2018 UK Dividend Report

Total Market Dividends Top £100bn
Miners and Banks Drive Dividend Growth

Total UK dividends grew by 7.9% in 2018 and topped £100bn for the first time.

Further strong growth in dividends from the mining sector and also from the banking sector powered another year of significant real dividend growth for the UK stock market. As a result, total dividends, measured on an XD basis, grew to over £100bn for the first time. Dividend growth as measured by the XD adjustment on the FTSE All Share Index was a more pedestrian 6.5% but takes into account the various free-float adjustments used for index calculations.

Dollar weakness in first half of 2018 was a significant headwind.

The first six months of 2018 saw a period of sustained gains by the pound, particularly against the US dollar. Although a distant memory now, the pound actually traded at over $1.43 for a time in April and averaged around $1.40 in the first half of 2018. This saw the average pound/dollar currency rate weaken by over 4% versus the equivalent rate in 2017, presenting a sizeable headwind for sterling dividend receipts given the large proportion of UK dividends declared in dollars.

Substantial special dividend payments.

Although 2018 was not as strong a year for special payments as 2017, FTSE All Share Index constituents still made well over £6bn of special payments in 2018, down from over $9bn the previous year. Notable payments came from Standard Life Aberdeen, Ferguson and AVEVA.

Little change in UK dividend concentration.

The UK stock market still derives half of its income from just ten companies and over a third from just five. Worryingly, over a quarter of UK market income comes from the highly cyclical mining and oil sectors. Sustained commodity price weakness would put a large part of the UK market's dividend base under threat.

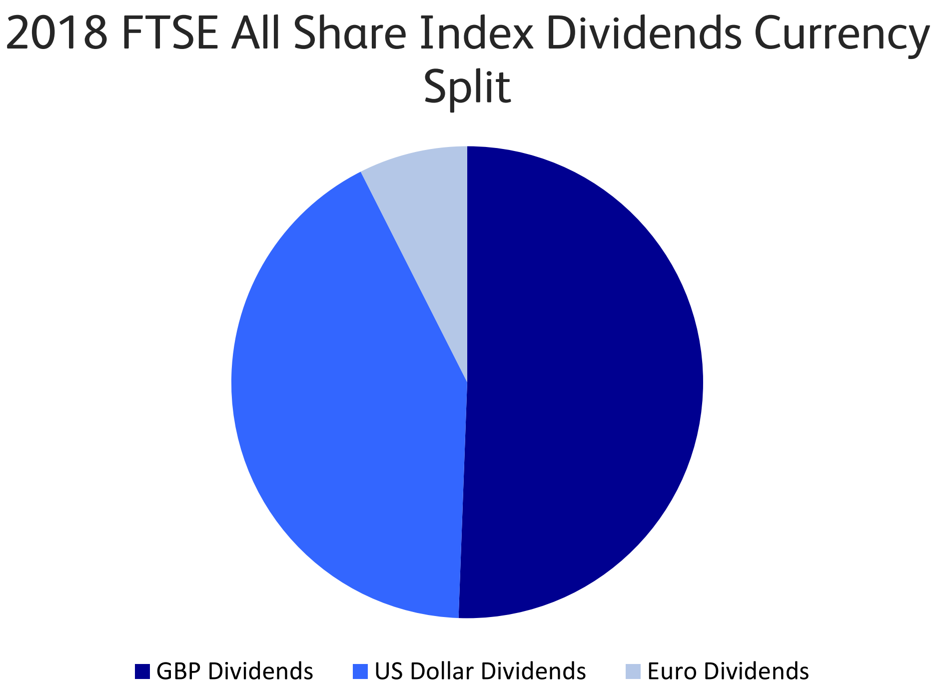
2019 outlook clouded by slowing economic growth and Brexit although currencies should be helpful.

The pound has weakened steadily in the second half of 2018 against both the dollar and the Euro and this should provide a helpful benefit to sterling dividend receipts in 2019, although at current exchange rates this benefit will be felt mainly on US dollar payments. Underlying dividend growth is unlikely to match that recorded in 2018 given the effect that weaker oil and commodity prices are likely to have on dividend declarations in these sectors, which have been the driving force behind much of the strong growth in dividends seen over the last two years. Nonetheless, a further real increase in dividends seems likely.

2018 Dividend Performance

On an XD basis, using total shares in issue rather than free float numbers, total sterling ordinary dividends from FTSE All Share Index constituents rose by 7.9 % in 2018 over the previous year, adding another year of real growth to the impressive recovery seen since the contraction recorded during the financial crisis. Dividend growth as measured by the XD adjustment on the FTSE All Share Index, which makes various free float adjustments to the number of shares in issue, was lower at 6.5 %. In particular, there are a number of high dividend growth mining stocks with low free floats that account for most of the difference between these two measures. Whatever measure is used, at more than twice the current rate of inflation this is an attractive level of real dividend growth, which came despite unhelpful currency movements. On a constant currency basis, 2018 UK total market dividends grew by nearly 10 % over the level recorded in 2017. This impressive level of real growth was again driven by mining companies with additional help from a recovery in payments in the banking sector. The top five contributors to total market dividend growth were all mining stocks with Barclays, Standard Chartered and Lloyds Banking Group also in the top ten for positive contributions.

In 2018 the average level of the pound rose by over 4.5 % against the US dollar and fell by under 1 % against the Euro versus the average levels in 2017, meaning that the 7.9 % sterling dividend growth translated into constant currency growth of 9.8 %. Total 2018 sterling ordinary dividends rose to £100.1bn on an XD basis against £92.8bn in the previous year, topping £100bn for the first time. Once again, around 90 % of the index's 640 constituent companies paid some sort of dividend in the year, a strong testament to the UK's dividend paying culture. Just under a quarter of FTSE All Share Index companies declared non-sterling dividends last year, which accounted for almost half of total dividends paid. The split of dividends paid by currency is shown in the chart below, which particularly illustrates the importance of the dollar dividend payers.



Source: Company RNS announcements

Sterling declared dividends accounted for 50.6% of total receipts; US Dollar declared dividends 41.9% and Euro declared dividends 7.5%, demonstrating just how important the sterling/dollar exchange rate is for income investors. Sterling dividend payers registered a fairly strong performance in real terms as total dividends declared in sterling grew by 5.3% on an XD basis, whilst US dollar declared dividends grew by 15.7% at constant currency, reflecting the strong growth in mining dividends, which are almost exclusively declared in dollars. Total Euro declared dividends rose by 8.0% at constant currency, reflecting good underlying growth. As noted above, total market dividends were depressed by currency moves in 2018. In 2017 dividends declared in dollars were converted at an average exchange rate of $1.28:£1, whilst Euro dividends were converted at an average rate of €1.14:£1. The equivalent figures in 2018 were $1.34 and €1.13 respectively. The average dollar and Euro conversion rates also imply that there will be a meaningful currency benefit in 2019 if current exchange rates persist.

The UK stock market has remained very concentrated from an income perspective as the following table showing the top twenty ordinary dividend paying stocks demonstrates.

Company	Total Dividends Paid In 2018	% Of Total Market Dividends
Royal Dutch Shell	£11,758m	12.4%
HSBC	£7,578m	8.0%
BP	£6,053m	6.4%
British American Tobacco	£4,477m	4.7%
GlaxoSmithKline	£3,968m	4.2%
Vodafone	£3,549m	3.7%
Rio Tinto	£3,036m	3.2%
AstraZeneca	£2,603m	2.7%
Lloyds Banking Group	£2,242m	2.4%
Glencore	£2,139m	2.3%
BHP Billiton	£1,866m	2.0%
Imperial Brands	£1,734m	1.8%
Unilever	£1,621m	1.7%
Diageo	£1,608m	1.7%
National Grid	£1,568m	1.7%
BT	£1,505m	1.6%
Prudential	£1,247m	1.3%
Reckitt Benckiser	£1,186m	1.3%
EVRAZ	£1,186m	1.3%
Aviva	£1,128m	1.2%

Source: Company RNS announcements

The top five stocks now account for 36% of total market dividends, the same as last year, the top ten still account for 50% and the top twenty stocks account for very nearly two thirds of total market income. Also of note is the preponderance of mining and oil stocks within the top twenty; a significant downturn in commodity prices would put a large part of the UK stock market's dividend base in peril.

Special Dividends

As well as being a strong year for total ordinary sterling dividend growth, 2018 was a good year for special payments from FTSE All Share Index constituents, although down on the bumper payments recorded in 2017. Total special dividends in 2018 amounted to £6.8bn on an XD basis, down on the £9.5bn of special dividends declared in 2017, though still making a serious addition to the £100.1bn of ordinary dividends. Included in this total are all special payments where there was an option to take the payment as income, including the popular B/C share schemes. In all, 65 companies made special payments in 2018, the largest of which are listed in the table below.

Company	2018 Total Special Payments
Standard Life Aberdeen	£1,000m
Ferguson	£737m
AVEVA	£650m
3i Infrastructure	£425m
Persimmon	£388m
Taylor Wimpey	£340m
Mondi	£323m
Great Portland Estates	£306m
Quilter	£228m
Direct Line Insurance	£206m
Barratt Developments	£175m
Sky	£172m
Electra Private Equity	£149m
Hansteen	£145m
Admiral Group	£108m
SSP	£100m
Worldpay	£84m
Derwent London	£84m
Hays	£73m
Jupiter Fund Management	£71m

Source: Company RNS announcements

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Contribution Analysis of Total Dividend Growth and Dividend Cuts

Total UK sterling ordinary dividend receipts from FTSE All Share Index constituents grew by £7.3bn in 2018 on an XD basis. The top twenty contributors to this growth in ordinary dividends were as shown in the table below.

Company	Contribution To 2018 Total Dividend Growth
Glencore	£973m
EVRAZ	£852m
Anglo American	£567m
Rio Tinto	£510m
BHP Billiton	£476m
Standard Chartered	£415m
Lloyds Banking Group	£308m
Tesco	£277m
Barclays	£259m
Randgold Resources	£257m
Royal Bank of Scotland	£241m
Sky	£225m
Standard Life Aberdeen	£171m
Imperial Brands	£152m
Micro Focus International	£145m
Aviva	£145m
Antofagasta	£144m
Unilever	£127m
Melrose	£102m
3i Group	£102m

Source: Company RNS announcements

The top twenty positive contributors to total dividend growth shown above actually contributed £6.4bn of total dividend growth, accounting for almost 90 % of the total growth for the market and emphasising the importance of the mining and banking sectors to total market dividend growth. In particular, the table also shows how important the rebound in commodity prices has been for UK dividend growth with six of the top ten contributors to dividend growth coming from the mining sector. The banking sector was also a large contributor to total market dividend growth with Lloyds, Standard Chartered, Barclays and Royal Bank of Scotland adding over £1bn to the total in 2018. The restoration of the Tesco dividend was also a notable feature.

The top twenty negative contributors to overall sterling dividend growth were as follows.

Company	Contribution To 2018 Total Dividend Growth
HSBC	-£358m
Royal Dutch Shell	-£246m
Capita	-£212m
AstraZeneca	-£200m
Pearson	-£184m
Old Mutual	-£165m
Provident Financial	-£135m
Inmarsat	-£126m
Booker Group	-£101m
Aberdeen Asset Management	-£99m
NEX Group	-£87m
Henderson Group	-£83m
Persimmon	-£74m
BP	-£61m
Berkeley Group	-£59m
Berendsen	-£58m
Petrofac	-£55m
Carillion	-£54m
easyJet	-£51m
GKN	-£48m

Source: Company RNS announcements

The table above again illustrates the importance of currency movements to overall dividend growth last year; several of the stocks above, such as HSBC, BP, Royal Dutch Shell and AstraZeneca, recorded little no growth in dollar dividends but this translated into a significant loss of sterling income when translated at the prevailing exchange rates. Together these twenty companies reduced total market dividends by £2.5bn in 2018. The corporate activity seen at Aberdeen Asset Management, Old Mutual, GKN, NEX, Berendsen, Booker and Henderson was responsible for their reduced contributions, but there were genuine dividend cuts from Capita, Inmarsat, Petrofac, easyJet, Carillion, Provident Financial and Pearson.

Including the genuine dividend reductions listed above, 48 FTSE All Share Index companies announced dividend cuts in 2018, well up on the 35 recorded the previous year reflecting more difficult trading conditions in a number of sectors, and in particular the retail sector. High profile cuts came from Debenhams, Capita, Dixons Carphone, the AA, Inmarsat and KCOM. There remain a number of high profile dividends that are being paid by companies that are not covering the payments with underlying cash flow and have weakening balance sheets as a result. Dividends at GlaxoSmithKline, AstraZeneca and SSE remain in the high-risk category, whilst improving cash flow at BP, Royal Dutch Shell and Vodafone has improved the security of these dividends they still cannot be regarded as absolutely safe.

2019 Dividend Outlook

The outlook for dividend growth in 2019 is clouded by a number of factors. In 2018 the market benefited from strong growth in mining sector dividends; 2019 is unlikely to see the same helpful boost to payments from this area given more recent commodity price movements. Weaker oil prices will affect BP and Royal Dutch Shell's dividend paying capacity and it is unlikely either will show much, if any, in the way of dividend growth when measured in US dollars. Elsewhere, slowing global economic growth and continuing Brexit uncertainty is likely to put a significant brake on dividend growth, although any further Brexit inspired weakness in the pound would clearly be good news for the sterling value of dividends. Doubts still hang over dividends at GlaxoSmithKline, AstraZeneca and SSE where weakening balance sheets and a lack of either conventional or cash flow dividend cover are putting shareholder payments under pressure. However, these factors should be offset, at least to some extent by a currency tailwind if current exchange rates prevail throughout the year. Low single digit growth in dividends looks the most likely outcome at present.

Conclusion

Total UK market ordinary dividends topped £100bn for the first time in 2018, a significant milestone, after healthy growth of 7.9%. The market remains dangerously dependent on commodity related dividends and further weakening of oil and metal prices could have significant implications for total market dividend growth, whilst slowing economic growth and Brexit uncertainty could also be negative factors. Set against this will be a helpful exchange rate tailwind, meaning that 2019 should see a further year of real dividend growth from UK companies.

Important Information