

Proactive Insights

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FTSE 100 dividend payments set for new record in 2019 despite recent cuts from M&S and Vodafone

Despite recent high-profile dividend cuts from Marks and Spencer Group PLC (LON:MKS) and Vodafone PLC (LON:VOD), FTSE 100 companies remain on track for a record dividend pay-out in 2019.

London's blue-chips are set to pay a combined £91.2bn this year, up 6.5% year-on-year. When divided by the index's total market capitalisation, that works out to a yield of around 4.5%.

READ: M&S confirms £600mln rights issue and divi cut to fund Ocado joint venture

"The dividend yield on offer may be one reason why the FTSE 100 has risen by over 10% this year, despite all of the prevailing political and economic uncertainty," said Russ Mould, investment director at AJ Bell.

"The dividend yield, and the huge premium it offers compared to the ten-year Gilt yield, suggest that UK stocks are cheap and a lot of bad news may already be priced in."

Banks dominate list of top payers

Just ten stocks will be responsible for almost two-thirds of the total dividend figure, with the City's banks, unsurprisingly, accounting for the vast majority.

Royal Bank of Scotland PLC (LON:RBS), which unveiled a £900mln special dividend in February, will take its place at that top table, as will Barclays PLC (LON:BARC) and HSBC Holdings PLC (LON:HSBA).

Oil supermajors BP PLC (LON:BP.) and Royal Dutch Shell PLC (LON:RDSB) are also among the biggest dividend payers on the FTSE 100.

Dividend cover healthier than it's been for a while

Given how unloved UK stocks have been over the past year or so, investors would be forgiven for thinking all this shows is that companies are paying out more than they can afford.

So they'll draw some comfort from the fact that dividend cover - the extent to which distributions are covered by retained earnings (dividend per share divided by earnings per share) - at 1.68 times, is at its highest level since 2014.

"Although you would really like to see this ratio at 2.0 times or above, to provide a safety buffer just in case Britain did unexpectedly slip into a recession," said Mould.

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