Dividend Dashboard

April 2024

Dividend forecasts for 2024 flounder even as FTSE 100 offers enticing cash yield

AJ Bell's latest Dividend Dashboard report shows:

- Aggregate dividend forecasts for 2024 and 2025 again take a hit, with estimates for this year now 11.5%, or £10.3 billion, lower than a year ago
- This could also be the result of companies' enthusiasm for share buybacks, which are off to a fast start this year as FTSE 100 firms have already unveiled plans for £27 billion of cash returns via this mechanism in 2024
- Add that to the forecast aggregate ordinary dividend payment and the estimated cash yield on the FTSE 100 is 5.3% for 2024, with scope for further buybacks
- Aggregate ordinary dividend forecasts of £79.7 billion for 2024 and £84.9 billion in 2025 mean the FTSE 100 offers an estimated ordinary dividend yield of 3.8% for this year and 4.1% for next
- That handily beats inflation and compares to yields of 4.22% on two-year gilts and 4.07% on ten-year gilts, which come with more limited scope for capital appreciation (albeit with less risk of capital loss)

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 4 April 2024.

Forecasts aren't a reliable guide to future performance.

AJ Bell's Investment Director Russ Mould comments:

While it is yet to reach a new all-time high in 2024, unlike headline stock indices in America, Australia, Canada, France, Germany and Taiwan (to name but a few), the FTSE 100 is again flirting with the 8,000 mark and sits tantalisingly close to the peaks reached in February 2023.

In some ways this contradicts the gloomy narratives which seem to surround the UK equity market, which may also offer some appeal to patient accumulators of income, given a forecast dividend yield of 3.8% for 2024 (and 4.1% for 2025), especially as those figures exceed the prevailing rate of inflation. Some investors may also feel they stack up relatively well compared to the benchmark UK ten-year gilt yield of 4.07%, given that UK government paper offers less potential for capital appreciation (although it also comes with less downside risk, at least in nominal, pre-inflation terms).

Moreover, financial markets continue to price in three interest rate cuts of one-quarter of a percentage point apiece from the Bank of England by the end of 2024. That would take the base rate down to 4.50%, and potentially weigh on UK government bond yields, to further raise the profile of the UK equity market's income potential, at least if inflation stays relatively benign.

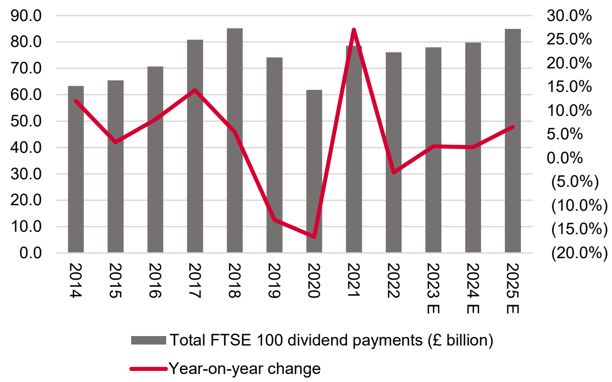
Equally, competition from cash and gilts and the uncertain economic outlook may all be reasons why the FTSE 100 is yet to match the upward momentum of many of its international counterparts.

Aggregate profit estimates for 2024 and 2025 keep drifting lower, even if the FTSE 100's members earn more in total overseas than they do here in the UK. The hefty portion of earnings from unpredictable sectors such as miners and oils, and economically sensitive ones such as banks and consumer discretionary, may not help here.

That 3.8% dividend yield for 2024 is based upon estimates for a modest 2.3% increase in total dividend payments to £79.7 billion. Stated pre-tax profit is forecast by analysts to rebound by a quarter to a record £246.5 billion in 2024, but a fair portion of that rebound is due to the massive asset write-downs swallowed by British American Tobacco in 2023. A more accurate picture may come from aggregate underlying net income figures for the FTSE 100, which seek to iron out the one-off impact of such events, and the current consensus forecast here is looking for a 5% drop to £172 billion in 2024. That comes on top of a 7% decrease in 2023.

That will not help dividend growth, and although analysts are looking for a 7% advance in adjusted net profit in 2025 to £183.9 billion, such an out-turn would still leave earnings below 2022's peak of £194 billion.

This is understandably influencing boardrooms when they consider what is the correct amount of cash to return to shareholders as a thank you for their support. That forecast total of £79.7 billion in ordinary dividends is 6.5% below the all-time high of £85.2 billion paid out in 2018, to reflect a difficult period that has witnessed the aftermath of Brexit, Covid-19, the return of inflation, higher taxes, increased wages and a surge in interest rates to seventeen-year highs. Analysts have cut £4.0 billion off their aggregate dividend payment forecast for 2024, and £5.0 billion off their 2025 estimate, in the past three months alone.

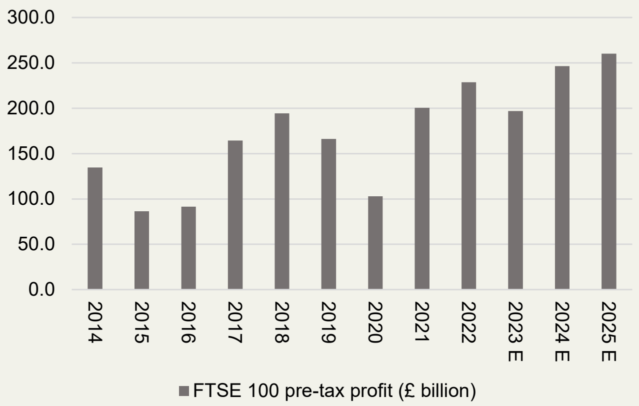


Source: Company accounts, Marketscreener, consensus analysts' forecasts. Ordinary dividends only.

Profits still expected to reach all-time high

Analysts are still expecting a new all-time high for aggregate FTSE 100 pre-tax profits in 2024, at £246.5 billion. For all that the index is struggling to reach new highs, that total represents a huge improvement on the prior peak of £195 billion reached in 2018 and even the pre-pandemic total of £166 billion achieved in 2019. However, that forecast for 2024 has slipped by 10%, or £28.6 billion, from £274.9 billion over the past twelve months, as estimates for the banks, miners and oils have been trimmed back to varying degrees.

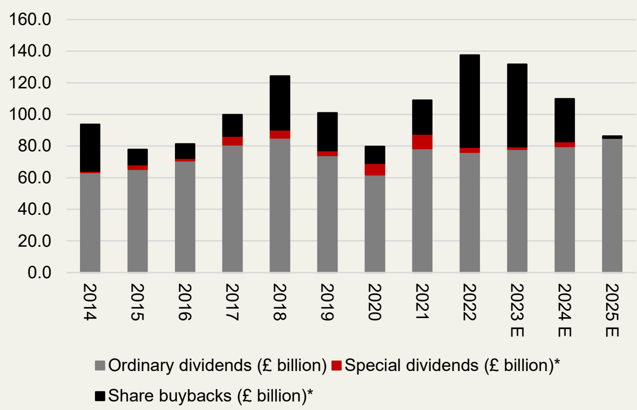
Estimates for 2025 continue to drop as well, although consensus forecasts do now expect the FTSE 100 to eke out a 6% increase in pre-tax income next year, to what would be a new record of £260 billion. The biggest profit decrease is expected to come from the utilities sector, thanks to an expected sharp reverse at Centrica as energy prices and bills normalise, while miners are expected to show the greatest aggregate growth, helped by the rebound in copper prices. Healthcare is expected to show a healthy increase in earnings, too, thanks to further progress at AstraZeneca and GSK, as well as ConvaTec, Haleon, Hikma and Smith & Nephew.



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

The value of the buybacks announced by 25 FTSE 100 members so far in 2024 currently stands at £27.0 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 provisional total of £52.0 billion.

Such bumper returns supplement dividend payments. Add together ordinary dividends, special dividends and buybacks and FTSE 100 firms are expected by analysts to return £109.9 billion to shareholders in 2024 and £86.3 billion in 2025. Those figures equate to 5.3% and 4.1% respectively of the FTSE 100's £2.1 trillion market capitalisation.



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

Growth remains concentrated among select list of companies

The UK stock market may attract the attention of income-seekers, but the forecast £79.1 billion in ordinary payments expected for 2024 relies very heavily upon a select list of companies.

Analysts' forecasts suggest that the ten biggest individual dividend payers will return £43.9 billion to their investors, or 55% of the grand total from the FTSE 100 index, while the top twenty are expected to chip in £57.4 billion, or 72% of the total.

The top ten list again highlights the importance of the miners, oils and financials to the overall trajectory of the FTSE 100's profits and dividends.

Dividend increases are particularly concentrated in a handful of names. Total FTSE 100 ordinary dividend payments are expected to grow by just £1.1 billion in 2024, hampered by the announced halving of Vodafone's payment, yet ten firms are seen increasing their distributions by £2.0 billion between them, with Flutter, Glencore, Rolls-Royce, AstraZeneca and Rio Tinto leading the way. At least this offers some degree of diversity, even if analysts expect BP and Shell to be the source of the sixth and seventh biggest increases in dividend payments in 2024, although the presence in this list of two miners further emphasises the importance of commodity prices to the overall profit and dividend streams of the FTSE 100.

2024 E

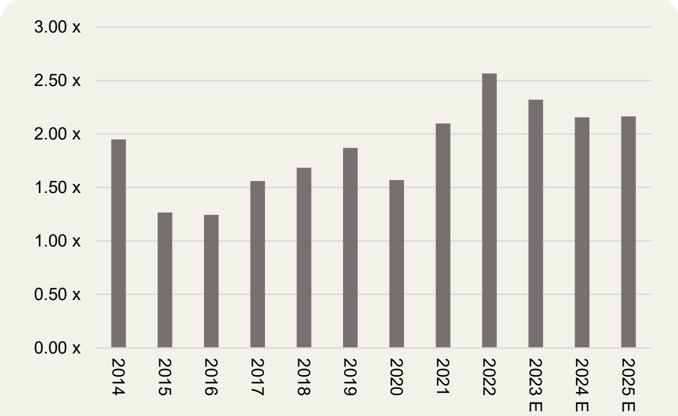
Biggest forecast dividend increases	£ million	Biggest forecast dividend decreases	£ million
Flutter Entertainment	441	Hikma Pharmaceuticals	(11)
Glencore	346	WPP	(11)
Rolls Royce	204	Taylor Wimpey	(15)
AstraZeneca	190	St. James's Place	(32)
Rio Tinto	187	Mondi	(54)
BP	169	Antofagasta	(58)
Shell	155	Anglo American	(79)
Lloyds	139	Barratt Developments	(183)
GSK	118	HSBC	(689)
Admiral Group	96	Vodafone	(1,075)

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

Dividend cover firm despite annual drop

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.

The aggregate earnings cover ratio for the FTSE 100 in 2024 is expected to come in at 2.16 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, and that reflects how adjusted net income forecasts have fallen faster than estimates for dividend payments. At least cover is still above 2.00 times after the worrying spell between 2014 and 2020 when that threshold was not met once.



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

FTSE 100 yield forecast at double that of gilts

At the time of writing, British American Tobacco and non-life insurer Phoenix Group are the joint highest-yielding stocks in the FTSE 100, while Vodafone's announcement of a cut for its next annual payment adds to the dismal list of companies where consensus forecasts have offered the tantalising prospect of a double-digit percentage yield only for dividend disappointment to follow. Persimmon, Shell and Centrica are three other members of this far from exalted club.

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. But even if BAT's cash flow is to continue supporting that streak, which still looks robust in the face of ongoing regulatory pressure, investors should never take anything for granted. There have been 138 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 nine in 2023.

Investors need to look at the balance sheet 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.

	Dividend yield (%)	Dividend cover (x)	Pay-out ratio (%)	Cut in last decade?
British American Tobacco	9.9%	1.4 x	73%	No
Phoenix Group	9.9%	0.3 x	377%	2016, 2018
M & G	9.4%	1.1 x	94%	No
Imperial Brands	8.7%	1.6 x	61%	2020
Legal and General	8.4%	1.1 x	91%	No
HSBC	7.6%	2.3 x	43%	2019, 2020
Aviva	7.1%	1.2 x	86%	2019
BT	7.0%	2.0 x	50%	2019, 2020
Rio Tinto	7.0%	1.8 x	55%	2016, 2022, 2023
Taylor Wimpey	6.9%	0.9 x	112%	2019

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

A further rule of thumb states that any dividend yield which exceeds the risk-free rate by a factor of two may turn out 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, five FTSE 100 firms currently offer a forecast dividend yield of 8.2% or more, or twice the 4.07% ten-year gilt yield that prevails at the time of writing.

Dashboard explained

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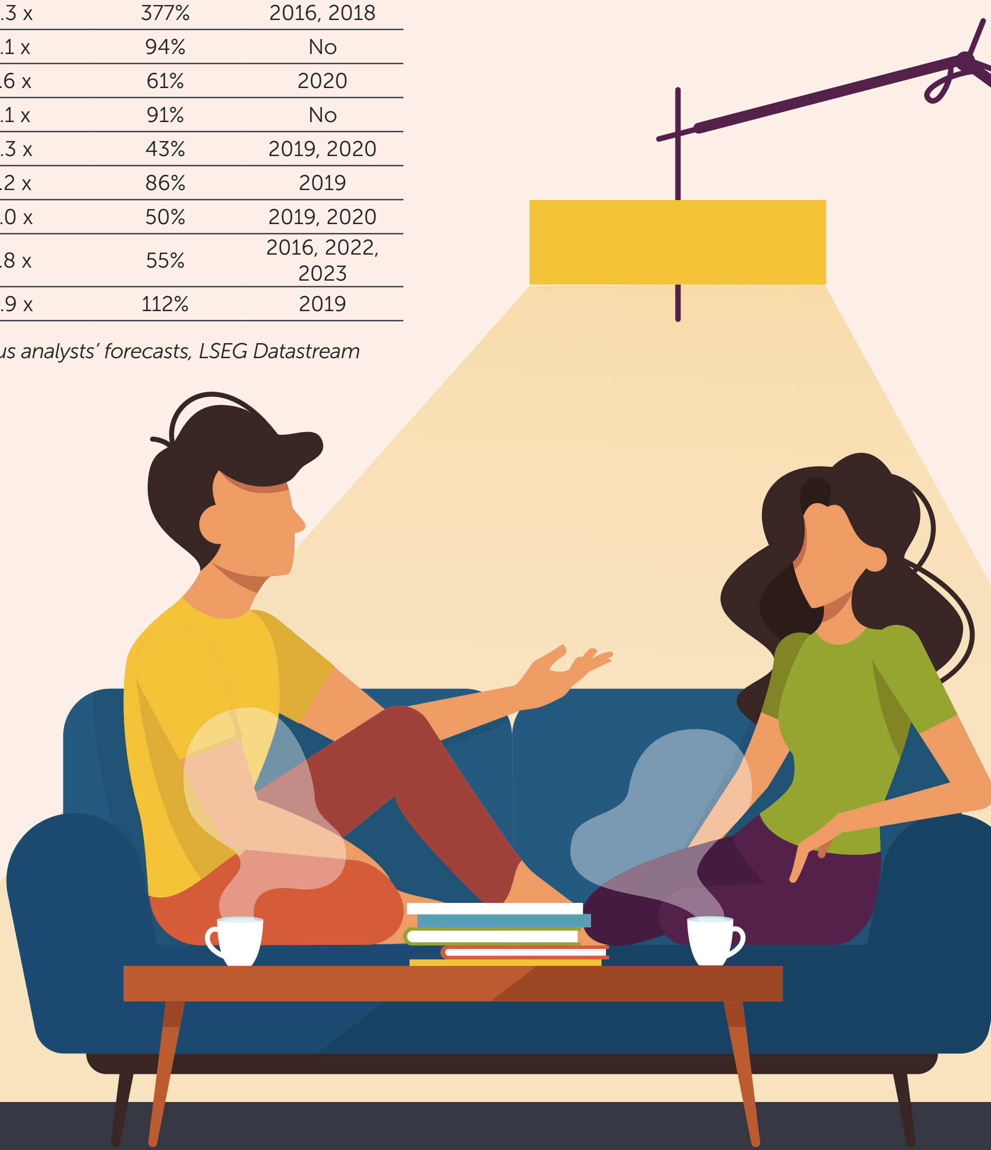

Notes to editors:
The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term.