UK Dividend Monitor

LINK Asset Services

Issue 33 – Q1 2018

Part of **Link Group**

Introduction

Volatility finally returned to stock markets in the first quarter, pushing the UK index down to levels not seen for well over a year. Concerns over global trade loomed ever larger as the US and China began to slap tariffs on each other's exports, and the prospect of more rapid interest-rate rises made investors jittery. In bouts of market volatility, investors should remember that companies still make profits, and these profits generate dividends. Over the long term, it is dividends that constitute the lion's share of equity returns.

Q1 also saw the pound strengthen markedly against the US dollar, though this was more a feature of dollar weakness than optimism around sterling: it remained rangebound against the euro while the Brexit process ground slowly on. The exchange rate matters for UK dividends given the large proportion declared in dollars, and to a lesser extent, in euros. The higher level against the dollar will hold sterling payouts back this year.

In the latest quarterly Link Asset Services UK Dividend Monitor, we consider the most recent trends in UK dividend payments, and the outlook for 2018.

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Executive Summary

Overview

- Q1 marks a seasonal low for dividends, but sets the tone for the year
- Payouts rose sharply, up 7.6% to a headline £16.7bn, boosted by changes in the timing of payments
- Without the timing changes, headline dividends would have only grown 1.2%
- Excluding special dividends, the underlying total fell 0.1%, a touch below our forecast, owing to a growing exchange-rate penalty from the weaker US dollar

Sectors & Companies

- Oil and healthcare companies are not growing their dividends at present; the sterling total fell once the impact of the weaker dollar was factored in
- After adjusting for timing changes, dividends from consumer goods and housebuilders rose, with most companies in the sector increasing payouts
- Mining and media were also strong, the latter due to Sky's pre-takeover special
- EasyJet stood out as a notable cutter, citing the impact of sterling's post-Brexit devaluation on its margins

Top 100 v Mid 250

- Top 100 payouts were artificially boosted by one-off factors which masked the strongly negative exchange-rate effect
- Mid-cap dividends fell sharply, mainly owing to some sizeable takeovers, whose impact masked a steady increase from the wider cohort

Yield

- Lower share prices pushed the prospective 12-month equity yield up from 3.5% to 3.9%
- Top 100 rose to 4.0% from 3.7% and the mid-caps to 2.7% from 2.6%
- Equity yields remain well ahead of other asset classes

Outlook

- Newly enlarged BAT, following its US acquisition is paying larger dividends, and the mining recovery continues more strongly
- This has pushed up our expectations for growth on a constant-currency basis
- But the larger fx penalty of the stronger pound against the dollar will offset this increase in sterling terms
- Underlying growth forecast therefore unchanged at £90.4bn, up 2.9% year-on-year
- A slightly higher forecast for special dividends pushes headline dividend expectation to £96.3bn, up 1.8% year-on-year

Overview

Payouts rose sharply, **up 7.6%** to a headline **£16.7bn**, boosted by the changes in the timing of budgets

Without the timing changes, headline dividends would only have **grown 1.2%**

Excluding special dividends, the underlying total **fell 0.1%**, a touch below our forecast, owing to a growing exchange-rate penalty from the weaker US dollar

The first quarter seasonally sees the lowest dividend payments, accounting for just £1 in £6 of the full-year total. Many companies are busy announcing their annual results in Q1, and along with them their final dividends, but most of these don't reach investors' accounts until the second quarter.

Even so, the first quarter sets the tone for the year to come. 2018 is no exception, but only if we look behind the headlines. UK companies paid £16.7bn in Q1, up 7.6% year-on-year. The seemingly rapid growth took the total £1.1bn ahead of our forecast. The figure was flattered, however, by British American Tobacco (BAT), the tobacco multinational, which moved to quarterly payouts as part of its absorption of Reynolds, the US tobacco firm, which it acquired last year. The transaction brought BAT a lot more US shareholders, and they are used to receiving quarterly payouts on their investments. In the first quarter, without the £1bn boost from BAT, the total would have increased only 1.2% year-on-year.

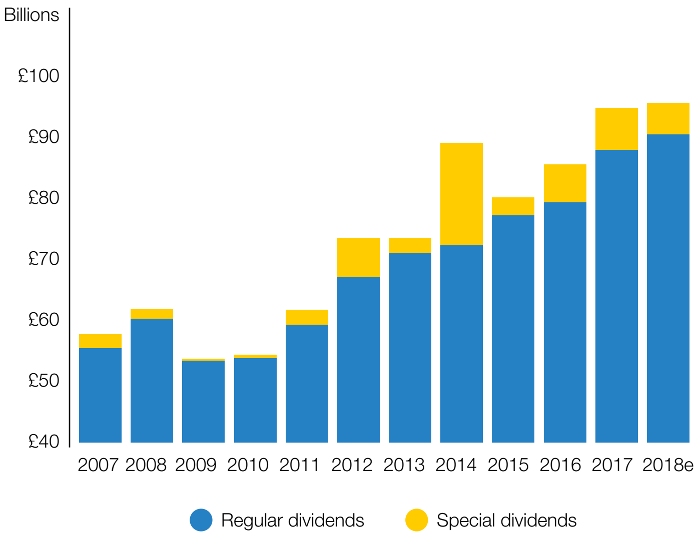
Excluding special dividends, which more than doubled year-on-year to £330m, and the BAT change, underlying dividends actually declined 0.1%, a touch weaker than our forecast. This was owing to the strength of the pound against the US dollar, in which more than two fifths of Q1 dividends are declared. The pound was 12% stronger compared to Q1 2017, pushing down the sterling value of those US dollar payouts by £879m. By contrast, the pound was weaker against the euro, creating a small exchange-rate gain for investors in the small number of companies that declare their dividends in that currency.

The first quarter is dominated far more than at other times during the year by a handful of large payers, whose dividends are showing little or no growth. Moreover, on current trends, the negative exchange-rate effect was significantly larger in Q1 (relative to the total paid) than is likely later in the year. This means growth in later quarters will be slightly stronger, after taking the BAT timing effect into account, though we continue to expect a rather subdued 2018 compared to the knockout 2017.

“The first quarter seasonally sees the lowest dividend payments, accounting for just £1 in £6 of the full-year total.”

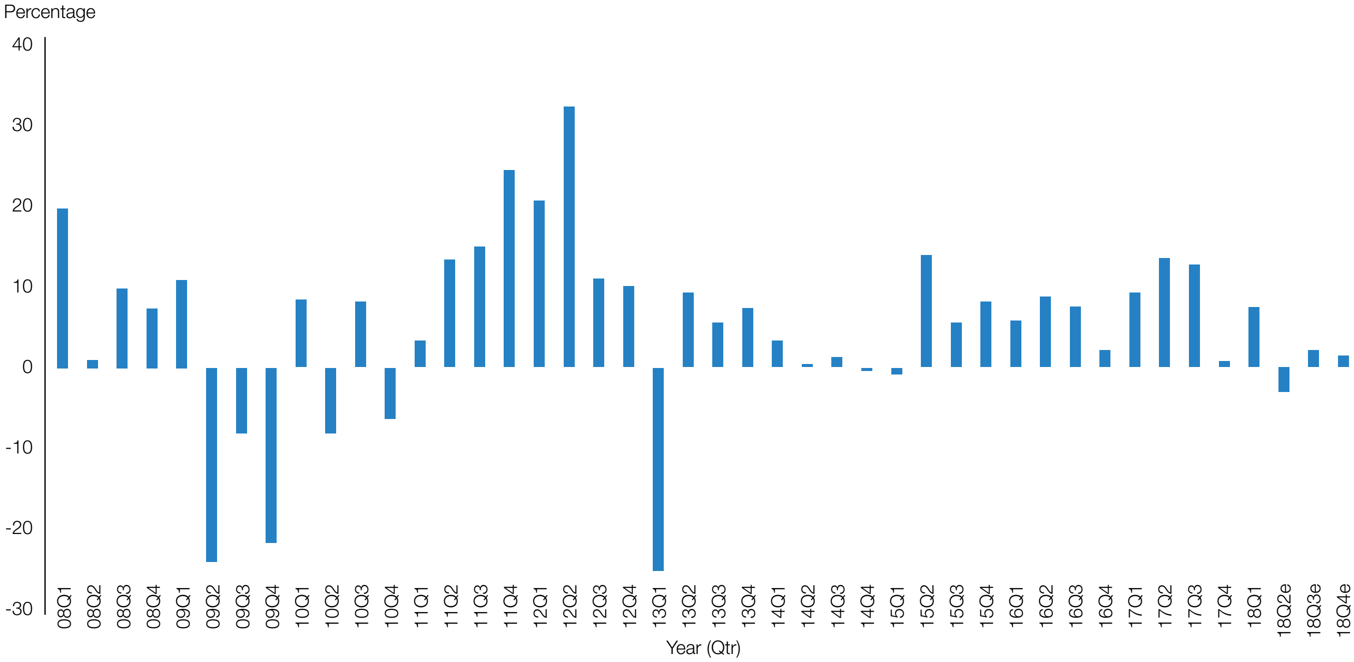
Dividends Paid £bn	Q1	Q2	Q3	Q4	Full Year
2007	£9.6	£20.2	£15.6	£11.9	£57.2
yoy	-	-	-	-	-
2008	£11.4	£20.3	£17.1	£12.7	£61.6
yoy	*19.8%*	*0.7%*	*9.7%*	*7.4%*	*7.7%*
2009	£12.7	£15.4	£15.7	£9.9	£53.7
yoy	*11%*	*-25%*	*-8%*	*-22%*	*-13%*
2010	£13.7	£14.1	£16.9	£9.3	£54.1
yoy	*8.4%*	*-8.1%*	*8.1%*	*-6.4%*	*0.8%*
2011	£14.2	£16.0	£19.5	£11.6	£61.4
yoy	*3.6%*	*13.6%*	*15.2%*	*24.8%*	*13.5%*
2012	£17.2	£21.3	£21.7	£12.8	£73.0
yoy	*20.9%*	*32.8%*	*11.1%*	*10.5%*	*18.9%*
2013	£12.8	£23.3	£22.9	£13.8	£72.9
yoy	*-25.4%*	*9.6%*	*5.7%*	*7.3%*	*-0.2%*
2014	£27.8	£23.4	£23.2	£13.7	£88.1
yoy	*116.8%*	*0.3%*	*1.3%*	*-0.4%*	*21.0%*
2015	£13.3	£26.7	£24.6	£14.8	£79.4
yoy	*-52.2%*	*14.2%*	*5.8%*	*8.3%*	*-9.9%*
2016	£14.1	£29.5	£25.0	£16.8	£85.5
yoy	*6.3%*	*10.2%*	*2.0%*	*13.4%*	*7.6%*
2017	£15.4	£33.4	£28.5	£17.0	£94.4
yoy	*9.1%*	*13.5%*	*13.9%*	*1.1%*	*10.5%*
2018e	£16.7	£32.4	£30.7	£16.5	£96.3
yoy	*7.6%*	*-3.1%*	*1.9%*	*6.5%*	*1.8%*

UK dividends

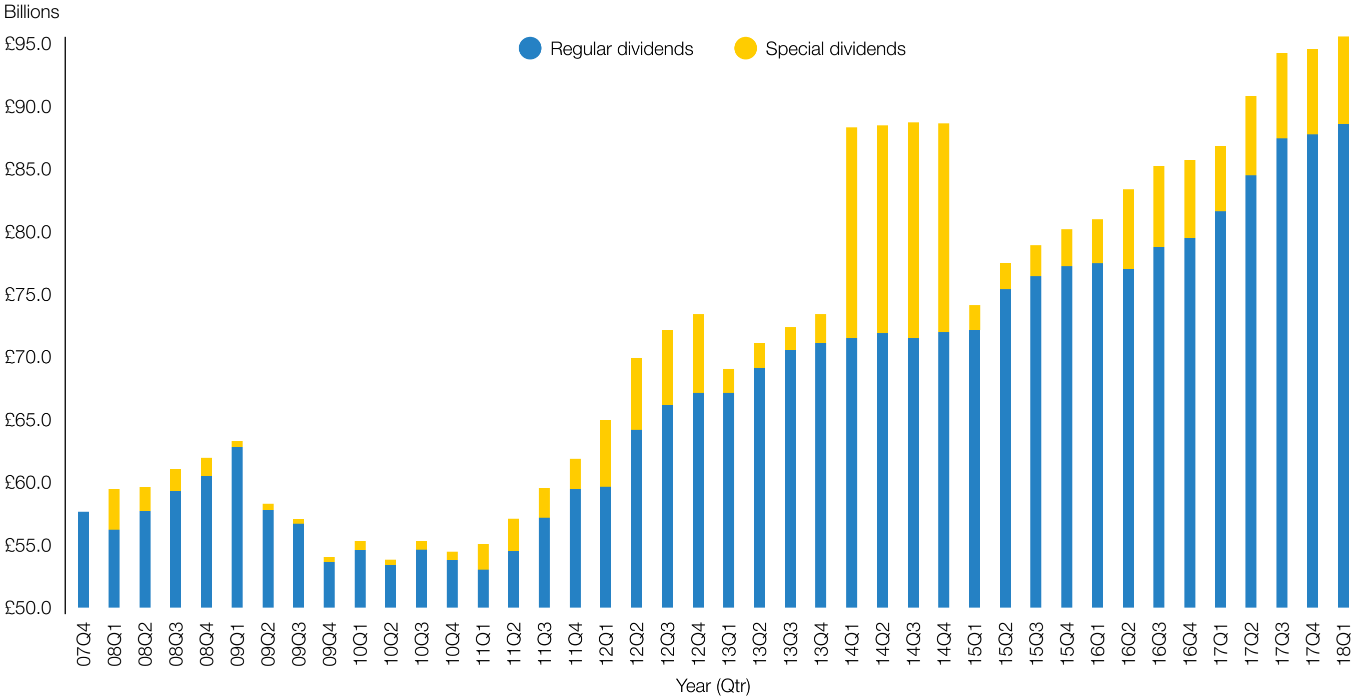


Overview, continued

Growth in quarterly dividends, year-on-year

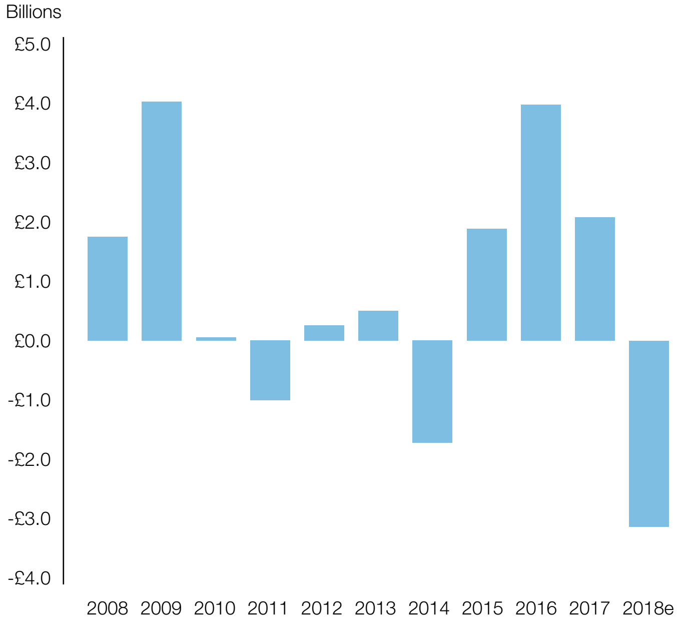


Rolling 12-month dividends

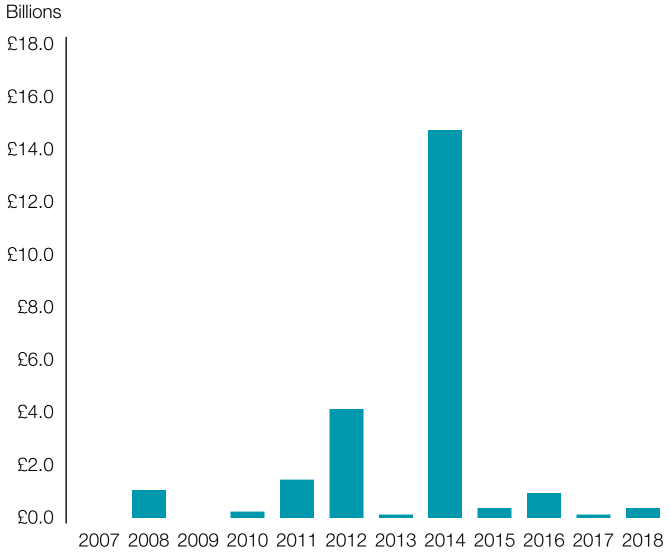


Special Dividends & Exchange-Rate Factors

Exchange rate boost/penalty



Q1 Special dividends



Sectors & Companies

Higher oil prices have not yet led to higher payouts from Shell and BP, who had **maintained their dividends through** the oil slump

One sixth of Q1 dividends were distributed by the **healthcare sector**, dominated by AstraZeneca and GlaxoSmithKline

Consumer good and housebuilders' dividends **more than doubled year-on-year**

Almost a quarter of the Q1 total was paid by the oil majors, Shell and BP. Higher oil prices have not yet led to higher payouts from these companies, however. Both had maintained their dividends through the oil slump even in the face of plunging profits, so are not now increasing as the picture stabilises. They have, however, made changes to their scrip dividend programmes, which saved them scarce cash by offering investors the choice of shares in lieu of cash dividends. Improving cash flows have now enabled Shell to cancel its programme altogether, while BP has begun to neutralise the dilution caused by the new shares by buying back an equivalent number in the market. Even so, once the stronger pound was factored in, the sterling total from the oil sector was 15.3% lower year-on-year.

A further one sixth of Q1 dividends were distributed by the healthcare sector, dominated by AstraZeneca and GlaxoSmithKline. Glaxo has ambitious plans to make acquisitions, while AstraZeneca is experiencing pressure from patent expirations and competition. That makes cash tight for both companies and has led to scrutiny of their progressive dividend policies, which compel flat or higher payouts year in, year out. Neither has cut its dividend in per share terms, but AstraZeneca's US dollar accounting currency means the sterling equivalent was sharply lower year-on-year, pulling the contribution from the whole sector down 6%.

The consumer goods and housebuilder group contributed almost as much to the total as healthcare. Its dividends more than doubled year-on-year thanks mainly to the shift to quarterly distribution from BAT, with an additional £388m boost from Persimmon, whose payouts tend not to take place at regular points in the calendar. Even without these two, the sector saw good growth, with most of its constituents raising their dividends.

Elsewhere, the mining sector, which was responsible for driving 2017 to record dividend highs, continued its strong run of improvement, as the industry continued to benefit from a stronger world economy. BHP Billiton made another healthy increase, and EVRAZ (which reinstated payouts last year) paid its first March dividend since 2012 (barring a very small special in April 2014). Meanwhile the media sector got a boost from Sky's special, which it has long promised ahead of its likely takeover by Fox. Sky didn't pay anything at all in 2017 as the acquisition story tortuously unfolded, so cash has built up on its balance sheet. In the airline and leisure sector, EasyJet stood out for cutting its payout for the first time since 2013. The airline cited the continuing impact of sterling's post-Brexit devaluation on its margins, as well as greater competition.

"The mining sector, which was responsible for driving 2017 to record dividend highs, continued its strong run of improvement, as the industry continued to benefit from a stronger world economy."

Sectors & Companies, continued

Dividends – top companies

Rank	07Q1	08Q1	09Q1	10Q1	11Q1	12Q1
1	Vodafone Group plc	Vodafone Group plc	BP plc	BP plc	AstraZeneca plc	Vodafone Group plc
2	Royal Dutch Shell Plc	BP plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Cairn Energy
3	BP plc	Royal Dutch Shell Plc	AstraZeneca plc	AstraZeneca plc	Vodafone Group plc	Royal Dutch Shell Plc
4	HSBC Holdings plc	HSBC Holdings plc	HSBC Holdings plc	Vodafone Group plc	International Power plc	AstraZeneca plc
5	AstraZeneca plc	AstraZeneca plc	Vodafone Group plc	HSBC Holdings plc	HSBC Holdings plc	HSBC Holdings plc
Subtotal £bn	*£5.1*	*£5.7*	*£7.9*	*£7.0*	*£7.0*	*£9.8*
% of total dividends	*53%*	*50%*	*62%*	*51%*	*49%*	*76%*
6	GlaxoSmithKline plc	Reed Elsevier Plc	GlaxoSmithKline plc	GlaxoSmithKline plc	GlaxoSmithKline plc	BP plc
7	Imperial Tobacco Group plc	GlaxoSmithKline plc	BHP Billiton plc	BHP Billiton plc	BP plc	GlaxoSmithKline plc
8	BT Group	Imperial Tobacco Group plc	Imperial Tobacco Group plc	Imperial Tobacco Group plc	BHP Billiton plc	BHP Billiton plc
9	National Grid Plc	BT Group	BT Group	National Grid Plc	Imperial Tobacco Group plc	Imperial Tobacco Group plc
10	Premier Foods	BHP Billiton plc	National Grid Plc	Unilever plc	Rio Tinto plc	National Grid Plc
11	BHP Billiton plc	National Grid Plc	Scottish & Southern Energy plc	Scottish & Southern Energy plc	National Grid Plc	Barclays plc
12	Scottish & Southern Energy plc	Scottish & Southern Energy plc	Compass Group	BT Group	Barclays plc	Unilever plc
13	Compass Group	Compass Group	Marks & Spencer Group	Compass Group	Compass Group	Compass Group
14	Marks & Spencer Group	Marks & Spencer Group	Associated British Foods plc	Barclays plc	Unilever plc	SSE Plc.
15	Associated British Foods plc	Premier Foods	British Land Co plc	Cadbury PLC	Scottish & Southern Energy plc	BT Group
Subtotal £bn	*£2.7*	*£3.7*	*£3.2*	*£3.3*	*£4.8*	*£5.0*
Top 15 Grand Total £bn	*£7.8*	*£9.4*	*£11.0*	*£10.3*	*£11.8*	*£14.8*
% of total dividends	*81%*	*82%*	*87%*	*75%*	*83%*	*86%*

Rank	13Q1	14Q1	15Q1	16Q1	17Q1	18Q1
1	Royal Dutch Shell Plc	Vodafone Group plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc
2	Vodafone Group plc	Royal Dutch Shell Plc	AstraZeneca plc	AstraZeneca plc	AstraZeneca plc	AstraZeneca plc
3	AstraZeneca plc	AstraZeneca plc	BP plc	BP plc	BP plc	BP plc
4	BP plc	BP plc	Vodafone Group plc	Vodafone Group plc	Vodafone Group plc	Vodafone Group plc
5	GlaxoSmithKline plc	GlaxoSmithKline plc	GlaxoSmithKline plc	GlaxoSmithKline plc	GlaxoSmithKline plc	British American Tobacco
Subtotal £bn	*£7.0*	*£21.2*	*£6.6*	*£7.5*	*£8.7*	*£7.8*
% of total dividends	*54%*	*76%*	*50%*	*52%*	*56%*	*47%*
6	BHP Billiton plc	Imperial Tobacco Group plc	BHP Billiton plc	National Grid Plc	BHP Billiton plc	GlaxoSmithKline plc
7	Imperial Tobacco Group plc	BHP Billiton plc	Imperial Tobacco Group plc	Imperial Brands Plc	National Grid Plc	BHP Billiton plc
8	National Grid Plc	Barclays plc	National Grid Plc	Mediclinic International Plc	Imperial Brands Plc	Imperial Brands Plc
9	Barclays plc	National Grid Plc	BT Group	BT Group	BT Group	National Grid Plc
10	Unilever plc	Easyjet plc	Compass Group Plc	Johnson Matthey plc	Unilever plc	BT Group
11	Compass Group	Compass Group	Unilever plc	Compass Group Plc	Compass Group Plc	Unilever plc
12	SSE Plc	Unilever plc	SSE Plc	Unilever plc	SSE Plc	Persimmon plc
13	BT Group	BT Group	Associated British Foods plc	SSE Plc	EasyJet plc	Compass Group Plc
14	Associated British Foods plc	SSE Plc	EasyJet plc	BHP Billiton plc	Associated British Foods plc	EVRAZ Plc
15	Rolls-Royce Holdings Plc	Associated British Foods plc	Rolls-Royce Holdings Plc	EasyJet plc	Aberdeen Asset Management	SSE Plc
Subtotal £bn	*£3.8*	*£4.2*	*£4.0*	*£3.5*	*£3.8*	*£5.1*
Top 15 Grand Total £bn	*£10.8*	*£25.4*	*£10.6*	*£10.9*	*£12.5*	*£12.9*
% of total dividends	*84%*	*91%*	*79%*	*77%*	*80%*	*77%*

Sectors & Companies, continued

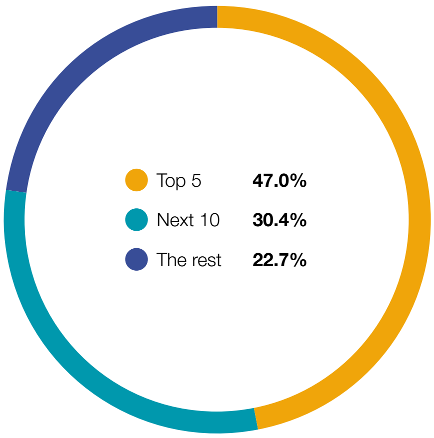
Dividends – by industry

Industry £m	Resources & Commodities	Consumer Goods & Housebuilding	Retail & Consumer Services	Banks & Financials	Healthcare & Pharmaceuticals	Industrials	Oil, Gas & Energy	Information Technology	Telecoms	Domestic Utilities	Total
07Q1	£335	£907	£943	£1,344	£1,541	£230	£2,039	£41	£1,689	£487	£9,557
08Q1	£447	£825	£1,944	£1,440	£1,679	£251	£2,407	£101	£1,810	£540	£11,445
	34%	*-9%*	*106%*	*7%*	*9%*	*9%*	*18%*	*147%*	*7%*	*11%*	*20%*
09Q1	£707	£697	£788	£1,867	£2,257	£250	£3,564	£107	£1,846	£585	£12,668
	58%	*-16%*	*-59%*	*30%*	*34%*	*0%*	*48%*	*6%*	*2%*	*9%*	*11%*
10Q1	£704	£1,091	£700	£2,813	£2,318	£294	£3,271	£122	£1,705	£714	£13,732
	0%	*56%*	*-11%*	*51%*	*3%*	*18%*	*-8%*	*13%*	*-8%*	*22%*	*8%*
11Q1	£1,293	£1,091	£879	£1,618	£2,455	£382	£2,437	£92	£1,753	£2,221	£14,220
	84%	*0%*	*26%*	*-42%*	*6%*	*30%*	*-26%*	*-24%*	*3%*	*211%*	*4%*
12Q1	£809	£1,180	£1,034	£1,857	£2,443	£417	£4,709	£110	£3,773	£864	£17,197
	-37%	*8%*	*18%*	*15%*	*0%*	*9%*	*93%*	*20%*	*115%*	*-61%*	*21%*
13Q1	£995	£1,308	£940	£830	£2,387	£449	£3,023	£102	£1,869	£920	£12,824
	23%	*11%*	*-9%*	*-55%*	*-2%*	*8%*	*-36%*	*-7%*	*-50%*	*6%*	*-25%*
14Q1	£835	£1,520	£1,270	£1,222	£2,401	£481	£2,802	£103	£16,332	£952	£27,918
	-16%	*16%*	*35%*	*47%*	*1%*	*7%*	*-7%*	*1%*	*774%*	*4%*	*118%*
15Q1	£1,082	£1,636	£1,238	£712	£2,509	£585	£3,250	£119	£1,305	£986	£13,422
	30%	*8%*	*-3%*	*-42%*	*5%*	*22%*	*16%*	*16%*	*-92%*	*3%*	*-52%*
16Q1	£619	£1,342	£1,404	£851	£2,983	£625	£3,962	£129	£1,355	£998	£14,268
	-43%	*-18%*	*13%*	*20%*	*19%*	*7%*	*22%*	*8%*	*4%*	*1%*	*6%*
17Q1	£772	£1,493	£1,355	£913	£2,850	£612	£4,776	£168	£1,576	£1,015	£15,528
	25%	*11%*	*-3%*	*7%*	*-4%*	*-2%*	*21%*	*29%*	*16%*	*2%*	*9%*
18Q1	£1,303	£2,994	£1,509	£740	£2,667	£609	£4,024	£226	£1,622	£986	£16,681
	69%	*101%*	*11%*	*-19%*	*-6%*	*0%*	*-16%*	*35%*	*3%*	*-3%*	*7%*

Dividends – by sector

Sector £m	17Q1	18Q1	change year-on-year
Oil, Gas & Energy	£4,776	£4,047	-15%
Healthcare & Pharmaceuticals	£2,850	£2,667	-6%
Consumer Goods & Housebuilding	£1,182	£2,651	124%
Telecoms	£1,576	£1,622	3%
Mining	£701	£1,165	66%
Domestic Utilities	£1,015	£986	-3%
Airlines, Leisure & Travel	£782	£735	-6%
Industrial Goods & Support	£610	£607	0%
Food & General Retailing	£458	£479	5%
Property	£343	£381	11%
Beverage & Food Producers	£311	£343	10%
General Financials	£476	£316	-34%
Media	£116	£294	155%
Information Technology	£168	£226	35%
Industrial Chemicals	£71	£138	94%
General & Life Insurance	£94	£39	-58%
Banks	£0	£9	
Building Materials & Construction	£2	£2	38%

Concentration of dividend payments among UK companies – Q1 18



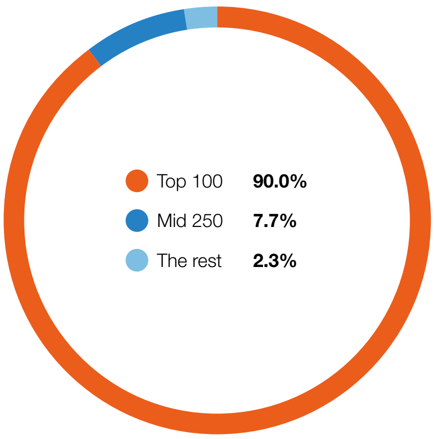
Top 100 v Mid 250

Top 100 payouts were **artificially boosted by one-off factors** which masked the strongly negative exchange-rate effect

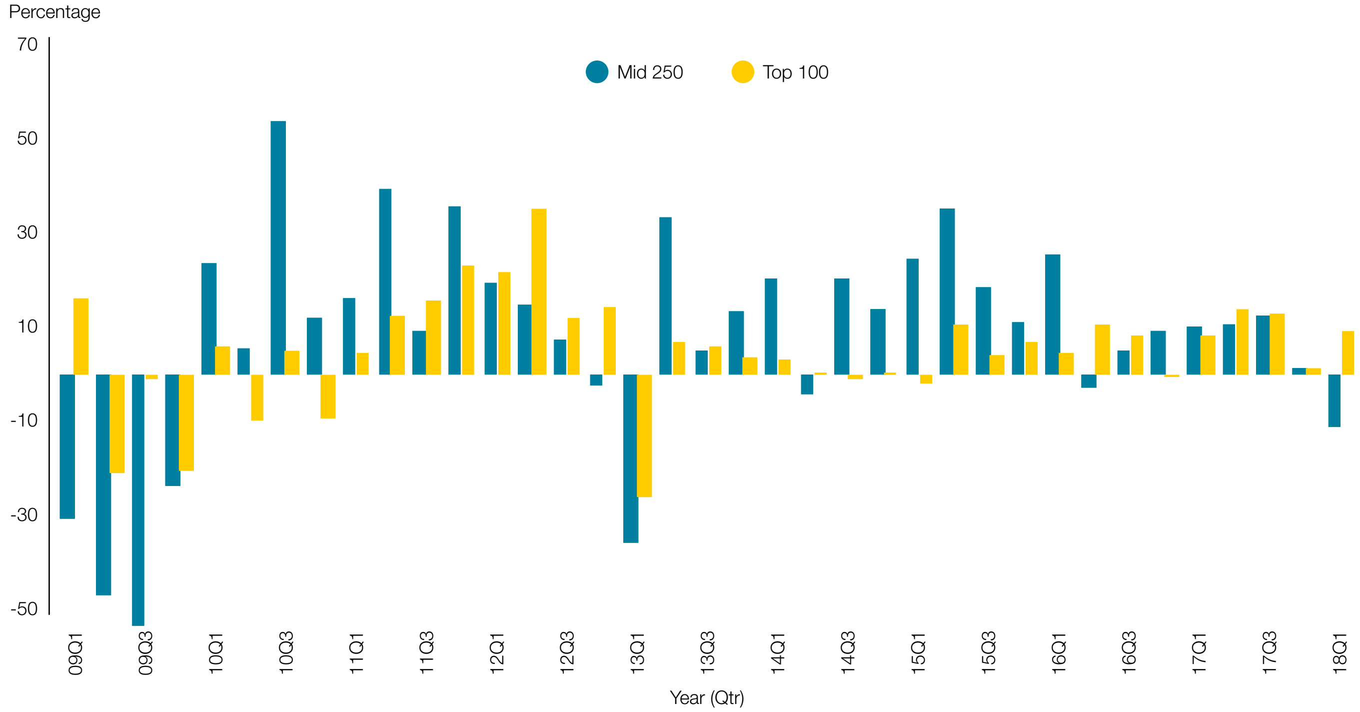
Mid-cap dividends fell sharply, mainly owing to some sizeable takeovers whose impact masked a steady increase from the wider cohort

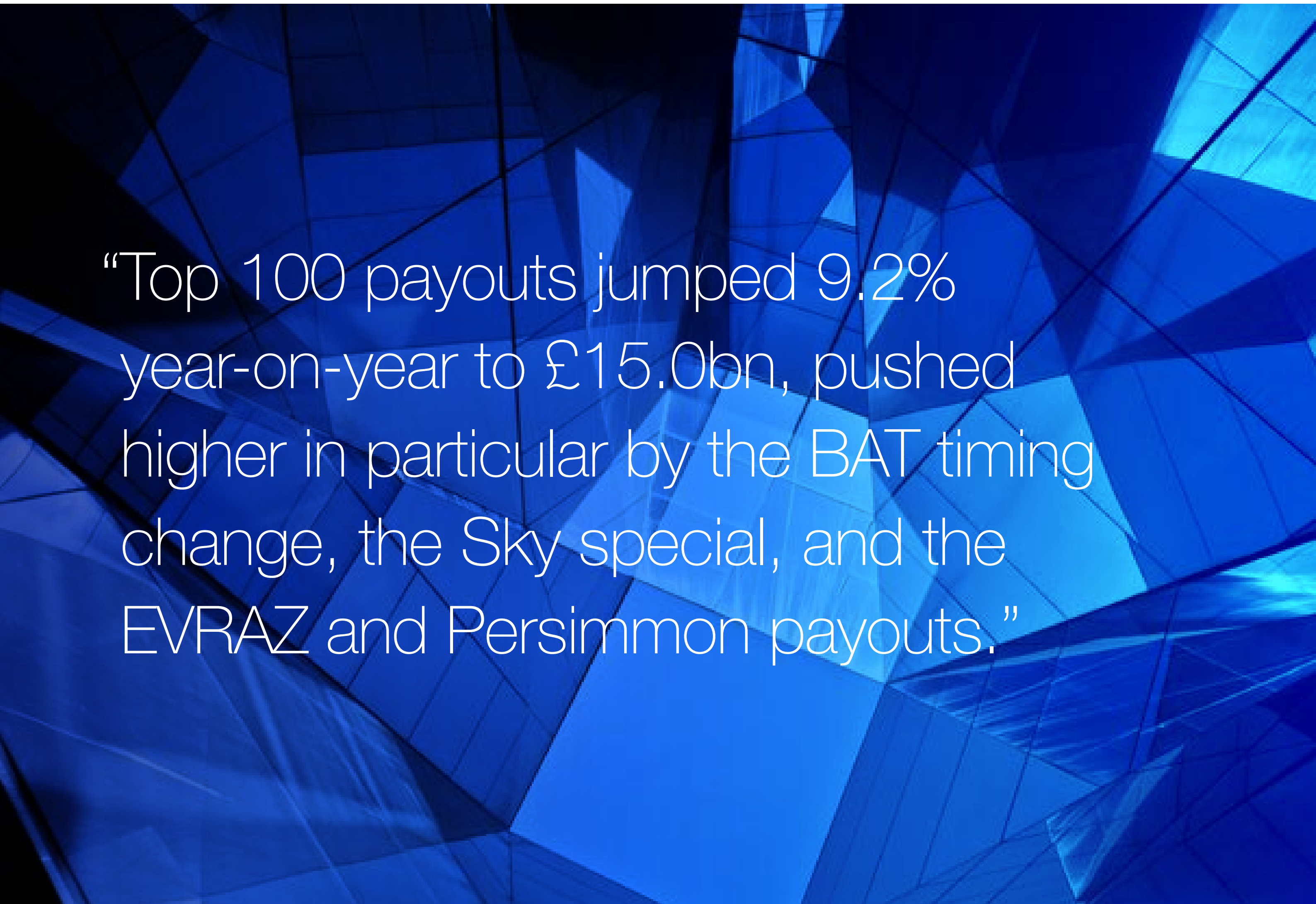
Top 100 payouts jumped 9.2% year-on-year to £15.0bn, pushed higher in particular by the BAT timing change, the Sky special, and the EVRAZ and Persimmon payouts. Without these, they would have been down rather sharply, as the effect of the stronger pound weighed heavily on the large share of dollar payers. By contrast, mid-cap dividends fell 10.8%, though this was mainly for technical reasons – Aberdeen Asset Management has been taken over by Standard Life, Amec has been taken over by Wood Group, and GVC has delayed its payout until May this year. Without the impact of just these three events, mid-cap dividends would have risen 5.2%, broadly in line with our 6% forecast for this segment.

Q1 Share of UK Dividends



Top 100 v Mid 250 – annual growth per quarter





"Top 100 payouts jumped 9.2% year-on-year to £15.0bn, pushed higher in particular by the BAT timing change, the Sky special, and the EVRAZ and Persimmon payouts."

Yield

Lower share prices pushed the prospective 12-month equity yield up **from 3.5% to 3.9%**

Top 100 rose **to 4.0% from 3.7%** and the mid-caps **to 2.7% from 2.6%**

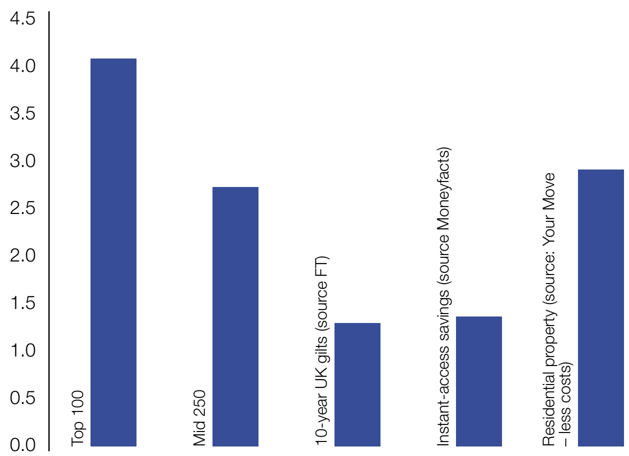
Equity yields **remain well ahead** of other asset classes

Lower share prices mean the yield on shares has risen over the quarter. The prospective 12-month yield rose to 3.9% (excluding specials), up from 3.5% three months ago. The top 100 is now yielding a touch over 4.0% (up from 3.7%), while the mid-caps will collectively yield 2.7% (up from 2.6%).

Equity yields remained well ahead of other asset classes. By the end of Q1, the yield from cash and residential property was unchanged, while the UK ten-year gilt saw its yield rise to 1.4%, up from 1.3%.

UK Income

Percentage



Outlook

Newly enlarged BAT, following its US acquisition, is **paying larger dividends**, and the mining recovery continues more strongly

This has pushed up **our expectations for growth** on a constant-currency basis

But the larger fx penalty of the stronger **pound against the dollar** will offset this increase **in sterling terms**

Underlying growth forecast therefore unchanged at £90.4bn, **up 2.9% year-on-year**

A slightly higher forecast for special dividends pushes headline dividend expectation **to £96.3bn, up 1.8% year-on-year**

The newly enlarged BAT is paying slightly better dividends than we anticipated, and on a much larger share count. Meanwhile, the mining sector's rebound is proving stronger too. These factors will provide a boost we had not allowed for in our initial 2018 forecast. We now expect slightly stronger underlying growth on a constant-currency basis of 6.5%, up from 5.0% in January.

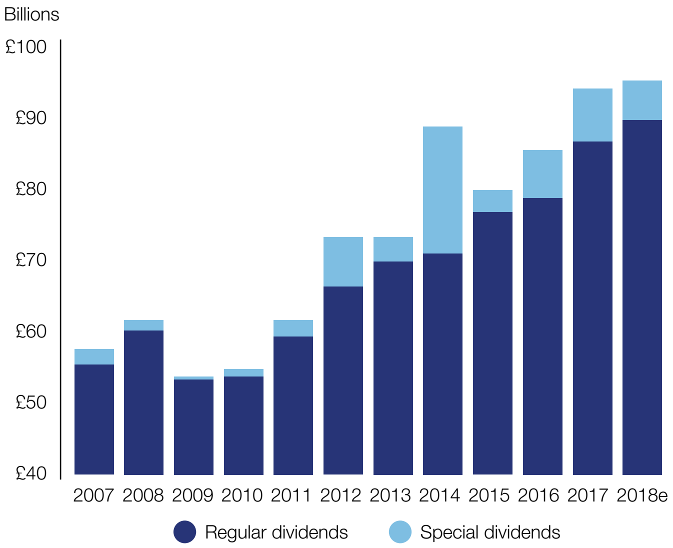
Steady progress in dividends on a constant-currency basis in 2018 will be partially undone in sterling terms, however. Since we made our 2018 forecast for UK dividends, the pound has risen 4% against the dollar. We do not attempt to forecast exchange rates – our model merely assumes that the latest rate persists for the rest of the year. On this basis, if the current exchange rate against the US dollar persists, the fx penalty in 2018 will be almost double our initial estimate – now standing at almost £3.2bn, up from a little under £1.7bn. If the dollar declines any further, that penalty will rise. On current trends the effect on euro-denominated payments is set to be negligible. The higher fx cost has entirely offset the additional boost to our constant-currency forecast.

Our underlying growth forecast in sterling (which excludes special dividends), is therefore unchanged at £90.4bn, an increase of 2.9% compared to 2017.

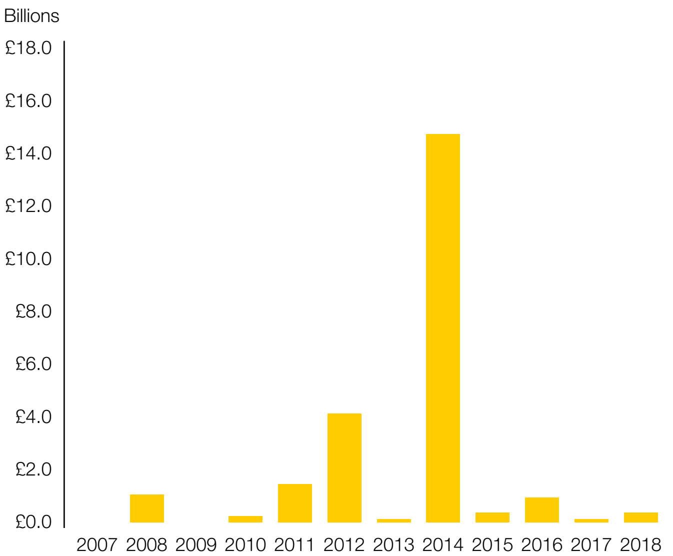
Our headline growth forecast, which factors in special dividends, is now £400m higher, most of which is thanks to Mondi, which surprised the market in March with the announcement of a €1 per share special dividend, after warning on profits a few months earlier. We still expect special dividends to be a little lower in 2018 than in 2017, however, so headline growth is set to be slower than underlying growth. We therefore forecast total UK dividends to reach £96.3bn, an increase of 1.8%, a record high despite steadier annual growth.

Outlook, continued

UK dividends



Q1 Special dividends



Statistical Methodology

The latest version of the Dividend Monitor is the second edition of the report produced following the acquisition of Capita Asset Services by Link Group. Under the new ownership of Link Asset Services, the methodology, historic data and analysis remain unchanged.

Link Asset Services 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.

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