



Why This Big-Yield Stock Rallied ~10% on Tuesday

Description

Alaris Royalty Corp. (TSX:AD) stock has been under pressure for the last 12 months. Earlier this month, [I said](#) that the stock could have a strong turnaround and deliver high returns.

Just yesterday, the stock appreciated almost 10% on three times the average volume. Investors might be scratching their heads as to why the stock had a whopping gain, as the company did not come out with any material news on Tuesday.

Why did Alaris stock rally on Tuesday?

Alaris came out with some positive news early this month. One of its problem revenue streams started paying partial distributions again, reducing its payout ratio to ~90% and thus making Alaris's dividend more sustainable.

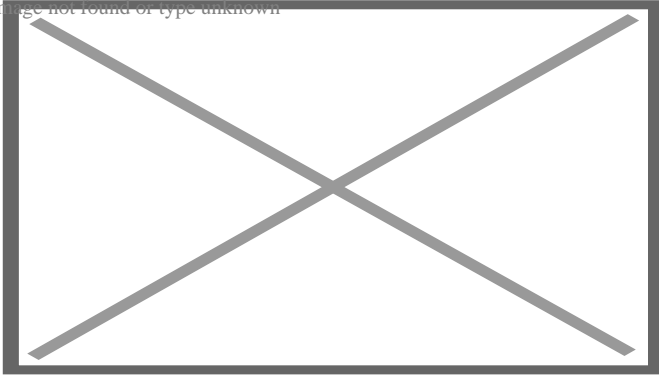
Alaris will be reporting its first-quarter results soon, after the market close on May 7. With the company's recent good news, the market may be expecting an improved guidance from management when it reports the financial results.

These reasons may be why the stock rallied. For one, many of Alaris's investors bought it for its juicy dividend.

What does Alaris do?

Alaris 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 fat monthly cash distributions from them.

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Is Alaris's dividend safe?

At ~\$18.50 per share, Alaris offers a yield of almost 8.8%. Its high yield and high payout ratio might scare investors away. However, it's in the nature of the business to pay out most of its cash flow and reinvest the retained cash flow in new revenue streams. This is evidenced by the company's payout ratios of 80-95% since 2013. With the latest positive development, the company estimates its payout ratio will be ~90% this year. Thus, I believe its yield is safe.

Is there more upside to the stock?

The analyst consensus from **Thomson Reuters** has a 12-month target of \$22.10 on the stock, which represents ~19% upside potential from Tuesday's market close price. And let's not forget about its generous ~8.8% yield, which would imply near-term total returns potential of ~28%.

The takeaway for investors

Alaris's generously pays an ~8.8% yield that appears sustainable. If the company further reduces its payout ratio, such as partnering up with new revenue streams, even a dividend hike is in the cards down the road.

The company looks like it's turning around with the signal of the ~10% pop on Tuesday. Despite the price appreciation, the stock still has room for [double-digit upside](#) in the next 12 months.

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