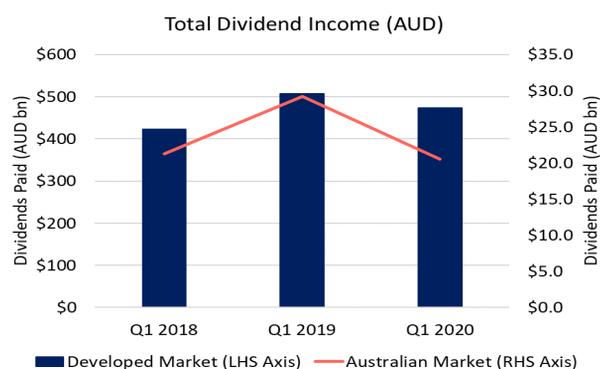
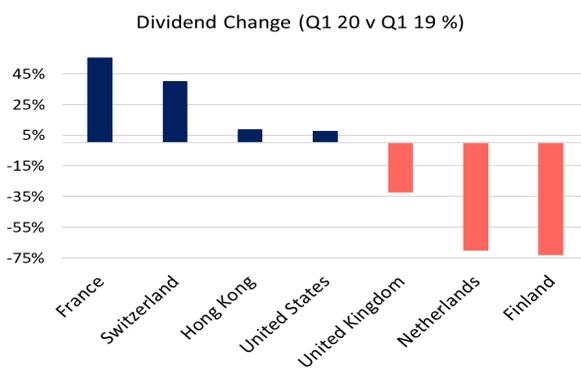


## What are the major trends in global income?

- Dividends fell -6.6% in Q1 2020 (v Q1 2019), the first fall in dividends for 3 years, as companies started responding to the Covid pandemic. However, Global developed market companies still paid out \$A474bn in Q1, a +26.3% increase on the recent, traditionally lower paying, fourth quarter.
- The effect of currency on dividends in Q1 2020 was +7.2%, due to a broadly weaker \$A versus Q1 2019, highlighting a benefit from not hedging currency. This means dividends in local currency terms actually fell -13.8%.
- Changes in dividends were not uniform. North America had growth over +6% versus the previous corresponding quarter. In stark contrast dividends fell in Asia (-11.7%) and even further in Europe (-21.7%). Highlighting the challenges to income, on Mar 27 the ECB recommended banks under its authority stop paying dividends. This was followed by the BoE demanding the 7 largest British banks scrap dividends. Examples include HSBC, Royal Bank of Scotland and ING.
- Despite weakness, 49% of dividend paying companies increased or initiated dividends compared to the same quarter last year. However, 12% decreased dividends and 8% cut to zero.



Source: Factset



Source: Factset

## Which countries are leading the charge?

- France (+55.3%), Switzerland (+40%) and Italy (+14%) had the strongest percentage increase in dividends in AUD terms (Q1 2020 v Q1 2019).
- Some large countries also had strong percentage increases (US +7.6%, Hong Kong +8.5%).
- Dividends fell across most developed market countries. This included Sweden (-97.1%) and the UK (-31.8%).
- Dividends contracted -29.8% in Australia. Examples of companies that decreased dividends were AMP Limited, and Flight Centre Travel Group. Both of these companies cut their distributions to zero.

## What happened in global sectors?

- COVID-19 and the associated economic risks have impacted sectors differently.
- After a weak Q4, IT (+19.5%) showed the largest increase in dividends paid when comparing Q1 2020 to Q1 2019. This was followed by Telco's (+14.3%) and Health Care (+14%).
- When compared to the special payments in Q1 2019 (Akzo Nobel, BHP & RIO), Materials (-37.3%) heavily cut its dividends in Q1 2020.
- Despite a -27.1% fall in dividends, financials continued to be the largest dividend payer in AUD terms (\$71.5bn AUD), contributing approximately 15% of Q1 income.

## Interesting facts in global income

- When incorporating dividend cuts and initiations, 2.4 companies increased or initiated dividends for every one company that reduced or completely cut dividends versus the previous corresponding quarter. This shows that the size of dividend cuts is generally much larger than dividend increases.
- The percentage of companies completely cutting dividends to zero increased versus the previous quarter. 7.9% of companies cancelled their dividend in Q1 2020.
- Only 3% initiated a dividend in Q1 2020, compared to 5% in Q4 2019.
- 63% of US companies that pay dividends increased or initiated them in Q1, versus 10.3% that cut or decreased. 48% of all US companies paid out in the last 12 months, the 2<sup>nd</sup> lowest rate in developed markets.
- Just over half of the companies in the universe covered pay dividends in Q1 2020. At the country level Japan (79%), Canada (70%) and Australia (63%) are strong dividend payers by number of companies.

## What's the outlook for global income?

Plato's proprietary dividend cut model provides insights into future dividends. It represents Plato's macro view regarding the likelihood that global developed markets will cut their income.

Coronavirus, and the associated economic troubles, have created a challenging environment for global companies. As a result companies have cut dividends or even been instructed by central banks and regulators. Plato's aggregated dividend cut model suggests a substantially increased chance of dividend cuts at the moment (around 25%). This increased risk has occurred with staggering speed and has been driven by predictable industries that include airlines, Oil Gas & Consumable Fuels and Hotels Restaurants & Leisure.



Source: Plato Investment Management

## Methodology

1. Dividend paid (\$) for each stock in each calendar quarter is calculated as the shares outstanding as of quarter end multiplied by the total gross dividend per share (DPS) paid out in the calendar quarter. The DPS paid excludes spin offs but includes capital returns and special dividends. Conversion to AUD is done using the prevailing WM/Reuters London exchange rates at the time of dividend payment.
2. Full year dividend paid (\$) is the summation of dividend paid (\$) from Q1 to Q4 using the methodology (1).
3. DPS movement is based on total DPS paid out (in local currencies) over each calendar quarter. DPS movement from quarter to quarter is then categorised as initiating, increasing, unchanged, decreasing or cut to zero.

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