

NEWS ANALYSIS UK CORPORATE GOVERNANCE

## UK large caps' dividend cover drops to lowest level since 2009

By **Beth Brearley** 3rd July 2017 12:42 pm



Dividend cover for the UK's largest listed companies has dropped to its lowest level in seven years, according to The Share Centre.

Research using The Share Centre's profit watch UK report and the Capita Asset Services UK dividend monitor shows that the sustainability of dividends among the top UK firms fell by 18 per cent last year, dropping from 0.97x to 0.80x as companies' bottom line profits have failed to keep pace with dividend hikes.

While profits reported by the UK's top 350 listed firms fell 7.6 per cent to £67.3bn in 2016, dividends increased 7.1 per cent to £81.1bn over the same period, marking the second consecutive year of weakening dividend cover. Among these large caps, dividend cover now less than half the level it was two years ago.

Helal Miah, research investment analyst at The Share Centre, says the falling dividend cover alongside the weakening outlook for the UK economy will "ring alarm bells for income investors".

"Consumer spending is down, manufacturing growth is slowing, and the housing market is slowing. For domestically orientated companies, especially those in the FTSE 250, this will impact sales and profits, and is likely to weigh on dividends.

"What's more, the Pensions Regulator has indicated it is willing to intervene should companies with pension deficits prioritise returning capital to shareholders over plugging funding gaps. This may encourage a more conservative approach to payouts. Investors would clearly prefer to have dividends cut rather than profits cut. However, the fact that dividends have not been cut, despite the fact that profits have fallen, is a positive sign. It suggests that companies are still committed to their dividend policy, and that they are still generating sufficient cash to pay them. This is a good sign for income investors, and it suggests that the UK economy is still resilient enough to support a dividend-paying market."

However Miah is optimistic on the larger firms seeing an improvement in operating margins, they are making in profits, Miah says rising commodity prices and strengthening global growth should also prove beneficial to companies' dividend cover.

She adds: "Given the sheer scale of dividends and profits these companies account for, it should buoy the overall dividends cover in the 350 in spite of a domestic political and economic uncertainty."



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