



Why I Love This Dividend Stock

Description

When looking for a dividend stock to invest in, it's tempting to limit your search to well-known [Dividend Aristocrats](#) like **McDonald's**, **AT&T**, and **Coca-Cola**. Furthermore, many investors may only consider stocks with substantial dividend yields above 3%. But for investors willing to open up their search to more options, they may be surprised by what they find.

Apple ([NASDAQ: AAPL](#)) for instance, doesn't have a long track record of dividends and currently has a moderate dividend yield of just 1.4%. But for investors willing to look beneath this surface-level view, the tech giant is a very compelling investment — even for dividend investors.

Here are four reasons why I love Apple as an investment for income.

1. Its dividend is growing rapidly

Apple's dividend history is short but still meaningful. The company has been paying out dividends for seven years, since it initiated the quarterly payout in 2012. Notably, however, the [tech company's](#) dividend growth has been strong over this time frame.

In 2012, Apple was paying out a split-adjusted quarterly dividend of \$0.38 per share. Seven years later, Apple is paying out \$0.77 every three months. This translates to average annualized dividend growth of 10.6%.Â Not bad.

And Apple has kept up its strong dividend growth in recent years. The company increased its dividend by 16% in 2018 and [5% in 2019](#). This converts to an average dividend increase of 10.6% over the last two years.

2. Apple has a low payout ratio

Better yet, Apple's dividend growth looks like it can easily be sustained. The company is currently only paying out 25% of its earnings in dividends. This means that Apple not only has wiggle room for its

current dividend but also has significant room for dividend increases in the coming years.

3. Free cash flow is enormous

Of course, when discussing a company's ability to pay out (and grow) its dividend, nothing beats taking a look at how cold, hard cash is faring on the company's cash flow statement.

Apple is a cash machine. In the trailing-12-month period ending June 29, Apple raked in \$58.2 billion in free cash flow, or cash from operations less capital expenditures. Of this free cash flow, the company paid out just \$14.1 billion in dividends.

4. Apple has \$102 billion of net cash

Giving investors even more comfort in Apple's ability to keep increasing its dividend, the company has a net cash position of about \$102 billion. Given that its goal is to eventually get to [net cash neutral](#), where the company has an equal amount of cash and debt, Apple is going to have to keep increasing the amount of capital it is giving to shareholders in the coming years.

Of course, Apple has historically devoted the bulk of its capital return programs to share repurchases — and it will likely continue to do this as long as shares are trading at a conservative valuation (like they are today). But with seven consecutive years of dividend increases behind it, dividends are clearly a priority to management as well.

Looking ahead, Apple looks well positioned to grow its dividend at an average annualized rate in the high single digits for the foreseeable future.

CATEGORY

1. Investing
2. Tech Stocks

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1. Syndicated

TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
2. NYSE:KO (The Coca-Cola Company)
3. NYSE:MCD (McDonald's Corporation)
4. NYSE:T (AT&T)

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