

DIVIDEND FORECASTING

UK Banks: elevated dividends are facing downside risks.

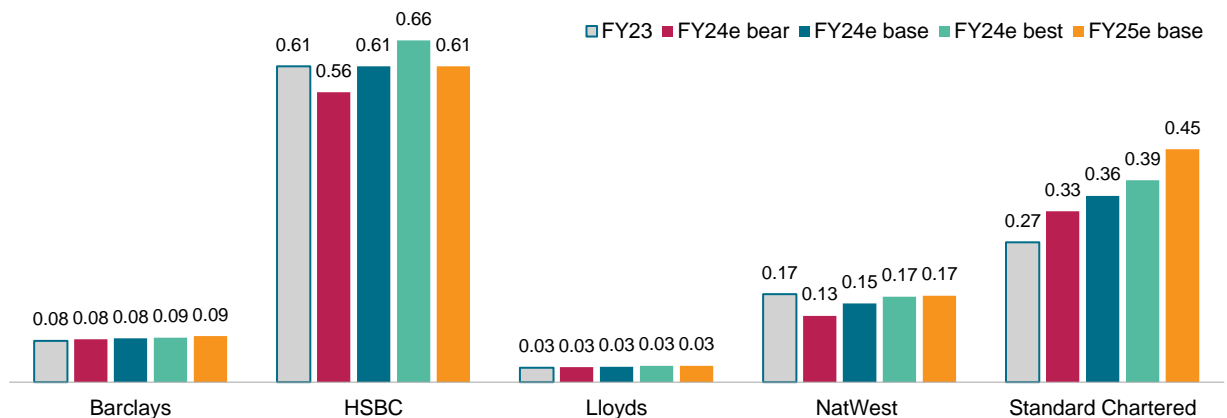
Pattie Zhang: UK market research analyst
April 29, 2024

Banks' challenge: robust yet sliding profits vs. buoyed dividends.

UK banks are on track to report their FY24 Q1 results. As of April 25, 2024, Lloyds and Barclays have affirmed their 2024 guidance. As expected, net interest income (NII) has been slipping in the wake of lower inflation across Europe. However, the main drags on profits come down to other factors such as the new application of the BOE levy, high severance charges, and sluggish performance in investment banking businesses. The banking sector has been employing structural hedge to mitigate interest rate risk and stabilize NII over time. As a result, analysts anticipate a rebound in net interest margin in the upcoming quarters, implying sustained NII support for banks' profits as well as capital allocations. Dividends were buoyed in 2023, which, together with buybacks, were returned by more than £27 billion by the five biggest lenders. Will banks sacrifice robust yet sliding profits to boost dividends even further? Or will dividends retreat from their record highs?

Our view is that **elevated dividends** will be maintained; but exposed to **downside risks**.

DPS forecasts for the 5 biggest UK banks



FY24e dividend outlook for the five biggest UK banks.

Barclays PLC (GB0031348658)

| | FY23 | FY24e base | % Change | FY24e bear | FY24e best | FY24e ex-date |
|-----------|---------|------------|----------|------------|------------|---------------|
| INT | £0.0270 | £0.0285 | +5.56% | £0.0280 | £0.0290 | 08/01/24 |
| FIN | £0.0530 | £0.0560 | +5.67% | £0.0550 | £0.0570 | 02/27/25 |
| Full year | £0.0800 | £0.0845 | +5.63% | £0.0830 | £0.0860 | - |

Barclays aims to return a minimum of £10 billion in capital between 2024 and 2026, primarily through buybacks. It intends to keep annual dividends stable at the 2023 level in absolute terms, therefore, we expect a progressive DPS growth to align with the reduction in share count. Typically, interim dividends account for about one third of total dividends for the year. The ongoing £1 billion buyback is expected to conclude by the end of November 2024. We forecast another £1 billion buyback to be announced at FY24 interim results. These buybacks combined are estimated to decrease outstanding shares by 5-8%, explaining our projected DPS growth for the bear, base, and best-case scenarios.

HSBC Holdings PLC (GB0005405286)

| | FY23 | FY24e base | % Change | FY24e bear | FY24e best | FY24e ex-date |
|-----------|--------|------------|----------|------------|------------|---------------|
| Q1 | \$0.10 | \$0.10 | - | \$0.10 | \$0.11 | 05/09/24 |
| Q2 | \$0.10 | \$0.10 | - | \$0.10 | \$0.11 | 08/08/24 |
| Q3 | \$0.10 | \$0.10 | - | \$0.10 | \$0.11 | 11/07/24 |
| Q4 | \$0.31 | \$0.31 | - | \$0.26 | \$0.33 | 03/06/25 |
| Full year | \$0.61 | \$0.61 | - | \$0.56 | \$0.66 | - |

Notably, in 2024, the EPS used to calculate HSBC's payout ratio excludes material items and related impacts. Two transactions are set to be recognized in Q1: 1) an estimated gain of \$4.9 billion from the sale of HSBC Bank Canada; and 2) a \$1 billion pre-tax loss on disposal of HSBC Argentina. According to the median adjusted EPS consensus, our base case forecasts lead to a payout ratio of c.52%, slightly surpassing the 50% target. Our bear and best-case forecasts reflect the lower and upper EPS consensus, respectively. HSBC intends to announce a special dividend of \$0.21 per share at Q1 earnings release, scheduled on April 30, 2024. The special dividend is expected to go ex in early May and become payable in June.

Lloyds Banking Group PLC (GB0008706128)

| | FY23 | FY24e base | % Change | FY24e bear | FY24e best | FY24e ex-date |
|-----------|---------|------------|----------|------------|------------|---------------|
| INT | £0.0092 | £0.0100 | +8.70% | £0.0093 | £0.0105 | 08/01/24 |
| FIN | £0.0184 | £0.0200 | +8.70% | £0.0188 | £0.0210 | 04/10/25 |
| Full year | £0.0276 | £0.0300 | +8.70% | £0.0281 | £0.0315 | - |

Lloyds reported a strong CET1 ratio of 13.9% in Q1 and reiterated its plan to pay down to c.13.5% by 2024. Our forecast of 9% DPS growth is comprised of 1) 3%, supported by a progressive dividend policy; and 2) 6%, adjusted by a decrease in share count due to the ongoing £2 billion share buybacks. However, our base forecasts indicate a 52% payout ratio, higher than Barclays' 29% and NatWest's 40%. The bear case forecasts roughly refer to flat dividends, reflecting a projected considerable downturn in profits. On the other hand, the best-case forecasts are mainly driven by a healthy capital position.

NatWest Group PLC (GB00BM8PJY71)

| | FY23 | FY24e base | % Change | FY24e bear | FY24e best | FY24e ex-date |
|-----------|--------|------------|----------|------------|------------|---------------|
| INT | £0.055 | £0.047 | -14.5% | £0.040 | £0.052 | 08/08/24 |
| FIN | £0.115 | £0.105 | -8.7% | £0.088 | £0.113 | 03/13/25 |
| Full year | £0.170 | £0.152 | -10.6% | £0.128 | £0.165 | - |

NatWest is the only bank in discussion that is forecast to see a dividend cut in 2024. In 2023, it delivered a lower-than-expected payout ratio of 35% (vs.40% target) despite strong attributable profits. Similar to our approach with HSBC, our DPS forecasts for NatWest are derived from 40% of the market EPS consensus. The base, bear, and best-case forecasts, respectively mirror the median, lower, and upper EPS projections. NatWest downgraded its RoTE target from the previous 14-16% to 12%, while analysts expect a 20% year-over-year decline in attributable EPS for FY24. We believe the adverse impacts of a challenging earnings outlook will be partly offset by reduced share count in our forecasts. However, compared to Lloyds, NatWest has a lower CET1 ratio, currently positioned at the lower end of the 13-14% target range. At the Spring Budget 2024, the UK government signaled its plan to return the bank to private ownership by 2025-2026, with a sale slated to commence in this summer. We assume that further capital returns will be weighted to on- and off-market share buybacks.

Standard Chartered PLC (GB0004082847)

| | FY23 | FY24e base | % Change | FY24e bear | FY24e best | FY24e ex-date |
|-----------|---------|------------|----------|------------|------------|---------------|
| INT | \$0.060 | \$0.090 | +50% | \$0.090 | \$0.090 | 08/08/24 |
| FIN | \$0.210 | \$0.270 | +29% | \$0.024 | \$0.300 | 03/06/25 |
| Full year | \$0.270 | \$0.360 | +33% | \$0.033 | \$0.390 | - |

Standard Chartered is poised to elevate its dividends to the next level. The bank's profits are steadily gaining momentum, backed by high NII and an expanding presence in Asia. In our base scenario, we forecast a 33% surge in annual DPS for FY24, leading to a c.26% payout ratio and a c.4.3% forward yield. Both figures are notably lower compared to its peers (as per the below table), leaving headroom for further dividend growth. Moreover, the bank upgraded its 2024 income guidance and aims to manage the CET1 ratio below 14% (which ended at 14.1% in 2023), thereby supporting upside risks in our forecasts. Given the bank's practice of setting interim dividends at one third of the prior year's full year dividends, we believe the FY24 interim will be \$0.09 per share across all scenario forecasts.

| | Payout Ratio (on attributable profits) | | | Dividend Yield | |
|--------------------------|---|-------|-------|----------------|---------|
| | FY23 | FY24e | FY25e | Trailing | Forward |
| UK Banks | | | | | |
| Barclays PLC | 30% | 29% | 25% | 4.16% | 4.40% |
| HSBC Holdings PLC* | 50% | 52% | 50% | 7.35% | 7.35% |
| Lloyds Banking Group PLC | 36% | 52% | 43% | 5.38% | 5.84% |
| NatWest Group PLC | 35% | 40% | 40% | 5.95% | 5.32% |
| Standard Chartered PLC | 25% | 26% | 28% | 3.20% | 4.27% |

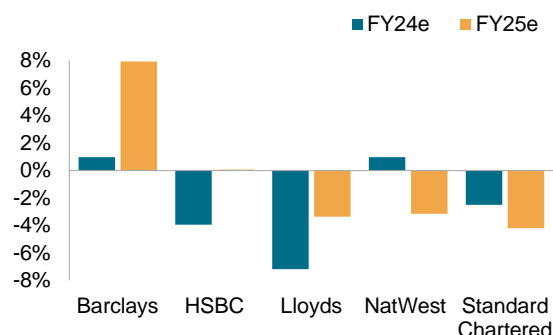
Forward Yield:
estimated DPS
(announced over the
next 12 months) /
today's stock price

Note 1: *HSBC's payout ratio is calculated on adjusted profits which exclude notable items and related impacts.

Note 2: All the above tables were compiled on Apr.25, 2024. Data Source: S&P Global Market Intelligence, Dividend Forecasting.

Attributable EPS consensus movement

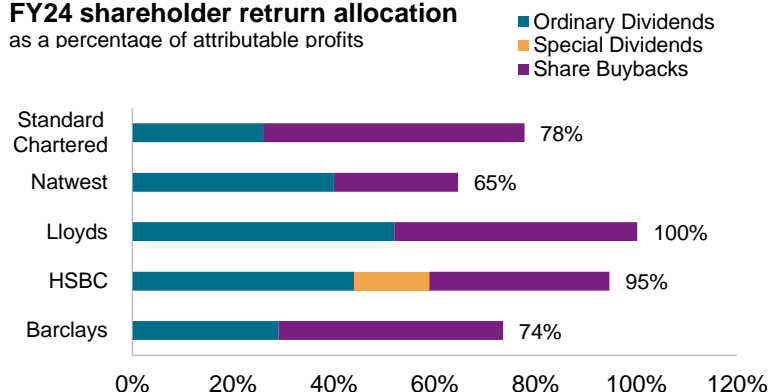
between Feb.25, 2024 and Apr.25, 2024.



Data compiled Apr.25, 2024.
Source: S&P Global Market Intelligence.
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FY24 shareholder return allocation

as a percentage of attributable profits



Data compiled Apr.25, 2024.
Source: S&P Global Market Intelligence.
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For more information, please contact: dividendsupport@spglobal.com

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