Dividend Dashboard

Q4 2018

AJ Bell Youinvest

FTSE 100 dividends continue to march higher

This report shows:

- How much the FTSE 100 is forecast to pay out in dividends in 2019
- What level of dividend cover to look out for
- Which FTSE 100 companies are forecast to have the highest dividend yield
- The power of holding dividend growth stocks for the long term

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.

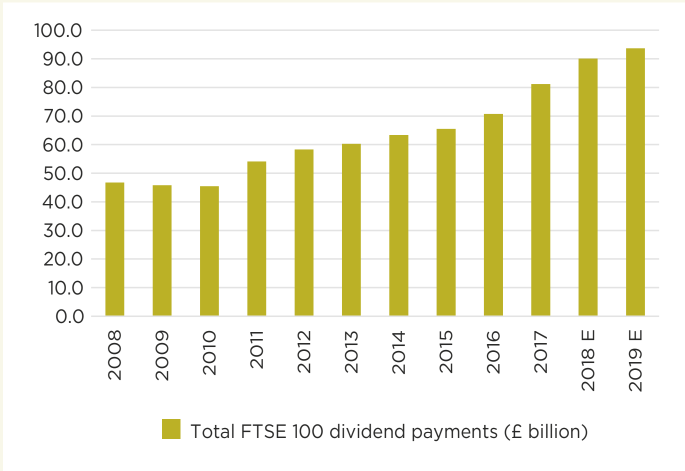
Record dividend pay-out forecast for the FTSE 100 in 2019

FTSE 100

FTSE 100 stocks are expected to pay out a total of £93.7 billion in dividends in 2019 which would be a new record pay-out for the UK's blue chip index. This would equate to an overall dividend yield of a whopping 4.9%, up from 2018's 4.3% yield.

Markets had a rough end to 2018, with Brexit uncertainty, global trade tariffs and US rate hikes giving investors plenty to think about but a forecast dividend yield of 4.9% could prove to be a big source of support for UK stocks, assuming those pay-outs materialise. It should be noted that the £93.7 billion pay-out represents just 4% dividend growth next year, which is the smallest increase since 2015's 3.4% advance.

However, it is still growth and such a high yield could look tempting compared to the Bank of England's 0.75% base rate for cash and the 1.23% yield on the benchmark UK ten-year Gilt.

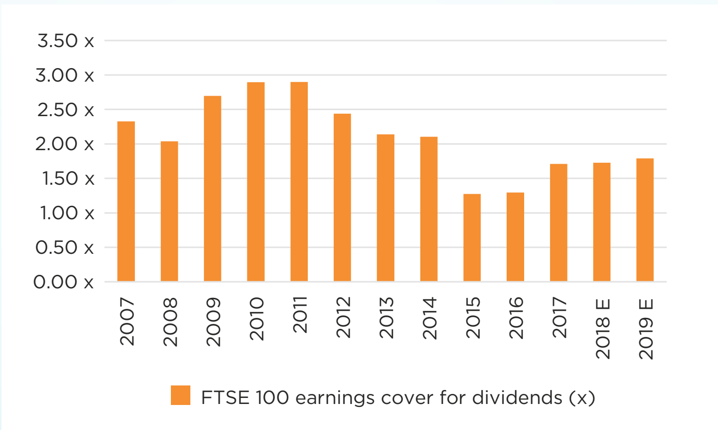


Source: Digital Look, company accounts, analysts' consensus dividend forecasts

Dividend cover edges upwards tentatively

Dividend cover is also forecast to grow slightly to a five year high of 1.79, however this remains below the ideal level of 2.0 times or more which was last seen in 2014.

Dividend cover of 2.0 times or over, offers a safety net should there be a sudden and unexpected downturn in trading at a specific company, or even the UK and global economies as a whole.



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

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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.

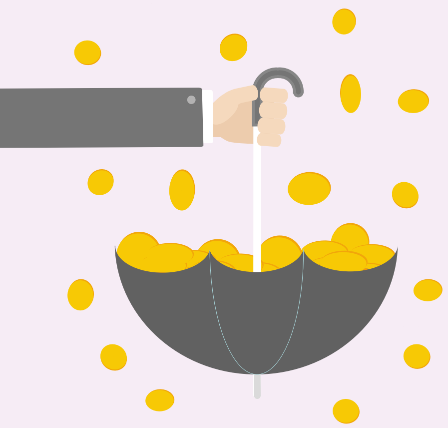
Dividend cover explained

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

Highest dividend yields



As you might expect with a headline dividend yield of 4.9% for the index there are some truly eye popping yields on offer at the top of the dividend yield table.

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, Standard Life Aberdeen and Vodafone have all seen their share prices nosedive in 2018. Vodafone looks about to bring to an end a two-decade long dividend growth streak while more questions are clearly being asked of the other two, both of whom also have proud runs of consecutive increases in their payment which they will be looking to protect.

	Yield, 2019 E	Earnings cover, 2019E
Taylor Wimpey	13.1%	1.19x
Evraz	12.1%	1.09x
Persimmon	11.8%	1.20x
Barratt Developments	9.6%	1.51x
Standard Life Aberdeen	9.6%	1.01x
Direct Line	8.9%	1.10x
Imperial Brands	8.7%	1.36x
Aviva	8.6%	1.84x
Centrica	8.4%	1.09x
Vodafone	8.3%	0.75x
Average		**1.21 x**

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

It is also worth noting that most of the projected top ten highest yield companies in 2019 have an expected dividend cover of less than 1.5 (Barratt Developments and Aviva being the two companies over 1.5 in this instance) and the average for the top ten is a lowly 1.21 times.

Dividend concentration remains high

In monetary terms, it should be noted that just ten firms are expected to pay out 54% of the FTSE 100's total 2019 dividend. The two oil majors Shell and BP remain two of the biggest contributors to the FTSE 100's dividend pay-out, along with dividend stalwarts HSBC, BAT, GSK and Vodafone.

This dividend concentration remains an issue of which investors need to be aware, because a drop in the oil price or strengthening of the pound could have a proportionately adverse effect on dividend payments given the names at the top of this list.

Company accounts, Digital Look, analysts' consensus forecasts

	Forecast percentage contribution to FTSE 100 cash dividend payments in 2019E	Dividend cover 2019 E
Shell	13%	1.72x
HSBC	9%	1.47x
BP	7%	1.45x
BAT	5%	1.73x
GlaxoSmithKline	4%	1.76x
Vodafone	4%	1.51x
Rio Tinto	3%	1.20x
AstraZeneca	3%	0.99x
Lloyds	3%	1.70x
Glencore	3%	1.32x
Average		**1.49x**

Dividend heroes

Regular readers of this report will know that it is not just the yield on offer today that needs to be considered when analysing dividend paying stocks. Hunting out firms with strong dividend growth track records can be very profitable as it often leads to positive total returns overall.

The last four firms to join the FTSE 100 have all increased their annual dividend for each of the last ten years at least and Rightmove, Wood Group, Hiscox and Spirax-Sarco Engineering all join our list of dividend heroes. Sky was removed from the index following its acquisition by Comcast and that leaves the total number of dividend heroes at 30, up from 27 at the end of the third quarter.

The average capital gain from the 30 ten-year dividend growers is 538% and the average total return is 706%. Both easily beat the FTSE 100, at 54% and 124% respectively.

The average dividend yield for the 30 ten-year raisers is forecast to be 3.7% for 2019, barely any different from the 3.8% they offered ten years ago and some way below FTSE 100's 4.9% average.

However, the real value of dividend growth can be realised when these stocks are held for the long term – i.e. 10 years or more. That is because the dividend yield available on the 2008 share price using forecast 2019 dividends is nearly 17% - and if anyone offered an investor a 17% dividend yield they would probably bite your hand off. This shows how a rising dividend can lift a share price, boosting income and capital gains for a powerful total return.

	2019 dividend yield on Dec 2008 share price	2008 yield on Dec 2018 share price
Ashtead	107.1%	6.9%
Rightmove	39.3%	4.4%
St. James's Place	29.2%	2.3%
Micro Focus International	28.3%	2.4%
Hargreaves Lansdown	25.9%	3.1%
Croda	21.1%	4.3%
InterContinental Hotels	17.7%	4.6%
Paddy Power Betfair	16.7%	3.5%
Wood Group (John)	14.8%	2.6%
DCC	14.8%	3.9%
Intertek	14.7%	2.9%
Prudential	14.5%	5.0%
Whitbread	12.7%	4.2%
British American Tobacco	12.6%	4.9%
Compass	12.3%	3.7%
Imperial Brands	12.2%	3.8%
Spirax-Sarco Engineering	11.6%	3.6%
Vodafone	10.3%	5.8%
Sage	9.9%	4.0%
Johnson Matthey	8.9%	3.6%
Bunzl	8.7%	3.4%
Hiscox	8.5%	3.3%
Halma	8.5%	4.0%
Standard Life Aberdeen	8.0%	4.0%
SSE	7.4%	6.0%
Diageo	7.3%	3.7%
BAE Systems	6.8%	4.2%
Associated British Foods	6.8%	3.1%
Scottish Mortgage	4.6%	3.2%
Shire	3.2%	0.7%
Average	**16.8%**	**3.8%**

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 2018 and 2019. Data correct as at 10 December 2018.