ADVFN International Financial Awards
WINNER 2020
Best Advisory CFD Services

JUNE 2020

ATLANTIC CAPITAL MARKETS

Lloyds Banking Group

is now the time to buy?

01872 229 000
www.atlanticmarkets.co.uk

Introduction

Lloyds is one of the most followed stocks in the FTSE and current price action and announcements have put the company back in the spotlight. Just when the share price started to gain traction due to the relief seen on the Brexit scenario we then faced up to a far bigger spectre in the market and the unquantifiable impact of Coronavirus. However, Brexit is still a complicated situation and still lingering in the background as well.

"I remember those days with fond memories, when Brexit was the biggest concern we had to worry about."

So, Lloyds share price has been hit by the toxic mix of ongoing Brexit negotiations and more dramatically, the uncertainty over the impact on the economy of lockdown. Despite the initial collapse on the share price down to around 28p they have since come to rest around 30p and the price action Lloyds has shown in recent trading does go to show the keenness of investors to move in on any positive news.

Being the most domestically focused bank in the UK you will always see bigger fluctuations on the share price in relation to UK economic data. Lloyds will always be the bell weather for the UK economy due to its large focus on the UK domestic markets, and a product range only offering customers more standard services and less exotic or investment-based products. This approach is both a gift and a curse depending on the overall view of the UK economy.

Is it the cheapest based on NAV?

For those looking for a short-term bargain you must ask yourself, is Lloyds really the biggest bargain based on its discounted price compared to Net Asset Value?
The answer to that is a straightforward................**NO!!**

- Lloyds NAV is 51.93p at 32p = 38.34% discount to NAV
- Barclays NAV is 325.08p at 118p = 63.7% discount to NAV
- Royal Bank of Scotland NAV is 305.70p at 120p = 60.65% discount to NAV

For those looking at banks that trade to a discount on their NAV, really need to think outside the box and look at the broader market. Whilst Lloyds may seem comparatively cheap (largely due to the share price being in pennies rather than anything else) the reality is that as far as discounts are concerned, Barclays offers investors far more value. Barclays trades at a discount of around 64%.

Back to Boring

Lloyds have received a lot of praise in recent years, mainly due to a return to boring comfortable banking. Lloyds is back to doing what it does best – current accounts, mortgages, personal and business loans, life insurance...sound dull? Thank goodness.

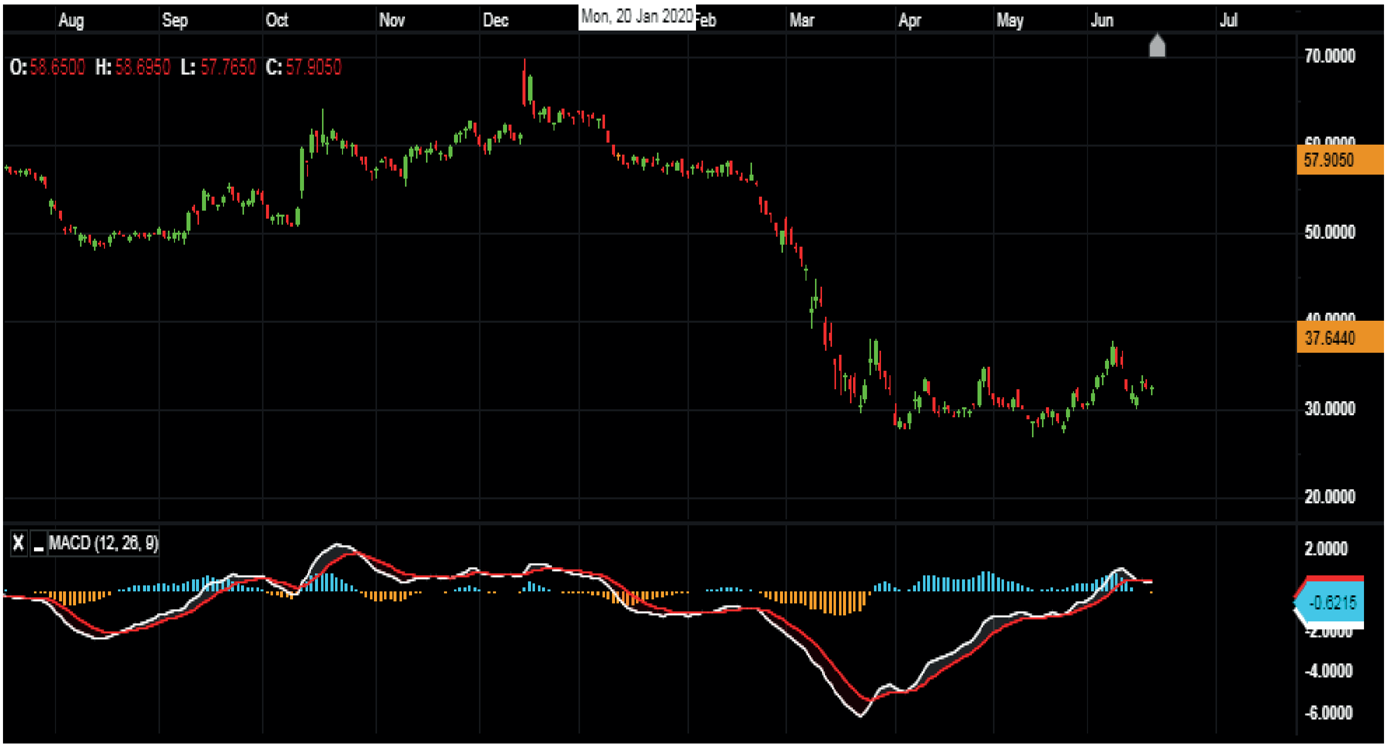
Fund managers in the City used to mockingly call Lloyds "the world's most boring bank", who knew that would become a compliment.

It's taken many years for Lloyds to recover from the financial crisis, not only financially, but also on a reputational level.

Key Fundamentals

PE Ratio	91.34	26.05	15.36	9.43	17.86
PEG	-1.73	0.13	0.18	0.38	-0.49
Earnings per Share Growth	-52.94%	199.18%	83.84%	25.00%	-36.36%
Dividend Cover	0.29	0.79	1.44	1.71	1.04
Revenue Per Share	43.34p	67.64p	56.77p	36.89p	71.37p
Pre-Tax Profit per Share	1.37p	5.44p	7.36p	8.32p	6.22p
Dividend Yield	3.76%	4.88%	4.51%	6.19%	5.39%
Dividend per Share Growth	161.72%	61.21%	-18.84%	-8.99%	6.94%
Net Asset Value per Share (exc. Intangibles)	53.38p	54.98p	54.08p	55.51p	51.93p

Technical Chart



So, Is Lloyds good value?

At 30p the shares trade at just 7x historical earnings. This is considerably lower than their long-term historical average and value investors would argue this is an ideal time to pick shares up. In normal market conditions this argument would hold up, but we are not in normal market conditions and households are still feeling the financial impact from lockdown. Expectations are that we will see an increased amount of loans defaulted during the current lockdown and this number truly needs to be quantified to weigh up the long term impact on the business, this added to the fact that there will also be a drop in mortgage applications will also lead to a knock on the revenue for 2020.

Nevertheless, the market is an incredibly dynamic environment and the impact of the expected hits from bad loans and reduced mortgage applications will be largely priced in, the only thing that cant really be priced in is the long term impact on the economy of the lockdowns.

Financial Positioning

With a CET1 ratio of 13.8 after dividends reported for the full year 2019, Lloyds are in a much stronger financial position than in the financial crisis and can absorb the reduced profitability through 2020. This would mean in the short-term any influences on the timing of a recovery, such as the easing of the lockdown or successful trials of a vaccine, are going to be the biggest driver of Lloyds shares. If the country is forced into an extended coronavirus lockdown based on a second wave, this will negatively impact the economy, and the shares of Lloyds bank.

Dividends

Lloyds as well as other UK banks announced it will not be paying any dividends or buying back any shares in 2020 as it seeks to preserve capital during the COVID-19 pandemic. The decision includes the final dividend of 2019. The government and Bank of England have taken drastic action to free up banks' capital and encourage lending to smaller business. Paying out surplus capital to shareholders in that environment was never going to go down well, and the BoE has instructed banks to scrap any dividends until next year.

The board will decide on any future dividend policy and amounts at year-end 2020.

Summary

The next moves for Lloyds share price will be ultimately fuelled by the strength shown in the UK economy and how it recovers after lockdown ends. However, like most stocks especially UK financials the shares are down heavily over the last 6 months and this will prompt investors looking for a bargain to try and pick them up. Don't be pulled in by the near penny share prices it doesn't always mean it is a bargain.

For the short term trader, expect considerable volatility in the near term, largely fuelled by news on easing of lockdown, economic indicators and overall view on coming out of lockdown, but unless the share price breaches the low shown when the market was under extreme pressure then there is a bargain to be had. For the long-term investor looking to tuck some away, well the lack of dividend in the near term is a little disappointing but the upside potential is appealing. Inevitably at some stage this will all pass, and we will see the economy recover and as we do so will the share price, but this could take some time and will require patience. I would still expect to see them back up over the 60p price once all is said and done and when the dividend is reinstated those that buy at these levels will undoubtedly be paid off for their faith in the business at a tough time.

About Atlantic Capital Markets

We are a multi-Asset brokers offering clients the ability to buy the shares either in a traditional fashion with standard shares or taking advantage of leverage and purchase via a CFD.

Call us on 01872 229 000.

Disclaimer

We have provided this information for your general guidance only and it should not be considered as investment advice. Atlantic Capital Markets will not be liable for any loss or damage caused by a reader's reliance on information provided by us. We make no claims or representations as to the accuracy or completeness of any material contained in our guides. Atlantic Capital Markets is Authorised and Regulated by the Financial Conduct Authority (No 764562).