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In a year of fear, dividend stocks shine

They provide bigger total returns than high-growth counterparts; views are divided over next year

By **CAI HAOXIANG**

[SINGAPORE] In a year ravaged by fears about a Greek default, a hard landing in China and a US recession, high-dividend stocks beat their racier high-growth counterparts in total returns as they assured investors that their strong cash flows could continue.

In Singapore, investors putting their money in the top 20 stocks with the highest indicative dividend yields at the end of last year would have enjoyed total average returns of 30.5 per cent, according to data compiled by the Singapore Exchange as requested by *The Business Times*.

In contrast, those putting their money in the top 20 stocks by historical beta – fast-growing stocks with the highest volatility relative to the Straits Times Index – recorded a total average return of 15.2 per cent.

Meanwhile, a study by Credit Suisse for the first nine months of the year for large-cap stocks with a market capitalisation of more than $1 billion found that dividend stocks outperformed growth stocks by 10 per cent. However, over a longer period – from January 2010 to September 2012 – growth stocks outperformed dividend stocks by 12 per cent.

Dividend stocks did well this year because negative real interest rates forced investors to seek comfort in the income they pay, said Kelvin Tay, regional chief investment officer of UBS Wealth Management.

"High beta stocks thrive in an environment where there is strong growth in the economy. Singapore currently has a situation that is akin to a mini stagflation," he said.

The beta of an asset is a measure of its volatility as compared to a benchmark. A beta of one means price movements are perfectly correlated with the STI.

Some 16 out of the 20 dividend-paying stocks had betas below one, meaning that their prices move up or down together with the STI, but not as much.

Take construction and property play Low Keng Huat (LKH), for example. It had a two-year beta of 0.58 on Dec 9, 2011. It also had a dividend yield of 11.2 per cent, putting it within the top 20 stocks by dividend yields at the end of last year.

For its fiscal year ended Jan 31, 2012, LKH paid out a second year of four-cent dividends, maintaining a roughly 10 per cent dividend yield on the 40 cents price that the stock had hovered around the last two years.

Investors soon cottoned on to the value the company offered. LKH's price literally doubled from 28 cents last December – as property developers fell to lows amid tightening measures unveiled by the government – to 56 cents this month. With a total return of 109.1 per cent, LKH is the top-performing high-dividend stock in this study.

Counters such as real estate investment trusts (Reits) did well, too. There were four Reits among the top 20 dividend-paying stocks last year.

Over the year, their dividend yields got compressed as they soared in price. AIMS AMP Capital Industrial Reit returned 62.9 per cent, First Reit returned 48.6 per cent, Lippo Malls returned 41.2 per cent and Sabana Shari'ah Compliant Reit returned 39 per cent.

In total, price appreciation for the 20 highest dividend-paying stocks in December 2011 meant that 12 months later, their yields have dropped to 6.1 per cent from 13.4 per cent.

Investors would not have done badly if they had picked stocks at the end of last year solely based on the dividends they offered, though they can't be too greedy.

China sports shoe sole maker Qingmei Group Holdings topped the charts with an indicative dividend yield of 23 per cent a year ago, but lost 50 per cent of its value this year.

Its revenue plunged 86 per cent amid drastically lower sales volumes, causing the company to make a loss for its third quarter ended Sept 30.

Meanwhile, putting money in volatile high-beta stocks, a proxy for high-growth stocks, remained a viable strategy even though it was less successful overall.

The top two stocks that had the highest two-year beta a year earlier, electronics waste recycler Metech International and Catalist-listed property developer Singxpress Land, returned 43.3 per cent and 77.8 per cent, respectively.

Large-cap Chinese shipbuilder Cosco Corp returned 1.7 per cent, while commodities trader Noble Group fell 6.8 per cent.

Looking ahead, market observers agree that low interest rates in the near term will continue to push investors towards dividend stocks.

Said UBS's Mr Tay: "We do not see the macroeconomic environment changing much for next year and therefore growth stocks in Singapore, especially the small and mid-cap stocks, are likely to struggle."

But Citi Singapore's head of research, Patrick Yau, said that "a recovery in exports would lead us to focus on under-owned beta". These stocks include cyclicals and financials, he said, highlighting Neptune Orient Lines, Wilmar International, UOB and Hongkong Land.

"While well owned, we continue to like Keppel, Global Logistics Properties and CapitaMalls Asia due to their respective structural strengths," Mr Yau said.

Dividend stocks such as Reits are no longer on Citi's list of top picks as their valuations are more than one standard deviation up, he said.

"Ascendas Reit and Suntec Reit are our selected picks here due to their more resilient distribution profile. Venture, M1 and STX OSV are our picks in the dividend-centric space for investors looking for mid-small sized firms."

The top 20

How the top growth stocks of 2011 performed in 2012

Stock	β2011	β2012	12-mth return (%)
Metech International	2.47	0.41	43.3
Singxpress Land	2.42	1.04	77.8
Jes International	2.29	1.9	-17.2
Digiland International	2.16	0.19	50
Falcon Energy Group	2.12	1.81	20.5
Cosco Corp	2.11	1.65	1.7
Noble Group	1.97	2.05	-6.8
Eratat Lifestyle	1.95	1.38	-1
Longcheer Holdings	1.93	1.32	45.8
Gallant Venture	1.91	1.64	5.8
Z-Obee Holdings	1.9	1.76	-3.3
Sinotel Technologies	1.88	1.51	-8.8
Ying Li International	1.87	1.77	31.5
Oceanus Group	1.86	1.32	-54.2
Midas Holdings	1.83	1.83	21.8
Ramba Energy	1.82	1.63	1.3
Jiutian Chemical Group	1.82	0.77	-10.2
Artivision Technologies	1.81	1.64	62.2
Progen Holdings	1.81	1.51	29.7
Swiber Holdings	1.8	1.62	14

How the top dividend stocks of 2011 performed in 2012

Stock	Div'11 (%)	Div'12 (%)	12-mth return (%)
Qingmei Group Hldgs	23	0	-50
Elec & Eltek	19.2	10.3	-2
Hotung Investment Hldgs	17.1	7.4	25.5
First Ship Lease Trust	16.2	0	-57.8
Innotek	16.1	15.2	7.2
Latitude Tree Intl Group	15.5	1.1	-13.2
Lippo Malls	12.7	6.2	41.2
Baker Technology	12.4	3.1	32.3
Chip Eng Seng	11.9	7.3	64.2
Technics Oil & Gas	11.9	4.8	36.9
Nera Telecom	11.6	8.1	43
AIMS AMP Cap Ind Reit	11.5	7.1	62.9
Sim Lian Group	11.4	6.6	80
Tee International	11.3	5.8	45.2
Rickmers Maritime Trust	11.3	8.5	24
Low Keng Huat	11.2	5.4	109.1
First Reit	11.1	1	48.6
Lee Metal Group	10.9	8.3	31.3
Cityspring Inf Trust	10.8	7.5	43
Sabana Shariah Comp Reit	10.8	8.5	39

Note: Data was compiled by Singapore Exchange for The Business Times, as of Dec 12, 2012
β2011 refers to two-year beta on Dec 9, 2011, and β2012 refers to two-year beta on Dec 11, 2012