

KBC (KBC BB)

KBC - Travel and Arrive

Key Takeaway

KBC reported Q4 net income of €399m and a PBT of €910m, which was 11% ahead of JFE and 5% ahead of consensus. The beat came from better Fair value gains, rather than underlying, and a lower provisioning in Ireland, which overall means 2017 CoR for group is positive at 6bps. CET1 moved from 15.9% to 16.3% QoQ. NIM is stable at 183bps QoQ. 2017 dividend €3p.s., in line with consensus. 2017 RoE is 17%.

Group view: Robust results in Belgium and CZ strongly benefits from recent rate hikes. International retail is decent and will benefit from further write-back in Ireland in 2018. Group NIM at 183bps, stable QoQ, excluding dealing rooms it is up by 3bps to 199bps. Fees are up by 14% YoY thanks to higher management and entry fees. Non-life combined ratio at 88%, vs 93% in Q4-16. Strong growth in life insurance products, +13% YoY in Belgium and CZ.

Belgium retail: NIM is down by 3bps to 148bps due to lower re-investment yields and pressure on commercial margin; NII is down by 13% YoY. Loans are up by +3% YoY with mortgages up by +1% YoY. Strong fee pick-up, +12% YoY on management fees. Pick-up of SMEs and corporate loan production continues from Q3 and in line with reports from other competitors. Insurance: *Non-Life sales* +4% YoY, combined ratio at 86%. Life products: Hike of 15% YoY on sales of insurance product driven by unit-linked products (+60%).

Czech Republic: Margin growth (306bps, up by 21bps from Q3) reflects the recent rate hikes; NII is up by +9% YoY, fees are up by +7% YoY on management fees. Loans are up by +8% YoY, mortgages are up by +11%. Low CoR continues to be low, 2bps in 2017. *Insurance* underlying activity is good, the higher combined ratio of 97% is due to higher claims in MTPL.

International retail: Good progress post UBB consolidation. Loans are up by +13% YoY, mortgages are up by +8% YoY. Ireland has a noise of €61m provision and a €52m impairment release. 2018 guidance on Ireland: additional write-back of €100m-€150m.

Solvency: CET1 is 16.3%, post 2017 dividend of €3p.s. vs consensus of €3.01. Leverage at 6.1%. Basel IV impact of 130bps, implying an RWAs inflation of 9%, as a result the 100bps Basel IV buffer is no longer required; however, the reference CET1 remains at 16% to keep 2% buffer for potential ad-on M&A in core markets. IFRS 9 impact of 41bps. €200m buy-back to offset the employee capital increase. Pro-forma Q4 CET1 ratio of 15.9%.

Tax guidance: Q4 impact from tax items at €211m; effective rate going forward 29.58% in 2018 and 25% in 2020.

Valuation: KBC trades on 1.8x 2018 TNAV with a 16% 2019 RoTE. On P/E, it trades at 11x 2018 earnings with a dividend yield of 4.1% in 2017.

Conference call: 8.30 UK time, Tel: +44 (0) 1452 541 003, access code: 8867906

HOLD

Bloomberg BXS: KBC BB

Price target €73.80

Price €73.40^

^Prior trading day's 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

* Jefferies International Limited

Company Description

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).

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

Recommendation Published , 02:49 ET. February 22, 2018
Recommendation Distributed , 02:49 ET. February 22, 2018

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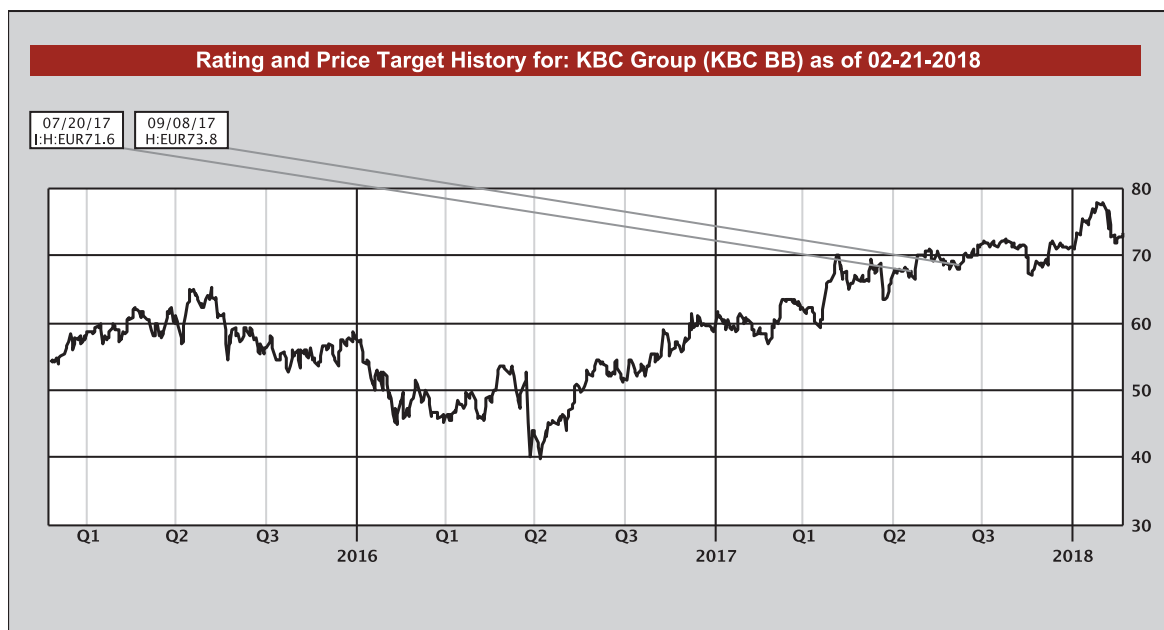
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