



## Beware the Dangers of High Yields

### Description

**Alaris Royalty Corp.** (TSX:AD) isn't the typical financial services stock, such as **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) or **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)). That's why Alaris Royalty offers a yield of nearly 9.8%, which more than doubles Royal Bank's yield of ~3.9% and Sun Life's yield of ~3.5%. Alaris Royalty's much bigger yield should automatically signal that the company is a higher-risk stock.

### What does Alaris Royalty do?

Alaris Royalty offers capital to private businesses that want to maintain the ownership in their companies but can't get the capital they need from traditional means. In return, Alaris gets big cash distributions from them monthly. Alaris Royalty gets a different yield from each of its partners, but for most it gets yields of ~15%.

Although Alaris Royalty looks for partners that generate strong cash flow, there's obviously high risk involved given the big yields that it receives. Indeed, the risk has played out at two of its 16 revenue streams, which are giving Alaris Royalty fewer distributions than they're supposed to. That's why the stock has fallen ~25% in the last 12 months.



### Is Alaris Royalty's dividend safe?

One of the contributing factors of a [safe dividend](#) is a sustainable payout ratio. Management estimates that Alaris Royalty's payout ratio will be ~93% based on its projections for its net cash from operation.

Alaris Royalty's payout ratio has been above 90% in the past and has been above 80% in the last five years. So, a [high payout ratio](#) is pretty normal for the company. That said, it also means there's little room for error. Shareholders just have to hope that none of Alaris Royalty's other partners run into trouble.

### **The takeaway for investors**

For the time being, Alaris Royalty's dividend is safe, but if you're looking for safer yields in the financial space, you should consider Royal Bank or Sun Life. Royal Bank's and Sun Life's payout ratios are estimated to be ~45% and ~40%, respectively, this year. So, their dividends have a much bigger margin of safety.

What about the margin of safety of the shares? Based on the 12-month mean target price from **Thomson Reuters**, Alaris Royalty is discounted by ~25% at the recent quotation of ~\$16.60 per share, Royal Bank is discounted by ~13% at the recent quotation of \$97.60, and Sun Life is discounted by ~11% at the recent quotation of \$52.20.

Some of Alaris Royalty's risks have played out, and the stock has traded much lower as a result. If its revenue streams improve, the stock could have a strong turnaround and deliver the highest returns out of the three stocks in the next one to three years.

Royal Bank and Sun Life are trading within their fair valuations. An investment in either stock will likely be a more stable ride than an investment in Alaris Royalty stock.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **TICKERS GLOBAL**

1. NYSE:RY (Royal Bank of Canada)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:RY (Royal Bank of Canada)
4. TSX:SLF (Sun Life Financial Inc.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
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