

KBC (KBC BB)

Q1 Call Debrief

Key Takeaway

Post the earnings call, the key points are that Belgium remains under NII pressure that is offset by volumes; CZ benefits from rate hikes and volumes, and is well positioned alongside the other CEE countries. Ireland messaging on provision write-backs is unchanged with digital investment progressing well. The CoR will remain at the lower end in 2018. We see KBC as a quality name but with a rich valuation. Therefore, we retain our Hold at a PT of €77.10.

NII: Belgium has experienced continuous margin pressure due to some active competitors, which has led to KBC slowing down the volume growth to protect margins; however, KBC has stepped in again to optimize its market share, which is now back to 20%. However, it retains a cautious view that underwriting mortgages below 85pbs does not make economic sense. In CZ, the macro outlook is more dovish with only one potential rate hike due in 2018, instead of two, which is expected in Q4.

Fees: no comment on fees and the development will depend on the perception of retail on markets, which will set the driver of asset mix. Q1-17 had higher entry fees from the Easy Invest product introduced in Q4-16, which set a high comparison base for this quarter.

AM: good inflows of €836m in the quarter: the mix remains in favor of low margin products, which explains the pressure on fees. The level of appetite from the CEE markets remains good, notably in CZ with its partnership with the Czech Post in force since Jan-2018.

Expenses: good cost control excluding the regulatory taxes. YoY growth of 6% (€52m) driven by higher costs in Bulgaria reflecting the integration of UBB, one-off provision in Belgium, higher opex in CZ due to FX, and the rest being the cost of digital investment in Ireland. This means Ireland is already on the centralized terminal for International markets, Bulgaria will follow by YE and the other CEE countries will follow later.

Cost of risk: CoR in 2018 will be significantly lower than the mid-cycle guidance of 30-40bps. Management is keeping an eye on the energy portfolios and the evolution of housing markets in the CEE region. In CEE, KBC introduced curbing measures in tandem with the local central banks, slightly ahead of competitors, leading to some loss of market share, but the measures have helped it to protect asset quality and margins.

M&A: no change to guidance. Acquiring Budapest Bank is currently not an option and will depend on political developments in Hungary.

Economic guidance: Europe remains an attractive market but management is mindful of global developments; growth of the European economy could slow 20-30bps from initial predictions of 1.9% (source: IMF).

Valuation: KBC trades on 1.8x 2018E P/TNAV with a 16.7% 2020E RoTE, and 11.2x its 2018E earnings and offers a 5% dividend yield.

HOLD

Bloomberg BRU: KBC BB

Price target €77.10

Price €69.64^

^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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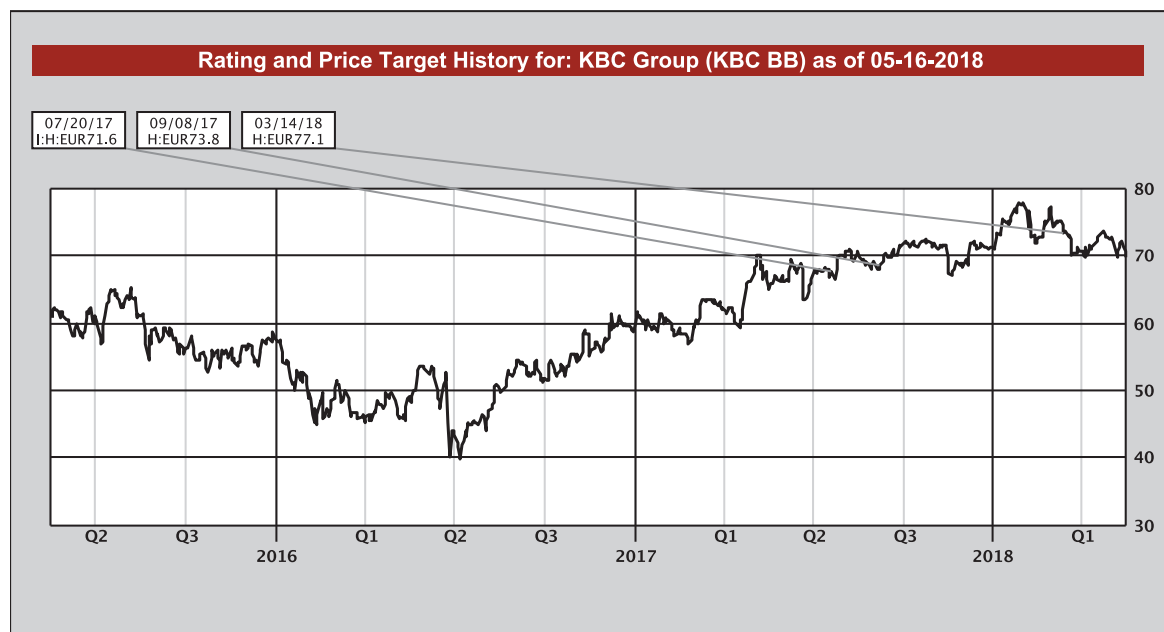
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			Count	Percent	Count	Percent
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