UK DIVIDEND MONITOR

ISSUE 50
Q2 2022

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We are proud to introduce the 50th edition of the Dividend Monitor.

Edition 1 was published in the summer of 2009 in the depths of the recession caused by the Global Financial Crisis. In that year dividends fell 15% as the once mighty banks, which used to pay over a quarter of UK dividends, dwindled in importance as they faced bailouts and nationalisation in the face of big losses on loans. A lot has changed in the last thirteen years. Oil companies rose to prominence as the UK's dividend stalwarts for a time, holding that position until 2020, when they curbed payouts that had become unsustainable. Mining groups took over as the UK's biggest payers – and will remain so at least for this year.

The Dividend Monitor settled into regular quarterly editions from the beginning of 2010, and we have proudly produced the UK's most widely followed commentary on trends in UK dividends ever since.

Over this time, the rate of growth of UK dividends has been slow compared to peers such as the US, or regions such as Asia, though it has been roughly in line with the rest of Europe. By the end of this year, UK payouts will have risen only around eight percentage points faster than inflation since 2009 if we exclude volatile special dividends. This is a disappointing real growth rate of just over 0.5% per year.

Edition 50 comes as recession once again darkens the horizon. 2022 will show very strong growth in payouts, partly owing to the ongoing post-pandemic normalisation and partly because mining companies have enjoyed such a long boom. Progress in 2023 is likely to be harder, however.

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EXECUTIVE SUMMARY

Overview

- Q2 Dividends jumped 38.6% on a headline basis to £37.0bn, boosted by large special dividends and FX gains in particular
- Q2 2022 saw the second-largest UK payout on record
- Underlying dividends (which exclude volatile specials) rose 27.0% to £32.0bn

Sectors & Companies

- Three quarters of the year-on-year increase came from the UK's three biggest dividend-paying sectors – mining, banks and oil
- Most sectors saw good growth on the back of solid profitability and continuing post-pandemic normalisation of dividend programme
- Housebuilders, industrial goods, media, travel, and general financials all had a very good second quarter
- Pharmaceuticals and basic consumer goods lagged behind

Top 100 v Mid 250

- Top 100 payouts jumped 27.1% on an underlying basis
- Mid-250 dividends rose 16.5% but were held back by index changes– like-for-like growth was not significantly behind the top 100

Yield

- UK plc will yield 3.7% over the next twelve months
- The yield gap between equities and other asset classes is shrinking

Outlook

- Mining dividends – the biggest engine of growth in the last two years – may now have peaked
- But sterling weakness is significantly boosting the translated value of dollar-declared payouts and is driving our upgrade
- We increase our underlying forecast to £86.8bn, an increase of 12.5% compared to 2021
- Our headline figure, which includes volatile one-off special dividends, rises to £96.3bn, an increase of 2.4% year-on-year

OVERVIEW

UK dividends had a very good second quarter. The headline total jumped 38.6% year-on-year to £37.0bn. Large one-off special payments were a key driver, but the underlying picture was good too. Underlying dividends, which exclude these volatile specials, jumped by 27.0% to £32.0bn. This was the second-largest quarterly total on record, for both headline and underlying figures, just shy of the all-time record reached in Q2 2019.

Beyond the boost to the headline total caused by unexpectedly large specials, the underlying figures came in ahead of our forecast by £1.5bn, though almost half of this was down to simple calendar effects that will disappear over the full year. Most of the remainder resulted from the precipitous decline in the value of sterling.

A disproportionate three quarters of the year-on-year increase came from the UK's three biggest dividend-paying sectors – mining, banks and oil. Indeed, most sectors either came in line with, or slightly ahead of our expectations thanks to generally strong profitability providing cash to pay shareholders, as well as the catch-up effect from companies that are still restoring their regular dividend programmes after interruptions caused by the pandemic.

For the second half of 2022, we have slightly reduced our core forecast, first to reflect the probability that mining dividends have now peaked, having come in a whisker lighter than our optimistic Q2 expectations, and secondly to balance the positive calendar effects that flattered Q2. Nevertheless, exchange rates are acting powerfully to boost the sterling value of payouts and will add significant impetus in the second half if sterling is unable to recover its poise. This effect, combined with strong second quarter showing, means our underlying forecast (which excludes special dividends) rises just over a percentage point to £86.8bn, an increase of 12.5% compared to 2021. After such large special dividends in Q2, we now expect headline dividends for the full year of £96.0bn, up 2.4% year-on-year.

Without wishing to complicate the picture, it is worth remembering that BHP and Morrison (as well as a handful of smaller companies) have recently departed from the London Stock Exchange (LSE). If they had remained and paid the same as in 2021, headline growth would be just over four percentage points faster this year.

Q2 2022 saw the second-largest UK payout on record - dividends jumped

38.6% to **£37.0bn**

boosted by large special dividends and the strong dollar

We upgrade our forecast for 2022 - we expect headline dividend growth of

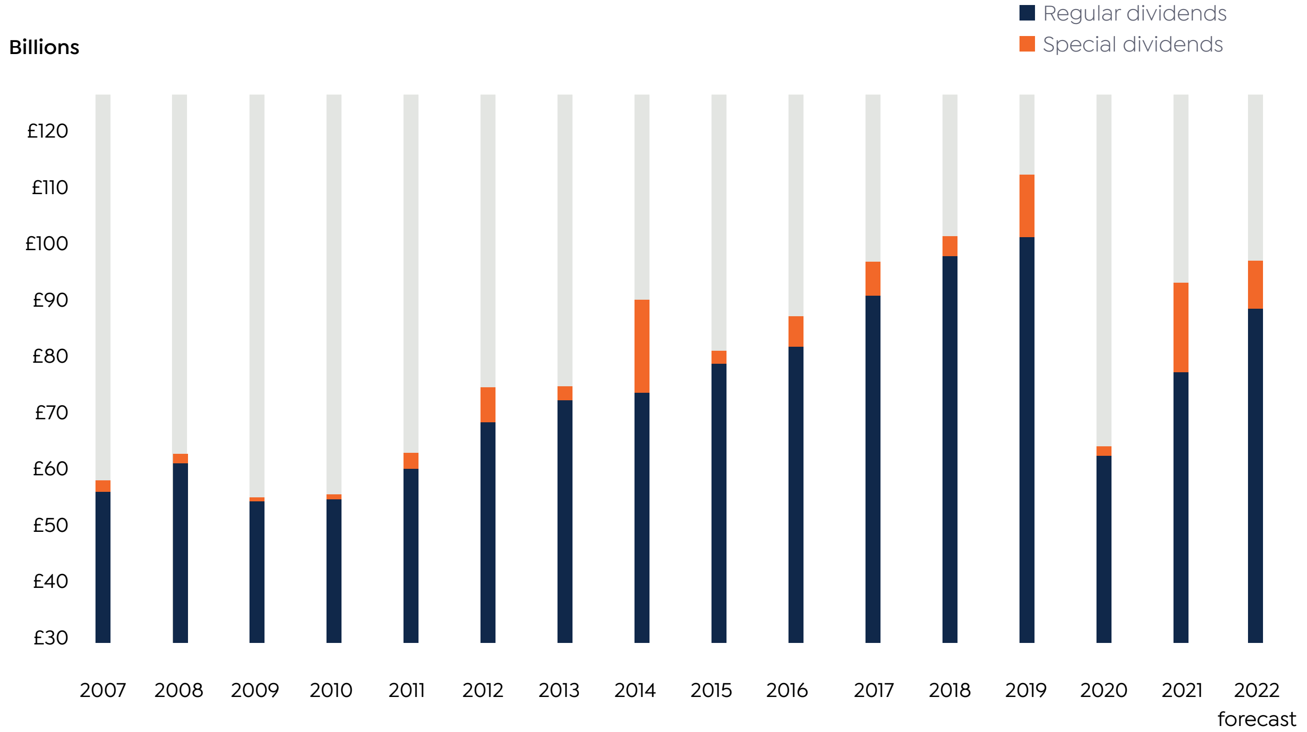
2.4%

or an underlying (ie excluding special dividends) increase of

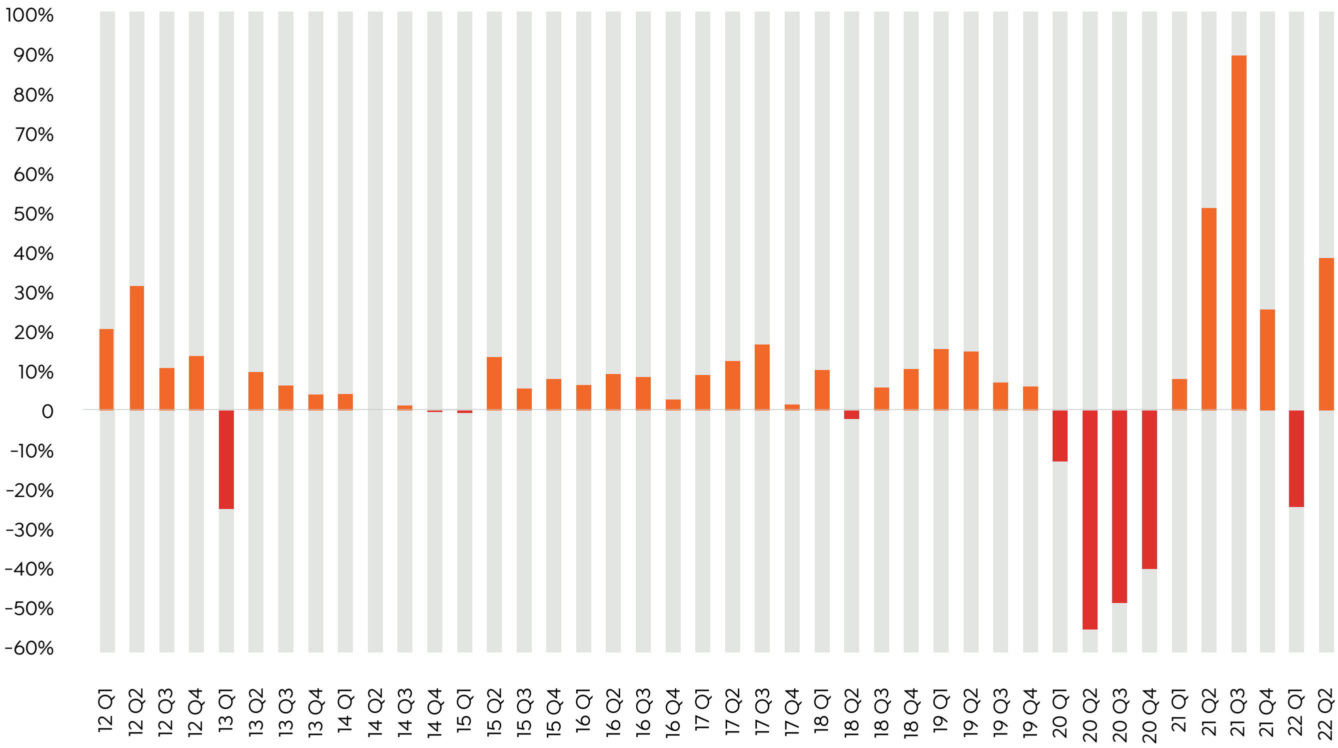
12.5%

Most sectors either came in line with, or slightly ahead of our expectations thanks to generally strong profitability.

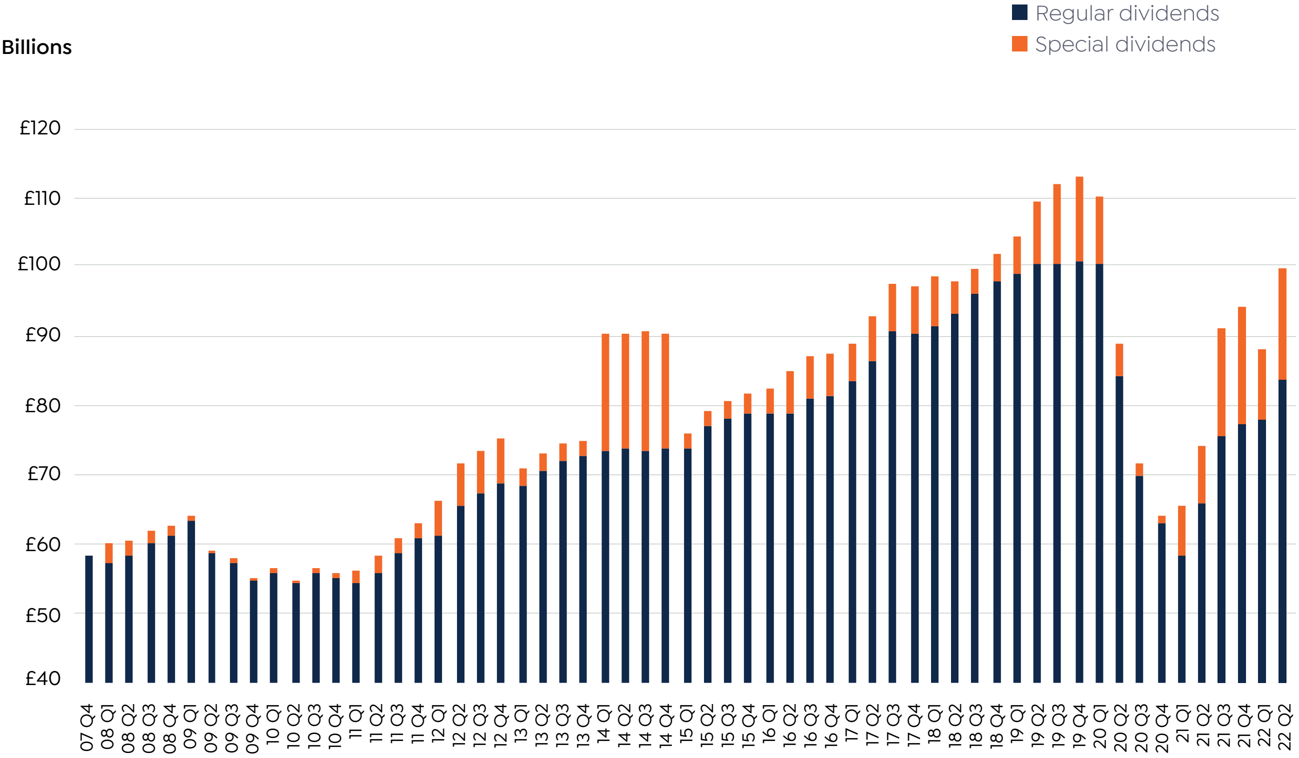
UK dividends (full year basis)



Growth in quarterly headline dividends - year-on-year



Rolling twelve month dividends



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%*	*1.2%*	*-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**	**£30.3**	**£26.9**	**£15.8**	**£87.7**
yoy	*6.3%*	*10.8%*	*8.1%*	*3.3%*	*7.8%*
2017	**£15.8**	**£33.9**	**£31.5**	**£16.0**	**£97.3**
yoy	*8.5%*	*12.0%*	*17.1%*	*1.1%*	*11.0%*
2018	**£17.4**	**£33.6**	**£33.1**	**£17.6**	**£101.8**
yoy	*10.0%*	*-0.9%*	*5.1%*	*9.8%*	*4.6%*
2019	**£20.1**	**£38.5**	**£35.1**	**£18.6**	**£112.4**
yoy	*15.4%*	*14.5%*	*6.0%*	*6.0%*	*10.4%*
2020	**£17.5**	**£17.9**	**£17.8**	**£11.2**	**£64.4**
yoy	*-12.8%*	*-53.6%*	*-49.3%*	*-39.9%*	*-42.7%*
2021	**£19.0**	**£26.7**	**£34.3**	**£14.1**	**£94.1**
yoy	*8.4%*	*49.4%*	*92.4%*	*25.9%*	*46.1%*
2022*	**£14.2**	**£37.0**	**£30.1**	**£14.9**	**£96.3**
yoy	*-25.1%*	*38.6%*	*-12.2%*	*6.0%*	*2.4%*

*Q1 and Q2 are actual figures.
Q3 and Q4 2022 are forecasts.

Special dividends and exchange-rate factors

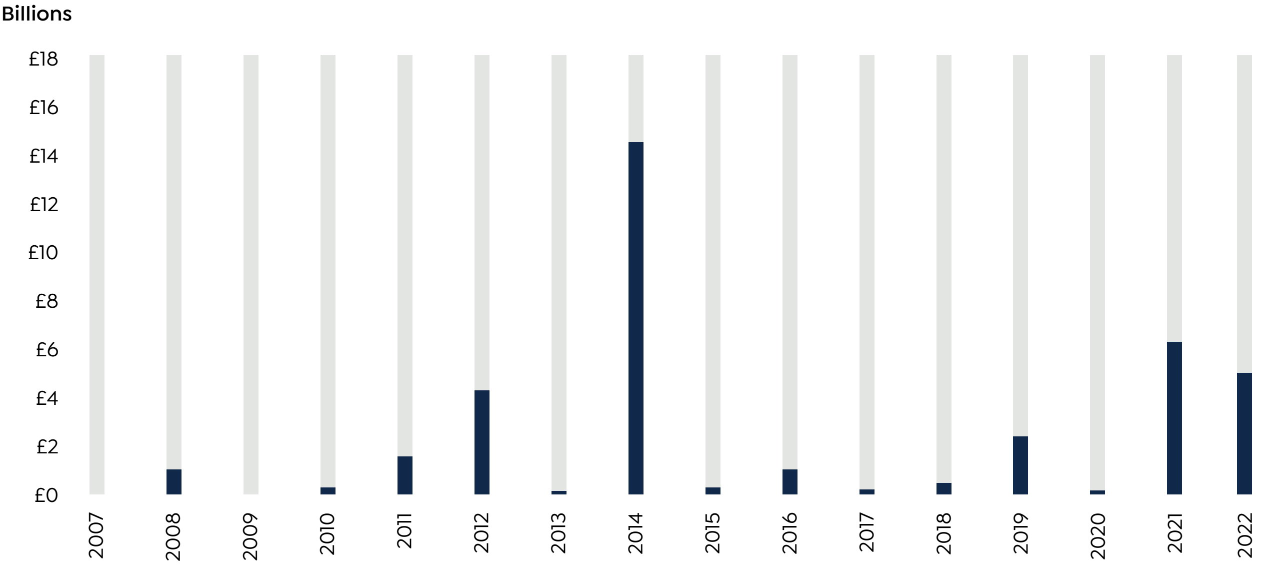
Special dividends reached £5.0bn in the second quarter, the best second-quarter result for these volatile one-offs since 2019. Large payouts from financial firms made the biggest contribution and pushed the total well ahead of the £2bn we had pencilled in. Aviva was the largest payer. It is returning £3.75bn of surplus capital to shareholders, of which three quarters was distributed as a special dividend. The rest will take place as part of a share buyback. Another £1.1bn came from mining companies Rio Tinto and Anglo American, which had benefited from high commodity prices.

Exchange rates are also playing a significantly bigger role in 2022 as the pound sinks to lows against the US dollar, last tested in the market chaos that accompanied the first lockdowns in 2020.

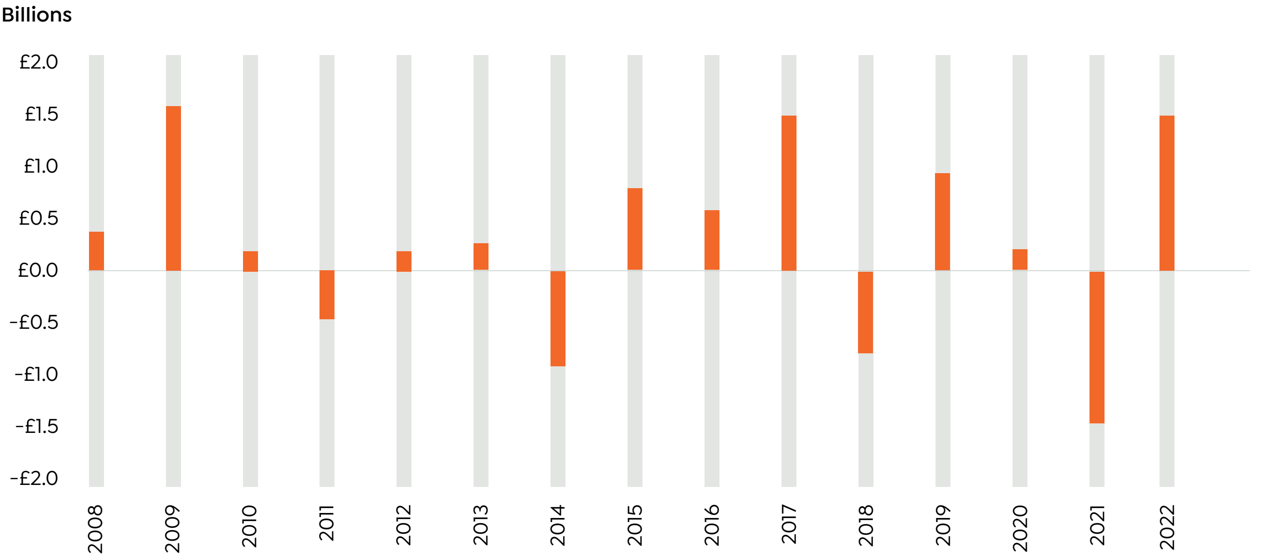
In the second quarter, two fifths of the total dividends paid were denominated in US dollars, generating an exchange rate boost of £1.4bn to their sterling value. This was double the level we expected in April based on the exchange rates at the time and reflects the continuing decline of the pound since that time.

If it just maintains its current level for the rest of the year, sterling is set to have its worst ever year against the dollar, meaning more exchange rate boosts to sterling payouts in Q3 and Q4.

Special Dividends Q2



Q2 Exchange Rate Boost / Penalty



SECTORS & **COMPANIES**

In the second quarter, mining dividends contributed almost a quarter of the headline total, rising 37% year-on-year on a headline basis. This was, however, slightly below our forecast, once the boost from the weaker pound is taken into account. Mining dividends have quite likely now peaked.

A two-thirds increase in banking dividends mainly reflects the release of Bank of England constraints on payouts. We expect banks to regain their position as the third largest dividend-paying sector this year for the first time since 2019.

Oil companies are growing their payouts swiftly, though less than the increase in energy prices would permit them to. They rose 41% in the second quarter, but are still at half their Q2 2019 peak. Both Shell and BP are, however, also spending billions of pounds on share buybacks, which enable them to return surplus capital to shareholders without the implicit commitment to sustaining a level of payout that setting a dividend entails. Equally, share buybacks are more discreet than dividends given the political sensitivity of high oil prices at present. We do not expect the windfall tax announced by the UK government to impact our expectation that the sector can distribute a little under £10bn this year, up by just over a fifth year-on-year.

Housebuilders, industrial goods, media, travel, and general financials all had a very good second quarter. Some companies in these sectors restarted payouts for the first time since the pandemic, including ITV, Intercontinental Hotels and Provident Financial, while others simply traded very strongly, such as the London Stock Exchange and Barratt Homes and so were able to return more cash to shareholders.

The weakest growth came from the basic consumer goods and pharmaceuticals sectors. Unilever is responsible for a small decline in its sector's payouts, thanks to unfavourable exchange-rate effects. In euro terms, it has held its dividend steady. Pharmaceutical dividends were up just 2.1% once the takeover of Vectura was taken into account. There has been some significant corporate change in the sector which led to GSK cutting its dividend as part of the demerger of its consumer business Haleon. Haleon is now listing on the London Stock Exchange and will doubtless begin to pay dividends in its own right. The sector has been relatively slow growth for some time, but once the dust settles on these transactions there is scope for a rise in payouts. Astrazeneca made its first increase in years in the first quarter, for example.

Dividends by industry £m

	16Q2	change yoy	17Q2	change yoy	18Q2	change yoy	19Q2	change yoy	20Q2	change yoy	21Q2	change yoy	21Q2	change yoy
Resources & Commodities	£1,530	-42%	£2,473	62%	£4,396	78%	£6,570	49%	£3,639	-45%	£6,481	78%	£8,829	36%
Consumer Basics	£4,571	-19%	£4,841	6%	£4,166	-14%	£4,488	8%	£4,567	2%	£4,453	-3%	£4,955	11%
Consumer Discretionary	£4,185	19%	£3,169	-24%	£2,771	-13%	£2,837	2%	£764	-73%	£1,495	96%	£2,399	61%
Banks & Financials	£10,264	21%	£10,577	3%	£11,417	8%	£12,741	12%	£3,749	-71%	£7,889	110%	£13,756	74%
Healthcare & Pharmaceuticals	£2,372	18%	£1,528	-36%	£1,608	5%	£1,436	-11%	£1,454	1%	£1,550	7%	£1,471	-5%
Industrials	£2,377	7%	£2,535	7%	£3,678	45%	£2,919	-21%	£617	-79%	£2,742	344%	£2,781	1%
Oil, Gas & Energy	£4,117	22%	£4,790	16%	£4,614	-4%	£4,937	7%	£2,730	-45%	£1,760	-36%	£2,483	41%
Information Technology	£269	13%	£213	-21%	£347	62%	£1,898	448%	£198	-90%	£173	-13%	£199	15%
Telecoms	£110	4%	£129	18%	£77	-40%	£57	-26%	£17	-71%	£50	203%	£20	-59%
Domestic Utilities	£508	1%	£3,686	625%	£565	-85%	£636	13%	£138	-78%	£110	-20%	£126	15%
Total	£30,303	6%	£33,942	12%	£33,639	-1%	£38,519	15%	£17,873	-54%	£26,701	49%	£37,019	39%

A disproportionate three quarters of growth in Q2 2022 came from mining companies, banks and oil producers

Dividends by sector

Sector £m	21Q2	22Q2	headline change year-on-year	underlying change year-on-year
Mining	£6,397.5	£8,738.3	37%	42%
Industrial Chemicals	£83.5	£90.5	8%	8%
Basic Consumer Goods	£1,709.5	£1,654.7	-3%	-3%
Food Retail	£583.2	£668.5	15%	8%
Food, Drink & Tobacco Producers	£2,159.9	£2,632.2	22%	2%
Airlines, Leisure & Travel	£73.2	£154.4	111%	111%
General Retail	£340.7	£401.0	18%	31%
Housebuilding, Consumer Goods & Services	£314.8	£885.4	181%	177%
Media	£766.0	£951.7	24%	24%
Motor Manufacturing & Parts	£0.0	£6.5		
Banks	£3,362.2	£5,502.3	64%	64%
General Financials	£1,559.2	£2,044.1	31%	16%
General & Life Insurance	£2,255.3	£5,355.8	137%	4%
Property	£711.8	£854.0	20%	15%
Healthcare & Pharmaceuticals	£1,549.6	£1,471.1	-5%	-5%
Building Materials & Construction	£624.2	£721.3	16%	16%
Industrial Goods & Support	£2,117.7	£2,059.3	-3%	13%
Oil, Gas & Energy	£1,760.3	£2,482.8	41%	41%
Information Technology	£172.6	£198.6	15%	10%
Telecoms	£50.0	£20.4	-59%	20%
Domestic Utilities	£110.3	£126.3	15%	15%
Total	£26,701.4	£37,019.3	39%	27%

Annual dividends - top companies

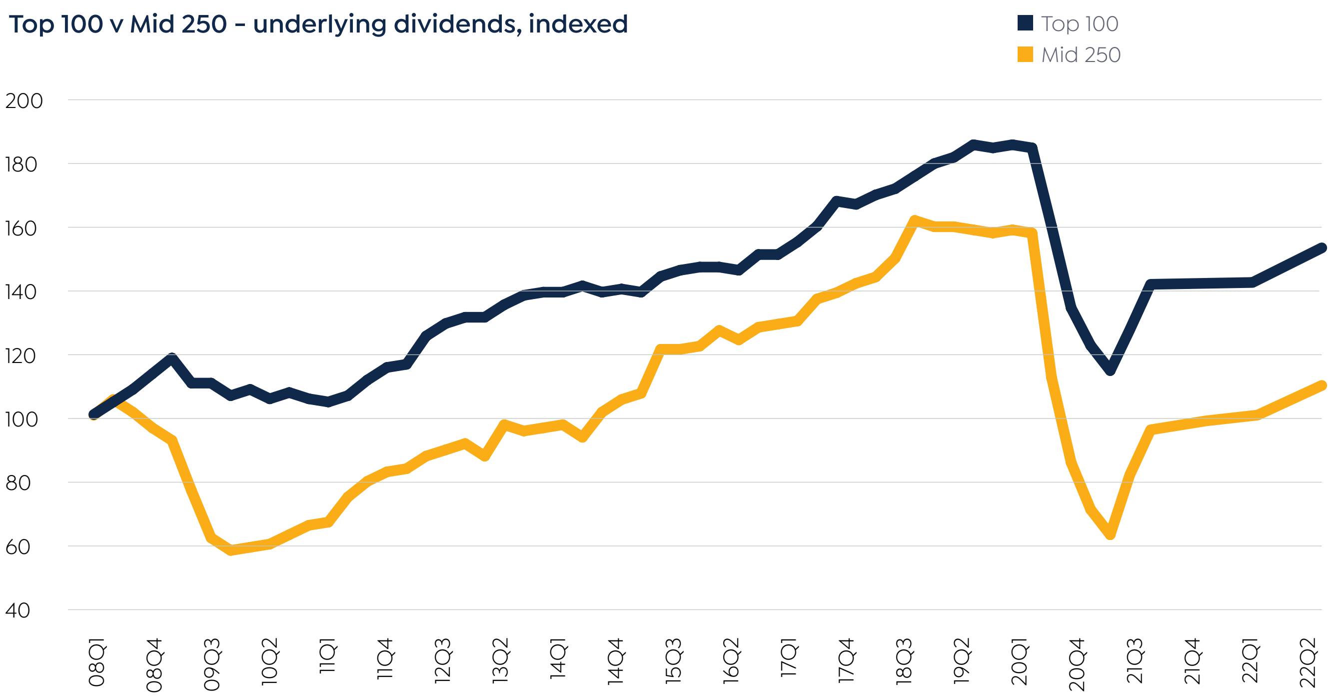
Rank	16Q2	17Q2	18Q2	19Q2	20Q2	21Q2	22Q2
1	HSBC Holdings plc	HSBC Holdings plc	HSBC Holdings plc	Rio Tinto plc	Rio Tinto plc	Rio Tinto plc	Rio Tinto plc
2	Royal Dutch Shell Plc	National Grid Plc	Royal Dutch Shell Plc	HSBC Holdings plc	BP plc	HSBC Holdings plc	Aviva Plc
3	Glaxosmithkline plc	Royal Dutch Shell Plc	Rio Tinto plc	Royal Dutch Shell Plc	British American Tobacco Plc	British American Tobacco Plc	HSBC Holdings plc
4	British American Tobacco	British American Tobacco	BP plc	BP plc	Glaxosmithkline plc	Glaxosmithkline plc	Anglo American plc
5	Lloyds Banking Group plc	Lloyds Banking Group plc	Lloyds Banking Group plc	Micro Focus International Plc	Royal Dutch Shell Plc	Unilever plc	Shell Plc
Subtotal £bn	**£10.8**	**£13.3**	**£10.6**	**£13.5**	**£7.3**	**£9.2**	**£13.8**
% of total dividends	**36%**	**39%**	**31%**	**35%**	**41%**	**51%**	**77%**
6	BP plc	BP plc	Glaxosmithkline plc	Lloyds Banking Group plc	Unilever plc	Royal Dutch Shell Plc	Glencore plc
7	Rio Tinto plc	Rio Tinto plc	British American Tobacco Plc	Royal Bank of Scotland Group plc	Legal & General Group plc	BP plc	British American Tobacco Plc
8	Intercontinental Hotels Group	Glaxosmithkline plc	Glencore plc	British American Tobacco Plc	Reckitt Benckiser Group Plc	Legal & General Group plc	Antofagasta plc
9	Prudential plc	Prudential plc	Prudential plc	Glaxosmithkline plc	Diageo plc	Reckitt Benckiser Group Plc	Lloyds Banking Group plc
10	Reckitt Benckiser Group Plc	Reckitt Benckiser Group Plc	Ferguson Plc	Glencore plc	RELX Plc	Anglo American plc	Unilever plc
11	Legal & General Group plc	Aviva Plc	Aviva Plc	Prudential plc	Prudential plc	Diageo plc	BP plc
12	Barclays plc	Legal & General Group plc	Reckitt Benckiser Group Plc	Aviva Plc	Anglo American plc	RELX Plc	NatWest Group Plc
13	Aviva Plc	Diageo plc	Legal & General Group plc	Reckitt Benckiser Group Plc	M&G Plc	Glencore plc	Legal & General Group plc
14	Diageo plc	Centrica plc	Diageo plc	Legal & General Group plc	Standard Life Aberdeen Plc	Aviva Plc	Reckitt Benckiser Group Plc
15	ITV	Intercontinental Hotels Group	Anglo American plc	Barclays plc	CRH Plc	Evraz Plc	RELX Plc
Subtotal £bn	**£7.9**	**£8.7**	**£8.6**	**£10.2**	**£5.8**	**£6.8**	**£9.3**
Grand Total £bn	**£18.7**	**£22.0**	**£19.2**	**£23.7**	**£13.1**	**£16.0**	**£23.1**
% of total dividends	**62%**	**65%**	**57%**	**62%**	**73%**	**60%**	**62%**

£bn		
Top 5	**£13.8**	**37.3%**
Next 10	**£9.3**	**25.1%**
The rest	**£13.9**	**37.6%**

TOP 100 v MID 250

Top 100 payouts appeared to grow significantly faster than mid-caps in the second quarter. They jumped 27.1% on an underlying basis. The rebound in bank dividends was an especially large driver of dividend growth in Q2 and almost all of it contributed to the top 100. The same applies to mining and oil. The flattering effect of the strong pound is also most strongly felt among the UK's roster of big multinationals. The top 100 was held back by slow-growing sectors like pharmaceuticals and basic consumer goods, however.

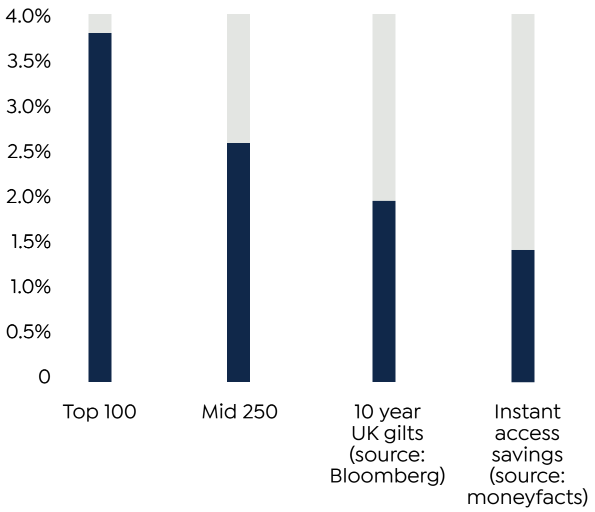
Mid-250 payouts rose 16.5%. Among the mid-caps, housebuilders, media, general financials and industrials made the strongest contribution to growth, but once the loss of Morrison and one or two other stocks from the exchange was taken into account, its growth rate was not significantly worse than the top 100. In the first quarter, the loss of BHP from the index depressed the top 100 growth rate.



Top 100	**88%**
Mid 250	**9%**
The rest	**2%**

YIELD

UK income



The yield on the top 100 has risen slightly since our last edition to 3.8% over the next twelve months, reflecting lower share prices. The mid 250 has suffered much more severe price declines during this period of extreme market disruption. Dividends from the mid-caps are likely to struggle as the UK economy turns down, but even so our figures suggest it is likely to yield 2.6% over the next twelve months. That leaves the total market yield steady at 3.7%.

Other asset classes have begun to catch up. The UK 10-year gilt yield has risen to 2.1%, having briefly touched 2.3% earlier in the quarter. This is at levels last seen in 2014. Meanwhile, cash savings accounts have seen interest rates triple in the last twelve months up from 0.45% to 1.40% as the Bank of England has raised the bank rate.

OUTLOOK

Ian Stokes
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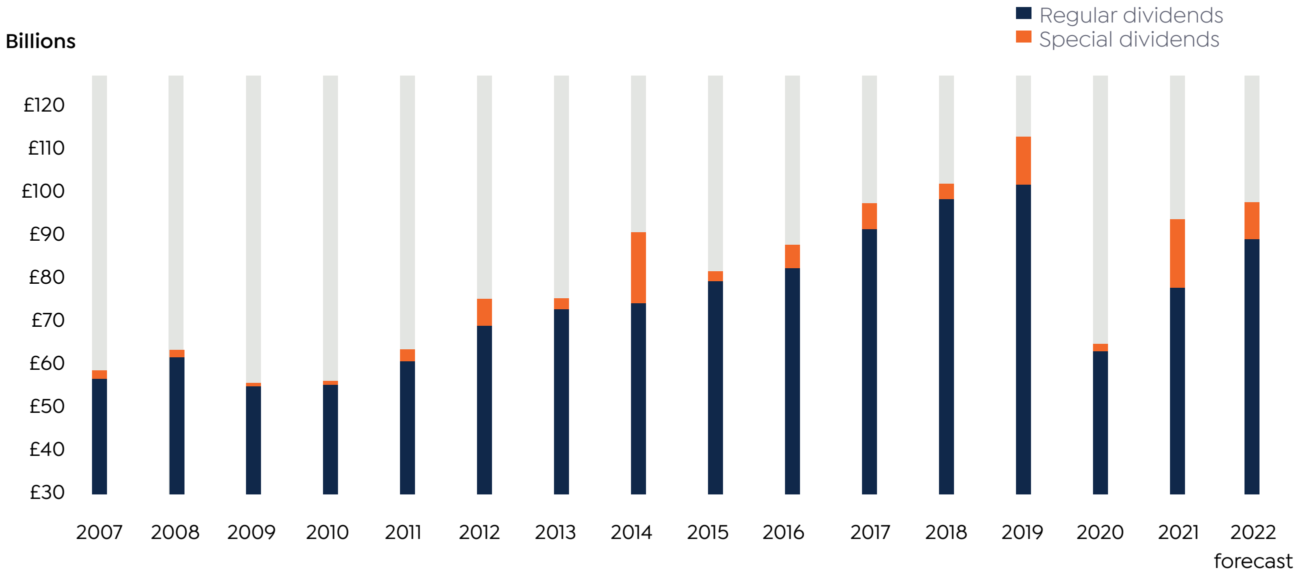
UK and Europe

UK dividends (full year basis)



Mining dividends have become so large in the last two years that it is impossible to talk about UK dividends without first understanding what is happening in this sector. Even with the loss of BHP from the UK index, the mining sector will easily deliver the most dividends in 2022 for the second year in a row. They will be almost as dominant in the third quarter, though their influence is likely to wane from now on. Mining payouts are closely linked to the cyclical fluctuations in mining profits, and tend to rise and fall much more over that cycle than dividends from other industries. Concerns over global growth have pushed commodity prices sharply lower in recent weeks, though many of them remain relatively high compared to the longer-term history thanks to sanctions on Russia. Rio Tinto is a key industry bellwether and will announce its next dividend just after this edition of the Dividend Monitor publishes. Analyst expectations suggest it will reduce its payout compared to Q3 2021. Rio Tinto and its peers have, however, confounded expectations more than once before, bending their stated dividend policies at important moments, so this introduces a significant level of uncertainty. If mining dividends have indeed now peaked, they will act as a brake on UK dividend growth in the next twelve months having provided the main engine over the last 24.

The weakness of the pound is also proving a key swing factor this year. Sterling was relatively strong in 2021 at key moments in the dividend cycle and has been correspondingly extremely weak this year. In 2021 this held back the sterling value of UK payouts by £3.5bn. If it holds its current low level for the rest of 2022, exchange-rate effects could boost dividends by £4.5bn (£1bn more than currently factored into our forecast). This is an astonishing £8bn swing from one year to the next, the largest we have ever measured.

For the second half of 2022, we have slightly reduced our core forecast, first to reflect the probability that mining dividends have now peaked, having come in a whisker lighter than our optimistic Q2 expectations, and secondly to balance the positive calendar effects that flattered Q2. Once we have folded in the good second-quarter figures and allowed for the exchange rates in the second half, our underlying forecast (which excludes special dividends) rises just over a percentage point to £86.8bn, an increase of 12.5% compared to 2021. For the headline figure we have as before pencilled in another £3.5bn of special dividends between now and December. After such large one-off specials in Q3, we now expect headline dividends for the full year of £96.3bn, up 2.4% year-on-year.

Without wishing to complicate the picture, it is worth remembering that BHP and Morrison (as well as a handful of smaller companies) have recently departed from the London Stock Exchange. If they had remained and paid the same as in 2021, headline growth would be just over four percentage points faster this year.

As we move into 2023, headwinds will strengthen. This will be most obvious in the mining sector based on current trends, but an economic recession will crimp the ability and willingness of many companies to grow dividends. We will introduce a formal 2023 forecast later in the year.

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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From equities, pension and superannuation to investments, property and other financial assets, we partner with a diversified portfolio of global clients to provide robust, efficient and scalable services, purpose-built solutions and modern technology platforms that deliver world class outcomes and experiences.

We help manage regulatory complexity, improve data management and connect people with their assets, through exceptional user experiences that leverages the expertise of our people combined with technology, digital connectivity and data insights."

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