Dividend Dashboard

Q1 2023

AJ Bell's latest Dividend Dashboard report shows:

- Aggregate dividend forecasts for 2023 (and 2024) for the FTSE 100 continue to slip lower, thanks to fears of a recession, rising interest rates and weakness in metals (and now oil) prices.
- Dividend payments for 2022 now look set to undershoot 2021's levels, although analysts still expect aggregate dividend growth for 2023 and 2024 of 11% and 7% respectively.
- Buyback announcements worth £22.7 billion in 2023 mean this year is off to a good start, as twenty-three members of the FTSE 100 have declared or launched such schemes
- HSBC is expected to be the single largest dividend payer in 2023, ahead of Shell and British American Tobacco. The top ten payers are forecast to generate 55% of 2023's total payment.

Dividend dashboard explained

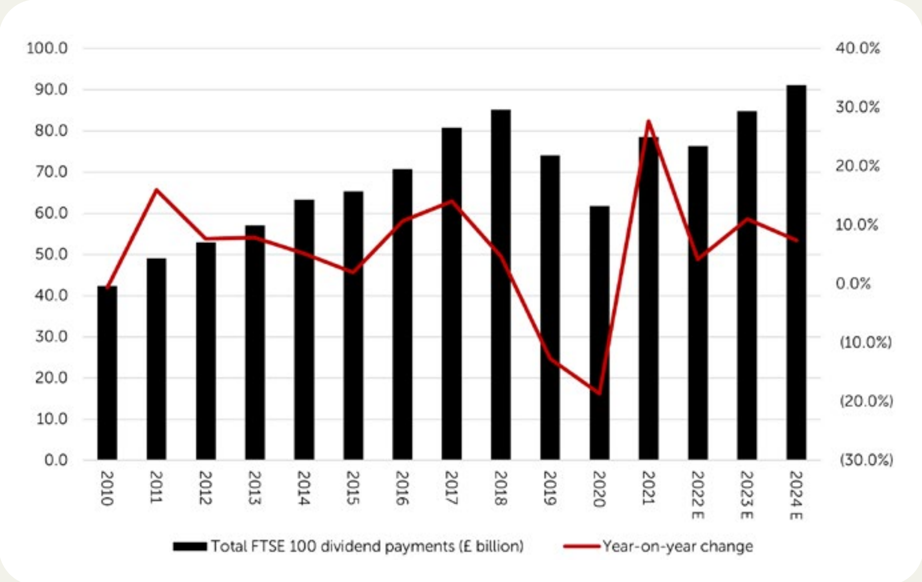
Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company.
The data relates to the outlook for 2022, 2023 and in some cases 2024. Data correct as of 24 March 2023.

Forecasts aren't a reliable guide to future performance.

Dividend forecasts slide amid uncertain climate

After the index's spring stumble, the FTSE 100 is now expected to yield 4.2% in 2022, with the index's total dividend pay-out expected to come in at £76.4 billion, before going on to reach £84.8 billion in 2023, excluding special dividends.

Estimates seeped lower from the summer and the first round of full-year results (for those firms with a December year-end) saw lower-than-expected payments from miners in particular. The round of results from companies with March year ends will provide the final tally for 2022.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Despite this disappointment, analysts are, for now, setting aside concerns over increases in input costs, interest rates (and therefore interest bills), a possible recession and even lower oil prices. The consensus estimate implies 11% growth in the total FTSE 100 dividend for the year just begun (and analysts are pencilling in 7% growth for 2024).

If those estimates are correct, the FTSE 100 will not quite match 2018's record ordinary dividend payment in 2023, but the index will then exceed it and set a new record in 2024.

However, despite earnings cover exceeding 2.00 on the basis of stated profits for 2023 and 2024, analysts do not seem entirely confident in their forecasts. They began 2022 expecting the year to provide £81.2 billion in ordinary dividends but the likely outcome now looks set to be something closer to £76 billion. They have also trimmed estimates for 2023 and 2024. At the end of last year analysts were forecasting an £85.8 billion payout to shareholders in 2023, but expectations have since slipped to £84.8 billion.

This may be because profit forecast momentum is also negative. Aggregate FTSE 100 pre-tax profit forecasts rose sharply in the first half of 2022, from £236 billion to £271 billion, only to then tumble back to £226 billion, as oil and metal prices subsided, input costs rose and financial companies cleaned house and marked assets to market.

At least those mark-to-market downgrades are on paper only and do not affect cash flow. This may explain why profits, and therefore dividends, are seen growing in 2023, despite nagging recession fears and a banking wobble, although that seems to be more an issue for badly run lenders in the USA and Switzerland, at least for now.

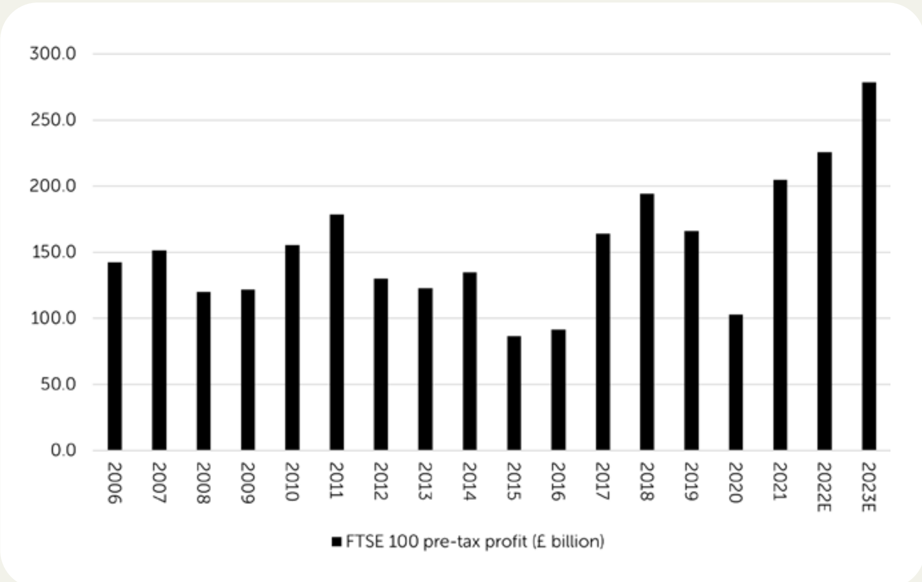
Even after the downgrades late in the year, analysts still believe 2022 will prove to be a record year for stated pre-tax profit from the FTSE 100. The consensus forecast is then looking for a 23% jump in 2023 to a new record £279 billion, helped by a lack of inventory-related adjustments at the oils and mark-to-market moves at the financials and real estate investment trusts.

Dividend cover explained

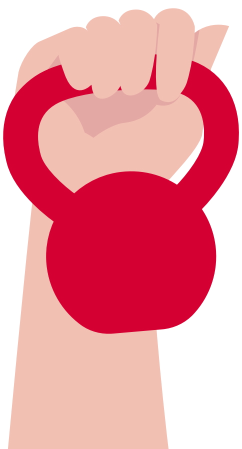
Dividend cover is the amount of profit a firm makes divided by the dividend it pays out to shareholders.

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



Source: Company accounts, Marketscreener, consensus analysts' forecasts



Buybacks off to a strong start

Forty-one of the FTSE 100's members ran a buyback programme in 2022 to return additional cash to shareholders and twenty-three index constituents have already announced plans to do so, or began cash returns via this mechanism, in 2023.

FTSE 100 firms announced £55.2 billion of share buybacks in 2022. That is way in excess of the peaks of 2006 and 2018, which came in between £33 billion and £34 billion, and 2023's announced total already stands at £22.7 billion.

Bank dividends set to surpass 2007 record

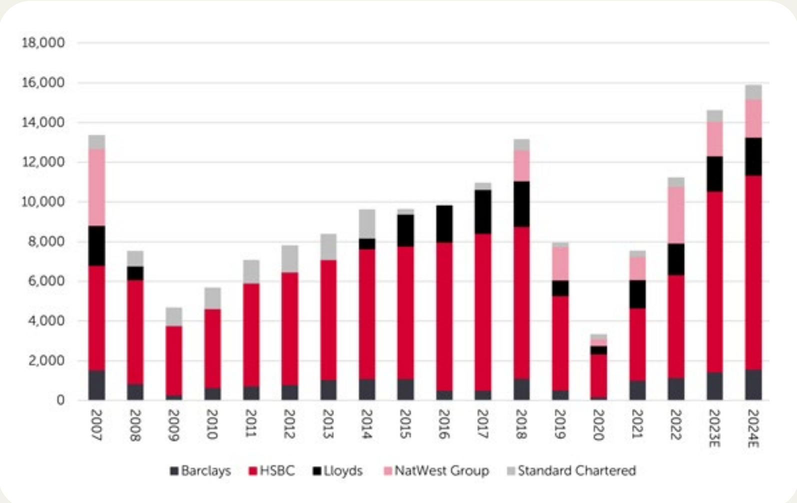
The expected hike in HSBC's pay out is very noticeable and banks and financials more generally are seen as a key driver for FTSE 100 dividend growth in 2023.

Ten biggest forecast dividend increases and declines in 2023

2023 E			
Dividend growth (£ million)		Dividend decline (£ million)	
HSBC	3,945	Smith DS	(14)
Shell	751	Fresnillo	(14)
Glencore	416	GSK	(17)
NatWest Group	415	M & G	(24)
Haleon	333	Sainsbury	(26)
BP	328	Barratt Developments	(41)
British American Tobacco	292	Antofagasta	(118)
Barclays	277	Rio Tinto	(174)
AstraZeneca	233	Anglo American	(303)
Compass	173	SSE	(376)

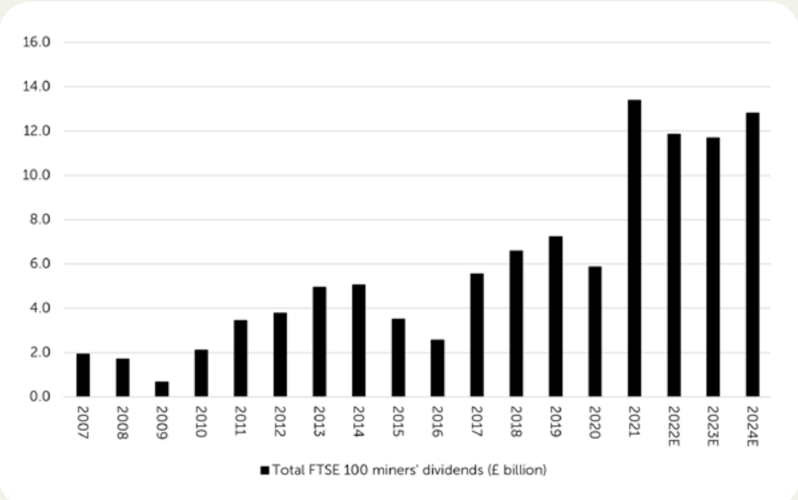
Source: Company accounts, Marketscreener, consensus analysts' forecasts.

Banks are currently expected to distribute £14.6 billion, a figure higher than the £13.3 billion peak seen in 2007, just before the Great Financial Crisis hit home.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Such largesse helps to compensate for the second straight expected drop in miners' aggregate dividends, which presumably reflects fears that a recession will dent demand for industrial metals.



Source: Company accounts, Marketscreener, consensus analysts' 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.

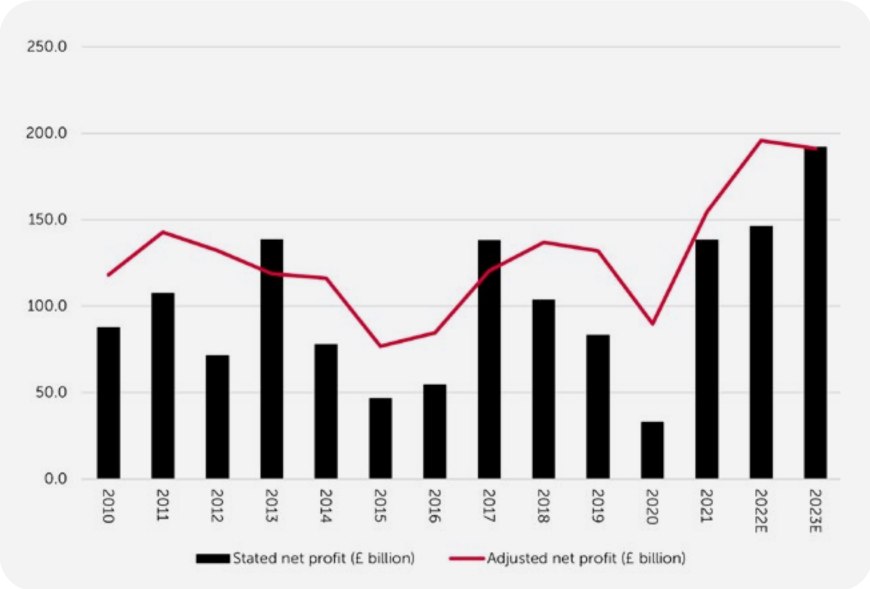
Recession risk

The combination of a drop in economic activity – for whatever reason, be it a banking wobble or something else – plus higher interest rates, rising input costs and currency movements could yet provide a stiff headwind to dividend forecasts.

On a stated basis, net income in 2023 is expected to jump sharply from 2022's £146 billion all-time high before a more modest 3% increase in 2024. However, underlying progress is less impressive and analysts are actually looking for a 2% drop in underlying net income.

Profits growth estimates rely heavily on banks and insurers, while drawing on health care for further support. Miners are expected to have a negative impact on the overall total in 2023.

That said, an unexpected economic rebound, and one that sparks a sustained increase in commodity prices as inflation takes a grip, could leave oils, miners and – by extension – the FTSE 100's earning power firmly underpinned.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

	Forecast pre-tax profit increase (£ billion)	Forecast of total FTSE 100 profits growth (%)
Financials	28.9	55%
Health Care	8.3	16%
Consumer Discretionary	4.8	9%
Real Estate	4.2	8%
Consumer Staples	3.6	7%
Utilities	3.3	6%
Industrial goods & services	2.6	5%
Oil & Gas	1.6	3%
Telecoms	0.7	1%
Technology	0.1	0%
Mining	(5.4)	(10%)
	52.7	**100.0%**

Source: Company accounts, Marketscreener, consensus analysts' forecasts

Ten key companies

Just ten stocks are forecast to pay dividends worth £46.6 billion, or 55% of the forecast total for 2023. The top twenty are expected to generate 73% of the total index's pay-out, at £62.1 billion.

Anyone who believes the UK stock market is attractive on a yield basis, and looking to buy individual stocks, glean access via a passive index tracker or even buy a UK equity income fund needs to have a good understanding of, and strong view on, those twenty names in particular.

	2023 E			
	Dividend (£ million)	Dividend yield (%)	Dividend cover (x)	Cut in last decade?
HSBC	9,117	8.5%	2.16x	2019, 2020
Shell	6,624	4.4%	4.13x	2020
BAT	5,446	8.5%	1.52x	No
Glencore	5,057	9.1%	1.90x	2015, 2016, 2020
Rio Tinto	4,354	5.1%	1.54x	2016, 2022
Unilever	3,875	3.6%	1.34x	No
AstraZeneca	3,864	2.2%	1.95x	No
BP	3,843	4.4%	4.08x	2020
GSK	2,294	4.0%	2.28x	2022
Vodafone	2,139	8.9%	0.92x	2018
National Grid	2,132	5.5%	1.28x	No
Diageo	1,828	2.3%	2.07x	No
Lloyds	1,767	5.8%	2.81x	2019, 2020
Anglo American	1,660	4.9%	2.44x	2015, 2016, 2020, 2022
NatWest Group	1,642	6.6%	2.59x	2019
Barclays	1,428	6.8%	3.78x	2016, 2019, 2020
Imperial Brands	1,346	7.7%	1.74x	2020
Reckitt Benckiser	1,339	3.1%	1.80x	No
Legal & General	1,186	8.7%	1.60x	No
Aviva	1,159	10.1%	1.52x	2013, 2019

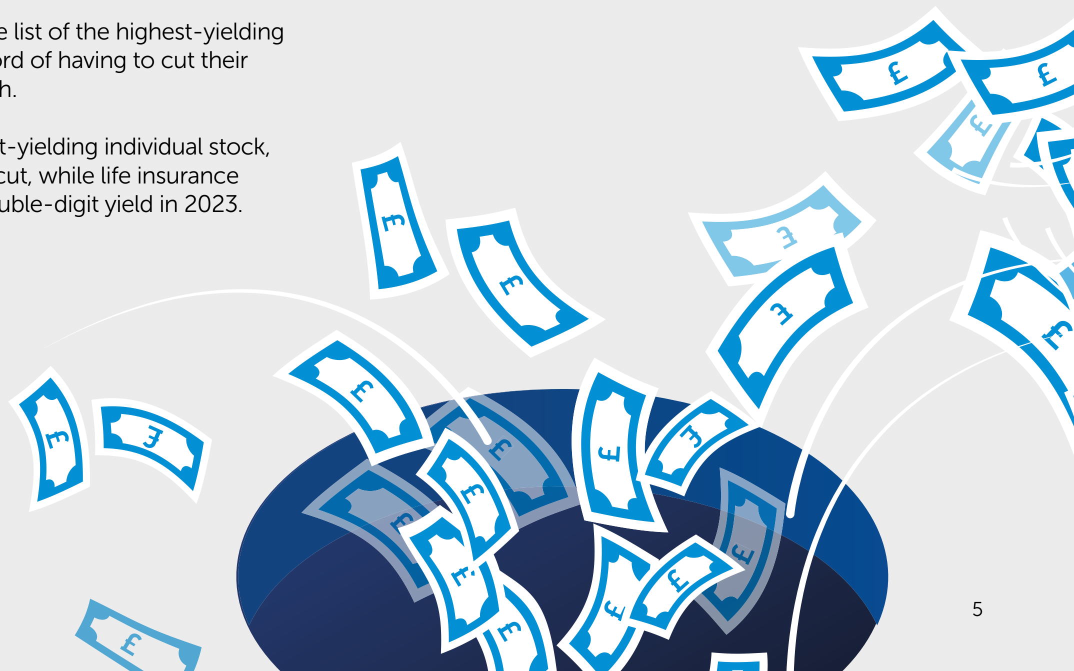
Source: Company accounts, Marketscreener, analysts' consensus forecasts, Refinitiv data. Ordinary dividends only.

HSBC is expected to be the single biggest paying stock within the FTSE 100 in 2023, with Shell, British American Tobacco, Glencore and Rio Tinto next on the list.

Ten highest yields in 2023

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, M&G is the highest-yielding individual stock, even allowing for an expected dividend cut, while life insurance giant Aviva is also expected to offer a double-digit yield in 2023.



	2023 E			
	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
M & G	10.9%	0.90 x	111%	No
Aviva	10.1%	1.52 x	66%	2013, 2019
Phoenix Group	9.5%	0.73 x	137%	2016, 2018
Glencore	9.1%	1.90 x	53%	2015, 2016, 2020
Vodafone	8.9%	0.92 x	109%	2018
Legal and General	8.7%	1.60 x	63%	No
HSBC	8.5%	2.16 x	46%	2019, 2020
BAT	8.5%	1.52 x	66%	No
Taylor Wimpey	8.4%	0.92 x	108%	2019
Imperial Brands	7.7%	1.74 x	57%	2020

Source: Company accounts, Marketscreener, analysts' consensus forecasts, Refinitiv data. Ordinary dividends only.

History suggests 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 can 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, all other things being equal.

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 history. Two years ago, twenty-four firms were on this list. That number has since dwindled to fifteen, thanks in part to the relegation of both Dechra Pharmaceuticals and Intermediate Capital in the FTSE Russell index reshuffle of December 2022.

	Total return 2013-23	Dividend CAGR* 2013-22	Forecast dividend growth** 2023E	2024E
Ashtead	858.4%	20.9%	11.7%	7.0%
London Stock Exchange	637.5%	13.8%	6.5%	11.4%
Spirax-Sarco	439.6%	9.9%	7.2%	9.2%
Halma	362.9%	6.5%	1.9%	1.8%
RELX	332.1%	8.3%	4.4%	8.8%
Scottish Mortgage	329.7%	2.5%	2.7%	2.6%
F&C Investment Trust	243.9%	4.1%	1.9%	1.8%
Croda	210.1%	5.3%	3.7%	7.1%
Sage	199.3%	5.2%	3.3%	5.3%
National Grid	154.6%	2.7%	5.5%	1.7%
United Utilities	130.7%	2.5%	8.7%	2.0%
Diageo	127.7%	4.9%	6.3%	6.2%
DCC	86.2%	10.3%	6.4%	5.0%
BAT	41.5%	5.0%	5.7%	5.7%
Hargreaves Lansdown	30.4%	9.7%	3.3%	12.2%
AVERAGE	279.0%	7.4%	5.3%	5.9%
FTSE 100	69.4%	3.0%	11.0%	7.4%

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

Notes to editors:
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