Investors may wait longer for higher dividends from US banks

REUTERS, *New York*

Investors had hoped that the biggest US banks would boost dividend payments substantially in 2015, but recent events including slumping oil prices will make it harder for banks to pay out more.

The big banks are already holding more capital than regulators have said they will need by the end of 2018. As banks begin reporting fourth-quarter earnings this week, starting with JPMorgan Chase & Co and Wells Fargo & Co on Wednesday, investors could learn that banks became even more over-capitalized in the last three months.

But hopes that some of that capital will find its way to shareholders seem likely to be unfulfilled. Expected loan losses are rising, especially in the energy sector, and trading markets are becoming more volatile, which makes bank assets riskier. Regulators are less willing to approve big increases in dividends or share buybacks when assets are riskier, analysts said.

Banks' likely difficulty in raising dividends or buying back more shares would be only the latest headache for investors. Since the 2008 financial crisis, partly caused by banks' bad lending and bond underwriting practices, banks have entered huge legal settlements and have struggled to boost their revenue. Historically low interest rates have also depressed earnings.

Paying higher dividends was supposed to be a spur to boost stock valuations in the sector.

Banks pay out a much lower percentage of their earnings than they used to. Between 1999 and 2006, big banks on average paid about three-quarters of their income out as dividends or share buy backs, according to analysts at Credit Suisse, but the ratio in the last few years has been under 50 percent.

The decline in payouts comes in large part because regulators started overseeing dividend payments and share buybacks in 2009. The Federal Reserve was looking to prevent a repeat of 2007 and 2008, where banks paid out more than they earned. Banks have trouble cutting dividends in tough times because they fear the move will signal weakness to customers and investors, further weakening their business. Investors are unsure when that will change.

"Banks are set up to be able to pay out more and they will do that - we just don't know when," said Tony Scherrer, director of research at Smead Capital Management, which owns shares in Bank of America Corp, Wells Fargo & Co and JPMorgan Chase & Co.

The biggest banks are seeking approval for their 2015 dividend plans with the Federal Reserve now, and will learn the results in March.

Of the largest US banks, Citigroup Inc's shareholders may be the most disappointed with low dividend increases in 2015, analysts said. Citigroup has paid the lowest percentage of its profit as dividends to investors of any of the big banks since the crisis - just 1 percent in 2013. Citigroup declined to comment.

Before the last few weeks, investors and bank executives had been hopeful about higher payouts because of the increase in capital.

Loan defaults have been falling thanks to an improving US economy, particularly for commercial loans, giving regulators more comfort about banks paying out earnings to investors. For instance, in the third quarter Wells Fargo not only did not lose a single dollar on commercial loans that went bad; in fact, it recovered $24 million from borrowers who had defaulted.

But energy companies have accounted for a growing share of commercial loans at many banks, and with oil prices having fallen 50 percent in recent months, investors are concerned about rising loan defaults in the coming year.

"Commercial losses are unsustainably low," said Ryan Nash, a bank analyst at Goldman Sachs Group Inc last week. "Somebody is going to have an impact from the fact that oil prices are $47 a barrel just now. It's hard to say who it is."

REUTERS/FILE

People walk by the JP Morgan & Chase Co. building in New York.

Bangladesh, India open third border haat

STAR BUSINESS REPORT

Bangladesh and India yesterday jointly opened the third border haat along the Feni-Tripura frontier in an effort to boost smooth trading between people of the two countries.

Commerce Minister Tofail Ahmed and his Indian counterpart Nirmala Sitharaman inaugurated the haat.

The haat will be on the Chhagalnaia border in Feni district. On the Indian side, the area falls under Srinagar, Tripura.

"I hope this border haat will provide a common marketplace for people along the border and will increase the volume of trade between the two countries," Ahmed said in his speech.

"I strongly believe the facility would not only help the people of the border to improve their fates through bilateral trade but also strengthen economic and cultural ties," he said.

"This haat is a symbol of our friendship," Ahmed said. The commodities sold at the haat will be free of duty, while traders can use Bangladeshi taka or Indian rupees or a barter system for transactions.

However, the estimated value of such purchases shall not exceed an equivalent of $100 for any particular day, the minister said.

The operation of the first border haat was launched in July 2011, at Baliamari of Kurigram district of Bangladesh and Kalaichar of West Garo Hills border of India.

The second border haat began operations in May 2012 at Dalora at Sunamganj district of Bangladesh and Balat at East Khasi Hills border of India.

"Opening of the third border haat will herald a new chapter of cooperation in Bangladesh-India bilateral trade. It will make the border villages on both sides more prosperous through improved market access for the locally produced goods," the minister said.

Locally produced vegetables, fruits, fruit juice, eggs, dry fish, chicken, wooden furniture, soap, potato, processed foods, spices, bamboo, bamboo grass and broomstick, home textiles, garments, melamine products, and small agricultural tools like plough, axe, spade and chisel will be traded at the haat, he said.

People within a five-kilometre radius of the haat will be allowed to enter the market by presenting identity cards.

Malaysian $20b banking merger scrapped

AFP, *Kuala Lumpur*

A planned merger of two Malaysian finance firms that would have created the country's biggest bank has been scrapped three months after it was announced due to concerns about the economy, Bloomberg News reported Tuesday.

The financial newswire, citing unnamed sources with knowledge of negotiations, said it was decided that the 72.5 billion ringgit ($20.3 billion) union of CIMB Group and RHB Capital was now too risky.

Concerns about the economic outlook are mounting in Malaysia, with falling oil prices expected to slash the petroleum-exporting country's trade revenue and the ringgit currency at five-year lows.

The World Bank recently trimmed its economic growth forecast for Malaysia to 4.7 percent for 2015, citing export weakness, the oil price plunge, and subdued prices for other key Malaysian exports such as palm oil.

Ratings agency Fitch had warned last year when news of the impending deal first emerged that it was fraught with risk, particularly difficulties achieving integration. The merger also was to include the Malaysian Building Society, a property lender.

The deal "is better off than on," Geoffrey Ng, a Kuala Lumpur-based adviser for strategic investments at Fortress Capital Asset Management Sdn, was quoted by Bloomberg as saying.

"The overlaps in terms of operation and market coverage would have been too much. The redundancy that would have occurred would have been quite painful." The three institutions had proclaimed in October that they would create a "financial powerhouse" and a "mega-Islamic bank".

It was to be the country's largest bank, surpassing current leader Maybank, and Southeast Asia's fourth-biggest, they said.

Islamic banking fuses principles of Islamic sharia law and modern banking methods. Islamic funds are banned from investing in companies associated with tobacco, alcohol or gambling. Interest on accounts is also banned as usury.

Malaysian authorities have sought to position the country as a leading centre for Islamic finance and also have encouraged consolidation in Malaysia's banking sector to heighten its regional profile and competitiveness.

REUTERS/FILE

A worker puts together orders at the Amazon logistics centre in Brieselang, Germany.

Amazon creates 6,000 new permanent jobs in Europe

REUTERS, *Berlin*

Amazon.com Inc created 6,000 new full-time positions in Europe in 2014 to respond to booming demand, the US online retailer said on Tuesday.

Amazon said in a statement it now employed 32,000 permanent staff in the European Union, with the new jobs created in logistics centres, customer service, software development, supply chain management and design.

"We are still in a phase of investment and look forward to being able to fill more positions in 2015," said Xavier Garambois, Amazon vice president for EU retail, adding that customer demand in Europe was bigger than ever.

Amazon said around 1,200 of the new jobs were in Germany, its second-biggest market after the United States where it employs 10,000 warehouse staff plus more than 10,000 seasonal workers. Britain had the next most new positions with the rest spread around other countries.

***Second from left,* Anand G Mahindra, chairman of Mahindra & Mahindra, and *second from right,* Lee Yoo-il, president and CEO of Ssangyong Motor Co, stand with models posing with Ssangyong Motor Co's Tivoli during its launch ceremony in Seoul yesterday. Ssangyong Motor unveiled its first new model in four years, hoping to accelerate its turnaround from the brink of bankruptcy in the wake of the global financial crisis.**

REUTERS

Panel for quick resolution of insurance claims

STAR BUSINESS REPORT

The Insurance Development and Regulatory Authority Bangladesh yesterday formed a committee for quick settlement of insurances claims.

The committee, a first-of-its-kind, will work to resolve clients' claims swiftly, with the view to improving the image of companies with regards to settlements, said M Shefaque Ahmed, chairman of IDRA.

"The days of waiting and waiting for insurance money will long be gone," he said.

The committee, which will be led by Justice Arayes Uddin, will settle life insurance claims upwards of Tk 25,000 and non-life insurance claims of Tk 5 lakh and above, said the IDRA guideline.

It will organise a hearing for the company and client before giving any decision on the claim. Clients can go to court within 30 working days if he is not happy with the decision of the settlement committee.

The clients will have to pay 2 percent of the total claim amount to the regulator for its service, according to the guideline.

Quddus Khan, member of IDRA, presented the details of the committee at the launch ceremony held yesterday at the insurance regulator's headquarters.

China 2014 trade surplus rockets to record high

AFP, *Beijing*

China's trade surplus soared by almost half last year to a record $382 billion, the government announced Tuesday, but the world's second-largest economy again missed its trade growth target due to weakness overseas.

Exports increased 6.1 percent to $2.34 trillion in 2014, while imports rose 0.4 percent to $1.96 trillion, the General Administration of Customs said on its website.

That translated into a trade surplus of $382.46 billion, the highest ever and a 47.2 percent increase on 2013.

China's huge trade surpluses were long a source of friction between Beijing and Washington, as the workshop of the world pumped out manufactured goods and US debt mounted, but the issue receded in more recent years.

Total trade in 2014 rose just 3.4 percent from the year before, far below authorities' aim of about 7.5 percent and the third consecutive year the official target has been missed.

"The world economy recovered rather slowly and couldn't support China's trade growing at a high speed," said Customs spokesman Zheng Yuesheng.

"China's comparative advantage of low costs continued to wane, while investment in China's manufacturing industry from developed economies declined, containing trade (growth)," he added, stressing that foreign-invested companies are responsible for about half the country's exports.

Zheng attributed the record surplus to falling international commodity prices which dragged down import values.

The trade figures come as China's economy rounds out a disappointing 2014, with growth slowing because of manufacturing weakness, falling property prices and high corporate and local government debt burdens. This prompted the central People's Bank of China (PBoC) in November to cut benchmark interest rates for the first time in more than two years.

Gross domestic product (GDP) expanded an annual 7.3 percent in the third quarter, the slowest since the height of the global financial crisis in early 2009.

Airbus beats Boeing in orders in 2014, but delivers less planes

AFP, *Toulouse, France*

Airbus said Tuesday it beat Boeing with 1,456 net orders last year, but despite handing over a record 629 planes last year to airlines it is still trailing its US rival in deliveries of commercial passenger jets.

The European aerospace company said in a statement that the results "exceeded its targets for 2014" and that at the end of last year it "commanded more than 50 percent market share for aircraft above 100 seats".

Airbus said its second-best year ever for new orders propelled it to industry record backlog of 6,386 aircraft valued at $919.3 billion (777 billion euros) at list prices.

Boeing, which announced its sales and delivery figures last week, had been leading in the orders category throughout the year, but as frequently happens Airbus announced a number of deals in December.

Boeing delivered a record 723 aircraft and took in a record 1,432 orders last year, with its unfilled orders also climbing to a record 5,789 planes.

While the companies focus on the order numbers as they seek to woo even more clients, analysts and investors concentrate on the delivery numbers as the manufacturers get paid when they hand over a plane to airlines.

Airbus chief executive Fabrice Bregier said "2014 has been an excellent year and the teams in Airbus not only delivered on, but exceeded their targets and commitments."

Despite trailing Boeing in overall deliveries, Airbus edged out Boeing in the biggest segment of single-aisle medium-haul aircraft. Airbus delivered 490 of its A320 aircraft while Boeing handed over 485 of its 737 planes to airlines.

These aircraft also accounted for most new orders: 1,321 of Airbus's 1,456 orders last year.

Airbus also missed its target of selling 30 of its superjumbo A380 aircraft, which can carry between 525 and 850 passengers in its different seat configurations, with just 14 net orders.

A milestone for Airbus in 2014 was the certification and first delivery of its long-haul A350, the first of its new generation aircraft whose wings and fuselage are made of carbon fibre and which will save up to 25 percent in fuel consumption.

Boeing had dominated this segment of midsize long-haul aircraft, with its 787 Dreamliner having won over 1,000 orders.

Huawei says 2014 profit likely rose 17pc

REUTERS, *Beijing*

Huawei Technologies Co Ltd likely booked a 17 percent increase in operating profit last year, as worldwide adoption of fourth-generation (4G) mobile technology boosted earnings at China's leading telecommunications equipment maker.

Profit likely reached 33.9 billion yuan ($5.47 billion) to 34.3 billion yuan in 2014, on a roughly 20 percent increase in revenue at 287 billion yuan to 289 billion yuan, the company said on Tuesday in unaudited results.

Huawei competes with Sweden's Ericsson for the top spot in the market for communications towers and other infrastructure, while racing to develop 5G technology.

In the meantime, the gradual switch to 4G networks has boosted business at both players. Huawei on Tuesday said revenue at its carrier network business rose 15 percent last year. China's three carriers alone built close to 1 million 4G towers by the end of 2014, according to some estimates.

Chief Financial Officer Meng Wanzhou on Tuesday said Huawei's 2014 operating profit margin likely matched 2013's 12 percent, and that the company would continue to invest 10 percent of revenue in research and development. Huawei executives in 2013 said the company would invest $600 million in 5G research through 2017. At the same time, the company will continue to pursue its multi-year expansion into smartphones and enterprise computing.