DIVIDEND DASHBOARD

Q2 2021

AJ Bell Youinvest

This report shows:

- Total FTSE 100 payments (excluding special dividends) are expected to grow by 25% this year to £76.9 billion – a 3.7% yield
- Dividend cover is improving - 1.83x is its highest level since 2014
- Rio Tinto is expected to be the index's single biggest dividend payer in 2021, well ahead of British American Tobacco, Shell, BHP Group and Unilever
- Nine firms are forecast to offer a yield of more than 7%, with Rio Tinto topping the table with a forecast dividend yield of 12%

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 2021 and 2022.

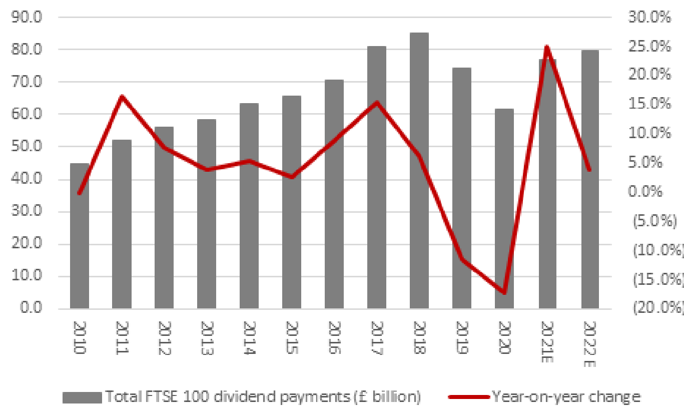
Forecasts aren't a reliable guide to future performance.

Post pandemic rebound of £15.2 billion sees the FTSE 100 set to yield 3.7%

The FTSE 100 is currently expected to yield 3.7% in 2021, helped by the first year of dividend growth since 2018. The index's total dividend pay-out is expected to reach £76.9 billion in 2021, compared to £61.5 billion in 2020.

That equates to a 25% or £15.2 billion post-pandemic rebound, with analysts forecasting a more modest £2.9 billion or 4% increase in 2022.

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

Share buybacks are supplementing dividends

To supplement higher dividends, FTSE 100 firms are also starting to deploy share buybacks with greater confidence. Twelve constituents of the UK's leading stock index have announced share buybacks with an aggregate value of £7.2 billion. They are Barclays, Berkeley, BP, CRH, Diageo, Ferguson, NatWest, Rightmove, Sage, Standard Chartered, Unilever, Vodafone – and Rightmove has yet to confirm the sum involved.

By contrast, just two FTSE 100 firms – JD Sports Fashion and Severn Trent– have tapped investors for money so far this year and that was for just £714 million between them. That compares to 14 deals for a total of £16.3 billion in 2020.

That may offer some encouragement to those with hefty exposure to UK equities, bearing in the mind the adage about how 'bull markets end when the money runs out.' At the moment, dividends and buybacks mean more money is flowing into investors pockets than is flowing out.

AJ Bell Youinvest

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, Rio Tinto is the highest-yielding individual stock, closely followed by BHP. Forecast of yields in the region of 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. China's reported displeasure at soaring iron ore prices may persuade some investors to question whether Rio Tinto really will make such a bumper payment and analysts do not expect a repeat performance in 2022, perhaps for that reason.

	2021E			
	Dividend yield (%)	**Dividend cover (x)**	**Pay-out ratio (%)**	**Cut in last decade?**
Rio Tinto	12.0%	1.31 x	77%	2016
BHP Group	9.2%	1.18 x	85%	2016, 2020
Imperial Brands	8.7%	1.67 x	60%	2020
Evraz	8.5%	2.19 x	46%	2012, 2013, 2014, 2020
Persimmon	7.7%	1.03 x	98%	2014, 2019
Admiral Group	7.6%	0.81 x	123%	2013, 2017, 2019
M & G	7.5%	1.26 x	80%	No – listed in 2019
British American Tobacco	7.5%	1.39 x	72%	No
Anglo American	7.2%	2.31 x	43%	2015, 2016, 2020
Phoenix Group	6.9%	0.63 x	160%	2016, 2018

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

Miners and banks dominate the top ten dividend increases this year

Just ten companies are expected to generate 87% of 2021's dividend increase. Miners and banks in particular are providing support to aggregate consensus earnings and dividend forecasts.

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.

The Big Five lenders – Barclays, HSBC, Lloyds, NatWest and Standard Chartered – took their lead from the Prudential Regulatory Authority by cancelling all dividends at this time a year ago and they did so again this spring by recommending payments, once they had received clearance to do so.

Even though Barclays and Standard Chartered both declared lower dividends than analysts had expected and opted to take the share buyback route as well, four banks sit alongside four miners in the list of the ten stocks that are expected to make the biggest individual contributions to the £15.3 billion total increase in FTSE 100 dividends in 2021. The only FTSE 100 bank not in the top ten is Standard Chartered and it still ranks fourteenth in the list of forecast dividend increases for this year, in cash terms.

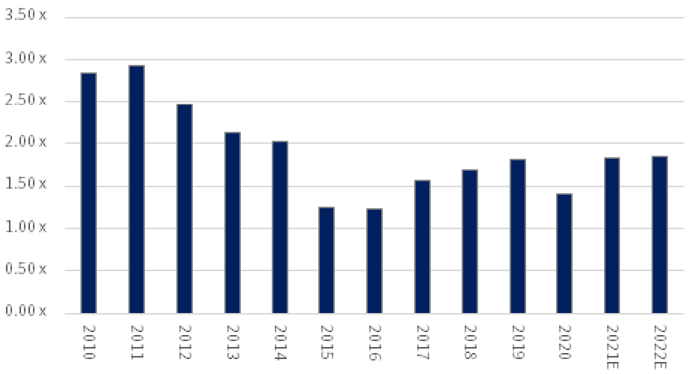
	2021 E	2021 E
	Dividend increase (£ million)	**Dividend increase (% FTSE total)**
Rio Tinto	4,383	28.6%
BHP Group	2,009	13.1%
Anglo American	1,738	11.3%
HSBC	1,167	7.6%
Barclays	845	5.5%
Lloyds	838	5.5%
BT	764	5.0%
NatWest Group	677	4.4%
Glencore	479	3.1%
Persimmon	399	2.6%

Source: Company accounts, Marketscreener, consensus analysts' forecasts

Dividend cover is finally improving

While it is understandable that cover will be lower than ideal as companies emerge from an economic downturn and a dip in profits, the aggregate earnings cover ratio for the FTSE 100 is now seen rising to 1.83 times in 2021.

That is an improvement on 2020's 1.41 times earnings cover and analysts had been expecting cover for 2021 of only 1.56 times one quarter ago, so that figure is going in the right direction. Further, minor improvement to 1.84 times earnings cover in 2022 is the result of profits growth of 4.8% and dividend growth of 3.8%.



FTSE 100 earnings cover for dividends

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:

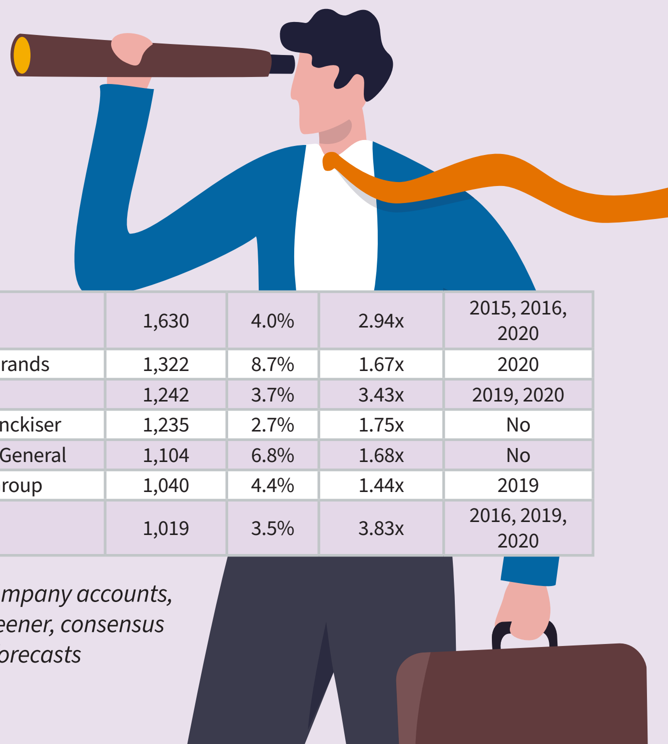
Dividend	Calculation	Dividend cover
£50	£100 divided by £50	2
£100	£100 divided by £100	1
£150	£100 divided by £150	0.67

Investors need to focus on concentration risk

Investors must assess concentration risk when it comes to dividends as well as earnings, 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 £40.2 billion, or 52% of the forecast total for 2021. The top 20 are expected to generate 71% of the total index's pay-out, at £54.4 billion.

	2021E			
	Dividend (£m)	Yield (%)	Dividend cover (%)	Cut in last decade?
Rio Tinto	8,729	12.0%	1.31x	2016
British American Tobacco	4,836	7.5%	1.39x	No
Royal Dutch Shell	4,044	3.6%	2.99x	2020
BHP Group	3,981	9.2%	1.18x	2016, 2020
Unilever	3,862	3.4%	1.26x	No
HSBC	3,350	3.9%	1.87x	2019, 2020
BP	3,045	4.7%	2.24x	2011, 2020
GlaxoSmithKline	2,952	4.2%	1.19x	No
Anglo American	2,736	7.2%	2.31x	2015, 2016, 2020
AstraZeneca	2,692	2.5%	1.11x	No
Vodafone	2,151	6.0%	1.00x	2018
National Grid	1,792	5.4%	1.25x	No
Diageo	1,635	2.0%	1.66x	No
Glencore	1,630	4.0%	2.94x	2015, 2016, 2020
Imperial Brands	1,322	8.7%	1.67x	2020
Lloyds	1,242	3.7%	3.43x	2019, 2020
Reckitt Benckiser	1,235	2.7%	1.75x	No
Legal and General	1,104	6.8%	1.68x	No
NatWest Group	1,040	4.4%	1.44x	2019
Barclays	1,019	3.5%	3.83x	2016, 2019, 2020



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Dividend aristocrats

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

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.

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 15 even as National Grid and United Utilities have joined this elite grouping in the past quarter.

Even allowing for the potential changes and deletions to the list of dividend-growers over time, those that managed to maintain their proud runs in 2020 have been tremendous long-term investments.

The average capital gain from the 15 ten-year dividend growers is 509% and the average total return is 654%. Both easily beat the FTSE 100, at 22% and 79% respectively.

14 of the 15 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, 14 have done better than the FTSE 100 index, with BAT again the exception that proves the rule.

	Total return	Dividend CAGR*	Forecast dividend growth**	
	2011-2020	2011-20	2021 E	2022 E
Ashtead	**3,425.4%**	29.3%	6.8%	17.8%
Intermediate Capital	**1,013.1%**	12.0%	10.7%	12.9%
London Stock Exchange	**991.2%**	11.9%	14.7%	14.0%
Scottish Mortgage	**865.0%**	3.6%	3.8%	4.2%
Spirax-Sarco	**734.8%**	10.6%	9.3%	7.0%
Halma	**703.4%**	6.6%	9.7%	5.3%
Croda	**369.4%**	10.0%	7.7%	7.1%
RELX	**368.6%**	8.7%	4.3%	8.2%
DCC	**311.8%**	10.2%	6.4%	4.1%
Diageo	**259.2%**	6.3%	0.2%	5.7%
Hargreaves Lansdown	**258.7%**	13.8%	38.7%	(9.6%)
United Utilities	**175.2%**	3.7%	1.2%	1.1%
National Grid	**163.5%**	3.1%	2.5%	1.2%
Sage	**94.0%**	8.3%	1.7%	2.6%
British American Tobacco	**69.9%**	6.6%	0.6%	5.5%
AVERAGE	**653.5%**	**9.6%**		
FTSE 100	**78.7%**	**4.0%**	**24.9%**	**3.8%**

Source: Refinitiv data, Company accounts.

**Compound annual growth rate.*
***Source: Marketscreener, consensus analysts' forecasts*

Dividend growth is so powerful because it almost inevitably drags a share price higher. The average dividend yield for the 15 ten-year raisers is forecast to be 2.4% in 2021, below the 3.7% average across the FTSE 100. But their below-average yields have hardly proved a barrier to excellent total returns over the subsequent ten years.

That is at least partly because, the dividend yield available on the March 2011 share price using forecast 2021 dividends is 8.5% - and if anyone offered an investor a guaranteed 8.5% dividend yield they would probably snap 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.

	2021 yield on Mar-11 share price	2011 yield on Mar-11 share price
	2011-2020	2011-20
Ashtead	**24.7%**	2.1%
Intermediate Capital	**17.9%**	6.1%
DCC	**8.8%**	3.5%
RELX	**8.7%**	4.0%
London Stock Exchange	**8.5%**	3.0%
National Grid	**8.3%**	6.6%
British American Tobacco	**8.1%**	4.7%
United Utilities	**7.3%**	5.0%
Hargreaves Lansdown	**6.2%**	2.1%
Spirax-Sarco Engineering	**6.2%**	2.3%
Sage	**6.1%**	2.6%
Diageo	**5.5%**	3.2%
Croda	**4.5%**	2.7%
Halma	**4.4%**	2.5%
Scottish Mortgage	**2.4%**	1.6%
AVERAGE	**8.5%**	**3.5%**

Source: Refinitiv data, company accounts, 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 21 June 2021.

Share buybacks are supplementing dividends with 12 FTSE 100 firms announcing share buybacks totalling £7.2 billion.

Source: Company accounts