

# Take a leisurely look at yields

## Small caps

Richard Hemming

The market is trading at record highs and should there be a hiccup to the onwards and upwards story, small caps are generally the first to feel the brunt of investor nervousness.

In the past year the S&P/SX Small Ordinaries Index has risen 32 per cent, even higher than the performance of its broader counterpart, the S&P/ASX 200 Index, which has climbed almost 24 per cent. Both are trading near record levels.

Professional investors know that the only effective barrier to share price decline is placing some of their investments in companies with high dividend yields.

Portfolio asked fund managers to nominate their favourite high-yielding small caps, and included among these were Macquarie Leisure, Macquarie Media and MFS Living and Leisure.

Smallco Investment Manager managing director Rob Hopkins says one of the reasons he is confident in his investment in fun park operator Macquarie Leisure, is the company's high and growing dividend return to investors.

"It's a high yield and growing, which is good because it protects how far the stock can fall down in a bear market," he says.

The company has a forecast yield of 7 per cent in fiscal 2008 and 8 per cent the following year, according to CCZ Equities Research analyst Tony Waters.

### PUNCHING ABOVE THEIR WEIGHT

Best current dividend yields of companies with market caps between \$100m and \$500m (%)

Company	Industry sector	Dividend yield
Cons Rutile	Diversified minerals	12.0
Record Realty	Property trust	11.8
Coventry	Distribution/wholesale	10.4
Rubicon America	Property trust	10.4
Trafalgar Corp	Property trust	10.3
Challenger Wine	Property trust	9.9
Maxitrans Ind	Transport equipment	9.6
Mariner American	Property trust	9.6
Euroz	Finance & investment	9.3
Viridis Clean	Electricity generation	9.2
Schaffer	Diversified manufacturer	9.0
Gazal	Apparel manufacturers	8.7
MFS Diversified	Property trust	8.4
ING Real Estate	Property trust	8.3

Source: Bloomberg

The average yield for industrial companies is about 4 per cent according to UBS, and the current official cash rate is 6.25 per cent.

But small caps offer investors not only yield but the potential for share price appreciation too. Waters has forecast Macquarie Leisure's earnings a share to grow about 20 per cent a year over the next three years.

Part of this growth is due to his belief in the success of the company's acquisition of the Texas-based entertainment group Main Event, which he visited late last year.

Macquarie Media has an even higher forecast dividend yield than its cousin. The fund is 20 per cent owned by Macquarie Bank and

invests in domestic and offshore media companies.

Its forecast yield for fiscal 2008 is 11 per cent and for the following year it is 11.9 per cent, according to ABN Amro analyst Digby Gilmour.

One reason given by a fund manager for the company's high yield is that the company is not supported by many brokers to the degree it deserves because of the huge fees taken out by its parent, Macquarie Bank.

This may or may not be right, but its high dividend yield is certainly hard to ignore.

One fund manager says he owns the company on his own personal account because he was able to fund his loan used to buy the shares with

the income from the company.

In mid-November this year, Macquarie Media bought 15 per cent of regional media player Southern Cross Broadcasting.

This deal puts Macquarie Media in a box position in regional media because of its ownership of Macquarie Regional Radioworks, according to one holder of the stock. This is because it cements its monopoly position in regional media because its holding prevents other corporations taking over Southern Cross Broadcasting and clears the way for it to bid for the privately owned Nine affiliate WIN Television.

Macquarie Funds Management portfolio manager John Bugg says that his outstanding small-cap income investment is MFS Living and Leisure.

The company owns and operates hotels.

It also operates aquarium businesses around the world.

Its dividend yield is about 8 per cent in fiscal 2008, and is forecast to grow in the mid-teens according to Bugg, whose fund owns a stake in the company.

A key to the company's profit growth is its aquarium business, in which it has a dominant market share in the regions it has established sites.

"They know how to operate them well because they are about the only people that can build them," Bugg says.

He adds that the company has established buying power in acrylic, a material strong enough to cast the windows of the aquarium.