Declared dividend trends and updates

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25 March 2020

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Summary

In turbulent markets, some companies are cancelling or suspending dividend payments to protect balance sheets

Across the S&P/ASX 300 dividends announced but not paid as at March 25th totalled ~$17.6bn, and the ability to cancel such payments may be a key source of funding for many companies

To date dividends worth $404mn have been cancelled, $384mn deferred and $16.7bn remain 'payable'

Under s.254T of the Corporations Act, a *solvency test* is outlined when considering a company's dividend payment. Interim dividends can typically be cancelled.

Some companies that are raising capital have yet to announce dividend cancellations or suspensions, including OML, SXL and WEB (ex-date 25th March).

A data table with the status of ASX 300 company dividends announced, but yet to be paid can be provided

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To date, a minority of companies that announced but are yet to pay a dividend for the most recent interim or final reporting period have cancelled or suspended payment. The ability to cancel or suspend a dividend liability may prove an important source of additional funding as balance sheets come under stress due to the impact of the COVID-19 pandemic.

As at the close of business on 25 March 2020, ASX300 companies had announced dividends that were unpaid of ~$17.6bn. Of this $17.6bn, ~$16.7bn remains active and is at present expected to be paid as scheduled, $384mn has been deferred and $404mn worth of expected dividends have been cancelled.

Section 254T of the Corporations Act provides a solvency based test for the payment of dividends (formerly the Corporations Act provided that dividends could only be paid out of profits). The solvency test has three separate limbs to satisfy; a dividend cannot be paid unless:

- The company's assets exceed liabilities immediately prior to payment of the dividend;

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- The payment of the dividend is fair and reasonable to shareholders as a whole; and
- The payment of the dividend does not materially prejudice the company's ability to pay its creditors.

In relation to the final limb the relevant time for determining the ability to pay creditors is when the dividend is being paid, not when the dividend is declared.

Investors considering a company's ability or willingness to pay dividends, should consider that there is a distinction between a "declared dividend" and where a company "determines to pay" a dividend. Once a final dividend is declared it becomes a debt owed by the company to shareholders, and shareholders may enforce this just like any other contractual debt. No debt is triggered where a dividend is determined to be paid until the time of payment. There is also a distinction between final dividends and an interim dividend. Unlike a final dividend, an interim dividend can be rescinded after it is declared but before it is actually paid. Therefore, shareholders cannot enforce payment of an interim dividend, even if it has been declared.

As at the time of writing, some businesses that have yet to pay announced dividends remained in trading halt, pending capital raising or other such announcements. This includes OML, WEB and SXL among others. For these companies no announcement has been made as to dividend suspension or cancellation, including WEB which had previously announced its ex-dividend date to be 25 March. COH announced a material capital raising on 25 March, but made the decision to pay its $92.5mn interim dividend due in April. PRN (formerly Ausdrill) announced on 25 March, the date on which its dividend was due to be paid, the deferral of the interim dividend payment until 20 October and the reinstatement of the DRP with effect from 21 April to allow shareholders to receive their shares on 28 April 2020, in lieu of the deferred cash payment (with the pricing to be determined using the 15 day VWAP from 12 March to 1 April).

In conjunction with dividend cancellations and deferrals some companies have also been announcing additional cost reduction measures which include adjustments to board and executive remuneration. Such companies include QAN who have advised among other things that for the remainder of FY20 the CEO and board chair will receive no pay. FLT initially announced that directors would take a 30% reduction in fees for the remainder or FY20 and have

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most recently announced that its senior leadership team will give up 50% of their salaries, with no bonuses to be paid in FY20. AIA at the time it announced the cancellation of the interim dividend also advised that the board has reduced director fees by 20% for FY20, with the CEO volunteering to cut his salary by the same proportion. APE, when announcing the 50% reduction in their full year dividend, also advised that non-executive directors have all elected to forgo fees with immediate effect and that the CEO's total remuneration package has been reduced by 46%. This includes the CEO forgoing participation in all variable incentive schemes – with no senior executive participating in any new equity plans in 2020 - and a fixed pay reduction, although this has not been quantified.

Other companies where dividends have been deferred or cancelled, including CTD, WPP, FBU, IGL, NCK and DOW, have not indicated any remuneration adjustments at this stage.

Appendix 1: Dividend payments announced and still active

Contact OM for a current table of Dividends announced but not yet paid (and able to be deferred / cancelled).