

Dividend Dashboard

July 2024



Takeovers and buybacks supplement flatlining dividend forecasts

AJ Bell's latest Dividend Dashboard report shows:

- Aggregate dividend forecasts for the FTSE 100 in 2024 and 2025 are still going down and 2018's all-time high of £85.2 billion is still just out of reach
- Analysts expect just 1% dividend growth in 2024 to £78.6 billion before a 7% increase in 2025 to £83.9 billion
- FTSE 100 firms have already unveiled plans for £38.5 billion in share buybacks in 2024, after £52 billion in 2023, with £3 billion in special dividends from HSBC on top
- Add in £10.8 billion of forecast dividends from the FTSE 250 and £38.2 billion of live or completed takeover offers and the FTSE 350 is offering £169.1 billion in total cash returns (dividends plus buybacks plus takeovers) on its £2.5 trillion market capitalisation for a 'cash yield' of 6.8%.
- However, investors must keep watching the (negative) momentum in FTSE 100 aggregate dividend forecasts and political developments once the general election is concluded.

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 2024 and in some cases 2025. Data correct as of 20 June 2024.

Forecasts aren't a reliable guide to future performance.

Russ Mould, Investment Director at AJ Bell comments:

After flirting with a new all-time high in May, the FTSE 100 is now paddling sideways, as it awaits both the result of July's general election and, perhaps more importantly, the Bank of England's first interest rate cut. Surprise cuts from Sweden and Switzerland, and an early move from the European Central Bank, are helping to set the tone but Governor Andrew Bailey and the Monetary Policy Committee remain concerned about wage growth and sticky services inflation.

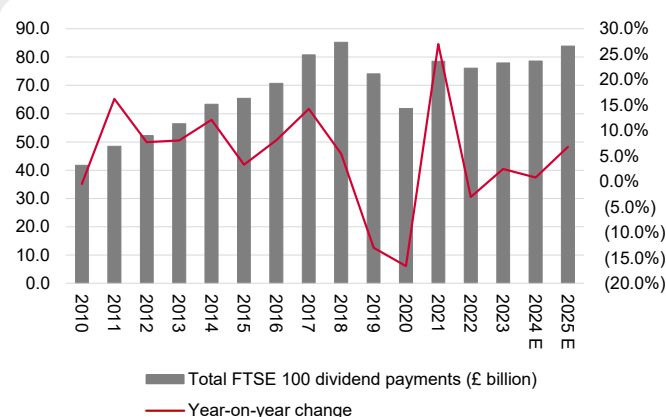
Fewer firms are flagging input costs as a challenge, although wage increases are an issue in service and leisure industries, but goods pricing is softening too. The economic outlook in China is unclear, the EU is showing little real momentum and there are even signs of some deceleration in America, despite a furious rate of federal spending from the Biden administration ahead of November's Presidential election.

This may help to explain why profit and dividend forecasts for the FTSE 100 are going nowhere fast. Pre-tax profit forecasts for 2024 and 2025 are almost unchanged compared to three months ago, at £247.4 billion and £260.8 billion respectively, while aggregate dividend estimates for the FTSE 100 have ebbed slightly, to £78.6 billion and £83.9 billion for this year and next, based on consensus analysts' forecasts for all of the index's members.

That still leaves the FTSE 100 on a forward dividend yield of 3.6% for 2024 and 3.9% for 2025, based on ordinary dividend payments. HSBC is offering a special dividend, FTSE 100 firms are also buying back stock at a rapid clip and takeover activity across

the UK equity market is also putting cash back into investors' pockets, even if some deals have fallen by the wayside and some feature an element of stock in the offer price.

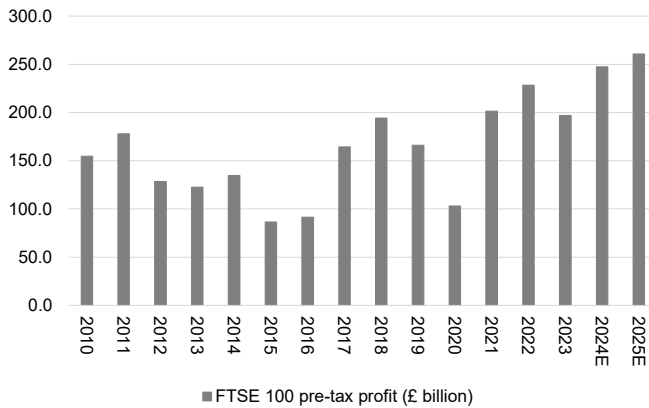
This matters, if you believe the old adage that bull markets only end when the money runs out, and, even allowing for National Grid's £7 billion rights issue and the successful Raspberry Pi flotation, investors are currently receiving more in cash than they are being asked to pay out.



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

Profit forecasts continue to drop

Analysts continue to expect a new all-time high for aggregate FTSE 100 pre-tax profits in 2024, at £247.4 billion, a smidgeon higher than the £246.5 billion expected three months ago. A big chunk of the £50.5 billion year-on-year increase in pre-tax income comes from British American Tobacco, which is not expected to repeat last year's massive asset write-downs. A more modest 5% improvement is expected in 2025, to a further, fresh peak of £260.8 billion when health care and consumer staples are expected to be key sources of earnings growth, alongside more cyclical elements such as mining and industrials.

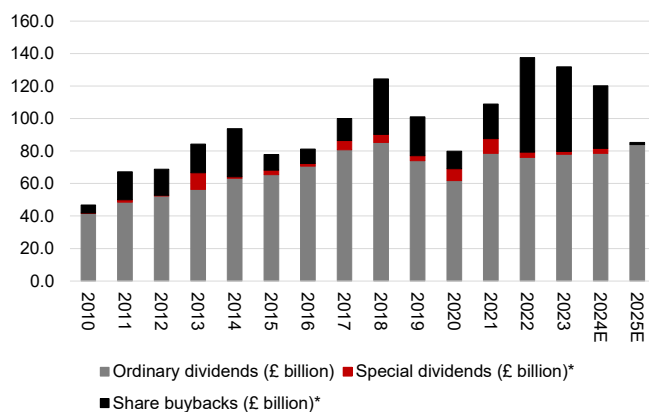


Source: Company accounts, Marketscreener, consensus analysts' forecasts.

This defensive contribution from staples and health care could be valuable if GDP growth proves hard to come by, 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 39 current members of the UK's elite stock market index have already sanctioned share buyback programmes in 2024, compared to 42 across the whole of 2023 and forty-five in 2022.

The value of the buybacks announced in 2024 stands at £38.5 billion, to perhaps give the FTSE 100 a platform for a crack at 2022's all-time high of £58.2 billion, or least 2023's total of £52.1 billion, with six months still to go.

Such bumper returns supplement dividend payments. Add together ordinary dividends, special dividends and buybacks and FTSE 100 firms are expected by analysts to return £120.1 billion to their shareholders in 2024 and £85.3 billion in 2025.



Source: Company accounts, Marketscreener, consensus analysts' forecasts. *As announced to date.

Merger and acquisition activity is also boosting investor returns and shining a spotlight on how the UK equity market may be cheap after a long period in the doldrums. Three FTSE 100 firms are the current target of bids – DS Smith, Darktrace and Hargreaves Lansdown – and an unsuccessful approach for a fourth, Anglo American, has shaken up both its share price and management from their torpor.

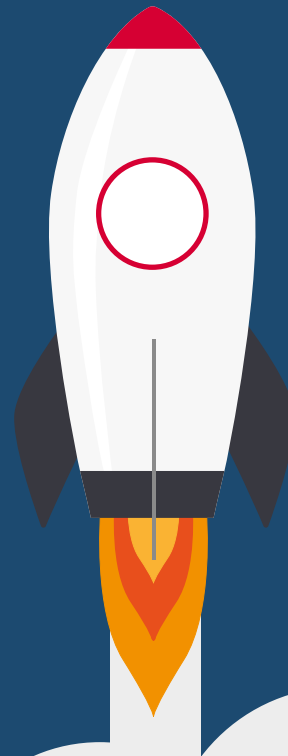
Add in the forecast £10.8 billion in dividends from the FTSE 250 and £38.2 billion in successful or 'live' takeover offers and investors could be set for a £169.1 billion inflow from the FTSE 350 overall in 2024, thanks to the combination of dividends, buybacks and takeovers, a figure which equates to 6.8% of the FTSE 350's current £2.5 trillion market valuation.

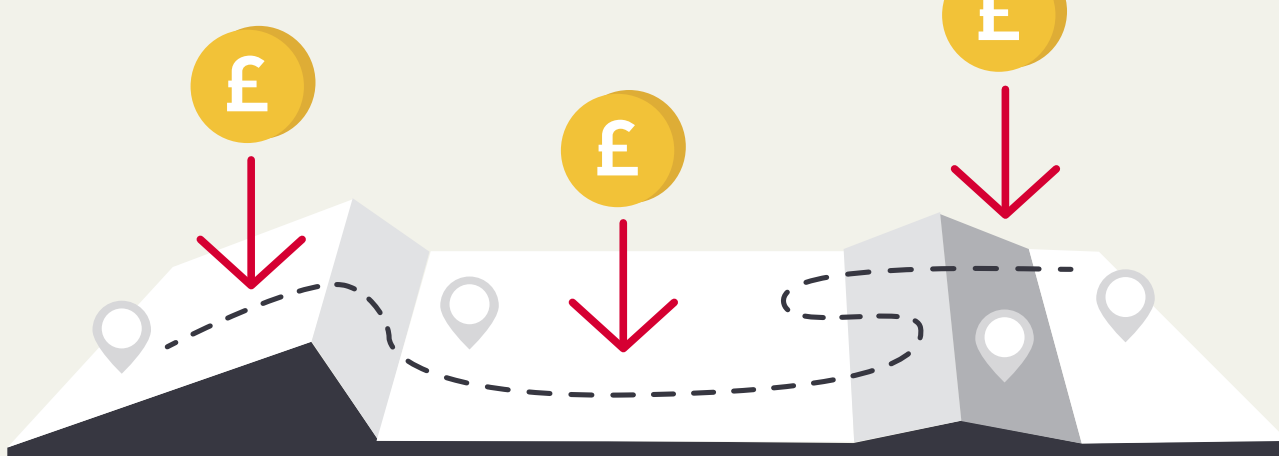
Dividend cover explained

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





FTSE 100 concentration risk can be seen in top 20 companies

The FTSE 100 forms the bedrock of those figures and investors must be aware of the relative degree of concentration risk within the UK's headline index. Just 10 companies are forecast to pay out 55% of the forecast total for 2024, at £43.2 billion, while the top 20 are expected to chip in £57.4 billion, or 72% of the total.

The top 10 list includes two oil majors, drug developers, banks and consumer staples players, and one apiece from the mining and utility sectors. This again highlights the importance of the miners, oils and financials to the overall trajectory of the FTSE 100's profits and dividends.

Vodafone's well-trailered, £1 billion-plus dividend cut for 2024 weighs heavily and the biggest forecast increases, expected to come from International Consolidated Airlines, Rolls-Royce and index newcomer Vistry, pale by comparison. The forecast drop in HSBC's payment is not a cut, but the result of a lower share count (thanks to buybacks) and currency movements. At least this provides a better spread to the modest anticipated increase in dividends from the index in 2024 and helps to reduce concentration risk to some degree.

2024 E

Ten biggest forecast dividend increases £ million

Ten biggest forecast dividend increases	£ million	Ten biggest forecast dividend decreases	£ million
International Cons. Airlines	245	WPP	(10)
Rolls Royce	224	Barclays	(23)
Vistry	164	Mondi	(35)
Associated British Foods	152	Burberry	(45)
AstraZeneca	137	Rio Tinto	(99)
Admiral Group	137	Anglo American	(116)
LondonMetric Property	130	NatWest Group	(128)
Shell	128	Barratt Developments	(184)
GSK	121	HSBC	(757)
BP	94	Vodafone	(1,100)

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

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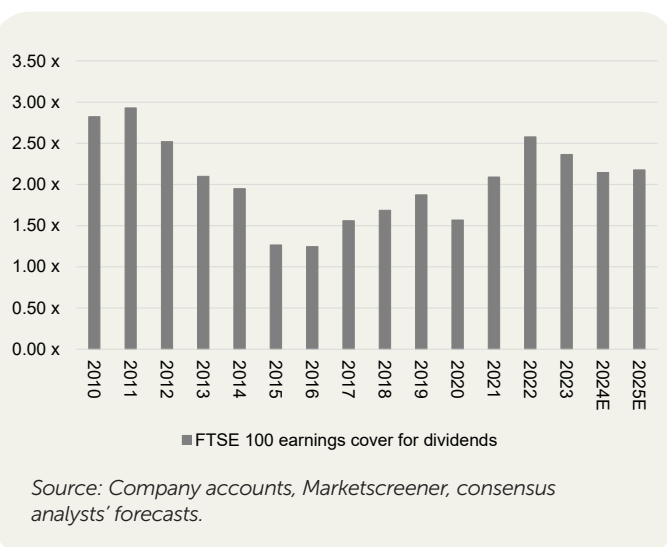
Dividend cover continues steady streak

A prolonged economic downturn in the UK remains a danger, an unexpected one in the USA all the more so 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 or 2025. 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 2024 is expected to come in at 2.18 times according to analysts' consensus earnings and dividend forecasts. This is admittedly down from the 2.57 times on offer in 2022, and lower than the expected final outcome of 2.32 times for 2023.

It does represent a small improvement on the 2.16 times cover ratio implied by consensus analysts' forecasts three months ago and at least cover is still above 2.00 times after the worrying spell between 2014 and 2020 when that threshold was not met once.



Dividend yields still look strong in the face of gilts and interest rates

At the time of writing, the non-life insurer Phoenix Group is the highest-yielding stock in the FTSE 100, followed by British American Tobacco, fund manager M&G, life insurer Legal & General and another tobacco giant, Imperial Brands.

BAT has never cut its dividend and can even point to a streak of increases in its annual dividend payment that stretches back to 1998. The fat yield at the tobacco giant may raise the question of whether that streak is about to end, even if its cashflow remains robust and the firm is even cannily selling assets in India to buttress its finances.

There have been 137 dividend cuts across the current crop of FTSE 100 members in the past decade and even if 74 of those came in the Covid-blighted years of 2019 and 2020 there were still eight in 2023.

As such nothing can be taken for granted and investors need to look at the balance sheet and 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

Company	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
Phoenix Group	11.1%	0.05 x	2136%	2016, 2018
British American Tobacco	9.8%	1.32 x	76%	No
M & G	9.6%	1.07 x	93%	No
Legal and General	9.3%	1.06 x	94%	No
Imperial Brands	7.6%	1.72 x	58%	2020
Aviva	7.5%	1.20 x	83%	2019
HSBC	6.9%	2.12 x	47%	2019, 2020
Land Securities	6.4%	1.19 x	84%	2019
Taylor Wimpey	6.3%	0.88 x	114%	2019
LondonMetric Property	6.2%	1.29 x	78%	2015
AVERAGE	7.4%	1.06 x	94%	

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

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, just four FTSE 100 firms currently offer a forecast dividend yield of 8.1% or more, or twice the 4.06% ten-year gilt yield that prevails at the time of writing.

Serial dividend growers

A really fat dividend yield is not necessarily a good sign anyway, as it can mean that investors are demanding such a juicy return to compensate themselves for what they see as substantial risks at a company, either in terms of its business model, balance sheet or boardroom acumen. The list of FTSE 100 firms which, on paper, were offering a 10%-plus dividend yield only to then deliver nothing of the sort as investors' worst fears were realised is not a short one, and over the past decade it includes Centrica, Marks & Spencer, Shell, Imperial Brands, Persimmon and Vodafone. Even if some of those have started to bounce back, Vodafone has admitted a second major cut would come in 2024, to explain why its share price is no higher now that it was in the late 1990s before the technology, media and telecoms (TMT) bubble kicked into gear.

If anything, history suggests that it is dividend growth that is the real secret sauce for a share price, as a growing pay-out will drag it higher over time.

In 2024, Diploma and SEGRO have joined the list of FTSE 100 firms who have increased their annual dividend payment every year for a least a decade, to take the total to 18. Those 18 have provided, on average, premium capital returns and total returns relative to the FTSE 100 and only four have underperformed the FTSE 100 over the past decade.

That quartet prove that no screening tool is flawless, while only nine of them were in the FTSE 100 a decade ago, so any investor looking for the next generation of dividend growth winners may need to dig into the FTSE 250 (or below). To back up this point, the two firms nearest to joining the ten-up club are Severn Trent and LondonMetric Property, with growth streaks of eight years, and the latter is a new entrant to the FTSE 100 after its promotion for the first time to the elite index in June.

	Share price performance 2014-2024	Dividend CAGR 2014-23
1 Diploma	573.3%	13.7%
2 Ashtead	562.7%	22.1%
3 Intermediate Capital	451.1%	14.2%
4 LondonStock Exchange	432.3%	14.6%
5 Scottish Mortgage	344.1%	3.5%
6 Halma	335.4%	6.8%
7 RELX	274.2%	9.1%
8 Spirax Group	199.1%	10.5%
9 Sage	170.4%	5.7%
10 SEGRO	170.2%	6.2%
11 F&C Investment Trust	170.1%	5.0%
12 DCC	59.6%	10.8%
13 Croda	58.8%	5.4%
14 Diageo	36.4%	5.4%
15 Hikma Pharmaceuticals	19.9%	16.3%
16 United Utilities	14.2%	3.3%
17 National Grid	13.2%	3.4%
18 British American Tobacco	(32.0%)	5.2%
AVERAGE	214.1%	8.9%
FTSE 100	22.8%	2.8%

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

Notes to editors:

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.