



The Top 3 Small-Cap Dividend Stocks to Buy in October

Description

It's always nice to add new dividend-paying stocks to your portfolio and see for yourself as compound interest works its magic to grow your hard-earned money.

The only thing better than passive income is growing passive income that's sustainable. While there are a number of places you can look to find growing dividends, one of the best places to look is at small-cap stocks.

Small-cap stocks that are growing companies in growing industries are almost sure to grow the dividend along with their earnings, especially if the goal of the company is to provide investors with a stable income stream.

Three of the top small-cap dividend paying stocks are **Alaris Royalty Corp** (TSX:AD), **Diversified RoyaltyCorp** ([TSX:DIV](#)) and **Nexus Real Estate Investment Trust** (TSXV:NXR.UN).

Alaris

Alaris is an investment company whose main purpose is to create an income stream that's ideal for investors seeking growing passive income.

It invests in a number of private companies on a case by case basis, offering flexibility to the business owners and operators that are looking for investment.

Alaris has proven to be a top-quality investor and deal maker capable of continuously finding new cash-flow-generating deals to fund the dividend and eventually grow it.

To date it has a 73% return on investments it has exited in addition to the income many of those investments were paying out monthly before Alaris exited the investment.

Its dividend yields roughly 8.4% and looks to be pretty stable, at a payout ratio of just 84%. Alaris' low costs help give it massive margins, which allows it to pay out much of the income it receives.

Alaris is a great company for long-term investors seeking [passive income](#) due to its great management, its unique structure and its strong investment portfolio.

Diversified Royalty Corp

Diversified Royalty Corp is an investment fund that sources its revenue from the franchising fees it receives from the four franchises it has a stake in.

The companies are Mr. Lube, the largest quick oil chain in Canada, Sutton, a realty company with over 200 offices across the country.

Then there's Air Miles, one of the oldest and largest loyalty programs in Canada; finally, there's Mr. Mikes, a steakhouse casual restaurant chain that primarily operates in Western Canada.

It's worth noting that more than half of the company's revenue comes from Mr. Lube.

It continues to increase its revenue, with second quarter sales coming in 11.3% higher than the same quarter in 2018. Its sales from the first half of the year also came in much higher than last year's, by nearly 10%.

The growth was a combination of organic growth through same store sales, and the addition of locations to the royalty pool.

With a dividend that currently yields a whopping 7.9%, it looks extremely attractive as long as the company can continue to pay out the dividend.

Nexus REIT

Nexus is a small-cap industrial REIT that is growth oriented and has solid strategic partnerships and a number of quality properties.

Its properties consist of a well-diversified mix of industrial, office and retail locations that total nearly four million square feet of space. Although its assets are spread across Canada, it should be noted that roughly half of its rent comes from Quebec.

Even though the dividend hasn't been increased in a few years, the company has still been improving its earnings and decreasing its payout ratio, which is helping the stability of the dividend behind the scenes.

For 2019, it estimates the payout ratio from its adjusted funds from operations will be just 78%.

Its total company wide occupancy is about 94%, which is pretty decent for an industrial REIT and one of the top occupancy rates among its peers.

Nexus' stock has a beta of just 0.6, making it a great way to earn the 8% dividend yield with minimal volatility.

Bottom line

While all these companies offer great opportunities because of their high-yielding dividends, there is also inherent risk that's priced in to each of the stocks, so investors are advised to do their homework and see if the risk to reward profile fits your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:DIV (Diversified Royalty Corp.)
3. TSX:NXR.UN (Nexus Real Estate Investment Trust)

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