

An investor guide to dividends

We explain what dividends are and why investors might want to hold them.

By Ben Sheehan, Senior Investment Specialist, Equities, Asia Pacific

What are dividends?

Companies listed on public stock exchanges issue dividend payments to shareholders as a means of returning their profits directly to them. Some firms pay dividends regularly in the ordinary course of business, mostly semi-annually or annually. Sometimes companies also issue special dividends to shareholders – typically larger, one-off payments as a result of a windfall such as the sale of an asset.

Why do companies issue dividends?

When a company pays a dividend it tends to increase investor interest in its stock. This can help to raise the share price and unlock value in that company. In general, paying dividends demonstrates good capital management and respect for shareholders. It also incentivises investors to stay invested and so helps to encourage a stable, loyal shareholder base – which is also supportive of share price.

What is good capital management?

Businesses that make profits and reinvest back into the company and/or return at least some of this capital to shareholders demonstrate sound financial discipline. What investors don't want to see is companies retain excess cash on their balance sheet without good reason. Paying dividends is often seen as an indicator of good corporate governance. It is not the only factor, but it is one of them.

Should investors associate paying dividends with company quality?

Paying dividends can serve as an indicator of company quality. However, it's not always the case. For example, a company might be offering a high dividend yield – which is the dividend it pays calculated as a percentage of its share price. However, that may be due to a fall in share price, which could point to its waning business prospects and highlight how its dividend is not sustainable. It is key for investors to understand a company's fundamental strengths and therefore its ability to sustain its earnings and maintain its dividend payments.

Do all companies issue dividends?

No. Companies at an earlier stage of development tend to reinvest their profits into new business expansion. In other words, they retain their earnings to fund their future growth. Many fast-growing companies remain popular with investors even though they pay low or no dividends – such as tech stocks – because they generate good rates of return. But companies at a more mature stage of development don't need to reinvest in their business to the same extent. As such, they may combine re-investing for the future with sustaining shareholder loyalty by paying out dividends.

Can companies continue to pay dividends in this challenging environment?

Despite numerous companies delaying or cutting their dividends to ensure a sufficient capital buffer to counter the impact of the coronavirus pandemic, there remains a large, global universe of stocks that continue to pay out [dividends](#). The pandemic has affected industries and sectors differently. Some are better placed or able to adapt than others. The dividends of companies operating in sectors such as technology, health care, consumer staples and materials have proved more resilient during this Covid-19 chapter than banks, insurers, automakers and property developers. We analyse thousands of companies and have drawn up a buy-list of more than 1,100 stocks. We can see the companies best able to sustain their earnings and/or that have sufficient reserves to maintain dividend payouts. Despite a challenging market environment, there remains ample opportunity for investors to find companies able to continue paying dividends.

Do you expect continued investor interest in dividends?

Yes. Monetary and fiscal support for markets following the 2008 financial crisis and 2020 global health pandemic have driven interest rates to record lows and exacerbated a search for yield. A staggering US\$15 trillion worth of bonds offer negative yields today (see chart below), forcing investors to buy riskier bonds to attain sufficient yield or consider looking elsewhere. Equity is one of the few asset classes where investors can still find attractive yields. It can also act as a good diversifier for investors who remain heavily reliant on bonds for income. In addition, the global demographic shift of ageing societies equates to more people seeking income to fund their retirements. In Asia especially we have seen strong demand for income funds, and we expect this trend to continue.

But aren't equities also volatile and risky?

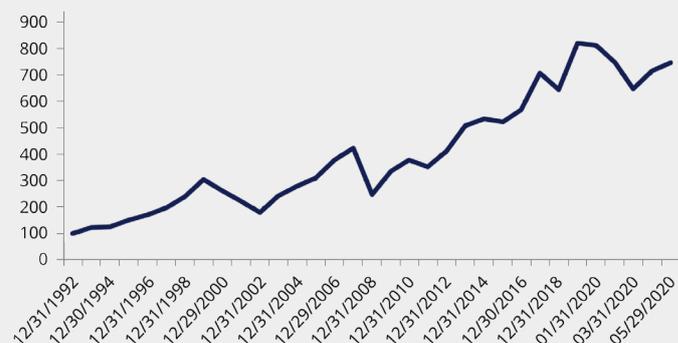
Yes, equity can be a volatile asset class. However, history shows that returns have compensated investors for taking on equity risk (see chart below). When markets turn volatile, dividend-paying stocks offer investors an income as they wait for the markets to recover. One key factor is that dividend-paying stocks offer opportunities to capture both yield and capital growth. It's why we believe that a disciplined approach to managing a global equity portfolio will offer attractive risk-adjusted returns over the long term.

Bloomberg Barclays Global Aggregate Negative Yielding Debt (US\$)



Source: Bloomberg, USD terms, 2 September 2020. For illustrative purposes only. No assumptions regarding future performance should be made. Past performance is not a guide to future results

MSCI AC World Total Return



Source: Bloomberg, MSCI, June 2020, rebased to 100. For illustrative purposes only. No assumptions regarding future performance should be made. Past performance is not a guide to future results.

Important information

This document is not an advertisement and does not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase any investment nor shall it or the fact of its distribution form the basis of or be relied on in connection with, any contract for the same. The contents in this document are for information, illustration or discussion purposes only and should not be construed as a recommendation to buy or sell any investment product and do not purport to represent or warrant the outcome of any investment product, strategy program or product. Reference to individual companies or any securities or funds is purely for the purpose of illustration only and is not and should not be construed as a recommendation to buy or sell, or advice in relation to investment, legal or tax matters.

Any research or analysis used to derive, or in relation to, the above information has been procured by Aberdeen Standard Investments (Asia) Limited ('ASI Asia') for its own use, without taking into account the investment objectives, financial situation or particular needs of any specific investor, and may have been acted on for ASI Asia's own purpose. ASI Asia does not warrant the accuracy, adequacy or completeness of the information herein and expressly disclaims liability for any errors or omissions. The information is given on a general basis without obligation and on the understanding that any person acting upon or in reliance on it, does so entirely at his or her own risk. Past performance is not necessarily indicative of future performance.

Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. ASI Asia reserves the right to make changes and corrections to the information, including any opinions or forecasts expressed herein at any time, without notice. No reliance may be placed for any purpose on the information and opinions contained in this document or their accuracy or completeness.

This document may not be reproduced in any form without the express permission of ASI Asia and to the extent it is passed on, care must be taken to ensure that this reproduction is in a form that accurately reflects the information presented here.

Bloomberg data are for illustrative purposes only. No assumptions regarding future performance should be made.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis, should not be taken as an indication or guarantee of any future performance analysis forecast or prediction. The MSCI information is provided on an 'as is' basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the 'MSCI' Parties) expressly disclaims all warranties (including without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages (www.msci.com).

This advertisement has not been reviewed by the Monetary Authority of Singapore.

Aberdeen Standard Investments (Asia) Limited, Registration Number 199105448E