

**05TH
APR
2022**

Stock Report

LLOYDS BANKING GROUP
TICKER: LLOY



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A REPORT BY AP
CAPITAL RESEARCH
Lloyds Banking Group

Business model and overview

LLOYDS BANKING GROUP

Lloyds was founded by John Taylor and Sampson Lloyd in 1765. It became one of the 'big four' banks after merging with Lloyds TSB in 1995. Lloyds Banking Group was formed in January 2009 by the merger of Lloyds TSB with HBOS (Halifax and Bank of Scotland) in 2009 after the financial crisis as HBOS was going to collapse. This made them the largest UK retail bank and the largest mortgage holders.

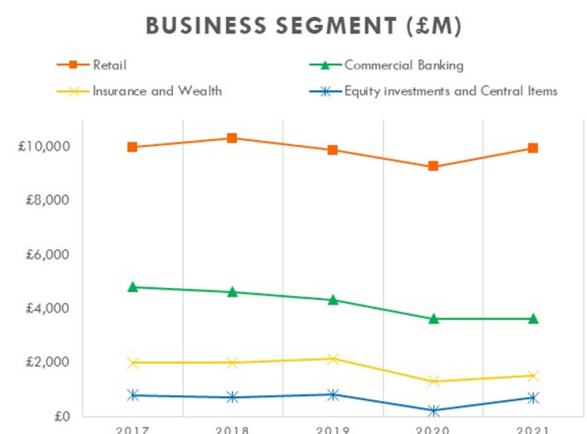
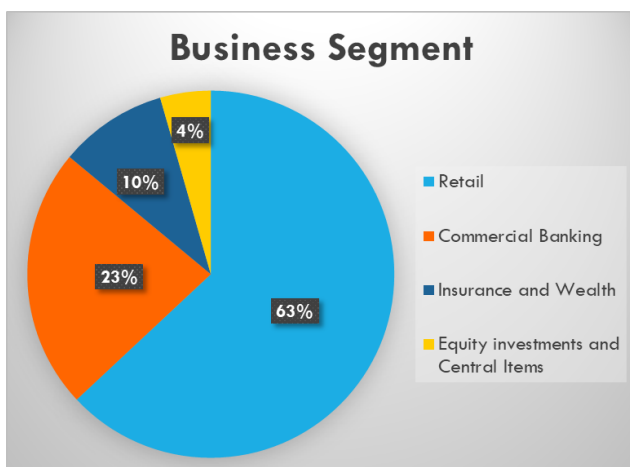
Lloyds Banking Group (LLOY) is a financial services firm that operates in the retail and commercial banking sub-industry. They primarily deal with retail customers as 63% of their revenue is attributed to retail services. Its purpose is 'Helping Britain Prosper', reshaping its financial services to support the financial needs of its clients to create a more sustainable and inclusive future for the UK community.

3 Key Business Segments

- **Retail Banking:** This segment provides essential financial services to retail customers (i.e. the general public). They provide current accounts, savings, credit cards, loans, mortgages, insurance and motor finance.
- **Commercial Banking:** This segment deals with small-medium sized businesses providing financial support and advice to fund their operations and support their growth. Lloyds' commercial segment will help the company manage its risks and enhance its efficiency.
- **Insurance and Wealth:** Scottish Widow (Lloyds' subsidiary) provides Lloyds' customers with long-term protection, retirement, and investment needs. They provide life insurance, pension schemes, investments and general insurance.

Key products that attract customers to Lloyds Bank

- **Student accounts** – allows loyalty to build from a younger target market. Students are given a debit card with a £1500 overdraft limit, which charges 0% interest when they are in overdraft. This will enable students to monitor their finances without the fear of accumulating large debts from interest from being in overdraft.
- **Online Banking** – allows an easily accessible interface that shows an overview of their accounts, online or on a mobile app. Customers have easy access to their accounts, allowing finances to be easily monitored and controlled.



93K

start ups, small businesses
and charities supported
in 2021

63%

of Lloyds revenue comes
from Retail Banking

£307BN

Mortgages to Homeowners

Management Team

LLOYDS BANKING GROUP



Charlie Nunn: Executive Director and Group Chief Executive

Charles Nunn is a British banker and former management consultant. He was appointed as Executive Director in August 2021. He has over 25 years of experience in Financial Services and has been a senior leader in Wealth and Personal Banking at HSBC in London before his appointment. He attained a MA in Economics from Cambridge University and an MBA from INSEAD.



William Chalmers: Executive Director and Chief Financial Officer

Chalmers is the Chief Financial Officer and Executive Director of Lloyds Banking plc. Before this, Chalmers was Co-Head of the Global Financial Institutions Group at Morgan Stanley, where he held several senior roles, including Head of EMEA Financial Institutions Group. Before joining Morgan Stanley, Chalmers worked for JP Morgan, again in the Financial Institutions Group. He has worked in financial services for over 25 years.



Robin Budenberg: Chair

Budenberg is the Chair of Lloyds Banking Group and The Crown Estate Group. He was elected as Chair in January 2021 for Lloyds Banking Group and was reappointed for The Crown Estate Group in 2020. Budenberg has 25 years of experience advising UK companies and the UK Government in strategy and governance. Formally CEO and chairman at UKFI, Budenberg was responsible for overseeing the government's investments in UK banks following the 2008 crisis. He was awarded a CBE in 2015 for services to the taxpayer and the economy.

Budenberg is a qualified Chartered Accountant, and he attained a Bachelor of Law from Exeter University.

£46M

in community
investments

£886.6B

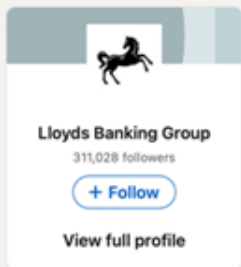
Total Assets
(2021)

58K

Employees at Lloyds

Social Media

LLOYDS BANKING GROUP



Social Media

Lloyds Bank has a LinkedIn page with 311,000 followers and annually post their financial statements so that customers of Lloyds Bank, as well as other investors and firms, can stay up to date with the performance of the Bank. This page is targeted at current customers and the general public to help attract new customers. Lloyds promotes transparency on their social media platforms to ensure that customers can trust them with huge financial responsibility. This statement also outlines the reasons behind the performance and key statistics, accentuating how they like to encourage people to know precisely how Lloyds Banking Group approaches different economic climates and situations.

Furthermore, in the image on the right, Lloyds also update their LinkedIn page with any new strategies that the chief executive would like to implement and how he would do it. This demonstrates Lloyds Bank as one of the leading banks in the market as other banks may follow these strategies to grow.

5K

INSTAGRAM
FOLLOWERS

141.4K

TWITTER
FOLLOWERS

311K

LINKEDIN
FOLLOWERS

Financials + Institutions

LLOYDS BANKING GROUP

The impact of the coronavirus pandemic on the people, businesses and communities in the UK has been extreme. The UK banks have suffered the "blow" of the pandemic, with Lloyds Statutory EBT falling 72.1% in 2020 to £1.3bn from £4.4bn in 2019. Lloyd's Bank, in particular, has remained focused on working together with all its stakeholders to guarantee a sustainable recovery and support its clients. They have successfully done this by providing; over £12 billion in lending to businesses through government-backed schemes and around 1.3 million payment holiday grants to retail customers. In addition, over 50,000 colleagues worked from home for most of 2020 during this pandemic, and 90% of branches remained open throughout. Lloyds maintained its services and continued serving customers all over the UK.

There has also been impressive financial performance in this challenging economic climate. The pandemic has impacted Lloyds EBIT with a decrease in profit in 2019 and 2020. However, with the economy recovering, Lloyds' EBIT grew 463% in 2021. Net interest income has declined over the years due to the fall in the base rate from 0.75% to 0.1%, which affects the spread Lloyds can charge to customers. Shareholder equity has risen over the five years, growing at an average of 2.1% and the Return on Tangible Equity (RoTE), growing at an average of 9.18%. This is positive for shareholders, as their wealth from holding Lloyds is appreciating year over year.

£m	2021	2020	2019	2018	2017
Net interest Income	9,366	10,773	12,377	12,714	12,320
Statutory Profit before tax	6,902	1,226	4,393	5,960	5,275
Cost:Income ratio	56.70%	55.30%	48.50%	49.30%	46.80%
RoTE	13.80%	3.70%	7.80%	11.70%	8.90%
Liquidity Coverage Ratio	140,200	142,000	131,000	129,000	121,000
Loans:Deposit ratio	94%	98%	107%	107%	110%
Customer Deposits	476,000	451,000	412,000	416,000	416,000
Shareholder Equity	47,100	43,000	41,700	43,400	43,551

Shareholder	Holding Shares
Oakmark International Fund	1,743,255,539
Vanguard International Stock Index- Total Intl Stock Indx	916,055,682
Artisan International Value Fund	706,562,877
Vanguard Tax Managed Fund- Vanguard Developed Markets Index Fund	475,745,531
First Eagle Global Fund	437,703,164

Top 5 Institutional Holders

Lloyd's plc has 71.04bn ordinary shares of 10p each with 521 institutions holding shares, 48.44% of float held by institutions, 28.27% of shares held by institutions and 0.35% of shares held by all insiders.

7.50P

2021 EPS

6.35

P/E ratio

2.00P

Dividend per share

Competitors

LLOYDS BANKING GROUP



Barclays Plc - Market Share (10.5%), Revenue: £21.94bn

Barclays Bank is a British universal bank as they cover all three primary banking services under one company. They provide financial support and advice to three key areas: Retail Banking, Wholesale Banking and Investment Banking. They have over 83,000 employees worldwide and 666 branches in the UK in 2021, compared with 859 branches in 2020. Their purpose is to deploy finance responsibly to support people and businesses, act with integrity, sustainably contribute to our society, and encourage innovation for our community's long-term growth.



NatWest Group - Market Share: 2.5%, Revenue: £10.5bn

NatWest Group is a financial services holding group that primarily deals with Retail and Commercial Banking, with 44% of their revenue (2021) attained from Retail Banking and 38% of revenue (2021) earned from Commercial Banking. They have a collection of brands, for example, RBS International, Royal Bank of Scotland and Coutts, which form NatWest Group. Their business also covers Private Banking and Global Markets. They have 57,800 employees, with 27.3% of employees working in their Retail Banking division and 70.2% of employees based in the UK at the end of 2021.



HSBC Bank - Market Share: 6.75% Revenue: \$49.55bn

HSBC is one of the world's largest bank and financial services organisations serving 40 million customers globally. It operates in three segments: Wealth and Personal Banking (32%), Commercial Banking (31%) and Global Banking & Markets (24%), with Wealth and Personal Banking earning the most significant revenue share.

£33.3B

Lloyds Banking Group
Market Cap

32%

HSBC Wealth and Personal
Banking as a % of total revenue

4.14%

Barclays Dividend Yield

SWOT Analysis

LLOYDS BANKING GROUP

Strengths

- Lloyds Banking Group has a strong distribution network and reach. Over the years, Lloyds has built a good distribution network that can reach most of its potential markets. It is the UK's largest digital bank serving over 26 million customers with approximately 18 million active online users. Also, after closing down about 50 branches, Lloyds still has almost 1,500 open branches across the UK, indicating they have a presence in nearly every community.
- The company also has invested a considerable sum in technological advancements to enhance the consumer experience. Understanding customer needs and then supporting the process to fulfil this has been a significant aspect for Lloyds Banking Group. Their multi-channel distribution network, coupled with the consumer-driven strategy and adaptation to new digital capabilities, aids to solve the changing consumer needs. In addition, Lloyds offers a diverse range of services through a multi-channel approach that has addressed various customer segments by providing a high-quality experience across all the channels. They provide investment, commercial financing, risk management, insurance, and other services. By personalising customer propositions, they can attract new consumers.

Weaknesses

- Lloyds has experienced a high number of consumer complaints, which reduces the company's brand image. In addition, they have a high employee turnover rate compared to their competitors, which implies that more staff tend to leave the company. As a result, Lloyds will have to continually enrol training and development plans for new employees to meet company requirements, ultimately incurring unnecessary expenses. This suggests a high workload for incumbent employees training new staff, which could lead to stress, low productivity, and affect the workers' morale.

Opportunities

- The company has the opportunity to gain new consumers from online channels. According to a BBC article, online banking customers had risen by 12% in the last two years, while mobile app users had increased by 27%. With the investment into online platforms over the years, it has opened new sales channels. During the coming years, Lloyds can take hold of this opportunity and get to know its consumers better and address their needs using data analytics.
- Health has been a significant concern for many consumers, especially after the pandemic. Lloyds has an opportunity to take advantage of this and develop products that are beneficial to consumers' health. From research into the healthcare industry, Lloyds could provide finance and risk management solutions to critical businesses to expand their operations in developing a new healthcare product that will benefit our society.
- The BOE base rate has risen from 0.1% to 0.75% to control inflation. This enables banks to charge a greater lending rate to their customer, increasing the bank's net interest income from the bigger spread.

Threats

- Lloyds is closing branches across the UK due to the increasing adoption of online banking. This poses a threat to many employees who could lose their jobs, impacting our economy from rising unemployment rates. Also, the elderly population will be affected due to their lack of technology adeptness and limited mobility to travel to a non-local branch for retail services.

26M

Lloyds has 26 million customers

12%

rise in online banking customers in the last two years

69.2%

of their customers are active online users

Technical Analysis

LLOYDS BANKING GROUP



The stock is down -5.04% from a YTD perspective, trading at 47.39p. In comparison, since 2021, the stock is up 36%.

In 2021, we saw a trend shift from bearish to bullish as the price broke above and retested the 200EMA in Feb 2021. Since then, the stock has respected the 21EMA until June 2021, creating a new swing high of 49.50p. The bullish trend starts to exhaust as the price comes back to test the 200EMA and struggles to break above the 49.50p resistance level and fails to make a new high from the previous pullback. The price tested the 200EMA twice and the resistance level 49.50p before breaking above, retesting the last resistance and forming a symmetrical triangle pattern.

The price consolidated in this region and collapsed 10.8% following higher-than-expected remediation costs for compliance failings from their annual earnings results. This caused Lloyds to miss analysts' expectations, leading to a 10.8% plunge. Also, the geopolitical crisis was heightened due to the Russian Invasion, which caused the FTSE to close 3.9% lower on 24.02.22.

After falling to the 41.5p support level following their earnings result, the share price rebounded to the 49.5p-50p level but failed to break above it to continue the bullish trend. In the short term, as we see the price retracing from the key level and sitting at the 200EMA, we could see either a short term bearish trend forming if the price continues to descend or a shallow retracement to the 38.2% Fibonacci level to test 50p level then again. If we break above 50p, we could see a continuation of the bullish trend and test the swing high of 55p.

1.36

Beta

48.71

50-day Moving
Average

8.2B

Public Float

Final Thoughts

LLOYDS BANKING GROUP

Aarti Patel

Lloyds Bank plc has been an establishment for 256 years since 1765. The pandemic has put much pressure on all banks as banks rely on loans given out to make profits, therefore has caused the growth of banks to increase at a slower rate than usual. Despite the pressure of the pandemic, Lloyds bank still managed to make a pre-taxed profit of 2 billion pounds which was ahead of analyst expectations for 1.4 billion pounds in 2021. During the first half of 2021, the company proved excellent financial performance, with continued momentum from the previous year. The current share price of Lloyds bank is 48.615p. I recommend this as a sell/hold stock with an estimated 1-year median price target estimate of 63.05p.

Tiffany Omenyi

Lloyds Banking Group plc is still a leading financial services group in the UK despite the effects most banks faced during the pandemic. Despite a significant setback in profits because of irrecoverable debts, last year, the company announced an aim to purchase 50,000 properties by 2030 and become a private landlord. The success of this could cause Lloyds' profits to skyrocket in the long run. Currently, Lloyd's share price is 48.615p. I would recommend this as a sell/hold stock with an estimated 1-year median price target of 63.06p.

Avish Patel

Lloyds Bank is an established retail and commercial UK bank with most of its revenue from Retail services. Banks may be well set for rising interest rates from monetary action to control high inflation rates. The primary business of retail and commercial banks is the interest rate spread charged to consumers and businesses. Rising interest rates allow banks to increase their spread, which will increase the bank's profitability, ultimately growing net interest income. However, with current supply constraints, household incomes are being squeezed due to inflationary pressures from rising commodity prices. Over the year, this could impact loan demand, slowing down interest revenue growth.

I would recommend this as a Moderate Buy with a 1-year target of 57.17p.



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LLOYDS BANKING GROUP

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