KBC

KBC Conference Call Feedback

14 May 2020

Key Takeaway

In a typical KBC fashion, the '20 guidance is on the conservative side, which implies a 18% PBT cut to current consensus reflected somewhat in today's price reaction. However, in the world of uncertainty, we continue to prefer banks with conservative outlooks and strong capital buffers. Reiterate Buy with a PT of €66.60.

What would have been a record quarter, turned into another C-19 casualty. Based on the conservative guidance provided, consensus should be down c. 6% on a PPP basis or 17.8% on a PBT line, not including any potential tailwinds. Q1 results.

Revenues: *NII guidance of €4.3bn* (€02.bn impact from CZ rate cuts and €0.1bn of FX) includes a mix of positive and negative items. Volumes of +2% YoY (vs previous 4%); a TLTRO benefit taken into account. In CZ, the assumption is for the key rate to be unchanged at 0.25%, but every 25bps cut implies a €30m hit. The outlook on FX is that CEE currencies will continue to depreciate. **Fees were very strong in Jan/April with March suffering from volatility;** there has been some recovery but customers are still reluctant to enter AM compared with the levels seen at the start of the year. Fees in Belgium benefit from shifting clients into discretionary management, including retail customers. **Insurance**: Lower premiums and claims will balance each other over the year in non-life business. Life insurance impact on C-19 will be limited.

Cost savings of 3.5% include cutting back on non-essential expenses (travel, training etc), postponing certain IT projects while the FTEs reduction continues. The 3.5% already captures the FX moves. These savings are sustainable until further notice; learning from this experience means digital will become a new norm, which will support savings.

Credit costs: Conservative guidance overall with GDP predictions punchier than local central banks expect. '20 Bull/Bear/Base CoR of 42bps/93bps/64bps. The more pessimistic outlook on CEE recovery is rather structural, where the crisis will slow down consumer consumption. Prefers not to give '21 CoR guidance with uncertainties ahead.

Capital: c. 70-80bps positive impact from the updates on SME and infrastructure support, software and IFRS 9. The TRIM impact loaded in '19 will stay in place (c. corporate and international financial institutions); new TRIM letters will be coming in the forth quarter. RWAs will grow with volumes and credit migration, but expects no major changes to capital ratios. No interim profits will be added based on the group's interpretation of the ECB policy. M&A is not on hold, but any targets need to meet the requirements. The share buy-back was canceled, but all other policies remain in place. **After October, KBC will provide guidance on capital deployment and distribution.**

Valuation: KBC trades on 1.1x TBV. Today's performance reflects the conservative guidance vs the recent outperformance.

FLASH NOTE

Belgium | Banks

RATING	BUY
TICKER	KBC BB
PRICE	€44.30^
PRICE TARGET (PT)	€66.60
MARKET CAP	€18.5B / $20.1B

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

Chart 1 - '20 Guidance impact

		Consensus				
P&L €m	2019A	2020E	2021E	2022E	Delta	New guidance
Net interest income	4,619	4,587	4,564	4,634	- 287	Guides for €4.3bn
Non-life insurance	756	765	811	842		
Life insurance	-6	-6	-3	0		
Ceded reinsurance result	-25	-24	-25	-24		
Dividend income	83	65	79	84		
FV through P&L	181	-91	279	296		
FV through OCI	0	5	6	6		
Net fee and commissions	1,735	1,628	1,669	1,728		
Other net income	279	207	209	217		
TOTAL INCOME	**7,622**	**7,132**	**7,584**	**7,776**		
Operating expenses	-4,303	-4,347	-4,377	-4,433		
o.w. opex	-3,836	-3,702				3.5% savings YoY
o.w. reg cost	-467	-521				Guides for €521m of reg cost
revised cost base		**-4,223**			124	new base case of €4.2bn vs €4.35bn expected
C/I	*56.5%*	*61.0%*	*57.7%*	*57.0%*		
Operating profit	**3,319**	**2,785**	**3,207**	**3,343**	**- 163**	**New PPP €2,622m; -6% to '20 cons**
Impairment	-216	-933	-826	-512	- 167	-€1,100m in base case
Associates	8	7	7	8		
PROFIT BEFORE TAX	**3,111**	**1,859**	**2,388**	**2,840**	**- 330**	**New PBT of €1,529m; -17.8% to '20 cons**
Income tax expense	-627	-399	-511	-612		
PROFIT AFTER TAX	**2,484**	**1,461**	**1,877**	**2,228**		
Minority interests	0	0	0	0		
GROUP NET INCOME	**2,484**	**1,461**	**1,877**	**2,228**		
Tax % charge	-20.2%	-21.5%	-21.4%	-21.5%		
Distribution						
- Belgium	1,344	761	1,040	1,264		
- Czech Republic	789	618	684	751		
- International Markets	380	192	251	305		
o/w Slovakia	79	34	45	59		
o/w Hungary	174	122	148	160		
o/w Bulgaria	93	59	70	79		
o/w Ireland	29	-27	-1	12		
- Group Centre	-23	-130	-99	-93		
EPS p.s.	5.9	3.44	4.44	5.30		
DPS p.s.	1.0	1.99	2.59	3.13		
Share buy-back		59	115	96		
Pay-out ratio (in %)	17%	58%	64%	63%		
CET1 (in %)	16.1%	16.5%	16.7%	16.9%		
RWA (EUR m)	99,070	105,200	108,030	110,913		
Cost to income	56.5%	61.0%	57.7%	57.0%		
CoR bps of RWAs	22	89	76	46		

Source: Jefferies, company data

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Exhibit 1 - Guidance impact on '20 consensus

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Source: Jefferies, company data

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, Bear & Base scenarios. Risks: macro deterioration in the CEE region and ongoing market turbulence impacting fee income.

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

Recommendation Published	May 14, 2020 , 07:44 ET.
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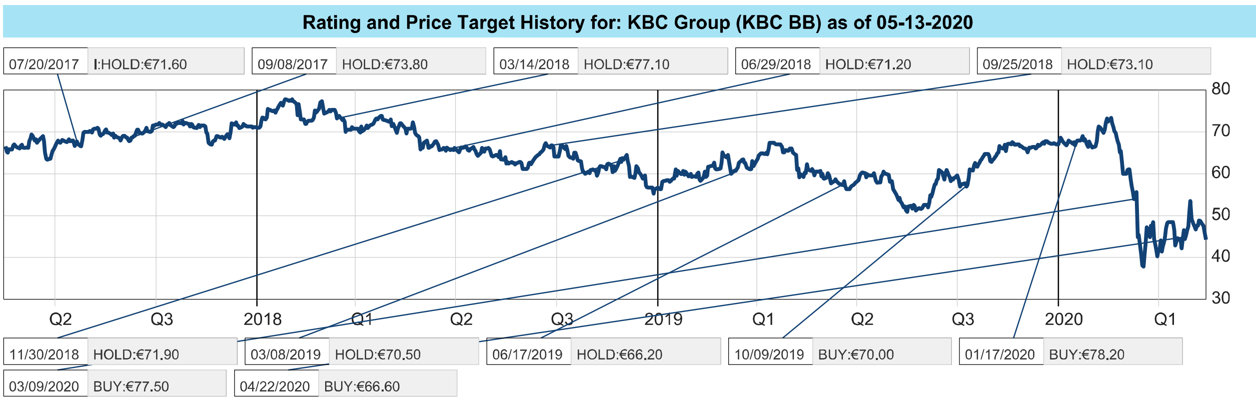

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Legend:

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	1305	53.77%	108	8.28%	12	0.92%
HOLD	963	39.68%	33	3.43%	3	0.31%
UNDERPERFORM	159	6.55%	2	1.26%	1	0.63%

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