Global dividends in 2021

4 January 2021

Global dividends expected to grow 6.5% in 2021

Executive summary

Global dividends in 2021 should grow by 6.5% year over year, putting the overall payout in 2021 just under the pre-COVID-19 levels of 2019. This growth will be driven by continued lifting of restrictions, accelerated growth as the vaccine becomes more widely available, and clearer visibility for businesses as they make capital allocation plans. The Asia Pacific (APAC) region will lead the dividend growth and surpass the dividend levels of 2019 by USD21 billion—an increase of 6.8% year over year. While dividends in the Europe, Middle East, and Africa (EMEA) region should grow in the upcoming year, the growth will fail to reach the levels of 2019.

Total aggregate dividends (USD, billions)

	2019	2020	2021
AMER	681	696	693
APAC	559	543	580
EMEA	542	429	503
Grand total	**1,782**	**1,668**	**1,776**

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The travel and leisure, automobile and parts, and oil and gas sectors are expected to continue lagging in 2021. A quick recovery for travel and leisure in 2021 is unlikely, as both travel restrictions and structural issues continue to weigh on the sector. In automotive, the Americas (AMER) and APAC regions will decrease their aggregate payouts only slightly over 2020; however, the French and Italian majors should be unable to resume dividends in 2021, leading to an almost 30% drop for the EMEA region's dividends in this sector. The majors in biotechnology, pharmaceuticals, and medical technology have had well-performing businesses, which have offset the lower-performing healthcare services and medical center segments of the healthcare sector. Overall, the technology sector has benefitted from the move to working from home (WFH) in 2020, as well as, increased gaming and streaming— both of which have highlighted the importance of improving digital infrastructure. The sector should continue growing in 2021, albeit at a slightly more modest pace than in 2020.

Top contributors to divindeds in 2021

In a league of their own, US dividends have remained resilient in 2020, but are expected to drop slightly in 2021. The decrease in dividends is interesting, given that IHS Markit forecasts the US GDP to increase in 2021; however, the decline is largely due to the expected fall of two of the country's largest paying sectors—banks and the oil and gas sector—in 2021. For the banks, this contraction is overwhelmingly due to the **Wells Fargo** dividend cut; even if the bank does increase its dividend in 2021, it will be unable to return to previous levels owing to the Fed's dividend cap. The new stimulus bill, having been passed, will help stabilize the economy, indicated by the steady and growing GDP levels forecast for 2021.

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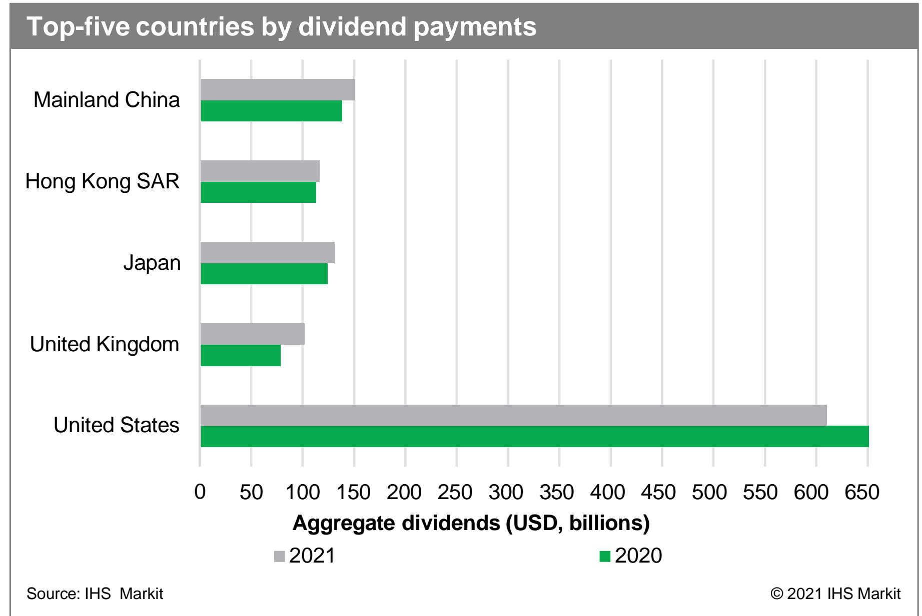
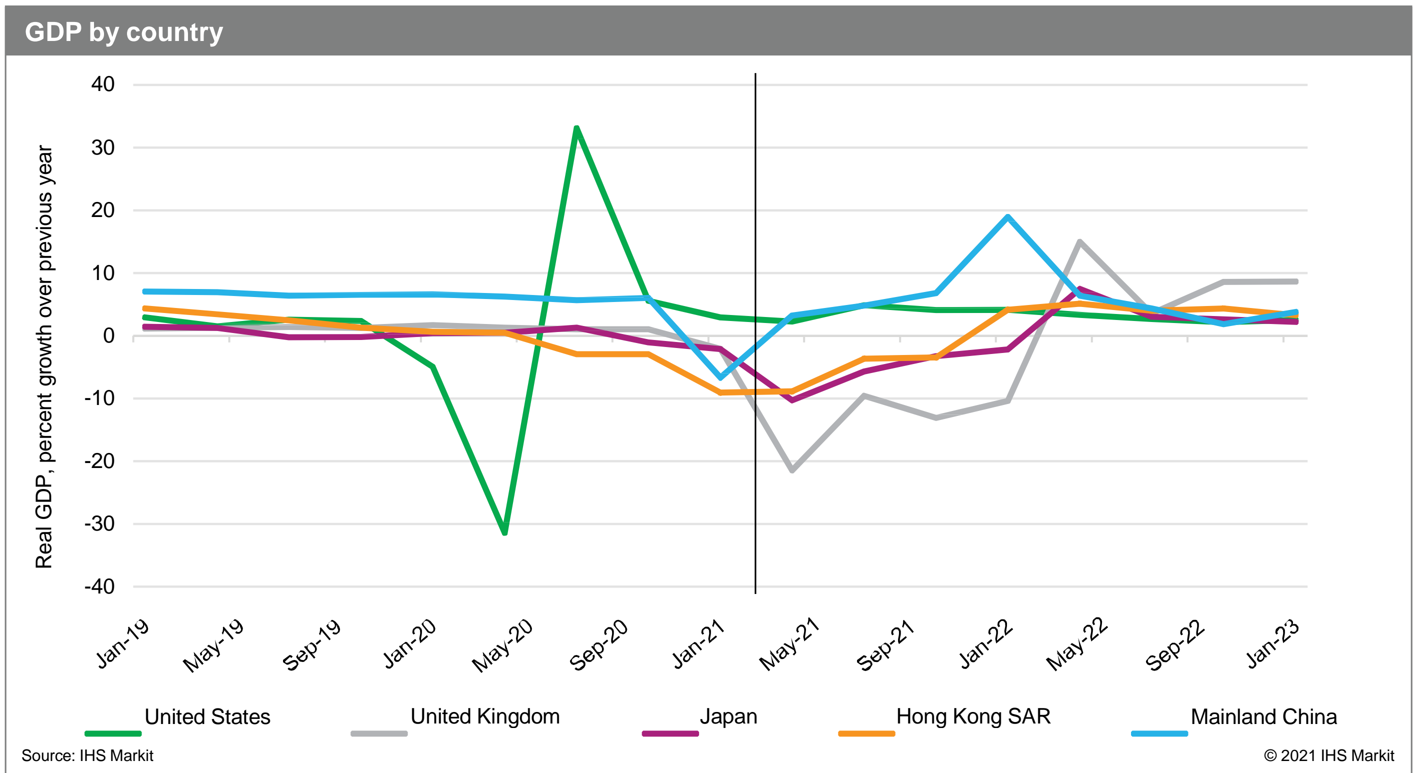
IHS Markit has forecast the mainland China GDP to grow in the majority of 2021 and 2022, which coincides with the expected growth of dividends in 2021. Mainland China has experienced broad recovery, especially in the second half of 2020, providing stronger ground going into 2021. The government rushed to restore the industrial sector and production, which, along with increased demand, has boosted the economy. Additionally, the stimulus measures in the western world increased the demand for mainland Chinese products and have helped the recovery gain ground. Furthermore, insurance companies, financial services, and the megabanks all increased dividends in 2020 and should remain resilient in 2021.



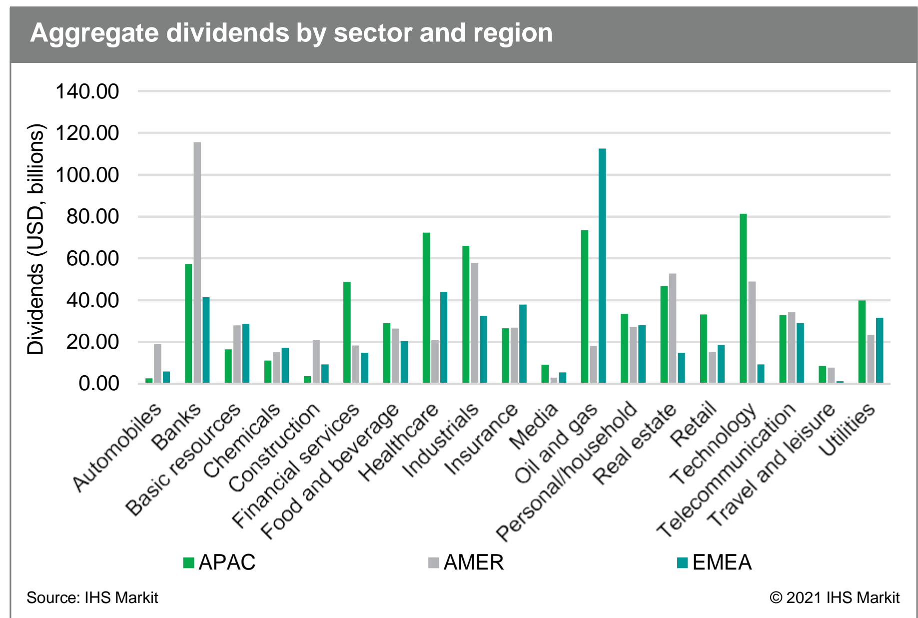
Last, despite the UK's forecast decline in GDP, dividends in the country should grow modestly in 2021. The recent Brexit deal brings clarity, although adjustments to business models will be necessary to account for the new changes. These are likely to be costly, as seen by the expected impact on Britain's GDP; however, since a growing proportion of the UK's trade is with non-EU partners, especially the US and Australia, there should be modest growth in dividends in 2021.



Part 1—Pandemic impact on dividends and 2021 risks
Factors influencing dividends in 2020

Pandemic-induced business uncertainties

In EMEA, strict lockdown measures in the **UK** and **France** led to the sharpest decreases in payouts, with declines of 35.8% and 44.4%, respectively. **BP, Rio Tinto Group**, and **BHP**, the giant resource companies that previously made up half of the aggregate dividend payout in the **UK**, have slashed their dividends in 2020, and **UK** dividends in 2021 are unlikely to return to the 2019 level. Similarly, in **France**, aircraft manufacturing has been damaged by the impact of the straight-line decline in air travel demand. **Airbus, Dassault Aviation**, and **Safran** have suspended dividends, and it is unclear when the dividend distribution will be resumed because of the second wave hitting the continent. Elsewhere, luxury brand players such as **LVMH, Kering, Hermes**, and **Dior** are among notable names with dividend cuts in the context of a prolonged economic impact of the COVID-19 outbreak, since the government urged at least a 30% downsize in payout amount.



While the impact of the COVID-19 virus was generally milder in APAC, **Australia** experienced the largest dividend contraction in 2020, down 31.5% measured in Australian dollars. The plunge was largely driven by the low payouts from the banking sector with massive impairment provisions, as **Australia** slumped into the first recession since 1991 in the second quarter of 2020. The pandemic was another blow to an already distressed economy from the bushfire earlier in 2020. To support the economic recovery, the Australian Prudential Regulation Authority (APRA) guided the banks to "seriously consider deferring decisions" on the dividends in April. Under APRA's capital management guidance, banks subsequently slashed (**National Australia Bank**), deferred (**Bendigo and Adelaide Bank**), and suspended (**Westpac Banking Corp**) dividends. Given the conservative dividend payout pattern of Japanese companies, which is supported by rich cash reserves, the impact of the postponement of the Summer Olympics was not as deeply felt in terms of dividends, although there were inevitable casualties. For instance, **East Japan Railway** has slashed its dividend in 2020 by 16% to JPY50 billion, and further contraction is likely in 2021. Similarly, other railway companies, including **Central Japan Railway, West Japan Railway**, and **Kyushu Railway**, which have been expanding capacity to meet the increase passenger volume during the Olympics, have significantly lowered their dividends.

Shareholder pressure (government, public, and family ownership)

As even the strongest companies have had to prioritize survival in the face of prolonged uncertainties in economic outlook, we have seen different types of shareholders have a greater influence on dividend payouts. For instance, some state owners such as the **French** government asked the companies it partially owns to

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refrain from paying dividends in 2020. Large cap companies across various sectors are among those that suspended dividends. This is in stark contrast to **Saudi Arabia**, where **Saudi Armco** is maintaining dividend payments, despite adverse market conditions, to ostensibly preserve the national pride of the kingdom.

In between the two extremes, **Samsung Electronics** shows the additional lift that the shareholder composition could provide when a company's dividend is on a positive trajectory. While multiple factors—such as strong earnings growth and expiry of the existing dividend policy—play a part in dividend upside potential, the owner family's considerable stake in the semiconductor giant, is projected to boost its dividends to meet the needs of its heirs to finance the over KRW10-trillion (approximately USD9 billion) inheritance tax through dividend income.

Dividend outliers

Some of the markets, while not entirely unfazed by the healthcare crisis, exhibited extraordinary resilience and maintained positive dividend growth in 2020.

Aggregate dividends 2019–20, (y/y) percent growth

AMER	United States	3.80%
	Canada	6.30%
APAC	Mainland China	11.10%
	Hong Kong SAR	6.00%
EMEA	Switzerland	5.80%

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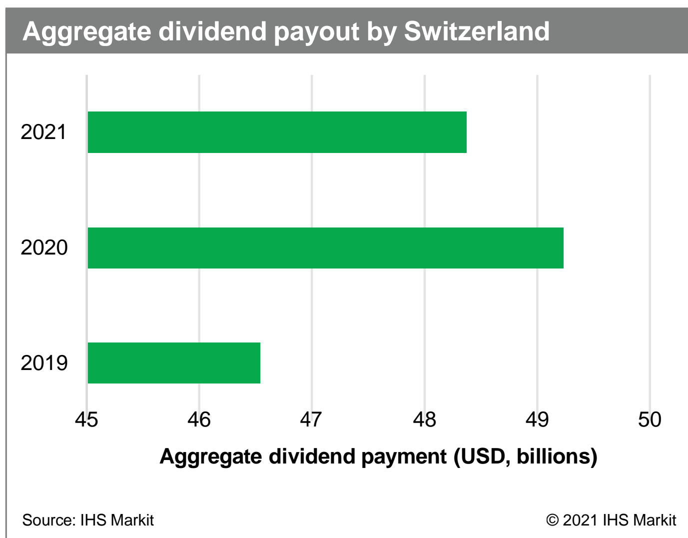
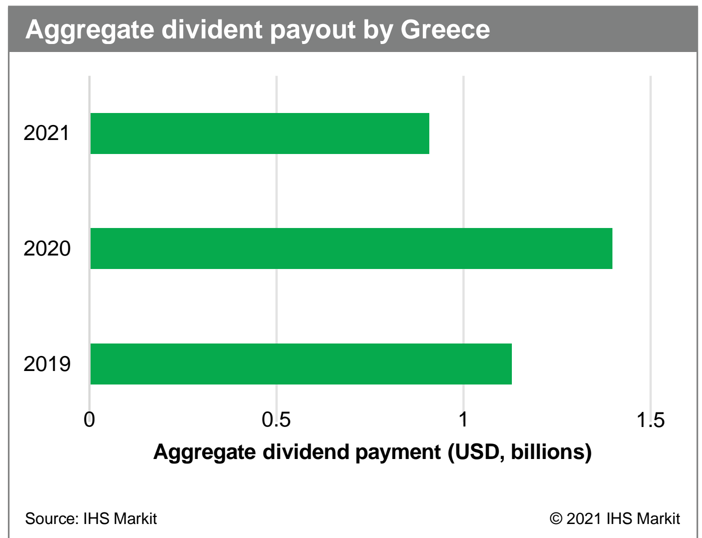
The exceptionally high dividend growth in **Greece** is due to the delayed dividend adjustment, while the rest of Europe has already carried about massive dividend cuts at double-digit rates. **Greek Organisation of Football Prognostics SA** raised their dividend by 120% in 2020 and emerged as the largest payer in the market. However, its dividend will likely plunge below pre-COVID-19 levels to EUR135.8 million in 2021, dragging down the aggregate dividend of Greece. **Swiss** companies demonstrated true resilience in EMEA with 1.5% year-on-year (y/y) growth, driven by the banks, insurers, and financial services performance, which highlights the solid financial health and sense of security in the market. Unlike peers elsewhere in the eurozone, Swiss banks (**UBS, Credit Suisse, Julius Baer,** and **EFG International**) went ahead with their distributions in 2020.





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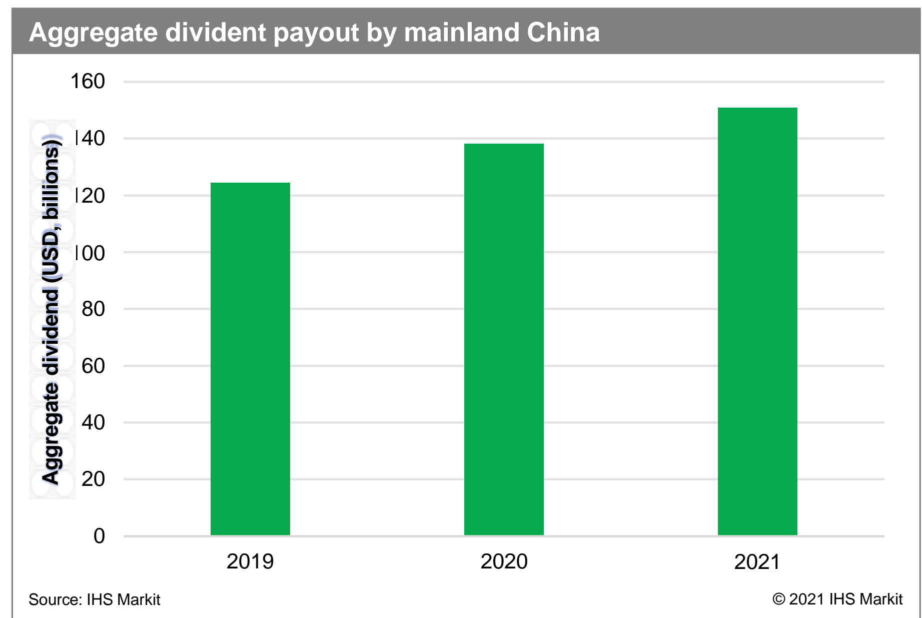
In APAC, **mainland China** is the only and the biggest market with a notable dividend growth of 12.3% y/y. This growth is mainly driven by the insurance (up 63% y/y) and financial services (up 53% y/y) sectors. While all major insurance companies have raised their dividends in 2020, on the back of strong investment gains in fiscal year (FY) 2019, **People's Insurance Company** and **China Life Insurance** have increased their dividends more than threefold to CNY5.4 billion and CNY15.2 billion, respectively. The four megabanks of mainland China (**ICBC, ABC, BOC, CCB**) have also raised dividends by 17% y/y, maintaining stable payout ratio trends.
It is important to understand the timeline of fiscal year end and dividend announcement dates to gauge the impact of COVID-19 on mainland China's 2020 dividends. A vast majority of mainland Chinese companies only pay a final dividend, which is declared and paid in the following calendar year. As a result, over 90% of 2020 dividends are attributed to
the FY 2019 final dividend, which is based on business performance prior to the spread of COVID-19. The direct disruption on actual economic activities is thus hardly reflected in the 2020 aggregate dividend.



Dividend growth in the **US** was driven by the technology and healthcare sectors. Technology companies increased their aggregate dividend payout by USD11.45 billion in 2020; the shift to WFH boosted revenue for these companies,
as did the accelerated digital transformation. In healthcare, the USD7.87-billion growth was led by pharmaceuticals and biotechnology. These subsectors have only faced modest earnings pressure in the wake of the pandemic. The top-three dividend contributors in healthcare—**AbbVie, Johnson & Johnson,** and **Pfizer**—remain committed to their dividend policies and expect to follow the ongoing growth trajectory. In **Canada**, several sectors grew modestly, bringing the overall dividend growth in 2020 to 6.6% y/y. Telecommunications, basic resources, and insurance all had over USD500 million in dividend growth.

Potential risks to dividends in 2021

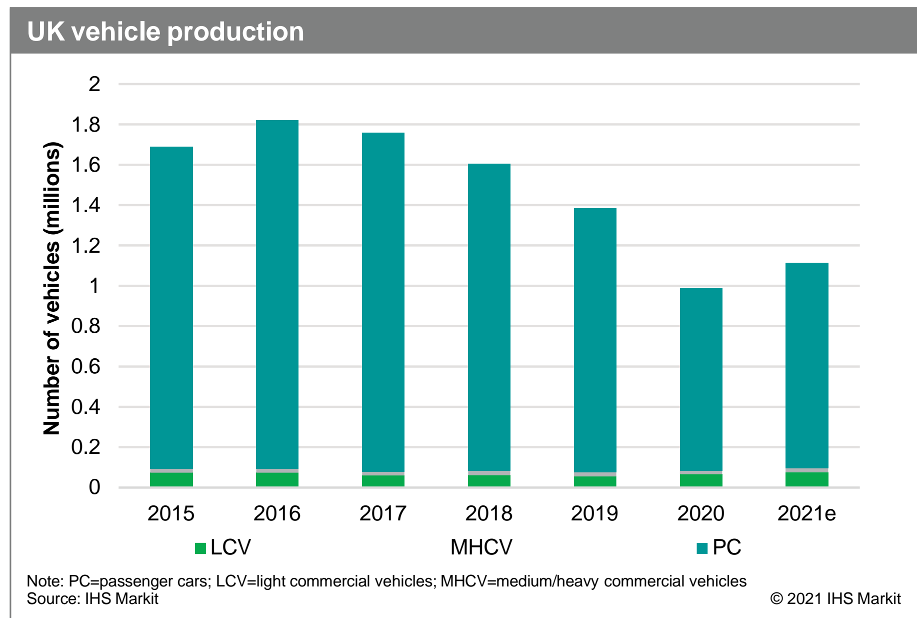
Brexit impact on dividends

Whenever the transition period ends, many sectors in the UK that rely on the EU will be left vulnerable.
The sectors most likely to be impacted, in terms of dividends, are **financial services** and **banks**, **food and beverage**, and **automobiles**. Financial services and banks are in danger of losing "passporting" rights, which allow them to sell funds, debt, advice, or insurance to clients across the EU. Without equivalence, business models will have to change, and firms will have to restructure by establishing bases in the EU, causing disruption. The UK has granted EU financial firms equivalency with regard to several key areas including clearing, central securities depositories, and benchmark administrators, as well as, derivatives and OTC trading. Financial services were not part of talks in the EU-UK trade deal and are being dealt with separately by Brussels. However, the deal agreed upon on 24 December could make the EU amenable to granting more

financial market access to Britain in areas like derivatives trading. So far, Brussels has only granted equivalence for two activities: derivatives clearing houses in Britain for 18 months beginning in January and settling Irish securities transactions for 6 months.

The costs of ensuring that goods comply with EU regulations are expected to put strain on the food and manufacturing sectors, particularly on British farmers. The cost of complying with new checks after the Brexit transition includes veterinary certificates and EU labelling requirements.

Car manufacturing is also under threat owing to the large number of vehicles that are exported to the EU. Trade barriers and tariffs erode profitability, which is already weak because of the pandemic. Manufacturers would either take on the increased tariff costs and offset them by employing cost/efficiency management or the cost will be passed down to the consumers. The automobile sector in the EU, similar to the UK, is in danger of incurring high import/export fees, affecting profitability. The sector is also important to upstream industries such as steel, chemicals, textiles, and certain downstream industries (e.g., repair and mobility services). Much of the growth within the industry occurs outside the EU, hence nonpreferential trade and investment agreements will hamper profit.



The **hospitality** industry is also vulnerable because they rely heavily on EU workers to supplement their work force, as do many agricultural businesses in the UK, and the implementation of the points-based immigration policy will make it very difficult for those workers to cross the border.

Tax changes

Changes to taxation, although not the stuff of headlines this year, have been taking place and are expected to be implemented in the next year or so. The **Dutch** government was originally planning a withholding tax of 21.7% on interest payments, dividends, and royalties for low-tax jurisdictions and in abusive situations, on 1 January 2021. However, the pandemic prompted the government to postpone the tax until 2024 meaning the risk to dividends is also delayed. Similarly, as part of the corporate tax reform, which became effective on 1 January 2020, **Switzerland** has reduced headline tax rates for corporate taxpayers with most cantons with a communal rate ranging between 12% and 14%. The new tax rules in Switzerland have helped curb the effects of negative interest rates on banks' balance sheets leading to a CHF113-million windfall for **Credit Suisse**, boosting pretax profit. Although most companies will benefit from the tax reform, the changes are expected to have especially favorable effects on the f**inancial services**, **bank**, and **insurance** sectors in Switzerland.

The **Russian** government has also implemented a tax increase on energy companies. We expect companies such as **Tatneft**, **Lukoil**, and G**azprom Neft** to be affected, as the tax makes it more expensive to boost

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production from oil fields and produce heavy crudes. Additionally, the new tax system will weigh on dividends as the minimum withholding tax rate under the **Russia-Luxembourg** treaty will be increased from 5% to 15% on 1 January 2021. Finally, **Saudi Arabia** has decided to increase the value-added tax (VAT) rate from 5% to 15% as of July 2021. The increased VAT rate will directly impact **Saudi** segments of the economy and consumer prices, especially construction and materials, from which a dividend decrease of 36% is likely in 2021.

Stimulus packages

To help with pandemic-induced economic malaise, European governments agreed on a common recovery plan known as "Next Generation EU" of EUR750 billion, including EUR390-billion grants and EUR360-billion loans. Depending on the population, GDP per capita, and the unemployment rate, predefined budgets will be redistributed to countries, of which **Italy** (EUR82 billion), **Spain** (EUR77 billion), **France** (EUR39 billion), **Poland** (EUR38 billion), and **Germany** (EUR29 billion) will be the biggest recipients. Companies in the **automotive** sector should benefit from programs, but strategic sectors like **construction and materials**, **industrials**, **utilities**, **technology**, and **healthcare** should also benefit from the "Next Generation EU" package.

In APAC, governments have initiated campaigns in various forms to invigorate the travel and leisure sector— one of the worst-hit sectors by the pandemic. In **Japan**, the government has been subsidizing up to 50% of the spending on transportation, hotels, restaurants, and tourist attractions to boost the domestic tourism activities. Similarly, in **Thailand**, the government has issued stimulus packages worth THB22.4 billion (USD718 million) to revitalize its tourism industry. Instead of encouraging the spending directly, the federal government of **Australia** announced an AUD101-billion JobKeeper program that supports eligible employees and business participants to stay in the job market. Some of the leading companies that received the subsidies in this sector, including **Qantas Airlines** and **Crown Resorts** have suspended the dividends and are expected to continue to do so in 2021. This is not only attributable to the bleak outlook of the sector in the short term, but also the pressure and scrutiny from the stakeholders who call for payments to be spent on supporting the employees rather than to be returned to shareholders. Despite the stimulus measures, further downside risks to the sector remain in APAC in 2021, owing to the persistent headwinds arising from the prolonged international travel restrictions. The aggregate payments from the sector are likely to slide by 72.7%, 28.7%, and 18.6% for **Thailand**, **Hong Kong SAR**, and **Japan**, respectively. **Sands China Limited**, the largest payer in this sector in APAC, is a good reflection of the landscape of the sector. Prior to the pandemic, the company had paid constant dividends in the past five years; however, the pandemic has inflicted material impacts on its Macau casino operation, dragging the company into a loss. Although the company is expected to return a profit in FY 2021, it is unlikely to be significant enough to support dividend payouts for the year.

The pandemic has also encouraged governments to get involved in the restructuring, and merger and acquisition activities in the region. **Doosan Group**, the multinational conglomerate company from **South Korea**, is wrapping up the first step of restructuring of its debt-ridden subsidiaries and conducting disposals of noncore assets. Korea Development Bank extended a KRW3-trillion credit line in June 2020 to facilitate the deal. The group has also suspended its quarterly dividends. **Korean Air Lines** is set to buy out its smaller, troubled rival **Asiana Airlines** in a USD1.6-billion deal to stabilize the industry and to prevent further losses owing to the disruption from the pandemic. The deal is supported by the KRW800-billion investment by Korean Development Bank. Neither airline has paid any dividends in the past few years, and the suspensions are expected to continue in the short-to-medium term. In **Hong Kong SAR**, the government decided to spend HKD29 billion to bail out **Cathay Pacific** by subscribing preference shares.

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Part 2 – Dividend expectations in 2021

Highest paying sectors by region in 2021

Top sectors by region—2021e aggregate payout (USD, billions)		
AMER	Technology	81
	Oil and gas	74
	Healthcare	72
	Industrial goods	66
	Banks	57
APAC	Banks	116
	Industrial goods and services	58
	Real estate	53
	Technology	49
	Telecommunications	34
EMEA	Oil and gas	113
	Healthcare	44
	Banks	41
	Insurance	38
	Industrial goods and services	33

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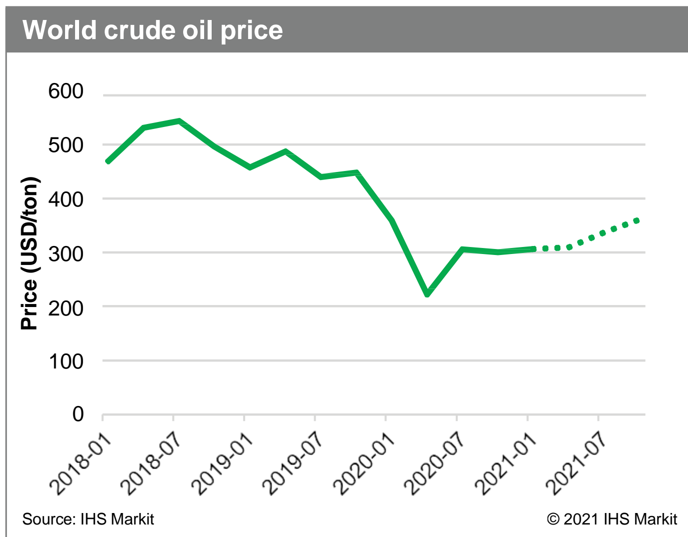
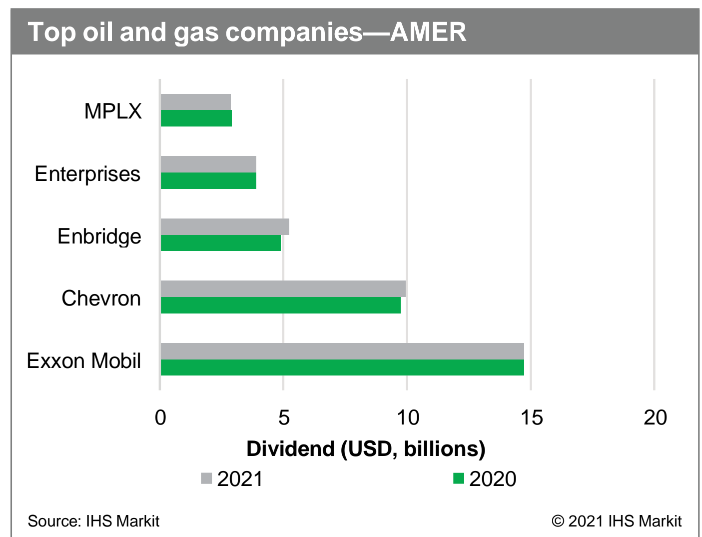
Oil and gas

This sector is both among the highest-paying sectors and the riskiest in global dividends. The main risk is price volatility for the commodities. In March–April, the pandemic shutdowns and economic downturn led to the collapse of oil prices. In the past, supply gluts have damaged stock prices, so OPEC and its allies agreed to historic production cuts to stabilize worldwide prices; despite these measures, prices dropped to 20-year lows.





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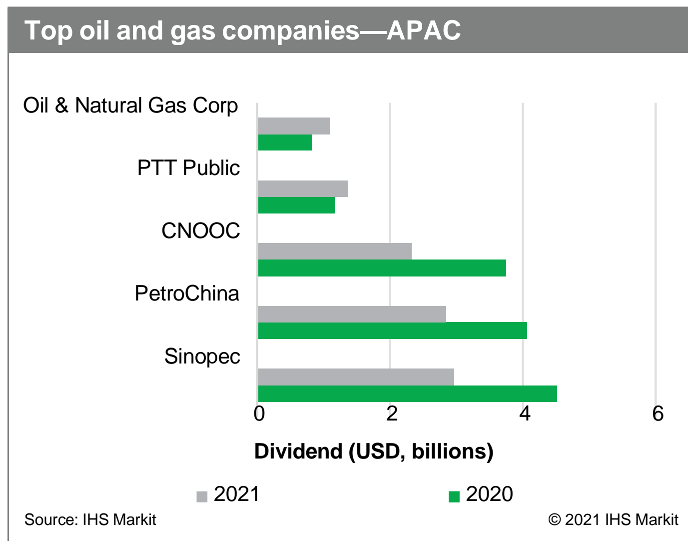
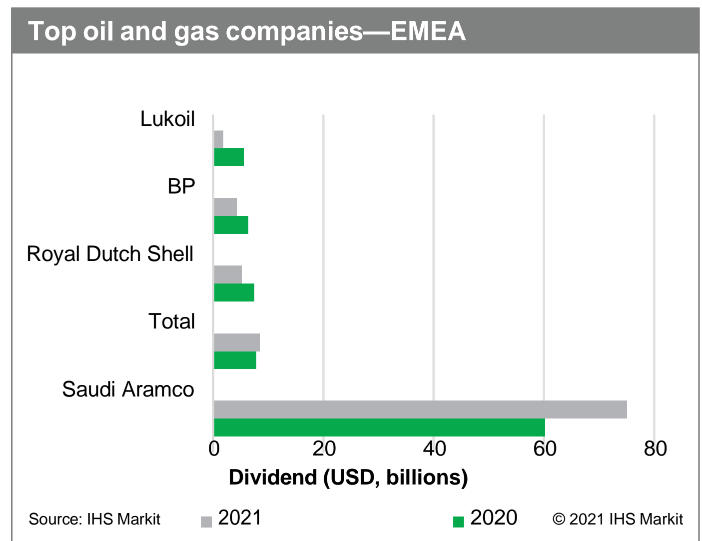
In the Americas region, exploration and production, oilfield service providers, and drilling companies experienced lower demand owing to decreased prices. As a result, companies such as **Schlumberger**, **Occidental Petroleum**, **Apache Corp**, and **Targa resources** cut their dividends by 75%, 86%, 90%, and 89%, respectively. However, the sector is still one of the highest aggregate payers in the region when it comes to dividend payouts. As markets have stabilized in the latter part of 2020, oil has started to bounce back and
is sitting at around USD45 per barrel (/bbl), which is slightly above the benchmark price of USD40/bbl for most of the companies. If the recovery continues into 2021, many companies will maintain or increase their dividends, as a response to the higher revenue brought by the increased price per barrel.

In APAC, the largest contributing markets to sector dividends are also the markets where major enterprises are state-owned or large dividend payers to the government; as such, the companies that have continued to pay dividends. In **mainland China** and **Hong Kong SAR**, three state-owned major enterprises managed to continue paying out interim dividends despite profit falls during the first half of 2020. Specifically, **PetroChina** and **Sinopec** recorded unprecedented net losses. Given the gloomy economic outlook, the forecast for 2021 remains conservative with some additional downside risk. Companies will likely make more prudent investment decisions; oil majors had to revisit their targeted capex and production goals following the plunge in both oil price and oil demand, which hurt their financial performance for 2020 and will continue to do so into 2021. Downside risk in the longer term also remains in relation to competition from domestic players due to the establishment of **China Oil & Gas Piping Network Corporation**. However, **Australian** oil and gas producers have booked net losses for the interim results owing to the slump of oil prices. The losses are primarily driven by the millions of noncash impairments on the assets, as the long-term oil price assumption has been revised down. As a result, dividends were slashed or suspended, considering the suppressed demand and prices of the products as well as the headroom of the debt covenants by which companies are bound. A slight recovery in dividends is likely.





In EMEA, **Saudi Aramco** remains the most resilient dividend payer within the entire oil industry. Despite a 45% fall in earnings and ongoing acquisitions, the company upheld its pledge to pay an annual USD75- billion dividend, as outlined in the initial public offering IPO in 2019. It had to acquire significant debt, however, including a bond issue of USD8 billion, to meet its dividend obligation. The company has an added responsibility to provide its majority stakeholder, **Saudi Arabia**, with dividend income during the crisis.
Moreover, a failure to meet the dividend commitment would have a negative impact on the perception of its financial health. In Europe, **TOTAL** was one of the few companies to maintain the dividend, and it should maintain the quarterly dividend at EUR0.66 per share if the oil price remains above USD40/bbl.

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Russian oil companies told a different story—most announced 20–30% capital expenditure cuts owing to the falling global demand for crude oil. They incurred heavy losses such that big players including **Tatneft** decided not to pay the final dividend for FY 2019; similarly, **Rosneft** suspended its half year dividend.

UK oil and gas companies also felt the downward pressure on the oil prices amid the COVID-19 crisis, which forced them to slash dividends in 2020. **Royal Dutch Shell** cut its dividend, for the first time since 1940, in April 2020. The company has introduced a new cash allocation framework, which includes a target to reduce net debt to USD65 billion (from USD73.5 billion as of 30 September 2020)—and, on achieving this milestone, a target to distribute a total of 20–30% of cash flow from operations to shareholders. **Shell** plans to grow its low- carbon businesses by transforming the refining portfolio from the current fourteen sites into six high-value energy and chemical parks, integrated with chemicals. Lower production guidance for the current fiscal year will yield lower dividends for calendar year 2021. **BP PLC** followed suit as it cut the quarterly dividend by half to USD0.0525 in August; dividends in 2021 should be 33% lower than 2020. The company has made progress on its divestment program toward delivery of USD25 billion of proceeds by 2025, but the savings are unlikely to accrue toward dividend growth in the short term.

Banks

Banks are not only key players in the economy, and therefore highly regulated, but also key dividend payers in their respective regions. More than any other sector, dividends are linked to regulatory approvals and the conditions of their respective economies. In EMEA, The **UK** Prudential Regulation Authority (PRA) has announced that "an extension of the exceptional and precautionary action taken in March is not necessary and that there is scope for banks to recommence some distributions should their boards choose to do so." The appropriate level of any distribution is a decision for the board of each bank, but the PRA requests that FY 2020 distributions to shareholders do not exceed the higher of: 20 basis points of risk-weighted assets as of the year-end or 25% of cumulative eight- quarter profits covering 2019 and 2020 after deducting prior shareholder distributions over that period.

Currently, the PRA is content for **UK** banks to accrue, but not pay, prudent dividends for 2021. An update regarding 2021 distributions will be provided in advance of the half-year results from large UK banks. Consequently **HSBC** or **Lloyds** are unlikely to make payments to shareholders for the first quarter. Any first quarter dividends accrued should be included in their FY 2021 second quarter distributions, subject to PRA approvals.

Revised dividend forecast—PRA

Bank	Type	DPS estimate	Ex-date estimate
HSBC	FY 2020 – final	USD0.12	4-Mar-21
	FY 2021 Q1, Q2	USD0.08	12-Aug-21
	FY 2021 Q3	USD0.04	14-Oct-21
Standard Chartered	FY 2020 – final	USD0.17	11-Mar-21
	FY 2021 – interim	USD0.085	12-Aug-21
Lloyds	FY 2020 – final	GBP0.008	15-Apr-21
	FY 2021 Q1, Q2	GBP0.004	5-Aug-21
Barclays	FY 2021 Q3	GBP0.002	4-Nov-21
	FY 2020 – final	GBP0.046	4-Mar-21
	FY 2021 – interim	GBP0.012	5-Aug-21
NatWest	FY 2020 – final	GBP0.014	25-Mar-21
	FY 2021 – interim	GBP0.007	12-Aug-21

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At its December policy meeting, the ECB expanded programs offering support to banks and the real economy. The ECB said it was maintaining the eurozone deposit rate at -0.50%, the refinancing rate at 0%, and the

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marginal lending facility rate at 0.25%. It also updated its recommendation stating that banks should "exercise extreme prudence on dividends and share buy-backs. To this end, the ECB asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions, until 30 September 2021." Given the persisting uncertainty over the economic impact of the COVID-19 pandemic, the ECB expects dividends and share buybacks to remain below 15% of the cumulated profit for 2019–20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower. For banks that have already distributed dividends or conducted share buybacks to remunerate shareholders with regard to financial year 2019, the basis for the definition is the profit attributable to owners of the parent for the 2020 financial year based on the prudential scope of consolidation; this is the case for **BBVA**, **Banco Santander**, and **ING**.

Revised dividend forecast—ECB

Bank	Type	DPS estimate	Ex-date estimate
Banco Santander	FY 2020 – final	EUR0.04	3-May-21
BBVA	FY 2020 – final	EUR0.06	7-Apr-21
BNP Paribas	FY 2020 year	EUR1.1	24-May-21
Credit Agricole	FY 2020 year	EUR0.25	18-May-21
ING	FY 2020 – final	EUR0.1	28-Apr-21
Intesa Sanpaolo	FY 2020 – final	EUR0.04	24-May-21
Nordea	FY 2020 year	EUR0.07	25-Mar-21

Note: DPS=dividends per share

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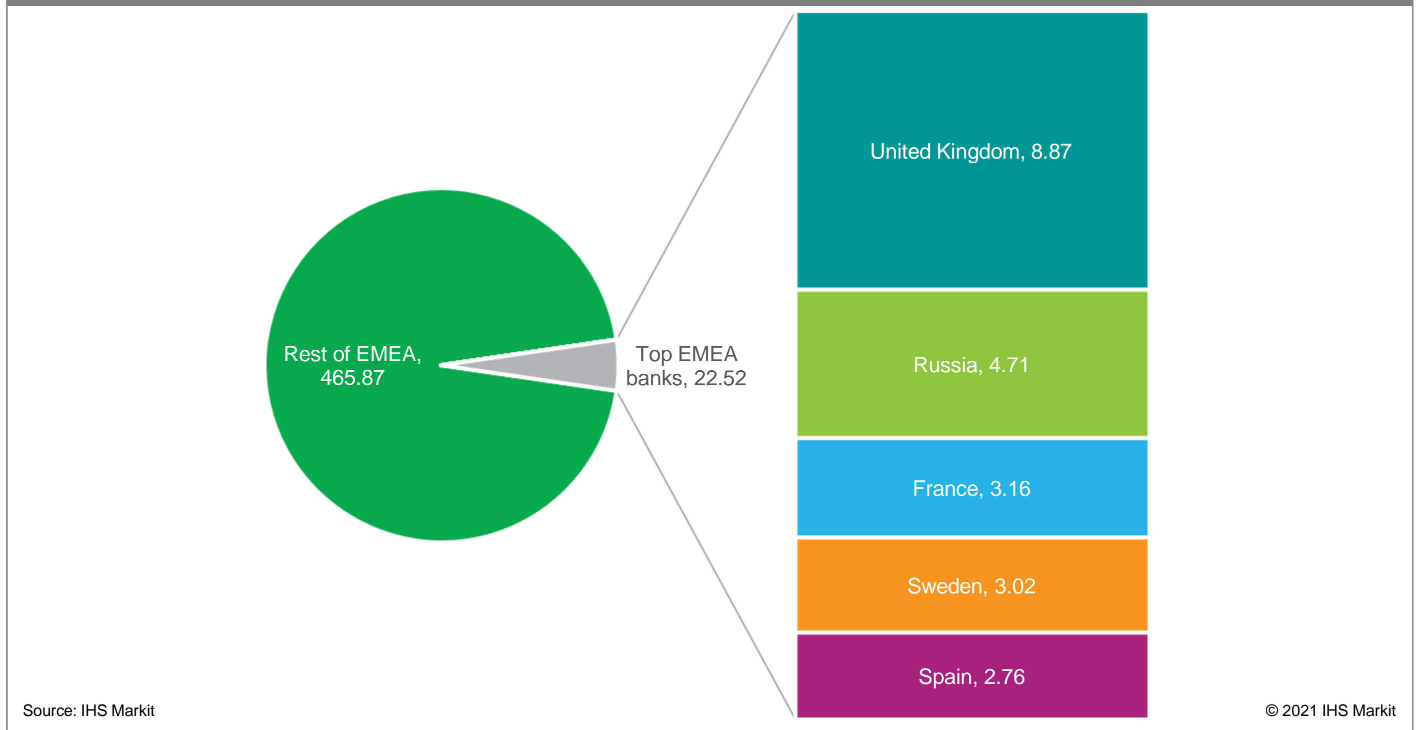


In AMER, while bank dividends did drop by about USD6.19 billion in 2020, this sector remains one of the largest payers in the region. The systematically important banks that underwent the Dodd-Frank Act Stress Test (**DFAST**) in June were given a dividend ceiling by the Fed for third quarter dividends, which has been extended for now. The dividend ceiling limited the large banks' dividend payouts to the lower of either the second quarter dividend payout or the trailing four quarters' average earnings. For most of the large banks, such as **JPMorgan** and **Citigroup**, this only prevented an increase to the dividend, but for others, such as **Wells Fargo**, it led to a significant dividend cut. The restrictions should remain in place at least until June

2021. Because of this restriction, there should be a further 8.8% drop (USD4.9 billion) in the banking sector's aggregate dividends for 2021; in 2019, **Wells Fargo** was the top payer for the sector in the Americas. The bank's cut will account for USD3.4 billion of the decrease in 2021, as the bank is unlikely to return its dividend to pre- COVID-19 levels in 2021.

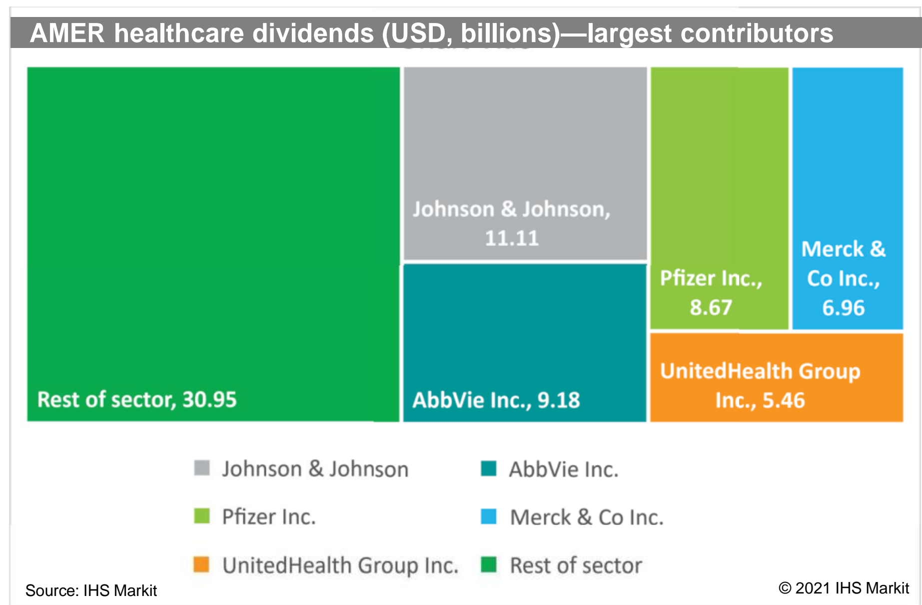
APAC's banking sector is expected to maintain its leading position on the list in 2021, contributing about 20% of aggregate dividends in the region. This is bolstered by the megabanks from **mainland China** that account for nearly 40% of the total dividends from the sector. While banks around the globe are significantly scaling back their payouts to preserve capital amid the lingering uncertainty, the payouts from mainland Chinese banks should decrease slightly in 2021. The projected decrease is attributable to the squeeze in margins in the low-interest rate environment and the government's pressure on the banks to sacrifice CNY1.5 trillion to other companies. Combined with the booked level of impairment loss, the megabanks including **Bank of China** and **Industrial Commercial Bank of China** should lower the dividends in 2021. Overall, the aggregate payments from this sector are likely to slightly decrease in 2021.

Despite falling profitability amid low interest rates, about 80% of **Japanese** banks expect to keep their dividends for the year, through March 2021, unchanged from the previous year. Despite this pessimistic outlook, **MUFG** and **SMFG** both raised their dividends from JPY22 to JPY25 per share, and from JPY180 to JPY190 per share, respectively. **Mizuho** kept its dividend unchanged. By maintaining the dividends, regional banks intend to show their financial capacity and boost investor confidence during the pandemic.

The Financial Supervisory Service (FSS) of **South Korea** imposing a dividend cap has been pending since early 2020, but this is yet unconfirmed. According to the latest news, new measures will be announced early 2021, before the earnings season in March. Banks are looking to increase dividends, even initiating a quarterly dividend to boost share price, supported by strong earnings. At least flat dividends should be maintained for **Shinhan**, **KB**, and **Hanna**. Only **Woori** will likely cut the dividend owing to a one-off loss related to the Lime Asset Management incident.

Healthcare

Healthcare remains among the most resilient sectors going into 2021; sector growth should reach pre- COVID-19 levels in 2021 in the **US** as COVID-19 vaccines and treatments will enhance earnings—on top of other sources of growth, including rapid adoption of new drugs and a modest catch-up effect as social distancing measures ease. Additionally, some accelerated activity in mergers and acquisitions is possible in 2021, which was muted in 2020 owing to the COVID-19 virus. Inorganic growth is one of the main factors that drives the big pharmaceutical and biotechnology segment revenues. While there will be some downside risk in the form of social risks related to drug pricing policies in 2021, the substantial cash flows, comparatively low debt, and the mandatory nature of healthcare



products and services—which helped drive dividend growth in 2020—should continue in 2021. Further, the top-three dividend contributors of the sector (**Johnson & Johnson**, **Pfizer**, and **AbbVie**) remain committed to their current dividend policies and should follow the ongoing growth trajectory.

The sector was also stable and became the second-highest dividend payer in the EMEA region with USD39.7 billion distributed in 2020. Even though the performance of the sector has been limited by the suspension of **EssilorLuxottica**, **Chr. Hansen Holding**, and **Sonova**, most EMEA markets have increased their aggregate payout. In **Switzerland**—the top dividend contributor—the payout has reached USD15.3 billion owing to the well-functioning businesses of **Roche Hldg**, **Novatis**, **Lonza Group**, and **Vifor**; the growing trend should continue in 2021, with an estimated +7% for the Swiss Healthcare industry due to a dividend increase from top payers and resumption from **Sonova**. Strong momentum has also been delivered by **UK** pharmaceutical, medical technology, and biopharmaceutical companies—especially **Glaxosmithkline**, which has improved its dividend by 31%. Other major contributors in the EMEA region, such as **Sanofi**, **Astrazeneca**, **Bayer**, and **Novo Nordisk**, provided stable to slightly increased dividends, offsetting some weakened fields such as healthcare services and medical centers.

Industrial goods and services

With shutdowns and strong impacts on related sectors (i.e., travel and leisure), industrial earnings and cash reserves have melted. Thus, many EMEA industrials have suspended dividends, leading to an aggregate dividend payout decrease of more than USD17 billion (-39%) in 2020. Most of the EMEA countries were damaged by the situation and dividend has slipped by -66% in **France**, -45% in the **United Kingdom**, -51% in **Sweden**, and by around -75% in **Italy**, **Spain**, and **Netherlands**.

Germany and **Switzerland** were less impacted with a decrease of 8% and 3%, respectively. **France** was the most affected as its country industry is led by aerospace and defense companies (**Thales**, **Safran**, **Alstom**, **Airbus**, and **Dassault Aviation**). Contrary to France, the **UK** has a more diversified industry that has enabled the majority of top British Industrials to distribute dividends in 2020, offsetting companies' dividend suspensions, such as in transportation services (**Signature Aviation**). Over the course of 2020, industrials and governments have adapted to the situation, enabling factories to remain open during second lockdowns.
Associated with progressive reopening, companies expect operations will normalize and, accordingly, earnings should grow in 2021. Therefore, we expect that the industrials sector will progressively turn to growth, although it is unlikely to rebound to the prepandemic level.

In the Americas, most companies were able to maintain the dividend in 2020 and have positive outlooks going into FY 2021. For example, **Hoegh LNG**, which is in the business of floating storage, and **ArcBest**, in the business of freight transportation, are a few companies that have been able to maintain their cash and balance sheet positions. Another company, **Landstar System**, which is in transportation solutions, was even able to increase its shareholder return in the third quarter. While this sector should be one of the region's highest payers, there are some companies that have been damaged in 2020, such as **Nordic American Tankers**, which had to cut the dividend; in this case, the cut was due to the unpredictability of the crude oil price.

Japan dominates the aggregate payouts from the industrial goods and services sector in APAC, contributing 40% of the USD58.2 billion. Japanese companies within the sector have demonstrated strong commitment to the dividends guided, despite the hit on the bottom lines due to the pandemic. **Mitsubishi Corporation** maintained its dividend guidance despite the 64% plunge in half yearly incomes, supported by the strong cash position. **Itochu Corporation** has guided a record level of dividend for the current financial year and has adhered to it despite a 13% y/y dip in net profit for the first half of the current financial year.

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Technology

Technology was the highest dividend-paying sector in the **Americas** region in 2020. These companies felt a boost of revenue from several sources including the move to WFH, increased gaming and streaming, and companies learning the importance of improving digital infrastructure. Growth in consumer subscription services and software contracts lead to high recurring revenue for these companies. The need for mandatory cloud, networking, and software and hardware upgrades has also resulted in an earnings increase owing to the WFH movement; in fact, companies involved in upgrades not required for remote working have seen declining revenue. The pandemic has highlighted the importance of digital infrastructure. As revenue recovers for all companies, more of their spending will be directed towards upgrading their digital infrastructure.

The companies that pay dividends tend to have significant cash balances; in 2021, dividends from companies with strong dividend growth histories will likely continue to grow. This is especially true for semiconductor companies such as **Texas Instruments**, **Broadcom**, and **Xilinx**, which tend to have significant cash balances on hand compared to the dividends, and their stocks have skyrocketed. The dividend yield may become a factor for telecommunications companies, such as **Lumen Technology** and **AT&T**, which have the capital to continue to grow their dividends, but their stock price has not yet recovered. For the companies that already have a large percentage of earnings per share/free cash flow (EPS/FCF), they should have more modest dividend growth going forward. For example, **BCE** historically grows its dividend by about 5% each year; however, it should realize a more modest growth of 3% going forward.

In APAC, **Taiwan's** technology sector similarly benefited from a growing popularity for data centers, 5G applications, consumer electronics, and smart devices, on the back of a booming stay-at-home economy and emerging technologies. **India's** technology sector has also been lucrative for investors, and it is the largest dividend contributor to the market, at about 20%. All major companies showed strong resilience to the swing in the economy. **HCL Technologies Ltd.** doubled its dividend guidance for the upcoming quarters. **Infosys** and **L&T Infotech** increased interim dividends y/y and **Tech Mahindra** distribution of special dividends further boosted investors' confidence in the sector. **TCS Ltd.** is expected to remain flat for the year, but all technology companies expect growth momentum to continue in the near term, supported by a strong deal pipeline and a ramp-up of large deals.

Riskiest sectors by region

Riskiest sector by 2021 y/y estimated growth		
AMER	Travel and leisure	-21.5%
	Retail	-12.3%
	Oil and gas	-7.9%
	Banks	-4.6%
	Media	-3.4%
APAC	Oil and gas	-22.2%
	Travel and leisure	-13.7%
	Automobiles and parts	-8.4%
	Personal and household goods	1.4%
	Banks	5.0%
EMEA	Travel and leisure	-54.7%
	Automobiles and parts	-27.6%
	Chemicals	-4.7%
	Oil and gas	2.1%
	Financial services	4.4%

Source: IHS Markit

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Automobiles and parts

Automobile stocks tend to be cyclical in nature given how closely tethered they are to the overall direction of the economy and tend to be among the first to take dividend action in a recession. The pandemic led to a temporary halt in vehicle production for many plants and interrupted the cash flows of affected companies. Not only did these companies suffer from the pandemic-related cash burn, but they also lost earnings by not producing and selling vehicles while still being on the line for bills due on the prior production. In the AMER region, large companies such as **Ford** and **GM** suspended their quarterly dividends in March and April, respectively. Declines in car exports to America and Europe, combined with the shutdown of manufacturing plants exerted immense pressure on the car manufacturers' cashflow in APAC, leading major players in **Japan**, **mainland China**, and **South Korea** to lower or even suspend their dividends.

In the EMEA region, **Germany**, **France**, and **Italy** are the leaders in the market with about USD18.4- billion dividends distributed in 2019. In **Germany**, automakers are the backbone of the economy, and despite the free fall in earnings and heightened uncertainty, they avoided a large cap suspension of the dividend. They have paid a dividend much greater than the minimum stipulated amount, leading to an aggregate USD6.9-billion payout in 2020. During the first three quarters of 2020, German automakers recorded a sharp decline in income, but almost all of them are now in recovery mode at a faster-than- anticipated rate. The recovery is boosted by the German government, which offered EUR5 billion in aid to the industry as part of the country's recovery plan, especially to help with the transition to electric cars, as the German automobile industry is trailing in the segment globally. Moreover, big names such as **Continental AG** that recorded negative cash flow are expected to tap into the healthy retained earnings reserve to support the dividend payment. Thus, a dividend payment is likely in 2021 for **Volkswagen**,
Daimler, **Bayerische**, **Continental**, and **Porsche**, even if the payout should remain far from the prepandemic level, of USD4.7 billion estimated for 2021.

Contrary to German peers, the major French automakers—**Renault** and **Peugeot**—decided to suspend their dividends in anticipation of the impact from the COVID-19 virus which turned free cash flow negative in 2020. Beyond the pandemic's impact on the automotive industry, both **Renault** and **Peugeot** are struggling with their respective mergers. **Renault** was strongly impacted by **Nissan's** negative contribution and the **Peugeot- Fiat Chrysler** merger will likely imply high restructuring costs. Even though Peugeot was back to growth in third quarter 2020, **Peugeot** and **Fiat-Chrysler** have reviewed their merger amendments and agreed on a cash- conserving approach. Earlier in 2020, **Fiat-Chrysler** had already lowered its special with dividend distribution at EUR2.9 billion versus the previously announced USD5.5 billion, showing caution regarding the current situation. Thus, major French and Italian automakers are unlikely to pay a dividend in 2021, if auto demand remains low.

Travel and leisure

Despite the stimulus packages for this sector across many of the markets in APAC, such as **Japan** and **Thailand**, downside risk to this sector remain in 2021, with aggregate dividends expected to dip by 13.6%. Airlines, casinos, and resorts in this region are unlikely to resume the dividends in the near term owing to the prolonged travel restrictions and closure of businesses in the region. **Sands China Limited**, the largest payer in this sector in APAC, is a good reflection of the landscape of the sector. Prior to the pandemic, the company had paid constant dividends over the past five years. However, the pandemic has inflicted material impacts on its Macau casino operation, dragging the company into a loss. Although the company should return to a profit in FY 2021, it is unlikely to be significant enough to support dividend payouts for the year.

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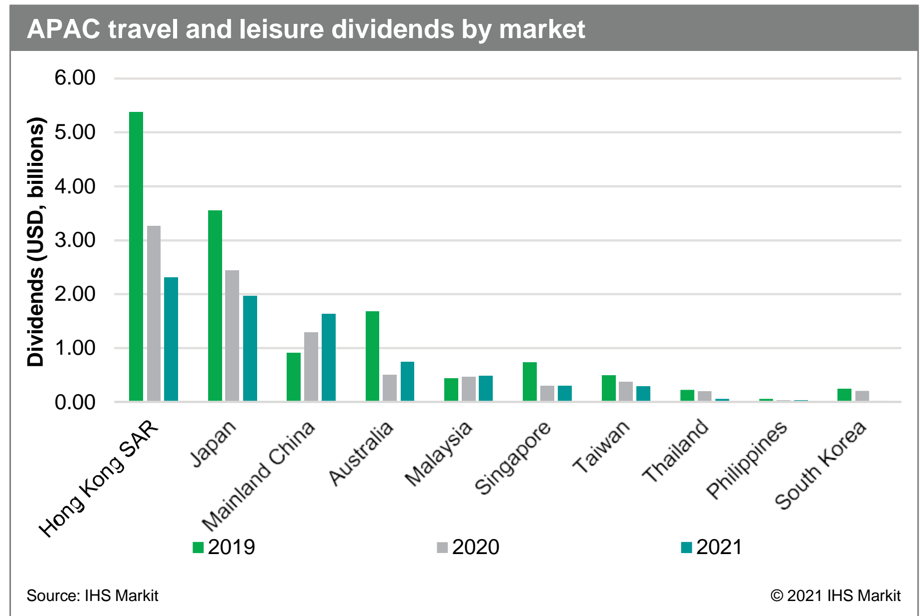
In the EMEA region, travel and leisure has been the heaviest impacted sector with a dividend fall of -66% to USD2.7 billion in 2020. Major companies have been hammered by travel ban restrictions and lockdowns, especially airline and tourism-related businesses such as **International Consolidated Airlines Group**, **Intercontinental Hotels Group PLC**, and **Deutsche Lufthansa**, which had to suspend their dividend distribution owing to big earnings drops. In the **United Kingdom**—the highest sector contributor—half of the companies stopped paying dividends and the others (excluding **Gamesys Group PLC** and **Marston's PLC**) had to drastically reduce their payout, leading to a cut of USD4.8 billion. Companies in **France**, **Greece**, and **Germany** suffered from the same fate with numerous suspensions and cuts. Only gaming companies stand out from the crowd and have been able to generate dividend growth thanks to growing demand in the segment, stimulated by the increase in mobile use and the market regulation adaptation. Following this trend, gaming companies such as **Evolution Gaming Group**, **Greek Organisation Of Football Prognostics**, **FDJ**, and **GVC Holdings** should continue their dividend growth in 2021.

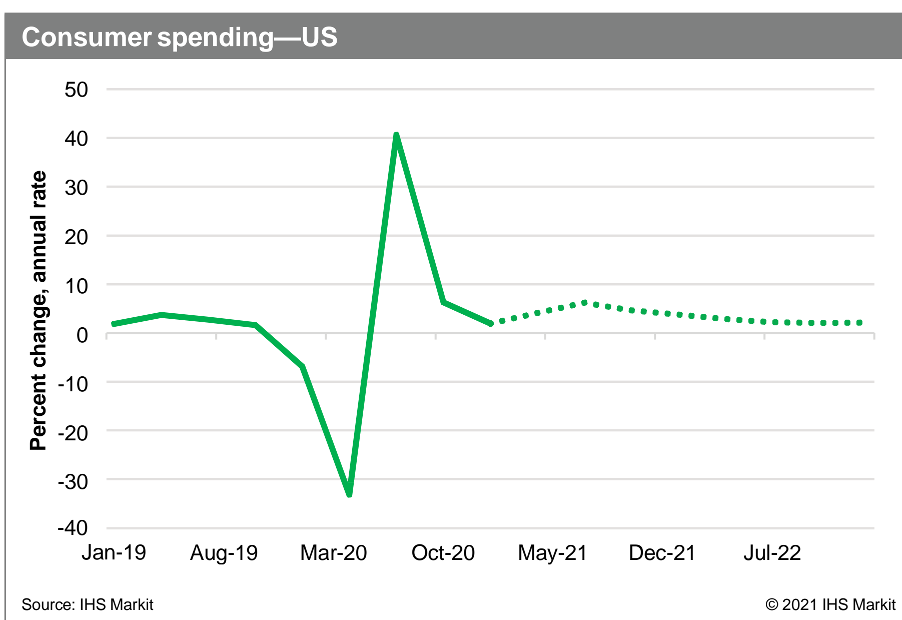


Nonetheless, travel and leisure dividends should remain weak and risky, as most companies will be unable to pay dividends in 2021, since the resurgence of the COVID-19 virus suggests travel restrictions will remain in place. Beyond COVID-19 uncertainties, some companies such as **Lufthansa** have reached deals with governments to overcome the crisis, which may imply waiving dividend payment conditions. Thus, the EMEA aggregate sector payout should decline by 56% in 2021. This further decline is driven by the unlikelihood of any resumption of activities from companies in Italy, Russia, Spain, Switzerland, Austria, and Portugal; we expect additional decreases from top contributors (**Compass Group** and **Sodexo**) and low dividend resumptions from **Intercontinental Hotels Group PLC** and **Flutter Entertainment**.

Retail

The retail sector in the **US** also struggled with the lockdowns and closures, and a few retail sector companies have resumed dividends as sales have improved over the past few months and into the holiday season. However, the ensuing phase of consumer recovery will be challenging as goods spending retreats and fiscal support diminishes amid elevated joblessness. The pandemic has also shifted consumer demand to bigger- name brands and private labels, such as **Nike**. These brands have experienced massive lifts in sales, but this shift could lead to short-term supply issues for the retailers as brands allocate more merchandise to their own channels.

There has also been an acceleration in ecommerce—a change that was already taking shape in the industry—which will force the closures of more physical stores. This change in consumer habits has led to retail sector companies looking to invest in their digital business growth, and has some retailers,



such as **Ralph Lauren** and **Gap**, experimenting with virtual stores. Despite the surge in COVID-19 cases, as of early December consumer sentiment has been rising, and retail sales should improve in FY 2021 as consumers eagerly spend on the services and goods that they had forgone in 2020.

Similarly, in EMEA, retailers' profits have decreased throughout the year. The impact on dividends has been limited so far, thanks to the largest payer: **Tesco** has paid USD7.8 billion in dividends in 2020, enabling the sector's total payout to reach USD16.6 billion in 2020.
However, excluding **Tesco**, the sector dividend payout dropped by 39%, mainly owing to the **United Kingdom** from which companies have reduced their dividend distributions by 25%. However the two national lockdowns and the implementation of tiered restrictions were not the only contributing factors. In the **UK**, issues such as falling High Street footfall and slumping clothing sales (**Marks& Spencer**) have plagued the retail sector even before the pandemic. The **UK** retail recovery should be slow, and Tesco is unlikely to offset the estimated drop in 2021. Other top contributors, **Spain**, **France**, and **Sweden** also recorded a significant decrease in dividends, with heavy cuts (**Inditex** and **Carrefour**) and suspensions (**Hennes & Mauritz**, or **H&M**, and **Casino Guichard-Perrachon**).
However, contrary to the **UK**, retailers from those countries should recover faster with an estimated rebound of 65%. The USD4.8 billion dividend in 2021 should be led by demand shifted to online purchases, as more customers started shopping online, and e-commerce was exceptionally high during the pandemic. Despite the situation, some companies in **Russia**, **Belgium**, and **Finland** have managed success and increased their dividend payout. Food retailers such as **Magnit** took advantage of the pandemic, particularly with increased purchases of essentials, owing to greater consumption at home. Even though dividends should continue to grow in 2021, reopening and a progressive return to normal consumption may imply downside risk.

Part 3 – Company-specific risks 2021

Unusual dividend timeline

AGM postponements

Government bans on public gatherings, including annual general meetings (AGMs), led to delays in dividend payments in many countries in 2020. Companies should return to previous patterns, before the pandemic timeline change. However, there is a risk of later payments if companies follow the new dividend pattern; for countries such as Germany and France the dividend payment date is linked to the annual shareholder meeting.

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AGM postponements

Country	AGMs postponed in FY 2020	Comment
Mainland China	44	AGMs scheduled in March–April 2020 were postponed to June 2020 because cities were under lockdown.
United Kingdom	25	AGMs scheduled prior to early May were postponed to June.
France	30	Most of the AGMs were postponed to end-June, as AGMs must be held within six months after the end of the company's financial year.
Germany	80	The companies can now hold virtual AGMs within the fiscal year instead of within eight months for "AG" companies and six months for "SE" companies.
Italy	30	Most companies that have postponed their AGMs have pushed back the date by up to two months during the first six months of the year.

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Some companies—which suspended or cut their dividend in 2020—intend to catch up with the FY 2019 omitted payment, once they are able to reassess the effects of COVID-19 on their business. Thus, without the required shareholder approval requirement, there is a high risk on the dividend timeline.

In APAC, **mainland China**, **India**, and **Singapore** are the markets that experienced AGM postponements in 2020. However, the trend is unlikely to spill over into 2021 because most companies have been actively adopting virtual meetings and voting systems:

- **Singapore**: Singapore's Ministry of Law allows the virtual AGM until June 2021. Real-time electronic voting is also permitted for some types of meetings, including general meetings.
- **Mainland China**: Social gathering restrictions have been lifted owing to the good containment of the pandemic. AGMs should be unaffected.
- **India**: Owing to the pandemic, the Ministry of Corporate Affairs allowed companies to hold their AGMs through video conferencing.

Shareholder approvals

Country	Shareholders' approval required	Shareholders' approval not required
United Kingdom	Final dividend is recommended by the director(s) but approved by the shareholders in a general meeting or by written resolution.	Interim dividend is solely declared by the director(s).
France	Final dividend Special dividend	Interim dividend (depends on company bylaw)
Germany		Most companies declare only one dividend depending on their articles of association. A general meeting is usually not required because the board already has the power to declare and approve the dividend.
Italy	Final payments require shareholder approval.	Interim dividend does not require shareholder approval.

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Top-five payers in each half of 2021

Saudi Aramco, one of the leading companies in the oil and natural gas realm, will likely declare a dividend of SAR0.3518 in Q1, 2021. Despite a sharp decline in oil and price earnings, the company honored the dividend commitment and stated it will declare an aggregate cash dividend of at least USD75 billion for FY 2020. The Saudi Arabian government also happens to be the majority stakeholder and is largely dependent on dividend income. In the case of the **Industrial and Commercial Bank of China**, although a cut of the dividend is

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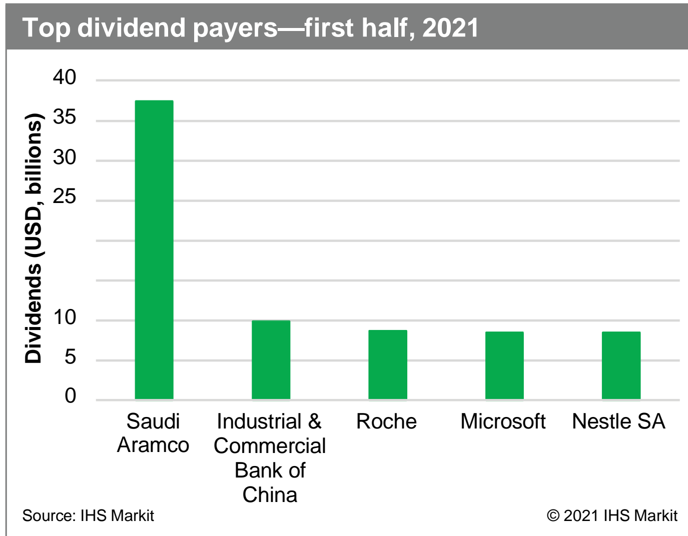
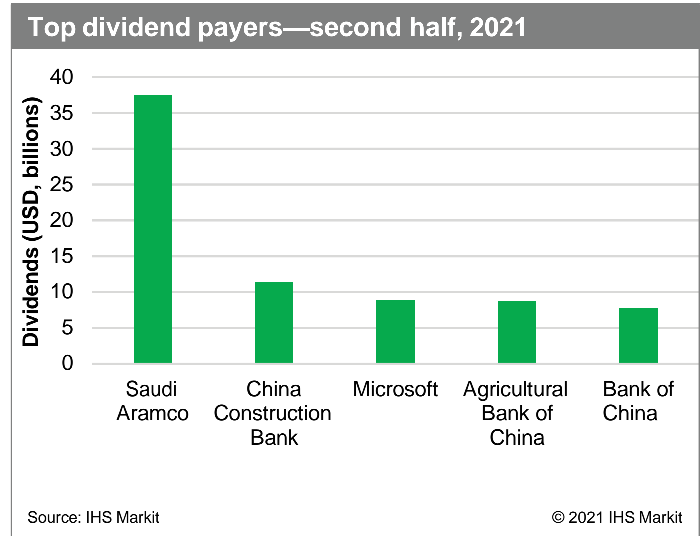
expected in FY 2020, the company is still one of the highest contributors to shareholders, in part due to its robust financial position being well-above regulatory requirements and a consistent payout practice. For **Roche Holding**, one of the leading research healthcare companies in Switzerland, a dividend of CHF9.10 per share is probable for FY 2020; this reflects a payout of 46%, which is supported by the company's core operating profit increasing by 11% and its international financial reporting standards (IFRS) net income increasing by 32% owing to the impact of lower impairments.





Microsoft Corporation and **Nestle's** distributions to shareholders are also among the highest on a global level. **Microsoft** should pay a quarterly dividend of USD0.56 per share for the remainder of FY 2021 and for first quarter of FY 2022. Sales and EPS are expected to grow 9% and 13%, respectively. For each of the last six years, the company has increased its dividends between three and five cents; future increases should be on the upper end given the company's performance in cloud services and business processes such as Office 365. With **Nestle**, the company should continue to pay CHF2.70 per share for FY 2020. This payout represents 64% of earnings, and full year organic sales growth is projected to be around 3%, supported by the underlying trading operating profit margin.

Last, mainland Chinese banks such as the **China Construction Bank**, **Agricultural Bank of China**, and **Bank of China** have all distributed around 30% of their net profit attributable to shareholders, and the increased dividend distribution is supported by the companies' robust financial position, with their CET1 ratio and capital adequacy ratio comfortably above the regulatory requirements. Gradual dividend growth should continue for all three companies, given their improving outlook for the upcoming years.

Top-five riskiest dividends by region

The following table lists drop probability score averages of each company by country to show the risk inherent to the company. Drop probabilities are analytical scores that predict the probability of a dividend cut; stocks with a drop probability over 50% result in an actual cut 70% of the time. **Swatch Group**, **Tatneft**, and **Gazprom** are among the riskiest dividends going forward. **Swatch** is projected to suspend its dividends for FY 2020, given the company's earnings estimates fell 98% for the year, its net profit is down by 13.7%, and the net margin has decreased 9.1%. **Tatneft's** expectation is for the company to distribute RUB22.94 for FY 2020
considering the unpredictability of the oil prices. **Gazprom's** gas sales dropped by 30% in the first nine months of 2020 and the company has a new payout target of 40% for as long as the net debt-to-EBITDA ratio remains below 2.5x (currently at 2.3x); we expect a decrease of RUB5.6 per share in the distribution.

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Formosa Plastics' dividend should decrease by 52%, in part owing to its weak core business momentum given the overall average selling price (ASP) downtrend and maintenance at several facilities. Earnings for the company will be under pressure, as the oil price plunge and demand contraction amidst COVID-19 have damaged petrochemical spreads. The **Formosa Petrochemical** dividend should decrease TWD2.3 per share given the drag on earnings by declining oil prices and olefin spreads.

Riskiest companies

AMER	Annaly Capital Management	0.74
	Magazine Luiza SA	0.73
	Petrobras Brazil	0.73
	Ambev SA	0.69
	Exxon Mobil	0.65
APAC	Formosa Plastics	0.97
	Formosa Petrochemical	0.94
	China Steel	0.88
	Petronas Chemicals	0.86
	PetroChina	0.86
EMEA	Tatneft	0.9
	Swatch Group	0.87
	Gazprom	0.86
	Traton	0.8
	Mowi	0.78

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China Steel's dividend will suffer a 90% cut, mainly owing to muted earnings caused by the high iron ore feedstock costs that squeezed margins on unfavorable supply and demand environment. **Petronas'** and **Formosa's** downgrades are partially due to reduced earnings for the year, and, in **Formosa's** case specifically, a reported operating loss that represented a 120% decline y/y for first quarter 2020, coupled with the loss-making preferential trade agreement (PTA) business and investment loss.

In response to the market conditions, major gas company, **Exxon Mobil**, announced it would be reducing its 2020 capital spending by 30% and reduce its cash operating expenses by 15%, as well as, maintaining a flat dividend. To strengthen its portfolio, the company made an additional discovery offshore Guyana at the Uaru, adding to its previously announced estimated recoverable resource in Guyana of more than 8 billion oil-equivalent barrels. Debt has also been increased to a level of liquidity provision.

Latin American company, **Magazine Luiza**, also felt the pressure of the COVID-19 virus pandemic on its ability to pay dividends. **Magazine Luiza** has a minimum payout ratio of 25% according to Brazilian corporate law, and the company should be consistent and distribute the amount in the form of interest on capital in the end of December and a smaller, final yearly dividend in conjunction with its AGM in April. The EPS is expected to grow on average 40% over the next three years, after accounting for the substantial drop in projected FY 2020 earnings amid the COVID-19 pandemic. Therefore, the percentage distributed will allow **Magazine Luiza** to reinvest in its organic growth.

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