Swiss franc surge boosts dividend forecasts for Europe

Swiss companies that determine dividends in euros and dollars see forecasts revised upwards, in keeping with policies for steady Swiss franc payout levels

Tuesday, January 20, 2015

— Forex move sees Markit's dividend forecasts on FTSE Eurofirst 300 boosted by €5.8bn

— Aggregate dividends in 2015 now expected to reach €267.5bn, up 2.2% from our prior forecast of €261.7bn

— Swiss constituents in index see aggregate payouts up 20% in euro terms

— Five major Swiss stocks determine dividends in euros, three determine dividends in US dollars

— Growth in Swiss franc terms for these stocks that determine dividends in euros and dollars has been trimmed, but forex move translates to double digit percentage increase to the dividends denominated in euros and dollars

— Richemont dividend forecast lowered in Swiss francs to +7% yoy (+10% previously), but the change is +13% in euros

The surge in the Swiss franc's strength has caused a significant boost in aggregate total payout, yield and dividend index points for Swiss companies within the European indices where the index currency is the euro. We have revised our dividend forecast for Swiss companies in line with changes in earnings estimates and currency fluctuations and dividend policies.

FTSE Eurofirst 300: new aggregate dividend forecasts for 2015 following forex move

	Old forecast* (€bn)	New forecast** (€bn)	Change
FTSE Eurofirst 300	261.7	267.5	+2.2%
Swiss constituents	30.3	36.0	+18.8%

Source: Markit, FactSet; data for current composition. One-off payments excluded

**Aggregate payout derived from Markit report released on January 8th 2015*

***Aggregate payout adjusted for Swiss forex and dividend forecast changes*

We are forecasting a 20% increase in total payout of Swiss companies within FTSE Eurofirst 300 index since the beginning of January 2015. We now expect the whole index to grow 7.2% in aggregate terms to €267.5bn compared with 2014. This is 2.2% higher than forecast earlier this January when our 2015 annual report was released.

Given the strengthened position of Swiss franc, our dividend forecast has been updated for eight Swiss companies whose primary reporting currency is either euros or US dollars. In line with dividend forecasting methodology we provide our forecast in both dollars and euros.

It is important to note that one nuance of the Swiss market is that companies often do not directly link dividend growth to earnings growth alone. Instead they offer stable and gradual dividend growth despite fluctuations in earnings. They usually focus on year-on-year improvement of dividends in the absolute Swiss franc payout rather than running a specific payout ratio.

Swiss companies reporting in euros

	Dec - 2014E			DEC - 2015E		
Company	Old forecast* (€)	New forecast** (€)	Change	Old forecast* (€)	New forecast** (€)	Change
Adecco	1.83	1.98	+8%	2.20	2.20	0%
Aryzta	0.70	0.76	+9%	0.80	0.80	0%
Richemont	1.32	1.49	+13%	1.50	1.53	+2%

Source: Markit

** Markit's dividend forecast as of January 14th 2015*

*** Markit's dividend forecast adjusted in line with FX and earnings estimates changes*

Swiss companies reporting in US dollars

	Dec - 2014E			DEC - 2015E		
Company	Old forecast* ($)	New forecast** ($)	Change	Old forecast* ($)	New forecast** ($)	Change
Zurich Financial	17.70	19.40	+10%	18.00	20.50	+14%
Syngenta	10.30	11.90	+15%	11.30	13.10	+16%
ABB	0.75	0.82	+9%	0.80	0.84	+16%
Novartis	2.60	2.96	+14%	2.80	3.25	+16%
Swiss Re	4.23	4.56	+8%	4.13	4.80	+16%

Source: Markit

** Markit's dividend forecast as of January 14th 2015*

*** Markit's dividend forecast adjusted in line with FX and earnings estimates changes*

Stocks level forecast notes:

Adecco

Although we cut FY14 dividend in terms of Swiss francs from CHF 2.2 to flat CHF2, the dividend amount forecast in euros increased by 8%. This forecast reflects a payout ratio of 50% which is in line of 40-50% target payout. We keep our forecast flat in line with its commitment to pay at least a stable dividend compared to the previous year. For future dividends payment we continuously apply a payout ratio of 50% to the most recent earnings estimates.

Aryzta

We increased our FY14 forecast by 9% in terms of euros in order to keep CHF amount flat. This forecast represents a 16% payout ratio which is slightly over the target payout ratio of 15%. We believe that the firm would rather raise its payout barrier than lowering the absolute value of its dividend. In the past it continuously raised the shareholder remuneration. As for future distribution we keep our forecast unchanged as it is based on a payout ratio of 15%.

Richemont

We expect the company to declare a 3% lower dividend than we previously forecast. Our forecast represents a moderate 7% dividend growth in terms of Swiss francs compared with 15-80% over the last five years. In the past the firm paid out about 15-30% of its net income. For FY14 we expect Richemont to distribute 40% of earnings in order to stick to its dividend policy and commitments made during Q3 Earnings Call. The cfo said that: “We want to increase it in good times and in bad, so that’s still in our thinking. Do I think it’s going to grow by 40% next year? Probably not”.

Zurich Insurance Group

Zurich Insurance Group has been paying flat dividends of CHF17 for the four last years by distributing 65-70% of its earnings. The firm committed to grow operating earnings and to pay a higher dividend on December last year. In light of the recent currency fluctuations we anticipate the company to grow the dividend next year (FY15) as FY14 flat dividend already results in a 75% payout ratio.

Syngenta

The firm has consistently increased its payments by 5-25% and last year reconfirmed its intention to raise the dividend despite the volatility in cash flow. We therefore still project a 5% increase in terms of Swiss francs, and raise our forecast in euros by 15%.

ABB

We lower our FY14 dividend forecast in terms of Swiss francs from CHF 0.76 to CHF 0.72. ABB steadily raised dividend distribution even when the earnings were weak. It is important for the company to praise its shareholders with an increased dividend. For the following years the increase is insignificant and even negative as the earnings estimates were adjusted at the end of last week.

Novartis

The company removed the restrictions around dividend payments set at 35-60% to maintain a strong and growing dividend. The FY14 dividend was cut in terms of CHF where we still expect a flat dividend growth of 6% to CHF 2.60. We currently apply 55% payout ratio despite a 73% distribution of net income for 2013. In the past the company paid out 45-65% of earnings to its shareholders.

Swiss Re

This insurance company is expected to payout 45% (FY11-FY13: 40-35%) of its profit which is 8% higher in terms of euros than our dividend forecast released on January 14th. Given the fact that the earnings expectations have been lowered we see the firm paying out 55% going forward. Looking backwards, Swiss Re has previously drastically increased its payout ratio in order to offer a raised dividend (FY10:100%).

Please note:

Currently we are evaluating the impact of foreign exchange currencies fluctuations on our forecast of Swiss companies which release their financial reports in Swiss francs. We are closely following any comments made by management of the Swiss firms and looking at the movement of consensus of earnings estimates.

Calculation methodology

Each year analyses dividends by ex-date which fall within the annual options trading calendar. The contract expiry date is the third Friday of December. Dividends are calculated gross, but in the UK market are net of the UK tax credit. To calculate the aggregate figure the unadjusted dividend amount and share count on the ex-dividend date is used, and the exchange rate on the ex-dividend date to convert to Euros where required. When a corporate action leading to an adjustment factor takes place in between the dividend announcement date and the ex-date, the unadjusted amount and prevailing number of shares prior to the corporate action is used. Where a scrip dividend is offered investors are assumed to opt 100% for cash. The calculation does not take into account index free floats. Special dividends are those payments which index providers typically excluded from index calculation purposes by incurring a divisor change, and include one-off payments of cash or capital. Year on year comparisons are based on the equivalent payment made by a company in the previous year.

All dividend data is provided by Markit. All supplementary data, such as number of shares, is provided by Factset.

Markit Dividend Forecasting

Markit provides independent and discrete dividend forecasts for over 6,500 global stocks. Markit Dividend Forecasting delivers up-to-date projections on amounts and payment schedules (ex, record and pay dates). Estimates are created by an experienced analyst team conducting bottom-up analysis on individual companies that take into account company fundamentals, direct investor relations guidance, historical patterns, distribution policies, market trends and consensus aggregate estimates.

Disclaimer

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