

# Apple's next hot release: The dividend check

March 20 2012, By BERNARD CONDON , AP Business Writer

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(AP) -- Apple made computers sexy. Can it do the same for the musty old dividend?

Issuing a regular payment to your stockholders after years of just amassing cash used to be an [admission](#) that your company has run out of [creative ideas](#) to grow profits.

The quarterly check for a buck or two was more associated with staid utilities than sleek tech companies.

"It wasn't sexy," says John Buckingham, chief investment officer at Al Frank [Asset Management](#). "Now the cool guy is doing it."

Apple said Monday that it would begin paying a [quarterly dividend](#) of \$2.65 per share starting this summer after years of resisting the idea. Its late former [CEO, Steve Jobs](#), always thought the company could make better use of its cash.

But the hoard of cash and securities grew so large - \$97.6 billion, more than the entire market value of all but 15 companies in the Standard & Poor's 500 - that Apple had no use for it.

So it took the risk of looking like a fuddy-duddy and reversed its policy. Apple also announced that it planned to buy back \$10 billion worth of its [stock](#) in the next [fiscal year](#), which begins in October.

Investors pushed the stock up 2.7 percent Monday to \$601.10. That's on

top of a 37 percent gain since the company first hinted in January that a dividend may be coming.

Perhaps the rise in Apple stock isn't surprising. After years of pulling money out of stocks, investors are cautiously returning, but they're demanding dividend payments. Three-quarters of the \$3.6 billion that investors added to stock funds in February went to funds specializing in dividend-paying companies.

One reason for the buying is that many of the alternatives for generating cash are so unattractive lately.

The interest payments on money market accounts, CDs, and many Treasury securities are next to nothing. For the S&P 500, the dividend yield, which measures annual payouts to shareholders against a company's [stock price](#), is 2.04 percent - at least close to keeping up with inflation.

But it wasn't so long ago that a dividend announcement by a tech company was perceived as a kiss of death.

When Microsoft announced its first dividend in 2003, some investors feared it was a sign that its best days were behind it. Judging from its stock, which has gone nowhere for most of the past nine years, they turned out to be right.

Cisco, whose stock price hasn't moved much since the end of the dot-com craze a decade ago, finally decided to issue a dividend last year. Amazon and Google still don't pay a dividend. Neither does Dell, which has been around for a generation.

Tim Holland, portfolio manager at Tamro Capital, says a dividend is seen as "taboo" for many companies, but he likes Apple's decision.

He says the main attraction for him is the company's proven ability to grow earnings fast - Apple increased [profit](#) 85 percent in the last fiscal year ended Sept. 30 - and that investors apparently don't believe it can keep doing so.

Holland says that if they had more faith, the stock wouldn't be trading at a cheap 13.1 times expected earnings over the next year. The so-called price-to-earnings ratio of companies in the S&P 500 has averaged 15 or 16 over the decades.

It makes sense to buy for that reason, he says: "The company keeps delivering."

For the coming fiscal year ending Sept. 30, Apple is expected to increase earnings by nearly 60 percent, according to a survey of analysts by FactSet, a research firm.

"Their earnings growth is reliable," says Shaw Wu, an analyst at Sterne, Agee & Leech and another Apple fan. "And they're still an innovative, cutting-edge company."

Had it held on to the money, Apple could have faced legal challenges from shareholders arguing that the company was misusing their money.

The dividend will come to \$10.60 per year, or 1.8 percent of Apple's stock price. Microsoft pays a dividend yield of 2.5 percent, Hewlett-Packard 2 percent. Utilities often pay 5 percent or more.

In dollar terms, it will be one of the richest dividends in investing. Apple will pay \$10 billion in the first year, placing it just below AT&T and Verizon Communications. Those companies use dividends as their main attraction to investors.

In Apple's case, Jeffrey Snider, president of Atlantic Capital Management, an investment management company, sees the decision to offer a [dividend](#) as a possible omen, accidental or otherwise.

He says technology changes too quickly for leaders in one industry to stay on top for long, citing the once dominant companies like AOL, Yahoo and Research in Motion.

Apple can't keep iPads on the shelf now, but there was a time when the BlackBerry looked unbeatable, too. You would have lost a lot of money betting that would continue. Research in Motion stock has dropped 90 percent from its peak nearly four years ago.

"No one thinks this can happen to [Apple](#)," he says. But he adds: "This could be the beginning of the end of their growth story."

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Citation: Apple's next hot release: The dividend check (2012, March 20) retrieved 20 April 2024 from <https://phys.org/news/2012-03-apple-hot-dividend.html>

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