

Lost in Translation? - The Value of FTSE100 Dividends

The strength of sterling may be good as we approach the holiday season, but it could mean equity income funds struggle to maintain dividend levels. Many UK-listed companies - never mind overseas companies - quote their dividend in currencies other than sterling.

What have the following in common: BP, Royal Dutch Shell, HSBC, BHP Billiton, Astra Zeneca, Anglo American, Rio Tinto and Standard Chartered?

Yes, they are all FTSE 100 constituents and yes, they are all shares you might expect to find in a UK equity income fund. However there is one other thing they have in common: they all declare their main dividends in US dollars, not sterling. The companies pay their dividends to UK shareholders in pounds, but what the investors receive is usually based on the exchange rate prevailing shortly before the dividend payment date.

The difference in currencies was good news for most of the first half of last year, when sterling sunk from \$1.62 to nearly \$1.48 against the greenback. The picture has changed in the last six months as US growth has been overtaken by the UK recovery. Sterling is now nudging \$1.70, near to a five year high and up 5.5% over the last six months.

The end result is that, while many UK multinationals are announcing increases in dividends, for UK investors this is translating into dividend cuts. For example, BP recently celebrated an 8.3% hike in its first quarterly dividend from 9c a share to 9.75c. When it was paid last year (on 21 June 2013) the 9c dividend was worth 5.83p. At today's exchange rate the new, improved 9.75c dividend is worth only 5.75p. HSBC, which has just announced it is holding its first quarter dividend unchanged at 10c is, de facto, cutting the income of its shareholders by around 10%, based on current exchange rates.

According to Capita, the share registrars, only half of the top 20 largest income shares in the UK have a sterling dividend base. So 2014 could turn out to be a bad year for dividend income, even if it is a good year for foreign holidays.

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