DIVIDEND DASHBOARD

Q2 2022

AJ Bell Youinvest

This report shows:

- FTSE 100 dividends in 2022 are now expected to reach £85 billion, all but matching the record payment of £85.2 billion in 2018
- The FTSE 100 is now offering a 4.2% yield for 2022 and investors' faith in that figure may be bolstered by how analysts see dividend cover exceeding 2.0
- Concentration risk is high with the top ten dividend payers forecast to generate 56% of 2022's total payment.
- Rio Tinto is expected to deliver the highest dividend yield this year, closely followed by Persimmon and Glencore, all offering a potential yield of over 10%

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 2022 and 2023.

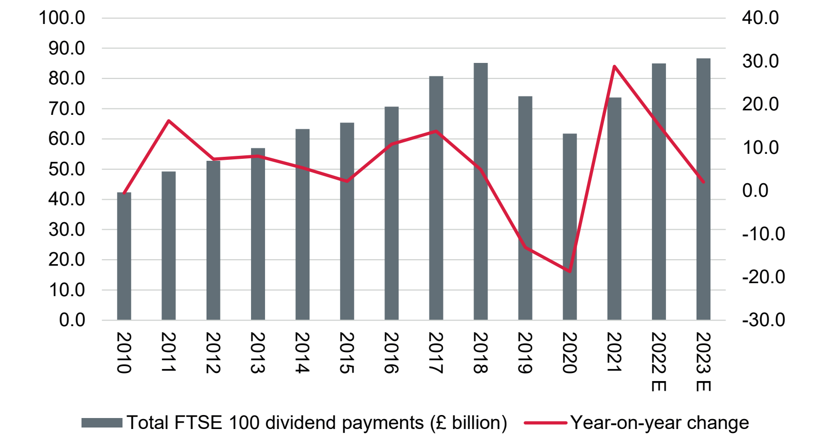
Forecasts aren't a reliable guide to future performance.

FTSE 100 dividend payments close in on new record

The FTSE 100 is now expected to yield 4.2% in 2022, thanks to the combination of share price falls and increases in dividend forecasts. The index's total dividend pay-out is expected to reach £85 billion in 2022, compared to £78.5 billion in 2021, excluding special dividends.

Ninety-seven FTSE 100 firms are expected to pay a dividend in 2022, against 91 in 2021 and 85 in 2020, as corporate confidence continues to return after the pandemic.

Total payments peaked at £85.2 billion in 2018 and 2022 is getting ever closer to that mark, as analysts' estimates for total payments regain momentum. Despite concerns over increases in input costs, interest rates (and therefore the cost of capital) for 2022 and increases in taxes for 2023, analysts are still nudging up their dividend payment forecasts.



Source: Company accounts, Marketscreener, analysts' consensus forecasts

The momentum behind dividend forecasts is in addition to share buybacks having already hit a new record this year, with £36.7 billion of buybacks announced in the first three months of 2022. This exceeds the total for 2021 and indeed the 2018 all-time high buybacks figure for the index of £34.9 billion.

Dividend payments are forecast to follow suit and hit a new record of £86.7 billion in 2023.

Dividend cover remains above 2.0

The aggregate earnings cover ratio for the FTSE 100 is expected to come in at 2.04 times in 2022, according to analysts' consensus and dividend forecasts, and then stay above the magic 2.00 threshold in 2023, when cover is seen reaching 2.16 times, the highest level since 2012.

Companies may be choosing to let earnings growth outpace dividend growth so they can reinvest in their businesses, bolster balance sheets and rebuild cover, so that their shareholder distributions are not quite the hostage to fortune that they proved to be in 2020, should another unexpected shock emerge from left field.

Source: Company accounts, Marketscreener, analysts' consensus forecasts

Concentration risk is high

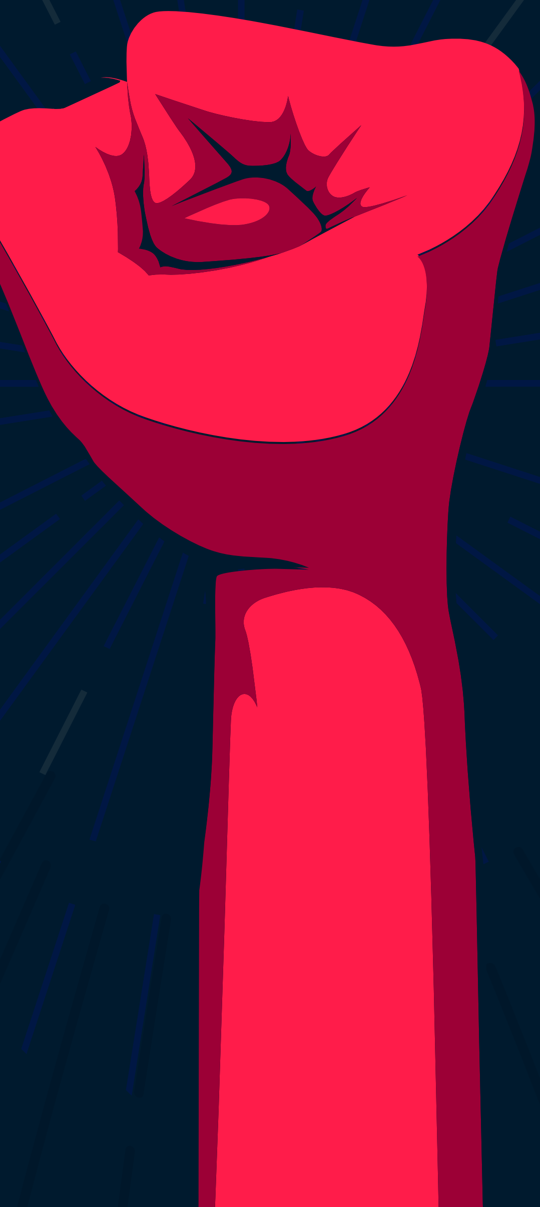
Investors must assess concentration risk when it comes to dividends, an issue which has dogged those who have sought income from the UK stock market for some years.

Just ten stocks are forecast to pay dividends worth £47.7 billion, or 56% of the forecast total for 2022. The top 20 are expected to generate 74% of the total index's pay-out, at £62.5 billion.

Anyone who believes the UK stock market is attractive on a yield basis, and looking to buy individual stocks, glean access via a passive index tracker or buy a UK equity income fund needs to have a good understanding of, and strong view on, those 20 names in particular.

	2022E			
	Dividend (£ million)	Dividend yield (%)	Dividend cover (x)	Cut in last decade?
Rio Tinto	8,733	13.5%	1.28x	2016
Glencore	7,094	11.6%	1.97x	2013, 2015, 2016, 2020
Shell	5,898	3.7%	4.53x	2020
BAT	5,154	6.3%	1.43x	No
HSBC	4,479	4.1%	1.57x	2019, 2020
Unilever	3,728	3.9%	1.24x	No
AstraZeneca	3,650	2.2%	1.11x	No
BP	3,366	4.3%	3.00x	2011, 2020
Anglo American	2,987	7.0%	2.33x	2015, 2016, 2020
GSK	2,631	2.9%	2.06x	No
Vodafone	2,161	6.0%	1.00x	2018
National Grid	1,932	5.0%	1.72x	No
Diageo	1,736	2.1%	1.84x	No
Lloyds	1,553	5.1%	2.67x	2019, 2020
Barclays	1,336	5.0%	3.25x	2016, 2019, 2020
Imperial Brands	1,331	7.5%	1.59x	2020
NatWest Group	1,306	5.5%	1.84x	2019
Reckitt Benckiser	1,259	2.8%	1.74x	No
Legal & General	1,126	7.5%	1.68x	No
RELX	1,017	2.4%	1.55x	No

Source: Company accounts, Marketscreener, consensus analysts' forecasts. Ordinary dividends only.



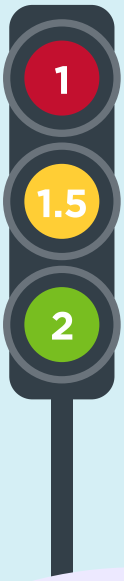
The ten firms forecast to have the highest yields in 2022

Rio Tinto is currently forecast to be the highest-yielding individual stock this year, closely followed by Persimmon and then Glencore.

Forecast of yields of more than 10% sound attractive but investors should take note of the records of firms previously expected to generate such bumper returns, including Vodafone, Shell, Evraz, Centrica and – when they were still in the FTSE 100 – Royal Mail and Marks & Spencer. All were forecast to generate a yield in excess of 10% at one stage or another and all cut the dividend instead. As such nothing can be taken for granted, especially if a recession hits.

		2022E		
	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
Rio Tinto	13.5%	1.28 x	78%	2016
Persimmon	12.3%	1.09 x	92%	2014, 2019
Glencore	11.6%	1.97 x	51%	2013, 2015, 2016, 2020
M & G	9.8%	1.00 x	100%	No
abrdn	8.5%	0.75 x	133%	2020
Taylor Wimpey	8.3%	2.80 x	36%	2019
Barratt	8.1%	1.67 x	60%	2020
Phoenix Group	7.9%	0.48 x	208%	2018
Aviva	7.9%	1.36 x	73%	2012, 2013, 2019
Imperial Brands	7.5%	1.59 x	63%	2020

Source: Company accounts, Marketscreener, analysts' consensus forecasts, Refinitiv data. Ordinary dividends only.



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 heroes

History suggests that it is not the highest-yielding stocks which prove to be the best long-term investments anyway, even if the past is by no means a guide to the future.

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. Two years ago, 24 firms were on this list. That number has since dwindled to 17 even as National Grid, United Utilities, Dechra Pharmaceuticals and Hikma Pharmaceuticals joined this elite grouping in 2021.

Companies that have managed to maintain their proud runs in 2020 and 2021 have been tremendous long-term investments. The average capital gain from the seventeen ten-year dividend growers is 311% and the average total return is 436%. Both easily beat the FTSE 100, at 27% and 85% respectively.

The charms of these seventeen names are now well understood and they often fall into the 'quality' bucket of many portfolios. But 'quality' does not guarantee safety if the valuation paid to access the cash flow and dividend streams is too high and some of these names have suffered a bit of a reckoning in 2022, at least to date, as the twin tides of higher interest rates and lower risk appetite have pushed investors away from expensive, 'quality' names that have generally done well for the last decade toward cheaper, 'value' names that have generally performed poorly.

Of the seventeen serial dividend growers, only one – BAT – is in the top ten performers within the FTSE 100 this year to date. By contrast, seven are in the bottom ten – Intermediate Capital, Croda, Halma, Ashtead, Spirax-Sarco, Hargreaves Lansdown and Scottish Mortgage.

Careful research is still required to be in the best position for winning streaks to continue, but even then, no single investment strategy can work all of the time.

	Total return 2012-2022	Dividend CAGR* 2012-21
Ashtead	1472.5%	22.7%
Intermediate Capital	949.7%	14.3%
London Stock Exchange	812.1%	12.9%
Dechra Pharmaceuticals	662.6%	12.7%
Scottish Mortgage	488.4%	2.5%
Spirax-Sarco	483.1%	9.9%
RELX	451.8%	8.0%
Halma	428.3%	6.1%
DCC	283.3%	10.5%
Croda	252.8%	5.3%
Sage	216.4%	5.7%
National Grid	185.3%	2.2%
United Utilities	185.1%	2.5%
Diageo	184.9%	5.2%
Hikma Pharmaceutical	160.0%	14.5%
Hargreaves Lansdown	115.6%	10.8%
BAT	82.0%	4.9%
AVERAGE	436.1%	8.9%
FTSE 100	85.0%	4.6%

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 2022 and 2023. Data correct as of 28 June 2022.