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MANAGERS SPLIT ON DEMAND FOR FRESH LLOYDS RIGHTS ISSUE

DRAZEN JORGIC

djorgic@citywire.co.uk

Wealth managers are divided in their support for the prospect of another rights issue at Lloyds Banking Group.

Lloyds, which is 43% owned by the government, has been tipped to ask investors for up to £15 billion in extra cash after results from the group showed it had incurred a £4 billion loss in the first half following its ill-fated merger with HBOS last year. Commentators have said the bank will have little option but to ask for more cash if it wants keep the costs of insuring toxic debt at a manageable level.

While some investors may be reluctant to stump up more cash after forking out £4 billion in a rights issue earlier this year, several discretionary managers have indicated they would be prepared to support the group should it ask the stockmarket for more cash.

Killik & Co manager Kristian Overend told *Citywire Wealth Manager* he has been buying Lloyds shares since they sunk to 40p and suggested he would back another rights issue. Overend said: 'I would probably back it. While [Lloyds] made mistakes with HBOS and didn't do its due diligence, over time their combined strength in the mortgage market is going to be hugely rewarding.

'As the housing market picks up they will have dominant market share and that will prove beneficial.'

Fiske private client stockbroker Alex Irvine-Fortescue also indicated he would back the rights issues, although he admitted it is unsettlingly close to the previous issue.

'Clients have been buying the [previous] open offer but a further one will have to be supported. Even if it's pretty diabolical, it's still in the long-term interest of the shareholders. Ultimately, it's a great recovery story but it's pretty demanding on shareholders,' he said.

Brewin Dolphin analyst Jonathan Newman is a little more reluctant to completely back another rights issue

on the basis that more clarity is needed.

However, his initial reaction to the idea is positive. 'It's certainly an intriguing idea, particularly given the success Barclays has achieved by doing its own thing. I would be open-minded about another Lloyds rights issue,' he said.

But Newman warned that political interference could leave Lloyds with many hurdles to jump through before it gets the issue off the ground.

'I suspect the government wishes to be associated with the reconstituting of the banking industry and doesn't wish to give up the kudos when that happens. My guess is that there will be a great British compromise.'

He expects Lloyds to scale back its participation of the Asset Protection Scheme (APS) as part of the compromise. Overall, he believes there will be interest from the market to prevent the government's stake in the bank rising above 50%.

But not all wealth managers are so supportive.

Thesis Asset Management's Ian Creswick said: 'I'm not sure it's a starter. There is a lot of political capital invested in APS to avoid further capital raisings, so to go back on it would be very strange.'

Meanwhile, the lack of insight into the problems at Lloyds has left Brooks Macdonald's Lucy Taylor sceptical over Lloyds' immediate future. 'Financial statements for banks are incredibly opaque. We can see better and clearer value elsewhere,' she said.



Lucy Taylor: Sceptical of Lloyds' future