Elston

14th June 2022

Elston Insights

The Elston "Big Five" UK Dividend Champions

- Our quarterly update of the top 5 contributors to UK dividends
- Based on the future, not the past
- THIS MONTH: Energy to the fore!

Each quarter we are publishing the Top 5 holdings of our Elston Smart-Beta UK Dividend Index. These are the UK's largest dividend payers as a proportion of the total dividend pool.

About this index

This index does not weight companies by market capitalisation. Instead it weights them by their dividend contribution. Rather than basing this on historic data, the methodology considers forward-looking consensus estimates of dividends, so changes as companies' outlooks change too. This "smart" approach to "indexing" is why it's called "smart-beta".

In addition to the Big Five, the index holds over 200 UK dividend-paying securities for diversification, No more than 9% of the index can be held in any single security to mitigate security-specific risk.

The index is tracked by the VT Munro Smart-Beta UK Dividend Fund.

Who is in the Big Five this month?

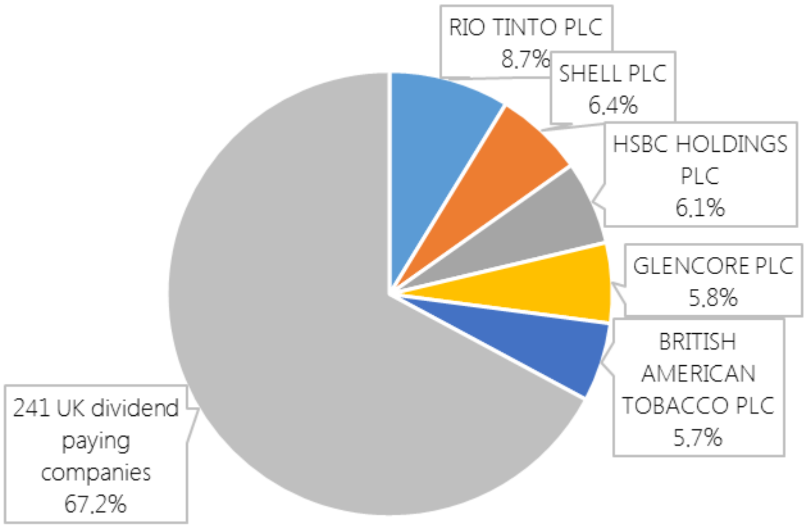
Currently, the Big Five is dominated by holdings in the Energy and Materials sectors.

	May-22 % Weight
RIO TINTO PLC	8.74%
SHELL PLC	6.45%
HSBC HOLDINGS PLC	6.09%
GLENCORE PLC	5.83%
BRITISH AMERICAN TOBACCO PLC	5.74%
Elston "Big Five"	**32.84%**

Source: Elston Smart-Beta UK Dividend Index, Elston Indices, as at most recent month end

See below for closer analysis of each Big Five company.

Elston Smart-Beta UK Dividend Index: The Big Five, by weight



Source: Elston Smart-Beta UK Dividend Index, as at most recent month end (May 2022)

Rio Tinto

A booming market for commodities in 2021 propelled the mining giant's dividend payouts in 2022 to the highest level seen in over a decade. The company's restrained capital expenditure requirements mean it has been enjoying record free cash flow and it is this that has enabled it to return money to investors via such a generous dividend. Although in a highly cyclical sector, Rio carries remarkably little debt in its capital structure putting it in a strong position to sustain future dividend payouts.

Shell

The Anglo-Dutch oil major is benefiting from a soaring oil price brought about by the sanctions imposed on Russia in response to the war in Ukraine. It unveiled record quarterly profits in May with Q1 earnings up 50% year on year. Free cash flow was reported at US$10.5bn allowing it to raise its first quarter dividend by around 4%. Should Europe maintain its boycott of Russian oil, Shell's fortunes look likely to continue to flourish.

HSBC Holdings

Inflationary pressure has ramped up through the course of 2022, giving central banks little choice but to hike interest rates. As a bank with global operations, HSBC stands to benefit from these rate rises that are being implemented across most developed economies. While the rate it pays out on deposits will increase, the amount it can charge on loans is greater, meaning a rising net interest margin. In its November results, the bank highlighted an improvement in its capital ratio, a good indicator of solvency and therefore the potential strength to sustain ongoing dividend payouts.

Glencore

Glencore's inclusion in the Big Five comes on the back of its rising dividend outlook. A recent settlement with regulators in both the US and the UK regarding bribery and corruption charges has helped clear the air too. With the uncertainty of the legal situation removed, the company's share price accelerated its rise, and has now posted an increase of almost 60% year on year. Like Rio Tinto, the Switzerland-based group is benefiting from the burgeoning prices of the commodities market, including many of those required to make the switch to renewable energy and electric power.

British American Tobacco

British American Tobacco has raised its dividend on an annual basis for over two decades. It is common for tobacco businesses to support high dividend yields given their high free cash flow. In an area of the market that is under threat thanks to increasingly health-conscious consumers, BAT is showing itself to be a resilient operator. Revealing the strength of its cash position and therefore the likelihood that the dividend will be maintained in the future, the company announced a US$2bn share buyback for 2022.

Looking ahead

Inclusion in the Big Five is contingent on forward looking dividends, which is contingent on earnings outlooks. We will update the Big 5 quarterly.

Marina Gardiner, Research Editor

Elston Consulting

Find out more

For more insights and information on research, portfolios and indices, visit:

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Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

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