Ford's Souped-Up Dividend Could Lure New Investors

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Ford may get a longer look from curious investors after rolling out a more muscular, souped-up dividend on Thursday.

The nation's No. 2 automaker is doubling its quarterly payout to 10 cents, just nine months after paying its first dividend in more than five years.

The dividend increase marks another milestone in Ford's comeback. It has strengthened its image with customers along with its balance sheet. Ford is expected to report its fourth consecutive annual profit when it releases earnings in a few weeks. In 2011, the company posted its largest profit since 1998.

Analysts who cover Ford Motor Co. quickly raised their expectations for the stock, saying the higher dividend could make it more attractive to investors. Ford shares rose 2.7 percent to $13.83 Thursday, their highest closing price since July 2011.

Ford's dividend yield, a measure of how much a company pays out relative to its stock price, will rise to 2.9 percent, which is higher than the average 2.2 percent among companies in the Standard & Poor's 500 Index. Michael Rawson, a financial analyst at Morningstar, said that could entice income fund managers, who look to generate dividend income for their clients. Individual investors, unhappy with the current low rates on Treasuries and certificates of deposit, might also take Ford for a spin. The yield on the 10-year Treasury note was 1.9 percent Thursday.

Because of historically low interest rates and tepid economic growth, investors are shopping around for reliable dividend income. "Investors have increasingly put their money into "higher yielding but slower growing companies that offer a compelling dividend yield relative to bond rates," Rawson said.

Ford, based in Dearborn, Mich., halted dividend payments in September 2006. The company lost $12.6 billion that year.

Since then Ford shed brands such as Volvo and Mercury, closed factories, cut staff and struck a new contract with union workers that lowers labor costs. It has also earned praise and new customers for products like the Ford Explorer SUV. And after losing money during the recession and financial crisis, the company has steadily improved profit margins and rebuilt its stockpile of cash.

As a result, Ford won back an investment grade rating on its debt last spring. That did two key things: the ratings change lowered the company's borrowing costs and allowed it to reclaim its blue oval logo and other assets, which were used as collateral for a $25 billion, company-saving loan in 2006.

A few issues continue to hold back Ford — and its stock price.

Ford has said it expects to lose $1.5 billion both this year and next in Europe, where plunging sales have forced it to close plants and lay off thousands of workers. The company announced a multi-year restructuring of its European operations earlier this fall.

Analyst Peter Nesvold of Jefferies said the decision to return more cash to shareholders indicates Ford executives believe they've correctly gauged the amount of cash needed to fix things in Europe. Ford's total annual dividend will rise to around $1.6 billion.

Nesvold raised his price target for Ford shares to $16.

But there are other problems. Ford lost market share in the U.S. last year. Some sales went to its Japanese competitors, who recovered from the 2011 earthquake. But sales of the new Ford Escape and Fusion, two of the company's most important products, also slumped after multiple recalls for safety problems. Ford has fixed those issues and expects market share to go up this year as new products go on sale.

The company is also facing a leadership transition soon. Chief Executive Alan Mulally is stepping back from day-to-day operations and handing the reins to longtime Ford executive Mark Fields, who became the company's chief operating officer in December. Although Mulally has said he will stay through 2014, some investors fear Ford will return to bad habits when Mulally is no longer overseeing things.

Finally, as an industrial company, Ford is more exposed to the economic cycle than, say, a utility company, which tends to have more consistent earnings and higher dividend yields.

Standard & Poor's said there were 1,262 dividend increases in the fourth quarter of last year, nearly double the total from the last quarter of 2011..

Ford said its liquidity has increased by $2 billion through the first three quarters of 2012. The dividend will be paid on March 1 to shareholders of record as of Jan. 30. The company said the last time it paid a 10-cent dividend was in June 2006. Management didn't rule out additional increases.

"Investors want to start seeing companies that are more confident in the sustainability of their earnings and taking action to respond to what has been a pretty clear message from the equity markets that shareholders want higher dividends," said David Bianco, Chief US Equity Strategist at Deutsche Bank, at a briefing with reporters Wednesday.

Deutsche Bank is forecasting that the Standard & Poor's 500 index will end 2013 at 1,575 a gain of about 10 percent in the year, moving higher, in part because investors will be lured by higher dividend payouts. Companies in the index are sitting on a record cash pile of $1 trillion according to data from S&P Dow Jones indices.