

Royal Bank of Scotland

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RBS trades at meaningful discount to Lloyds, says Goldman Sachs

Royal Bank of Scotland Group PLC (LON:RBS) continues to trade at a meaningful discount to Lloyds Banking Group PLC (LON:LLOY) despite having made strong progress in resolving its legacy issues, according to Goldman Sachs.

In a broker note called 'Our Best and Brightest UK Ideas', Goldman Sachs said RBS is comparatively less affected by tougher mortgage competition relative to other UK banks as it has a much smaller mortgage book, less than half of Lloyds.

"The company also enjoys a large non-interest bearing deposit book, resulting in comparatively low overall funding costs," the investment bank said.

Goldman believes RBS's discount to Lloyds is unwarranted as it expects the bank's return on tangible equity (ROTE) to "match and even exceed" its rival over time. It has a 'buy' rating and target price of 360p on RBS, representing a 76% upside to the current share price.

StanChart trades at discount to HSBC

Goldman also has a 'buy' rating on Standard Chartered PLC (LON:STAN) with a target price of 980p, an upside of 56%.

"Standard Chartered continues to trade at a meaningful discount to peer HSBC, a gap which we expect will narrow as STAN's restructuring progresses," it said.

"We see scope for attractive capital returns, with a dividend yield of 5.9% by 2021, complemented by US\$4bn of buybacks (25% of market cap combined)."

StanChart announced a US\$1bn share buyback in its first quarter results, which had a capital impact of 35 basis points.

The second quarter results saw underlying pre-tax profit and ROTE beat consensus forecasts, supporting Goldman's view that the company's 10% ROTE target by 2021 is within reach.

HSBC should shrink non-ring-fenced bank, Goldman suggests

For HSBC Holdings PLC (LON:HSBC), Goldman sees ring-fencing of the retail operations as a potential catalyst for the group pursuing key strategic opportunities, namely: to reduce the size of its non-ring-fenced bank (NRFB); and to crystallise the value of its UK ring-fenced bank (RFB).

"Ring-fencing, in our view, has resulted in funding and capital inefficiencies at the NRFB, increasing the incentive to shrink this entity," Goldman said.

"In addition, full legal and operational separation should allow investors to better appreciate the value of the RFB on an sum of the parts basis."

Price: 223.4

Market Cap: £27.02 billion

1 Year Share Price Graph



Share Information

Code: RBS

Listing: LSE

52 week High Low
274.2 2.233

Sector: Banks

Website: www.rbs.com

Company Synopsis:

RBS is one of the world's top 10 financial services groups and a leading provider of personal, business and institutional banking services. RBS is traded in the ISDX Exchange [HERE](#).

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Goldman noted that HSBC disclosed stand-alone accounts of the RFB and NRFB for the first time at the fourth quarter results, which showed strong operating trends at the RFB with 12% underlying ROTE in 2018 compared to an 2% ROTE at the NRFB.

The investment bank believes this provides a clear rationale for HSBC to shrink its NRFB and for investors to better value the RFB on a standalone basis.

It gave HSBC a 'buy' rating and target price of 920p, an upside of 47% to the current share price.

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