Dividend Dashboard

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The outlook for FTSE 100 dividends in 2017

"Dividends have accounted for 74% of total returns from the FTSE 100 over the past 30 years. They are therefore an important consideration for all investors when choosing which companies to invest in, particularly those looking to generate an income from their portfolio." Russ Mould, investment director at AJ Bell

This report shows:

- Which firms are forecast to pay the highest dividend yield in 2017
- The FTSE 100 firms in the dividend sweet spot
- How to spot unsustainable dividends
- Which income funds to invest in if you don't want to hold shares directly

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.

2017 dividend forecasts

The FTSE 100 is forecast to pay out £78.4 billion in dividends in 2017, which equates to a yield of 4.2%. That compares to a 1.39% yield from 10 year UK Government bonds and 1.51% from the best fixed rate cash ISA. 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 – even if the market has switched its attention toward cyclical and turnaround plays and away from yield stocks since the election of Donald Trump.

Half of the dividends from the FTSE 100 (£39 billion) are forecast to be paid out by just 7 companies:

	Amount in billions	Proportion of FTSE 100 total
Royal Dutch Shell	£12.0	15.3%
HSBC	£7.7	9.8%
BP	£6.0	7.6%
GlaxoSmithKline	£4.0	5.0%
British American Tobacco	£3.3	4.3%
Vodafone	£3.3	4.2%
AstraZeneca	£2.8	3.6%
Total	**£39.1**	**49.8%**

What to look for when investing for dividends

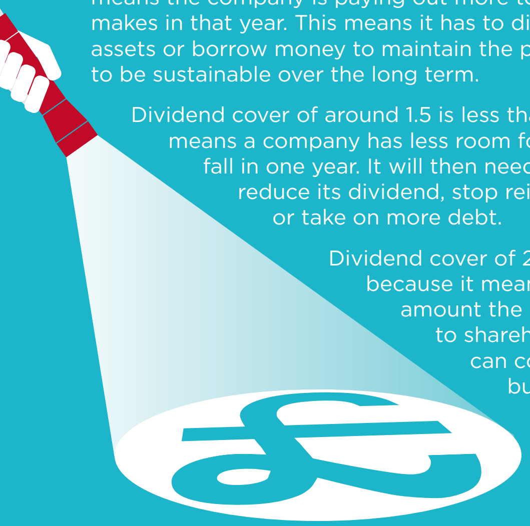
It can be tempting to simply seek out the stocks that are forecast to pay the highest dividend yield. However, it is important to also assess whether the dividend yield is sustainable by looking at dividend cover and whether the dividend is growing.

What level of dividend cover to look for

Dividend 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.



Highest dividend yields

Of the 10 firms that are forecast to have the highest dividend yield in 2017, none of them have dividend cover of more than 2.0 and only one of them comes in over 1.5 times:

	Forecast dividend yield in 2017	Forecast dividend cover in 2017
Taylor Wimpey	8.2%	1.21x
Direct Line	7.4%	1.11x
Barratt Developments	7.2%	1.50x
Royal Dutch Shell	6.9%	1.00x
Admiral Group	6.7%	0.93x
BP	6.7%	1.03x
Pearson	6.6%	1.23x
Persimmon	6.4%	1.68x
Vodafone	6.2%	0.59x
Legal and General	6.2%	1.40x
Average	**6.9%**	**1.17 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

Dividend danger zone

There are 26 FTSE 100 firms that are forecast to have dividend cover of less than 1.5 in 2017:

	Forecast dividend yield in 2017	Forecast dividend cover in 2017
National Grid	5.0%	1.44x
Legal and General	6.2%	1.40x
GlaxoSmithKline	5.5%	1.36x
Standard Life	5.7%	1.34x
SSE	6.2%	1.33x
Centrica	5.8%	1.32x
Provident Financial	5.1%	1.30x
HSBC	5.7%	1.30x
Severn Trent	4.0%	1.29x
Land Securities	3.8%	1.26x
Pearson	6.6%	1.23x
Taylor Wimpey	8.2%	1.21x
Hammerson	4.7%	1.20x
St. James's Place	3.7%	1.18x
British Land	4.9%	1.18x
United Utilities	4.5%	1.16x
Hargreaves Lansdown	3.0%	1.11x
Direct Line	7.4%	1.11x
INTU	5.1%	1.08x
BP	6.7%	1.03x
AstraZeneca	5.4%	1.00x
Sage	2.6%	1.00x
Royal Dutch Shell	6.9%	1.00x
Admiral Group	6.7%	0.93x
Vodafone	6.2%	0.59x
Royal Bank of Scotland	0.0%	0.00x

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Dividend growers

Another factor to consider when assessing the dividend potential of a stock is whether the dividend is expected to grow.

Only easyJet is currently expected to offer a lower dividend in 2017 than 2016, adjusting for special dividends and currency movements.

The FTSE 100 is forecast to grow its dividend payouts by £4.6 billion compared to 2016 forecasts.

Half of this growth is forecast to come from just 7 firms:

	Dividend growth (millions)	Percentage of FTSE 100 total
BHP Billiton	£421	9.2%
Lloyds	£393	8.6%
Standard Chartered	£343	7.5%
Glencore	£337	7.4%
Rio Tinto	£306	6.7%
British American Tobacco	£272	6.0%
Anglo American	£259	5.7%
Total	**£2,330**	**51%**

Dividend sweet spot

There are 17 FTSE 100 firms that are forecast to yield in excess of 3% in 2017 (based on their current share price) that also have dividend cover of over 2.0. EasyJet is the only one of these that is not forecast to grow its dividend in 2017, having just pushed through a dividend cut for 2016. Capita's share price also suggests the market is not convinced that its forecasts are entirely reliable.

	2017 forecast dividend growth	2017 forecast dividend cover	2017 forecast dividend yield
Capita	2%	2.08x	5.9%
International Cons. Airlines	1%	3.64x	4.4%
easyJet	-22%	2.06x	4.2%
Smurfit Kappa	5%	2.67x	4.0%
Old Mutual	16%	2.55x	4.0%
RSA Insurance	41%	2.09x	3.7%
WPP	13%	2.02x	3.7%
Next	4%	2.67x	3.4%
3i	5%	2.93x	3.3%
Mondi	7%	2.41x	3.3%
Babcock International	8%	2.86x	3.2%
Informa	5%	2.30x	3.2%
Kingfisher	6%	2.16x	3.2%
Dixons Carphone	6%	2.89x	3.1%
GKN	5%	3.41x	3.0%
Micro Focus	9%	2.22x	3.0%
Smiths Group	4%	2.10x	3.0%

Dividend focused funds

For investors not comfortable investing in direct equities, collective investment funds can be a good way of giving diversified exposure to a broad range of dividend paying companies chosen by an experienced fund manager.

Ryan Hughes, head of fund selection at AJ Bell, suggests four funds that income seeking investors could consider:

Artemis Income – 4.3% yield

This fund has been one of the most consistent funds in the equity income sector over the past decade with experienced fund manager Adrian Frost expertly navigating almost everything markets have thrown at him over this period. The fund is well diversified and looks to produce a rising income ensuring that it focuses on companies that offer dividend growth rather than just an outright high yield.

Invesco Perpetual High Income – 3.3% yield

Following in the footsteps of Neil Woodford is no easy task but Mark Barnett has managed to successfully do just that since he took over management of the High Income fund. Through a focus on large, higher yielding companies, Mark has delivered strong long term performance with a consistently high income. In addition, Mark is comfortable looking outside of the UK to further diversify the portfolio if appropriate.

Woodford Equity Income – 3.5% yield

Managed by one of the most successful fund managers in the UK over the past 20 years, Neil Woodford needs little introduction. His long term approach and comfort in not following the herd has been instrumental in his success and this has also allowed him to allocate to small and unquoted companies with a level of patience lacking from so many of his peers.

Montanaro UK Income – 3.6% yield

For someone interested in looking away from the large companies, smaller companies in the UK offer good levels of income, often with decent dividend cover. One way to access this is through the Montanaro UK Income fund which is run by one of the largest independent dedicated small cap teams in Europe. With a simple approach that focuses on high quality companies that are growing and managed by strong management teams this fund offers an interesting way to generate income for your portfolio from a very different part of the market.