

Analysts doubt many state firms will issue special dividends

By Kirby Lee Davis

Kirby Lee Davis is the Tulsa Bureau Chief for The Journal Record. Contact him at 918-295-4982 The Journal Record

Posted: 04:24 PM Monday, November 19, 2012

TULSA – Although the trend offers a number of benefits, some Oklahoma stock analysts doubt many public companies based in this state will jump on the special-dividend bandwagon.

“I don’t think companies are going to jeopardize their cash position and let their financial forecasting be subject to tax rules,” said Fredric E. Russell, owner of his self-titled investment management company in Tulsa.

The trend started over the last month as several national companies approved one-time dividends payable before the threatened Dec. 31 expiration of several held-over Bush-era tax cuts. If Congress and the Obama administration fail to reach an extension, U.S. dividend taxes could rise from 15 percent to 43.4 percent.

“While no one knows exactly what the rate will be, the 15-percent tax rate will most likely go away,” said Greg Womack, president of Edmond-based Womack Investment Advisers.

Two Tulsa companies, Bank of Oklahoma parent BOK Financial and commercial environmental systems manufacturer Aeon, have announced plans to issue special dividends alongside their regular quarterly dividends.

BOKF investors as of Friday will receive both their 38-cent regular dividend and a \$1 cash special dividend on about Nov. 30. The payday for Aeon investors comes Dec. 24 if they’re shareholders of record Dec. 3, receiving both a 12-cent regular quarterly dividend and a 12-cent one-time special dividend.

“I haven’t heard of other Oklahoma companies considering this, but we’ll most likely see the number increase,” Womack said in an email.

When you combine today’s lower cash yields and the threat of higher taxes, Womack said companies sitting on large cash reserves may benefit from this trend. Such dividends not only strengthen insider and shareholder relationships, but also heighten incentives for stock ownership.

“If the insiders own 20 percent of the stock, they’re in effect benefiting wholeheartedly from that special dividend,” said M. “Jake” Dollarhide, chief executive of Tulsa’s Longbow Asset Management.

Aeon’s move reflects this, said Dollarhide, not only toward its insider shareholders, but also its large Tulsa-area investor base.

“It benefits in a contiguous nature,” he said. “It’s good all the way around. It also helps differentiate it (Aeon) from a small-cap manufacturer. It says, ‘We have enough financial wherewithals to say we can join the big boys and pay a special dividend and play a part of this national trend.’”

BOK Financial’s move also boasts of the company’s strength.

“It just shows that they are, if not the healthiest, then one of the healthiest regional banks in this country,” Dollarhide said. “It just further shows that they are pushing all the right buttons, pre-2008, and continue to push many of those right buttons to position themselves to a path to leadership in the U.S. bank sector. For, while many of BOKF peers are either issuing stock or issuing bonds to raise money, BOKF is paying a special dividend.”

Russell, head of Tulsa’s Fredric E. Russell Investment Management Co., said the key decision factor revolved around cash flow and reserves. Dollarhide agreed, noting that a large part of Oklahoma’s public companies fall either within the energy sector or serve it.

“It’s been a tough go,” he said of the oil and gas business. “Many of them don’t have enough money to pay a regular dividend and to pay a special dividend.”

In the other corner, Oklahoma’s non-energy public companies often are too small to afford a special dividend or are too sensitive to economic cycles. Dollarhide and Womack that suggested many of these companies would rather retain their cash as a bumper against another downturn, or invest their war chests to boost shareholder value.

Since dividends pull from funds the company may need for capital expenditures, future acquisitions or other outlays, Russell said he expects today’s recession-tested executives to remain cautious.

“This economy is still not out of the woods, especially to a manufacturing company that is one double-dip away from having to let people go,” Dollarhide said.