



The Week Ahead

Ex-dividend dates:

No ex-dividends in the EuroStoxx50, AEX and CAC40 indices this week.

Events:

16 October: ASML results

17 October: Accor, Pernod Ricard, Unilever, Vivendi results

18 October: Danone results

What to watch:

BAYER – could shed some light on the glyphosate settlement discussions when it presents its Q3 results on 30 October. Bloomberg News [reported](#) in August that Bayer is aiming for a settlement of as much as USD 8 billion to close the 18,400 pending lawsuits claiming that glyphosate – the active ingredient in its RoundUp herbicide – causes cancer. The plaintiffs’ lawyers on the other hand press for a settlement of more than USD 10 billion to drop their claims according to the report. Bayer also postponed the last glyphosate trial that was scheduled this year to focus on a potential settlement.

Bayer expects free cash flow between EUR 3 billion and EUR 4 billion this year and aims to increase it to EUR 8 billion by 2022. This is sufficient to cover the EUR 2.6 billion annual dividend payment, but doesn’t leave a lot of room for a multibillion dollar settlement. Assuming a compensation equal to the plaintiffs’ demand of USD 10 billion, at least two years’ worth of free cash flow will be wiped out. This will force Bayer to steeply cut or even forego its dividend payment. Given that a potential settlement could still be months away, I think it’s most likely that the damages will be booked in 2020. This in turn will likely lead to a steep cut of the 2020 dividend. As a result, there is a significant downside risk to Bayer’s 2021 dividend future, which last traded at EUR 2.32.

EuroStoxx50 News

[10 October] PHILIPS – warned that its adjusted EBITA margin will only improve by 10 to 20 basis points this year, well below the 100 bps yearly target. Furthermore, CEO Frans van Houten said during the earnings call that Philips won’t meet its 15% adjusted EBITA margin target next year. Philips reported adjusted EBITA of EUR 1.41 billion so far this year, slightly above the EUR 1.395 billion it reported in the first nine months of 2018. Assuming a fourth quarter similar to last year, this should lead to adjusted net income around last year’s EUR 1.64 billion.

Philips sets its dividend at 40% and 50% of adjusted net income, with the aim of dividend stability. With adjusted net income around last year’s level and given that the 2018 payout ratio of 48% already was at the top end of the payout range, I expect Philips to maintain its dividend at EUR 0.85 per share. Furthermore, Philips hasn’t increased its dividend in two subsequent years since 2007, which could be another sign that the 2019 dividend won’t be raised. The 2020 dividend future isn’t very liquid as it last traded mid-September at EUR 0.88.

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