DIVIDEND DASHBOARD

Q2 2020

AJBell Youinvest

This report shows:

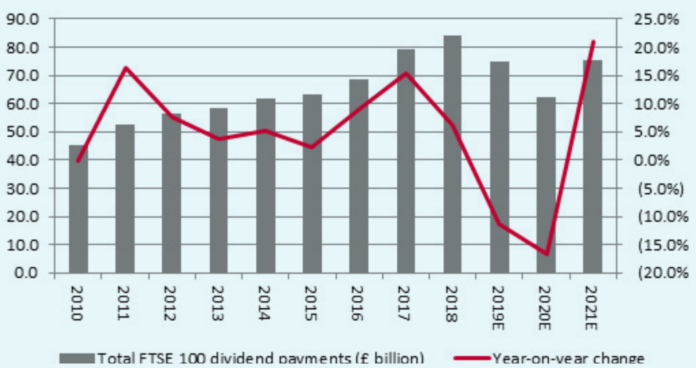
- The forecast dividend payout for the FTSE 100 this year has fallen from £91 billion to £62 billion
- Dividend cover remains low despite dividend cuts from 48 FTSE 100 firms
- Dividend concentration remains high with 20 firms expected to generate 74% of the FTSE 100 total payout in 2020
- The number of FTSE 100 companies that have increased dividend payments for each of the past 10 years has fallen from 25 to just 14

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.

COVID-19 wrecks FTSE 100 dividend outlook for 2020

At the beginning of the year the FTSE 100 was forecast to pay out a record £91.1 billion in dividends in 2020. These forecasts have been decimated by the Covid-19 pandemic with the UK's premier index now forecast to pay out £62.3 billion this year, a third less than was forecast in January as 48 members of the index have cut, deferred or cancelled payments. The 2020 forecast takes us back to levels last seen in 2014 and would be a fall of 17% compared to 2019, which itself was down 11% on the previous year. More positively, analysts are still forecasting for a recovery in 2021.



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

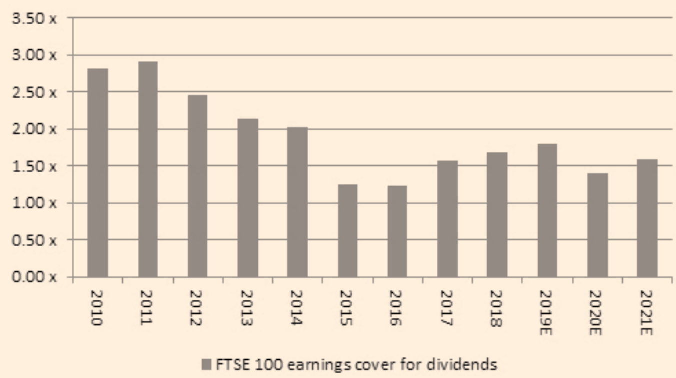
This leaves the FTSE 100 on a forecast yield of 3.6% for 2020. Whilst this is significantly lower than the 4.7% the index was expected to yield at the beginning of the year, it is perhaps a more realistic figure and is still one of the few options available to the income-seeker, with the Bank of England base rate anchored at 0.1% and the benchmark UK ten-year Gilt yield a mere 0.19%. This may be one reason why the FTSE 100 has rallied sharply from its March lows but investors must still tread carefully.

A second wave of the pandemic could badly expose hopes for higher dividend payments in the second half of the year, especially as earnings cover is still thin and profit forecasts are still generally sinking lower, thanks to the uncertainty caused by the pandemic.

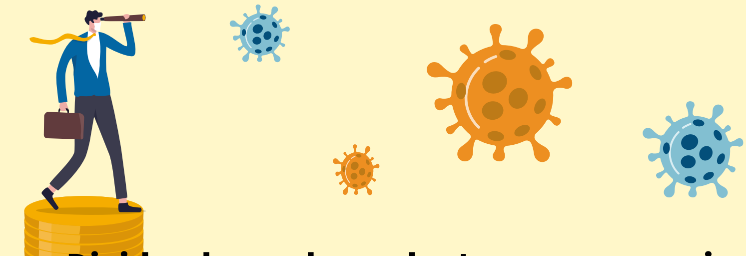
Dividend cover remains low even after 48 dividends cuts this year

While it is understandable that cover will be lower than ideal during an economic downturn as earnings come under pressure, the aggregate earnings cover ratio for the FTSE 100 is just 1.40 times. That equates to a 72% pay-out ratio and suggests that management teams as well as analysts and shareholders are pinning their hopes on a second-half pick-up in economic activity and therefore profits and cash flow.

More encouragingly, analysts seem to think that boardrooms will not look to splash the cash too quickly if the good times do start to roll, as earnings are forecast to grow faster than dividends in 2021. That would allow earnings cover to start to move back towards the 2.00-times threshold that provides a safety buffer in the event of the unexpected.



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

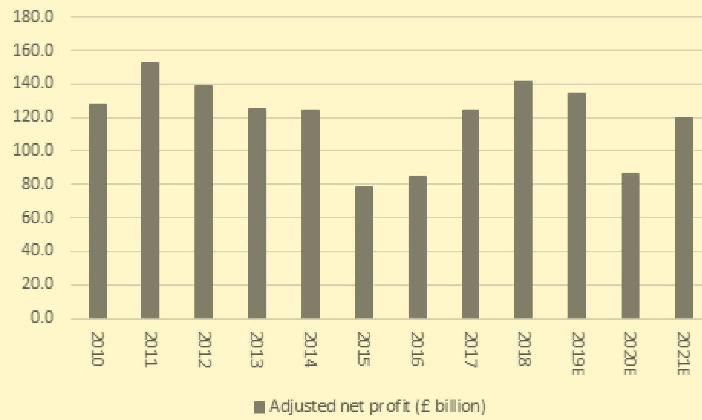


Dividends are dependent on an economic recovery

A second wave of the pandemic would pose a big risk to dividend forecasts, as a recovery in profits is expected by analysts for 2021. Income-seekers will need to decide whether they feel consensus estimates of a 35% drop in net profits in 2020, after a 5% slide in 2019, fully recognise all of the risks and dangers, especially as a 38% rebound is currently expected in 2021.

That forecast 35% slump in profits would be the deepest for the FTSE 100 since 2015, when oil and metals prices collapsed, banks began to rack up more conduct and payment protection insurance costs and Vodafone took a multi-billion pound write-down against the value of some of its European assets.

But the underlying economy was (relatively) healthy then and investors must assess whether profit and dividend forecasts are reliable or not. A lengthy economic downturn could leave forecasts of a 17% dividend payment drop in 2020 and 21% rebound in 2021 looking optimistic, given that thin earnings cover.



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

Concentration risk remains an issue for income investors

Just ten stocks are forecast to pay dividends worth £34.1 billion, or 55% of the forecast total for 2020. The top 20 are expected to generate 74% of the total index's pay-out, at £45.8 billion.

Anyone who believes the UK stock market is cheap on a yield basis, and looking to buy individual stocks, glean access via a passive index tracker or buy a UK equity income fund needs to have a good understanding of, and strong view on, those 20 names in particular.

	2020E			
	Dividend (£ m)	Yield (%)	Earnings cover (x)	Cut in last decade?
BP	6,702	10.6%	0.04x	2010
BAT	4,969	6.8%	1.53x	No
Shell	4,030	3.9%	0.57x	2020
GlaxoSmithKline	4,014	4.8%	1.46x	No
Rio Tinto	3,354	6.0%	1.55x	2016
AstraZeneca	2,989	2.7%	1.42x	No
Vodafone	2,181	6.4%	0.88x	2018
HSBC	2,049	2.6%	2.21x	2019
BHP Group	2,018	5.9%	1.54x	2016
Unilever	1,796	3.3%	1.44x	No
National Grid	1,751	5.1%	1.19x	No
Diageo	1,598	2.4%	1.60x	No
Imperial Brands	1,303	9.0%	1.86x	2020
Reckitt Benckiser	1,251	2.4%	1.74x	No
Aviva	1,251	11.7%	1.52x	2012, 2013, 2019
Legal & General	1,079	8.3%	1.65x	No
RELX	902	2.4%	1.88x	No
Glencore	887	4.0%	0.59x	2015, 2016, 2020
Prudential	879	2.9%	3.77x	2019
SSE	832	5.7%	1.12x	2019

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

BP's status as the biggest single-payer in the FTSE 100, according to consensus forecasts, presents investors with a particular conundrum.

Sector rival Shell has already cut its dividend and BP has form in this respect, having slashed its pay-out in 1992 and then again after the Gulf of Mexico oil rig disaster in 2010. Falling oil and gas prices are pressuring its cash flow, new boss Bernard Looney wishes to reinvent the firm so it is ready for a low-carbon future and net debt is way higher than a decade ago. A cut would not be the biggest surprise in the world and were that to come to pass – despite Mr Looney's public recognition of the importance of the dividend to shareholders – that would be the latest example of a double-digit dividend yield that proved too much for a company to sustain, alongside former FTSE 100 member Centrica, not to forget Taylor Wimpey, Persimmon, Vodafone and Imperial Brands among others.

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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

The ten highest dividend yields forecast for the FTSE 100 in 2020

At the time of writing, Aviva is the highest-yielding individual stock, although that relies upon a consensus forecast whereby the 2020 dividend is higher than that of 2018 and the 2019 cut is seen as an aberration, enforced by a concerned regulator as the UK felt the first stages of the COVID-19 pandemic. The regulator leaned on banks and insurers alike and most of them fell into line, although not all did so, with Prudential and Legal & General the notable exceptions.

	2020E			
	Yield (%)	Earnings cover (%)	Pay-out ratio (%)	Cut in last decade?
Aviva	11.7%	1.52 x	66%	2012, 2013, 2019
M & G	11.5%	2.09 x	48%	Floated in 2019
BP	10.6%	0.04 x	2379%	2010
Imperial Brands	9.0%	1.86 x	54%	2020
Standard Life Aberdeen	8.5%	0.66 x	151%	No
Evraz	8.4%	1.33 x	75%	2012, 2013, 2014
Legal & General	8.3%	1.65 x	61%	No
Phoenix	7.5%	1.43 x	70%	2016
BAT	6.8%	1.53 x	65%	No
Vodafone	6.4%	0.88 x	113%	2018

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

The ten-year dividend heroes

The pandemic and economic downturn have taken their toll on the FTSE 100's elite list of serial dividend raisers. Just 14 firms can now point to a record of at least ten consecutive increases in their annual dividend, down from 25 at the start of the year, and that includes two newcomers, Legal & General and Intermediate Capital. Casualties have included Associated British Foods, BAE Systems, Bunzl, Burberry, Compass, InterContinental Hotels, JD Sports, Johnson Matthey, Rightmove, St James's Place and also SSE and Prudential, although in the case of the final two a change to the group structure was a contributory factor following the sale or spin-out of certain assets.

Ashtead confounded the sceptics when it squeezed out a small increase to maintain its proud run that dates back some fifteen years, according to data from Refinitiv while increases from London Stock Exchange, National Grid, RELX and United Utilities mean they are nurturing nine-year growth streaks with hopes of making it ten. However, Ferguson and Smiths Group both look destined to fall at the final hurdle after the cancellation of their first-half dividends for fiscal 2019-20.

The demise of so many dividend growth streaks shows just how hard it is to increase the annual shareholder distribution for a decade or more.

Any firm which can achieve a streak of ten or more increases in its annual dividend must, on balance, be doing something right and with the benefit of hindsight blindly buying the FTSE 100's 14 remaining serial dividend growers – defined as those with at least ten straight years of higher pay-outs - would have brought bumper returns to portfolio builders.

The average capital gain from the 14 ten-year dividend growers is 481% and the average total return is 622%. Both easily beat the FTSE 100, at 20% and 75% respectively.

If the streaks can be maintained then there could be rewards for patient shareholders. All of the 14 firms to have increased their dividend in each of the last 10 years have beaten the FTSE 100 in capital and total return terms.

The tricky bit is that only four of the 14 – BAT, Diageo, Legal & General and Sage - 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	2010-19	2020E	2021E
Ashtead	**2589.6%**	29.3%	(1.7%)	18.5%
Halma	**932.4%**	7.0%	6.2%	8.2%
Spirax-Sarco Engineering	**768.4%**	11.8%	5.9%	5.8%
Intermediate Capital	**693.4%**	11.6%	5.4%	18.3%
Scottish Mortgage	**683.2%**	3.7%	4.0%	5.0%
Croda	**536.3%**	15.3%	5.2%	2.6%
Hargreaves Lansdown	**518.0%**	19.1%	4.8%	(15.0%)
DCC	**429.1%**	11.5%	0.8%	5.6%
Legal & General	**355.5%**	16.4%	2.9%	5.4%
Intertek	**339.7%**	15.3%	(13.4%)	14.6%
Sage	**266.1%**	8.6%	(2.2%)	6.1%
Diageo	**242.9%**	6.6%	(0.3%)	4.4%
Pennon	**223.8%**	6.9%	4.4%	4.6%
BAT	**128.3%**	7.8%	2.9%	6.8%
AVERAGE	**621.9%**	**12.2%**		
FTSE 100	**74.9%**	**5.2%**		

*Source: Refinitiv data, Company accounts. *Compound annual growth rate.*

***Source: Sharecast, consensus analysts' forecasts.*

Dividend growth is so powerful as it almost inevitably drags a share price higher.

The average dividend yield for the 25 ten-year raisers is forecast to be 2.9% in 2020, below the 3.6% average across the FTSE 100.

But the yield offered by their forecast 2020 dividend on their June 2010 share price is an average of 11.7% - and if anyone offered an investor a guaranteed 11.7% dividend yield they would be delighted to pocket it. That shows how a rising dividend can lift a share price, boosting income and capital gains for a powerful total return.

	2020 estimated dividend yield on June 2010 share price	2010 actual yield on December 2010 share price
Ashtead	**36.3%**	2.7%
Legal & General	**21.4%**	5.6%
Intermediate Capital	**20.3%**	6.5%
Hargreaves Lansdown	**12.6%**	2.1%
British American Tobacco	**9.9%**	4.6%
DCC	**8.8%**	3.0%
Croda	**8.7%**	2.0%
Spirax-Sarco Engineering	**8.3%**	3.1%
Pennon	**8.3%**	4.5%
Sage	**6.7%**	3.0%
Halma	**6.7%**	3.2%
Intertek	**6.3%**	1.8%
Diageo	**6.1%**	3.2%
Scottish Mortgage	**2.9%**	1.9%
AVERAGE	**11.7%**	**3.4%**

Source: Refinitiv data, company accounts, Digital Look, 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 19 June 2020.