

# Dividend forecasting

27 October 2021

## MSCI Taiwan Index

### A case study on the COVID-19-induced ex-dividend date disruption

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#### Key implications

- Taiwan's COVID-19-induced annual general meeting (AGM) shift this year has impacted nearly all (except one case) the AGMs, but not all the ex-dividend dates (XDs, around 66%). The dividend approval policy (AGM or board approval) adopted by each company played a decisive part in XD shift, as a new corporate law updated in 2018 allowed companies paying cash dividends only to approve the distribution without an AGM.
- There was therefore a clearly defined legal boundary that presented an option for companies paying cash dividends only (87% of companies) to shield XD risk during this year's crisis, but only 34% of companies amended the change in the articles of incorporation ahead of time.
- The XD pattern of companies with board approval policy were therefore not impacted by the crisis and we forecast their FY 2021 XDs with a high confidence rank, with just a few exceptions.
- Companies with an AGM approval policy, however, managed the crisis through varying strategies under the same goal of giving as much clarity on XDs as possible. Companies that maintained a historical AGM-XD gap or fixed XDs close to the same date with last year are believed to follow the pattern before the crisis for FY 2021's XDs with a medium confidence rank. Companies that flexibly fixed their XDs within one to two weeks after the new AGM (earlier than the AGM-XD gap) this year are estimated to follow the FY 2019's XDs pattern as well, but with a low confidence rank.

### Taiwan's AGM shift—A COVID-19-induced crisis this year

The year 2021 has been an unprecedentedly volatile year for all the publicly listed companies in Taiwan. With the sudden surge of daily COVID-19 cases in early May, the Financial Supervisory Commission (FSC) requested all companies to refrain from holding AGMs between 24 May and 30 June, the peak AGM/earnings season as per historical trend. The announcement spread a wave of chaos as AGMs of nearly all companies (except one case that set the AGM luckily before the crisis) listed in the MSCI Taiwan Index needed to be postponed from the usual May–June period to July or even August. This inevitably also added uncertainty to XDs schedules of their FY 2020 final dividends as XDs are decided during AGM and often released to the market one or two days following the AGM. Wild speculations went on as companies struggle to formulate the response.

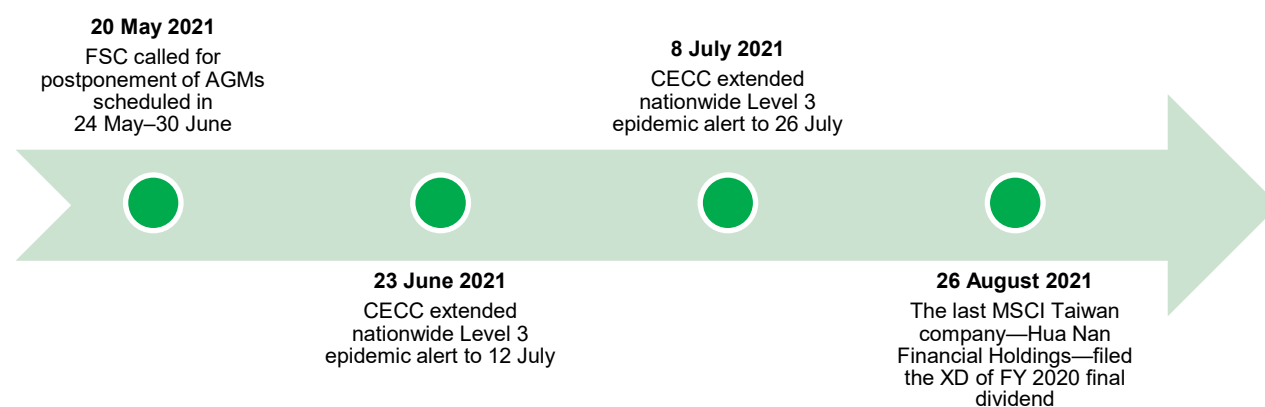
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## Taiwan 2021 AGM disruption timeline



Note: FSC = Financial Supervisory Commission of Taiwan, CECC = Central Epidemic Command Center of Taiwan.  
Source: IHS Markit

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In line with the authority's request, no AGMs were held in June 2021 in contrast to 81 AGMs last year. The AGMs have been pushed to July and August as shown in the table below. Yet, the changes in XDs are somewhat milder than that of AGMs. About two-thirds of companies (i.e., 34 companies in 2021 versus 54 companies in 2020) managed to keep XDs of the final dividends in July while XDs of the remaining one-third had been rolled over to August. At the same time, the number of XDs in August and September 2021 nearly doubled.

This also means that the aggregate dividends of US\$13.1 billion peaked in August and September rather than the usual busy month of July. The unexpected aggregate dividends out of the range of September expiry added significant risks to the pricing of dividend derivatives linked to MSCI Taiwan Index, which was among the top 10 indexes for trading dividend products as captured in the latest survey of Eurex MSCI derivatives.

Table 1

### AGM-XD relationship

Timeline	Event
Day 0	AGM
Day +1 or 2 business days	Release of XD
Day +12 or more business days	XD (XD to be announced at least before 11 business days by law)

Source: IHS Markit

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Table 2

### AGM distribution of year-end dividend, by count of annual lines

	April	May	June	July	August	September
2020	0	10	81	0	0	0
2021	0	1	0	64	26	0

Source: IHS Markit

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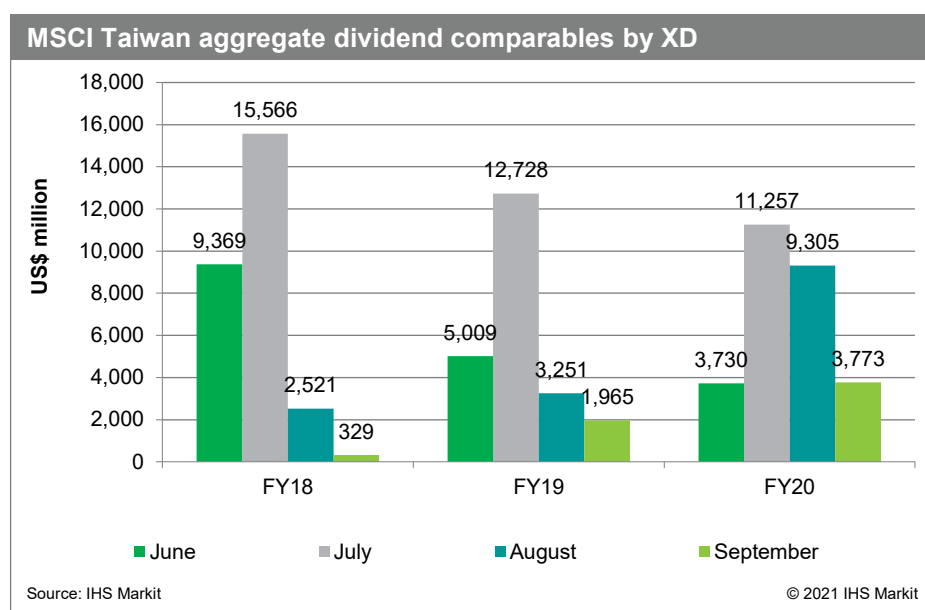
Table 3

### XD distribution of year-end dividend, by count of annual lines

	April	May	June	July	August	September
2020	0	0	12	54	21	4
2021	2	0	8	34	39	8

Source: IHS Markit

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## New corporate law—An underutilized shield against XD risk

MSCI Taiwan companies responded to the AGM shift in various ways to minimize the impact on FY 2020 final dividend XDs in their own ways and the respective dividend approval policy of the companies played a decisive part in the subsequent XD movements. Tracing back to the year 2018 when the new corporate law was released in Taiwan, we notice one major change was updated regarding the general dividend approval policy—that is to allow companies to pay cash dividends based on board approval, instead of AGM approval unless stock dividends are paid alongside.

Table 4

Dividend approval policy before/after the change in corporate law		
Shareholder return type	Before change in corporate law	After change in corporate law
Cash dividends only	AGM approval	Board approval
Stock dividends only		AGM approval
Both cash and stock dividends		AGM approval as typically XD of both is set in AGM as stock dividends still requires approval

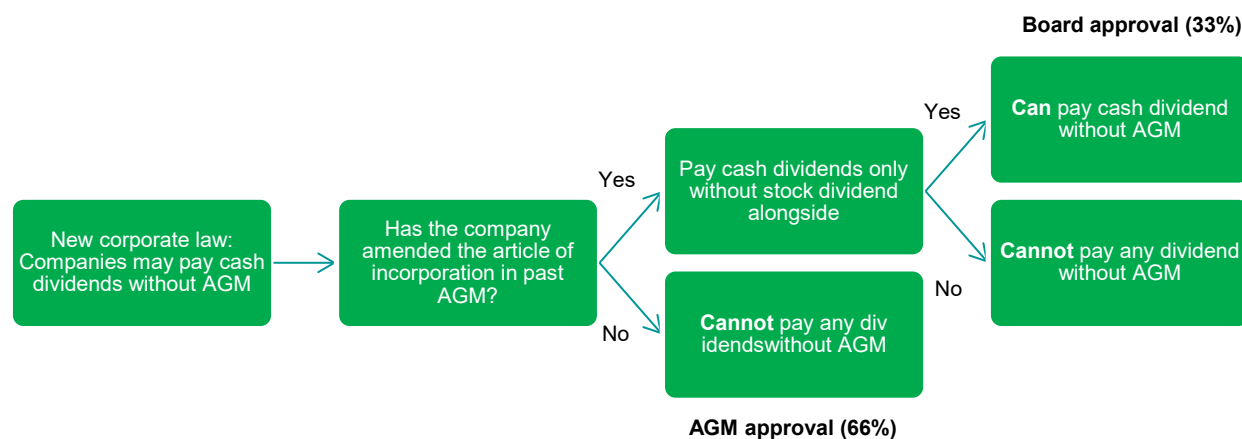
Source: IHS Markit

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Therefore, there was a clearly defined legal boundary that presented an option for companies paying cash dividend only (87% of companies) to essentially shield XD risk during this year's crisis. However, this turned out to be underutilized as a vast majority of MSCI Taiwan constituent have not amended their article of incorporation in their 2018 or 2019 AGMs to exercise this option. As we confirmed back in May, only 34% of companies listed in the MSCI Taiwan Index have made the corresponding changes in their article of incorporation. Companies such as Taiwan Semiconductor Manufacturing, Hon Hai Precision, and Compal Electronics are among the minority that successfully protected their XD through this option. To keep up with the historical XD schedule, over 60% of the AGM-XD gaps shortened more than two weeks this year, including big names like Taiwan Cement, Quanta Computer, China Life Insurance. This explains why despite no AGM being held in June 2020 (compared with 81 in June 2019), 34 companies had their XD within July.

Surprisingly even after the chaos the companies have just been through this year, only one company amended its article of incorporation during its FY 2020 AGM to make cash dividend subject to board approval only in the

## Dividend approval policy amended by MSCI Taiwan companies



Source: IHS Markit

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future. It clearly indicates that Taiwan companies are conservative about incorporating changes and consider this year's AGM (and thereby XD) disruption as a one-off incident.

## One goal, different paths taken

Other than a handful of companies that were unfazed by the abrupt AGM postponement announcement and fixed XDs safely as per the respective historical schedules through board approval as discussed earlier, the rest—those pay both cash and stock dividends and those cash dividend paying companies yet to adopt the new corporate law—were left to devise ways to provide as much clarity on the schedule as possible.

Table 5

### MSCI Taiwan companies' responses to AGM postponement

FY 2020 final dividend subject to	XDs were affected or not	Proportion	Company's responses
Board approval policy	No	34%	XD schedule undisrupted
AGM approval policy	Yes	66%	<b>Type 1:</b> Maintained historical AGM-XD gap <b>Type 2:</b> Ignored/deviated from historical AGM-XD gap, fixed XDs close to the same date with last year <b>Type 3:</b> Neither follow historical AGM-XD gap, nor the historical XD schedules, fixed XDs within 2 weeks behind the new AGM date

Source: IHS Markit

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Under such goal, we saw varying strategies taken by these companies.

- 18 companies (e.g., Chang Hwa Commercial Bank and First Financial Holding) maintained their historical AGM-XD gap based on the delayed AGM date.

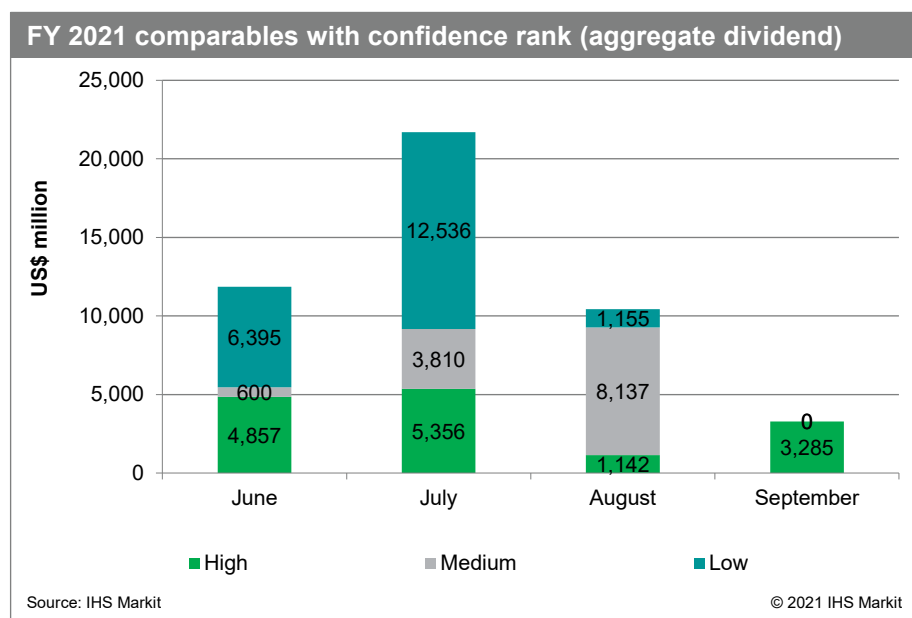
- 9 companies (e.g., Evergreen Marine and Taiwan Cooperative Financial Holdings) deviated from the historical AGM-XD gap but fixed their XDs around the same date with last year.
- 30 companies (e.g., China Life Insurance, China Steel, and Chunghwa Telecom) hastened to fix their XDs as soon as possible after AGM, without taking queue from historical AGM-XD gap or the historical trend for XD. This was largely attributable to company's willingness to distribute dividends as soon as possible but also to the early decision on XDs, as e-voting results of resolution were known before the AGMs are convened.

To relieve the impact of COVID-19 restrictions, FSC encouraged shareholders to adopt e-voting as much as possible this year and allowed companies to receive the e-voting results before the original AGM date (not the postponed AGM date). This flexibility allowed companies to determine in advance if the dividend payouts would be approved by shareholders during the actual AGM. This in turn allowed management to prepare for the settlement of XDs at least one month in advance. This allowed companies to offset the original COVID-19-induced AGM delays thereby enabling them to roughly manage their dividend schedules. 30 companies therefore could set their new XDs within one to two weeks after the new AGM date, much earlier than the historical AGM-XD gap.

Surprisingly, for those maintained AGM-XD gap or fixed XDs around the same date with last year were mostly banks while those flexibly altered their pattern were largely tech firms. A possible reason behind this disparity may link to the shareholder type as they hold a different level of tolerance for the uncertainty of when to receive their expected dividends.

## Current forecast for the year of 2022

We forecast the companies will largely revert to pre-COVID-19 XD pattern, assuming the COVID-19 situation comes under control. From the government side, the Central Epidemic Command Center (CECC) has lowered the national epidemic alert to Level 2 and even re-opened the international boarder. From the corporate side, only PHISON Electronics has adopted the new corporate law as discussed previously, which implies the underlying belief that such an event is going to be one-off. While our current FY 2021 XD forecasts are largely in line with that of FY 2019, we output varying confidence ranks based on company's up-to-date dividend approval policy and latest XD pattern.



We output high confidence ranks for FY 2021's XD forecast of companies currently with board approval dividend policy except for three companies that have had a volatile pattern in the past. This reflects their capacity to avoid the crisis-induced key dates shift. Even if the pandemic gets out of control again, they are expected to unfazed as observed this year.

We mark medium confidence ranks for companies currently with AGM approval policy and chose to keep historical AGM-XD gap (type 1 response) or close to the past XD schedules (type 2 response) this year as they have demonstrated stronger willingness to make XDs as predictable as possible by referring to their payout pattern in one way or another.

However, for the companies that showed type 3 response earlier this year—hold AGM approval policy and completely deviated from past payout pattern in terms of both AGM-XD gaps and actual dates—we flag low confidence ranks for their FY 2021 final dividends as we do not rule out the possibility of emergence of new XD pattern. During this eventful year, these companies demonstrated their flexibility to maintain shareholder's expectation. We therefore see a possibility for them to divergent from their usual AGM-XD pattern after the crisis and provide a list of risky dividends with the low confidence level in the appendix.

Table 6

FY 2021 XD confidence level			
Dividend policy*	Proportion	Company's responses	FY 2021 XD confidence level
Board approval policy	34%	No need to respond as they shield the XD risks	High
AGM approval policy	66%	<b>Type 1:</b> Companies maintained historical AGM-XD gap <b>Type 2:</b> Companies fixed XDs around the same date with last year, but deviated from historical AGM-XD gap <b>Type 3:</b> Companies set XDs within two weeks of the delayed AGM date, neither followed historical AGM-XD gap nor fixed XDs around the same date from last year	Medium Low

Source: IHS Markit

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Separately, we highlight the following three companies with medium confidence rank that made significant changes regarding their shareholder return policies. Compal Electronics has just changed the distribution approval policy from AGM to board before the crisis. Therefore, this year is the very first year of adopting new distribution pattern with the board approval policy. PHISON Electronics and Lite on Tech are due to the distribution frequency change. In response to the expectations and trends of the capital market, as well as to give back to shareholders, they have changed their distribution pattern to semi-annually and quarterly.

Table 7

Dividend XD confirmed changes		
Stock name	Dividend announcement	Dividend payment time*
PHISON Electronics	6 August 2021 BOD passed dividend for H1 2021 earnings distribution Announce after Q4 2021 earnings result release (usually around March 2022) for H2 2021 earnings distribution	Q1 2022 Q3 2022
Lite on Tech	Announce in late April 2021 for Q1 2021 earnings distribution; Announce in late July 2021 for Q2 2021; Announce in late October 2021 for Q3 2021; announce in late February 2022 for Q4 2021	Q1–Q3 usually approximately 6 weeks after announcement date; Q4 usually approximately 5 months after announcement date
Compal Electronics	Announce in late Mar 2021 for FY 2020's earnings distribution	Usually approximately 1 month after announcement date

Note: \*Actual dividend payment time will still be based on company's official announcement.

Source: IHS Markit

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## Appendix

### MSCI Taiwan Index FY 2021's risky XD with low confidence rank (top 10)

Stock name	ISIN	Type	FY 2021 AGM	FY 2021 XD	XD confidence
Media Tek Inc	TW0002454006	FIN	10 June 2022	6 July 2022	Low
Media Tek Inc	TW0002454006	CR	10 June 2022	6 July 2022	Low
United Microelectronics	TW0002303005	FIN	8 June 2022	14 July 2022	Low
Fubon Financial Holding	TW0002881000	FIN	15 June 2022	30 June 2022	Low
Delta Electronic	TW0002308004	FIN	10 June 2022	1 July 2022	Low
Nan Ya Plastics	TW0001303006	FIN	22 June 2022	13 July 2022	Low
Cathay Financial Holding	TW0002882008	FIN	15 June 2022	30 June 2022	Low
Formosa Plastic	TW0001301000	FIN	23 June 2022	13 July 2022	Low
Chunghwa Telecom	TW0002412004	FIN	30 May 2022	30 June 2022	Low
China Steel	TW0002002003	FIN	20 June 2022	21 July 2022	Low
Formosa Chemical & Fiber	TW0001326007	FIN	20 June 2022	12 July 2022	Low

Note: \*The full list of companies with low confidence rank are available on Eclipse. Please feel free to send in email to [dividendsupport@ihsmarkit.com](mailto:dividendsupport@ihsmarkit.com)

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