NAVIGATING THROUGH UNCERTAIN WATERS: 
DIVIDEND INVESTING IN ASIA

Amidst the turmoil in global financial markets, it is important for us to take a step back and re-assess our long-term investment strategy. Here, I will discuss why one should consider dividend investing in Asia as a viable solution to both capital preservation and growth and how novice investors can easily get their feet wet in the markets with a simple dividend investing framework.

It is common for to see investors being obsessed with share price appreciation. However, historically almost two-thirds of long-term equity returns in Asia have come from dividends\(^1\). Unlike share price appreciation – which is affected by a myriad of factors including non-fundamental influences such as sentiment and momentum – dividend return represents actual cash paid out by companies to their shareholders. In addition, because dividends are sticky and can only be paid out of earnings (which are in turn driven by the economy), dividend return tends to have a stronger correlation with a sustainable growth than share

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\(^1\) Schroder’s Talking Point. 2012: A year for dividend investing in Asia (22 Dec 2011), King Fuei Lee
price appreciation (see chart 1). Hence, investors seeking exposure to the Asian growth story (or to simply put it, growth) should do well to pay close attention to the dividend payouts of companies

**Higher dividends = higher earnings growth = better corporate governance**
One might argue that attractive dividend payouts suggest boring companies in saturated markets and the first thing that come to people’s minds are utilities and public transport companies. So, why should one bother with boring dividends when they are really lusting after the exciting growth story of Asia. After all, Gordon’s Model tells us that only companies that have run out of growth projects to invest in, pay dividends.

*Looking at a Case Study*²: Astra International, an Indonesian motorcycle distributor that has steadily raised its dividend pay-out from nil to 45% over the last decade, while growing its earnings more than tenfold.

**Chart 2: company pay-out ratios and EPS growth**

The real world is a very different place from theory. Because managers of companies have better information about their future prospects and loathe cutting dividends, they will often

² Schroder’s Talking Point. 2012: A year for dividend investing in Asia (22 Dec 2011), King Fuei Lee
only pay high dividends today if they are comfortable that their expected earnings in future are strong enough to sustain the high pay-out. This is also why, in practice, companies that have high dividend pay-outs usually experience much faster subsequent earnings growth than their low dividend-paying counterparts (see chart 2). Academics coined this phenomenon the ‘dividend-signalling effect’. Our research shows that this dividend-signalling effect is particularly strong in Asia, and can last as long as four years, especially so in a market that we find ourselves in. (Singapore) (see chart 3).

Chart 3: Dividend signalling effect in Singapore

How does one employ a dividend investing strategy amidst volatile markets?

For the benefit of our novice investors and those still searching for means of getting their feet wet in the market, I shall share a simple framework that I employ to search for dividend stock with growth potential.

**Step 1:** Identify the yield that you would be comfortable with. (I would usually stick to 5%). Always take 3 year average yield to ensure that the high yield is not a one-off occurrence.

**Step 2:** Understand that this strategy is built with the purpose of navigating through uncertain waters. Hence, look for a Beta of < 1
Step 3: Observe the quarterly EPS of the company and ensure that it is on a general uptrend (note: I used the word general. Sometimes due to the nature of business cycles that the company finds itself in, certain quarters might be faced with lower EPS)

Step 4: Top-down analysis. Read up general analyst consensus of the industry your shortlisted companies are in to have a better sensing where you want your money to be in

Step 5: The entry. Enter by awaiting strong yet simple technical analysis or signals such support levels or pattern breakouts.

Everyone should consider dividend investing

Despite positioning this strategy as one for the greenhorn, everyone should consider dividend investing for its simplicity, stability and effectiveness. Financial planning applies to everyone, be it the Swing Trade, the Day-Trader or the Value Investor. Dividend investing, particularly in the Asian context allows one to build a “nest” for sustainable returns and steady income in the long run.

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