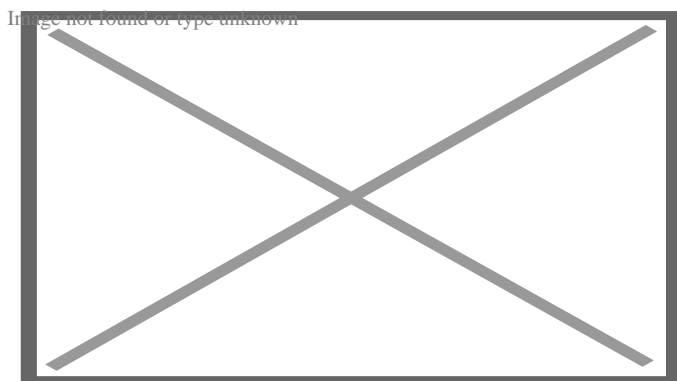
Most investors who've bought **Alaris Royalty Corp.** (TSX:AD) in the last five years are underwater. Shareholders probably feel like they're on a roller-coaster ride by holding the stock.

However, if you're looking for income, you might be interested in Alaris Royalty's dividend. It yields nearly 8.9% at the current price point of \$18.25 per share.

Earlier in the month, I said that the stock could be subject to [tax-loss selling](#), such that investors have an opportunity to buy it at a cheaper price. The stock seems to be bottoming this week. So, interested investors should take another look.

The business

Alaris Royalty provides capital to private businesses and in return gets paid monthly distributions. It currently has 16 revenue streams, and it aims for long-term partnerships with businesses that generate strong cash flow in mature industries. For companies that have a history of volatile cash flow, Alaris Royalty requires them to have more free cash flow before considering investing in them.



Risk and return

Alaris Royalty gets distributions from 16 partners right now, and it generates 10-16% of its revenue

from four top partners (or a total of 54% of its revenue), which is quite concentrated. The management recognizes this risk and has a long-term goal to not have more than 10% of revenue coming from any partner.

Also, with a payout ratio of less than 95%, Alaris Royalty's dividend is not what one would call safe. If the company experiences [some problem with receiving distributions from one or more of its partners](#) (especially the larger contributors), as it has in the past, shareholders can experience a dividend cut. If we assume a safe payout ratio of ~80% for the company, it will represent a dividend cut of ~25%.

Based on Alaris Royalty's nine exited partners so far, Alaris Royalty's investments actually did quite well — 77% of the partners delivered a rate of return of 17% or better. There was an outlier with a 47% rate of return.

Notably, one investment was a total disaster; it delivered a rate of return of -95%. This happened in 2013. Hopefully, the management has learned something from that experience. For example, for its partner KMH (mentioned in the link above), Alaris Royalty came out with a not bad loss (a rate of return of -2%).

Ideally, investors don't want any losses, but if you have invested for some time, you've probably realized that you can't expect all your investments to be winners.

Investor takeaway

Insiders own about 10% of the company. So, the management's interest should be aligned with those of shareholders.

However, Alaris Royalty is probably a riskier investment than what most income investors would call safe. So, it's better to view it as a potential turnaround investment.

The stock seems to be showing some support this week. Interested investors should keep it on watch to see if this is the turning point.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/07

Date Created

2017/11/16

Author

kayng

default watermark

default watermark