

Jefferies

KBC (KBC BB): Good Results but no Surprise

Rating **HOLD**

Price Target €73.80

Price €69.90

Bloomberg BXS: KBC BB

Key Takeaway

KBC reported Q3 group net income of €691m and a PBT of €959m, which was 17% ahead of JFe and 12% ahead of consensus. 9m net income accounted for 70% of 2017 FY consensus. The beat comes from much lower opex than expected, CoR is slightly higher than consensus due to a one-off in Belgium. The CET1 moved from 15.7% to 15.9% QoQ. NIM is at 183bps from 186bps in Q2. RoE is 19% for 9 months.

Group review: Sound results driven by lower opex, as expected revenues are seasonally under pressure and confirming Q2 trends on NIM. Provisions were slightly higher due to a one-off in Belgium. Underlying trends in Ireland remain, with guidance of €160-€200m provision write-back for 2017. This set of results doesn't change our investment case for KBC as there are no fundamental changes on underlying trends and capital. Tax rate guidance at 28%-29%. Re-iterated the DTA impact of €230m in Q4-17 and IFRS 9 impact of 45-55bps.

Belgium retail: NIM is down by 10bps from 151bp due to lower reinvestment yield on the deposits and pressure on commercial loan margin. NII is down by 13% YoY. Good opex and good underlying CoR. Loans are up by 3% YoY with mortgages flat YoY. Pick-up of SMEs and corporate loan production. *Insurance:* Life products lower than expected with sales down by 14.6% YoY, non-life premium was up by 3% YoY with combined ratio stabilizing at 80%.

Czech republic: Strong results, supported by NII on volumes but still some margin pressure (NIM at 285bps) and a good cost control. NII is up by 2.3% YoY, fees are down by 6% YoY. Loans are up by 11% YoY, mortgages are up by 12% YoY. CoR was extremely low due to write-backs in corporate loans.

International retail: Mixed bag with the integration of UBB and the extra provision in Ireland. NII is up 23% YoY with margin expansion by 10bps to 283bp. Loans are up by 12% YoY, mortgages are up by 7% YoY. Cost remains well under control and cost of risk is in line with expectations. Hungary is stable, Ireland is in line with expectations with the €54m one-off provision for potential fine on tracker mortgages. Guidance for 2017 provision write-back of €160-€200m in Ireland unchanged.

Valuation: KBC trades on 1.8x 2018E TNAV with a 16% 2019E RoTE. On P/E, it trades at 10.8x 2018E earnings with a dividend yield of 4.1% in 2017E.

Conference call: 8.30 UK time, Tel: +44 (0) 1452 555 566, Access code: 98661134

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