DIVIDEND DASHBOARD

Q3 2021

This report shows:

- Total FTSE 100 dividend payments are forecast to grow by 36% this year to £84.1 billion, a fraction shy of the pre-pandemic peak
- The ten firms that are forecast to generate the majority of this dividend grow
- Rio Tinto is expected to be the index's single biggest dividend payer this year with a payout of £10.8 billion
- Evraz and Rio Tinto are forecast to have the highest dividend yields this year of 17.9% and 17.8% respectively

DIVIDEND DASHBOARD EXPLAINED

Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company. The data below relates to the outlook for 2021 and 2022.

Forecasts aren't a reliable guide to future performance.

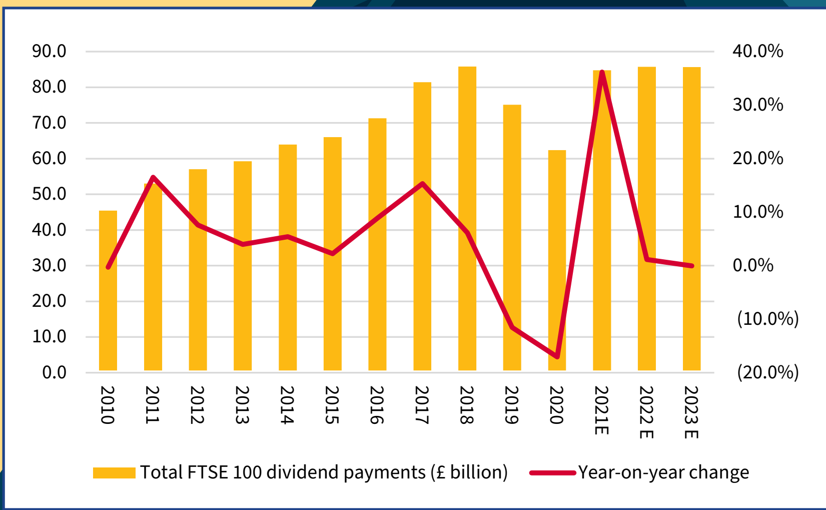
FTSE 100 dividends in touching distance of pre-pandemic peak

The FTSE 100 is currently expected to yield 4.1% in 2021, helped by the first year of dividend growth since 2018. The index's total dividend pay-out is expected to reach £84.1 billion in 2021, compared to £61.8 billion in 2020, an increase of 36%.

Total payments peaked at £85.2 billion in 2018 and 2022 is expected to get tantalisingly close to that mark, at £85.1 billion, as corporate profits, cash flows and confidence look to recover from the effects of the pandemic.

Dividend forecasts for 2021 have advanced for the fourth quarter in a row, buoyed by more optimistic forecasts for miners in particular. This reflects higher industrial metals prices, although September's sharp drops in copper and iron ore could potentially put the lid on this positive forecast momentum, should they persist.

For the moment, however, dividend payments are seen reaching £85.1 billion in each of 2022 and 2023. What's more, dividend cover is improving. The aggregate earnings cover ratio for the FTSE 100 is now forecast at 1.77 in 2021, an improvement on 2020's 1.45 times earnings cover.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Majority of dividend growth comes from just ten firms

Just ten companies are expected to generate 80% of 2021's dividend increase. Rio Tinto and BHP Billiton are the top two, so income-seekers may be concerned by autumn's slump in the iron ore price amid concerns over economic growth in China in particular.

Miners offer five of the six biggest forecast dividend increases in 2021 but that number dwindles to just two in 2022, when reductions at several resources plays hold back the overall forecast for the FTSE 100.

	2021 E	2021 E
	Dividend increase (£ million)	**Dividend increase (% FTSE total)**
Rio Tinto	6,467	28.9%
BHP Group	2,621	11.7%
Anglo American	2,492	11.2%
HSBC	1,182	5.3%
Evraz	1,021	4.6%
Glencore	854	3.8%
Barclays	840	3.8%
Lloyds	838	3.7%
Royal Dutch Shell	768	3.4%
BT	763	3.4%

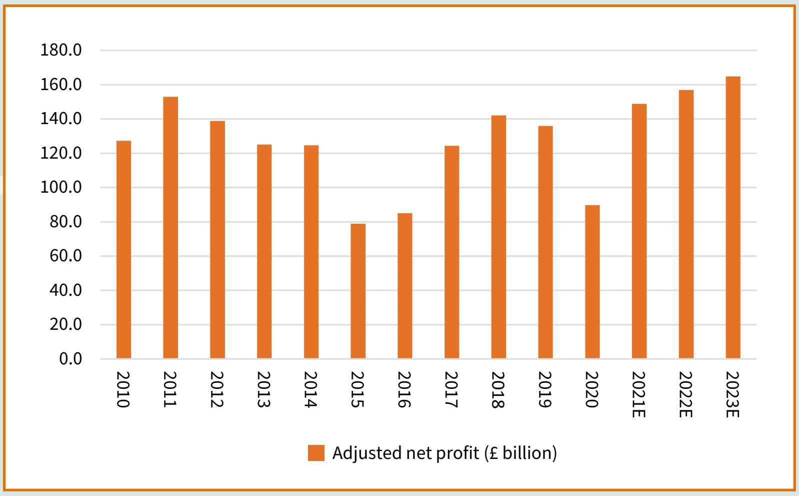
Source: Company accounts, Marketscreener, consensus analysts' forecasts

Company profits forecast to hit record high

A renewed drop in economic activity could still pose a big risk to dividend forecasts. Analysts currently believe that 2022's (adjusted) net profits will exceed not only the pre-pandemic peaks of 2018 but the current all-time high of 2011, when commodity prices were roaring higher, and miners and oil producers generated 42% of the FTSE 100's profits between them.

Miners, oils and financials are expected to generate more than 80% of 2021's expected £128 billion increase in pre-tax income and each of those three is sensitive to global economic growth to some degree or other.

If the economy offers little or no assistance – or even hinders – then these earnings forecasts, and by extension, dividend payment estimates could find themselves exposed to the downside.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Investors still need to focus on concentration risk

By extension, investors must assess concentration risk when it comes to dividends as well as earnings. Just ten stocks are forecast to pay dividends worth £45.6 billion, or 55% of the forecast total for 2021. The top 20 are expected to generate 73% of the total index's pay-out, at £61.1 billion.

Anyone who believes the UK stock market is cheap on a yield basis, and looking to buy individual stocks, glean access via a passive index tracker or even buy a UK equity income fund needs to have a good understanding of, and strong view on, those 20 names in particular.

	2021E			
	Dividend (£ million)	Dividend yield (%)	Dividend cover (x)	Cut in last decade?
Rio Tinto	10,813	17.8%	1.28x	2016
British American Tobacco	4,966	8.1%	1.43x	No
Royal Dutch Shell	4,739	4.2%	2.86x	2020
BHP Group	4,594	11.3%	1.03x	2016, 2020
GlaxoSmithKline	4,004	5.7%	0.95x	No
Unilever	3,725	3.6%	1.31x	No
Anglo American	3,490	9.5%	1.94x	2015, 2016, 2020
HSBC	3,364	4.4%	2.22x	2019, 2020
BP	3,142	5.1%	2.82x	2011, 2020
AstraZeneca	3,116	2.5%	1.34x	No
Vodafone	2,152	6.3%	0.89x	2018
Glencore	2,004	4.5%	2.29x	2015, 2016, 2020
National Grid	1,808	5.2%	1.30x	No
Diageo	1,694	2.1%	1.62x	No
Evraz	1,560	17.9%	1.33x	2012, 2013, 2014, 2020
Imperial Brands	1,322	9.0%	1.67x	2020
Reckitt Benckiser	1,250	2.8%	1.73x	No
Lloyds	1,242	3.9%	4.00x	2019, 2020
Legal and General	1,074	6.3%	1.81x	No
NatWest Group	1,034	4.2%	2.33x	2019

Source: Company accounts, Marketscreener, consensus analysts' forecasts, Refinitiv data

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What level of dividend cover to look for

Divided cover of below 1.0 should ring alarm bells because it means the company is paying out more to shareholders than it makes in that year. This means it has to dip into cash reserves, sell assets or borrow money to maintain the payment. This is unlikely to be sustainable over the long term.

Dividend cover of around 1.5 is less than ideal because it means a company has less room for manoeuvre if profits fall in one year. It will then need to decide whether to reduce its dividend, stop reinvesting in the business or take on more debt.

Dividend cover of 2.0 or above is ideal because it means profit is double the amount the company is paying out to shareholders. This means it can continue to invest in the business and has scope to maintain its dividend payment in a bad year.

DIVIDEND COVER EXPLAINED

Dividend cover is the amount of profit a firm makes divided by the dividend it pays out to shareholders.

The table below shows the dividend cover for a company making a profit of £100 and paying three different levels of dividend:

Dividend	Calculation	Dividend cover
£50	£100 divided by £50	2
£100	£100 divided by £100	1
£150	£100 divided by £150	0.67

Dividend aristocrats

The strongest long-term performance often comes from those firms that have the best long-term dividend growth record, rather than being the highest-yielding stock. Regular dividend growers can provide the dream combination of higher dividends and a higher share price as the increased distribution will over time drag the share price higher through sheer force. A 1p per share dividend on a 100p share price may not catch the eye, but if that dividend reaches 10p in a decade's time it almost certainly will.

The ravages of the pandemic and the recession have taken their toll on the ranks of FTSE 100 firms that can point to a ten-year dividend growth track record. One year ago, 24 firms were on this list. That number has since dwindled to 15 even as National Grid and United Utilities joined this elite grouping in 2021.

Hikma Pharmaceuticals is working on a nine-year dividend growth streak and will therefore be looking to rack up a tenth and join this list in calendar 2022.

Even allowing for the potential changes and deletions to the list of dividend-growers over time, those that managed to maintain their proud runs in 2020 have been tremendous long-term investments.

The average capital gain from the 15 ten-year dividend growers is 681% and the average total return is 863%. Both easily beat the FTSE 100, at 31% and 92% respectively.

	Total return	Dividend CAGR*	Forecast dividend growth**	
	2011-2021	2011-20	2021 E	2022 E
Ashtead	**4,937.9%**	29.3%	13.9%	12.5%
Intermediate Capital	**1,403.0%**	12.0%	12.5%	14.3%
London Stock Exchange	**1,084.4%**	11.9%	18.7%	15.7%
Scottish Mortgage	**1,039.9%**	3.6%	3.8%	4.2%
Spirax-Sarco Engineering	**952.4%**	10.6%	13.6%	6.0%
Halma	**921.8%**	6.8%	7.6%	10.5%
Croda	**508.4%**	10.0%	16.5%	5.7%
RELX	**480.6%**	8.7%	4.3%	8.2%
DCC	**398.1%**	10.2%	7.0%	5.8%
Hargreaves Lansdown	**296.9%**	17.3%	(12.9%)	9.1%
Sage	**267.0%**	8.3%	1.7%	2.6%
Diageo	**263.4%**	6.3%	3.8%	3.4%
United Utilities	**179.2%**	3.7%	1.2%	2.3%
National Grid	**161.6%**	**3.1%**	**1.7%**	**2.0%**
British American Tobacco	**54.6%**	**6.6%**	**0.6%**	**5.5%**
AVERAGE	**863.3%**	**9.9%**		
FTSE 100	**91.8%**	**5.0%**	**36.2%**	**1.1%**

Source: Refinitiv data, Company accounts.

**Compound annual growth rate.*
***Source: Marketscreener, consensus analysts' forecasts*

Dividend growth is so powerful because it almost inevitably drags a share price higher.

The average dividend yield for the 15 ten-year raisers is forecast to be 2.4% in 2021, below the 4.1% average across the FTSE 100. But their below-average yields have hardly proved a barrier to excellent total returns over the subsequent ten years.

That is at least partly because, the dividend yield available on the September 2011 share price using forecast 2021 dividends is 9.9% - and if anyone offered an investor a guaranteed 9.9% dividend yield they would probably snap your hand off, so that shows how a rising dividend can lift a share price, boosting income and capital gains for a powerful total return.

	2021 yield on Sept 2011 share price	2011 yield on Sept 2011 share price
Ashtead	29.7%	2.5%
British American Tobacco	7.7%	4.5%
Croda	4.7%	2.8%
DCC	10.1%	4.0%
Diageo	5.7%	3.3%
Halma	5.1%	2.8%
Hargreaves Lansdown	10.9%	2.8%
Intermediate Capital	24.6%	8.3%
London Stock Exchange	9.3%	3.3%
National Grid	7.9%	6.3%
RELX	9.5%	4.4%
Sage	6.6%	2.8%
Scottish Mortgage	2.5%	1.7%
Spirax-Sarco Engineering	6.4%	2.3%
United Utilities	7.2%	5.0%
AVERAGE	**9.9%**	**3.8%**

Source: Refinitiv data, company accounts, Marketscreener, consensus analysts' forecasts

Notes to editors:
Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company. The data above relates to the outlook for 2021 and 2022. Data correct as of 17 September 2021.