

# KBC (KBC BB)

## High Quality, with Deserved Valuation Premium

### Key Takeaway

**KBC reported Q3 net income of €701m, +1.6% YoY, and a clean PBT of €920m, a 1.7% beat to JFE and 3.7% to cons. Beat on all business lines. CET1 moved 20bps up to 16%, QoQ. NIM is at 198bps vs 200bps at Q2-18. RoE 17%. 9m net income accounts for 75.6% of 2018 consensus.**

**Group view:** NIM at 198bps, -2bps QoQ but +2bps YoY due to lower funding cost and rate hikes in CZ with NII +2% YoY. Fees are down by -2% YoY on lower management fees. Opex well within control with a C/I of 58%, with despite wage inflation and small one-offs across the board. Combined ratio at 88% on claims in Belgium. Strong sales in non-life with sales +8% YoY, UL products 40% of all sales. Positive cost of risk.

**Belgium:** NIM pressure remains, down 3bps QoQ to 169bps, due to lower reinvestment yield and pressure on commercial loan margins; NII is down by -4% YoY. Loans are +6% YoY with mortgages +2% YoY. The spread on new mortgages continues to decrease due to commercial battle to keep the market share, but SME spreads are stable. Fees are down -6% YoY due to lower entry & management fees. *Non-life sale* +5% YoY, combined ratio at 87%, impacted by two bigger claims. *Life products:* sales are down -8% YoY due to lower sales of UL products.

**Czech Republic:** Strong top line driven by better results in the FV line and by the rate hikes that pushed margins to 304bps, +7bps QoQ; NII is up by +19% YoY (ex FX) and will continue to increase to the rate hikes since Sep. Loans are up by +4% YoY, mortgages +8%. Fees are up by +13% YoY due to higher management fees, securities related fees and lesser payments to Czech Post. AuM inflows +5% YoY. *Insurance activity doing well in non-life* with premium income +14% YoY; *life premium income* -9% YoY; combined ratio at 96%. Higher opex +16% YoY due to higher staff expense, marketing cost including Czech Post.

**International retail:** NIM is down by 2bps QoQ to 279bps. Volumes +4% YoY, of which mortgages +4% YoY. Strong results in all CEE countries with strong volumes growth, +10% YoY in Hungary and +8% YoY in Slovakia. Ireland provisioning 2018 guidance is maintained at €100-€150m.

**Solvency:** CET1 is at 16%, up by 20bs QoQ. Leverage at 6.1%.

**Cost of risk:** Still not there, 9m CoR -7bps (positive). Ireland impairment release €15m; plus small ones in Slovakia, Hungary, Bulgaria and GC. Impairment ratio 5.5%.

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**Valuation:** KBC trades on 1.6x 2018 TNAV with a 15.7% 2020 RoTE. On P/E, it trades 10x 2018 earnings with a 6.2% dividend yield.

**HOLD**

Bloomberg BRU: KBC BB

Price target €73.10

Price €61.12^

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

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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)

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Rating and Price Target History for: KBC Group (KBC BB) as of 11-14-2018



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