This Sweet Yield Is like Stealing Candy from a Baby

Description

The current Canada 10-year bond yield is 2.18%, the highest it's been since September 2014. The current **Rogers Sugar Inc.** (TSX:RSI) yield is more than double that at 5.6%.

If you're an income investor who requires consistent income, the Rogers Sugar dividend ought to be at the very top of your list. Not only does it deliver a sweet yield, but its business is transforming from a one-dimensional refiner, processor, distributor and marketer of sugar products into a company that offers consumers something other than the sweet carbohydrates.

I recommended Rogers' stock as part of a 5-stock portfolio in November 2016. Interestingly, over the past year, it had the second-worst result – up just 0.2% –when compared to the other four recommended stocks.

Why would I suggest a stock that's flatlined at a time when the **S&P/TSX Composite Index** has gained 8.2%? Because its dividend is rock solid.

Free cash flow

Dividends get paid out of free cash flow (FCF); at least that's where the payments *should* come from. In recent years, however, low interest rates have tempted many companies to issue debt to reward shareholders with both dividends and share repurchases.

I'm not interested in owning those companies. Instead, I want financially sound businesses with a margin of safety; let's consider Rogers' situation. It finished fiscal 2017 with FCF of $40.6 million, paying out 86% of that in dividends. In 2017, FCF was about 10% lower than in 2016 as a result of higher capital expenditures, interest expenses, and income taxes. However, FCF as a percentage of revenue hasn't dropped below 3.8% of revenue.

That's notable because as I mentioned, Rogers moved into a new line of business in 2017 by first acquiring Quebec maple syrup producer **L.B. Maple Treat Corporation** in July for $160.3 million, a deal the company was quick to point out gives Rogers a natural sweetener in a growing market that adds $154 million in annual revenue (50% in the U.S. and 35% outside Canada) and $18.4 million in adjusted EBITDA.

In November, L.B. Maple Treat acquired Decacer, a major bottler of maple syrup based in Quebec for $40 million, giving Rogers a bigger piece of the maple syrup market, which now accounts for 20% of the company's overall revenue.

Organic growth in the sugar business has recently hard to come by as people cut back on the natural sweetener. These two moves provide the organic growth to drive its stock higher.

Worst-case scenario

L.B. Maple has approximately 21% of the global market share for maple syrup, putting it firmly in top spot with double the market share of the next highest competitor. Global maple syrup consumption's growing by 8% a year and expected to maintain that pace.

Even if the acquisition doesn't drive organic growth as planned, it still has the sugar business to fall back on.

Rogers' 5.6% yield is so sweet it's like stealing candy from a baby.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RSI (Rogers Sugar Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/07/02
Date Created
2018/01/13
Author
washworth