

Barclays

Tesco Bank acquisition sensible not transformational

Maintain Rating: UNDERPERFORM | PO: 160.00 GBp | Price: 143.16 GBp

Good deal, doesn't change the big picture

Barclays has announced an agreement to buy Tesco Bank's retail banking business for £600m. A 0.6x tangible book multiple looks to us a fair price for current profitability, with plenty of scope to improve returns and it adds meaningful scale in an attractive market. However, we do not see much impact on overall group profitability and there's virtually no change to the investment bank's dominance in capital allocation, at 80% of assets and 65% of risk weighted assets. This capital allocation challenge is (see report: [A hard problem to solve](#)) and we maintain Underperform,

20% UK consumer finance market share

The acquisition is expected to add £4.2bn of gross credit card receivables and £4.1bn unsecured loans, increasing its UK consumer finance book by 60% and, we estimate, raising Barclays' market share to c20%. We'd expect the combination to offer meaningful synergies and growth opportunities, allowing Barclays to meaningfully improve on the current c7% RoTE of the business.

Sensible capital reallocation

Acquiring £960m tangible book value for £600m, looks consistent with the current RoTE that we estimate. Adding c£8bn risk weighted assets, would cost Barclays 30bp of CET1. The company has previously indicated that it plans to sell its c£4bn German cards book and moving capital from a sub scale German operation to a leading UK consumer finance business makes a lot of sense. It also likely brings the net capital impact of the UK acquisition down to 15-20bp of CET1.

Investment Bank still dominates

Although materially scaling up Barclays' UK consumer finance business, this acquisition makes virtually no difference to overall capital allocation or profitability. The Corporate and Investment Bank will be 80% of leverage assets and 65% of risk weighted assets before and after this acquisition.

| Estimates (Dec) (GBp) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|-------|-------|--------|-------|-------|
| Net Profit (£m) | 5,985 | 5,023 | 3,929 | 3,851 | 4,404 |
| EPS (Adjusted) | 37.1 | 39.1 | 25.8 | 27.7 | 32.7 |
| Dividend / Share | 6.00 | 7.25 | 8.00 | 8.50 | 9.00 |
| Adjusted NAV PS | 284 | 285 | 302 | 348 | 375 |
| ADR EPS (Adjusted - US\$) | 2.04 | 1.93 | 1.30 | 1.40 | 1.65 |
| ADR Dividend / Shares (US\$) | 0.33 | 0.36 | 0.40 | 0.43 | 0.45 |
| Valuation (Dec) | | | | | |
| P/E | 3.96 | 3.78 | 5.74 | 5.36 | 4.54 |
| EPS Change (YoY) | 282% | 5.41% | -34.0% | 7.19% | 18.3% |
| Price / BV | 0.42x | 0.41x | 0.39x | 0.34x | 0.32x |
| Price / NAV | 0.50x | 0.50x | 0.47x | 0.41x | 0.38x |
| Net Yield | 4.19% | 5.06% | 5.59% | 5.94% | 6.29% |
| DPS Change (YoY) | 500% | 20.8% | 10.3% | 6.25% | 5.88% |
| Price / GOP | 3.23x | 2.53x | 2.74x | 2.59x | 2.28x |

09 February 2024

Equity

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Stock Data

| | |
|--------------------------|---------------------------|
| Price (Common / ADR) | 143.16 GBp / 7.35 USD |
| Price Objective | 160.00 GBp / 8.11 USD |
| Date Established | 31-Jan-2024 / 31-Jan-2024 |
| Investment Opinion | B-3-7 / B-3-7 |
| 52-Week Range | 128.16 GBp-193.16 GBp |
| Market Value (mn) | 21,695 GBP |
| Shares Outstanding (mn) | 15,154.6 / 3,788.6 |
| Average Daily Value (mn) | 41.65 USD |
| Free Float | 99.9% |
| BofA Ticker / Exchange | BCLYF / LSE |
| BofA Ticker / Exchange | BCS / NYS |
| Bloomberg / Reuters | BARC LN / BARC.L |
| ROE (2023E) | 7.1% |
| ESGMeter™ | High |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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iQprofileSM Barclays

| Key Income Statement Data (Dec) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| (£ Millions) | IFRS | IFRS | IFRS | IFRS | IFRS |
| Net Interest Income | 8,073 | 10,572 | 12,635 | 12,084 | 12,778 |
| Net Fee Income | 7,674 | 6,599 | 6,016 | 6,168 | 6,284 |
| Securities Gains / (Losses) | 5,794 | 8,049 | 7,338 | 7,523 | 7,664 |
| Other Income | 179 | (556) | (507) | (520) | (529) |
| Total Non-Interest Income | 13,647 | 14,092 | 12,847 | 13,171 | 13,418 |
| Total Operating Income | 21,720 | 24,664 | 25,482 | 25,255 | 26,196 |
| Operating Expenses | (13,996) | (15,133) | (17,048) | (16,781) | (16,950) |
| Pre-Provision Profit | 7,724 | 9,531 | 8,434 | 8,474 | 9,246 |
| Provisions Expense | 653 | (1,220) | (2,003) | (2,149) | (2,211) |
| Operating Profit | 8,377 | 8,311 | 6,431 | 6,326 | 7,035 |
| Non-Operating Items | (403) | (1,299) | 11.1 | 11.0 | 10.9 |
| Pre-Tax Income | 7,974 | 7,012 | 6,442 | 6,337 | 7,045 |
| Net Income to sh/holders | 5,985 | 5,023 | 3,929 | 3,851 | 4,404 |
| Adjusted Cash Earnings | 6,298 | 6,383 | 4,024 | 4,091 | 4,644 |

Key Balance Sheet Data

| | | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Assets | 1,384,285 | 1,513,699 | 1,530,773 | 1,560,509 | 1,594,393 |
| Average Interest Earning Assets | 289,192 | 293,166 | 302,524 | 306,278 | 311,490 |
| Risk Weighted Assets | 314,136 | 336,518 | 346,985 | 358,593 | 393,990 |
| Total Gross Customer Loans | 367,193 | 404,371 | 405,156 | 412,549 | 423,714 |
| Total Customer Deposits | 519,433 | 545,782 | 554,320 | 530,585 | 528,726 |
| Tier 1 Capital | 60,143 | 60,102 | 59,154 | 61,730 | 64,211 |
| Tangible Equity | 48,732 | 46,769 | 47,871 | 51,546 | 55,014 |
| Common Shareholders' Equity | 56,793 | 55,008 | 56,110 | 59,785 | 63,253 |

Key Metrics

| | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| Net Interest Margin | 2.83% | 3.51% | 4.16% | 3.91% | 4.07% |
| Tier 1 Ratio | 19.1% | 17.9% | 17.0% | 17.2% | 16.3% |
| Effective Tax Rate | 14.3% | 14.8% | 22.9% | 23.4% | 23.3% |
| Loan / Assets Ratio | 26.1% | 26.3% | 25.9% | 25.9% | 26.1% |
| Loan / Deposit Ratio | 69.6% | 73.1% | 71.7% | 76.2% | 78.6% |
| Oper Leverage (Inc Growth - Cost Growth) | -3.00% | 5.43% | -9.34% | 0.68% | 2.72% |
| Gearing (Assets / Equity) | 24.4x | 27.5x | 27.3x | 26.1x | 25.2x |
| Tangible Equity / Assets | 3.52% | 3.09% | 3.13% | 3.30% | 3.45% |
| Tangible Equity / RWAs | 15.5% | 13.9% | 13.8% | 14.4% | 14.0% |

Business Performance

| | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenue Growth | -1.08% | 13.6% | 3.32% | -0.89% | 3.73% |
| Operating Expense Growth | 1.91% | 8.12% | 12.7% | -1.57% | 1.01% |
| Provisions Expense Growth | -113% | -287% | 64.2% | 7.29% | 2.92% |
| Operating Revenue / Average Assets | 0.61% | 0.57% | 0.42% | 0.41% | 0.45% |
| Operating Expenses / Average Assets | -1.02% | -1.04% | -1.12% | -1.09% | -1.07% |
| Pre-Provision ROA | 0.57% | 0.66% | 0.55% | 0.55% | 0.59% |
| ROA | 0.44% | 0.35% | 0.26% | 0.25% | 0.28% |
| Pre-Provision ROE | 13.9% | 17.0% | 15.2% | 14.6% | 15.0% |
| ROE | 10.7% | 8.99% | 7.07% | 6.65% | 7.16% |
| RoTE | 13.2% | 13.4% | 8.50% | 8.23% | 8.72% |
| RoRWAs | 2.03% | 1.96% | 1.18% | 1.16% | 1.23% |
| Dividend Payout Ratio | 16.2% | 18.6% | 31.0% | 30.7% | 27.5% |
| Efficiency Ratio (Cost / Income Ratio) | 64.4% | 61.4% | 66.9% | 66.4% | 64.7% |

Quality of Earnings

| | | | | | |
|---|---------------|--------------|--------------|--------------|--------------|
| Total Non-Interest Inc / Operating Inc | 62.8% | 57.1% | 50.4% | 52.2% | 51.2% |
| Market-Related Revenue / Total Revenues | 26.7% | 32.6% | 28.8% | 29.8% | 29.3% |
| Provisioning Burden as % of PPP | -8.45% | 12.8% | 23.7% | 25.4% | 23.9% |
| NPLs plus Foreclosed Real Estate / Loans | 2.00% | 1.78% | 2.50% | 2.50% | 2.50% |
| Loan Loss Reserves / NPLs | 79.4% | 78.9% | 80.0% | 80.0% | 80.0% |
| Loan Loss Reserves / Total Loans | 1.59% | 1.40% | 2.00% | 2.00% | 2.00% |
| Provisions Expense / Average Loans | -0.19% | 0.32% | 0.50% | 0.54% | 0.54% |

Company Sector

Banks-Retail

Company Description

Barclays is a "transatlantic" universal bank focused on UK retail and commercial banking, investment banking and US credit cards. Barclays is targeting a cost income ratio of <60%, an RoTE of >10% and a CET1 ratio of 13-14%.

Investment Rationale

We see uncertainty on restructuring and the dominance of CIB weighing on profitability and capital distribution capacity, even with additional cost reductions. This limits upside relative to other inexpensive European banks with a better risk-reward.

Stock Data

| | |
|---------------------|------|
| Shares / ADR | 4.00 |
| Price to Book Value | 0.4x |

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|--------|--------|
| Q1 | 11.26A | 10.93A |
| Q2 | 10.46A | 8.48A |
| Q3 | 9.35A | 7.99A |
| Q4 | 6.81A | -2.53E |

Price objective basis & risk

Barclays (BCLYF / BCS)

Our price objective for Barclays is 160p (US\$8.11). Our primary valuation methodology is a Gordon Growth model based on the outer year of our forecast period to which we add the present value of expected capital return. We then cross check this against sector PE multiples and our economic scenario analysis and adjust accordingly. We use 2026E as the base year for our model. With a 16% cost of equity assumption, this suggests a 2026E price to book multiple of 0.5x, reducing to 0.4x when discounted to a year from now at our cost of equity. Applying this to 2023E tangible book value of 313p gives a value of 124p pre capital return. To this we add the present value of dividends and share buybacks that we forecast through to 2026E.

Upside risks are a stronger economic recovery, which could benefit the macro/rate outlook and reduce tail risks, lower cost inflation and a more constructive pricing environment. Downside risks to our price objective are weaker earnings than anticipated from higher impairment losses if the UK economy performs worse than we presently expect, a weaker interest rate outlook, a need for additional cost or capital investment to support growth, tougher regulation, and increased competition.

Analyst Certification

I, Rohith Chandra-Rajan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|-----------------------|-------------|------------------|----------------------|
| BUY | | | | |
| | Allied Irish Banks | AIBRF | AIBG ID | Alastair Ryan |
| | Bank of Ireland Group | XBOIF | BIRG ID | Alastair Ryan |
| | BFF Banking Group | XBBZF | BFF IM | Antonio Reale |
| | BNP Paribas | BNPQF | BNP FP | Tarik El Mejjad |
| | BNP Paribas | BNPQY | BNPQY US | Tarik El Mejjad |
| | CaixaBank | CIXPF | CABK SQ | Antonio Reale |
| | Credit Agricole | CRARF | ACA FP | Tarik El Mejjad |
| | Danske Bank | DNSKF | DANSKE DC | Tarik El Mejjad |
| | Erste Bank | EBKOF | EBS AV | Alastair Ryan |
| | Erste Bank | EBKDY | EBKDY US | Alastair Ryan |
| | HSBC | XHSBF | 5 HK | Alastair Ryan |
| | HSBC | HBCYF | HSBA LN | Alastair Ryan |
| | HSBC -A | HSBC | HSBC US | Alastair Ryan |
| | Intesa Sanpaolo | IITSF | ISP IM | Antonio Reale |
| | Intesa Sanpaolo | ISNPY | ISNPY US | Antonio Reale |
| | KBC Group | KBCSF | KBC BB | Tarik El Mejjad |
| | KBC Group NV | KBCSY | KBCSY US | Tarik El Mejjad |
| | NatWest Group | RBSPF | NWG LN | Rohith Chandra-Rajan |
| | Natwest Group PLC | NWG | NWG US | Rohith Chandra-Rajan |
| | Nordea | NBNKF | NDA FH | Tarik El Mejjad |
| | Nordea | XSABF | NDA SS | Tarik El Mejjad |
| | Nordea Bank Abp | NRDBY | NRDBY US | Tarik El Mejjad |
| | Santander | SAN | SAN US | Antonio Reale |
| | Santander | BCDRF | SAN SQ | Antonio Reale |
| | Societe Generale | SCGLF | GLE FP | Tarik El Mejjad |



EMEA - Banks Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|------------------|-------------|------------------|-----------------|
| | Societe Generale | SCGLY | SCGLY US | Tarik El Mejjad |
| | Unicredit | UNCF | UCG IM | Antonio Reale |
| | Unicredit | UNCRY | UNCRY US | Antonio Reale |

NEUTRAL

| | | | | |
|--|---------------------------------|-------|----------|----------------------|
| | ABN AMRO | ABMRF | ABN NA | Tarik El Mejjad |
| | Banco Bilbao Vizcaya Argentaria | BBVA | BBVA US | Antonio Reale |
| | Banco BPM | BNCZF | BAMI IM | Antonio Reale |
| | Bankinter | BKIMF | BKT SQ | Antonio Reale |
| | BBVA | BBVXF | BBVA SQ | Antonio Reale |
| | Handelsbanken | SVNLF | SHBA SS | Tarik El Mejjad |
| | ING Groep NV | ING | ING US | Tarik El Mejjad |
| | ING Groep NV | INGVF | INGA NA | Tarik El Mejjad |
| | Lloyds Banking Group | LLDTF | LLOY LN | Rohith Chandra-Rajan |
| | Lloyds Banking Group | LYG | LYG US | Rohith Chandra-Rajan |
| | Monte dei Paschi | BMDPF | BMPS IM | Antonio Reale |
| | Raiffeisen Bank International | RAIFF | RBI AV | Alastair Ryan |
| | StanChart | SCBFF | STAN LN | Alastair Ryan |
| | StanChart | XCHBF | 2888 HK | Alastair Ryan |
| | Svenska Handelsbanke | SVNLY | SVNLY US | Tarik El Mejjad |
| | UBS | XUJHF | UBSG SW | Alastair Ryan |
| | UBS | UBS | UBS US | Alastair Ryan |

UNDERPERFORM

| | | | | |
|--|---------------------|-------|----------|----------------------|
| | Banco Sabadell | BNSDF | SAB SQ | Antonio Reale |
| | Barclays | BCLYF | BARC LN | Rohith Chandra-Rajan |
| | Barclays | BCS | BCS US | Rohith Chandra-Rajan |
| | Commerzbank | CRZBF | CBK GY | Rohith Chandra-Rajan |
| | Deutsche Bank | DB | DB US | Rohith Chandra-Rajan |
| | Deutsche Bank | XDUSF | DBK GY | Rohith Chandra-Rajan |
| | DNB | DNBBF | DNB NO | Tarik El Mejjad |
| | DNB ASA | DNBBY | DNBBY US | Tarik El Mejjad |
| | Mediobanca | MDIBF | MB IM | Antonio Reale |
| | Permanent TSB | ILPMF | PTSB ID | Alastair Ryan |
| | Poste Italiane | PITAF | PST IM | Antonio Reale |
| | SEB | SVKEF | SEBA SS | Tarik El Mejjad |
| | Swedbank | SWDBF | SWEDA SS | Tarik El Mejjad |
| | Swedbank AB | SWDBY | SWDBY US | Tarik El Mejjad |
| | Virgin Money UK PLC | CBBYF | VMUK LN | Rohith Chandra-Rajan |
| | Virgin Money UK PLC | CYBBF | VUK AU | Rohith Chandra-Rajan |

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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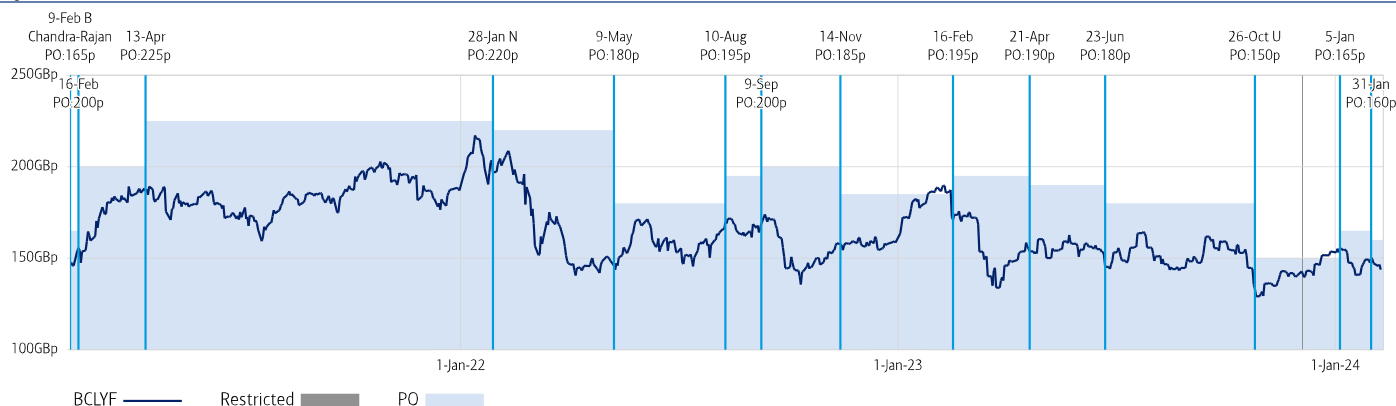
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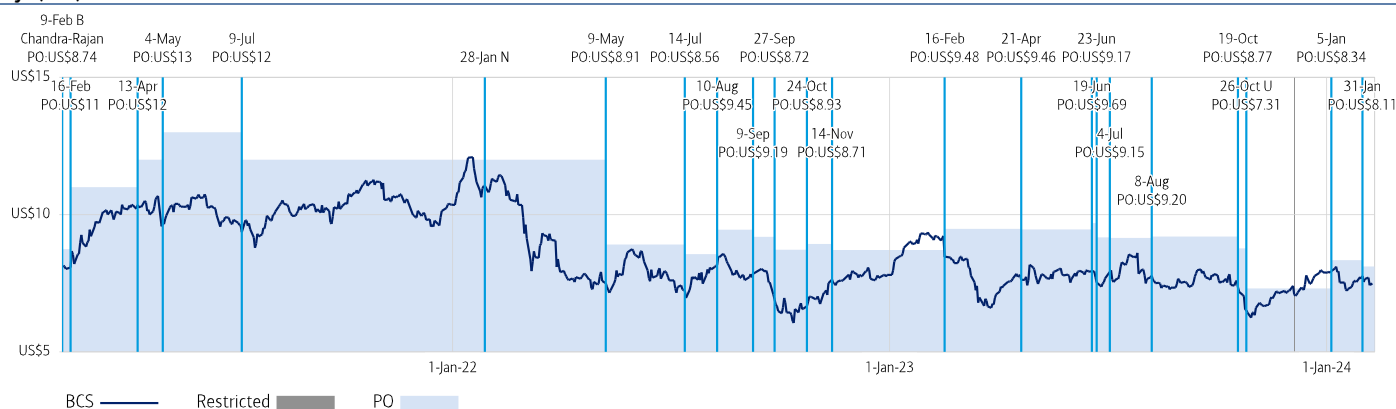
Important Disclosures

Barclays (BCLYF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Barclays (BCS) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 100 | 49.75% | Buy | 84 | 84.00% |
| Hold | 54 | 26.87% | Hold | 41 | 75.93% |
| Sell | 47 | 23.38% | Sell | 35 | 74.47% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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