Dividend Dashboard

December 2023

Dividend forecasts sag alongside profit estimates for 2023 and 2024

AJ Bell's latest Dividend Dashboard report shows:

- Aggregate dividend forecasts for 2023 and 2024 continue to slide, with estimates for each year now around 10% lower than a year ago
- The value of share buyback announcements keeps growing, however, and 2023 is still in with a chance of setting a new all-time high for cash returns from the FTSE 100, adding together ordinary dividends, special dividends and buybacks.
- The current total of £137.2 billion trails only 2022's £137.6 billion and equates to an estimated cash yield on the FTSE 100 of 6.9% for 2023.
- The combination of a £2.0 trillion market cap and aggregate ordinary dividend forecasts of £77.8 billion for 2023 and £83.7 billion in 2024 mean the FTSE 100 offers a forecast dividend yield of 3.9% for this year and 4.2% for next
- That compares to 4.5% for two-year Gilts and 4.0% for ten-year Gilts, which offer tax-free income and come with less capital risk (but also more limited potential for capital appreciation)

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 and the entire index. The data relates to the outlook for 2023 and in some cases 2024. Data correct as of 4 December 2023.

Forecasts aren't a reliable guide to future performance.

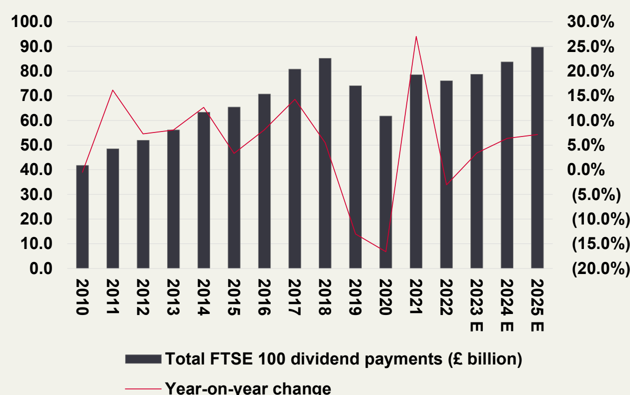
AJ Bell's Investment Director Russ Mould comments:

The FTSE 100 continues to paddle sideways. The UK's leading index is no higher than twelve months ago or indeed six years ago, a picture that pales next to the growth and momentum driven US indices, such as the S&P 500 or the NASDAQ. Yet the FTSE 100 could still appeal to patient accumulators of income, given a forecast dividend yield of 3.9% for 2023 (and 4.2% for 2024), although an inflation rate of 4.6% and ten-year Gilt yield of 4.0% mean even those numbers do not shine quite as brightly as they used to.

However, inflation is way down from its autumn 2022 peak of 11.1% and the financial markets are now pricing in at least four interest rate cuts of one-quarter of a percentage point from the Bank of England by the end of 2024. That would take the base rate down to 4.25%, and potentially weigh on UK Government bond yields, to further raise the profile of the UK equity market's income potential, at least if inflation stays relatively benign.

Equally, competition from Gilts and even cash in the bank may be one reason why the FTSE 100 is failing to make any major progress.

Another is worries that the long-awaited recession may finally take hold in 2024, even as the Sunak-Hunt administration tries to provide some boost to the economy. Aggregate profit estimates



Source: Company accounts, Marketscreener, consensus analysts' forecasts

for 2023 and 2024 keep drifting lower, even if the FTSE 100's members earn more in total overseas than they do here in the UK. The hefty portion of earnings from unpredictable sectors such as miners and oils, and economically sensitive ones such as banks and consumer discretionary, may not help here.

That 3.9% dividend yield for 2023 is based upon estimates for a 3.8% increase in total dividend payments to £77.8 billion. An anticipated 9.5% increase in pre-tax income to a new all-time high of £250.7 billion offers support to those assumptions,

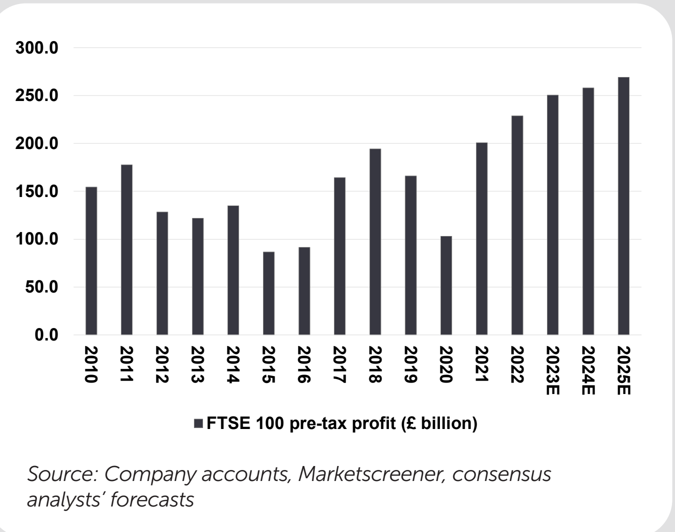
although tax rates are rising and underlying net profit is expected to drop across the FTSE 100 as a whole by 13.5% to £168 billion, thanks in part to higher taxes. That will not help dividend growth, and although analysts are looking for an 8.6% rebound in adjusted net profit in 2024 that would still leave earnings below 2022's peak.

This is understandably influencing boardrooms when they consider what is the correct amount of cash to return to shareholders as a thank you for their support. That forecast total of £77.8 billion in ordinary dividends is 9% below the all-time high of £85.2 billion paid out in 2018, to reflect a difficult period that has witnessed the aftermath of Brexit, COVID-19, the return of inflation, higher taxes, increased wages and a surge in interest rates after twelve years of record-lows. Analysts have even shaved £0.9 billion off their aggregate dividend payment forecast for 2023, and sliced off £1 billion for 2024, in the past three months alone.

Profit forecasts slip lower

Analysts are still expecting a new all-time high for aggregate FTSE 100 pre-tax profits in 2023, at £250.7 billion, and that represents a 9.5% increase in 2022's outcome and a huge improvement on the prior peak of £195 billion in 2018. However, that forecast has slipped by nearly 10% from £275.5 billion over the past twelve months, as estimates for the banks, miners and oils have been trimmed back to varying degrees.

Estimates for 2024 continue to drop as well, although consensus forecasts do now expect the FTSE 100 to eke out a 3% increase in pre-tax income next year, to what would be a new record of £258 billion. Profits from the oil and gas sector are expected to drop for the second year in a row in 2024, by some £5.6 billion (although volatile commodity prices mean this number is particularly hard to forecast), while the biggest profit increase is expected to come from the healthcare sector as AstraZeneca, GlaxoSmithKline, Haleon and Smith & Nephew generate higher earnings.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

This defensive contribution could be valuable if a recession does indeed lie ahead, but for the moment company boardrooms seem more confident than their share prices, and the performance of the FTSE 100, would suggest. No fewer than forty-three members of the UK's elite stock market index sanctioned share buyback programmes in 2022, so flush were they with cash, and thirty-eight have launched such schemes in 2023 (with five already set to run in 2024 for good measure).

The value of the buybacks announced for 2023 currently stands at £54.7 billion, not too far behind 2022's all-time high of £58.2 billion.

Such bumper returns supplement dividend payments. Add together ordinary dividends, special dividends and buybacks and FTSE 100 firms are primed to return £137.2 billion to their shareholders in 2023, a tiny fraction below 2022's all-time high of £137.6 billion. That figure equates to 6.9% of the FTSE 100's £2 trillion market capitalisation.

It also compares favourably to the prevailing rate of inflation, exceeds the Bank of England base rate of 5.25% and handily beats the yield available from two and ten-year Gilts at the time of writing, although it can be hard for retail investors to participate in, and benefit from, share buyback schemes.

That is one potential caveat to this cash bonanza. Another is how much easier it is for a company to start a buyback than it is to commit to a higher dividend and how there tends to be less critical comment (and share price reaction) if a buyback is halted compared to when a dividend is cut.

Dividend growth still very concentrated

The UK stock market may attract the attention of income-seekers, but the £77.8 billion in ordinary payments expected for 2023 relies very heavily upon a fairly select list of companies. Analysts' forecasts suggest that the ten biggest individual dividend payers will return £42.8 billion to their investors, or 55% of the grand total from the FTSE 100 index, while the top twenty are expected to chip in £57.3 billion, or 74% of the total.

The top ten list includes two oil majors, drug developers and miners, as well as a bank, a utility, a tobacco firm and a household goods specialist.

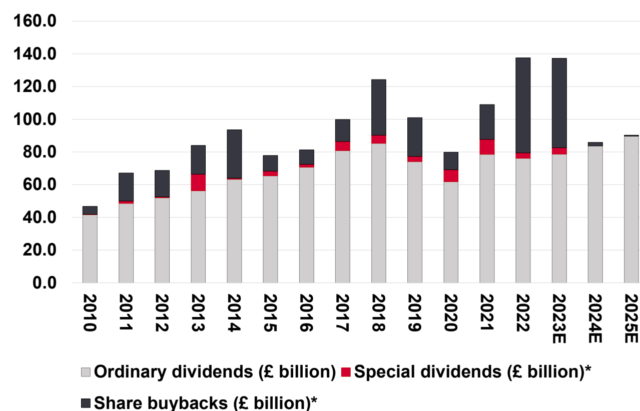
This again highlights the importance of the miners, oils and financials to the overall trajectory of the FTSE 100's profits and dividends. The strong commodity representation in particular may catch the attention – and draw the ire – of those investors who run strict ethical, social and governance (ESG) screens before they decide how best to allocate their capital according to their personal investment strategies, time horizon, target returns and appetite for risk.

Dividend increases are particularly concentrated in a handful of names. Total FTSE 100 ordinary dividend payments are expected to grow by £2.8 billion in 2023 and £2.4 billion of that is seen coming from just HSBC and Shell. Add in the increases seen at NatWest and British American Tobacco and those four generate the entire forecast increase between them, thanks in part to the £2.0 billion drop in dividend payments anticipated across the mining sector, thanks to weaker metals prices and the uncertain economic outlook.

The role of the banks is particularly telling. Dividend estimates from this sector continue to drip lower, as worries over a peak in net interest margins and higher loan losses swirl. The FTSE 100's big five lenders – Barclays, HSBC, Lloyds, NatWest and Standard Chartered – are expected to pay out £11.8 billion this year, or 15% of the FTSE 100 total. That is a modest increase on 2022's £11.2 billion but lies below 2018's pre-pandemic high of £13.1 billion, let alone 2007's peak of £13.3 billion (29% of the total) that came just as the Great Financial Crisis began to engulf the markets and the banks in particular.

2023 E			
Dividend growth (£ million)		Dividend decline (£ million)	
HSBC	1,448	WPP	(34)
Shell	949	Dechra Pharmaceuticals	(34)
NatWest Group	270	Melrose Industries	(45)
British American Tobacco	266	Fresnillo	(46)
BP	264	Barratt Developments	(49)
Haleon	240	Antofagasta	(166)
Barclays	206	SSE	386)
Compass	176	Rio Tinto	400)
Lloyds	135	Glencore	(610)
National Grid	101	Anglo American	(889)

Source: Company accounts, Marketscreener, consensus analysts' forecasts



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Dividend cover offers some comfort

An economic downturn remains a major danger, especially given the importance of payments from consumer discretionary stocks, banks and miners, but perhaps investors can draw comfort from how dividend cover is much better than it was ahead of the mid-cycle growth bump of 2015-2016 that promoted a rash of dividend cuts.

As a result, shareholder distributions may not be quite the same hostage to fortune that they proved to be in 2016, or 2020, should there be another nasty surprise awaiting the economy and markets in 2024. It also seems reasonable to assume that share buyback programmes will be halted before dividends are cut.

The aggregate earnings cover ratio for the FTSE 100 in 2023 is expected to come in at 2.16 times according to analysts' consensus earnings and dividend forecasts. This is admittedly down from the 2.59 times on offer in 2022, and a smidgeon below the 2.18 times cover ratio forecast that prevailed at the time this quarterly document was last published, and that reflects how adjusted net income forecasts have fallen faster than estimates for dividend payments.

At least cover is still above 2.00 times after the worrying spell between 2014 and 2021 when that threshold was not met once.

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

Many dividend yields compare well to Gilts

At the time of writing, the non-life insurer Phoenix Group is the highest-yielding stock in the FTSE 100. Two more stocks, Vodafone and British American Tobacco (BAT), also offer double-digit percentage yields, although in their case the lofty yields probably reflect the market's lack of faith in those companies' earnings growth potential. As a result, investors are demanding a very high yield to compensate themselves for the risks that are perceived to come with holding the stock.

Note that Vodafone has cut its dividend once in its history while BAT has never done so – in fact, the smoking giant can point to a streak of increases in its annual dividend payment that stretches back to 1998.

	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
Phoenix Group	11.0%	0.0 x	2650%	2016, 2018
Vodafone	10.8%	0.6 x	171%	2018
British American Tobacco	10.6%	1.5 x	68%	No
M & G	9.2%	0.7 x	141%	No
Legal and General	8.6%	0.9 x	118%	No
Imperial Brands	8.1%	1.9 x	53%	2020
St. James's Place	8.0%	1.3 x	76%	No
NatWest Group	7.8%	2.5 x	40%	2019
Aviva	7.7%	0.9 x	106%	2013, 2019
Glencore	7.4%	1.4 x	69%	2015, 2016, 2020

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

The fat yield at BAT may even raise the question of whether that streak is about to end (or, worse, that a cut is coming as the firm prepares to invest more heavily in its range of next generation products), especially as the record of stocks that offered a double-digit dividend yield is pretty poor. Vodafone, Shell and Persimmon are just three examples of firms where fat dividend forecasts equated to a double-digit yield only for the dividend to disappoint as cuts were made.

As such nothing can be taken for granted and investors need to look at the balance sheet cash flow – and not just the profit and loss account and earnings cover – when assessing how safe a dividend may be. They will also need to assess the volatility of profits and, in the case of cyclical stocks whose earnings and cash flow are subject to the vagaries of the economic cycle, look at average earnings over a full cycle to see what degree of cover that provides.

A further rule of thumb states that any dividend yield which exceeds the risk-free rate by a factor of two may turn out to be too good to be true. The ten-year gilt yield is a good proxy for the risk-free rate. A dozen years of interest rates at near zero rendered the rule pretty useless but now monetary policy is returning to something akin to 'normal' it may regain some of its former relevance.

For the record, seven FTSE 100 firms currently offer a forecast dividend yield of 8% or more, or twice the 4.0% ten-year gilt yield that prevails at the time of writing.

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.