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Around the world in dividend cuts, suspensions and . . . payments

Covid-19 is having a significant impact on income investors, with companies around the world cutting or suspending dividends. The degree and proportions vary between industries and countries, however.

Here are some of the most important developments in dividends from different countries and regions along with snippets from Liontrust fund managers, starting with a global overview.

> "The number of companies reducing payouts totals 310 companies."

- More than 260 MSCI World companies have cancelled or deferred dividends since the start of February.
- A further 50 have cut dividend payouts.
- This equates to 19% of MSCI World companies or 24% of MSCI World dividend payers.
- The European Union represents 54% of companies who have cancelled or deferred dividends with Asia at 21%, UK at 14%, and North America at 11%.
- Industries cutting first include banks, automobile manufacturers, hotel franchises, insurance and casinos.
- Industries anticipated to announce large and deep dividend cuts are energy, industrials, and materials.
- Only three of the world's largest 100 companies by market capitalisation have either cancelled (HSBC and Boeing) or cut dividend pay-outs (LVMH).

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Storm Uru: *Evidence from past recessions highlights stocks currently trading on the highest dividend yield are most likely to cut dividend payouts, with the depth of the recession and duration of the lockdown determining the number of additional dividend cancellations and cuts to come*.

We firmly believe that the strongest into the crisis will be the strongest out. Global Leaders with robust balance sheets, strong competitive positions and a culture of innovation are well-positioned to bridge the gap and continue pay sustainable dividends.

We invest in Global Leaders that, via unique competitive advantages and strong financial resources among other key strengths, can continually and sustainably grow and are therefore able to generate abnormal income and capital returns for their investors. Such companies include Home Depot, CME Group and Visa.

Through this approach, we believe we can maintain dividend growth this year of 2% to 5%.

“The December 2020 FTSE Dividend gives an implied FTSE 100 yield of around 2.7%, which is around 3 percentage points beneath the market’s 12-month historic yield of 5.7%.”

- More than 150 FTSE All Share companies have cancelled or deferred dividends since the start of March.
- This equates to 26% of FTSE All Share companies or 29% of FTSE All Share dividend payers.
- The travel and leisure sector has seen the most cuts, followed by the diverse support services sector.
- The value of these dividend cuts totalled more than £1 billion.
- The share prices of those companies that cut dividends in the first quarter fell by an average of 45.2%, more than the index lost in value.
- The implied 2020 dividend of the FTSE Dividend Futures has more than halved since early March.

Robin Geffen: *The spread of Covid-19, the lockdown and the consequential economic impact have accelerated a trend that have we been warning clients and investors about for the past year. This is the fact that some very high yielding companies in the UK have not had the earnings capacity or dividend cover to support their levels of income.*

We believe that the dividend cuts will inevitably be followed by some hefty rights issues that will substantially dilute shareholders' stakes in deep value and low-quality companies that have or are going to run out of cash. We will see some very deep discounted rights issues.

One sector we do like is technology because these companies will be the dividend payers of the future. Around the world, the technology sector has outperformed broader stock market indices since the coronavirus pandemic started hitting markets. This is not a new trend, but the acceleration of the critical role that technology plays in disruption which we have been seeing and investing in for a number of years.

Jamie Clark: *We are in the midst of Q1 earnings season, which provides a natural juncture for companies to announce any dividend suspensions or cuts.*

We can segment these dividend cutters into three categories: the distressed (those businesses where balance sheet leverage demands that cash is preserved); the prudent (companies that have passed on dividends because of a lack of visibility); and the mandated (those companies required by government to defer dividends because they are in receipt of state aid such as the furlough scheme).

We can seek to increase exposure to what we view as dividend safe-havens in this environment. In this respect we have increased the Fund's exposure to the UK supermarkets, which had an unblemished record of dividend maintenance through the global financial crisis and should show the same earnings and dividend durability again.

- At a headline level, Europe seems moderately affected so far.
- As at 14 April, JP Morgan's forecast reductions for dividends in 2020 were 7% - skewed towards cyclicals - but we expect consensus estimates to fall further.
- During the Global Financial Crisis (GFC), dividends fell 28% cumulatively over two years versus earnings being down by 42%.

- Under moral suasion from governments and as a direct order from the European Central Bank, banks have been forced to suspend dividends to enable lending power to help the European economy rebound.
- Having faced criticism for bailing out the banks last time and allowing payment of huge bonuses for management and dividends for shareholders, politicians are keen to avoid the same embarrassment if they have to do rescues this time round.
- The French look particularly activist in this regard. On the other hand, the German and Swiss insurers are making it a point of pride to pay their dividends, despite EIOPA advice to delay, which should establish a quality premium going forward. UBS and Credit Suisse (not regulated by the ECB) are pressing ahead with staggered dividends.
- Outside of financial companies, there have suspensions of buy-backs, AGMs pushed back, and dividend announcements with them across the board.
- This is not necessarily because companies do not have the cash (current dividends are based on last year’s earnings) but they remember the liquidity crisis of the GFC and wish to keep liquidity levels elevated just in case.
- Some companies’ management are fully committed to paying when the crisis is over, perhaps through a special dividend in the autumn, so these may not be ‘lost’ dividends – merely postponed.

Olly Russ: *We generally approve of the prudent policies of companies. This might give headroom to make acquisitions on a reasonable basis, and whoever has cash available to buy at distressed valuations will be in pole position.*

So far, 13 companies have paid dividends as originally planned, five have announced reduced dividends, 18 suspended dividend payments and five cancelled payments. Regarding the suspensions, if the lockdowns end soon there is no reason these could not be fully restored. As for the cancellations, a number of companies, such as Amundi and Thule, have stated they could do specials later in the year if conditions permit.

For the remainder of the portfolio, we have also had a number of companies, such as Allianz and Munich Re, release statements confirming their commitment to their respective dividend policies.

- Certain countries in Asia (China, Hong Kong, South Korea, Taiwan and Singapore) have managed the virus relatively well, both in terms of containment and enabling businesses to continue to operate.
- This is in part due to their past experience with SARS in 2003 which has led to swift testing and contact tracing, as well as behavioural and cultural acceptances of strong government control.
- While Asia was first into the coronavirus crisis, it is now showing some signs that it may be the first to emerge from it. As the spread of virus in China has slowed, economic activity has begun to

recover. By early April Baidu's tracking app showed that 90% of shopping malls had re-opened nationwide, as had 80-90% of restaurants.

- In China and Asia more widely, there is plenty of scope for demand recovery to be significantly supported by government stimulus.
- The extent of dividend cuts varies from country to country in Asia and are most likely to be seen next year because dividends paid in 2020 are based on 2019's profit.
- Any reduction will be due to companies hoarding cash to protect themselves during the current downturn. There are few signs that companies intend to do so.
- The Hong Kong Monetary Authority has stated that banks are free to pay dividends, Australia's regulator has asked banks to reduce dividend payments, whilst New Zealand has asked its banks not to pay.

Mark Williams: *Our initial impression is that Asian companies will tend towards protecting their payout ratios, which means dividends paid in 2021 (based on earnings generated in 2020) are more vulnerable than those paid this year. We should have some time to adjust the portfolio should needs be.*

Everything being equal, if we make no changes to the Asia Income portfolio, the yield of the fund is expected to be around 4.9% this year.

There are lots of investment opportunities in the region – most prominently in China as it is first to stage a recovery – but also in other countries such as Australia, which has fallen the most in US dollar terms. From a sector perspective, technology is throwing up some interesting opportunities as we expect supply chains and demand to recovery relatively quickly.

Investors should expect more companies in the US to suspend and cut dividends during the crisis but the extent of dividend cuts may be less severe than in the UK. This is because:

- Payout ratios are much lower – companies have not already been stretching themselves as much to continuing to pay (or growing as most companies aspire to) dividends.
- US companies tend to pay dividends on a quarterly rather than half-yearly basis, so each quarterly payment is a smaller chunk of increasingly stretched working capital.
- US companies have typically chosen to have a more balanced method of returning capital to shareholders, with buybacks the more variable tool on top of a steadier dividend.
- Thus, it will be buybacks that will be foregone first. We have seen this already with the largest banks suspending buybacks for the time being.

George Boyd-Bowman: *There is an interesting debate about whether companies which, on most normal metrics, wouldn't need to suspend dividends should indeed do so. In a "normal" environment, the signalling effect of not continuing to pay a dividend, which shareholders typically feel is either implicitly or explicitly promised, would be extremely damaging.*

We are not convinced that companies (and their share prices) will be punished in the same way during this crisis. In a world where corporate social responsibility is increasingly important, witness the substantial rise of investor interest in ESG and sustainability, companies could well be seen to be doing their bit by conserving cash flows and preserving employment.

Should some US companies choose to temporarily suspend dividend payments, we don't believe this alters the medium and long-term potential for the US to become an increasingly important source of dividend income for UK investors. The lower payout ratios will allow future dividend growth rates to be sustainably much higher.

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/glossary

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