

Greggs PLC

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Dividend dump hits £1.5bn as UK PLC conserves cash for coronavirus battle

Ever more FTSE companies are joining the mass dividend dump to preserve cash during the coronavirus crisis, taking the total to around £1.5bn of promised or potential payouts that have been ditched in 2020.

Seventeen companies cancelled or postponed their payout on Monday alone: Aggreko PLC (LON:AGK), Bonhill Group (LON:BONH), Card Factory PLC (LON:CARD), Colefax (LON:CFX), Filta Group Holdings PLC (LON:FLTA), G4S PLC (LON:GFS), Go-Ahead Group PLC (LON:GOG), Greggs PLC (LON:GRG), ITV PLC (LON:ITV), IWG PLC (LON:IWG), Kingfisher PLC (LON:KGF), Lookers PLC (LON:LOOK), Marshall Motor Holdings Plc (LON:MMH), N Brown Group PLC (LON:BWNG), TheWorks.co.uk PLC (LON:WRKS), Stagecoach PLC (LON:SGC) and Synectics PLC (LON:SNX).

The colossus that is Royal Dutch Shell PLC (LON:RDSB) **waved its dividend around** rather than waiving it entirely, but this needed the big oiler to slash US\$8-9bn of costs and cancelling a US\$1bn share buyback scheme in order to do preserve the sacrosanct payout.

Furthermore, Britvic PLC (LON:BVIC) said it will "reflect at the appropriate time" about whether to pay its interim dividend due in mid-May, and Pearson PLC (LON:PSON) had no dividend to get rid of, so to join in with the corporate cloth-cutting said it was cancelling its share buyback programme instead.

Various equity analysts responded to all the dividend cuts as "absolutely fair enough", "prudent" or "not surprising".

Whether expected or not, it was "another brutal day for income-seekers", said Russ Mould, investment director at AJ Bell, calculating that the £500m loss of income from on Monday alone takes the running aggregate this year to some £1.5bn.

Such dividend cuts are "deeply unnerving" to income investors, agreed Nick Britton at the Association of Investment Companies (AIC), especially if they are relying on that income for living expenses.

"Naturally, there are no guarantees. The next few months will be a testing time for all equity income investors, and there's no knowing how far this bear market will go," he added.

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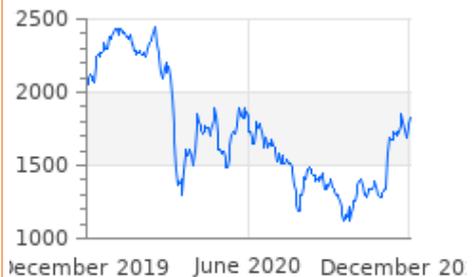
The bonfire of the dividends truly got going last week, with Marks & Spencer Group shelved its £132.6m payout, while InterContinental Hotels PLC and Micro Focus International both pulled out of paying out a respective £120.4m and £165.1m to shareholders.

Travis Perkins, William Hill, Crest Nicholson and Gym Group were others that cancelled the cash payouts last week, while Playtech, Inchcape and Direct Line also cancelled buybacks, though several others like Next and National

Price: 1837

Market Cap: £1.86 billion

1 Year Share Price Graph



Share Information

Code: GRG

Listing: LSE

52 week High Low
2550 1113

Sector: Retail

Website: www.greggs.co.uk

Company Synopsis:

UK's leading retailer specialising in sandwiches, savouries and other bakery-related products, with a particular focus on takeaway food and catering.

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Express said they were not cancelling the payouts yet.

Some companies like easyJet (LON:EZJ) have claimed they cannot cancel their dividend, despite still calling for a state bailout, as they are "legally obliged" to do as part of their stated dividend policy.

Analyst Neil Wilson said: "Governments won't be keen on bailing out firms that keep handing out cash to shareholders in this environment. Shareholders are going to be at the back of the queue."

But, as seen last week, some of the dividend cuts were being applauded by investors, such as at Kingfisher and Stagecoach, where their respective shares rallied 17% and 1% on the day, having fallen more than 40% and 65% since the start of the year, respectively.

Shell's display of power, meanwhile, was rewarded with a 2% gain.

Not all the decisions were greeted warmly however, with IWG down 18% and N Brown tumbling 26%.

More dividend cuts may come

"The pace of cuts is picking up," said Mould, "and more look inevitable as companies scramble to preserve cash and management teams accept their share prices are getting little or no support from any commitments to defend a dividend."

He said the share price reactions show how fast-moving the situation remains and how difficult it is for companies to plan.

"Yet investors are keen to hear how boardrooms are responding to the drop in business that they are facing. They will be looking for detail on plans to cut costs, husband cash and weather the coming downturn."

Investors are now expecting such cuts, he said, and are likely to be realistic enough to know that profit forecasts are likely to be wrong and that financial resources available to a firm and its banking covenants are more important for now.

"If a dividend cut is part of the near-term price that must be paid to ensure a firm's long-term survival or avoid a major rights issue or debt-for-equity swap, then investors may well come to accept it, even if the loss of the precious payments is a big blow."

While Shell and easyJet have addressed investor worries about their payouts, and Carnival did not mention that particular elephant in the room, shareholders still have not heard from other big names where analysts have long suggested a dividend cut is on the cards, such as BT Group (LON:BT.A), or those where financial indicators point to some pressure on the payout, such as BP (LON:BP.), WPP (LON:WPP), IAG (LON:IAG) and Drax Group PLC (LON:DRX).

Time for a dividend hero?

While investment companies may face knock-on effects from these cuts, Britton said many funds have reserves that will enable them to cushion the blow for their investors.

For example, he pointed 21 investment companies, known as "dividend heroes", which have increased their annual dividends for 20 years in a row, throughout the dotcom bubble bursting and the financial crisis.

"Four of these companies (City of London, Bankers, Alliance Trust and Caledonia) have increased dividends for more than 50 years in a row, so they've seen off the stagflation of the 1970s, the early 1990s recession and the Asian crisis as well."

Therefore, Britton advised that for those with a long-term view and a stomach for risk, "the market crash has provided

the opportunity to buy into investment companies with long track records of raising dividends at attractive yields".

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