A frank expectation

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Save Share

Targeting companies with a strong dividend stream may offset lower market returns. Trevor Hoey explores eight companies that should deliver good franked yields.

The likely total return from Australian shares over the next 12 months should be about 10.9 per cent, with 5 per cent coming from market gains and the rest from yield, says Peter Quinton, head of research at stockbroker Bell Potter.

This level of growth is a far cry from what we've seen in 2004-05, so it could well be time to target companies that offer a strong and reliable dividend stream. Not only can dividends provide quasi-growth if reinvested, they also tend to provide share price support at a level where the yield is too good to pass up.

The best companies to invest in are those from which you get franking credits for the tax they have paid, which reduces your income tax.

We have selected eight companies that should deliver franked yields of more than 6 per cent in 2005-06. Some of these have a special dividend incorporated in the ordinary dividend.

Catalyst Recruitment

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Hugh Robertson, a director of Bell Potter Securities and Catalyst Recruitment, has a high regard for the company's general manager, George Zammit. He believes Zammit is well respected within the industry and that his ability to progress the company in a responsible and ethical manner has been an integral part of Catalyst's success. Looking back at the quality businesses that Zammit has acquired and his ability to maintain the support of key personnel in those organisations, it appears that Robertson's assessment of Zammit is on the mark.

The recent purchase of MindAtlas, a leading training organisation, is Catalyst's eighth acquisition since 2001. It represents a conscious effort by Zammit to improve Catalyst's offering in this growing industry, which is now seen as an integral part of the human resources outsourcing service.

Zammit says that Catalyst's gearing will reduce from 43 per cent to zero by December 2005, providing the company does not make further acquisitions. This demonstrates the strong cash flow being generated, which is instrumental in the company's commitment to paying special dividends of 4¢ a year. In 2004-05 this boosted the total dividend to 8.5¢, which represents a yield of about 10 per cent.

Given that earnings per share should increase from 6.5¢ to about 8¢ in 2005-06, next year's dividend may be slightly higher.