Exchange Income Corporation (TSX:EIF) Has an 8.3% Dividend That's Ready to Grow in 2019

Description

Exchange Income Corporation (TSX:EIF) isn't a household name. With a market capitalization of just $850 million, most investors aren't paying much attention to it—but they should.

Over the past 10 years, shares have risen roughly 150%. While that may not seem overly impressive, the company has also been paying a consistent, growing dividend to investors every year. Today, its dividend yield surpasses 8%. Adding in dividend payouts to its return profile, investors would have made more than 250% over the past decade. Compounding 20% returns year after year is a great strategy for building long-term wealth.

Allow me to introduce you to one of the greatest Canadian companies that should be part of any portfolio.

A simple strategy has provided abnormal returns

Exchange Income was designed similarly to an open-ended investment fund: the goal was to invest in a portfolio of companies. What differentiated the firm was its focus on buying companies with strong, stable cash flows operating in small markets with little competition. The strategy incorporated many lessons from Warren Buffet's **Berkshire Hathaway Inc.**, such as buying a company "forever" and keeping its original management team that knows the specific industry best. Often, Exchange Income has purchased what were hitherto family businesses, meaning that there was little competition when bidding for the assets.

Today, the company operates primarily in two industries: aviation and manufacturing. While these may not sound like huge money makers, Exchange Income has found some niche corners that generate impressive results. Their businesses include medevac transportation services, after market aviation parts, cell tower construction, high pressure water cleaning systems, and more.

Many of these businesses have recurring revenue streams, meaning buyers are generating sales for the company throughout the business cycle. In addition, some of the businesses are natural hedges, meaning that declines in one can be offset by strength in in another. This has provided a rare level of stability. From 2007 to 2009, for example, when global markets were in freefall and the TSX fell by more than 50%, Exchange Income fell by less than 10%. Now that's stability!

Assets are to ensure ongoing growth

While the company's current asset base is generating attractive returns — enough to fuel its healthy 8.3% dividend, management has been focused on closing several deals currently in motion. But they're not done yet.

On their latest conference call, Exchange Income revealed that they recently structured a new $1 billion credit facility with flexible covenants and reduced interest rates. It was provided by a syndicate of 11 banks that agreed to lend the money to Exchange Income quickly, as soon as a new investment opportunity is uncovered. Access to capital can be important when purchasing small or private firms.

Notably, Exchange Income's CEO wanted investors to know that they're ready to grow the company, but it has to be at the right price. "I just want it to be clear with the market that because we've been so focused on closing and integrating what we have, there's nothing that's nearing the end stage of that process, but there's no change in our strategy and there's no change in our appetite for that," Michael Pyle said. "We've closed three transactions in just over a quarter and with our internal capacity, understand that whether we do a $25 million deal or $150 million deal, the level of diligence and the work required is the same," he added.

With an 8.3% annual dividend, a proven management team, and room for growth, Exchange Income is an under-the-radar investment for any income-based portfolio.

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