

Dividend Yield Stocks

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We believe this is the right time to invest in stocks that look attractive on a dividend yield basis. A number of companies have already either declared their full year numbers and dividend (if any) or are in the process of doing so. In line with this, we screened our database of more than 1000 stocks in the A, B1 and B2 groups and have chosen five stocks that could give good dividend yield. We have not done an in-depth analysis on these companies (listed below). For the companies that have not announced their FY03 numbers, we have extrapolated 9-months' figures to arrive at the expected full year numbers.

Yardstick for selection of stocks

- We have given utmost importance to consistency in performance. Barring, Bongaigaon Refinery, the other companies have been clocking consistent performance in the previous years. We expect all these companies to show a decent growth in the coming year.
- Downward risk was also a major criterion to zero in on these companies.
- Profitability, payout ratio, industry and business outlook, market cap and valuation were the other selection criteria.
- We have selected stocks with a market cap of not less than Rs150cr and a PE multiple of not more than 7x.

Based on the above benchmark, we believe the following five stocks are a strong case for investment on a dividend yield basis viz.,

- 1) PNB Gilts
- 2) GNFC
- 3) Bongaigaon Refinery
- 4) Karnataka Bank
- 5) Bank of Punjab

Parameters	PNB Gilts	GNFC	Bongaigaon Refinery	Karnataka Bank	Bank of Punjab
Price (23/05/2003)	22.0	34.0	31.2	85.0	18.0
52 weeks hi/low	29/17	41/24	33/12	90/30	20/12
Dividend Yield	11.40%	7.40%	8.70%	7.10%	7.20%
Div. Per share FY02 (Rs)	2.4	2.5	0.0	6.0	1.3
Div per share FY03 (Rs)	2.5	2.5	2.7	6.0	1.3
Avg. Daily Volume (6 mths)	28500	50000	375000	80000	110000
PE Multiple (FY03) (x)	3.2	6.6	3.5	2.1	5.5
BV FY02 (Rs)	30.8	47.0	15.2	327.4	18.2
Market Cap (Rs cr)	297.0	498.7	623.4	231.9	199.5
Industry	Finance	Fertiliser	Refinery	Banking	Banking

Stocks at a glance

PNB Gilts

	FY00	FY01	FY02	FY03
Net Profit (Rs cr)	65.76	47.05	112.59	92.51
Dividend (incl. Div. Tax) (Rs cr)	12.99	26.78	33.77	36.34
Payout Ratio	20%	57%	30%	39%
Dividend (%)	14%	18%	24%	25%
DPS (Rs)	1.4	1.8	2.4	2.5
Equity Capital	100.0	135.0	135.0	135.0
Face Value (Rs)	10	10	10	10
Price (Rs)				22
Dividend Yield (%)				11.4%

PNB Gilts has been showing consistency in its dividend payout. The company is expected to continue to pay dividend at the same payout ratio in the coming year too. Dividend of 25% includes interim dividend of 10% paid in Q3FY03.

GNFC

	FY00	FY01	FY02	FY03E
Net Profit (Rs cr)	66.11	105.55	71.68	75
Dividend (incl. Div. Tax) (Rs cr)	41.45	43.56	36.62	41.25
Payout Ratio	63%	41%	51%	55%
Dividend (%)	25%	27%	25%	25%
DPS (Rs)	2.5	2.7	2.5	2.5
Equity Capital (Rs cr)	146.68	146.68	146.68	146.68
Face Value (Rs)	10	10	10	10
Price (Rs)				34
Dividend Yield (%)				7.4%

Recently, the stock has appreciated from Rs28 levels. Ideal entry level would be around Rs31.

Bongaigaon Refinery

	FY00	FY01	FY02	FY03
Net Profit (Rs cr)	32.24	-57.45	-198.61	178
Dividend (incl. Div. Tax) (Rs cr)	11.8	0	0	53.95
Payout Ratio	37%	0%	0%	30%
Dividend (%)	5%	0%	0%	27%
DPS (Rs)	0.48	0	0.0	2.7
Equity Capital (Rs cr)	199.82	199.82	199.82	199.82
Face Value (Rs)	10	10	10	10
Price (Rs)				31.2
Dividend Yield (%)				8.7%

The company has declared extremely good results for FY03. The company is expected to perform well in the next year too (it has received crude from the Rava oil fields). With a 63% capacity utilisation, the company reported a net profit of Rs178cr. Now with capacity utilisation going up to 83%, the company should report a net profit of more than Rs200cr. This gives us the conviction that DPS in FY04 should be more than Rs3

Karnataka Bank

	FY00	FY01	FY02	FY03E
Net Profit (Rs cr)	58.26	45.41	91.13	108
Dividend (incl. Div. Tax) (Rs cr)	7.41	6.69	8.1	16.18
Payout ratio	13%	15%	9%	15%
Dividend (%)	10%	45%	60%	60%
DPS (Rs)	1	4.5	6.0	6.0
Equity Capital	13.5	13.5	13.5	27.0
Face Value (Rs)	10	10	10	10
Price (Rs)				85
Dividend Yield (%)				7.1%

In the recent banking stocks rally, Karnataka Bank also appreciated. The stock continues to look attractive on a dividend yield basis. The company declared a bonus in Q3FY03. Ideal entry level would be Rs80-82, which will help save from the downside after the stock goes ex-dividend.

Bank of Punjab

	FY00	FY01	FY02	FY03E
Net Profit (Rs cr)	33.11	34.82	35.72	36
Dividend (incl. Div. Tax) (Rs cr)	17.62	16.2	13.65	13.65
Payout Ratio	53%	47%	38%	38%
Dividend (%)	15%	14%	13%	13%
DPS (Rs)	1.5	1.4	1.3	1.3
Equity Capital (Rs cr)	105	105	105	105
Face Value (Rs)	10	10	10	10
Price (Rs)				18
Dividend Yield (%)				7.2%

Ideal price to Buy the stock is around Rs16. This would protect the capital. Otherwise, the amount realised by way of dividend would be lost with a fall in the stock price.



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Research Note

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