These 2 Companies Will Treat Your Portfolio Like Royalty

### Description

For long-term investors seeking income, extremely low bond yields have pushed many investors toward high-quality, dividend-paying stocks. In this article, I'm going to discuss two dividend-paying stocks that are set up with a royalty structure. In addition, I will explain why this is beneficial for such investors.



## Alaris Royalty

In the resource sector, various producers have access to capital via different vehicles. Mining companies in particular have done quite a good job of finding creative ways to finance operations. This is particularly true given the often uncertain cash flows of many mining projects. Royalties are simply one unique way companies can choose to finance the high upfront costs of building out a project, such as a mine.

Royalty companies like **Alaris Royalty** (TSX:AD) provide upfront money in exchange for a top-line cut of production. This lending structure allows Alaris to benefit from production growth with little to no operational risk or commodity price risk. Whereas an equity investment with a dividend structure has downside risk if commodity prices drop. Taking a percentage off the top line essentially eliminates operational risk for royalty companies.

Companies like Alaris have some operational risk. If the prices of underlying commodities go too low, a miner may decide to slow or halt production. But in general, royalties are a much safer stream of cash flows from which companies like Alaris can pay out dividends to shareholders.

## A&W Revenue Royalties

In a similar fashion to that of resource companies, franchised businesses can create royalty streams from their franchised locations. They can pay these out to investors in a trust structure. **A&W Revenue Royalties** has benefited from franchise growth across Canada in recent years. In addition, A&W has had impressive same-store sales increases. Many analysts link this to the company's **Beyond Meat** burger program, as well as A&W's focus on the "healthy" fast-food segment. Their offerings include items such as antibiotic-free meat, free-range chicken, and fresh-caught fish/cod.

In the franchise royalty business, assessing the growth of franchises and organic same-store/same-restaurant growth is the key driver investors out to consider. On these fronts, A&W Royalties's 5% dividend yield appears to be attractive, considering potential dividend growth over time.

Stay Foolish, my friends.

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**TICKERS GLOBAL**

1. TSX:AD.UN (Alaris Equity Partners Income Trust)



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