Passive-Income Seekers: This Stock's Diversification Makes its 5.3% Dividend Highly Sustainable

Description

Diversification is one of the most important investing principles. It's talked about almost all the time by experts, and everybody assumes, when recommending stocks or giving any investment advice, that all investors have at least some level of diversification.

It extends beyond just your portfolio, though, and the stocks and sectors you choose to invest in.

One of the main things to look for when analyzing companies as potential investments is the company's level of diversification in its operations and whether or not it has adequately reduced risk and can stand a market correction or thrive in all aspects of a cycle.

One company that you know can do this because of the impressive makeup of the company's portfolio is **Exchange Income** (TSX:EIF).

Exchange Income operates in the aerospace and aviation industries, but with a number of companies in its portfolio, there is no one industry it operates in. It has been trying to diversify itself in order to strengthen its resiliency in an attempt to withstand market cycles. Exchange Income now has a number of different companies operating in different industries serving all different types of customers.

In total, the company has 14 different businesses ranging from air and helicopter services to machine products, manufacturing, and fabrication.

That's been the goal of the company — to insulate itself — which will naturally strengthen the dividend both in good times and bad.

The strength of its diversification was proven in the third quarter, as one of its subsidiaries had a major client go bankrupt that resulted in a bad debt expense of roughly $6 million. In other words, the $6 million that was owed to EIF won't be received, and EIF had to write it off as an expense in the quarter.

In addition, it also suffered some minor setbacks in the quarter from its Quest business during the rollout of its new plant. This also weighed on earnings in the quarter.

For many companies, these two issues would be small headwinds that impacted earnings for the quarter. For Exchange Income, though, the affect was mitigated by the strength of its diversification.

In fact, the company ended up reporting record earnings last quarter with adjusted earnings per share, revenue, and earnings before interest, taxes, depreciation, and amortization (EBITDA) all hitting record highs for a single quarter.

The adjusted earnings per share came in above $1 for the first time ever and was up 10% from the quarter the prior year, while revenue was up 15% and EBITDA was up 12%.

These are impressive growth numbers in any quarter, but given the fact that the company had two main issues to deal with goes to show the strength of its portfolio.

The strength and resiliency of its portfolio is key, as passive-income seekers will want to know that the dividend is as sustainable as possible.

Since 2004, the dividend is up more than 100% and has been raised in every single year except one from 2009 to 2010 when the company kept the dividend flat.

That was obviously right after the last financial crisis, and the fact that the company only kept it flat and didn’t need to decrease the dividend shows it most likely did that for sustainability rather than because the dividend was ever at risk.

Today, the dividend yields around 5.3%, which is pretty attractive, considering the company has also grown its share price nearly 80% in the last five years.

All in all, Exchange Income is a great company, and one that proves what strong diversification can do for a portfolio. It will continue to work on growing its operations while also looking for opportunities that further diversify its business and insulate its earnings.

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