DIVIDEND DASHBOARD

Q1 2021

AJBell Youinvest

This report shows:

- Total FTSE 100 dividend payments (excluding special dividends) are now expected to grow by 21% this year to £73.4 billion – a yield of 3.8%
- Rio Tinto is now expected to be the index's single biggest dividend payer in 2021, well ahead of British American Tobacco, Shell, GlaxoSmithKline and Unilever
- Six firms are forecast to offer a yield of more than 8% and two – Evraz and Rio Tinto – more than 10%
- Many of the top dividend payers have poor ESG credentials

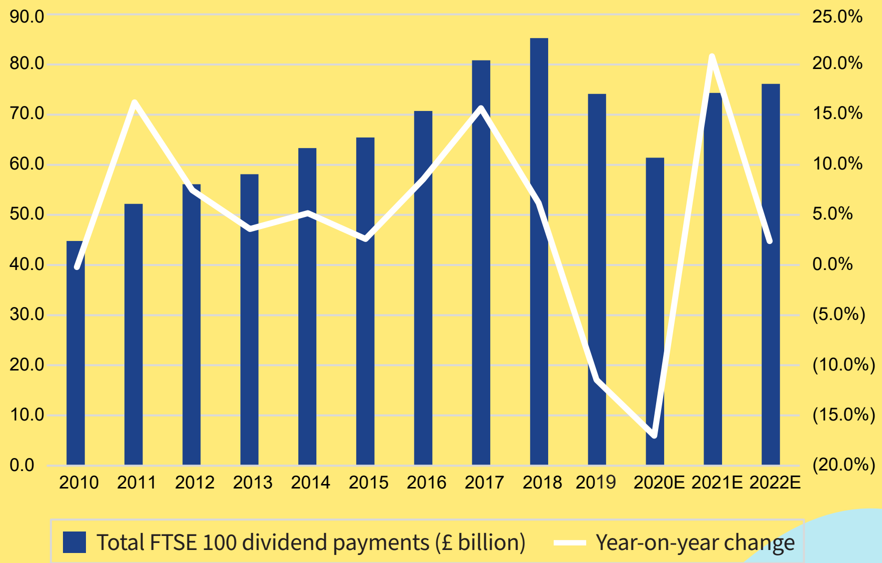
DIVIDEND DASHBOARD EXPLAINED

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 2020 and 2021.

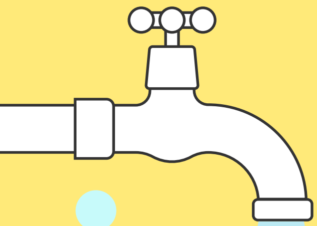
Forecasts aren't a reliable guide to future performance.

The FTSE 100 is forecast to yield 3.8% in 2021

The FTSE 100 is currently expected to yield 3.8% this year, helped by the first year of dividend growth since 2018. The index's total dividend pay-out is expected to reach £74.3 billion in 2021, compared to £61.4 billion in 2020. That latter figure, if confirmed by company announcements, would be the lowest figure for the FTSE 100 since 2013. Total payments peaked at £85.2 billion in 2018 and even 2022 is not expected to return to that level as corporate profits, cash flows and confidence look to recover from the effects of the pandemic.



Source: Company accounts, Marketscreener, analysts' consensus forecasts



The dividend tap is being turned back on

During the first three months of 2021, 42 FTSE 100 firms have declared or made a dividend payment and 12 more have returned to the dividend list.

That means £24.8 billion of dividends have been declared by FTSE 100 firms so far this year, while cuts worth just £2.8 billion have been announced. The reductions came from just four firms – Shell, BP, Evraz and Standard Life Aberdeen. All four still paid something and the oil majors had already flagged the year-on-year reductions.

The total value of payments declared or restored by FTSE 100 firms since March 2020, when the pandemic began to really hit home, now exceeds that of dividend reductions or cancellations. The worst may indeed be over for those investors who are seeking income from UK equities, although they will still want to see the vaccination programme beat off the virus and the global economy gather some real traction before they truly begin to relax.

In addition, seven more have announced share buybacks with an aggregate value of £2.5 billion, to further top up cash returns to investors. They are Barclays, Berkeley Group, CRH, Ferguson, Rightmove, Sage and Standard Chartered – and Rightmove has yet to confirm the sum involved.

	FTSE 100 dividends		
	£ million	£ million	£ million
	CUT	KEPT	RESTORED
2020	37,300	28,010	2,715
2021	2,766	19,814	5,027
TOTAL	40,066	47,824	7,742

Source: Company accounts

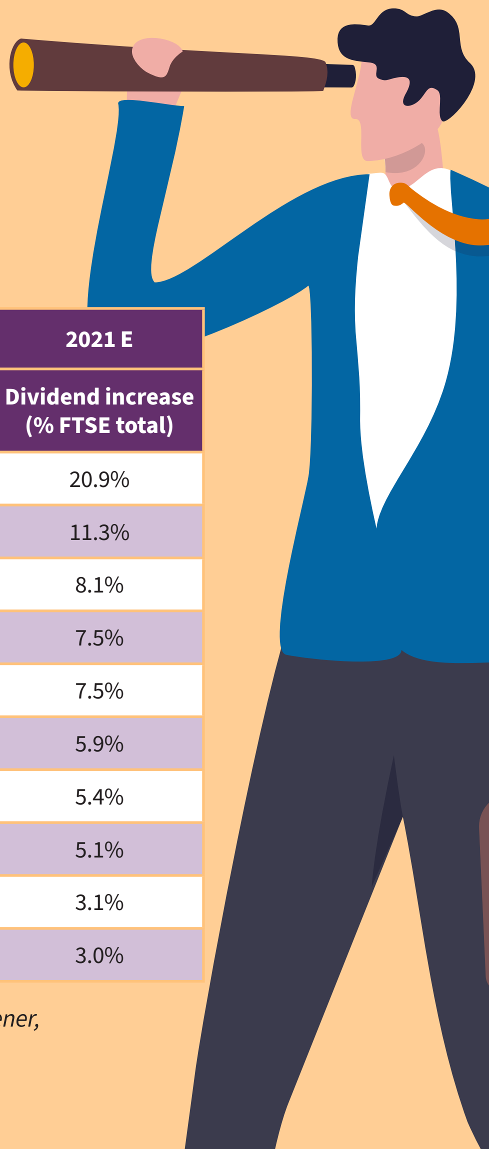
The ten firms forecast to have the highest yields in 2021

Investors will have to look carefully at the list of the highest-yielding firms, as some of them have a track record of having to cut their dividend payments when times get tough.

At the time of writing, Evraz is the highest-yielding individual stock, closely followed by Rio Tinto. Forecast of yields of more than 10% may make investors a little wary, given the shocking record of firms previously expected to generate such bumper returns, including Vodafone, Shell, Evraz itself and – when they were still in the FTSE 100 - Royal Mail, Marks & Spencer and Centrica. All were forecast to generate a yield in excess of 10% at one stage or another and all cut the dividend instead.

	2021E			
	Yield (%)	Dividend cover (%)	Pay-out ratio (%)	Cut in last decade?
Evraz	10.8%	1.44 x	69%	2012, 2013, 2014, 2020
Rio Tinto	10.1%	1.30 x	77%	2016
Imperial Brands	9.8%	1.29 x	77%	2020
M & G	8.2%	1.15 x	87%	No – listed 2019
British American Tobacco	8.1%	1.58 x	63%	No
Polymetal	8.0%	1.53 x	65%	2013
Persimmon	7.8%	1.02 x	98%	2014, 2019
BHP Group	7.6%	1.21 x	82%	2016, 2020
Admiral Group	6.7%	1.02 x	99%	2013, 2017, 2019
Phoenix Group	6.6%	0.54 x	185%	2016, 2018

Source: Company accounts, Sharecast, analysts' consensus forecasts, Refinitiv data



The ten biggest forecast dividend increases in 2021

Just ten companies are expected to generate three quarters of the FTSE 100's £12.9 billion total dividend increase in 2021. Rio Tinto and BHP Billiton are the top two, so income-seekers will need to keep an eye on the price of iron ore in particular.

Four banks feature in the list, the exception being Standard Chartered (which still ranks seventeenth). The banks' total dividends are seen more than doubling to £7 billion from £3.3 billion in 2021 and then rising again to £9.3 billion in 2022. Those figures are still some way below the cyclical peaks of 2007 (£13.3 billion) and 2018 (£13.1 billion) so the lenders may offer some potential upside – although regulatory pressure, competition from fintech upstarts and record-low interest rates could yet weigh on net interest margins and limit their ability to increase shareholder distributions in a substantial and sustained manner.

	2021 E	2021 E
	Dividend increase (£ million)	Dividend increase (% FTSE total)
Rio Tinto	2,688	20.9%
BHP Group	1,451	11.3%
HSBC	1,046	8.1%
NatWest Group	969	7.5%
Anglo American	966	7.5%
Barclays	763	5.9%
BT	694	5.4%
Lloyds	659	5.1%
Persimmon	398	3.1%
Glencore	386	3.0%

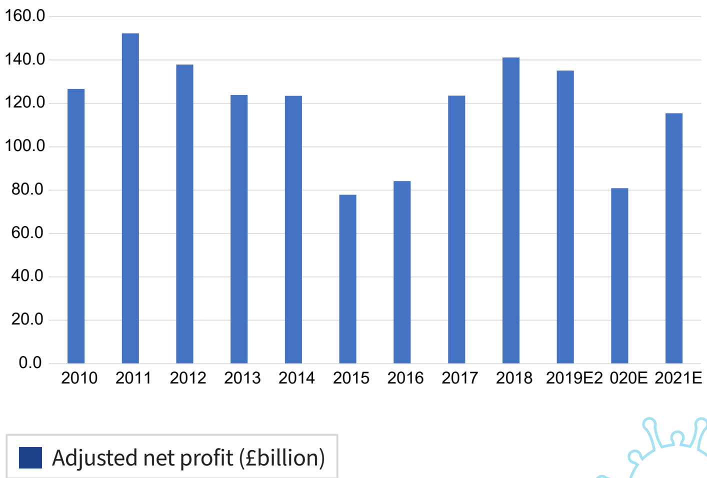
Source: Company accounts, Marketscreener, consensus analysts' forecasts

Covid remains a threat to dividends

A slow recovery or even a further reduction in economic activity could still pose a big risk to dividend forecasts, as a 42% recovery in profits is anticipated by analysts for 2021 in the wake of 2020's 40% plunge. Analysts currently believe that (adjusted) net profits will come very close to the pre-pandemic peaks in 2022, although they are still seen coming in some 10% below the 2011 zenith.

The fact that analysts are not expecting profits to immediately return to former highs is in some ways encouraging, as it suggests they are not going overboard. However, two-thirds of 2021's expected £75 billion increase in pre-tax income is forecast to come from just two sectors – oils and miners – both of whom could do with an economic tailwind if they are to live up to such expectations.

If the economy offers little or no assistance – or even hinders – then these earnings forecasts and by extension, dividend payment estimates, could find themselves exposed to the downside.



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:

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

ESG credentials lacking at the top of the dividend register

Rio Tinto is expected to be the single biggest paying stock within the FTSE 100 in 2021.

Not all investors will welcome this, especially those who feel that mining does not pass their environmental, social and governance (ESG) screen, especially after Rio's behaviour when it destroyed sacred aboriginal sites in Australia.

What also catches the eye is that Shell and BP still both feature in the list of the ten biggest payers, even after their dividend cuts of 2020. Again, this may have ESG-oriented investors gnashing their teeth, especially as they may argue both firms are acting too slowly in their attempts to shift their business mix to more renewable sources of energy. Shell and BP do have a tricky balancing act as they look to get the best out of their existing assets, reinvest for the future (without overpaying here, amid the mad scramble for 'green' assets) and keeping shareholders sweet with cash returns.

	2020E			
	Dividend (£m)	Yield (%)	Dividend cover (%)	Cut in last decade?
Rio Tinto	7,035	10.1%	1.30x	2016
British American Tobacco	4,979	8.1%	1.58x	No
Royal Dutch Shell	3,994	3.4%	1.87x	2020
GlaxoSmithKline	3,982	6.1%	0.89x	No
Unilever	3,883	3.7%	1.28x	No
BHP Group	3,424	7.6%	1.21x	2016, 2020
HSBC	3,229	3.8%	1.45x	2019, 2020
BP	3,058	4.8%	1.24x	2011, 2020
AstraZeneca	2,648	2.8%	1.29x	No
Vodafone	2,074	5.5%	0.89x	2018

Source: Company accounts, Marketscreener, consensus analysts' forecasts

Serial dividend growers

History suggests that it is not the highest-yielding stocks which prove to be the best long-term investments.

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.

The strongest long-term performance often comes from those firms that have the best long-term dividend growth record, as they provide the dream combination of higher dividends and a higher share price – the increased distribution will over time drag the share price higher through sheer force. A 1p per share dividend on a 100p share price may not catch the eye, but if that dividend reaches 10p in a decade's time it almost certainly will.

The ravages of the pandemic and the recession have taken their toll on the ranks of FTSE 100 firms that can point to a ten-year dividend growth track record. One year ago, 24 firms were on this list. That number has since dwindled to 13 even as London Stock Exchange and RELX have joined this elite list.

The average capital gain from the 13 ten-year dividend growers is 508% and the average total return is 652%. Both easily beat the FTSE 100, at 19% and 74% respectively.

12 of the 13 firms to have increased their dividend in each of the last 10 years have outperformed the FTSE 100 in capital terms, with British American Tobacco the sole exception. In total return terms, all 13 have done better than the FTSE 100 index.

	Total return	Dividend CAGR*	Forecast dividend growth**	
	2011-2020	2011-20	2021 E	2022 E
Ashtead	**2,583.4%**	28.2%	17.6%	13.0%
London Stock Exchange	**1,066.2%**	11.9%	12.0%	11.9%
Intermediate Capital	**872.8%**	11.4%	13.2%	16.7%
Scottish Mortgage	**834.9%**	3.5%	5.0%	4.2%
Halma	**696.0%**	6.5%	5.2%	11.1%
Spirax-Sarco Engineering	**636.8%**	10.6%	4.2%	7.3%
Croda	**385.2%**	10.0%	5.5%	9.4%
RELX	**355.3%**	8.7%	4.3%	8.2%
DCC	**299.3%**	9.9%	5.2%	4.9%
Diageo	**244.3%**	6.0%	3.8%	4.2%
Hargreaves Lansdown	**234.3%**	13.8%	28.0%	(8.3%)
Sage	**191.5%**	8.3%	1.7%	2.6%
British American Tobacco	**81.5%**	6.6%	0.6%	6.9%
AVERAGE	**652.4%**	**10.4%**		
FTSE 100	**73.6%**	**1.6%**	**20.9%**	**2.4%**

Source: Refinitiv data, Company accounts.

**Compound annual growth rate.*
***Source: Marketscreener, 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 2021 and 2022. Data correct as at 16 March 2021.