

F&P

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COVID-19 CAPITAL MARKET UPDATE

How are Swedish listed companies communicating around their updated dividend proposals and other extraordinary events in the wake of COVID-19?

Fogel & Partners monitors capital market communication trends in Sweden, and provides current updates of the impact of COVID-19 in this newsletter. To receive regular updates, please subscribe at insights@fogelpartners.se



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Ahead of Q3 – focus on the dividend issue

The global outbreak of COVID-19 early 2020 was followed by unprecedented market uncertainty, frequent profit warnings and withdrawals or reductions of dividend proposals. Around 116 of the companies listed on Nasdaq Stockholm announced withdrawal or reduction of their dividend proposals during H1, and many companies communicated that the decision would be revisited in the autumn.

As visibility is improving, investors are now looking at the pace of the recovery, and closely observe indications of how long time it will take for companies to get back to “normal” circumstances. In combination with an increased emphasis on liquidity, debt covenants and financial strength, the divide between sectors perceived as hardly hit by COVID-19, and sectors with resilient revenues, or digital business models positively affected by the pandemic, has increased.

Against this backdrop, we believe that the decision on dividend proposal for 2019, and the rationale for this decision, will be scrutinized and seen as an indicator of management’s perception of current status and momentum in the business. A complicating factor is that the use of short-term allowances has sparked a debate whether companies receiving government support should be able to pay dividends at all, unless they repay government subsidies.

Explaining the rationale behind the dividend decisions will be of great importance, and the wording should therefore be carefully considered. Among the companies having published updates on their stance regarding dividends, a few observations can be made. Companies communicating fully reinstated dividends are referring to the recovery they have seen in their business, while companies with partly reinstated dividends high-light the need to be prepared for opportunities that may arise. SCA confirmed the decision to cancel dividend in view of the current circumstances, and instead refers to the customary communication on dividend in connection with the year-end report in January, 2021.

To summarize;

- Updated dividend proposals during H2 are likely to be seen as indicators of current trading and outlook.
- Messaging and rationale should be carefully considered, in order to send the right signals around future performance, liquidity and financial strength, and emphasize that management and BoD are in control of its agenda.



#116

companies
communicated
withdrawals or
reduced dividend
proposals during
H1 2020



#9

companies have
communicated
partly or fully
reinstated
dividends in H2



Communication on dividend for 2019

Examples of fully reinstated dividends for 2019:*

- **FM Mattsson** communicated that it will reinstate dividend of SEK 3,50 per share (3,00) thanks to the group's strong performance and liquidity.
- **Kungsleden** reinstated the proposed dividend of SEK 2,60, which had been withdrawn in April as a precautionary measure.
 - Kungsleden's rationale was that the pandemic has had very limited effect on operations and profit from property management during the period.
- **Husqvarna** communicated on September 10 that the Board of Directors has decided to propose a dividend of SEK 2,25 per share.
 - It is stated that the Board has now assessed the company's financial performance and cash position, as well as general market conditions and concluded that a reinstatement of the dividend is appropriate.

Examples of partly reinstated dividends:**

- **Holmen Skog** announced a partly reinstated dividend proposal to be decided at an EGM on September 16.
 - In April, Holmen's Board withdrew the proposed dividend of 7 SEK for 2019. Following a stronger Q2 than expected, the Board of Directors decided to partly reinstate dividends and proposes a dividend of SEK 3,50 per share for 2019.
- **Wallenstam** announced a dividend for H2 of SEK 0,50.
 - Wallenstam had proposed a dividend of SEK 1,90 per share, in two instalments, but stated that it wanted to wait until the consequences of the COVID-19 pandemic could be better assessed. A dividend of SEK 0,50 per share in total is now proposed. Wallenstam's rationale is that they want to be prepared for business opportunities that may arise, and at the same time pay shareholders a balanced dividend.
- **Sweco** communicated on September 16 that an extraordinary dividend of SEK 3,10 per share will be proposed, resulting in total dividend for 2019 of SEK 6,10 per share, to be compared with the Board's original proposal of SEK 6,20.
 - The main reason for the reinstated dividend is that the Board considers the market situation to be stabilized and that the company has the prerequisites to proceed with an extraordinary dividend.

Examples of confirmed cancelled dividends:

- **SCA** announced on August 26 that it does not intend to render any proposal for dividend this year. The Board of Directors will not call for an EGM to resolve on dividend distribution, due to the "current circumstances". The next dividend will be decided in 2021.
- **Nordea** announced on September 10 that it will follow the ECB recommendation to not issue any dividend for the FY 2019.
 - In the press release it is stated that Nordea is one of the best capitalized banks in Europe with capacity to distribute capital. However, the board of directors also acknowledges the updated recommendation adopted by the ECB on 27 July 2020 and have decided to refrain from deciding on a dividend payment for FY 2019.

"As the Covid-19 pandemic has had a very limited impact on the Company's operations to date, and in view of a recovery in the market, strong demand in the rental- and transaction markets, and significantly improved conditions for financing in the capital market, the Board of Directors proposes that the Meeting shall resolve on a dividend of in total SEK 2.60 per share."

Kungsleden

"We want to be prepared for the business opportunities that may arise in the near future. In combination with these opportunities, it feels positive to also be able to pay the shareholders a balanced dividend in view of the fact that the pandemic is still underway."

Wallenstam

"...In view of the current circumstances, the Board of Directors has resolved not to call for an extraordinary general meeting this year to resolve on dividend distribution."

SCA

*defined as dividends in the same level or higher than previous year and in line with the initial dividend proposal for 2019

**defined as dividends lower than previous year and lower than the initial dividend proposal for 2019

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