Australia dividends

Through the macroeconomy lens

21 April 2022

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Key implications

- ASX200 companies are expected to declare US$65.2 billion in fiscal year (FY) 2022, staying above the pre-pandemic level of US$56.6 billion in FY 2019.
- The prolonged price boom for commodities and fewer pandemic-related restrictions in Australia are the major factors in sustaining the dividend level.
- Mining, energy, agricultural business, and investment banks are among the biggest winners from the supply chain disruption.

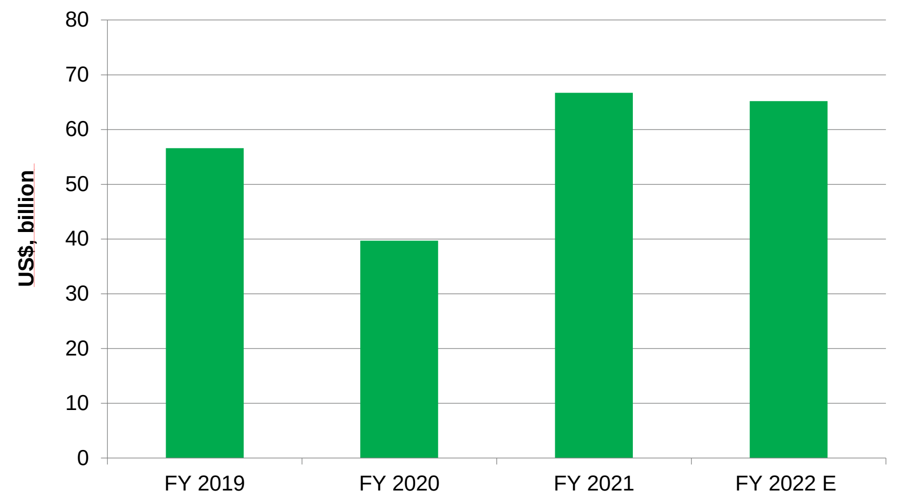
The world entered 2022 with a bumpy start. While the fast-evolving virus variants continue to trigger waves of infections around the globe, the world's economy is seeing reduced steam, as many countries battle the inflation pressingly by tightening monetary policy. On the geopolitical front, the conflict between the two important global commodities and energy suppliers—Russia and Ukraine—drags on, triggering more disruptions on an already troubled supply chain. All these events, as a consequence, create uncertainty for economy recovery path ahead as well as fear for stagflation.

Although Australia might be remote to the center of the geopolitical events, the country is still expected to feel the full impacts through the interconnected global trading system as a key exporter of energy and agricultural commodities in Asia Pacific. S&P Global recently upgraded the 2022 GDP outlook for Australia from 2.8% previously to 3.6%, primarily owing to the near-term strong demand for Australia's exports of energy products, cereals, and other agricultural goods. At the same time, the growth is expected to be tempered by the inflationary pressure and risk of swifter monetary policy tightening that undercuts the consumer spending. Against this backdrop, this report analyses how the economic and geopolitical events and their impacts will trickle down to corporates and in turn, their dividends for 2022.

Fewer pandemic-related restrictions

Following the steps of the majority of developed economies, the Australia government has decided to embrace a "live with the pandemic" strategy after stringent lockdowns in the second half of 2021, when the Delta variant swept the country. During the last two months of 2021, the government lifted lockdowns and announced the reopening of its international border for the first time since the outbreak of the virus in early 2020. This is attributable to the high fully vaccinated rate and booster administered rate as compared with other countries in Asia Pacific. As per the data from government, more than 95% of people over 16 are fully vaccinated and more than half of the eligible population have received booster vaccinations. Although Australia is still recording a few thousands of daily Omicron BA.2 cases, the fewer pandemic-related restrictions businesses are encountering this year are likely to benefit major sectors. At an aggregate level, we expect the dividends for FY 2022 to remain above the pre-pandemic level in FY 2019 despite the 2% drop from FY 2021 owing to the high base contributed by the commodity boom and rebound of banks' dividends.

ASX200 aggregate dividend

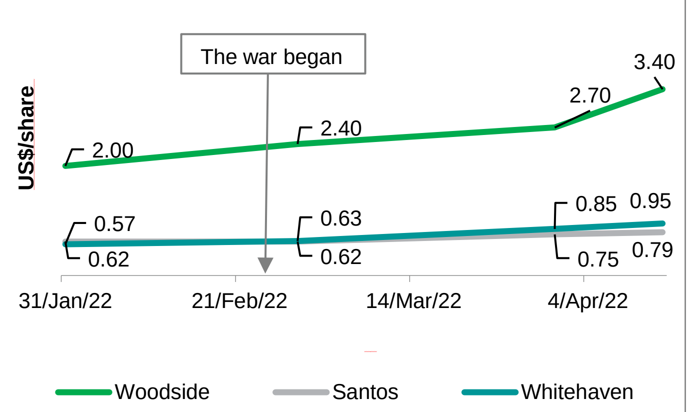


Note: E=Estimate
Source: S&P Global Market Intelligence

The geopolitical conflict—Mining, energy, agricultural and even investment bank sector set to benefit

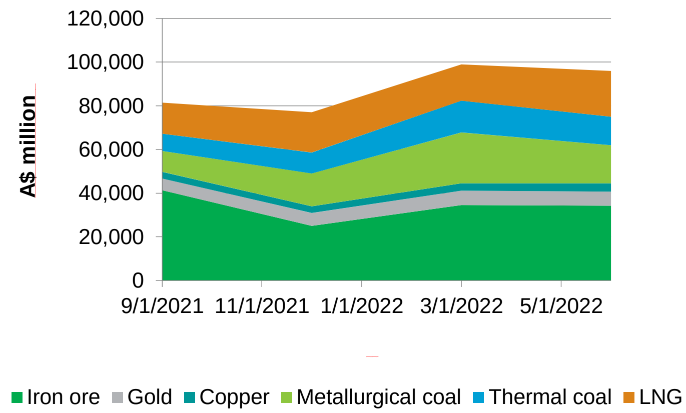
While the geopolitical tension is inflicting great damages to the supply of commodities (soft and hard) and energy and pushing up the prices subsequently, Australia as a rival supplier is expected to benefit from the shortages in the favorable price environment. As per the forecast released in Resources and Energy Quarterly by the Australian government, the resource and energy export earnings are expected to hit a record of $425 billion in 2021–22, primarily contributed by surging prices of coal and LNG, which are greatly demanded by major economies in Asia Pacific such China, Japan, and South Korea. The trend is in favor of players such as **Woodside Petroleum (AU000000WPL2)**, **Santos (AU000000STO6)**, and **Whitehaven Coal (AU000000WHC8)**, and is likely to translate into strong payouts for FY2022. The companies released strong results and payouts in the last earning season in February. We expect the momentum to continue in the next earnings season in August this year. On this note, we observe the market has been upgrading the earnings consensus forecast for the key player in the energy sector since the start of the. Our dividends forecasts are in line with this trend.

EPS consensus upgrades



Note: Data as of 13 April 2022
Source: Factset

Australia key exports values in past six months



Source: Australia Department of Industry, Science, Energy and Resource

Other than miners and energy provider, agricultural players are set to ride on the tailwind as well. For example, **GrainCorp (AU000000GNC9)**, a company that stores, processes, and supplies grain and related commodities, issued an earning guidance upgrade for FY 2022 recently, citing the strong global demand for Australia grain and oilseeds amid the shortages as the primary reason. We are expecting bumper dividends from the company for FY 2022. The industry tailwind has driven strong demand for upstream player such as **Incitec Pivot (AU000000IPL1)** too. The company is involved in manufacturing and selling chemicals and fertilizers globally. Street analysts are projecting its FY 2022 earnings to increase threefold owing to the elevated prices brought about by the shortages.

Investment banking is reaping the volatility of the commodity and energy market too. The energy crisis is expected to supersize **Macquarie's (AU000000MQG1)** profit once again for FY2022. The investment bank owns one of the biggest energy trading businesses in the world. When the storm knocked out the power of millions of people in the United States in 2021, Macquarie's capabilities to maintain the critical physical supply of energy and commodities in the market including natural gas, has enabled it to lift its profit to a record level. Currently the market is expecting Macquarie's earnings for FY 2022 to surpass its record profit in FY 2021.

Inflation here to stay in short term; interest rate hike to benefit banks

Like any other developed economy, Australia is seeing the worst bout of inflation in years. A tight labor market owing to the closure of international border, coupled by the low interest rate and government spending stimulus contribute to the pressure. Australia is also one of the few countries with interest unchanged so far. With the inflation rate running at 3.5%, the highest since 2009, and the soaring oil prices, it is tipped that Reserve Bank of Australia will bring forward the decision to increase the interest rate as soon as June this year. Inflationary pressure is here to stay at least for 2022. Therefore, labor-intensive industries, such as retailing, are expected to continue to face the cost pressures in the short-term. During the interim earnings season in February, players such as **Woolworths (AU000000WOW2)** and **Wesfarmers (AU000000WES1)** already saw pandemic-related costs and supply chain-related costs bite into the bottom-lines. The effect was particularly potent as the stock hoarding frenzy during the pandemic already waned. We therefore expect the payouts to remain largely muted in short term.

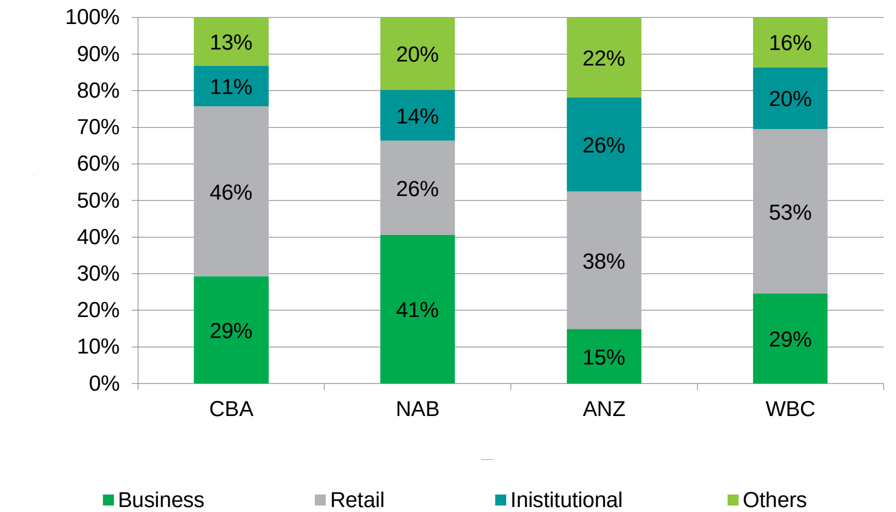
Will banks enter a goldilocks period in the wake of interest rate increase? The rising interest rate will undoubtedly benefit the banks that have been facing margin compression in the low interest rate environment. However, although the Big Four is traditionally seen as peas in the pod in the past, the pandemic seemed to be a differentiator. This is owing to their heterogeneous capabilities to control the costs and different assets mix. Operating in the challenging environment over the past two years, banks' loans grew at different pace, with **Commonwealth Banks (CBA: AU000000CBA7)** and National Australia Bank **(NAB:AU000000NAB4)** taking the lead. The two banks have been facing less interest margin pressure too. CBA and NAB are expected to reap the growth potential from the established position in the more lucrative business banking portfolio. We therefore expect more growth prospects for dividends from these two bank and projecting CBA and NAB to grow FY 2022 annual dividend by around 10%, compared with 3% for **Westpac (WBC)** and 1.4% for **Australia & New Zealand Banking Group(ANZ).**

Q1 FY 2022 NIM movement	
ANZ	-0.08%
NAB	-0.05%
WBC	-0.08%
CBA	-

Note: CBA to file Q1 FY 2022 update on 12 May 2022

Source: S&P Global Market Intelligence

Profit% contributed by divisions



Source: Company reports © 2022 S&P Global Market Intelligence

Earning Season in May—What to expect

In the upcoming earnings season in May, a group of companies (with financial year end on 31 March) from diverse sectors will announce financial results and dividends. The companies are expected to provide the previews for the FY 2022 final earning season in August. . Overall, we expect the big three banks to inch up dividends amid the steady recovery, with more upside potentials from National Australia Bank. Macquarie and James Hardie Industries are expected to pay bumper dividends, as both companies are riding on the tailwinds in the commodity and construction industry respectively. However, we wish to highlight the risks from **James Hardie (AU000000JHX1),** as the company has skipped two final dividends in the past two financial years. We do not rule out the possibility of new pattern in terms of amount and ex-date.

The following table highlights our forecasts for the key companies, sorted by the level of dividend points (DIPs) they are expected to generate. For more data and analysis, please visit the Eclipse platform.

Forecasts for upcoming dividends

Stock name	ISIN	Type	Amount E	Amount Confidence	Ex-date	Ex confidence
National Australia Bank	AU000000NAB4	INT	A$0.7	Medium	11 May 2022	High
Westpac Banking Group	AU000000WBC1	INT	A$0.61	Medium	19 May 2022	High
Australia New Zealand Banking	AU000000ANZ3	INT	A$0.72	Medium	9 May 2022	High
Macquarie Group	AU000000MQG1	FIN	A$3.5	Medium	16 May 2022	High
James Hardie Industries	AU000000JHX1	FIN	US$0.45	Low	2 June 2022	Low
Incitec Pivot	AU000000IPL1	INT	A$0.12	Medium	31 May 2022	Medium
Aristocrat Leisure	AU000000ALL7	INT	A$0.28	Medium	30 May 2022	Medium
Amcor	AU000000AMC4	Q3	US$0.12	Medium	25 May 2022	Low
Metcash	AU000000MTS0	FIN	A$0.1	Medium	30 June 2022	Medium
Als	AU000000ALQ6	FIN	A$0.16	Medium	7 June 2022	Medium
Graincorp	AU000000GNC9	INT	A$0.23	Low	7 July 2022	Low

Source: S&P Global Market Intelligence © 2022 S&P Global Market Intelligence

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