UK Dividend Monitor

Issue 39 | Q3 2019

The third quarter saw share prices lose the short-lived momentum they gained in the second. By early October, they were sharply lower than the July peak, as fears of global recession surged higher in investors' minds. In turbulent times for markets, it's easy to be distracted by gyrations in share prices, and to forget that dividend income, especially if reinvested, will provide the bulk of an investor's return over the long term.

Dividend growth in the UK is slowing (at least at the underlying level), but with UK companies having paid almost £1 trillion in dividends since the beginning of 2007, investors can be reassured that shares continue to generate income, even in downturns in the economic cycle.

In the latest quarterly Link Group UK Dividend Monitor, we consider the most recent trends in UK dividend payments, and the outlook for the rest of 2019.

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Overview

- UK dividends rose 6.9% on a headline basis in Q3 to £35.5bn, a slowdown compared to H1
- Exceptionally large special dividends and exchange-rate gains boosted the total
- Underlying dividends fell 0.2% to £32.3bn, thanks in particular to a big cut from Vodafone
- On a constant-currency basis, underlying dividends were almost 3% lower year-on-year

Sectors & Companies

- Banking dividends leapt by two-fifths, boosted by another special from RBS
- Mining dividends jumped by a third as strong profits meant big specials from Rio Tinto and BHP
- Vodafone's deep cut hit telecoms hard, while cuts from a number of high-street names impacted the retail sector

Top 100 v Mid 250

- Headline payouts jumped for top 100 companies, but in underlying terms they were down year-on-year, especially once the exchange-rate gains were stripped out
- Mid-cap dividends dipped 1.7% in headline and underlying terms

Yield

- UK shares collectively set to yield 4.4%, only a little below the record highs reached in January
- Top 100 set to yield 4.5% over the next 12 months; mid-caps 3.3%

Outlook

- The trend for flat or low-single digit increases is being disguised by very high specials and exchange-rate gains
- We upgrade our headline forecast by £2.9bn to £110.3bn, up 10.4% year-on-year
- Underlying dividends (excluding specials) only marginally upgraded – now forecast at £99.1bn, an increase of 3.3%
- On a constant-currency basis, underlying payouts will grow less than half a percent in 2019

Overview

UK dividends rose **6.9%** on a headline basis in Q3 to **£35.5bn**, a slowdown compared to H1

Exceptionally large special dividends and exchange-rate gains boosted the total

Underlying dividends fell **0.2%** to **£32.3bn**, thanks in particular to a big cut from Vodafone

On a constant-currency basis, underlying dividends were almost 3% lower year-on-year

The pace of dividend growth slowed in the third quarter following a double-digit increase over the first half of the year. Even so, at 6.9% on a headline basis, growth appeared to be ahead of the long-run trend. The total paid jumped by £2.3bn to £35.5bn, a Q3 record.

All of this growth was, however, provided by exceptionally high special dividends and a boost from the weakness of the pound. Underlying dividends (which exclude specials dividends) contracted 0.2%, yielding a Q3 total of £32.3bn. Even this total was inflated by £850m of exchange effects, which saw the sterling value of payouts denominated in US dollars and euros translated at more favourable rates. On a constant-currency basis, underlying UK dividends fell by almost 3% in the third quarter, the worst performance for three years.

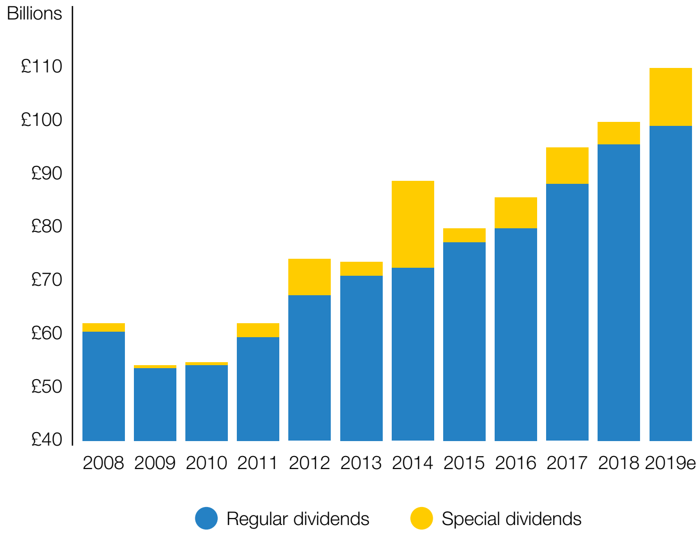
The underlying weakness was slightly worse among top 100 companies after factoring in the exchange rate. This was owing to the deep cut in Vodafone's payout. Mid-caps saw their payouts drop 1.7%.

The Q3 result supports our forecast for underlying dividend growth slowing down owing to a combination of wider global economic weakness and UK-specific factors related to the dampening effect on the economy of the intensifying political crisis. Paradoxically however, we are upgrading our forecast for the year to account for the pound's further weakness and the growing haul of special dividends. We now expect £110.3bn for 2019, a headline increase of 10.4%. Underlying growth is set to be 3.3%, almost nine-tenths of which is down to exchange-rate gains (based on the current level of the pound).

“The Q3 result supports our forecast for underlying dividend growth slowing down owing to a combination of wider global economic weakness and UK-specific factors.”

Dividends Paid £bn	Q1	Q2	Q3	Q4	Full Year
2007	£9.6	£20.5	£15.6	£12.0	£57.6
2008	£11.4	£20.6	£17.1	£12.8	£62.0
yoy	*19.8%*	*0.9%*	*9.5%*	*7.2%*	*7.7%*
2009	£12.7	£15.7	£15.7	£10.1	£54.1
yoy	*10.7%*	*-24.0%*	*-8.2%*	*-21.6%*	*-12.7%*
2010	£13.7	£14.4	£16.9	£9.4	£54.6
yoy	*8.4%*	*-8.0%*	*8.3%*	*-6.3%*	*0.9%*
2011	£14.2	£16.4	£19.5	£11.7	£61.8
yoy	*3.6%*	*13.4%*	*15.2%*	*24.4%*	*13.4%*
2012	£17.2	£21.6	£21.7	£13.4	£73.9
yoy	*20.9%*	*32.0%*	*11.1%*	*14.1%*	*19.5%*
2013	£12.8	£23.7	£23.0	£13.9	£73.4
yoy	*-25.4%*	*9.6%*	*6.0%*	*3.7%*	*-0.7%*
2014	£27.9	£23.7	£23.4	£13.9	£88.9
yoy	*117.7%*	*0.2%*	*1.7%*	*-0.3%*	*21.1%*
2015	£13.4	£27.0	£24.7	£15.0	£80.1
yoy	*-51.9%*	*13.8%*	*5.7%*	*8.1%*	*-9.9%*
2016	£14.3	£29.5	£26.7	£15.3	£85.8
yoy	*6.3%*	*9.1%*	*8.1%*	*2.2%*	*7.1%*
2017	£15.5	£33.4	£31.2	£14.9	£95.0
yoy	*8.8%*	*13.4%*	*16.8%*	*-2.8%*	*10.8%*
2018	£17.1	£32.7	£33.3	£16.9	£99.9
yoy	*9.9%*	*-2.2%*	*6.6%*	*13.5%*	*5.1%*
2019e	£19.7	£37.8	£35.5	£17.2	£110.3
yoy	*15.7%*	*15.7%*	*6.9%*	*1.7%*	*10.4%*

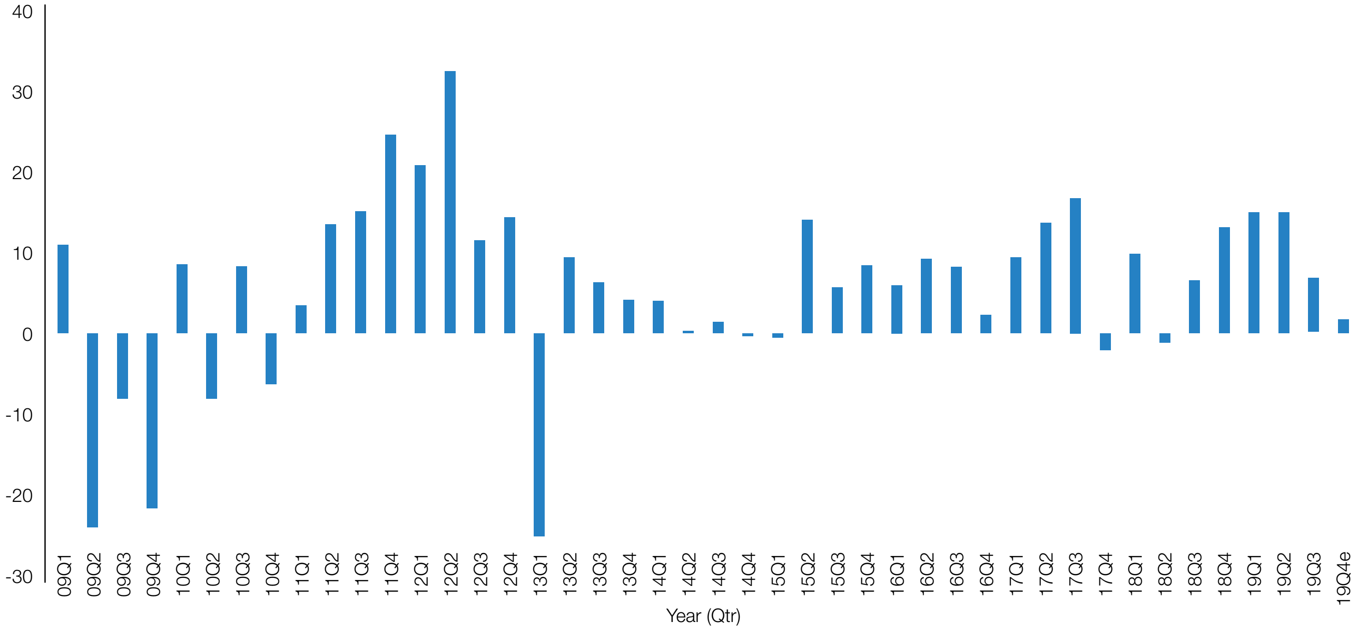
UK dividends (full-year basis)



Overview, continued

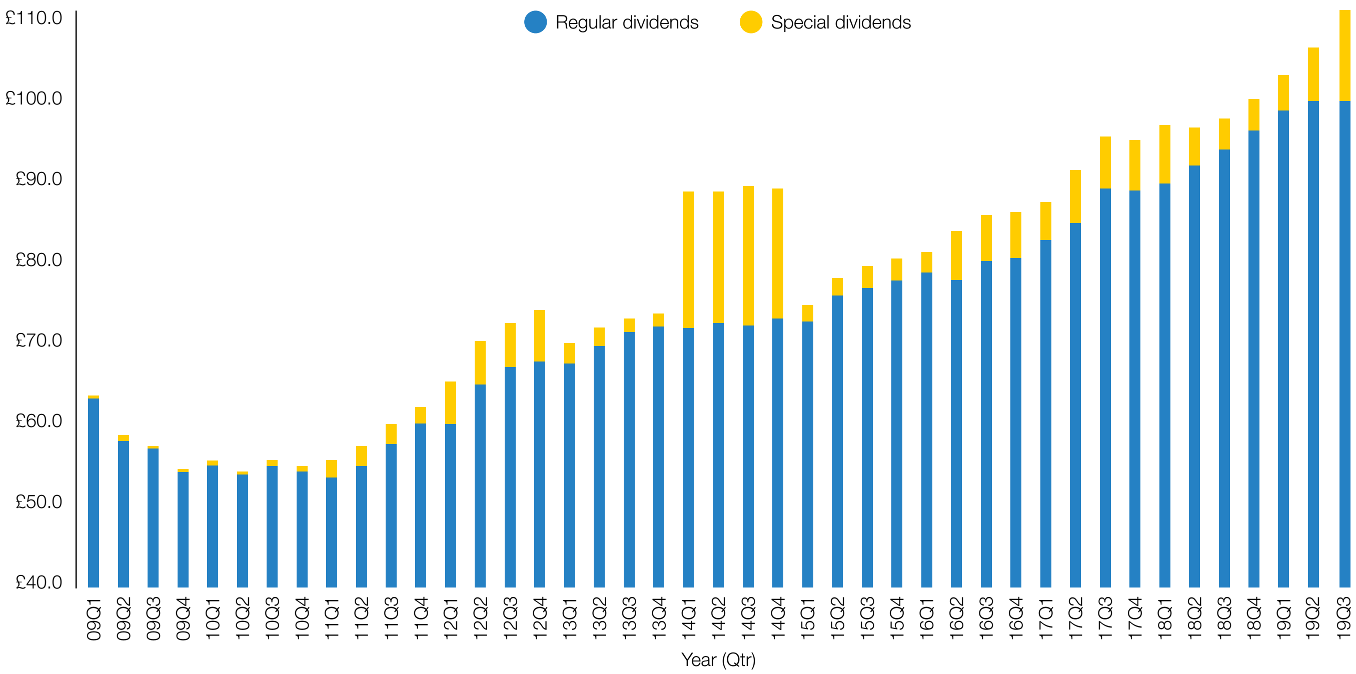
Growth in quarterly dividends, year on year

Percentage



Rolling 12-month dividends

Billions



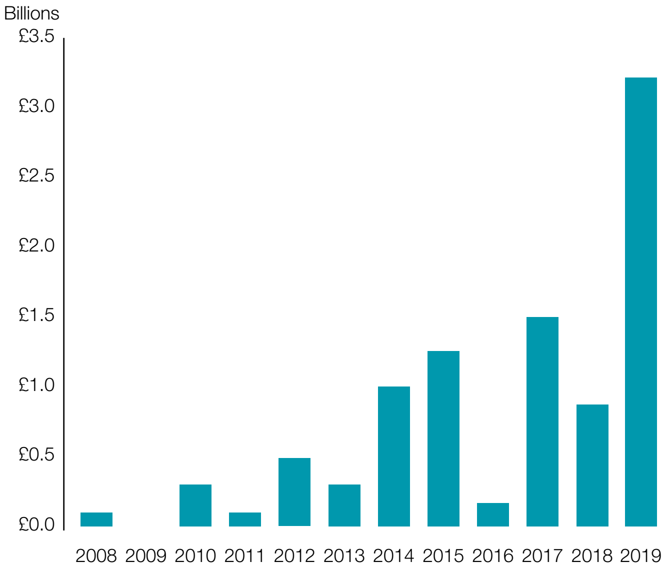
Special Dividends & Exchange-Rate Factors

2019 will see the second-highest special dividends on record, likely over £11bn. Each quarter has seen unusually large totals paid, and Q3 was no exception. At £3.2bn, special dividends were almost four times larger than the same period last year. As a result, they added seven percentage points to the headline growth rate in the quarter. Mining companies accounted for one third of the total, as BHP and Rio Tinto both declared yet another special, each surprising the market. For the full year, miners are set to make up almost half the total paid. In recent years mining companies changed their dividend policies to declare a regular dividend at a fixed portion of profits, owing to difficulty sustaining payouts in the face of lower prices for their commodities. This enables them better to manage investor expectations for dividends over the cycle. The side effect seems to be producing more large 'one-off' specials now. Strong profitability at BHP and Rio is leaving both companies with more cash than they need. Special dividends allow them to distribute this to investors without changing 'official' dividend policy.

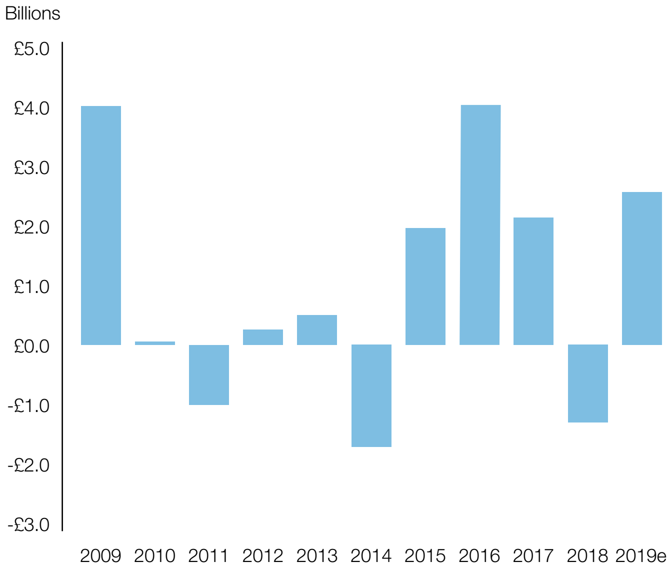
Other major payers in Q3 included Royal Bank of Scotland and Cineworld, which distributed the sale proceeds of a portfolio of US cinemas. Taylor Wimpey also paid a big special, its fifth consecutive one. Housebuilders in particular are prone to using special dividends in the good times, rather than overegging their regular payouts and so setting expectations too high.

The UK's political crisis took its toll on the pound in the third quarter. It was five percent lower against the dollar year-on-year and fractionally down against the euro too. This meant total exchange-rate gains of £850m on dividends declared in those currencies, adding 2.6 percentage points to the growth rate. Over Q4, if the pound maintains its current exchange rate, we can expect further gains. Any future rebound would, of course, then act as drag on dividend growth in sterling terms.

Q3 Special dividends



Exchange-rate boost/penalty (full-year basis)



Sectors & Companies

Banking dividends leapt by two-fifths, boosted by another special from RBS

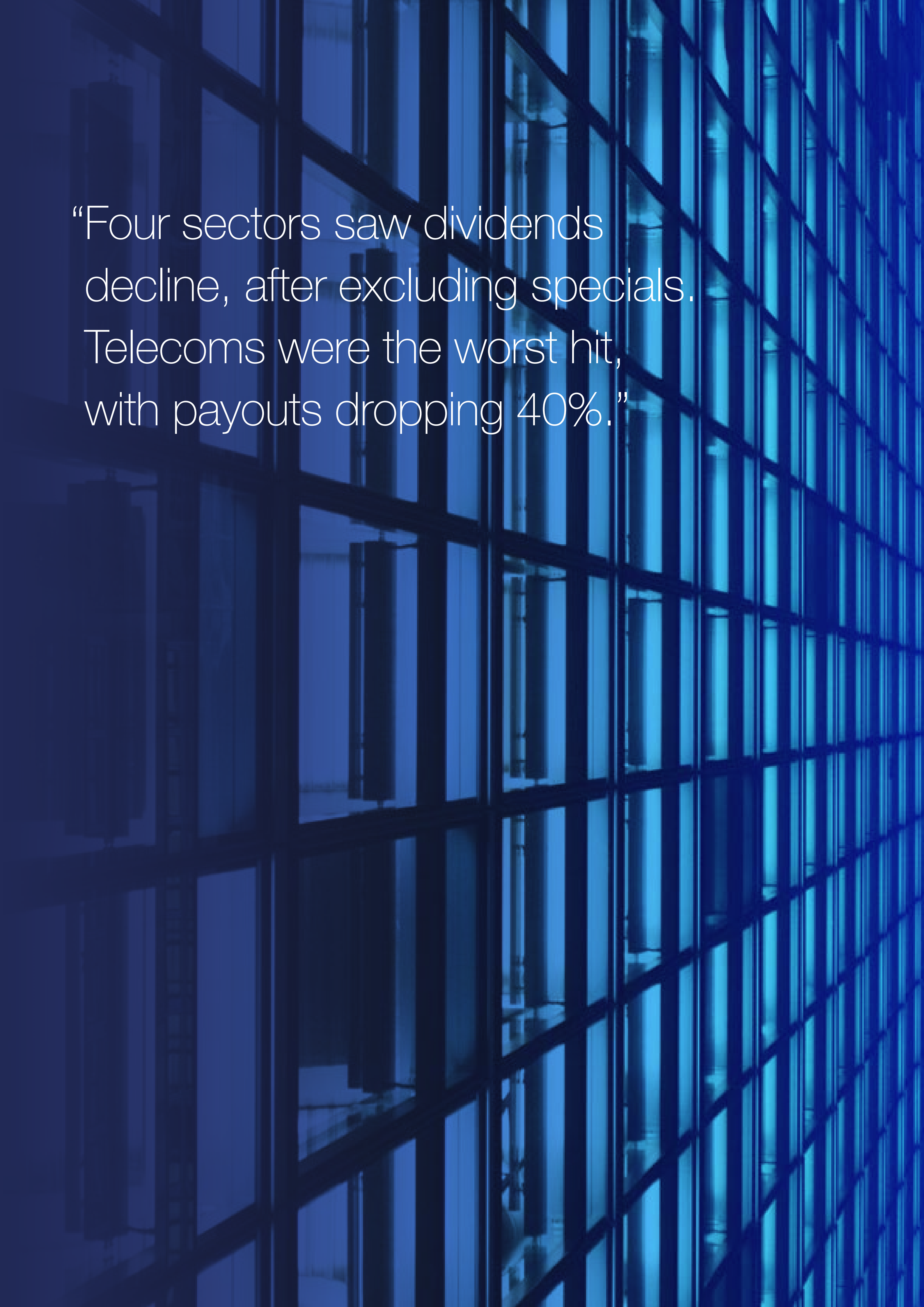
Mining dividends jumped by a third as strong profits meant big specials from Rio Tinto and BHP

Vodafone's deep cut hit telecoms hard, while cuts from a number of high-street names impacted the retail sector

Banking dividends leapt by two-fifths in Q3, once again principally thanks to RBS, which will have paid out a total of £3bn in 2019 in a mix of (restored) regular dividends and (one-off) specials. This is four times as much as the bank distributed in 2007, at the peak of the boom. Elsewhere Lloyds only made a token increase and HSBC held its payout steady again (in dollar terms) for the sixth year, but Barclays shrugged off market worries and raised its payout by a fifth. Many market commentators think the bank may however have to trim back its share buyback programme to preserve some capital in the face of a last rush of PPI claims.

Mining dividends jumped by almost a third, thanks to the big specials from Rio and BHP, but the next largest sector, oil, only saw a modest 2.8% increase driven by exchange rates. Media, leisure, and food retail all saw double-digit underlying increases, but most sectors delivered single-digit growth.

Four sectors saw dividends decline, after excluding specials. Telecoms were the worst hit, with payouts dropping 40%. Vodafone slashed its dividend by three fifths, saving itself £1.4bn with more to come in Q1 next year. The company needs to reduce its debt burden, and build financial firepower to enable it to invest in 5G networks. Its dividend had become unsustainable so resetting it was the right thing to do. Vodafone will drop out of the top 15 UK payers in 2020 for the first time since at least 2007. The troubles on the high street continue to impact shareholders too. Retail dividends fell by a fifth, with cuts from household names Marks & Spencer, Superdry and Dixons Carphone. Even Next, which had held out longer than many of its competitors, was only able to keep its payout flat year-on-year. IT and industrials dividends were also down.



"Four sectors saw dividends decline, after excluding specials. Telecoms were the worst hit, with payouts dropping 40%."

Sectors & Companies, continued

Q2 Dividends - top companies

Rank	08Q3	09Q3	10Q3	11Q3	12Q3	13Q3
1	Vodafone Group	Vodafone Group	Vodafone Group	Vodafone Group	Vodafone Group	Vodafone Group
2	BP	BP	Royal Dutch Shell	Royal Dutch Shell	Royal Dutch Shell	Royal Dutch Shell
3	Royal Dutch Shell	Royal Dutch Shell	HSBC Holdings	HSBC Holdings	HSBC Holdings	HSBC Holdings
4	HSBC Holdings	HSBC Holdings	Glaxosmithkline	Glaxosmithkline	BP	BP
5	BT Group	Glaxosmithkline	Tesco	National Grid	National Grid	National Grid
Subtotal £bn	*£7.1*	*£7.4*	*£7.1*	*£7.4*	*£7.8*	*£8.5*
% of total dividends	*42%*	*48%*	*42%*	*38%*	*36%*	*37%*
6	Glaxosmithkline	Tesco	British American Tobacco	BP	Glaxosmithkline	Glaxosmithkline
7	Tesco	National Grid	BHP Billiton	Tesco	British American Tobacco	British American Tobacco
8	National Grid	British American Tobacco	National Grid	British American Tobacco	Tesco	Tesco
9	BHP Billiton	BHP Billiton	Astrazeneca	BHP Billiton	BHP Billiton	Sabmiller
10	British American Tobacco	Astrazeneca	Sabmiller	Astrazeneca	Astrazeneca	BHP Billiton
11	Astrazeneca	Scottish & Southern Energy	Scottish & Southern Energy	Sabmiller	Sabmiller	Rio Tinto
12	Scottish & Southern Energy	Sabmiller	Rio Tinto	Rio Tinto	Rio Tinto	Astrazeneca
13	Sabmiller	Reckitt Benckiser Group	Reckitt Benckiser Group	Scottish & Southern Energy	SSE	SSE
14	Taylor Wimpey	Man Group	BT Group	Reckitt Benckiser Group	BT Group	BT Group
15	Anglo American	Imperial Tobacco Group	Man Group	BT Group	Reckitt Benckiser Group	Glencore Xstrata
Subtotal £bn	*£4.5*	*£4.5*	*£5.0*	*£6.2*	*£6.7*	*£7.2*
Top 15 Grand Total £bn	*£11.6*	*£11.9*	*£12.1*	*£13.7*	*£14.6*	*£15.7*
% of total dividends	*68%*	*76%*	*73%*	*70%*	*67%*	*68%*

Rank	14Q3	15Q3	16Q3	17Q3	18Q3	19Q3
1	Vodafone Group	Vodafone Group	Royal Dutch Shell	HSBC Holdings	HSBC Holdings	HSBC Holdings
2	Royal Dutch Shell	Royal Dutch Shell	Vodafone Group	Royal Dutch Shell	Royal Dutch Shell	Royal Dutch Shell
3	HSBC Holdings	HSBC Holdings	HSBC Holdings	Vodafone Group	Vodafone Group	Rio Tinto
4	BP	BP	BP	BP	BP	BP
5	National Grid	National Grid	Sabmiller	British American Tobacco	Rio Tinto	Royal Bank of Scotland Group
Subtotal £bn	*£7.1*	*£7.5*	*£9.0*	*£11.3*	*£11.1*	*£11.9*
% of total dividends	*30%*	*30%*	*34%*	*36%*	*34%*	*33%*
6	Glaxosmithkline	Rio Tinto	National Grid	Compass Group	British American Tobacco	BHP Group
7	British American Tobacco	Glaxosmithkline	British American Tobacco	Rio Tinto	Glencore	British American Tobacco
8	Tesco	British American Tobacco	BT Group	BT Group	BT Group	Glencore
9	Rio Tinto	Sabmiller	Glaxosmithkline	National Grid	BHP Billiton	National Grid
10	BHP Billiton	BHP Billiton	Astrazeneca	Glaxosmithkline	National Grid	BT Group
11	Sabmiller	Astrazeneca	SSE .	Astrazeneca	Glaxosmithkline	Vodafone Group
12	Astrazeneca	BT Group	Lloyds Banking Group	Lloyds Banking Group	Astrazeneca	Glaxosmithkline
13	BT Group	SSE .	Rio Tinto	BHP Billiton	Lloyds Banking Group	Astrazeneca
14	SSE .	Lloyds Banking Group	Reckitt Benckiser Group	SSE .	SSE .	Lloyds Banking Group
15	Intercontinental Hotels Group	Glencore	WPP .	Anglo American	Anglo American	Anglo American
Subtotal £bn	*£7.4*	*£7.6*	*£7.2*	*£8.7*	*£9.1*	*£10.1*
Top 15 Grand Total £bn	*£14.4*	*£15.1*	*£16.2*	*£20.0*	*£20.2*	*£22.0*
% of total dividends	*62%*	*61%*	*61%*	*64%*	*62%*	*62%*

Sectors & Companies, continued

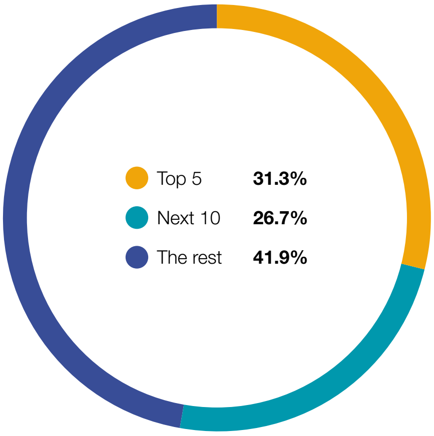
Dividends – by industry

Industry £m	Resources & Commodities	Consumer Basics	Consumer Discretionary	Banks & Financials	Healthcare & Pharmaceuticals	Industrials	Oil, Gas & Energy	Information Technology	Telecoms	Domestic Utilities	Total
07q3	£977	£1,781	£2,262	£2,424	£995	£596	£2,326	£36	£3,231	£945	*£15,573*
08q3	£1,026	£2,265	£2,199	£2,383	£1,086	£633	£2,769	£24	£3,611	£1,064	*£17,058*
yoy	*5%*	*27%*	*-3%*	*-2%*	*9%*	*6%*	*19%*	*-32%*	*12%*	*13%*	*10%*
09q3	£704	£2,510	£1,136	£1,738	£1,252	£608	£3,396	£60	£2,976	£1,274	*£15,654*
yoy	*-31%*	*11%*	*-48%*	*-27%*	*15%*	*-4%*	*23%*	*147%*	*-18%*	*20%*	*-8%*
10q3	£1,482	£3,158	£1,068	£2,032	£1,421	£613	£2,172	£71	£3,522	£1,411	*£16,950*
yoy	*110%*	*26%*	*-6%*	*17%*	*14%*	*1%*	*-36%*	*18%*	*18%*	*11%*	*8%*
11q3	£2,030	£3,537	£1,399	£2,145	£1,556	£646	£2,740	£108	£3,764	£1,594	*£19,521*
yoy	*37%*	*12%*	*31%*	*6%*	*10%*	*5%*	*26%*	*51%*	*7%*	*13%*	*15%*
12q3	£2,810	£3,733	£1,527	£2,352	£1,572	£931	£3,024	£77	£3,807	£1,857	*£21,689*
yoy	*38%*	*6%*	*9%*	*10%*	*1%*	*44%*	*10%*	*-29%*	*1%*	*17%*	*11%*
13q3	£2,569	£4,019	£1,580	£2,703	£1,643	£1,118	£3,293	£248	£4,019	£1,802	*£22,995*
yoy	*-9%*	*8%*	*3%*	*15%*	*5%*	*20%*	*9%*	*224%*	*6%*	*-3%*	*6%*
14q3	£2,738	£4,056	£2,602	£2,924	£1,629	£1,337	£3,349	£84	£2,738	£1,922	*£23,380*
yoy	*7%*	*1%*	*65%*	*8%*	*-1%*	*20%*	*2%*	*-66%*	*-32%*	*7%*	*2%*
15q3	£2,974	£3,171	£2,465	£4,221	£1,667	£1,579	£3,614	£95	£2,934	£1,998	*£24,718*
yoy	*9%*	*-22%*	*-5%*	*44%*	*2%*	*18%*	*8%*	*14%*	*7%*	*4%*	*6%*
16q3	£1,088	£3,650	£3,026	£6,087	£1,906	£1,278	£4,357	£94	£3,165	£2,078	*£26,730*
yoy	*-63%*	*15%*	*23%*	*44%*	*14%*	*-19%*	*21%*	*-2%*	*8%*	*4%*	*8%*
17q3	£3,496	£2,971	£4,040	£6,730	£1,911	£1,736	£4,534	£208	£3,525	£2,059	*£31,210*
yoy	*221%*	*-19%*	*33%*	*11%*	*0%*	*36%*	*4%*	*121%*	*11%*	*-1%*	*17%*
18q3	£4,877	£2,933	£3,340	£7,793	£1,894	£1,713	£4,688	£319	£3,539	£2,159	*£33,256*
yoy	*39%*	*-1%*	*-17%*	*16%*	*-1%*	*-1%*	*3%*	*53%*	*0%*	*5%*	*7%*
19q3	£6,270	£3,063	£3,689	£9,374	£1,994	£1,685	£4,821	£295	£2,114	£2,243	*£35,549*
yoy	*29%*	*4%*	*10%*	*20%*	*5%*	*-2%*	*3%*	*-8%*	*-40%*	*4%*	*7%*

Dividends – by sector

Sector £m	18Q3	19Q3	Headline change year on year	Underlying change year on year
Mining	£4,724.2	£6,104.7	29%	7%
Industrial Chemicals	£153.0	£165.4	8%	8%
Basic Consumer Goods	£913.1	£949.3	4%	4%
Food Retail	£354.8	£384.0	8%	11%
Food, Drink & Tobacco Producers	£1,665.3	£1,729.7	4%	4%
Airlines, Leisure & Travel	£588.7	£909.2	54%	17%
General Retail	£772.4	£625.2	-19%	-19%
Housebuilding, Consumer Goods & Services	£1,200.7	£1,232.6	3%	3%
Media	£764.7	£907.5	19%	19%
Motor Manufacturing & Parts	£14.0	£14.4	2%	2%
Banks	£4,518.6	£6,246.2	38%	6%
General Financials	£1,354.9	£1,043.2	-23%	5%
General & Life Insurance	£1,375.3	£1,493.5	9%	9%
Property	£544.2	£591.1	9%	8%
Healthcare & Pharmaceuticals	£1,893.6	£1,994.3	5%	5%
Building Materials & Construction	£237.6	£233.8	-2%	4%
Industrial Goods & Support	£1,475.5	£1,451.5	-2%	-1%
Oil, Gas & Energy	£4,687.7	£4,820.8	3%	3%
Information Technology	£319.2	£294.9	-8%	-8%
Telecoms	£3,539.1	£2,114.4	-40%	-40%
Domestic Utilities	£2,159.0	£2,242.7	4%	4%

Concentration of dividend payments among UK companies – Q3 2019



Top 100 v Mid 250

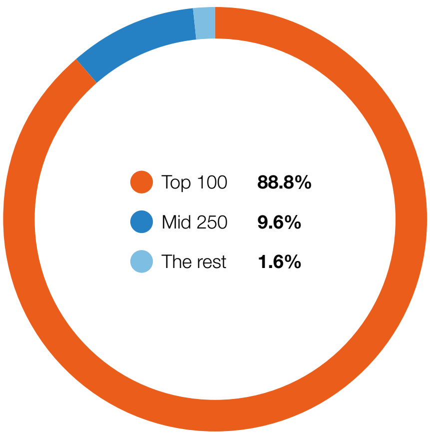
Headline payouts jumped for **top 100** companies, but in underlying terms they were down year-on-year, especially once the exchange- rate gains were stripped out

Mid-cap dividends dipped **1.7%** in headline and underlying terms

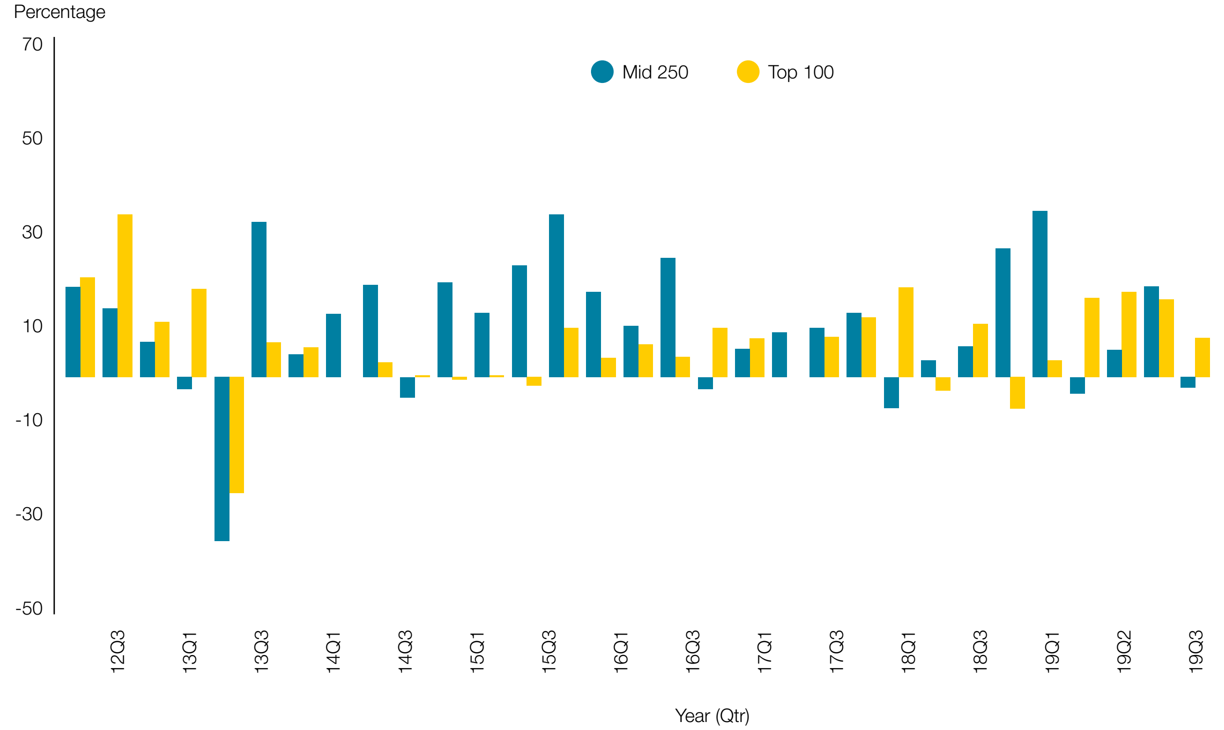
For most of the last two years, mid-cap dividend growth has lagged behind the top 100, reflecting falling profits owing to the greater exposure of smaller companies to the sluggish UK economy. They underperformed again in Q3, dropping 1.7%.

Meanwhile the top 100 has benefited from strong global economic growth, and sector-specific trends like the recovery in the banking sector. The momentum may now be going out of the top 100. Headline growth of course was strong, thanks to the slew of large special dividends, but underlying dividends fell 0.2%, and were down even more once exchange-rate effects were factored in.

Q3 2019 share of UK dividends



Top 100 v Mid 250 – annual growth per quarter



“For most of the last two years, mid-cap dividend growth has lagged behind the top 100, reflecting falling profits owing to the greater exposure of smaller companies to the sluggish UK economy.”

Yield

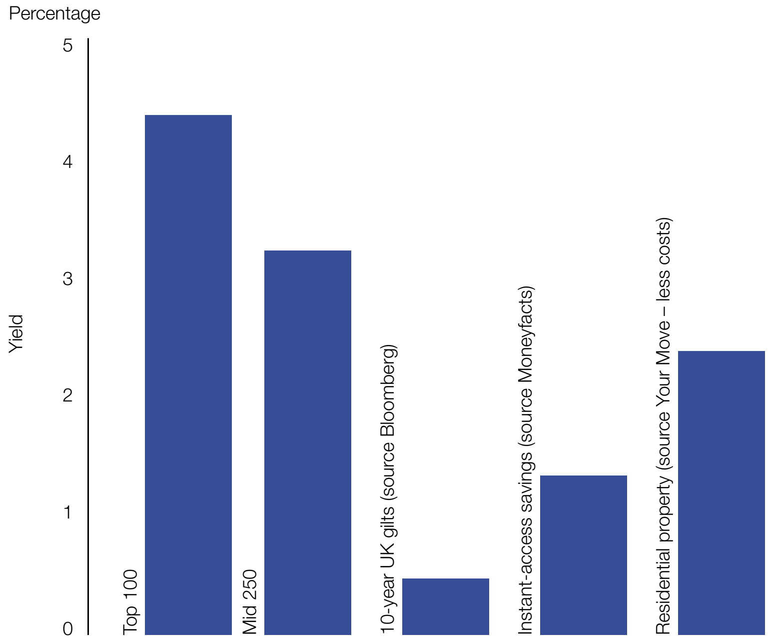
UK shares collectively set to yield **4.4%**, only a little below the record highs ached in January

Top 100 set to yield **4.5%** over the next 12 months; mid-caps **3.3%.**

Yield is a helpful means of comparing the income-paying capacity of different asset classes. Even though underlying dividend growth is slowing down, falls in share prices meant the yield on UK shares rose in the third quarter. Over the next twelve months, UK shares will yield 4.4% (excluding any special dividends), not far off the record high equity yields reached in January. The top 100 will yield 4.5% and the mid-caps 3.3%.

By comparison, the yield on UK government bonds dropped to just 0.49% in Q3, while residential property and savings rates were flat. Equities, once again, continue to deliver far more income for every £1 invested than any other asset class.

UK income



Outlook

The trend for flat or low-single digit increases is being disguised by very high specials and exchange-rate gains

We upgrade our headline forecast by **£2.9bn** to **£110.3bn**, up **10.4%** year-on-year

Underlying dividends (excluding specials) only marginally upgraded – now forecast at **£99.1bn**, an increase of **3.3%**

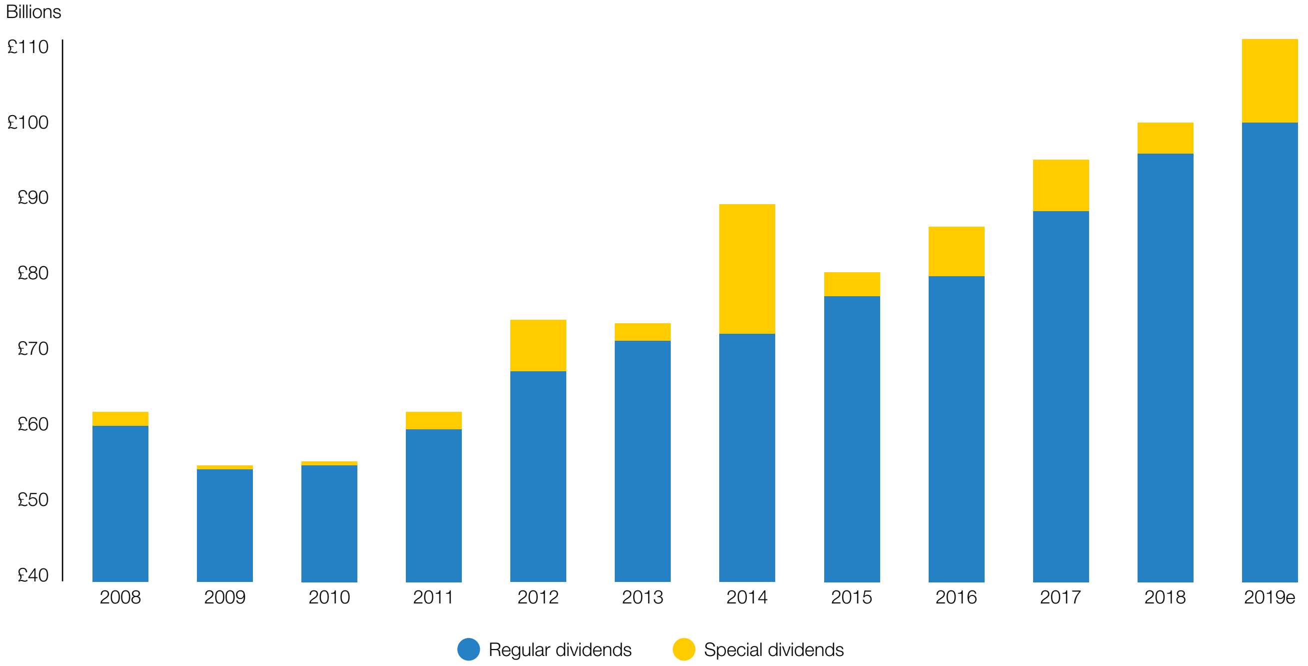
On a constant-currency basis, underlying payouts will grow less than half a percent in 2019

The big trends for 2019 continued to play out in the third quarter. Enormous special dividends, supplemented by exchange-rate gains, are masking a fundamental slowdown in UK plc's dividend growth rate. This is inevitable given sluggish earnings growth (with profits actually in decline among mid-caps). The outright fall in underlying dividends in the third quarter was owing to a particularly large hit from Vodafone, but the prevailing trend is only for flat or low single-digit increases at present. Perhaps paradoxically, given the downbeat context, we are upgrading our forecast for the year. First, the further weakness of the pound is likely to add an additional £600m to our previous forecast of £2.1bn for exchange-rate gains this year. And secondly, characteristically unpredictable special dividends just keep surprising on the upside. In July we pencilled in £8.7bn for the full year, but now they are on track to top £11bn.

This all means that our new headline forecast is for total dividends of £110.3bn, an increase of 10.4% year-on-year. This represents a £2.9bn upgrade on our July prediction. Underlying dividends (excluding specials) will reach £99.1bn, up 3.3% year-on-year. This is only a touch higher than our £98.7bn July forecast – a slightly weaker outlook for Q4 is made up for by larger likely exchange-rate gains. Almost all of this 3.3% increase is thanks to the pound's weakness, however. On a constant-currency basis, dividends will be less than half a percent higher in 2019, the weakest performance since 2016.

2019 will almost certainly prove a temporary high-water mark for UK dividends. Volatile specials are likely to revert towards the mean, and sterling is already partially pricing in a disorderly exit from the EU, so these more superficial factors will provide less cover for a more sluggish underlying performance.

UK dividends (full-year basis)



Statistical Methodology

Link Group analyses all the dividends paid out on the ordinary shares of companies listed on the UK Main Market. The research excludes investment companies such as listed investment trusts, whose dividends rely on income from equities and bonds. The Dividend Monitor takes no account of taxation on dividends, which varies according to investor circumstances. The raw dividend data was provided by Exchange Data International, and additional information is sourced directly from companies mentioned in the report.

"2019 will almost certainly prove a temporary high-water mark for UK dividends."

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