DIVIDEND DASHBOARD

Q1 2022

AJ Bell Youinvest

This report shows:

- The combination of £81.2 billion in forecast dividends and £32.7 billion in buybacks means that 2022 could be the second-best year ever for cash returns from the FTSE 100
- 29 FTSE 100 firms have announced share buy backs this year, putting the FTSE 100 on track to exceed the prior all-time high of £34.9 billion in 2018
- The FTSE 100's net profits are expected to hit a record high of £169.7 billion in 2022
- Rio Tinto is expected to be the index's single biggest dividend payer in 2022 while Persimmon is forecast to offer the highest dividend yield of 11.2%

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.

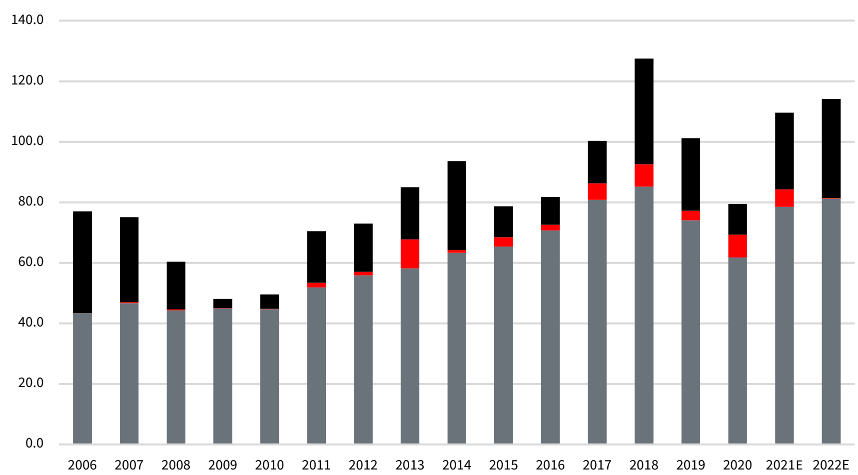
Forecasts aren't a reliable guide to future performance.

2022 could be the second-best year ever for total FTSE 100 cash returns

The FTSE 100's total dividend pay-out is expected to reach £81.2 billion in 2022, compared to £78.5 billion in 2021, equating to a yield of 3.9%. Total payments peaked at £85.2 billion in 2018 and 2022 is expected to get closer to that mark.

Ninety-seven FTSE 100 firms are expected to pay a dividend in 2022, against 91 in 2021 and 85 in 2020, as corporate confidence continues to return after the pandemic.

The combination of £81.2 billion in forecast dividends and the already-announced £32.7 billion in buybacks means that 2022 could be the second best-year ever for cash returns from the FTSE 100 – and there are still nine months left for more buybacks and special dividends (of which there were £5.8 billion in 2021).



Source: Company accounts, Marketscreener, analysts' consensus dividend forecasts. *2022 to date

The current £114 billion expected total has been exceeded just once, by 2018's £127.5 billion (when ordinary dividends came to £85.2 billion, special dividends £7.4 billion and buybacks £34.9 billion).

Share buy backs close to record highs (already)

It appears that companies may be leaning more toward share buybacks when it comes to return cash to shareholders. This could be down to a desire to preserve dividend cover at newly rebuilt levels, the UK Government's one-and-a-quarter percentage point increase in dividend taxes, or the pensions' regulator's threat to challenge dividend payments made by firms with pension deficits, or a mixture of all three.

Halting a buyback is a lot easier, and less likely to attract criticism, than cutting a dividend. That said, buybacks are hardly a sign of limited corporate confidence, especially as FTSE 100 firms have already announced £32.7 billion of buybacks in the first three months of 2022, a figure which already exceeds the total for 2021.

Thirty FTSE 100 members announced buyback schemes in 2021, to the tune of £25.3 billion and 29 firms have already declared their intention to buy back another £32.7 billion in 2022. That run rate leaves the FTSE 100 on track to exceed the prior all-time high for buybacks, of £34.9 billion in 2018.

It also takes the forecast total cash return from the index to 5.4% of its current market cap, once dividends and buybacks are added together. There could also potentially be some scope for more special dividends, after the £5.8 billion returned to shareholders in this way in 2021.

Biggest dividend growers and cutters

Meaty increases in dividends at Glencore, Shell, HSBC, Lloyds and the resumption of payments at Flutter Entertainment look set to just do enough to offset anticipated falls at GlaxoSmithKline (thanks to a change in corporate structure) and Antofagasta, as well as the demotion of that trio of miners, BHP, Evraz and Polymetal.

This highlights the importance of the miners to the overall direction of FTSE 100 profits and dividends. Miners' contribution to the total is expected to drop in 2022 after the demotion from the index of not just BHP but Evraz and Polymetal too, and then again in 2023.

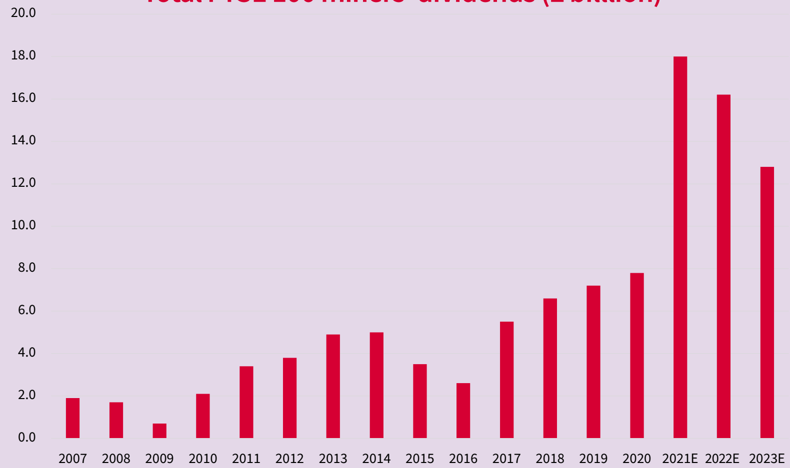
A £10.1 billion increase in dividends from miners in 2021, excluding special payments, is expected to give way to a drop of £1.8 billion in 2022 and another decline of £3.4 billion in 2023, despite the promotion of gold digger Endeavour Mining to the UK's premier index in March.

Presumably analysts do not believe that the current bout of price strength in iron ore, nickel, aluminium, copper and others will last, in the view that high prices will choke off demand and stoke supply. Equally, the consensus may be concluding that the recent metal price spikes are more due to the war in Ukraine and the threat of sanctions against Russian supply.

2022 E				
Dividend growth (£ million)			Dividend decline (£ million)	
Glencore	2,885		Coca-Cola HBC	(15)
Shell	655		Admiral Group	(20)
HSBC	581		Fresnillo	(26)
Flutter Entertainment	351		CRH	(43)
Barclays	336		Vodafone	(60)
Lloyds	329		Unilever	(91)
Next	286		Berkeley	(185)
Aviva	280		Antofagasta	(381)
Compass	232		GlaxoSmithKline	(1,252)
NatWest Group	212			

Source: Company accounts, Marketscreener, consensus analysts' forecasts

Total FTSE 100 miners' dividends (£ billlion)



Source: Company accounts, Marketscreener, consensus analysts' forecasts. Excludes special dividends

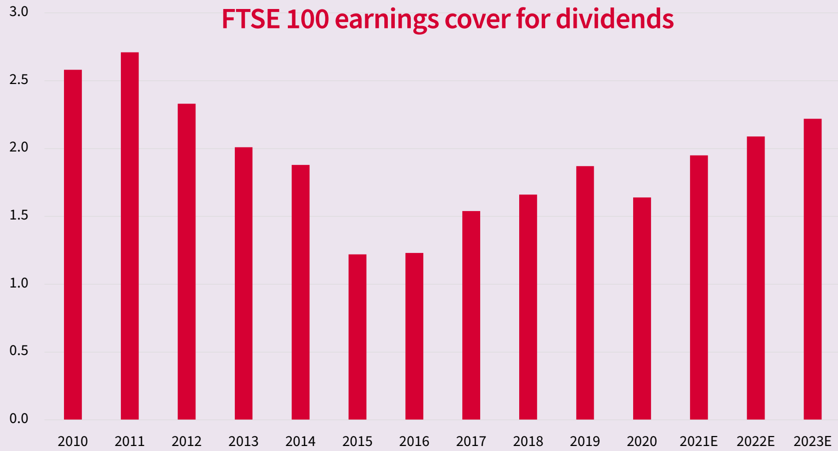
Dividend cover is improving

One other reason why dividend growth may be slowing is that dividend cover is improving and executives may be keen to preserve this buffer.

Companies may be choosing to let earnings growth outpace dividend growth so they can reinvest in their businesses, bolster balance sheets and rebuild cover, so that their shareholder distributions are not quite the hostage to fortune that they proved to be in 2020, should another unexpected shock emerge from left field.

The aggregate earnings cover ratio for the FTSE 100 is now seen rising to 2.09 times in 2022, according to analysts' consensus and dividend forecasts.

FTSE 100 earnings cover for dividends



Source: Company accounts, Marketscreener, consensus analysts' forecasts

That is a further improvement on 2021's 1.90 times earnings cover and the skinny 1.55 times ratio served up in 2020. A further gain to 2.22 times is expected by analysts in 2023, to take earnings cover to its highest level since 2012.

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.

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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:

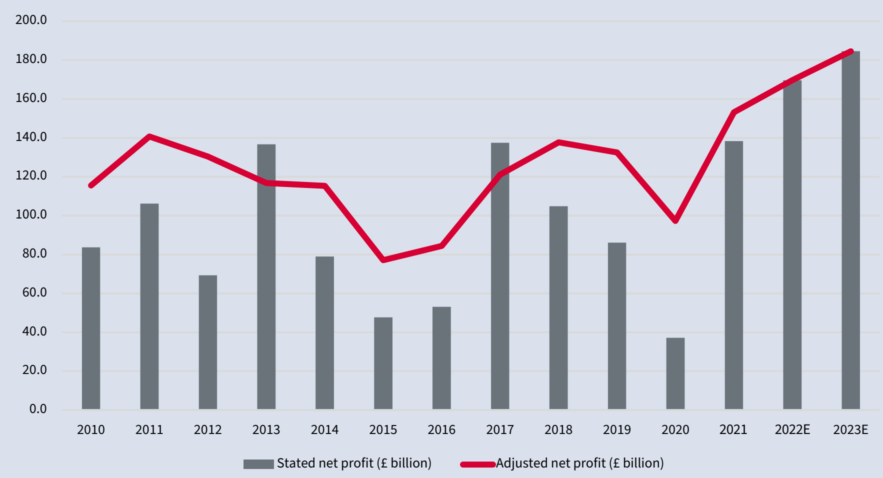
Dividend	Calculation	Dividend cover
£50	£100 divided by £50	2
£100	£100 divided by £100	1
£150	£100 divided by £150	0.67

FTSE 100 profits set for a record high in 2022

Analysts currently believe that 2022's stated net profits of £169.7 billion will exceed not only the pre-pandemic peaks of 2017 but the high of 2013 as well, when Vodafone's sale of its stake in an American joint venture with Verizon added considerably to the total.

On an adjusted basis, net income in 2022 is expected to exceed not only the pre-pandemic peak of 2018 but the all-time high of 2011, when commodity prices were roaring, and miners and oils generated 42% of the total between them.

Oils and consumer stocks, with a little help from industrials, are expected to drive the forecast 7%, or £15.0 billion increase in aggregate FTSE 100 pre-tax profit for 2022, as miners and financials both see lower earnings. The forecast drop at miners reflects higher costs, the assumption that lofty industrial metal prices may not last and also the demotion of Evraz, Polymetal and BHP. The banks' profits in 2021 are likely to have been flattered by write-backs relating to the bad loan provisions they took in 2020.



Source: Company accounts, Marketscreener, consensus analysts' forecasts.

	2022 E	
	Forecast pre-tax profit increase (£ billion)	**Forecast of total FTSE 100 profits growth (%)**
Oil & Gas	13.4	89%
Health Care	6.6	44%
Consumer Discretionary	5.5	36%
Consumer Staples	4.2	28%
Industrial goods & services	3.6	24%
Telecoms	2.1	14%
Utilities	0.4	3%
Technology	0.1	1%
Real Estate	(2.2)	(15%)
Financials	(3.8)	(25%)
Mining	(15.0)	(100%)
FTSE 100	**15,027**	**100.0%**

Source: Company accounts, Marketscreener, consensus analysts' forecasts.

Rio Tinto set to be the highest dividend paying stock

Rio Tinto is expected to be the single biggest paying stock within the FTSE 100 in 2022 but Shell and Glencore are not expected to be far behind it.

This may have ESG-oriented investors gnashing their teeth, especially as they may argue both firms are acting too slowly in their attempts to shift their business mix to more renewable sources of energy. Shell and fellow oil major BP, also a top-ten dividend contributor, have a tricky balancing act as they look to get the best out of their existing assets, reinvest for the future (without overpaying here, amid the mad scramble for 'green' assets) and keeping shareholders sweet with cash returns.

That said, Shell is starting to increase its dividend on a quarterly basis and both it and BP are also returning cash to investors via share buybacks.

Just ten stocks are forecast to pay dividends worth £43.2 billion, or 53% of the forecast total for 2022. The top 20 are expected to generate 70% of the total index's pay-out, at £58.3 billion.

	2022 E		
	Dividend (£ million)	Dividend yield (%)	Dividend cover (x)
Rio Tinto	7,411	10.1%	1.24x
Shell	5,622	3.6%	5.38x
Glencore	5,359	8.1%	1.91x
BAT	5,176	6.9%	1.43x
HSBC	4,236	4.0%	1.64x
Unilever	3,648	4.1%	1.23x
AstraZeneca	3,393	2.2%	1.29x
BP	3,217	4.3%	3.00x
GlaxoSmithKline	2,754	3.3%	1.73x
Anglo American	2,475	4.7%	2.40x
Vodafone	2,017	5.7%	1.11x
National Grid	1,895	4.6%	1.42x
Diageo	1,754	2.0%	1.84x
Lloyds	1,749	5.1%	2.40x
NatWest Group	1,395	5.7%	1.68x
Barclays	1,340	5.0%	3.00x
Imperial Brands	1,331	8.4%	1.53x
Reckitt Benckiser	1,258	3.1%	1.66x
Legal & General	1,128	7.0%	1.89x
Aviva	1,109	6.7%	1.33x

Source: Company accounts, Marketscreener, consensus analysts' forecasts

The ten firms forecast to have the highest yields in 2022

		2022E		
	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
Persimmon	**11.2%**	1.08 x	93%	2014, 2019
Rio Tinto	**10.1%**	1.24 x	81%	2016, 2020
Imperial Brands	**8.4%**	1.53 x	65%	2020
M&G	**8.3%**	1.11 x	90%	No (listed 2019)
Glencore	**8.1%**	1.91 x	52%	2015, 2016, 2020
Phoenix Group	**7.8%**	0.72 x	139%	No
Barratt Develop.	**7.6%**	2.00 x	50%	2020
Taylor Wimpey	**7.5%**	1.90 x	53%	2019
Legal & General	**7.0%**	1.89 x	53%	No
Admiral Group	**6.9%**	0.82 x	122%	2013, 2017, 2019, 2020

Source: Company accounts, Marketscreener, analysts' consensus forecasts, Refinitiv data. Ordinary dividends only.

Investors will have to look carefully at the list of the highest-yielding firms, as some of them have a track record of having to cut their dividend payments when times get tough.

At the time of writing, Persimmon is the highest-yielding individual stock, closely followed by Rio Tinto and then Imperial Brands.

Forecast yields of more than 10% may make investors a little wary, given the shocking record of firms previously expected to generate such bumper returns, including Vodafone, Shell, Evraz itself and – when they were still in the FTSE 100 - Royal Mail, Marks & Spencer and Centrica. All were forecast to generate a yield in excess of 10% at one stage or another and all cut the dividend instead.

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 2022. Data correct as of 28 March 2022.