



DIVIDEND DASHBOARD

Q3 2020

This report shows:

- FTSE 100 dividends are forecast to fall 24%, or £18 billion, in 2020
- 35 firms have cut dividends for 2020 with Shell, HSBC and BP topping the list
- BAT is now set to be the biggest dividend payer this year
- M&G, Imperial Brands and Aviva are the three highest yielding stocks in the index – all 10% or higher
- Earnings cover for dividends is still thin at 1.42x across the index (a pay-out ratio of 70%)

DIVIDEND DASHBOARD EXPLAINED

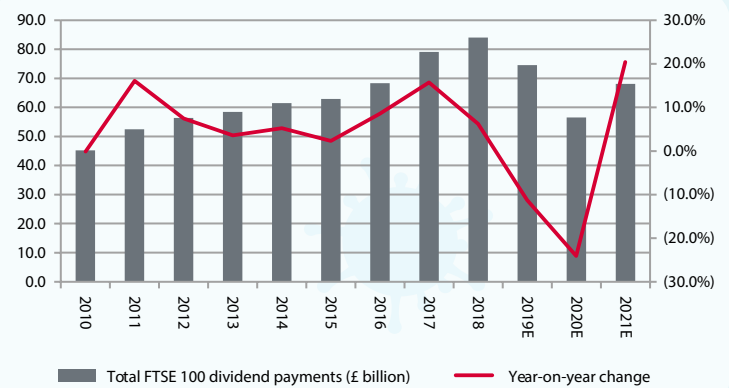
Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company. The data below relates to the outlook for 2020 and 2021.

COVID-19 continues to plague FTSE 100 dividends

After further dividend cuts and reductions in analysts' estimates, FTSE 100 dividend payments are forecast to fall 24%, or £18 billion, in 2020 after an 11% drop in 2019, leaving the total at its lowest level since 2012. That means the FTSE 100 is currently expected to yield 3.5% for 2020, increasing to 4.2% in 2021.

Dividend forecasts for the year have slipped by a further 10% in the third quarter to £56.5 billion from £62.3 billion in June (and £91.1 billion in January). This is largely the result of BP's decision to slash its second-quarter dividend in half, delivering a huge blow to income-seekers.

As a result, dividend payments are now expected to fall for two consecutive years before starting to forge a recovery in 2021.



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

Biggest dividend cutters and raisers

In total, 35 members of the index have cut, deferred or cancelled payments for 2020 thanks to the COVID-19 viral outbreak and subsequent recession, while 28 have maintained or increased one for fiscal 2020.

Just four firms are expected to be responsible for the bulk of the 24%, or £18 billion, of dividend cuts across the index:

	2020 E Dividend growth (£ million)	2020 E Dividend growth (% FTSE total)
Aviva	732	4.1%
BAE Systems	485	2.7%
Persimmon	361	2.0%
Polymetal	214	1.2%
Smurfit Kappa	199	1.1%
RSA Insurance	196	1.1%
Smith DS	174	1.0%
M & G	174	1.0%
Sainsbury	156	0.9%
Mondi	151	0.8%
BT	(457)	(2.5%)
Lloyds	(459)	(2.6%)
Barratt Developments	(472)	(2.6%)
Evraz	(495)	(2.8%)
Compass	(635)	(3.5%)
Imperial Brands	(649)	(3.6%)
Glencore	(2,100)	(11.7%)
BP	(2,346)	(13.0%)
HSBC	(3,390)	(18.9%)
Royal Dutch Shell	(7,719)	(42.9%)

Source: Sharecast, consensus analysts' forecasts, company accounts



BAT is now set to be the biggest dividend payer this year

Investors also have to again assess the concentration risk 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 £29.6 billion, or 52% of the forecast total for 2020. The top 20 are expected to generate 75% of the total index's pay-out, at £42.3 billion.

After dividend cuts or cancellations from Shell, HSBC and BP during the course of the year, British American Tobacco is now forecast to be the biggest dividend payer in the FTSE 100 in 2020.

Not all investors will welcome this, especially those who feel that tobacco does not pass their socially responsible investing (SRI) screen tests. However, others will welcome how BAT's chief executive Jack Bowles continues to stick to his target of a 65% dividend pay-out ratio. The company's interim results offer support to earnings forecasts too, in the absence of changes to sales and earnings guidance for both 2020 and the medium-term.

What also catches the eye in the list of biggest payers is how BP and Vodafone still offer yields of more than 8%, even after their dividend cuts of 2020 and 2018 respectively, while two other cutters, Imperial Brands and Aviva are both forecast to provide a yield of more than 10%.

Aviva is one of ten FTSE 100 firms – alongside BAE Systems, Bunzl, DS Smith, Land Securities, Mondi, Persimmon, Smiths Group, Smurfit Kappa and WPP – to have restored dividend payments or declared their intention to do so.

Yet that 10% forecast yield may make investors nervous, even though chief executive Amanda Blanc has a clear mandate to shake up the life insurer after her appointment to replace Maurice Tulloch in July.

Other double-digit forecast dividend yields that looked good on paper but too much to sustain in reality include those (theoretically) once offered by Centrica, Vodafone, Taylor Wimpey, Persimmon and Evraz where the hoped-for dividends ultimately did not materialise. If Aviva can deliver, then the shares could prove to be very cheap indeed.

	2020E			Cut in last decade?
	Dividend (£ m)	Yield (%)	Earnings cover (x)	
BAT	4,948	8.0%	1.53x	No
BP	4,145	8.5%	-0.62x	2010, 2020
GlaxoSmithKline	4,014	5.4%	1.45x	No
Royal Dutch Shell	3,893	5.0%	0.72x	2020
Rio Tinto	3,836	6.4%	1.55x	2016
AstraZeneca	2,766	2.4%	1.44x	No
Vodafone	2,238	8.1%	0.78x	2018
BHP Group	1,973	5.4%	1.49x	2016, 2020
Unilever	1,803	3.3%	1.46x	No
National Grid	1,740	5.9%	1.09x	No
Diageo	1,598	2.8%	1.60x	No
HSBC	1,365	2.3%	2.78x	2019, 2020
Imperial Brands	1,307	10.0%	1.85x	2020
Reckitt Benckiser	1,247	2.4%	1.83x	No
Aviva	1,104	10.0%	1.80x	2012, 2013, 2019
Legal & General	1,065	9.9%	1.57x	No
RELX	862	2.6%	1.86x	No
SSE	843	6.9%	0.90x	2019
Anglo American	804	3.1%	2.37x	2015, 2016, 2019, 2020
Tesco	794	3.6%	1.63x	2014, 2015

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



M&G is forecast to be the highest-yielding stock, while nine firms are set to pay nothing

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, relative market newcomer M&G is the highest-yielding individual stock, with Imperial Brands and Aviva pretty close behind it. M&G is also the only one in the top ten to have earnings cover of two times or above, according to analysts' forecasts for 2020.

	2020E			Cut in last decade?
	Yield (%)	Earnings cover (%)	Pay-out ratio (%)	
M & G	12.5%	2.09 x	48%	Floated in 2019 - no
Imperial Brands	10.0%	1.85 x	54%	2020
Aviva	10.0%	1.80 x	56%	2012, 2013, 2019
Standard Life Aberdeen	9.9%	0.64 x	155%	No
Legal & General	9.9%	1.57 x	64%	No
BP	8.5%	-0.62 x	-161%	2010, 2020
Vodafone	8.1%	0.78 x	129%	2018
BATS	8.0%	1.53 x	65%	No
Evraz	7.3%	1.50 x	67%	2012, 2013, 2014, 2020
Phoenix Group	7.0%	1.67 x	60%	2018

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

Nine FTSE 100 firms not expected to pay a dividend at all in 2020, with 15 more offering a forecast forward yield of less than 1%.

	2020E Dividend yield
Auto Trader	0.9%
Antofagasta	0.9%
London Stock Exchange	0.9%
Halma	0.8%
Rentokil Initial	0.7%
GVC	0.7%
Next	0.7%
Associated British Foods	0.6%
Rightmove	0.5%
Scottish Mortgage Inv. Trust	0.4%
Whitbread	0.3%
Melrose Industries	0.3%
InterContinental Hotels	0.2%
NatWest Group	0.1%
JD Sports Fashion	0.1%
Barratt Developments	0.0%
BT	0.0%
Compass	0.0%
Flutter Entertainment	0.0%
Glencore	0.0%
International Cons. Airlines	0.0%
Just Eat Takeaway.com	0.0%
Ocado	0.0%
Rolls Royce	0.0%

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



What level of dividend cover to look for

1

Dividend 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.

1.5

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.

2

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.

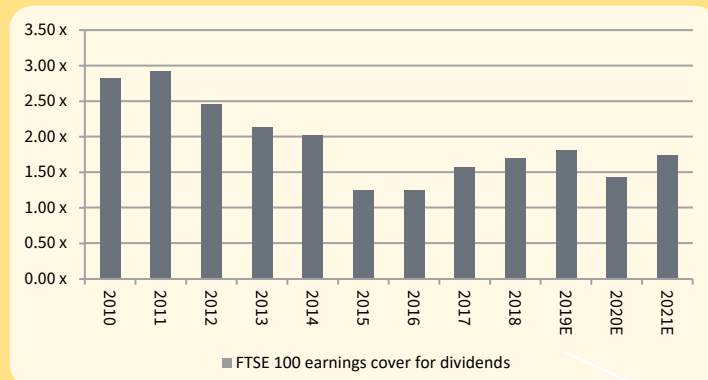
The table below shows the dividend cover for a company making a profit of £100 and paying three different levels of dividend:

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

Dividend cover remains stubbornly thin despite dividend cuts

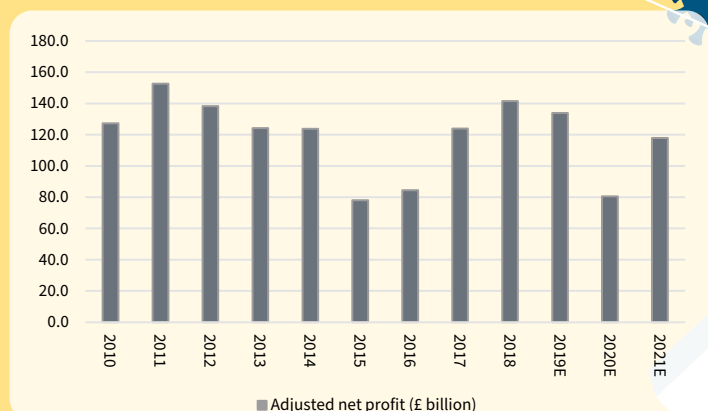
While it is understandable that cover will be lower than ideal during an economic downturn as earnings come under pressure, the aggregate earnings cover ratio for the FTSE 100 is just 1.42 times, barely changed from a quarter ago, despite further dividend payment reduction. That equates to a 70% pay-out ratio and suggests that management teams as well as analysts and shareholders are pinning their hopes on a pick-up in economic activity and therefore profits and cash flow in the second half of 2020 and beyond.

More encouragingly, analysts seem to think that boardrooms will not look to splash the cash too quickly if the good times do start to roll, as earnings are forecast to grow faster than dividends in 2021. That would allow earnings cover to start to move back towards the 2.00-times threshold that provides a safety buffer in the event of the unexpected – such as a double-dip recession.



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

A renewed drop in economic activity – for whatever reason – could still pose a big risk to dividend forecasts, as a 47% recovery in profits is anticipated by analysts for 2021 in the wake of 2020's expected 40% plunge.



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

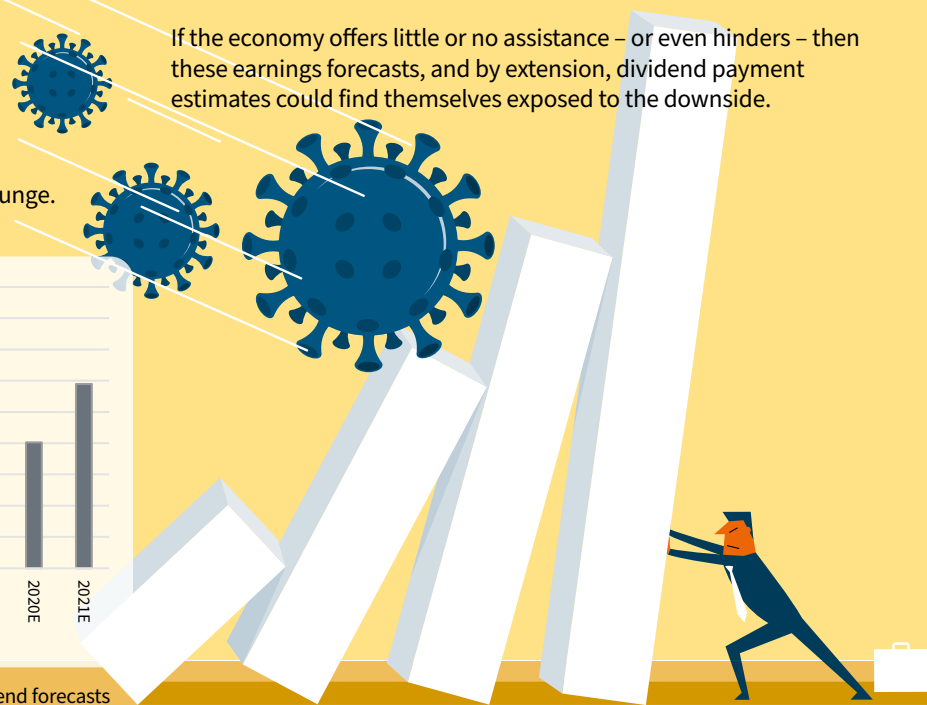
At least analysts are not expecting 2021's profits to return to the pre-pandemic levels of 2018 or 2019, which does suggest they are not going overboard.

However, two-thirds of 2021's expected £52 billion increase in pre-tax income is forecast to come from just three sectors – oils, financials and miners – all of whom could do with an economic tailwind if they are to live up to such expectations, even allowing for the cost-cutting plans.

	2021E	
	Forecast pre-tax profit increase (£ billion)	Forecast of total FTSE 100 profits growth (%)
Oil & Gas	16.3	31%
Financials	12.7	24%
Consumer Discretionary	7.2	14%
Industrial goods & services	5.0	10%
Mining	4.9	9%
Consumer Staples	2.1	4%
Health Care	1.9	4%
Telecoms	0.9	2%
Utilities	0.4	1%
Technology	0.3	1%
Real estate	0.2	0%
TOTAL	52.0	100%

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

If the economy offers little or no assistance – or even hinders – then these earnings forecasts, and by extension, dividend payment estimates could find themselves exposed to the downside.



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 2020 and 2021. Data correct as at 21 September 2020.

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