

13 February 2014 | 7 pages

Diversified Banks  
Western Europe | United Kingdom

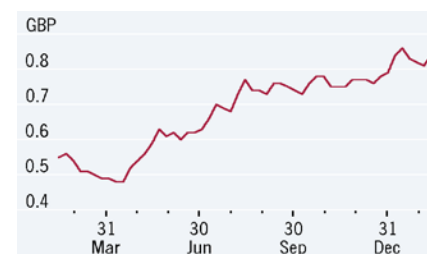
# Lloyds Banking Group PLC (LLOY.L)

## Results: Mixed Outlook Statement; TNAV Hit

- **Citi's Take** — 4Q13 underlying pre-tax profit is as pre-announced. We therefore expect focus to be on the outlook statement. 2014 NIM is expected to stabilize at c2.29%, ex divestments which are likely to be a c3bps drag, so c2.26% underlying (vs consensus 2.24%). Costs are expected to be c£9bn (vs consensus £9.1bn) and loan loss provisions c50bps (vs consensus c50-55bps). So the overall P&L outlook is broadly in-line with consensus expectations. Meanwhile Lloyds expects, prior to any dividends, to generate fully loaded CET1 capital of around c2.5ppts over the next two years, and 1.5–2.0ppts p.a thereafter. This is below Citi estimates on capital generation. We reiterate our Neutral rating, target price 85p.
- **Capital In-Line, TNAV Weaker** — The Bill core tier 1 ratio is +50bps qoq to 10.0% (vs Citi 10.1%), or 10.3% pro-forma, as pre-announced, boosted by a 5% qoq decline in Bill RWAs due to non-core asset reduction, a lower deduction for financial investments (post a dividend from Scottish Widows) and the SJP and SWIP gains. Dividend policy is also as pre-announced. TNAV, however, is disappointing, down 5% qoq and 2% below Citi estimates, due to unexpected reserve movements, in addition to the PPI and IRHP conduct charges that had been pre-announced.
- **NIM As Pre-Announced, OOI Weak** — 4Q13 NII £2.9bn is +6% qoq and Group NIM is +12bps qoq to 2.29%, as pre-announced. This is driven mainly by improved deposit margins, non-core reduction and reduced cost of wholesale funding. OOI £2.0bn is +6% qoq, and looks slightly weak versus Citi and consensus estimates. Excluding divestment gains OOI totaled £6.8bn in 2013. This compares to 2014 consensus of c£7.1bn, implying c4% growth – arguably optimistic.
- **Costs In-Line** — 4Q13 costs of £2.5bn are -2% yoy, due primarily to simplification driven cost reductions, but +7% qoq. This is broadly in-line with consensus.
- **Lower Impairments** — Group impairments of £521m are -22% qoq, -59% yoy, and 20% lower than Citi estimates, driven by substantial reductions in non-core and strong performance in the core portfolio. By division the strongest core improvement is in commercial banking impairments. NPL ratio declined to 6.3% (3Q13: 7.2%) and coverage ratio is 50.1% (3Q13: 50.9%).
- **Conference Call Details** -- Conference call at 09:30am GMT on 866 966 9439 (access code: 34408520). Webcast: [www.lloydsbankinggroup.com/investors/](http://www.lloydsbankinggroup.com/investors/)
- **Implications** — We expect consensus earnings will be broadly unchanged, possibly down low single-digits at worst, based on the outlook statement and 4Q13 figures. However the level of capital generation is likely to disappoint, in our view.

Neutral	2
Price (12 Feb 14)	£0.84
Target price	£0.85
Expected share price return	1.8%
Expected dividend yield	0.0%
Expected total return	1.8%
Market Cap	£59,700M
	US\$99,074M

### Price Performance (RIC: LLOY.L, BB: LLOY LN)



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# Lloyds Banking Group PLC

## Valuation

We set our target price at 85p 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 1.5x multiple of 2014E TBV per share, a premium to the European banks sector average.

## Risks

Lloyds' risk profile has improved markedly over the past 18 months. However, the company is not without risk, not least in regard to the outlook for the UK economy, regulation, and global wholesale funding markets, in particular. The risk remains that economic conditions could deteriorate more severely, leading to reduced levels of activity and higher impairment losses. In addition, there is a degree of integration and restructuring risk as the group seeks to transform its balance sheet. Regulatory risks also continue in regard to the ICB's proposals over capital and ring-fencing requirements. If the impact of these risk factors is more negative than we anticipate, then the share price might fail to reach our target price.

## Appendix A-1

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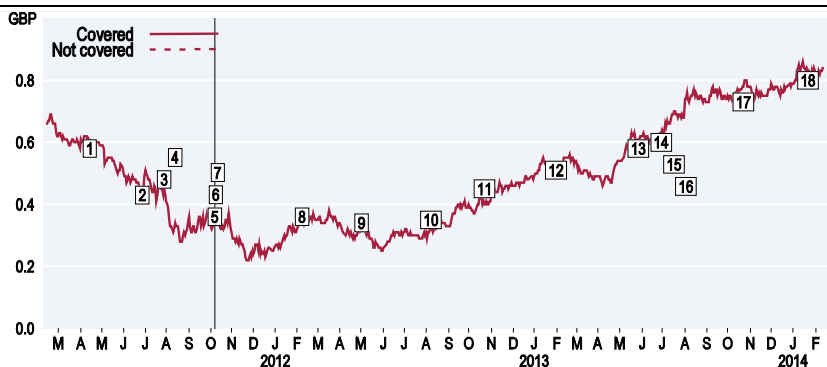
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#### Lloyds Banking Group PLC (LLOY.L)

#### Ratings and Target Price History Fundamental Research

Analyst: Andrew Coombs

Covered since November 4 2011



Date	Rating	Target Price	Closing Price
1 14-Apr-11	1M	*0.84	0.60
2 28-Jun-11	1M	*0.64	0.44
3 28-Jul-11	1M	*0.61	0.45
4 12-Aug-11	1M	*0.59	0.34
5 7-Oct-11	Stock rating system changed		
6 8-Oct-11	*1	0.59	0.35

\* Indicates change

Date	Rating	Target Price	Closing Price
7 12-Oct-11	1	*0.47	0.36
8 8-Feb-12	1	*0.45	0.36
9 2-May-12	1	*0.42	0.32
10 8-Aug-12	1	*0.45	0.32
11 23-Oct-12	1	*0.50	0.40
12 31-Jan-13	1	*0.62	0.52

Date	Rating	Target Price	Closing Price
13 28-May-13	*2	0.62	0.61
14 28-Jun-13	2	*0.65	0.63
15 17-Jul-13	2	*0.70	0.70
16 2-Aug-13	2	*0.80	0.74
17 23-Oct-13	2	*0.83	0.78
18 22-Jan-14	2	*0.85	0.83

Rating/target price changes above reflect Eastern Standard Time

## Lloyds Banking Group PLC (LLOY.L)

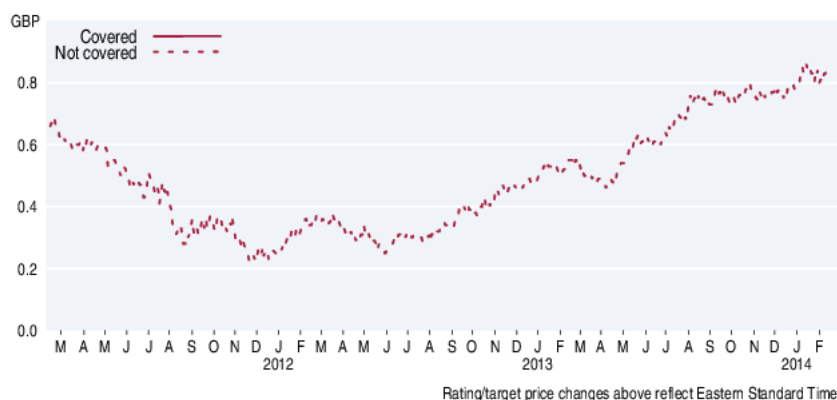
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrew Coombs

Covered since November 4 2011



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Data current as of 31 Dec 2013

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	55%	52%	44%	62%	52%	49%

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