APRIL 2021

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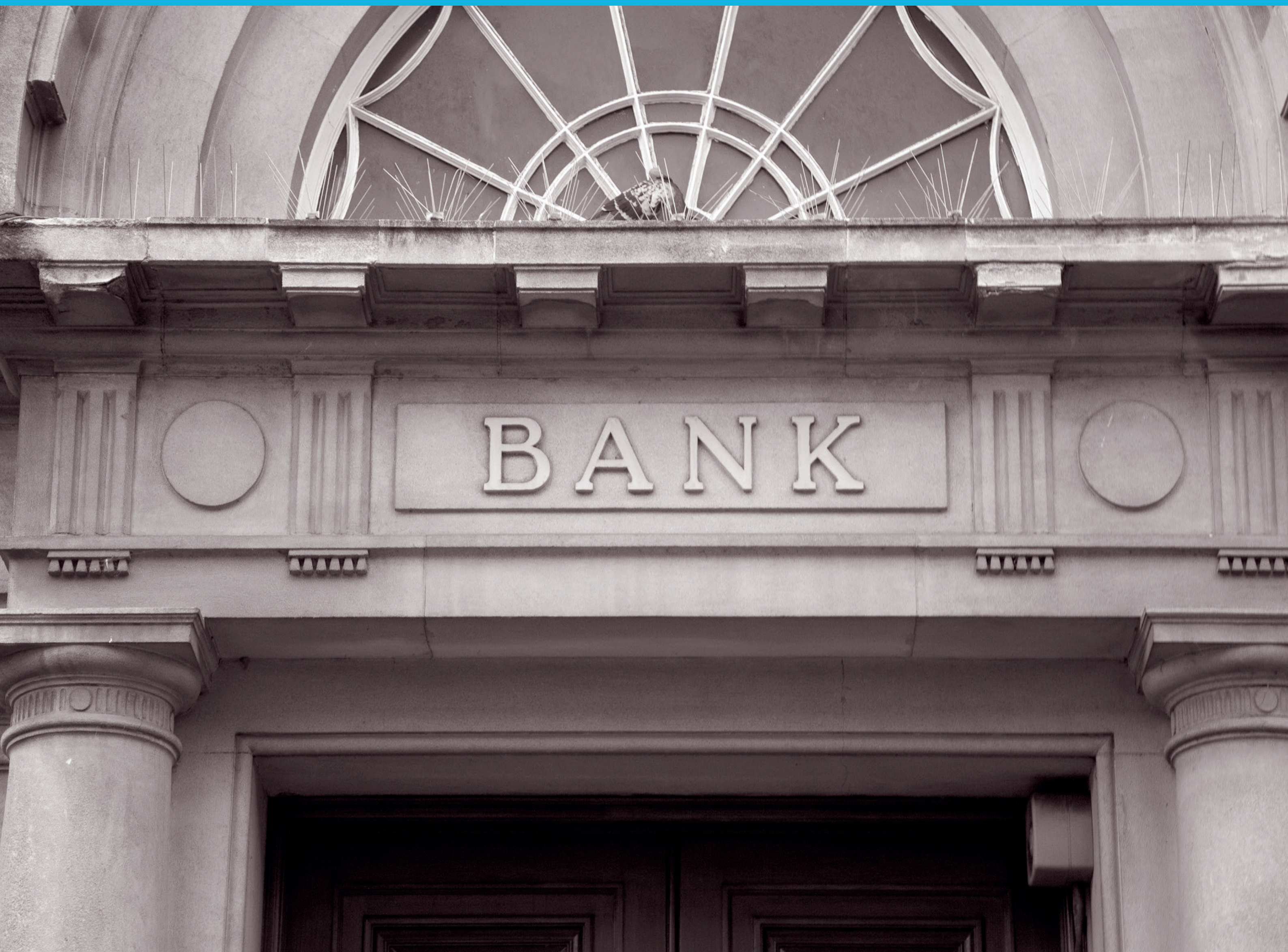

Lloyds Banking Group

is now the time to buy?

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Introduction

Lloyds is one of the most followed stocks in the FTSE and current price action has 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. With the UK now leading the way on vaccines and economic activity in the UK starting to wake up, does this mean it's time to invest in Lloyds?

The pandemic, a global event that nobody saw coming triggered a collapse in the share price down to below 24p. Clearly it wasn't just Lloyds share price, but with its exposure to the UK economy they certainly bore the brunt of the drop. The shares have started to recover yet still trade at a considerably discount compared to pre pandemic prices.

Times like this remind me of Warren Buffet's saying *"Buy when others are fearful and be fearful when others are greedy"*

Easier said than done, unless you have Mr Buffet's wealth!!!!

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 and the outlook on the economy overall. Lloyds has long been 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.

Looking ahead, the outlook for British banks appears bullish for now, there is an expectation that demand for the shares will come into the market once the market shows us that a strong economic recovery is well on its way. Bank stocks as well as many of the cyclical stock's earnings have the greatest potential to rise with surging consumer spending. Banks' are highly cyclical with their earnings and so are very much tied to the economic cycle, so they could benefit greatly from the widely anticipated rebound....When or if it starts.

Is Lloyds 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 Net Asset Value Per Share= 69.73p Discount to Share price as of 19/04/21 43.6p = 37.4%

- Barclays Net Asset Value Per Share = 386.86p Discount to Share price as of 19/04/21 188p = 51.5%

- NatWest Group Net Asset Value Per Share= 361.32p Discount to Share price as of 19/04/21 198p = 45%

For those looking at banks that trade to a discount on their NAV, you 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

Income statement	**31.12.16(£m)**	**31.12.17(£m)**	**31.12.18(£m)**	**31.12.19(£m)**	**31.12.20(£m)**
After tax profits (from continued & discontinued)	2,164.00	3,547.00	4,400.00	3,006.00	1,500.00
Net profit (from continued & discontinued)	2,164.00	3,547.00	4,400.00	3,006.00	1,387.00
Non-controlling Interests	-101	-90	-98	-81	-69
Equity Holders of parent company	2,063.00	3,457.00	4,302.00	2,925.00	1,318.00
Continued EPS - Basic	2.40p	4.40p	5.50p	3.50p	1.20p
Continued & Discontinued EPS - Basic	2.40p	4.40p	5.50p	3.50p	1.20p
Dividend per share	3.05p	3.05p	3.21p	3.37p	0.57p
Balance sheet	**31.12.16(£m)**	**31.12.17(£m)**	**31.12.18(£m)**	**31.12.19(£m)**	**31.12.20(£m)**
Total Assets	817,793.00	812,109.00	797,598.00	833,893.00	871,269.00
Total liabilities	769,768.00	763,203.00	747,673.00	786,290.00	822,085.00
Net assets	48,025.00	48,906.00	49,925.00	47,603.00	49,184.00
Total Equity	48,465.00	49,143.00	50,199.00	47,806.00	49,413.00
Shareholders Funds	48,025.00	48,906.00	49,925.00	47,603.00	49,184.00
Non-controlling Interests	440	237	274	203	229

Ratios	31.12.16(£m)	31.12.17(£m)	31.12.18(£m)	31.12.19(£m)	31.12.20(£m)
PE Ratio	26.05	15.36	9.43	17.86	30.37
PEG	0.13	0.18	0.38	-0.49	-0.46
Earnings per Share Growth	199.18%	83.84%	25.00%	-36.36%	-65.81%
Dividend Cover	0.79	1.44	1.71	1.04	2.11
Revenue Per Share	67.64p	56.77p	36.89p	71.37p	47.84p
Pre-Tax Profit per Share	5.44p	7.36p	8.32p	6.22p	1.89p
Dividend Yield	4.88%	4.51%	6.19%	5.39%	1.56%
Dividend per Share Growth	61.21%	-18.84%	-8.99%	6.94%	-95.58%
Net Asset Value per Share (exc. Intangibles)	54.98p	54.08p	55.51p	51.93p	52.82p

Technical Chart

Financial Positioning year end 2020

With a CET1 ratio of 16.2 after dividends reported for the full year 2020, Lloyds are in a much stronger financial position than in the financial crisis and can absorb the reduced profitability through 2021. This key measure of capital strength shows the Group has considerable buffers against potential future losses and the capacity to lend into a recovery.

Customer deposits across the group increase £39bn to £450bn. This would mean in the short-term any influences on the timing of a recovery, such as the process of continued easing of the lockdown and continued progress of the vaccine roll out are going to be the biggest driver.

2020 was also the final year of the groups most recent strategic plan. The plan was launched in 2018 to help the Group transform to be more geared up for the digital world. The performance through the pandemic has largely been contributed to the plan shifting operations to a more digital set up thus enabling the bank to start moving with the times.

As the largest mortgage lender in the UK, Lloyds has also continued to support customers buying their first home. This includes lending around £40bn to first time buyers between 2018 and 2020.

Over the past three years Lloyds have also delivered on plans to support Commercial Banking clients, exceeding the £6bn target of increased net lending to start-ups, SMEs and Mid-Market customers and achieving the annual £18bn commitment for gross lending to UK businesses in 2019 and 2020.

Despite the challenge of a global pandemic the customer-focused business model has enabled Lloyds to deliver a profit for 2020. Across the year, underlying profit was £2.2bn and statutory profit before tax was £1.2bn. Net income was £14.4bn, largely reflecting lower interest rates and reduced levels of customer activity.

Total costs were reduced by a further 4% to £8bn, despite the continued investment in digital projects and support for customers through the coronavirus pandemic, and the cost/income ratio was 55.3%.

The impairment charge for the year 2020 was £4.2bn, below the £4.5 - £5.5bn range forecast in July last year, due to relative economic stability in the second half of 2020 and the impact of government support measures. The group have also taken a small PPI provision of £85 million, although more than 99% of pre-deadline queries have now been processed.

The group have also been able to recommend an ordinary dividend of 0.57p demonstrating the health in the business.

First Quarter 2021

Lloyds figures for the first quarter 2021 are certainly encouraging. Given the solid financial performance in the first quarter of 2021, the Group is enhancing its guidance for the full year. They are now accruing dividends with the intention to resume a progressive and sustainable ordinary dividend policy, the risk-weighted assets in 2021 looks to be broadly stable and Operating costs to reduce to £7.5 billion

Lloyds banking group has also stated:-

"The coronavirus pandemic continues to have a significant impact on people, businesses and communities in the UK and around the world. Whilst we are seeing positive signs, notably the progress of the vaccine roll-out and the emergence from lockdown restrictions, the outlook remains uncertain. The Group remains absolutely focused on supporting its customers and Helping Britain Recover from the financial effects of the pandemic.

The long-run transformation of the Group has positioned the business well to address the challenges of the pandemic. We have made a strong start to the year with the quarterly results and on delivering Strategic Review 2021.

Key Take Aways:-

Solid financial performance reflecting business momentum and improved economic outlook.

- Statutory profit after tax of £1,397 million supported by business momentum and a release of expected credit loss provisions, given the improved economic outlook. Statutory return on tangible equity of 13.9 per cent with tangible net assets per share of 52.4 pence

- Recovering trading surplus of £1,748 million, a reduction of 12 per cent compared to the first three months of 2020, but an increase of 21 per cent on the final quarter of 2020

- Net income of £3.7 billion, down 7 per cent year on year (up 2 per cent on the previous quarter), with higher average interest-earning assets of £439 billion, net interest margin of 2.49 per cent and other income of £1.1 billion

- Total costs of £1.9 billion down 2 per cent, driven by continued operating cost control and lower remediation costs

- Asset quality remains strong with credit experience benign. Net impairment credit of £323 million in the quarter, driven by a £459 million release given the UK's improved economic outlook. Management judgements in respect of coronavirus retained, now c.£1 billion including the £400 million central overlay taken in the fourth quarter

- Balance sheet and capital strength further enhanced Capital build of 54 basis points in the quarter with CET1 ratio of 16.7 per cent, significantly ahead of the ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent and regulatory requirements of c.11 per cent

- Loans and advances up £3.3 billion in the quarter to £443.5 billion, including £6.0 billion open mortgage book growth

- Customer deposits up £11.7 billion in the quarter to £462.4 billion with Retail current accounts up £5.6 billion

- Loan to deposit ratio of 96 per cent provides a strong liquidity position and significant potential to lend into recovery

So, is now the time to buy?

With the shares starting to recover they are still trading considerably lower than their long-term historical average and longer-term value investors would suggest this is a strong enough argument to pick the shares up. It’s also looking as if there is light at the end of the tunnel as UK economic data starts to improve. Lloyds cut dividends last year, yet reinstated them in February and analysts now forecast a yield of 3.9%. with a solid coverage of 2.5 times earnings. There is still a concern that inflation could sweep the world once people are released from lockdowns and start spending, whether this concern turns to reality remains to be seen.

In normal market conditions the points above would hold up, but we are not in normal market conditions and households are still feeling the financial impact from lockdown, it's all good and well talking about pent up buying from a surplus of savings but back in the real world this is yet to transpire.

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, especially as Lloyds have made provisions for such events, the only thing that can't really be priced in is the long term impact on the economy of the lockdowns.

Summary

Lloyds share price has been ticking away steady in recent trading, almost acting as a market proxy on the recovery the UK will have after the pandemic and the success of the vaccines roll out. This rally is steady, but fragile! The first quarter report certainly goes a long way to underpin the recovery, not only in the shares of Lloyds but the UK economy on the whole. The market response to the first quarter figures has also been bullish. The next major moves for Lloyds share price will be ultimately fuelled by the continued strength shown in the UK economic data. However, like most stocks especially UK financials the shares are down heavily over the last 18 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 the first quarter to provide momentum but be aware of volatility around any news on the easing of lockdown, economic indicators and overall view on coming out of lockdown. For the long-term investor looking to tuck some away, well the reinstatement of a dividend and the upside potential is appealing, as is the first quarter 2021 trading. Inevitably at some stage all the concerns will 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 with the dividend reinstated those that buy at these levels will undoubtedly be paid off for their faith in the business at a tough time.