DIVIDEND DASHBOARD
Q2 2019

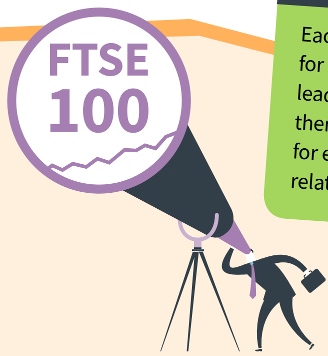
AJ Bell Youinvest

This report shows:

- Dividend forecasts are falling
- The highest yielding companies in the FTSE 100
- Where dividend growth is forecast to come from
- The 27 ten-year dividend heroes
- The power of dividend growth

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 and 2020.



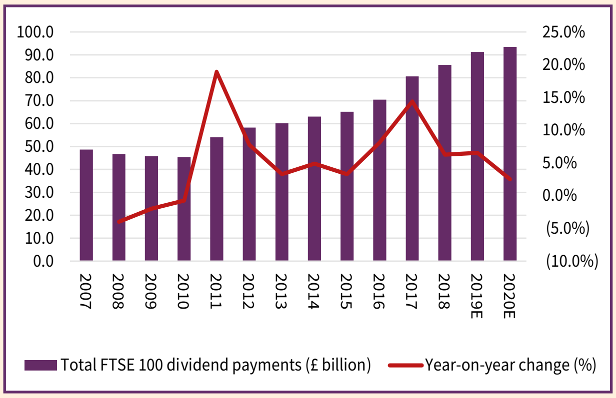
Dividend yield continues to support unloved UK stocks…

The FTSE 100 is currently expected to yield 4.5% for 2019, helped by a forecast of 6.5% dividend growth to a new all-time high of £91.2 billion.

The dividend yield on offer may be one reason why the FTSE 100 has risen by over 10% this year, despite all of the prevailing political and economic uncertainty.

The dividend yield and the huge premium it offers compared to the ten-year Gilt yield, suggest that UK stocks are cheap and a lot of bad news may already be priced in.

Buyers of UK-quoted stocks will also draw some comfort from the degree to which company profits cover forecast dividend payments. At 1.68 times, earnings cover is the highest it has been since 2014, although you would really like to see this ratio at 2.0 times or above, to provide a safety buffer just in case Britain did unexpectedly slip into a recession or the consensus analysts' forecast of 8.8% growth in (adjusted) earnings per share for 2019 proves wildly optimistic.



Source: Sharecast, company accounts, analysts' consensus dividend forecasts

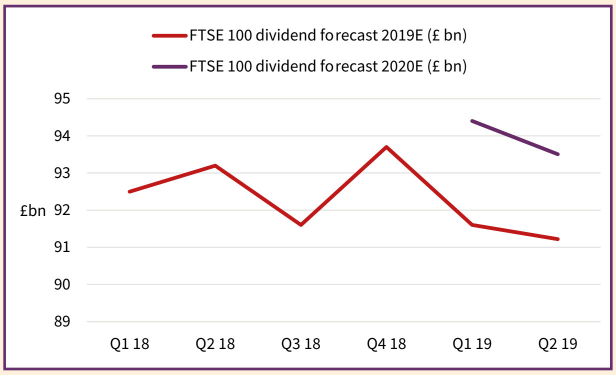
…but forecasts fall for the second quarter in a row

A number of announcements over the past quarter show that investors must remain on their guard and cannot take the FTSE 100's dividend yield for granted.

Marks & Spencer and Vodafone have both announced dividend cuts and former regular dividend-raiser Flutter (previously Paddy Power Betfair) has confirmed an unchanged annual payment for 2018. Management at Standard Life Aberdeen has set a goal of an unchanged distribution after a long string of increases and Aviva also has a more conservative outlook for dividend growth than it has before.

The 40% reduction at Vodafone is one major reason why analysts' forecast for aggregate 2019 dividend payments has dropped from £93.7 billion at the end of last year to £91.1 billion this quarter.

An initial forecast for 2020 is looking for a total ordinary dividend pay-out of £93.5 billion. Whilst this represents a 2.5% increase on 2019's expected cash return it would be the lowest rate of advance since 2010, when the aggregate pay-out actually fell.



Source: Sharepad, company accounts, analysts' consensus dividend forecasts

Dividend growth reliant on the banks

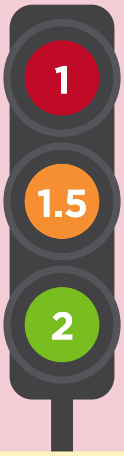
Financials, oil & gas and consumer staples (such as tobacco and beverages) dominate in terms of their total dividend contribution and the banks remain particularly important to dividend growth forecasts.

Just ten stocks are expected to generate 64% of 2019's forecast £5.6 billion increase in total dividend payments, with Royal Bank of Scotland generating a fifth of that sum on its own. Barclays and HSBC are also expected to be among the list of the ten largest contributors to dividend growth in 2019, with both Lloyds and Standard Chartered hovering on its fringes.

This makes concerns over the economy, both in the UK and worldwide, particularly important as the first-quarter results did little to assuage concerns over the lack of progress in net interest margins. The prospect of interest rate cuts from Western central banks, not increases, is an additional complication when it comes to banking margins.

Percentage of forecast FTSE 100 dividends in 2019		Percentage of forecast FTSE 100 dividend growth in 2019	
Financials	23%	Financials	44%
Oil & Gas	20%	Mining	21%
Consumer Staples	13%	Oil & Gas	10%
Mining	11%	Consumer Staples	9%
Consumer Discretionary	8%	Consumer Discretionary	8%
Health Care	8%	Industrial goods & services	8%
Industrial goods & services	7%	Health Care	4%
Telecoms	4%	Real estate	1%
Utilities	4%	Technology	0%
Real estate	1%	Telecoms	(1%)
Technology	1%	Utilities	(3%)

Source: Sharecast, analysts' consensus dividend 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.

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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

The presence of three house builders in the top ten 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 Centrica have all seen their share prices nosedive over the past 12 months, thereby inflating their prospective yields.

Dividends at TUI and Direct Line could come under greater scrutiny thanks to tough trading conditions in the travel and insurance industries. Meanwhile, Aviva's new boss, Maurice Tulloch, has gently recalibrated dividend growth expectations by asserting that the distribution will increase in line with profits in the future. That may be a prudent approach in light of the dividend cuts of 2009, 2012 and 2013.

	2019 forecast dividend yield	2019 forecast earnings cover
Persimmon	12.0%	1.20 x
Centrica	11.5%	0.94 x
Taylor Wimpey	11.3%	1.15 x
Imperial Brands	10.2%	1.36 x
Evraz	9.3%	1.35 x
Direct Line	9.1%	1.00 x
TUI AG	8.5%	1.60 x
Barratt Developments	8.0%	1.54 x
Standard Life Aberdeen	7.9%	1.00 x
Aviva	7.8%	1.86 x
AVERAGE		**1.30 x**

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

27 Dividend heroes

Flutter and Vodafone both dropped out of the list of serial dividend raisers with an unchanged payment and a cut in 2018 while changes to its corporate structure contributed to Whitbread's deletion from the list of FTSE 100 members to have increased their dividend every year for the past decade. However, Burberry joined this elite group by making its tenth consecutive annual dividend increase in 2018 and JD Sports' promotion from the FTSE 250 took the number of FTSE 100 members with an unbroken 10-year dividend growth record back to 27. Kingfisher just missed out after an unchanged annual payment ended a run of nine consecutive increases.

Changes in SSE's group structure and Standard Life Aberdeen's target of an unchanged dividend for 2019 mean they are both set to exit the list of firms with a ten-year dividend growth record.

However, an increase to annual dividends from Land Securities, Legal & General, Mondi and Schroders for 2019 would see them join the list as the scars of the 2007-09 Great Financial Crisis begin to fade.

Any firm which can achieve a streak of ten or more increases in its annual dividend must, on balance, be doing something right and with the benefit of hindsight buying the FTSE 100's 27 serial dividend growers – defined as those with at least 10 straight years of higher pay-outs - would have brought bumper returns to portfolio builders.

The average capital gain from the 27 ten-year dividend growers is 628% and the average total return is 860%. Both easily beat the FTSE 100, at 65% and 140% respectively.

	Total return 2009 – 2018	Dividend CAGR* 2009-18
Ashtead	3759.5%	29.3%
JD Sports Fashion	2836.2%	6.6%
Rightmove	1729.1%	20.6%
Intertek	1660.4%	14.5%
Halma	1277.3%	6.3%
Spirax-Sarco Engineering	1195.5%	10.7%
Croda	1124.3%	14.9%
Hargreaves Lansdown	1044.6%	18.6%
InterContinental Hotels	905.3%	12.0%
Compass	621.0%	11.1%
St. James's Place	620.4%	26.8%
DCC	582.2%	10.6%
Scottish Mortgage	580.9%	3.3%
Micro Focus International	541.6%	22.8%
Hiscox	522.3%	9.8%
Burberry	453.1%	11.7%
Sage	442.5%	8.3%
Bunzl	441.4%	8.8%
Diageo	432.0%	6.1%
Prudential	391.4%	9.5%
Associated British Foods	303.1%	7.9%
Johnson Matthey	223.7%	8.2%
British American Tobacco	169.3%	7.4%
Standard Life Aberdeen	156.3%	5.8%
BAE Systems	137.6%	3.3%
Imperial Brands	112.2%	9.9%
SSE	83.4%	3.2%
AVERAGE	**859.5%**	**11.8%**
FTSE 100	**65.1%**	**6.5%**

*Source: Refintiv data, Company accounts. *Compound annual growth rate.*

The power of dividend growth

Dividend growth is so powerful as it almost inevitably drags a share price higher. The average dividend yield for the 27 ten-year raisers is forecast to be 3.2% for 2019, well below the 4.0% they offered ten years ago and the FTSE 100's current 4.5% average.

However, the dividend yield available on the March 2009 share price using forecast 2019 dividends is 14% - and if anyone offered an investor a 14% dividend yield they would probably bite 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.

	2009 actual yield on June 2009 share price	2019 estimated dividend yield on June 2009 share price
Ashtead	4.7%	67.4%
Rightmove	2.3%	26.2%
St. James's Place	2.5%	20.6%
Micro Focus International	2.8%	19.4%
Prudential	3.3%	18.8%
Croda	3.8%	17.7%
InterContinental Hotels	4.1%	14.8%
Hargreaves Lansdown	4.4%	13.1%
Spirax-Sarco Engineering	4.5%	12.9%
Compass	6.0%	12.4%
DCC	4.4%	12.2%
Whitbread	3.8%	11.6%
Imperial Brands	6.4%	11.3%
British American Tobacco	4.2%	11.0%
Standard Life Aberdeen	3.5%	10.7%
Hiscox	3.7%	10.6%
Intertek	4.3%	10.5%
Halma	4.8%	9.6%
Sage	2.4%	9.6%
Bunzl	4.0%	9.1%
Johnson Matthey	4.2%	8.1%
Diageo	3.7%	8.1%
SSE	3.2%	7.2%
Associated British Foods	4.9%	7.2%
BAE Systems	6.3%	7.0%
Scottish Mortgage	2.8%	6.4%
AVERAGE	**4.0%**	**14.0%**

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 2019 and 2020. Data correct as at 14 June 2019.