Dividend Dashboard
Q3 2018

AJ Bell Youinvest

FTSE 100 dividends continue to march higher

This report shows:

- FTSE 100 dividends are forecast to hit a record high
- Dividend concentration is high
- The FTSE 100 firms forecast to yield over 10%
- The sectors driving FTSE 100 profit growth

Dividend dashboard explained

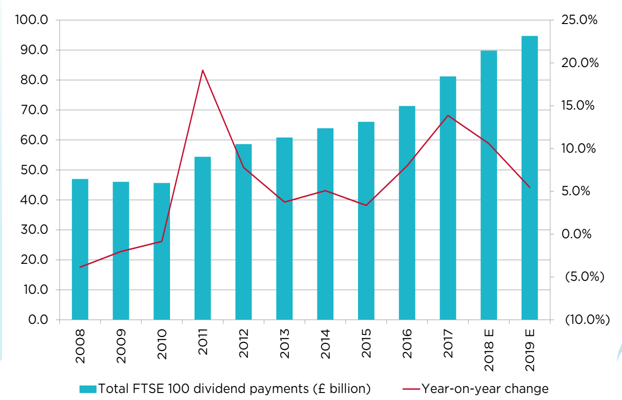
Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company. The data below relates to the outlook for 2018.

FTSE 100 dividends forecast to grow 10% and hit record high

Recent market volatility may be a concern for investors but one significant source of support for stocks remains the healthy dividend yield that is forecast for the FTSE 100 this year.

The FTSE 100 is expected to yield 4.3% for 2018 and 4.5% for 2019, helped by forecast 10.6% dividend growth this year and 5.5% next.

This growth would see the UK's blue chip index pay out a total of £89.8 billion which would be a record-high figure for the FTSE 100's members if it is achieved.



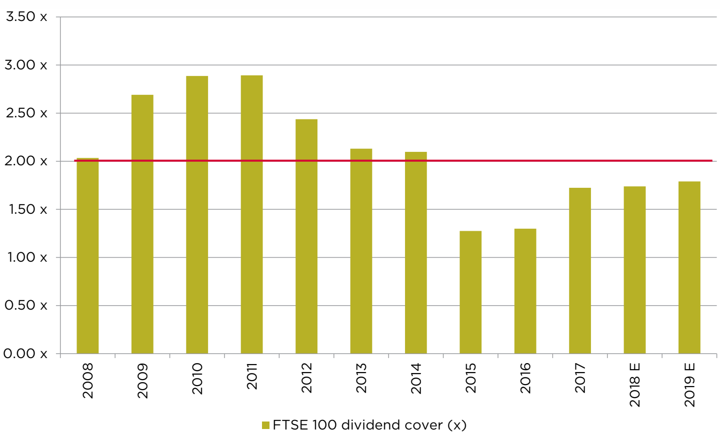
Source: Digital Look, company accounts, analysts' consensus dividend forecasts

Dividend cover also improves

Fresh momentum in profit forecasts of £225.8 billion for the FTSE 100 means that earnings are expected to cover the aggregate £89.8 billion pay-out by 1.74 times. This is the best dividend cover ratio seen since 2014, the last year to see cover exceed the ideal 2.0 times ratio.

In addition, dividend cover is expected to improve again to 1.79 in 2019 even as the total dividend payment is seen rising by 5.5% to £94.7 billion.

Ideally earning should cover dividends by around the 2.0 times mark. This level provides 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.

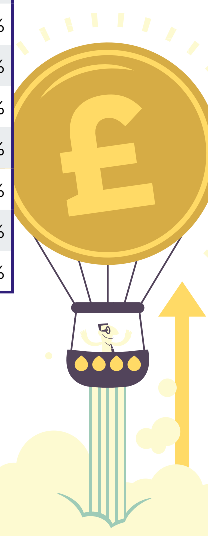


Source: Digital Look, company accounts, analysts' consensus dividend forecasts

Dividend concentration is high

Income-seekers, and especially those investors who are looking to draw dividends from the UK market by buying a passive tracker fund or ETF, also need to consider that just 10 stocks represent 54% of forecast FTSE 100 dividend payments for 2018.

2018 E	Percentage of forecast FTSE 100 dividend payment	Dividend yield (%)
Royal Dutch Shell	13.2%	5.4%
HSBC	8.8%	5.9%
BP	6.9%	5.2%
British American Tobacco	5.2%	5.9%
GlaxoSmithKline	4.4%	5.2%
Vodafone	4.0%	8.5%
Rio Tinto	3.3%	5.7%
AstraZeneca	3.0%	3.6%
Lloyds	2.6%	5.6%
Glencore	2.6%	4.8%



A sustained spell for oil around $80 a barrel would therefore be a welcome development for income-seekers at least, as it would help to boost the oil majors' profits and cash flow and support their meaty dividends. However, it is the banks and insurers who still dominate the dividend growth forecasts for 2018.

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.

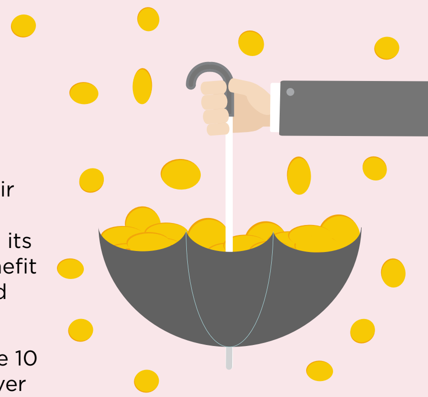
The table below shows the dividend cover for a company making a profit of £100 and paying three different levels of dividend:

Dividend	Calculation	Dividend cover
£50	£100 divided by £50	2
£100	£100 divided by £100	1
£150	£100 divided by £150	0.67

The FTSE 100 firms forecast to yield over 10%

The ten firms forecast to have the highest yield in 2018 offer an eye catching average yield of 8.6%. Two firms, house builder Persimmon and miner Evraz, are forecast to yield over 10% with another housebuilder Taylor Wimpey also due to yield over 9% this year.

	Yield, 2018 E	Earnings cover, 2018E
Persimmon	10.2%	1.17x
Evraz	10.0%	1.22x
Taylor Wimpey	9.3%	1.37x
SSE	8.8%	0.85x
Direct Line	8.5%	1.08x
Vodafone	8.4%	0.68x
Centrica	7.9%	1.06x
Standard Life Aberdeen	7.9%	0.95x
Barratt Developments	7.8%	1.52x
Imperial Brands	7.2%	1.42x
Average	**8.6%**	**1.13x**



The presence of three house builders in the top ten 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.

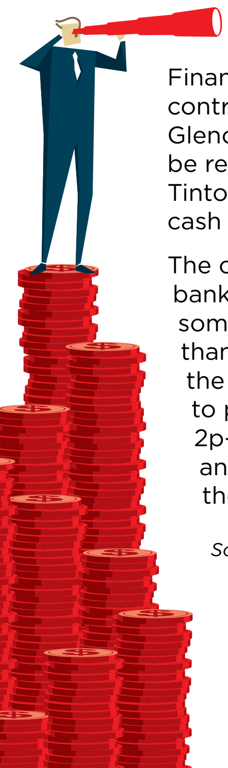
It must be noted that the average cover across the 10 highest yielding stocks in the FTSE 100 has however slipped back to just 1.13 times.

This is partly because recent share price falls mean that Vodafone, SSE and Standard Life Aberdeen are now among the ten highest yielding stocks and their cover ratios are 0.68, 0.85 and 0.95 times respectively – SSE's cover has gone below 1.00 following its September profit warning.

Earnings cover for the three housebuilders is also thin although all have net cash balance sheets.

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

The sectors driving FTSE 100 dividends and dividend growth



Financials and oils dominate in terms of their dividend contribution but the return to the dividend list for Glencore means the miners are a potential force to be reckoned with, especially as BHP Billiton and Rio Tinto appear to be prioritising capital discipline and cash returns to shareholders.

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 long-awaited confirmation that RBS will begin to pay dividends once more. RBS announced a 2p-per-share interim dividend in August, prompting analysts to pencil in a 6.35p-a-share distribution for the whole of 2018.

Source: Digital Look, analysts' consensus dividend forecasts

2018 E			
Percentage of forecast FTSE 100 dividends		Percentage of forecast FTSE 100 dividend growth	
Financials	21%	Mining	35%
Oil & Gas	20%	Financials	27%
Consumer Staples	13%	Industrial goods & services	15%
Mining	11%	Consumer Discretionary	15%
Consumer Discretionary	8%	Consumer Staples	6%
Health Care	8%	Telecoms	2%
Industrial goods & services	7%	Utilities	1%
Telecoms	6%	Real estate	1%
Utilities	4%	Technology	0%
Real estate	1%	Health Care	0%
Technology	1%	Oil & Gas	-2%