

Investment Ideas

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High 'Dividend Yield' Ideas: Strong companies with attractive yield

We expect healthy businesses with high margin of safety to do well post General election results. Investment in value stocks is a useful way tide through the volatility surrounding election outcome and the economic recovery. We have put together a select list of stocks with attractive dividend yields, strong fundamentals and cheap valuations. While most of these stocks are under our active coverage, we have a positive view on business prospects of the uncovered ones in the list. Financials, where we have a positive stance, accounts for 23.5% of the total market capitalization of these stocks.

Banking:

Asset quality stress is likely to abate from H2 FY15 on the back of gradual macro recovery. This along with stabilization of NIM should prevent further deterioration of RoA in FY15. PSU Bank's performance could be markedly better in FY16 aided by strengthened economy and softening of interest rates. Though FY14/15 dividends could be lower than FY13, it would still yield a material return on the current price. Further,

trough valuations imply strong scope of capital appreciation in the longer run.

Coal India:

Earnings growth to resume on the back of higher volumes from new mines, debottlenecking of transportation network and price hikes to offset increase in costs.

Indiabulls Housing Finance:

Impressive track record of asset growth and high profitability. With asset quality strong, return ratios would remain best-in-class. Company has increased dividend payout over the past two years.

Oil India:

Strong recovery in production expected in the next couple of years, beneficiary of gas price hike and other oil sector reforms, robust balance sheet and strong cash position

Financial summary

Company name	Sector	Market cap (₹ cr)	CMP (₹)	Div yield (%)	FY15E P/E* (x)
Dena Bank	Banking	3,332	61	7.7%	0.6
Syndicate Bank	Banking	6,196	98	5.6%	0.6
Corp Bank	Banking	5,031	299	6.4%	0.6
Indian Bank	Banking	5,655	117	5.7%	0.5
Union Bank of India	Banking	9,322	135	3.0%	0.7
Canara Bank	Banking	13,063	276	4.0%	0.5
Bank of India	Banking	15,286	233	4.3%	0.7
Coal India	Metals & Mining	185,606	295	4.7%	10.3
Indiabulls Housing Finance	NBFC	9,580	285	10.2%	1.5
Oil India	Oil & Gas	29,320	487	6.2%	7.6
Clariant Chemicals India ^	Others	1,813	680	4.4%	10.9
Balmer Lawrie & Co#	Others	963	338	5.2%	8.5
Graphite India#	Others	1,664	85	4.1%	9.7

Source: Company, India Infoline Research

P/E based on annualized 9m FY14 EPS

^ P/E based on annualized CY13 EPS

* P/B in case of Banking and NBFC sectors

Dividend yield calculated on the latest declared dividend, except Coal India where we have considered FY13 dividend