Lloyds Banking Group

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Lloyds offers consistent dividend yield, says RBC as it keeps 'outperform' rating

Lloyds Banking Group PLC (LON:LLOY) is the most capital generative of the UK banks and offers a consistent dividend yield of 11%, according to RBC Capital Markets.

In a note to clients on UK banks, RBC maintained an 'outperform' rating on Lloyds but lowered its target price to 75p from 80p.

The broker said Lloyds has maintained the highest mortgage rates in the sector but sacrifices market share as a result.

"We expect a more positive mortgage market spread environment to benefit Lloyds through growth more than margin as other rates in the market converge with Lloyds, leading to more stable margin but perhaps better growth as the market normalises," it said.

READ: Lloyds to start paying quarterly dividends from 2020 as shareholders approve pension policy
"Lloyds has a greater proportion of term deposits than other UK banks which helps."

Mortgages account for about 65% of Lloyds' business, the highest of the large cap banks, while 23% is corporate loans.

RBC said loan losses on mortgages and consumer credit are more correlated to unemployment and corporate losses than to UK economic growth so Brexit is unlikely to have less of an impact on Lloyds than other sectors.

"UK unemployment remains low and wage growth above inflation and we expect the economic impact of Brexit to impact the corporate sector more," the broker said.

RBC pointed out tLloyds' shares have risen by 11% in the year to date, compared to 1% for the rest of the market. It raised its underlying profit estimates by 1-2% for fiscal years 2019 to 2021.

RBC upgrades CYBG
Lloyds is its preferred stock in the banking sector, along with CYBG PLC (LON:CYBG), which owns the Clydesdale Bank, Yorkshire Bank and Virgin Money.

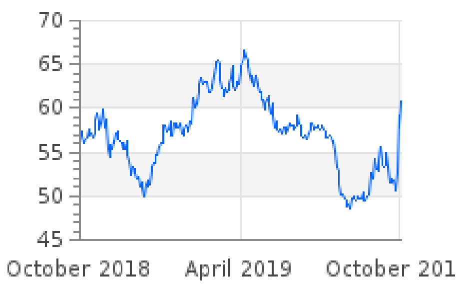
RBC raised its recommendation on CYBG to 'outperform' from 'sector perform' and maintained its target price at 250p after the bank announced on Wednesday that it would be rebranding itself as Virgin Money.

"CYBG trades at a very low 0.6x tangible book value considering the strength of the Virgin Brand; the ability of management to deliver on costs; a medium term 12% return on tangible equity target," it said.

Price: 60.82

Market Cap: £42.59 billion

1 Year Share Price Graph



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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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However, it still cut its pre-tax profit estimates by 70% for 2019 and by 48% for 2020.

RBS 'more exposed to Brexit'
Among the bigger banks, Royal Bank of Scotland PLC (LON:RBS) was left at a 'sector perform' rating but had its target price cut to 230p from 260p.

RBS, which is still 62%-owned by the government following its 2008 bailout, restarted dividends last year after turning around profits and settling with the Department of Justice over mortgage-backed securities - the biggest litigation issue hanging over it.

"RBS offers a very attractive capital return at the current share price but we see the company as more exposed in most Brexit scenarios and even more so if there is a general election," RBC said.

It added: "In 2019 we expect a 7.5p dividend; a 10p special; and £1.2bn of directed buyback of the government stake."

RBC cut its pre-tax profit estimate for 2020 by 1% but left forecasts the same for 2019 and 2021.

Barclays' dividend yield lower than other big banks
RBC also left Barclays PLC (LON:BARC) at 'sector perform' and reduced its target price to 180p from 220p.

It said Barclays has one of the lowest valuations in Europe and it prefers the higher capital generation and yields of other UK banks, which are less reliant on investment banking to drive earnings expansion.

The broker expects 8% growth in Barclays' dividend for 2019 and a £1bn buyback as the lender now exceeds its 13% capital target.

"This leads to a total yield of 8.2%, which is much lower than 11% at LLOY and 14% at RBS and is the only metric where Barclays screens with less value."

RBC maintained its pre-tax profit estimates for 2019 and 2020 but raised its 2021 guidance for Barclays by 4%.

tailored to your specific situation.