

KBC: 4Q18 Results First Take

 14 February 2019

Key Takeaway

Lower performance was expected in 2018, so some disappointment is in line. 2019 guidance on the call will be key to reassure investors.

KBC reported NI of €621m and a clean PBT of €779m, in line with JEFe and a 7% miss to cons. Belgium is a small miss to JEFe, but CZ and International retail deliver a beat to JEFe.

Group: NII -2% YoY but delivers NIM at 202bps (+5bps YoY and +4bps QoQ). Fees -11% YoY on lower management fees. A very good cost management with opex -3% YoY. Loans +5% YoY.

Belgium: NII is down -4% YoY but margin remains robust at 172bps (+3bps QoQ and -1bps YoY) and Fees are -15% YoY on lower management fees. AuM volumes already recovered in Jan. A good reduction of opex, a rebound in the CoR is due to a number of corporate files. A robust loan growth, +5% YoY.

CZ: Keeps delivering strong results, a benefit of rake hikes with NII +25% YoY with margin at 325bps (+30bps YoY); volumes +6% YoY despite the introduction of prudential measures.

International retail: Delivers an overall beat, but weaker than expected results in Ireland and Slovakia. Volumes +4% YoY. No further guidance on write-backs in Ireland.

Solvency: CET1 16%, flat QoQ. IFRS 16 impact at 6bps. Basel IV guidance at €8bn of RWAs, which is a 9% inflation of RWAs and 130bps impact. Leverage at 6.1%. '18 div at €3.5 (cons €3.68) provides a 6% yield; a weaker dividend due to TRIM and pension requirements.

Cos of risk: 2018 CoR at -4bp.

Profitability: RoE 16%. Group NIM at 202bps, +4bps QoQ; on Czech rate hikes and a lower funding cost.

Conference call: 8.30 UK time, tel: +44 (0) 1296 480 100, PIN: 939578

Valuation

KBC trades on 1.5x 2018 PTNAV with a 15.5% 2020e RoTE.

Company Update

| | |
|-------------------|------------------|
| RATING | HOLD |
| TICKER | KBC BB |
| PRICE | €59.26^ |
| PRICE TARGET (PT) | €71.90 |
| MARKET CAP | €24.8B / \$27.9B |

^Prior trading day closing price unless otherwise noted.

Maxence Le Gouvello Du Timat *
Equity Analyst
+44 (0) 20 7029 8280
mlegouvello@jefferies.com

Martina Matouskova, ACA *
Equity Associate
+44 (0) 20 7029 8352
mmatouskova@jefferies.com

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Company Description

KBC

KBC Bank N.V. is a Belgian universal multi-channel bank, focusing on private clients and small and medium-sized enterprises. Besides retail banking, insurance, and asset management activities (in collaboration with sister companies KBC Insurance NV and KBC Asset Management NV), KBC is active in European debt capital markets, domestic cash equity markets and in the field of corporate banking, leasing, factoring, reinsurance, private equity and project and trade finance in Belgium, Central and Eastern Europe and elsewhere (mainly in Europe).

Company Valuation/Risks

KBC

We apply several valuation methodologies - P/E, P/TBV (Gordons Growth), P/PPP and sum of the parts. Our valuation blend is based on a mix of Bull (30%), Bear (20%) & Base (50%) scenarios. No structural discount or premium applied. Risks: macro deterioration in the CEE region and ongoing market turbulence impacting fee income. On the upside, an acquisition in the core markets would support growth.

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

| | |
|----------------------------|-------------------------------|
| Recommendation Published | February 14, 2019 , 03:09 ET. |
| Recommendation Distributed | February 14, 2019 , 03:09 ET. |

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

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I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

| Distribution of Ratings | | | | | | |
|-------------------------|-------|---------|----------------------|---------|---------------------------|---------|
| | | | IB Serv./Past12 Mos. | | JIL Mkt Serv./Past12 Mos. | |
| | Count | Percent | Count | Percent | Count | Percent |
| BUY | 1140 | 55.23% | 92 | 8.07% | 13 | 1.14% |
| HOLD | 793 | 38.42% | 13 | 1.64% | 1 | 0.13% |
| UNDERPERFORM | 131 | 6.35% | 1 | 0.76% | 0 | 0.00% |

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