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Coupon? It’s worth a third of the gain

Dividends represent up to 35% of a stock’s performance on Europe’s stock exchanges. Here’s how to bet on “generous” stocks

by **Francesca Monti**

La top ten globale...

Chi distribuisce ai soci la maggior quota di utili

	Dividend yield	Monte divid. (mln Usd)
Royal Dutch	6,24%	16.363
China Mobile	3,95%	13.100
Exxon Mobile	4,13%	13.049
Apple	1,40%	12.985
Microsoft	1,74%	12.934
AT&t	5,40%	12.287
HSBC	5,37%	10.487
China constr. bank	3,76%	10.400
Verizon communic.	4,82%	9.744
Johnson & Johnson	2,51%	9.010

... e il giro del mondo

I 20 Paesi coi listini più generosi nel 2017

	Dividendi (mln Usd) 2017	Dividendi (mln Usd) 2016
Stati Uniti	438,1	413,7
Regno Unito	95,7	93,0
Giappone	70,0	64,7
Australia	53,3	44,9
Francia	52,1	54,3
Hong Kong	49,0	39,6
Svizzera	40,7	38,5
Germania	38,1	36,4
Canada	37,5	31,3
Cina	29,9	28,4
Spagna	22,6	22,7
Taiwan	19,8	16,3
Russia	18,1	9,7
Paesi Bassi	14,6	13,2
Svezia	13,7	15,3
India	13,1	11,3
ITALIA	12,9	12,5
Corea del Sud	12,1	10,4
Belgio	9,9	9,4
Brasile	8,0	6,5

Totale top 1.200 titoli
milioni di dollari
2017 **1.111,0**
2016 **1.032,8**

Stima extra top 1.200 titoli
milioni di dollari
2017 **141**
2016 **131**

Totale complessivo
milioni di dollari
2017 **1.252**
2016 **1.163**

Fonte: elaborazione su ricerca Janus Henderson

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Over a third: that’s how much dividends amount to, taking as 100 the return on equity investments in the last 15 years. To be precise, if we look at the Eurozone’s Eurostoxx index, dividends accounted for 33.8% of the average annual performance. And that percentage rises to 35.7% for Europe’s Stoxx 600 index and is 21.1% for Wall Street’s S&P500. If, instead, we take the last nine years, which have seen a bullish stock market after Lehman Brothers’ collapse, the contribution that dividends have made to total performance falls to 25% in Europe and 13.6% on Wall Street.

But given that forecasts for the next few years are that the share market will tend to perform less well than in the past, the contribution of dividends will probably increase significantly once again. This is partly because the coupons paid by leading companies worldwide have risen steadily since 2009 and should continue to do so this year as well. A study carried out by Janus Henderson Investors of the 1,200 highest cap companies in the world showed that in 2017 global dividends rose by 7.7% to a record $1,252 billion. Moreover, this was common to all regions: since 2009, total dividends have increased globally by almost 75%.

The trend

The positive trend continued in the last quarter of 2017, with underlying dividends growing by 6.4% and leading to a new record in 11 of the 41 countries covered by the study. Janus Henderson's analysts believe that thanks to robust profit growth worldwide, share dividends will increase in 2018 by a further 6.1% in local currency (7.7% in dollars); this would produce total global dividends of $1,348 billion. "2017 was an excellent year for investors looking to generate income, with dividends growing in all countries and all sectors", says Ben Lofthouse, Global Equity Income Director at Janus Henderson. Lofthouse notes that companies are recording growth in income and profits and good cash flows: this is helping to finance more and more generous dividends.

"While the market is focusing on economic and political problems, other investors will have better opportunities to choose dynamic, innovative and growing companies", explains Martin Todd, Co-manager of the Hermes European Alpha fund. Todd thinks valuations in Europe are reasonable with an estimated price/earnings ratio 15.5 and a dividend yield of 3.3% for 2018. "We believe that Europe is still at the beginning of the cycle, with profits not yet reaching maximum growth", he adds. Stuart Rhodes, manager of the fund M&G Global Dividend, has analysed the fundamentals and believes instead that dividends give the best signal of business confidence.

According to Rhodes, the coupon growth we've seen in the last profit season reflects the long-term potential and health of a company. He thinks that this combination of strong dividend growth and attractive valuations, and not market sentiment and short-term direction, should put investors in a good position to obtain interesting returns in the long term.

In any case, Luca Riboldi, Investment Director at Banor Sim, believes that betting on companies that give high dividends is a good strategy, but one that should be combined with more active portfolio management choices. "The increased volatility allows for dynamic management strategies, such as purchasing high dividend shares while selling call options on them. These are earning well on the market so we can cash in the dividend and lower the purchase price", explains Riboldi. He thinks the most interesting sectors for this type of strategy are utilities, oil and food and beverages. Also good, since we are at an advanced stage in the cycle, are sectors that normally increase towards the end, like oil services and shipping. Without forgetting web giants likes Amazon, Facebook and Apple, because they continue to growth and progress, gaining larger and larger market shares.