Covid-19 to wipe €30bn from French dividends in 2020

Clara BESSON, 21 April 2020

We expect the aggregate dividend distribution from SBF120 companies to fall to around €33bn in 2020, after peaking at €64.5bn in 2019.

The outlook for dividends from SBF 120 constituents has been significantly weakened since the outbreak of Covid-19 as companies try and adapt to the challenging circumstances. We have already seen **57** companies announcing dividend cuts, of which **34** were complete suspensions.

The key drivers of dividend reductions by French companies as a result of the pandemic are:

- Regulatory pressure
- Political pressure
- Financial pressure
- Capital preservation

REGULATORY RESTRICTIONS AND GUIDANCE

The ECB and EIOPA have urged banks and insurers not to pay dividends until at least October 1st, 2020. Following the recommendations **BNP Paribas**, **Credit Agricole**, **Amundi**, **Natixis**, **Société Générale, CNP assurance** and **Coface** announced suspensions of their pay outs, amounting to around €9bn in total.

GOVERNMENT ASSISTANCE AND POLITICAL PRESSURE

As a mark of solidarity and social responsibility the French government asked companies in which it has a stake, such as **EDF**, **Engie** and **Thales,** to refrain from paying dividends at this time. The government is also putting pressure on other French companies to reduce their dividend proposals by at least 30%. This applies to large payers such as **LVMH**, **Carrefour**, **Hermes**, **Icade**, **Suez Environnement**, **Orange** and **Gecina.**

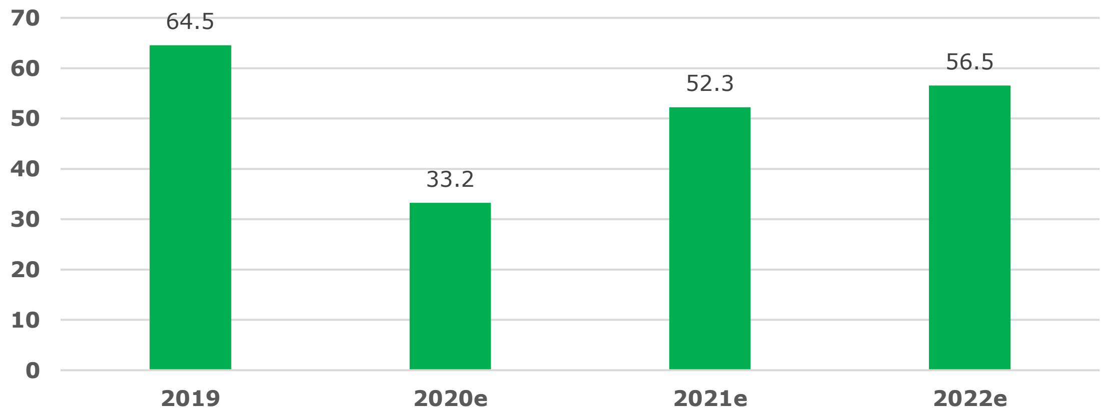
FALLING REVENUES AND OPERATIONAL CHALLENGES

As a result of lockdown measures and production shutdowns Travel & Leisure companies, like **Accor**, and Industrial names, such as **Airbus**, **Dassault Aviation**, **Safran**, **Renault**, **Bouygues** and **Eiffage**, have withdrawn dividend proposals accounting for around €4bn.

CAPITAL CONSERVATION AND PRUDENCE

Faced with the uncertainty regarding the consequences of Covid-19, management at financially secure companies such as **EssilorLuxottica** or **Engie** have adopted a prudent approach and suspended dividends in order to conserve cash and retain financial flexibility.

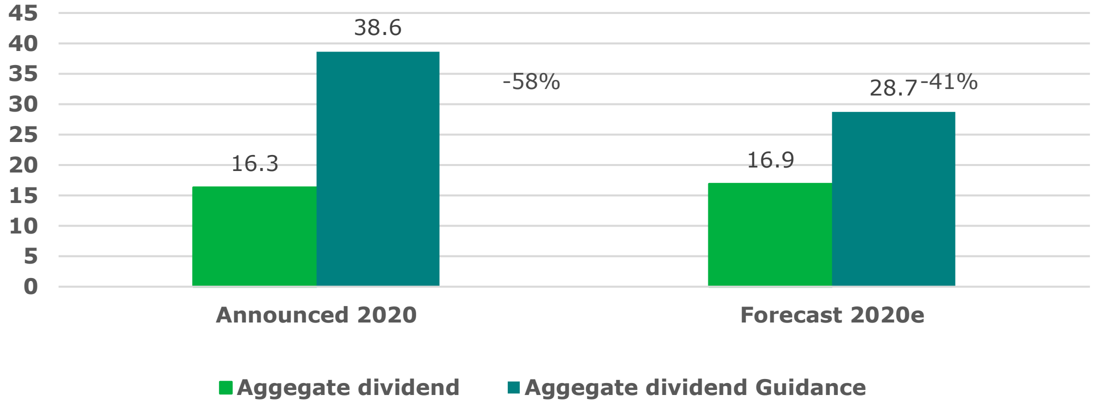
SBF 120 aggregate dividend pay out (€bn)



Source: IHS Markit, FactSet.

Of the total €67bn in dividends proposed so far this year by French companies, around €39bn has since been revised downward to €16bn (-58%). Of the remaining €29bn, we predict an additional reduction of around 40% to €17bn

SBF 120 aggregate dividend pay out (€bn)



Source: IHS Markit, FactSet.

Of the **26** SBF 120 companies that have not yet communicated their distribution plans, **7** have postponed their Annual General Meeting. Typically the meetings have been postponed to late June in keeping with the requirement that AGM's must be held within the 6 months of the fiscal year-end. This poses an additional risk to the pay outs, as management are increasingly likely to consider lowering them in light of the ongoing difficulties.

SBF 120 DIVIDEND PAYOUTS SET TO HALF IN 2020

Top 5 predicted dividend suspensions

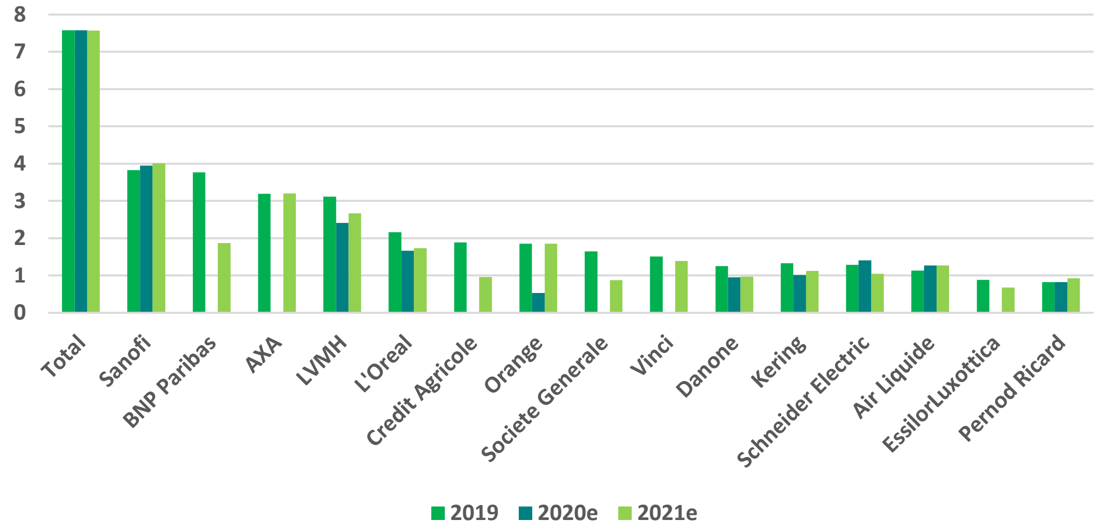
Company	2019 DPS	FY19 Pay out	2020 Estimate
AXA	€1.34	€3,193m	€0m
Vinci	€2.71	€1,511m	€0m
Peugeot	€0.78	€697m	€0m
SCOR	€1.75	€322m	€0m
ArcelorMittal	€0.20	€203m	€0m

Top 5 2020 predicted dividend revisions to guidance

Company	Guidance DPS	Estimated DPS	Reduction
L'Oreal	€4.20	€2.98	-29%
Kering	€11.5	€8.05	-30%
Danone	€2.10	€1.47	-30%
Saint-Gobain	€1.38	€0.97	-30%
Cap Gemini	€1.90	€1.35	-29%

For the remainder of the year, we foresee dividend suspensions of around €7bn, mainly from **AXA** (€3.2 bn), **Vinci** (€1.5bn) and **Peugeot** (€697m), in line with the factors mentioned beforehand. We also predict a 30% dividend reductions from **L'Oreal**, **Kering**, **Danone**, **Compagnie de Saint-Gobain** and **Cap Gemini,** as government's pressure is likely to intensify by the time their AGMs take place.

SBF120 Top Payers (i€bn)

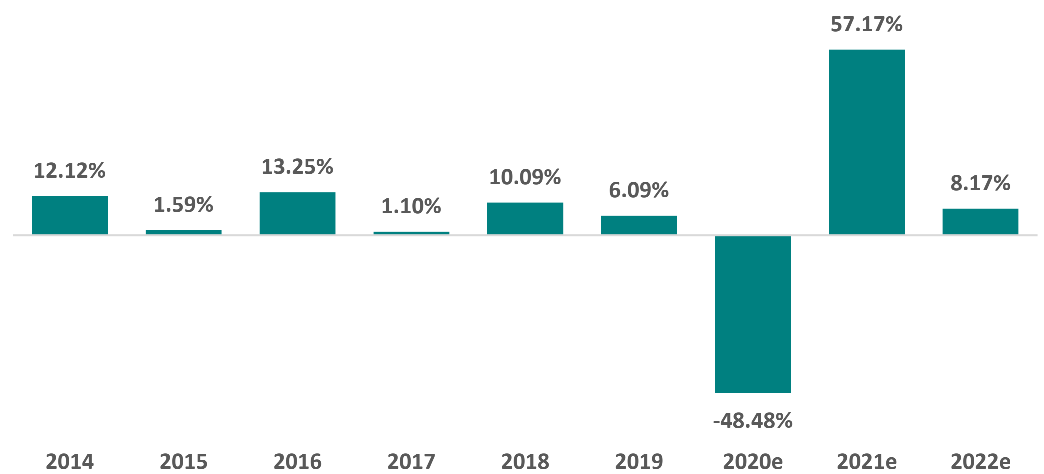


Source: IHS Markit, FactSet.

In 2020, the aggregate dividend payout is expected to decrease from €64.5 bn to €33bn, down 49%. This sharp decrease is driven by dividend suspensions by the three main banks, **BNP Paribas**, **Credit Agricole** and **Société Générale,** which distributed over €7.3bn in 2019 in addition to forecasted dividend cancellations from **AXA** and **Vinci**. Further downside is possible and is most likely to from the Luxury stocks like **Kering** and Beverage sector companies **Pernod-Ricard** and **Remy Cointreau**, as their businesses are particularly impacted by the prolonged Covid-19 repercussions.

Despite the oil price decline, we do not see a dividend reduction from **Total** in the short term. We think the company can maintain its quarterly dividend of €0.68 per share thanks to low capital expenditure costs. Considering the organic pre-dividend breakeven of less than $25/b and the scrip option alternative, we still see **Total** as the largest dividend contributor for 2020.

SBF 120 aggregate dividend payout changes



Source: IHS Markit, FactSet.

We predict a rebound of 60% in 2021 if the economic recession is temporary

After a sharp decline in 2020 we believe SBF 120 aggregate dividends could recover in 2021, reaching around €53bn. We do not expect a full recovery as dividends from **Banks** are expected to remain lower, limited by ECB regulations and its goal of boosting economic activity through lending facilities for corporates. While we expect a recovery in 2021, we do not expect the companies to return to the 2019 dividend level, or predict any strong growth in pay outs.

The recovery is likely to be buoyed by companies in the Health Care sector, luxury goods stocks and the utilities names. In 2020, the second largest contributor, **Sanofi** increased its dividend by 3%, with a dividend per share of €3.15 (vs.3.07 in 2019). We think that this progressive growth will be continued into 2021. Among the luxury goods companies we forecast average increase of 8% from **LVMH**, **Kering**, **Hermes** and **Dior**. Insurers and Utilities should also contribute to a 2021 recovery, due to expected returns to shareholder distributions from **AXA**, **EDF** and **Engie**.

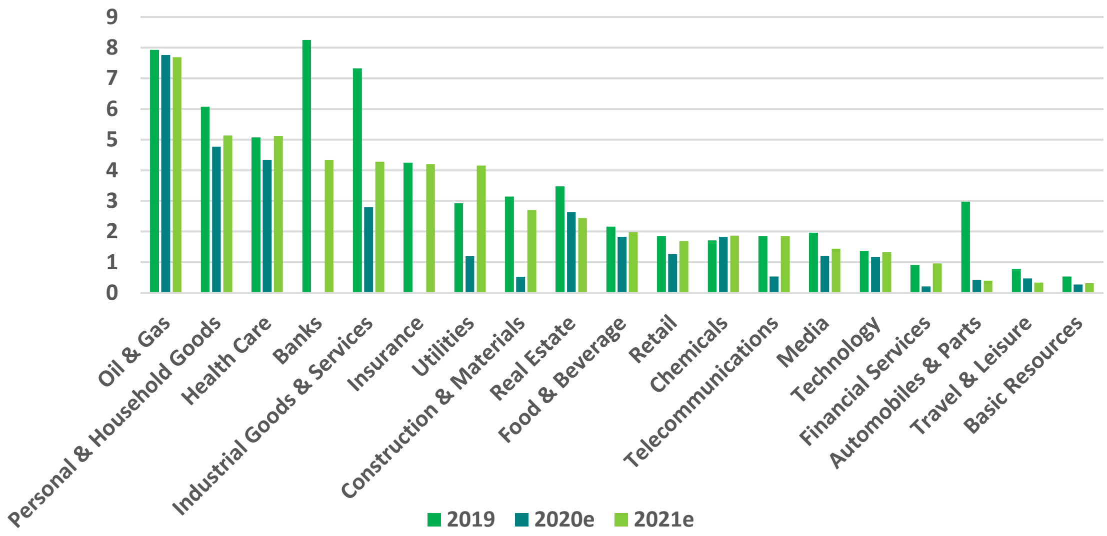
The low oil price creates downside risk for Total's dividend.

Given that oil demand should remain low this year, we think that management may reconsider the dividend policy of delivering growth of 5%-6% per year. In the event of a prolonged global economic recession, we think the company would have to reduce its dividend by at least 50%. During the previous oil crisis in 2014-2016, low oil prices came from higher supply versus demand. The current situation combines low demand and over supply.

Dividends reduced in response to government pressure should recover in 2021.

Much of the predicted recovery next year would come from companies like **L'Oreal** in the Personal & household goods sector as well as luxury industry names, **LVMH**, **Kering**, **Hermes**, and **Dior**. We believe that pay outs should remain strong and that Covid-19 lockdown measures will only slow dividend growth, from double-digit to single-digit increases.

SBF 120 aggregate dividends by sector (€bn)



Source: IHS Markit, FactSet.

In 2021, we believe that dividends which were reduced by 30% or even suspended in response to requests for solidarity voiced by French government should once again resume and in the medium-term return to their previous levels. (**Engie**, **EDF**, **Orange**, **Danone** and **Safran**)

With the exception of Banks and insurance companies whose dividend reductions were mainly related to regulatory restrictions, the principle falls came from the **Automotive** (-88%), **Construction & materials** (-77%) and **Industrials** (-63%) sectors. We expect the companies in the **Industrial Goods & Services** sector to progressively return to healthy dividend distributions in 2021.

Following its 2020 suspension, we project **Safran**' s dividend per share to be at €1.30 in 2021, a 30% reduction compared to 2019. Given the current situation there is significant downside risk it depends on the airlines and a defence industry recovery.

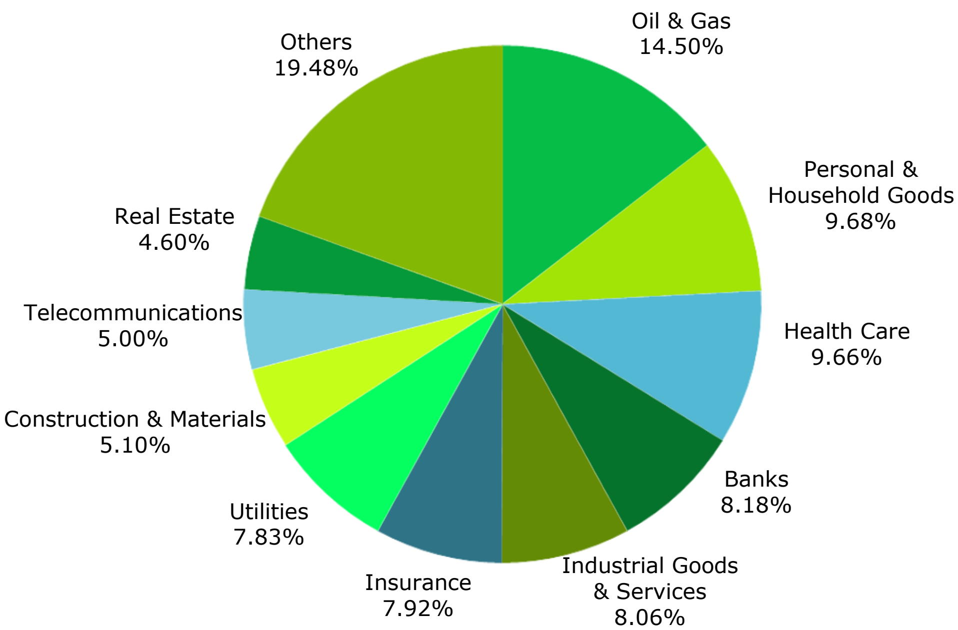
Top 5 predicted sector changes in 2021 (€m)

Sector	2019	2020e	2021e	Change
Financial Services	€904	€212	€961	354%
Construction & Materials	€3,135	€721	€2,704	275%
Utilities	€2,920	€1,199	€4,154	246%
Telecommunications	€1,857	€530	€1,855	250%
Industrial Goods & Services	€7320	€2,792	€4,277	60%

Based on the current situation, we do not expect the **Automotive** and **Travel & Leisure** sectors to perform well in 2021. The main contributors, which used to be **Renault** and **Accor** have suspended their dividend in 2020 and we do not see a return to distributions in 2021. We also predict **Peugeot** will scrap its proposed dividend of €1.23.

The global economic recession will have a significant negative impact on **Automotive** and **Travel & Leisure** companies, which have the most negative outlook for dividends.

Estimated contribution by sector in 2021



Data from IHS Markit, FactSet.

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For further information, please visit **www.ihsmarkit.com**

All dividend data is provided by IHS Markit. All supplementary data, such as number of shares, is provided by FactSet. All data is correct as of April 20th, 2020.

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