UK dividend outlook

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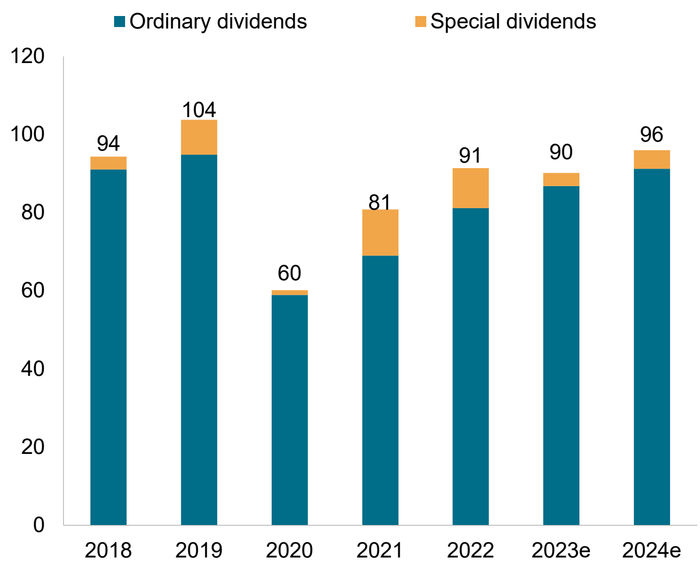
UK dividend market maintains positive momentum thanks to energy and banks

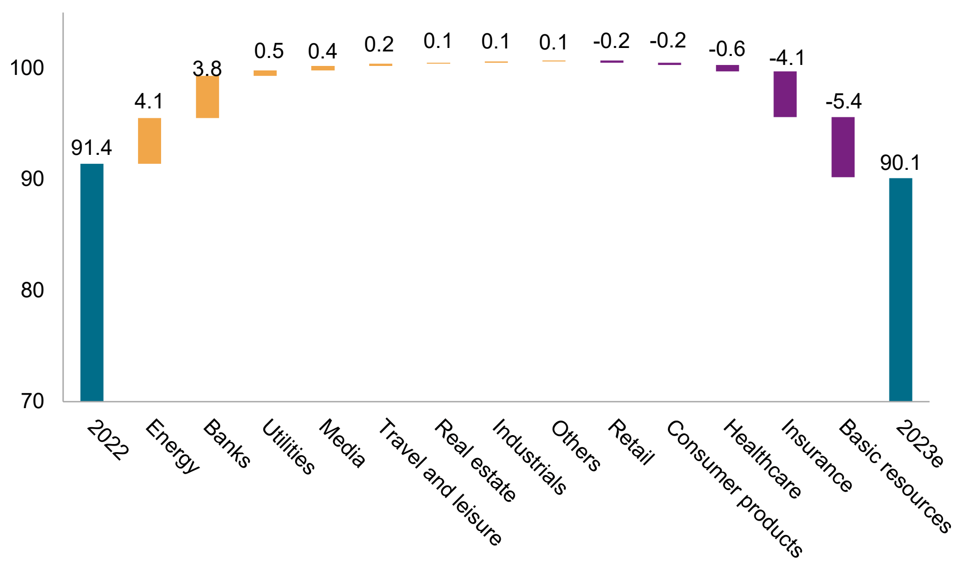
- With more than 90% of dividend streams already announced in 2023, the UK market is forecast to pay above £90 billion in dividends (including special dividends unless otherwise stated), down 1% year over year. The **UK aggregate dividends** in 2023 are still 13% lower compared with pre-pandemic levels.
- Excluding special payments, ordinary dividends are expected to increase by 7% to £87 billion in 2023 and by 5% to £91 billion in 2024, nudging up to the level of about £95 billion in 2019.
- In 2023, the top sector contributor is **energy**, accounting for 18% of aggregate dividends, followed by **banks** (15%) and **food, beverage and tobacco** (10%). Although the **basic resources** sector is forecast to lower payments by 22% year over year, it will make up about 7% of dividends, roughly on a par with **healthcare** (8%) and **personal care, drug and grocery stores** (7%).
- **HSBC Group, Shell PLC, British American Tobacco PLC (BAT), Rio Tinto Group** and **BP PLC** are forecast to keep topping the list of the largest dividend payers. However, **Glencore PLC** is forecast to significantly decrease its dividend distribution from £5.1 billion in 2023 to about £1.8 billion in 2024.
- **Healthcare, insurance** and **chemicals** are projected to moderately raise their dividends by 2%-8%. The **banks** sector, one of the outperformers, is on track to outstrip **energy** in becoming the top dividend sector. **Energy** and **utilities** are falling off on reasonable grounds, such as **SSE PLC**'s dividend rebase plan and **Glencore**'s movement from a record payout.

UK aggregate dividends (£M)



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

2023e sector contribution to aggregate dividends (£M)



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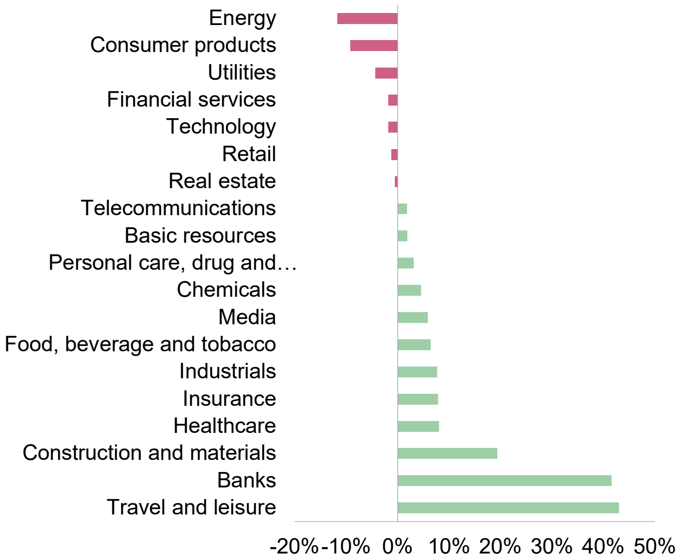
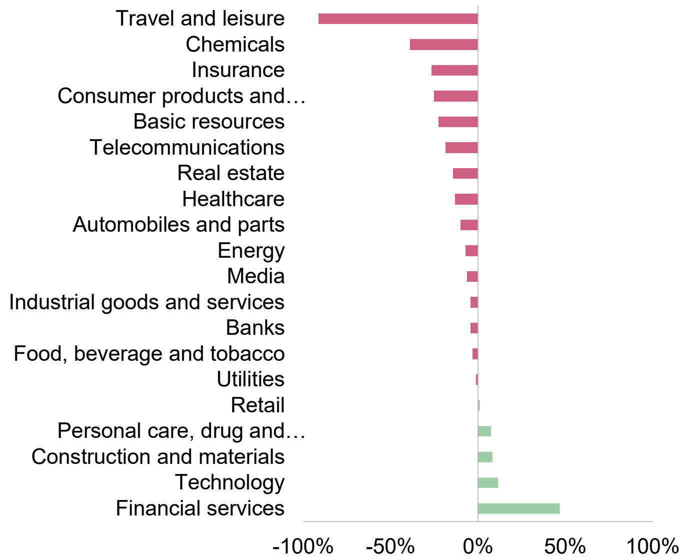
Source: S&P Global Market Intelligence.

2024e vs. 2023e in % for aggregate dividends



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

2023e vs. 2019 in % for aggregate dividends



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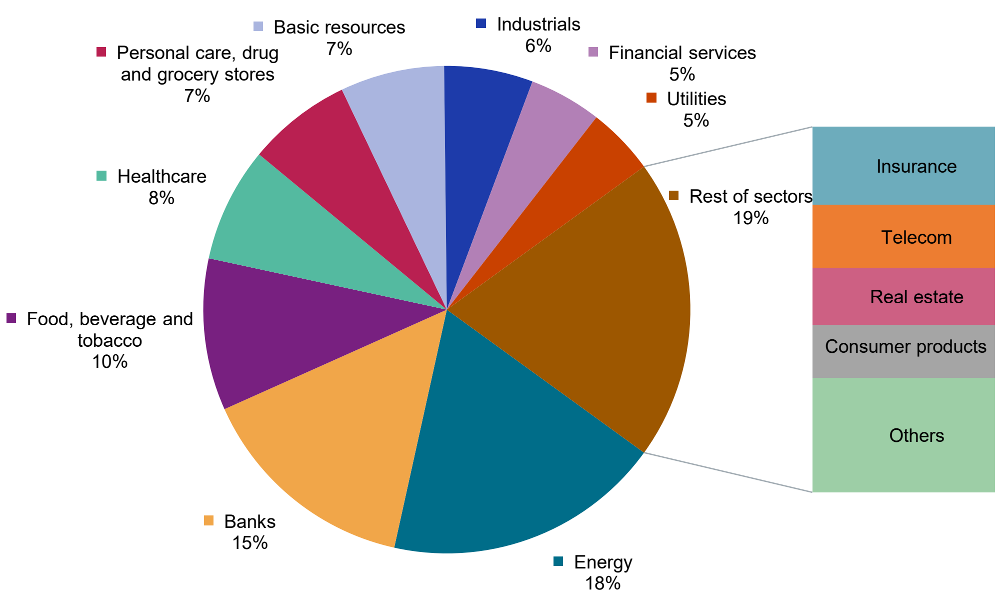
Source: S&P Global Market Intelligence.

2023e aggregate dividend breakdown by sector (%)



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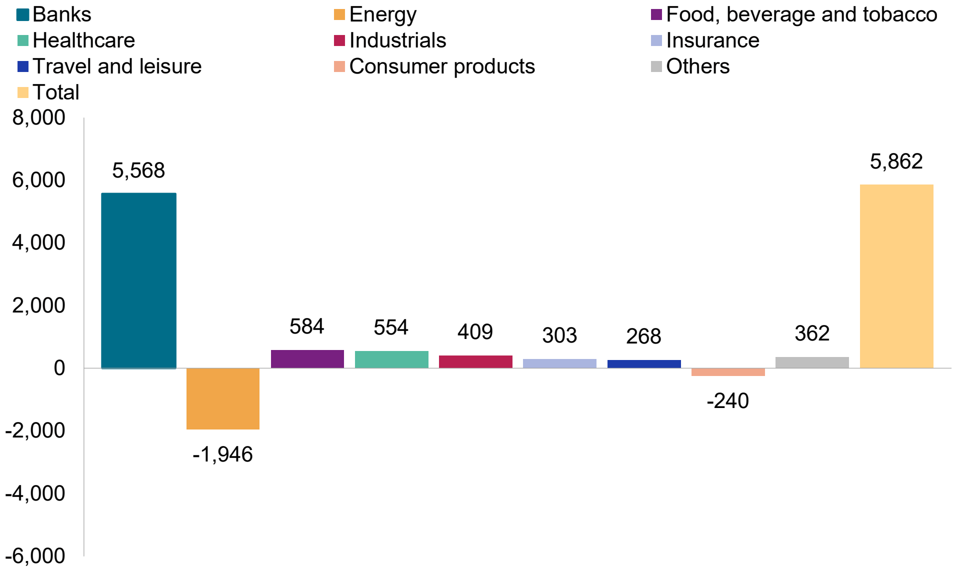
2024e sector contribution to aggregate dividends (£M)



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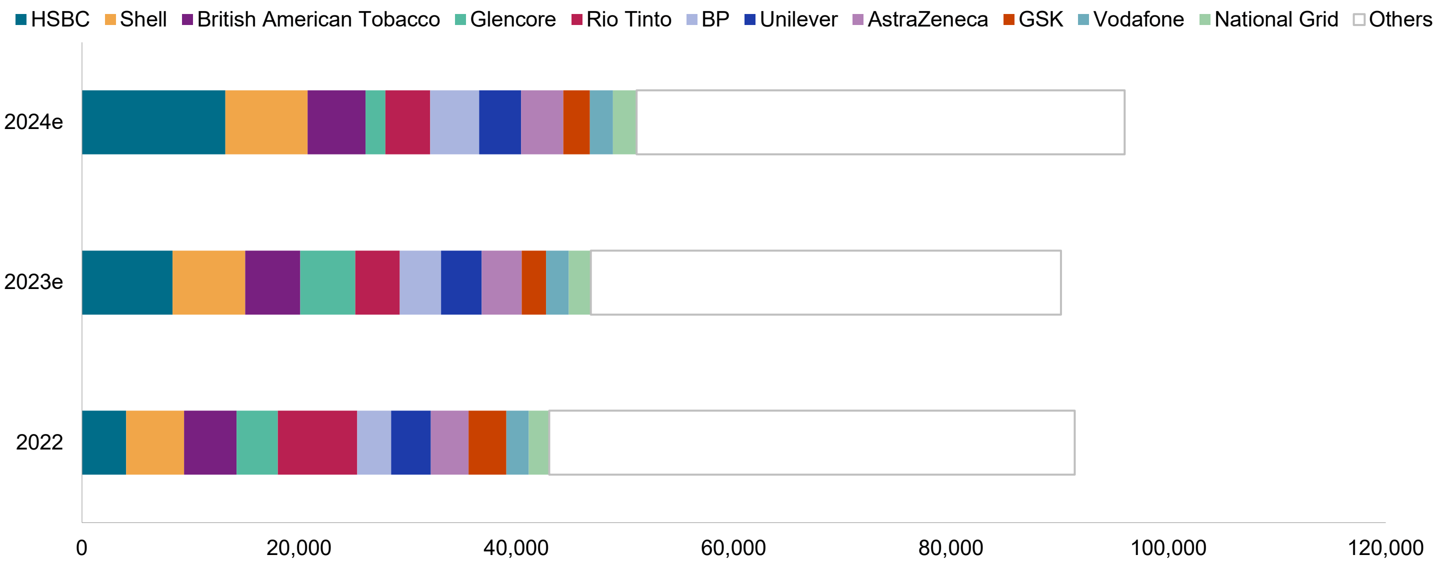
Source: S&P Global Market Intelligence.

Top dividend payers' contribution (£M)



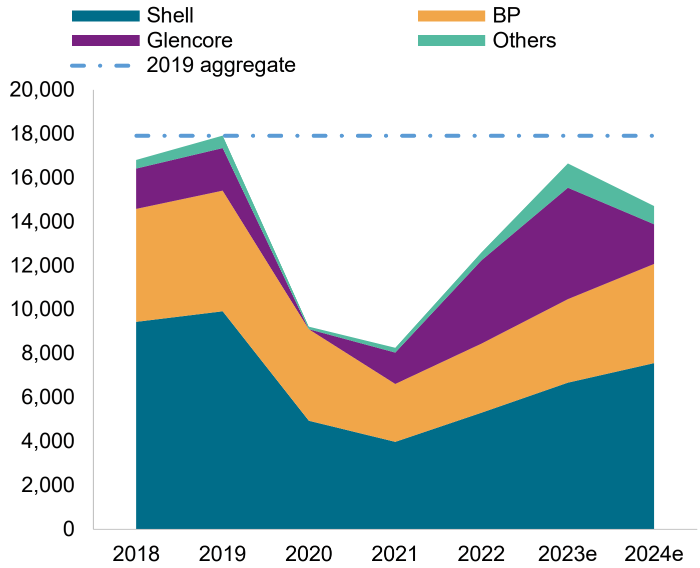
Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

Oil majors, Shell and BP, can deliver much-higher dividend returns

Over the last five years, energy stocks have contributed 15%-20% of aggregate dividends in the UK. Dividends paid in 2023 are forecast to be 7% lower than in 2019, upwardly biased by **Glencore**'s large payout. On a year-over-year basis, aggregate dividends in the UK are forecast to climb by 32% in 2023, after surging by 53% in 2022, indicating robust recoveries following the COVID-19 pandemic. In 2024, nevertheless, aggregate dividends are projected to fall by 12% owing to a sharp comedown from **Glencore** (-64%), partially offset by 13%-19% increases from **Shell** and **BP**.

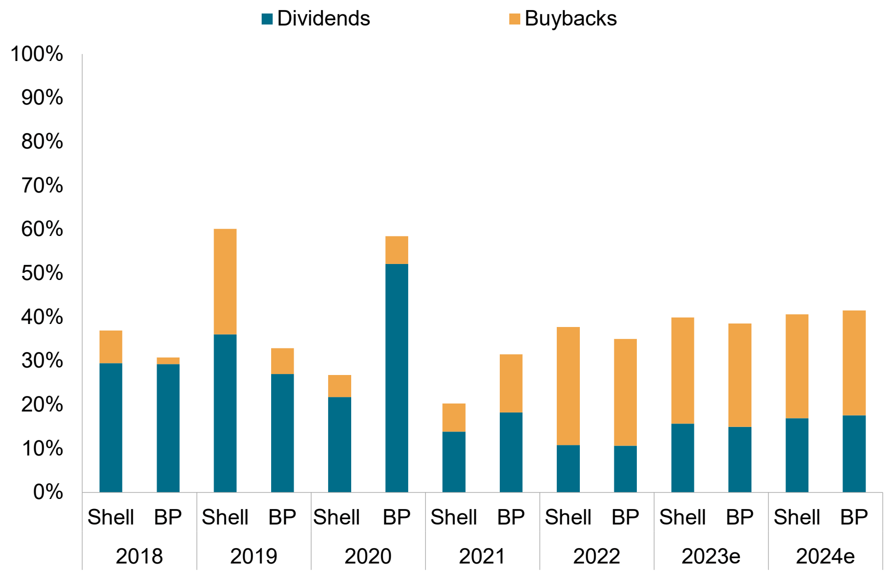
After the big dividend cutdown in 2020 (-67% for **Shell** and -50% for **BP**), the official policies of both oil majors have been to target a minimum of 4% annual growth in dividend per share (DPS). However, with the Brent oil price going through the roof and recently remaining stable at a lucrative level (about $90 per barrel in mid-September), Shell's DPS is expected to rise by at least 23% for fiscal year 2023 and BP's by 20%. Overall, **Shell** is forecast to pay £6.7 billion in 2023, down 33% compared with 2019. **BP** is forecast to pay £3.8 billion, down 31% from the 2019 level.

Aggregate dividends for energy (£M)



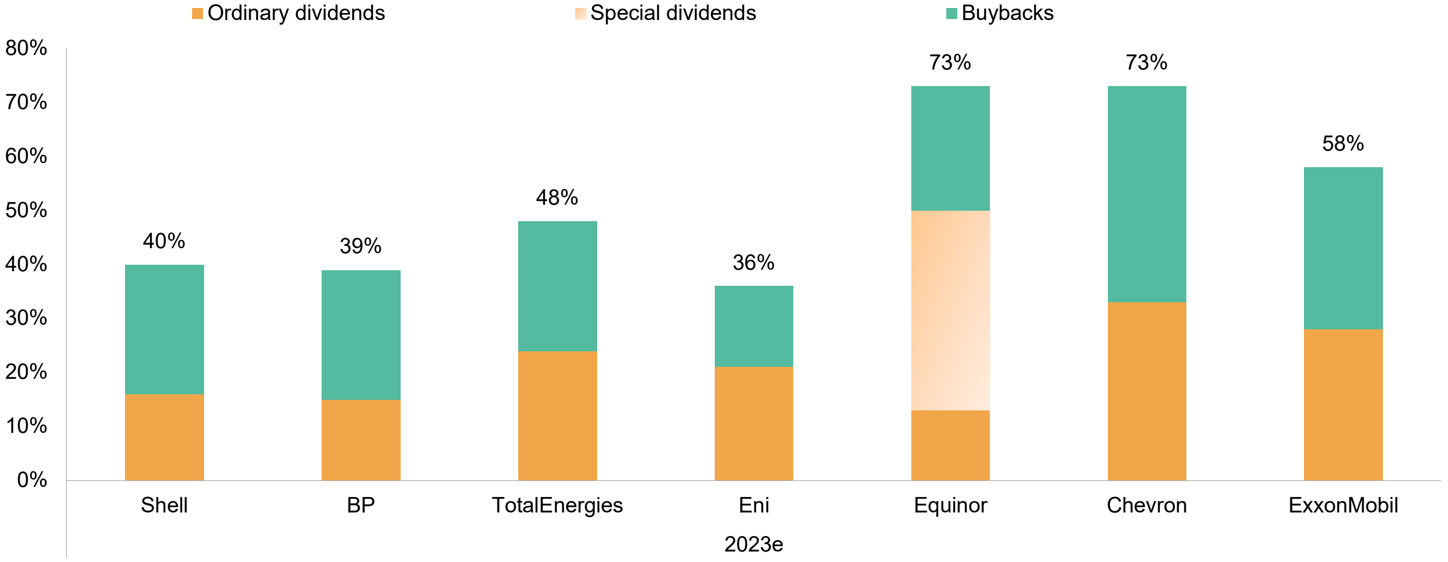
Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

CFFO breakdown for Shell and BP



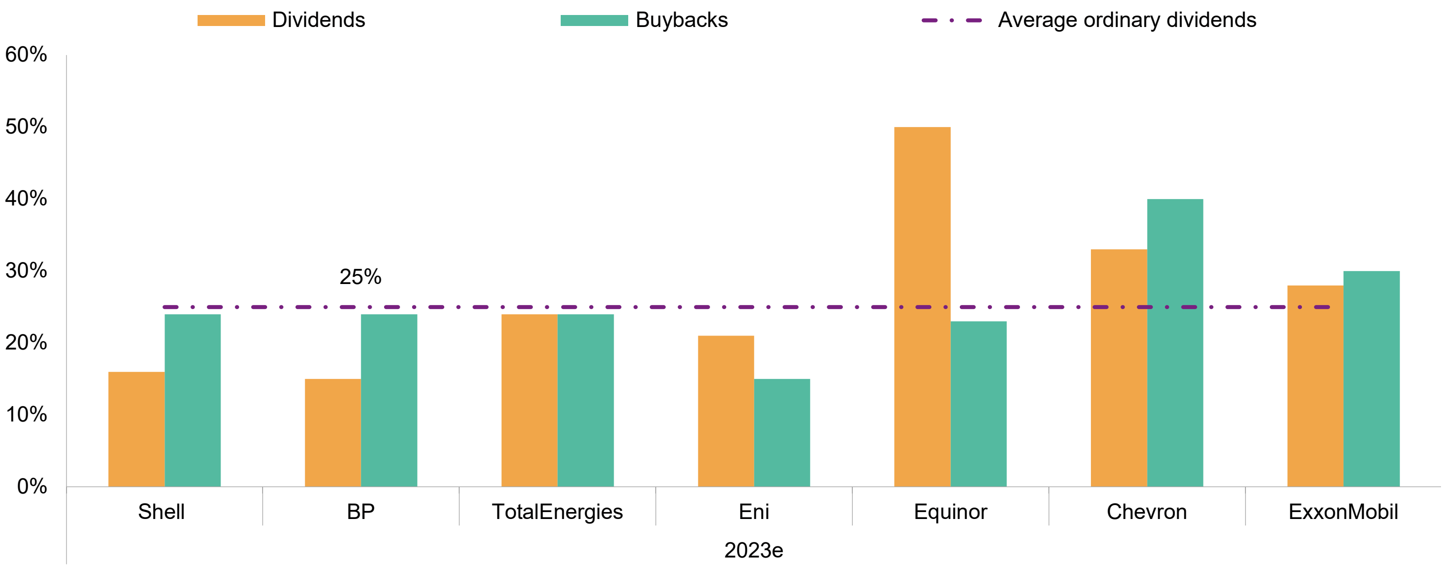
Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

2023e CFFO allocation as shareholder returns



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

2023e CFFO breakdown for global oil and gas stocks

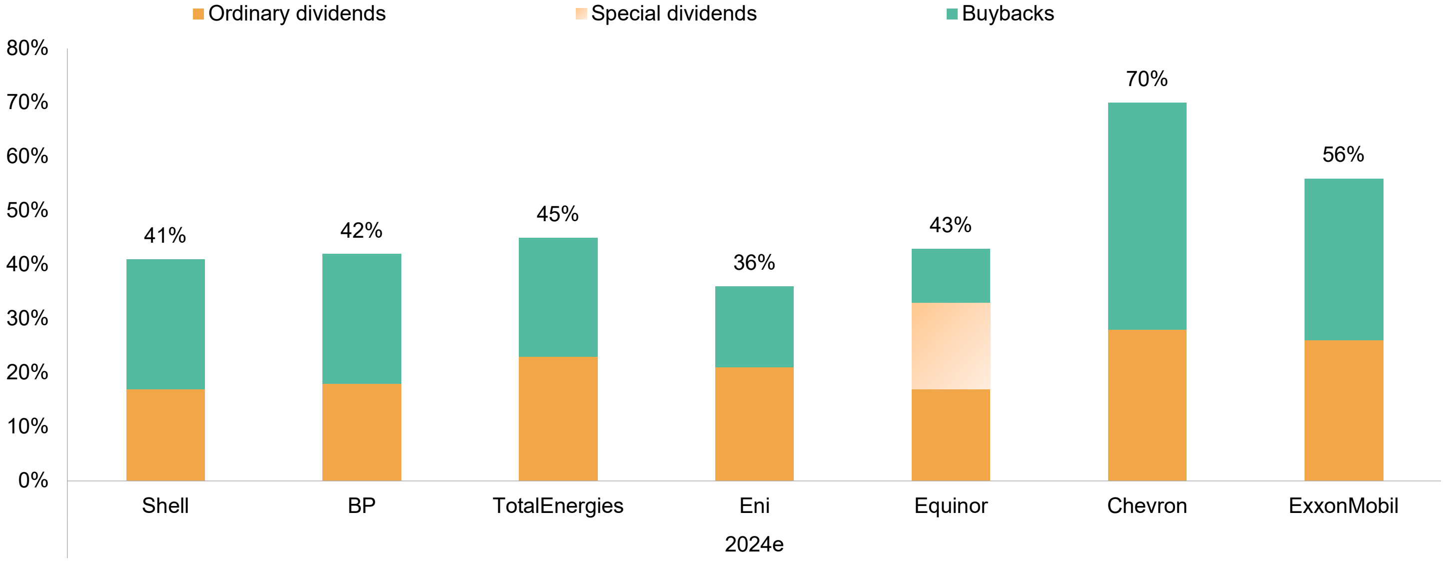


Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

S&P Global Market Intelligence believes that both companies present significant dividend upsides because they are currently allocating a larger portion of their cash flow from operations (CFFO) to buybacks (compared with the pre-pandemic level) and their dividends as a percentage of CFFO are lagging their peers' by 5%-10%. In 2023 and 2024, the average ratio among the main oil majors is around 25%, while Shell and BP are likely to stand at 15%-18%.

Our base forecast for Shell's aggregate dividends in 2024 is a 10% increase to reach about $9.2 billion-$9.4 billion. For BP, the aggregate payments are forecast to increase by 16% to $5.6 billion-$5.8 billion — on track to revert to the pre-pandemic level of

2024e CFFO allocation as shareholder returns



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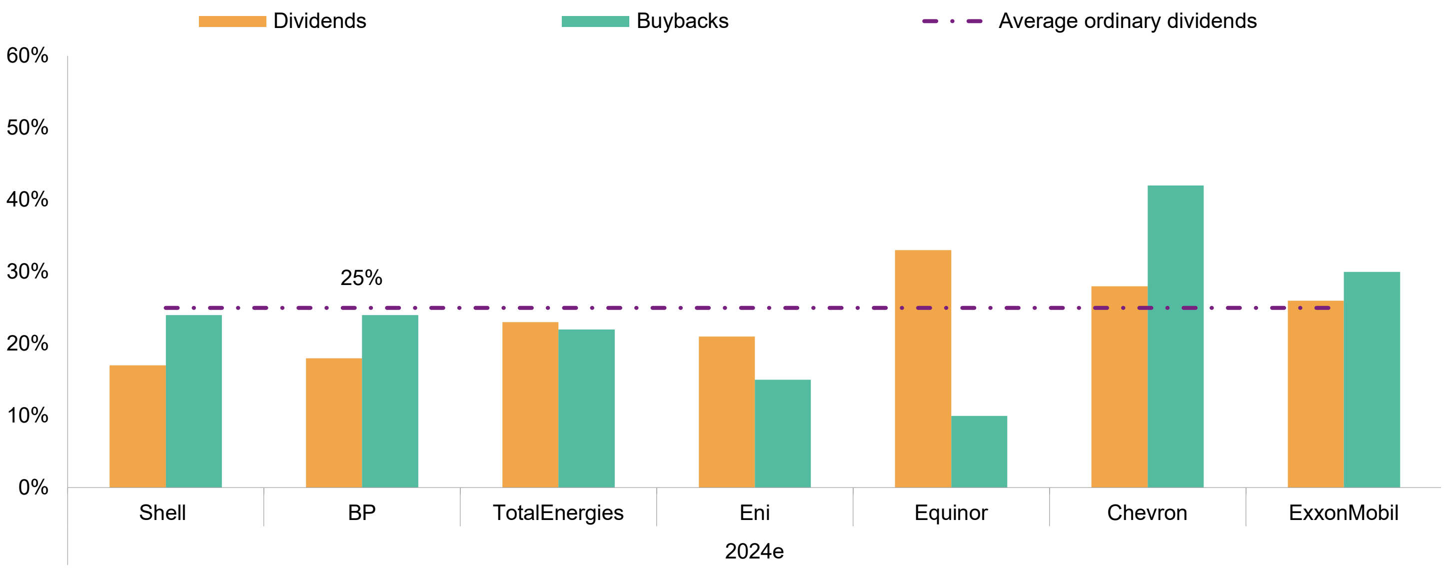
Source: S&P Global Market Intelligence.

2024e CFFO breakdown for global oil and gas stocks



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Source: S&P Global Market Intelligence.

about $7.0 billion in 2019. The tables below present our best-case scenarios for Shell's and BP's fiscal year 2024 annual DPS assuming a higher proportion of CFFO and a lower share count (as a result of ongoing share buybacks).

Scenario forecast for Shell's 2024e DPS

Base forecast: $1.42		
Scenarios	20% dividends of CFFO	25% dividends of CFFO
Number of shares down 6% YOY	$1.78	$2.22
Number of shares down 8% YOY	$1.82	$2.26

As of Sept. 22, 2023.
Source: S&P Global Market Intelligence.

Scenario forecast for BP's 2024e DPS

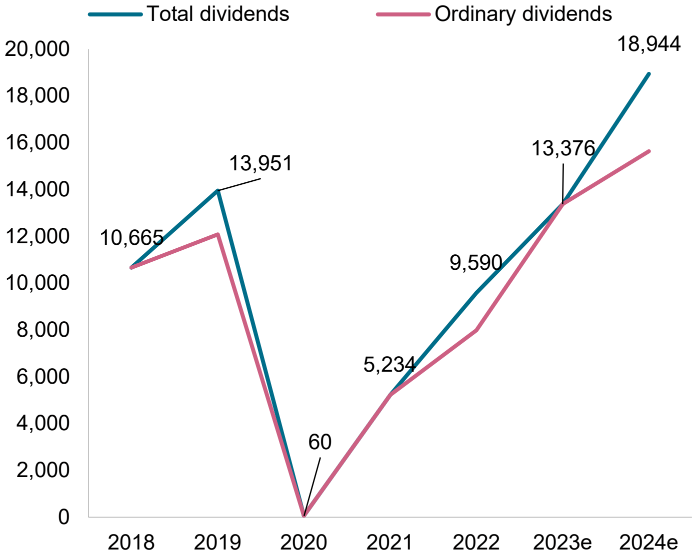
Base forecast: $0.34		
Scenarios	20% dividends of CFFO	25% dividends of CFFO
Number of shares down 6% YOY	$0.40	$0.50
Number of shares down 8% YOY	$0.41	$0.51

As of Sept. 22, 2023.
Source: S&P Global Market Intelligence.

Apart from Shell and BP, Glencore is another major driver of the energy dividend performance. It is forecast to deliver a record payout of £5.1 billion in 2023, which is the third-largest expected payout in the UK after HSBC's and Shell's. With oil and commodity prices easing to normal levels, we project Glencore's base distribution per share in 2024 to be back to about $0.1, equivalent to a 64% decrease in aggregate payments from 2023. Nevertheless, Glencore is forecast to remain in the top 15 contributor list for 2024 with aggregate payouts standing at about £1.8 billion.

Banks to reshuffle the top dividend contributor, boosted by interest rates and strong capital ratios

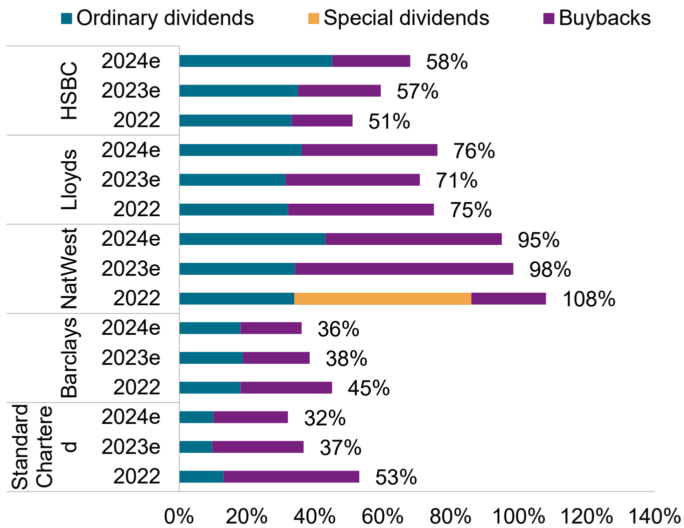
Dividend payments for banks (£M)



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

Shareholder return allocations for banks

As a percentage of profits



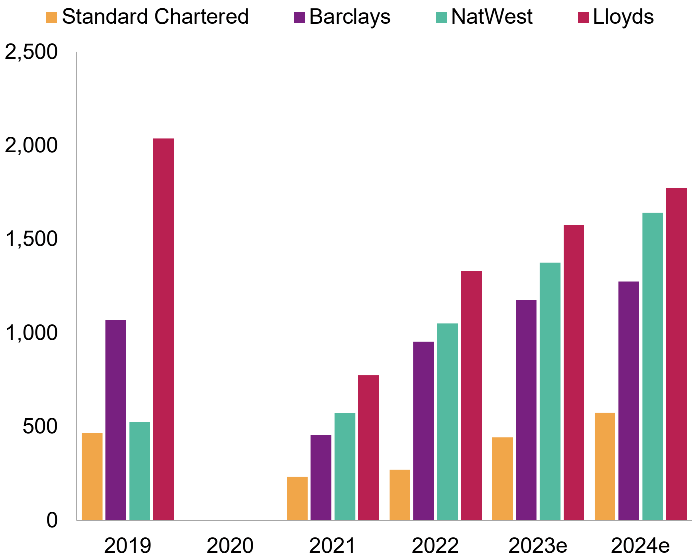
Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

After facing a significant drop in dividends following the pandemic, the banking sector has now fully recovered and is projected to represent one-fifth of the UK's dividends in 2024, amounting to £19 billion. In the past few years, the banking sector has quickly recovered its profits and shareholder returns by riding the wave of interest rate hikes.

Looking exclusively at ordinary dividends, the sector's aggregate payouts are forecast to be £13.4 billion (+68% year over year) in 2023 and £15.6 billion (+17% year over year) in 2024, topping the level of £12.1 billion in 2019.

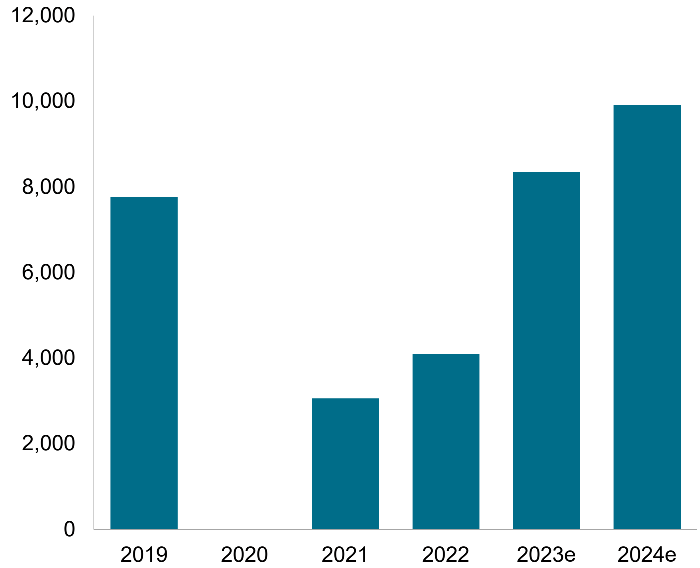
HSBC is forecast to be the 2023 top dividend payer in the UK with a forecast payout of £8.3 billion, more than doubling the level of £4.1 billion in 2022. The bank is forecast to double its dividend on the back of higher interests, aligning with its 50% payout policy.

Aggregate ordinary dividends for top banks (£M)



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

Aggregate ordinary dividends for HSBC (£M)



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

The other UK banks are also presenting significant dividend upsides. **Standard Chartered PLC** retains a low 10% payout, but its bumper income is forecast to support the annual DPS to grow by 33% in fiscal year 2023 and by 25% in fiscal year 2024. **Barclays PLC**'s dividend payout ratio is hovering around 20%. Its buyback payout has been lower than the other banks', leaving headroom for further dividend hikes. **Lloyds Banking Group PLC** returns 35% of its profits as dividends and 40% as buyback. Its fiscal year 2023 final DPS is projected to increase by 15% year over year, in line with the interim DPS growth. **National Westminster Bank PLC (NatWest)** follows a 40% payout policy and is forecast to increase fiscal year 2023 annual DPS by 35% year over year.

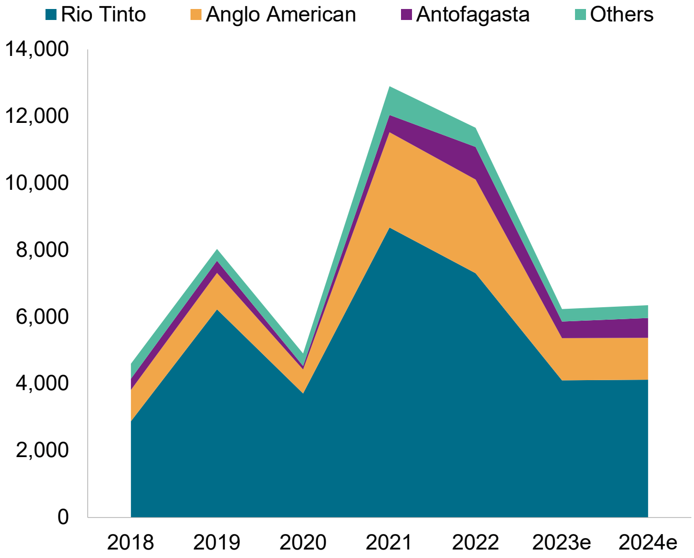
After two booming years, the basic resources sector is sliding back to a normalized payout

The basic resources sector, represented by **Rio Tinto, Anglo American PLC** and **Antofagasta PLC**, generated 16% of dividend payments in the UK in its record year of 2021 and 13% in 2022. The proportion is projected to plummet to 7% in 2023 with the decline in commodity prices.

The sector's aggregate dividends surpassed £12.9 billion in 2021, with **Rio Tinto** and **Anglo American** delivering special payments and **Antofagasta** escalating its payout to 100%.

Most mining companies, including the top three in our discussion, have payout-based dividend policies. The market consensus is expecting a slightly higher profit for the sector. Thus, we project that the aggregate dividends in 2024 will increase by about 2%.

Aggregate dividends for basic resources (£M)



Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

YOY change for ordinary dividends

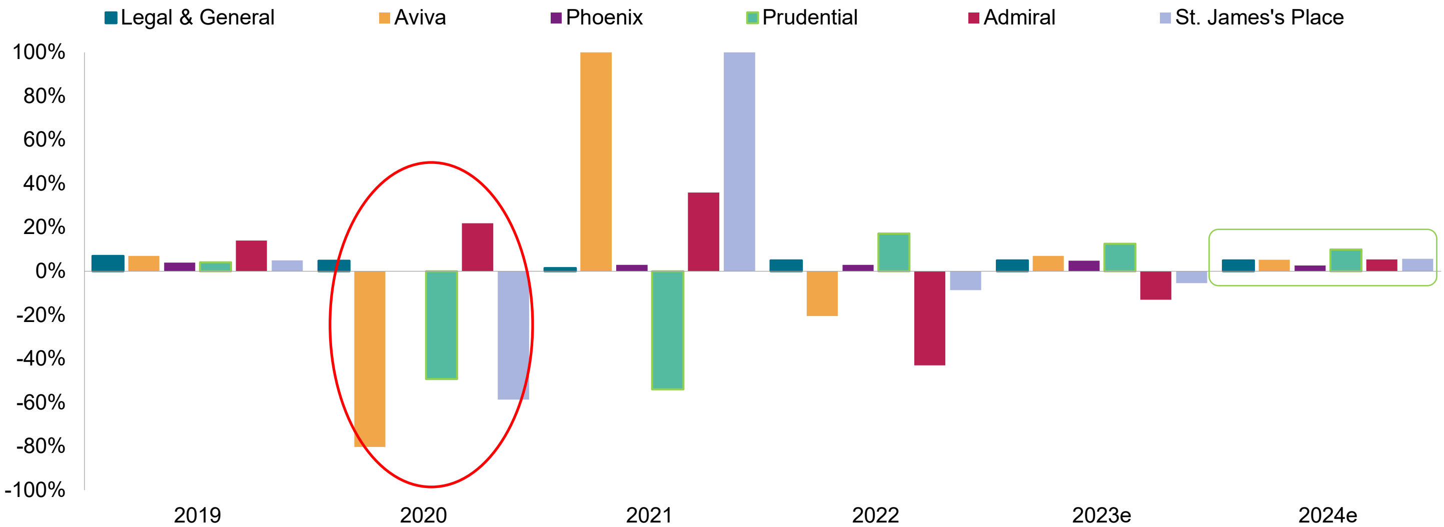
Company	2019	2020	2021	2022	2023e	2024e	2023e vs. 2019
Rio Tinto Group	14%	13%	66%	9%	-39%	1%	25%
Anglo American PLC	16%	-34%	200%	9%	-46%	-1%	16%
Antofagasta PLC	8%	-72%	401%	90%	-50%	22%	33%
Others	-27%	3%	109%	-9%	-35%	2%	27%
Sector total	10%	-4%	96%	12%	-41%	2%	24%

As of Sept. 22, 2023.
Source: S&P Global Market Intelligence.

Dividends from the insurance sector are sustainably on a roll

YOY change for aggregate ordinary dividends

Including recurring special dividends from Admiral



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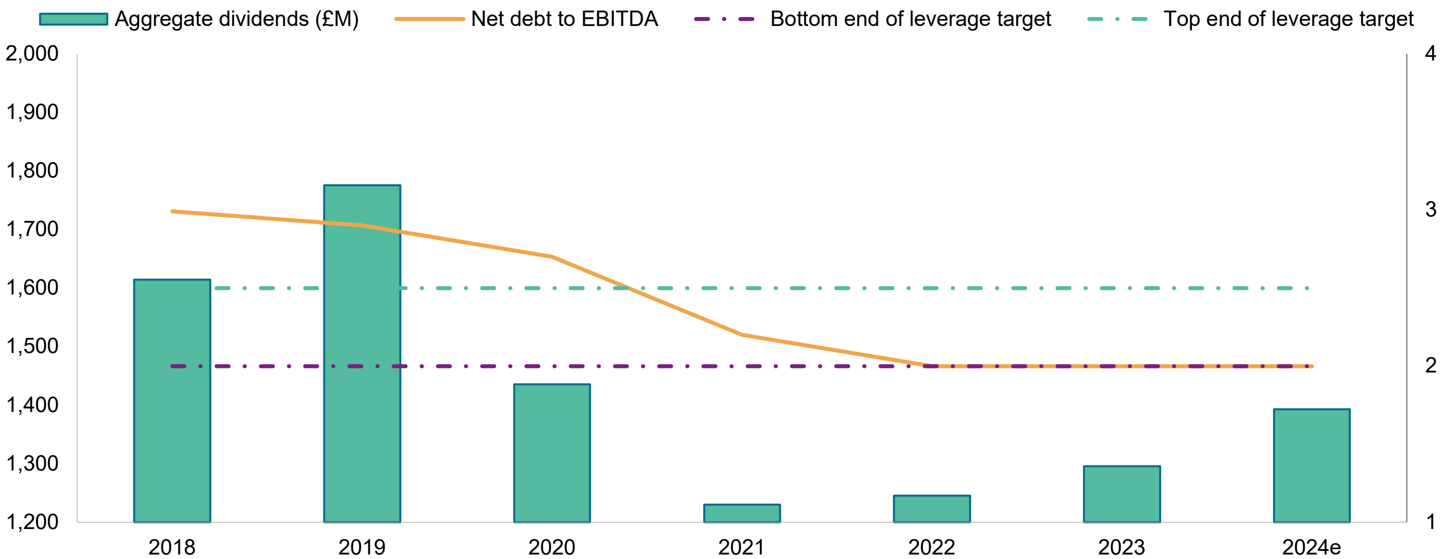
Source: S&P Global Market Intelligence.

Legal & General Group PLC and **Phoenix Group** have delivered consecutive annual growth for aggregate dividends over the past five years. **Admiral Group PLC** has a long track record of treating its special dividends as regular payments.

As highlighted for 2024 (estimated [e]), we forecast solid year-over-year growth of 3%-12% for all major insurance companies. **Aviva PLC** has announced that it expects to pay a total dividend of about £915 million for 2023, translating to a final dividend of 22.3 pence, up 8% year over year. **Legal & General** aims to maintain its DPS growth rate of 5% per annum. Compared with more developed markets such as the UK, Asia has lower levels of life insurance penetration, demonstrating a stronger growth runway for **Prudential PLC**. As a result, **Prudential** intends to grow its DPS by 7%-9%, putting it somewhat ahead of the UK-focused peers.

Steady dividend growth from food, beverage and tobacco

Imperial Brands' aggregate dividends and leverage



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Source: S&P Global Market Intelligence.

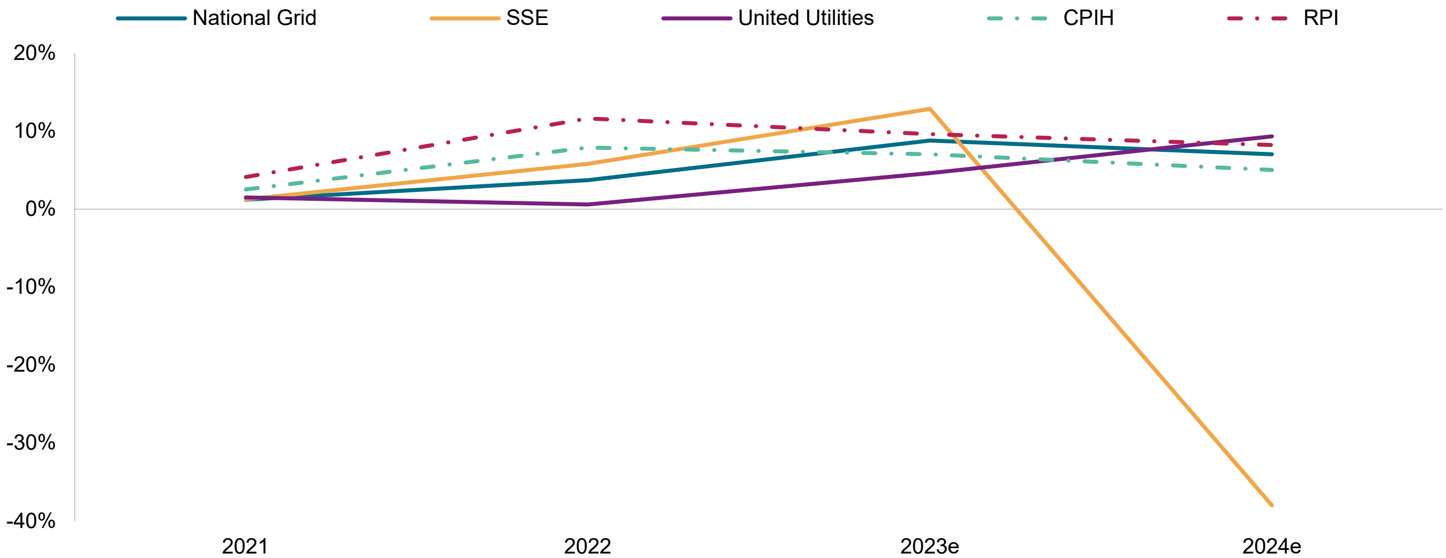
Since 2021, the ordinary dividends paid by the sector have been inching up by stable single-digit growth. After a 6% increase in 2023, we predict another 6% rise in 2024 to reach £9.7 billion.

BAT's aggregate dividends have increased every year since 2019 and are anticipated to keep growing by 5% in 2024. On the other hand, **Imperial Brands PLC** plugged away at deleveraging in 2020 and 2021, partially at the cost of dividends. As its net debt to EBITDA is sitting at the bottom end of its target (2.0-2.5x), we expect its annual DPS in 2024 to secure stronger momentum with 8% yearly growth.

Diageo PLC has a policy to maintain its dividend cover within 1.8-2.2x. There is an observed trend for its annual DPS to keep growing by 5%. **Diageo** will pay dividends in US dollars from 2024.

Dividends from utilities function as an inflation hedge

YOY change for aggregate dividends



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Source: S&P Global Market Intelligence.

Dividends paid by utilities companies tend to track inflation movements over the previous year, in line with the inflation-based payout plans. Aggregate dividends across the sector are forecast to increase by 13% in 2023 but decrease by 4% in 2024 as a result of SSE's upcoming DPS rebase.

National Grid PLC and **United Utilities Group PLC** aim to grow their DPS at the rate of the UK Consumer Prices Index including owner occupiers' housing costs (CPIH). On the other hand, **SSE** has a five-year dividend plan to track the UK Retail Price Index (RPI) until 2023, after which the company will rebase its annual DPS to 60 pence (-38% year over year) in 2024 and raise it by 5%-10% between 2025 and 2027.

Over the past 12 months, the UK CPIH peaked at 9.6% in October 2022 and ended at 6.3% in August 2023. Likewise, the UK RPI peaked at 14.2% in October 2022 and finished at around 9% in recent months.

Dividends from healthcare are well immune to market turmoil

Over the last five years, the healthcare sector delivered a minimal 5% standard deviation in the year-over-year change for aggregate dividends.

AstraZeneca PLC is forecast to pay more than £3.9 billion in dividends in 2024, up 6% from the prior-year level. The group is expecting its core earnings per share (EPS) to increase by a high single-digit to low double-digit percentage over the short term, supporting upside potential in our forecasts.

GSK PLC used to be the top dividend contributor in the sector before its consumer healthcare demerger. New GSK is implementing a 40%-60% payout ratio and targeting an annual DPS of 56.5 pence for fiscal year 2023. We expect a 16% increase in annual DPS for fiscal year 2024.

Dividend hikes from personal care, drug and grocery are held back by inflation pressures

The sector is forecast to pay a flat dividend of £6.2 billion in 2023. For 2024, we expect moderate growth of 3% to reach £6.4 billion.

Despite cost inflation pressures on its margin, **Unilever PLC** has maintained a quarterly DPS of €0.4268 since 2021, with a payout ratio hovering around 65%. Unilever expects to deliver strong sales growth of at least 5% in 2023, prompting us to assess that it is likely to record DPS growth of about 5% in 2024. **Reckitt Benckiser Group PLC**'s earnings improvement has already led to 5% DPS growth in 2023, leading Market Intelligence to forecast further growth of mid-single digits in 2024.

Tesco PLC is forecast to pay flat dividends in 2024, targeting a 50% payout. **J Sainsbury PLC (Sainsbury's)** is returning a higher proportion of underlying earnings from 53% to 60%. The market consensus is projecting a slight profit drop in 2024. Thus, we forecast its annual DPS to slide by 4%-6% year over year.

Higher mortgage rates take a toll on UK homebuilders

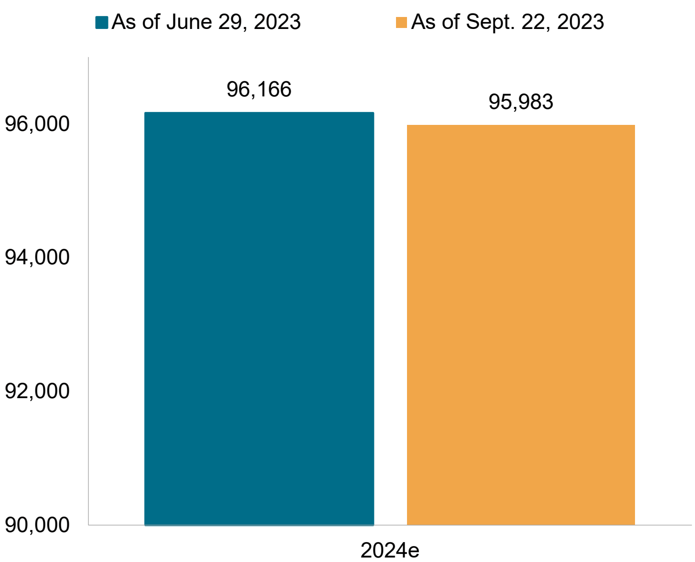
UK housebuilding activity declined significantly in July for the eighth consecutive month, as higher mortgage rates dampened demand. Housebuilders are reducing new home construction owing to buyer apprehension over potential mortgage rate hikes.

We expect **Barratt Developments PLC** to cut its dividend by about 55% year over year to 15.17 pence in fiscal year 2024, in line with a targeted dividend cover of 1.75x. **Persimmon PLC** has announced an interim dividend of 20 pence for fiscal year 2023 and reiterated its expectation of maintaining the full-year dividend at the same level of 60 pence. Therefore, we expect a final dividend of 40 pence, down 33% year over year. **Berkeley Group Holdings PLC** has communicated a total cash payout of £70 million for fiscal year 2024, down 49% year over year. **Taylor Wimpey PLC** should be able to maintain its payout at a broadly flat level, in line with its policy of paying either 7.5% of net assets or £250 million as dividends.

Forecast evolution for 2024e during the interim results period

Taking the constituents of the FTSE All-Share ex Investment Trust Index (FTAX) for reference, we look at our forecast evolution for the UK between June 29, 2023, and Sept. 22, 2023 — i.e., over the first-half 2023 earnings season. Our predictions for 2024 aggregate dividends fell by £183 million, mainly driven by lower estimates for Glencore (-£733 million) and Anglo American (-£316 million). On the contrary, we raised our estimates for the top five banks by £90 million-£700 million, indicating a reshuffle of the top dividend sector in 2024.

Forecast for 2024e aggregate dividends (£M)



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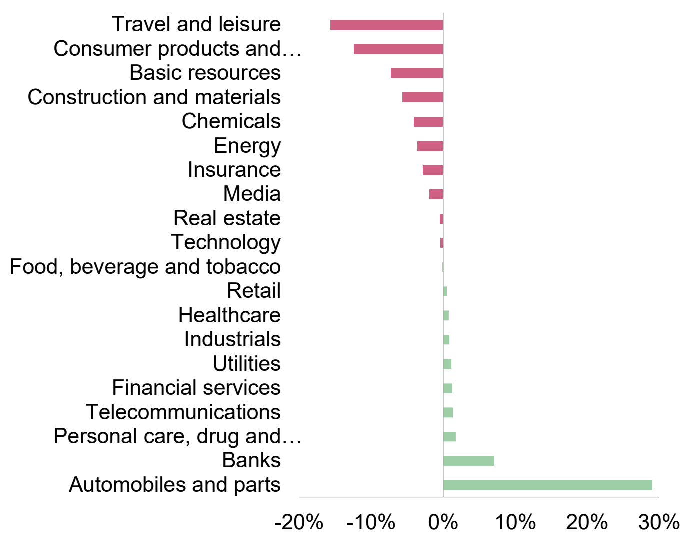
Forecast evolution in % for 2024e aggregate dividends
Between June 29, 2023, and Sept. 22, 2023



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Forecast evolution for 2024e aggregate dividends (£M)
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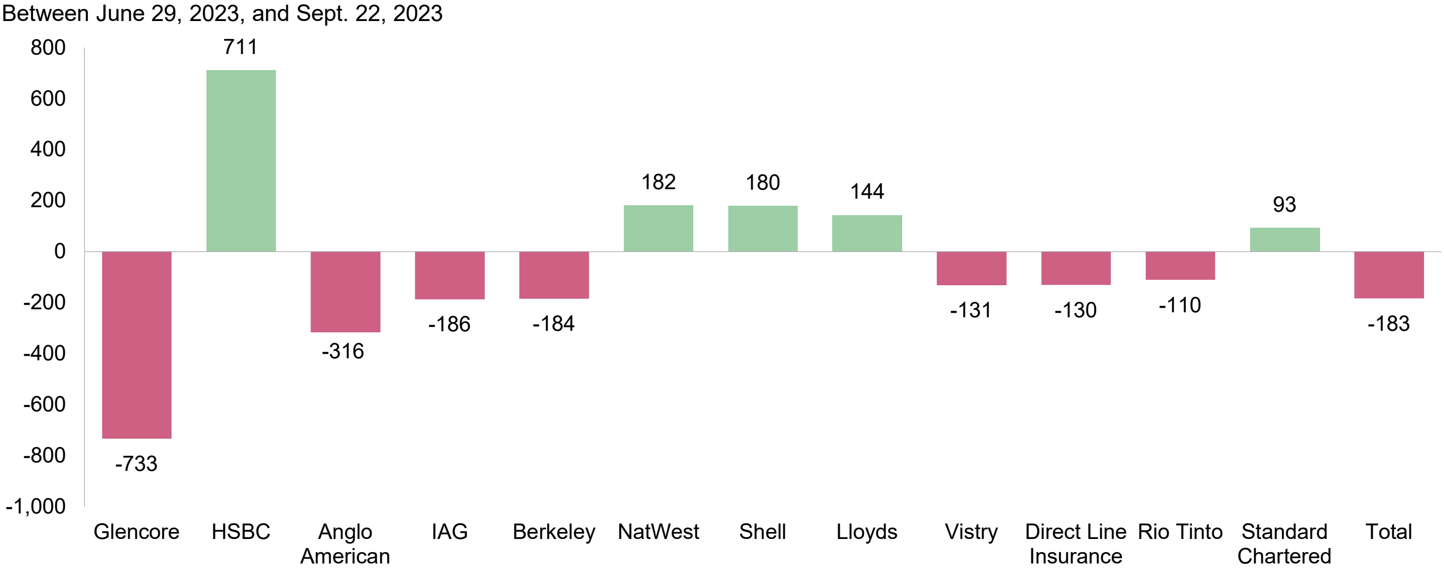

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Source: S&P Global Market Intelligence.

Top 25 highest dividend yields
Aggregate dividends (£M), including one-offs

Company	Sector	2022	2023e	2024e	Sustainability score	12-month forward yield
Regional REIT Ltd.	Real estate	34	32	35	Low	19.6%
Diversified Energy Company PLC	Energy	133	138	146	Medium	16.7%
Ithaca Energy PLC	Energy	0	216	222	Low	13.3%
Vanquis Banking Group PLC	Financial services	43	39	39	Medium	12.6%
Liontrust Asset Management PLC	Financial services	46	46	46	Medium	11.5%
Energean PLC	Energy	91	175	263	Medium	11.0%
Triple Point Social Housing REIT PLC	Real estate	21	22	23	Low	10.5%
Pharos Energy PLC	Energy	0	4	10	Low	10.2%
Capital & Regional PLC	Real estate	5	12	13	Low	10.1%
Phoenix Group	Insurance	496	520	534	High	9.8%
M&G PLC	Financial services	427	462	464	Medium	9.8%
Reach PLC	Media	23	23	23	High	9.8%
Vodafone Group PLC	Telecommunications	2,065	2,092	2,119	Medium	9.7%
Kenmare Resources PLC	Basic resources	27	44	37	High	9.6%
CMC Markets PLC	Financial services	25	21	27	High	9.5%
Real Estate Credit Investments Ltd.	Financial services	28	21	28	Low	9.2%
Legal & General Group PLC	Insurance	1,107	1,162	1,221	Medium	9.1%
OSB Group PLC	Financial services	119	174	119	Medium	9.1%
Crest Nicholson Holdings PLC	Consumer products	38	44	43	High	9.0%
Abrdn PLC	Financial services	270	270	270	Medium	9.0%
British American Tobacco PLC	Food, beverage and tobacco	4,845	5,076	5,342	Medium	9.0%
City of London Investment Group PLC	Financial services	23	16	17	Low	8.9%
Target Healthcare REIT PLC	Real estate	42	38	42	Low	8.8%
Chesnara PLC	Insurance	34	35	36	Medium	8.7%
Imperial Brands PLC	Food, beverage and tobacco	1,246	1,296	1,393	Medium	8.7%

Data compiled Sept. 22, 2023.
Source: S&P Global Market Intelligence.

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