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Lloyds Banking Group

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PPI provisions refuse to die for Lloyds, but cash returns make up for profit disappointment

Just when they hoped it was all over, Lloyds Banking Group PLC (LON:LLOY) popped up with another provision for protection insurance (PPI) compensation in the fourth quarter of 2018, with the deadline for claims running until 29 August 2019.

In the small print of its 2018 results, published on Wednesday, the FTSE 100-listed lender set aside another £200mln in the fourth-quarter for PPI claims, having not made any further provisions in the third quarter.

READ: Lloyds sees 2018 profits miss forecasts after a weak fourth-quarter but still hikes dividend, launches share buyback
Lloyds' total PPI charges across the year were £750mln, albeit down from £1.650bn in 2017. Since the mis-selling scandal, the bank has now allocated more than £19.4bn to settle the claims.

For the year to 31 December 2018, Lloyds still reported statutory profit after tax of £4.4bn, up 24% on 2017's £3.5bn, albeit below the consensus estimate of £4.6bn.

But the bank's investors preferred to focus on cash return plans, with Lloyds hiking its final dividend and unveiling share buyback plans.

The lender said it will pay a total ordinary dividend for 2018 of 3.21p per share, up 5% on 2017 and also proposed share buyback of up to £1.75bn, representing a total capital return for 2018 of up to £4.0bn, an increase of 26% from 2017's £3.2bn figure.

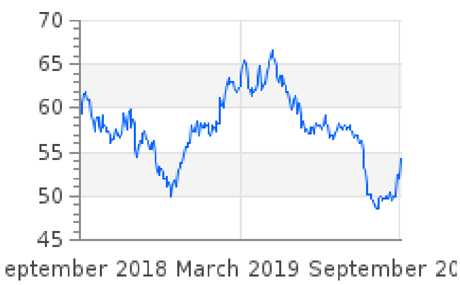
Cash flowing through
In a note, Laith Khalaf, senior analyst at Hargreaves Lansdown pointed out: "The big jump in profits can be almost all explained by falling charges for PPI compensation.

"To date PPI has cost Lloyds £19bn, and with the claims deadline looming in August, that's going to be a millstone the bank will be glad to leave behind."

Price: £0.54

Market Cap: £370.68 m

1 Year Share Price Graph



Share Information

Code:		LLOY
Listing:		LSE
52 week	**High**	**Low**
	66.79	**48.1559**
Sector:		**Banks**

Website: **www.lloydsbankinggroup.com**

Company Synopsis:
Lloyds Banking Group has many household names like Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows. Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, focused on personal and commercial customers.

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The analyst said that means more cash can flow through to shareholders, which is precisely what the bank is doing.

William Howlett, equity research analyst at Quilter Cheviot noted: "Although Lloyds has had a mixed fourth quarter, it delivered another set of resilient results and announced a larger than expected share buyback. The bank continues to protect net interest margins despite competitive pressure and is ahead of plan on cutting costs."

The wealth manager's analyst added: "While there are concerns with regard to a slowdown of the UK economy and the uncertainty relating to Brexit, there are no signs of this in Lloyds' figures with loans losses remaining low supported by record employment figures."

He concluded: "We believe Lloyds offers a compelling capital return story reflecting the strength of its balance sheet and underlying capital generation and as we near the end on PPI charges."

2019 cost guidance improved
Lloyds also gave slightly improved guidance on cost and impairments for the current year which means consensus forecasts for 2019 may need to edge up.

Russ Mould, investment director at AJ Bell pointed out, in a forward-looking market, that makes it easier to dismiss the slight profit miss in 2018.

He noted: "Before the financial crisis intervened Lloyds had a reputation as a solid income stock, and it appears the current management are committed to regaining this mantle. A good job too as capital gains from holding the shares have been thin on the ground.

"And while this is all positive there are clear reasons for not getting carried away."

Mould said: "Lloyds' domestic focus leaves it particularly sensitive to the eventual outcome from a Brexit process which is still mired in uncertainty.

"If a no-deal outcome were to lead to a slump in the economy then this could result in an increase in bad debts with the business arguably even more exposed following its acquisition of credit card business MBNA in 2017."