

2019 UK Dividend Report

Real Dividend Growth Continues

2020 Outlook Muted by Currency Factors

Total UK dividends grew by 3.6% in 2019 to £104bn.

The pace of total market dividend growth moderated in 2019 to 3.6%, down from 7.9% a year ago. There was reasonable underlying growth from the majority of dividend payers, aided by helpful currency moves, but there have been a large number of high-profile dividend cuts and several relatively large dividend payers were removed from the index by corporate activity that have served to dampen the overall rate of growth. Worryingly, the number of FTSE All Share constituents that cut their dividends in 2019 rose by nearly two thirds over the previous year. Dividend growth as measured by the XD adjustment on the FTSE All Share Index was a more impressive 6.9%; this measure takes into account the various free-float adjustments used for index calculations and the large number of companies that were removed from the index by corporate activity during the year and is more representative of the underlying growth rate.

Pound's weakness against the dollar was a benefit in 2019.

Although the pound has recovered strongly against the dollar since its summer low point, it was weaker on average than in 2018. Over the last year dollar dividends were translated at an average rate of \$1.27:£1 vs the \$1.34:£1 used in the previous year. This accounted for over half of the growth in sterling dividends and was particularly useful given that the underlying growth in dollar declared dividends was practically zero. The movement in the Euro exchange rate was, in comparison, more modest.

Special dividend payments more than double.

2019 was a bumper year for special payments with total payments of £13.2bn, up from £6.8bn in 2018. This consisted of £6.6bn of genuine special income payments and £6.6bn of what amounted to capital returns. When added to the total for ordinary dividends, this meant that over £117bn was returned to shareholders from constituents of the FTSE All Share Index.

UK dividend concentration rises.

Largely as a result of the rise in the dollar against the pound, the concentration of the UK market's dividend payments has risen. 37% of all dividends now come from just five companies, 51% from ten and fully 67% from the top twenty. This remains a significant risk to future payments especially when the dependence on cyclical commodity businesses is considered.

2020 outlook clouded by strengthening pound.

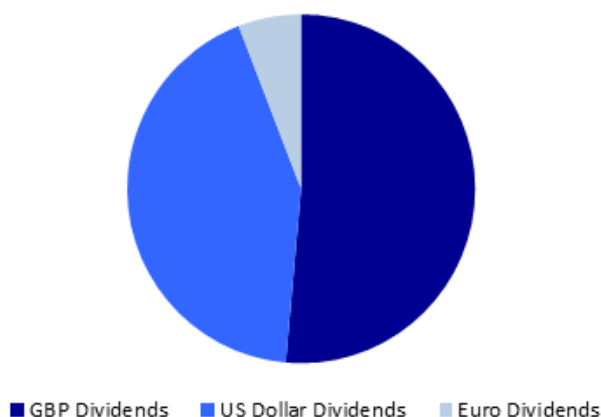
The pound has rallied strongly from its 2019 summer low point and current rates are ahead of the average for 2019 against the dollar and the Euro. The stock market still has around half of its dividends declared in either dollars or Euros, so sterling's ongoing strength will place the record of real stock market dividend growth established since the financial crisis in danger. This could be exacerbated by the difficult trading conditions currently being experienced in many sectors caused by weakening economic growth. It is to be hoped that UK and global economic conditions are more benign in 2020 and that those companies with vulnerable dividends do not bite the bullet and reduce payments.

2019 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 3.6 % in 2019 over the previous year, adding another year of real growth to the impressive recovery seen since the contraction in payments 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 higher at 6.9 %. There were a number of major index changes during the year as a result of takeovers and there were also many dividend cuts. These factors depressed the absolute measure in pounds but are accounted for in the XD adjusted measure. Whatever measure is used, at more than twice the current rate of inflation this is an attractive level of real dividend growth. Whilst many companies increased their dividends in 2019, with a return to health for the banking sector a prominent feature, the prevalence of dividend cuts reduced the underlying rate of growth in total dividends to just 1.3 % before a helpful currency effect.

In 2019 the average level of the pound fell by 5.7 % against the US dollar and rose by 1.1 % against the Euro versus the average levels in 2018, meaning that the 3.6 % sterling dividend growth translated into constant currency growth of 1.3 %. Total 2019 sterling ordinary dividends rose to £103.7bn on an XD basis against £100.1bn in the previous year, establishing a firm base above £100bn. The proportion of the index's 636 constituent companies paying a dividend fell to 88 % but this is still a strong testament to the UK's dividend paying culture. 84 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.

2019 FTSE All Share Index Dividends Currency Split



Source: OLIM, Company RNS announcements

Sterling declared dividends accounted for 51.4 % of total receipts; US dollar declared dividends 42.7 % and Euro declared dividends 5.8 %, demonstrating just how important the sterling/dollar exchange rate is for income investors. Sterling dividend payers registered a strong performance in real terms as total dividends declared in sterling grew by 5.3 % on an XD basis, whilst US dollar declared dividends fell by 0.1 % at constant currency, as a number of large dollar payers left the index and dividend increases from the remaining dollar payers barely compensated. Total Euro declared dividends fell by 17.8 % at constant currency, reflecting the Vodafone dividend cut. As noted above, total market dividends were boosted by currency moves in 2019 on average but this reflected dollar strength offset to a small extent by Euro weakness. In 2018 dividends declared in dollars were converted at an average exchange rate of \$1.34:£1, whilst Euro dividends were converted at an average rate of €1.13:£1. The equivalent figures in 2019 were \$1.27 and €1.15 respectively. The average dollar and Euro conversion rates also imply that there will be a meaningful currency headwind in 2020 if current exchange rates persist.

The UK stock market remains very concentrated from an income perspective and has become more so over the last year as the following table showing the top twenty ordinary dividend paying stocks demonstrates.

Company	Total Dividends In 2019	% Of Total Market Dividends
Royal Dutch Shell	£12,002m	12.7%
HSBC	£8,141m	8.6%
BP	£6,554m	6.9%
British American Tobacco	£4,656m	4.9%
GlaxoSmithKline	£3,985m	4.2%
Rio Tinto	£3,272m	3.5%
AstraZeneca	£2,780m	2.9%
Lloyds Banking Group	£2,312m	2.4%
BHP Group	£2,228m	2.4%
Glencore	£2,177m	2.3%
Vodafone	£2,011m	2.1%
Imperial Brands	£1,906m	2.0%
Unilever	£1,655m	1.7%
National Grid	£1,643m	1.7%
Diageo	£1,638m	1.7%
BT	£1,522m	1.6%
Prudential	£1,303m	1.4%
Anglo American	£1,253m	1.3%
Reckitt Benckiser	£1,227m	1.3%
Barclays	£1,203m	1.3%

Source: OLIM, Company RNS Announcements

The top five stocks now account for 37% of total market dividends, up from 36% last year, the top ten accounts for 51%, up from 50%, and the top twenty stocks now account 67% 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. The increase in concentration is largely due to the strength of the dollar given that many of the largest payers declare dividends in dollars.

Special Dividends

As well as being a good year for total ordinary sterling dividend growth, 2019 was a bumper year for special payments from FTSE All Share Index constituents, with payments nearly double that recorded in 2018. Total special dividends in 2018 amounted to £13.2bn on an XD basis, 94% higher than the £6.8bn recorded in 2017 and well ahead of the impressive £9.5bn of special dividends declared in 2017, making a serious addition to the £103.7bn 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, 61 companies made special payments in 2019, the largest of which are listed in the table below.

Company	2019 Total Special Payments
Rio Tinto	£2,951m
Royal Bank of Scotland	£2,355m
BHP Group	£1,685m
Micro Focus International	£1,390m
Coca-Cola HBC	£651m
BBA Aviation	£646m
International Consolidated Airlines	£623m
InterContinental Hotels	£391m
Taylor Wimpey	£351m
Cineworld	£221m
Barratt Developments	£176m
SSP	£154m
Croda International	£152m
Wm Morrison	£144m
Direct Line Insurance	£114m
Redrow	£111m
Admiral Group	£109m
Hays	£80m
Antofagasta	£72m
Victrex	£71m

Source: OLIM, Company RNS Announcements

The table demonstrates the mix of special payments. The payments from BHP Group, Micro Focus, BBA Aviation and Intercontinental Hotels were effectively capital returns after disposals, with the remainder either relating to re-gearing of balance sheets after several years of cash accumulation (e.g. Coca-Cola HBC, Royal Bank of Scotland, International Consolidated Airlines, SSP, Victrex), special payments in lieu of ordinary dividends (e.g. Barratt Developments, Taylor Wimpey) or genuine special dividends (e.g. Admiral, Direct Line Insurance and Hays). Rio Tinto actually paid two special dividends in the year, one relating to a large disposal (£2.3bn) and the other a genuine special income dividend (£0.6bn). In total there were £6.6bn of special payments that were really capital repayments relating to business disposals, with the remainder falling into the various income categories. It is difficult to see 2020 being quite such a good year for special payments given the number of one-off capital dividends.

Contribution Analysis of Total Dividend Growth and Dividend Cuts

Total UK sterling ordinary dividend receipts from FTSE All Share Index constituents grew by £3.6bn in 2019 on an XD basis. The top twenty contributors to this growth in ordinary dividends were as shown in the table below.

Company	Contribution To 2019 Dividend Growth
HSBC	£562m
BP	£501m
Barclays	£434m
RELX	£424m
Royal Bank of Scotland	£423m
Persimmon	£405m
BHP Group	£362m
Tesco	£302m
Experian	£258m
Royal Dutch Shell	£244m
Rio Tinto	£236m
British American Tobacco	£179m
AstraZeneca	£177m
Imperial Brands	£172m
Anglo American	£167m
Standard Chartered	£148m
Cineworld	£137m
Burberry Group	£133m
Melrose	£101m
Avast	£100m

Source: OLIM, Company RNS Announcements

The top twenty positive contributors to total dividend growth shown above actually contributed £5.5bn of total dividend growth, more than the total growth of £3.6bn for the market and emphasising the importance of the mining and banking sectors to total market dividend growth. In particular, the table shows how the strength of the dollar has aided sterling receipts and also how important the rebound in commodity prices has been for UK dividend growth. The banking sector was also a large contributor to total market dividend growth with Standard Chartered, Barclays and Royal Bank of Scotland adding over £1bn to the total in 2019 as these companies returned to health. Strong growth in the Tesco dividend was also a notable feature.

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

Company	Contribution To 2019 Dividend Growth
Vodafone	-£1,538m
Randgold Resources	-£333m
EVRAZ	-£326m
Shire	-£234m
Sky	-£225m
Intu Properties	-£190m
Old Mutual	-£176m
RPC Group	-£115m
Standard Life Aberdeen	-£115m
Marks & Spencer	-£112m
Fresnillo	-£108m
Centrica	-£107m
GKN	-£107m
Berkeley Group	-£105m
Vedanta Resources	-£83m
Ladbrokes Coral	-£77m
Jardine Lloyd Thompson	-£76m
Saga	-£75m
UBM	-£71m
John Laing Infrastructure Fund	-£71m

Source: OLIM, Company RNS Announcements

This year the losses in dividend income were largely due to dividend cuts and corporate activity rather than unfavourable currency movements, which was the case in 2018. Together, the twenty companies listed above reduced total market dividends by £4.2bn in 2019. The corporate activity seen at Shire, Sky, Randgold Resources, Jardine Lloyd Thompson, UBM, RPC and Old Mutual was responsible for their reduced contributions, but there were genuine dividend cuts from Vodafone, Evraz, Intu Properties, Marks & Spencer, Centrica, Vedanta Resources and Saga. The Vodafone dividend cut was particularly painful for income investors and reduced total dividends by over £1.5bn on its own.

Including the genuine dividend reductions listed above, 80 FTSE All Share Index companies announced dividend cuts in 2019, well up on the 48 recorded the previous year. This reflected more difficult trading conditions in several sectors including the retail sector, where Ted Baker and Superdry both added to the M&S cut. Whilst more subdued economic conditions will inevitably put pressure on dividend payments, there are fewer worries about the largest payers in the market. Vodafone has reduced its dividend to a level covered by cash flow, whilst profits and cash flow growth have eased the pressure on the GlaxoSmithKline payment. SSE has also announced that it will reduce its dividend in 2020 but the new level will still be only barely covered by earnings and not by underlying cash flow. The BT dividend remains at risk as result of its weak cash generation and under pressure balance sheet.

2020 Dividend Outlook

The outlook for dividend growth in 2020 is clouded by a number of factors. In 2019 the market benefited from helpful currency movements that look set to reverse in 2020, economic conditions have weakened and several of the largest companies in the market are only maintaining payments. Monetary easing on a worldwide basis may help economic growth and there is the possibility of a fiscal boost to UK economic growth. The election of a government committed to ending the long period of Brexit uncertainty should also aid confidence in due course. Depending on currency moves it may be possible for UK companies to record another year of real dividend growth. As has been the case for a number of years, stronger dividend growth is generally being seen outside the FTSE 100.

Conclusion

Total UK market ordinary dividends grew comfortably ahead of inflation again, continuing the strong real growth seen since the financial crisis. This was despite deteriorating economic conditions and the background of political paralysis seen in the UK. A larger number of dividend cuts depressed the overall rate of growth, with the Vodafone dividend cut being particularly painful for income investors. On present forecasts and at current exchange rates, total UK stock market dividends may just about be able to grow in real terms in 2020.