Dividend Dashboard

Q4 2017

AJ Bell Youinvest

The outlook for FTSE 100 dividends in 2018

This report shows:

Which FTSE 100 companies are forecast to pay the highest dividend yield

How to spot unsustainable dividends

Where dividend growth is forecast to come from next year

The FTSE 100 companies with the longest runs of dividend increases

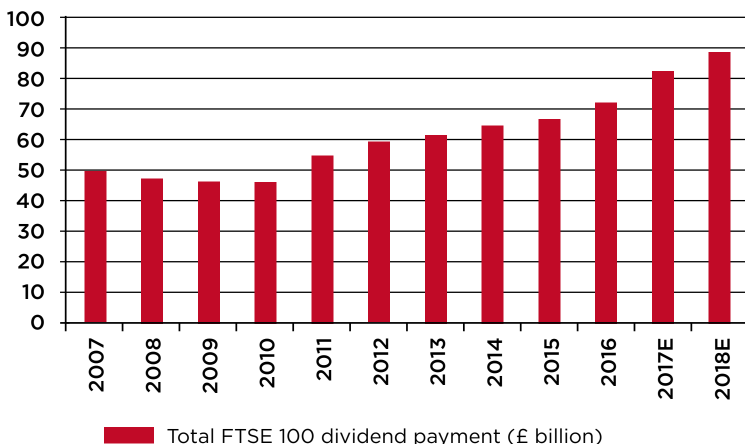
Dividend dashboard explained

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 2018.

2018 dividend forecasts

The FTSE 100 is forecast to pay out a total of £88.5 billion in dividends in 2018, which is a 7% increase on the final forecast pay out for 2017.

This equates to a yield of 4.3%, way better than anything that can be earned on cash or the benchmark 10-year Government Gilt yield of 1.2% and therefore a potential source of support for UK stocks next year. Equity investing entails higher risk but these figures show why dividend paying stocks are so important for investors in today's low-interest rate world.



Source: Company accounts, Digital Look, analysts' consensus forecasts

Where is the growth coming from?

Financial stocks, particularly the large Banks and Insurers, will be very important for income seekers in 2018 as they are forecast to drive nearly half of the FTSE 100's dividend growth next year. Consumer staples (tobacco, beverages, food retailers) and consumer discretionary (Sky in particular), are also forecast to boost shareholder payouts.

Percentage of forecast dividend growth in 2018	
Financials	47%
Consumer Staples	16%
Consumer Discretionary	15%
Industrial goods & services	9%
Mining	7%
Telecoms	2%
Utilities	1%
Health Care	1%
Technology	1%
Real estate	1%
Oil & Gas	1%

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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

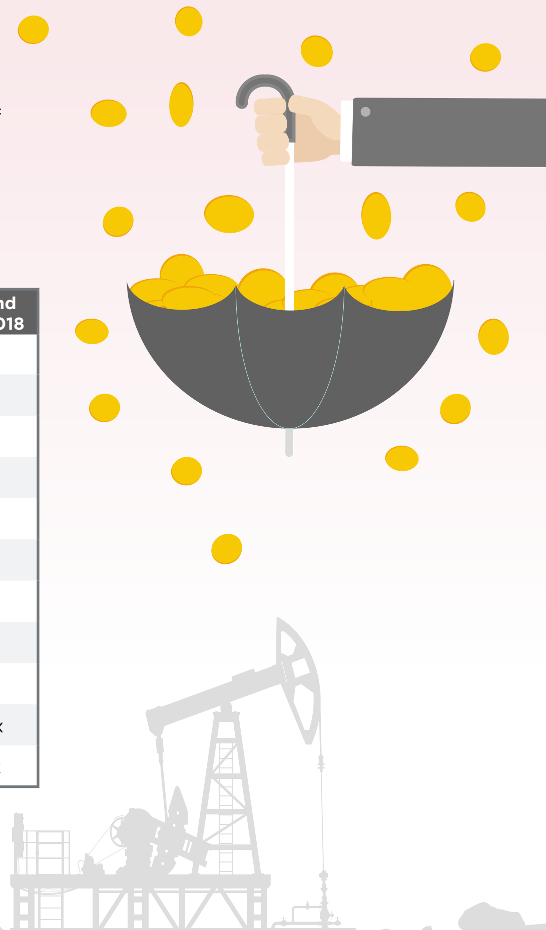
Dividend concentration is high

Dividend hunters should note that the bulk of the FTSE 100 dividends payments come from a relatively small proportion of the index. Financials (23%), oil & gas explorers (20%) and miners (8%) will provide the largest source of dividend income in 2018, accounting for 51% of the index's total dividend payments. The top 10 dividend payers on their own are forecast to represent over half (55%) of the total shareholder pay outs in 2018.

	Forecast percentage contribution to FTSE 100 cash dividend payments in 2018
Royal Dutch Shell	14%
HSBC	9%
BP	7%
British American Tobacco	5%
GlaxoSmithKline	4%
Vodafone	4%
Lloyds	4%
AstraZeneca	3%
Rio Tinto	3%
Glencore	2%

The companies that are forecast to have the highest dividend yield next year are:

	Dividend yield 2018	Dividend cover 2018
Centrica	8.0%	1.24x
Direct Line	7.7%	1.12x
Taylor Wimpey	7.6%	1.41x
SSE	7.2%	1.26x
Barratt Developments	7.1%	1.49x
Lloyds	6.8%	1.62x
BT	6.2%	1.73x
GlaxoSmithKline	6.2%	1.35x
Legal and General	6.2%	1.52x
BP	6.1%	0.99x
Average		**1.37x**

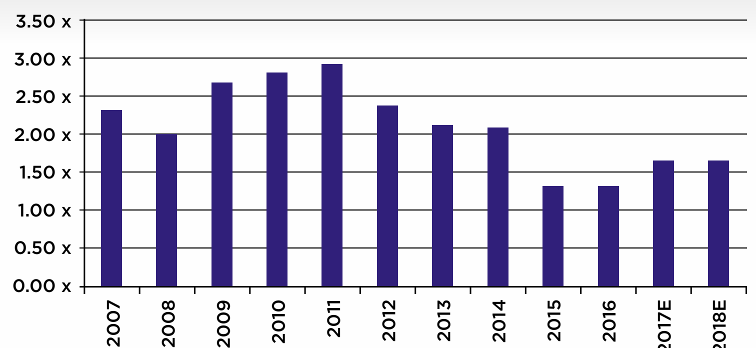


Dividend cover is still a source of concern

As always it is important to look beyond the headline dividend yield numbers and look at dividend cover and dividend growth history. Unfortunately, the issue of skinny dividend cover refuses to go away for 2018.

The table showing the companies forecast to deliver the highest dividend yields next year shows that some of the juiciest looking yields have dividend cover that looks particularly malnourished, with average dividend cover of just 1.37x. Pearson and Provident Financial are both examples of what can happen in the event of a profits stumble under such circumstances, as both had been offering apparently juicy yields but with skinny earnings cover.

Earnings cover for dividends paid by the FTSE 100 as a whole remains much thinner than ideal at 1.63 times for 2018 and significantly below the ideal 2.0 level and the level seen in the midst of the financial crisis ten years ago.



Source: Company accounts, Digital Look, analysts' consensus forecasts

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Dividend danger zone

The ten companies with the lowest dividend cover in the FTSE 100 contains three of the highest dividend yields (Centrica, Direct Line and BP) and all but two of them (Hargreaves Lansdown and St James's Place) are forecast to yield significantly more than the FTSE 100 as a whole.

	Dividend cover 2018	Dividend yield 2018
Centrica	1.24x	8.0%
Hammerson	1.22x	5.0%
Hargreaves Lansdown	1.22x	2.5%
British Land	1.19x	4.8%
Direct Line	1.12x	7.7%
Royal Dutch Shell	1.07x	6.0%
St. James's Place	1.05x	4.0%
Admiral Group	1.03x	5.9%
HSBC	1.00x	5.4%
BP	0.99x	6.1%
Vodafone	0.70x	6.0%
FTSE 100 average		**4.3%**

Dividend heroes

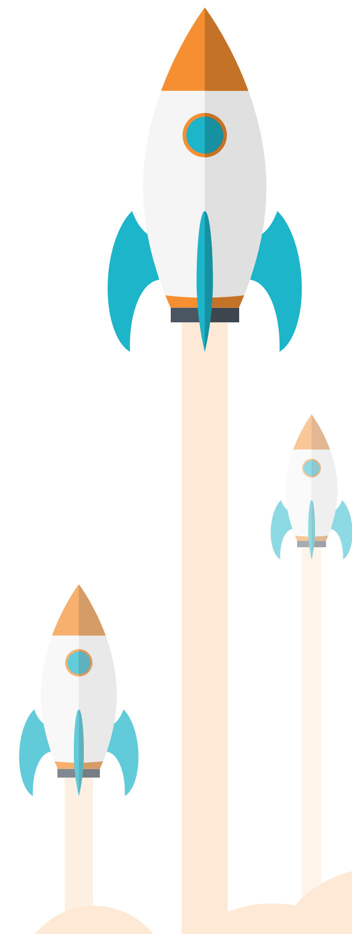
As well as dividend cover, another metric of interest to dividend hunters should be the track record of dividend growth because a progressive dividend policy can have a very positive impact on the total returns delivered by a stock.

26 current members of the FTSE 100 have grown their dividend every year for at least the past decade, with some stretching back over three decades. Comparing the performance of these companies over the past ten years shows that all but one of them (SSE) has comfortably outperformed the index on a total return basis.

It is also worth noting that the 10-year period used here covers the Great Financial Crisis and the stock market collapse of 2007-09 – and these 26 firms still provided fantastic returns over the long term.

Picking stocks that can consistently grow their dividend can therefore make for premium returns over the long term because rising dividends will tend to drag share prices higher over time.

Consecutive number of years of dividend increases	Company	Total return 2007 – 2017
38	Halma	628%
34	Scottish Mortgage	295%
31	Johnson Matthey	123%
26	SSE	42.6%
24	Bunzl	296%
22	Sage	380%
20	British American Tobacco	291%
19	Croda	885%
19	DCC	588%
19	Diageo	236%
18	Associated British Foods	300%
17	Compass	527%
17	Paddy Power Betfair	544%
15	Imperial Brands	113%
15	Intertek	547%
14	BAE Systems	87%
14	InterContinental Hotels	520%
14	Vodafone	116%
14	Whitbread	263%
13	Ashtead	3118%
13	Prudential	264%
13	Shire	225%
12	Micro Focus	1078%
12	St James' Place	396%
10	Hargreaves Lansdown	1036%
10	Standard Life Aberdeen	167%
	Average of the 26 firms	**502%**
	FTSE 100 average	**65%**



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