

Barclays

4Q23 – Distribution and cost outlook in line, stretching for revenues

Maintain Rating: UNDERPERFORM | PO: 160.00 GBp | Price: 149.00 GBp

Still a hard problem to solve

Barclays has announced plans for strong capital distributions, and limited cost growth, both broadly in line with consensus. A >12% 2026 RoTE is dependent on stronger revenue growth, with little incremental capital outside of regulatory changes. As discussed in our [Barclays: A hard problem to solve](#) (report link), this looks hard to deliver. At 5.5x PE, the stock is inexpensive but we see better risk reward elsewhere in the sector and maintain Underperform.

Buybacks and cost savings broadly as expected

A £1bn share buyback has been announced today (£0.9bn consensus, in line with BofA) and the company plans to return £10bn of capital to shareholders 2024-26 (cons £8.9bn), although this now includes a flat dividend and more buybacks.. £927m structural cost actions are £100m above consensus, but anticipated 2026 costs of £17bn are in line with consensus.

Business mix and sustainable profitability

Barclays targets >10% RoTE in 2024 and > 12% in 2026, compared to consensus of 9% and 10% respectively. With costs in line, revenues are the planned main driver of outperformance, growing £5bn over three years, twice consensus. £3bn comes from the structural hedge, which we'd expect to largely be in numbers, and £0.6bn from the [Tesco Bank acquisition](#) (report link). We note that the company plans high single digit revenue growth in the Investment Bank, with capital consumption shrinking from 58% of the group to 50%, while most of the increase in US cards risk weighted assets, from £25bn to £45bn, is from regulation.

Weaker investment banking revenues in Q4

A £111m attributable loss is similar to consensus (Exhibit 1). The 2% revenue miss is mainly from the Corporate & Investment Bank where income is 26% lower in USD terms, compared to 2% growth for peers. This is offset by a lower tax charge,

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	1.39	1.65
ADR Dividend / Shares (US\$)	0.33	0.36	0.40	0.43	0.45
Valuation (Dec)					
P/E	4.12	3.94	5.97	5.58	4.73
EPS Change (YoY)	282%	5.41%	-34.0%	7.19%	18.3%
Price / BV	0.44x	0.43x	0.41x	0.36x	0.33x
Price / NAV	0.53x	0.52x	0.49x	0.43x	0.40x
Net Yield	4.03%	4.87%	5.37%	5.70%	6.04%
DPS Change (YoY)	500%	20.8%	10.3%	6.25%	5.88%
Price / GOP	3.36x	2.64x	2.85x	2.69x	2.37x

20 February 2024

Equity

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Stock Data

Price (Common / ADR)	149.00 GBp / 7.47 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 - 176.78 GBp
Market Value (mn)	22,580 GBP
Shares Outstanding (mn)	15,154.6 / 3,788.6
Average Daily Value (mn)	43.94 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 4. Price Objective Basis/Risk on page 4.

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Timestamp: 20 February 2024 03:04AM EST

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

Exhibit 1: Group performance (£m unless stated)

Net profit in line, weak revenues

	4Q22	1Q23	2Q23	3Q23	4Q23			vs			
					Actual	Cons.	BofA	Cons.	BofA	4Q22	3Q23
Profit & loss (£m)											
Net interest income	2,741	3,053	3,270	3,247	3,139	-	3,065	-	2%	15%	-3%
Non interest income	3,060	4,184	3,015	3,011	2,459	-	2,637	-	-7%	-20%	-18%
One off gains (losses)	0	0	0	0	0	-	0	-	-	-	-
Total income	5,801	7,237	6,285	6,258	5,598	5,765	5,702	-3%	-2%	-3%	-11%
Operating costs inc bank levy	(3,924)	(4,111)	(3,919)	(3,949)	(3,808)	(3,990)	(4,131)	-5%	-8%	-3%	-4%
Structural cost action	0	0	0	0	(927)	(825)	(850)	-	-	-	-
Litigation and conduct	(79)	1	(33)	0	(185)	(91)	(56)	103%	230%	134%	-
Total expenses	(4,003)	(4,110)	(3,952)	(3,949)	(4,920)	(4,906)	(5,037)	0%	-2%	23%	25%
Pre provision profit	1,798	3,127	2,333	2,309	678	859	665	-21%	2%	-62%	-71%
Impairments	(498)	(524)	(372)	(433)	(552)	(629)	(674)	-12%	-18%	11%	27%
Other net income	10	(5)	3	9	(16)	10	4	-260%	-493%	-260%	-278%
PBT incl litigation and conduct	1,310	2,598	1,964	1,885	110	240	(5)	-54%	-2511%	-92%	-94%
Tax	33	(561)	(353)	(343)	23	(123)	(52)	-119%	-144%	-30%	-107%
Minorities, prefs and other	(307)	(254)	(283)	(268)	(244)	(239)	(232)	2%	5%	-21%	-9%
Attributable profit	1,036	1,783	1,328	1,274	(111)	(122)	(289)	-9%	-62%	-111%	-109%
PBT ex one off income, litigation & conduct	1,389	2,597	1,997	1,885	295	331	51	-11%	474%	-79%	-84%
Key metrics											
RoTE	9.0%	15.2%	11.5%	10.9%	-0.9%	-0.9%	-2.4%	0.0%	1.5%	-9.9%	-11.8%
DPS (p)	5.0	0.0	2.7	0.0	5.3	5.8	5.3	-9%	0%	6%	-
Share buyback (£m)	500	0	750	0	1,000	890	1,000	12%	0%	100%	-
TNAV per share (p)	295	301	291	316	331	318	313	4%	6%	12%	5%
Cost: income ratio	69%	57%	63%	63%	88%	85%	88%	3%	0%	19%	25%
Loan loss rate	0.49%	0.52%	0.37%	0.42%	0.54%	0.61%	0.65%	-0.07%	-0.11%	0.05%	0.12%
CET1 ratio	13.9%	13.6%	13.8%	14.0%	13.8%	13.9%	13.6%	-0.1%	0.2%	-0.1%	-0.2%

Source: Company data, company compiled consensus, BofA Global Research estimates

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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
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	Unicredit	UNCFF	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

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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	XUHJF	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

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

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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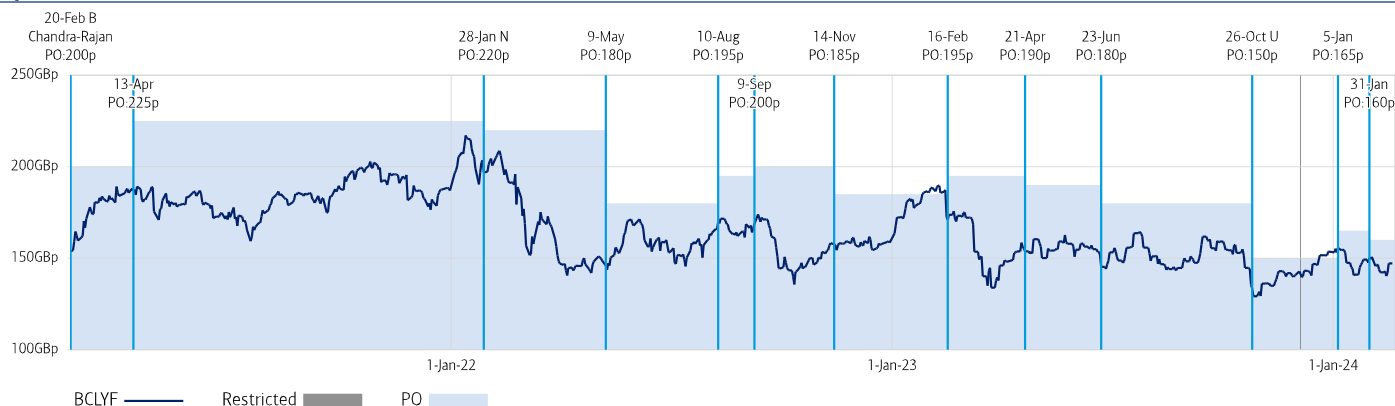
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Disclosures

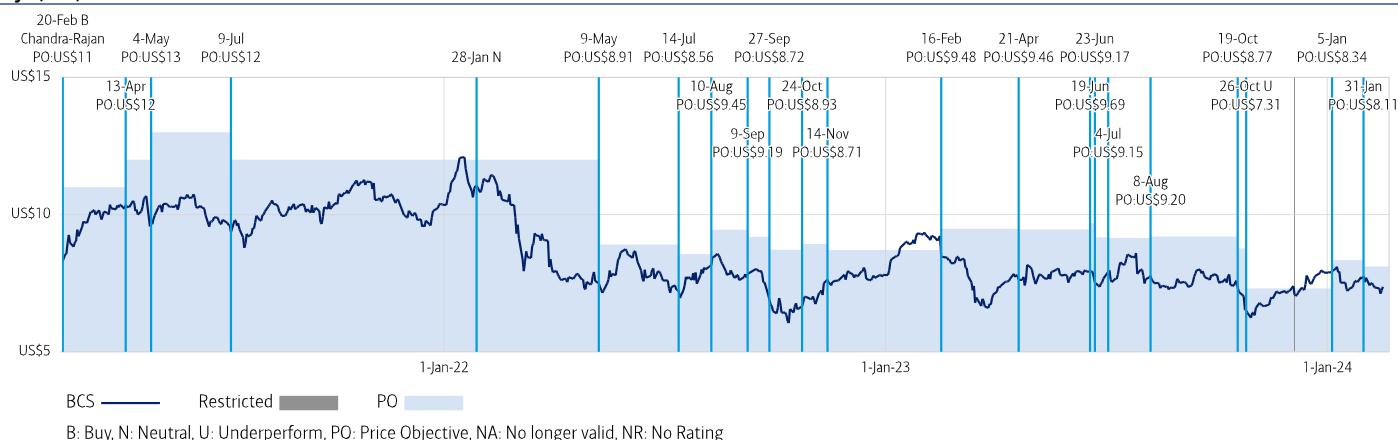
Important Disclosures

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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