

Virgin Money UK PLC

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Virgin Money owner CYBG shares rise as UBS upgrades to 'buy'

Virgin Money owner CYBG PLC (LON:CYBG) shares advanced after UBS upgraded the banking group to a 'buy' rating from 'neutral' on valuation grounds.

CYBG's shares have fallen 30% since its third-quarter trading update in July when it warned that net interest margin (NIM) - the difference between what it pays for deposits and what it earns from loans - would be at the lower end of its previously guided range.

Like the rest of UK banks, its NIM has come under pressure from tough competition in mortgage lending.

UBS noted that the consensus forecast for CYBG's earnings per share (EPS) has fallen 16% since the trading update.

"This suggests that the sharp fall isn't entirely explained by Brexit and we think the market expects further EPS cuts on expectations that NIM will continue to shrink in 2020e," the investment bank said.

"We see this as unlikely and model a rising NIM from 2020, with EPS rising from 2021 on expanding NIM and cost savings. We see decent upside potential when CYBG gives new NIM guidance in three months' time and upgrade to Buy."

UBS downgrades estimates, cuts target price
However, UBS cut its target price to 170p from 195p as it downgraded its forecasts for EPS by 12% for 2020 and by 5-6% for 2021-2022.

The investment bank predicts 2021 revenues and pre-tax profit will fall 4% and 5%, respectively, compared to 2018, as it sees risks to CYBG's strategic targets - chiefly rising competition in small and medium enterprises loans/savings deposits, and cost of risk.

"Even so, the share price, currently down c30% post the trading update, suggests market expectations are low," UBS said.

"Historically, CYBG's share price has been highly sensitive to NIM performance, and we see NIM guidance to be announced at full year results as a key catalyst."

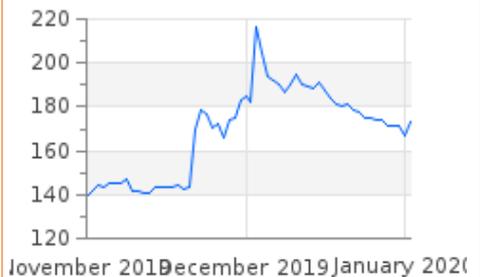
CYBG, which also owns the Clydesdale and Yorkshire Banks, is in the process of renaming itself as Virgin Money following last year's takeover of the brand.

Shares rose 3% to 145.95p in late morning trading.

Price: 173.3

Market Cap: £2.49 billion

1 Year Share Price Graph



Share Information

Code: VMUK

Listing: LSE

52 week High Low
222.1 132.1

Sector: Banks

Website: uk.virginmoney.com

Company Synopsis:

Virgin Money UK PLC is an independent banking group with over 175 years of heritage through its Clydesdale Bank and Yorkshire Bank brands. CYBG merged with Virgin Money in June 2018.

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