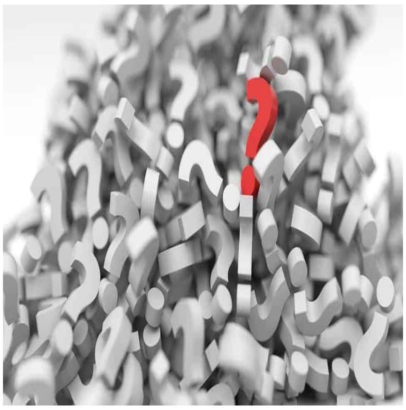

Why Should This Alternative Lender Be on Your Radar?

Description

Alaris Royalty Corp. (TSX:AD) announced June 18 that it had put some more capital into play, buying $19.5 million in preferred units of Fleet Advantage LLC, a Florida-based company that provides data analytics for owners of large truck fleets, thus saving them time and money.

In return for the $19.5 million in preferred-share financing, Alaris will receive $2.7 million in annual distributions from the company, which represents 4% of its annualized revenue.

In addition to Alaris's new partner, it announced follow-on financing of US$3.0 million for IT staffing firm Accscient LLC, which brings the total funding to US$23.0 million, thereby generating annual distributions of US$3.4 million.

After both of these contributions, Alaris has $150 million left to use on its credit facility.

Shares are showing a little life

If there's a stock that's had its issues in recent years, Alaris would have to be at the top of the list. To its detriment, Alaris is structured to generate stable cash flow by providing preferred-share financing to middle-market companies, which it calls partners.

When those partners can't meet their annual distributions, cash flow suffers, potentially putting the monthly $0.135 dividend per share at risk.

Over the past 12-18 months, Alaris has been working through several issues with some of its partners that's reduced its cash flow, putting downward pressure on its stock. However, those issues are for the most part over, giving investors hope for the future.

In the past month, Alaris stock's gained 8.4% compared to 6.8% for the **S&P/TSX Composite Index**, providing some momentum heading into the second half of the year.

In May, Fool contributor Kay Ng pointed to the company's track record over 14 years — positive returns for 23 of its 26 partners — as a good reason for aggressive investors to consider its healthy yield.

“Alaris is not an investment for the faint of heart,” Ng wrote May 10. “However, those who seek high income might consider a small position in the stock for a 10.6% yield and as a potential turnaround investment.”

Here’s how I see it

Alaris stock hit an all-time high of $37.12 in November 2013 due to a lot of good news that year. It invested $173 million of its capital in 2013, 92% higher than in 2012. Revenue from its 13 existing partners grew 62% to $52.7 million; its operating cash flow increased 65% to $43.7 million. In addition, Alaris saw a 20% increase in annualized dividends to $1.44 per share, and its payout ratio decreased by 11 percentage points from 92% to 81%.

Compare that to 2017, when it invested $172 million in capital in 2017, 59% higher than in 2016. That year, revenue from its 16 existing partners declined by 11% to $89.1 million, and its operating cash flow decreased by 8% to $67.3 million. Alaris also saw a 4% increase in annualized dividends to $1.62 per share, and its payout ratio increased by 7 percentage points from 80% to 88%.

That last number gives investors the biggest concern, as anything over 90% for a sustained amount of time could result in a cut to the dividend.

In 2018, Alaris expects to generate $1.80 per share in net cash flow, with the annual dividend of $1.62 resulting in an annualized payout of 90%. So, as Ng suggested, the high yield comes with a big caveat.

The bottom line on Alaris

In Q1 2018, Alaris’s partner revenue increased by 13.2% to $23.6 million, while its normalized income per share increased by 40% to $0.49 a share, which means it’s trending higher on an annualized basis ($1.96) than the $1.80 in 2017. Alaris isn’t completely out of the woods, but it’s looking a lot stronger than it did this time last year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)

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1. Investing

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