

An x y and zee Equity Income Update

Currency Impact

There are hundreds of companies which are either listed in one currency and pay dividends in another, or report in one currency and pay dividends in a range of currencies. I term this “dividend currency risk” and I don’t think that it’s fully understood. For some investors, dividends - when currency translated - may come as a pleasant surprise or a rather nasty shock.

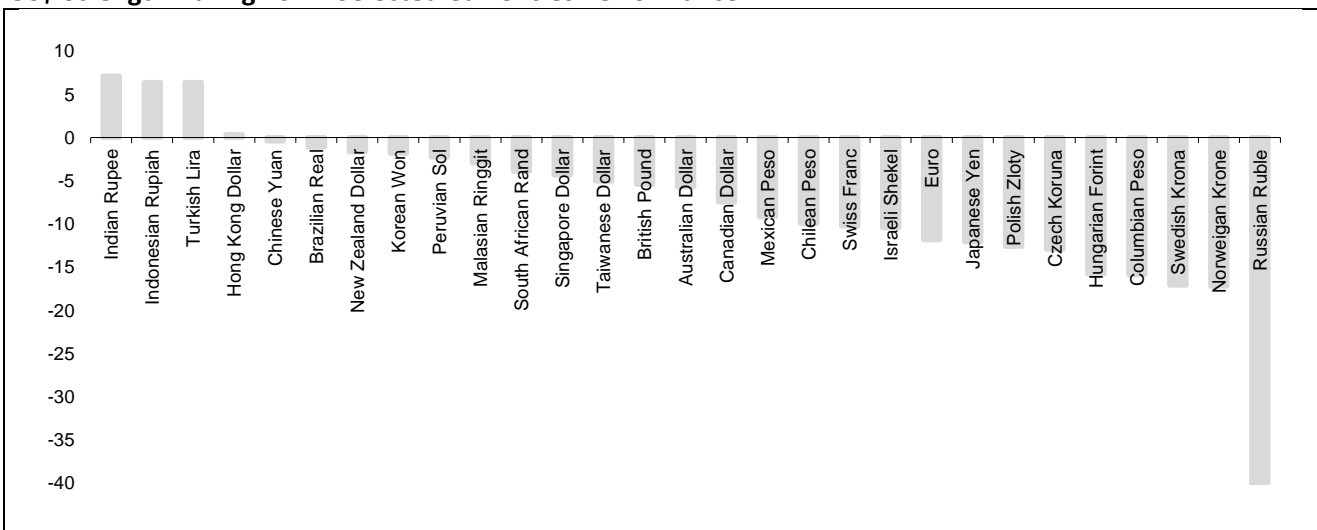
The Impact of Currencies on Dividends

Roughly half of US corporates' earnings are generated outside of the US, with a stronger dollar being worth much less to those companies when reported, which might upset expected earnings going into 2015. A stronger dollar also heavily influences the oil price and other commodities. Indeed, the sharp fall in the price of oil is somewhat partially due to the strong Dollar.

Since the end of August, the US\$ has strengthened almost 10% on a trade weighted basis against a basket of currencies. Pretty much every other currency has fallen relative. The Euro has fallen sharply since December 2014 as the market anticipated QE in Europe. The Yen has fallen around 30% against the US\$ which should mean strong corporate profits for those Japanese manufacturers with international revenues. However, Sony recently said that for each one Yen move against the dollar, operating profits are cut by Y3bn, with any gain on foreign revenues more than offset by higher costs of importing components for smartphones and the playstation¹. In the UK, the OBR's forecast of Sterling going nowhere over the next five years due to the fiscal deficit has also hit the currency relative to the Dollar². We all know about the Russian Rouble but I'm not sure the weakness of the Norwegian Krone has been flagged enough.

Who foresaw the Swiss National Bank's capitulation with regards their peg to the Euro that had been in place since 2011? I'm not a currency specialist but anyone could see that it was costing them far too much to maintain, with currency flows out of Greece and now Russia into Switzerland also not helping. The SNB (having increased its balance sheet by more than 80%, compared to the Fed's at around 25% of GDP) will likely be the big loser but Swiss domiciled equities with significant international operations will also be hit, as evidenced by sharp falls in the share prices of Swiss "multi-nationals".

US\$ Strength During 2014: Selected Currencies Performance



Source: Thomson Reuters Datastream

¹ Financial Times, December 2014, www.ft.com

² OBR Economic & Fiscal Outlook, December 2014,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382525/December_2014_EFO.pdf

Many corporates will tell you that they hedge currency exposures for their fixed asset portfolio but that doesn't mean that dividend payments will be protected. There are hundreds of companies which are either listed in one currency and pay dividends in another, or report in one currency (many large corporates – such as the energy sector – report in US Dollars) and pay dividends in a range of currencies (including US Dollars, but in many cases also Euros and Sterling, see table below). I term this “dividend currency risk” and I don't think that it's fully understood. For some investors, dividends - when translated - may come as a pleasant surprise or a rather nasty shock.

To give an example of currency changes on dividend payments, if we compare quarterly dividends that Royal Dutch Shell (which is listed in both the UK and The Netherlands, and reports results in US Dollars, paying dividends in a range of currencies including Sterling, Euros and Dollars), has paid during 2014 and assume a continuation for the fourth quarter (as is the norm), then the 4.4% increase in US Dollars translates (at current spot rates) to a 29% increase in Euros and a 17% increase in Sterling terms.

Royal Dutch Shell Dividend Payments By Quarter

<u>Quarter</u>	<u>GBP</u>	<u>Q-on-Q Change (%)</u>	<u>Euro</u>	<u>Q-on-Q Change (%)</u>	<u>US\$</u>	<u>Q-on-Q Change (%)</u>
Q4 2014 Estimate	31.49	17.2%	0.4183	28.9%	0.47 (Est.)	4.4%
Q3 2014	30.16	9.6%	0.3828	16.4%	0.47	4.4%
Q2 2014	29.09	1.5%	0.3632	6.6%	0.47	4.4%
Q1 2014	28.03	-3.3%	0.3468	1.7%	0.47	4.4%
Q4 2013	26.88	-6.6%	0.3244	-2.1%	0.45	4.7%
Q3 2013	27.51	2.4%	0.3290	-1.3%	0.45	4.7%
Q2 2013	28.67	5.9%	0.3406	-0.4%	0.45	4.7%
Q1 2013	28.99	3.8%	0.3411	-1.6%	0.45	4.7%

Source: Royal Dutch Shell, Thomson Reuters Datastream. Note: 2014Q4 Estimate converted at current spot rates.

Note that some companies pay dividends in a whole range of currencies but as I cannot possibly know where the shareholder may reside, I have shown the currencies for which the dividend is reported and then offered to be paid in the following table. I have also removed Chinese companies listed in Hong Kong as the Hong Kong Dollar is pegged to the US Dollar and the Reminbi is kept in a close band with the US Dollar, therefore both should move in tandem. Below I have simply highlighted those names that exhibit some form of dividend currency sensitivity.

Companies that are "Dividend Currency Sensitive", Top 1000 Dividend Payers by Rank

<u>Divi.</u> <u>Rank</u>	<u>Mkt. Cap.</u> <u>Rank</u>	<u>Company</u>	<u>Sector</u>	<u>Country</u>	<u>Share Price</u> <u>Currency</u>	<u>Reporting</u> <u>Currency</u>	<u>Main</u> <u>Dividend</u> <u>Currencies</u>
3	17	HSBC	Banks	UK	GBP	USD	USD GBP HKD
13	40	BP	Oil & Gas Producers	UK	GBP	USD	USD GBP
14	35	Royal Dutch Shell (A)	Oil & Gas Producers	UK	EUR	USD	USD EUR GBP
18	9	Novartis (R)	Pharmaceuticals & Biotechnology	Switzerland	CHF	USD	CHF
30	72	Royal Dutch Shell (B)	Oil & Gas Producers	Netherlands	GBP	USD	USD EUR GBP
34	82	BHP Billiton Ltd	Mining	Australia	AUD	USD	USD AUD GBP
43	63	AstraZeneca	Pharmaceuticals & Biotechnology	UK	GBP	USD	USD GBP SEK
56	145	Zurich Fin Svs	Nonlife Insurance	Switzerland	CHF	USD	CHF
59	155	BHP Billiton plc	Mining	UK	GBP	USD	USD AUD GBP
60	124	Rio Tinto Plc	Mining	UK	GBP	USD	GBP
67	61	An-Busch InBev	Beverages	Belgium	EUR	USD	EUR
81	199	Nordea Bank	Banks	Sweden	SEK	EUR	EUR
87	174	Glencore	Mining	Switzerland	GBP	USD	USD GBP EUR CHF
97	421	Woodside Petroleum	Oil & Gas Producers	Australia	AUD	USD	USD AUD
99	159	ABB (R)	Industrial Engineering	Switzerland	CHF	USD	CHF SEK
102	280	Standard Chartered	Banks	UK	GBP	USD	USD GBP HKD
108	392	Lukoil	Oil & Gas Producers	Russia	RUB	USD	RUB
116	535	Vale (Pref A)	Mining	Brazil	BRL	USD	BRL
131	126	Teva Pharmaceutical	Pharmaceuticals & Biotechnology	Israel	ILS	USD	ILS
159	263	Potash	Chemicals	Canada	CAD	USD	USD
166	367	Anglo American	Mining	UK	GBP	USD	USD GBP EUR ZAR
178	254	Syngenta	Chemicals	Switzerland	CHF	USD	CHF
182	148	SABMiller	Beverages	UK	GBP	USD	USD GBP ZAR
183	153	BG	Oil & Gas Producers	UK	GBP	USD	GBP
199	1,139	Transocean	Oil Equipment, Services & Distribution	United States	CHF	USD	USD CHF
213	410	Rio Tinto	Mining	Australia	AUD	USD	AUD
273	1,380	Seadrill	Oil Equipment, Services & Distribution	Bermuda	NOK	USD	USD NOK
380	418	Goldcorp	Mining	Canada	CAD	USD	USD
392	544	Thomson Reuters	Media	Canada	CAD	USD	USD CAD GBP
407	667	QBE Insurance	Nonlife Insurance	Australia	AUD	USD	AUD
426	596	Brambles	General Industrials	Australia	AUD	USD	AUD
427	507	Agrium	Chemicals	Canada	CAD	USD	USD CAD
453	467	Experian	Support Services	Ireland	GBP	USD	USD GBP EUR
458	1,045	Tatneft	Oil & Gas Producers	Russia	RUB	USD	RUB
492	272	Brookfield Asset Mgmt (A)	Financial Services	Canada	CAD	USD	USD
530	684	Grupo Mexico	Industrial Metals & Mining	Mexico	MXN	USD	MXN
568	425	Magna	Automobiles & Parts	Canada	CAD	USD	USD CAD
612	912	Talisman Energy	Oil & Gas Producers	Canada	CAD	USD	USD
644	497	Smith & Nephew	Health Care Equipment & Services	UK	GBP	USD	USD GBP
659	1,184	STMicroElectronics	Technology Hardware & Equipment	Switzerland	EUR	USD	USD EUR
702	526	Barrick Gold	Mining	Canada	CAD	USD	USD CAD AUD
733	1,276	James Hardie Industries	Construction & Materials	Ireland	AUD	USD	USD AUD
752	1,003	Tenaris	Industrial Metals & Mining	Luxembourg	EUR	USD	USDEUR
758	1,271	Rosneft	Oil & Gas Producers	Russia	RUB	USD	RUB
764	1,150	Inmarsat	Mobile Telecommunications	UK	GBP	USD	GBP
766	753	EnCana	Oil & Gas Producers	Canada	CAD	USD	USD CAD
770	2,166	Pacific Rubiales Energy Corp.	Oil & Gas Producers	Canada	CAD	USD	USD CAD
793	752	ArcelorMittal (A)	Industrial Metals & Mining	Luxembourg	EUR	USD	USD EUR
806	519	Fresenius Medical Care	Health Care Equipment & Services	Germany	EUR	USD	EUR
827	853	Carnival	Travel & Leisure	UK	GBP	USD	USD GBP
839	767	Intercontinental Hotels	Travel & Leisure	UK	GBP	USD	GBP
843	1,154	Tullow Oil	Oil & Gas Producers	UK	GBP	USD	GBP
844	1,427	Noble Group	General Industrials	Bermuda	SGD	USD	USD SGD
874	1,606	Petrofac	Oil Equipment, Services & Distribution	UK	GBP	USD	USD GBP
878	1,622	Subsea 7 SA	Oil Equipment, Services & Distribution	UK	NOK	USD	USD NOK
903	178	Shire	Pharmaceuticals & Biotechnology	Jersey	GBP	USD	GBP
924	1,481	ICL-Israel Chemicals	Chemicals	Israel	ILS	USD	ILS
965	1,492	Bombardier (B)	Aerospace & Defense	Canada	CAD	USD	CAD
968	1,471	Surgutneftegaz	Oil & Gas Producers	Russia	RUB	USD	RUB
982	1,236	Computershare	Support Services	Australia	AUD	USD	AUD

Source: Factset, Thomson Reuters Datastream, Company Report & Accounts

As ever, I'd very much welcome any comments, suggestions or constructive criticisms regarding anything included in this note. If you would like any further explanation of commentary contained within this document or any additional data, please let me know. Lastly, if you would like to reproduce any part of this document, please contact me before doing so. Many thanks. Zee.

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