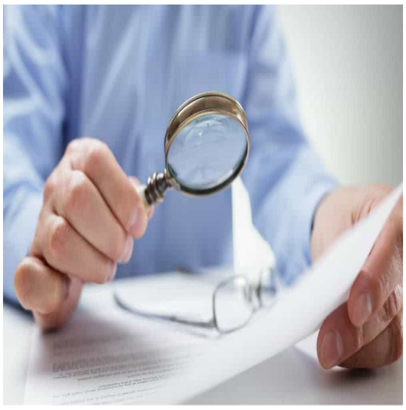

RRSP Investors: Earn a Tax-Free 6% Income With This Dividend Stock

Description

Rogers Sugar Inc (TSX:RSI) isn't a household name, but it could be your ticket to a reliable long-term stream of income.

Rogers Sugar is actually the successor to the Rogers Sugar Income Fund, which distributed the quarterly profits from the company's sugar operations to shareholders. The business was fairly straightforward, so the complexity and costs involved in being a conventional corporation weren't necessary.

In 2011, the company converted to its current form: a traditional corporation. Why the change? Management saw ample opportunities for growth by reinvesting the sugar business profits into more value-add products. While this transition has taken multiple years, 2019 could be a pivotal moment in the companies history.

Now armed with a 6% dividend, all the right pieces are in place to ensure investors get this income every year for the decades to come.

If you like maple syrup, buy this stock

Last year, Rogers Sugar took the first step in its evolution from a commoditized sugar refiner to a value-add natural sweeteners company. While the company remains committed to servicing its legacy sugar business, it is now directing some of this cash flow to ensure new opportunities for long-term growth.

In 2018, Rogers Sugar generated $47.8 million in free cash flow. Dividends accounted for $38.0 million, comprising roughly 80% of company-wide free cash flow. So even while paying a fully-covered 6% dividend, management had leeway to reinvest excess cash flow or take on additional debt, using the cash flow to service the interest.

Rogers opted to do both, issuing $97.8 million of convertible, unsecured bonds with an interest rate of 4.75%. Some of this debt was used to refinance previous loans attached to the company's 2017 acquisition of L.B. Maple Treat Corporation.

L.B. Maple Treat Corporation is one of the world's largest branded and private label maple syrup bottling and distribution companies. Rogers Sugar purchased it for $160.3 million in a transformational acquisition.

"This sizable and strategic transaction is a game changer for Rogers Sugar," said John Holliday, the CEO of Rogers Sugar. "The acquisition of LBMT will allow us to diversify into the large and growing market of maple syrup, a natural sweetener, with one of the leaders in the industry."

A few months later, the company followed up with a $40 million buyout of Decacer, a major bottler and distributor of maple syrup based in Québec. "Decacer will broaden our maple syrup operations and expand our product offering, including a unique maple sugar dehydration technology," noted the management team of Rogers Sugar.

This dividend is future-proof

Overall, Rogers Sugar is in an incredibly boring business. With recent moves, however, they've ensured that investors will continue to get paid a healthy dividend.

In 2019, roughly 25% of sales are expected to come from its new maple syrup business. While the conventional sugar segment still is responsible for a majority of sales, it remains a cash cow, meaning that the dividend will be fully covered through these cash flows alone. Management can now focus on integrating and optimizing its higher-margin maple syrup acquisitions.

You won't strike it rich with this stock, but if you have money in an RRSP that can use a reliable, long-term income stream, Rogers Sugar deserves your consideration.

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