Dividend Dashboard

Q1 2019

AJBell Youinvest

This report shows:

- The FTSE 100 is forecast to pay record dividends in 2019
- Dividend cover is at its highest since 2014
- What level of dividend cover to look out for
- The highest yielding companies in the FTSE 100
- Where dividend growth is due to come from
- Ten year dividend heroes

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 2019.

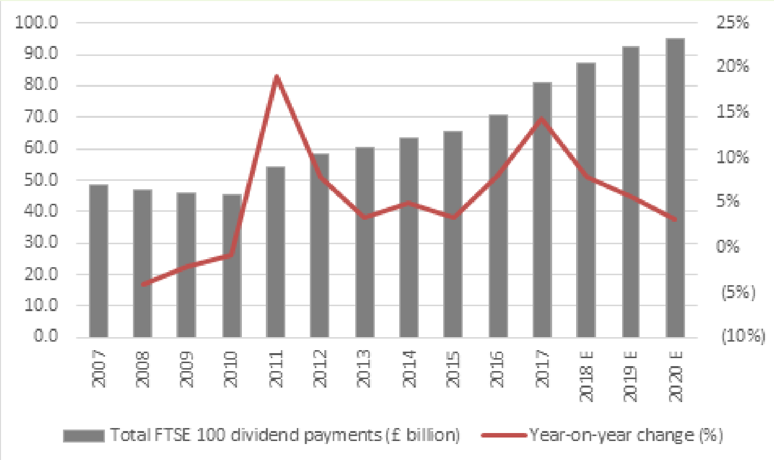
4.7% yield may be persuading investors to take a chance on unloved UK equities

The FTSE 100 is currently expected to yield 4.7% for 2019, helped by a forecast 5.8% dividend growth to a new all-time high payout of £92.2 billion.

There is also the prospect of further special dividends to come, following the 79.5p-a-share payment made by mining giant BHP on 30 January. In 2018, 12 of the current crop of FTSE 100 firms made special distributions with a value of £6 billion, which boosted investors' haul from ordinary dividends by some 7%.

Such a large yield looks extremely tempting compared to the Bank of England's 0.75% base rate for cash and the UK ten-year Gilt, where the yield has retreated from 1.26% at the start of the year to 1.16%.

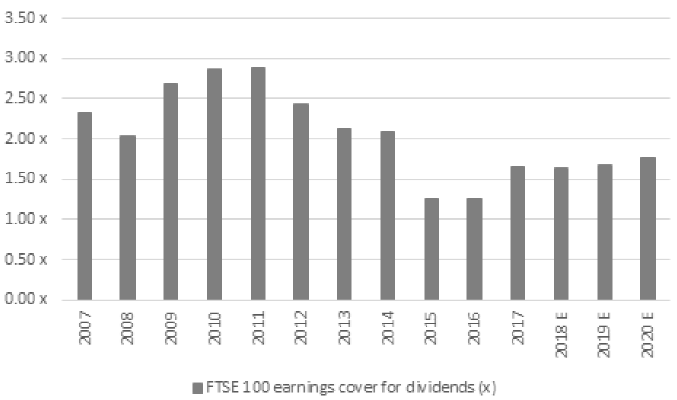
The dividend yield on offer may be one reason why the FTSE 100 is confounding the bears with a year-to-date gain of circa 8% in capital terms, despite all of the prevailing political and economic uncertainty.



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

Dividend cover at its highest since 2014

Buyers of UK-quoted stocks will also draw some comfort from the degree to which company profits cover forecast dividend payments. At 1.68 times, dividend cover is the highest it has been since 2014, although you would really like to see this ratio at 2.0 times or above, to provide a safety buffer just in case here is a sudden and unexpected downturn in trading at a specific company, or indeed the UK and global economies as a whole.



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

It is possible to argue that the dividend cover figure is skewed by the low cover on offer at huge dividend payers. Of the 10 largest forecast payers in actual cash terms, only one – Lloyds - is expected to offer dividend cover above two times.

	Forecast percentage contribution to FTSE 100 cash dividend payments in 2019	Forecast dividend cover 2019
Royal Dutch Shell	12%	1.46x
HSBC	9%	1.40x
BP	7%	1.32x
BAT	5%	1.50x
GlaxoSmithKline	4%	1.38x
Vodafone	4%	0.77x
Rio Tinto	4%	1.67x
AstraZeneca	3%	1.26x
Lloyds	3%	2.16x
Glencore	2%	1.80x
Average		**1.47x**

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

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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

Highest dividend yields

In terms of the highest yields, the presence of two house builders in the top ten 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. That said, Help to Buy has been extended again so it is possible that these payments are well underpinned, if unwittingly by the taxpayer.

Of greater concern may be Standard Life Aberdeen, Vodafone and Centrica, where analysts remain concerned over the prospect of a dividend cut, even if all three firms' management teams are doing their utmost to avoid such an eventuality.

Vodafone boss Nick Read has already declared that the telecom giant's annual dividend will be unchanged at €0.1507 a share for 2018, while Standard Life Aberdeen's Keith Skeoch has said the dividend will come in flat at 21.6p in 2019 as the firm continues to work on getting the best out of the 2017 merger. Centrica's Iain Conn also continues to target an unchanged payment for 2019, following the cuts of 2014 and 2015.

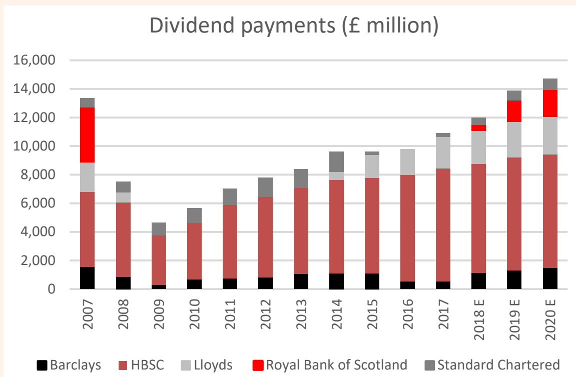
	Forecast dividend yield 2019	Forecast dividend cover 2019
Persimmon	10.5%	1.21x
Taylor Wimpey	10.1%	1.13x
Evraz	9.9%	1.30x
Vodafone	9.2%	0.77x
Centrica	9.1%	0.91x
Standard Life Aberdeen	8.8%	1.00x
TUI AG	8.6%	1.59x
Aviva	8.0%	1.84x
Direct Line	7.9%	1.05x
Imperial Brands	7.8%	1.38x
Average		**1.22 x**

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

Banks are crucial to dividend growth forecast

Just ten stocks are expected to generate 65% of 2019's £5 billion forecast increase in total dividend payments, with Royal Bank of Scotland generating a fifth of that sum on its own. Barclays, Standard Chartered, HSBC and Lloyds are also expected to be among the list of the ten largest contributors to dividend growth next year.

Percentage of forecast FTSE 100 dividend growth in 2019	
Royal Bank of Scotland	21.8%
Evraz	8.7%
Rio Tinto	6.3%
HSBC	5.5%
BP	5.2%
Tesco	4.4%
Imperial Brands	3.4%
Lloyds	3.4%
Barclays	3.2%
Standard Chartered	3.2%
Total	**65%**



The combined dividend payment from the Big Five banks is expected to exceed the pre-crisis peak of some £13 billion (although that was forecast for 2018 and they slightly undershot).

This makes concerns over the economy, both in the UK and worldwide, particularly important as the full-year results raised concerns over the lack of progress in net interest margins, with HSBC a notable concern here.

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

Ten year dividend heroes

The acquisition of Shire by Japan's Takeda, the demotion to the FTSE 250 of Wood Group, a flat payment from Paddy Power Betfair and intention by Vodafone to leave its dividend unchanged in 2018 means the number of FTSE 100 members with an unbroken 10-year dividend growth record is down to 26 from 30 in December.

Standard Life Aberdeen also looks set to drop out of this elite group in 2019, since chief executive Keith Skeoch is already targeting an unchanged dividend for this year. However, an increase to its annual dividend from Burberry alongside its results in May would see the luxury goods group rack up its tenth consecutive advance.

Any firm which can achieve a streak of ten or more increases in its annual dividend must be doing something right and with the benefit of hindsight blindly buying the FTSE 100's 26 dividend heroes – defined as those with at least 10 straight years of higher pay-outs - would have brought bumper returns to portfolio builders.

The average total return from the 30 ten-year dividend growers is 829%, easily beating the FTSE 100's 181% total return.

Admittedly, the strategy is not infallible and woe betide any firm where investors think a dividend growth streak is under duress or about to end. Vodafone, SSE and Standard Life Aberdeen were painful examples of this in 2018 and none of this trio is expected to report an increased dividend for 2019.

But of the 26 firms to have increased their dividend in each of the last 10 years only five – British American Tobacco, Imperial Brands, Standard Life Aberdeen, BAE Systems and SSE - have failed to beat the index in capital and total return terms.

Only 13 of the 26 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 2009 – 2018	Dividend CAGR 2009
Ashtead	4752.8%	27.0%
Rightmove	2451.2%	20.6%
Croda	1259.0%	14.9%
Halma	1195.9%	6.5%
InterContinental Hotels	1176.4%	12.0%
Hargreaves Lansdown	1076.3%	18.6%
Spirax-Sarco Engineering	1060.4%	10.7%
Micro Focus International	792.6%	22.8%
Scottish Mortgage	788.0%	3.2%
Prudential	719.2%	9.7%
Whitbread	699.9%	9.5%
Compass	660.7%	11.1%
DCC	657.7%	10.6%
St. James's Place	601.9%	26.8%
Hiscox	506.8%	8.2%
Intertek	493.9%	14.5%
Bunzl	474.4%	8.8%
Diageo	429.4%	6.1%
Sage	425.8%	8.3%
Associated British Foods	329.4%	7.9%
Johnson Matthey	302.0%	8.2%
British American Tobacco	175.0%	7.4%
Imperial Brands	158.1%	9.9%
Standard Life Aberdeen	145.7%	5.8%
BAE Systems	115.8%	3.3%
SSE	109.5%	3.2%
Average	**829.2%**	**11.4%**
FTSE 100	**180.7%**	**6.6%**

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

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 2019. Data correct as at 15 March 2019.