

Philequity Corner

May 7, 2007

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Investment Basics: Property Dividend

In the Philippine context, investors have been accustomed to only two types of dividends: cash or stock. We have discussed these dividend forms and also the concept of cash yield in previous articles. Today, in our continuing investment education series, we would like to expound on a less common form of dividend which is called property dividend. This is in reply to some queries we have been getting from some readers and investors in light of the growing number of companies abroad which are taking this route of dividend payout.

To review, paying out dividends is the company's way of redistributing its profits back to shareholders. This may come in the form of cash, stocks or property. A property dividend is when the company gives out property to its shareholders in lieu of cash or stock. This may take the form of products, services or any other company assets with tangible value (including shares in a subsidiary or affiliate). In the last case, shareholders will be accorded the opportunity to directly participate in any growth or prospects of the subsidiary or affiliate.

Ex-date, record date and payment date

Before we move on to further discuss property dividend, we wish to explain certain concepts involving dividends. As in cash and stocks, the declaration of property dividend undergoes the usual process. On a certain date (**declaration date**), the board of directors approves and announces the dividend declaration. Other than the declaration date, investors should also take note of the following important dates involving the dividend payout:

- **Record date** or the reckoning date from the point of view of the company. Those who appear on the company's roster of shareholders as of this date are eligible to receive the dividend.
- **Ex-dividend or ex-date.** This refers to the date by which new investors are no longer qualified for the dividend. In other words, the shares that you buy on or after the ex-date will be trading *ex* or without the dividends. Since the market observes a T+3 (transaction plus three days) settlement process, you need to buy the shares three days before the record date to be included among the dividend recipient. Given this settlement process, the ex-date therefore occurs two days before the record date.
- **Payment date.** This refers to the date at which the company actually pays out the dividend.

High-profile examples

To further illustrate the concept of property dividends, we will enumerate some high-profile US companies which recently paid out property dividends to their share holders.

1. **First Data – Western Union** Completed in September 30 last year, payment processing service company First Data distributed a tax-free special dividend to its shareholders in the form of shares in global money transfer services giant The Western Union Company. Under the transaction, each shareholder of First Data received one common stock of Western Union for every share they own in First Data. In effect, the property dividend became a means for First Data to spin off Western Union. Western Union was listed in the New York Stock Exchange on October 4 last year and was included in the S&P 500. Upon listing at around US\$20, Western Union shares rose to a high of about \$24 or a 20% gain. It closed recently at \$21.54.

2. **Altria – Kraft.** Completed just over a month ago (March 30, 2007), consumer products giant Altria Group Inc offered a tax-free dividend to its shareholders under which it distributed 0.7 of a share in Kraft Foods Inc for every share they own in Altria. Prior to this, Altria owned 89% of Kraft. It is also the holding company for Philip Morris and Marlboro. The property dividend/spinoff eventually created the biggest stand-alone food company in the US and the second biggest in the world next only to Nestle.
3. **McDonald's –Chipotle Grill.** This is probably one of the most profitable spinoff/offer to shareholders. It started with an offer made by McDonald to its shareholders to swap their McDonald's shares to class B shares of Chipotle Mexican Grill at a 10% discount per share. After this, Chipotle applied to have its shares listed after the spinoff. The deal was one for the books as Chipotle shares (after an IPO) doubled upon listing to become the biggest opening-day gainer in the US in more than half a decade.

Property dividend: the local experience

A local deal involving a property dividend that we can think of is that of Petrofields Exploration Development Corp. Through a series of restructuring steps, the shareholders of Petrofields received a share of what is now known as iPeople Inc (IPO) and seven shares of what is now Petroenergy Resources Corporation (PERC) for every share of Petrofields that they held. Both IPO and PERC are now listed companies and performed quite spectacularly last year. PERC has a stake in a consortium operating certain oil wells in Gabon, Africa while IPO is engaged in information technology and education. PERC's share price last year more than tripled last year amid the spiraling of world oil prices.

iVantage and Yehey!

Last week, iVantage Corporation announced that it has declared a property dividend to its shareholders in the form of shares in Yehey Corp. Under the property dividend offer, iVantage shareholders will receive five Yehey shares for every 100 iVantage shares that they own. The record date for the property dividend is May 18 and the ex-date is on May 14, 2007.

Yehey is principally engaged in the management and marketing of Yehey.com and other organic websites. It also develops online marketing campaigns and programs for various corporate accounts, and operates the Philippines' only integrated online payment gateway called *Kaban*. Today, Yehey.com is the world's number one Filipino internet portal and search engine with strong following among Filipino internet users worldwide. This credential has also made Yehey a compelling medium for advertisers.

Yehey plans to be listed by way of introduction in the PSE. With Yehey's eventual listing, iVantage shareholders eligible for the dividend can potentially realize additional returns through any market price appreciation.

(Disclosure: the author is chairman of the board of both iVantage and Yehey Corp).

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