Dividend forecasting

China's A-share dividends: What to expect in the year of the ox

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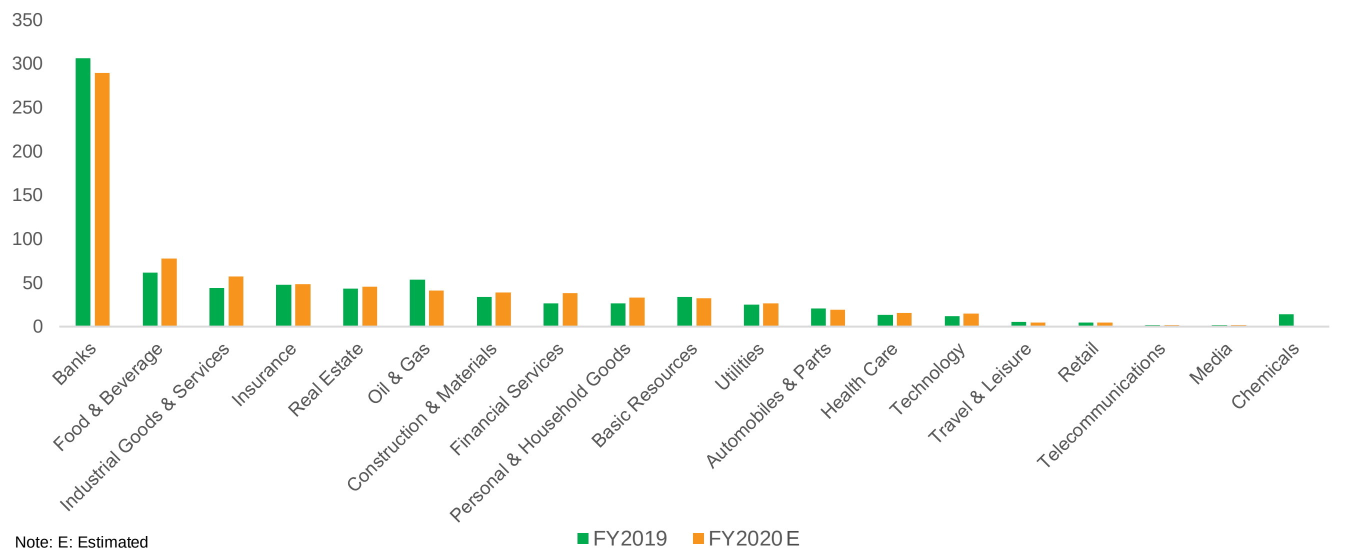
- China Securities Index 300 (CSI 300) constituents are forecasted to pay CNY803.8 billion aggregate dividends for fiscal year (FY) 2020, 3.4% higher than the previous year
- Bank dividends are expected to decline by 5.5%, because of lower dividends expected from the top payers
- Dividend payments from state-owned enterprises (SOEs) dominate the dividend levels and trends in mainland China

Graph 1. Aggregate dividends in CNY (billion)



Note: E: Estimated

Source: IHS Markit

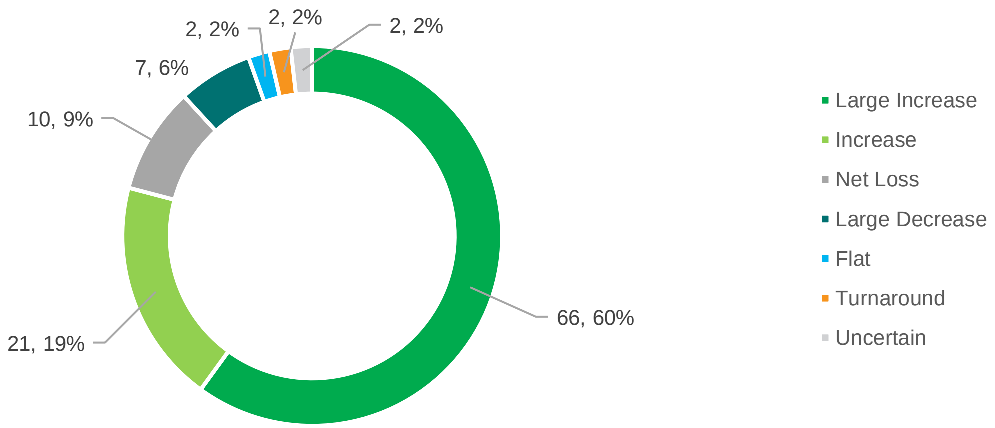
Ever since the 1980s, China has been gradually opening up its capital markets to global investors, which makes it more interconnected with the rest of the world. The pace of market opening accelerated in the past 10 years through both inbound and outbound investment schemes, including the Qualified Foreign Institutional Investor (QFII), Renminbi Qualified Foreign Institutional Investor (RQFII), Stock Connect, Qualified Domestic Institutional Investor (QDII), and the Qualified Domestic Investment Partnership (QDLP). Such progress has remained on track despite disruptions brought by geopolitical tensions and more recently, the pandemic. The "Two Sessions" – the annual meeting of the National People's Congress and the Chinese People's Political Consultative Conference – were held earlier this month. In the meeting, the government set a conservative GDP growth target of above 6% for 2021, looking beyond the pandemic recovery and in the meantime, focusing more on the quality of economic growth over quantity. China's economy grew by 2.3% in 2020, which is the lowest figure in the past 44 years. But, still, China was the only major economy to report growth amid the COVID-19 pandemic. During the week-long event, the government also reaffirmed the country's decade-long commitment to market opening.

On the dividend front, we analyse the aggregate dividends data based on the latest CSI 300 constituents – a proxy of China's A-share market. The aggregate dividends from the constituents of the CSI 300 index are expected to increase to CNY803.8 billion in FY 2020, representing a 3.4% year-on-year (y/y) growth rate compared with that of FY 2019. We anticipate the aggregate dividends from the Food and Beverage sector, Industrial Goods and Services, Construction and Materials, and Financial Services to rise while aggregate dividends from the Banking sector to fall by 5.5% y/y. This is mainly attributed to lower dividends forecasted from the top payers – Industrial and Commercial Bank of China, Agricultural Bank of China, and Bank of China. Based on regulatory requirements, all companies listed in mainland China are required to disclose their annual results before 30 April 2021 – four months after the financial year-end.

Preliminary profit results in 2020 at a glance

All the constituents in the CSI 300 index have fiscal year ended on 31 December. Chinese companies listed in the Shanghai Stock Exchange and Shenzhen Stock Exchange typically release the preliminary financial results for the past financial year around January to March, with indicative profit movement directions. The chart below is based on the latest preliminary profit data retrieved from the two stock exchanges. Excluding the 190 companies within the CSI 300 index, which have not released their preliminary financial results, 66 of the 110 companies estimate their profits for FY 2020 to be significantly higher compared with that of FY 2019. Most of the companies in this category are in sectors such as Industrial Goods and Services, Financial Services, and Technology. On the other hand, 17 of the 110 companies indicate a large decrease or net loss in net profit, among which seven are concentrated in Travel and Leisure businesses. For companies with a performance-linked dividend policy, the preliminary results serve as important references for the upcoming dividends.

Graph 2. Count of companies by preliminary profit results*



Note: *Extent of profit movement based on the company filing. While no clear % criteria is available, large increase/decrease generally means year-on-year profit movement to be greater than 50%.
Source: Shanghai Stock Exchange, Shenzhen Stock Exchange

Country-specific factors

This year (2021) is the first year of the new 14th five-year plan (2021–25) in China and is also the first year of China's 2035 vision. Following the 6% GDP growth rate target set by the central government, most of the country's provincial level jurisdictions also set their growth targets at a minimum of 6% for 2021, indicating a broad growth rebound this year. Given this concerted economic target, the macro environment is set to be favourable for companies' growth in China. This further supports the upbeat dividend outlook of the market as we are anticipating continued growth in China's A-share dividends.

In the past decade, Chinese SOEs played an important role in promoting dividend policy development in China. As the Chinese government and regulators rolled out a series of guidelines to improve the transparency and stability of dividend policies of companies listed in China, SOEs traditionally led the way to assist the government and regulators in the implementation of the guidelines. Although the number of SOEs are less than non-SOEs in CSI 300, SOEs stably take up most of the top dividend payers in China and dominate the aggregate dividend level of China's A-share market. Dividends paid by Chinese SOEs have shown great resilience during the COVID-19 pandemic. In general, given the stable, foreseeable, and transparent dividend policies advocated by the government and regulators, SOEs should continue to maintain the practice of relatively stable dividend payouts moving forward.

Table 1. Estimated top five dividend payers for FY 2020 (CNY)

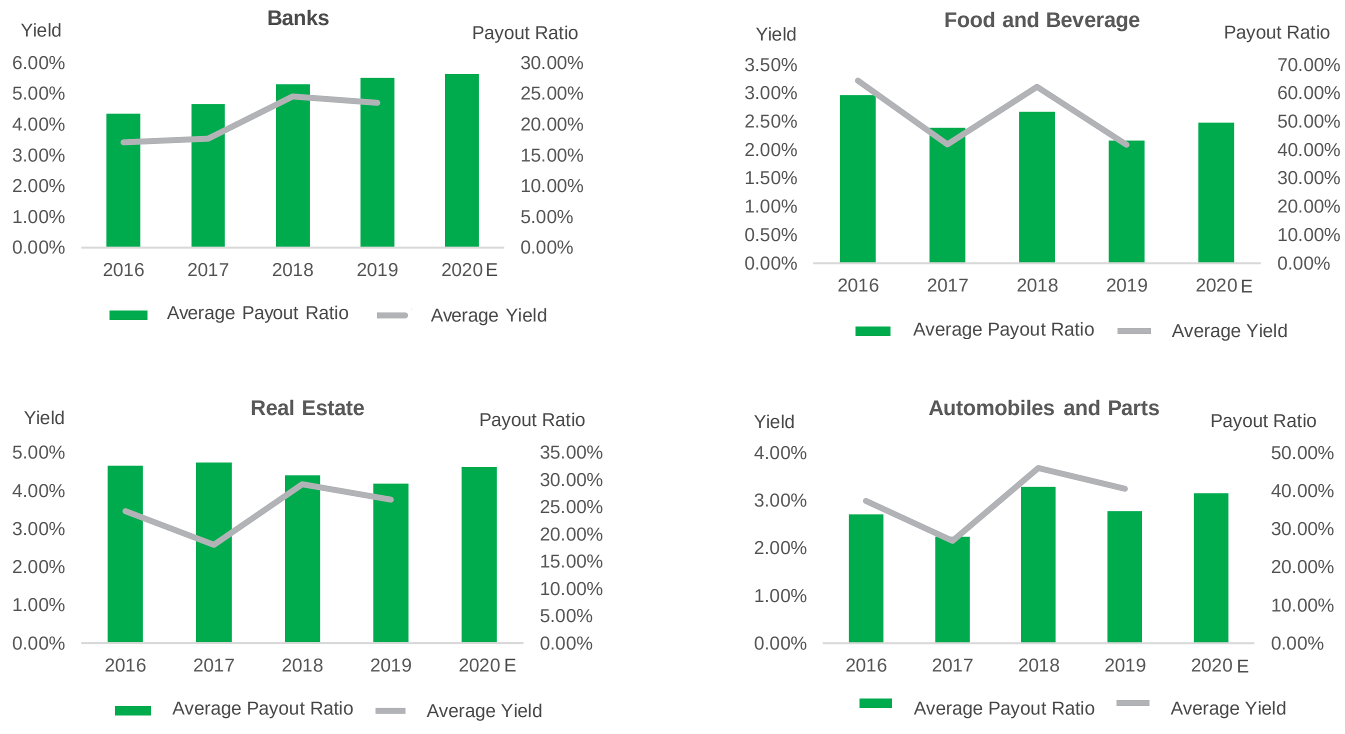
Stock name	Code	Aggregate dividend (billion) (E)	FY 2020 final DPS*	DPS change (year on year)	Ex-date (E)
Industrial and Commercial Bank of China	601398	64.7	0.2400 (E)	-8.7%	30 June 2021
Agriculture Bank of China	601288	54.9	0.1719 (E)	-5.5%	12 July 2021
Bank of China	601988	38.1	0.1810 (E)	-5.2%	15 July 2021
PetroChina	601857	25.3	0.0687 (E)	61.9%	29 June 2021
China Merchants Bank	600036	25.0	1.2530 (C)	4.4%	12 July 2021

Note: *DPS: Dividend per share. E: Estimated. C: Company advised.

Source: IHS Markit

Sector highlights

Graph 3. Average payout ratio and yield by sector



Source: IHS Markit

1) Banks – The largest distributing sector led by national mega banks

Chinese banks faced challenging operating conditions in 2020. The sector suffered from sizeable profit declines in the first half of 2020 as the pandemic provoked a surge in the provision for bad loans and the banks were requested to sacrifice CNY1.5 trillion in profits to the real economy. The banks managed to recover strongly in the second half of the year, especially in the fourth quarter of 2020. According to the statistics from the China Banking and Insurance Regulatory Commission, the accumulated year-on-year net profit contraction of the Banking sector narrowed from 8.3% for the first nine months of 2020 to 2.7% for the full year of 2020. The non-performing loan (NPL) ratio of the sector stood at a manageable level of 1.84% at the end of 2020, with a NPL coverage ratio of 184.5% and a common equity Tier 1 (CET1) ratio of 10.7%. In view of a rapid recovery and healthy solvency ratios, the dividend payout ratio of Chinese banks should remain stable. While the payout ratios of mid-sized banks have been trailing the payout ratio of large banks, we are seeing a trend that the gaps of payout ratios between banks are narrowing down.

Industrial and Commercial Bank of China, **Agricultural Bank of China,** and **Bank of China** are likely to continue to be ranked as the top three payers in China's A-share market. The three mega banks will likely cut their dividends modestly with a 30% payout ratio, in line with their consistent practice in recent years.

2) Food and Beverage – Large dividends are expected from leading Chinese liquor companies

The Food and Beverage sector has become a large dividend distributing sector in China's A-share market in recent years. The aggregate dividends distributed by food and beverage companies have been rising consecutively since 2014. **Keichou Moutai** and **Wuliangye Yibin** are expected to be the top two dividend distributors in this sector in 2021, as seen in the past three years. The two companies are the leading companies in the Chinese liquor industry and have been consistently following the 50% dividend payout ratio in past years. With expectable and visible revenue stream growth ahead, we believe that the dividend outlook for the two companies remains optimistic.

As a subsegment under the Food and Beverage sector, companies in the hog farming and production business have seen strong growth momentum. Driven by strong consumption demand, the profit of some well-known companies in this industry such as **Muyuan Foods** and **Jiangxi Zhengbang Technology** are anticipated to register another year of profit surges, and their dividends are forecasted to increase accordingly. In contrast, companies that participated in poultry production are likely to show very different results as the demand and price of live poultry were negatively affected by the COVID-19 pandemic during 2020. An example here is **Wens Foodstuff Group**. Its bottom line was dragged by its poultry segment and we are anticipating a significantly lower FY 2020 final cash dividend to be announced later in April.

3) Real Estate – Profitability faced with tightened regulations

The government has been committed to the objectives of "houses are built to be inhabited, not for speculation" and "stabilising land prices, housing prices, and expectations" for China's real estate industry. It introduced the "Three Red Lines" regulations that capped bank lending since 2020 to curb the elevated leverage and mounting systematic risks in the bubble-prone sector. These new regulations should inspire the stable and healthy development of the real estate industry. With all three red lines breached, **Greenland Holdings Group** is among the most affected developers. The company is likely to slow down the acquisition of new projects and focus on accelerating the sales of the existing inventory, which will hurt its business growth and profitability as well as its performance-linked payouts.

Despite the effects of the COVID-19 pandemic, the overall sales of the industry increased steadily and hit a record high for 2020. Several cities have announced a new land auction rule that will reduce the number of auctions while increasing the scale of each auction. The move should lower the land premium and benefit the mega players such as **China Vanke** and **Poly Developments and Holdings Group** in the sector by improving their profit margins. This will help the mega developers to support their current payout levels.

4) Automobiles and Parts – Post-COVID-19 recovery with new energy vehicles (NEVs) becoming the inevitable trend

China, the world's manufacturing powerhouse but also the single largest annual carbon emitter, was a strong believer in the "common but differentiated responsibility" principle whereby less developed countries should not have to share the same burden of curbing emissions as developed countries, where pollution went unchecked for decades. However, things have changed since President Xi Jinping pledged at the United Nations General Assembly back in September 2020 that China could reach the peak of carbon dioxide emissions by 2030 and achieve carbon neutrality before 2060. In the meantime, the targets are also part of China's new overarching plan for the next five years. China's commitment is fundamental to achieving worldwide net-zero emissions, but it also needs to mount a concerted effort throughout its economy given the country's heavy reliance on non-renewable energy (i.e., coal). The Transportation sector generates the largest share of carbon emissions, and China has already taken moves to promote the NEV market and requires all new car sales in 2035 to be either hybrids or NEVs. Despite all the uncertainties in the market because of the COVID-19 pandemic, it was reported that China's NEV production and sales actually increased in 2020 from a year earlier, driven by a new round of stimulus measures in the latter half of the year, which outweighed first-quarter losses when the overall sector got severely hit by the pandemic.

On the company level, **BYD** is a prominent example in which we anticipate dividends to register positive growth for the first time in the past three years because of the robust sales growth brought by NEV sales from both first- and lower-tiered cities. In the meantime, the company also became the leading mask maker in China and even became well-branded across the globe. As the demand for cars started to recover from the effects of the COVID-19 pandemic and continue to be supported by a recovery in earnings, we forecast positive dividend growth from conventional automakers as well as the likes of **Great Wall Motor** and **Guangzhou Automobile** to be among the top dividend payers within the auto sector.

Large dividend movements expected in 2021

Table 2. Dividend amount expected change

Stock name	FY 2020 final DPS forecast	FY 2019 final DPS actual	Currency	Change (year on year)	Ex-date forecast
Haitong Securities	0.2900	0.0000	CNY	Resumption	5 July 2021
Muyuan Foods	1.5000	0.3235	CNY	363.7%	6 July 2021
BYD	0.1700	0.0600	CNY	183.3%	17 August 2021
PetroChina	0.06869	0.04243	CNY	61.9%	29 June 2021
Wens Foodstuff Group	0.4500	0.8333	CNY	-45.8%	11 June 2021

Source: IHS Markit © 2021 IHS Markit

Table 3. Dividend ex-date expected change

Stock name	FY 2020 final DPS ex-date forecast	FY 2019 final DPS actual ex-date	Notes
Ping An Bank	22 April 2021	28 May 2020	AGM moved from 14 May 20 to 8 April 21
The People's Insurance Co. of China	9 July 2021	21 August 2020	H-share dividend payment date guided
Jiangsu Zhongtian Technology	11 May 2021	16 July 2020	AGM moved from 10 June 20 to 25 March 21
Zhejiang Dahua Technology	10 May 2021	22 May 2020	AGM moved from 12 May 20 to 23 April 21
Han`s Laser Technology	24 May 2021	30 July 2020	Ex-date in 2020 is likely an exceptional case

Source: IHS Markit © 2021 IHS Markit

For more information, please contact dividendsupport@ihsmarkit.com