Alaris Royalty Corp.: Is the ~9% Yield Worth the Risk?

Description

It's been a tough few years for **Alaris Royalty Corp.** (TSX:AD), as shares have lost about half of their value since its all-time high. Despite free falling over an extended duration, the dividend is still intact. Some are speculating on whether or not a dividend cut may be on the horizon.

For those unfamiliar with Alaris, it's a provider of capital to private businesses. The company currently has 16 revenue streams, which are contracted to pay out monthly distributions, which are returned to the pockets of Alaris shareholders. The company allows everyday investors to get a piece of some private companies that have shown signs of promise. Unfortunately, smaller private businesses are subject to a higher degree of risk, and, unfortunately for Alaris, not all of its partners have been able to pay up on time.

The management team at Alaris does their due diligence before providing capital to a particular business to minimize risk, but unfortunately, there's no real way to eliminate risk entirely, since dealing with smaller private businesses is usually a high-risk, high-reward type of investment which means a larger but more volatile stream of monthly royalty payments.

Unfortunately, Alaris has had its fair share of bad partnerships. For example, take KMH, which hasn't been paying its distributions regularly since 2014. And that's hurting Alaris's payout ratio, which is very worrisome for income investors who've already seen shares plunge by a fair amount.

Alaris has delivered consistent dividend hikes in the past, but this year the dividend has remained static , as I thought would happen in a previous piece. The payout ratio is under some pressure right now, and I suspect management is doing everything it can to keep its dividend intact while it chases after delinquent partners like KMH.

Although Alaris aims to further diversify its revenue stream, I'm not convinced Alaris will ever a be a safe stock that retirees can rely upon. The artificially high dividend yield of ~9% is absurdly higher than its average five-year historical average yield of 5.4%, which means a dividend cut isn't completely out of the question, especially if Alaris's payout ratio climbs further.

Bottom line

Alaris is a cheap stock that I'd only recommend to aggressive income investors or contrarians looking for deep value. Shares currently trade at a 1.1 price-to-book multiple and a 8.1 price-to-cash flow multiple, both of which are substantially lower than the company's five-year historical average multiples of 1.9 and 18.2, respectively.

The stock is really cheap right now, but it's just too risky for retirees who depend on the income from their equities. But for everyone else, I think it makes a lot of sense to start buying now and on any further signs of weakness.

Sure, Alaris is by no means a safe dividend stock, but then again, such a stock probably wouldn't offer a fat 9% yield either. So, with that in mind, Alaris is probably one of the best extremely high yield stocks out there today for investors with a high risk tolerance.

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joefrenette