THE SMART INVESTOR

4 WINNING DIVIDEND BLUE CHIPS FROM 2020

FREE SPECIAL REPORT

THE ROAD TO RICHES IS PAVED WITH DIVIDENDS

Welcome to a special report by The Smart Investor!

Dividends are a great way to put extra money in any investor's pocket.

Everyone has their own reasons for wanting to earn additional income.

Maybe you are saving up for a major expense somewhere down the road.

Or maybe you like the extra cash to enjoy some of the finer things in life.

For those close to retirement, this additional income will come in handy when it's time to enjoy your golden years.

In this report, we cover how you can invest in blue chips to gain a steady income.

We'll start by covering some of Singapore's favourite blue chips, why we are investing for dividends, before ending off with four winning dividend blue chips in 2020.

Above all, we hope to shine a light for your journey ahead as you create your own dividend-paying portfolio of stocks.

Let's get going, shall we?

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WHAT ARE BLUE-CHIP COMPANIES?

Blue-chip companies are generally defined as large, well-capitalised companies with a long operating track record and a distinctive brand name.

The term blue chip comes from the game of poker where the blue-coloured chip has the highest value.

Fittingly, blue-chip companies are businesses that have made their mark in the corporate world through years, sometimes even decades, of steady and consistent growth.

Blue chips are often prized for their well-established position in their respective industries and for their financial stability.

To be designated a blue-chip company is akin to being bestowed an honour as this signifies that the company has earned its reputation.

These businesses are usually market leaders in their respective industries and have a dominant competitive edge over smaller competitors.

By buying into blue-chip companies, the implication is that you should be able to sleep well as they are supposed to offer stability and certainty.

To some, blue-chip companies are thought to be resilient in the face of adversity and can tide through downturns and crises much better than the average company.

Generally, this coveted set of companies can be found in Singapore's **Straits Times Index** (SGX: ^STI) which, as you will soon find out, holds a diverse group of large companies.

Yet, recent events have shown that bigger is not necessarily better.

The COVID-19 pandemic has exposed the weaknesses of some of these well-regarded companies.

In fact, there are only four companies from the Straits Times Index which have increased their dividends in the first half of 2020. We'll be covering all 4 in the later part of this report.

THE STRAITS TIMES INDEX: SINGAPORE’S FAVOURITE BLUE CHIPS

The stocks within Singapore's broad market index, The Straits Times Index, are often referred to as blue chips.

The index is jointly conceived by FTSE Russell, **Singapore Press Holdings** (SGX: T39) and **Singapore Exchange** (SGX: S68) with the aim of representing the top 30 companies by market capitalisation on the SGX Main Board.

The table on the next page provides a summary of all the components that make up the index.

Company	Ticker Symbol	Industrial Classification Benchmark (ICB) Subsector	Index Weight
DBS Group Holdings	D05	Banks	15.2%
Oversea-Chinese Banking Corporation	O39	Banks	12.7%
United Overseas Bank	U11	Banks	10.6%
Singapore Telecommunications	Z74	Mobile Telecommunications	7.5%
Jardine Matheson Holdings	J36	Diversified Industrials	5.0%
Ascendas REIT	A17U	Industrial and Office REITs	3.8%
Keppel Corporation	BN4	Oil Equipment and Services	3.5%
Wilmar International Limited	F34	Food products	3.3%
CapitaLand	C31	Real Estate Holding and Development	3.0%
Singapore Exchange	S68	Investment Services	2.8%
Hongkong Land Holdings	H78	Real Estate Holding and Development	2.7%
Thai Beverage	Y92	Brewers	2.7%
Jardine Strategic Holdings	J37	Diversified Industrials	2.2%
Singapore Technologies Engineering	S63	Aerospace	2.1%
Mapletree Logistics Trust	M44U	Industrial and Office REITs	2.0%
Singapore Airlines	C6L	Airlines	2.0%
CapitaLand Mall Trust	C38U	Retail REITs	1.9%
CapitaLand Commercial Trust	C61U	Industrial and Office REITs	1.9%
Mapletree Industrial Trust	ME8U	Industrial REITs	1.8%
Genting Singapore	G13	Gambling	1.8%
Mapletree Commercial Trust	N2IU	Diversified REITs	1.7%
Venture Corporation	V03	Electronic Equipment	1.7%
City Developments	C09	Real Estate Holding and Development	1.6%
UOL Group	U14	Real Estate Holding and Development	1.4%
ComfortDelGro	C52	Travel and Tourism	1.2%
Jardine Cycle & Carriage	C07	Speciality Retailers	0.8%
Dairy Farm International Holdings	D01	Food Retailers and Wholesalers	0.8%
Yangzijiang Shipbuilding Holdings	BS6	Commercial Vehicles and Trucks	0.8%
SATS	S58	Transportation Services	0.7%
Sembcorp Industries	U96	Multiutilities	0.7%

Source: FTSE factsheets; weightage as of 30 June 2020

The local banks, **DBS Group Holdings Ltd** (SGX: D05), **United Overseas Bank Ltd** (SGX: U11) and **OCBC Ltd** (SGX: O39) sit right at the top, accounting for almost 40% of the index's weightage.

After the trio is **Singapore Telecommunications** (SGX: Z74), or better known as Singtel, the nation's largest telco provider.

Large conglomerates, such as **Jardine Matheson Holdings** (SGX: J36) and **Jardine Strategic Holdings** (SGX: J37) hold a diversified stake in multiple businesses ranging from properties owned by **Hongkong Land** (SGX: H78), supermarkets by **Dairy Farm International Holdings** (SGX: D01) to automotive sales by **Jardine Cycle & Carriage** (SGX: C07).

Likewise, **Singapore Technologies Engineering** (SGX: S63) has a foothold in varied industries such as electronics, aerospace, marine and land systems.

The real estate sector also features strongly in the Straits Times Index with **Ascendas REIT** (SGX: A17U), **CapitaLand** (SGX: C31) and Hongkong Land sitting within the Top 10 by index weight.

Major property developers such as **City Developments** (SGX: C09) and **UOL Group** (SGX: U14) also occupy a spot each.

In recent times, the REIT sector has grown in importance in this select index list.

A competitive tax environment and growing private wealth industry are some of the reasons why Singapore has become a global REITs listing hub.

CapitaLand Mall Trust (SGX: C38U) and **CapitaLand Commercial Trust** (SGX: C61U), along with the trio of **Mapletree Industrial Trust** (SGX: ME8U), **Mapletree Commercial Trust** (SGX: N2IU) and **Mapletree Logistics Trust** (SGX: M44U), all feature prominently within the Straits Times Index.

These six REITs cover anything from industrial warehouses and office buildings, to shopping malls and data centres.

Meanwhile, the aviation industry is represented by **Singapore Airlines** (SGX: C6L) and airline caterer **SATS** (SGX: S58). For land transportation, look no further than taxi and bus operator **ComfortDelGro Corporation** (SGX: C52).

There are a few more companies from the list but the underlying messages should be clear by now: blue chips can offer investors a diverse range of businesses.

But that is not enough.

As investors, we have to remember what we are aiming for in this case: dividends.

WHY INVEST FOR DIVIDENDS?

Many investors relish the thought of receiving dividends from their investments.

Dividends represent a pay out from the company from the profits it had made and is a way of rewarding shareholders for owning its shares.

This type of income is considered "passive" as you do not have to do anything or take any action to receive it.

In contrast, employment or running a business generates "active" income as you need to put in the effort and hours to "earn your keep".

This is the main reason why dividend investing is so attractive.

Imagine obtaining a regular stream of passive cash inflows as you go about your daily life, or relax by the beach with a refreshing cocktail.

With a large enough portfolio of dividend-generating stocks, the total cash inflow could be significant and can sustain you through your future retirement.

Even if you are still working, the dividends form an additional layer of income to supplement what you are currently earning.

With more cash on hand, you enjoy the flexibility of how to spend the money, whether it be on a relaxing holiday, a new gadget or a charitable cause.

Dividend investing is attractive because the income that flows in is effortless.

When you deploy your cash into the right companies, these dividends may even grow over the years and provide you with increased cash payouts over time.

To be sure, dividend investing has some downsides.

Here, we discuss the upside and downside of owning dividend stocks.

THE UPSIDE TO DIVIDEND INVESTING

Investors have two options when it comes to handling their dividend pay-outs.

They can receive the dividends as cash or directly reinvest the dividends back into the company's stock.

If no action is taken, the former will take place. The latter is known as the Dividend Reinvestment Plan (DRIP).

Both options have their merits, so let's illustrate this with an example.

To be sure, there are downsides that you should take note.

Scrip dividends often end up as odd lots which can be hard to sell later on.

Option 1: Receiving the dividends as cash

We use OCBC as an example as the bank has, in the last ten years, allowed shareholders to choose between receiving scrip or cash.

There have been periods, though, such as during 2016 and 2017, that no scrip option was offered at all. For such periods, the investor would have received cash dividends on his shareholdings.

We track the stock for a period of 10 years, from the end of 2009 till the end of 2019.

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Buying 1,000 shares of OCBC at S$8.85 at end-2009 will cost S$8,850, and this will be used as the initial asset value for the purchase.

10 years later

Let us now take a look at the outcome as of the beginning of 2020.

If you had not chosen scrip at all, your total market value for OCBC shares will be S$10,980 (1,000 shares multiplied by the closing share price of S$10.98 at end-2019).

You would have received a total of S$3,680 in dividends over the last ten years. Thus, if we add these numbers together, your total asset value amounts to S$14,660.

At the end of 10 years:

Total dividends received: $3,680

Total market value for OCBC shares: 1,000 shares x S$10.98 = S$10,980

Total asset value: S$3,680 + S$10,980 = $14,660

Option 2: Dividend Reinvestment Plan (DRIP)

Now, we assume that you have selected DRIP every time OCBC offers it, whether it be for its interim, or final dividend.

2009 — 2010 — 2011 — 2012 — 2013 — 2014 — 2015 — 2016 — 2017 — 2018 — 2019

Buying 1,000 shares of OCBC at S$8.85 at end-2009 will cost S$8,850, and this will be used as the initial asset value for the purchase.

10 years later →

Assuming all scrip dividends are accepted at the various issue prices set by OCBC for each dividend, you will end up ten years later with 248.62 additional shares of OCBC to add to your original 1,000 shares.

At the end of 2019, your total asset value will be S$15,598.71. This can be broken down into two components:

- Market value of OCBC's shares at S$13,710.
- Total cash dividends received of S$1,888.82 (for all declared dividends without a scrip option)

You may ask: why is the market value of OCBC's shares so much higher at S$13,710 compared to S$10,980 in the first example?

That's because the acceptance of scrip dividends has increased the total number of OCBC shares you own over the years.

This means that you now own 1,248.62 shares, or around 25% more than what you started out with back in 2010.

And the great thing is - these extra shares have resulted in higher amounts of cash dividends received over the years, too.

In this example, your dividends have been compounded to generate even more dividends for you. This is the beauty of DRIP over the long-term.

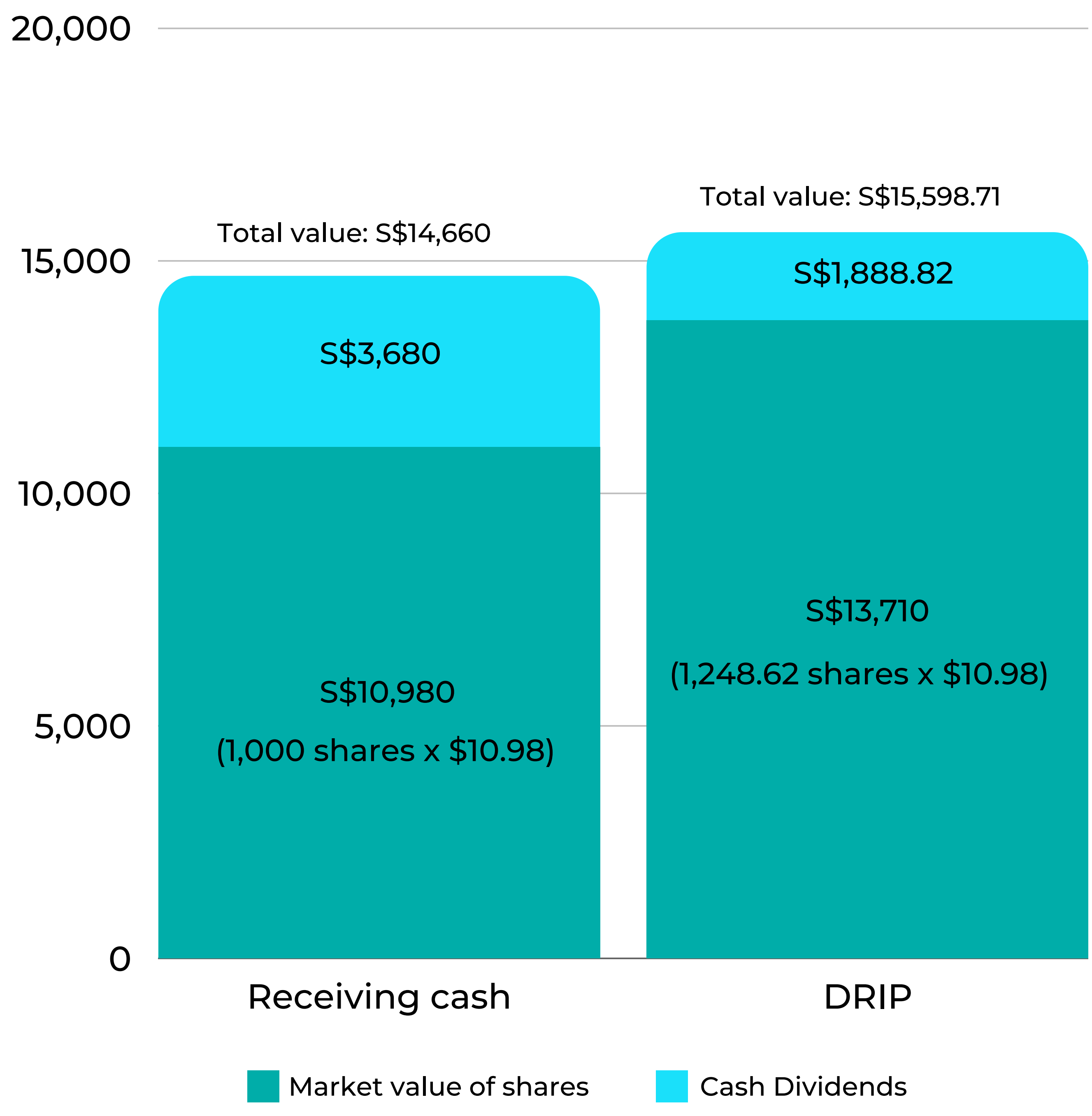
At the end of 10 years:

Total dividends received: $1,888.82

Total market value for OCBC shares: 1,248.62 shares x S$10.98 = S$13,710

Total asset value : S$1888.82 + S$13,710 = $15,598.71

A side-by-side comparison between receiving cash dividends versus choosing the Dividend Reinvestment Plan (DRIP)



For dividend stocks, capital appreciation is only part of the equation. Although stock prices may have decreased due to the panic, resilient companies will still be able to pay out stable dividends.

This continued payout provides a safety net for investors during bear markets.

THE DOWNSIDE TO DIVIDEND INVESTING

Before you invest, it is important to factor in the risks for any investment that you make.

Here are some cons to consider for dividend stocks.

By paying dividends to the investors, the company ends up with less cash for reinvestment.

This may hinder the company's ability to improve its processes or grow, which might affect its capital appreciation.

Interestingly, growth and dividend pay-outs are interlinked.

A company which has achieved growth over the years is better able to pay out higher dividends, while increasing dividend payouts over the years is also a reason for capital appreciation.

AND ALONG CAME A PANDEMIC ...

Singapore's Straits Times Index companies have reported all their results for the first half of the year.

The results aren't pretty, as you can see in the table below.

Stock	Period	Previous FY	Current FY	% Change
Ascendas Real Estate Investment Trust	1H'20 (Jan-Jun)	$0.082	$0.073	-11%
CapitaLand Commercial Trust	1H'20 (Jan-Jun)	$0.044	$0.033	-24%
CapitaLand	1H'20 (Jan-Jun)	N/A	N/A	N/A
CapitaLand Mall Trust	1H'20 (Jan-Jun)	$0.058	$0.030	-49%
City Developments Limited	1H'20 (Jan-Jun)	N/A	N/A	N/A
ComfortDelGro Corporation	1H'20 (Jan-Jun)	$0.045	$0.000	-100%
Dairy Farm International Holdings	1H'20 (Jan-Jun)	$0.065	$0.050	-23%
DBS Group Holdings	1H'20 (Jan-Jun)	$0.600	$0.510	-15%
Genting Singapore	1H'20 (Jan-Jun)	$0.015	$0.000	-100%
Hongkong Land Holdings	1H'20 (Jan-Jun)	$0.060	$0.060	0%
Jardine Cycle & Carriage	1H'20 (Jan-Jun)	$0.180	$0.090	-50%
Jardine Matheson Holdings	1H'20 (Jan-Jun)	$0.440	$0.440	0%
Jardine Strategic Holdings	1H'20 (Jan-Jun)	$0.105	$0.105	0%
Keppel Corporation	1H'20 (Jan-Jun)	$0.080	$0.030	-63%
Mapletree Commercial Trust	Q4'FY19/20 (Jan-Mar)	$0.023	$0.009	-61%
Mapletree Industrial Trust	Q1'FY20/21 (Apr-Jun)	$0.031	$0.029	-7%
Mapletree Logistics Trust	Q1'FY20/21 (Apr-Jun)	$0.020	$0.020	1%
Oversea-Chinese Banking Corp	1H'20 (Jan-June)	$0.250	$0.159	-36%
SATS	2H'FY19/20 (Oct-Mar)	$0.130	$0.000	-100%
Sembcorp Industries	1H'20 (Jan-June)	$0.020	$0.000	-100%
Singapore Airlines	2H'FY19/20 (Oct-Mar)	$0.220	$0.000	-100%
Singtel	2H'FY20 (Oct-Mar)	$0.107	$0.055	-49%
Singapore Exchange	2H'FY20 (Jan-Jun)	$0.150	$0.155	3%
ST Engineering	1H'20 (Jan-June)	$0.050	$0.050	0%
Thai Beverage Company	1H'20 (Oct-Mar)	$0.150	$0.100	-33%
United Overseas Bank	1H'20 (Jan-Jun)	$0.550	$0.390	-29%
UOL Group	1H'20 (Jan-Jun)	N/A	N/A	N/A
Venture Corporation	1H'20 (Jan-Jun)	$0.200	$0.250	25%
Wilmar International	1H'20 (Jan-Jun)	$0.030	$0.040	33%
Yangzijiang Shipbuilding	1H'20 (Jan-Jun)	N/A	N/A	N/A

Source: Company announcements, earnings presentations, and website; Dividends for Hongkong Land, Jardine C&C, Jardine Matheson, Jardine Strategic and Dairy Farm are in US dollars; Dividends for Thai Beverage are in Thai Baht.

The Singapore dividend “apocalypse” is here.

If there is any doubt, consider this -- two out of every three companies that pay a dividend have since lowered their dividends.

Five of them, namely **Genting Singapore** (SGX: G13), SATS, Singapore Airlines, **Sembcorp Industries** (SGX: U96) and ComfortDelGro Corporation, have stopped paying interim dividends altogether for the period above.

It’s not surprising.

After all, the quartet reside in some of the hardest hit industries amid the pandemic.

Keeping dividends unchanged has been a rare sight as well, with only four companies within the index able to do so.

The statistics are sobering for investors looking for dividends.

The pandemic has been unforgiving in how it has impacted almost every facet of businesses in Singapore and abroad.

And while some of the dividend cuts may prove to be temporary or self imposed (for example, the banks have chosen to cut dividends based on MAS’s guidance), only four out of 30 Straits Times Index component companies have increased their dividends.

4 WINNING DIVIDEND BLUE-CHIPS FROM 2020

When "blue-chip companies" are paired together with "dividends", you usually end up with a very attractive combination of stability, resilience, and passive cash inflows.

However, as we have seen above, the COVID-19 pandemic has created an "apocalypse" when it comes to dividend payments.

However, even amongst the wreckage, some sparkling gems have raised their dividends.

Here are four blue-chip companies that managed to increase their dividends despite the tough economic conditions.

1. Mapletree Logistics Trust (SGX: M44U)

Mapletree Logistics Trust, or MLT, is a REIT that owns a diversified portfolio of income-generating logistics and industrial properties.

As of 30 June 2020, MLT has a portfolio of 145 properties spread out over eight countries in Asia and Australia, with a total asset under management of S$8.9 billion.

MLT is managed by Mapletree Logistics Trust Management Ltd, which is a wholly-owned subsidiary of state-owned Mapletree Investments Pte Ltd.

For its fiscal 2020/2021 first-quarter, the REIT reported a year on year increase of 10.5% in gross revenue, generating S$132.4 million.

Distributable amount to shareholders inched up 5.7% year on year to S$77.8 million.

However, due to an enlarged base of units, distribution per unit (DPU) only rose 1% year on year from S$0.02025 to S$0.02045.

MLT's portfolio has remained relatively resilient despite the economic turbulence.

In June 2020, the REIT announced the proposed acquisition of a freehold Grade A warehouse in Brisbane, Australia for A$21.3 million.

This property is scheduled for completion by the third quarter of the current fiscal year and will be leased to a prominent tenant for the next 10 years with annual rent escalations.

As restrictions are eased around the world and economies reopen gradually, MLT's tenants have mostly resumed operations. Only 1.3% of MLT's tenant base is still not operating.

2. Singapore Exchange Limited (SGX: S68)

Singapore Exchange Limited, or SGX, is Singapore's sole stock exchange operator.

The bourse operator operates a platform for the buying and selling of a wide variety of securities such as equities, fixed income, derivatives and currencies.

For SGX's full fiscal year ended 30 June 2020, it reported a 16% year on year increase in revenue to S$1.05 billion.

Net profit jumped by 21% year on year to S$472 million.

The group increased its quarterly dividend to S$0.08 from S$0.075 a year ago.

Moving forward, the annualised dividend for the new fiscal year 2021 will be S$0.32.

SGX has also been busy on the business development front.

It recently launched 13 futures to cover almost 100% of Asia's GDP, and which will significantly expand its all-Asia waterfront for equity derivatives.

The group and FTSE Russell also signed a long-term strategic partnership to develop innovative Asian multi-asset solutions. FTSE Russell is a global index, data and analytics provider.

And in early September, SGX announced that it will partner with CryptoCompare to launch crypto indices, marking the bourse operator's first entry into the digital currency asset class.

3. Venture Corporation Limited (SGX: V03)

Venture is a leading global provider of technology products, solutions and services.

The group has a portfolio of more than 5,000 products and solutions serving a wide variety of industries such as life sciences, medical devices and financial technology.

The contract manufacturer employs around 12,000 people worldwide.

For the second quarter of 2020, Venture's revenue inched up 2.9% quarter on quarteryear on year to S$692.7 million.

Net profit increased by 16.4% quarter on quarteryear on year to S$70.2 million as manufacturing activities recovered in May and June amid easing lockdowns.

A favourable product mix also bumped up net margins amid a favourable outlook for the group.

The group increased its interim dividend from S$0.20 to S$0.25 as a show of confidence in its prospects.

The steady recovery witnessed so far during the quarter is expected to carry through to the second half of the year.

Venture's research and development labs are also planning to release several newly-developed products into manufacturing in early 2021.

Despite the challenges it faced earlier this year, Venture's outlook remains sanguine and investors can look forward to better numbers in the year ahead.

4. Wilmar International Limited (SGX: F34)

Wilmar is a leading agribusiness group. The group's business activities include oil palm cultivation, sugar milling and refining, and manufacturing of consumer products.

It has over 500 manufacturing plants as well as an extensive distribution network covering China, India and Indonesia and 50 other countries and regions. Wilmar employs around 90,000 people worldwide.

For the group's first-half 2020 earnings, it reported a 12% year on year rise in revenue to US$22.7 billion.

Core net profit jumped by close to 50% year on year to US$635.9 million.

The interim dividend was raised by 33% from S$0.03 to S$0.04.

There was an improved contribution from all of Wilmar's divisions, driven by improved demand.

Consumer products sales increased as people ate more often at home during lockdowns.

Wilmar's operations were allowed to continue as the group is deemed to be operating essential services.

The recent increase in palm oil prices should also contribute positively to the group's plantations division.

Wilmar is cautiously optimistic that its performance for the second half of the year will be satisfactory.

The group also announced that its 99.99%-owned subsidiary, Yihai Kerry Arawana Holdings Co., Ltd, has obtained listing clearance from the Shenzhen Stock Exchange.

The company has submitted its updated prospectus to the China Securities Regulatory Commission for final registration approval to list on the bourse's ChiNext Board.

However, there is still no confirmation on when the IPO will be, as this is still subject to further approval and market conditions.

THE FINAL WORD: DON'T GET TRAPPED, GET SMART

Dividends allow investors to experience the wonders of compounding, and also provide a stream of passive income

However, there are red flags you need to watch out for.

Known as dividend traps, these stocks pay-out seemingly attractive but unsustainable dividends.

Unlike REITs, dividend companies can alter their dividend pay-outs anytime. This means that they can increase or even stop their dividend payments at any moment.

Thankfully, these changes are often predictable if you keep track of the company's business and financials.

Investors should pay extra attention to high-yield dividend stocks as they are often the ones that may yield nasty, unexpected surprises.

Regular dividends can be a source of income for many investors.

Many of us, including us here at The Smart Investor, plan to retire with a stable, passive income.

At The Smart Dividend Portfolio, we're building a sturdy portfolio that is aimed at weathering the volatilities of the market. After all, the whole point about investing is to make money.

And we've made some money.

In a few short months, after investing S$20,000, we have received nearly $500 in dividends. One of our stocks has already doubled in value.

Our work is not done. We have just recently concluded a review of all 15 stocks within our Smart Dividend Portfolio. We are now ready to embark on the next tranche of investments in the coming months.

If you'd like to join us on this journey to build a strong, passive income stream, just click the button below.

It's a great time to join us. You get immediate access to all 15 stocks within our portfolio, and will be ready to join us for the next tranche of investments.

Disclaimer: Royston Yang owns shares in Singapore Exchange Limited, SATS and DBS Group. Chin Hui Leong owns shares in DBS Group, OCBC, UOB, Singapore Exchange, Hongkong Land, Dairy Farm International, CapitaLand Mall Trust, Mapletree Industrial Trust and SATS.