

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

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

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

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