

Banks

Calm Waters in Benelux

Key Takeaway

We expect limited surprises in Q1; NII will remain under pressure, too early for capital updates post Basel IV and we previously curbed expectations for large dividend payouts, which might not be accepted by the public for these once bailed-out banks. We remain positive on ING (PT €19.9) as we believe in its digital strategy, although in Q1 ING might remain under cost scrutiny as synergies will not be delivered until late 2018.

ING (Buy, PT €19.90)

We are 2.1% ahead of consensus net income due to slightly higher revenue expectations. Excluding regulatory cost, our C/I ratio of 49% is slightly below consensus with no major improvements YoY as we expect the cost synergies to crystallize by end of 2018 or beginning of 2019. The first visible impact of synergies should be in Orange Bank post significant restructuring in Belgium during 2017. Underlying NII should remain stable as margin pressure in the domestic markets should be offset by improved margins in other retail and wholesale, supported by increased rates, and good volume growth. We expect an update on CET1 and RoE targets and in our view, management should aim for CET1 of 13% that allows it to absorb Basel IV impact with a distribution policy of 58% on average for 2018-2020.

ABN (Hold, PT €27.30)

We are 3.1% ahead of consensus net income due to a lower provisioning charge in Q1 as even though we don't see write-backs continuing to 2018, we believe that the credit conditions will remain benign. We expect no update on capital targets; however, we hope for improved communication regarding the impact of Basel IV on individual business units. We will also be looking for some clarity on business strategy, which in our view should be set in 2018 considering the arrival of the new CFO and COO last year. We would welcome updates on cost targets and Private banking ambitions in the new plan.

KBC (Hold, PT €77.10)

We are -1.3% below consensus net income and we expect no surprises on the results day. In Belgium retail, we will be paying attention to strong commercial trends on loan growth; however, we expect NII to remain under pressure as KBC is facing intense competition from Belfius on the SME segment. Fee performance is uncertain as most likely clients, that started the quarter with exposure to equities, have moved to cash post the January correction. We expect revenues in CZ to hold strong post rate hikes, whilst good volumes should continue despite the actions from the CNB. In International retail, Bulgaria will benefit from the UBB integration and the company guided for a further write-back of €100m-150m in Ireland for 2018, and we believe the biggest amount of this will be charged in Q1.

Reporting: ING reports on 9th May, ABN reports on 14th May and KBC reports on 17th May.

Valuation:

ING trades on 1.1x 2018 PTNAV with a 11.6% 2020 RoTE, which is a 10% discount to the European average. On P/E, ING trades 10.4x 2018E earnings with a 5.4% dividend yield in 2018.

ABN trades on 1.2x 2018 PTNAV with a 11.4% 2020 RoTE, trading at a 4% premium to the European average. On P/E, ABN trades 11x 2018E earnings with a 4.4% dividend yield in 2018.

KBC trades on 1.8x 2018 PTNAV with a 16.7% 2020 RoTE, trading at a 3.5% premium to the European average. On P/E, KBC trades 11.3x 2018E earnings with a 4.9% dividend yield in 2018.

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^Prior trading day's closing price unless otherwise noted.

Chart 1: ING consensus

ING P&L	JEFF	Consensus	JEFF vs Cons	JEFF > Cons
Revenues	4,510	4,403	2.4%	✓
Opex	- 2,725	- 2,676	1.8%	✓
Operating income	1,785	1,732	3.1%	✓
Impairments	- 222	- 201	10.4%	✓
Other income	-	-	na	na
Pre-tax income	1,563	1,521	2.8%	✓
Tax	- 438	- 401	9.2%	✓
MI	- 17	- 22	-22.7%	✗
Net results Insurance other	20	10	100.0%	✓
Group Net income	1,128	1,105	2.1%	✓

Source: Jefferies estimates, company data

Chart 2: ABN consensus

ABN P&L	JEFF	Consensus	JEFF vs Cons	JEFF > Cons
Revenues	2,215	2,187	1.3%	✓
Opex	- 1,383	- 1,352	2.3%	✓
Operating income	832	836	-0.5%	✗
Impairments	- 35	- 62	-43.5%	✗
Other income	-	-	na	✗
Pre-tax income	797	774	3.0%	✓
Tax	- 199	- 195	2.1%	✓
MI	-	-	na	na
Group Net income	598	580	3.1%	✓

Source: Jefferies estimates, company data

Chart 3: KBC consensus

KBC P&L	JEFF	Consensus	JEFF vs Cons	JEFF > Cons
Revenues	1,874	1,895	-1.1%	✗
Opex	- 1,267	- 1,268	-0.1%	✗
Operating income	607	627	-3.2%	✗
Impairments	18	-	na	✗
Other income	7	6	16.7%	✓
Pre-tax income	632	633	-0.2%	✗
Tax	- 158	- 152	3.9%	✓
MI	-	-	na	✗
Group Net income	474	480	-1.3%	✗

Source: Jefferies estimates, company data

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(Article 3(1)e and Article 7 of MAR)

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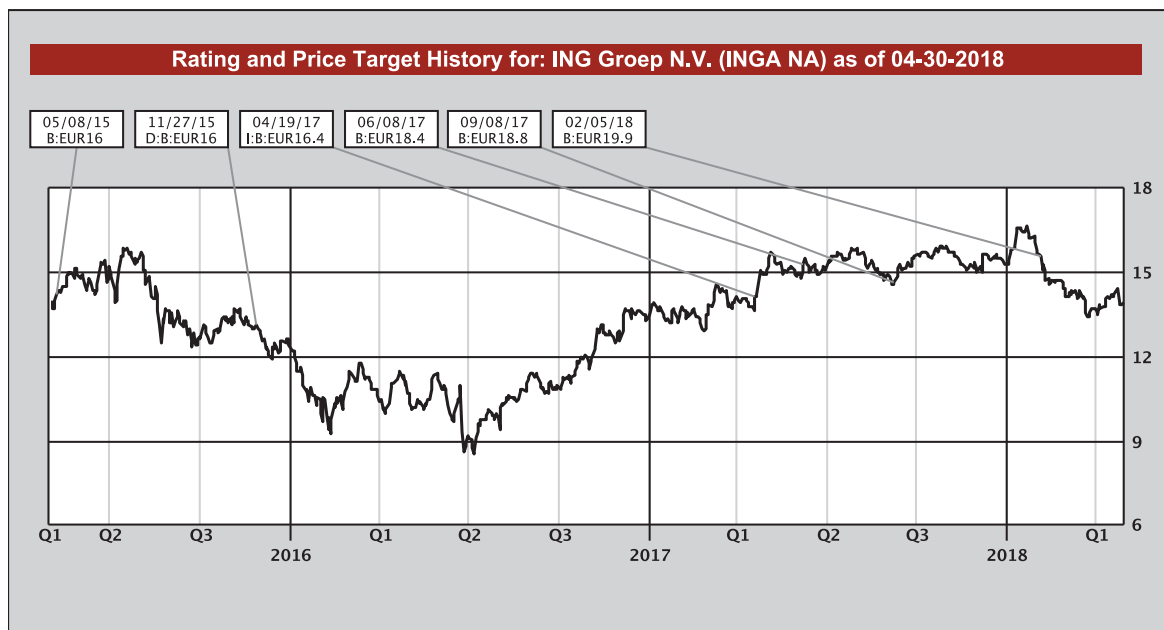
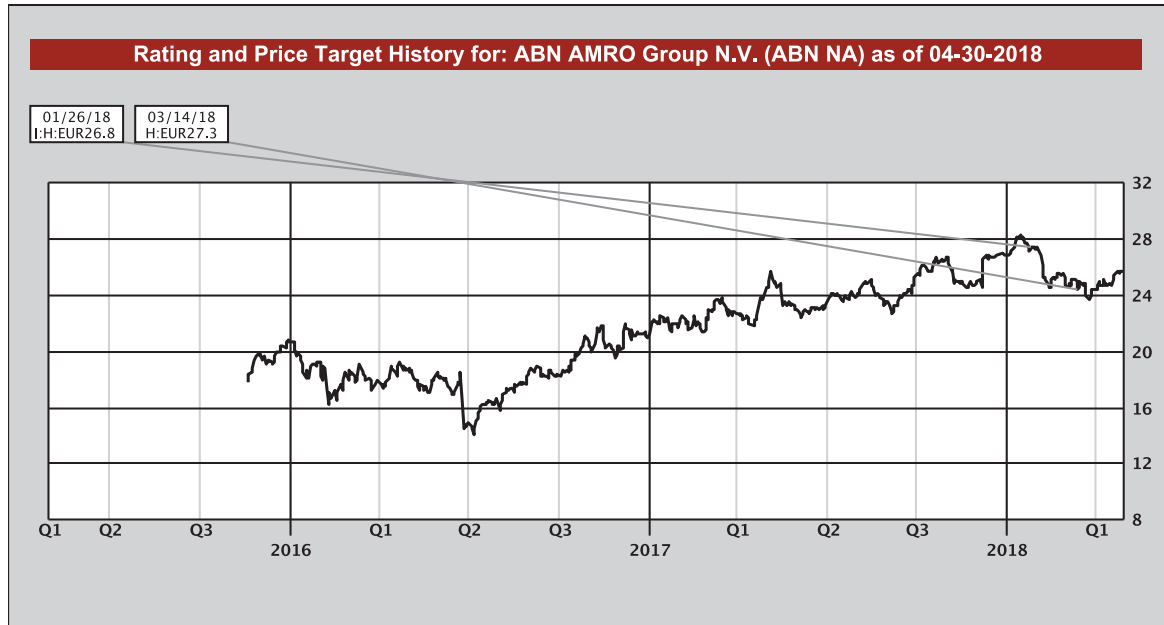
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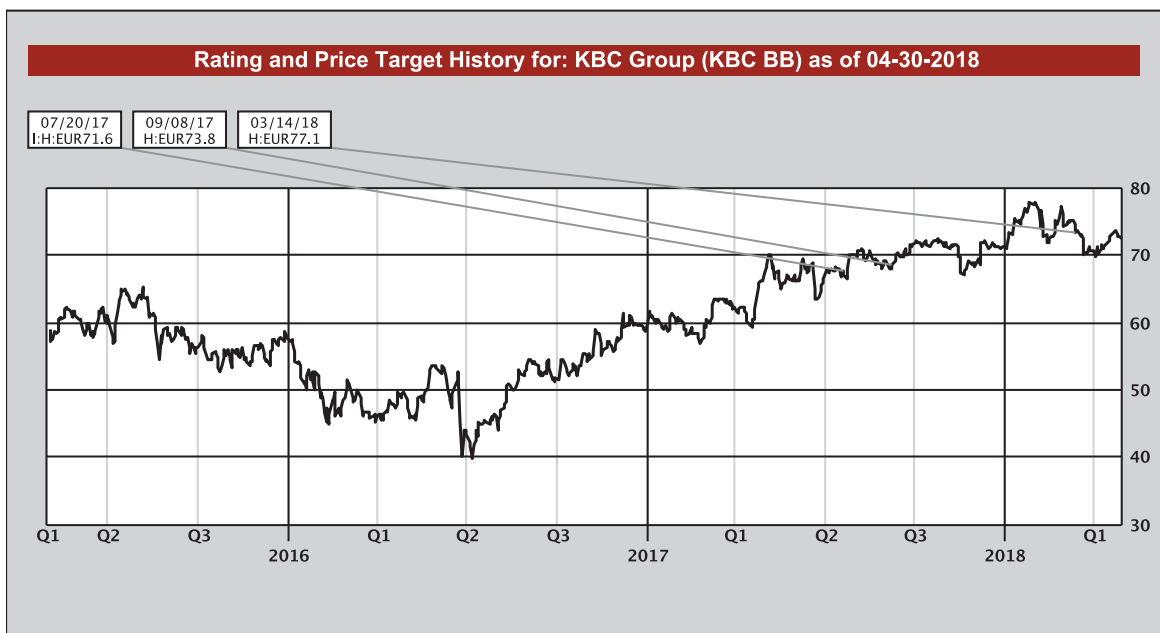
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Other Companies Mentioned in This Report

- ABN AMRO Group N.V. (ABN NA: €25.73, HOLD)
- ING Groep N.V. (INGA NA: €13.98, BUY)
- KBC Group (KBC BB: €72.40, HOLD)





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Legend:

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