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BT Group PLC

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To cut or not to cut: dividend divergence in the face of coronavirus

Dividends and shareholder returns are being slashed or suspended in the face of escalating worries about the economic fallout from coronavirus, but while news of prudent cuts sent some shares surging higher, others kept on plummetting regardless.

Thursday saw a rush of shelved dividends, which some analysts suggested could spur some bigger names to make a move that has long been on the cards, such as BT Group (LON:BT.A), or those where financial indicators point to major pressure on the payout, such as Centrica (LON:CNA), BP (LON:BP.), Royal Dutch Shell (LON:RDSB) and WPP (LON:WPP).

Analyst Graeme Kyle at Shore Capital invoked investment sage Warren Buffet's line about "only when the tide goes out do we see who has been swimming naked".

He said investors have swiftly moved on from concerns over the earnings impact of coronavirus on to "whether businesses are financially robust enough to withstand what is likely to be a significant period of low economic activity".

What will be interesting to see, said Russ Mould, investment director at AJ Bell, is whether some CEOs and boards choose this moment to rebase their dividends, with 2020 forecast earnings cover for the FTSE 100 suggests many firms are paying out higher dividends than they can truly afford, "perhaps to curry favour with income-hungry investors".

Some companies may therefore take the drastic economic setbacks sparked by coronavirus as a "chance to reset pay-out expectations", Mould said, so they can better balance the need for investment in the business, paying down debt and pension fund requirements with the demands of shareholders.

Price: 136.5

Market Cap: £13.55 billion

1 Year Share Price Graph

Share Information

Code:		BT.A
Listing:		LSE
52 week	**High**	**Low**
	209.2	**1.0212**
Sector:		**Telecoms**
Website:		**www.btplc.com**

Company Synopsis:
Operating in over 170 countries, BT is one of the world's leading providers of communications solutions and services.

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Different strokes for different dividends

Over in the retail sector, retail giant Next PLC (LON:NXT) showed off its power to some extent, by saying that it will not yet pull its dividend as it could absorb a £1bn loss if the pandemic does not abate soon.

Instead of proposing a final dividend of 116.5p per share, the FTSE 100 clothing chain said it would pay a second interim payout of up to the same amount some time between August and October, if appropriate, but if the coronavirus situation worsens it could also suspend share buybacks and even, as "a last resort", hold back the dividend for both 2020 and 2021.

Next's shares rose 4% to 4,000p on Thursday, recouping some of the 44% decline so far in 2020.

Not possessing quite the same financial might, Elementis decided to keep hold of the US$33mln it would have used to pay a final dividend that it had promised to pay on 29 May, a move that sent the FTSE 250-listed chemicals group's shares rocketing back up 170% to 50p. They still down 78% since the start of the year, however.

Similarly, National Express (LON:NEX) shares revved up 21% to 109p, reversing a portion of an 80% plunge since the start of the year, after the bus and coach group said it was deferring executive pay and reviewing whether to pay a dividend ahead of May's annual shareholder meeting.

There was no such reaction for Crest Nicholson (LON:CRST) as the housebuilder withdrew its final dividend, saying it expects the incoming coronavirus lockdown in the UK to severely curtail housing production and customer visits. Its shares fell 20% to 188.6p and are now down 57% this year.

NEW: Plunging shares in housebuilders offer "significant opportunity"

It was a smaller 5% decline to 254.3p on Thursday for Direct Line (LON:DLG) as the insurer suspended its share buyback to protect it solvency position. Solvency was 163% on 18 March versus 165% at year-end, so still well within its 140-180% target range after absorbing a recent dividend and the market's volatility.

Also today, property developer NewRiver REIT (LON:NRR) said it was suspending its fourth-quarter dividend of 5.4p, as well as all non-essential capital expenditure, alongside reductions in operating expenses. Its shares fell 17% to 69.3p, down 65% this year.

Playtech (LON:PTEC) also suspended the final €30mln of its share buyback and pulled its €0.12 dividend as the online gaming and trading group tries to protect cash flow amid the coronavirus pandemic. Having already fallen by 65% this year, the shares ended almost flat on the day at 140.3p.

The reverse-gold rush on Thursday came like the levee had broken after a dribble of dividend deletions in recent days and weeks, with bookmaker William Hill (LON:WMH), car dealer Pendragon (LON:PDG) and retailer Shoe Zone (LON:SHOE) all a day earlier, and one of the first movers was Berkeley Group (LON:BKG), which last week **pulled its £450mln planned payout**.

Confidence is a preference for some investors

But this was only part of the story, with more than a handful of companies feeling confident enough not only to maintain their payout but even increase it.

Sanne (LON:SNN) said it was well prepared for the Covid-19 outbreak and increased the dividend 2.2% to 14.1p per share. Investors were impressed enough to send shares in the FTSE 250 fund administrator up 11% to 520p, recouping some of the 34% decline so far in 2020.

Healthcare advisory firm Cello Health (LON:CLL) was in tune with investors as it increased its dividend 6.5% to 4.1p per share after generating higher revenues and profits for 2019. Its shares climbed 2% to 105.67p, down 22% this year.

OneSavings Bank PLC (LON:OSB), on the other hand, saw its shares slide 17% to 173p as it recommended the payment of a final dividend of 11.2p per share, but said it could not issue any financial guidance amid so much uncertainty. Despite a last year ending with a CET1 capital ratio of 16%, shares are down 61% this year as investors worry about its exposure to the buy-to-let market.

Kenmare Resources plc (LON:KMR) stuck to its dividend plans, announcing a payout of 8.2 cents per share, in line with its stated 20% of earnings policy and with plenty of liquidity to back it up. Its shares fell just 4% to 171.4p, down 28% in the year to date.

Who could be next in line?

AJ Bell's Mould highlighted sky-high yields of Centrica, BP, Shell and WPP have only a thin protection of dividend cover, which he said was part of four "rigorous mathematical tests" that investors can apply to check the degree to which a forecast dividend payment may be safe: a company's dividend cover by earnings and by cash flow, interest cover and the size of its pensions deficit.

With profit estimates at other groups likely to start coming down very quickly, he highlighted likely dividend risks at Carnival (LON:CCL), IAG (LON:IAG) and easyJet (LON:EZJ).

Furthermore, if there is a global recession, Mould said commodity prices would be likely to weaken, which would put miners' profits under pressure, "although they have at least cleaned up their balance sheets in the past few years, and the banks may have to rein in dividend growth plans too, if loan books start to sour and interest rate cuts further pressure their net interest margins".

A quick glance at the companies with the worst interest cover in the market including the aforementioned Capita, FirstGroup (LON:FGP), Intercede (LON:IGP) and Reach4Entertainment (LON:R4E), Cairn Energy (LON:CNE), Trainline (LON:TRN), MicroFocus (LON:MCRO), AstraZeneca (LON:AZN), Spire Healthcare (LON:SPI), Cineworld (LON:CINE), Drax (LON:DRX), the AA (LON:AA.), Premier Oil (LON:PMO), G4S (LON:GFS) and Finablr (LON:FIN).

This is based on reported measures, whereas on an adjusted earnings per share basis some of these companies, like AstraZeneca and Drax, look in much finer fettle.

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