



TFSA Investors: Buy This High-Quality Businesses Now

Description

Diversified Royalty ([TSX:DIV](#)) acquires royalties from well-managed, [multi-location businesses](#) and franchisors in North America. The company acquires additional royalties with minimal increases in general and administrative costs. The company's royalty partners include Sutton Group, Mr. Lube, Mr. Mikes, Nurse Next Door, and Oxford.

All of Diversified Royalty's adjusted revenues are earned from the [receipt of royalties and management fees](#) from the company's royalty partners, which are governed by licence and royalty agreements. The company pays dividends to shareholders based on the cash it generates from royalties and management fees.

The company has a price-to-earnings ratio of 14.88, price-to-book ratio of 1.56, dividend yield of 7.91% and market capitalization of \$305 million. Debt is very sparingly used at Diversified Royalty, as evidenced by a debt-to-equity ratio of just 0.81. The company has excellent performance metrics with an operating margin of 86.17%.

A brief discussion of the company's royalty partners follows.

Sutton Group is a leading provider of services to residential real estate realtors. It generates cash flow from franchise fees derived from a national network of real estate agents in Canada. Sutton Group's revenue is driven primarily by franchise fees paid under franchise agreements. These franchise fees are fixed in nature based on a fixed monthly rate per agent and increase at a fixed rate annually. Historically, this has provided Sutton Group with reasonably stable revenues and profits, despite fluctuations in the level of activity in the real estate industry.

Mr. Lube operates automotive service centres and provides oil changes and car maintenance services. Recently, the company increased the range of operational support services provided to existing franchisees. This reinvestment process has laid the groundwork for Mr. Lube's strategy to grow the business further by adding stores, increasing market share and number of customer visits. Mr. Lube's focus on providing support to help maximize franchisee profitability has resulted in a stable and growth-oriented franchise network. This focus is a key differentiator of Mr. Lube in the marketplace.

Mr. Mikes is a full-service, casual-dining restaurant with a primary focus of providing hearty and affordable creations from signature steaks to home-branded wines and beers. Mr. Mikes restaurants cater to baby boomers and young adults and feature a relaxed and inviting ambiance.

Nurse Next Door is an innovative and growing home-care provider that offers home-care services ranging from companionship to around-the-clock care. The partner operates two locations corporately, while the remaining 175 locations are franchised.

Oxford provides supplemental educational services to students in pre-school, kindergarten, grades one to 12 and post-secondary education. A typical Oxford location offers classes in reading, writing, spelling, math, study skills, test prep, and critical thinking. The classes are delivered using materials either approved or developed by Oxford and using teaching methodologies and strategies developed by Oxford.

In summary, Diversified Royalty earns royalties and management fees from several wonderful businesses. These businesses are profitable and produce steady cash flow. Growing profits should benefit Diversified Royalty and help it deliver excellent shareholder returns.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. dividend
2. Editor's Choice

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1. TSX:DIV (Diversified Royalty Corp.)

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Author

nikhilwaterloo

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