Dividend Dashboard

FTSE 100 dividend forecasts for 2017

This report shows:

- Why dividends are so important
- Which firms are forecast to pay the most generous dividends in 2017
- The danger zone where dividend cover looks thin
- The firms in the dividend sweet spot

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 2017.

The importance of dividends

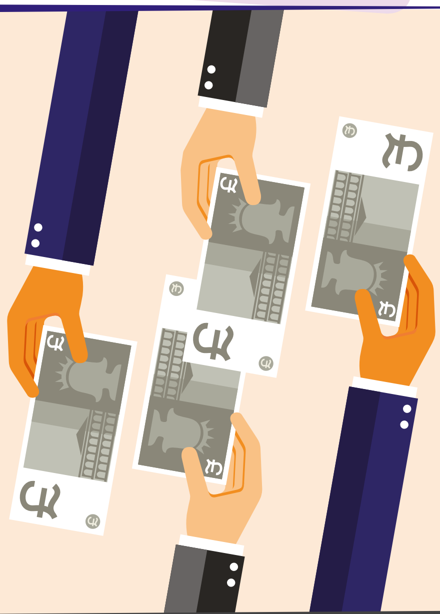
This should not be underestimated in the current environment. Interest rates remain rock bottom and with inflation surging to 2.9%, any investments in cash or Government bonds will be generating a negative real return.

The FTSE 100 on the other hand is forecast to yield 4% in 2017, so income seekers will be keen to hunt out the companies that can sustainably deliver this over the coming years.

For long term investors the real power of dividends comes when you reinvest them so that you end up owning more shares in the same company and increase the amount of dividends you could receive in the future. This can have a significant impact in total returns over long periods of time.

For example, consider an investment of a single year's ISA allowance of £20,000 and assume that the FTSE All-Share generates the same compound annual growth rate that it has provided since inception in the early 1960s of 6.8% a year and that it pays the same average annual dividend yield of 3.8% a year. After subtracting 1% a year for fees, the initial £20,000 will be worth £106,469 after 30 years. £57,143 would also have been banked in cash dividends.

A very respectable total return of £163,612. However, if the dividends had been reinvested each year over that period the fund would now be worth £303,906, not far off double the amount.



FTSE 100 dividends on the rise – boosted by weak pound

Analysts remain confident about the prospect for dividend payments from the UK's leading index of shares, with many of them increasing their forecast for 2017 payments. They now expect the FTSE 100 to pay out just over £82 billion in dividends this year, a figure that has been steadily increasing every quarter over the past year (see chart 1) and now means that the blue chip index is forecast to pay out 15% or £10 billion more than it did last year (see chart 2).

Chart 1: Pre-tax profit and dividend forecast for FTSE 100 in 2017

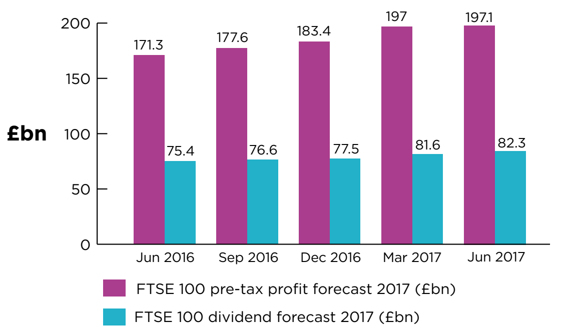
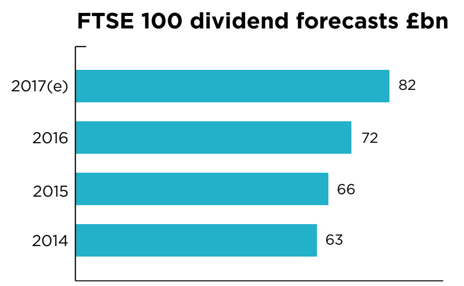


Chart 2: FTSE 100 dividend forecast for past four years:



The main driver of this optimism, and indeed the payments, is that the pound remains around 13% lower against both the US dollar and the Euro than it was before the EU referendum a little over a year ago. Whilst not good for imported goods or raw materials, this provides a boost to many of the FTSE 100 companies that have large overseas earnings as these are boosted in value by the exchange rate when converted back into sterling.

This is evident when you look at which sectors are set to generate the highest dividend pay-outs this year. Over half are due to come from just three sectors: Oil & Gas, Financials and Consumer Staples (think Unilever and Reckitt Benckiser). Companies in these sectors have operations all round the world with a large proportion of their earnings coming in stronger overseas currencies.

Sector	Oil & Gas	Financials	Consumer Staples	Total
Proportion of forecast dividends in 2017	23%	21%	13%	**57%**

Dividend danger zone

There are 25 FTSE 100 firms that are forecast to have dividend cover of less than 1.5 in 2017 and 20 of these are forecast to yield more than the 4% average for the index. Some of these are utilities (such as National Grid, SSE and Severn Trent) where demand and cash flows are fairly predictable, while others, such as some of the house builders, have net cash balance sheets. Others, such as the financials and oil companies have neither of these. It should also be noted that Scottish Mortgage is a growth orientated investment trust, which explains its position at the bottom of the table.

	Forecast dividend yield in 2017	Forecast dividend cover in 2017
Barratt Developments	7.0%	1.45 x
Legal and General	5.9%	1.44 x
National Grid	4.5%	1.42 x
Taylor Wimpey	7.4%	1.39 x
GlaxoSmithKline	4.7%	1.38 x
Standard Life	5.5%	1.37 x
Severn Trent	3.5%	1.34 x
AstraZeneca	4.1%	1.34 x
Centrica	6.0%	1.32 x
HSBC	5.7%	1.28 x
Provident Financial	4.9%	1.25 x
SSE	6.3%	1.25 x
Direct Line	6.7%	1.24 x
Hammerson	4.4%	1.19 x
British Land	4.9%	1.18 x
SEGRO	3.3%	1.17 x
United Utilities	4.1%	1.12 x
Hargreaves Lansdown	2.9%	1.10 x
St. James's Place	3.4%	1.10 x
Land Securities	4.8%	1.00 x
Admiral Group	5.4%	0.98 x
Royal Dutch Shell	6.8%	0.91 x
BP	6.4%	0.82 x
Vodafone	5.5%	0.60 x
Scottish Mortgage Inv. Trust	0.7%	0.33 x

Dividend sweet spot

16 FTSE 100 firms are set to yield in excess of 3% in 2017 that also have dividend cover of close to or over 2.0, excluding special dividends.

	2017 forecast dividend cover	2017 forecast dividend yield
ITV	1.96x	4.4%
Anglo American	3.84x	4.4%
Next	2.22x	4.2%
International Cons. Airlines	3.15x	4.0%
WPP	1.99x	3.8%
Old Mutual	2.99x	3.7%
RSA Insurance	2.00x	3.5%
Pearson	2.00x	3.4%
Kingfisher	2.21x	3.4%
Babcock International	2.78x	3.4%
Schroders	1.99x	3.3%
BAE Systems	1.98x	3.3%
Glencore	2.77x	3.2%
Smurfit Kappa	2.43x	3.1%
Informa	2.31x	3.0%
Micro Focus	2.02x	3.0%

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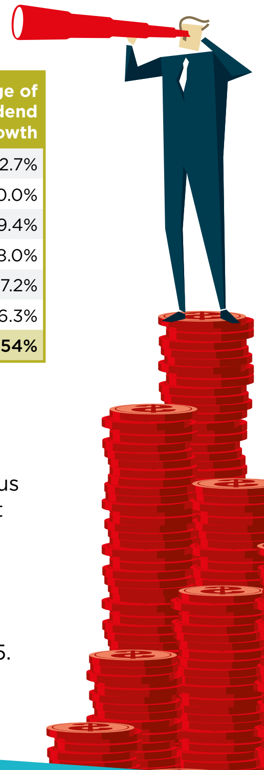
What is driving the growth?

This is important to keep an eye on because a large portion (84%) of the growth in dividend payments this year is due to come from just four sectors and half of it is due to come from just six companies, five of which are miners or oil companies. This is largely because the continued weak pound helps these companies who largely sell their products in US dollars, but it does mean that any reduction in the price of metals and oil could put pressure on these dividend growth forecasts.



Sector	Proportion of forecast dividend growth in 2017
Mining	37%
Financials	27%
Oil & Gas	11%
Consumer Staples	9%
Total	**84%**

Company	Percentage of FTSE 100 dividend growth
Glencore	12.7%
Rio Tinto	10.0%
Lloyds	9.4%
BHP Billiton	8.0%
Royal Dutch Shell	7.2%
Anglo American	6.3%
Total	**54%**

Watch out for dividend cover

Regular readers of this report will know that the size of the dividend payment and how much it might grow are not the only things to focus on. It is important to assess whether you think the dividend payment is sustainable and one way of doing that is to look at dividend cover.

The dividend cover for the FTSE 100 as a whole is 1.63, which is less than ideal but at least it is above 1.5. The ten companies that are forecast to have the highest dividend yield in 2017 have an average dividend cover of less than this at 1.29, with only one of them over 1.5.

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Taylor Wimpey	7.4%	1.39x
Barratt Developments	7.0%	1.45x
Royal Dutch Shell	6.8%	0.91x
Direct Line	6.7%	1.24x
BP	6.4%	0.82x
SSE	6.3%	1.25x
Rio Tinto	6.2%	1.77x
Centrica	6.0%	1.32x
Legal and General	5.9%	1.44x
HSBC	5.7%	1.28x
Average	**6.4%**	**1.29 x**

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

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.