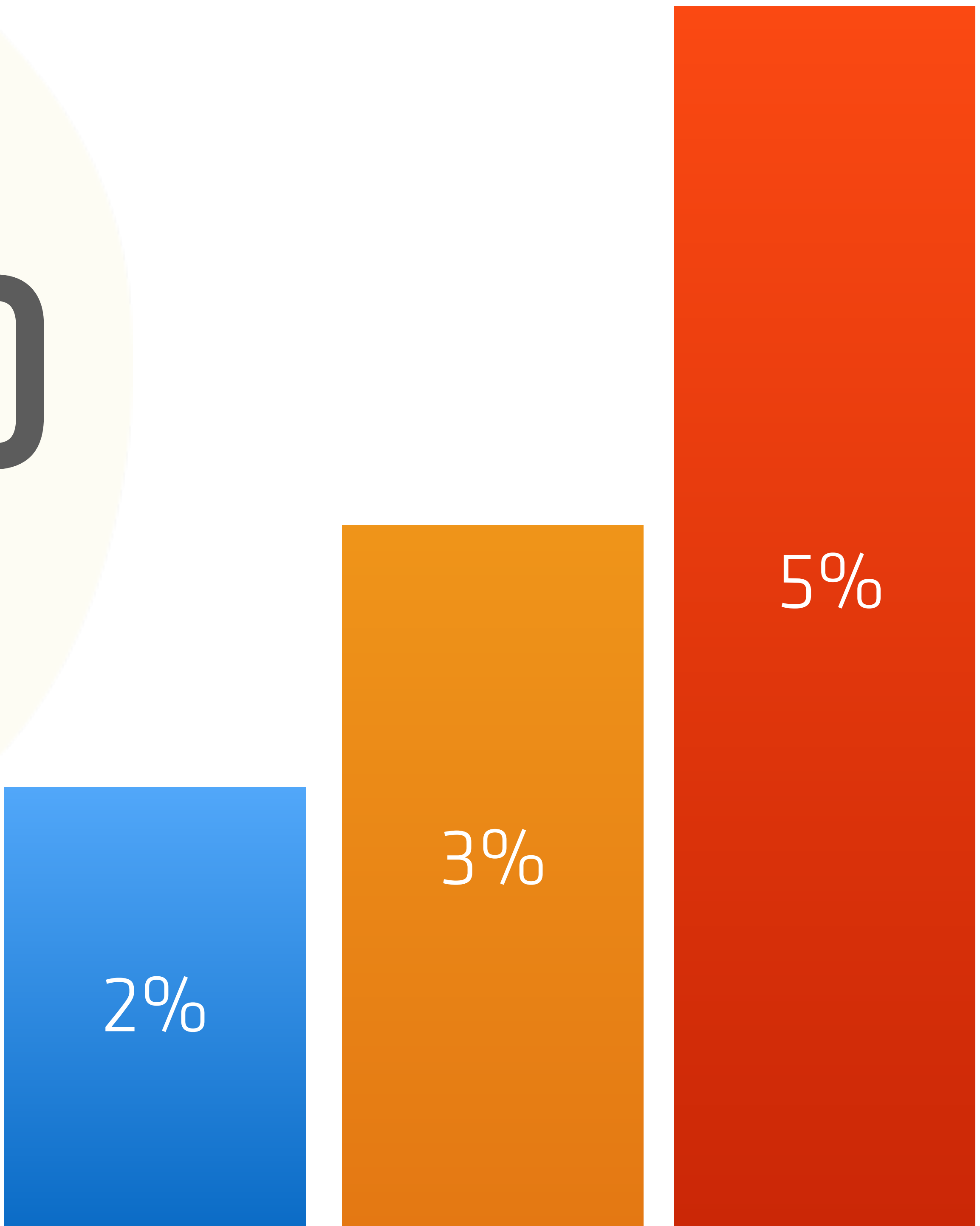
THE PERKS OF DIVIDEND

by CHRISTMAS CORPORATION



CHRISTMAS

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Why Dividend Matters

Dividends are often disregarded by stock investors. Some investors buy stocks purely for capital gains. Not only traders, but many long term investors share this disposition. With a yield around 2%, dividends seem tiny, just as much as a government bond yield that reaches maturity in 10 years.

So, why dividend is still an integral part of investing?

For long term investors, dividend should be an important thing, because:

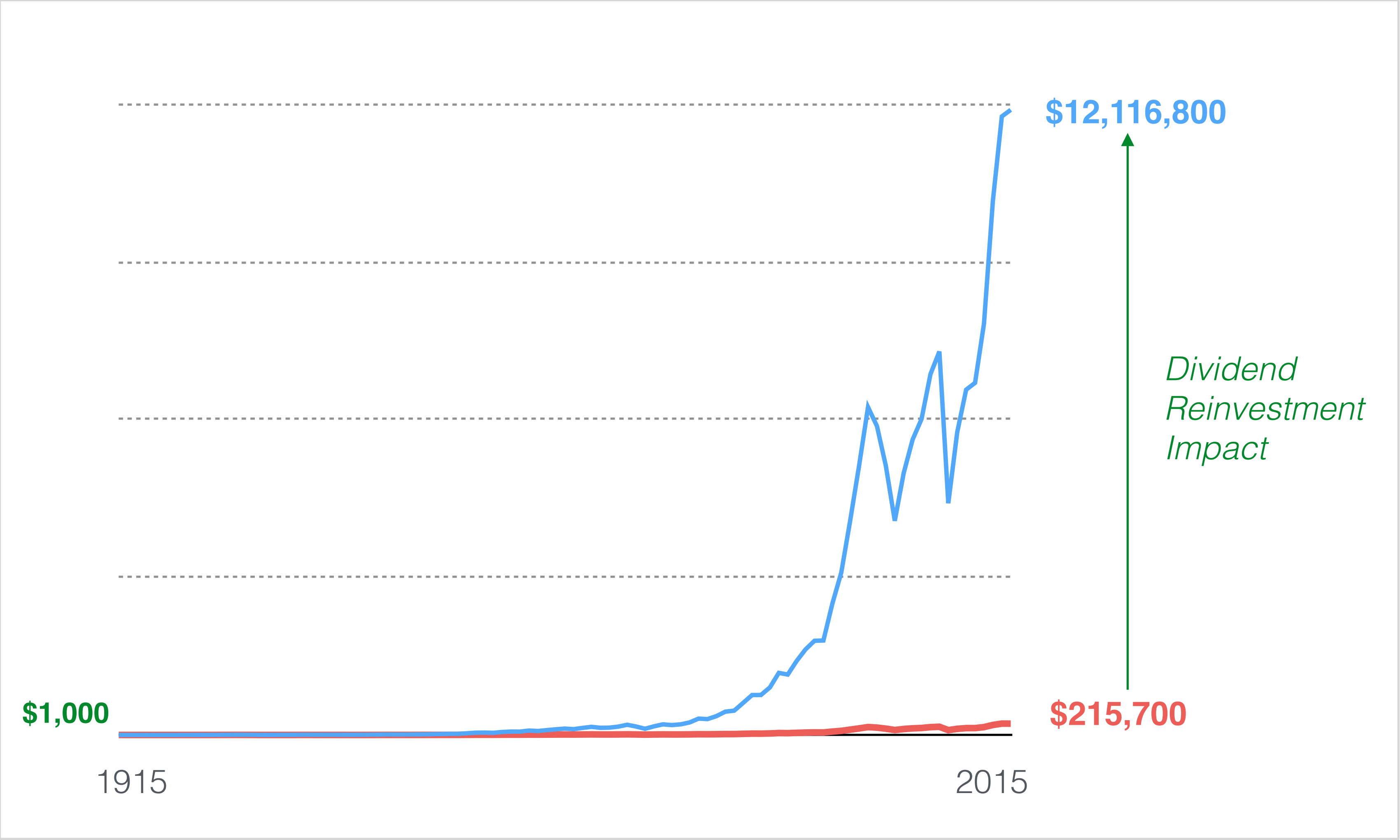
1. By reinvesting the dividends, shareholder's return will be optimum. Dividend income can be used to buy stocks continuously so that you add ownership in a company every certain period of time
2. By investing in companies that pay dividends (and still grow their profits), the future yield on our early investment will be higher than present yield

The Magic of Dividend Reinvestment

In the last 100 years (1915-2015), investment in S&P 500 companies showed that price return was only 5.52% per annum, where $1,000 in the year 1915 would become **$215,700** in the year 2015. Had we reinvested the dividend we received, our fund would have become **$12,116,800** translated to 9.86% annual return!

From that $1,000, the dividend received in 1915 will be about $43, or yielding 4.3% (43/1000). In 2015, the dividend received will be $251,691 or yielding as much as 25169% from the original investment. Even without reinvestment, dividend received in 2015 will be $4,554 or 455% yield on the original investment

If you think 100 years is too long, assume that you invest $1,000 for 20 years with the same rate of return mentioned before. The result will be $2,928 without reinvestments and $6,558 with reinvestments.



Dividend Yield: Now and Then [1]

Let's say you invest $10,000 into a hypothetical company called *Another Bingo Company, Inc* by buying 1,000 shares, each at $10 per share. It has a P/E ratio of 12.5 (earning per share or EPS is $0.80) and a dividend payout ratio of 10%, which amounts to a dividend of $0.08 per share, giving you a total dividend of $80. You receive less than 1% of your investment as dividend, or only 0.8% yield.

The next 10 years, earning is $2.50 per share, generating a 12% compound annual growth rate. Because of stronger cash flow, then the company sets the payout ratio at 20%; therefore, the dividend per share is now $0.50. You are now receiving a total dividend:
1,000 shares x $0.50 = $500.
That's a 5% yield on your original investment.

The company is still growing. Not only the company increases the payout ratio to 30%, it also buys back shares so the total issued shares are decreasing.
Now the dividend yield on your original investment is 21%.

	2016
Revenues	9,000,000
Net Income	1,000,000
Issued Shares	1,250,000
EPS	0.80
Payout Ratio	10%
Dividend per Share	0.08
Original Investment	10,000
Dividend Income	80
Dividend Yield	0.80%

	2026
Revenues	25,000,000
Net Income	3,125,000
Issued Shares	1,250,000
EPS	2.50
Payout Ratio	20%
Dividend per Share	0.50
Original Investment	10,000
Dividend Income	500
Dividend Yield	5.00%

	2036
Revenues	55,000,000
Net Income	7,700,000
Issued Shares	1,100,000
EPS	7.00
Payout Ratio	30%
Dividend per Share	2.10
Original Investment	10,000
Dividend Income	2,100
Dividend Yield	21.00%

Dividend Yield: Now and Then [2]

Year	Net Income	Shares	EPS	Payout	Dividend per Share
2016	1,000,000	1,250,000	0.80	10%	0.08
2017	1,120,000	1,250,000	0.90	11%	0.10
2018	1,255,000	1,250,000	1.00	12%	0.12
2019	1,400,000	1,250,000	1.12	13%	0.15
2020	1,575,000	1,250,000	1.26	14%	0.18
2021	1,765,000	1,250,000	1.41	15%	0.21
2022	1,975,000	1,250,000	1.58	16%	0.25
2023	2,210,000	1,250,000	1.77	17%	0.30
2024	2,475,000	1,250,000	1.98	18%	0.36
2025	2,820,000	1,250,000	2.26	19%	0.43
2026	3,125,000	1,250,000	2.50	20%	0.50
2027	3,420,000	1,240,000	2.76	21%	0.58
2028	3,745,000	1,230,000	3.04	22%	0.67
2029	4,100,000	1,220,000	3.36	23%	0.77
2030	4,485,000	1,210,000	3.71	24%	0.89
2031	4,910,000	1,200,000	4.09	25%	1.02
2032	5,370,000	1,180,000	4.55	26%	1.18
2033	5,880,000	1,160,000	5.07	27%	1.37
2034	6,435,000	1,140,000	5.64	28%	1.58
2035	7,045,000	1,120,000	6.29	29%	1.82
2036	7,700,000	1,100,000	7.00	30%	2.10

From this table, it is known that hypothetical company's earnings per share (EPS) grows faster than total profit, caused by shares buybacks; and dividend grows more than EPS, caused by increasing payout ratio.

Net Income Growth Rate

10.75% p.a.

EPS Growth Rate

11.46% p.a.

Dividend Growth Rate

17.75% p.a.

Dividend Yield: Now and Then [3]

investment in 2016

$10,000

cumulative value in 2036

$122,088

13.3%
annual return

dividend income in 2036

$2,861

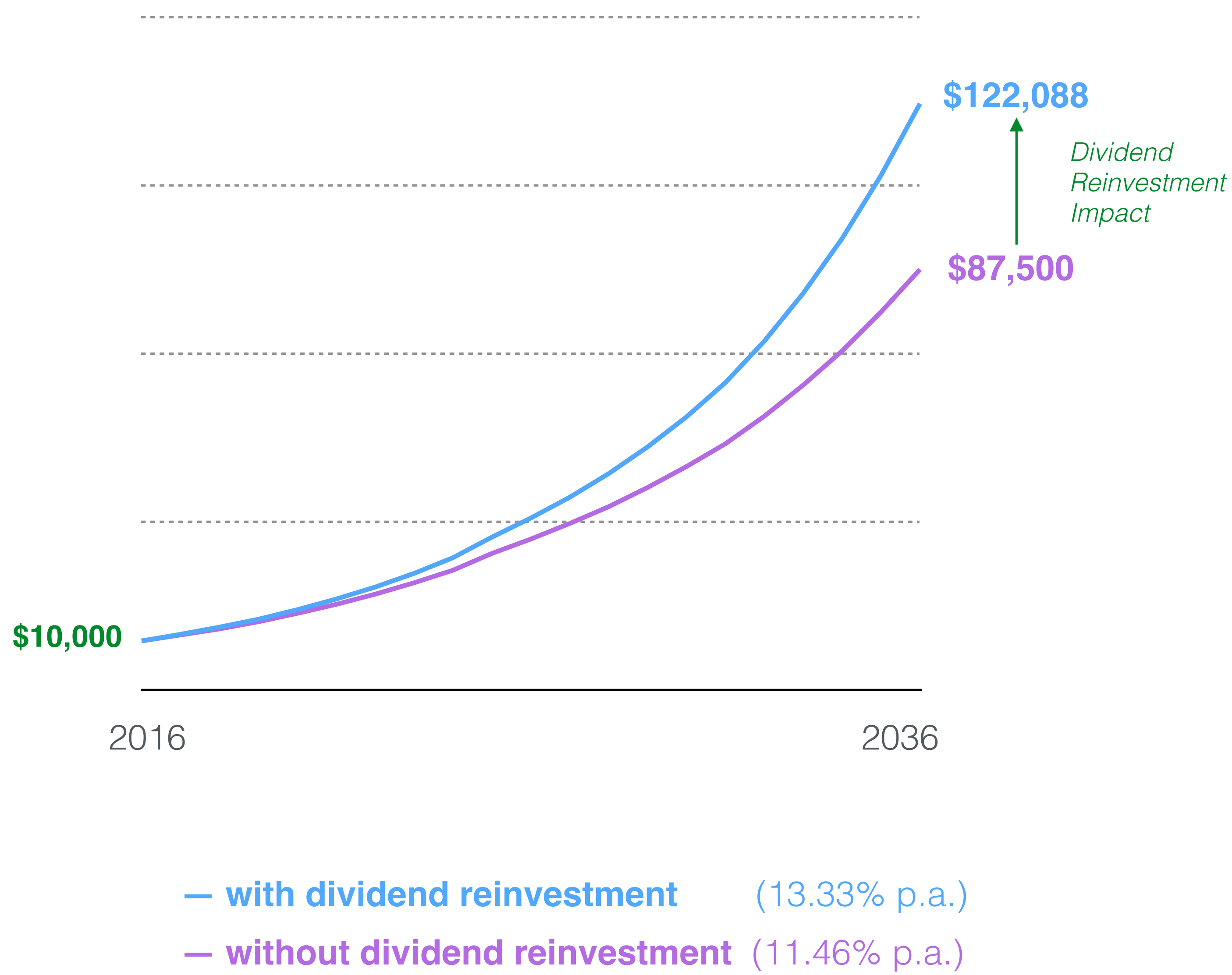
28.6%
dividend yield on original investment

ownership in 2036

1,395

shares owned after 20 years

With dividend reinvestment, you will have 1,395 shares instead of 1,000 shares by the end of 2036. Stock price appreciation makes that 395 shares even more compelling, leading to a significant difference on investment results.



Dividend Yield: Now and Then [4]

Year	EPS	P/E Ratio	Stock Price	DPS	Shares Owned	Dividend Income	Add. Shares	Total Shares	Investment Value
2016	0.80	12.50	10.00	0.08	1,000	80	8	1,008	10,080
2017	0.90	12.50	11.20	0.10	1,008	99	9	1,017	11,389
2018	1.00	12.50	12.55	0.12	1,017	123	10	1,027	12,884
2019	1.12	12.50	14.00	0.15	1,027	149	11	1,037	14,522
2020	1.26	12.50	15.75	0.18	1,037	183	12	1,049	16,521
2021	1.41	12.50	17.65	0.21	1,049	222	13	1,062	18,736
2022	1.58	12.50	19.75	0.25	1,062	268	14	1,075	21,233
2023	1.77	12.50	22.10	0.30	1,075	323	15	1,090	24,083
2024	1.98	12.50	24.75	0.36	1,090	388	16	1,105	27,359
2025	2.26	12.50	28.20	0.43	1,105	474	17	1,122	31,647
2026	2.50	12.50	[illegible]	[illegible]	1,122	561	[illegible]	1,140	35,630
2027	2.76	12.50	[illegible]	[illegible]	1,140	660	[illegible]	1,159	39,969
2028	3.04	12.50	38.06	0.67	1,159	777	20	1,180	44,899
2029	3.36	12.50	42.01	0.77	1,180	912	22	1,201	50,470
2030	3.71	12.50	46.33	0.89	1,201	1,069	23	1,225	56,735
2031	4.09	12.50	51.15	1.02	1,225	1,253	24	1,249	63,881
2032	4.55	12.50	56.89	1.18	1,249	1,478	26	1,275	72,528
2033	5.07	12.50	63.36	1.37	1,275	1,745	28	1,303	82,530
2034	5.64	12.50	70.56	1.58	1,303	2,059	29	1,332	93,963
2035	6.29	12.50	78.63	1.82	1,332	2,429	31	1,363	107,136
2036	7.00	12.50	87.50	2.10	1,363	2,861	33	1,395	**122,088**

P/E Ratio is assumed to be constant

Stock ownership increases over time

Conclusion

1 Dividend plays a major role in shareholder's value creation. This is because the reinvested dividend income can be used to buy stocks continuously — increasing the number of shares that you own — in the hope of stock price appreciation in the long-run.

2 Dividend yield which seems low at the present can give a much higher yield in the future compared to our initial investment. This what makes dividend yield of a stock differs from yield of a bond. When a company or government issues a bond with 2% annual interest, that’s what you are receiving next year or even 10 years from now: the rate of return is constant. But when you make a 2% dividend yield at the 1st year of investing in a company, it is possible that you are getting 5% or 10% yield after several years of investing in that company.

Although dividend is important, companies without any dividends are not necessarily deemed unprofitable. It may be that the company is in a rapid growth phase so that the profits are used for business expansion (e.g. to purchase machinery or acquire other companies).

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