DIVIDEND DASHBOARD

Q4 2019

AJ Bell Youinvest

The outlook for FTSE 100 dividends in 2020

This report shows:

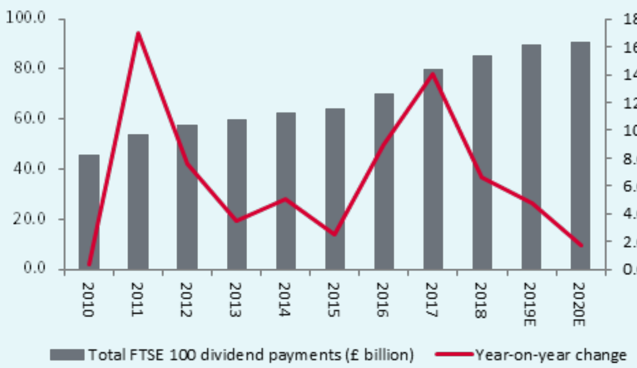
- How much the FTSE 100 is forecast to pay out in dividends in 2020
- The companies driving the growth of FTSE 100 dividends
- Which FTSE 100 companies are forecast to have the highest dividend yield
- The importance of dividend growth

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 2019 and 2020.

FTSE 100 forecast to pay out £91.1 billion in dividends in 2020 – a new record

The FTSE 100 is currently expected to yield 4.7% for 2020, helped by forecasts for a record-high distribution to shareholders of £91.1 billion. However, this represents growth of just 1.8% from 2019's expected pay-out of £89.5 billion. If correct, that would be the lowest rate of advance since 2009 and 2010, when the aggregate pay-out came in broadly flat.



Source: Company accounts, Sharecast, analysts' consensus dividend forecasts

Remarkably, just ten stocks are expected to generate more than 98% of 2020's forecast £1.6 billion increase in total dividend payments, partly due to the reductions that are now expected at Anglo American, Glencore, Evraz, Rio Tinto and BT.

The biggest increases in sterling terms are expected from British American Tobacco and RBS. In total, three of the ten biggest dividend hikes are forecast to come from banks (RBS, Standard Chartered and Barclays), two from consumer staples giants (BAT and Unilever) and one from asset manager and recent market joiner M&G.

Ten biggest contributors to FTSE 100 dividend growth in 2020

	% contribution to FTSE 100 total dividend growth in 2020
British American Tobacco	17.8%
Royal Bank of Scotland	16.3%
M & G	11.1%
Standard Chartered	10.3%
BP	8.7%
Unilever	7.9%
Barclays	7.8%
Lloyds	7.6%
Tesco	5.6%
Royal Dutch Shell	5.4%

Five biggest detractors to FTSE 100 dividend growth in 2020

	% contribution to FTSE 100 total dividend growth in 2020
Anglo American	-7.2%
Glencore	-7.6%
Evraz	-14.1%
BT	-19.3%
Rio Tinto	-28.8%

Dividend cover remains stubbornly static

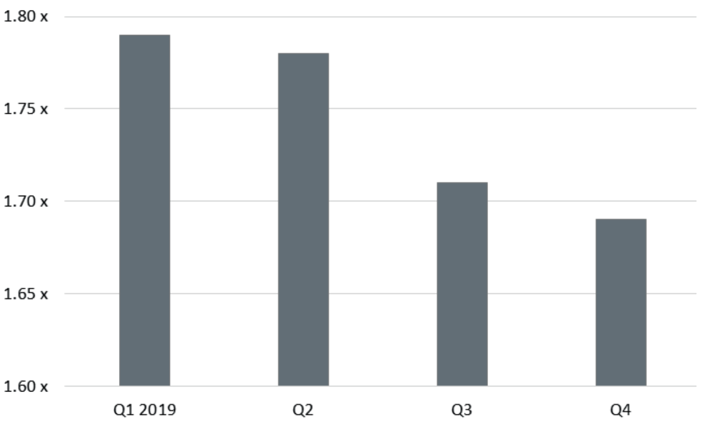
Earnings cover is forecast to be 1.69 times in 2020, up slightly from 1.62 times in 2019 but still some way below the 2.0 threshold that gives comfort and provides a safety buffer, should anything untoward happen.

Disappointingly earnings cover forecasts have also dribbled lower, as earnings forecasts have fallen much faster than dividend payments.

At this time one year ago, analysts were forecasting dividend cover of 1.79 times for 2020. But since then aggregate net income forecasts have dropped by £13.3 billion, or 5.6%, while aggregate dividend payment estimates have been cut by just £3.3 billion, or 3.5%.

This suggests that companies are aware of the importance of dividends to investors in a low-interest-rate world and are working hard to accommodate yield-hungry investors. But management must be careful that they are not over-paying and under-investing to curry short-term favour to the long-term detriment of their business' competitive position and therefore its ability to generate cash and offer dividends.

Forecast earnings cover for 2020 has gradually reduced over the year



Source: Company accounts, Sharecast, analysts' consensus dividend forecasts

Sceptics will also flag how average earnings cover for the dividend stands at just 1.44 times across the ten-highest yielding stocks in the FTSE 100. Dividend payment estimates have dropped very sharply at one of the ten-highest yielders, Evraz, while another, Imperial Brands, has reined in an ambitious dividend growth target.

Imperial Brands' huge forecast dividend yield, despite the scrapping of its 10% annual increase target, is the result of investor scepticism over its long-term cash flows and increased pushback against 'sin stocks' on ESG grounds.

The lowly earnings cover partly reflects the lofty expected pay-outs at a trio of house builders, Taylor Wimpey, Barratt Developments and Persimmon. The good news is that all three have net cash balance sheets with which to reassure shareholders, even if earnings cover looks lower than ideal.

A skinny cover ratio at HSBC remains a concern, and will come under increasing scrutiny the longer Hong Kong's political unrest continues, and of the ten highest-yielding stocks, only M&G offers cover of more than 2.0 times.

In terms of the yields, the presence of three house builders in the top ten highest yielders is testimony to the size of their capital return programmes, but it may also hint at investor scepticism that the industry can maintain its current lofty levels of profitability without the benefit of Government assistance, via the Help to Buy and Lifetime ISA schemes, with the former running to 2023 for first-time purchasers who are buying new-build properties.

Imperial Brands, British American Tobacco and Evraz have all seen their share prices nosedive over the past 12 months. Profit and dividend forecasts have crashed at the Russian firm but while the other two have generated disappointing revenue growth with their next generation products, neither has seen a profit estimate downgrade, even if Imperial has backed off from an overly aggressive dividend growth target.

The ten firms forecast to have the highest yields in 2020

	Dividend yield (%)	Dividend cover (x)
Imperial Brands	12.2%	1.32 x
Taylor Wimpey	10.6%	1.11 x
Evraz	10.5%	1.55 x
Persimmon	9.3%	1.14 x
M & G	8.5%	2.09 x
Aviva	8.2%	1.84 x
British American Tobacco	7.5%	1.53 x
Standard Life Aberdeen	7.1%	0.87 x
HSBC	7.1%	1.38 x
Barratt Developments	7.1%	1.54 x
AVERAGE	**8.8%**	**1.44 x**

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 heroes

Hiscox has dropped out of the list of serial dividend raisers this quarter thanks to its demotion from the FTSE 100. That leaves 25 firms in the index that can point to at least 10 consecutive increases in their annual dividend.

Changes in group structure at SSE and Prudential, and Standard Life Aberdeen's target of a flat payment in 2019, could mean all three may slip out of this elite grouping in 2019 or 2020. But an increase in the next full-year distribution from Land Securities, Legal & General, Meggitt, Mondi and Schroders would see them join it.

The end to the dividend growth streaks of Flutter and Vodafone in 2018 and the likely demise of equally impressive runs at SSE and Standard Life Aberdeen in 2019 shows just how hard it is to increase the annual shareholder distribution for a decade or more.

The average capital gain from the 25 ten-year dividend growers is 517% and the average total return is 665%. Both easily beat the FTSE 100, at 35% and 98% respectively.

Admittedly, the strategy is not infallible and woe betides any firm where investors think a dividend growth streak is under duress or about to end. Vodafone was a prime example of this in 2018-19.

The weak share price performance of British American Tobacco and Imperial Brands over the past 12 months also suggests that some investors are wondering whether the combination of acquisition-related debts and regulatory pressure could start to take its toll on their cash flows and possibly their dividend growth streaks. Imperial Brands has scrapped a plan to increase its distribution by 10% a year but there is no sign of an end to their growth streaks in 2020, which could make them particularly intriguing stocks to follow.

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

	Total return	Forecast dividend growth	
	2009-19	2019	2020
Ashtead	3,791.6%	15.8%	9.2%
JD Sports Fashion	3,571.1%	14.0%	22.1%
Rightmove	1,319.5%	9.1%	10.7%
Halma	932.9%	7.5%	7.9%
Croda	682.0%	1.2%	6.5%
Spirax-Sarco Engineering	882.1%	8.6%	8.9%
Hargreaves Lansdown	781.7%	5.0%	11.4%
InterContinental Hotels	598.6%	14.1%	7.9%
Compass	464.5%	6.1%	6.8%
Scottish Mortgage	462.4%	1.9%	1.9%
DCC	390.6%	10.3%	6.6%
Intertek	424.4%	7.0%	6.2%
Burberry	328.1%	4.9%	7.7%
St. James's Place	495.0%	0.4%	6.2%
Diageo	285.7%	5.1%	5.7%
Bunzl	308.2%	3.2%	0.0%
Sage	310.8%	2.5%	4.7%
Associated British Foods	260.0%	3.5%	8.3%
Prudential	224.8%	(17.5%)	(10.3%)
BAE Systems	161.7%	3.4%	4.4%
Johnson Matthey	137.8%	2.1%	6.7%
British American Tobacco	140.0%	3.9%	5.8%
Standard Life Aberdeen	151.5%	0.2%	0.0%
SSE	118.2%	(17.9%)	2.8%
Imperial Brands	55.0%	10.0%	2.8%
AVERAGE	**664.5%**	**3.9%**	**5.6%**
FTSE 100	**97.6%**	**6.1%**	**2.9%**

Source: Refinitiv data, Company accounts. *Compound annual growth rate.
**Source: Sharecast, consensus analysts' forecasts

Notes to editors:
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