

4 Health-Care Dividend Stocks With Extra Sizzle

By JOHANNA BENNETT

Barrons.com has identified a few large-cap companies that possess more than just a decent yield.

In a year when the stock market went nowhere and bond yields tanked, it's no surprise that health-care stocks outperformed the Standard & Poor's 500 in 2011.

After all, some big health-care companies have some pretty healthy dividend payouts, and dividend stocks have outperformed the broader market in the past year. And in an environment of low-interest rates and a lukewarm economy, they could continue this outperformance.

Despite patent expirations, government spending cuts and a lousy economy, big dividend-paying health-care stocks could increase their payout almost 11% in 2012 to \$34 billion, according to Markit Dividend Forecasting.

Four promising prospects include: [Pfizer](#) (ticker: PFE), [Novartis](#) (NVS), [Covidien](#) (COV) and [Medtronic](#) (MDT).

"There's a litany of issues facing health care, but I don't see them impacting the yield-related case for investing in this sector," says Don Taylor, manager of the Franklin Rising Dividend Fund. "Even in this tough environment, these companies will keep growing their payout."

That fact isn't lost on investors. Up 9% over the last year, the S&P Health-Care Index has been among the S&P 500 index's best-performing sectors.

Yet at 11.5 times 2012 earnings estimates, it trades 10% below the broader stock market's multiple.

Looking in the U.S. and abroad, Barrons.com identified 15 dividend-payers with market values above \$5 billion and dividend yields of at least 2% that trade at a discount to S&P 500 index. We narrowed down the list to four names because of their fundamentals and future dividend growth.

Big U.S. and European drug makers pay among the fattest yields. In fact, Barrons.com recently lauded [Merck's](#) (MRK) plump 4.4% dividend yield (see Weekday Trader, "Merck Shares Deliver the Right Medicine," Oct. 4). And a 3.6% yield helped [Sanofi](#) (SNY) make Barron's list of top stocks for 2012 (see Cover Story, "[Our 10 Favorite Stocks for 2012](#)," Dec. 12).

High yields, however, do investors little good if stock prices fall. So, smart investors also look for improving fundamentals," says Les Funtleyder, manager of the Miller Tabak Health Care Transformation Fund.

At 3.7%, Pfizer has the highest yield on our list. In fact, it's among the Dogs of the Dow, the 10 highest dividend-yielding stocks in the Dow Jones Industrial Average.

Facing a steep patent cliff, the company is cutting costs. It's also a cash machine with plans to divest noncore businesses and significantly boost its payout ratio. To that end, Pfizer sweetened its dividend last month for the third straight year, lifting the quarterly payment 10% to 22 cents a share. And Edward Jones analyst Linda Bannister sees the dividend climbing an average of 7% annually.

Up 19% over the last 12 months, Pfizer trades at 9.4 times 2012 estimated earnings.

Swiss drug giant Novartis' U.S.-listed American depositary receipts are almost as cheap, trading at 10 times 2012 earnings.

Investors were rattled last year by drug safety concerns, patent expirations, cuts in health-care spending and a strong Swiss franc.

Still, Novartis has above-average prospects, says Marshall Gordon, an analyst with ClearBridge Advisors. Diverse operations, cost cuts, new drugs and the acquisition of Alcon should fuel robust profit growth (see Weekday Trader, "[Sleep Well with Novartis Shares](#)," Nov. 2). And Leerink Swann analyst Seamus Fernandez sees the ADRs climbing 16% this year to \$66 a share

At 3.4%, the dividend should climb as well, as it has for the last 14 years.

With a yield of 2.5%, medical device giant Medtronic has an even longer history of dividend hikes –34 consecutive years.

Up 3% over the last seven months, the shares have a history of underperforming. But a new CEO is tasked with halting declining sales of Medtronic's biggest products, eroded by safety concerns and a lousy economy. New product flow is improving. And investors are growing excited about the stock again, which has climbed 26% since late August (see Take, "[Medtronic Picks Up the Pace](#)," Aug. 23).

At \$39 a share, Medtronic trades at 11.3 times projected earnings for the fiscal year that ends in April 2012.

And finally, there's Covidien. The shares have fallen drastically since hitting a 52-week high in mid-May. Still, Covidien should benefit from smart acquisitions, cost cuts and new products. And the spin-off of its slow-growing, less-profitable pharmaceutical business announced in December should improve growth and profitability.

With a yield of 2%, Covidien has boosted its dividend over three consecutive years, hiking its quarterly payout 12.4% in September to 22.5 cents a share.

Of course, just because a company has a long history of dividend hikes doesn't mean those payments will keep rising.

And dividend stocks become less appealing if interest rates rise, and they usually underperform during stock market rallies where investors favor cyclical names.

Still, market observers don't expect volatility to subside or interest rates to rise anytime soon. In such a world, dividends are money in the bank for investors.

Healthy Dividends

These four-large health-care companies offer attractive dividend yields and growing payouts.

Companies	Ticker	Mkt Cap	Yield	2012 Est	2012 P/E*
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		(billion)		EPS Growth	
Pfizer	PFE	\$165.80	3.70%	1.30%	9.4x
Novartis	NVS	\$138.60	3.40%	2.90%	10x
Medtronic**	MDT	\$41.20	2.50%	2.40%	11.3x
Covidien***	COV	\$22.17	2%	7.60%	10.7x

*The 2012 P/Es for Medtronic and Covidien reflect earnings estimates for their 2012 fiscal years.

**Medtronic's 2012 fiscal year ends in April 2012.

***Covidien's 2012 fiscal year ends in September 2012.

Source: Thomson Reuters

Full Disclosure

- Edward Jones has a Buy rating on shares of Pfizer.
- Leerink Swann has an Outperform rating on American depository receipts (ADRs) for Novartis.
- ClearBridge Advisors held 7,130,051 ADRs of Novartis as of September 30, 2011, according to Streetsight.net.

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