

Philequity Corner (February 20, 2012)
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Earning While Waiting

Last Friday was a milestone for the Philippine market. Coming from the 2011 low of 3,721, the Philippine Stock Exchange index (PSEi) has surged 31% to an all-time high of 4,880 points. While the bull run seems to be on its way this year, 2011 was fraught with various crises and challenges that effectively kept the market from rallying significantly that year. However, stocks that paid high dividends outperformed the market since these were viewed as safe havens by investors who still wanted to be exposed to the Philippine market.

What is a dividend?

Dividends are payments made by a company to its shareholders. This is usually taken from its profits if it is in the form of cash. Dividends can also be in the form of additional shares (stock dividends) or even shares of another company which it also owns (property dividend), such as when PX gave out cash and shares of Philex Petroleum (PXP).

When do I receive my dividend?

Last week, GLO declared a semi-annual cash dividend of PhP 32.50/share out of its 2011 net income. It also stated 3 important dates – the ex-dividend date (ex-date), record date, and the payment date. In its disclosure, the ex-date is on February 21, 2012, which is tomorrow. The record date is on February 24 while the payment date is on March 16. Let us examine these terms more closely.

The ex-date is the date on which the seller of GLO, and not the buyer, will be entitled to the recently announced dividend. In other words, if one does not own GLO yet, he must buy it today in order to receive the dividend. However, if an investor owns GLO already, then he should not sell his GLO today in order to collect the PhP 32.50/share dividend. Hence, it is okay to sell GLO tomorrow for this purpose. If one opts not to sell it, the result will be the same. The record date has less significance. Since transactions are settled on a T+3 basis to allow time for processing, one officially becomes the owner of a stock only upon settlement. Thus, one will notice the ex-date is set 3 days prior to the record date. The payment date, on the other hand, is when the dividend will be paid to the entitled shareholder. In the case of GLO, it means that on March 16, PhP 32.50 will be credited to the entitled shareholder's account for each share of GLO he owned on the ex-date.

The Best Offense is a Good Defense

This is an oft-repeated phrase in sports, and it may well apply to the market. While buying stocks for their dividends might sound like something only our grandfathers would do, there are a number of reasons why, boring as they are, it pays to buy these stocks. For one, the dividends received allow the investor to realize a portion of his gains. The cash dividends he will receive will no longer fluctuate with the market movements and can also serve as a buffer in case the stock falls. In addition, as the prices of these stocks fall, the dividend yield goes higher. This higher yield makes the stock more attractive for long term investors and those seeking safety. Thus, demand from them will limit any further decline in the price.

Better than a time deposit

Below is a table showing the current dividend yields of the most liquid stocks in the country. Notice that the top 4 stocks on this table have yields higher than the current time deposit rate. In other words, even though the dividend yields at this point may not be that high anymore because prices have gone up, the dividends paid by these stocks are still higher than the interest one can earn from a time deposit.

Current dividend yields of selected companies at current market prices (February 17, 2012)

Company	Dividend Yield	Price
Philippine Long Distance Telephone	7.8%	2,858.00
Globe Telecom	4.9%	1,248.00
Semirara Mining	4.9%	216.40
Aboitiz Power	4.5%	29.55
Universal Robina Corp.	3.7%	50.90
Cebu Pacific	4.1%	74.50
Aboitiz Equity Ventures	3.5%	45.00
Alliance Global	3.3%	10.76
First Philippine Holdings	3.4%	60.05
Bank of the Phil. Islands	2.6%	68.40
Meralco	2.8%	268.60
Energy Development Corp.	2.7%	5.71
DMCI Holdings	2.2%	45.70
SM Prime Holdings	1.7%	16.20

Whereas the current dividends yields are not as attractive as they were in the past, we would like to emphasize that this is a result of the stock price appreciation caused by the bullishness in stock markets worldwide.

Cash dividends plus price appreciation

We periodically present our investment strategy to our Board and selected clients. In September 16 last year, one of the investment ideas we recommended to our Board was to buy high dividend yield stocks. We also presented this to some clients, both institutional and retail. Below is a table showing the prices and dividend yields when we made this presentation, as well as the return on the stocks we recommended.

Dividend yields of selected companies at prices during our last presentation (September 16, 2011)

Company	Dividend Yield	Price	Price appreciation from 09/16/2011 to 02/17/2012	Total Return from 09/16/2011 to 02/17/2012
Philippine Long Distance Telephone	10.1%	2,204.00	29.7%	38.8%
Globe Telecom	6.6%	921.00	35.5%	41.4%
Semirara Mining	5.0%	210.00	3.0%	7.5%
Aboitiz Power	4.5%	29.70	-0.5%	3.5%
Universal Robina Corp.	4.3%	44.15	15.3%	19.2%
Cebu Pacific	4.1%	74.90	-0.5%	3.2%
Aboitiz Equity Ventures	3.9%	40.80	10.3%	13.8%
Alliance Global	3.7%	9.61	12.0%	15.3%
First Philippine Holdings	3.7%	54.40	10.4%	13.7%
Bank of the Phil. Islands	3.2%	56.50	21.1%	23.9%
Meralco	3.1%	246.00	9.2%	12.0%
Energy Development Corp.	2.7%	5.80	-1.6%	0.9%
DMCI Holdings	2.7%	37.65	21.4%	23.8%
SM Prime Holdings	2.2%	12.62	28.4%	30.3%
Average	4.3%		13.8%	17.7%

We would like to note that over this 5-month period, if one owned each of these stocks equally, one would have earned 13.8%, excluding cash dividends. On the average, if we include the yield on dividends, the total return (net of the 10% withholding tax on dividends) would be 17.7%.

Watch Out for Unsustainable Yields

As we have mentioned many times in previous articles, amidst this uncertainty, it pays to buy on dips while focusing on cheap and growing companies with steady income streams. The same is true for high yield stocks - not all these stocks are made equal. There are some stocks which may face difficulty in sustaining such a high dividend payout in case a severe global recession does come to pass. One can ask his own broker which of these companies will be least affected by a global economic slowdown and will be able to continue paying out dividends. Better yet, one should just conduct his own research and determine for himself which of these not only have high recurring income, but are also mostly exposed to the domestic environment. If one owns the right high dividend yield stocks while the market is taking a breather, feel free to take a break. Not only will one be earning, but one will be earning while waiting.

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