



Should You Buy Alaris Equity for its 7.9% Dividend Yield?

Description

One effective way to create a recurring income stream is by investing in quality dividend stocks. In addition to a steady payout, [dividend stocks](#) also allow you to benefit from capital gains over the long term. But investors should also understand that dividend payouts are not guaranteed and can be revoked or suspended anytime if market conditions deteriorate.

Keeping this in mind, let's take a closer look at **Alaris Equity Partners Income Trust** ([TSX:AD.UN](#)) right now. It currently offers shareholders a forward yield of 7.9%, which is quite tasty. But is this TSX stock a buy in January 2023?

What does Alaris Equity do?

Alaris Equity provides capital to profitable businesses and receives a monthly cash distribution on its equity position. The distributions are set 12 months in advance and depend on the yield of the investment. Further, the payouts are adjusted each year based on various metrics, including sales and profit margins.

Basically, Alaris enters long-term partnerships with companies with strong histories of delivering profits across market cycles. Its company partners are primarily family-controlled businesses that are in need of growth capital, private equity buyouts, working capital, as well as generational transfers.

Alaris aims to diversify its revenue streams by expanding its base of company partners each year. It also expects to generate organic growth of between 3% and 5% each year with its current revenue streams. To date, Alaris has invested \$1.8 billion in 35 companies.

Should you invest in AD stock right now?

Alaris stock went public during the financial crisis of 2008 and has since returned over 500% to shareholders in dividend-adjusted gains. It has an asset-light business, as the company finances businesses without taking control of them. However, it needs to adhere to strict criteria while investing

in these companies to reduce capital risk.

Alaris Capital has increased its sales from \$116 million in 2019 to \$143.4 million in 2021. In the last 12 months, its revenue rose to \$175.5 million. It's on track to end 2022 with sales of \$187 million, an increase of 26.7% year over year.

While its bottom line is expected to contract by more than 30% between 2021 and 2023, Alaris stock is priced at just seven times forward earnings which is very cheap. Moreover, once market sentiment improves in the second half of 2023, AD stock should easily outpace the broader markets in the medium term.

In addition to its dividend yield, investors should also know that the company has increased these payouts by 62% since 2009.

The Foolish takeaway

Investing in Alaris allows investors to buy and hold a TSX stock with an attractive dividend yield, which is also trading at a discount. Analysts remain bullish on AD stock and expect it to gain 20% in the next year. After accounting for its dividend yield, total returns will be closer to 30%, making it ideal for those looking to beat the broader markets.

Alaris is among the few TSX stocks that should be on the radar of income, value, and growth investors.

CATEGORY

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