

## Revisiting Global Value Investing To Find High Dividend Yields With Low Credit Risk

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Solutions Exchange is developed by S&P Capital IQ's Solutions Architects, a separate and independent team at Standard & Poor's. The objective of this analysis is to gain greater insight into specific events and trends in the market using S&P Capital IQ data and analytics solutions.

### Key Observations

Using the company screening functionality from S&P Capital IQ, S&P Capital IQ's Solutions Architect team searched for investment-grade companies with price-to-book value (P/BV) ratios of less than 1 with dividend yields of more than 9%. Our search yielded three companies that consensus equity estimates suggest will outperform their peers:

- Capstone Infrastructure Corp. (Canada)
- Man Group PLC (U.K.)
- PTT Global Chemical Public Co. Ltd. (Thailand)

The company screening functionality from S&P Capital IQ allows users to screen companies based on a number of different criteria. However, it is sometimes difficult to determine a valuable strategy or an approach that can render a universe of potential investments that meet investors' investment criteria. As different investors will have different approaches and horizons, we searched for value companies. For purposes of this exercise, we define "cheap" stocks as companies that are trading below book value. In theory, companies should have a market value of at least their book value (P/BV equal to 1), so companies that are trading below book value tend to be considered a good source of capital appreciation in the long term.

In our search for "value" stocks, which queried companies with P/BV ratios of less than 1 with dividend yields of more than 9%, we found that 15,966 companies are currently trading above book value (see figure 1).

Using the Screen Builder, we then filtered out companies that were not publicly traded. This filter lowered the sample to 14,581, still a very large universe of companies that could be considered cheap.

A company can trade below book value as a result of many reasons, and many investors focus their attention on such opportunities. Distressed securities, for example, are securities of companies either in default, under bankruptcy protection, or heading toward such conditions. The question then becomes: Will the company be able to become profitable again?

**Figure 1****Company Screening** Screening Results

As of March 23, 2012. Source: S&P Capital IQ screener. For illustrative purposes only.

We avoided the further analysis required when assessing distressed companies by narrowing our search to investment-grade companies. We reduced our universe by excluding any unrated company as well as companies with ratings lower than 'BBB-' by Standard & Poor's Ratings Services. This process significantly lowered our sample, to 276 companies. Finally, our search only included companies that pay a dividend yield of 9% or more, bringing the total to five "cheap" stocks (see table 1).

Of the ratings on the five investment-grade companies trading below par, Standard & Poor's has a negative outlook on just one. Therefore, Standard & Poor's does not currently expect any changes to the investment-grade ratings on the other four companies in the short or long term.

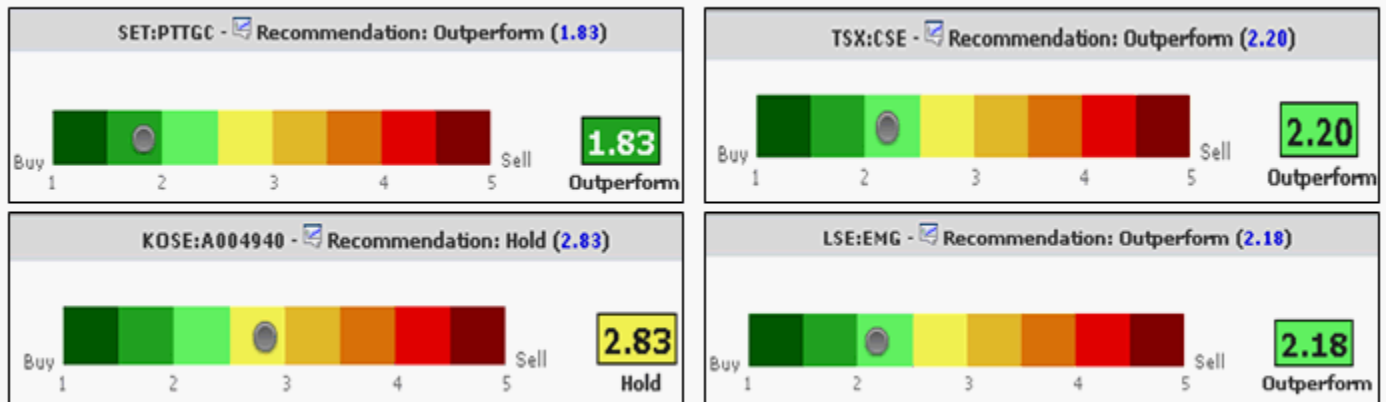
**Table 1**

Selected Metrics						
Company	Ticker	P/BV (x)	Company type	S&P long-term rating	CreditWatch/outlook	Dividend yield (%)
Korea Exchange Bank	KOSE:A004940	0.674	Public company	A- (Feb. 10, 2012)	Stable	34.00
Capstone Infrastructure Corp.	TSX:CSE	0.913	Public company	BBB- (June 13, 2011)	Stable	15.80
Acea SpA	BIT:ACE	0.889	Public company	A- (Dec. 7, 2011)	Negative	10.70
Man Group PLC	LSE:EMG	0.961	Public company	BBB (Oct. 19, 2010)	Stable	9.62
PTT Global Chemical Public Co. Ltd.	SET:PTTGC	0.928	Public company	BBB (Oct. 21, 2011)	Stable	9.52

As of March 23, 2012. Sources: S&P Capital IQ and Global Credit Portal.

## What The "Equity" Future Holds

We then focused on equity research expectations using S&P Capital IQ Estimates (see figure 2). The only company with a "Hold" recommendation based on S&P Capital IQ Estimates is Korea Exchange Bank. Although Korea Exchange Bank has the highest dividend yield, a consensus of 23 analysts recommends holding this company's stock. Alternatively, a consensus of 21 analysts believes Man Group PLC is outperforming its peers, while a consensus of 24 analysts believes PTT Global Chemical is outperforming its peers. Finally, Capstone Infrastructure Corp. has also been assigned an outperform by 10 analysts.

**Figure 2**

As of March 23, 2012. Source: S&P Capital IQ and Global Credit Portal.

## Conclusion

After screening for public companies that are trading below book value, we focused on investment-grade companies that have an S&P Capital IQ Estimate of "outperform," leaving us with three companies that fit our definition of "cheap" (P/BV of less than 1), had relatively low credit risk (investment grade with a stable outlook), and a strong equity outperformance consensus. In addition, these companies all continue to pay high dividends. If investors are looking for companies that are solid from a credit perspective, yielding capital appreciation and income in the short and long term, they may want to replicate our analysis.

The three companies identified in our search are described below.

### Capstone Infrastructure Corp. (Canada)

Capstone Infrastructure Corp., together with its subsidiaries, engages in building and managing a portfolio of infrastructure businesses in Canada and internationally. Its portfolio includes investments in gas cogeneration, wind, hydro, biomass, and solar power generating facilities.

### Man Group PLC (U.K.)

Man Group PLC provides alternative investment products and solutions to institutional and private investors worldwide. The company offers a range of products from diversified fund of hedge fund portfolios to single manager hedge funds, along with other alternative investments in various formats, including open-ended funds and capital guaranteed products.

### PTT Global Chemical Public Co. Ltd. (Thailand)

PTT Global Chemical Public Co. Ltd. operates as an integrated petrochemical and refining company primarily in Asia. It offers refined petroleum products, which include light distillates consisting of liquefied petroleum gas, light naphtha, and reformate; middle distillates comprising jet fuel and diesel; and heavy distillates, such as fuel oil.

## Getting Behind The Data

To perform the analysis in this article, we used the following S&P Capital IQ solutions:

### **S&P Capital IQ Platform**

S&P Capital IQ offers the highest-quality information on both public and private capital markets, along with powerful applications for desktop research, screening, real-time market data, backtesting, portfolio management, financial modeling, quantitative analysis, and more. Our product suite empowers the world's leading financial professionals to identify investment opportunities, draw unique insights, and increase returns.

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