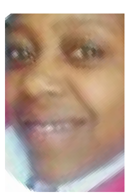
Dividend Payouts By Chinese Companies Continue To Rise Despite A Fall In Earnings Over Recent Months

16 September 2016
By **Nyambura Tabitha**
Markets Reporter



Dividend payments for Chinese mainland companies have risen steadily in the recent past despite falling earnings. According to JPMorgan Asset Management, the rise has been influenced by improved cash flow management among mainland companies and it seems this trend is sustainable.

A report by JPMorgan Asset Management noted that more and more companies listed in Hong Kong and Shanghai stock exchanges have been paying a steady dividend to their shareholders even as earnings drop due to the lackluster Chinese economic performance in recent months. The trend has seen income equity investment in Chinese companies outperform stock benchmarks over the last 12 months and with improved cash flow management in mainland companies, it is clear that the trend looks sustainable.

Capital expenditure among Chinese companies has also gone down. Operating cash flow and free cash flow in these companies is improving and with that the opportunity for steady dividend payments looks very good.

Promising Progress...

The total number of Chinese companies that have paid dividend over the last decade has increased substantially. The total amount of dividend paid to shareholders and investors has also gone up. Data from UBS showed that the number of A-Listed companies that paid dividend in 2015 stood at 1,993, a remarkable improvement compared to just 704 recorded a decade ago. The total amount paid to investors has also seen a major bump. In 2015, A-Listed companies paid dividend totaling 831 Billion Yuan compared to just 131 Billion Yuan in 2006.

The dividend payouts have come amidst dropping earnings. In the first half of 2016, the combined profits for the 2911 companies listed in Shanghai and Shenzhen fell 4.1% to 1.4 Trillion Yuan. This was actually the worst recorded aggregate over the last seven years. JPMorgan Asset Management notes that in 2015 alone A-Listed companies paid at least 30% of total profits in dividends.

Investment Strategy In A-Listed Companies

For quite some time many Chinese investors have favored investment strategies that focus on capital appreciation through growth of stocks. However, under current market conditions and the progress of the Chinese economy it might be prudent to shift towards an income strategy. Banking, industrial and consumer stocks should be an ideal pick for investors at the moment. However, the flat earnings in the Banking sector and some serous debts have reduced the dividend payout ratio. Despite this, the banking sector has outperformed the industrial and consumer sectors in terms of dividend payouts.

The potential for the industrial sector is however not bad. With a 15-20% dividend payout ratio, this number is bound to increase in the future due to massive investment by the Chinese government on infrastructure. The industrial sector also has better cash flow. In addition to this, many global banks are shifting from monetary easing to fiscal policy measures and with the Federal Reserve expected to raise interest rates this year, yields in global bonds market have gone up. This has in turn put additional pressure on high dividend yielding stocks globally.

> "For quite some time many Chinese investors have favored investment strategies that focus on capital appreciation through growth of stock"

Investing In Listed Chinese Companies with JPMorgan China Region Fund

The JPMorgan China Region Fund (JFC) is a closed-end Fund that invests in equity securities of companies in China, Hong Kong, Taiwan, and Macau. The Fund is a vehicle that offers investors an opportunity to invest in listed Chinese companies under a managed portfolio. The JPMorgan China Region Fund is trading at the New York Stock Exchange and you can buy into the company by purchasing its shares under the ticker symbol JFC. At the close of trade yesterday the stock was trading at $17.23 per share

Disclaimer: The opinions in this article are for informational purposes only and should not be construed as a recommendation to buy or sell the stocks mentioned. Please do your own due diligence before making any investment decision.