Care to Add 5% More Income to Your Dividend Portfolio?

Description

When choosing dividend stocks, one of the most important factors is to ensure that those dividends can be covered and, ideally, raised over time. These dividends often occur in industries that have constant, recurring revenues.

Enercare Inc. (TSX:ECI) appears to check many of these boxes. Enercare has significant recurring revenue coming from a variety of sources. Its business model allows for significant cross-selling of other products, products, and services, which then, in turn, provide recurring revenue. The company primarily operates in Canada and the United States, providing a degree of diversification by business and geography.

The company has three different business segments: Enercare Home Services, Service Experts, and Sub Metering. The Enercare Home Services business provides 42% of its revenue, Service Experts provides 54%, and Sub Metering provides 4%.

The Home Services business has essentially four different revenue streams, and 75% of its revenues come from its rental unit business. In addition to providing stable, recurring revenue, the company uses the rental business to cross-sell to its other product offerings.

Enercare has 19% of revenues coming from its protection plan business, with 80% of the company’s protection customers being cross-sold from people who rent the water heaters. Another 4% of revenues come from HVAC units, with most of those units sold to existing protection plan customers. At the same time, 2% of its revenue comes from services such as plumbing and duct cleaning, which are also cross-sold to existing customers. Enercare is also entering the business of the smart home services.

The Service Experts business centres on the service and replacement of HVAC equipment, equipment used for heating, cooling, and ventilating buildings, in both residential and commercial buildings. Enercare sells services, such as regular maintenance packages, to customers. This, once again, generates steady revenues for Enercare.

Enercare grew its business quite handily as of Q1 2018. Revenues increased 12% year over year, and

EBITDA increased by 13%. The gains in revenue were largely driven by the 19% increase in revenues from the Service Experts business. EBITDA from the Sub Metering business increased an impressive 63%, helping to drive the overall EBITDA growth.

At the current stock price, the company has a dividend greater than 5%, which it pays out monthly and has raised it each year for several years. The recurring revenue model that Enercare employs should ensure clear visibility for future dividends and dividend raises.

Enercare possesses some positive attributes, such as the recurring revenues and positive growth trajectory. However, as is the case with any investment, you must be aware of potential weaknesses. The first issue is that it has a significant amount of long-term debt largely due to various acquisitions the company made to grow the business. The debt should be monitored, but presently appears to be manageable.

Enercare is an interesting opportunity for dividend investors. It provides an excellent dividend as well as diversification by geography and currency. While the stability of the dividend and the company's debt should be monitored, Enercare could be a worthwhile investment for the long-term investor.

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