Skaffold®
INVESTMENT. SIMPLIFIED.

How to hunt for yield

Whilst dividends are desirable, particularly in an environment of low interest rates, focusing solely on yield will not guarantee the longevity of your share portfolio.

Contrary to popular belief, there are a handful of listed business that pay a dividend, who shouldn't. Since 2003 Stockland (SGP) shareholders have enjoyed an average dividend yield of 6.6%. The company's profits have risen by 9% per annum and business performance, as measured by return on equity, has averaged a miserly 6%. Since 2003 SGP has raised more than $4,705 million and paid out dividends of $5,092 million. What does this mean? If you owned SGP outright, the dividends you paid yourself would have been funded by the money you put into the business.

Poor and worsening economics are generally accompanied by falling share prices. Since 2003 SGP's share price has fallen from around $4.60 to $3.75.

When hunting for high yield stocks, you must have your priorities in the right order.

First priority is don't lose money. You can avoid losing money (and still receive healthy dividend cheques) by investing in companies with strong balance sheets and sustainable cash flows whose future growth prospects are heading in the right direction.

Only once you've identified top quality companies should you begin narrowing your search to those that pay a dividend. On that note, a word on franking credits. They are a bonus. Focus on the business first, and the benefits of dividends, including franking, will naturally follow.

Finding great businesses

What is an exceptional business? At Skaffold, we rate every company from A1 to C5. It's called the Skaffold Score. An A1 or A2 Score means the company has a strong balance sheet with little or no debt, and its business performance has been consistently impressive.

If a business is consistently achieving an A1 or A2 Skaffold Score, then management are doing a good job. They're growing the business, but not using too much debt or calling on shareholders for more money. The growth is organic. Maybe they've cut costs, or found a more efficient way to sell more of their product Their business is also generating plenty of cash. The products and services they sell will often attract a high profit margin.

Look for companies that generate impressive returns on their equity (think in excess of 15%), without excessive use of debt, and importantly, check that they don't pay dividends that exceed their earnings per share. When dividends exceed earnings, they will have to be funded by cash, debt, or equity, and this strategy will decrease shareholder value in the long run.

Dividend stocks worth further investigation

With the goal of finding great companies that can afford to pay your next dividend, we logged into Skaffold and ran a filter for the very best companies. They're rated A1 and A2. The universe of 1800-odd ASX-listed stocks was quickly reduced to 131. Next we narrowed the list to those that, at their last full year report, had a net debt/equity ratio of less than 20%. The net debt/equity ratio measures the financial leverage of a company. A negative ratio means the company has more cash than debt. 104 companies made the grade.

To isolate companies whose futures look bright, we used Skaffold's nifty Table Aerial View to rank the 104 companies by Skaffold's future growth estimate. Of the 91 companies whose intrinsic value is forecast to rise over the next two years, 71 are forecast to pay a dividend at their next report date.

If its yield you seek, Flight Centre Limited (FLT) and Cedar Woods Properties Limited (CWP) are worth further investigation.

FLT and CWP will be familiar names – they are two of Skaffold's Top 5 stocks for 2013, named in *Money* magazine in February 2013. Whilst the recent rally has pushed up CWP's share price 15%, and FLT's 17%, today's prices continue to represent value when compared to Skaffold's 2014 forecast valuations. Skaffold estimates the underlying value of CWP could be as high as $6.30 in 2014 and FLT more than $36.00.

To the right we've compared Cedar Woods and Flight Centre side-by-side. Both companies are rated A1 by Skaffold. CWP is forecast to pay 25 cents per share by the end of the current financial year, FLT around $1.25. Both companies are trading at a slight discount to Skaffold's current 2013 forecast intrinsic value estimate.

Don't just jump in and buy these stocks. Take time to understand each business, estimate its underlying value and research its future growth opportunities. Are earnings forecast to rise and are those forecasts sustainable? Does the business operate in a healthy environment?

Finally, don't pay too much for shares, even if the yield is good. If the price is significantly higher than the underlying value of the business, future dividends may be depleted by a falling share price.

Skaffold's patent-pending Dividend Yield Aerial View makes finding top quality and high yield companies a cinch. All you need to do is look for bright green companies and your first priority of not losing money is much more likely to be achieved.

Data accurate as at 22 March 2013 close of trade.

How they compare: CWP and FLT

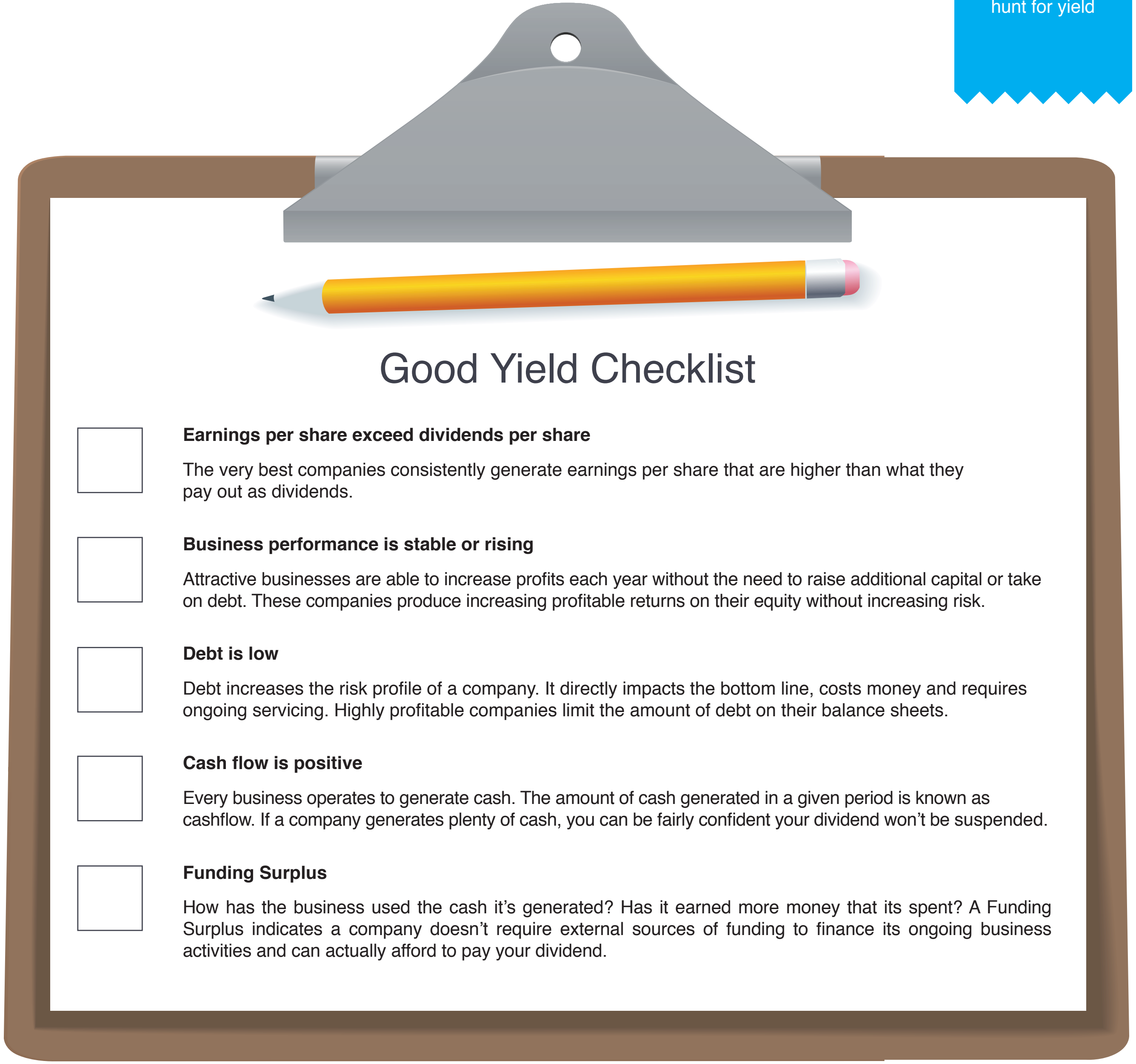
	Cedar Woods Properties (CWP)	**Flight Centre (FLT)**
Sector	Capital Goods	Services
Market Cap	$395.92M	$3.32B
Historical performance (as at 30 June 2012)		
Earnings per share	$0.46	$2.01
Dividends per share	$0.25	$1.12
Dividend yield	4.6%	3.4%
Franking	100%	100%
Return on equity	20.0%	25.1%
Net debt / equity	2.1%	-114.9%
Funding Surplus / (Gap)	Surplus	Surplus
Skaffold Score	A2	A1
Forecast performance		
2013 Interim Skaffold Score	A1	A1
Earnings per share	$0.50	$2.20
Dividends per share	$0.25	$1.24
Dividend yield	4.6%	3.8%
Return on equity	18.6%	24.2%
Valuation and Safety Margin		
2013 intrinsic value estimate	$5.46	$33.97
22 March market price	$5.42	$33.12
Safety Margin	1%	3%

Good yield checklist

Use Skaffold's Good Yield Checklist to evaluate the companies in your portfolio.

Warning signs to look out for include:

- ✗ Dividends per share exceed earnings per share.
- ✗ Business performance as measured by return on equity is less than impressive. ROE measures the profitability of a company by comparing how many dollars were required to produce the company's profit. Poor performing companies generate returns on their equity of less than 5%.
- ✗ Debt is high and rising. The Net Debt / Equity ratio represents debt (less any cash on a company's balance sheet) as a percentage of the total equity in the business - the financial leverage of a company. Skaffold considers a positive Net Debt / Equity ratio greater than 75% high risk, greater than 40% moderate risk and less than 40% low risk.
- ✗ Cash flows are negative. Cash is the lifeblood of a business. The absence of positive cash flows is not a good sign.
- ✗ Funding Gap. Skaffold's patent-pending Funding Surplus / (Gap) interprets how the cash generated by a business has been utilised and whether or not the company has required external funding to finance its activities. A Funding Gap is not desirable. It means the company has not generated enough cash to fund its ongoing operations and may be forced to take on debt or raise capital from shareholders to continue operating.



Good Yield Checklist

☐ **Earnings per share exceed dividends per share**

The very best companies consistently generate earnings per share that are higher than what they pay out as dividends.

☐ **Business performance is stable or rising**

Attractive businesses are able to increase profits each year without the need to raise additional capital or take on debt. These companies produce increasing profitable returns on their equity without increasing risk.

☐ **Debt is low**

Debt increases the risk profile of a company. It directly impacts the bottom line, costs money and requires ongoing servicing. Highly profitable companies limit the amount of debt on their balance sheets.

☐ **Cash flow is positive**

Every business operates to generate cash. The amount of cash generated in a given period is known as cashflow. If a company generates plenty of cash, you can be fairly confident your dividend won't be suspended.

☐ **Funding Surplus**

How has the business used the cash it's generated? Has it earned more money that its spent? A Funding Surplus indicates a company doesn't require external sources of funding to finance its ongoing business activities and can actually afford to pay your dividend.

Flight Centre is an Australian based company engaged in travel retailing, wholesaling and corporate travel management. The company operates in five geographical segments. FLT's brands include FCm Travel Solutions, Corporate Traveller, Escape Travel, Student Flights, Travel Associates, Cruiseabout, Liberty Travel, GOGO, CiEvents, Stage & Screen, Campus Travel and Infinity.

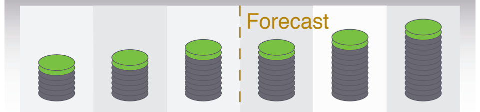
Sector	Services
Industry Group	Personal Services
Market Capitalisation	$3,323.42m
Skaffold Score	A1

Earnings Per Share

2010	2011	2012	2013	2014	2015
$1.41	$1.60	$2.01	$2.20	$2.39	$2.57

FLT's Earnings Per Share have increased 10.2% per annum, from $0.84 to $2.01 since 2003. Skaffold forecasts FLT's earnings may increase 9.4% over the next twelve months.

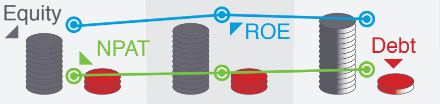
Dividends Per Share



2010	2011	2012	2013	2014	2015
$0.70	$0.84	$1.12	$1.24	$1.37	$1.48

FLT's Dividends Per Share have increased 11.1% per annum, from $0.44 to $1.12 since 2003. FLT is forecast to pay $1.24 in dividends in 2013, a forecast yield of 3.8%.

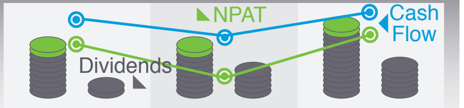
Debt & Profitability



2011	2012	2013
22.0%	25.1%	24.2%

Since 2003 FLT's profits (NPAT) have increased by 11.4% p.a, from $76.167m to $200.734m. To generate this $124.566m increase in profit, shareholders have put in equity of $137.886m and left in earnings of $426.971m. FLT has increased its debt from $34.083m to $107.175m. Return on Equity (ROE) is the best measure of business performance, and FLT has averaged 22.0% since 2003. FLT is forecast to generate a Return on Equity of 24.2% in 2013.

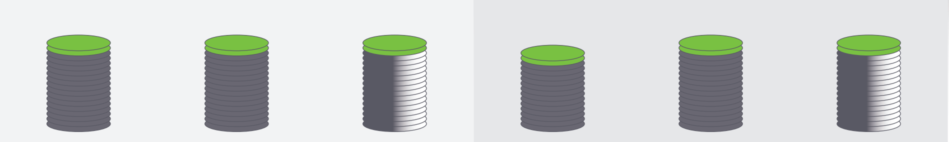
Cash Flow



2010	2011	2012
Surplus	Surplus	Surplus

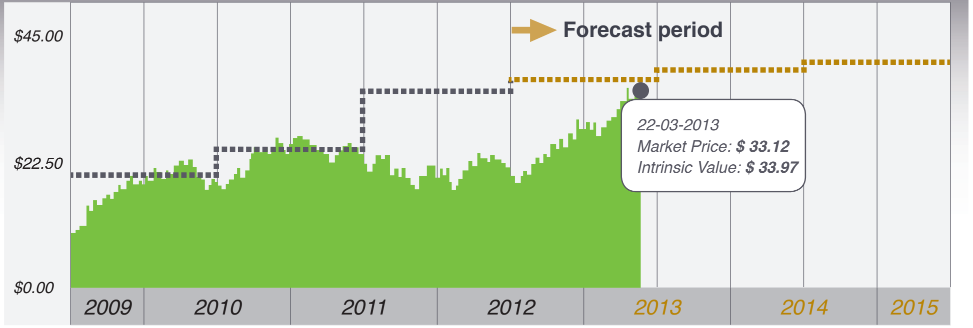
Since 2003 FLT has generated $1,900.454m in cash flow from operations, invested $602.168m, paid dividends of $606.736m and paid out other financing cash flows and foreign exchange effects of $40.454m. The total of these business activities, when compared to cash flow, produces a Funding Surplus (green line) of $651.096m. A Funding Surplus indicates FLT does not currently rely on external sources of capital to fund its business activities.

Skaffold Score



Quality Score			Performance Score		
2011	2012	2013	2011	2012	2013
A	A	A	2	1	1

Skaffold Line



Skaffold Verdict

Quality	Performance	Value Prospects	Safety Margin
A	1	9.1% 6.2%	3%
FLT is currently rated A (compelling) for quality.	FLT is currently rated 1 (excellent) for business performance.	FLT's intrinsic value is forecast to increase 6.2% p.a. from $33.97 to $38.28 over the next two years.	FLT's Market Price of $33.12 offers a 3% Safety Margin (discount) to its intrinsic value of $33.97.

Cedar Woods Properties Limited (ASX:CWP)

Cedar Woods Properties is a property developer producing residential communities and apartment projects. The company's principal interests are in urban land subdividsion and built form development for residential, commercial and industrial purposes. CWP's portfolio of assets are located in Western Australia and Victoria.

Sector	Capital Goods
Industry Group	Construction Services
Market Capitalisation	$395.919m
Skaffold Score	A1

Earnings Per Share

2010	2011	2012	2013	2014	2015
$0.28	$0.44	$0.46	$0.50	$0.57	$0.62

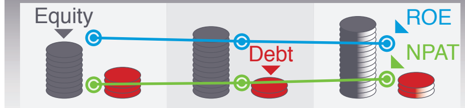
CWP's Earnings Per Share have increased 13.9% per annum, from $0.14 to $0.46 since 2003. Skaffold forecasts CWP's earnings may increase 7.6% over the next twelve months.

Dividends Per Share

2010	2011	2012	2013	2014	2015
$0.13	$0.23	$0.25	$0.25	$0.28	$0.31

CWP's Dividends Per Share have increased 15.2% per annum, from $0.07 to $0.25 since 2003. CWP is forecast to pay $0.25 in dividends in 2013, a forecast yield of 4.6%.

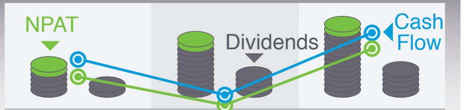
Debt & Profitability



2011	2012	2013
22.5%	20.0%	18.6%

Since 2003 CWP's profits (NPAT) have increased by 19.1% p.a, from $7.135m to $34.389m. To generate this $27.254m increase in profit, shareholders have put in equity of $62.827m and left in earnings of $84.376m. CWP has decreased its debt from $5.923m to $4.188m. Return on Equity (ROE) is the best measure of business performance, and CWP has averaged 22.4% since 2003. CWP is forecast to generate a Return on Equity of 18.6% in 2013.

Cash Flow



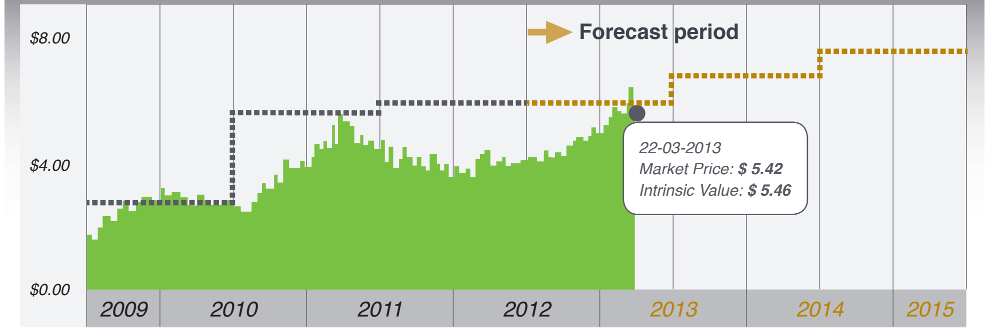
2010	2011	2012
Surplus	Gap	Surplus

Since 2003 CWP has generated $35.840m in cash flow from operations, invested $24.342m, paid dividends of $57.999m and received other financing cash flows and foreign exchange of $12.148m. The total of these business activities, when compared to cash flow, produces a Funding Gap (green line) of $34.353m. As at 30 June 2012, CWP produced a Funding Surplus of $24.610m.

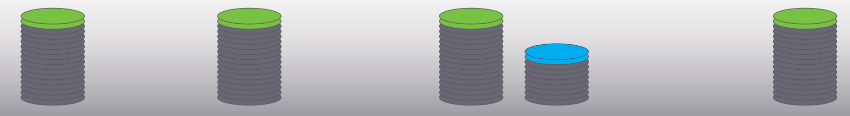
Skaffold Score

Quality Score			Performance Score		
2011	2012	2013	2011	2012	2013
A	A	A	3	2	1

Skaffold Line



Skaffold Verdict



Quality	Performance	Value Prospects	Safety Margin
A	**1**	**15.4% 11.9%**	**1%**
CWP is currently rated A (compelling) for quality.	CWP is currently rated 1 (excellent) for business performance.	CWP's intrinsic value is forecast to increase 11.9% p.a. from $5.46 to $6.83 over the next two years.	CWP's Market Price of $5.42 offers a 1% Safety Margin (discount) to its intrinsic value of $5.46.

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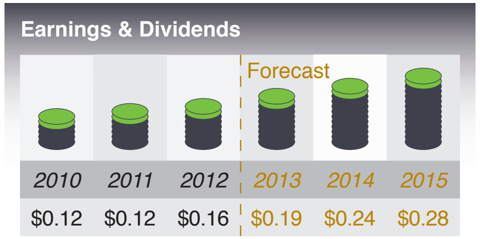
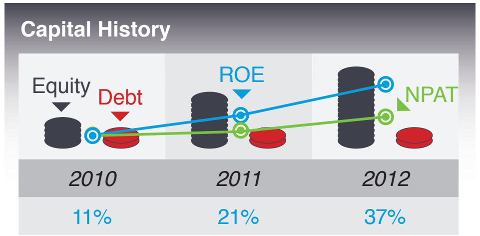
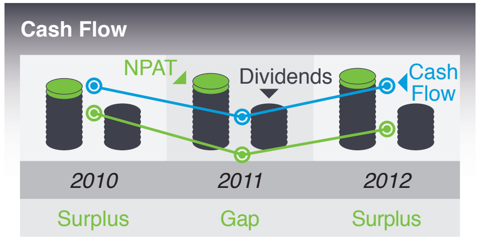
Skaffold makes it easy to pick the best value stocks from around the world in a blink of an eye. You'll be amazed by the level of analytical scrutiny presented in an easy to use interface, allowing you to evaluate thousands of stocks and identify investment opportunities in an instant.



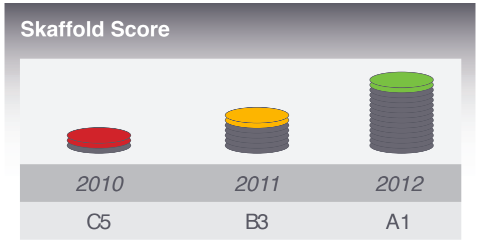
View up to ten years of historic Earnings and Dividends Per Share and where available, three years of forecasts. Instantly see if a company's earnings and dividends have been rising, and if growth is forecast over the next few years.



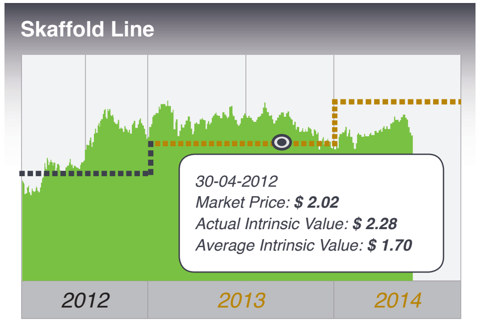
Capital History displays a company's relationship with its owners and lenders to help you understand its history of equity, debt and performance. Are profits rising? Are you comfortable with the level of debt? What about return on equity? A data table provides even more granular information.



Skaffold's Funding Surplus / (Gap), the green line, reveals how the cash generated has been utilised and whether the company has required external funding to finance its activities. Skaffold makes it easy to evaluate these vital aspects of a company's performance.



The Skaffold Score rates the quality and performance of every company, including consistency of earnings, debt levels and the quality of cash flow, from A1 to C5. Its easy to instantly see if a company meets your criteria and is worth further investigation.



A key component in evaluating a company and deciding when to purchase it is to estimate its intrinsic value. Every Skaffold Line chart, for every listed company, displays up to three years of future valuations and ten years of historical valuations so you can identify historically good-performing companies forecast to offer future growth.

PURCHASE

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Send your cheque to GPO Box 2314
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Data accurate as at 22 March 2013.