DIVIDEND DASHBOARD

Q3 2019

AJ Bell Youinvest

This report shows:

- The FTSE 100 firms yielding 6% or more
- Dividend cover is just 1.63 for the FTSE 100
- The firms with the highest dividend payouts
- The companies that have grown their dividend for 10 years

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 and 2020.

A quarter of FTSE 100 firms offer a dividend yield of 6% or more

A combination of recent share price weakness and unchanged forecast dividend payments means there are some very attractive looking dividend yields on offer from the largest companies on the UK stock market. The question now for investors is whether these are really as attractive as they look or whether they fall into the 'too good to be true' category.

Just over a quarter (26) companies that make up the FTSE 100 are forecast to pay a dividend of 6% or more in 2019. What's more, 7 of these are forecast to yield in excess of 8% and 4 of them over 10%.

The FTSE 100 as a whole is currently expected to yield 4.8% for 2019, helped by a forecast 9% dividend growth to a new all-time high aggregate payment of £92.6 billion.

Such a fat yield from the UK's blue chip index looks extremely tempting compared to cash deposit rates and Government bonds. It suggests that companies are aware of the importance of dividends to investors in a low-interest-rate world and are working hard to accommodate yield-hungry investors. But management must be careful that they are not over-paying and under-investing to curry short-term favour to the long-term detriment of their business' competitive position and therefore its ability to generate cash and offer dividends.

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

Imperial Brands, British American Tobacco and Evraz have all seen their share prices nosedive over the past 12 months although all increased their dividend payments last time they reported results.

		2019 forecast dividend yield (%)	2019 forecast dividend cover (x)
1	Evraz	15.3%	1.34 x
2	Taylor Wimpey	11.9%	1.12 x
3	Persimmon	11.5%	1.15 x
4	Imperial Brands	11.1%	1.34 x
5	BT	8.5%	1.61 x
6	Aviva	8.3%	1.92 x
7	Standard Life Aberdeen	8.1%	0.87 x
8	Rio Tinto	7.8%	1.66 x
9	Barratt Developments	7.5%	1.58 x
10	British American Tobacco	7.5%	1.54 x
11	Legal and General	7.5%	1.81 x
12	Centrica	7.2%	1.43 x
13	Phoenix Group	7.1%	1.21 x
14	Royal Bank of Scotland	6.9%	2.09 x
15	HSBC	6.9%	1.41 x
16	BP	6.7%	1.26 x
17	Royal Dutch Shell	6.6%	1.23 x
18	Lloyds	6.6%	2.19 x
19	BHP Group	6.6%	1.32 x
20	ITV	6.5%	1.63 x
21	SSE	6.4%	1.11 x
22	Glencore	6.3%	1.15 x
23	WPP	6.3%	1.67 x
24	Barclays	6.1%	2.35 x
25	Admiral Group	6.1%	1.01 x
26	International Cons. Airlines	6.0%	3.58 x
	Average	**7.8%**	**1.56 x**

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

Dividend cover is lower than ideal

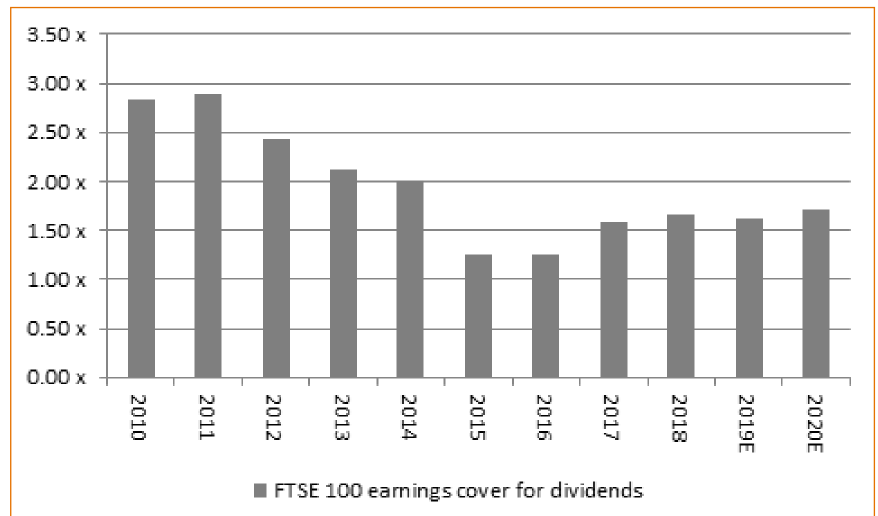
Would-be buyers of UK-quoted stocks will be looking a little nervously at the degree to which company profits cover forecast dividend payments, especially after dividend cuts at Vodafone, Centrica and – before it fell out of the FTSE 100 – Marks & Spencer.

Earnings cover for the FTSE 100 as a whole is forecast to be 1.63 times in 2019, down slightly from 2018 and still some way below the 2.0 comfort level that we last saw in 2014. The figure is even lower at 1.56 times for the 26 firms that are forecast to yield over 6% this year.

The lowly earnings cover partly reflects the lofty expected pay-outs at a trio of house builders, Taylor Wimpey, Barratt Developments and Persimmon. The good news is that all three have net cash balance sheets with which to reassure shareholders, even if earnings cover looks lower than ideal.

Of greater concern may be the tobacco stocks after Imperial Brands' recent disappointing trading update and decision to part ways with its chief executive. However, earnings estimates have ticked higher at British American Tobacco and both firms remain highly cash generative.

BT's fat yield may also come under the microscope. Marks & Spencer (before its demotion), Vodafone and Centrica all cited their need to invest in their core operations as one reason for the dividend cut and it would not be the biggest surprise in the world were BT to do the same as customers, regulators and politicians continue to clamour for increased investment in high-speed, fibre-based broadband.



Source: Company accounts, Sharecast, analysts' consensus forecasts

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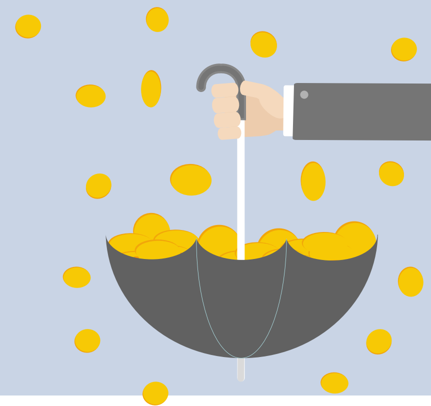
Highest dividend payers

	2019E		
	Forecast 2019 dividend payment (£)	Dividend yield	Dividend cover
Royal Dutch Shell	12,167	5.7%	1.23x
HSBC	8,398	6.4%	1.41x
BP	6,834	6.0%	1.26x
British American Tobacco	4,839	7.1%	1.54x
GlaxoSmithKline	3,991	5.1%	1.45x
Rio Tinto	3,943	5.5%	1.66x
AstraZeneca	2,990	3.3%	1.28x
Lloyds	2,353	6.3%	2.19x
BHP Group	2,295	6.1%	1.32x
Vodafone	2,166	6.5%	0.97x
Average			**1.43x**

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

Note that these ten firms are expected to pay out 54% of the FTSE 100's total 2019 dividend so dividend concentration remains an issue of which investors need to be aware.



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

Dividend growth drives returns

Despite the cut at Centrica for 2019, analysts are still expecting a 9% increase in total FTSE 100 payments this year, thanks in the main to upgraded forecasts at the miners in particular and a weaker pound that increases the value of the dollar-denominated dividends of the oil majors BP and Shell.

Micro Focus has dropped out of the list of serial dividend raisers this quarter thanks to its demotion from the FTSE 100. That leaves 26 firms in the index that can point to at least 10 consecutive increases in their annual dividend.

The end to the dividend growth streaks of Flutter and Vodafone in 2018 and the likely demise of equally impressive runs at SSE and Standard Life Aberdeen in 2019 shows just how hard it is to increase the annual shareholder distribution for a decade or more.

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

The average capital gain from the 26 ten-year dividend growers is 460% and the average total return is 600%. Both easily beat the FTSE 100, at 39% and 103% respectively.

Dividend growth is so powerful that it almost inevitably drags a share price higher.

The average dividend yield for the 26 ten-year raisers is forecast to be 3.1%, well below the 4.8% average across the FTSE 100.

However, the dividend yield available on the March 2009 share price using forecast 2019 dividends is 10.5% - and if anyone offered an investor a 10.5% dividend yield they would probably bite your hand off, so that shows how a rising dividend can lift a share price, boosting income and capital gains for a powerful total return.

	2019 estimated dividend yield on June 2009 share price	2009 actual yield on June 2009 share price
Ashtead	53.1%	3.5%
St. James's Place	18.3%	1.7%
Hargreaves Lansdown	14.7%	2.6%
InterContinental Hotels	12.4%	3.3%
Croda	11.8%	2.9%
Rightmove	11.8%	1.7%
Imperial Brands	11.5%	4.1%
British American Tobacco	10.7%	5.1%
Compass	10.3%	3.3%
Hiscox	10.2%	3.7%
Spirax-Sarco Engineering	9.7%	3.2%
Standard Life Aberdeen	9.5%	5.4%
DCC	8.5%	2.8%
Burberry	8.5%	2.6%
Prudential	8.3%	3.1%
Bunzl	8.2%	3.4%
Intertek	8.1%	1.9%
Sage	7.4%	3.2%
Halma	7.3%	3.6%
Diageo	7.1%	3.8%
BAE Systems	7.1%	4.9%
SSE	7.1%	6.3%
JD Sports Fashion	6.8%	3.2%
Johnson Matthey	6.4%	2.8%
Associated British Foods	5.5%	2.5%
Scottish Mortgage	3.1%	2.2%
AVERAGE	**10.5%**	**3.2%**

Source: Refinitiv data, company accounts, Digital Look, 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 2019 and 2020. Data correct as at 9 October 2019.

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