

# Quantitative Screening

## Dividend Growers 2020: Applying the Screens

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Re-running our selection criteria for 2020 has four companies automatically qualify as a 2020 Dividend Grower, along with a further three potential entrants. Applying the screens, we select EBOS Group (EBO), F&P Healthcare (FPH), Mainfreight (MFT) and Summerset Group (SUM), along with Delegat Group (DGL), Ryman Healthcare (RYM) and Skellerup Holdings (SKL). Our dividend growers selection for May 2019–Dec 2020 returned on average +37% (versus the benchmark +28%).

### Dividend Growers selection criteria

Dividend-based strategies focussing on a stable and growing dividend income stream are actively undertaken in the international markets. Our analysis of Dividend Growers in the New Zealand market suggests that this strategy adds value on a risk-adjusted basis.

We have again applied our screening process to determine which companies we would classify as Dividend Growers by using the following criteria:

- Dividend growth exceeding the market median (+4% p.a.) with adequate history
- Consistency in dividend growth
- Dividend pay-out ratios <80%
- Growing forward earnings
- Positive Expected 12-month Total Returns (ETR)

### The 2020 Dividend Growers selection

The 2020 Dividend Growers list consists of seven companies, made up of four companies (EBO, FPH, MFT & SUM) who passed all five filters and three (DGL, RYM & SKL) that narrowly miss one of the initial selection filters (i.e. ETR/Dividend Pay-out Ratio).

**Figure 1. 2020 Dividend Growers**

Code	Company	Sector	Dividend Growth Rate >+4% (observations)	Dividend Consistency (R <sup>2</sup> >80%) Historic	Dividend Pay-out Ratio <80%	Consensus EPS Growth >0% (2 yrs p.a.) Forward Looking	12-month Consensus ETR>0%
<b>2020 Dividend Growers</b>							
EBO	EBOS Group	Healthcare	+9.6% (10)	96.0%	71.0%	+4.9%	+10.9%
FPH	F&P Healthcare	Healthcare	+8.3% (10)	88.7%	62.6%	+17.3%	+3.0%
MFT	Mainfreight	Transport	+12.3% (10)	96.0%	40.5%	+18.6%	+2.6%
SUM	Summerset Group	Aged Care	+24.2% (8)	95.0%	30.4%	+5.9%	+4.4%
<b>Potential entrants</b>							
DGL	Delegat Group	Food, Bevs, & Agri	+9.3% (6)	87.6%	30.4%	+5.8%	-2.3%
RYM	Ryman Healthcare	Aged Care	+13.5% (10)	98.9%	50.9%	+12.5%	-2.7%
SKL	Skellerup Holdings	Industrials	+11.2% (10)	90.6%	83.7%	+6.7%	+14.2%

Source: Forsyth Barr analysis, Bloomberg

## Our Analysis

Dividend-based strategies focussing on a stable and growing dividend income stream are actively undertaken in international markets.

In 2013 we developed a framework to select stocks with dividend growth characteristics. Given the limited historic data for NZ, this framework was refined by back testing the screening process using 20 years of Australian data. Back-testing suggested that this strategy adds value (+4.6%pa) on a risk-adjusted basis, although selections have not always outperformed on an annual basis.

### Re-running the model

The model uses historic data to screen for:

- Dividend growth above the market (market median +4% pa)
- Consistency in dividend growth
- Sustainable dividend pay-out ratios

The model also uses two forward looking filters: consensus EPS growth, and consensus 12-month expected total return (ETR). Both need to be positive.

Applying our *Dividend Grower* screens highlights the following companies as *Dividend Grower* constituents along with three potential entrants: We add EBOS Group (EBO), F&P Healthcare (FPH), Mainfreight (MFT) and Summerset Group (SUM) to the 2020 Dividend Growers portfolio. Potential entrants include Delegat Group (DGL), Ryman Healthcare (RYM) and Skellerup Holdings (SKL). Both DGL and RYM narrowly miss automatic inclusion due to a slightly negative ETR, whilst SKL's dividend pay-out ratio is just above the 80% threshold.

Figure 2. 2020 Dividend Growers

Code	Company	Sector	Dividend Growth Rate >+4% (obs)	Dividend Consistency (R <sup>2</sup> >80%) Historic	Dividend Pay-out Ratio <80%	Consensus EPS Growth >0% (2 yrs p.a.)	12-month Consensus ETR>0%
						Forward Looking	
<b>2020 Dividend Growers</b>							
EBO	EBOS Group	Healthcare	+9.6% (10)	96.0%	71.0%	+4.9%	+10.9%
FPH	F&P Healthcare	Healthcare	+8.3% (10)	88.7%	62.6%	+17.3%	+3.0%
MFT	Mainfreight	Transport	+12.3% (10)	96.0%	40.5%	+18.6%	+2.6%
SUM	Summerset Group	Aged Care	+24.2% (8)	95.0%	30.4%	+5.9%	+4.4%
<b>Potential entrants</b>							
DGL	Delegat Group	Food, Bevs, & Agri	+9.3% (6)	87.6%	30.4%	+5.8%	-2.3%
RYM	Ryman Healthcare	Aged Care	+13.5% (10)	98.9%	50.9%	+12.5%	-2.7%
SKL	Skellerup Holdings	Industrials	+11.2% (10)	90.6%	83.7%	+6.7%	+14.2%

Source: Forsyth Barr analysis, Bloomberg

### 2020 Dividend Growers and analyst comments

- **EBOS Group (EBO):** EBO has market leading positions across a number of segments within the Australasian Healthcare and Animal Care sectors. Its core competency is specialised healthcare logistics. Key wholesale customers include community pharmacies, hospitals, aged care and veterinarians, as well as a growing branded product portfolio. EBO is a well-run defensive company which delivers healthy returns, consistently strong cash conversion and has a solid growth outlook.
- **F&P Healthcare (FPH):** FPH is a high quality medical device company, with specialised expertise in heated humidification that forms the basis of its strong global market position in the hospital and growing presence in homecare. It has progressively widened its addressable market through new applications which is a key driver of an attractive, long-term, double-digit profit growth outlook. The company is also benefitting from COVID-19 related demand, with some of its products recommended as a frontline therapy. The combination of high returns, a lift in growth and lower interest rates has been a powerful source of multiple expansion. However, FPH is one of the most expensive global medical device companies (growth-adjusted and absolute).

- **Mainfreight (MFT):** MFT is a domestic freight industry leader that has successfully exported its blue blooded approach to the global stage. It has a very strong growth track record given its ability to consistently win new customers that buy-in to its quality focus and its network intensity driven approach to branch development, which consistently delivers margin upside. The company uses a capital light contractor model for transportation of freight, but is investing in strategic property for new facilities. Over recent years the company has been consistently re-rated by the market, given its superior growth characteristics and increasing defensive attributes (a function of its strategy of targeting "every day" freight). Consequently, it is far from cheap, but the growth opportunity and outlook should be attractive to investors with longer term time frames.
- **Summerset Group (SUM):** With a strengthening development and sales track record, and the largest land bank in the sector of c. seven years, SUM provides quality exposure to positive industry dynamics at play in the Aged Care sector. SUM has delivered the fastest organic earnings growth of the listed aged care providers over the last few years, with annuity earnings growing at 20%+ over the last five years. There remains significant growth potential from positive demographic trends, and expansion into Australia with the acquisition of further sites in Victoria, a largely untapped market.

#### Potential entrants...

- **Delegat Group (DGL):** DGL is a leading NZ producer of Super Premium branded wines for the export and domestic markets. DGL exports wine under the Oyster Bay and Barossa Valley Estate brands and in New Zealand also distributes under the Delegats brand. DGL exports wine volumes representing c. 90% of group sales. Its key markets include; Australia, the USA, Canada, the UK, and Europe. DGL has winery operations in Marlborough, Hawke's Bay, and Australia's Barossa Valley to complement its significant vineyard holdings. We view DGL as a high quality company, with a strong track record of delivering earnings growth.
- **Ryman Healthcare (RYM):** RYM is the largest operator in the Aged Care sector and is leveraged to the rapidly ageing population in New Zealand and Victoria with growing demand for retirement village living and aged care. RYM's strong brand, fully integrated villages and care expertise provide a needs based, defensive customer base. It has a long run, market leading, EPS growth track record since listing in 1999, even though the last three years have seen a slowdown. Increased build times and expansion into Australia has resulted in debt levels rising with RYM currently having the highest gearing in the sector.
- **Skellerup Holdings (SKL):** SKL develops and manufactures critical components, operating in the industrial and agriculture sectors across multiple geographies. SKL is a market leader in the global dairy industry, producing liners and tubing for use in the milking process. Its Industrial business produces technical components often used in larger systems by OEM (original equipment manufacturer) customers.

**Figure 3. Dividend Grower Fundamentals**

Code	Company	Price	Est 12mth Total Return (Forsyth Barr)	12mth Fwd EV/EBIT	12mth Fwd PE	12mth Fwd Gross Yield	Forsyth Barr Rating
<b>2020 Dividend Growers</b>							
EBO	EBOS Group	\$25.80	+17.2%	14.5x	19.9x	3.8%	OUTPERFORM
FPH	F&P Healthcare	\$32.37	+3.5%	32.5x	44.1x	1.7%	UNDERPERFORM
MFT	Mainfreight	\$62.50	+1.0%	23.0x	31.3x	1.8%	OUTPERFORM
SUM	Summerset Group	\$11.05	+12.1%	20.4x	19.4x	2.1%	OUTPERFORM
<b>Potential entrants</b>							
DGL	Delegat Group	\$15.70	-2.3%	17.9x	23.1x	1.6%	NEUTRAL
RYM	Ryman Healthcare	\$15.07	-5.8%	30.6x	26.1x	2.7%	NEUTRAL
SKL	Skellerup Holdings	\$3.21	+14.9%	13.4x	18.3x	5.8%	OUTPERFORM

Source: Forsyth Barr analysis

## The Screening Process

The Forsyth Barr *Dividend Growers* model screens for companies that we believe qualify as *Dividend Growers* based on quantitative filters.

The initial screen utilises the following three conditions: dividend growth above +4%, dividend consistency, and a sustainable dividend pay-out ratio. The model also uses two forward looking filters: consensus EPS growth, and consensus Expected Total Return (ETR). Both need to be positive.

### **1: Dividend growth rate exceeds market growth (market median +4%) with adequate history**

This screen ensures that a company can grow dividends above the market rate. Of the companies sampled, this compound annual growth rate is set at +4% using 10 years of historic data. Companies with less than six years of dividend data are not considered.

### **2: Dividend consistency**

We are looking for companies that have a high predictability of incremental dividend growth across time. To measure a company's ability to sustain continuous dividend growth we run a linear regression over the 10 year historical DPS series. The dividend consistency filter tests that a linear trend can explain at least 80% of the dividend growth. This allows the filter to avoid companies with volatile dividend growth.

### **3: Sustainable dividend pay-out ratio**

The balance between maintaining dividend sustainability and reinvesting for potential growth is difficult to set. With the average pay-out ratio of 74.9% for our sampled companies, we set the maximum pay-out ratio to be 80%. Any company that exceeds this limit is removed from the screening process.

### **4: Growing earnings = Growing dividends**

Growing earnings allows for growing dividends. To ensure potential Dividend Growers are not ex-growth, the fourth filter screens for positive earnings growth over the next two forecast years.

To remove any analyst bias, the forecast two year annualised earnings growth is derived using consensus data.

### **5: Estimated Total Return (ETR)**

Finally, in order to reduce the probability of over-paying for growth, the final filter screens for companies with a positive ETR.

We outline the results from the five screening filters in Figure 4, whilst Figure 5 provides the dividend growth, both actual and forecast, via a dividend growth heat map.

**Figure 4. Dividend Growers: Screening Filter**

Code Company	Dividend Growth Rate >+4%	Observation Count >=6	Dividend Consistency (R <sup>2</sup> >80%)	Dividend Pay-out Ratio <80%	Consensus EPS Growth >0% (2 yrs p.a.)	12-month Consensus ETR>0%	Filters Passed
			Historic	Forward Looking	Forward Looking	Forward Looking	
AIA Auckland Airport	+11.6%	9	3.8%	78.6%	-18.4%	-8.7%	2
AIR Air New Zealand	+13.6%	9	15.1%	64.8%	n/a	-12.0%	2
APL Asset Plus	-4.0%	10	16.3%	85.8%	-30.5%	+15.6%	1
ARG Argosy Property	-1.2%	10	11.7%	92.1%	-0.0%	+1.3%	1
ARV Arvida Group	+9.7%	4	98.7%	61.8%	+12.2%	+17.3%	4
BGP Briscoe Group	+2.0%	10	28.7%	61.4%	+0.3%	-4.4%	2
CEN Contact Energy	+4.7%	10	78.0%	97.4%	-10.3%	+1.1%	2
CNU Chorus	+4.7%	4	22.3%	132.8%	+7.5%	+3.5%	2
CVT Comvita	-3.5%	8	33.8%	13.7%	+89.2%	n/a	3
<b>DGL Delegat Group</b>	<b>+9.3%</b>	<b>6</b>	<b>87.6%</b>	<b>30.4%</b>	<b>+5.8%</b>	<b>-2.3%</b>	<b>4</b>
<b>EBO EBOS Group</b>	<b>+9.6%</b>	<b>10</b>	<b>96.0%</b>	<b>71.0%</b>	<b>+4.9%</b>	<b>+10.9%</b>	<b>5</b>
FBU Fletcher Building	+4.3%	7	40.5%	48.7%	+905.0%	+8.7%	4
<b>FPH F&amp;P Healthcare</b>	<b>+8.3%</b>	<b>10</b>	<b>88.7%</b>	<b>62.6%</b>	<b>+17.3%</b>	<b>+3.0%</b>	<b>5</b>
FRE Freightways	+0.7%	10	26.6%	69.7%	+15.1%	-6.2%	2
FSF Fonterra	-11.4%	8	30.8%	44.3%	+18.7%	-7.6%	2
GMT Goodman Property Trust	-2.4%	10	2.3%	92.4%	+2.0%	-6.1%	1
GNE Genesis Energy	+6.1%	7	74.3%	111.3%	+10.2%	-8.2%	2
GTK Gentrack	+17.7%	5	5.0%	67.6%	n/a	-0.4%	1
HGH Heartland Group Holdings	+6.6%	7	71.2%	70.8%	+8.3%	-2.0%	3
IFT Infratil	+10.8%	10	97.4%	n/a	n/a	-17.5%	2
KMD Kathmandu Holdings	+10.0%	9	0.9%	50.9%	+57.7%	+19.8%	4
KPG Kiwi Property Group	-6.9%	10	22.3%	85.6%	-3.9%	+15.1%	1
MCY Mercury	+4.0%	7	92.3%	84.9%	+2.2%	-20.2%	3
MEL Meridian Energy	+6.8%	6	61.2%	121.6%	-13.4%	-25.8%	1
<b>MFT Mainfreight</b>	<b>+12.3%</b>	<b>10</b>	<b>96.0%</b>	<b>40.5%</b>	<b>+18.6%</b>	<b>+2.6%</b>	<b>5</b>
MHJ Michael Hill Intl	-8.9%	10	33.8%	56.1%	+18.4%	+6.5%	3
NZK NZ King Salmon	-0.9%	3	0.0%	32.8%	-8.3%	+20.3%	2
NZR Refining NZ	-30.3%	7	6.4%	90.1%	n/a	+37.9%	1
NZX NZX	+2.7%	6	4.0%	123.3%	+8.4%	+15.2%	2
PCT Precinct Properties NZ	+0.4%	10	76.8%	93.8%	+4.8%	+13.5%	2
PFI Property For Industry	+0.8%	10	74.8%	91.1%	+2.7%	-9.8%	1
PGW PGG Wrightson	-16.6%	7	2.6%	159.6%	+41.8%	-22.6%	1
POT Port of Tauranga	+7.9%	10	91.3%	91.3%	+5.1%	-26.9%	3
RBD Restaurant Brands NZ	+10.6%	8	13.4%	49.5%	+16.7%	+8.0%	4
<b>RYM Ryman Healthcare</b>	<b>+13.5%</b>	<b>10</b>	<b>98.9%</b>	<b>50.9%</b>	<b>+12.5%</b>	<b>-2.7%</b>	<b>4</b>
SAN Sanford	-14.2%	10	27.4%	47.2%	+23.5%	+16.2%	3
SCL Scales	+11.3%	6	55.9%	82.3%	-16.1%	+15.0%	1
SKC SKYCITY	-5.0%	10	1.0%	84.7%	+28.0%	+10.3%	2
<b>SKL Skellerup Holdings</b>	<b>+11.2%</b>	<b>10</b>	<b>90.6%</b>	<b>83.7%</b>	<b>+6.7%</b>	<b>+14.2%</b>	<b>4</b>
SKT Sky TV	-6.7%	9	32.5%	48.5%	+115.3%	+45.5%	3
SPG Stride Property	+4.7%	9	54.3%	96.4%	+5.6%	+14.3%	3
SPK Spark NZ	+5.8%	7	69.4%	104.7%	+1.2%	+7.7%	3
STU Steel & Tube Holdings	-12.8%	10	32.7%	74.8%	n/a	-5.9%	1
<b>SUM Summerset Group</b>	<b>+24.2%</b>	<b>8</b>	<b>95.0%</b>	<b>30.4%</b>	<b>+5.9%</b>	<b>+4.4%</b>	<b>5</b>
THL Tourism Holdings	+31.4%	7	30.8%	75.2%	-23.9%	+11.3%	3
TLT Tilt Renewables	-52.5%	2	8.1%	10.4%	-46.8%	-20.0%	1
TPW Trustpower	+2.3%	10	48.6%	92.7%	+14.0%	-7.3%	1
VCT Vector	+1.7%	10	97.9%	120.5%	+7.7%	+4.3%	3
VHP Vital Healthcare	+1.2%	10	86.7%	82.1%	+6.8%	+1.6%	3
WHS The Warehouse Group	-3.8%	9	56.7%	66.6%	+5.1%	+10.3%	3
ZEL Z Energy	+10.2%	9	47.6%	65.8%	-15.1%	+28.7%	3

Source: Forsyth Barr analysis, Bloomberg. [Potential entrants for Dividend Growers](#)

Figure 5. Dividend Growth Heat Map

Code	Company	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (fcst)	2022 (fcst)
AIA	Auckland Airport	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up			
AIR	Air New Zealand	Up	++Down	Flat	Up	Up	Up	Up	Up	Up	Flat			
APL	Asset Plus	Down	Down	Flat	++Down	Up	Up	Down	Up	Flat	Flat	++Down	++Down	Flat
ARG	Argosy Property	Down	Down	Down	Flat	Up	Flat	Up	Up	Up	Up	Up	Up	Flat
ARV	Arvida Group Limited								Up	Up	Up	Up	Flat	Up
BGP	Briscoe Group	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	++Down	Up	Flat
CEN	Contact Energy	Down	Down	Up	Up	Up	Flat	Flat	Flat	Up	Up	Flat	++Down	Flat
CNU	Chorus								Up	Up	Up	Up	Up	Up
CVT	Comvita		++Down	Up	Down	Down	Up	++Down	++Down	Up				Up
DGL	Delegat Group						Up	Up	Up	Up	Up	Flat	Up	Up
EBO	EBOS Group	Up	Up	Down	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up
FBU	Fletcher Building	++Down	Up	Up	Flat	Up	Up	Up	Flat					Up
FPH	F&P Healthcare	Flat	Flat	Flat	Flat	Flat	Up	Up	Up	Up	Up	Up	Up	Up
FRE	Freightways	++Down	Up	Up	Up	Up	Up	Up	Up	Up	Up	++Down	Up	Up
FSF	Fontera	++Down	Up	Up	Flat	++Down	Up	Up	Flat	++Down			Up	Up
GMT	Goodman Property Trust	++Down	Down	++Down	Flat	Flat	Up	Up	Flat	Flat	Flat	Flat	++Down	Up
GNE	Genesis Energy					Up	Up	Up	Up	Up	Up	Up	++Down	Flat
GTK	Gentrack						Up	Up	Up	Up	++Down			
HGH	Heartland Group Holdings					Up	Up	Up	Up	Up	Up	++Down	++Down	Up
IFT	Infratil	Flat	Up	Up	Up	Up	Up	Up	Up	Up	Up	Flat	Flat	Flat
KMD	Kathmandu Holdings		Up	Flat	Up	Flat	++Down	Up	Up	Up	Up			Up
KPG	Kiwi Property Group	Down	Down	Down	Down	Down	Up	Up	Up	Up	Up	++Down	Up	Up
MCY	Mercury					Up	Up	Up	Up	Up	Up	Up	Up	Flat
MEL	Meridian Energy						Up	Up	Up	Up	Up	Down	Down	Flat
MFT	Mainfreight	Flat	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up
MHJ	Michael Hill Int'l	Up	Up	Up	Up	Flat	++Down	Down	Up	Up	++Down	++Down	Up	Up
NZK	New Zealand King Salmon									Up	Flat	++Down	Up	Up
NZR	Refining NZ	++Down	Up	++Down	++Down			++Down	Up	++Down	++Down			
NZX	NZX	Up	Up	++Down					Up	++Down	Flat	Flat	Flat	Up
PCT	Precinct Properties NZ	Down	Down	Down	Up	Up	Up	Flat	Up	Up	Up	Up	Up	Up
PFI	Property For Industry	Flat	Down	Down	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up
PGW	PGG Wrightson					Up	Down	Down	Flat	++Down	++Down	++Down	Up	Up
POT	Port of Tauranga	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Down	Up	Up
RBD	Restaurant Brands NZ	Up	Up	Down	Down	Up	Up	Up	Up					
RYM	Ryman Healthcare	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Flat	Up
SAN	Sanford	Flat	Flat	Flat	Flat	Down	Up	Down	Up	Down	Flat	++Down	Up	Up
SCL	Scales						Up	Up	Up	Flat	Flat	Flat	Flat	Up
SKC	SKYCITY	Up	Down	Up	Up	Flat	Flat	Up	Down	Flat	Flat	++Down	++Down	Up
SKL	Skellerup Holdings	Up	Up	Up	Flat	Up	Up	Flat	Up	Up	Up	Flat	Up	Up
SKT	Sky TV	Flat	Up	Up	Up	Up	Up	Flat	Down	++Down	++Down			
SPG	Stride Property			Up	Up	Flat	Up	Up	Down	Down	Flat	Flat	Flat	Flat
SPK	Spark NZ	Down	++Down	Up				Up	Flat	Flat	Flat	Up	Down	Up
STU	Steel & Tube Holdings	++Down	Up	++Down	Up	Up	Up	Up	++Down	++Down	++Down	++Down	Flat	Up
SUM	Summerset Group				Up	Up	Up	Up	Up	Up	Up	Up	Up	Up
THL	Tourism Holdings				Flat	Up	Up	Up	Up	Up	Flat			
TLT	Tilt Renewables									++Down	++Down			
TPW	Trustpower	Up	Up	Flat	Flat	Flat	Up	++Down	Up	Up	Flat	Down	Down	Down
VCT	Vector	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Flat	Flat	Flat
VHP	Vital Healthcare	Down	Up	Down	Up	Flat	Up	Up	Up	Up	Up	Flat	Up	Up
WHS	The Warehouse Group	Up	Down	Down	Up	Down	++Down	Flat	Flat	Flat	Up			Up
ZEL	Z Energy			Up	Up	Up	Up	Up	Up	Up	Up	++Down		

Legend: annual dividend change from pcp  
 Up Increased dividend    Flat No change to dividend    Down Dividend decreased ≤ -15%    ++Down Dividend decreased by > -15%

Source: Forsyth Barr analysis, Potential entrants for Dividend Growers

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