Prospects for UK Dividend Growth in 2014

Equity income funds form an important part of our investment portfolios we therefore keep a close eye on the outlook for dividends. Capita have recently published their report on UK dividends for the second quarter on 2014 which includes a number of interesting observations.

- Dividend Growth in the second quarter rose by only 3.2%, the slowest rate of growth in over three years. The prospective yield on UK equities has fallen slightly from 4.3% to 4.1% from Q1 to Q2.
- Despite improving UK economic figures corporate earnings have been slow to recover and a number of UK companies have released profit warnings. This is attributed to weakness in the wider global economy and to the strength of Sterling which is impacting the value of overseas earnings.
- Only half of the 20 largest dividend payers among UK companies report in Sterling and about two-fifths of all UK dividends are denominated in US Dollars. Some companies in the "super league" of dividend payers, namely HSBC, Shell and BP, which report their dividends in Dollars, have seen a fall in their dividends in Sterling terms in the last quarter.
- Companies outside the top 15 dividend payers saw an average increase in dividends of 4.4 per cent, although this rate of growth is still sluggish by historic standards.
- Capita forecast that 2014 will see the slowest dividend growth since 2010. The headline dividend forecast has been adjusted downwards to £98.5 billion for 2014 and the underlying dividend forecast for 2014 is £80.6 billion. Special dividends are forecast to be £17.9 billion, boosted by the Vodafone payout that has already occurred.
- Capita predict that 2015 should be a better year as the global economy improves. A formal forecast will be made later in the year but Capita consider that mid to high single digit dividend growth should be achievable for 2015.

The report echoes our recently released third quarter asset allocation, which commented on the lack of earnings growth in the UK and the headwind created by the strength of Sterling. We are keeping a close eye on the income outlook of our preferred UK and global equity income funds choices and their top holdings.

Our UK Equity Income fund choices are also poised to benefit from corporate events, including the recent deal between GlaxoSmithKline and Novartis to consolidate and swap their oncology and vaccines businesses and to form a joint venture which will be the world's largest consumer healthcare business. All of our UK Equity Income fund choices have a holding in top dividend payer GlaxoSmithKline and Artemis Income also holds Novartis.

GlaxoSmithKline aims to return £4 billion to shareholders in 2015 once the deal closes. Funds with a holding in GlaxoSmithKline may elect to account for this inflow as capital rather than income to prevent a spike in the dividend paid by the fund, but either way it looks as if our fund choices will benefit provided the deal closes as anticipated.

The full Capita report can be accessed via this link:
http://www.capitaassetservices.com/assets/media/SS14035_Dividend_Monitor_Q3_2014-v4-PP.pdf

Georgina Ogilvie-Jones

Dewhurst Torevell & Co. Ltd, 5 Oxford Court, Manchester M2 3WQ. Tel. 0161 281 6400. www.dewhurst-torevell.co.uk