The Easy Money Manual
How to Collect a 16% Raise Every Year Without Lifting a Finger
An Introduction to the Accelerated Dividends System

By Tim Plaehn

I have developed an approach to identify top high yield stock investment prospects that is significantly different from the widely used Wall Street strategies to evaluate stocks and companies.

In this report you’ll discover exactly how to use the Accelerated Dividends System that has created so much wealth for me in my personal portfolio and for my readers.

I start with the core philosophy that a sustainable high yield combined growing dividends investment focus will produce predictable and well above average total returns over longer term investment horizons. With the core investment strategy set, I then need to first find high-yield investment prospects, then screen that universe for yield and dividend growth potential, and finally analyze individual companies to determine ongoing dividend payment and growth prospects.

Here are my analysis steps.

1. I maintain several databases listing the companies in various high-yield sectors including real estate investment trusts (REITs), energy infrastructure companies including master limited partnerships (MLPs), business development companies (BDCs), and a catch-all list for high yield stocks that I find which do not fit into the traditional high-yield stock categories.

2. I developed my databases starting with industry lists of the different categories. Then as I discover new income stocks, I plug them into the appropriate part of the database. New IPOs or stocks that I have missed and then discovered can be quickly added and compared to other, similar stocks.

3. In the databases I have columns for current yield and a trailing twelve month dividend growth rate. I also track when in the year each company historically announces a dividend rate increase.

4. The database system lets me rank the lists by yield or dividend growth rate. I can then screen stocks to find those with above average yield and dividend growth rate combinations.

5. The sorting using database functions and ranking can make certain stocks stand out. For example, when ranked by dividend growth rates, high growth is usually
associated with a low yield. When I see a high yield in among the low yield percentages, I have a stock to dig deeper into.

6. After I have singled out stocks with attractive yield and dividend growth combinations, I review dividend history to see if growth rate is ongoing or due to some short term phenomenon. A history of sustained dividend growth is one of the primary factors for me to make a particular stock an investment recommendation. You want to pay close attention to make sure any dividend increase isn’t just some one-off event.

7. Then I dig into the company’s business model to see if I first understand it, and then is it sustainable and scalable? The process includes reading a year’s worth of earnings reports and earnings conference call transcripts. I’ll even call up the company’s management if I feel it’s warranted; you’d be surprised how many of them are happy to speak with investors. I want to develop a feel/opinion on how management operates and their attitude towards investors. It is surprising how many management teams are more focused on increasing management fees versus returns for shareholders.

8. It is not uncommon for me to watch a stock for several quarters at least to see if what I think will happen comes to pass. The dividend yield will always be there if the company is a top tier dividend payer. My Accelerated Dividends System is designed to dig out the best dividend paying stocks as measured by yield plus dividend growth over a multi-year period.

9. If I recommend the stock, I continue to closely monitor results and management actions.

Successful income stock investing takes some work, as you can see from the steps I go through to find the best opportunities out of the hundreds of higher yielding stocks. The process looks complicated, but as with most pursuits in life, becomes easier with practice. There are not short cuts to long-term, superior investment returns. This is one strategy and approach that will produce a growing stream of dividends, which can be reinvested or used as immediate income.

With that in mind, let’s get to three of my favorite stocks that were found using the Accelerated Dividends System.
Aircraft leasing company **Aircastle Limited (NYSE: AYR)** has been a personal, longtime favorite stock for me. I have been following the company since it went public in 2006. I had not officially added it to the portfolio of The Dividend Hunter because over the last couple of years, the market has been pricing the stock to yield below 4%. The current market correction has driven down the AYR share price and bumped up the yield to the point that it meets my criteria for inclusion as a Dividend Hunter recommendation. So we’ve taken advantage of some market decline and recently added this very attractive income and total return stock to our portfolio.

**Recent broad market volatility has presented us with some nice entry prices for AYR.**

**Business Overview**

Aircastle owns commercial aircraft and leases them to airlines around the world. As of the 2011 first quarter the company owned 153 planes with a book value of $5.8 billion. Passenger aircraft make up 89% of the fleet, with the balance in cargo aircraft. The company has 53 airline customers located in 33 countries. Measured by book value about 38% of the fleet operates in Asia and 25% is in Europe. The balance operates in countries like South Africa, Brazil, Indonesia and Chile.

Aircastle does not go after, and is not interested in working with the large U.S. airline and global European companies. Instead the company prefers to provide aircraft leasing solutions to smaller airlines and national airlines. With this approach, leasing is a more profitable and less competitive business. The specialized approach to leasing allows Aircastle to generate 12.4% lease rental yields against a 3.6% cost of capital. The result is an 8.8% net cash interest margin. A moderate level of debt leverage is employed.
Currently, debt is 68% of the fleet book value and two-thirds of that debt is unsecured borrowing that does not put liens on aircraft. The $4.1 billion of debt is 2.1 times Aircastle’s equity. The high cash returns on leases combined with the conservative debt structure have historically produced a 12.5% annual return on equity. Recently those returns have climbed above 15% ROE. This is a very profitable company.

Currently the global airline sector is operating with a couple of positive tailwinds. Passenger traffic growth is steady at about 6% per year. Low fuel prices are producing very profitable results for airlines. Aircastle is playing these trends by acquiring relatively new, narrow body jets that can be leased at attractive lease rates. The current technology aircraft can be operated very profitably in the current fuel price environment. Four to five year old aircraft are a lot less expensive to lease than the next generation, more fuel efficient planes currently being produced by the major airline manufacturers.

Aircastle will take delivery of 25 Embraer E-Jet E2 aircraft over the next seven years.

Aircastle is also a growth focused company. Over the last five years the fleet has grown from 120 planes to 155, give or take at any moment. This growth includes a significant number of aircraft sales as Aircastle reacts to changing needs from the global airline industry. In 2015, the company bought 47 aircraft for $1.4 billion. These planes had an average age of five years and are leased out with an average term of nine years. 31 aircraft were sold or parted out in the first half of the year. Aircastle also ordered 25 new technology Embraer E-Jet E2 aircraft to be delivered in 2018 through 2021. These are high demand, limited supply aircraft with the current models used by 70 airlines.

Financial and Investment Considerations

Aircastle is both very profitable and it generates a high level of free cash flow. For 2015, reported revenues of $819 million resulted in adjusted net income of $142.3 million, or $1.75 per share. Net income was down slightly compared to a year earlier on about the
same level of revenue. Non-cash items such as depreciation for the period totaled $319 million. Calculated free cash flow from operating activities for the year of was $455 million, or $3.10 per share.

Keep this number in your head: Aircastle generates over $5.50 per share in free cash flow per year. Since aircrafts decline in value, the depreciation expense is real, but it is not a cash expense. Also, results will vary quite a lot from quarter to quarter depending on how many aircraft are sold and then net profits or losses from the sale. In 2015, profits from sales totaled $58 million.

The current AYR dividend rate is $0.24 per quarter/$0.96 per year, which requires $19 million per quarter, $39 million for a half year, and $77 million for the full year. Compare this to the $455 million of cash flow generated in 2015 and you get an idea of the safety of the AYR dividend.

The Aircastle board has announced a significant dividend increase every year since 2010. The increases have been either 2 or 3 cents on the quarterly rate each year. Last year the 2 cent bump was a 9% increase over the previous dividend rate. The new higher rate has been announced each year at the end of October for the dividend to be paid in December. For 2016, a 2.5 cent increase would be a 10% boost, and 3 cents would be a 12.5% boost to the dividend. I expect a minimum of 2 cents and anticipate 3 cents.

At the current $20.00 per share, AYR yields 4.8%. The expected dividend increase will move that yield up to 4.95% to 5.0%, using the current share value. The announcement of a higher dividend should give some lift to the share price. This stock is a long-term total return play, with an attractive entry yield.
The market tends to move the AYR share price along with airline stock values. Since this comparison doesn't really apply to the Aircastle business operations, it is a good time to buy AYR shares whenever the market doesn't like the airlines. The AYR shares traded above $25 back in May 2015, at the market peak before the recent market correction.

Recommendation:

Buy and accumulate AYR if the yield is above 4.25% before the dividend is increased or above 4.75% after a rate hike announcement.

Easterly Govt. Properties Inc. (NYSE:DEA)

Easterly Government Properties Inc. (NYSE:DEA) is a new public REIT that lives up to its name and owns properties that are leased to federal government agencies. Easterly plans to aggressively grow its portfolio of facilities, and this growth should lead to a rewarding combination of attractive current yield, dividend growth, and share appreciation.

Background

Easterly Government Properties was formed in 2011 by a group of executives with an average of 25 years of commercial real estate management experience. The company went public with a February 2015 IPO. At the time of the IPO, Easterly owned 29 properties that were 100% leased, with 26 leased by federal agencies.

The company's goal is to acquire properties to lease to government agencies. Criteria include buying buildings that are less than 20 years old (the average government facility
is almost 50 years old) and put them on 10 to 20 year leases with built in rent increases. The General Services Administration (GSA) sets up almost all government leases and is moving the federal government away from owned facilities. GSA leased square footage has grown by 29% since 1998 with owned asset size staying flat over the same period. Changing missions and technologies are also pushing agencies into newer buildings that better support department requirements.

Leasing to the GSA takes a high level of expertise to work through the government contracting process. Currently, no landlord owns more than 3% of GSA leased properties and the top 10 own about 15% of government-leased properties. The handful of REITs operating in the government buildings sector has stable portfolios but little growth potential.

**Investment Potential**

Easterly, however, has come into the government-leasing sector with more aggressive growth plans. The goal is to acquire $75 million to $125 million of properties per year to the portfolio to lease to government agencies. With a current enterprise value of about $750 million, that target equates to 10% to 15% annual growth.

Easterly currently carries a low debt balance that equals 15% of enterprise value. Its peer REITs have debt levels of 40% to 50%. This means that Easterly can fund property acquisitions with more debt, which will increase the cash flow per equity share. Right now, the company could buy up to $350 million in new assets before it would need to issue more shares to keep the balance between equity and debt financing in line with what is prudent for a publicly traded REIT.
The fact that Easterly has its long-term leases with the world’s most financially safe client allows the use of moderate to high debt levels while still maintaining a secure balance sheet.

The Easterly management team is forecasting that annual FFO per share will grow by 36% through the end of 2016. I am looking for the current $0.23 quarterly dividend to be increased by at least 10% over the next year. The DEA shares now yield 4.64%.

My expectations are that the combination of long-term government guaranteed leases with an attractive growth profile will catch the investing markets attention as Easterly Government Properties builds a track record. This level of growth plus safety could result in the market pushing the share price up and the yield down. If the yield goes to less than 4% we would see a mid-$20's share price.

Recommendation:

Buy and accumulate DEA shares as long as the yield is about 5%. That gives a share price buy up to of $21.00 with the current dividend rate.

EPR Properties (NYSE:EPR)

I review and research a large number of dividend paying stocks. Even though I try to methodically work through my databases of MLPs, REITs and other high-yield stocks, sometimes an interesting, yield focused investment option just falls into my lap. EPR Properties (NYSE: EPR) is one such investment. This mid-cap REIT has a dominant position in a smaller sector of commercial real estate, pays an attractive yield that has been increased at an above average rate, and pays monthly dividends. Yes, monthly dividends from a high-quality REIT!

Business Overview

EPR operates as a triple-net lease (NNN) REIT. With this business model, the tenants that lease the properties owned by EPR are responsible for all of the operating costs like taxes, utilities and maintenance. EPR’s job is to collect the rent checks. Typically, NNN leases are long term, for 10 years or more, with built-in rent escalations. The sector of publicly traded triple net REITs own a range of property types including retail, office, industrial and warehouse. The combination of long-term, escalating rental rate contracts with the coverage of most property ownership expenses by the tenants make the triple net REITs one of the more stable REIT sectors.

EPR Properties separates itself from the triple net REIT pack by the focused types of properties the company owns. The EPR assets can be divided into the three categories of Entertainment, Recreation, and Education. Here are the assets currently owned in each category:
Entertainment

- 131 Megaplex Theaters
- 9 Entertainment Retail Centers, which include eight more megaplex theaters
- 8 Family Entertainment Centers

Recreation

- 11 Metro Ski Parks
- 5 Water Parks
- 19 Golf Entertainment Complexes

Education

- 69 Public Charter Schools
- 3 Private School
- 19 Early Childhood Centers

As a triple net lease, EPR owns all of these properties, which are then leased out to third-party operators or tenants. The focus specialties of the REIT are long-lived business with growing revenues. For example, the gross proceeds of movie theaters have grown by 4% to 5% per year on average for the last 25 years. Currently, the company generates 57% of its net operating income from the entertainment holdings, with the other two sectors evenly splitting the other 43%. There are over 6,000 charter schools in the U.S., but there is over a one million and growing backlog of students (or their parents) who want to attend a private charter school. And in the recreation segment, EPR has
partnered with industry leader TopGolf as the tenant and operator of the golf complexes. The TopGolf expertise has made EPR’s recreation sector into one of the faster growing parts of the REIT’s business.

EPR uses its expertise in three market sectors to aggressively grow the size of the property portfolio.

*While EPR’s core focus remains entertainment, it has substantially diversified into fast growing sectors like education and recreation.*

New properties are acquired with a signed "build to suit" agreement. Before acquiring a property and building the structure, EPR will have a binding lease agreement in hand from the end user of the property. The system works for both EPR and its tenants, who want to focus on their own business operation, such as a theater complex or golf center, and not spend corporate resources on the real estate development side. For all of 2015, EPR invested $550 million into new properties. Guidance for 2016 includes investment spending of $600 to $650 million. These amounts will be evenly split between the three sectors.

Capital spending is up from about $400 million in 2013, and $300 million in 2012. As of early 2016, the company had 7 charter schools, 13 childhood development centers, and 1 private school under development. The recreation group had 8 properties in development and from entertainment two megaplexes were in development.

**EPR Dividend Hikes Since Converting to Monthly Payer**

*Prior to becoming a monthly payer EPR increased dividends by 79% and continues to consistently raise dividends.*

**Investment Results and Potential**

The EPR growth model has done well for investors. The dividend rate has been growing by 6% to 8% annually for the last five years. Even with that attractive growth rate, EPR
shares still yield almost 5%. EPR Properties finances its growth with a 40/60 debt to equity funding split. The company has an investment grade credit rating, which keeps borrowing costs low. The narrow focus of the properties owned by EPR plus a perception that the industries the properties support have more risk than history actually shows. The narrow focus allows EPR to be an expert in these areas and generate attractive returns by providing "no brainer" real estate solutions to support the tenant companies growth plans. EPR Properties should produce above average total returns compared to its triple net REIT peers.

Historically, EPR announces a new monthly dividend rate in January, with the new rate starting with the February payment. Adjusted funds from operations, the cash available to pay dividends, has been 10% higher in the early days of 2016 compared to 2015, so another healthy increase for 2017 is in the cards.

**Recommendation:**

*Buy and accumulate shares of EPR as long as the yield is above 4.5%.*