Dividend Dashboard
Q3 2017

AJ Bell Youinvest

FTSE 100 dividend forecasts for 2017 & 2018

This report shows:

- The dividend outlook for the UK's largest listed companies
- The sectors and companies that are set to power FTSE 100 dividend payments
- The danger zone where forecast dividend cover looks thin
- The FTSE 100 firms with the longest track records of dividend increases

Dividend dashboard explained

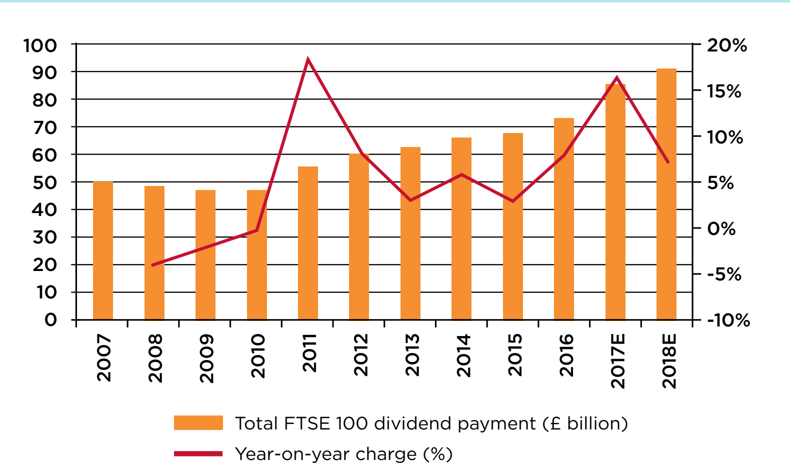
Each quarter, AJ Bell takes the forecasts for the FTSE 100 companies from all the leading city analysts and aggregates them to provide the dividend outlook for each company. The data below relates to the outlook for 2017 and 2018.

Dividend outlook remains healthy...

The good news is that analysts are still increasing their aggregate dividend forecasts for the FTSE 100 for both this year and next. Consensus is now looking for a 16% increase in 2017 and an 8% increase in 2018, to £85.3 billion and £91.6 billion respectively.

Even though Provident Financial (since deleted from the index) and Pearson let the side down with dividend cuts (and Sky passed its full-year payment as it prepared to be taken over by Fox) the interim reporting season backed up this optimism. The 50-plus FTSE 100 members to report earnings forecasts over the summer increased their dividend payments by 15% between them.

As a result, the FTSE 100 is expected to offer a dividend yield of 4.1% for 2017 and 4.4% for 2018. This is way better than anything that can be earned on cash or the benchmark 10-year Government Gilt yield of 1.33% and therefore a potential source of support for UK stocks.



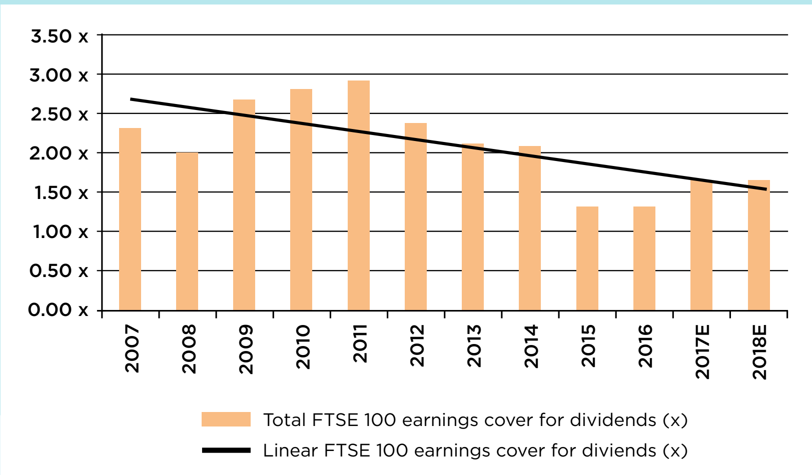
Source: Company accounts, Digital Look, analysts' consensus forecasts

...but dividend cover remains thin

The bad news is that analysts have started to cut rather than increase their aggregate profit forecasts for the FTSE 100, trimming 3% off their forecast for 2017 to £191 billion and leaving 2018 forecasts unchanged at £213 billion.

The effect of profit estimates going down and shareholder payout estimates going up is that earnings cover for dividends remains much thinner than ideal at barely 1.7 times for 2017 and 2018. Earnings cover needs to be around the 2.0 times mark to offer a margin of safety to dividend payments, should there be a sudden and unexpected downturn in trading at a specific company, or indeed the UK and global economies as a whole (see 'Dividend cover explained' overleaf).

Pearson and Provident Financial are both examples of what can happen in the event of a profits stumble under such circumstances, as both had been offering apparently juicy yields but with skinny earnings cover.



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

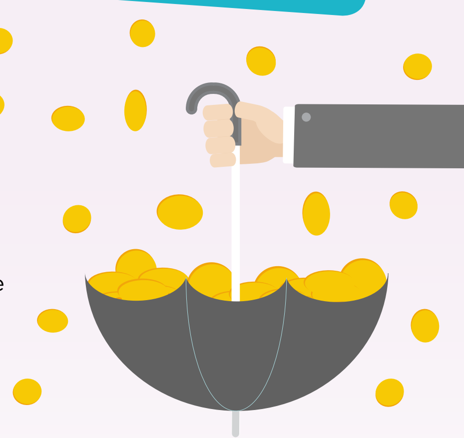
Dividend concentration is high

Income-seekers, and especially those investors who are looking to draw dividends from the UK market by buying a passive tracker fund or ETF, also need to consider that just 10 stocks represent 59% of forecast FTSE 100 dividend payments for 2017.

	Forecast percentage contribution to FTSE 100 cash dividend payments in 2017E
Royal Dutch Shell	14%
HSBC	9%
BP	7%
British American Tobacco	5%
GlaxoSmithKline	5%
Unilever	4%
Rio Tinto	4%
Vodafone	4%
Lloyds	3%
AstraZeneca	3%

A further increase in the oil price, beyond $55 a barrel, would therefore be a welcome development as it would help to boost the oil major's profits and cashflow. Sustained strength in metals prices would also be helpful, as the miners are generating nearly half of the forecast dividend increase in sterling terms for 2017, while banks and insurers are also key contributors.

Between them, financials, oils and miners are forecast to produce 51% of dividend payments and 71% of dividend growth in 2017.



Percentage of forecast dividend payments – 2017		Percentage of forecast dividend growth – 2017	
Financials	21%	Mining	38%
Oil & Gas	21%	Financials	25%
Consumer Staples	15%	Consumer Staples	19%
Mining	9%	Oil & Gas	8%
Health Care	9%	Industrial goods & services	5%
Consumer Discretionary	7%	Telecoms	3%
Industrial goods & services	6%	Health Care	3%
Telecoms	6%	Technology	2%
Utilities	4%	Real estate	1%
Real estate	1%	Utilities	0%
Technology	1%	Consumer Discretionary	-1%

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

Dividend danger zone

Some of the companies with the juiciest looking dividend yields have dividend cover that looks particularly skinny. The average cover across the 10 highest yielding stocks in the FTSE 100 is just 1.20 times for 2017. Although that figure is dragged down by Shell and BP, only one company (Lloyds) has dividend cover anywhere near the 2.0 times comfort level.

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

	Yield, 2017 E	Earnings cover, 2017 E
Direct Line	7.1%	1.21x
Taylor Wimpey	6.9%	1.41x
Next	6.9%	1.18x
Royal Dutch Shell	6.6%	0.90x
BP	6.6%	0.71x
SSE	6.6%	1.25x
Unilever	6.4%	1.55x
Lloyds	6.2%	1.87x
Centrica	6.2%	1.30x
Vodafone	6.0%	0.58x
Average		**1.20x**

Dividend sweet spot

More encouragingly, 61 FTSE 100 firms offer dividend cover of at least 2.00 times for 2017. Any investors of a nervous disposition may prefer to look here for their income – with the caveat that yields are generally lower, even if it is to be hoped (but by no means certain) that they are safer.

The table shows the ten FTSE 100 stocks that have the highest yield with dividend cover of close to two times or more:

	Yield, 2017E	Dividend cover, 2017E
Berkeley	5.3%	2.41x
Aviva	5.2%	1.97x
ITV	4.9%	1.97x
Anglo American	4.5%	2.61x
WPP	4.4%	1.99x
International Cons. Airlines	4.1%	3.65x
Barratt Developments	4.0%	2.51x
Old Mutual	3.8%	2.96x
BAE Systems	3.7%	1.95x
Babcock International	3.6%	2.80x

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

Dividend heroes

26 FTSE 100 companies have grown their dividend every year for at least the past 10 years, with investment trust Scottish Mortgage topping the list with 34 consecutive years of dividend growth.

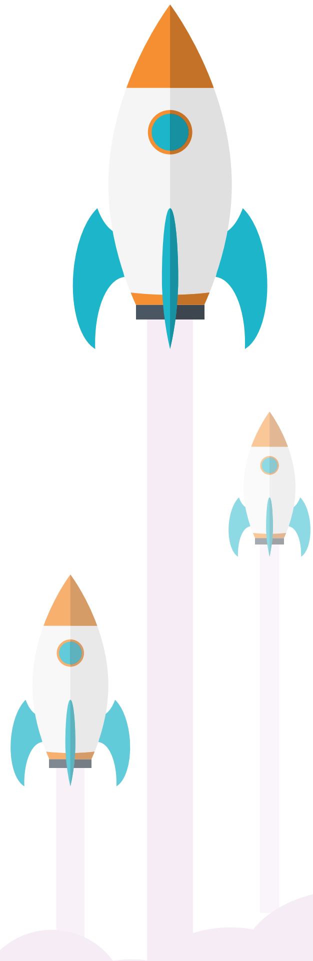
This makes a strong case for the investment trust model, as they are allowed to store up to 15% of their annual income on their balance sheet and use these so-called reserves to pay and boost dividends when markets are falling or going nowhere fast.

Of the other firms with the longest streaks, it is noticeable that none of them necessarily do anything that is seen as exciting or provide go-go growth. SSE is a utility, BAT is a tobacco giant, Sage provides accounting and payroll software and Bunzl distributes essential items to other companies, ranging from mops to syringes to coffee cups.

Yet all of them have a strong competitive position, a debt pile which is suitable for their type of business and good profit margins, which mean they can throw out plenty of cash flow – and good cash flow can mean good and growing dividends.

In all cases, this consistent dividend growth has had a positive impact on the total returns offered by the stock over the past decade compared to the FTSE 100 average:

Company	Consecutive number of years of dividend increases	Total return over the past 10 years
Scottish Mortgage	34	296%
Johnson Matthey	31	131%
SSE	26	76%
Bunzl	24	311%
Sage	22	285%
British American Tobacco	20	318%
Croda	19	651%
DCC	19	591%
Diageo	19	216%
Associated British Foods	18	385%
Compass	17	578%
Paddy Power Betfair	17	427%
Babcock International	15	117%
Imperial Brands	15	159%
Intertek	15	492%
BAE Systems	14	102%
InterContinental Hotels	14	400%
Vodafone	14	116%
Whitbread	14	188%
Ashtead	13	1842%
Prudential	13	246%
Shire	13	235%
Micro Focus	12	1050%
St James' Place	12	286%
Hargreaves Lansdown	10	796%
Standard Life Aberdeen	10	153%
Average		**402%**
FTSE 100		**64%**



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