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Why dividend hunters should home in on Asia-Pacific

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INSIGHT

A dividend is a dividend is a dividend. Historically, many investors have found that continuing and growing cash payments in the shape of dividends deliver current income and support long-term equity returns. However, in the minds of many investors, companies continue to be evaluated on their place of origin rather than ability and track record of paying growing dividends.

This view has lead to a focus by US income-oriented investors on US dividend-paying companies. It has become painfully apparent that this has put the dividend income of many investors at unnecessary risk.

What do GE, Citigroup, Bank of America, Pfizer and JPMorgan Chase have in common? All had solid records of dividend payments and all were among the top 10 dividend-paying companies in the S&P 500 in 2007.

But all have since slashed their dividends, in most cases leaving investors with only a symbolic payment.

Observing dividend-paying stalwarts fall to earth should prompt income-oriented investors to question their assumptions on how and where they invest for income and long-term growth in income. The time has come for such investors to consider other parts of the world, such as Asia-Pacific.

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Income-oriented investors are concerned with three aspects when assessing the long-term attractiveness of a country or sector: the scale of the universe of dividend-paying companies, the rate of dividend growth, and the price paid (ie the current yield).

The universe of dividend-paying companies in Asia-Pacific has expanded during the past decade, making it broad and deep enough to pursue a scalable dividend investing strategy.

In 2007, the constituents of the MSCI Asia Pacific Index, with a total market capitalisation of about $6,200bn, paid out $244bn in dividends.

By comparison, the S&P 500, with a market capitalisation of $8,200bn, paid out $253bn.

Based on these numbers the respective dividend yields for the constituents of the indexes were 3.9 per cent and 3.1 per cent.

US investors face the risk of lower dividend income and equity values should currencies in the Asia-Pacific region depreciate against the US dollar.

That said, dividend payments in Asia offer a more diversified income stream than in the US.

Dividends in the MSCI Asia Pacific Index are derived from companies in 14 countries, with the top 10 dividend payers accounting for about a fifth of total dividends paid.

In comparison, the top 10 dividend payers in the S&P 500 accounted for almost a third of total dividends paid by its members in 2007.

Companies in the region have delivered faster dividend growth than their US peers yet offer higher yields

Between 2002 and 2007 the dividends paid by the constituents of the MSCI Asia Pacific Index grew at a compounded annualised rate of 24 per cent compared with 10 per cent for the S&P 500.

Dividends in Asia seem mispriced, perhaps because investors have mainly sought growth in earnings while overlooking growth in dividends. Groups in the region have delivered faster dividend growth than their US peers yet offer higher yields.

The question is where dividends are heading. While Asia is not immune to dividend cuts, history indicates that dividends tend to be less volatile than earnings in Asia.

According to Morgan Stanley, during the Asian crisis, earnings for the MSCI Asia Pacific ex Japan Index fell close to three-quarters while dividends fell by a fifth.

There are several explanations for why dividends have been sticky in Asia. Similarly to the US and Europe, some teams take pride in a record of growing or stable dividends. Also, Asian groups often exhibit a high degree of family or government ownership and dividends represent a legitimate way to extract value.

In a world where yield, whether from fixed income or equities, is increasingly difficult to attain, investors do themselves a disservice if they disregard the income potential of Asia-Pacific companies.

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