DIVIDEND DASHBOARD

Q4 2021

AJ Bell Youinvest

This report shows:

- Dividend growth slowing in 2022 after a strong bounce back in 2021
- Glencore is forecast to be the FTSE 100's biggest dividend grower in 2022
- Rio Tinto is forecast to be the index's biggest dividend payer in 2022 despite cutting its payout
- Twelve FTSE 100 firms are currently forecast to offer a yield of more than 7% in 2022 – five miners, two tobacco firms, two housebuilders, two financials and one telecoms stock

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 2021 and 2022.

Forecasts aren't a reliable guide to future performance.

Dividend growth set to slow in 2022

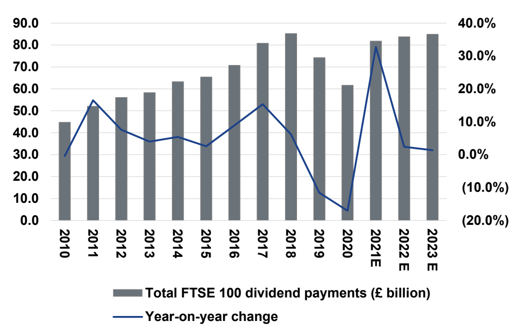
The FTSE 100 is currently expected to yield 4.1% in 2022, helped by the second annual increase in a row after 2020's sharp decline. The index's total dividend pay-out, excluding special dividends, is expected to reach £81.8 billion in 2021, a 32% increase compared to £61.8 billion in 2020. Growth then slows considerable into 2022 with total dividend payments forecast to come in at £83.7 billion, an increase of just £1.9 billion or 2%.

A drop in industrial and precious metal prices, and particularly iron ore and copper, has weighed on forecasts from the all-important mining sector. An £11.1 billion increase in dividends from miners in 2021, excluding special payments, is expected to give way to a drop of £2.1 billion in 2022.

It also remains to be seen whether companies start to lean more toward share buybacks when it comes to returning cash to shareholders, in light of the UK Government's one-and-a-quarter percentage point increase in dividend taxes, or whether the pensions' regulator's threat to challenge dividend payments made by firms with pension deficits affects boardrooms' dividend policies.

Excluding Johnson Matthey and Darktrace, who have both tumbled out of the FTSE 100 index in December, shortly after announcing share buyback programmes, no fewer than 22 FTSE 100 members have announced buyback schemes in 2021, to the tune of £18.7 billion. Shell and Diageo have already made clear their intention to buy back more shares in 2022.

For the moment, however, dividend payments are seen reaching £83.7 billion in 2022 and £84.8 billion in 2023.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Top dividend growers and cutters for 2022

Meaty increases in dividends at Glencore, Shell, HSBC, Lloyds and the resumption of payments at Flutter Entertainment look set to just do enough to offset anticipated falls at Rio Tinto, GlaxoSmithKline (thanks to a change in corporate structure), Anglo American, Evraz and Antofagasta.

This again highlights the importance of the miners to the overall direction of FTSE 100 profits and dividends, something which may also attract the attention of those investors who run strict ethical, social and governance (ESG) screens before they decide where to put their capital.

2022 E				
Dividend growth (£ million)			Dividend decline (£ million)	
Glencore	1,475		Berkeley	(49)
Royal Dutch Shell	575		BHP Group	(111)
HSBC	453		Admiral Group	(116)
Lloyds	355		Antofagasta	(133)
Flutter Entertainment	350		Evraz	(240)
Barclays	335		Anglo American	(536)
British American Tobacco	252		GlaxoSmithKline	(1,252)
Compass	250		Rio Tinto	(2,669)
Associated British Foods	177			
BP	155			

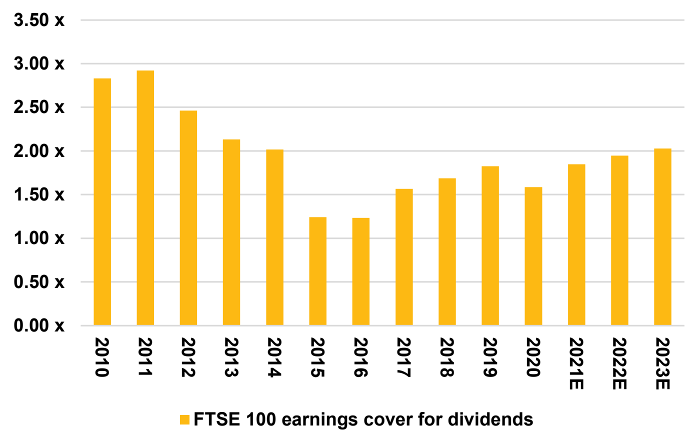
Source: Company accounts, Marketscreener, consensus analysts' forecasts

Dividend cover is improving

One other reason why dividend growth may be slowing (and estimates sagging slightly) is that dividend cover is improving. Companies may be choosing to let earnings growth outpace dividend growth so they can reinvest in their businesses, bolster balance sheets and rebuild cover, so that their shareholder distributions are not quite the hostage to fortune that they proved to be in 2020, should another unexpected shock emerge from left field.

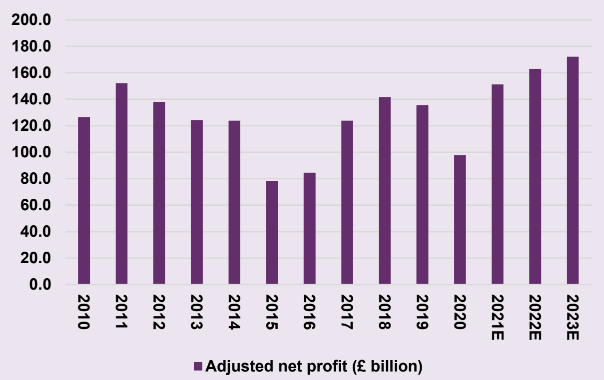
The aggregate earnings cover ratio for the FTSE 100 is now seen rising to 1.95 times in 2022, according to analysts' consensus and dividend forecasts.

That is a further improvement on 2021's 1.85 times earnings cover and the skinny 1.59 times ratio served up in 2020. A further gain to 2.03 times is expected by analysts in 2023, to take earnings cover to its highest level since 2014, which was the last time cover reached the comfort zone of 2.00 times or higher.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Stalling economic recovery could hinder dividend growth



Source: Company accounts, Marketscreener, consensus analysts' forecasts

A renewed drop in economic activity – for whatever reason – could still pose a big risk to dividend forecasts all the same.

Analysts currently believe that 2022's (adjusted) net profits will exceed not only the pre-pandemic peaks of 2018 but the current all-time high of 2011, when commodity prices were roaring higher, and miners and oil producers generated 42% of the FTSE 100's profits between them.

Oils and consumer discretionary stocks are expected to drive the forecast 6%, or £14.2 billion increase in aggregate FTSE 100 pre-tax profit for 2022, as miners and financials both see lower earnings. The forecast drop at miners reflects lower industrial metal prices (and higher costs), while the banks' profits in 2021 are likely to have been flattered by write-backs relating to the bad loan provisions they took in 2020.

If the economy offers little or no assistance – or even hinders – then these earnings forecasts, and by extension, dividend payment estimates could find themselves exposed to the downside.

Equally, an unexpectedly strong recovery, and one that sparks higher commodity prices as inflation takes a grip, could leave oils, miners and – by extension – the FTSE 100 in clover.

The ten highest dividend payers in 2022

Rio Tinto is expected to be the single biggest paying stock within the FTSE 100 in 2022 but Shell and British American Tobacco are not expected to be far behind it.

This may have ESG-oriented investors gnashing their teeth, especially as they may argue both firms are acting too slowly in their attempts to shift their business mix to more renewable sources of energy. Shell and fellow oil major BP, also a top-ten dividend contributor, have a tricky balancing act as they look to get the best out of their existing assets, reinvest for the future (without overpaying here, amid the mad scramble for 'green' assets) and keeping shareholders sweet with cash returns.

That said, Shell is starting to increase its dividend on a quarterly basis and both it and BP are also returning cash to investors via share buybacks.

	2022 E		
	Dividend (£ million)	Dividend as % FTSE total	Dividend cover (x)
Rio Tinto	5,801	6.9%	1.44x
Shell	5,406	6.5%	3.24x
BAT	5,241	6.3%	1.49x
BHP Group	4,652	5.6%	1.34x
HSBC	4,229	5.1%	1.64x
Unilever	3,792	4.5%	1.35x
Glencore	3,638	4.3%	1.89x
AstraZeneca	3,366	4.0%	1.71x
BP	3,357	4.0%	3.09x
GlaxoSmithKline	2,754	3.3%	1.73x

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.

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

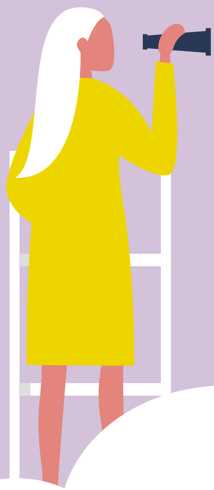
The ten firms forecast to have the highest yields in 2022

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, Evraz is the highest-yielding individual stock, closely followed by BHP and then Rio Tinto.

Forecast of yields of more than 10% may make investors a little wary, given the shocking record of firms previously expected to generate such bumper returns, including Vodafone, Shell, Evraz itself and – when they were still in the FTSE 100 - Royal Mail, Marks & Spencer and Centrica. All were forecasts to generate a yield in excess of 10% at one stage or another and all cut the dividend instead.

BHP's likely disappearance from the FTSE 100 in 2022, when it adopts a Standard rather than a Premium listing and makes its primary base Australia, is another factor for investors to ponder, at least if they are seeking to glean yield from index-tracking funds.



	2022 E			
	Dividend yield (£ million)	Dividend cover (x)	Dividend as % FTSE total	Cut in last decade?
Evraz	17.2%	1.29 x	77%	2012, 2013, 2014, 2020
BHP Group	10.6%	1.34 x	75%	2016, 2020
Rio Tinto	10.0%	1.44 x	70%	2016
M & G	9.4%	1.16 x	86%	No (listed 2019)
Imperial Brands	9.2%	1.55 x	64%	2020
BAT	8.5%	1.49 x	67%	No
Persimmon	8.4%	1.12 x	89%	2014, 2019
Glencore	7.8%	1.89 x	53%	2015, 2016, 2020
Phoenix Group	7.6%	0.74 x	135%	2016, 2018
Taylor Wimpey	7.5%	1.58 x	63%	2019

Source: Company accounts, Marketscreener, consensus analysts' forecasts

10-year dividend heroes

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 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, 24 firms were on this list. That number has since dwindled to 16 even as National Grid, United Utilities and Dechra Pharmaceuticals joined this elite grouping in 2021, the last-named by dint of its promotion to the index in December.

Hikma Pharmaceuticals is working on a nine-year dividend growth streak and will therefore be looking to rack up a tenth and join this list in calendar 2022.

Even allowing for the potential changes and deletions to the list of dividend-growers over time, those that managed to maintain their proud runs in 2020 and 2021 have been tremendous long-term investments (although in many cases the final dividend payments for 2021 will be declared in calendar 2022).

The average capital gain from the sixteen ten-year dividend growers is 666% and the average total return is 831%. Both easily beat the FTSE 100, at 30% and 90% respectively.

In fact, fifteen of the sixteen firms to have increased their dividend in each of the last 10 years have outperformed the FTSE 100 in capital terms, with British American Tobacco the sole exception. In total return terms, fifteen have done better than the FTSE 100 index, with BAT again the exception that proves the rule.

	Total return	Dividend CAGR*	Forecast dividend growth**	
	2011-2021	2011-20	2021 E	2022 E
Ashtead	**3784.7%**	29.3%	13.9%	12.5%
Intermediate Capital	**1781.5%**	12.0%	12.5%	14.3%
Dechra Pharmaceuticals	**1140.8%**	12.6%	16.0%	10.6%
Scottish Mortgage	**1085.0%**	3.6%	3.8%	4.2%
Spirax-Sarco	**984.1%**	10.6%	13.6%	6.0%
Halma	**911.0%**	6.8%	7.6%	10.5%
London Stock Exchange	**871.1%**	11.9%	18.7%	15.7%
Croda	**588.3%**	10.0%	16.5%	5.7%
RELX	**504.1%**	8.7%	4.3%	8.2%
DCC	**362.1%**	10.2%	7.0%	5.8%
Hargreaves Lansdown	**295.4%**	17.3%	(12.9%)	9.1%
Diageo	**275.5%**	6.3%	3.8%	3.4%
Sage	**263.4%**	8.3%	1.7%	2.6%
National Grid	**212.5%**	**3.1%**	**1.7%**	**2.0%**
United Utilities	**189.4%**	**3.7%**	**1.2%**	**2.3%**
British American Tobacco	**47.1%**	**6.6%**	**0.6%**	**5.5%**
AVERAGE	**831.0%**	**10.1%**		
FTSE 100	**90.0%**	**4.6%**		

*Source: Refinitiv data, Company accounts. *Compound annual growth rate. **Source: Marketscreener, 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 2021 and 2022. Data correct as of 06 December 2021.

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.