
# Considering Dividend Stocks for Your Portfolio?

The mere mention of the word “dividend” generally excites shareholders. Dividends are the portion of profits and/or retained earnings that a company pays out to its shareholders periodically. As such, they represent an additional stream of income to investors, which can sometimes be significant, especially for those needing periodic cash flows from their portfolios. Dividends allow the investor to earn additional income on top of any capital gains they may earn from the stock. Therefore, the inclusion of high dividend-paying stocks in an investor’s portfolio can be beneficial. However, when investing in dividend stocks, investors should not just focus on how much dividends the company is paying, but also select companies with strong fundamentals, as a falloff in the stock price (capital losses) could wipe out the value of those dividends.

Investors needing liquidity or a regular income stream from their portfolios can, and often do take significant exposure to stocks that pay attractive dividends. Typically, when making an investment decision, they focus on the company’s fundamentals and key variables, such as the dividend payout ratio and the dividend yield. The dividend payout ratio is the total amount of dividends paid out to shareholders relative to net income, while the dividend yield is a ratio that tells you the percentage of a company's share price that it pays out in dividends. In most instances, both a higher dividend payout ratio and dividend yield are desired as they mean more income for investors. From a portfolio perspective, dividends are beneficial as the income can be used to buy more of the stock, which would further increase the value of dividend payments in the future. The investor can also use the dividends to fund his or her ongoing expenses. Another benefit of having dividend stocks in a portfolio is that they are less sensitive in times of economic uncertainty. Many companies that pay high dividends are mature and in defensive sectors. Defensive sectors are considered noncyclical and are therefore not as dependent on larger economic cycles. They are more likely to keep their value during periods of economic instability, and they are generally less volatile than the overall market, making them a good fit for more risk-averse investors.

Table 1: Dividend Paying Stocks

| Companies | Current Dividend Yield | Dividend Payout Ratio | | |
|---|---|---|---|---|
| | | 2019 | 2020 | 2021 |
| Transjamaican Highway Limited | 6.88% | DNP | NM | 177.00% |
| Carreras Limited | 10.20% | 105.40% | 86.70% | 90.90% |
| Indies Pharma Jamaica Limited | 3.67% | 81.40% | 90.28% | 91.35% |
| Supreme Ventures Limited | 4.65% | 83.20% | 80.00% | NA |
| Sagicor Group Jamaica Limited | 2.07% | 35.90% | 4.10% | NA |
| Barita Investments Limited | 4.04% | 23.31% | 31.80% | 64.67% |
| Sygnus Credit Investments Limited | 3.84% | 71.70% | 51.46 | 13.51 |
| Stanley Motta Limited | 4.35% | 65.39% | 16.97% | 26.63% |
| JMMB | 2.07% | 20.49% | 12.40% | 6.51% |
| Mailpac Group Limited | 3.35% | DNP | 22.56% | 38.48% |

DNP-Did not pay
NM-Not meaniful (i.e net loss)
NA- No financial results

*Source: Bloomberg and S&P Capital IQ*

Several stocks on the Jamaica Stock Exchange (JSE) are attractive from a dividend perspective (see Table 1). Carreras Limited, for example, has a dividend yield of 10.2%. Additionally, it has had an average dividend payout ratio of 94.3% over the past three years. Generally, well-established firms like Carreras that have been operating for many years and have low reinvestment needs tend to pay good dividends. Further, under closer examination, the company has good financial health. It has low leverage, meaning it has a low portion of debt relative to equity. It has above required levels of liquidity, which enables it to meet its debt obligations and have funds remaining to pay dividends. Additionally, it has positive cash flow from its operations, which also puts it in a position to make dividend payments. Hence from a dividend perspective, the stock is attractive. There are other stocks with similar characteristics on the JSE, which investors could consider. Transjamaican Highway offers an attractive dividend yield of 6.9%, additionally, Indies Pharma has both an attractive dividend yield of 3.7% as well as an average dividend payout ratio of 87.7% over the past three years.


However, dividend payments aren't set in stone, and at times economic conditions, especially extreme economic conditions, affect the amount that companies can pay. As shown in table 1, some stocks had a lower dividend payout ratio in 2020 relative to 2019 due to the impact of the pandemic. These stocks include JMMB, Stanley Motta, Sygnus Credit Investments, Sagicor Group, and Supreme Ventures Limited. Some financial companies suspended dividend payments, following the Bank of Jamaica's (BOJ) direction to deposit-taking institutions at the onset of the pandemic. This was a capital preservation measure to ensure that the financial system could adequately cope with the impact of the pandemic. Furthermore, other companies reduced dividend payments to preserve cash flows given the uncertainty in the environment or even because the pandemic brought new investment opportunities. Though this would have tempered dividend income to some extent, some companies still paid dividends which further highlights the fact that dividend stocks can provide some return, even in times of crisis.

Overall, dividend-paying stocks provide a way for investors to get paid even during rocky market periods when capital gains are hard to achieve. It can serve as a pathway towards steady returns through dividend compounding, as the payouts can be used to reinvest in the same stock or to meet the investor’s ongoing liquidity needs. However, like any other investment instrument, dividend stocks have some level of risk and a higher level of risk than fixed-income securities. Furthermore, dividends are never guaranteed, and companies can reduce, halt or even eliminate their dividends based on financial conditions or performance, the economic environment, and their investment plans. As we have seen from the pandemic, regulators can also impact the payment of dividends. Hence, investors should always keep diversification in mind when considering adding dividend stocks to their portfolios. Furthermore, it is important that investors choose stocks based on fundamentals and not solely on dividends, as capital losses owing to poor performance can erase dividend yields.

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