Revealed: Why I’m Adding This 7.7% Yielder to My Portfolio

Description

I admit it. I’m a sucker for high yield.

This comes with an important caveat, of course. I don’t choose just any high-yield stock. I’m looking for companies that offer sustainable payouts, ideally with a little dividend growth mixed in there, too. This creates a perpetual income machine that I can use to pay for vacations, supplement my family’s income in lean times, or just reinvest into additional dividend-paying stocks.

Isn’t compounding wonderful? I love when money turns into more money.

I’ve been recently adding one high-yielding stock to my portfolio — a company that yields a robust 7.7%. Let’s take a closer look at why I bought shares.

A massive growth story

In 2011, **Fiera Capital** (TSX:FSZ) had a mere $29 billion in assets under management — hardly enough to make the company a major player in the asset management space. The company needed to get bigger to attract major institutional investors.

Eight years later, it has certainly succeeded, with assets under management flirting with $150 billion. Fiera has accomplished this mostly by acquiring other asset managers. It has made some 20 acquisitions since 2012, helping to consolidate the fragmented asset manager market, especially in Canada.

After all this growth, Fiera has become Canada’s third-largest independent publicly traded asset manager, but it’s still only number 76 in North America. In other words, there’s still loads of potential for the company to get larger, especially as it starts to make more acquisitions in the United States. And just 14% of revenues come from outside North America. There’s no reason why the company can’t expand further overseas as well.

Fiera should also be able to deliver solid organic growth, as it adds to flagship funds that give institutional investors access to assets outside the stock market. Fiera has its own property fund, an alternative assets fund, a private lending fund, an agriculture and private equity fund, and others.

These funds were created for a reason. They offer exactly the kinds of assets pension plans and insurance companies want to own over the long term, without the distraction of stock prices.

Valuation

Despite delivering plenty of growth over the last few years — and with gobs of potential to continue — Fiera Capital still trades at a very reasonable valuation.

Over the last 12 months, the company has generated approximately $1 per share in free cash flow. The stock currently trades hands for under $11 per share. That puts the company at less than 11 times free cash flow, which is very reasonably valued — especially when we consider the growth potential going forward.

Shares are even cheaper on a forward price-to-earnings basis. Analysts are expecting net income to hit $1.27 per share in 2019, which puts the stock at just 8.6 times forward earnings.

The dividend

Fiera Capital has been a dividend-growth machine since its 2010 IPO, hiking its payout each year. Dividend growth has been especially robust over the last year and a bit, with the company increasing its payout by $0.02 per share each quarter since the beginning of 2018.

In total, Fiera's dividend has increased from $0.40 per share annualized in 2013 to $0.82 per share today. That's a growth rate of more than 10% annually, which is stellar for a stock that also yields 7.7% today.

Investors don't have to worry about the payout, either. The payout ratio based on 2019's expected earnings is just 65%.

The bottom line

Fiera Capital offers everything I'm looking for in a long-term dividend investment. It's in a nice business with solid growth prospects. It offers a sustainable payout with dividend-growth potential. And it pays a generous yield today.

This is why I added the stock to my portfolio. Perhaps you should do the same.

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