Canadians: This 1 TSX Stock Has a 12% Dividend Yield

Description

The turbulent equity markets in 2020 have decimated several stocks. Investors with high exposure to energy, retail, and financial sectors have experienced a decline in portfolio value. But this sell-off has also meant that dividend yields are attractive for income investors. We know that stock prices and dividend yields move in opposition to each other.

In a volatile macro-environment, it is good to have a predictable stream of cash flows. With interest rates nearing record lows, bonds are no longer a viable option. Dividend stocks remain popular for a reason. They provide investors with regular income as well as the opportunity to grow wealth via capital appreciation.

We'll look at one such dividend-paying stock trading on the TSX, **Alaris Royalty** (TSX:AD). Shares of Alaris have fallen by a considerable 57% in the last three months. It has underperformed the **iShares S&P/TSX 60 Index ETF** by a huge margin in 2020, as we can see in the below chart.

This pullback has meant that Alaris stock has a forward yield of close to 12%. This indicates a $1,000 investment in Alaris will generate close to $120 in annual dividend payments.

A look at the company's business model

Alaris Royalty provides capital to profitable Canadian companies in exchange for monthly cash distributions. Alaris claims that these distributions are set a year in advance and are based on the yield of its investments.

Alaris recently announced its first-quarter results and reported record revenue of $34 million. It generated $9.8 million from the sale of the Sales Benchmark Index LLC in January 2020.

The COVID-19 pandemic has weighed heavily on four out of 12 Alaris Royalty businesses. Companies such as Planet Fitness and Body Contours had to shut shop due to country-wide lockdowns.

However, the coronavirus pandemic is likely to be a near-term headwind. This means revenues from companies should recover in the second half of 2020. According to data from Yahoo! Finance, analysts expect Alaris Royalty's revenue to fall 11.8% to $102.26 million in 2020. Comparatively, its earnings per share might fall by a massive 38%.

Analysts expect sales to grow 11.2% to $113.8 million in 2021 while earnings growth is estimated at 19.6%. This indicates Alaris stock is trading at a forward price-to-earnings multiple of 7.2. Its price-to-sales multiple stands at 3.5, while the price-to-book ratio is 0.6.

We can see that Alaris stock is trading at a reasonable valuation given its estimated earnings growth and high dividend yield.

Is the dividend yield sustainable?

Alaris Royalty had to cut its dividends by 30% in Q1. There is a fear of a second wave of coronavirus infections that might hurt businesses for longer than estimated. Investing in Alaris stock is a high-risk, high-reward scenario. Analysts tracking the stock have a 12-month average target price of $12.35, which is 25% higher than the current price.

When you account for its dividend yield, the 12-month returns can touch 37%. Over the long term, Alaris aims to diversify its investments, which will not only increase revenue streams, but also mitigate the risk of shareholders.

This stock has already gained 70% in the last two months. Since 2008, it has more than doubled investor returns, despite the significant correction in 2020. Income investors with a high-risk appetite can consider investing in this dividend stock.

CATEGORY

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araghunath