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Should Apple Pay A Dividend?

Oliver Pursche, Contributor

18 comments, 11 called-out + Comment now

In A Word: No

It hurts me to say this, but I don't believe that Apple (AAPL), with one of history's greatest cash hoards ever, should pay a dividend to shareholders.

It hurts because dividends are not only cash in shareholders' pockets, but they presage above average corporate performance. That is, companies that adhere to the discipline of paying, and in some cases frequently raising their dividend, must engage in a wide range of prudent activities: conserving cash, reducing costs, aligning governance policies and focusing on profits to name a few.

History bears me out on this. From 1973 to 2010, growth dividend stocks returned, on average, 9.3% versus just 1.8% for non dividend payers. Companies who cut their dividend–the equivalent of deciding to limit exercise and eat more–retuned a negative 0.81%.

So AAPL should pay a dividend, right?

Wrong. Mind you, I'm wearing my Beta Fund portfolio manager's hat and we are long the stock. First, there's a precedent for some fairly good performers, with similar cash hordes (at least on a percentage basis) avoiding a dividend, with Berkshire and Google (GOOG) among them. Even some relatively unknown companies, have turned in some spectacular performances, as the chart below indicates.

Ticker	Company Name	Cash	Market Cap	Net Cash As % Of Market Cap	Share Price CAGR Since 1990
BRK/a	BERKSHIRE HATH-B	$96,084,000,000	$197,085,187,500	48.8%	13.9%
WDC	WESTERN DIGITAL	$3,693,000,000	$9,289,165,039	39.8%	9.8%
FRX	FOREST LABS INC	$2,872,325,000	$8,487,454,102	33.8%	12.9%
MMI	MOTOROLA MOBILIT	$3,451,000,000	$11,644,054,688	29.6%	n/a
NVDA	NVIDIA CORP	$2,726,405,000	$9,904,797,852	27.5%	12.9%*
NTAP	NETAPP INC	$3,465,800,000	$14,136,247,070	24.5%	12.2%*
AAPL	APPLE INC	$97,601,000,000	$439,593,812,500	21.2%	20.2%
JNPR	JUNIPER NETWORKS	$2,552,709,000	$12,098,183,594	21.1%	-8.5%
GOOG	GOOGLE INC-CL A	$41,212,000,000	$196,599,718,750	21.0%	22.3%**
LSI	LSI CORP	$935,500,000	$4,513,546,387	20.7%	5.9%
EA	ELECTRONIC ARTS	$1,257,000,000	$6,137,311,523	20.5%	19.0%
SPX	S&P 500	n/a	n/a	n/a	6.8%
*Since January 2000; **Since January 2006					

(click chart to enlarge)

But with AAPL, as with most technology companies, and some non-technology companies too, the symbolic notion of the dividend cuts too deeply at the fiber of the company. It says to shareholders, and most importantly, to management, that a dollar invested in innovation is not worth as much as a dollar given to shareholders for who knows what.

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It says to management and shareholders that the company is transitioning from a growth company to a more mature company. It says that there's more growth behind the company than ahead of it, anathema for a company like Apple.

It's worth noting that since earnings were released on January 24 and the cash horde came to light, Apple shares were trading at about $420. Since that time the company has already provided shareholders with a (realized or unrealized gain) of 17%, or collectively, almost $68 billion collectively. If the shares continue their current trajectory–possible, with many sell side analysts with targets over $600–the shareholders will get their $100 billion, and then some.

Oliver Pursche is co-portfolio manager of GMG Defensive Beta Fund, which holds shares in the companies listed in this post.

For GMG Defensive Beta Fund disclosures, click here.

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Oliver Pursche, Contributor 20 hours ago Author

Cata00- thanks for your careful read of my article! Not to be too persnickety . . . I purposely used “horde” over “hoard” because the former – more colloquial – is a nod to the management team that accumulated all that cash. If they’re not a horde, I don’t know who is.

Reply

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Ewan Spence, Contributor 3 days ago

Agreed – the worst thing Apple could do right now is pay out a divvy. There's far more useful thing they can do that have medium and long term benefits to Apple and shareholders than redue their cash pile.

http://www.forbes.com/sites/ewanspence/2012/01/29/heres-what-apple-will-do-with-their-profit-invest/

Reply

cransmi 2 days ago

Patently false. There is NOTHING Apple cannot do with their cash in addition to paying a dividend. The fact you say this shows how incomprehensible 100 billion dollars really is. They can do everything on your 'useful list' in addition to paying a dividend. The mere fact that the cash hoard has growth this large has shown this to be true. They've already made huge pre-payment in the supply chain, accelerated store openings, etc. and still the cash keeps growing.

With iPhone and iPad sales showing almost unbelievable levels growth it's clear that the time for a dividend is now. Luckily, we won't need to continue this debate past the shareholders' meeting on Feb 23.

✓ Called-out comment

Reply

Oliver Pursche, Contributor 1 day ago Author

Ewan Spence – thank you for your comments. Well written blog, I look forward to more.

Reply

Oliver Pursche, Contributor 1 day ago Author

The statement of "there is nothing they can't do" is a dangerous one. The key to great success for any company is continued innovation, and we don't yet know what path their innovation will take, and what it may cost. Apple's management team has proven to be very resourceful and superb strategic planners. As much as I agree with the statement that growth is at an all time high, much of it is still due to the vision of Steve Jobs. Given that his unfortunate death is still so recent, declaring a dividend now may not only signal "we don't know what else to do with the money", but also that with Mr. Jobs absence, some of the innovation is gone as well. One potential (and probably likely) compromise would be a one-time dividend to investors.

Reply

brisco 3 days ago

Thank you – finally someone with some sense to speak out against a dividend.

Face it: Apple is doing it better than everyone, let them use the money.

✓ Called-out comment

Reply

Oliver Pursche, Contributor 1 day ago Author

Thank you for your kind words. Investors will keep holding Apple management's feet to the fire. However, as long as they keep executing as they well as they have, as a shareholder, I have no complaints.

Reply

+ expand comment

ideadirect 2 days ago

This was also my very first reaction. There is just something psychological about starting a dividend that innovation will be stifled, company matures, growth slows, etc.
However, I'm still on the fence. 100B and growing is just a tremendous amount of cash. I'd argue that a divvy is better than sitting on it. If they can use it, great but obviously they are not. Even with acquisitions, they can't spend it fast enough. They could open 1,000 stores in China at $2M per store and that is only 2 billion. What a problem to have not being able to spend money fast enough.
Then there are institutions. Many are maxed out with their mix. This would open up Apple to income funds as a new channel. This along might make issuing a dividend worthwhile.
Finally, if I felt that Apple was being properly valued as a growth company as their ratios and results show, I would resist a dividend. But, Apple is being treated as if they are a mature company already. So I don't think a dividend would punish them.
So I'm iffy on a dividend but lean towards it for the above reasons.
Now, 4:1 to 10:1 stock split is a no brainer.

✓ Called-out comment

Reply

Oliver Pursche, Contributor 1 day ago Author

IdeaDirect – Agreed, a stock split would make the stock more attainable to individual investors. Without having done specific research on the impact of stock splits on relative volume (one would assume a 2 for 1 split would cause at least double the trading volume), there are certainly examples of companies whose stock has done very well without splitting (Google, Berkshire, Priceline, to name a few). A stock split does nothing for valuation, and may do nothing at all.

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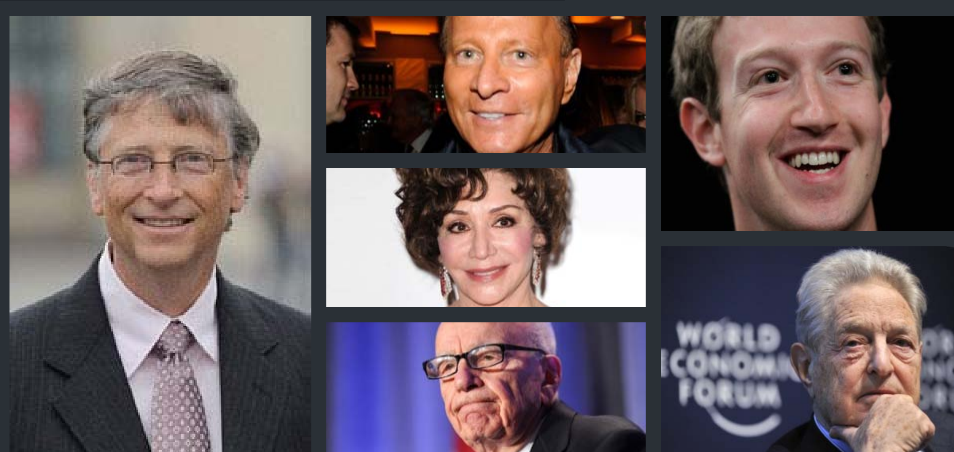

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