

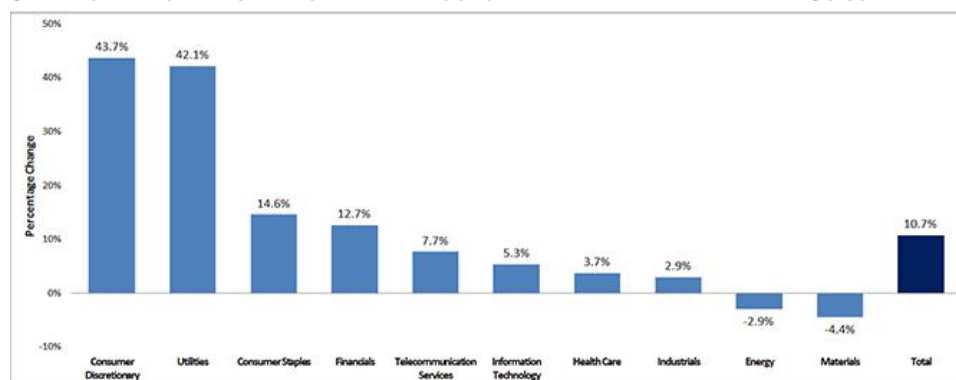
CHINESE FIRMS RAISE DIVIDENDS 2 TO 1

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One of the most disappointing countries in the emerging markets—and where many have the most concerns—is China. There remains a lively debate about what a slowing economic landscape means for China, other emerging markets and even the entire world. These concerns have caused the Chinese equity markets to trade at depressed [valuations](#), and sentiment remains mostly negative. Recently we wrote that positive earnings announcements by large, state-owned financials, coupled with rising payments of cash dividends, might indicate that the problems many have forecast have yet to materialize. I want to expand the dividend analysis we did on Chinese financials [here](#) to a broader set of Chinese equities to showcase how the broader Chinese market dividends have been growing. Given the negative sentiment toward China, and positive underlying trends in cash flows from these companies, China may indeed represent significant opportunities for income-oriented investors. **Chinese Dividend Growth** To expand our [dividend](#) analysis beyond the large financials, I examined all Chinese companies in the [WisdomTree Emerging Markets Dividend Index](#), our broadest emerging market Index. A majority of Chinese firms are annual payers, and we have just passed through the typical dividend announcement cycle, with **54 of the 76** firms in the Index announcing a dividend increase. • The aggregate [Dividend Stream](#)[®] growth for these 76 Chinese firms was 10.7%, or an increase from \$25.2 billion to \$27.9 billion. In the graph below, I will chart the percentage change in the *Dividend Stream*, broken down by sector. **Chinese**

S e c t o r Dividend Stream Growth



Sources: WisdomTree, Bloomberg, as of 4/21/14. Past performance is not indicative of future results.

• Consumer Discretionary

Displayed Highest Growth – Growth in the sector was driven by dividend increases from automobile companies. Great Wall Motor Company, Guangzhou Automobile Group and Dongfeng Motor Group all announced increases of more than 20%. I think this news is very positive and indicates that these companies have been increasing their internal cash flows and have an optimistic view of the future economy, potentially even signaling a growing class of domestic consumers. •

Financials Remain Largest Payers – The top seven *Dividend Stream* increases were all financial firms, and the sector remains the largest dividend-paying sector within the Index. I find it impressive that, despite having the largest payers, the sector was still able to outpace the total Index growth rate. More than 80%, or 14 out of 17 financial firms in the Index, grew their dividends by a total of 12.7%, about 2% above China's total growth. • **Energy and Materials** – These were the only two sectors that saw a *Dividend Stream* decrease. These two sectors have been laggards across all regional markets, mainly resulting from a slowdown in global growth and the rebalancing in China toward a consumer-driven economy and away from infrastructure- and investment-led growth. The two largest dollar decreases were both coal companies, a segment of the energy market particularly hard hit over the past few years due to demands for cleaner-burning energy and competition from increased natural gas production. **Small Caps Also Pay Dividends** When investors think of dividends, they tend to think of mature [large-cap](#) companies as their primary source. As a result, many

investors may mistakenly overlook small-cap equities as attractive income options. The above analysis included 34 firms that are constituents in the [WisdomTree Emerging Markets SmallCap Dividend Index](#). More than 70%, or 24 of the 34 firms, increased their dividends, led by the Industrial sector with 14 firms. I find the dividend increases among smaller-capitalization firms to be a positive signal for the direction of the local economy because companies typically raise dividends when they are optimistic about their future profitability. Also, smaller firms tend to be more sensitive to the economic growth cycle, and their revenues are tied more closely to the domestic consumer. The dividend policy of these small-cap firms will be an important indicator to watch while the Chinese government transitions the economy from export-led growth to growth that's focused more on domestic demand, with the recent dividend increases being constructive. **Conclusion** While great uncertainty remains over the success and trajectory of the Chinese economy and its financial markets, I can't help but ask if many are too pessimistic given the positive trends in dividends, an important underlying [fundamental](#) signal. I feel the broad-based dividend growth across size capitalization and among a majority of sectors is a positive starting point for a potential turnaround, and the price-versus-valuation divergence presents an interesting investment opportunity. For current holdings of the WisdomTree Emerging Markets Dividend Index, please click [here](#).

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DEFINITIONS

Dividend : A portion of corporate profits paid out to shareholders.

WisdomTree Emerging Markets Dividend Index : A cash dividend-weighted Index measuring the performance of dividend-paying equities incorporated within emerging markets.

Dividend Stream : Refers to the regular dividends per share multiplied by the number of shares outstanding.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

WisdomTree Emerging Markets SmallCap Dividend Index : A subset of the WisdomTree Emerging Markets Dividend Index measuring the performance of the smallest firms by market capitalization weighted by cash dividends.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.