

Dividend forecasting

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Right time to access China's dividends?

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Key Implications

- Over the past decade, incremental dividend payouts and climbing payout ratio were exhibited, supported by dividend-encouraging guidelines and policies introduced by the Chinese authorities.
- Banks are expected to continue to be the top dividend contributing sector. Food, beverage, and tobacco and energy offered above-average share price growth and dividend yield, proved in the past five years.
- During equity market downturn conditions, the high dividend yield basket (54 stocks of CSI300) proved to be a defensive cushion against share price drops.

Incremental dividend payouts pattern under the government push

China's National People's Conference (NPC) and the Chinese People's Political Consultative Conference (CPPCC) set the annual objectives for the country's economic and social development at the annual "two sessions" in early March this year. During the conference, China's economic growth target was released to be 5.5% for 2022, a lower but still challenging target considering the prolonged impact from COVID-19 variants and intensified geopolitical tensions around the world. To achieve this economic growth target, the government is rolling out various measures to stimulate real economy activities, support science and technology innovation, and alleviate SME's tax burden. In the long run, the government has been focusing on a long-term green, sustainable economy growth plan, as well as a digital economy transformation.

As one of the major emerging markets, China has been playing an important role in driving the global economy growth in the past decade. On the equity market front, authorities have continuously made the market more accessible to international investors. Dividend, as an indispensable component of equity investment return in many developed markets, is gradually being an expectable source of return in China's onshore equity market, thanks to the continuous government push on refining dividend decision-making mechanism and advocacy on long-term investment in the equity market.

Following a series of dividend-encouraging guidelines and policies introduced by the Chinese authorities, the aggregate dividend payout level of the active constituents in China's CSI 300 benchmark index exhibited a

Contacts

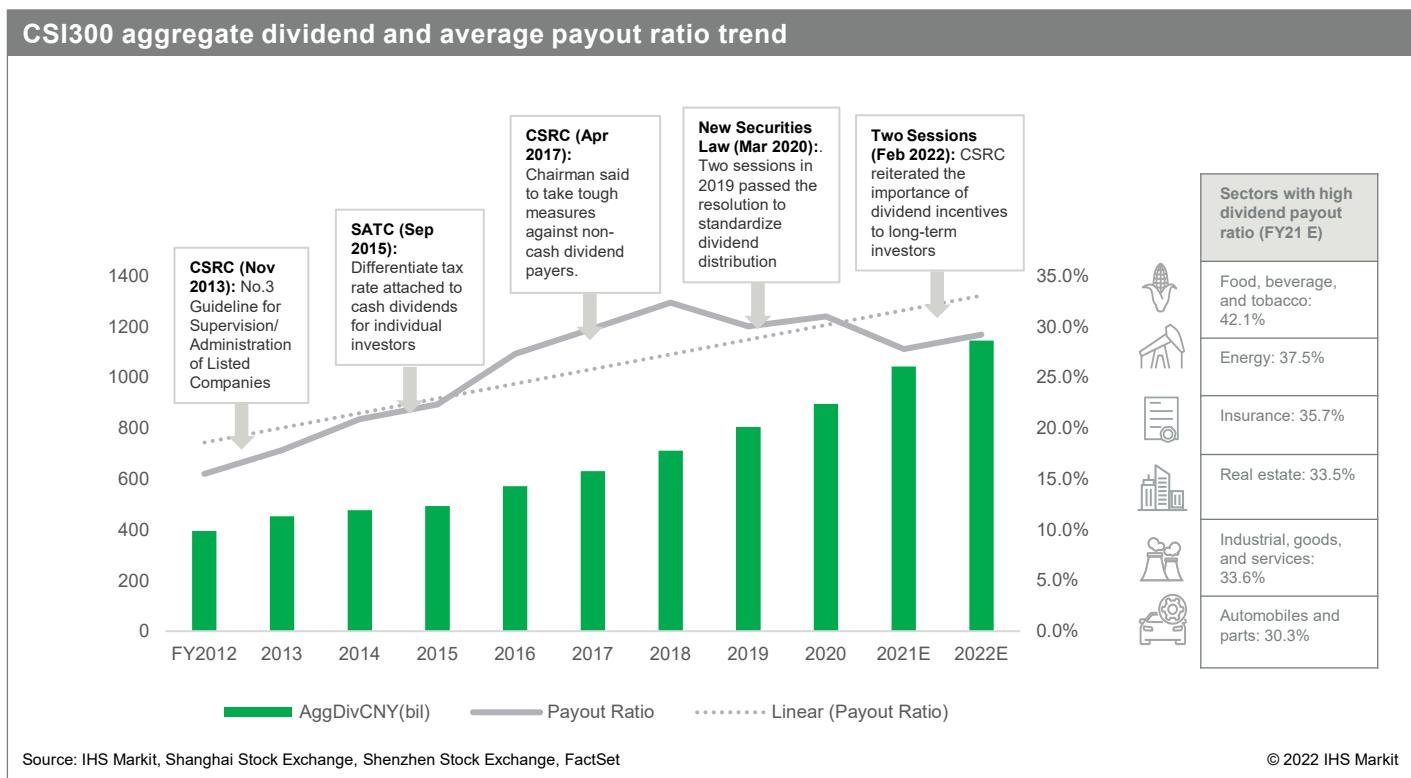
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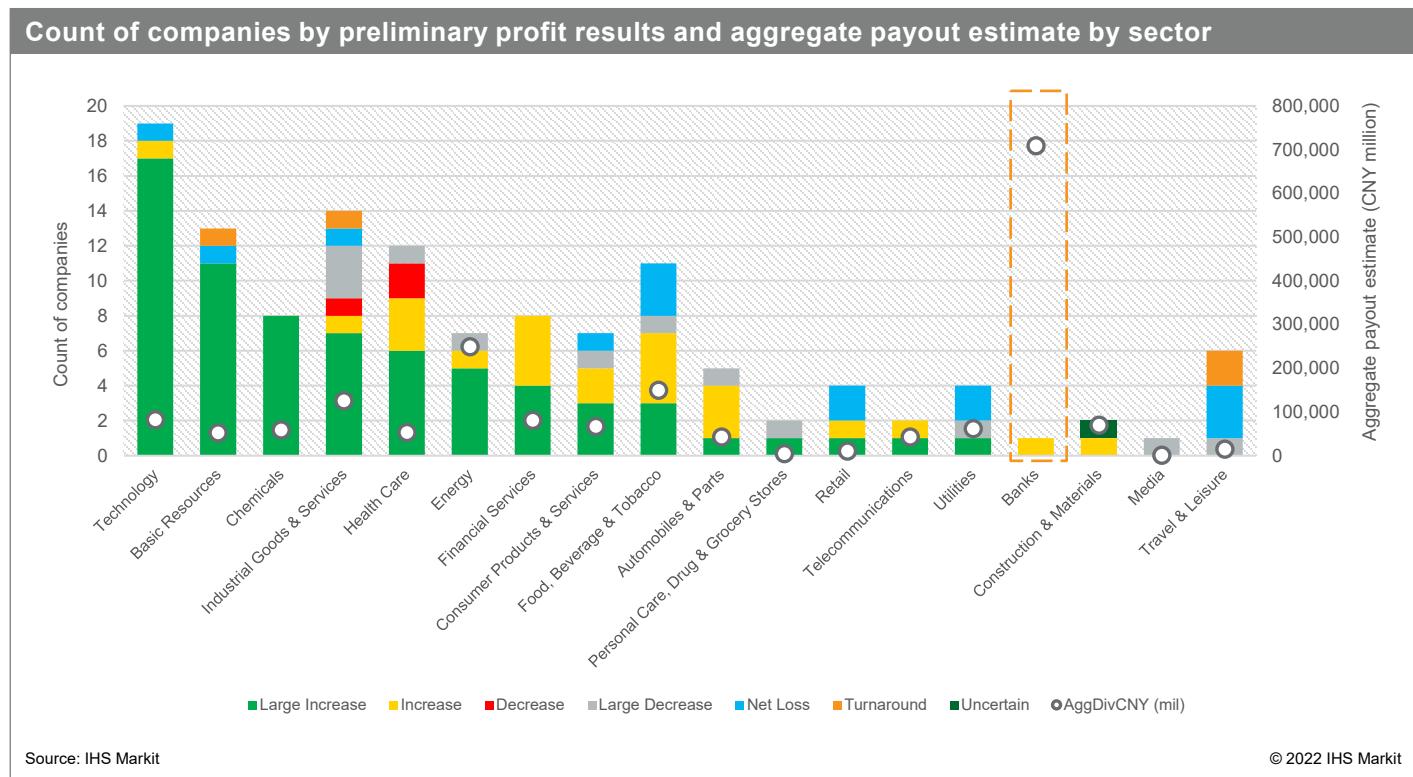
steady upward trend, from approximately 395.1 billion Chinese yuan in financial year (FY) 2012 to over 1,000 billion yuan estimated for FY 2021. As per our latest estimate, China is expected to remain as the largest dividend distributing market in Asia Pacific region for 2022. In terms of dividend payout ratio, a similar trend is exhibited in general, as the average has rose to around 30% in recent years.



Preliminary earnings results for 2021

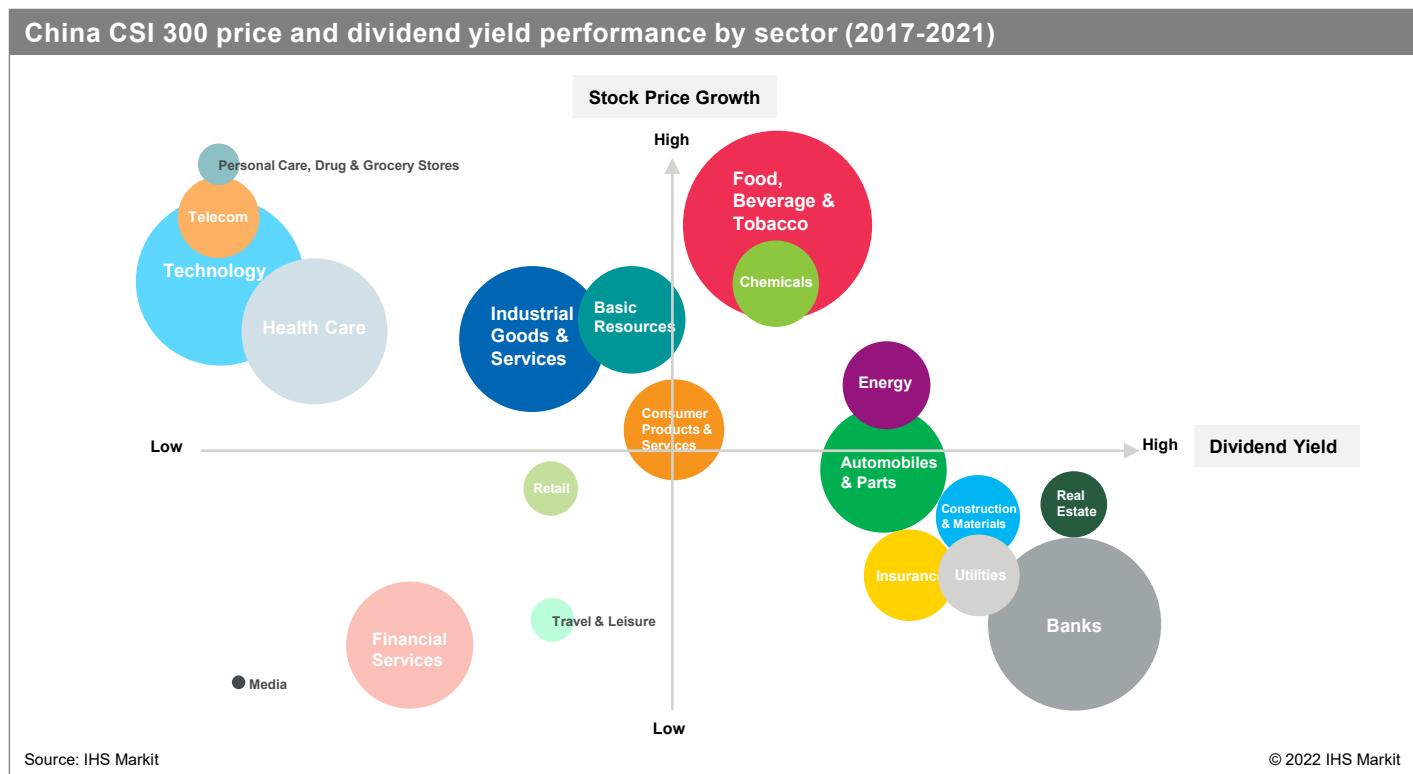
Cash dividend of a firm is typically paid out from its distributable profit. Therefore, for most of the listed companies in normal circumstances, profit level is one of the crucial factors to indicate the potential dividend movement of the company. Looking at CSI 300 index universe, 126 companies have posted their preliminary profit estimated for FY 2021 in Shanghai Stock Exchange or Shenzhen Stock Exchange.¹ The top three sectors which have large profit increase expected for FY2021 are Technology, Basic Resources, and Chemicals, among which we believe companies such as **Hoshine Silicon Industry (CNE100002V10)**, **Longi Green Energy Technology (CNE100001FR6)**, **Tianjin Zhonghuan Semiconductor (CNE1000000B8)** and **Unigroup Guoxin (CNE000001M14)** are likely to declare a significant higher dividend for the year in the upcoming a few weeks. On the other hand, banks, which constantly form the top dividend distributing sector and offers attractive dividend yield, only have Bank of Chengdu posted a 18–25% year-on-year (y/y) increase estimated for its FY 2021 net profit. For the rest banks, given the long track record, dividends typically come without surprise and consistently take up about 30% of their annual profit respectively.

1. Extent of profit movement based on the company filing. While no clear percentage criteria is available, large increase/decrease generally means y/y profit movement to be greater than 50%. Source: Shanghai Stock Exchange, Shenzhen Stock Exchange.



Sector quadrant analysis for the past five years

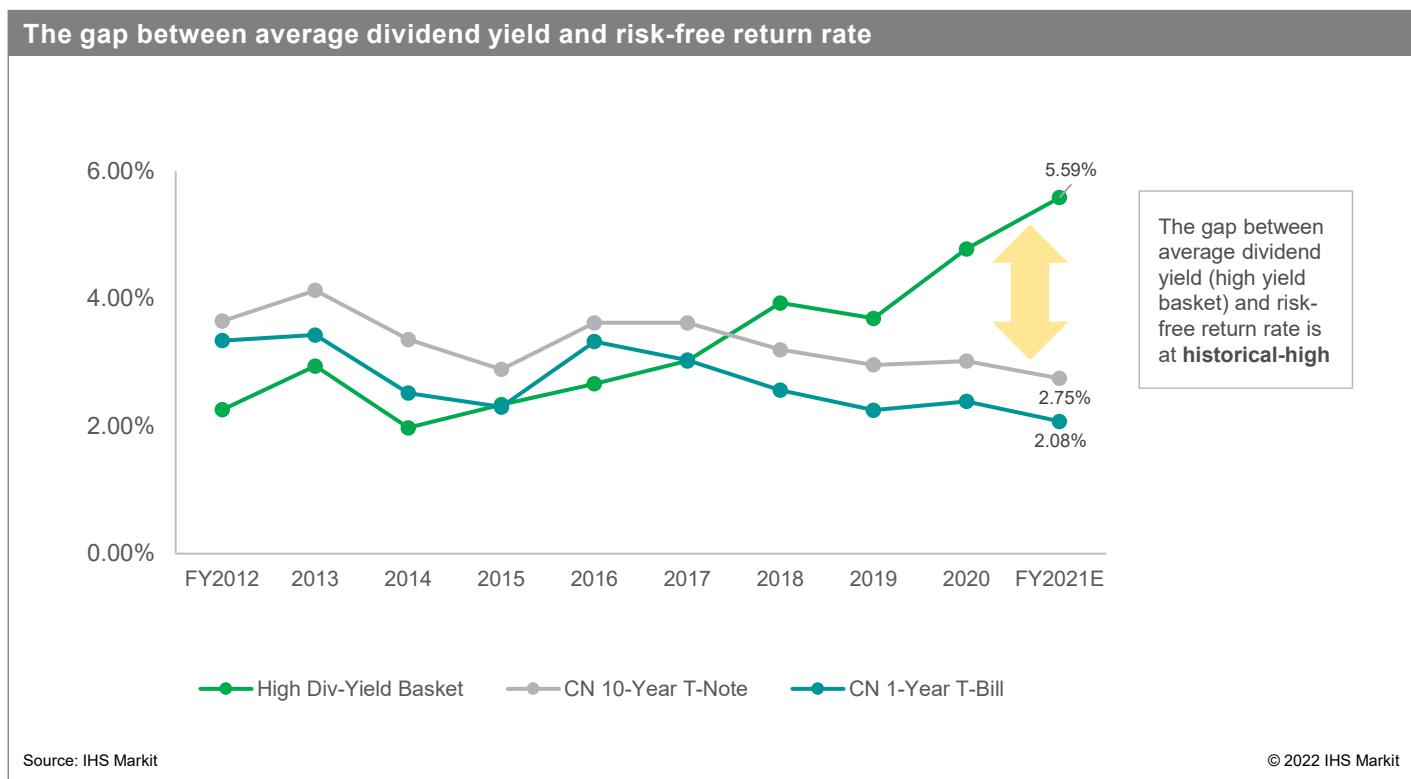
In the preceding quadrant chart, we use share price growth and dividend yield as two metrics to compare the average performance of each sector in the past five years, assuming a one year holding period. The base



point starts from 1.6% median annual share price growth and 1.4% median annual dividend yield.² Among the 20 sectors, food, beverage, and tobacco, chemicals, and energy offer above-average share price growth and dividend yield. Banks, real estate, utilities, automobiles insurance, and construction and materials provide good dividend yield on annual basis and are possibly good selections during the bear market conditions.

High dividend yield basket serves a defensive function

To examine the performance of stocks with high dividend yield in the past five years, we selected a high dividend yield basket from the CSI 300 index, composed of in total 54 stocks (see Appendix). The selection is based on latest index constituents with stocks surpassing the average dividend yield bar of recent years' dataset.³ As shown in the following chart, the gap between the return of high dividend yield basket and risk-free return (CN 10-Year T-Note) is at historical high level, indicating a tipping point of incorporating dividend factors into the capital allocation.



The total return of high dividend yield basket outperformed that of the CSI 300 index under bear conditions, and serves as a defensive function during price downturns. Assuming a holding period of one year, in the year of 2018 when the whole index hit a 23.64% retreat, the high dividend-yield basket outperformed by 2.44%. Similarly, in the year of 2021 when the index total return declined to negative 3.52%, the high dividend-yield basket surpassed by nearly 5.06%. Further, if assuming a holding period of one month (see Appendix)⁴, the high dividend-yield basket outperformed the index 33 out of 45 bear months, presenting a winning chance of 73.3%. This is possibly underpinned by solid fundamentals of high-dividend yield stocks, which are believed to

2. Stock price growth low to high [0.2%, 3.4%], dividend yield low to high [0.5%, 3.6%]

3. FY 2020 dividend yield, trailing dividend yield, and forward dividend yield, data as date of 16 March 2022

4. Monthly bull/bear definition: if index return of a month surpassing the risk-free return (10-year CN T-Note), it's considered as a bull month, vice versa. Michael J. Gombola, Feng-Ying L. Liu, "Dividend yields and stock returns: evidence of time variation between bull and bear markets."

provide substantial and sustainable income distributions. Additionally, many high dividend-paying stocks are in defensive sectors that can weather economic downturns with reduced volatility.⁵

Yearly index and basket return comparison in the past five years					
	2017		2018		2019
	Bull	Bear	Bull	Bear	Bull
Index Total Return	24.25%	-23.64%	39.19%	29.89%	-3.52%
High Div-Yield Basket Price Return	16.77%	-22.54%	21.62%	8.79%	0.08%
High Div-Yield Basket Total Return	18.00%	-21.19%	23.31%	10.22%	1.55%
Total Return Gap	-6.25%	2.44%	-15.87%	-19.67%	5.06%
Outperform?	-	Yes	-	-	Yes

Source: IHS Markit, FactSet

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Appendix

Monthly index and basket return comparison in the past five years				
Bull	Index Return	High div-yield basket return	Gap	Outperform?
January 2018	6.27%	-7.69%	-13.95%	-
March 2018	3.76%	-1.83%	-5.58%	-
May 2018	7.52%	-5.34%	-12.86%	-
July 2018	5.24%	-2.76%	-8.00%	-
September 2018	9.01%	-2.75%	-11.76%	-
November 2018	5.37%	-2.84%	-8.21%	-
April 2019	7.39%	-6.33%	-13.72%	-
February 2020	6.89%	-3.81%	-10.70%	-
August 2020	4.92%	-3.77%	-8.69%	-
February 2021	5.71%	0.42%	-5.29%	-
June 2021	7.89%	-7.97%	-15.86%	-
December 2021	-0.14%	8.25%	8.39%	Yes

Source: IHS Markit, FactSet

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5. D'Souza, Ian, et al. "The enduring effect of time-series momentum on stock returns over nearly 100-years." Asian Finance Association (AsianFA) 2016 Conference. 2016.

Monthly index and basket return comparison in the past five years

Bear	Index Return	High div-yield basket return	Gap	Outperform?
April 2017	-0.45%	5.54%	5.99%	Yes
May 2017	1.78%	7.28%	5.50%	Yes
June 2017	5.59%	7.29%	1.70%	Yes
Jul2017	-2.41%	3.06%	5.47%	Yes
August 2017	-0.46%	2.12%	2.58%	Yes
September 2017	-4.26%	4.26%	8.51%	Yes
October 2017	0.01%	4.45%	4.43%	Yes
November 2017	-0.61%	1.71%	2.33%	Yes
December 2017	-5.75%	14.50%	20.24%	Yes
February 2018	3.21%	-5.00%	-8.21%	-
April 2018	-1.44%	-1.36%	0.08%	Yes
June 2018	-1.01%	3.14%	4.15%	Yes
August 2018	-3.13%	3.54%	6.67%	Yes
October 2018	-0.60%	-0.97%	-0.37%	-
December 2018	-5.97%	6.20%	12.16%	Yes
January 2019	-12.77%	9.07%	21.84%	Yes
February 2019	-5.25%	3.05%	8.30%	Yes
March 2019	-1.10%	0.97%	2.07%	Yes
May 2019	-5.71%	4.46%	10.17%	Yes
June 2019	-1.05%	1.06%	2.12%	Yes
July 2019	0.70%	-3.80%	-4.50%	-
August 2019	-0.48%	1.90%	2.38%	Yes
September 2019	-1.87%	1.92%	3.79%	Yes
October 2019	1.51%	-0.99%	-2.50%	-
November 2019	-6.55%	6.91%	13.46%	Yes
December 2019	2.31%	-4.30%	-6.62%	-
January 2020	1.62%	-3.54%	-5.16%	-
March 2020	-5.81%	3.03%	8.84%	Yes
April 2020	0.88%	-2.45%	-3.32%	-
May 2020	-7.81%	3.40%	11.21%	Yes
June 2020	-11.94%	8.70%	20.65%	Yes
July 2020	-2.68%	2.60%	5.28%	Yes
September 2020	-2.32%	-0.32%	2.00%	Yes
October 2020	-5.39%	8.68%	14.08%	Yes
November 2020	-4.82%	-3.69%	1.13%	Yes
December 2020	-2.63%	3.71%	6.33%	Yes
January 2021	0.28%	5.07%	4.78%	Yes
March 2021	-1.56%	-3.04%	-1.48%	-
April 2021	-4.01%	2.58%	6.58%	Yes
May 2021	1.50%	-3.96%	-5.46%	-
July 2021	-0.13%	6.61%	6.74%	Yes
August 2021	-1.27%	3.46%	4.72%	Yes
September 2021	-0.94%	-4.23%	-3.29%	-
October 2021	1.58%	-2.20%	-3.78%	-
November 2021	4.95%	-2.19%	-7.15%	-

Source: IHS Markit, FactSet

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FY 2021 forecast for high dividend yield basket

Stock Name	ISIN	Type	Amount E (CNY)	Ex-date E	Sector
China Vanke	CNE0000000T2	FIN	1.2500	25 August 2022	Real Estate
Gree Electric Appliances Inc. Of Zhuhai	CNE0000001D4	FIN	1.3000	22 August 2022	Consumer Products & Services
Gree Electric Appliances Inc. Of Zhuhai	CNE0000001D4	INT	1.0000	11 April 2022	Consumer Products & Services
Greenland Holdings Group Corporation	CNE000000388	FIN	0.4400	20 July 2022	Real Estate
Shanghai Yuyuan Tourist Mart	CNE000000594	FIN	0.3500	20 June 2022	Retail
CITIC Pacific Special Steel Group	CNE0000008J6	FIN	0.8000	13 April 2022	Basic Resources
GF Securities	CNE0000008L2	FIN	0.4800	7 July 2022	Financial Services
Yunnan Baiyao Group	CNE0000008X7	FIN	1.6000	7 June 2022	Health Care
Haitong Securities	CNE000000CK1	FIN	0.2800	29 July 2022	Financial Services
SDIC Power Holdings	CNE000000JM2	FIN	0.2800	18 August 2022	Utilities
Shenzhen Overseas Chinese Town	CNE000000SS0	FIN	0.1000	9 June 2022	Travel & Leisure
Henan Shuanghui Investment Development	CNE000000XM3	FIN	1.2980	23 May 2022	Food, Beverage & Tobacco
Shanghai Pudong Development Bank	CNE0000011B7	FIN	0.5000	21 July 2022	Banks
Zoomlion Heavy Industry Science and Technology	CNE000001527	FIN	0.2800	6 July 2022	Industrial Goods & Services
Baoshan Iron & Steel	CNE0000015R4	FIN	0.2800	20 June 2022	Basic Resources
China Minsheng Banking	CNE0000015Y0	FIN	0.3100	24 June 2022	Banks
Gemdale	CNE000001790	FIN	0.9000	11 July 2022	Real Estate
China Petroleum & Chem	CNE0000018G1	FIN	0.3100	16 June 2022	Energy
Anhui Conch Cement	CNE0000019V8	FIN	2.3800	16 June 2022	Construction & Materials
China Merchants Bank	CNE000001B33	FIN	1.5220	13 July 2022	Banks
Huaxia Bank	CNE000001FW7	FIN	0.3100	11 July 2022	Banks
Kingfa Sci. & Tech	CNE000001JP3	FIN	0.3000	12 May 2022	Industrial Goods & Services
Bank of China	CNE000001N05	FIN	0.2060	8 June 2022	Banks
Poly Developments and Holdings Group	CNE000001ND1	FIN	0.7600	15 August 2022	Real Estate
Daqin Railway	CNE000001NG4	FIN	0.4800	30 June 2022	Industrial Goods & Services
Industrial and Commercial Bank of China	CNE000001P37	FIN	0.2763	6 July 2022	Banks
Industrial Bank	CNE000001QZ7	FIN	1.0350	29 June 2022	Banks
China CITIC Bank	CNE1000000R4	FIN	0.3020	29 July 2022	Banks
Bank of Communications	CNE1000000S2	FIN	0.3550	12 July 2022	Banks
Bank Of Nanjing	CNE100000627	FIN	0.4830	8 June 2022	Banks
Bank Of Beijing	CNE100000734	FIN	0.3330	18 July 2022	Banks
China Construction Bank	CNE100000742	FIN	0.3470	15 July 2022	Banks
China Shenhua Energy	CNE100000767	FIN	2.5400	4 July 2022	Energy
PETROCHINA	CNE1000007Q1	FIN	0.0991	28 June 2022	Energy
China Railway Group	CNE100000866	FIN	0.2000	5 August 2022	Construction & Materials
China Pacific Insurance (Group)	CNE1000008M8	FIN	1.0000	30 June 2022	Insurance
China Railway Construction	CNE1000009T1	FIN	0.2900	26 July 2022	Construction & Materials
CRRC Corporation	CNE100000CP9	FIN	0.1700	12 August 2022	Industrial Goods & Services
China State Construction Engineering	CNE100000F46	FIN	0.2200	30 June 2022	Construction & Materials
China Merchants Securities	CNE100000HK9	FIN	0.5400	1 August 2022	Financial Services
Agricultural Bank of China	CNE100000RJ0	FIN	0.1972	17 June 2022	Banks
China Everbright Bank	CNE100000SL4	FIN	0.2010	21 July 2022	Banks
Lomon Billions Group	CNE1000015M3	FIN	0.0000	15 June 2022	Chemicals
Shaanxi Coal Industry	CNE100001T64	FIN	0.8300	11 July 2022	Energy
Guotai Junan Securities	CNE1000022F3	FIN	0.6400	22 August 2022	Financial Services
Seazen Holdings	CNE100002BF8	FIN	2.3600	13 July 2022	Real Estate
Bank Of Shanghai	CNE100002FM5	FIN	0.4800	6 July 2022	Banks
Bank of Jiangsu	CNE100002G76	FIN	0.3060	20 June 2022	Banks
Bank of Chengdu	CNE100002SN6	FIN	0.5600	27 June 2022	Banks
Huaneng Lancang River Hydropower	CNE100002T71	FIN	0.1600	20 June 2022	Utilities
China Railway Signal & Communication	CNE100003MP2	FIN	0.1700	15 July 2022	Industrial Goods & Services
CGN POWER	CNE100003N43	FIN	0.0840	13 July 2022	Utilities
CHINA ZHESHANG BANK	CNE100003PS9	FIN	0.2300	1 August 2022	Banks
Postal Savings Bank of China	CNE100003PZ4	FIN	0.2365	22 July 2022	Banks

Note: Stocks are in analyst coverage and as of date of 28th March 2022

Source: IHS Markit

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