

# Financial Institutions Sector Review - January

## 1. Sector Overview

- The Financial Institutions sector is performing in line with the general European equity market, appreciating about 25% during the last six months.
- Since the beginning of the year, Portuguese, Spanish and Italian banks have raised over USD 13bn in capital markets, taking advantage of the improving financial environment.
- However, according to PwC, around 18,000 jobs in UK are likely to be cut by financial services companies within the next three months. Despite the recovery in this sector when compared to the last year, the job market is still facing a downward pressure.
- Due to the favourable market conditions in January, the shares of three representative Spanish banks: Santander, BBVA and CaixaBank, have over-performed weaker financial groups. Well-received Santander's and BBVA's January bond auctions have increased the confidence among investors.
- Global equity markets reached their highest levels in the beginning of the year. Moreover, the gap between euro and dollar has increased in the first month of the year.



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### Financial Institutions Universe:

- BES
- Barclays
- Santander
- Deutsche Bank
- AXA

### This month's detailed company review:

- Barclays



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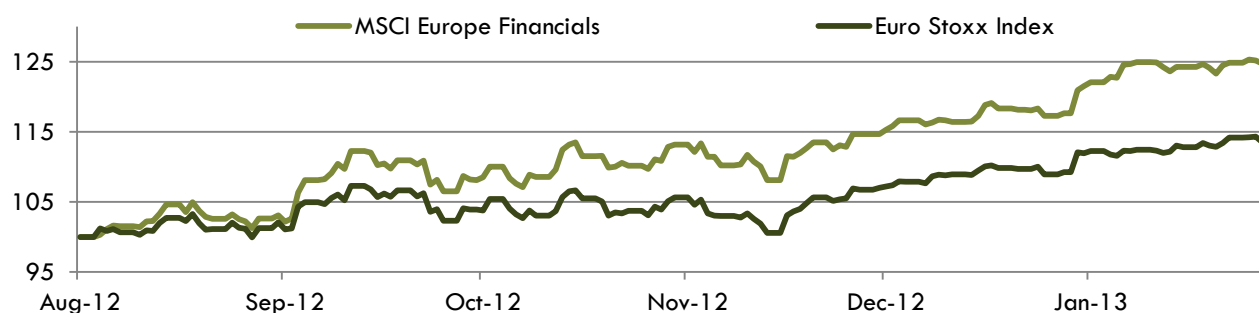


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## Table of Contents

1. Sector Overview
2. Universe News
3. Detailed review: Barclays

## Financial Institutions Sector vs. Overall market



- The chosen indexes, representing both the European Financial Institutions' market and Global European equity market, have developed similarly during the last 6 months. However, the former one has over-performed the latter, reacting better to improving economic conditions within Europe.

### 3. Followed Companies

#### BES

(Ticker: BES)

- BES managed successfully the return of Portugal to the long-term debt markets since the bailout in 2011. In the end of this month, BES, under the current market conditions, was able to achieve a net income of EUR 96.1m, including a negative adjustment (EUR 54.1m) regarding the acquisition of BES Vida.

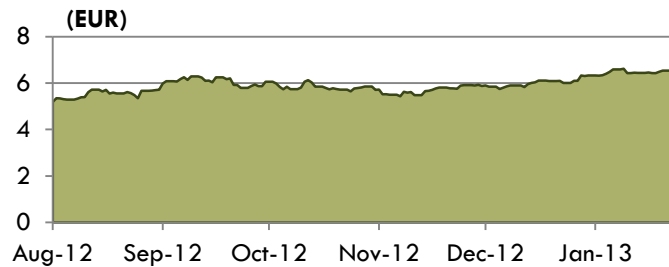


Price (EUR):	↑	1,10
Target Price (EUR):		1,20
Up/downside:		9,6%
Performance 3M:		43,1%
P/E Ratio:		34,6x
ROC/WACC:		0,8x

#### Santander

(Ticker: SAN)

- The Eurozone's largest bank, reported a fall in the net profit after provisions of around 59%, to EUR 2.2bn in 2012. The analysts predictions regarding Santander's net profit on fourth-quarter earnings were about EUR 800m, while the bank reported a disappointing net profit of EUR 401m.



Price (EUR):	→	6,40
Target Price (EUR):		6,13
Up/downside:		-4,2%
Performance 3M:		13,5%
P/E Ratio:		25,2x
ROC/WACC:		1,9x

#### Deutsche Bank

(Ticker: DBK)

- In the end of this month Deutsche Bank reported a capital structure contrary to analysts' expectations. The Core Tier I capital ratio was 8%, overcoming the analysts expectations of 7%. The Bank managed to reduce the net loss to EUR 2.2bn, caused mainly by write-downs and litigation charges.



Price (EUR):	↑	37,11
Target Price (EUR):		39,50
Up/downside:		6,4%
Performance 3M:		7,0%
P/E Ratio:		54,2x
ROC/WACC:		1,1x

#### AXA

(Ticker: CS)

- The second largest insurance company in the world, AXA, has asked investors for around GBP 1bn in order to continue to develop its strategy for long term property assets, by purchasing buildings in the UK with unusually long leases.



Price (EUR):	↑	13,83
Target Price (EUR):		15,90
Up/downside:		15,0%
Performance 3M:		13,2%
P/E Ratio:		11,5x
ROC/WACC:		0,3x

### 3. Stock Analysis: Barclays

#### Corporate News

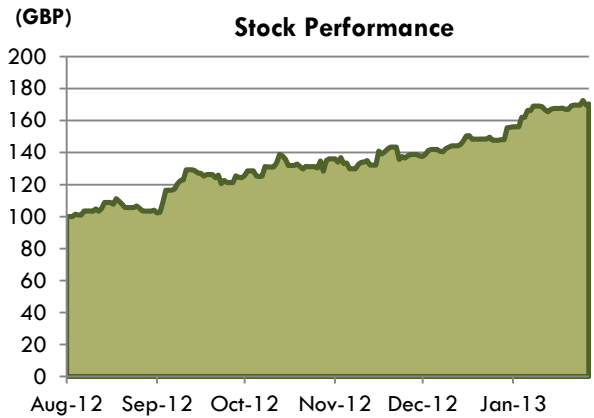
- Barclays' CEO, Antony Jenkins, warned his employees about their ethical behaviour from now on. After a wide range of scandals in the financial world, Jenkins wants to judge the performance and rewards based on integrity, quality of service, among others.
- Barclays has launched a "family mortgage" deal, which allows the parents to use their savings to help their children get their first mortgage. Indeed, with this mortgage facility, in the future the children only have to put 5% of the house value in deposit, in order to qualify to the mortgage.

#### Market Performance

- Barclays' stock has gained 9.22% during January. Therefore, it has outperformed the British reference Index (FTSE 100), which only gained 3.8% this month.
- When compared to its peers, the performance was also outstanding, with HSBC and Lloyds growing only by 7.66% and 3.96%, respectively.

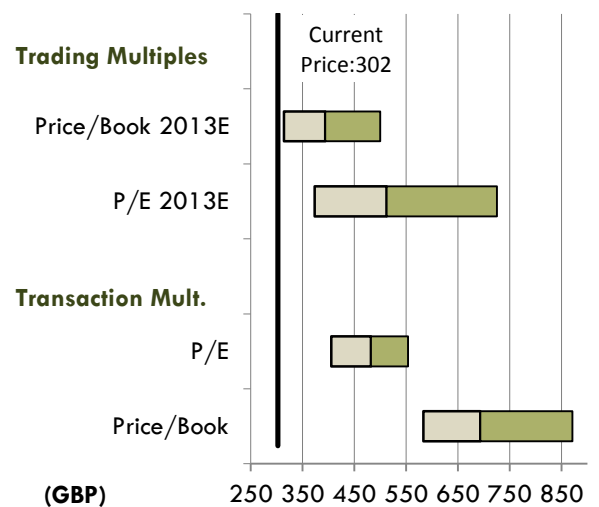
#### Valuation Summary

- Barclays' stock appears undervalued when comparing its current value (GBP 302) to the proposed valuation multiples.
- Currently, the estimated target price is at BP 316.28, which implies an upside of 4.73% related to the current price. This upward trend is verified in both Price/Book and P/E trading multiples, which propose a valuation of about GBP 390 and GBP 520, respectively.
- Moreover, transaction multiples show an even more positive valuation of Barclays' stock, which can be justified by the control premium.



Barclays (GBP)	
Current Price (30/01/2013)	302
52-week high % change	-1,7%
Median Target Price	316,28
Market Capitalisation (mn)	36.559
Return on Common Equity	3,0%
Dividend Yield	2,2%
Beta (vs. S&P500)	2,3x
Total Debt/Equity	694,8%

#### Valuation Summary (Price per Share)



**BUY**

- Given the current undervaluation of Barclays' stock, its new ethics policy, and the innovation in the mortgage market, we recommend buying the stock.

## Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	Price/Book			ROE			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
<b>Barclays</b>	GBP	36,559	n/a	0.67x	0.68x	0.65x	2.99x	6.0x	8.8x	10.3x	8.5x	7.7x
Royal Bank of Scotland	GBP	37,883	n/a	0.52x	0.59x	0.57x	-6.89x	-1.39x	3.64x	17.5x	22.3x	12.0x
Lloyds Bank	GBP	37,241	n/a	0.81x	0.82x	0.81x	-2.20x	1.69x	5.35x	14.5x	24.0x	13.9x
HSBC	GBP	132,450	n/a	1.21x	1.23x	1.17x	7.70x	9.71x	10.70x	15.4x	12.9x	11.3x
UBS	CHF	58,919	n/a	1.25x	1.19x	1.13x	-5.66x	7.03x	9.04x	15.3x	16.6x	12.5x
Credit Suisse	CHF	35,227	n/a	0.97x	0.98x	0.92x	4.28x	10.47x	11.17x	12.8x	10.0x	8.8x
75th Percentile				1.2x	1.1x	1.1x	4.0x	9.0x	10.3x	15.3x	20.9x	12.4x
<b>Median</b>				<b>0.9x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>0.4x</b>	<b>6.5x</b>	<b>8.9x</b>	<b>14.5x</b>	<b>14.8x</b>	<b>11.7x</b>
25th Percentile				0.7x	0.7x	0.7x	-4.8x	2.8x	6.2x	12.8x	10.8x	9.4x

- Looking at the comparable trading companies, it is worth to highlight the trading multiples of Barclays in 2013 when compared to the sector's median and also to its main competitors. First, it is clear an undervaluation of Barclays' stock, which is represented by Price/Book and P/E (0.68x and 8.5x) related to the chosen universe (0.9x and 14.8x).
- Second, regarding the relationship with its competitors, this undervaluation is even wider; HSBC is trading at 1.23x Price/Book and 12.9x P/E for 2013.

## Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	P/E	Price/Book
28-Sep-12	Denizbank AS	TR	Sberbank of Russia	RU	2,836	12.4x	1.5x
02-Nov-10	Turkiye Garanti Bankasi AS	TR	BBVA SA	SP	2,690	11.0x	1.7x
09-Oct-10	Bank Zachodni WBK SA	PL	Banco Santander SA	SP	4,207	13.9x	2.3x
09-Jun-10	Grupo Financiero Santander Mexico	MX	Banco Santander SA	SP	2,078	15.3x	2.8x
31-Jul-09	Resona Holdings Inc	JP	Bank of America Corp	US	769	3.6x	1.0x
20-Oct-08	Bank Ekonomi Raharja Tbk	ID	HSBC Holdings PLC	UK	446	20.9x	1.6x
12-Sep-08	Deutsche Postbank AG	GR	Deutsche Bank AG	GR	2,700	16.6x	1.2x
75th Percentile						15.9x	2.0x
<b>Median</b>						<b>13.9x</b>	<b>1.6x</b>
25th Percentile						11.7x	1.3x

- The most significant transaction that happened in the last five years, within the European market and with disclosed multiples, was when Banco Santander bought a stake of Bank Zachodni WBK SA. The presented multiples for this transaction are in line with the ones of the most recent transactions, but still are higher than the ones of Barclays. This might indicate an undervaluation of Barclays, even discounting for control premium.
- The most recent transaction happened in the third quarter of the last year, between a Russian and a Turkish bank. This might indicate a low frequency of deals within Europe recently, as well as a lack of significant deals between large European banks in the last years.