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Dividend Slump Ending as Record Cash Lifts Payouts for S&P 500
2010-04-28 04:01:00.14 GMT

By Whitney Kisling

April 28 (Bloomberg) -- The fastest profit growth in 16 years means no companies in the Standard & Poor’s 500 Index are likely to lower their dividends this quarter, the first time that’s happened since 2004.

Of 245 companies in the index yet to announce payouts, 218 will probably keep their level and 27 may increase, according to forecasts based on data compiled by Bloomberg. The projections come from criteria such as options prices, comparisons with competitors and statements from management. S&P 500 dividends were slashed by a record $52 billion in 2009, S&P data show.

“Dividends show what companies are really saying, how they feel about the economy and their prospects,” said Tom Wirth, senior investment officer at Chemung Canal Trust Co., which manages $1.6 billion in Elmira, New York. “When no companies are cutting, that is a signal that the economy is doing well, and it certainly helps the stock market.”

Earnings in the S&P 500 rose 176 percent in the fourth quarter and probably climbed 44 percent in the first three months of 2010, giving companies a record stockpile of cash, estimates compiled by Bloomberg show. That helped spur Starbucks Corp., the world’s largest chain of coffee shops, to offer its first-ever dividend, while Safeway Inc., Exxon Mobil Corp. and Chevron Corp. may boost theirs, the data show.

International Business Machines Corp., the world’s biggest computer-services provider, increased its payout by 18 percent yesterday, more than forecast by Bloomberg. IBM is based in Armonk, New York.

## Not Since 2004

The last time all dividend-paying companies in the S&P 500 maintained or increased their rates was the second quarter of 2004, S&P data show. That was during the first half of the rally between 2002 and 2007 that drove the index up 101 percent.

In the energy industry, 23 percent of companies are forecast to increase payouts through the end of the quarter, the most among 10 groups in the S&P 500. Consumer companies such as carmakers and entertainment companies are next, with 14 percent expected to raise their rates, according to the data.

Safeway, the Pleasanton, California-based grocery-store chain, may push its dividend up 20 percent to 12 cents this month. Pharmaceutical distributor McKesson Corp. in San Francisco may increase its payout 25 percent to 15 cents.
Irving, Texas-based Exxon and Chevron in San Ramon, California, could boost theirs by 4.8 percent and 5.9 percent, respectively, the data indicate.

## 85% Success Rate

Bloomberg's analysis had an 85 percent success rate identifying companies that started dividends or raised them in 2009. Starbucks announced on March 24 its first quarterly dividend since going public in 1992. Nine hours earlier, Bloomberg News said expanding cash levels would prompt the Seattle-based company to boost its rate.

Higher payouts may help increase the S&P 500's dividend yield from 1.80 percent, which is near the five-year low of 1.75 reached on April 23. The measure has slipped from 4.67 percent in November 2008, the highest level in at least 15 years, as a 75 percent rally in the index pushed up prices relative to the cash companies paid shareholders.

"Balance-sheet management has been stellar over the past two years," Jonathan Golub, the U.S. equities strategist for Zurich-based UBS AG, wrote in a note to clients on March 29. "We continue to like high dividend yielding stocks as alternatives to money-market and short-duration bond funds."

More than 800 dividend decreases were announced in 2009, a year after the S&P 500 plunged 38 percent for its worst annual performance since the 1930s. The January-to-March period in 2009 was the worst quarter ever for S&P 500 dividends with $38.7 billion in reductions, according to S&P. The stock index sank to a 12-year low on March 9, 2009.

## Billions in Cash

As the economy rebounded, cash balances rose to a record $831.2 billion at the end of the fourth quarter, according to S&P data. One company cut its dividend and another suspended it during the first three months of 2010, the fewest since 2006, according to S&P.

"Dividends are emblematic of corporate strength," Jack Ablin, chief investment officer at Chicago-based Harris Private Bank, who oversees $55 million, said in a Bloomberg Television interview. "It is remarkable to me the level of cash on corporate balance sheets. It's certainly a strong vote of confidence for corporate America right now."

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The following table lists the S&P 500 companies that are projected by Bloomberg analysts to boost their dividend payouts by the biggest amount in the second quarter of 2010:

| Company (ticker) | Projected Increase |
|---|---|
| McKesson (MCK US) | 25% |
| Safeway (SWY US) | 20% |
| Assurant (AIZ US) | 13% |
| Expeditors International (EXPD US) | 11% |
| Chesapeake Energy (CHK US) | 10% |
| Clorox (CLX US) | 10% |
| Medtronic (MDT US) | 10% |
| Heinz (HNZ US) | 9.5% |
| FedEx (FDX US) | 9.1% |
| Unum Group (UNM US) | 9.1% |

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