UK Dividend Monitor

Issue 41 | Q2 2020

LINK Group

The Dividend Monitor is the UK's most comprehensive and reliable tracker of the income paid by UK companies to their shareholders, with a wide following across the financial services industry, among investors, and with policymakers.

We published the Q1 UK Dividend Monitor on 9th April setting out scenarios for how the pandemic and the associated global recession would hit dividends this year and updated them daily thereafter until the dust began to settle. As we went through production to publication in the midst of the Covid-19 maelstrom we watched as first a trickle, and then a flood of companies cut or cancelled their dividends. The picture is now much clearer, and in our latest edition we set out in more detail what has happened and how we expect the rest of 2020 to shape up.

Contents

Media enquiries:

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

Executive Summary

Overview

- Covid-19 caused unprecedented cuts in dividends in Q2 2020
- 176 companies cancelled payouts and 30 more cut them, together representing three quarters of Q2 payers
- In the aftermath of the Global Financial Crisis (GFC), just two fifths of companies cut or cancelled payouts
- Dividends fell 57.2% to £16.1bn on a headline basis, or 50.2% to £16.0bn if special dividends are excluded
- This was the biggest quarterly fall on record
- 124 companies rescinded dividends already promised

Where did the cuts fall hardest?

- Half the £16.4bn impact came from the financial sector
- Shell's cut, along with smaller oil companies, made up another £2.2bn
- Nine tenths of industrials cut payouts, costing investors £2.0bn
- Consumer discretionary companies (retail, housebuilding etc) cut by £1.7bn, with more than nine tenths cancelling payouts altogether
- Consumer basics were much more resilient

Top 100 v the rest

- Top 100 payouts fell 45% in Q2 compared to 76% for the mid-caps
- Mid-caps are more vulnerable – after the GFC mid-cap dividends fell far more than top 100 payouts
- Three fifths of top 100 companies cut payouts, compared to four fifths of mid-caps

Yield

- Best-case scenario implies equities will yield 3.6% in the next twelve months, or 4.1% in 2021
- Worst case implies 3.3% and 3.6% respectively
- This suggests UK equities are fairly valued or only slightly undervalued at present

Outlook

- Q2 brought enormous clarity to the UK dividend picture and enabled us to narrow the gap between our best- and worst-case scenarios significantly
- Our best case now sees payouts falling 39% to £60.5bn on an underlying basis, or 45% down in headline terms (which includes special dividends)
- Our worst case sees a fall of 43% to £56.3bn on an underlying basis, or 49% on a headline basis
- 2021 is set to see a rebound but it will be several years before dividends reach 2019 highs
- Companies have used 2020 as an opportunity to reset excessive payouts at a more sustainable level

Overview

Covid-19 caused unprecedented cuts in dividends in Q2 2020

176 companies cancelled payouts and 30 more cut them, together representing three quarters of Q2 payers

Dividends fell **57.2%** to **£16.1bn** on a headline basis, or **50.2%** to **£16.0bn** if special dividends are excluded

This was the biggest quarterly fall on record

The second quarter was truly a record breaker. Not by a whisker, nor by a nose, but by a mile. As the Covid-19 pandemic sent the world into lockdown UK companies slashed payouts with unprecedented speed and ferocity. A total of 176 companies cancelled their dividends altogether and another 30 cut them – together these made up three quarters of all the companies that usually pay in the second quarter. Just 61 increased their payouts. In the aftermath of the Global Financial Crisis (GFC), which used to be the undisputed benchmark for ‘how bad things can get’, the worst quarter (Q1 2009) saw two fifths of companies cut their dividends, and only half of these (ie one fifth) cancelling them altogether.

The Q2 total fell by a dizzying 57.2% to £16.1bn, almost £22bn less than in Q2 2019 on a headline basis. Excluding special dividends, which were exceptionally high this time last year, the decline was 50.2%, from £32.1bn to £16.0bn. This was the lowest second-quarter total since 2010, and the decline itself is by far the biggest ever recorded. Discretionary special dividends have all but disappeared.

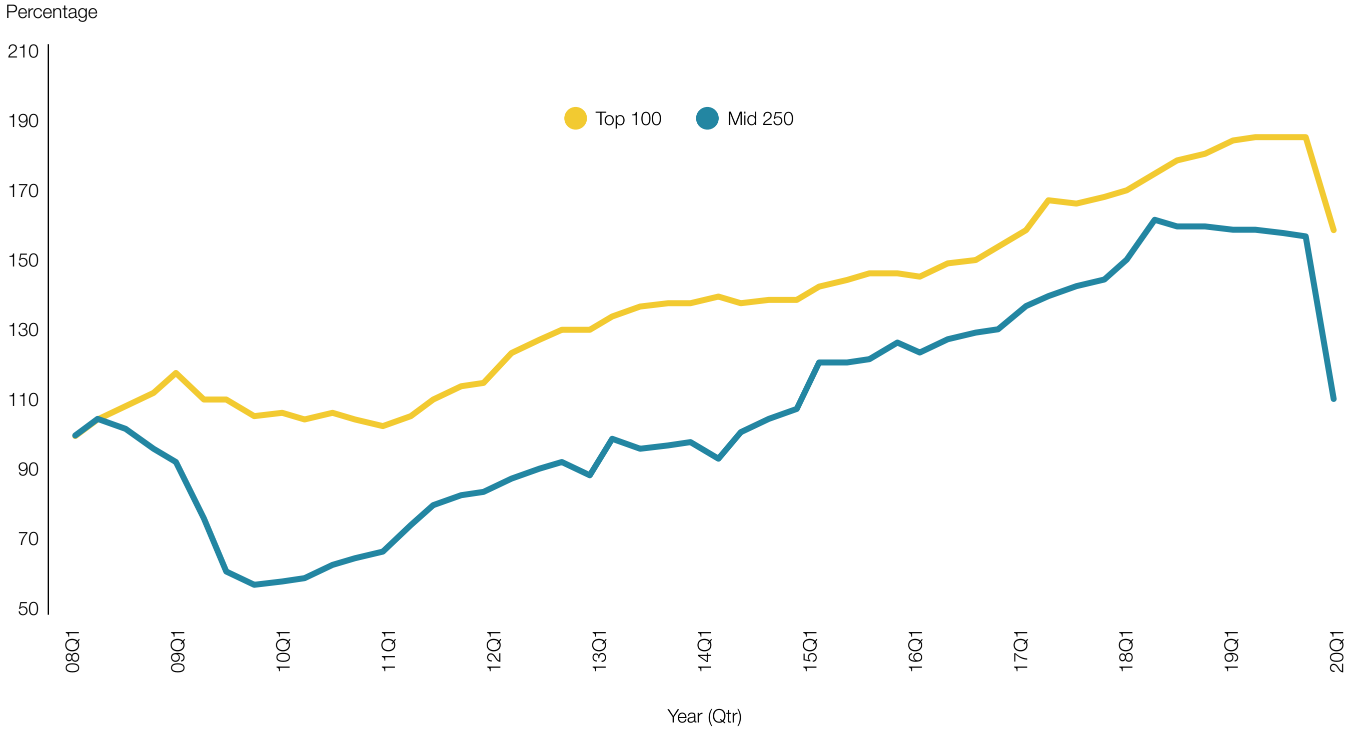
It is very unusual for a company to rescind a dividend already declared, especially if it has already passed the ex-dividend date, on which the share price adjusts for the imminent outflow of cash. Yet in the second quarter, 124 companies rescinded a total of £12bn of dividends already announced, including huge banks like HSBC and Lloyds (under instructions from the Bank of England), a vast array of consumer-sensitive companies like housebuilders and retailers, and a broad range of industrials.

Covid-19 caused unprecedented cuts in dividends in Q2 2020. Dividends fell 57.2% to £16.1bn on a headline basis, or 50.2% to £16.0bn if special dividends are excluded.

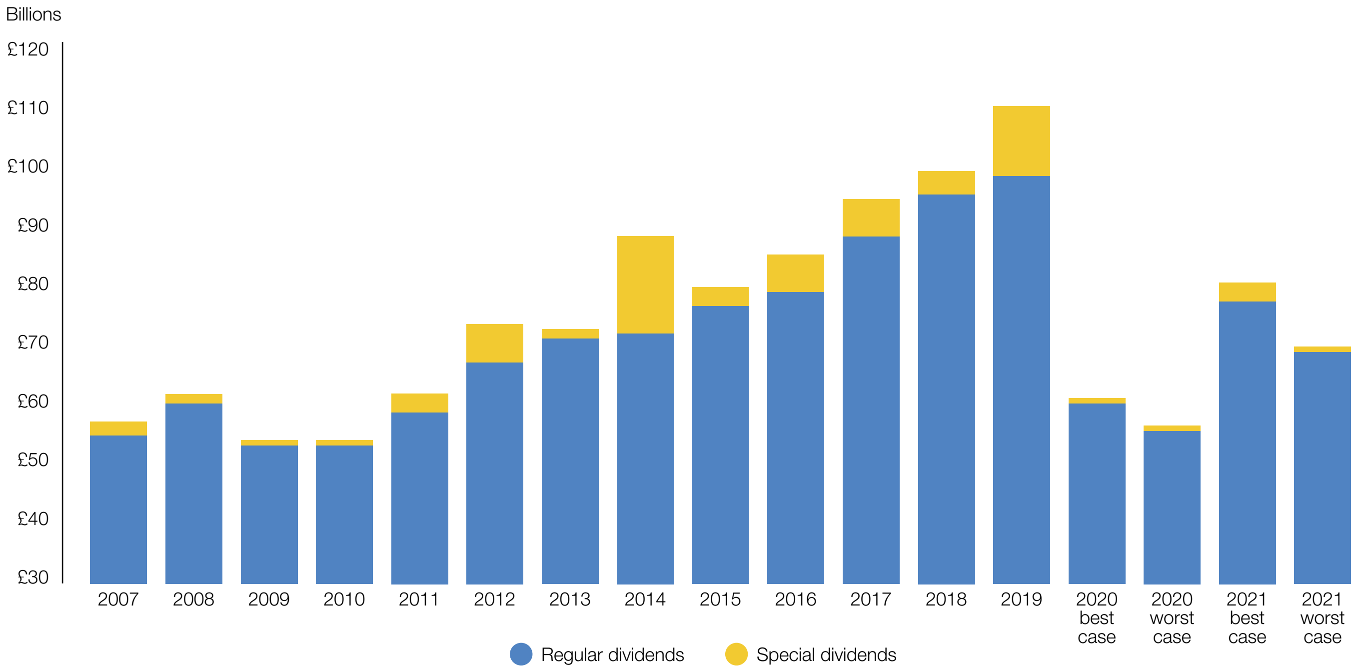
Dividends Paid £bn	Q1	Q2	Q3	Q4	Full Year
2007	£9.6	£20.5	£15.6	£12.0	£57.6
2008	£11.4	£20.6	£17.1	£12.8	£62.0
yoy	*19.8%*	*0.9%*	*9.5%*	*7.2%*	*7.7%*
2009	£12.7	£15.7	£15.7	£10.1	£54.1
yoy	*10.7%*	*-24.0%*	*-8.2%*	*-21.6%*	*-12.7%*
2010	£13.7	£14.4	£16.9	£9.4	£54.6
yoy	*8.4%*	*-8.0%*	*8.3%*	*-6.3%*	*0.9%*
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	£15.0	£95.1
yoy	*8.8%*	*13.4%*	*16.8%*	*-2.4%*	*10.9%*
2018	£17.0	£32.7	£33.2	£17.0	£99.8
yoy	*9.4%*	*-2.2%*	*6.2%*	*13.4%*	*4.9%*
2019	£19.7	£37.6	£35.8	£17.5	£110.5
yoy	*15.6%*	*15.2%*	*7.8%*	*3.0%*	*10.7%*
2020 best case	£17.5	£16.1	£18.5	£9.5	£61.6
yoy	*-11.0%*	*-57.2%*	*-48.3%*	*-45.8%*	*-44.3%*
2020 worst case	£17.5	£16.1	£16.7	£6.4	£56.7
yoy	*-11.0%*	*-57.2%*	*-53.3%*	*-63.6%*	*-48.7%*

Overview (continued)

Top 100 v Mid 250 - underlying dividends, indexed



UK dividends (full-year basis)



Where did the cuts fall hardest?

In our last edition, we published best- and worst-case scenarios for UK dividends in 2020. Our preliminary optimistic estimate for 2020 suggested UK dividends might fall at best 27% this year to £71.9bn, stripping out the effect of special dividends. Our best case only included cuts already announced or certain to be made and excluded those dividends we also considered vulnerable. Even with Q1 already safely in the bag to the tune of £17.5bn, this best-case scenario was set to be much worse than during the GFC in 2008-10, when dividends fell by just 15% between March 2009 and June 2010. Our worst-case scenario, which included the loss of all the vulnerable dividends too, suggested a fall of 51% to £48bn (excluding special dividends) might transpire this year.

As we updated our model each day during April and May, our best-case scenario became more pessimistic as more and more companies succumbed. But our worst-case outlook began to improve. Naturally these two poles must converge over time until we know the final outcome for 2020.

Of the £16.4bn cuts in the second quarter, half of the impact came from the financial sector, after the Bank of England commanded the banks to cancel all shareholder payouts for 2020 and leant heavily on insurance companies to follow suit. Some insurers resisted, notably Legal & General and Admiral (though the latter canned its planned special dividend), but most bowed to pressure from the regulator.

The biggest news came when Shell took a knife to its world-beating payout, cutting it by two thirds, the first reduction since WW2. We had flagged Shell's dividend as vulnerable, but confirmation of a cut took a very big bite out of the best case. As the largest dividend payer in the world, this move symbolised the enormous impact the global health crisis was having on the world economy and was tough medicine for income investors. In truth, Shell has long struggled to afford its huge £11.8bn dividend, often borrowing to top it up, or offering scrip dividends that distribute shares instead of balance-sheet sapping cash. Shell is unprofitable if oil falls below around $50 per barrel, yet crude was trading at less than half that level for a time this spring. Oil has bounced back, but is still some way below the level that can generate significant dividend-sustaining profits for Shell and many other oil producers around the world. BP has so far maintained its payout, but many smaller operators followed Shell's lead. Collectively, oil-sector cuts totalled £2.2bn in the second quarter.

Almost as much, £2.0bn, came from the diverse industrials sector which includes aviation, construction, engineering, and support services. Nine tenths of companies cancelled their dividends altogether, the biggest being BAE, but a plucky tenth of them increased their dividends – Intertek honoured its increased final payout for 2019, for example, even as it reported falling revenues.

In all, £1.7bn fell away from consumer discretionary sectors that include media, housebuilding, travel, leisure, and retail. The lockdown hit the last four of these especially badly, though the biggest single impact in the group actually came from ITV. This group has also taken significant advantage of government support, so dividend-paying was an absolute no-no for many. Only four companies out of 55 did not cancel their Q2 payout, most of them media groups like Pearson.

In the mining sector, the big hit came from Glencore, with a supporting role for smaller players like Antofagasta and Fresnillo. Anglo American by contrast only made a very small cut, though the market expects a bigger hit to its interim dividend due in September.

Among consumer basics companies that include food retail, food, drink and tobacco, and personal items, dividend cuts were less severe than elsewhere. These sectors are classic defensives, whose earnings are relatively sheltered during a crisis. More than half of the companies in the sector actually increased their payouts year-on-year. Of the rest, all but one cancelled their dividends, while Imperial Brands cut its dividend by a third. Utilities are also strongly defensive, but Centrica has been undergoing expensive restructuring and had already announced a steep cut. In the event, however, even this reduced payout was rescinded. Other utilities continue to perform, however.

Sectors & Companies

Q2 Dividends – top companies

Rank	12Q2	13Q2	14Q2	15Q2	16Q2
1	Royal Dutch Shell Plc	HSBC Holdings plc	HSBC Holdings plc	HSBC Holdings plc	HSBC Holdings plc
2	British American Tobacco	Royal Dutch Shell Plc	British American Tobacco	Royal Dutch Shell Plc	Royal Dutch Shell Plc
3	HSBC Holdings plc	British American Tobacco	Royal Dutch Shell Plc	British American Tobacco	Glaxosmithkline plc
4	Glaxosmithkline plc	BP plc	Glaxosmithkline plc	BP plc	British American Tobacco
5	Old Mutual plc	Glaxosmithkline plc	BP plc	Glaxosmithkline plc	Lloyds Banking Group plc
Subtotal £bn	*£7.4*	*£8.0*	*£7.9*	*£8.7*	*£10.8*
% of total dividends	*34%*	*34%*	*33%*	*32%*	*37%*
6	BP plc	Glencore Xstrata plc	Rio Tinto plc	Rio Tinto plc	BP plc
7	Rio Tinto plc	Standard Chartered plc	Glencore plc	Glencore plc	Rio Tinto plc
8	Standard Chartered plc	Rio Tinto plc	Standard Chartered plc	Standard Chartered plc	Intercontinental Hotels Group
9	Centrica plc	Centrica plc	Prudential plc	Barclays plc	Prudential plc
10	Reckitt Benckiser Group Plc	Reckitt Benckiser Group Plc	Centrica plc	Prudential plc	Reckitt Benckiser Group Plc
11	Aviva Plc	Standard Life Plc	Reckitt Benckiser Group Plc	Reckitt Benckiser Group Plc	Legal & General Group plc
12	Xstrata Plc	Prudential plc	Antofagasta plc	Diageo plc	Barclays plc
13	Glencore International plc	Antofagasta plc	Diageo plc	Lloyds Banking Group plc	Aviva Plc
14	Prudential plc	Anglo American plc	Anglo American plc	Anglo American plc	Diageo plc
15	Diageo plc	Diageo plc	Legal & General Group plc	Legal & General Group plc	ITV
Subtotal £bn	*£5.9*	*£6.3*	*£6.2*	*£7.1*	*£7.7*
Top 15 Grand Total £bn	*£13.3*	*£14.3*	*£14.2*	*£15.8*	*£18.5*
% of total dividends	*81%*	*66%*	*60%*	*59%*	*63%*

Sectors & Companies (continued)

Rank	17Q2	18Q2	19Q2	20Q2
1	HSBC Holdings plc	HSBC Holdings plc	Rio Tinto plc	Rio Tinto plc
2	National Grid Plc	Royal Dutch Shell Plc	HSBC Holdings plc	BP plc
3	Royal Dutch Shell Plc	Rio Tinto plc	Royal Dutch Shell Plc	British American Tobacco Plc
4	British American Tobacco	BP plc	BP plc	Glaxosmithkline plc
5	Lloyds Banking Group plc	Lloyds Banking Group plc	Micro Focus International Plc	Royal Dutch Shell Plc
Subtotal £bn	*£11.5*	*£8.8*	*£10.9*	*£5.8*
% of total dividends	*35%*	*27%*	*29%*	*36%*
6	BP plc	Glaxosmithkline plc	Lloyds Banking Group plc	Legal & General Group plc
7	Rio Tinto plc	British American Tobacco Plc	Royal Bank of Scotland Group plc	Reckitt Benckiser Group Plc
8	Glaxosmithkline plc	Glencore plc	British American Tobacco Plc	Diageo plc
9	Prudential plc	Prudential plc	Glaxosmithkline plc	RELX Plc
10	Reckitt Benckiser Group Plc	Ferguson Plc	Glencore plc	Prudential plc
11	Aviva Plc	Aviva Plc	Prudential plc	Anglo American plc
12	Legal & General Group plc	Reckitt Benckiser Group Plc	Aviva Plc	Unilever plc
13	Diageo plc	Legal & General Group plc	Reckitt Benckiser Group Plc	M&G Plc
14	Centrica plc	Diageo plc	Legal & General Group plc	Standard Life Aberdeen Plc
15	Intercontinental Hotels Group	Anglo American plc	Barclays plc	CRH Plc
Subtotal £bn	*£7.1*	*£7.6*	*£9.1*	*£4.8*
Top 15 Grand Total £bn	*£18.6*	*£16.3*	*£20.0*	*£10.6*
% of total dividends	*56%*	*50%*	*53%*	*66%*

Sectors & Companies (continued)

Dividends – by industry

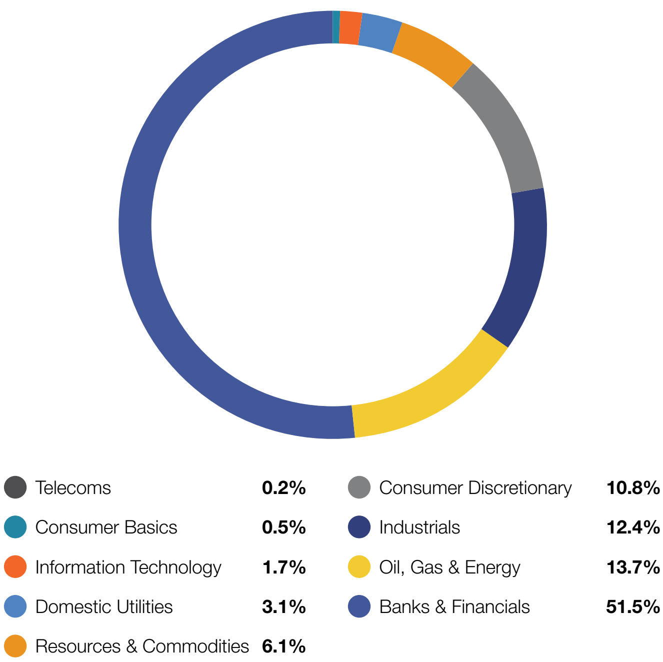
Industry £m	Resources & Commodities	Consumer Basics	Consumer Discretionary	Banks & Financials	Healthcare & Pharmaceuticals	Industrials	Oil, Gas & Energy	Information Technology	Telecoms	Domestic Utilities	Total
07Q2	£1,129	£1,644	£2,658	£9,455	£784	£1,552	£2,284	£215	£34	£703	*£20,457*
08Q2	£1,572	£2,059	£1,949	£8,646	£894	£1,739	£2,794	£258	£37	£694	*£20,641*
yoy	*39%*	*25%*	*-27%*	*-9%*	*14%*	*12%*	*22%*	*21%*	*9%*	*-1%*	*1%*
09Q2	£1,073	£2,719	£945	£3,928	£966	£1,386	£3,910	£100	£52	£610	*£15,689*
yoy	*-32%*	*32%*	*-52%*	*-55%*	*8%*	*-20%*	*40%*	*-61%*	*41%*	*-12%*	*-24%*
10Q2	£942	£2,658	£1,193	£4,121	£1,033	£1,554	£2,044	£160	£68	£656	*£14,429*
yoy	*-12%*	*-2%*	*26%*	*5%*	*7%*	*12%*	*-48%*	*60%*	*33%*	*8%*	*-8%*
11Q2	£1,771	£3,000	£1,252	£3,654	£1,083	£1,831	£2,778	£189	£71	£731	*£16,359*
yoy	*88%*	*13%*	*5%*	*-11%*	*5%*	*18%*	*36%*	*18%*	*3%*	*11%*	*13%*
12Q2	£2,869	£3,157	£1,480	£6,440	£1,406	£1,982	£3,235	£216	£78	£732	*£21,596*
yoy	*62%*	*5%*	*18%*	*76%*	*30%*	*8%*	*16%*	*15%*	*10%*	*0%*	*32%*
13Q2	£3,295	£3,318	£2,082	£7,140	£1,248	£2,119	£3,494	£205	£89	£685	*£23,676*
yoy	*15%*	*5%*	*41%*	*11%*	*-11%*	*7%*	*8%*	*-5%*	*14%*	*-6%*	*10%*
14Q2	£3,018	£3,452	£2,332	£6,937	£1,303	£2,285	£3,425	£201	£84	£681	*£23,719*
yoy	*-8%*	*4%*	*12%*	*-3%*	*4%*	*8%*	*-2%*	*-2%*	*-5%*	*-1%*	*0%*
15Q2	£3,003	£3,757	£2,739	£9,249	£1,365	£2,344	£3,717	£239	£96	£487	*£26,996*
yoy	*0%*	*9%*	*17%*	*33%*	*5%*	*3%*	*9%*	*18%*	*14%*	*-28%*	*14%*
16Q2	£1,486	£3,934	£4,079	£9,988	£2,367	£2,612	£4,117	£263	£109	£504	*£29,458*
yoy	*-51%*	*5%*	*49%*	*8%*	*73%*	*11%*	*11%*	*10%*	*14%*	*3%*	*9%*
17Q2	£2,572	£4,352	£3,115	£10,686	£1,526	£2,340	£4,790	£213	£129	£3,686	*£33,410*
yoy	*73%*	*11%*	*-24%*	*7%*	*-36%*	*-10%*	*16%*	*-19%*	*19%*	*632%*	*13%*
18Q2	£4,869	£3,443	£2,579	£11,450	£1,607	£3,135	£4,614	£347	£77	£565	*£32,684*
yoy	*89%*	*-21%*	*-17%*	*7%*	*5%*	*34%*	*-4%*	*62%*	*-40%*	*-85%*	*-2%*
19Q2	£6,679	£3,561	£2,763	£13,115	£1,434	£2,558	£4,937	£1,897	£57	£636	*£37,639*
yoy	*37%*	*3%*	*7%*	*15%*	*-11%*	*-18%*	*7%*	*447%*	*-26%*	*13%*	*15%*
20Q2	£3,187	£3,392	£764	£3,745	£1,454	£509	£2,724	£198	£17	£138	*£16,128*
yoy	*-52%*	*-5%*	*-72%*	*-71%*	*1%*	*-80%*	*-45%*	*-90%*	*-71%*	*-78%*	*-57%*

Sectors & Companies (continued)

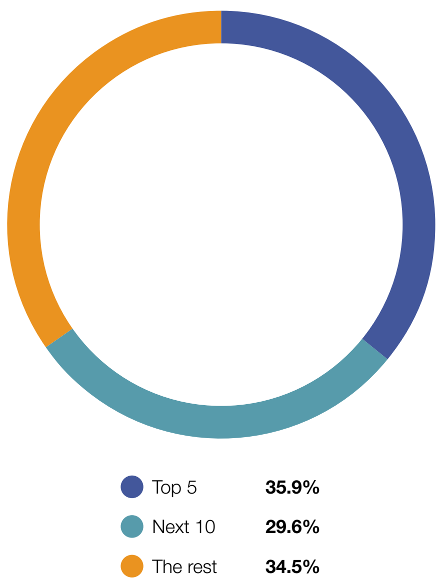
Dividends – by sector

Sector £m	19Q2	20Q2	Headline change year on year	Underlying change year on year
Mining	£6,428.6	£3,121.8	-51%	-23%
Industrial Chemicals	£250.9	£65.1	-74%	-37%
Basic Consumer Goods	£1,135.6	£1,182.0	4%	4%
Food Retail	£234.6	£116.4	-50%	-16%
Food, Drink & Tobacco Producers	£2,190.6	£2,093.6	-4%	-4%
Airlines, Leisure & Travel	£776.0	£26.8	-97%	-96%
General Retail	£201.3	£0.0	-100%	-100%
Housebuilding, Consumer Goods & Services	£610.5	£0.0	-100%	-100%
Media	£1,149.0	£737.3	-36%	-36%
Motor Manufacturing & Parts	£26.7	£0.0	-100%	-100%
Banks	£7,504.5	£0.0	-100%	-100%
General Financials	£1,370.2	£1,551.2	13%	10%
General & Life Insurance	£3,494.0	£1,819.5	-48%	-45%
Property	£746.5	£374.2	-50%	-48%
Healthcare & Pharmaceuticals	£1,434.4	£1,453.8	1%	1%
Building Materials & Construction	£482.4	£328.1	-32%	-31%
Industrial Goods & Support	£2,075.7	£181.2	-91%	-91%
Oil, Gas & Energy	£4,937.2	£2,723.8	-45%	-45%
Information Technology	£1,897.1	£198.4	-90%	-58%
Telecoms	£56.8	£16.5	-71%	-71%
Domestic Utilities	£636.2	£138.2	-78%	-78%
Total	£37,638.7	£16,127.9	-57%	-1%

Where the cuts fell hardest in Q2



Concentration of UK Dividends - Q2 2020



Top 100 v Mid 250

Top 100 payouts fell **45%** in Q2 compared to **76%** for the mid-caps

Mid-caps are more vulnerable – after the GFC mid-cap dividends fell far more than top 100 payouts

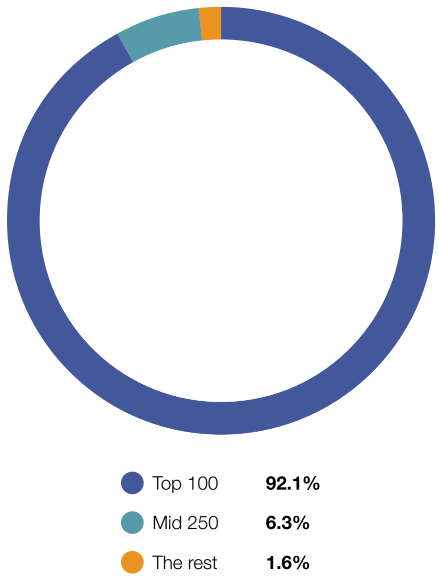
Three fifths of top 100 companies cut payouts, compared to four fifths of mid-caps

In the second quarter, top 100 dividends dropped by less than the mid-caps, falling 45% year-on-year compared to a precipitous 76% for the mid 250 on an underlying basis. Smaller companies also saw their dividends drop by three quarters. Given the cancellation of all bank payouts and the loss of two thirds of Shell's payout, it would be easy to suppose the top 100 would see a bigger decline. However, in reality some of the most defensive names are in the top 100 – BAT, Glaxosmithkline and Astrazeneca, for example, have continued paying dividends as normal.

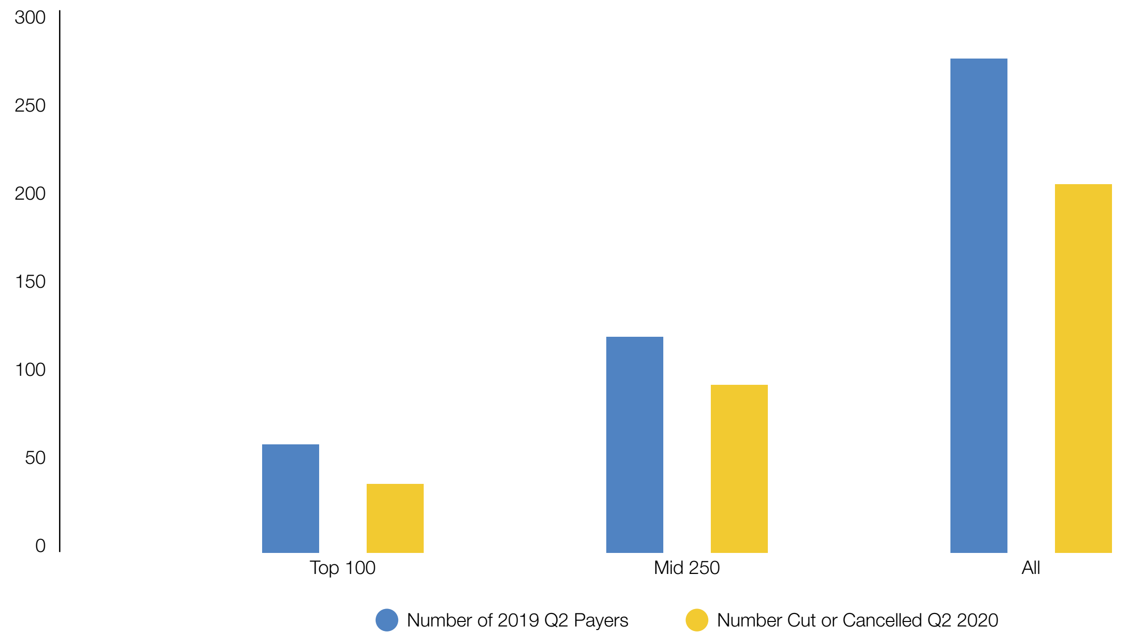
By contrast, the mid-caps are more domestically focused and operating in sectors more sensitive to the economic cycle (and especially to the lockdown). Crucially, they also have much less balance-sheet flexibility, with more limited access to credit and less appetite to borrow. These factors together make it much more necessary for the mid-caps to preserve cash in times of crisis. In the GFC, for example, underlying mid-cap payouts (ie excluding specials) fell 46% peak-to-trough, compared to 11% for the top 100. The same pattern is playing out now, only with more ferocity.

Overall, three fifths of top 100 companies cut or cancelled their payouts in Q2, compared to almost four fifths of mid 250s.

Share of UK dividends - Q2 2020



Companies affected by dividend cuts - Q2 2020



In the second quarter, top 100 dividends dropped by less than the mid-caps, falling 45% year-on-year compared to a precipitous 76% for the mid 250 on an underlying basis.

Yield

Best case
3.6% in next 12 months
4.1% in 2021

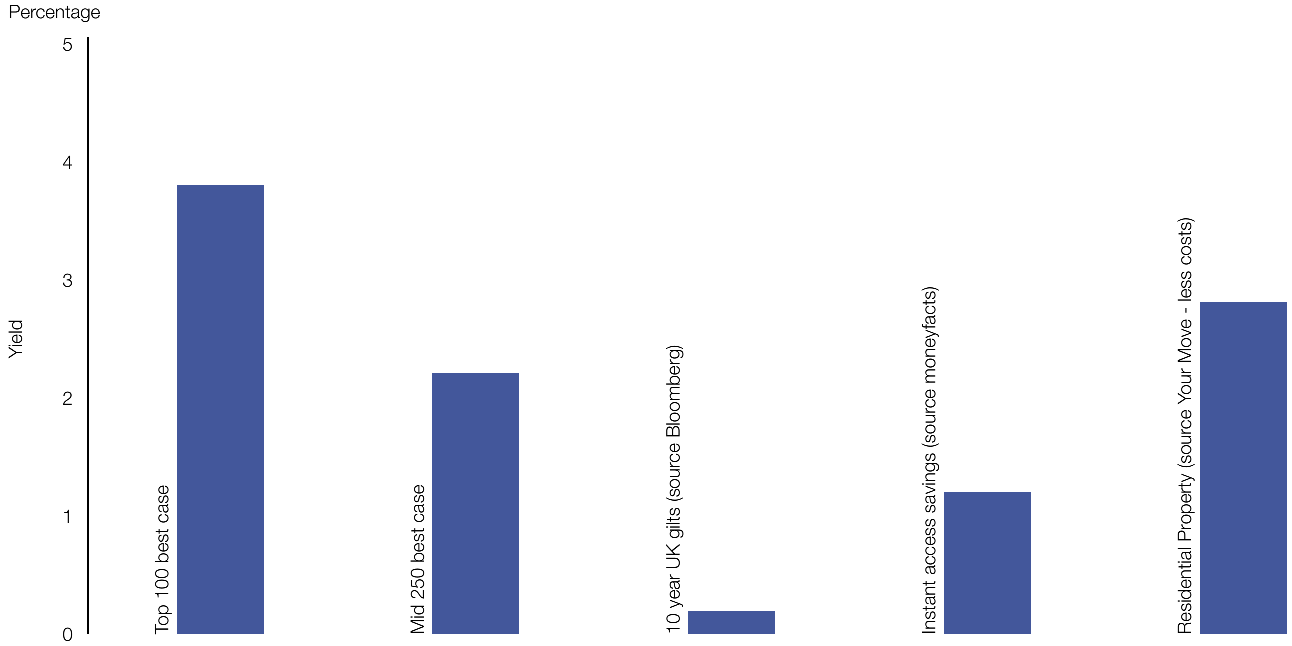
Worst case
3.3% in next 12 months
3.6% in 2021

Yield is a helpful, if imperfect, yardstick by which to assess share prices. In our last edition of the Dividend Monitor we showed how the yield indicated that share prices were at worst fairly valued and at best significantly undervalued.

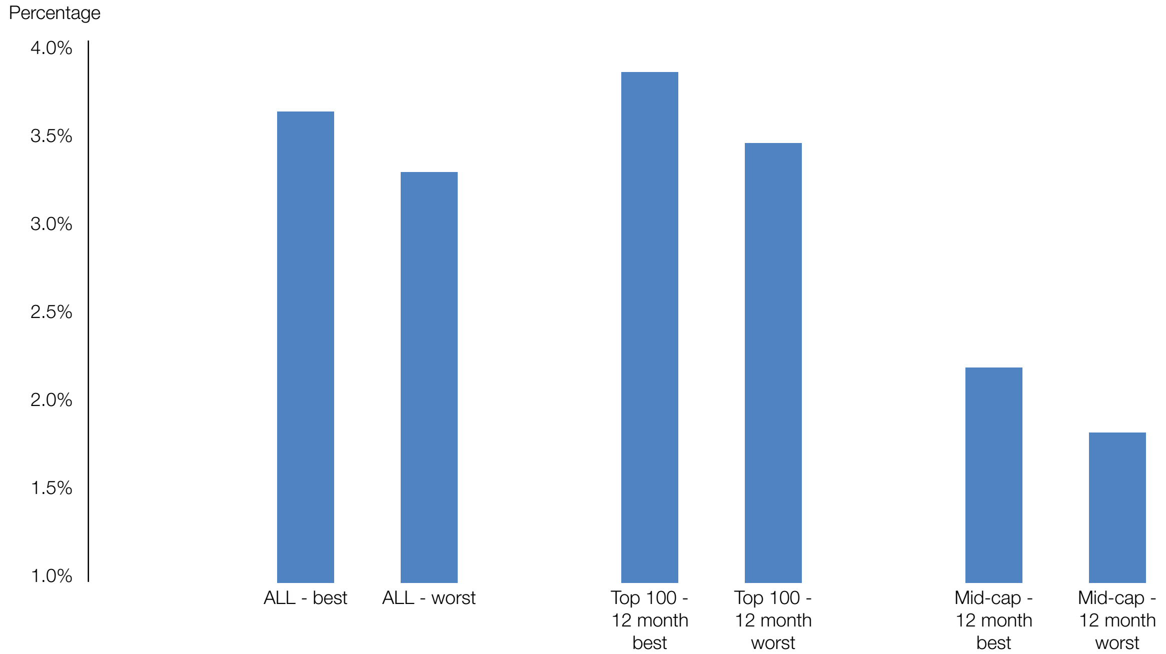
The UK stock market has duly rebounded from its mid-March lows, but is still well below its peak – the recovery has lagged behind international peers. This underperformance is thanks both to the severity of dividend cuts prompting a reassessment of the valuation of UK equities, and the poor UK response to the pandemic, as well as the ever-growing threat of a no-deal (now rebranded an Australian-style) Brexit.

Higher share prices today mean a lower yield. In addition, our best-case scenario for dividends has come down since our last edition (see Outlook below), though our worst-case scenario has improved. Over the next twelve months we now expect UK equities to yield 3.6% on a best-case scenario (in line with the long run average of 3.5%) or 3.3% on a worst-case scenario. For calendar-year 2021, when the worst dislocation should hopefully be behind us, the market is implying a yield of between 3.6% and 4.1% based on our worst- and best-case estimates for 2021 payouts respectively. This is below the long-run average, but roughly in line with where it has been in the last couple of years and suggests that today share prices are just about fairly valued.

UK income



Yield - Next 12 months



Outlook

Q2 brought enormous clarity to the UK dividend picture and enabled us to narrow the gap between our best- and worst-case scenarios significantly

Our best case now sees payouts falling **39%** to **£60.5bn** on an underlying basis, or **45%** down in headline terms (which includes special dividends)

Our worst case sees a fall of **43%** to **£56.3bn** on an underlying basis, or **49%** on a headline basis

It is hard not to overburden this report with superlatives, but 2020 will without doubt see the biggest hit to dividends in generations.

Over the last quarter, as the lockdown wore on and restrictions became ever tighter, the associated economic damage spread to more and more companies. At the same time, it became clearer which companies were more resilient, and we were able to more accurately assess how deep cuts would go for those companies not simply cancelling payouts altogether. This process has seen a gradual improvement in our worst-case scenario, even though it meant a less optimistic best-case.

Land Securities was the first company to announce it would restart dividends in November, though it likely won't make up for ground lost in Q2. Moreover, it is still possible that some of the Q2 cancellations will be restored later in the year. Economies around the world will snap back from their induced coma, recouping most of the lost activity - of that there is no question. But it will take a long time, measured in years, for them to claw their way back to where they were, with this environment leaving UK companies with a much-diminished capacity to pay dividends.

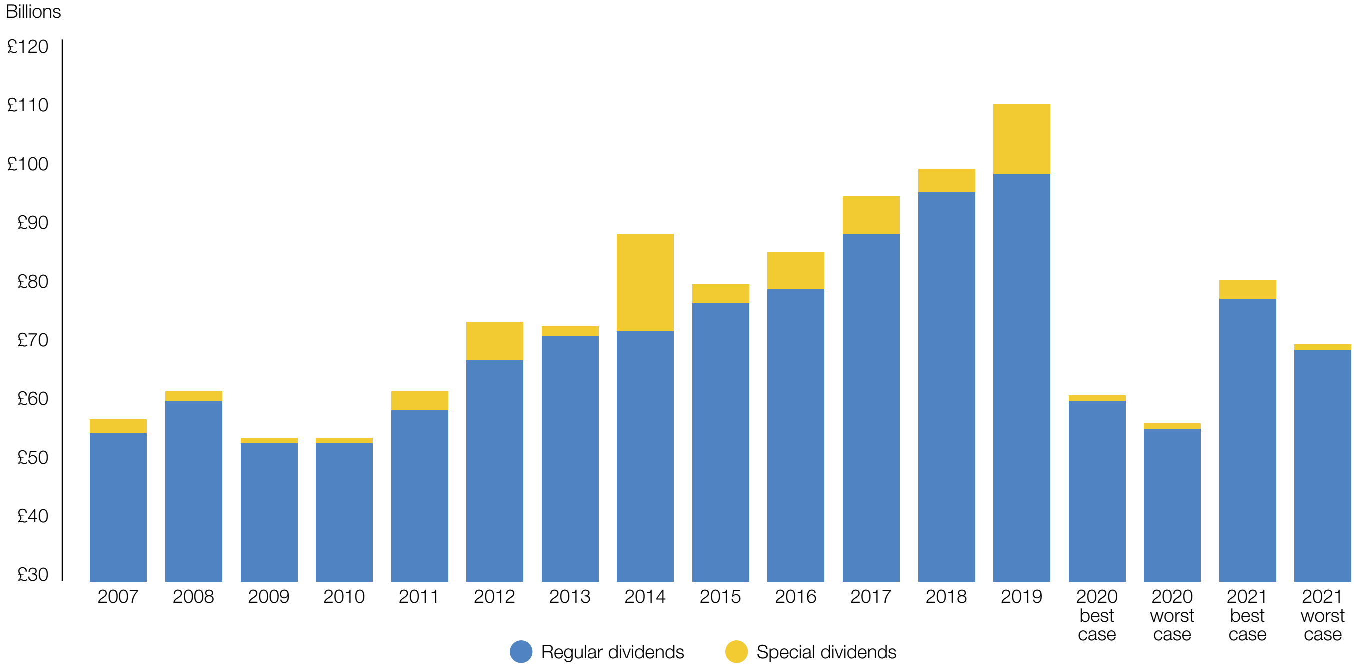
Our best-case scenario for 2020 now sees payouts falling 39% to £60.5bn on an underlying basis, down from £98.5bn last year. One-off special dividends were exceptionally high in 2019 and will be exceptionally low this year, so the decline in our headline figure will be 45% on a best-case basis, dropping from £110.5bn to £61.6bn. Our worst case sees a fall of 43% to £56.3bn on an underlying basis or 49% on a headline basis to £56.7bn.

The gap between our best- and worst-case scenarios is now just four percentage points, far narrower than our first estimate in early April made in the midst of the turmoil. At that time, it was twenty-three percentage points. The narrowing is because we now have much better visibility both on the impact of the pandemic and on how companies have responded.

For 2021, dividends are likely to rebound quite sharply, increasing as much as 29% year-on-year, though we caution that this is based on broad-brush assumptions at this point. This would generate payouts of £78.0bn on an underlying basis, a fifth lower than in 2019. Conceivably it could take until 2026 for dividends to return to the 2019 level.

To some extent, companies in 2020 are also ensuring they try to make good use of a crisis. Dividend cover, a measure of affordability that relates payouts to profits, has been far lower in the UK than the global average. 2020 has provided an opportunity for many companies to reset their dividends at a lower, more sustainable level from which they can again start to rebuild. In the short term this is painful for investors, but in the long run it helps create healthier companies.

UK dividends (full-year basis)



Our best case now sees payouts falling 39% to £60.5bn on an underlying basis, or 45% down in headline terms. Our worst case sees a fall of 43% to £56.3bn on an underlying basis, or 49% on a headline basis.

For all enquiries please contact:
Teamspirit PR
t: 020 7360 7878
e: Link@teamspirit.uk.com