2021 global automotive dividend outlook

12 April 2021

- Automotive sector dividend will decline 16% in fiscal year (FY) 2020, then rebound 29% in FY 2021, driven by the strong recovery of dividends from manufacturers
- The aftermarket and service sector has demonstrated greater resilience in payouts as compared with manufacturers (OEMs) and suppliers
- Automotive players from Japan should be the biggest contributor in FY 2020 and maintain the lead in FY 2021, accounting for around 32% of global payouts
- The shortage of semiconductors has emerged as the biggest bottleneck of recovery

The automotive industry is widely perceived as the pillar of global economic growth. According to researcher Behzad Saberi in an academic paper on "The role of the automobile industry in the economy of developed countries,[1]" growth in the automotive industry of 1% triggers GDP growth of 1.5% in developed countries. The strategic significance of the automotive industry is reflected by its contribution to countries' GDP each year. In the same vein, the automotive industry is as important in terms of dividend. Especially in Japan and Germany, dividend from the automotive sector often takes up more than 10% of the respective aggregate dividend amounts.

The pandemic inflicted damage on the global economy in 2020 and brought severe disruptions to the production of automobiles and associated supplies. The adverse impacts also trickled down to companies' financials and their capabilities to hand out dividends. IHS Markit data show the aggregate dividend should decline 16% to USD35.4 billion in 2020. Notably, the top 5 automobile dividend-paying markets' payout trend largely resembles that of GDP movement.

Contribution of automotive sector to GDP and employment

		US	Japan	Germany	South Korea
Share of industry in GDP (%)		19.9	26.60	32.50	39.70
Number of employment in the automotive industry	Direct (,000)	870	803	807	320
	Indirect (million)	19.9	26.6	32.5	39.7

Source: "The role of the automobile industry in the economy of developed countries," Saberi, 2018. © 2021 IHS Markit

1. Behzad Saberi, *The role of the automobile industry in the economy of developed countries*, International Robotics & Automation Journal 4, no. 3 (2018).

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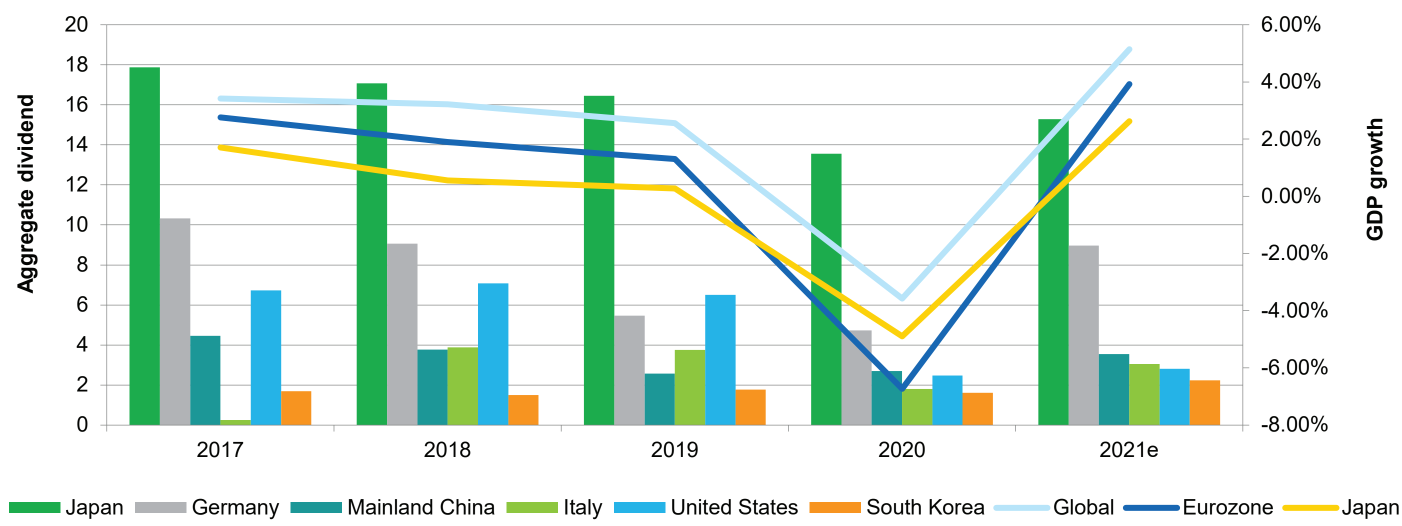
Aggregate dividend (USD billion) and GDP growth



Note: Cut-off date for the data used in the aggregate dividend calculation is 26 March 2021.
Source: IHS Markit

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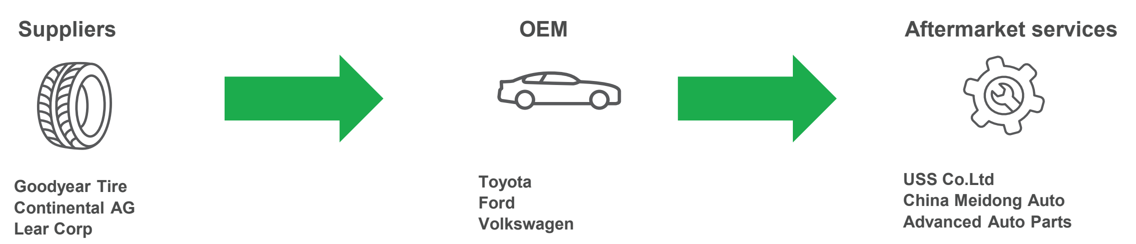
Automotive dividend in value chain

With the aim of bringing clarity in our analysis from the dividend perspective, we identified 156 stocks in the automotive industry across three regions—the Americas (AMER), Europe and the Middle East (EMEA), and Asia Pacific (APAC)—and offer our perspective on the impact of COVID-19 on the path of dividend payouts in 2021. This report focuses on the passenger car manufacturers and excludes manufacturers for motor bikes and specialty vehicles as well as their associated suppliers. This report categorizes the sector-level analysis into three components along the industry value chain: suppliers, manufacturers (OEMs), and aftermarket services.

- **Supplier:** companies that supply goods used in the production of automobiles
- **OEM:** companies that install and assemble the parts into a new vehicle
- **Aftermarket & Services:** companies producing spare parts or offering maintenance services, used car sales, financing, and dealerships, etc.

The three components along the automotive value chain



Source: IHS Markit

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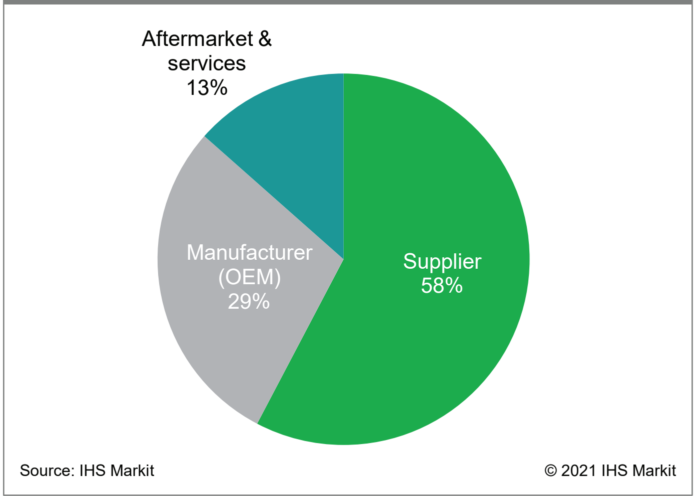
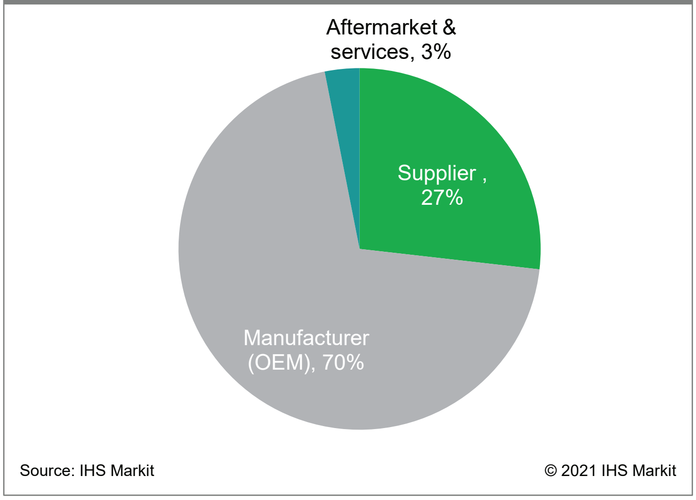
Key findings

Number of ISINs by value chain



Dividend contribution by value chain

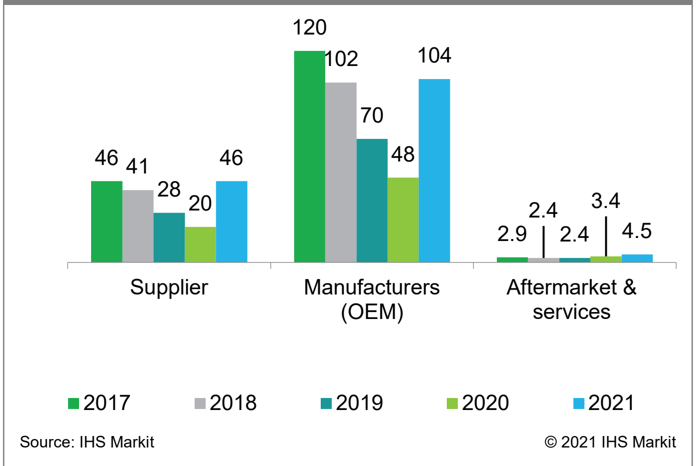


We have identified and analyzed 90 suppliers, 45 OEMs, and 21 players from the aftermarket and services segment. We note even though suppliers account for the bulk of the stocks under analysis, **manufacturers still dominate the aggregate payouts within the sector**.

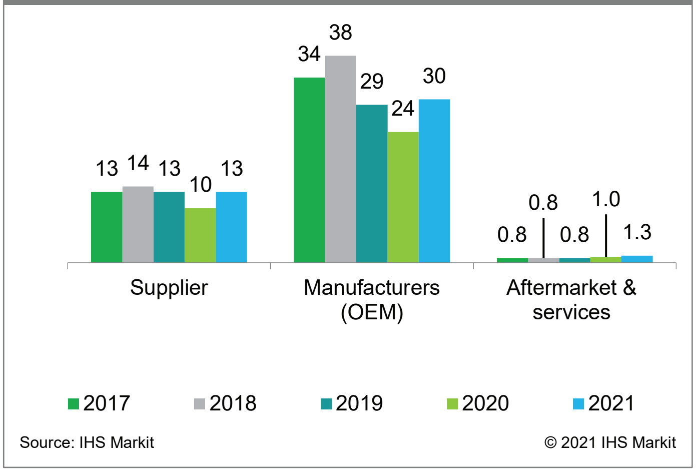
The **earnings and dividends generally move in tandem along the automotive value chain**. Suppliers and OEM manufacturers' aggregate dividend fell 19% and 17%, respectively, in 2020. Both should increase the dividend past the pre-COVID-19 level in 2021, on the back of strong earnings growth. The magnitude of year-on-year change between supplier and OEM manufacturers prove how closely the industry is intertwined.

In addition, the **aftermarket and services have proven to be the most resilient in the value chain**. The earnings of this part of the automotive value chain remain unfazed by COVID-19 globally. Yet the dividend growth is mainly concentrated in the APAC region, especially from Taiwan and mainland China. China Yongda resumed dividend distribution while China Meidong and Hotai Motor hiked dividends on the back of earnings growth. Players from the United States such as Penske Automotive and Gp 1 Automotive slashed dividends despite healthy earnings, as a precautious measure during the pandemic.

Aggregate earnings of automotive industry in USD billion



Aggregate dividends of automotive industry in USD billion



Suppliers

APAC

Dividend and earnings movement of Toyota and key suppliers

Company name	Value chain position	Country	CCY	DPS 2017	DPS 2018	DPS 2019	DPS 2020	DPS 2021e	EPS 2017	EPS 2018	EPS 2019	EPS 2020	EPS 2021e
Toyota Motor	**Manufacturer (OEM)**	Japan	JPY	220	220	220	225	240	842	651	736	693	817
Aisin Seiki	Supplier	Japan	JPY	150	150	120	80	150	490	409	89	247	471
Denso	Supplier	Japan	JPY	130	140	140	140	140	410	326	88	165	436
Koito Manufacturing	Supplier	Japan	JPY	96	92	72	31	80	519	454	361	231	431
Tokai Rika	Supplier	Japan	JPY	64	64	62	40	48	241	198	165	101	213
Toyoda Gosei	Supplier	Japan	JPY	56	60	60	60	70	164	180	87	173	256
Toyota Boshoku	Supplier	Japan	JPY	54	56	54	38	50	230	148	133	119	192
Toyota Industries	Supplier	Japan	JPY	150	155	160	150	145	542	492	470	440	526

Note: DPS and EPS trend for 2017, 2018, 2019, 2020, and 2021e as indicated in red markers. For Japanese companies with the financial year ending in March, financial year is classified based on the 9-month operation year. For example, 2017 refers to dividends paid based on earnings made in April 2017–March 2018.

Source: IHS Markit © 2021 IHS Markit

Toyota Motor is one of the few companies in Japan that does not provide dividend guidance. With its final dividend to be announced in May 2021, we expect the auto giant's dividend to rise despite an earnings slide due to the JPY5-per-share special dividend it gave out in November as a token of appreciation for shareholders' support during the pandemic. The dividend movement among its suppliers is rather different than Toyota's, however. Companies are expecting an earnings decrease, including Koito Manufacturing, Tokai Rika, Toyota Boshoku, Toyota Industries, and Aisin Seiki, which is estimated to register earnings growth, has indicated a dividend cut for the financial year ending in March 2021. We believe this confidence-level difference can be explained by the nature of dividend policy. The suppliers generally pay performance-linked dividends with a clear target-payout ratio and guide dividends in advance. Conservative amounts were indicated earlier last year in view of growing uncertainty in the performance outlook. Additionally, the suppliers' cash reserves are not as large as Toyota Motor's. They cannot afford to take a "wait-and-see" position. We are projecting the DPS in FY 2021 to show a strong recovery along with earnings as their confidence is restored.

Dividend and earnings movement of Hyundai/Kia and key suppliers

Company name	Value chain position	Country	CCY	DPS 2017	DPS 2018	DPS 2019	DPS 2020	DPS 2021e	EPS 2017	EPS 2018	EPS 2019	EPS 2020	EPS 2021e
Hyundai Motor	**Manufacturer (OEM)**	South Korea	KRW	4000	4000	4000	3000	4000	15011	5650	11328	5471	22213
Kia Motors	**Manufacturer (OEM)**	South Korea	KRW	800	900	1150	1000	2500	2414	2883	4556	3710	9412
Hanon Systems	Supplier	South Korea	KRW	305	320	320	320	320	541	520	597	207	689
Hyundai Mobis	Supplier	South Korea	KRW	3500	4000	4000	4000	4000	16558	19945	24233	16389	29908
Hyundai Wia	Supplier	South Korea	KRW	600	600	700	700	700	-2372	-2092	2078	2295	4342
SNT Motiv	Supplier	South Korea	KRW	1000	1200	1400	1600	1700	3888	4005	5999	3952	5819

Source: IHS Markit © 2021 IHS Markit

In contrast to the lower dividends in Japan, all parts suppliers maintained at least flat dividends in South Korea against adverse market conditions, especially in the first half of FY 2020. Hyundai Mobis overshadowed the dividend movement of Hyundai Motor and Hyundai Mobis suspended the FY 2020 interim dividend but made up for the omission by returning a higher final dividend in 2020. Elsewhere, Hyundai and Kia's key suppliers' dividend payouts are not reflective of earnings. In fact, their dividend decision is more heavily influenced by internal factors such as shareholder structure (e.g., as of April 2021, National Pension Service of Korea holds 9.99% of SNT Motiv; Hahn & Company, a Seoul-based PE fund, owns 50.5% of Hanon System through Hahn & Co. Auto Holdings) which pressures them to keep the dividend at the expected level.

Europe

Dividend and earnings movement of OEM manufacturers and key suppliers in Europe

				DPS					EPS				
Company name	**Value chain position**	**Country**	**CCY**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2017**	**2018**	**2019**	**2020**	**2021e**
Stellantis	**Manufacturer (OEM)**	Italy	EUR	0.00	1.95	1.84	0.42	0.70	2.27	2.33	1.82	0.02	2.12
Volkswagen	**Manufacturer (OEM)**	Germany	EUR	3.90	4.80	4.80	4.80	7.25	22.65	23.59	26.62	16.62	25.09
BMW	**Manufacturer (OEM)**	Germany	EUR	4.00	3.50	2.50	1.90	2.90	13.12	10.82	7.47	5.73	8.85
Daimler	**Manufacturer (OEM)**	Germany	EUR	0.82	3.25	0.90	1.35	2.90	4.46	6.78	2.22	3.39	8.49
Renault	**Manufacturer (OEM)**	France	EUR	3.55	3.55	0.00	0.00	0.00	18.86	12.24	-0.52	-29.51	2.07
Autoliv	Supplier	Sweden	USD	2.38	2.46	2.48	0.62	0.00	41.69	19.02	50.07	19.71	57.55
Autoneum Holding	Supplier	Switzerland	CHF	6.50	3.60	0.00	0.00	1.25	19.61	11.83	-20.82	-5.45	6.89
Faurecia	Supplier	France	EUR	1.10	1.25	0.00	1.00	1.25	4.45	5.11	4.31	-2.75	3.91
Leoni	Supplier	Germany	EUR	1.40	0.00	0.00	0.00	0.00	4.44	2.31	-13.30	-10.10	-2.15
Valeo	Supplier	France	EUR	1.25	1.25	0.20	0.30	0.60	3.72	2.30	1.31	-4.55	1.47
Continental	Supplier	Germany	EUR	0.83	4.75	3.00	0.00	2.50	5.45	14.49	-6.13	-4.81	7.92
Hella Gmbh & Co	Supplier	Germany	EUR	0.85	1.05	3.35	0.00	0.78	1.08	3.50	5.67	-3.88	2.82
Gestamp Automocion	Supplier	Spain	EUR	0.13	0.14	0.06	0.00	0.06	0.42	0.45	0.37	-0.26	0.28

Note: regarding Stellantis, the merger between Peugeot S.A. and Fiat Chrysler Automobiles was only completed in January 2021. As such, 2017 –19 DPS reflect that of Fiat; 2020 DPS reflects the special dividends paid out to Fiat & Peugeot shareholders. 2017–20 EPS reflects that of Fiat. We flag that only 2021e DPS and EPS reflect the Stellantis outlook as one entity.

Source: IHS Markit

In Europe, the direct partnership between a particular manufacturer and supplier appears to be not as strong as that within APAC. European suppliers generally supply multiple OEM manufacturers, taking advantage of the closely interlinked economy of the European Union. The earnings decline was inevitable in 2020, and the majority of suppliers lowered their dividends along with the OEM manufacturers. Continental AG, Hella GmbH, and Gestamp suspended dividends as the companies incurred losses. As the outliers, Faurecia resumed its dividend distribution in 2020 while Valeo maintained an upward trajectory. Faurecia's resumption was supported by its confidence in the outlook with exposure beyond Europe as it is well positioned to capitalize on its extensive exposure in mainland China (via a joint venture with Xuyang and BAIC) as well as the fast-growing premium electric and commercial vehicle segments.

United States

Dividend and earnings movement of OEM manufacturers and key suppliers in the United States

				DPS					EPS				
Company name	**Value chain position**	**Country**	**CCY**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2017**	**2018**	**2019**	**2020**	**2021e**
General Motors	**Manufacturer (OEM)**	United States	USD	1.52	1.52	1.52	0.38	0.76	-1.16	5.66	4.62	4.36	5.24
Ford Motor	**Manufacturer (OEM)**	United States	USD	0.65	0.73	0.60	0.15	0.00	1.91	0.93	0.01	-0.32	1.13
Borg Warner	Supplier	United States	USD	0.59	0.68	0.68	0.68	0.68	2.09	4.47	3.63	2.35	4.02
Bridgestone	Supplier	Japan	JPY	150.00	160.00	160.00	110.00	130.00	375.67	387.95	404.95	-33.09	403.30
Faurecia	Supplier	France	EUR	1.10	1.25	0.00	1.00	1.25	4.45	5.11	4.31	-2.75	3.91
Hanon Systems	Supplier	South Korea	KRW	305.00	320.00	320.00	320.00	320.00	541.00	520.12	596.73	206.80	688.50
Hella GmbH & Co	Supplier	Germany	EUR	0.92	1.05	3.35	0.00	0.78	3.08	3.50	5.67	-3.88	2.82
Hyundai Mobis	Supplier	South Korea	KRW	3500.00	4000.00	4000.00	4000.00	4000.00	16558.00	19944.99	24233.30	16389.18	29907.94
Lear Corp	Supplier	United States	USD	2.00	2.80	3.00	1.02	1.00	18.79	17.35	12.80	2.63	14.00
Magna Intl	Supplier	Canada	USD	1.10	1.32	1.46	1.60	1.72	7.70	8.62	7.44	3.39	9.51
Autoliv Inc	Supplier	United States	USD	2.38	2.46	2.48	0.62	0.00	4.88	2.19	5.29	2.14	6.93

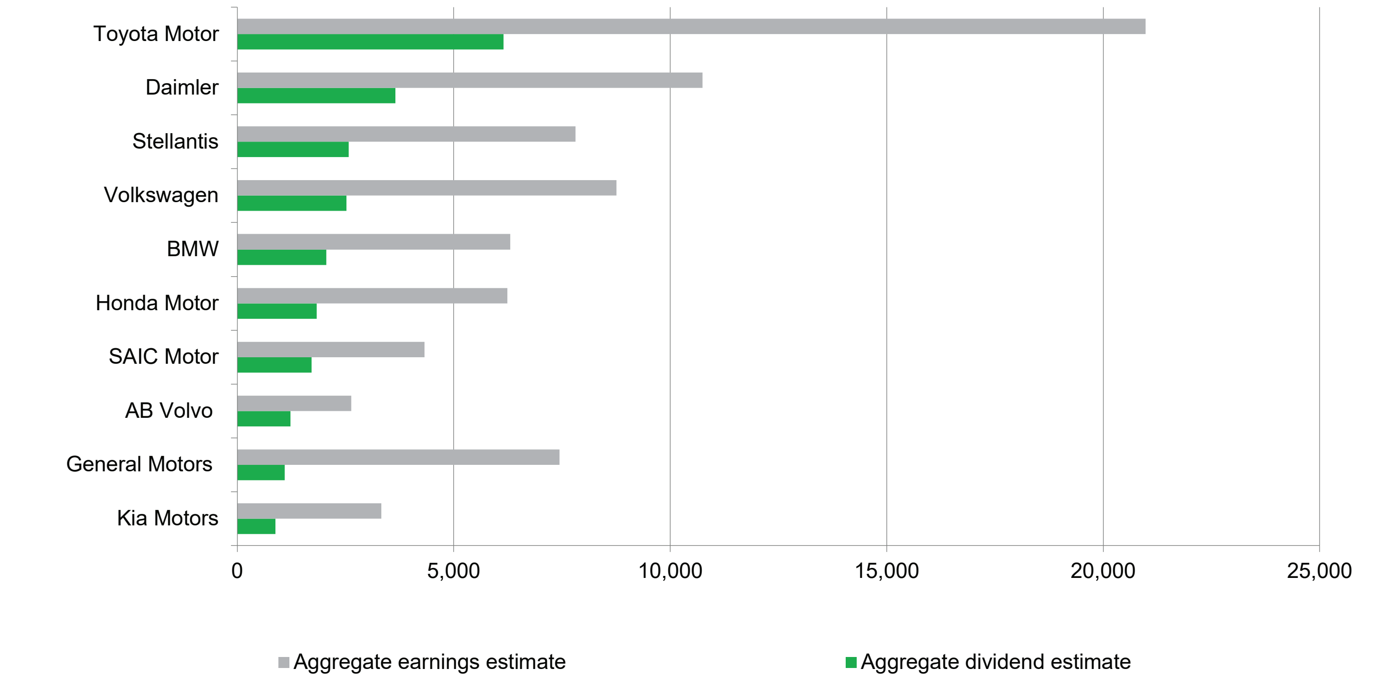
Source: IHS Markit

The United States shows the most diversified automobile manufacturing chain with suppliers beyond its borders. In other words, Ford or General Motors is not the sole dominant customer of these international suppliers. Thus, no distinctive relationship in terms of dividends trend is observed between those suppliers and the automakers. Interestingly, many domestic suppliers, such as American Axle & Manufacturing and Cooper-Standard Holdings, do not pay a dividend.

Manufacturers (OEMs)

Toyota and Honda are projected to maintain their positions as the largest and sixth-largest payers in 2021 in comparison to the pre-COVID-19 period. Both share a similar performance-linked dividend policy of a 30% payout ratio. Yet, the payout movement observed in 2020 is different—Toyota not only kept last year's regular dividend level but also paid a JPY5-per-share special dividend. Honda made the first dividend cut in a decade to the annual dividend in 2020, to JPY82 per share, from JPY112 per share in 2019. The key difference lies in the management of the semiconductor shortage. After sales fell, a shortage of semiconductors hindered Honda from riding the rebound momentum, forcing the company to slash its dividend. On the other hand, Toyota has a strict business continuity plan in place whereby it requires suppliers to stockpile anywhere from two to six months' worth of chips. Streamlined supply chain under the famous "just in time" production system allowed the company to navigate the crisis.

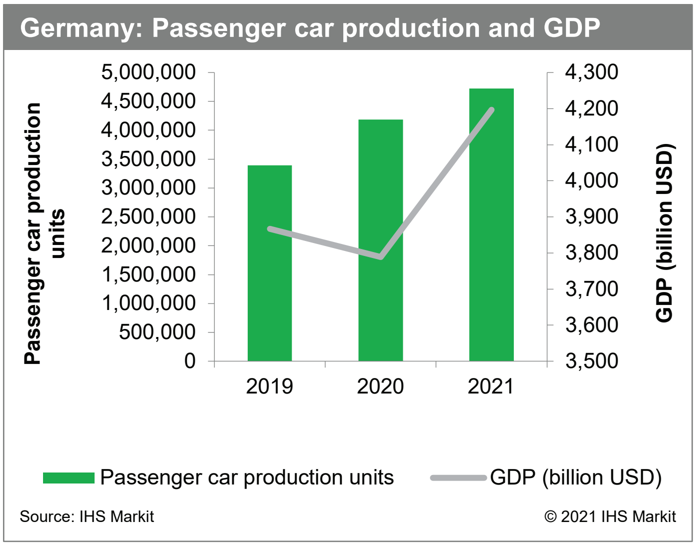
2021 aggregate dividend and earnings estimate in USD billion

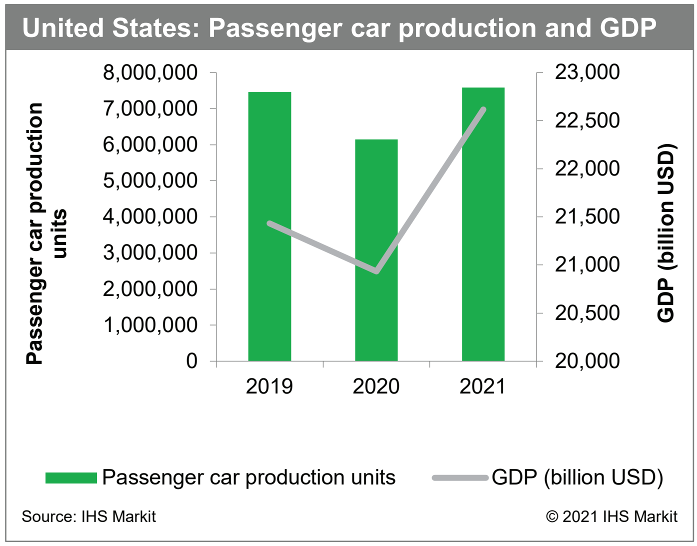


Source: IHS Markit

After the long-awaited completion of its merger, Stellantis is projected to emerge as the third-largest payer in 2021. Peugeot S.A. and Fiat Chrysler Automobiles announced a merger plan in October 2019 and officially completed the merger under the name Stellantis in January 2021. A remarkable earnings hike is expected as these two largest European automakers merge and benefit from broader geographic diversification from Europe to North America and even Brazil and Argentina. A detailed dividend policy is yet to be announced by this newly formed auto giant, so we assume a conservative 30% payout ratio of the industry average. In line with the upbeat outlook, we are positive about its future dividend stream.

Elsewhere, Ford Motor and General Motors will fall out of the top five dividend payers, whereas three German makers will climb up the ranks. The two US car manufacturers are more sensitive to earnings declines, and at the same time, more cautious about raising dividends in the post-COVID-19 period. For instance, GM cut 2020 dividends by 75% to USD0.38 per share while EPS fell 5%. On the other hand, Volkswagen maintained a flat payout when EPS halved; in 2021, German manufacturers are projected to hike dividends beyond the pre-COVID-19 level on the back of a strong sales recovery. However, dividend dynamics for Ford and GM are underwhelming—Ford should suspend its dividend while GM will raise its annual dividend to only 50% of the pre-COVID-19 level despite earnings that are estimated to rise beyond those of 2019.





Clearly, the German carmakers fared better than their US counterparts. We attribute such differences to two factors. First, the presence of government support—in view of the strategic importance the automotive industry holds in Germany, a EUR4-billion stimulus package was allocated to support the industry's recovery and transition to electric vehicles (EVs). Although this does not have any direct bearing on dividend payment, we believe the confidence of the German carmakers in the recovery of the market had an influence over the automaker management to stay committed to stable shareholder return. Second, COVID-19 control at the production site—thanks to proactive pandemic control as well as production sites spread across several countries in Europe, car production in Germany (the heartland for European car production operations) increased through 2020. German players could implement timely increases to production levels to meet the increasing demand from mainland China especially in the second half of 2020, which drove the recovery along with bold cost-cutting measures.

Germany's situation marks a stark contrast with a considerable production fall in the United States where the majority of Ford's and GM's production facilities are located. The shutdown of production plants over extended period, in addition to ongoing global shortages of semiconductor supply exerted a severe disruption on both US companies' production schedules, which only narrowed their chances to pass on the surging production cost to customers. In view of the adverse situation, Ford suspended dividend distribution as of second quarter 2020 in an effort to improve liquidity and incur additional flexibility to manage the crisis. We expect the same approach to be followed until the production schedule can fully normalize.

Last, even the state-owned Shanghai automaker was not spared from the COVID-19 blow. SAIC Motor saw a 10.2% y/y fall in new vehicle sales to 5.6 million in 2020. A strong recovery came in the second half of 2020 as sales rose 7.6% from the year-ago under effective pandemic control. The company slashed its annual dividend 14% last year, but we are currently expecting a raise of more than 25% this year, which helps the company maintain its position as a top 10 automotive dividend payer. Strong momentum runs into 2021. According to the February sales data, volume hiked 420% y/y because of the low base from the pandemic effects one year earlier.

Aftermarket and services

As a smaller segment in terms of the number of stocks and aggregate payouts along the value chain, the aftermarket and services segment achieved stable growth despite the pandemic fallout. This growth was largely driven by the top payers from mainland China and Taiwan. Hotai Motor, which distributes Toyota and Lexus in Taiwan, saw a surge in sales due to the strong demand for new models ahead of the expiration of government tax incentives. Growth was also bolstered by Taiwan's effective control of the pandemic, leading to a quick recovery in auto production and component imports. The tax incentives were introduced in 2016, offering a TWD50,000 reduction in commodity taxes. The company has declared the FY 2020 final dividend at TWD17, representing about a 20% y/y increase. Similarly, China Meidong Auto Holdings, a premier luxury automobile dealer focused on the lower-tier cities in mainland China, has seen its profit increase 38.2% and its interim dividend more than double y/y. In February 2020, the mainland China ministry of commerce introduced a new incentive scheme to boost consumers' spending on vehicles to support the long-term growth of the automobile market. The company should continue to ride this positive trend in the future. In contrast, USS Co ltd, the Japanese company engaging in auto auctions and used car dealership business, has been facing headwinds in FY 2021. The company has seen a decrease in the number of vehicles consigned and used car exports, weighing on the growth of dividends in the short term.

Risk and opportunity

Risk: Shortage of semiconductors

Impact of semiconductor shortage on major OEM manufacturers

Manufacturer (OEM)	Volume loss Q1 2021 due to shortage	Volume loss Q2 2021 due to shortage	Last ord. dividend payment	Next ord. dividend payment
Toyota	28,936	7,200	JPY100	JPY120
Honda	112,395	16,283	JPY26	JPY26
Volkswagen	107,748	2,100	EUR4.8	EUR4.8
Stellantis	86,464	12,107	EUR0.417	EUR0.7
Ford	129,162	-	Suspension	Suspension
General Motors	129947	92143	Suspension	Suspension

Source: IHS Markit

Since the end of 2020, there have been reports of disruption within the supply chain of semiconductors to the automotive sector. The issue has been triggered by two factors. First, demand for consumer electronics surged. Second, auto demand increased faster than expected in second quarter 2020, and the capacity was not set aside to accommodate the situation. The disruptions have spilled over to the first and second quarters of 2021, forcing the manufacturers to cut down production. The recent fire at the Renesas chip factory in Hitachinaka and the extreme weather in the southwest United States in February have fueled more concerns over the supply crunch. The projection for the length of the disruption is divided, so we flag semiconductor shortages as the major source of risks for automotive dividends in 2021.

Toyota has been largely unscathed by the impacts of the global shortage of chips because the company holds a sufficient stockpile of chips as part of its business continuity plan. We expect the company to inch up the next dividend payment by around 20%. In contrary, Ford and GM have been forced to halt production at multiple plants in North America. GM estimated the loss of profit due to the shortage to be up to USD2 billion, whereas Ford should provide an update at the end of April. We expect both companies to continue to suspend immediate upcoming dividends.

Opportunity: Battery EV

The automotive industry is experiencing a wide-ranging and transformative change brought about by environmental regulations and the evolution of technology. Governments around the world are pushing various initiatives to boost both consumption and production of electric vehicles (EVs) and move away from carbon emissions. Japan and the United Kingdom announced halting sales of carbon-emitting cars by the 2030s while the European Union aims to have at least 30 million zero-emission vehicles on the road by 2030. According to the IHS Markit automotive team, global battery EV (BEV) production reached 1.97 million units in 2019, but it is forecasted to reach 14.47 million units in 2027, or roughly 15% of total light vehicle production. The emergence of this new type of vehicle presents a new extension of the automotive value chain revolving around the lithium battery.

Dividend dynamics of top EV battery manufacturers

Company name	ISIN	CCY	Last ordinary DPS	Next ordinary DPS	2017–21e CAGR
Contemporary Amperex Technology	CNE100003662	CNY	0.220	0.23	31%*
LG Chemical	KR7051910008	KRW	10000	10000	14%
Panasonic	JP3866800000	JPY	10	10	-6%
BYD - H share	CNE100000296	HKD	0.148	0.22	12%
Samsung SDI	KR7006400006	KRW	1000	1600	0.12

Note: *4-year CAGR provided as the company initiated dividend distribution only in 2018.

Source: IHS Markit

However, it is too early to discuss dividends of EVs' relevant players at this point. Full EV manufacturers such as Tesla and Nio are yet to reach considerable financial stability to commit to dividend distribution. Tesla had only just made a turnaround to net profit position in FY 2020. Nio is not any different—despite a sharp increase in vehicle sales, the company just managed to make a gross profit in FY 2020. The Chinese EV maker is not expected to make a net profit not until FY 2023. Traditional automakers such as Volkswagen, Ford, and Hyundai have been expanding aggressively to EVs, but the bulk of earnings still comes from traditional carbon-emitting cars. While EVs are set to become a new earnings driver in the future, they are not yet a dividend driver. The situation is slightly different for EV battery makers. Being at the heart of EV production, the EV battery takes up a sizable proportion of their earnings. Heavy capital expenditure over the years for EV battery production did somewhat limit the cash available for dividend distribution. Stocks with a performance-aligned dividend policy in particular present ample upside room.

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