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REUTERS

INVESTMENT FOCUS-Investors banking on dividends despite Deutsche

By Sudip Kar-Gupta

LONDON, Oct 9 (Reuters) - Investors are banking on solid dividend payouts from Europe's top financial companies, even as Deutsche Bank's threat to scrap its dividend has cast doubt on the idea.

Expectations for generous payouts have been driven by several factors. Companies are sitting on large piles of cash, they have mended their balance sheets after the 2008 financial crisis and they are looking to put that money to use in an environment of record-low interest rates.

The financial sector accounts for roughly a quarter of global dividend payouts and makes up the biggest dividend sector in Europe, according to Henderson Global Investors research. But their outlook has been clouded by Deutsche Bank.

On Thursday, Deutsche Bank disclosed a record third-quarter pre-tax loss of 6 billion euros ($6.81 billion). It warned it might cut its dividend.

Analysts also see Volkswagen's dividend at risk. Its shares slumped after VW admitted cheating on diesel emissions tests in the United States.

Nevertheless, fund managers were prepared to view these as two exceptions in an otherwise healthy picture, with liquidity and cash from the European Central Bank likely to keep payouts rising.

"Risks on dividends have clearly risen last month, led by the Volkswagen and Deutsche Bank story. That being said, we remain bullish," said Fabrice Seiman, managing partner at Lutetia Capital, an asset manager which oversees $600 million.

DIVIDEND FUTURES

Henderson Global Investors' research said banks were the biggest contributor to an 8.6 percent rise in European dividends during the second quarter of this year.

Spanish bank Santander said in September it would look to increase its dividend from 2016 onwards. Italian bank Unicredit also pledged this year to boost its dividend in the future.

According to Thomson Reuters StarMine data, the dividend yield for European financial stocks is estimated at 4.5 percent for the next 12 months - above an average of 3.7 percent for the broader European STOXX 600 index.

That has been reflected in the Euro STOXX 50 dividend futures index, in which banks have a heavy weighting.

The dividend futures index is often favoured by hedge funds to beat the market, although it is less liquid than underlying equity indexes so it carries a greater risk of underperformance than more mainstream markets.

The index with contracts expiring at the end of 2015 is up 2.2 percent since the start of 2015. It has also risen for those contracts expiring at the end of 2016 and 2017.

James de Bunsen, fund manager at Henderson Global Investors, said his firm had bought the December 2017 Euro STOXX dividend futures contract. Antoine Porcheret at BNP Paribas also said investors were betting on future rises in those contracts.

"Blue-chip companies will always strive as hard as they can to maintain a stable dividend," added Phoebus Theologites at SteppenWolf Capital. ($1 = 0.8804 euros) (Reporting by Sudip Kar-Gupta, editing by Larry King)