Is Apple Now a Top Dividend Stock?

By Eric Volkman – May 14, 2023 at 11:11AM

KEY POINTS

The tech giant declared a dividend raise at the beginning of May.

It has now raised the payout for 11 years straight.

The company is extremely profitable and regularly throws off piles of cash, so at first glance it's a good candidate.

For much of its existence, **Apple** (AAPL -0.29%) has been considered a growth stock. Many investors snapping it up for their portfolios still believe this to be so, as the company -- despite being a massive entity -- frequently books double-digit increases in key fundamental metrics.

Recently, though, Apple awarded said investors a relatively generous dividend raise. So perhaps this makes the company a solid dividend stock to own too. Here's a little exploration of this.

Big earner, big spender

Let's get the details out of the way and set some context. Concurrent with the second quarter of fiscal 2023 results published in early May, Apple declared a new quarterly payout of $0.24 per share. This dividend raise shook out to a 4% improvement on its $0.23 per share predecessor. (By the way, that wasn't the only shareholder-pleasing move the company made; it also launched a $90 billion share repurchase program.)

Nobody should worry about whether Apple can afford the extra dividend expense or the new share buyback kitty. In that quarter alone, it generated operating cash flow of almost $29 billion. These days, it's spending around $3.7 billion every quarter on dividends.

We also need to define the idea of a dividend stock. All things being equal, these stocks produce regular dividend income that yields at, or above, the average of a representative group of dividend payers. These days, the average yield of the **S&P 500** index sits at just under 1.7%. It also helps greatly if the company enacts a dividend raise at least once every year.

The companies most readily identified with dividend stocks also tend to be well-established ones with modest growth but very strong and reliable free cash flow (FCF).

So does Apple fit this bill? Well, not entirely. That FCF sure is mighty. The company not only sells the enduringly popular suite of iGadgets and has thriving (if relatively niche) businesses in other hardware like desktop and laptop machines, it also makes plenty of coin from its App Store. So we'll put a tick mark next to that criterion.

As for yield, that's a different story. Strictly on that basis, Apple isn't very impressive. Its yield is a rather light 0.6% these days, well under the aforementioned S&P 500 benchmark. So while Apple's figure is in line with the often miserly tech industry, it's a fair distance below that of classic dividend stocks like **Coca-Cola** (which offers 2.9%), **McDonald's** (2.1%), and **3M** (a meaty 6%).

Finally, by those two other yardsticks, Apple doesn't really fit the mold of a traditional dividend stock. It's still quite a growing company, as noted above, and while it has numerous revenue streams, it remains beholden to consumer fashion and trends.

If an Android phone maker, say, can devise some groundbreaking proprietary technology that leaps ahead of anything an iPhone is able to do, sales of those Apple devices could evaporate. By contrast, no one's yet come up with a "Coca-Cola killer," for example, or a better mass-market Big Mac.

Finally, as for the dividend raise aspect, Apple is indisputably a company that likes its lifts -- with this most recent one, it has now hiked the payout for 11 straight years (since reinstating it in 2012). But that history pales in comparison to those of the most renowned dividend stocks. Again using Coca-Cola and McDonald's as examples, those two giants have current raise streaks stretching back 60 and 46 years, respectively.

Taking stock

So, no, in my view Apple hasn't become a top dividend stock with its recent raise. It is not a compelling investment on that basis alone.

But, of course, that doesn't mean it's a lousy stock to own. Quite the contrary, in fact.

Apple does an admirable job refreshing its product lines, with the iPhone being one of the best and most cutting-edge phones on the market despite the brand's age (nearly 16 years -- wow!). More devices on the market means more purchasing through the App Store, so services revenue is on a growth path too. Apple is also unafraid to enter potentially high-growth new business ventures, such as computer chips.

I'm an Apple stock owner myself, and for me, it's never been about the dividend -- and likely never will be. Instead, I'm excited about the numerous growth opportunities the tech giant has in front of it, and the payout is just a little sweetener in my eyes. I suggest you look at the stock the same way.

Eric Volkman has positions in Apple. The Motley Fool has positions in and recommends Apple. The Motley Fool recommends 3M and recommends the following options: long January 2024 $47.50 calls on Coca-Cola. The Motley Fool has a disclosure policy.

STOCKS MENTIONED

Apple
AAPL
$172.07 (-0.29%) $0.50

Coca-Cola
KO
$63.94 (-0.27%) $0.17

McDonald's
MCD
$295.90 (-0.08%) $0.24

3M

MMM

$100.49 (0.22%) $0.22

Average returns of all recommendations since inception. Cost basis and return based on previous market day close.

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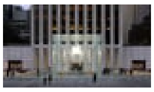

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