



## FTSE 100 dividends continue to march higher

This report shows:

The sectors driving FTSE 100 profit growth

The FTSE 100 is on track for a record dividend payout



The 'Dividend Giants' with the highest dividend payouts



The FTSE 100 firms with the best dividend growth records



### 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 2018.

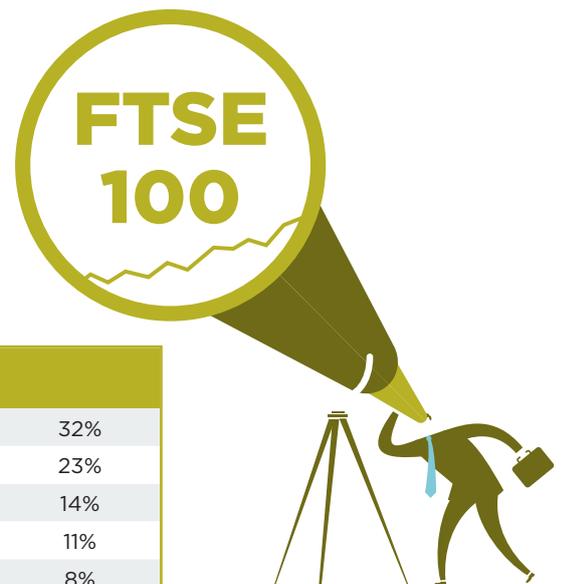
## FTSE 100 profits expected to rise

Aggregate profit forecasts for the FTSE 100 in 2018 have risen nicely in the second quarter, from £217 billion to £224 billion.

It should be noted that the mix of the FTSE 100's earnings progress remains heavily reliant upon oils and financials - most notably banks - although the consensus forecasts now expect a higher contribution from miners as industrial metal and coal prices surprise on the upside.

The sectors driving FTSE 100 profits and profit growth:

Percentage of forecast FTSE 100 profits		Percentage of forecast FTSE 100 profit growth	
Financials	24%	Oil & Gas	32%
Oil & Gas	17%	Financials	23%
Mining	16%	Health Care	14%
Consumer Staples	13%	Consumer Staples	11%
Consumer Discretionary	10%	Consumer Discretionary	8%
Industrial goods & services	7%	Mining	6%
Health Care	7%	Industrial goods & services	3%
Telecoms	3%	Utilities	2%
Utilities	3%	Technology	1%
Technology	0%	Telecoms	1%
Real estate	0%	Real estate	0%



Source: Digital Look, analysts' consensus pre-tax profit forecasts

## FTSE 100 forecast for record dividend payout

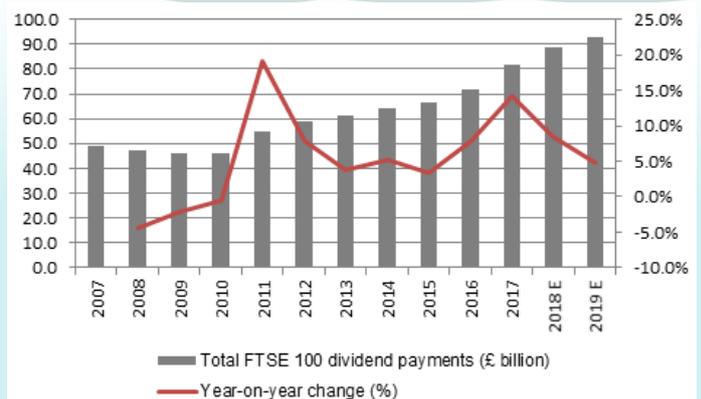
The solid earnings forecast for the FTSE 100 is helping to underpin dividend estimates. After small cuts in Q4 2017 and Q1 2018, dividend forecasts for the year rose marginally in Q2 2018 to £88.8 billion.

That equates to 8% growth on 2017's pay-out and would be a record-high figure for the FTSE 100's members if it is achieved.

This upgrade largely reflects weakness in the pound against the dollar, since such dividend heavyweights as BP, Shell and HSBC all declare their distributions in the US currency, as does Glencore, which is expected to offer the biggest single contribution to dividend growth in 2018.

As with the profit forecasts, financials and oils dominate in terms of their dividend contribution. Between them, Shell, BP and HSBC are forecast to offer dividends worth £25 billion or 29% of the total, using a dollar-sterling cross rate of \$1.34. Glencore is now expected to chip some £2.2 billion into the pot this year as it resumes dividend payments after a two-year hiatus.

Overall, the ten highest dividend paying firms are forecast to payout over half the FTSE 100 dividends on their own, a total of £47.4 billion.

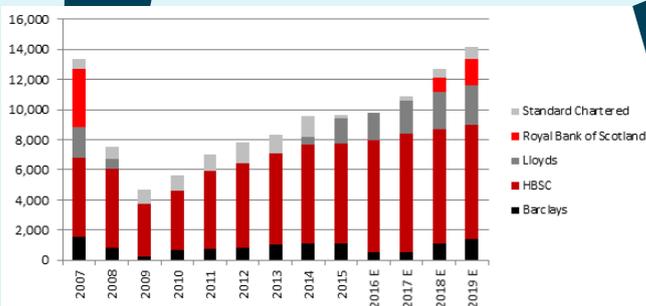


Source: Digital Look, company accounts, analysts' consensus dividend forecasts

## ‘Dividend Giants’ – the FTSE 100 firms with the highest dividend payouts:

	Forecast percentage contribution to FTSE 100 cash dividend payments in 2018	Forecast dividend payout (billions)
Royal Dutch Shell	13%	£11.5
HSBC	9%	£7.6
BP	7%	£5.9
British American Tobacco	5%	£4.7
GlaxoSmithKline	5%	£4.0
Vodafone	4%	£3.4
Rio Tinto	3%	£3.0
AstraZeneca	3%	£2.7
Lloyds	3%	£2.4
Glencore	3%	£2.2
<b>Total</b>	<b>55%</b>	<b>£47.4 billion</b>

As with their total profits, the combined dividend payment from the Big Five banks is expected to exceed the pre-crisis peak of some £13 billion, helped by Barclays plans to more than double its distribution to 6.5p a share and the consensus assumption that RBS will begin to pay dividends once more.



Source: Digital Look, company accounts, analysts' consensus dividend forecasts

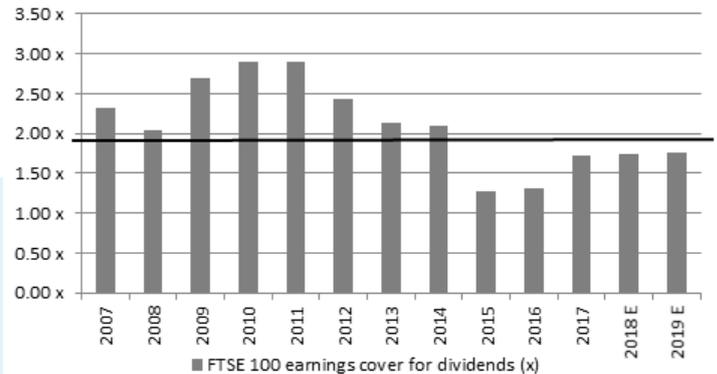
The final result of the earnings and dividend forecasts is that the FTSE 100 currently offers a forecast yield of 4.1% for 2018. That is way better than anything that can be earned on cash or the benchmark 10-year Government Gilt yield of 1.37% and therefore a potential source of support for UK stocks.

## Dividend cover continues to improve

The fresh momentum in profit forecasts means earnings are expected to cover the aggregate £88.8 billion pay-out by 1.75 times. This is the best cover ratio seen since 2014, the last year to see cover exceed the ideal 2.0 times ratio.

The average cover across the 10 highest yielding stocks in the FTSE 100 has however slipped back to 1.29 times, compared to 1.42 times in March. This is partly because recent share price falls mean that Vodafone and BT are now among the ten highest yielding stocks and their cover ratios are 0.8 times and 1.7 times respectively. Recent weakness in the share prices of the house builders also means three such firms now feature in the list of ten highest yielding stocks. Earnings cover here is thin although all three have net cash balance sheets.

Ideally earnings cover needs to be around that 2.0 times mark to offer a margin of safety to dividend payments, should there be a sudden and unexpected downturn in trading at a specific company, or indeed the UK and global economies as a whole.



Source: Company accounts, Digital Look, analysts' consensus forecasts

It is possible to argue that the dividend cover figure is skewed by the low cover on offer at huge dividend payers such as Shell, BP, HSBC and GlaxoSmithKline. Take out those four – and British American Tobacco – and dividend cover across the other 95 FTSE 100 firms is 1.95 times and the yield on offer there is still a thoroughly respectable 3.6%.

This may help to explain why only Pearson, easyJet and Sainsbury reduced their shareholder distributions in 2017, despite concerns over skinny earnings cover, although Centrica's shares collapsed amid fears, as yet unfounded, that a cut was imminent.

## The highest dividend yields in the FTSE 100

Strong share price performance means that neither Shell nor BP feature in the list of the ten-highest yielding stocks in the FTSE 100.

The presence of three house builders in the top four 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.

BT and Centrica both feature after hefty share price slides and both companies remain subject to debate over whether a dividend cut is imminent, despite denials from both firms.

	Forecast dividend yield 2018	Forecast dividend cover 2018
Direct Line	8.7%	1.01x
Evraz	8.4%	1.68x
Persimmon	8.4%	1.14x
Taylor Wimpey	8.0%	1.36x
Centrica	8.0%	1.12x
Barratt Developments	7.7%	1.49x
BT	7.5%	1.71x
Imperial Brands	7.4%	1.38x
SSE	7.2%	1.26x
Vodafone	6.8%	0.76x
<b>Average</b>		<b>1.29 x</b>

Source: Company accounts, Digital Look, analysts' consensus forecasts



## 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.

### 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 heroes' – the FTSE 100 firms that consistently grow their dividends

26 FTSE 100 firms have increased their dividend each and every year for the last decade. The average capital gain from these firms is 414% and the average total return is 590%.

The average dividend yield for the 26 ten-year raisers is forecast to be 3.2% for 2018. While that is respectable in itself, perhaps the most startling statistic is the current yield these shares offer on their purchase price ten years ago. The average is 10.6%, with the highest (Ashtead) offering a staggering 45% yield. This just goes to show the value that can be derived by seeking out shares that consistently grow their dividends and holding them for the long term.

The FTSE 100 firms that have grown their dividend every year for the past ten years:

	2008 yield on 12 June 2008 share price	2018 yield on 12 June 2008 share price
Ashtead	3.9%	44.9%
Micro Focus International	2.6%	29.6%
St. James's Place	1.9%	18.5%
Hargreaves Lansdown	3.4%	17.8%
Croda	3.0%	12.3%
Paddy Power Betfair	2.4%	11.2%
InterContinental Hotels	3.6%	10.8%
<b>Average</b>	<b>3.1%</b>	<b>10.6%</b>
British American Tobacco	4.5%	10.5%
Compass	3.2%	9.1%
Standard Life Aberdeen	4.7%	8.6%
Whitbread	3.1%	8.6%
Vodafone	5.1%	8.5%
Imperial Brands	3.1%	8.4%
DCC	2.9%	8.3%
Prudential	3.0%	7.4%
Halma	4.0%	7.3%
Intertek	2.1%	7.1%
Sage	3.3%	7.0%
Bunzl	3.0%	6.7%
SSE	4.5%	6.5%
Diageo	3.6%	6.5%
Associated British Foods	2.5%	5.1%
BAE Systems	3.3%	4.9%
Johnson Matthey	1.9%	4.2%
Shire	0.8%	3.3%
Scottish Mortgage	1.7%	2.3%
<b>Average</b>	<b>3.2%</b>	<b>11.0%</b>

Source: Thomson Reuters Datastream, company accounts, Digital Look, consensus analysts' forecasts

The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term. Data correct as at 14 June 2018.