



Dividend Investors: It's Time to Revisit This 8.9% Yelder

Description

Sometimes, in an attempt to build a diverse portfolio stuffed with different sources of passive income, investors can be guilty of quickly moving on from a stock once they own it, like they've checked off an item off a collection.

I know I've done this in the past, especially when stocks are cheap. I'm eager to buy all the cheap names when perhaps focusing on one or two of the best opportunities would be best.

Today I'm encouraging investors to circle back and revisit one of Canada's top dividend stocks, a name that has once again entered into what I'd consider buying territory. Let's take a closer look.

Buy on the dips

Alaris Royalty Corp (TSX:AD) hasn't had a great couple of years. The company's business model consists of giving businesses an alternate form of financing, usually in the form of a preferred share with built-in increases to the dividend rate if the company performs well after an investment.

This is a classic win/win scenario; Alaris gets to invest its capital at a 12-15% gross return, while an owner gets to retain full ownership of common shares and isn't forced to take on additional debt.

There's just one problem. Sometimes the underlying investment doesn't perform as scheduled, which impacts the company's ability to pay distributions back to Alaris. One partner, Kimco, cut distributions completely. Two more partners are paying distributions, but only a reduced amount.

A recent analyst note highlighted another potential issue, which sent shares reeling. This research report noted that Alaris was scheduled to get its annual distribution from Providence in March, but the company didn't pay on time. The two parties are in discussions, along with Providence's lenders, but nothing has been solved at this point. Shares have tanked some 10%, as this was brought to investors' attention.

This should be a little concerning, as Alaris seems to be running into all sorts of problems with its

partners. But a 10% sell-off is overdone, especially given that the Providence distribution only accounts for approximately 5% of Alaris' earnings.

This temporary weakness has sent Alaris shares squarely into value territory, with the stock trading at just over 10x 2019's predicted earnings. The company's shares also are right around book value, making them cheap on that metric too.

How safe is the yield?

Alaris has one of the best dividends out there, with a payout that's currently in the 9% range.

The company provided a little more info on the security of its dividend when it released first-quarter earnings, saying that it expected to generate \$1.79 per share in cash from operations in fiscal 2019, versus a scheduled dividend of \$1.65 per share. That gives us a payout ratio of 92%, which proves the company can afford the payout, at least for now.

Remember, the board of directors made the decision to hike the dividend back in January, which seemingly signaled to the market the company thought its issues were in the rear view mirror. No company wants to cut the payout so soon after raising it.

One thing dividend investors should note is that Alaris has gotten a big boost from a weaker Canadian dollar. Approximately 90% of the company's revenues are paid in U.S. dollars. If the Canadian dollar strengthens against its U.S. counterpart, Alaris' payout ratio will approach 100%.

The bottom line

This latest weakness has created another buying opportunity for Alaris shares. Remember, the company's shares were over \$30 each just a few years ago, and you're getting a nearly 9% yield to wait. I believe investors who don't get in today will be kicking themselves in a year or two, cursing the missed buying opportunity.

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