Dividend forecasting

6 May 2021

Nikkei 225: First dividend dip expected in eight years

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Key implications

- Nikkei 225 dividends are expected to finish fiscal year ending in March 2021 (FY 2021) at USD82,018 million, representing a downtick of 4.4%.
- The industrial and auto sectors are expected to decline by 12.97% and 10.61%, respectively, on a year-on-year basis.
- The telecommunication and healthcare sectors are projected to rise marginally by 4.25% and 3.00%, respectively, in 2021.

COVID-19 – Impact on Nikkei 225 dividends

Japanese equities have invariably surpassed their developed and emerging market counterparts in Asia Pacific as far as stability in the dividends' trajectory is concerned. As often cited by the management, improving shareholders' value is of paramount importance, which in turn is observable in the market's historical payout trends with steady payout increases. The companies strike a balance between investment-driven profit growth and shareholder returns by meticulously planning resource allocation ahead, as shown from detailed performance projection and dividend guidance.

However, ever since the onset of the COVID-19 pandemic, even Japan, the most durable market felt the wrath of the virus and struggled to abide by its primary goal of shareholder return. Nikkei Inc. on 1 April 2021 announced that the final value of Nikkei 225 Dividend Point Index stood at 415.03 for 2020, representing a dip of 42.62 points on a year-on-year basis, marking its first ever decline in 11 years. Our forecast for the region's most consistent dividend-paying index is largely in line. Based on our latest analysis, the aggregate figure for FY 2021 is expected to drop by 4.4% year on year (y/y) to USD82.0 billion

The deepest decline is expected to come from the top two paying sectors, industrial goods and services (-12.97% y/y) and automobiles and parts (-10.61% y/y), as these two sectors are directly hurt by factors like a production halt. Personal and household goods is another sector with a notable decline, which is unsurprising considering

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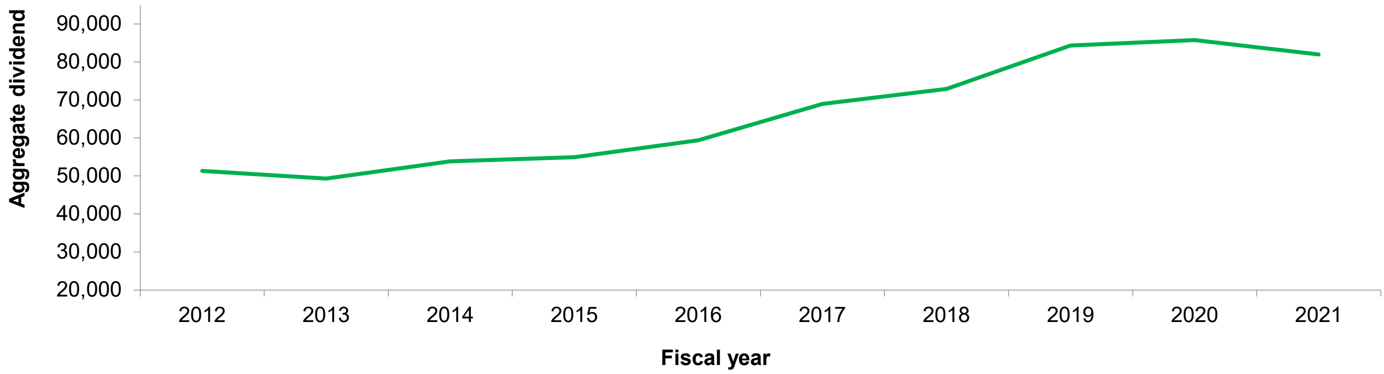
Nikkei 225 aggregate divided in USD million by fiscal year



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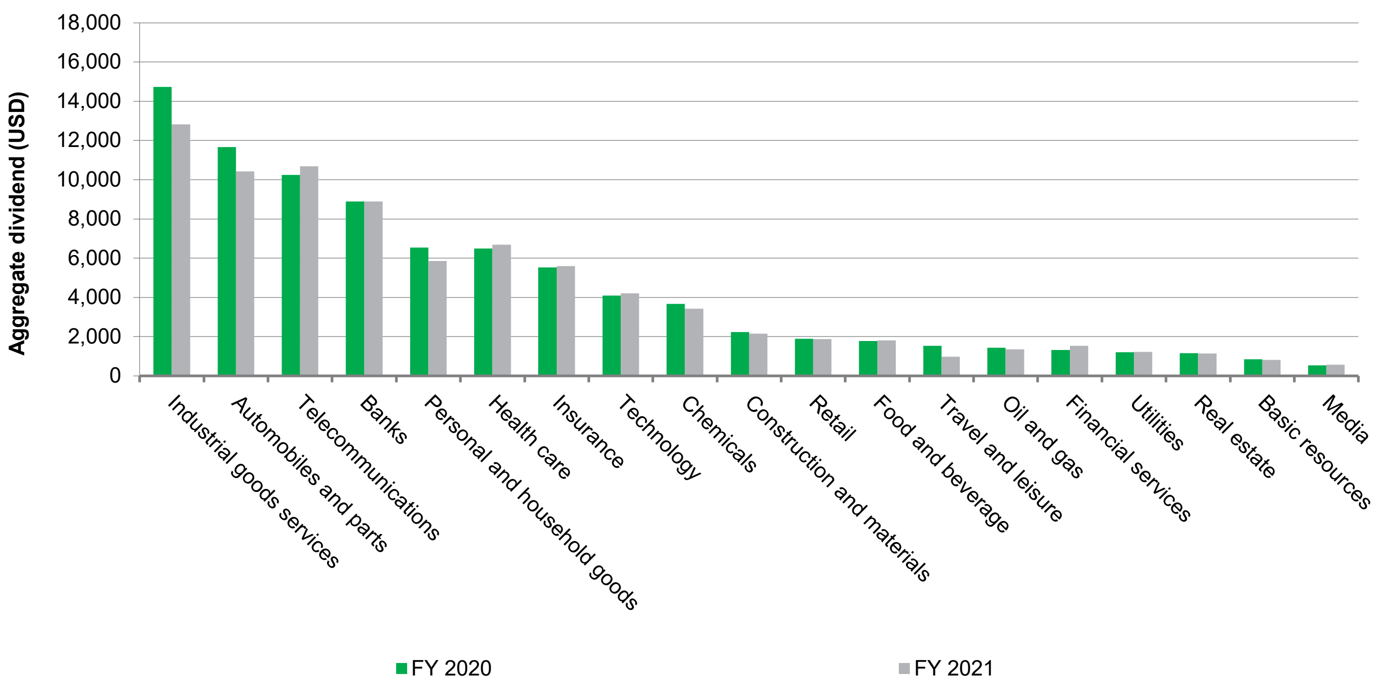
the much-dampened consumer sentiment with the repeated declaration and lifting of the state of emergency. Otherwise, the year-on-year dividend movement on the rest of the industries were rather marginal, with companies mostly keeping either flat dividends or inched down payouts.

On the contrary, the telecommunication sector is forecast to follow an upward trajectory with a marginal year-on-year increase of 4.25%. The sector is expected to benefit from the ongoing surge in high broadband take-up among the households coupled with an increased demand for digital technologies. The defensive nature of the industry will probably help it sail through the crisis. Telecommunication under Nikkei 225 have depicted resiliency as far as rewarding its shareholder is concerned as SoftBank Corp, KDDI Corporation, and NTT have increased their 2021 payouts by 1.18%, 4.35%, and 10.53% (post a 1:2 stock split), respectively, all on a year-on-year basis.

Nikkei 225 aggregate dividend in USD million by sector



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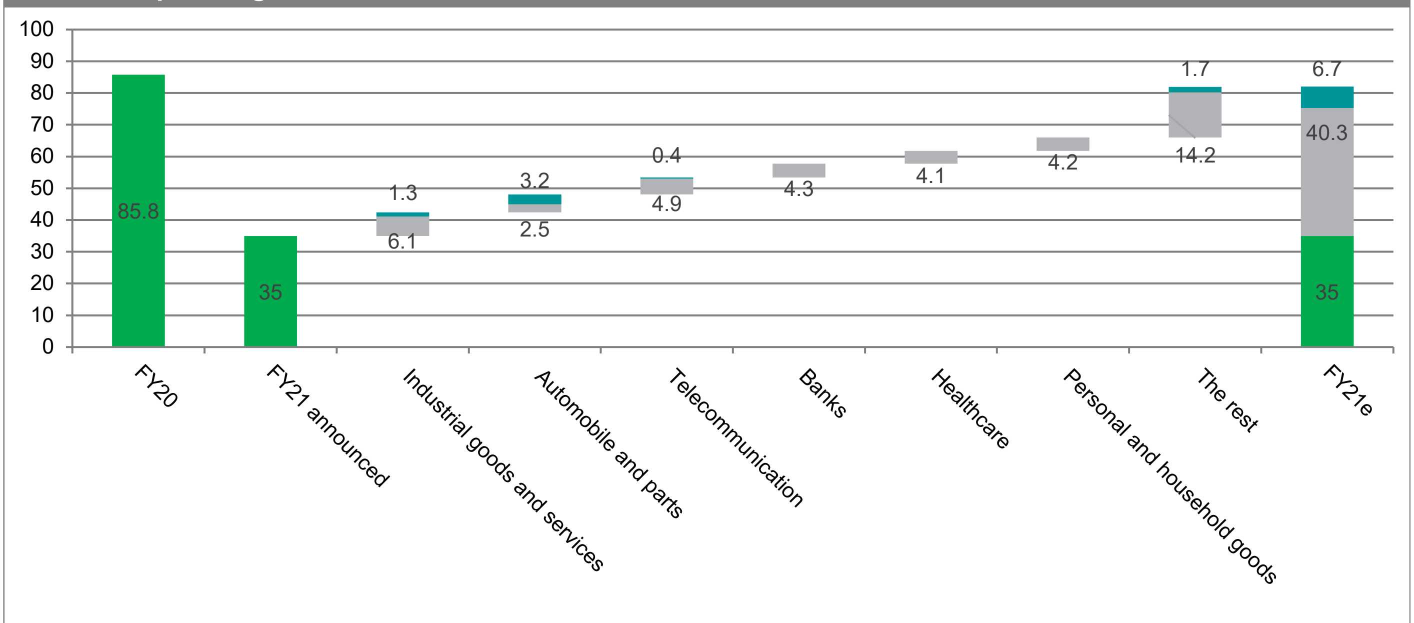
The bifurcation and dividend movement

As aforementioned, Japanese companies have a unique characteristic of guiding their dividend plan in a one-year advance. Out of 225 constituents, we noticed that a vast majority of 203 stocks have guided dividends, whereas 22 companies do not. With USD47.1 billion (57.4% of aggregate dividend in FY 2021) to be reported in the upcoming announcement season in May, companies that have not guided dividends for the current fiscal year will chip in 11% of the total figure.

Among the largest payers that have guided FY 2021 payments are SoftBank Corp, Japan Post Holdings, Mitsubishi UFJ Financial Group, and Mizuho Financial Group. SoftBank Corp has guided to increase its FY 2021 final dividend by 1.18% on a year-on-year basis as it is expected to register a marginal uptick of around 4.09% in its earnings, underpinned by expected profit accumulation in the Enterprise segment and decreased potential losses from PayPay Corporation. Japan Post Holdings suspended its interim dividend in November 2020 on the back of poor performance but has guided to pay JPY50 as a final dividend as the management has reiterated to live up to the promises that have been made in the medium-term management plan of paying dividends of JPY50 per share. Mizuho Financial Group has yet again maintained its aggregate payout and aims to declare JPY37.5 in May 2021. The Japanese lender reported positive net interest income followed by an increase in its commission and trading income for the third quarter of 2020.

On the other end of the spectrum, large dividend payers such as Toyota Motor Corp, Kubota Corp and Suzuki Motor Corp have not guided their upcoming payouts. We are expecting Toyota Motors to pay JPY120 on a per-share basis as the automobile manufacturer raised its FY 2021 earnings forecast owing to strong recovery in consumer sentiment. Kubota Corp registered lower revenue in 2020, majorly dragged down by the domestic market as demand slumped for farm equipment and construction machinery. Our projection is that the company will pay JPY38 per share for FY 2021. Suzuki Motor's upcoming FY 2021 dividend is projected at JPY37 per share, flat from its previous year's level as the company is expecting an earnings fall for the third consecutive year as sales and operating income decline 17.2% and 18.6%, respectively, on a year-on-year basis,

A look at upcoming dividends



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N225 dividend declines expected in May 2021* (JPY)

ISIN	Name	Type	2021 amount	Amount publish state**	Announcement date (E)	2020 gross amount	Year on year %
JP3134800006	IHI Corp	FIN	0	Company	13 May 2021	20	Suspension
JP3868400007	Mazda Mtr Corp	FIN	0	Company	14 May 2021	20	Suspension
JP3358800005	Shimizu Corp	SPEC (2ND)	2	Company	10 May 2021	10	-80%
JP3194000000	Oki Electric Industry	FIN	20	Company	10 May 2021	50	-60%
JP3574200006	Tokyu Corp	FIN	5	Company	13 May 2021	11	-55%
JP3137200006	Isuzu Motors	FIN	10	Company	13 May 2021	19	-47%
JP3778630008	Bandai Namco Holdings	FIN	61	Company	11 May 2021	112	-46%
JP3621000003	Toray Inds	FIN	4.5	Company	13 May 2021	8	-44%
JP3973400009	Ricoh Co	FIN	7.5	Company	07 May 2021	13	-42%
JP3122800000	Amada Holdings	FIN	15	Company	12 May 2021	24	-38%
JP3970300004	Recruit Holdings	FIN	9.5	Company	17 May 2021	15	-37%
JP3827200001	Furukawa Elec	FIN	55	Company	12 May 2021	85	-35%
JP3866800000	Panasonic Corporation	FIN	10	Company	10 May 2021	15	-33%
JP3142500002	Idemitsu Kosan	FIN	60	Company	11 May 2021	80	-25%
JP3711200000	Aozora Bank	Q4	32	Company	13 May 2021	39	-18%
JP3544000007	Teijin	FIN	25	Company	11 May 2021	30	-17%
JP3854600008	Honda Mtr	Q4	26	Company	14 May 2021	28	-7%
JP3918000005	Meiji Holdings	FIN	75	Company	12 May 2021	80	-6%
JP3890350006	Sumitomo Mitsui Finl Gp	FIN	95	Company	14 May 2021	100	-5%

Note: *Based on unannounced FY21 final dividends as of May 03, 2021
**No non-dividend guiding stocks under N225 are expected to cut dividend in the upcoming announcmenet season.

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followed by production suspensions owing to COVID-19. We have flagged the confidence level as medium on the estimated dividend per share of the aforesaid stocks.

Overall, we can see that majority of the decline expected for FY 2021 dividends have been guided by the respective companies in advanced, and this significantly aided in reducing the uncertainty amid the global healthcare crisis, which made Nikkei 225 stand out in relative to other indices

Sector-wise highlights – What is expected from the dominant payers in 2021?

Performance in the top five sectors in Nikkei 225 is expected to be mixed: telecommunication and healthcare will increase slightly in aggregate dividends, whereas industrial goods and services, automobile, and banks are all projected to drop in aggregate dividends, dragging down the aggregate dividends level of Nikkei 225.

Industrial goods and services

The industrial goods and services sector, as a sector with diversified business portfolios, is expected to contribute to approximately 15.64% of this year's aggregate dividend payment, which is approximately 1.4% less than the previous year. The sector's overall aggregate dividend payment declined primarily owing to a dramatic fall in sales revenue through first–second quarter 2021 and falling cash reserves. This was led by postponed or cancelled scheduled projects because of the heavy impacts of the pandemic, as well as slumping energy prices and restrictions that eroded profits. Although the majority of the companies reported dampened demand and revenue in the first half of the year, many reported improvements and raised their guided earnings in third quarter 2021 owing to recovery of orders and service outage schedules, especially in the construction equipment and automotive segments' backlog of orders. In addition, earnings have been revised upwards largely supported by structural cost reduction and owing to growing semiconductor demand, the manufacturing companies guided an increase in profits in the latter half of the year.

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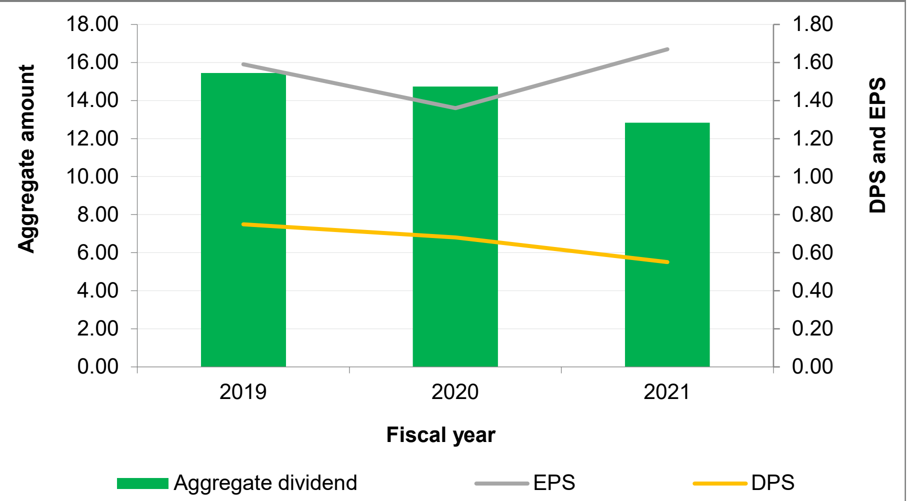
Interestingly, while the aggregate amount from the sector is set to decrease, the top payers, including Mitsui & Co, Mitsubishi Corporation, and Itochu Corporation, were able to at least guide flat or even incremental dividend for FY 2021, attributable to their greater ability to withstand the disruptions and stronger cash reserves. Mitsui & Co's operating cash flow increased, driven by high iron ore prices and fair value through profit or loss (FVTPL) gains, which enabled stable dividend payment this year despite declining earnings. Itochu Corporation and Mitsubishi Corporation also gained cash-inflow from additional investment in shares that enabled yearly progressive dividend trend.

Average aggregate dividend, EPS, and DPS for industrial goods and services



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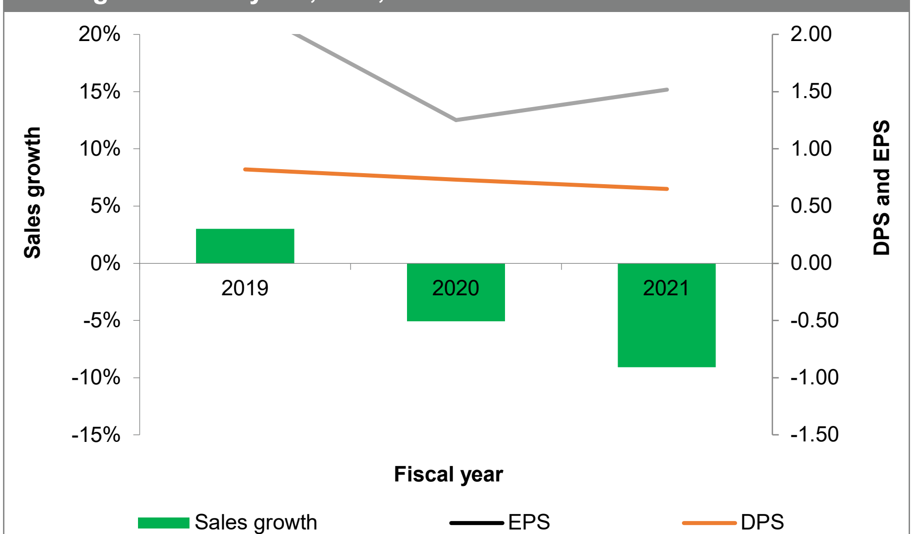
Automobiles and parts

Japan's automobile sector is one of the sectors that presented extreme volatility throughout the pandemic; however, it remains as one of the top contributors to the aggregate dividends, expecting to contribute up to 12.71% of dividend payment for FY 2021. Despite production halts, temporary suspensions, and the global semiconductor shortage factoring in its plunge of sales, a few Japanese automobile companies shined through with their rapid recovery specifically in the US and China from third quarter 2021 and revised their business forecasts upwards. Overall, aggregate dividends decreased by around 18.7%, primarily driven by the sluggish performances of Honda.

The top dividend payers within the automobile and parts sector are Toyota Motor, Honda Motor, and Denso Corporation. Toyota Motor does not provide dividend guidance. However, owing to its nature of sticky dividend patterns and considering its speedy recovery, we are expecting flat aggregate ordinary amounts for FY 2021. Toyota has reported stronger-than-expected recovery in third quarter 2021 and became the top-selling automaker for the first time in five years, mainly supported by recuperation in demand of vehicles as 7.21 million vehicles were sold in the first nine months of 2021. In addition, we note the auto giant added a special dividend of

Average dividend yield, EPS, and DPS for automobiles



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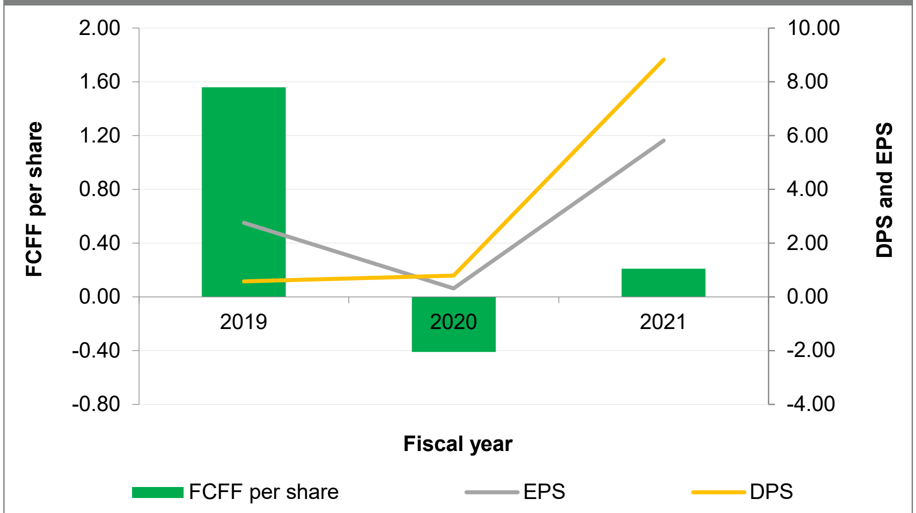
JPY5 per share as a show of appreciation to its shareholders. Denso Corporation has announced a flat aggregate amount after raising its profit forecasts as the auto parts maker reported better-than-expected profit and sales in third quarter 2021. On the contrary, Honda Motor has guided 27% lower dividend distribution this year after facing multiple more severe disruptions, particularly the shortage of chips. However, it remains as a top payer of the sector as it remains committed to the stable shareholder return with its targeted payout ratio of 30%.

Telecommunication

Average FCFF, EPS, and DPS for telecommunication



Note: FCFF = free cash flow to firm
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The telecommunication sector represents 13.03% of the aggregate dividends for FY 2021. The pandemic had a blended impact on the telecommunication sector in 2020 as it was a mix of boon and bane for the top three dividend payers. The companies in general experienced deteriorated business sentiment from the outbreak. However, the demand for adopting digital technologies to back the growing remote workforce had a positive impact on the sector. The pandemic instilled a significant need to transition to a new normal that makes use of digital technologies such as contactless payments, working remotely, and online retail shopping. Additionally, the crisis injected further demand from businesses for smartphones and telecommuting, owing to which companies like Softbank Group benefitted from supplying varied solutions supporting telecommuting, offering network solutions and cloud-based applications to sustain the expanded needs. The sector also benefitted from the increased internet usage and high data traffic volumes during weekdays as people resorted to working from home. However, the negative impact was also witnessed as the overall demand for handsets declined but cancelled out for zero impact owing to high voice average revenue per user (ARPU).

On the dividends front, SoftBank Corp, KDDI Corp, and Nippon Telegraph & Telephone Corp have guided to increase their FY 2021 payments on the back of marginally improved company-guided earnings by an average growth rate of around 1.85% on a year-on-year basis. Softbank Corp has guided to pay an upcoming final dividend of JPY43 per share and has registered a 5.2% increase in its revenue for third quarter FY 2021 on a year-on-year basis. KDDI Corp is expected to pay a final dividend of JPY60 per share and reported a 3.2% y/y increase in its operating income. The group registered positive synergies from the merger of UQ mobile and mobile virtual network operator (MVNO) which has contributed JPY70.2 billion as revenue. Lastly, Nippon Telegraph has guided to pay an incremental final dividend of JPY55 per share and has registered a 3.6% y/y growth in its operating income for third quarter FY 2021. SoftBank Group Corp has announced its FY 2021 final dividend payment and declared to pay JPY22 per share, thereby maintaining its pattern of paying out flat/stable dividends.

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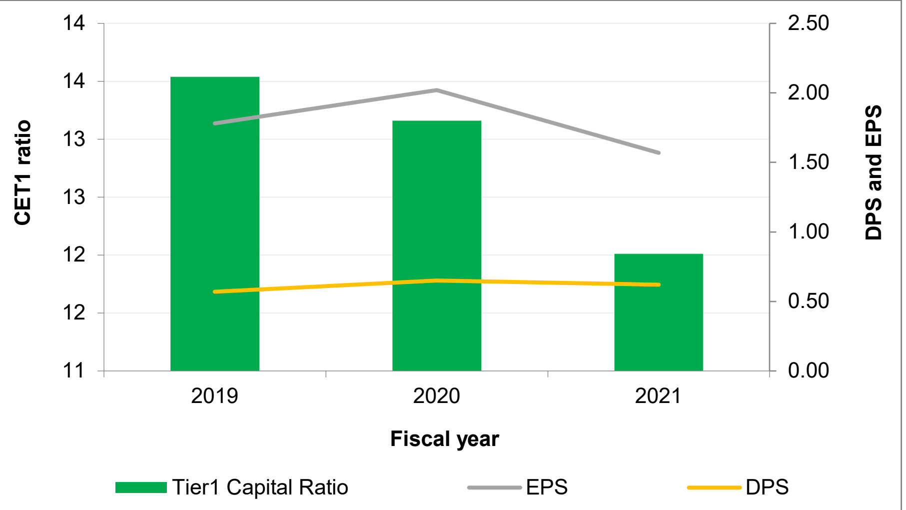
The sector outlook resonates optimism underpinned by the insertion of artificial intelligence (AI), internet of things (IoT), and big data utilization into all aspects of lives and businesses. The commercialisation of 5G services is expected to further accelerate the change because of its merits of low latency among several others. Furthermore, with the ongoing surge in the pandemic, the need for digitalization has progressed almost imperatively.

Banks

Average CET1, EPS, and DPS for banks



Note: CET1 = Common Equity Tier 1
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The banking sector represents 10.77% of the aggregate dividends for FY 2021. The banking sector showed resilience during the pandemic and withstood stress even with rising provisions and low interest rates. The Japanese government expanded the volume of concessional loan facilities (interest free without collateral) primarily for micro-, small-, and medium-sized businesses affected by the pandemic through the Japan Finance Corporation and other institutions. The Financial Services Agency (FSA) has also asked banks to defer principal payments on mortgage loans as needed, and refrain from charging fees for modifying mortgage loan conditions. Capital adequacy is necessary for banks to make forward-looking investments and provide financial support for businesses. The government also approved an amendment of the act on special measures, an act that aims to strengthen regional banks financial intermediary function through facilitating government capital injection to them. In addition, as a precautionary measure, the Japanese government also approved the expansion of the limit of government guarantees for capital injections into regional banks from JPY12 trillion to JPY15 trillion.

However, amid low interest rates coupled with an increased pressure to raise provisions, about 80% of the Japanese banks expect to keep their dividends unchanged for the year through March 2021 from the previous year. Top payers, which include Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group, and Mizuho Financial Group, have all guided to keep their payouts flat. Mitsubishi UFJ Financial Group has guided a stable annual payout of JPY25 per share and has reported a 22.7% increase in ordinary profit year on year for third quarter FY 2021. Sumitomo Mitsui, on the other hand, reported a fall in ordinary profits by 26.7% y/y but has guided to pay a flat aggregate dividend of JPY190 per share in FY 2021. Lastly, Mizuho Financial, which recently underwent a reverse stock split of 10:1, guided a payout of JPY37.5 per share, maintaining its trend of paying out flat dividends since FY 2016. The group posted ordinary income on a consolidated basis of JPY68.7 billion, which was a record high. By maintaining the dividends, regional banks intend to show their financial capacity and boost investor confidence amid such uncertain times. The sector is expected to regularly stress test itself and maintain provision levels amid the uncertainty with the ongoing pandemic. With the sector undergoing a digital transformation, banks are looking forward to more transactions and businesses in FY 2021. Banking groups have increased business in retail, trust, securities, and global investment banking division in recent years and are also looking forward to doing the same in upcoming years.

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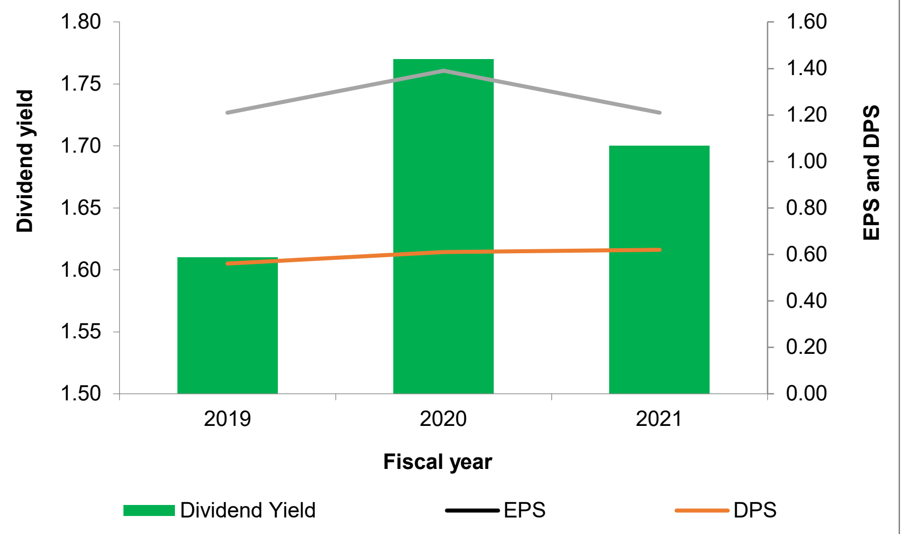
Healthcare

Average dividend yield, EPS, and DPS for healthcare



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The healthcare sector represents 8.15% of the aggregate dividends for FY 2021. The financial impact of COVID-19 for the healthcare sector gradually became evident over the state of emergency in Japan through first quarter 2021 as the government focused on securing treatments for the pandemic. As a result, surgeries were delayed and medical services were reduced, restricting resources from further use, which decreased revenue from number of patients decline and increased costs for the pandemic treatments. However, the companies' shift in focus on COVID-19 with government support, companies like Takeda Pharmaceutical and Chugai Pharmaceutical guided profit boost as new studies and treatments arose.

As mentioned previously, the healthcare sector's dividend payment distribution this year is expected to contribute 8.15%, on par with that of the previous year. The top three payers, which include Takeda Pharmaceutical, Chugai Pharmaceutical, and Astellas Pharma, have guided flat or dividend incline this year on the back of boosted guided earnings underpinned by positive cash reserves. Takeda Pharmaceutical guided a surge in earnings after reporting its import of COVID-19 vaccine doses, citing a one-time gain after reporting plunge in earnings over the past two years. The company has guided flat dividends this year following its consistent pay of JPY180 per share despite earnings volatility from FY 2009. Chugai Pharmaceutical also guided earnings growth after its report on its effective drugs in treating COVID-19 and guided dividends per share (DPS) increase. Astellas Pharma on the other hand is facing falling earnings. However, given its historical trend of consistently increasing its dividend payment by 5–7% since FY 2012, the company has announced a dividend increment of 5% on a year-on-year basis.

Beyond COVID-19

Japanese companies have long been slagged off for hoarding cash, which in turn pushed down their returns on equity, but the virus strain turned the tide in their favour as their positive cash position coupled with improved corporate governance – which was in turn driven by Japan's stewardship code – made them less prone to dividend cuts. The code helped lay a framework promoting sustainable growth of companies and acknowledges shareholders' interest as a key to rejuvenate the Japanese economy.

To sum up, the government undertook various efforts to suppress the effects of COVID-19 and minimise the socio-economic damage. The underlying aim was to expeditiously apply necessary and aggregable economic and fiscal policies without a pause. As per the most recent press release published by the Bank of Japan, the economy is likely to follow an improving trend, but the pace of restoration could be impacted from the current renaissance of the virus. The country's GDP is projected to grow by 3.3–4.0% in 2021 and by 1.5–2.0% in 2022.

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With FY 2021 final dividends pending to be announced in May, we are of the view that the dividend dip of FY 2021 is not at a concerning level and is projected to be on its recovery path in FY 2022.

Top 10 dividend payers for FY 2021 (JPY)

ISIN	Company name	FY 2021 final DPS	Amount status flag	Ex-date	Announcement date (E)
JP3633400001	Toyota Motor Corporation	120	Estimate	30-Mar-21	12-May-21
JP3732000009	Softbank Corp	43	Company	30-Mar-21	11-May-21
JP3735400008	Nippon Telegraph & Telephone Corp	55	Company	30-Mar-21	12-May-21
JP3902900004	Mitsubishi UFJ Financial Group	12.5	Company	30-Mar-21	17-May-21
JP3463000004	Takeda Pharmaceutical	90	Company	30-Mar-21	11-May-21
JP3496400007	KDDI Corporation	60	Company	30-Mar-21	14-May-21
JP3890350006	Sumitomo Mitsui Financial Group	95	Company	30-Mar-21	14-May-21
JP3898400001	Mitsubishi Corporation	67	Company	30-Mar-21	07-May-21
JP3752900005	Japan Post Holdings Company	50	Company	30-Mar-21	14-May-21
JP3885780001	MIZUHO Financial Group Inc	37.5	Company	30-Mar-21	14-May-21

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