

Virgin Money

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Virgin Money slumps as it warns on UK mortgage market pressures and shrinking margins

Virgin Money Holdings PLC (LON:VM) has warned that its share of the UK mortgage market would be at the lower end of its previous guidance range amid tough competition, sending its shares down more than 5%.

The lender's estimate for its share of gross lending for fiscal year 2018 is between 3.0% and 3.5%.

READ: Virgin Money shares gain as it reports growth in third quarter mortgage and credit card lending

In a capital markets update, it also said it sees its net interest margin falling to between 1.65% and 1.7% due to lower rates on new mortgages.

Operating costs are set to rise by about 10% in the first full year of trading in its new digital bank, which requires investment to establish itself in the market.

"We would expect to gain momentum in the build of the digital bank customer base with revenues growing over the next two years towards the point where the digital bank breaks even," the bank said.

Within five years of launching the digital bank, Virgin Money said it could provide an increase in return on tangible equity of three percentage points.

UBS analysts said: "Though VM is the cheapest bank in our coverage on implied cost of equity we think this update will be taken negatively: revenue momentum is weaker, cost guidance is higher and concerns some had around Brexit-related loan losses has not gone away. We have a neutral rating."

Virgin reboots plans to enter SME lending

Virgin Money also revived plans to enter the small to medium-sized business (SME) banking market. The group will target £5bn in small business banking deposits within the next five years.

It comes a year after shelving the plans due to an uncertain outlook for Britain's economy following the Brexit vote.

Chief executive Jayne-Anne Gadhia said in Thursday's statement that the UK economy has "remained resilient" and the company has "continued to grow responsibly" in each of its core businesses and deliver on our financial targets.

"Looking forward, in order to capture a number of the highly attractive strategic opportunities in front of us, we have refreshed our strategic plan, taking into account expectations for the UK economy, the competitive landscape and exciting market opportunities," she said.

Virgin Money said it would be applying to the Treasury for the Royal Bank of Scotland Group PLC's (LON:RBS) funding packing to support other banks who lend to SMEs.

RBS, which is still more than 70% owned by taxpayer, agreed with the European

Share Information

Code: VM.

Listing:

Sector: Banks

Website: uk.virginmoney.com

Company Synopsis:

Virgin Money is a retail bank, operating across the UK at meaningful scale to provide effective competition to the large incumbent banks. Since Virgin Money completed its acquisition of Northern Rock plc on 1 January 2012, it has transformed and revitalised the business and has created a platform for future growth.

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Commission to set up the fund as an alternative to selling its Williams & Glyn branches under its bailout requirements.

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