FINWEEK (English), Top 200
27 Mar 2008
Page : 44 #

Investors looking for opportunities

The right selection is easier said than done

THE LAUNCH OF THE Satrix dividend plus index fund last year is testimony to how investors are increasingly looking for opportunities in high-yielding shares. Indeed, the table of dividend yields (calculated by taking the annual dividend and dividing it by the ruling share price) confirms that investors seeking income could have made superb returns (along with capital growth) if they made the right selections.

Of course, making the right selections is easier said than done. And it isn't a prudent procedure to assume the best dividend yielders in 2007 will again be the best dividend yielders this year.

Northam Platinum, which heads the 2007 table with a stunning yield of 13,1%, is a case in point. At the time of writing, Northam had slashed its interim payout for the year to end-December by more than 40% to 141c/share.

Another issue to consider in perusing the dividend yield table is that a falling share price also tends to flatter the yield ranking – even, in some cases, where the dividend payout is pegged or reduced.

A good example here would be Verimark, which has fallen out of favour with the market after disappointing profit performances. Verimark still ranks high on the table but that has less to do with generous distributions to shareholders and much more to do with a marked down share price.

In our 2006 survey, clothing group Pals Holdings was ranked third with a dividend yield of 13%. By end-2007 Pals had sold off its ailing clothing business and the only dividend shareholders may be lining up for is a winding down payout (possible, if no new assets are injected into the Pals shell).

Yup, interpreting dividend yields can be a dangerous business. Perhaps the best strategy is to check out the top contender's ability to pay sustainable dividends but referencing other tables in the survey – such as cash flow, gearing and EBITDA growth.

Interpreting dividend yields can be a dangerous business

Once again, the top rungs of the dividend yield ladder are dominated by property counters, an understandable pattern as such companies traditionally distribute the bulk of their rental income as dividends.

Seven of the top 10 dividend yield rankings were property counters.

Ambit tops the list, with a very useful 8,6% yield, followed by perennial favourite Apex-Hi A, with 8,4%. The under-rated and overlooked Putco Properties managed sixth spot (with 8,2%), with Hospitality (8%), Vukile (7,7%), Madison (7,5%) and IFour (7,3%) completing the top 10.

Second place in the rankings went to empowerment funding specialist Makalani Holdings, which yielded a rather attractive 9,2%. Makalani was ranked 13th last year, with a yield of 7,3%, and we wonder if the group – now with considerably more funding deals under its belt – can show another improvement in 2008.

Mustek, the computer maker that pays regular dividends, shifts from 25th to fifth – but probably more, as its share price has been heading south rather than any huge increases in payouts to shareholders.

Interestingly, there are quite a few technology companies ranked in the top 100 dividend yielders – which is quite surprising, considering the huge R&D demands on technology companies preclude regular dividend flows. Infowave ranked 27th (with a yield of 5,7%), Datacentrix 39th (5,1%), Amecor 55th (4,4%) and ISA Holdings 87th (3,1%).

Tech-inclined heavyweights, such as Telkom (4,2%), Reunert (4,4%) and Altech (3,5%) also fared well.

Poultry group Astral Foods was the best of the broader industrial operations, with a yield of 7%, while Lewis (6,4%) pipped Foschini (6%) in the retailer rankings.

Steel groups ArcMittal (2,9%) and Hiveld (3,1%) also caught the eye, with Sasol coming in at number 103 with a yield of 2,7%.

Financial services companies also featured strongly, with BJM and Coronation both achieving yields of 5,8%.

Private equity specialists Brait yielded 5,1%, while Abil was the best of the banks at 6,8% (Nedbank being the best of SA's Big Four at 4,4%).

It was also heartening to see a number of newer listings making it into the rankings: Telemaster, Gooderson Hotels & Leisure and human resources specialist Kelly.

Our dividend picks for next year would include Tote operator Phumelela (91st, with a yield of 3%), packaging group Bowler Metcalf (83rd; 3,2%), human resources specialist Adcorp (15th; 6,8%) and fishing group Oceana (36th; 3,6%). And the biggest improvement in yield for 2008?

How about the JSE Ltd, which recently altered its asset aligned dividend policy that should mean more generous distributions as long as trading volumes on the bourse remain robust.

MARC HASENFUSS

Verimark's position in the table is deceptive.