Dividend Dashboard

Q2 2023

Dividend growth still expected in 2023 despite stalling profit forecasts

AJ Bell's latest Dividend Dashboard report shows:

- Aggregate dividend forecasts for 2023 (and 2024) for the FTSE 100 are just about holding firm, although they are yet to claw back the downgrades seen in the early stages of this year.
- The combination of £83.8 billion in forecast ordinary dividends, plus £38.2 billion in buybacks already announced means that 2023 is on track to be the third best year ever for cash returns from the FTSE 100.
- More buybacks could yet be announced in the second half, though some investors could be forgiven for worrying this bonanza may be a contrarian indicator – 34 FTSE 100 members have already announced or conducted buybacks in 2023, the same figure as at this point in 2022, when the final count ended at 43.
- The key role of financials in driving dividend growth in 2023 is also a potential source of concern, as interest rates continue to rise and political pressure on margins continues unabated.
- Equally, dividend cover still exceeds the magic 2.00x level for this year and 29% of the forecast £83.8 billion total dividend payment is due to come from the relatively reliable sources of consumer staples, health care and utilities.

Dividend dashboard explained

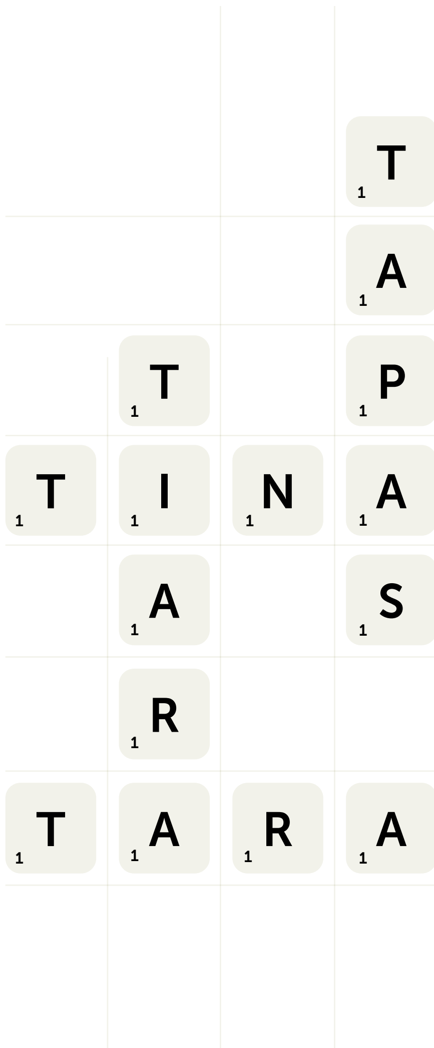
Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company.
The data relates to the outlook for 2022, 2023 and in some cases 2024. Data correct as of 24 March 2023.

Forecasts aren't a reliable guide to future performance.

AJ Bell's Investment Director Russ Mould comments:

After the index's brief flirtation with the 8,000 mark, the FTSE 100 is trading no higher than it did in summer 2017. A forecast yield of 4.1% for 2023 (and 4.4% for 2024) offers some compensation, although these figures are no longer as eye-catching as they once were, when inflation was low and interest rates anchored at all-time lows of 0.1% for most of 2020 and 2021.

After a succession of thirteen quick-fire interest rate increases from the Bank of England, returns on cash should be improving (at least in theory), while the benchmark ten-year Gilt yield is 4.36%. Investors can even find nominal yields of 5.17% on two-year Gilts, so the days of There Is No Alternative (TINA) when it comes to equities and the hunt for yield seem to be over, at least for now. Indeed, some strategists are pointing out the rival claims of bonds (and cash) as they coin a new acronym, TIARA – There Is A Real Alternative.



This increase in the number of options available to those looking to build a diversified portfolio of assets, and combat the evils of inflation, is one possible explanation for why the FTSE 100 continues to paddle sideways like a wounded duck.

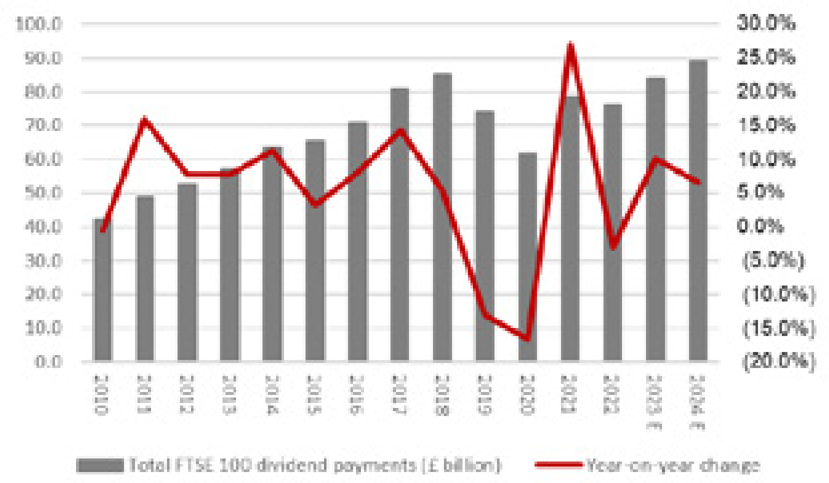
Another may be an understandable degree of scepticism regarding FTSE 100 earnings and dividend forecasts for 2023, given ongoing inflationary and input cost concerns, higher interest bills, tax increases and the murky economic outlook.

That 4.1% forecast yield for this year is predicated upon a 19% jump in pre-tax profits and a 10% jump in dividend payments. This sounds credible in some ways, although some may view the profit growth forecast with raised eyebrows, given the economic backdrop. A chunk of this comes from the absence of asset and inventory write-downs or exceptional items or mark-to-market portfolio losses at oils, insurers, real estate firms and investment trusts in particular, but a truer picture may come from study of underlying net income. This captures not only the increase in UK corporation tax but also strips out those (purportedly) exceptional items. Adjusted net income is expected to drop 7% in 2023, and that may concern some investors.

Nevertheless, for now, the FTSE 100 index's total dividend pay-out is expected to reach £83.8 billion in 2023, compared to £76.1 billion in 2022 and £78.5 billion in 2021, excluding special dividends.

Total payments peaked at £85.2 billion in 2018. Last year failed to exceed that mark, despite the fact analysts expected it do so from the very start of 2022 and estimates have dribbled a little lower in 2023 as well.

This time a year ago, the consensus forecast for aggregate FTSE 100 dividends was £86.7 billion, which would have set a new record, although analysts have since concluded a fresh peak may be tantalisingly out of reach in 2023. The good news is 2024's payments are expected to total £89.4 billion, although this estimate has slipped from £92.5 billion in the autumn. Analysts shaved another £0.6 billion off their forecasts for 2024 dividends between March and June.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

Dividend cover explained

Dividend cover is the amount of profit a firm makes divided by the dividend it pays out to shareholders.

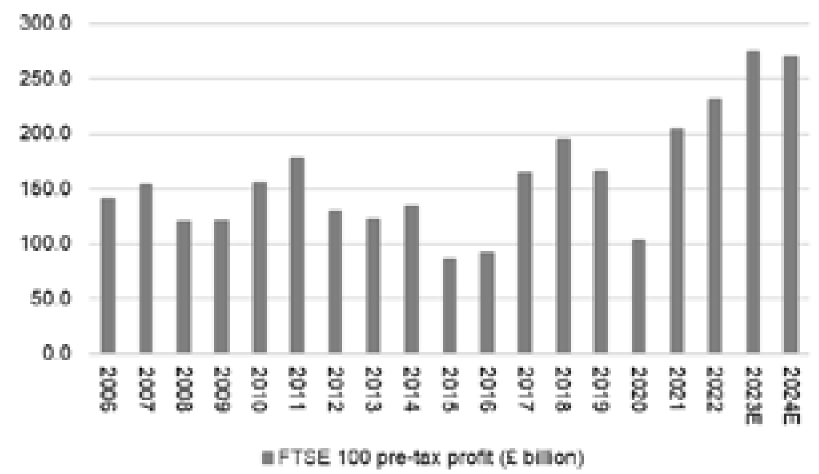
The table below shows the dividend cover for a company making a profit of £100 and paying three different levels of dividend:

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

Profit trends and buyback boom

Although the headline pre-tax profit figure is a volatile one, analysts are at least looking for a new all-time high here in 2023, of some £275 billion, miles clear of the prior cyclical peaks of £194 billion in 2018, £179 billion in 2011 and £153 billion in 2007 (just before the Great Financial Crisis). Inflation has a role to play here, especially given the FTSE 100's hefty exposure to commodities (of which there is more to be said below).

However, 2024 is seen then coming in slightly down. The mixed economic outlook is perhaps reflected in how analysts have modestly upgraded their 2023 forecast for aggregate pre-tax profit but trimmed their outlook for 2024.

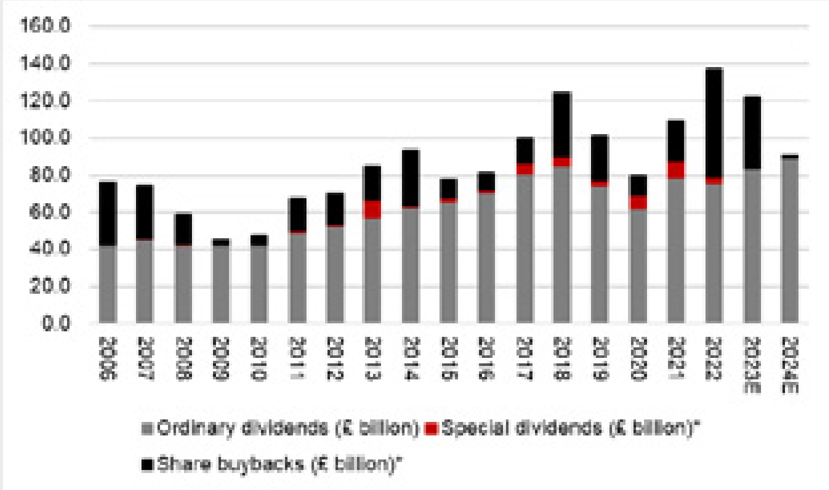


Source: Company accounts, Marketscreener, consensus analysts' forecasts

For all of the nerves that prevail, corporations are still putting a very brave face on it. Forty-three of the FTSE 100's members ran a share buyback programme in 2022 to return additional cash to shareholders and thirty-four index constituents have already announced plans to do so, or began cash returns via this mechanism, in 2023.

FTSE 100 firms announced £58.2 billion of share buybacks in 2022. That is way in excess of the peaks of 2006 and 2018, which came in between £33 billion and £34 billion and 2023's announced total already stands at £38.2 billion, with six months to go and Shell, for one, is promising more largesse in the second half of the year.

These bumper cash returns supplement dividends. The FTSE 100's members are on track to return £122 billion to investors via ordinary dividends, special dividends and buybacks in 2023, again with the possibility of more buybacks in the second half. That compares to 2022's all-time peak of £137.6 billion and almost matches the prior high, of £124.3 billion, reached in 2018.



*Source: Company accounts, Marketscreener, analysts' consensus dividend forecasts. *2023 to date*

It also takes the total cash yield from the FTSE 100 to 6.0%, a figure which nicely exceeds both the two- and ten-year Gilt yield, at least at the time of writing.

Equally, some investors may assess bumper buyback plans with a more jaundiced eye, for two reasons.

First, it is easier to start and stop a buyback than it is to increase and especially cut a dividend. There is far less likely to be heavy opposition if a buyback is postponed or cancelled than if a dividend is reduced, or even cancelled.

Second, it can be argued that buybacks are a contrarian indicator. FTSE 100 share buybacks reached a peak in 2006, just a year before the Great Financial Crisis and then topped out again in 2018, just as the index reached what was then an all-time closing high of 7,779 in July of that year.

Dividend increases concentrated among top 20

Consensus forecasts suggest the top ten dividend payers will distribute £46.9 billion of ordinary dividends in 2023, some 56% of the consensus forecast total distribution of £83.8 billion.

Within this list of ten dividend heavyweights lie two miners, two oils and drug developers plus a bank, a tobacco company, a household goods specialist, and a utility.

This again highlights the importance of the miners, oils and financials to the overall direction of FTSE 100 profits and dividends. The strong commodity representation may attract the attention – and ire - of those investors who run strict ethical, social and governance (ESG) screens before they decide where to put their capital.

Dividend increases in the index are particularly heavily concentrated in a limited number of names. The ten biggest are expected to represent no less than 98% of the total increase for the entire index and the top twenty are forecast to generate all the anticipated £7.7 billion increase.

The expected hike in HSBC's pay-out is very noticeable and banks and financials more generally are seen as a key driver for FTSE 100 dividend growth in 2023, when the banks are currently expected to distribute £14.2 billion, a figure higher than the £13.3 billion peak seen in 2007, just before the Great Financial Crisis hit home.

2023 E			
Dividend growth (£ million)		Dividend decline (£ million)	
HSBC	3,641	Imperial Brands	(12)
Glencore	1,129	WPP	(12)
Shell	1,057	Hiscox	(16)
NatWest Group	385	M & G	(24)
Haleon	286	Melrose Industries	(44)
British American Tobacco	266	Antofagasta	(49)
Barclays	248	Barratt Developments	(55)
Compass	186	GSK	(73)
Berkeley	174	SSE	(394)
Admiral Group	139	Anglo American	(483)

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

Dividend cover remains above 2.00x despite forecast drop in incomes

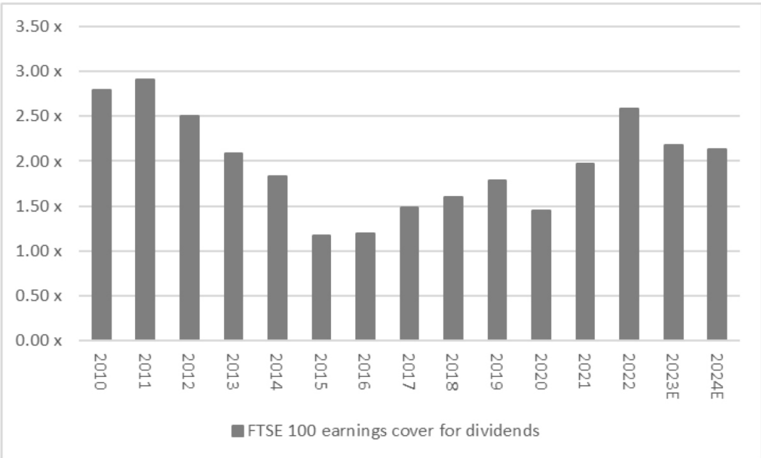
An economic downturn remains a major danger, but perhaps investors can draw some comfort from how dividend cover is much better than it was ahead of the mid-cycle growth bump of 2015-16 that took such a toll on aggregate FTSE 100 dividend payments.

As a result, their shareholder distributions may not quite be the same hostage to fortune that they proved to be in 2016 or 2020, should another unexpected shock emerge from left field.

The aggregate earnings cover ratio for the FTSE 100 is expected to come in at 2.18 times in 2023, according to analysts' consensus earnings and dividend forecasts. This is lower than the 2.26 times forecast just three months ago, and the 2.59 times cover that was on offer in 2022, a reflection of the forecast 7% drop in adjusted net income and 10% expected increase in payments.

At least cover is back above 2.00 times, after the nerve-wracking spell of 2014 to 2021 when that threshold was not met once.

Generally, an earnings cover ratio north of 2.00 times is seen as offering some support and comfort to dividend forecasts, as it suggests there is a buffer in case of any sudden or unexpected event, such as an economic downturn or company-specific problem which threatens profits.



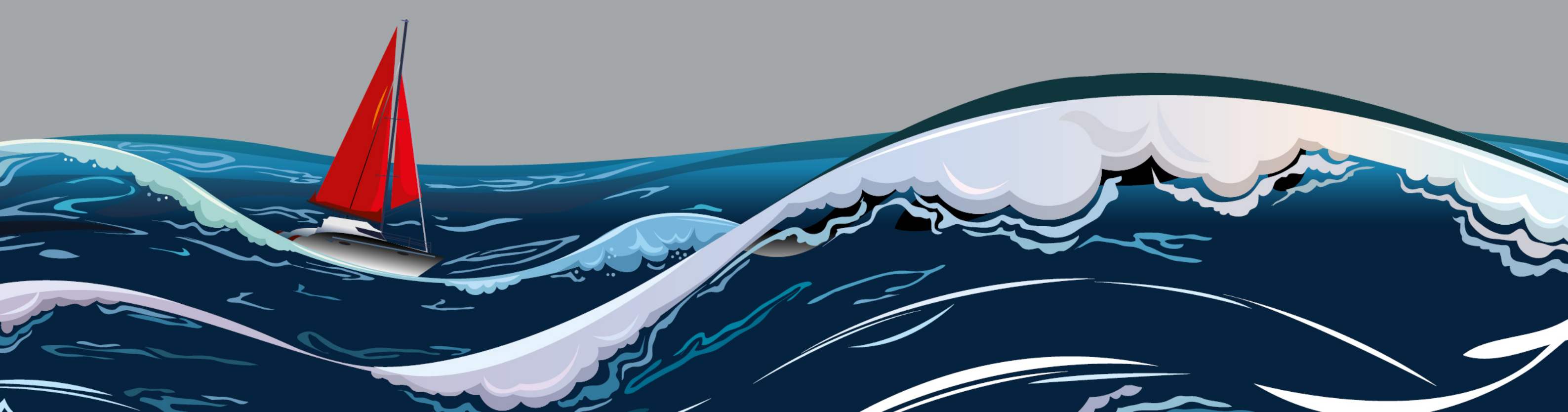
Source: Company accounts, Marketscreener, consensus analysts' forecasts (for adjusted, or underlying, earnings).

What level of dividend cover to look for

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.

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.



Seven firms offer twice UK ten-year Gilt yield

At the time of writing, Vodafone is the highest-yielding individual stock, while Glencore, M&G and Phoenix Group are also expected to offer double-digit dividend yields in 2023.

Forecast yields in excess 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, Persimmon and Centrica.

All were forecast to generate a yield above 10% at one stage or another and all cut the dividend instead. As such nothing can be taken for granted, especially if a recession or financial market squall hits home.

However, these yields no longer seem quite so outlandish now that interest rates – and therefore Government bond yields – are rising.

An old rule of thumb is that any equity dividend yield that exceeds the ten-year Gilt yield (in effect the risk-free rate) is probably too good to be true. A decade and more of zero-interest rate policies (ZIRP) from the Bank of England wrecked that, but now policy is returning to something like normality it will be interesting to see if this old rule reclaims its former authority.

For the record, just seven members of the FTSE 100 currently offer a dividend yield for 2023 that exceeds 8.72%, or two times the 4.36% yield available from the UK ten-year Gilt at the time of writing.

	2023 E			
	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
Vodafone	10.8%	0.67 x	150%	2018
Glencore	10.7%	1.29 x	78%	2015, 2016, 2020
M & G	10.3%	0.85 x	118%	No
Phoenix Group	10.0%	0.53 x	189%	2016, 2018
Taylor Wimpey	9.3%	0.96 x	104%	2019
BAT	9.2%	1.49 x	67%	No
Legal and General	8.9%	1.65 x	61%	No
Aviva	8.5%	1.61 x	62%	2013, 2019
Barratt Develop.	8.1%	1.97 x	51%	2020
Imperial Brands	8.1%	1.64 x	61%	2020

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

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 2023 and in some cases 2024. Data correct as of 26 June 2023.