UK Dividend Monitor

Issue 38 | Q2 2019

Global stock markets strengthened significantly in the second quarter, driven by more dovish commentary from central banks in response to a marked slowdown in the world economy. The UK market rose too, though it continues to underperform its peers. Moreover, part of the increase reflected a sharp fall in sterling as confidence over a negotiated outcome for Brexit seeped away.

UK Dividends are benefitting from the weaker pound, because multinationals earn most of their profits overseas. UK companies are currently struggling to grow their earnings, however, and that is constraining their ability to increase payouts to shareholders.

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.

Contents

Media enquiries:

Teamspirit PR
t: 020 7360 7878
e: LinkAssetServices@teamspirit.uk.com

Executive Summary

Overview

- UK dividends rose 14.5% on a headline basis to a record £37.8bn
- Exceptionally large special dividends boosted the total
- Underlying growth of 5.0% was again weaker than we expected from larger and smaller companies alike
- Exchange-rate effects accounted for half the underlying growth rate

Sectors & Companies

- Banking dividends jumped by two-fifths, boosted by a special from RBS
- Excluding RBS' special, bank payouts rose by almost a quarter year-on-year, with strong growth across the sector, except HSBC
- Mining dividends were lower year-on-year, after deducting Rio Tinto's very large special, though this mainly reflected technical factors
- Bad news on the high street hit retail and property dividends

Top 100 v Mid 250

- Mid-cap dividends lagged behind the top 100 for a sixth consecutive quarter, rising just 0.8% on an underlying basis (-5.7% headline)
- Top 100 payouts rose 5.7% on an underlying basis, half of which was due to exchange-rate effects; headline growth was 18.5% thanks to large specials

Yield

- UK shares collectively set to yield 4.2%, down from 4.8% in January, but still very high by historic standards
- Top 100 set to yield 4.4% over the next 12 months; mid-caps 2.9%
- Bond yields plummeted to 0.69%, near record lows

Outlook

- Outlook for the economy and corporate earnings is deteriorating
- Eye-catching special dividends and renewed sterling weakness mean a £2.8bn upgrade to our headline forecast; it rises to a clear record £107.4bn, up 7.6% year-on-year
- But our underlying forecast is cut by £500m to £98.7bn, an increase of 2.9% year-on-year

Overview

UK dividends rose **14.5%** on a headline basis to a record of **£37.8bn**

Exceptionally large special dividends boosted the total

Underlying growth of **5.0%** was again weaker than we expected from larger and smaller companies alike

Exchange-rate effects accounted for half the underlying growth rate

In the second quarter, headline dividends rose 14.5% to an all-time high of £37.8bn, beating the previous quarterly record set two years ago by £4.4bn. The quality of growth was, however, poorer than we expected: for the second quarter in a row, exceptionally large special dividends and a weak pound provided a temporary boost, while the underlying performance was disappointing.

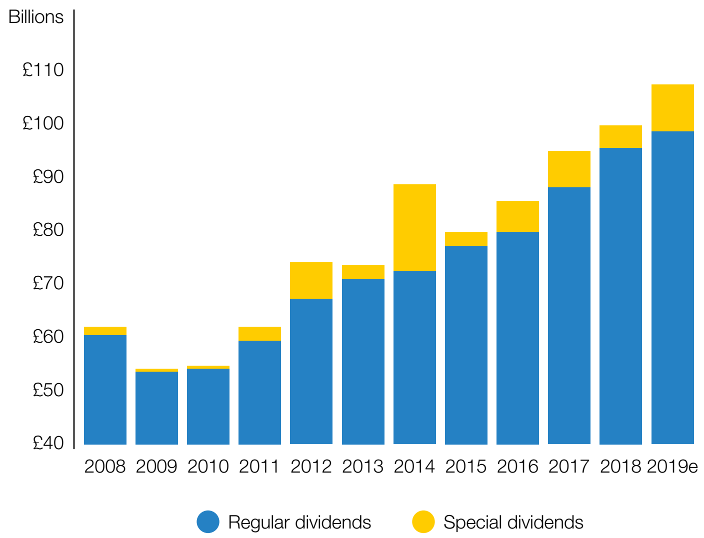
Underlying dividends rose 5.0% to £32.4bn. Though the total paid was a record, exchange-rate gains made up almost half the increase, and growth was otherwise a touch slower than we expected. Large-cap companies, which benefit disproportionately from the weaker pound, grew their payouts much faster than their mid- and small-cap counterparts.

Huge special dividends from Rio Tinto, Micro Focus International and RBS contributed most to the headline increase. Barclays also paid its largest post-crisis dividend, and along with RBS and Standard Chartered helped make the banking sector one of the top performers.

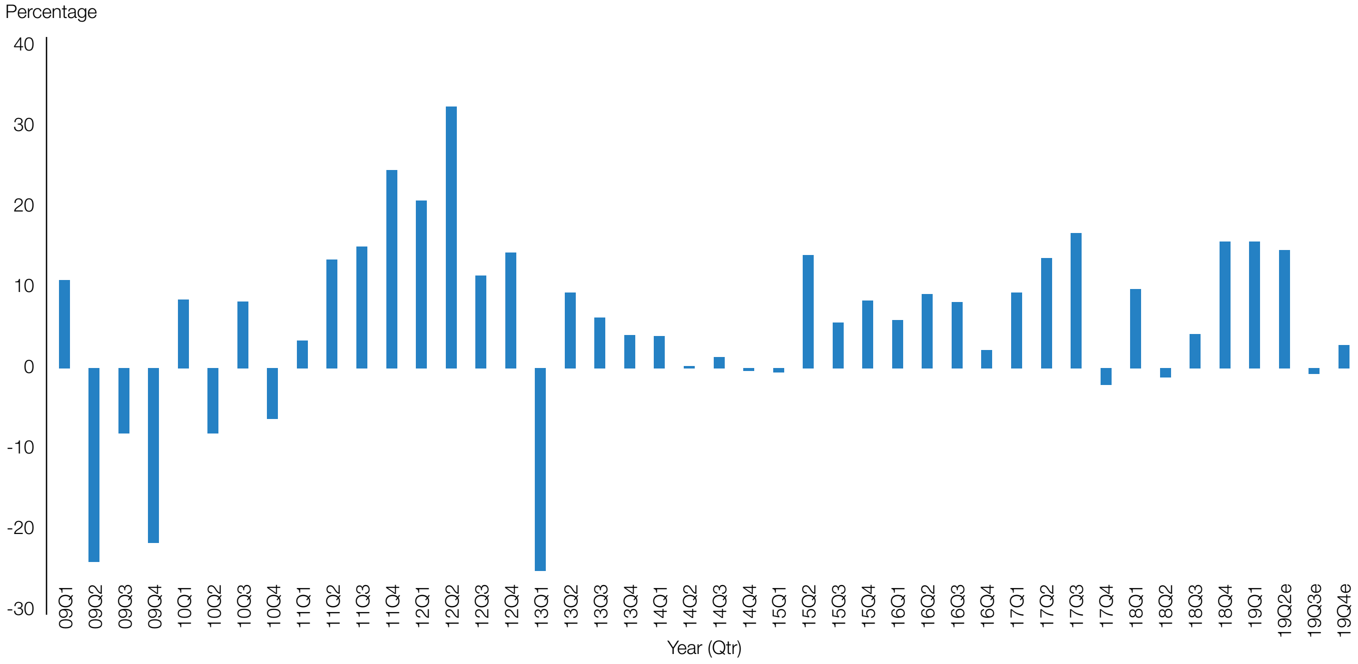
As the world economy slows, and a looming Brexit exacerbates the underperformance of the UK economy, corporate profits are under pressure and that is limiting the scope for dividend growth. We have already built much of this into our forecast, but our headline figure nevertheless gets a hefty £2.8bn upgrade based on the fall in the pound and stronger special dividends, which will be the second highest on record in 2019. We now expect £107.4bn this year, a headline increase of 7.6%. Excluding volatile special dividends, underlying growth is set to be 2.9%, almost two thirds of which is down to exchange-rate gains (based on the current level of the pound).

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%*	*-12.8%*
2010	£13.7	£14.4	£16.9	£9.4	£54.6
yoy	*8.4%*	*-8.0%*	*8.3%*	*-6.2%*	*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	£31.1	£15.0	£95.0
yoy	*8.8%*	*13.4%*	*16.3%*	*-2.1%*	*10.8%*
2018	£17.1	£33.1	£32.3	£17.3	£99.8
yoy	*9.9%*	*-1.1%*	*4.0%*	*15.6%*	*5.0%*
2019e	£19.7	£37.8	£32.0	£17.8	£107.4
yoy	*15.7%*	*14.5%*	*-1.0%*	*2.5%*	*7.6%*

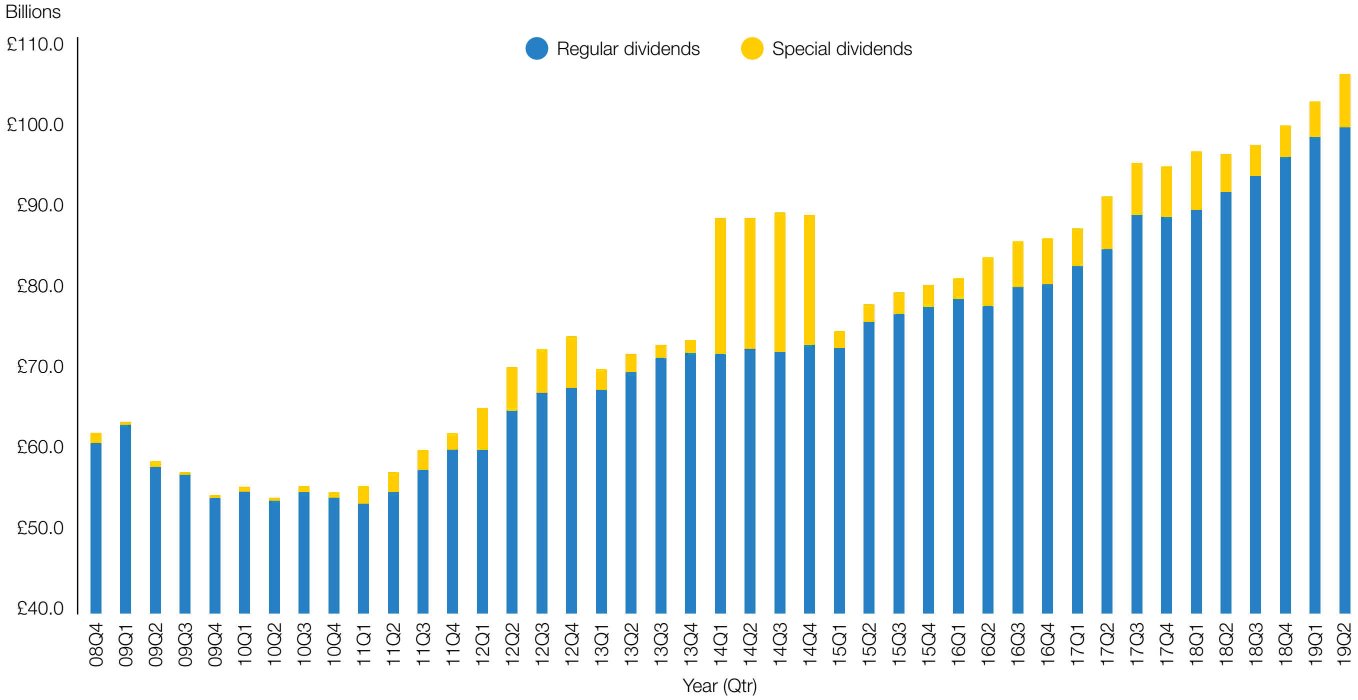
UK dividends (full-year basis)



Growth in quarterly dividends, year on year



Rolling 12-month dividends



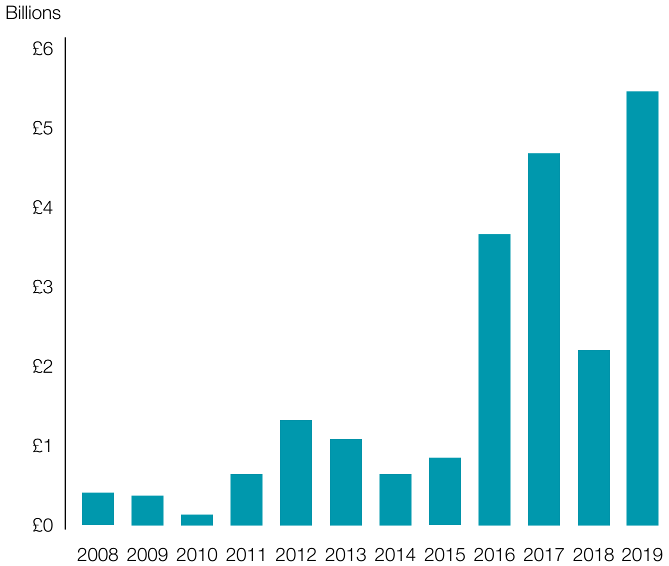
Special Dividends & Exchange-Rate Factors

With the UK now judged far more likely to be heading for a no-deal Brexit, the pound has lurched downwards, and is now matching lows reached at other moments of pessimism over the last two years. More than two fifths of Q2 dividends were paid in euros or dollars, so once they were translated to sterling they received a boost worth £820m, adding 2.5 percentage points to the growth rate. For the rest of the year, the current level of the pound implies further gains to come, though this picture could easily change for the better or worse, depending on how the UK's political dilemmas unfold.

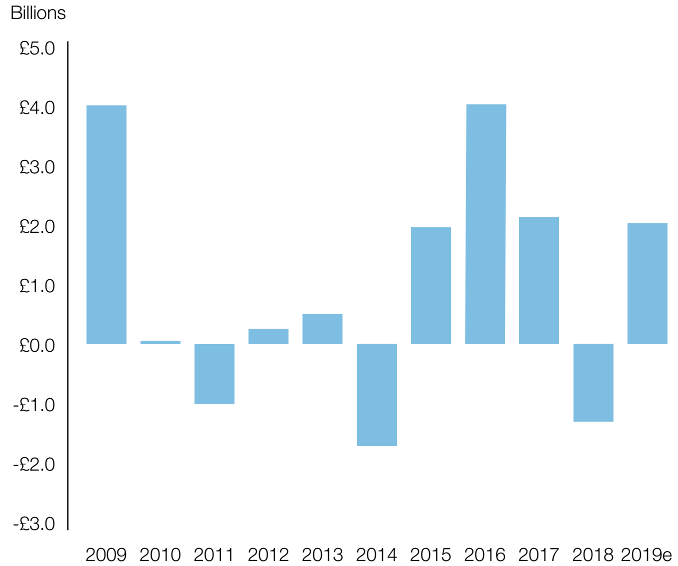
Special dividends of £5.4bn were 147% higher year-on-year. Special dividends are highly discretionary, so they are very hard to forecast. Two-fifths of the total was contributed by Rio Tinto, which is distributing the disposal proceeds of copper and coal assets. The Rio Tinto payout was a little bigger than we had pencilled in (partly owing to exchange-rate factors). Micro Focus International structured a £1.4bn payout as a return of capital, which is halfway between a share buy-back and a special dividend, but which, for consistency, we count as a special. This followed the sale of one of its businesses in March, and we had not included it in our forecast until the details became clearer. Meanwhile, RBS paid £903m, funded by rapid profit growth and surplus capital, and there were also relatively large specials from airport food retailer SSP and chemicals group Croda on the back of strong profits, along with a number of smaller payments.

After a very strong first half for volatile specials, we continue to assume they will revert to their longer-run average from here on, and will update our figures as new announcements are made.

Q2 Special dividends



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



Sectors & Companies

Banking dividends jumped by two-fifths, boosted by a special from RBS

Excluding RBS' special, bank payouts rose by almost a quarter year-on-year, with strong growth across the sector, except HSBC

Mining dividends were lower year-on-year, after deducting Rio Tinto's very large special, though this mainly reflected technical factors

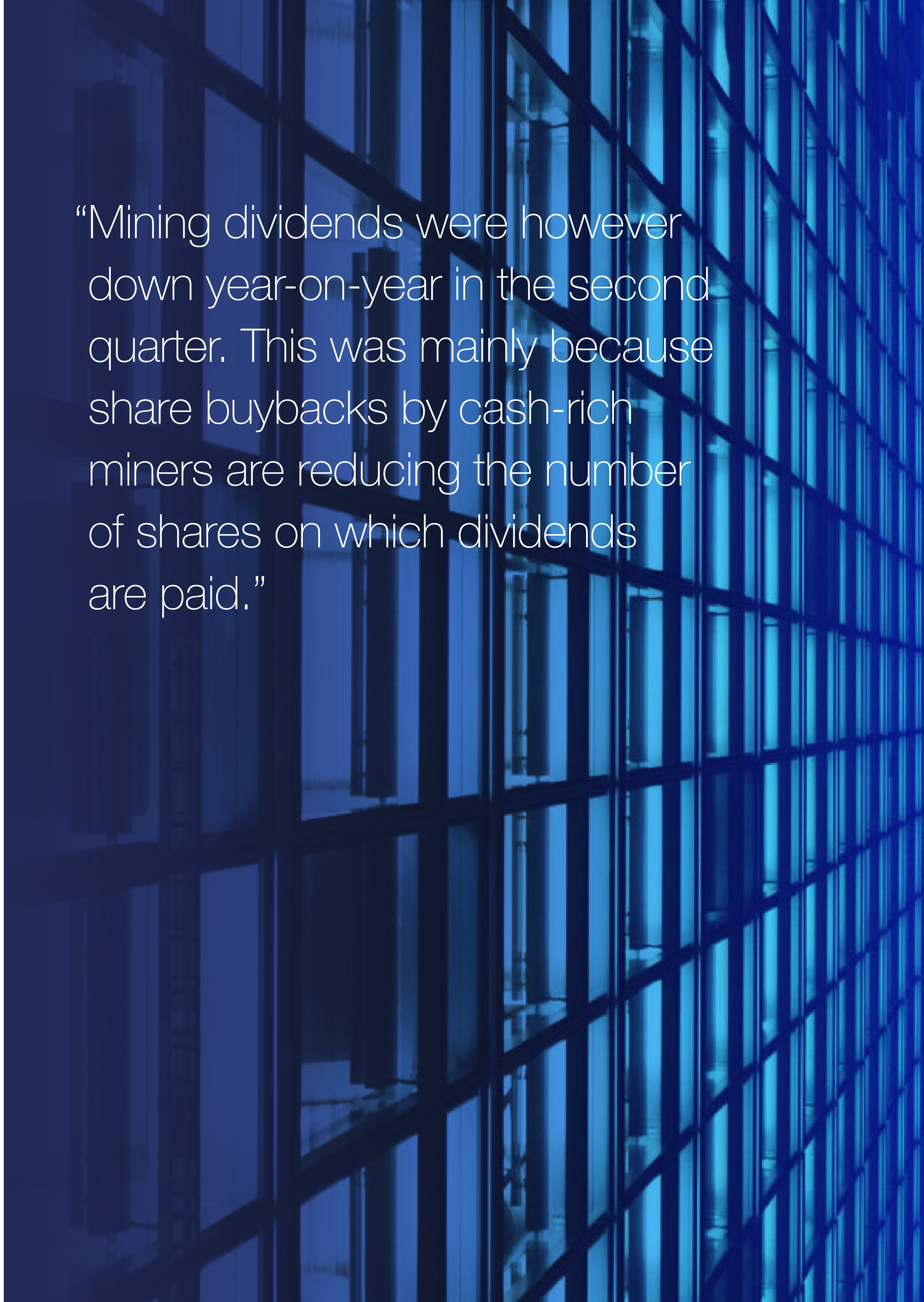
Bad news on the high street hit retail and property dividends

Banking dividends soared by two-fifths, thanks mainly to RBS. The bank made only its second payment in over a decade, but it is making up for lost time. In the last twelve months, it has distributed twice as much as in 2007, the last year before the financial crash. Even after excluding RBS' special, banking dividends jumped by a quarter, however. Following a big increase in its interim payout last year, Barclays doubled its final dividend, on the back of rising profits and strong capital ratios. Standard Chartered hiked its payout as well, though it is still distributing far less than before it suspended payments in 2016. The sector's giant, HSBC, bucked the trend by holding its dividend steady in dollar terms, as the bank struggles to find sustainable growth and contain its costs.

A rise in oil-sector dividends was mainly driven by exchange rates, though BP's modest increase continues to flow through, and Tullow Oil restored its payout after a four-year suspension. Utility dividends were lifted by relative newcomer Contour, whose profits from renewable energy contracting are rising swiftly, and the small IT sector did well too, even after adjusting for the Micro Focus special.

Mining dividends have been a core engine of growth in the last two years. After adjusting for Rio Tinto's big one-off special, mining dividends were however down year-on-year in the second quarter. This was mainly because share buybacks by cash-rich miners are reducing the number of shares on which dividends are paid, and because Randgold has been taken over. Anglo-American, along with a handful of smaller miners, made a small cut in its dividend, however, which is fixed at 40% of profits. The company reassured investors that it expects to return to dividend growth in the near future.

In common with recent trends, retailing dividends continued their sharp decline, while property was hit by Intu scrapping its final payout as the high street's woes hit its shopping centres. An apparent decline in healthcare dividends was merely due to the acquisition of Shire by Takeda, however. Outside the banking sector, financial dividends were flat.



Sectors & Companies, continued

Q2 Dividends - top companies

Rank	08Q2	09Q2	10Q2	11Q2	12Q2	13Q2
1	HSBC Holdings	BP	Royal Dutch Shell	British American Tobacco	Royal Dutch Shell	HSBC Holdings
2	Barclays	Royal Dutch Shell	British American Tobacco	Royal Dutch Shell	British American Tobacco	Royal Dutch Shell
3	Lloyds Banking Group	British American Tobacco	HSBC Holdings	HSBC Holdings	HSBC Holdings	British American Tobacco
4	BP	HSBC Holdings	Glaxosmithkline	Glaxosmithkline	Glaxosmithkline	BP
5	Royal Dutch Shell	Glaxosmithkline	Standard Chartered	BP	Old Mutual	Glaxosmithkline
Subtotal £bn	*£7.7*	*£6.8*	*£5.8*	*£6.3*	*£7.4*	*£8.0*
% of total dividends	*37%*	*44%*	*40%*	*38%*	*34%*	*34%*
6	British American Tobacco	Standard Chartered plc	Centrica	Standard Chartered	BP	Glencore Xstrata
7	Glaxosmithkline	Aviva	Rio Tinto	Antofagasta	Rio Tinto	Standard Chartered
8	Aviva	Unilever	Aviva	Centrica	Standard Chartered	Rio Tinto
9	Anglo American	Rio Tinto	Reckitt Benckiser Group	Reckitt Benckiser Group	Centrica	Centrica
10	Centrica	Centrica	Diageo	Aviva	Reckitt Benckiser Group	Reckitt Benckiser Group
11	Inchcape	Antofagasta	Prudential	Prudential	Aviva	Standard Life
12	Unilever	Diageo	BAE Systems	Diageo	Xstrata	Prudential
13	Rio Tinto	Reckitt Benckiser Group	Unilever	Xstrata	Glencore International	Antofagasta
14	Standard Chartered	Prudential	BG Group	BAE Systems	Prudential	Anglo American
15	Diageo	BAE Systems	Pearson	Anglo American	Diageo	Diageo
Subtotal £bn	*£5.5*	*£4.2*	*£3.4*	*£4.6*	*£5.9*	*£6.3*
Top 15 Grand Total £bn	*£13.2*	*£11.0*	*£9.2*	*£10.9*	*£13.3*	*£14.3*
% of total dividends	*64%*	*70%*	*59%*	*75%*	*81%*	*66%*

Rank	14Q2	15Q1	16Q2	17Q2	18Q2	19Q2
1	HSBC Holdings	HSBC Holdings	HSBC Holdings	HSBC Holdings	HSBC Holdings	Rio Tinto
2	British American Tobacco	Royal Dutch Shell	Royal Dutch Shell	National Grid	Royal Dutch Shell	HSBC Holdings
3	Royal Dutch Shell	British American Tobacco	Glaxosmithkline	Royal Dutch Shell	Rio Tinto	Royal Dutch Shell
4	Glaxosmithkline	BP	British American Tobacco	British American Tobacco	BP	BP
5	BP	Glaxosmithkline	Lloyds Banking Group	Lloyds Banking Group	Lloyds Banking Group	Micro Focus International
Subtotal £bn	*£7.9*	*£8.7*	*£10.8*	*£11.5*	*£8.8*	*£10.9*
% of total dividends	*33%*	*32%*	*37%*	*35%*	*27%*	*29%*
6	Rio Tinto	Rio Tinto	BP	BP	Glaxosmithkline	Lloyds Banking Group
7	Glencore	Glencore	Rio Tinto	Rio Tinto	British American Tobacco	Royal Bank of Scotland Group
8	Standard Chartered	Standard Chartered	Intercontinental Hotels Group	Glaxosmithkline	Glencore	British American Tobacco
9	Prudential	Barclays	Prudential	Prudential	Prudential	Glaxosmithkline
10	Centrica	Prudential	Reckitt Benckiser Group	Reckitt Benckiser Group	Ferguson	Glencore
11	Reckitt Benckiser Group	Reckitt Benckiser Group	Legal & General Group	Aviva	Aviva	Prudential
12	Antofagasta	Diageo	Barclays	Legal & General Group	Reckitt Benckiser Group	Aviva
13	Diageo	Lloyds Banking Group	Aviva	Diageo	Legal & General Group	Reckitt Benckiser Group
14	Anglo American	Anglo American	Diageo	Centrica	Diageo	Legal & General Group
15	Legal & General Group	Legal & General Group	ITV	Intercontinental Hotels Group	Anglo American	Barclays
Subtotal £bn	*£6.2*	*£7.1*	*£7.7*	*£7.1*	*£7.6*	*£9.1*
Top 15 Grand Total £bn	*£14.2*	*£15.8*	*£18.5*	*£18.6*	*£16.3*	*£20.0*
% of total dividends	*60%*	*59%*	*63%*	*56%*	*49%*	*53%*

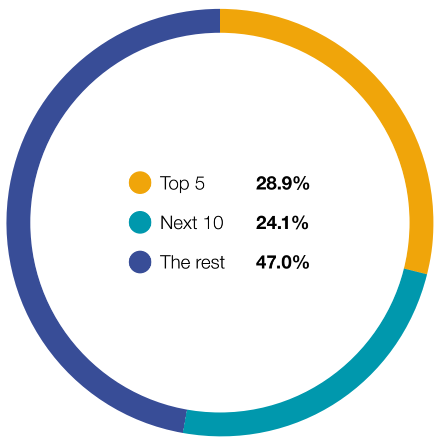
Dividends – by industry

Industry £m	Resources & Commodities	Consumer Goods & Housebuilding	Retail & Consumer Services	Banks & Financials	Healthcare & Pharmaceuticals	Industrials	Oil, Gas & Energy	Information Technology	Telecoms	Domestic Utilities	Total
07Q2	£1,129	£1,832	£2,465	£9,407	£795	£1,694	£2,284	£115	£34	£703	£20,457
08Q2	£1,573	£2,201	£1,818	£8,623	£894	£1,780	£2,794	£229	£37	£694	£20,641
yoy	39%	20%	-26%	-8%	12%	5%	22%	100%	9%	-1%	1%
09Q2	£1,074	£2,588	£1,094	£3,906	£966	£1,423	£3,897	£85	£48	£610	£15,689
yoy	-32%	18%	-40%	-55%	8%	-20%	39%	-63%	30%	-12%	-24%
10Q2	£942	£2,459	£1,421	£4,101	£1,033	£1,595	£2,044	£114	£64	£656	£14,429
yoy	-12%	-5%	30%	5%	7%	12%	-48%	35%	34%	8%	-8%
11Q2	£1,771	£2,847	£1,425	£3,618	£1,083	£1,870	£2,779	£171	£65	£731	£16,359
yoy	88%	16%	0%	-12%	5%	17%	36%	50%	1%	11%	13%
12Q2	£2,869	£3,067	£1,585	£6,404	£1,406	£2,028	£3,236	£197	£71	£732	£21,596
yoy	62%	8%	11%	77%	30%	8%	16%	15%	9%	0%	32%
13Q2	£3,295	£3,480	£1,888	£7,076	£1,248	£2,210	£3,495	£217	£81	£685	£23,676
yoy	15%	13%	19%	10%	-11%	9%	8%	10%	14%	-6%	10%
14Q2	£3,018	£3,416	£2,221	£6,882	£1,303	£2,380	£3,426	£315	£77	£681	£23,719
yoy	-8%	-2%	18%	-3%	4%	8%	-2%	45%	-5%	-1%	0%
15Q2	£3,003	£4,104	£2,389	£9,150	£1,365	£2,457	£3,718	£236	£87	£487	£26,996
yoy	0%	20%	8%	33%	5%	3%	9%	-25%	13%	-28%	14%
16Q2	£1,486	£4,473	£3,573	£9,928	£2,367	£2,648	£4,118	£263	£99	£504	£29,458
yoy	-51%	9%	50%	9%	73%	8%	11%	11%	14%	3%	9%
17Q2	£2,572	£4,752	£2,811	£10,580	£1,526	£2,428	£4,790	£147	£118	£3,686	£33,410
yoy	73%	6%	-21%	7%	-36%	-8%	16%	-44%	19%	632%	13%
18Q2	£4,869	£3,698	£2,789	£11,321	£1,607	£3,242	£4,614	£292	£44	£565	£33,041
yoy	89%	-22%	-1%	7%	5%	34%	-4%	99%	-63%	-85%	-1%
19Q2	£6,679	£3,910	£2,692	£12,948	£1,434	£2,762	£4,937	£1,780	£44	£636	£37,822
yoy	37%	6%	-3%	14%	-11%	-15%	7%	510%	0%	13%	14%

Dividends – by sector

Sector £m	18Q2	19Q2	Headline change year on year	Underlying change year on year
Banks	£5,344.7	£7,504.5	40%	24%
Mining	£4,775.1	£6,428.6	35%	-8%
Oil, Gas & Energy	£4,613.9	£4,937.2	7%	7%
General & Life Insurance	£3,571.3	£3,482.7	-2%	0%
Consumer Goods & Housebuilding	£2,873.3	£3,155.7	10%	6%
Industrial Goods & Support	£2,708.3	£2,126.6	-21%	6%
Information Technology	£291.8	£1,779.8	510%	57%
Healthcare & Pharmaceuticals	£1,606.9	£1,434.4	-11%	-11%
Media	£1,233.8	£1,283.8	4%	7%
General Financials	£1,203.6	£1,222.0	2%	3%
Airlines, Leisure & Travel	£746.9	£807.9	8%	2%
Property	£1,201.5	£738.7	-39%	-8%
Beverage & Food Producers	£712.4	£727.2	2%	2%
Domestic Utilities	£565.1	£636.2	13%	13%
Building Materials & Construction	£533.6	£635.1	19%	19%
Food Retail	£416.5	£426.8	2%	32%
Industrial Chemicals	£94.1	£250.9	167%	9%
General Retail	£391.6	£173.4	-56%	-56%
Telecoms	£44.1	£44.1	0%	0%
Motor Manufacturing & Parts	£112.5	£26.7	-76%	-76%

Concentration of dividend payments among UK companies – Q2 2019



Top 100 v Mid 250

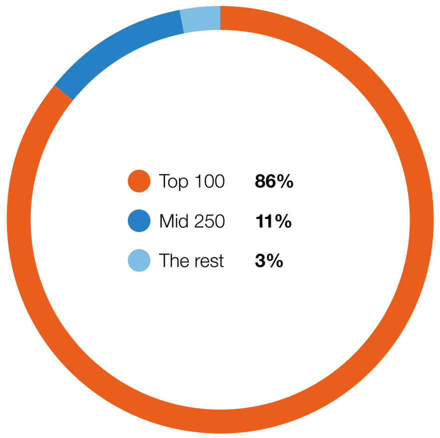
Mid-cap dividends lagged behind the top 100 for a sixth consecutive quarter, rising just **0.8%** on an underlying basis (**-5.7%** headline)

Top 100 payouts rose **5.7%** on an underlying basis, half of which was due to exchange-rate effects; headline growth was **18.5%** thanks to large specials

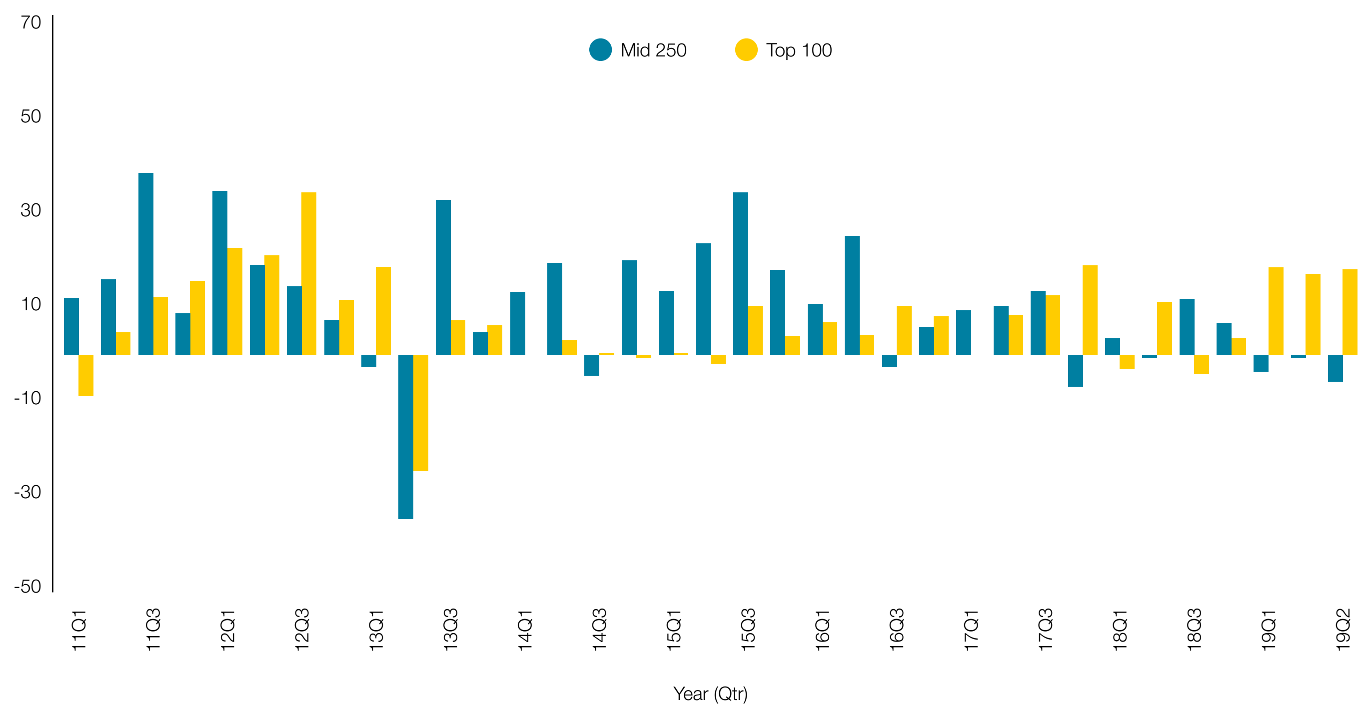
The sharp slowdown in the UK economy is most apparent among mid-caps, whose profits have fallen for four quarters in a row. This is affecting their ability to sustain dividend growth. On an underlying basis, mid-cap dividend performance has lagged behind the top 100 for six consecutive quarters. In Q2, they rose just 0.8%. Headline dividends dropped 5.7% but only because of volatile specials.

The top 100 saw payouts jump 18.5% in headline terms, but the underlying increase was a more modest 5.7%. More than half of this was down to exchange-rate effects.

Q2 2019 share of UK dividends



Top 100 v Mid 250 – annual growth per quarter



Yield

UK shares collectively set to yield **4.2%**, down from **4.8%** in January, but still very high by historic standards

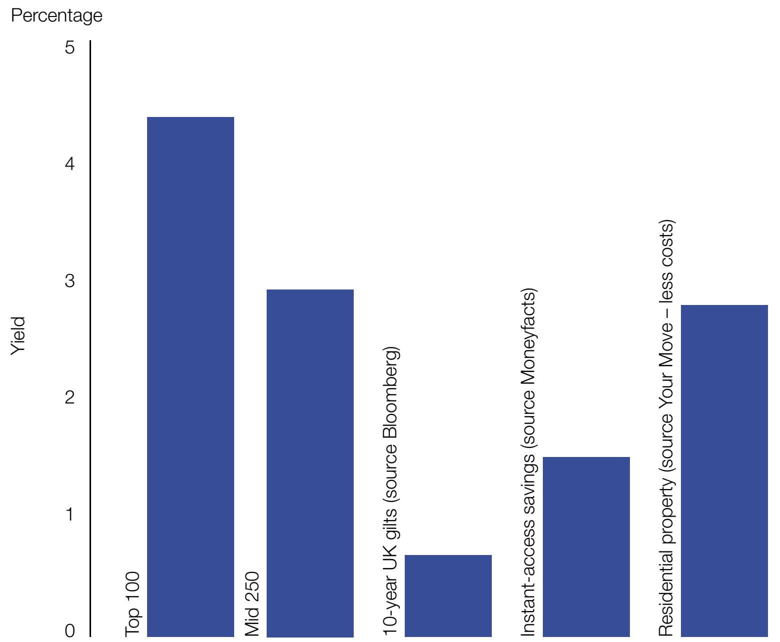
Top 100 set to yield **4.4%** over the next 12 months; mid-caps **2.9%**

Bond yields plummeted to **0.69%**, near record lows

An asset's yield describes its income as a proportion of capital value. Rising share prices have meant lower yields on equities since the beginning of the year, but they are still extremely high by historic standards. This reflects the underperformance of UK shares and growing concerns over the UK and global economy. Over the next 12 months, equities will yield 4.2% (excluding special dividends) down from 4.8% in January. The top 100 will produce 4.4% and the mid 250 2.9%.

Equities are holding fast to the top spot, well ahead of the other main asset classes. Concerns over growth have pushed the UK 10-year gilt yield down to 0.69%, below overnight rates, and only a little above the record low reached three years ago following the EU referendum. Cash savings and residential property return an unchanged 1.5% and 2.9% respectively.

UK income



Outlook

Outlook for the economy and corporate earnings is deteriorating

Eye-catching special dividends and renewed sterling weakness mean a **£2.8bn** upgrade to our headline forecast; it rises to a clear record **£107.4bn**, up **7.6%** year-on-year

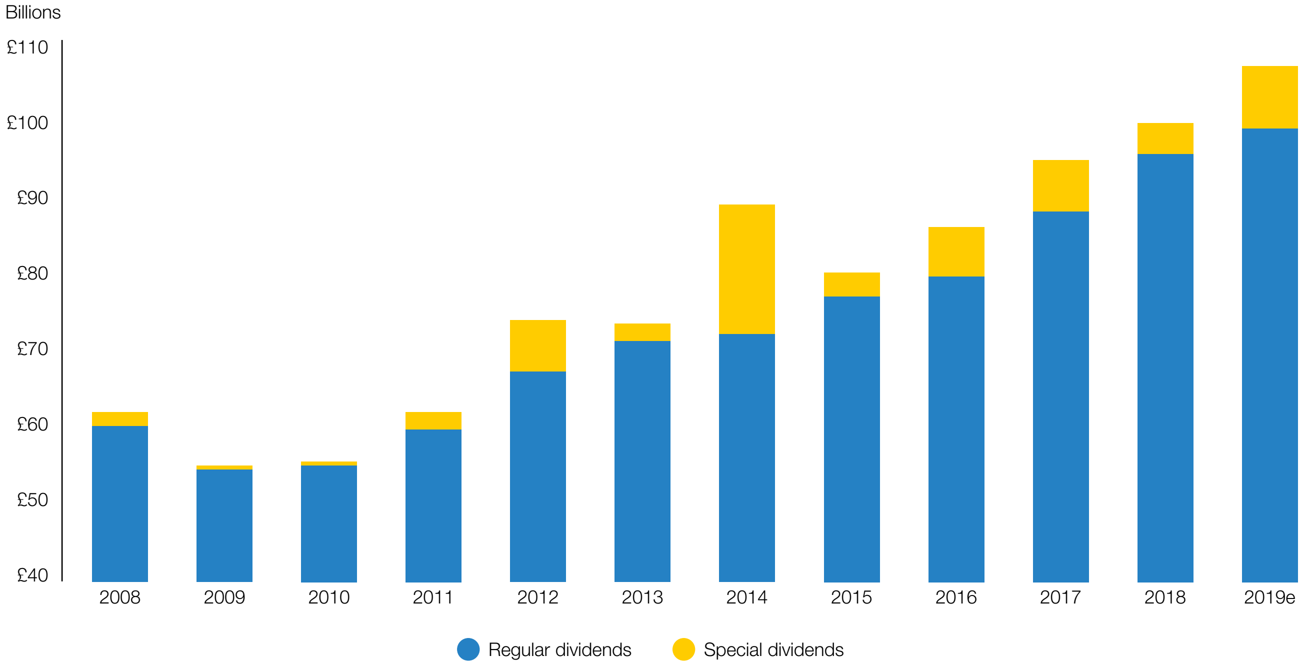
But our underlying forecast is cut by **£500m** to **£98.7bn**, an increase of **2.9%** year-on-year

Corporate earnings growth from UK plc is languishing near the bottom of the global league tables, thanks to a slowing world economy and an even more lacklustre domestic one, under pressure from uncertainty over the UK's future trading relationships and the manner of its impending departure from the EU. The slowdown is especially acute among mid-caps, which are more exposed to the UK. Analysts are currently forecasting an improvement in profit growth in 2020, though this will still be below comparable countries, and is contingent on an orderly Brexit. Given the current performance of the UK economy, which is enduring its second-worst period in a decade, this may prove too optimistic. The uncertainty has pushed the pound down to levels not seen since the gloomy months following the EU referendum. Slowing profits are hampering companies' ability to sustain dividend growth, though this is being masked by the pound's weakness, and some sector-specific factors.

We have already built much of this into our forecast, though even our cautious expectations may prove to be a touch optimistic. Even so our headline figure gets a hefty £2.8bn upgrade based on the most recent fall in the pound and stronger special dividends. We do not forecast exchange rates, but rather simply assume the current level prevails. Three months ago, that meant exchange-rate losses in the second half of the year, but the recent decline in sterling, if the current level is maintained, will bring gains instead. For the full year, FX is set to add £2.1bn to the sterling value of UK payouts, adding £1bn to our forecast. Higher special dividends account for the rest. Specials of £7.6bn in H1 have already ensured 2019 will see the second highest total on record, but we have pencilled in another £1.1bn for H2.

We now expect headline dividends of £107.4bn this year, a headline increase of 7.6%. Excluding volatile special dividends, underlying growth is set to be 2.9%, around two thirds of which is down to exchange-rate gains (based on the current level of the pound). Our underlying forecast has dropped by £500m to £98.7bn. This means that the true picture for dividends this year is significantly weaker than a first glance might suggest. Q2 marks both the second upgrade this year to our headline forecast and the second downgrade to our underlying one. Investors are being dazzled by eye-catching specials and exchange-rate trimmings, but the UK's dividend clothes are starting to look a bit threadbare underneath.

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.

"Slowing profits are hampering companies' ability to sustain dividend growth, though this is being masked by the pound's weakness, and some sector-specific factors."

For all enquiries please contact:

Teamspirit PR
t: 020 7360 7878
e: LinkAssetServices@teamspirit.uk.com