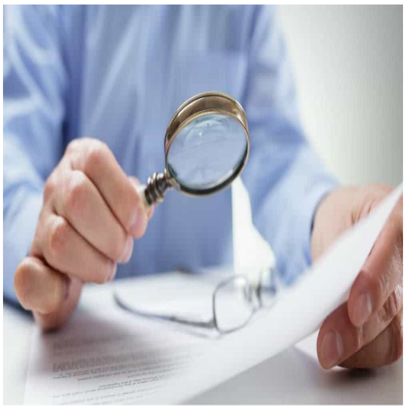

New Investors: Learn to Invest by Analyzing These Easy-to-Learn Stocks

Description

If you are new to investing and trying to learn how to value stocks, reading some of the financial statements of the major companies can seem extremely confusing and daunting to learn.

There are some easier stocks you can analyze, however, that are more straightforward and significantly easier to comprehend.

I'd recommend researching some of the top-line royalty companies, as their makeup makes them generally easy to understand, and the predictable and stable revenue and cash flow they generate make them easy to put a value on and understand what the market's sentiment may be.

Looking at a royalty stock like **Diversified Royalty** (TSX:DIV) is a great way to get an idea of how the business works.

Diversified Royalty is a top-line royalty company, meaning it gets royalties from the revenue of the businesses it has an interest in, rather than a royalty on the profits.

This is a major difference, because it doesn't have to worry about the profitability of the businesses, only the sales numbers, meaning a boost in sales or continued growth results in continued income growth for the royalty company.

Diversified Royalty itself has an interest in four companies, Mr. Lube, Air Miles, Mr. Mikes, and Sutton. It also is in the process of adding another royalty stream, acquiring the trademarks to Nurse Next Door.

The Nurse Next Door acquisition consisted of roughly $52 million in cash and another $23 million in stock, bringing the total value to roughly $75 million. In exchange, DIV will receive a $4.8 million distribution payment annually, which will increase at a 2% annual rate.

The fifth royalty stream is ideal to add diversification to its portfolio and will fit in nicely to the portfolio, which has been growing considerably lately.

In the third quarter, the company reported $8.1 million in revenue compared to the same quarter in

2018, in which it only earned $6.7 million in revenue. For the nine months ended September 30, it generated $22.1 million vs last year when it generated only $19.5 million.

The growth is mainly attributed to the increase in Mr. Lube royalty rate and the strong same-store sales growth (SSSG) the automotive centre has generated, with SSSG up 5.9% in the third quarter and 4.8% for the nine months ended September 30, 2019.

These are impressive growth rates and, coupled with some new stores opening and the contractual inflation rates in DIV's other royalty interests, have helped the company to grow its revenue considerably.

What makes DIV an attractive investment is the strong and diversified portfolio of interests it has in five completely separate industries.

It currently has exposure to the auto services industry, the loyalty program industry, the restaurant industry, and the real estate brokerage industry. Now, with its pending acquisition of a healthcare business, it seems like it's the perfect fit to add to the mix.

It's especially prudent, as worries about the economy's growth slowing continue to heat up, since health care is one of the best defensive industries to provide safety during periods of poor economic growth.

The stock is up 10% year to date, which is a modest amount but gives it some momentum. It yields a whopping 7.2%, which makes it highly attractive and one of the top income stocks to buy going into the new year.

CATEGORY

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1. Editor's Choice

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