DISCOVERING
ALPHA

14/09/15
Trade Recommendation

LLOYDS BANK (LLOY)

Financial Services

BUY	Current price 74p	Target price 85p	**Ryan Mitchell ACSI** info@logicinvestments.co.uk 0203 137 8585

- **Plans to issue Special Dividends**
- **Attractive forecast dividend yield**
- **Debt quality improving**
- **Stronger Capital Ratio**
- **Good Insurance performance**

Bloomberg LLOY LN
FTSE 100

Market data	
Market cap(€m)	53bln
P/E	41x
Dividend Yield	1%
Beta	1.71
52-week high	90p
52-week low	70

Background:

Lloyds Banking Group plc is engaged in providing financial services to individual and business customers in the United Kingdom and in certain locations overseas. The Company offers retail and commercial banking, and long-term savings, protection and investment. It operates through five segments: Retail, Commercial Banking, Consumer Finance, Insurance and TSB Banking Group plc (TSB). Retail segment provides banking, mortgages and other financial services to personal customers in the United Kingdom. Commercial Banking segment provides banking and related services to business clients. Consumer Finance segment provides asset finance and credit card products. Insurance segment provides long-term savings, protection and investment products, as well as general insurance products in the United Kingdom. TSB is engaged in retail banking business. Its services are offered through various brands, including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows.

Key Points:

Lloyds have said it plans to pay dividends equivalent to half its sustainable earnings and that it will be looking to hand back capital through share buybacks or special dividends. Based on predictions, the current yield should sit at 3% this year, rising to 5% next year. The company have also pencilled in a 5p payout for 2017, which equates to a 6.5% yield.

As we are aware the UK will raise rates at some point in the near future. What does this mean for the banking sector: Rising rates are a sign of a strong economy. This will improve corporate profits and encourage companies to expand. To finance this expansion many of them will look to the banks. Lending volumes then will rise. JPMorgan says that a 100basis-point rise in Interest Rates would add $2.8bln to net interest income.

In terms of the growth prospects of the company, the shares are currently trading at a 20% discount from its May highs of 90-95p. We feel at the current price of c74p, we believe this represents an attractive opportunity for entry. The improving debt environment fed through to a 15% increase in an underlying profit to £4.3bln. Income was 2% higher during the half-year, while operating costs were flat. The group remains on target to deliver £1bln in run-rate of savings by the end of 2017. This means the crucial ratio of costs to income improved by 70 basis points to 48.3% at the end of June, comfortably the lowest of the big five banks.

The rating of 9.7x consensus 12-month forward earnings is a discount to its peers of 10.2x. This is an attractive proposition considering the potential dividend payout looming.

Key Risks:

The miss-selling of PPI is an issue with banks and a potential further outlay could occur.

If Interest rates rise, there is a concern for the retail side of the business of the potential loss of mortgage customers if rising rates encourage them to shop around for better deals. So the bank has to remain competitive.