

## MINORITY SHAREHOLDERS WATCH GROUP

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New Straits Times, Business Times – Thursday, 14 July 2022 (A)

### REGULAR STREAM OF CASH

# CONSIDER DIVIDEND-YIELDING STOCKS

**T**HE dividend yield investor is probably the most pragmatic of all investors. They want to see a regular stream of cold cash in their pockets rather than hope for eventual share price increases — although having both does not hurt.

We know cash received now is a better hedge against inflation than cash received later. Furthermore, there is something comforting about receiving a regular stream of cash to meet expenses, especially for retirees.

For risk-free investment, there is always the fixed deposit. But given its meagre rate of return, people tend to look elsewhere. There are not many safe investment alternatives.

One alternative worth considering is a dividend-yielding stock. With these stocks, the regularity with which they pay dividends is an important underlying consideration.

In this context, one must distinguish between a regular dividend arising from operational performance and a special dividend arising from a special (or one-off) event.

Such special events include the disposal of a substantial part of the business. The cash received from such disposal is a special dividend.

One indication of regularity of dividends is the dividend policy of a company. A company may declare that its policy is to distribute a certain percentage of its profit as dividend.

This is an aspiration of the company, not a commitment. At best, it is a stated in-



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tention. It is not carved in concrete.

But better companies do state their dividend policies to give comfort to shareholders. Of course, some companies are in the growth stage and it is better for them to reinvest the cash.

These companies do not distribute dividends but plough them back into the company so that they may reward shareholders through future share price increases.

They are known as growth stocks, and are a popular choice among investors who prefer growth to steady dividend income stream. Once their business has stabilised or plateaued, they may become dividend-yielding companies.

The thing with these companies is that their share prices are less volatile and increases, if any, take time. They are not for someone who wants to make a fast buck by buying and selling the shares. But that is a boon rather than a bane.

The idea is to buy a dividend-yielding stock that has strong underlying fundamentals so that the share price remains steady with minimal fluctuations, no mat-

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ter the market turbulence. And there are such stocks in the local bourse.

Special dividends are attractive because the cash dividend is often a larger amount. And there are some investors who try to arbitrage and make more than the dividend itself.

After the shares become ex-dividend, the share price will adjust downwards. Sometimes, this adjustment is less than the amount of the dividend. In such instances, investors enjoy two strokes of luck.

They get their special dividend and can sell off the shares and make some money from it. But then again, the share price can drop more than the dividend amount on the ex-date. This is a risk.

However, if the company is fundamentally strong, there is less risk of the share price going south and remaining south. The sheer fundamental strength will assure investors that any drops are merely blips.

And there are companies that hold on to cash without distributing any dividend. There are no business expansion plans. It

seems that they just like the idea of having cold cash.

When asked why they do not distribute the cash as dividends, they say that they are waiting for the right opportunity to utilise their “war chest” to make acquisitions. Cash is comforting.

Maybe they are waiting for companies to go at discounts of over 70 per cent before acquiring them with one fell swoop. Minority shareholders’ message to such companies is that if you have no foreseeable use for the cash, do return some to shareholders in the form of dividends.

A company’s business is to run a business and expand and progress, not just sit on cash, as comforting as that may be.

There are dividend-yielding companies on the local bourse. One must sieve through the financial information to discover them. Licensed investment advisers may be able to offer good guidance.

One swallow does not make a summer. There should be regularity of dividend flow. Look for the moral commitment through a stated dividend policy.

This indicates the company’s best effort and moral obligation. Dividends above the fixed deposit rates are a hedge against inflation.

And given the current situation of soaring prices and cost of living, dividend-yielding stocks may be a worthwhile alternative. As always, ascertain your risk appetite first.

The writer is chief executive officer of Minority Shareholders Watch Group