All About Dividend Stocks

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Webinar Outline

Presentation Outline:
- Overview of Dividends
- Dividend Yield vs. Growth
- Dividend Safety

Stock Rover Demo Outline:
- Demonstrate yield versus growth
- Run dividend screener
- Analyze screener results (with special emphasis on dividend safety)

Overview of Dividends

- A portion of the company's earnings that are paid to a class of its shareholders
- Traditionally offered by more-established (i.e. not high-growth) companies
  - Most high-growth companies use their earnings to reinvest in the business instead of paying out as dividends
- Dividends are usually spoken about in per share or yield terms

Dividend Yield

- Dividend Yield = Dividend Per Share/Price
- A "yielder" has a yield that's consistently above 3% (generally) but grows that dividend slowly
  - You still want it to be growing above the rate of inflation
- Usually yielders are more established companies that don't have room to grow
  - Reward investors with high dividend
- "Accidental Yielder" is a stock whose price has dropped, sending its yield upward
  - Always look at the yield with historical context

Dividend Growth

- Dividend Growth = annualized percentage rate of growth of the dividend over time
- A “grower” has yearly dividend growth rates above 5% (roughly)
- Usually they are companies with more room to grow in the market

Dividend Safety

- Dividends can be cut at any time if the firm feels it can no longer sustain them at the current level
  - This is bad! You lose your dividend *and* the share price almost always drops

- Dividends don't exist in a vacuum
  - Look at earnings, cash, debt, and dividend history

Dividend Safety – Earnings

- Earnings are the engine of the whole company
  - Want them to be growing consistently
  - Want them to be at or above the industry average

- Don't want the dividend payments to be taking up too much of the earnings
  - Look at the Payout Ratio (against the industry average and over time)

Dividend Safety – Cash

- Make sure they have enough cash to cover the payments
  - Cash Dividend Coverage Ratio
  - Quick Ratio

- Sometimes cash is a better gauge than earnings
  - Depends on the business

Dividend Safety – Debt

- Interest on debt has to be paid before dividends, so make sure the debt is manageable

- Long-Term Debt/Equity
  - Changing over time?

- Interest coverage Ratio
  - Changing over time?

Dividend Safety – Dividend History

- See how the company has managed dividends in the past

- Look for no dividend interruptions
- It’s a good sign if the firm has consistently grown the dividend

Dividend Sum-Up

- Stocks are generally dividend yielders or dividend growers
- Dividend safety is linked to general company health
  - Consult earnings, cash, debt, in addition to dividend history
- Always look at metrics in comparison to industry, and their own historical averages

Demo: Yielders vs. Growers

- STX (grower) vs. BNS (yielder)
  - Chart dividend yield and dividends per share with the fundamentals menu
- Chart Yield screener against Dividend Growth screener
  - Add S&P as a benchmark

Dividend Growers Screener

- Comes with Stock Rover account (or find it in the Library)
- It is a Quant screener, but Basic users can use the non-Quant criteria
  - It will return the 50 top-ranked stocks
- Download the Dividend Safety view used in the demo from the Library
- Mouseover the rank column for the quant score and filter breakdown

Dividend Safety Example: Earnings

- Chart against industry and sector
- Earnings and Payout Ratio:
  - To see these metrics in their historical context:
    - Expand the table row for historical data
    - Add them in the chart
    - Add earnings to chart through the Events menu (mouseover squares for more information)
  - To see these metrics compared against those of peer stocks:
    - Summary tab in the Insight Panel (EPS only)
    - Peers tab in the Insight panel (add relevant columns and click headers to sort)
    - Load industry as a table row (by clicking relevant Sector folder in Navigation panel) and look at industry values for table metrics

Dividend Safety Example: Cash

- Cash Dividend Coverage Ratio & Quick Ratio
  - The Cash Dividend Coverage Ratio is a custom metric in Library—you must import it first
- Use the column info box for a descriptions of the metrics
- To see these metrics in their historical context:
  - Add them in the chart
  - Expand the table row for historical data
- To see these metrics compared against those of peer stocks:
  - Peers tab in the Insight panel
  - Load industry as a table row

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Dividend Safety Example: Debt

- Debt/Equity & Interest Coverage Ratio
  - Look at this in historical context and against peer stocks and industry average
- Want debt decreasing over time
- Want interest coverage to stay steady (if it’s at a healthy level) or increase

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Dividend Safety Example: Dividend History

- Chart dividends per share or dividend yield in the chart
- Pay special attention to periods when the price dropped
- There should be no dividend interruptions
- There should be no dividend adjustments downward
  - Check to make sure there hasn't been a recent change in management

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Additional Tips

- Color-code stocks based on your findings (i.e. red for unsafe dividend)
- Read the filings
- Modify your screeners to fit exactly what you're looking for
    - Equation screeners with historical data are very helpful for dividend screening