Dividend Dashboard

Q3 2022

AJ Bell Youinvest

AJ Bell's latest Dividend Dashboard report shows:

- 2022 could become the best year ever for cash returns from the FTSE 100: £81.5 billion in forecast ordinary dividends; plus £1.6 billion in special dividends; and a record £50.3 billion in buybacks that have already been announced
- However, 2022 aggregate dividend forecasts are stalling amid recession fears, rising interest rates and weakness in metals prices impacting miners
- At £81.5 billion, dividends in 2022 are now expected to marginally undershoot the record payment of £85.1 billion in 2018
- FTSE 100 members are forecast to increase ordinary dividend payments by 11% in 2022. Although dividend growth is expected to continue in 2023, it is forecast to slow to 8% as weaker top-line growth, higher input costs and the cost of capital start to weigh on profits.
- Financials are now expected to be the biggest contributor to FTSE 100 dividends in the coming year, following cuts to estimates for miners' dividend payments
- Three FTSE 100 firms are currently forecast to offer a double-digit yield in 2022 and twelve are expected to offer more than 7% this year – five financial companies, three housebuilders, two miners, one telecoms company and one tobacco firm

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 above relates to the outlook for 2022, 2023 and, in some cases, 2024. Data correct as of 19 September 2022.

Recession, rates and inflation weigh on 2022 dividends

The FTSE 100 is now expected to yield 4.1% in 2022, as both the headline index and analysts' dividend forecasts struggle to make any notable progress. The index's total dividend pay-out is expected to reach £81.5 billion in 2022, compared to £78.5 billion in 2021, excluding special dividends.

Total payments peaked at £85.2 billion in 2018 and 2022 is flagging in its efforts to get closer to that mark, as analysts' estimates for total payments lose ground. Concerns over increases in input costs, interest rates (and therefore the cost of capital) and a possible recession are all factors weighing on 2022, especially as metals prices are, in many cases, lower than earlier in the year.

However, ongoing strength in oil and gas prices is giving support to estimates for 2023, for which analysts are still nudging up their dividend payment forecasts.

Analysts expect 2023 to set a new record-high for FTSE 100 ordinary dividend payments, even if profit growth is expected to slow (and then grind to a complete halt in 2024). Pre-tax income is expected to rise by 4% in 2023, while ordinary dividends are seen rising by 8% to £87.7 billion. This may reflect the additional room for manoeuvre offered by 2022's forecast dividend cover of 2.36 times, the best figure since 2012.

The lofty dividend cover ratio may also be the result of how more than one third of the FTSE 100's members are running share buyback programmes as a means of returning cash to their shareholders.

The aggregate total forecast for dividends, special dividends and share buybacks now totals £133.4bn for 2022, meaning it should surpass the £126.8bn combined figure achieved in 2018.

Buyback bonanza surpasses £50bn

FTSE 100 firms announced £36.7 billion of buybacks in the first six months of 2022 and added £13.6 billion more in the third quarter. That takes the total to £50.3 billion so far this year, way in excess of the peaks of 2006 and 2018, which came in between £33 billion and £34 billion.

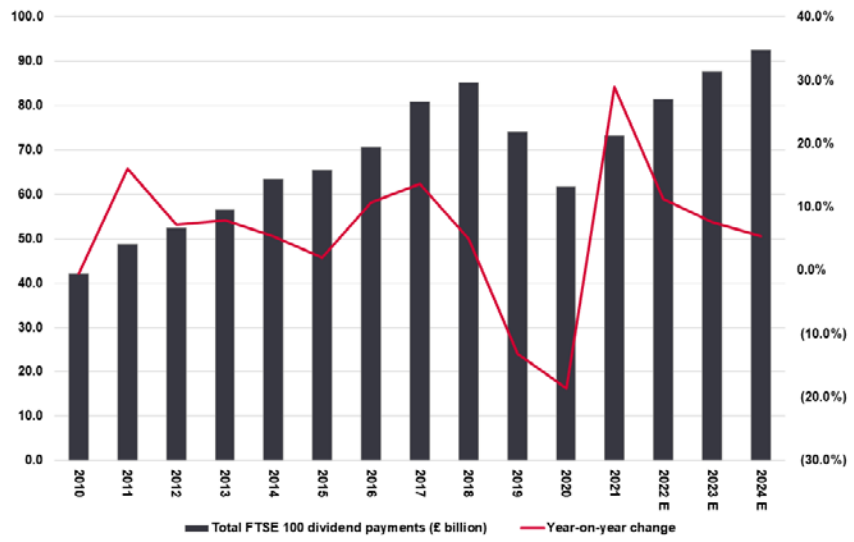
Such largesse does not smack of a lack of corporate confidence, despite the challenges posed by inflation, rising interest rates and fractured supply chains.

Equally, some investors may assess bumper buyback plans with a more jaundiced eye, for two reasons.

First, it is easier to start and stop a buyback than it is to increase or cut a dividend. There is far less likely to be heavy flak if a buyback is postponed or cancelled than if a dividend is reduced, or even cancelled.

Second, it can be argued that buybacks are a contrarian indicator. FTSE 100 share buybacks reached a peak in 2006, just a year before the Great Financial Crisis, and then topped out again in 2018, just as the index reached an all-time closing high of 7,779 in July of that year.

Even allowing for hefty buybacks, aggregate FTSE 100 dividend payments are still expected to grow by 11% to £81.5 billion in 2022 before a further 8% advance in 2023 to £87.7 billion.



Source: Company accounts, Marketscreener, analysts' consensus forecasts

Biggest dividend increases and decreases

There have been meaty increases in dividends at Glencore, Shell, HSBC, AstraZeneca and BP. They are expected to more than offset anticipated falls at GSK (thanks to a change in corporate structure), Rio Tinto and Antofagasta, as well as the demotion of BHP and Ferguson as they switch their primary listings to Sydney and New York respectively. The dollar's strength against the pound is also boosting the value of payments in sterling terms from Glencore, Shell, HSBC, AstraZeneca and BP, as they all declare their shareholder distributions in the US currency.

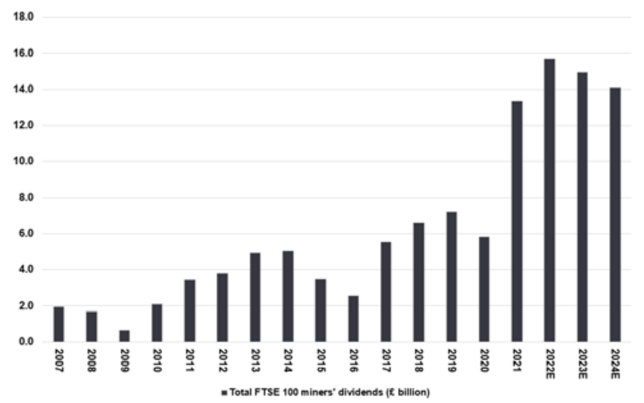
This again highlights the importance of the miners, oils and financials to the overall direction of FTSE 100 profits and dividends. The strong commodity representation may attract the attention – and ire - of those investors who run strict ethical, social and governance (ESG) screens before they decide where to put their capital.

Note also that miners' dividend payments are expected to fall in 2023 and 2024, by some £1.6 billion in total across the two years, presumably as a reflection of fears that a recession will dent demand for industrial metals.

This is one major reason dividend growth for the FTSE 100 overall is seen slowing in 2023 and 2024.

2022 E			
Dividend growth (£ million)		Dividend decline (£ million)	
Glencore	3,840	Tesco	(11)
HSBC	1,477	Kingfisher	(14)
Shell	1,304	B&M European Value Retail	(15)
AstraZeneca	744	Sainsbury	(25)
BP	635	Fresnillo	(67)
British American Tobacco	280	Admiral Group	(70)
Compass	279	Berkeley	(256)
Haleon*	277	Antofagasta	(688)
Next	254	Rio Tinto	(889)
Centrica	176	GSK*	(1,901)

*Source: Company accounts, Marketscreener, consensus analysts' forecasts. *Haleon spun out of GSK in July 2022.*



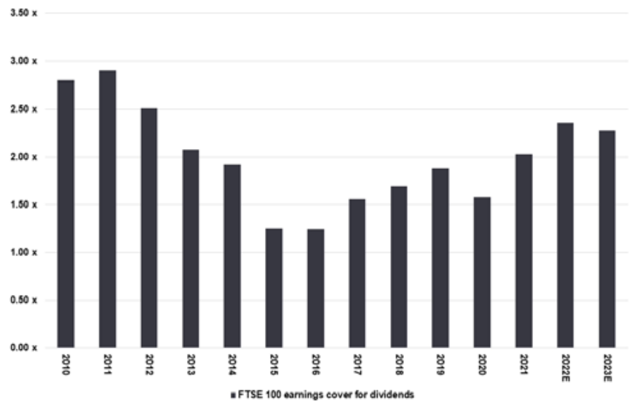
Dividend cover to hit ten-year high

A recession remains a major danger, but one other reason why dividend growth may be slowing is that dividend cover is improving, and executives may be keen to preserve this buffer.

Some 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 expected to come in at 2.36 times in 2022, according to analysts' consensus and dividend forecasts. This is way higher than the 2.03 times earnings cover that was on offer in 2021 and represents the best earnings cover since 2012, when the ratio stood at 2.51 times.

Generally, an earnings cover ratio north of 2x times is seen as offering some support and comfort to dividend forecasts, as it suggests there is a buffer in case of any sudden or unexpected event, such as an economic downturn or company-specific problem which threatens profits.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Recession risk

The combination of a drop in economic activity, plus higher interest rates and rising input costs could nonetheless pose a big risk to dividend forecasts.

Analysts currently believe that 2022's stated net profits will exceed not only the pre-pandemic peaks of 2017 but the high of 2013 as well, when Vodafone's sale of its stake in an American joint venture with Verizon added considerably to the total.

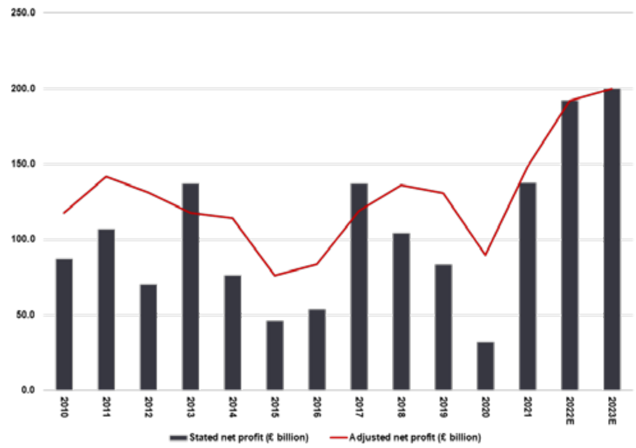
On an adjusted basis, net income in 2022 is expected to exceed not only the pre-pandemic peak of 2018, but also the all-time high of 2011, when commodity prices were roaring, and miners and oils generated 42% of the total between them. Analysts also see 2023 as offering a further small increase.

Oils and mining stocks, with a little help from healthcare and consumer discretionary companies, are expected to underpin the forecast increase in FTSE 100 pre-tax profit for 2022. Although upgrades to earnings from oil and gas have been needed to offset decreases from precious and industrial metals. Shell, BP and Harbour Energy are expected to generate £76.7 billion in pre-tax income in 2022, up from £35.2 billion last year, while the FTSE 100's sextet of miners is still seen churning out £57 billion this year against £43.6 billion in 2021.

Neither sector is seen offering higher pre-tax earnings in 2023, however, when the oils are expected to generate £6 billion less and the miners fall by £13.8 billion. Increases at the banks, insurers and healthcare stocks underpin estimates for overall growth from the FTSE 100 next year.

If the economy offers little or no assistance – or even serves as a hinderance – then these commodity-exposed earnings forecasts could find themselves exposed to the downside, potentially harming dividends.

Equally, an unexpected 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 sitting pretty.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

	2022 E	
	Forecast pre-tax profit increase (£ billion)	**Forecast of total FTSE 100 profits growth (%)**
Oil & Gas	15.4	37%
Mining	14.4	34%
Health Care	6.5	15%
Consumer Discretionary	4.7	11%
Consumer Staples	4.5	11%
Industrial goods & services	3.1	8%
Telecoms	0.5	1%
Technology	0.1	0%
Utilities	(1.8)	(4%)
Real Estate	(1.8)	(4%)
Financials	(3.8)	(9%)
	41.8	**100.0%**

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:

Divided	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

At the time of writing, Persimmon is the highest-yielding individual stock, while Rio Tinto and M&G are also expected to offer a double-digit yield in 2022.

Forecast yields of more than 10% may make investors a little wary, given the shocking record of firms previously expected to generate such bumper returns. As such, nothing can be taken for granted, again especially if a recession hits.

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.

	2022 E			
	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
Persimmon	16.2%	1.05 x	96%	2014, 2019
Rio Tinto	10.5%	1.70 x	59%	2016
M & G	10.0%	1.00 x	100%	No
Glencore	9.6%	2.86 x	35%	2013, 2015, 2016, 2020
Barratt Develop.	8.9%	1.37 x	73%	2020
Taylor Wimpey	8.5%	2.00 x	50%	2019
Phoenix Group	8.4%	0.47 x	213%	2018
Imperial Brands	7.4%	1.59 x	63%	2020
Vodafone	7.3%	1.00 x	100%	2018
Legal & General	7.2%	1.89 x	53%	No

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

Notes to editors:

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