UK Dividend Monitor

Issue 45 | Q1 2021

As the UK begins to take its first tentative steps out of months of painful lockdown, we are keen to focus on how the dividend recovery will shape up – its speed, where the big revivals will come from and which sectors are going to lag behind.

Before we get to the detail of the first quarter and the outlook for the rest of 2021, however, it's important to understand where the cuts hit hardest in the first full year of the pandemic as this will inform what recovery will look like.

This edition shows the full 12-month picture of UK dividends through the pandemic so far, gets into the detail of the latest quarter and provides lots of colour on how we see the rest of the year turning out.

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Executive Summary

A year of COVID-19 – the full dividend picture

- Payouts fell 41.6% on an underlying basis as cuts and cancellations totalled £44.8bn
- The rate of decline slowed as each quarter passed, from -48.2% in Q2 2020 to -26.7% in Q1 2021 on an underlying basis (i.e. excluding specials)
- Two thirds of companies made a cut during the year, but the impact varied widely from sector to sector
- By value, banks, miners and oil companies made up three fifths of the cuts, while food retailers were the real winners, with payouts up 22%
- More than a quarter of companies increased dividends, even during such a severe recession

Q1 2021 in focus

- Payouts fell 26.7% to £12.7bn year-on-year on an underlying basis
- But there were signs of improvement – the decline was the slowest in a year, and half of companies increased, restarted or held dividends steady
- Cuts totalled £5.8bn – about half came from the oil sector
- Headline dividends jumped 7.9% thanks to the second-highest one-off specials on record – Tesco was mainly responsible, but so were resurgent mining profits
- Top 100 companies continued to show greater resilience than mid-cap and smaller companies

Yield

- 12-month prospective yield held stable at 3.1% on a best-case basis (excluding special dividends), but worst case improves
- Top 100 set to yield more than twice the mid-caps

Outlook

- Banking dividends will return in Q2, but at a lower level than before the pandemic
- Mining payouts are coming through more strongly than expected, as are media and insurance, but oil payouts are slightly weaker than forecast
- Best-case forecast reduced to £66.4bn, an increase of 5.6% year-on-year
- Headline payouts set to jump by a sixth on a best-case basis to £74.9bn
- Worst case sees an upgrade thanks to greater visibility – dividends should rise no less than 0.9% this year
- Headline figures will be boosted by very large one-off specials
- 2025 is still a realistic target for regaining 2020 highs

A year of COVID-19 – the full dividend picture

Exactly one year ago, an initial trickle of dividend reductions in the first couple of days of April quickly became an unprecedented flood of cuts and cancellations. The final tally shows that dividends fell 41.6% on an underlying basis in the twelve months to the end of March 2021, just a touch ahead of the mid-point in the best- to worst-case scenarios we outlined in April last year when it all began. The biggest impact was felt immediately in Q2 2020 as companies scrambled to preserve cash to see them through the economic stoppages sweeping the world. In each successive quarter, however, the reductions became smaller as companies reassessed the situation and those least affected began to restore suspended payouts.

Over the whole twelve months, two thirds of companies reduced or pulled their dividends, and every sector saw firms cut. But the impact was extraordinarily varied. For example, all the banks and nine tenths of companies in sectors dependent on discretionary consumer spending (like travel or non-food retail) reduced payouts, but less than half in essential sectors like food production, basic household items, food retail and telecoms did so.

In total, COVID-19 cost investors £44.8bn in lost dividends over the twelve months. The banks, banned from paying dividends by the PRA, made up three tenths of the decline, oil companies another quarter. Miners accounted for £1 in every £14 of the cuts. Leisure and travel, housebuilding and consumer goods, and industrial goods and support each suffered cuts worth more than £2bn too, equivalent in each case to approximately £1 in £22 of the total reduction.

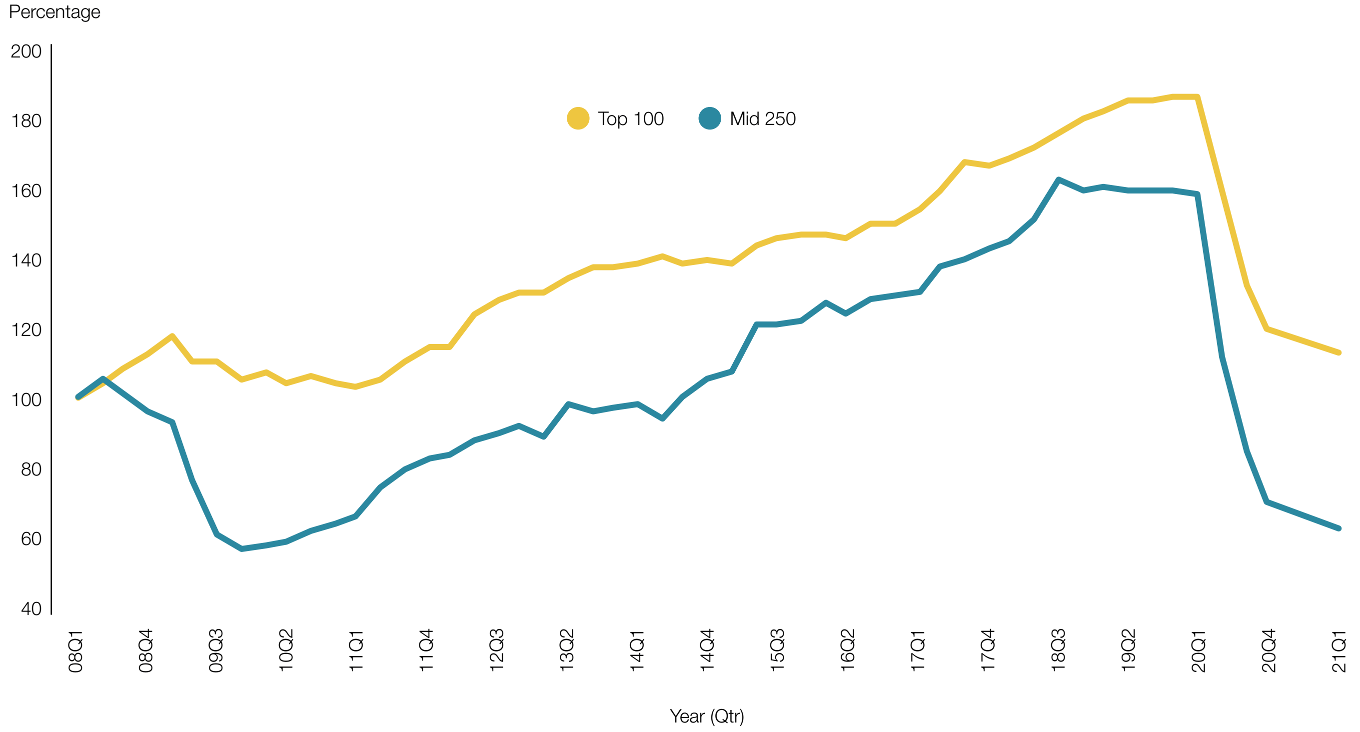
The overall impact in the top 100 was much less severe than in the mid-250 and among smaller companies. This is because bigger multinationals are more financially resilient and because the dividend giants in defensive sectors (like Unilever, AstraZeneca or British American Tobacco) are represented in the top 100. Top 100 payouts fell 39.1% (thanks to cuts of £36.4bn) compared to a decline of 60.3% in the mid-250 (cuts totalled £6.7bn). Just over half (54%) the top 100 cut dividends, almost two thirds (65%) of mid-250 companies followed suit, but over three quarters (76%) of the UK's smaller firms were forced to make reductions.

By value, food retailers were the stand-out winners, increasing their dividends by 22.0% on an underlying basis, thanks, in particular, to Tesco. The big supermarkets returned government aid thereby gaining the flexibility to reward shareholders after months in which consumers, barred from hospitality and the office lunch routine, bought almost all their food from supermarkets. Consumer basics (including names like Unilever and Reckitt Benckiser) and general financials were the only other two sectors to see dividends grow between April 2020 and March 2021. The London Stock Exchange Group, which profited from huge trading volumes throughout the crisis, was among those able to pay out more.

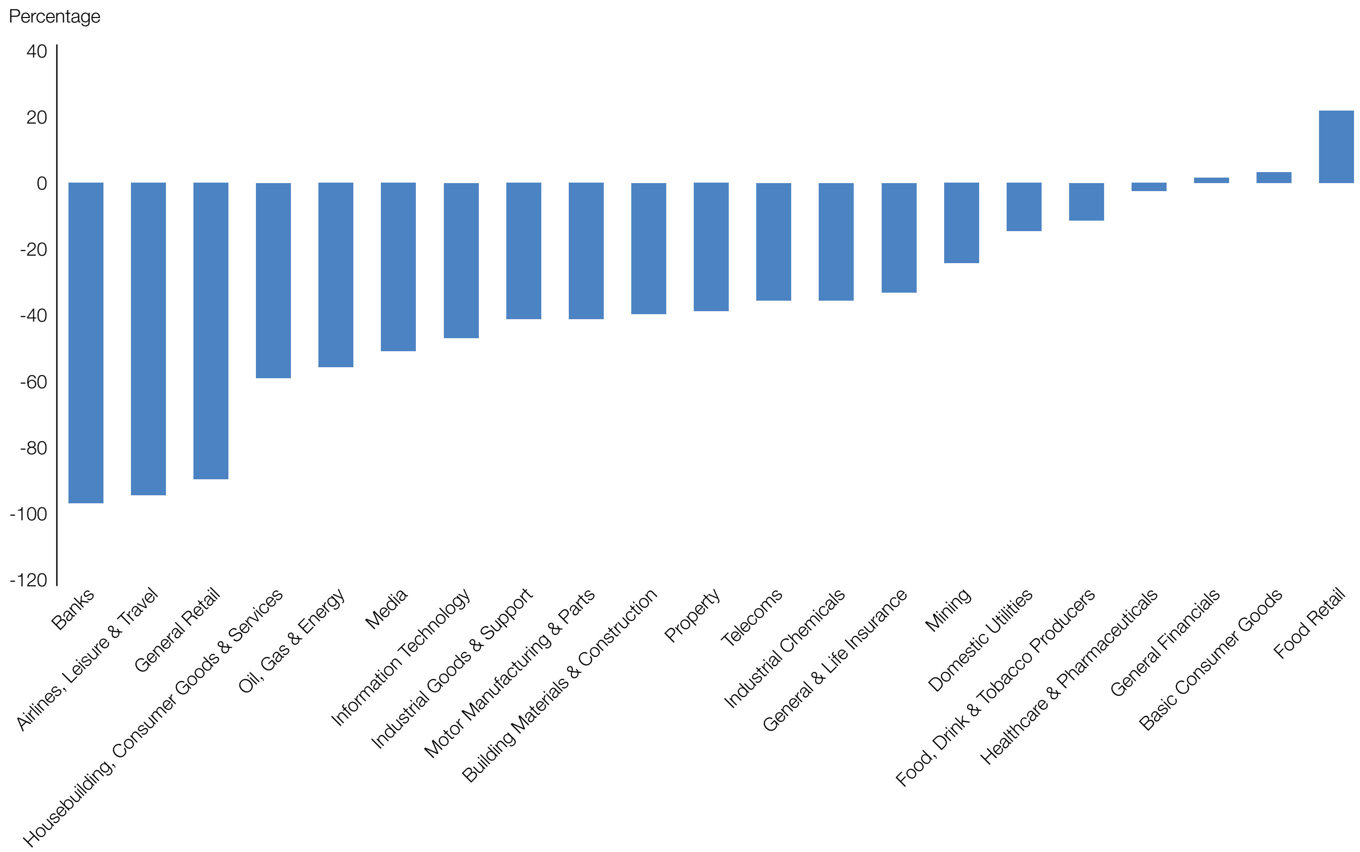
Despite the worst recession in modern history, just over a quarter of companies (27%) were able to increase their dividends; 6% held them steady.

A year of COVID-19 – the full dividend picture (continued)

Top 100 v Mid 250 – underlying dividends, indexed

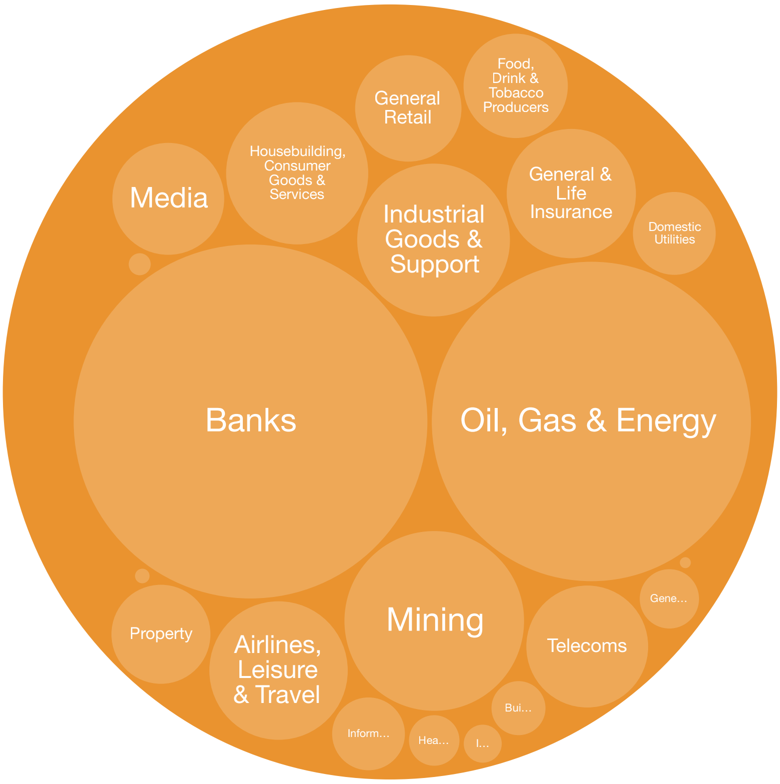


COVID-19 – Dividend change by sector, April 2020 to March 2021



A year of COVID-19 – the full dividend picture (continued)

April 2020 to March 2021



Cut

Paid

Q1 2021 in focus

Payouts fell **26.7%**, the slowest quarterly decline in a year

Cuts totalled **£5.8bn** – about half came from the oil sector

The first quarter of 2021 certainly continued to feel the COVID-19 dividend cuts, but there were clear signs of improvement too. Even though Q1 last year was a 'normal' quarter, and therefore presented an unforgiving comparison, four tenths of companies either increased or restarted their dividends and another tenth held them steady. The other half made cuts, but this was the lowest proportion to do so in any of the four quarters since the pandemic began.

On an underlying basis (which excludes one-off specials), dividends reached £12.7bn in the first quarter. The 26.7% fall was an improvement on the 39.0% 2020 Q4 decline and was 2.5 percentage points better than our best-case forecast for a drop of 29.2%[1]. Aviva's insertion of an extra £274m interim dividend to help make up some of the 2020 shortfall ahead of its May final payment explains most of the difference between our forecast and the result. Equally, there were a handful of companies that restarted dividends but which do not normally pay in Q1 – St James's Place and TI Fluid are examples. Irregular distributions like this are likely to continue cropping up over the next few months as companies get back on track and will cause some added volatility in our figures.

The biggest positive contribution in Q1 came from the restoration at full strength of housebuilder Persimmon's interim payout, worth £398m. Along with Berkeley Group, Persimmon was one of the first two companies to cancel its dividend this time last year, though both resumed payouts in the third quarter as the housing market held firm. Meanwhile, Investec became the first bank to restart its dividend, to be followed next quarter by its larger rivals.

Of the £5.8bn of Q1 cuts, the oil sector made up almost half. Shell increased its payout a touch quarter-on-quarter but the 17 cents it paid was still well below March 2020's 47 cents. BP is also planning to return more cash to shareholders. It has resumed its share buyback programme and raised its June dividend by almost 5%. By Q3, oil dividends will begin to show year-on-year improvement (at least in US dollar terms) as the anniversary of all the cuts passes. Other big Q1 reductions came from BT, Compass, Associated British Foods (owner of Primark) and Easyjet.

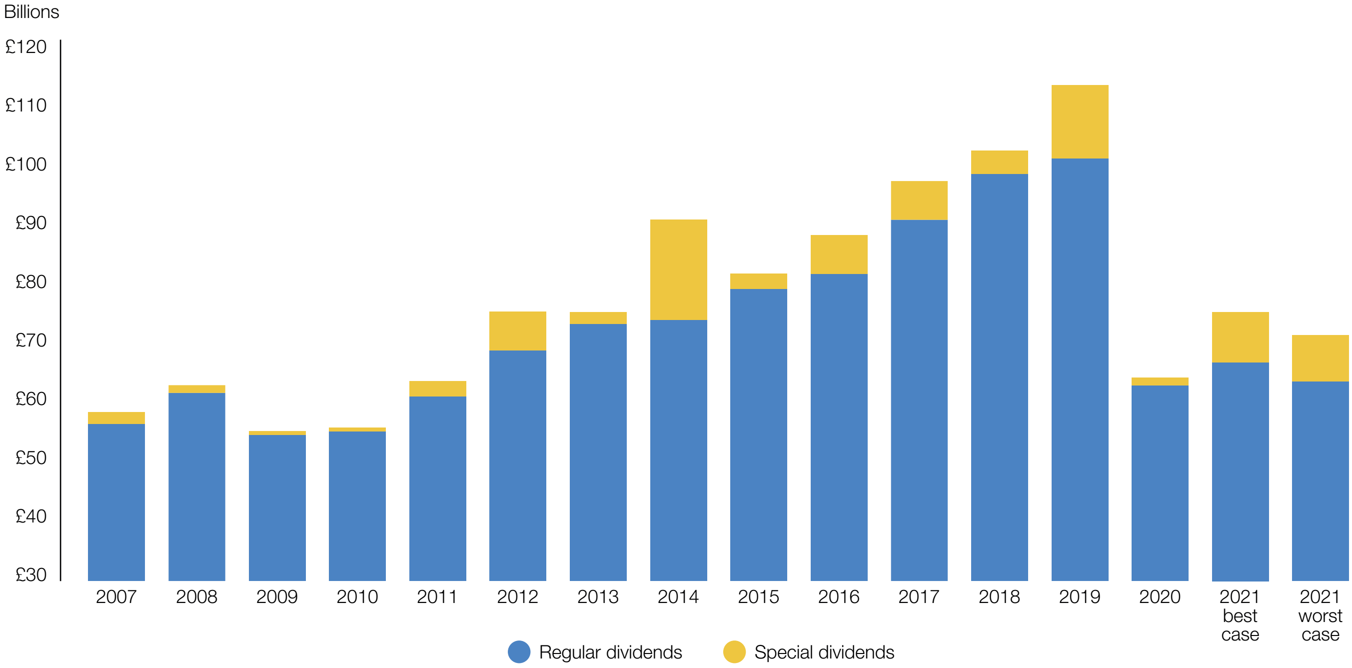
On a headline basis, Q1 dividends were actually up 7.9% as one-off specials hit their second-highest total on record at £6.1bn. Most of this came from the disposal proceeds of Tesco's Asian operations, but the resurgent mining boom meant a large special dividend from BHP too, along with a smaller one from Ferrexpo. Eight companies paid specials in Q1. The headline total (underlying plus special) reached £18.8bn in Q1.

Top 100 companies outperformed the mid-caps in Q1 for the fifth consecutive quarter, with underlying dividends down 25.7% compared to 37.3%.

1. We have restated our forecast and all historic data in the Dividend Monitor to adjust for Unilever moving its entire listing to London, rather than having its capital split across two exchanges.

Q1 2021 in focus (continued)

UK dividends (full-year basis)



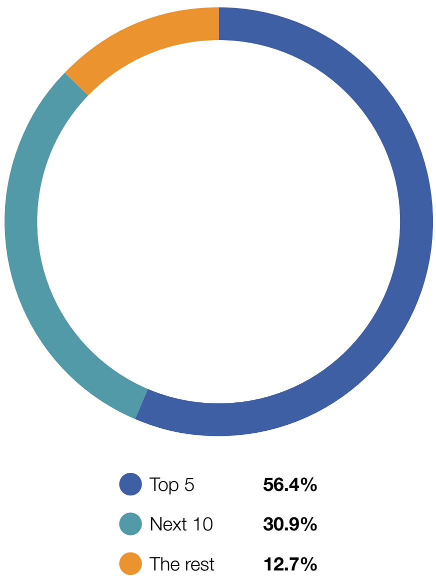
Dividends Paid £bn	Q1	Q2	Q3	Q4	Full Year
2011	14.5	£16.7	£19.8	£12.1	£63.1
yoy	3.6%	13.4%	15.2%	24.4%	13.4%
2012	£17.5	*£21.9*	*£21.9*	*£13.7*	*£75.1*
yoy	20.6%	31.4%	10.7%	13.7%	19.0%
2013	£13.1	*£24.0*	*£23.3*	*£14.3*	*£74.7*
yoy	-24.9%	9.7%	6.3%	4.0%	-0.4%
2014	£28.2	*£24.1*	*£23.6*	*£14.2*	*£90.1*
yoy	114.9%	0.2%	1.3%	-0.3%	20.6%
2015	£13.7	*£27.3*	*£24.9*	*£15.3*	*£81.3*
yoy	-51.4%	13.5%	5.5%	7.9%	-9.8%
2016	£14.6	*£29.9*	*£27.0*	*£15.8*	*£87.2*
yoy	6.4%	9.2%	8.4%	2.8%	7.3%
2017	£15.9	*£33.9*	*£31.5*	*£15.4*	*£96.7*
yoy	9.0%	13.4%	16.7%	-2.1%	10.9%
2018	£17.4	*£33.2*	*£33.4*	*£17.5*	*£101.4*
yoy	9.5%	-2.1%	5.8%	13.0%	4.8%
2019	£20.0	*£38.1*	*£35.7*	*£18.5*	*£112.3*
yoy	14.9%	14.9%	7.0%	6.0%	10.8%
2020	£17.4	*£17.0*	*£18.4*	*£11.1*	*£63.9*
yoy	-12.9%	-55.3%	-48.6%	-40.1%	-43.1%
2021 best case	£18.8	*£22.3*	*£21.9*	*£11.9*	*£74.9*
yoy	7.9%	30.8%	19.4%	7.3%	17.2%
2021 worst case	£18.8	*£19.8*	*£20.7*	*£11.7*	*£71.0*
yoy	7.9%	16.0%	12.9%	5.3%	11.1%

Q1 2021 in focus (continued)

Q1 Dividends – Top Companies

Rank	15Q1	16Q1	17Q1	18Q1	19Q1	20Q1	21Q1
1	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Tesco plc
2	Astrazeneca plc	Astrazeneca plc	Astrazeneca plc	Astrazeneca plc	BHP Group Plc	Astrazeneca plc	Astrazeneca plc
3	BP plc	BP plc	BP plc	BP plc	Astrazeneca plc	BP plc	BHP Group Plc
4	Vodafone Group plc	Vodafone Group plc	Vodafone Group plc	Vodafone Group plc	BP plc	British American Tobacco Plc	British American Tobacco Plc
5	Glaxosmithkline plc	Glaxosmithkline plc	Glaxosmithkline plc	British American Tobacco	Vodafone Group plc	BHP Group Plc	Vodafone Group plc
Subtotal £bn	*£6.6*	*£7.5*	*£8.7*	*£7.8*	*£10.1*	*£8.6*	*£10.6*
% of total dividends	*48%*	*51%*	*54%*	*45%*	*50%*	*50%*	*56%*
6	BHP Billiton plc	National Grid Plc	BHP Billiton plc	Glaxosmithkline plc	British American Tobacco Plc	Vodafone Group plc	Unilever plc
7	Imperial Tobacco Group plc	Imperial Brands Plc	National Grid Plc	BHP Billiton plc	Glaxosmithkline plc	Glaxosmithkline plc	Glaxosmithkline plc
8	National Grid Plc	Mediclinic International Plc	Imperial Brands Plc	Imperial Brands Plc	Imperial Brands Plc	Imperial Brands Plc	Royal Dutch Shell Plc
9	BT Group	BT Group	BT Group	National Grid Plc	National Grid Plc	National Grid Plc	BP plc
10	Compass Group Plc	Johnson Matthey plc	Unilever plc	BT Group	BT Group	BT Group	National Grid Plc
11	Unilever plc	Compass Group Plc	Compass Group Plc	Unilever plc	Evraz Plc	Evraz Plc	Imperial Brands Plc
12	SSE Plc.	Unilever plc	SSE Plc.	Persimmon plc	Compass Group Plc	Compass Group Plc	Persimmon plc
13	Associated British Foods plc	SSE Plc.	Easyjet plc	Compass Group Plc	Persimmon plc	Unilever plc	Aviva Plc
14	Easyjet plc	BHP Billiton plc	Associated British Foods plc	Evraz Plc	Unilever plc	Associated British Foods plc	SSE Plc.
15	Rolls-Royce Holdings Plc	Easyjet plc	Aberdeen Asset Management	SSE Plc.	Intercontinental Hotels Group	SSE Plc.	Cairn Energy plc.
Subtotal £bn	*£4.3*	*£3.2*	*£3.5*	*£5.6*	*£6.2*	*£6.0*	*£5.8*
Grand Total £bn	*£11.0*	*£10.6*	*£12.1*	*£13.4*	*£16.3*	*£14.6*	*£16.4*
% of total dividends	*80%*	*73%*	*76%*	*77%*	*81%*	*84%*	*87%*

Concentration of UK Dividends – Q1 2021



Q1 2021 in focus (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
15Q1	£1,088	£1,863	£1,362	£654	£2,520	£567	£3,250	£119	£1,305	£986	*£13,713*
yoy	*38%*	*6%*	*9%*	*10%*	*1%*	*45%*	*10%*	*-29%*	*1%*	*17%*	*11%*
16Q1	£626	£1,507	£1,620	£793	£2,983	£606	£3,962	£134	£1,355	£998	*£14,584*
yoy	*-42%*	*-19%*	*19%*	*21%*	*18%*	*7%*	*22%*	*13%*	*4%*	*1%*	*6%*
17Q1	£780	£1,707	£1,604	£835	£2,850	£568	£4,776	£184	£1,576	£1,020	*£15,901*
yoy	*25%*	*13%*	*-1%*	*5%*	*-4%*	*-6%*	*21%*	*37%*	*16%*	*2%*	*9%*
18Q1	£1,312	£2,852	£2,230	£677	£2,667	£634	£4,281	£135	£1,622	£999	*£17,408*
yoy	*68%*	*67%*	*39%*	*-19%*	*-6%*	*12%*	*-10%*	*-27%*	*3%*	*-2%*	*9%*
19Q1	£3,213	£3,026	£2,274	£777	£2,825	£565	£4,511	£166	£1,596	£1,044	*£19,997*
yoy	*145%*	*6%*	*2%*	*15%*	*6%*	*-11%*	*5%*	*23%*	*-2%*	*5%*	*15%*
20Q1	£1,253	£3,163	£1,537	£856	£2,887	£533	£4,521	£175	£1,478	£1,022	*£17,424*
yoy	*-61%*	*5%*	*-32%*	*10%*	*2%*	*-6%*	*0%*	*5%*	*-7%*	*-2%*	*-13%*
21Q1	£1,682	£7,881	£762	£1,109	£2,774	£384	£1,920	£168	£1,073	£1,049	*£18,803*

Q1 2021 in focus (continued)

Dividends – by sector

Sector £m	20Q1	21Q1	Headline change year-on-year	Underlying change year-on-year
Mining	£1,163.2	£1,600.6	38%	-12%
Industrial Chemicals	£89.6	£81.2	-9%	-9%
Basic Consumer Goods	£912.9	£988.7	8%	8%
Food Retail	£0.0	£5,084.2		
Food, Drink & Tobacco Producers	£2,250.2	£1,808.0	-20%	-21%
Airlines, Leisure & Travel	£370.7	£0.0	-100%	-100%
General Retail	£269.4	£182.6	-32%	-95%
Housebuilding, Consumer Goods & Services	£823.6	£514.5	-38%	-38%
Media	£73.3	£34.2	-53%	-53%
Motor Manufacturing & Parts	£0.0	£30.7		
Banks	£0.0	£38.3		
General Financials	£355.0	£392.4	11%	21%
General & Life Insurance	£43.4	£274.9	533%	533%
Property	£457.1	£403.6	-12%	-12%
Healthcare & Pharmaceuticals	£2,886.6	£2,774.4	-4%	-4%
Building Materials & Construction	£5.9	£4.3	-26%	-26%
Industrial Goods & Support	£527.4	£379.3	-28%	-29%
Oil, Gas & Energy	£4,521.4	£1,920.1	-58%	-62%
Information Technology	£175.5	£168.3	-4%	-4%
Telecoms	£1,477.6	£1,073.1	-27%	-27%
Domestic Utilities	£1,021.7	£1,049.2	3%	3%
Total	£17,424.5	£18,802.6	8%	-27%

Yield

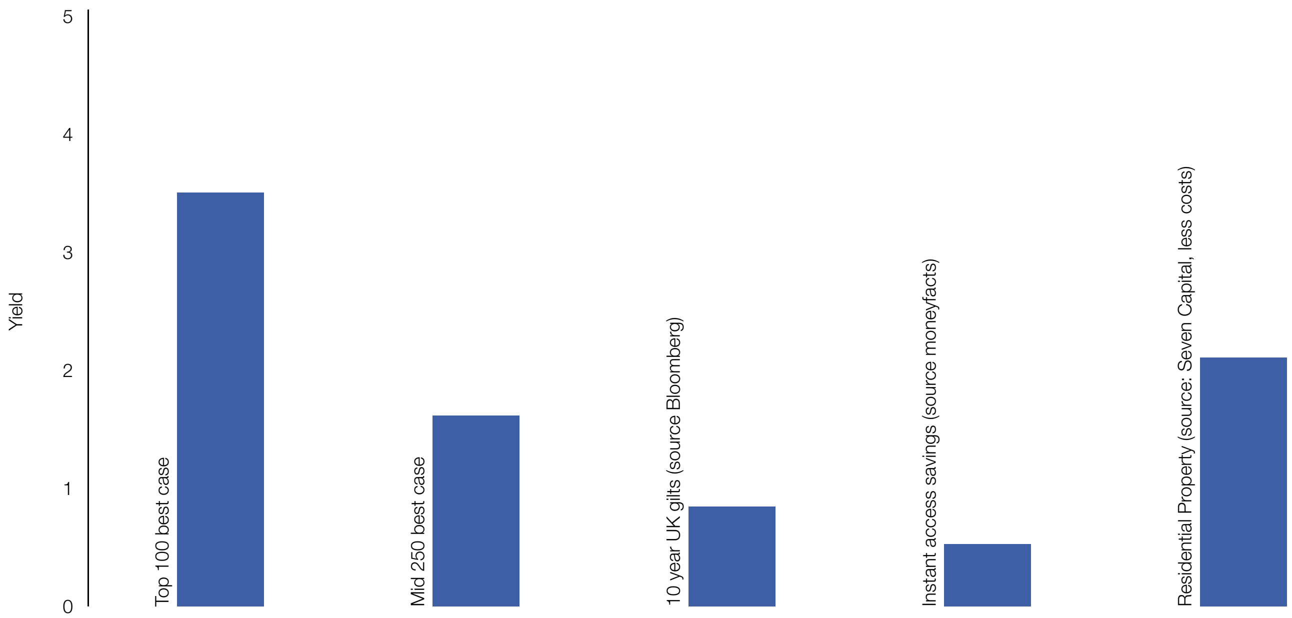
Over the next twelve months we expect UK stocks to yield an underlying 3.1% if our best-case scenario materialises. This is unchanged from January as the upgrade in our forecast (see outlook) has been offset by a good run in the stock market. Our worst case has improved more significantly meaning investors can expect a 3.0% yield over the next year, up from 2.8% in January.

We expect the top 100 to yield more than twice as much as the mid-250 at 3.4% and 1.6% on a respective best-case basis.

We have excluded special dividends from our yield calculations because they skew the picture significantly. In an ideal world companies would only pay special dividends if, like Tesco, they have made a big disposal and shrunk the business as a result, rather than simply because they are having a good year. In reality, specials are a mix of these two factors. Those that result from bumper profits should really be factored into the yield calculation, but it gets messy to tinker with the methodology so we resist. As a guide, however, the specials we pencil in from the top 100 over the next twelve months (i.e. with all the Q1 payouts now in the rear-view mirror) would boost the yield to around 3.5% (adding 0.1 percentage points).

UK Income – next twelve months

Percentage



Outlook

Ian Stokes

Managing Director
Corporate Markets, EMEA

"Companies are increasingly declaring dividends in line with our best-case scenario as the economy comes back to life and constraints on payouts are lifted."

During the pandemic, many companies that had been over-distributing permanently reset their dividends to more sustainable levels. Most of these now hope to grow their dividends gradually from this lower base. For others, the effect of the cuts is more transitory so they will bounce back quickly.

There are some big changes coming in the second quarter. Most importantly we will see the return of banking dividends. Investec blazed the trail in Q1, but Q2 will see global giant HSBC distribute around £2.2bn, more than twice as much as all the other banks combined. From 2022, HSBC's new dividend policy will see it pay between 40% and 50% of profits each year as a dividend. This will mean more variable payouts over time. Overall, the banks are returning with payouts between 25% and 40% of their pre-pandemic levels. Regulatory constraints remain in place for the banks and will mean less in dividends this year than we initially hoped.

Elsewhere, mining dividends are going to be stronger than we had pencilled in as profits are boosted by commodity prices driven higher by the global economic recovery. We also see a better-than-expected 2021 for media, insurance, telecoms, building materials and utilities, whereas oil dividends and payouts from housebuilders look set to be a bit lower than we had imagined three months ago. Other sectors look set to perform in line with our original forecast.

We now expect underlying dividends to rise 5.6% to £66.4bn[2] (down from an expected increase of 8.1% in January) in our best-case scenario. Remember that 2021 is held back by Q1 still suffering the effect of COVID-19's dividend cuts. Payouts in Q2 and Q3 should be significantly higher than in 2020. For the full year, headline dividends will shoot up 17.2% to £74.9bn thanks largely to the enormous Tesco one-off in Q1. Whereas Tesco's special dividend was to distribute asset-sale proceeds, the big miners are using them to pass on bumper profits. BHP's Q1 payment was just the first. Rio Tinto is set to pay close to £800m in the second quarter too.

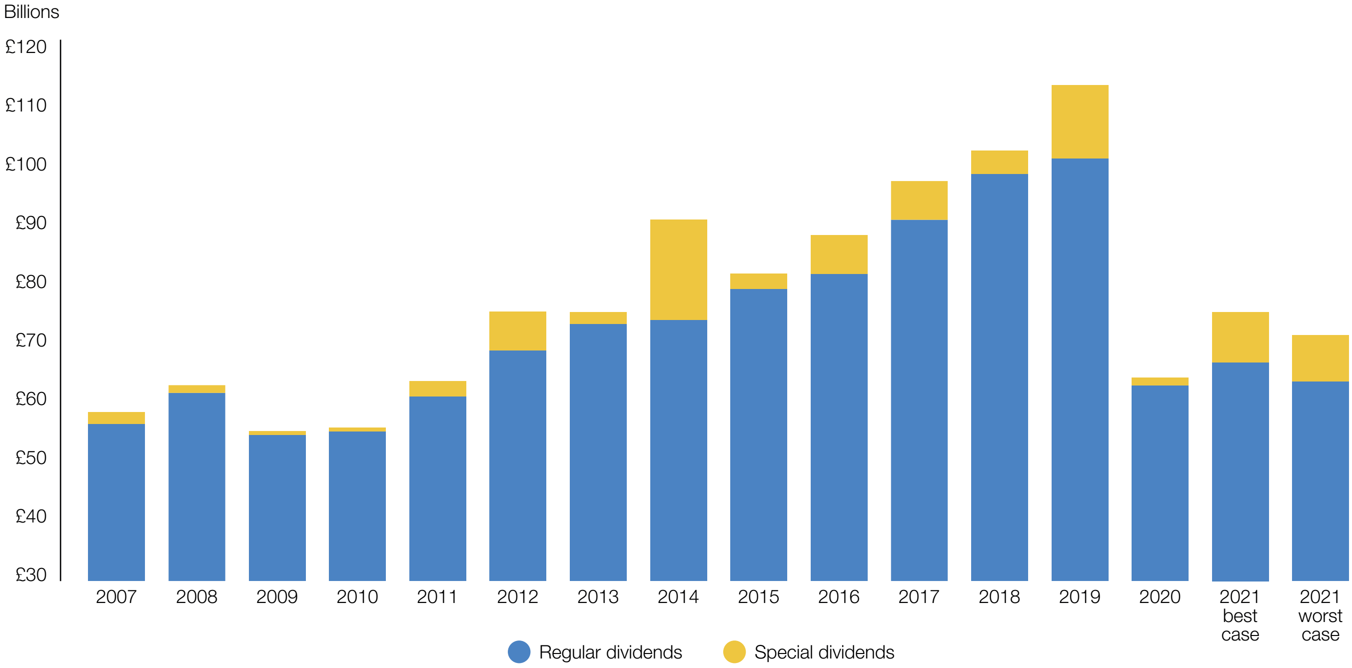
Companies are increasingly declaring dividends roughly in line with our best-case scenario for the year which means our worst-case is seeing the much bigger upgrade. We now do not expect payouts to rise any less than 0.9% this year on a worst-case underlying basis (compared to a decline of 0.6% three months ago). This would mean worst-case underlying payouts of £63.4bn and headline of £71.0bn. As things begin to return to normality and greater predictability, the gap between our best- and worst-case forecasts is narrowing. We hope therefore to abandon this approach next quarter and return to the single forecast for UK payouts that has been our custom over the last twelve years.

Despite the greater clarity, 2025 still looks like a realistic moment for UK dividends to finally match their 2019 underlying high point. If the recovery is stronger than we anticipate we will hope to bring this target forward in future editions of the Link Group UK Dividend Monitor.

2. This takes into account the restating of our historic figures for Unilever, which has cancelled its Dutch listing and consolidated all its shares on the London Stock Exchange. To aid comparability we have added back the dividends previously paid on the Dutch shares to the UK totals in each year.

Outlook (continued)

UK dividends (full-year basis)



Dividends Paid £bn	Q1	Q2	Q3	Q4	Full Year
2011	14.5	£16.7	£19.8	£12.1	£63.1
yoy	3.6%	13.4%	15.2%	24.4%	13.4%
2012	£17.5	*£21.9*	*£21.9*	*£13.7*	*£75.1*
yoy	20.6%	31.4%	10.7%	13.7%	19.0%
2013	£13.1	*£24.0*	*£23.3*	*£14.3*	*£74.7*
yoy	-24.9%	9.7%	6.3%	4.0%	-0.4%
2014	£28.2	*£24.1*	*£23.6*	*£14.2*	*£90.1*
yoy	114.9%	0.2%	1.3%	-0.3%	20.6%
2015	£13.7	*£27.3*	*£24.9*	*£15.3*	*£81.3*
yoy	-51.4%	13.5%	5.5%	7.9%	-9.8%
2016	£14.6	*£29.9*	*£27.0*	*£15.8*	*£87.2*
yoy	6.4%	9.2%	8.4%	2.8%	7.3%
2017	£15.9	*£33.9*	*£31.5*	*£15.4*	*£96.7*
yoy	9.0%	13.4%	16.7%	-2.1%	10.9%
2018	£17.4	*£33.2*	*£33.4*	*£17.5*	*£101.4*
yoy	9.5%	-2.1%	5.8%	13.0%	4.8%
2019	£20.0	*£38.1*	*£35.7*	*£18.5*	*£112.3*
yoy	14.9%	14.9%	7.0%	6.0%	10.8%
2020	£17.4	*£17.0*	*£18.4*	*£11.1*	*£63.9*
yoy	-12.9%	-55.3%	-48.6%	-40.1%	-43.1%
2021 best case	£18.8	*£22.3*	*£21.9*	*£11.9*	*£74.9*
yoy	7.9%	30.8%	19.4%	7.3%	17.2%
2021 worst case	£18.8	*£19.8*	*£20.7*	*£11.7*	*£71.0*
yoy	7.9%	16.0%	12.9%	5.3%	11.1%

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.

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