

# Dividend Dashboard

Q3 2023



## Dividend growth still expected in 2023 and 2024 but forecasts slip lower

AJ Bell's latest Dividend Dashboard report shows:

- Aggregate dividend forecasts for 2023 and 2024 for the FTSE 100 continue to fall, as earnings forecasts slip lower, although analysts still expect single-digit percentage growth for each year.
- Pre-tax profits across the FTSE 100 are still expected to rise by 10% in 2023, although that has been cut from the 19% growth estimate just three months ago.
- Total FTSE 100 dividend pay-out expected to reach £78.7 billion in 2023, down from the £83.8 billion consensus forecast at the end of Q2.
- Nonetheless, when combined with £46.6 billion in buybacks already announced, 2023 is on track to be the second-best year ever for cash returns from the FTSE 100 (trailing only 2022).
- The FTSE 100 is now offering a 3.9% yield for 2023, although investors may approach that figure with degree of trepidation, given how dividend cover is expected to fall, thanks to an anticipated drop in underlying net income this year.

### 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 relates to the outlook for 2023 and in some cases 204 and 2025. Data correct as of 4 September.

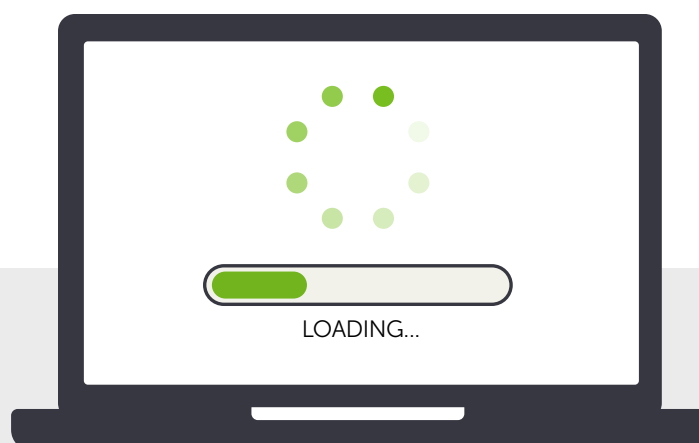
*Forecasts aren't a reliable guide to future performance.*

## AJ Bell's investment director Russ Mould comments:

At the time of writing, markets expect the Bank of England base rate to peak at 5.50%, with the first cut expected in the second half of 2024, although the two-year gilt yield of 4.87% suggests the bond market is far from sure that the Monetary Policy Committee has the courage of its convictions.

Nevertheless, investors look to cash or sovereign bonds as a potential source of yield once more, with the benchmark UK ten-year gilt of 4.47% offering competition to the FTSE 100's forecast equity yield.

This increase in the number of options available to those looking to build a diversified portfolio of assets, and combat the evils of inflation, is one possible explanation for why the FTSE 100 continues to paddle sideways, even if the long-feared recession is still yet to materialise.



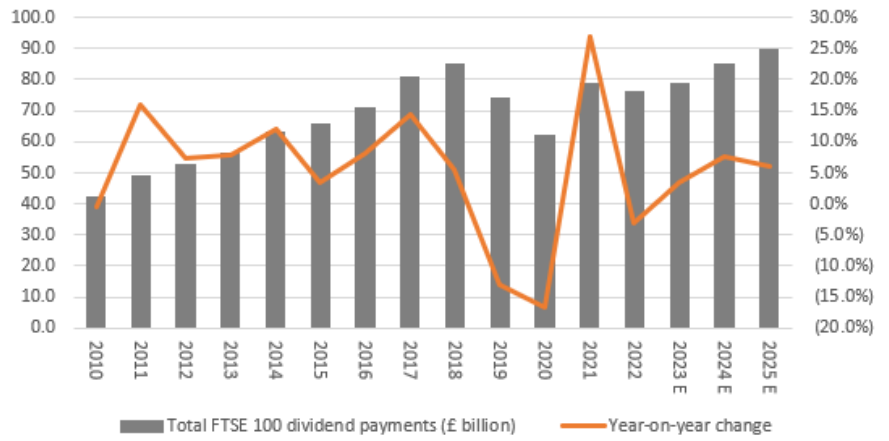
## Cuts to profit growth and dividend forecasts

Another reason for UK equities' turgid display may be an understandable degree of scepticism regarding FTSE 100 earnings and dividend forecasts for 2023 and 2024, given ongoing inflationary and input cost concerns, higher interest bills, tax increases and the murky economic outlook.

Pre-tax profits across the FTSE 100 are expected to rise by 10% in 2023, a cut from the 19% growth estimate of just three months ago, thanks in the main to reduced profit forecasts at the miners, where China's economic woes weigh heavily upon sentiment.

Falling profit forecasts are cutting into dividend estimates and even 4% dividend growth in 2023 would handily outpace the expected 13% drop in adjusted net income.

The disparity between forecasts for an increase in stated pre-tax income and adjusted net profit lies partly with increases in UK corporation tax, but also the absence of 2022's asset and inventory write-downs or exceptional items, or



Source: Company accounts, Marketscreener, consensus analysts' forecasts

mark-to-market portfolio losses at oils, insurers, real estate firms and investment trusts in particular. The adjusted net income number irons those out whereas the statutory pre-tax profit figure does not.

Either way, the FTSE 100's total dividend pay-out is expected to reach £78.7 billion in 2023. That is down from the £83.8 billion consensus forecast which prevailed

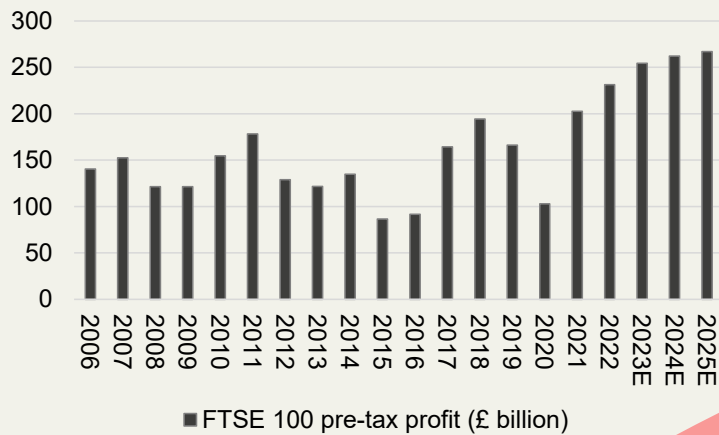
just three months ago, although it still marginally exceeds the £76.1 billion paid out in 2022, excluding special dividends.

However, a return to the £85.2 billion in 2018 is proving hard to achieve and analysts now expect a fresh high only in 2025 as estimates for 2024 are dribbling lower as well.

## Profit trends

Although the headline pre-tax profit figure is a volatile one, and estimates are leaking lower, analysts are still looking for a new all-time high here in 2023, of some £254 billion. This comfortably exceeds the prior cyclical peaks of £194 billion in 2018, £179 billion in 2011 and £153 billion in 2007 (just before the Great Financial Crisis). Inflation has a role to play here, especially given the FTSE 100's hefty exposure to commodities, and a return to health of the nation's banks is also a big contributory factor.

Cuts to 2023 estimates, thanks in the main to lower oil and industrial metal prices, do at least mean that 2024 is seen offering higher pre-tax earnings. This is in contrast to three months ago, when analysts were looking for more growth this year and then a decline in the next one. The current forecasts of 3% growth in 2024 and 2% in 2025 may not excite too many investors, although the economic outlook in the UK, and indeed globally, remains unclear, given that disinflation, deflation, inflation or stagflation all remain possible outcomes,

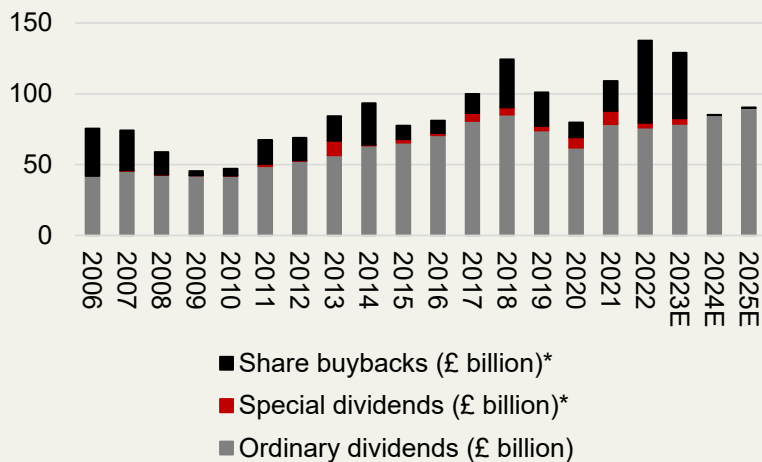


Source: Company accounts, Marketscreener, consensus analysts' forecasts

each with markedly different implications for growth. There are many other variables besides and oil analysts could yet find themselves upgrading their estimates for 2023 and beyond if crude stays above \$90 a barrel for long.



## Buyback record within reach



Source: Company accounts, Marketscreener, consensus analysts' forecasts

For all of the nerves that prevail, corporations are still putting a very brave face on it.

Forty-three of the FTSE 100's members ran a share buyback programme in 2022 to return additional cash to shareholders and thirty-seven index constituents have already announced plans to do so, or began cash returns via this mechanism, in 2023.

FTSE 100 firms have to date announced £46.6 billion of share buybacks in 2023.

That already exceeds the peaks of 2006 and 2018, which came in between £33 billion and £34 billion and leaves 2022's record high of £58.2 billion within reach, with three months to go.

These bumper cash returns supplement dividends. The FTSE 100's members are on track to return £129 billion to investors via ordinary dividends, special dividends and buybacks in 2023, again with the possibility of more buybacks in the final quarter. That compares to 2022's all-time peak of £137.6 billion.

It also takes the total cash yield from the FTSE 100 to 6.2%, a figure which nicely

## 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

exceeds both the two- and ten-year gilt yields and even gives the prevailing rate of consumer price inflation of 6.7% a run for its money, at the time of writing.

The aggregate earnings cover ratio for the FTSE 100 is expected to come in at 2.17 times in 2023, according to analysts' consensus earnings and dividend forecasts. This is all but unchanged from the 2.18 times forecast three months ago, although it does reflect a drop from the 2.59 times cover that was on offer in 2022, as a reflection of the forecast 13% drop in adjusted net income and 4% expected increase in payments.

## Reshuffle sees four firms replaced in FTSE 100

The latest quarterly review of the FTSE 100's membership by index compiler FTSE Russell yielded four changes to the line-up, after none in the first quarter and just one in the second. Dechra Pharmaceuticals, Diploma, Hikma Pharmaceuticals and Marks & Spencer were promoted at the expense of abdrn, Hiscox, Johnson Matthey and Persimmon.

Oddly, the four departing firms were forecast to generate £1.4 billion in pre-tax profit between them in 2023, and pay out £704 million in dividends, whereas the equivalent figures for the incoming quartet are £1.1 billion and £342 million.

The net result is a reduction in FTSE 100 aggregate profit and dividend payments of some £300 million to £350 million on both counts, and this is a further factor behind the negative momentum in the headline numbers for 2023, although these figures are modest in the context of the benchmark index, and especially when compared to the most generous dividend payers. Consensus forecasts suggest the ten biggest dividend payers within the FTSE 100 will distribute £42.9 billion of ordinary dividends in 2023, some 54% of the consensus forecast total distribution of £78.7 billion.



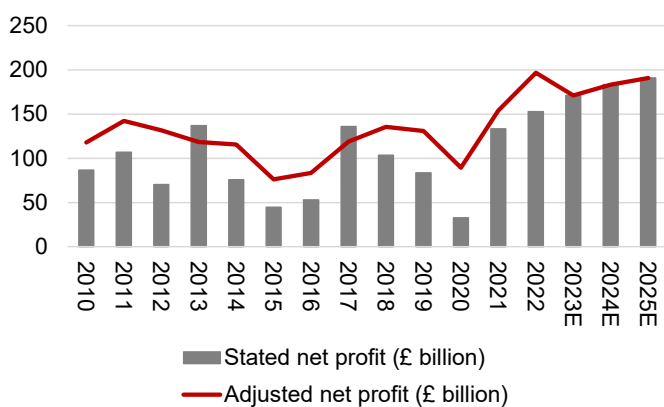
## Net profits set for modest growth

On an adjusted basis, net income in 2023 is expected to tumble by 13% to £171 billion from 2022's all-time high of £197 billion. The stated net income number is seen rising sharply, thanks again to the presumed absence of inventory and asset write-downs and mark-to-market losses at oils, insurers, real estate firms and investment trusts.

Modest growth of 7% and 4% is currently pencilled in by analysts for both benchmarks in 2024 and 2025, respectively. This in turn informs the forecasts for ordinary dividend growth of 8% in 2024 and 6% in 2025.

Profits growth estimates rely heavily on banks and insurers, while drawing on health care and consumer discretionary for further support. Oils and miners are expected to have a negative impact on the overall total in 2023, thanks to lower commodity prices and sluggish economic growth (the drop at Telecoms is down to the absence of the capital gains on the disposal of Vantage Towers, which boosted Vodafone's stated numbers in 2022).

That said, an unexpected economic 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's earning power firmly underpinned.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

	2023 E	
	Forecast pre-tax profit increase (£ billion)	Forecast of total FTSE 100 profits growth (%)
Financials	30.8	134%
Health Care	8.1	35%
Consumer Discretionary	5.9	25%
Utilities	4.5	19%
Real Estate	3.2	14%
Industrial goods & services	3.0	13%
Consumer Staples	2.6	11%
Technology	0.1	0%
Telecoms	(8.2)	(36%)
Oil & Gas	(10.3)	(45%)
Mining	(16.5)	(72%)
	<b>44.4</b>	<b>100%</b>

Source: Company accounts, Marketscreener, consensus analysts' forecasts

### Notes to editors:

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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.