



Why Alaris Royalty Corp. Is Down Over 4%

Description

Alaris Royalty Corp. (TSX:AD), one of North America's leading providers of alternative financing solutions to private companies, announced its fiscal 2017 fourth-quarter and full-year earnings results after the market closed yesterday, and its stock has responded by falling over 4% in early trading today.

The stock now sits more than 22% below its 52-week high of \$23.45 reached back in July 2017, so let's break down the earnings results and the fundamentals of its stock to determine if now is the time to buy.

The results that failed to impress the market

Here's a quick breakdown of five of the most notable financial statistics from Alaris's three-month period ended December 31, 2017, compared with the same period in 2016:

| Metric | Q4 2017 | Q4 2016 | Change |
|---|---------|---------|-----------|
| Revenue per share | \$0.59 | \$0.75 | (21.3%) |
| Normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) per share | \$0.51 | \$0.54 | (5.6%) |
| Net cash from operating activities per share | \$0.55 | \$0.86 | (36.0%) |
| Normalized basic earnings per share (EPS) | \$0.58 | \$0.64 | (9.4%) |
| Dividends paid per share | \$0.405 | \$0.405 | Unchanged |

And here's a quick breakdown of five notable financial statistics from Alaris's 12-month period ended December 31, 2017, compared with the same period in 2016:

| Metric | Fiscal 2017 | Fiscal 2016 | Change |
|--|-------------|-------------|-----------|
| Revenue per share | \$2.44 | \$2.75 | (11.3%) |
| Normalized EBITDA per share | \$2.11 | \$2.25 | (6.2%) |
| Net cash from operating activities per share | \$1.85 | \$2.02 | (8.4%) |
| Normalized basic EPS | \$1.81 | \$1.75 | 3.4% |
| Dividends paid per share | \$1.62 | \$1.62 | Unchanged |

Outlook going forward

In the press release, Alaris provided its outlook on fiscal 2018, calling for the following results:

- Revenues of approximately \$94.2 million, or \$2.58 per share
- Net cash flow of approximately \$63.7 million, or \$1.75 per share
- Annual dividends of approximately \$59.0 million, or \$1.62 per share
- A \$1.30 USD/CAD exchange rate

The company also stated that it expects revenues of approximately \$23.5 million in the first quarter of 2018, which would result in growth of about 9% from the \$21.6 million it reported in the first quarter of 2017.

Should you buy on the dip?

Alaris's disappointing fourth-quarter performance capped off a rough year for the company, with the one bright spot being its 3.4% year-over-year increase in normalized EPS to \$1.81, so I think the drop in its stock is warranted; however, I think the stock now represents an attractive long-term investment opportunity for long-term investors for two primary reasons.

First, it's very inexpensive. Alaris's stock now trades at just 10.1 times fiscal 2017's normalized EPS of \$1.81 and only 9.9 times fiscal 2017's operating cash flow of \$1.85, both of which are inexpensive given its very strong cash flow-generating ability due to its high-quality portfolio of partners; its current price-to-earnings multiple is also very inexpensive compared with its five-year average multiple of 21.95.

Second, it has a very high, but safe dividend yield. Alaris pays a monthly dividend of \$0.135 per share, representing \$1.62 per share annually, which gives it a massive 8.9% yield at the time of this writing. A yield over 8% may make you question its safety, but Alaris's cash flows support it; in 2017, it generated \$1.85 per share in operating cash flow, and it paid out \$1.62 per share in dividends, resulting in a sound 87.6% payout ratio, and its cash flow projection in 2018 would result in a payout ratio of approximately 92.6%. Alaris definitely needs to grow its cash flow in the future, but it's good enough to cover its dividend for the time being.

With all of the information provided above in mind, I think Foolish investors who are looking for a stock with higher risk and higher potential reward should consider initiating positions in Alaris Royalty today.

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