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Record Dividends Lure Morgan Stanley to Asia as Stocks Drop (2)
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(Updates today’s trading in sixth paragraph.)

By Lynn Thomasson

Sept. 26 (Bloomberg) -- Investors are getting paid more than ever to hold Asian stocks compared with the rest of the world as shares in the region fall almost as much as those in Germany and France.

Equity declines, including last week’s 11 percent drop in the MSCI China Index, have pushed up dividend yields as much as 37 percent on Australia’s S&P/ASX 200 and 86 percent for the Chinese gauge, according to data compiled by Bloomberg. That helped send the MSCI Asia Pacific Index’s payout to 3.2 percent, exceeding the MSCI All-Country World Index by the most since at least 1995, the data show.

Asian profits may rise 32 percent in the next two years, faster than the rest of the world, helping fund dividends and providing a margin of safety for investors betting the stocks will rebound. While bears say the region will prove just as risky as Europe and the U.S. should growth stall, Morgan Stanley is recommending companies that return cash to owners at a higher rate than U.S. Treasury bonds.

“It’s a sign of bearish sentiment, but I see it as a bullish signal for the future,” said Arnout Van Rijn, the chief investment officer for Robeco Groep NV’s Hong Kong division, in a telephone interview Sept. 19. The company oversees about $200 billion globally. “As investors realize that the dividends of Asian companies are here to stay, then they’ll probably flock back to the equity market.”

Debt Crisis

Yields are increasing in Asia as shares plunge on concern that Europe’s debt crisis, U.S. unemployment and higher interest rates in China will slow economic growth. The MSCI Asia Pacific Index slipped 7.1 percent to 111.73 last week, bringing its loss in 2011 to 19 percent amid concern that policy makers are running out of tools to avert a global recession. That compares with a 25 percent plunge in Germany’s DAX Index and a 27 percent decline in the CAC-40 Index of French equities.

Asian stocks tumbled today, sending the MSCI Asia Pacific Index down 2.5 percent as of 4:30 p.m. in Hong Kong. Global stocks entered a bear market on Sept. 22 when the MSCI All- Country Index slid 4.5 percent, bringing its decline since May 2 to 22 percent. Benchmark gauges in at least 32 markets, including Hong Kong and Australia, have declined 20 percent or more, data compiled by Bloomberg show.

The yield on the Asia stock index surpassed the MSCI All- Country World Index in October 2010 as equities tumbled, while companies including Beijing-based China Petroleum & Chemical Corp., the region’s biggest refiner, boosted payouts. Over the last 15 years, dividends on the Asia gauge were higher only in 2008 and early 2009.

Sign of Stability

Executives are paying bigger dividends to show investors their companies are stable, said Jonathan Garner, Morgan Stanley’s chief emerging-market and Asia strategist. Income in the MSCI Asia Pacific Index may rise 32 percent in the next two years, based on analysts’ estimates compiled by Bloomberg. That compares with forecast profit growth of 22 percent for the Stoxx Europe 600 Index and 24 percent for the Standard & Poor’s 500 Index through 2013.

“In Taiwan, there has been a change in the attitude toward dividends,” said Garner in a telephone interview from Hong Kong on Sept. 22. “In the late 90s and early 2000s, there was not a focus on dividend yield, and there is much more of that now, especially in the technology space.”

About 90 percent of technology companies in the MSCI Taiwan Index pay a dividend, compared with 78 percent of computer firms in MSCI’s Asia index, data compiled by Bloomberg show. The 21 percent loss in the Taiex this year has more than doubled the payout rate to 4.8 percent from 2.2 percent in January 2010.

Credit Contagion

Higher dividends can’t make up for the 16 percent plunge in MSCI’s global equity benchmark this year. Declines may increase should the European debt crisis worsen and weaken growth, said Chew Soon Gek, the Singapore-based regional head of portfolio management and investment strategy at Clariden Leu AG, which oversees the equivalent of about $106 billion. She recommends investors “underweight” stocks.

“We would rather be more cautious and defensive,” Gek said. “There’s a trade dependency on developed economies and even if you have more stimulus in China, it may not be enough to offset the slow growth prospects in Europe and the U.S.”

The European Union is China’s largest trading partner with exports increasing 22 percent last month to $34 billion from a year ago, according to data released Sept. 10 from the Chinese customs bureau. The world’s second-biggest economy shipped $30 billion to the U.S. in August, the data showed.

IMF Cuts Outlook

The International Monetary Fund cut projections for global and Chinese economic expansion last week, citing concern the government will maintain policies to curb inflation as demand for exports weakens. The world economy will increase 4 percent next year, down from a previous estimate of 4.5 percent, the lender said in a report. China’s 2012 growth forecast was lowered to 9 percent from 9.5 percent, according to the Washington-based IMF.

Financial shares in the MSCI Asia gauge slumped 8.9 percent last week after the IMF said the sovereign debt crisis has generated as much as 300 billion euros ($410 billion) in credit risk for European lenders. That pushed the industry’s dividend yield to 4.3 percent, the highest since April 2009, data tracked by Bloomberg show.

Shareholder payouts are increasing in Asia because there are fewer opportunities for executives to expand operations, said Louis Veilleux, a senior investment manager at Pictet Asset Management, which oversees about $130 billion in Geneva. The dividend fund that he manages has higher weighting in European and American stocks, he said.

Infrastructure Yields

"We find more high-yielding infrastructure companies in these regions," said Veilleux in a Sept. 22 e-mail. "European and U.S. companies offer more generous dividends."

Australian stocks pay the highest yields among Asia's 10 biggest equity markets. The S&P/ASX 200 has a payout of 5.2 percent, the most since August 2009, according to data compiled by Bloomberg. The MSCI China Index offers 3.4 percent, the most since April 2009.

European companies pay even more. The yields for France's CAC-40 Index, Spain's IBEX 35 Index and Italy's FTSE MIB Index each exceed 4.6 percent, data compiled by Bloomberg show. Euro Stoxx 50 2013 dividend futures, which depend on the value of 2012 earnings, have fallen 26 percent since July 22.

Morgan Stanley's Garner recommends a basket of 15 Asian stocks outside Japan, including Cnooc Ltd., China's largest offshore energy explorer. Shares of the Beijing-based company are down 36 percent this year even after posting record half- year profit last month as it increased output to meet demand.

Cnooc, Exxon Mobil

Cnooc's yield of 4.2 percent exceeds the global industry average of 3.2 percent, according to data compiled by Bloomberg. Irving, Texas-based Exxon Mobil Corp., the world's biggest oil company, pays a 2.7 percent dividend. Cnooc may increase its semi-annual payment to 27 Hong Kong cents (3.5 U.S. cents) a share in April from 25 Hong Kong cents, Bloomberg data show.

Dividends are rising fastest for Asia's industrial and so- called consumer discretionary companies. They will boost payments by more than 51 percent this year, the most among the 10 major groups in the MSCI benchmark, according to data compiled by Bloomberg. That compares with 31 percent average growth for the same industries in MSCI's global benchmark.

"Growth companies have always had the spotlight in Asia," said Cedric Ma, senior investment strategist at Convoy Asset Management Ltd., which oversees about $250 million in Hong Kong. "But investors are seeing that dividend-paying stocks may be more stable, especially since growth globally is slowing down."

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