



DIVIDEND SEASON GATHERS PACE

by Daniel Markus Schwarz, Berenberg Investment Advisory Private Banking

AT A GLANCE

- DAX companies will pay dividends at the record level of approximately €31 billion.
- High-dividend equities are a sensible alternative to low-yield bonds in the current environment.

Dividend season is beginning in Germany and will gather pace over the course of April and May. Twenty-four of the 30 DAX companies will pay dividends in these two months alone. Experts calculate that all DAX companies together will pay dividends at the record level of approximately €31 billion this year (source: Bloomberg). This corresponds to a dividend yield of more than 3%. Admittedly, this estimate is somewhat uncertain due to the VW diesel emissions scandal and its effect on the Wolfsburg-based car maker's dividend. But regardless of VW's dividend, risk-conscious investors should consider high-dividend equities as an attractive alternative to the often meagre interest income earned in the bond market.

Statistics prove that high-dividend stocks perform better than low-dividend stocks over a longer investment horizon. This conclusion is supported by the example of Deutsche Börse AG's DivDAX index, which contains the 15 DAX companies with the highest dividend yields. According to empirical evidence, the DivDAX has outperformed the DAX on a long-term basis (source: Bloomberg). If this track record continues, the DivDAX could harbour considerable potential from the current level. One reason for the outperformance of high-dividend equities could be that positive cash flow is an indispensable prerequisite for regular dividend payments, and therefore the top management of high-dividend companies are intently focused on cash flow. In effect, strong cash flows and regular dividend payments are a reliable indicator of a company's positive performance and the total return on its stock, which is often higher than the total return of low-dividend stocks over the long term.

Therefore, dividend strategies can be a good way of filtering out attractively valued or undervalued names from a wider group of equities. The dividend strategy developed by Benjamin Graham, the grandfather of equity analysis ("dogs of the Dow strategy"), is based on selecting the 10 highest-dividend stocks from the 30

stocks in the Dow Jones Industrial Average, and holding them for one year. This selection is reviewed and adjusted after twelve months. A simple variation of the "dogs of the Dow strategy" is the "O'Higgins dividend strategy", under which the five most attractively valued stocks are selected from the 10 highest-dividend stocks of a given index.

Interested investors can choose from a wide range of investment options focused on dividends, including individual stocks, mutual funds focused on high-dividend stocks, and certificates linked to dividends. As a private bank with an award-winning equity research team, we wish to focus in this current issue of Berenberg Impulse on a selection of what we consider to be interesting, high-dividend stocks.

As one of the world's biggest food producers, Nestlé has strong brands and a widely diversified market presence and product range. Its management has repeatedly affirmed its long-term goal of generating organic revenue growth of 5–6%, which is a positive sign considering that some of its competitors have downgraded their forecasts. The management is also sticking with its plan to increase the operating margin and earnings per share. These goals will be supported by ongoing innovations and efficiency enhancement measures. The management has increased the company's dividend by an average of 10% over the last 10 years. At 3.1%, the estimated dividend yield for calendar year 2016 is among the highest compared to its international competitors.

Unibail-Rodamco specialises in the development, acquisition, and management of real estate, and particularly the selective acquisition, active management, operation, restructuring, and leasing of properties. The company invests in office buildings, shopping malls, and convention and exhibition centres in selected European economic regions. Above all, it focuses on high-quality shopping centres with more than 6million visitors per year and above-average sales. At 4.0%, the estimated dividend yield for calendar year 2016 is among the highest compared to the company's international competitors.



Evonik Industries AG is one of the world's leading speciality chemical companies. The company is active in a large number of markets and application areas, producing chemical products and system solutions for consumer goods, pharmaceutical healthcare products, animal feed, the energy market, the international plastics and rubber industry, and high-tech applications involving chemical, thermal, and mechanical elements. The growth plan for 2018 calls for billions in capital expenditures, as well as potential M&A activities. This plan promises additional profit potential in the future. At 4.3%, the estimated dividend yield for calendar year 2016 is much higher than that of most of its international competitors.

Financial services provider Allianz is one of the world's leading insurance and asset management companies. At its capital markets day in late 2015, the company's management presented a three-year plan aimed at growing profits and increasing profitability. In addition, Allianz will pursue a multi-year "renewal agenda" to secure a leadership position in digitalisation. It plans to invest in promising business models and seize strategically well-placed consolidation opportunities. The management's stated goal is to increase earnings per share by an average of 5% through the year 2018. At 4.7%, the estimated dividend yield for calendar year 2016 is much higher than that of most of its international competitors.

Our offices:

HAMBURG +49 40 350 60-513
BIELEFELD +49 521 97 79-0
BRAUNSCHWEIG +49 531 12 05 82-0
BREMEN +49 421 348 75-0
DUSSELDORF +49 211 54 07 28-0
FRANKFURT +49 69 91 30 90-0
GENEVA +41 22 308 59-00
LONDON +44 20 32 07-78 00
MUNICH +49 89 25 55 12-0
STUTTGART +49 711 490 44 90-0
ZURICH +41 44 284 20-20



Daniel Markus Schwarz
Investment Advisory – Private Banking
Berenberg

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Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg
Germany
Phone +49 40 350 60-0
www.berenberg.de • info@berenberg.de