

Barclays PLC (BARC.L)

Alert: Relative Underperformance Unjustified

■ ADR

- **Industry-Wide Issue; Not Barclays Specific** – In ‘[Banks & LIBOR - Barclays Hits the Headlines of an Industry-wide Issue](#)’ (28 June) we stated that the issues around the Libor investigation are serious, but they are primarily industry-wide issues. The relative underperformance of Barclays, which has borne the brunt of the political and media storm for being the first to settle, therefore appears overdone in our view (down 17% on 28-29 June versus the SX7P up 2%). In this note we try to address the most common questions that the market is discussing at the current time.
- **Was Barclays Worse Than Peers?** – We are not aware of any evidence to suggest this. We note that the [FSA report](#) highlights that “Barclays has provided extremely good co-operation during the course of the FSA’s investigation”. In addition Tracey McDermott, head of the FSA enforcement team, has been quoted as saying: “What Barclays did was extremely serious. But Barclays were not involved in this on their own. And while they were certainly not the best of the bunch, there are other firms at a similar level of seriousness” (Telegraph, 1 July).
- **Chairman Agius Resigns. Will Diamond Follow?** – Chairman Agius has resigned today. In his resignation statement he refers to “an excellent executive team ... which has worked constructively with a strong and supportive Board of directors” and that “I am the ultimate guardian of the bank’s reputation. Accordingly the buck stops with me.” CEO Diamond has stated that he has no plans to resign. While the Chairman’s resignation may appease some politicians, there is still the possibility that Diamond could come under increasing pressure to follow. We believe ADR price sensitivity to a departure of Diamond is limited at current ADR price levels.
- **Did Barclays Try to Influence LIBOR?** – In settling with the [FSA](#) and [CFTC](#) Barclays has acknowledged that a “small number of traders” attempted to influence the short-term \$ LIBOR and EURIBOR submission process, resulting in false, misleading or knowingly inaccurate submissions. In addition from September 2007 to May 2009, during the credit crisis, the authorities found that Barclays reduced its LIBOR submissions to protect the reputation of the bank from negative speculation. We would refer you to the [FSA](#) and [CFTC](#) reports (click on hyperlinks), as well as CEO Diamond’s open letter to the Treasury Select Committee (see <http://group.barclays.com/home>) for more detail.
- **Were They Always Successful?** – Debatable. Usually 16-18 banks will contribute to the LIBOR submission process, for major currencies, from which the four highest and lowest submissions are excluded, in order to reduce the influence of any individual submission. The [FSA](#) did find evidence of attempted collusion: “Barclays attempted to influence EURIBOR (and, to a much lesser extent \$ LIBOR) submissions of other contributing banks”, however we note that at no point does the FSA indicate whether this was successful or not. It has stated that: “Harm could have been caused by Barclays’ misconduct if the final reference rates were affected” (our emphasis). In addition during the credit crisis the FSA note that Barclays’ LIBOR submissions were still at the higher end of the range of contributing banks.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Can Customer Loss Be Proven? – Estimating a potential class action liability is difficult – one co-lead counsel for one of these lawsuits has estimated total industry-wide costs “reaching into the tens of billions of dollars” (source: William Butterfield, www.risk.net/risk-magazine), but we would note that the defendants to the announced class action lawsuits include a number of UK, North American, European and Japanese banks. We see two issues that could yet mitigate the cost of class action lawsuits: (i) if successful collusion cannot be proven; (ii) misleading submissions appear to have been to both the high and low-end. Proving a sustained loss for any end-customer could therefore be challenging, in our view.

What Did the Regulators Know? – We note that the [FSA report](#) highlights that “individuals at Barclays raised concerns with the FSA, BoE, Fed and BBA about the accuracy of LIBOR submissions generally ... and on occasion referred to its own approach”. However “these comments did not fully explain Barclays’ approach and were inconsistent”. According to the BBC (2 July <http://www.bbc.co.uk/news/uk-18669834>), “subsequent to 2008, Barclays managers had believed their false reporting of Libor rates had been sanctioned by the BoE,” after a “misunderstanding ... following a telephone conversation”.

Next Steps? – CEO Diamond, and former Chairman Agius, are set to present to the Treasury Select Committee on Wednesday and Thursday respectively. In addition an independent review has been established to review the workings of the LIBOR rate (we expect the current submission process will be replaced in due course). Meanwhile a joint committee of MPs and peers, chaired by Andrew Tyrie, the Chairman of the Treasury Select Committee, is set to examine the wider banking industry (in contrast to a general public inquiry which had been demanded by some politicians). Focus is expected to be on “transparency, conflicts of interest and the culture and professional standards of the financial services industry, including the interaction with the criminal law”, with a report due in December, such that proposals can be included in new primary legislation.

Buy Rating – Time will tell how much reputational damage has occurred. Barclays’ risk premium has increased, and is likely to remain heightened in the near-term in our view, considering likely political backlash and increased regulatory uncertainty in the UK. Meanwhile although the cost of class action lawsuits could yet amount to less than expected, in our view, given the aforementioned points, significant uncertainty will persist on this front also. Nonetheless we continue to believe that this is an industry-wide issue, rather than specific to Barclays. Recent relative underperformance therefore appears to be unjustified in our view. We reiterate our Buy rating, target price \$5.08. Barclays also remains in [Citi Focus List Europe](#) and is one of our three Most Preferred banks in Europe, alongside SocGen and Unicredit.

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Barclays PLC

Valuation

We set our target price at \$20.33 based on a two-stage dividend discount approach combined with a capital-adjusted warranted-equity valuation to calculate a terminal value. This target price represents 0.9x 2012E TBV per ADR, and a 2012E P/E of 11x, a small premium to the sector average.

Risks

Barclays has exposure to higher-risk banking activities, such as derivatives, but this is offset by its lower-risk banking activities such as the UK mortgage market. There are several risks that could cause the ADR price to deviate significantly from our target price, including the risks of adverse regulatory changes, a significant UK economic double-dip recession, or a renewed bout of Eurozone sovereign concerns. If the impact of these risk factors is more/less negative than we anticipate, then the ADR price might fail to reach/rise above our target price.

Societe Generale

(SOGN.PA; €18.70; 1)

Valuation

We use a two-stage dividend discount model (DDM) to value SocGen, including the present value of 2010-13E dividends and a terminal value assuming zero growth at the sustainable RoE. We use a Cost of Equity of 12.0% based on the company's business mix. We cross-check this valuation using: (1) justified price-to-book valuation; (2) comparable P/E valuation relative to the bank sector; and (3) comparable P/E valuation relative to SocGen's historical trading range and growth prospects. We set our target price at \$7.64 on this basis.

Risks

The key risks to our investment thesis on SocGen are: (1) the risks of a further sharp downturn in the CEE region where SocGen has significant exposure; (2) a more challenging capital markets environment especially in equity derivatives where SocGen has one of the leading franchises, and (3) more generally, a 'double-dip' in the macroeconomic environment.

If any of these risk factors has a greater downside impact than we anticipate, the ADR price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the ADR could exceed our target price.

UniCredit Group

(CRDI.MI; €2.93; 1H)

Valuation

We have a €4 target price for UCI. In valuing UCI, we focus primarily on a DDM valuation, using a c14.5% cost of equity and an c8.5% sustainable tangible ROE, we also take into account the group's capital position and business mix. We cross-

check this with a price-to-book methodology. At our target price, the stock would trade at c0.5x price to tangible book valuation, reflecting UCI's above-average risk profile.

Risks

We have a High Risk rating on UCI. Several key risks need to be considered as deteriorating macroeconomic conditions and sovereign volatility, credit rating agency action, liquidity risk, the outcome of the pending capital increase as well as execution risk in restructuring plan all could weigh on the group profitability (lower revenue growth and higher cost of risk) and share price performance. While we see less downside risk on the stock after the strong underperformance, we still expect volatility to remain high given macro-sovereign-political concerns on Italy, the bank sector and Europe. UCI has a large exposure to CEE, which still leaves a risk of incurring sizeable credit or other losses in this downturn. The group also has significant capital market activities (more than other Italian banks), which have caused sizeable losses in the past. The group is exposed to credit risk (provisions are higher than peers) as well as market rate risk. These risks could prevent the shares from achieving our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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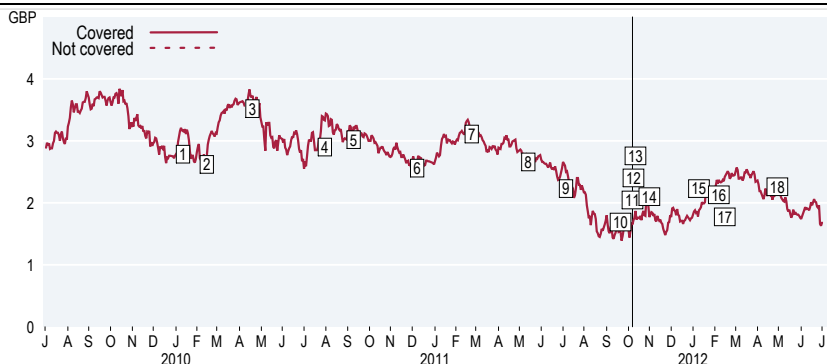
Barclays PLC (BARC.L)

Ratings and Target Price History

Fundamental Research

Analyst: Andrew Coombs

Covered since July 6 2011



Date	Rating	Target Price	Closing Price
1 12-Jan-10	*1M	*4.13	3.17
2 15-Feb-10	1M	*4.20	2.75
3 20-Apr-10	1M	*4.70	3.73
4 30-Jul-10	1M	*4.42	3.33
5 9-Sep-10	*2M	*3.50	3.23
6 8-Dec-10	2M	*2.94	2.64

* Indicates change

Date	Rating	Target Price	Closing Price
7 23-Feb-11	2M	*3.38	3.19
8 13-May-11	*1M	*3.24	2.74
9 6-Jul-11	1M	*3.10	2.50
10 21-Sep-11	1M	*2.90	1.53
11 7-Oct-11	Stock rating system changed		
12 8-Oct-11	*1	2.90	1.65

Date	Rating	Target Price	Closing Price
13 12-Oct-11	1	*2.25	1.87
14 1-Nov-11	1	*2.30	1.77
15 10-Jan-12	1	*2.45	1.88
16 7-Feb-12	1	*2.75	2.37
17 15-Feb-12	1	*3.00	2.42
18 30-Apr-12	1	*3.25	2.18

Rating/target price changes above reflect Eastern Standard Time

Barclays PLC (BARC.L)

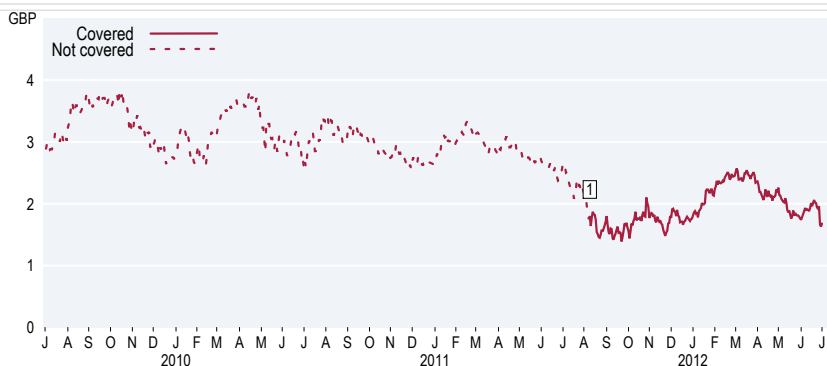
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Andrew Coombs

Covered since July 6 2011



Date	Rating	Target Price	Closing Price
1 9-Aug-11	*ADD MP	-	1.79

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UniCredit Group (CRDI.MI)

Ratings and Target Price History Fundamental Research

Analyst: Azzurra Guelfi
Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	2H	*13.21	12.51
2	6-Aug-09	2H	*15.09	14.62
3	2-Oct-09	2H	*17.61	15.97
4	12-Mar-10	2H	*15.15	13.39
5	20-Jun-10	2H	*14.49	12.78
6	29-Jul-10	2H	*15.15	14.19

* Indicates change

	Date	Rating	Target Price	Closing Price
7	8-Nov-10	2H	*13.50	11.85
8	11-Feb-11	2H	*13.17	12.27
9	10-May-11	2H	*12.51	10.93
10	1-Aug-11	*2S	*9.88	7.88
11	6-Oct-11	2S	*5.93	5.44
12	7-Oct-11	Stock rating system changed		

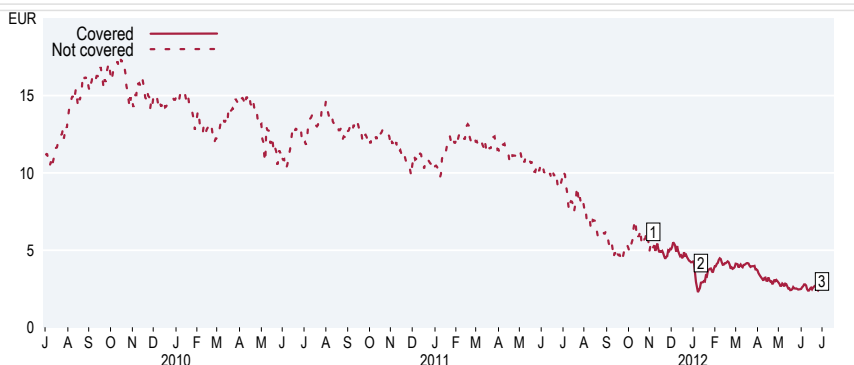
	Date	Rating	Target Price	Closing Price
13	8-Oct-11	*2H	5.93	5.66
14	15-Nov-11	2H	*5.60	4.87
15	12-Jan-12	*1H	*4.00	2.90
16	30-Jan-12	1H	*4.65	3.56
17	28-Mar-12	1H	*4.85	3.99
18	8-May-12	1H	*4.00	2.79

Rating/target price changes above reflect Eastern Standard Time

UniCredit Group (CRDI.MI)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Azzurra Guelfi
Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	7-Nov-11	*ADD LP	-	5.21

* Indicates change

	Date	Rating	Target Price	Closing Price
2	12-Jan-12	*REM LP	-	2.90

	Date	Rating	Target Price	Closing Price
3	2-Jul-12	*ADD MP	-	2.94

Rating/target price changes above reflect Eastern Standard Time

Societe Generale (SOGN.PA)

Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani
Covered since June 17 2010



	Date	Rating	Target Price	Closing Price
1	16-Jul-09	*1M	*44.55	39.85
2	6-Aug-09	1M	*52.13	48.05
3	27-Oct-09	1M	*55.00	45.33
4	11-Feb-10	1M	*50.00	40.26
5	19-Feb-10	1M	*48.00	39.70
6	30-Apr-10	1M	*52.00	40.40
7	21-Jun-10	1M	*50.00	38.89
8	29-Jul-10	1M	*54.00	44.71

* Indicates change

	Date	Rating	Target Price	Closing Price
9	10-Aug-10	1M	*57.00	45.07
10	4-Nov-10	1M	*59.00	44.85
11	26-Jan-11	1M	*62.00	46.07
12	18-May-11	1M	*60.00	41.93
13	4-Jul-11	1M	*56.00	41.87
14	28-Jul-11	1M	*55.00	35.61
15	4-Aug-11	1M	*50.00	27.70
16	14-Sep-11	1M	*38.00	17.39

	Date	Rating	Target Price	Closing Price
17	7-Oct-11	Stock rating system changed		
18	8-Oct-11	*1	38.00	20.51
19	28-Oct-11	1	*35.00	23.39
20	9-Nov-11	1	*33.00	18.20
21	16-Jan-12	1	*28.00	16.55
22	6-Feb-12	1	*32.00	23.55
23	18-Apr-12	1	*30.00	17.64

Rating/target price changes above reflect Eastern Standard Time

Societe Generale (SOGN.PA)

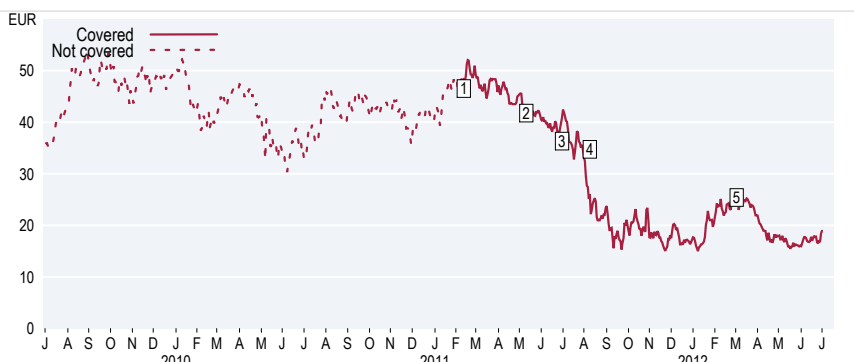
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Kinner Lakhani

Covered since June 17 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	48.40
2	11-May-11	*REM MP	-	42.98

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Jun-11	*ADD MP	-	40.92
4	9-Aug-11	*REM MP	-	26.02

	Date	Rating	Target Price	Closing Price
5	2-Mar-12	*ADD MP	-	25.40

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Jun 2012

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
53%	37%	10%	10%	80%	10%
44%	43%	40%	48%	43%	45%

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