DIVIDEND DASHBOARD

Q4 2020

AJ Bell Youinvest

This report shows:

- FTSE 100 dividend payments for 2020 are forecast to drop by 20%, or £14.7 billion, to £59.9 billion
- The outlook for 2021 is more positive with dividend payments forecast to increase 18%, or £10.9 billion, to £70.8 billion
- M&G, Imperial Brands, BAT and Polymetal are forecast to be the highest yielding stocks in 2021
- HSBC, Lloyds, Glencore and BT are forecast to deliver the highest dividend increases in 2021

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 2020 and 2021.

Dividend cuts have been the story of 2020

There is no doubt that 2020 has been tough on income seekers. In total, 53 current or former members of the FTSE 100 index have cut, deferred or cancelled over £37 billion of dividend payments in calendar 2020 thanks to the COVID-19 outbreak and subsequent recession.

Yet the news flow is starting to improve. Although cuts, deferrals, suspensions and cancellations dominated in spring, the number of FTSE 100 constituents to maintain or increase their shareholder distribution is now also 53.

In addition, fifteen FTSE 100 firms have either returned or declared their intention to return to the dividend list for fiscal 2020. A sixteenth – BT – has outlined plans to pay a dividend in 2021. The total dividend payments made or announced by those sixteen add up to £2.7 billion with four yet to finalise the actual figure. That £2.7 billion figure is still dwarfed by the value of the cuts, deferrals, cancellations and suspensions announced in calendar 2020 but it nevertheless underpins the improved momentum in overall FTSE 100 dividend forecasts.

16 FTSE 100 firms have confirmed plans to restore dividends

FTSE 100 dividend restorers	
Company	**£ million**
BAE Systems	746
Ferguson	360
Smurfit Kappa	236
Aviva	236
Sainsbury	234
Mondi	214
Smiths Group	139
Persimmon	128
WPP	123
Land Securities	111
British Land	78
Bunzl	53
BT*	TBC
Rentokil Initial	TBC
DS Smith	TBC
Taylor Wimpey	TBC
TOTAL	**2,656**

Source: Company accounts.
**BT plans to resume payments in 2021.*

Ten firms are expected to generate over half of the FTSE 100 dividend payout

Just ten stocks are forecast to pay dividends worth £32.3 billion, or 54% of the forecast total for 2020. The top 20 are expected to generate 75% of the total index's pay-out, at £44.8 billion.

After dividend cuts or cancellations from Shell, HSBC and BP during the course of the year, British American Tobacco is now forecast to be the biggest dividend payer in the FTSE 100 in 2020.

Not all investors will welcome this, especially those who feel that tobacco does not pass their Environment, Social & Governance (ESG) screen tests. However, others will welcome how BAT's chief executive Jack Bowles continues to stick to his target of a 65% dividend pay-out ratio. The company's interim results offer support to earnings forecasts too, in the absence if changes to sales and earnings guidance for both 2020 and the medium-term.

What also catches the eye in the list of biggest payers is how Imperial Brands still offers a yield of more than 9%, with earnings cover of almost two times, even after its cut in 2020. This may reflect investor scepticism that the dividend is truly safe over the long-term, amid wider regulatory pushback against smoking. BP and BAT offer yields of nearly 8%, the former as investors ponder whether even this is affordable as the oil major looks to reinvent itself and the latter as it faces the same challenges as Imperial.

The 20 firms forecast to be the largest dividend payers for 2020

	2020E			
	Dividend (£ m)	Yield (%)	Earnings cover (x)	Cut in last decade?
British American Tobacco	4,948	7.9%	1.53x	No
BP	4,420	7.9%	-0.69x	2010, 2020
Royal Dutch Shell	4,177	3.9%	0.95x	2020
Rio Tinto	4,032	5.9%	1.56x	2016
GlaxoSmithKline	4,014	5.8%	1.45x	No
Unilever	3,859	3.4%	1.50x	No
AstraZeneca	2,760	2.6%	1.50x	No
Vodafone	2,163	6.2%	0.83x	2018
BHP Group	1,888	4.6%	1.49x	2016
National Grid	1,742	5.8%	1.06x	No
Diageo	1,598	2.3%	1.60x	No
HSBC	1,318	1.5%	3.31x	2019, 2020
Imperial Brands	1,303	9.4%	1.85x	2020
Reckitt Benckiser	1,240	2.7%	1.88x	No
Legal and General	1,048	6.7%	1.64x	No
Aviva	956	7.2%	2.07x	2012, 2013, 2019
Anglo American	912	2.6%	2.43x	2015, 2016, 2020
SSE	847	5.9%	1.00x	2019
RELX	841	2.5%	1.76x	No
Tesco	768	3.5%	1.72x	2014, 2015

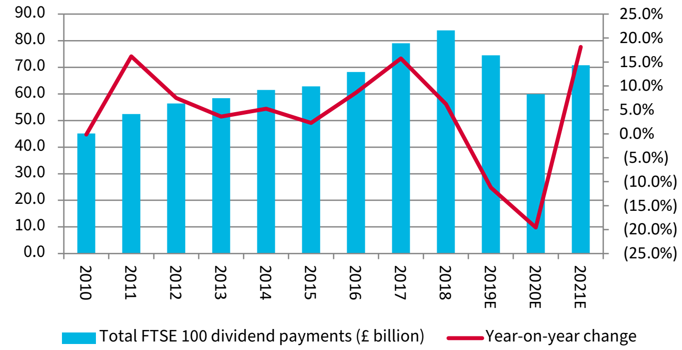
Source: Company accounts, Sharecast, analysts' consensus forecasts, Refinitiv data

Outlook for dividends in 2021 is more positive

In total, FTSE 100 dividend payments are now forecast to drop by 20%, or £14.7 billion, in 2020 before an 18%, or £10.9 billion, rebound in 2021.

That puts the FTSE 100 on an expected dividend yield of 3.2% for 2020 and 3.8% for 2021 as dividend forecasts find a floor. It is the latter number which may be more relevant as investors, encouraged by the development and imminent roll-out of several vaccines for COVID-19, attempt to look beyond the pandemic

As a reflection of this gathering optimism, dividend forecasts for the year have increased by 6% in the fourth quarter to £59.9 billion from £56.6 billion in September. Although this is a long way down from the £91.1 billion forecast of a year ago and dividend payments are now expected to fall for two consecutive years before starting to recover in 2021.



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

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

Ten biggest forecast dividend increases in 2021

	2021 E	2021 E
	Dividend increase (£ million)	Dividend increase (% FTSE total)
HSBC	3,308	30.4%
Lloyds	850	7.8%
Glencore	747	6.9%
BT	747	6.9%
Barclays	555	5.1%
NatWest Group	449	4.1%
BHP Group	448	4.1%
Anglo American	374	3.4%
Associated British Foods	305	2.8%
Persimmon	301	2.8%

Source: Company accounts, Sharecast, consensus analysts' forecasts

The ten firms forecast to have the highest yields in 2020 & 2021

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, relative market newcomer M&G is the highest-yielding individual stock, with Imperial Brands pretty close behind it.

	2020E		
	Dividend yield (%)	Dividend cover (%)	Pay-out ratio (%)
M & G	9.5%	2.09 x	48%
Imperial Brands	9.4%	1.85 x	54%
British American Tobacco	7.9%	1.53 x	65%
BP	7.9%	-0.69 x	-145%
Aviva	7.2%	2.07 x	48%
Legal and General	6.7%	1.64 x	61%
United Utilities	6.7%	1.10 x	91%
Phoenix Group	6.6%	1.76 x	57%
Evraz	6.6%	1.49 x	67%
Sainsbury	6.5%	1.43 x	70%

Source: Company accounts, Sharecast, analysts' consensus forecasts, Refinitiv data

	2021E		
	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)
M & G	9.5%	2.09 x	48%
Imperial Brands	9.3%	1.85 x	54%
Polymetal	8.4%	1.54 x	65%
British American Tobacco	8.4%	1.53 x	65%
Evraz	7.5%	1.58 x	63%
Persimmon	7.2%	1.16 x	86%
Legal and General	7.0%	1.56 x	64%
Aviva	6.9%	2.28 x	44%
United Utilities	6.8%	1.10 x	91%
Phoenix Group	6.7%	1.30 x	77%

Source: Company accounts, Sharecast, analysts' consensus forecasts, Refinitiv data

Dividend heroes

History does suggest that it is not the highest-yielding stocks which prove to be the best long-term investments anyway (although the past is by no means a guide to the future). Often defending a high yield can be a burden for a firm, as it sucks cash away from vital investment in the underlying business, or can be a sign that the company is in trouble and investors are demanding such a high yield to compensate themselves for the (perceived) risks associated with owning the equity.

The strongest long-term performance often comes from those firms that have the best long-term dividend growth record, as they provide the dream combination of higher dividends and a higher share price – the increased distribution will, over time, drag the share price higher through sheer force. A 1p per share dividend on a 100p share price may not catch the eye, but if that dividend reaches 10p in a decade's time it almost certainly will.

The ravages of the pandemic and the recession have taken their toll on the ranks of FTSE 100 firms that can point to a ten-year dividend growth track record. One year ago 25 firms were on this list. That number has since dwindled to 14 and four of those are at risk.

Pennon's dividend will drop, albeit only owing to a change in corporate structure, while Legal & General has already announced a pause in its dividend growth for 2020. Diageo and Ashtead are also forecast to hold or even marginally reduce their next annual dividends, according to analysts' consensus forecasts

Four firms are on the cusp of joining this elite group, as London Stock Exchange, National Grid, RELX and United Utilities are all nurturing nine-year dividend growth runs.

Even allowing for the potential changes and deletions to the list of dividend-growers, those that have maintained their runs in 2020 have been tremendous long-term investments.

The average capital gain from the 14 ten-year dividend growers is 408% and the average total return is 542%. Both easily beat the FTSE 100, at 13% and 65% respectively.

The tricky bit is that only 12 of the 25 were actually in the FTSE 100 a decade ago, so investors may need to burrow through the FTSE 250 if they are looking for the next generation of dividend growth champions.

	Total return	Dividend CAGR*	Forecast dividend growth**	
	2010-2020	2009-19	2020 E	2021 E
Ashtead	**2568.0%**	29.3%	(3.8%)	15.0%
Scottish Mortgage	**794.2%**	3.7%	4.0%	5.0%
Intermediate Capital	**731.8%**	11.6%	4.2%	13.7%
Halma	**677.9%**	6.9%	3.7%	8.9%
Spirax-Sarco Engineering	**614.6%**	11.8%	4.2%	7.9%
Croda	**371.7%**	15.3%	3.4%	5.2%
Legal & General	**370.7%**	16.4%	0.0%	4.7%
DCC	**306.6%**	11.5%	4.4%	5.3%
Hargreaves Lansdown	**298.1%**	16.5%	11.3%	16.7%
Intertek	**231.6%**	15.3%	(5.0%)	3.8%
Diageo	**231.1%**	6.6%	(0.3%)	2.5%
Sage	**171.9%**	8.6%	2.0%	1.7%
Pennon	**139.6%**	6.9%	(50.6%)	14.3%
British American Tobacco	**84.0%**	7.8%	2.5%	5.8%
AVERAGE	**542.3%**	**12.0%**	**1.4%**	**7.9%**
FTSE 100	**65.1%**	**5.2%**	**(19.6%)**	**18.1%**

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

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 2020 and 2021. Data correct as at 4 December 2020.