



## Dividend Investors: This 9.3% Yielding Stock on the TSX Can Gain 13% in the Next Year

### Description

Personally, I like royalty companies. They are asset-light, have few employees, and have no qualms paying out a large part of their net income as dividends. **Alaris Royalty Corp** (TSX:AD) is a top Canadian player that provides alternative financing to companies in exchange for royalties and it has a good payout history. The company currently has a forward yield of 9.26%, which is commendable during the pandemic.

Alaris reported its numbers for the second quarter of 2020 and clocked revenue of \$20.2 million, a decrease of 24% compared to the same period in 2019. EBITDA decreased by 27% to \$17.3 million compared to \$24.1 million in 2019.

Alaris revenues for Q2 were directly impacted by the COVID-19 pandemic as two of its investments, Body Contours and Planet Fitness (PF Growth Partners) deferred \$5.8 million or 22% of the expected revenue in the same period.

According to the company's current expectations, revenue for Q3 is expected to be around \$22.8 million, up 11% from Q2.

### Roadmap to Q3 for this dividend player

Why is the company positive about the 11% increase? Well, 12 out of its 17 investments have delivered a strong performance in Q2. Take for example Kimco, its housekeeping business. Kimco hadn't made a single distribution in almost two years, but "They are thriving in this environment. Businesses are cleaning more than ever." Kimco's clients have increased their cleaning contracts from 3-4 days a week to 5-6, and the company has won contracts that will generate recurring revenue into 2021.

Body Contour, a private plastic surgery practice in the United States had shut down all its centres in March but is now 100% operational. The company expects to restart distributions in the third quarter of

2020 instead of the original forecast of Q1 of 2021.

Lower Mainland Steel (LMS) is another Alaris investment that was expected to face headwinds in the pandemic but the essential nature of their business delivered increased revenue and Alaris increased fair value by \$8.1 million. The company expects increased revenues in the coming quarters and no interruption in distributions.

Federal Resources entered into an agreement, after the end of Q2, to source and sell over 4.5 billion medical grade nitrile gloves which will be distributed to the US government. "The capital commitment at any one time is expected to be between US\$25 and US\$35 million (the "PPE Funds") based on the timing of weekly cash inflows and outflows during the approximate 10-week period of the agreement.

The first such advance of US\$11.5 million was made on July 28, 2020. Alaris will provide the PPE Funds in exchange for a share of the margin on the products included in the PPE Order."

## What next's for Alaris investors?

I have been regularly writing about Alaris and have been recommending a buy on the stock. In May, I wrote twice about the company, [once when it was](#) trading at \$8.57 and [another time when](#) it was around \$10. Today, at \$13.28, it has given a return of over 54% in a little over four months.

I believe there is still some steam left in the stock and investors can expect an upside of almost 13% given average analyst estimates, plus very good dividend yield. I would recommend a buy on Alaris.

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