INCOME INVESTING

These Tech Stocks Are Today's 'Income Darlings'

By Amey Stone - September 20, 2016

Investors love tech stocks, usually for their growth prospects. But investors should also love them for their dividend growth writes **John Petrides**, portfolio manager at **Point View Wealth Management**.

In a new commentary, "Technology: The Go-Go Dividend Stocks," Petrides points out that the tech sector has the fastest dividend growth rate in the S&P 500 in the past seven years — 20% annually. Petrides writes:

The latest name for the group should be "income plays." Tech companies like **Apple** (AAPL), **Microsoft** (MSFT) and **Cisco** (CSCO), are drowning in cash (30% of Cisco's market cap value is in cash). Their business models are not capital intensive. Their balance sheets are also not saturated with debt. Pension obligations and the burdens of the "old economy" are non-existent. Only so much can be reinvested into Research and Development. What to do with all of this cash?

Paying a bigger dividend is an obvious solution, he argues. He writes:

Although the absolute yield is one of the smallest compared to other sectors in the S&P 500, (Tech yields 1.5% vs 2.1% for the index), companies in the tech sector are only paying 20% of their earnings in the form of a dividend. This implies there is wiggle room for more. For example, **Qualcomm** (QCOM) has a dividend yield of 3.2%, has grown it 18% annually over the past decade, has no net debt on its balance sheet, and is currently paying out 50% of its earnings in the form of a dividend. This is more attractive than holding cash, which earns nothing, and from an income standpoint, a better holding than an investment grade corporate bond (Qualcomm has a bond that matures in 2025 that currently yields 2.6%).

Other tech companies are using cash to buy growth, which he doesn't frown on either. Petrides writes:

How does a company with a market cap of several hundred billion dollars, generating revenue north of $100 billion, continue to grow? One way is to buy growth. In 2015, **Intel** (INTC) announced it would buy chip maker **Altera** for $14 billion. **Hewlett Packard** (HPQ) recently bought Samsung's printer business for $1 billion. Finally, a few months ago, Microsoft made a bid to acquire **LinkedIn** (LNKD) for $26 billion in cash. If you can't beat 'em…buy 'em.

He concludes:

When looking for income in this low yield world, you should not focus entirely on the stated yield, but also the commitment management has made to the dividend, the balance sheet to support the dividend, and the payout ratio to provide more room to grow the dividend. The high flying tech stocks of yesteryear are the income darlings of today.