

KeyCorp (KEY)

\$10.87 (As of 03/12/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of KeyCorp have underperformed the industry over the past three months. The company has an impressive earnings surprise history, having outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Modest rise in loan demand and the company's inorganic growth strategies are expected to support revenues going forward. Further, steady capital deployment actions indicate strong balance sheet position and are expected to enhance shareholder value. However, pressure on margins due to lower rates, concerns over coronavirus-related slowdown and the Federal Reserve's accommodative policy are expected to hurt top-line growth to some extent. Additionally, continuously mounting operating expenses, mainly owing to the company's investments in franchise and acquisitions, will likely hurt the bottom line to some extent.

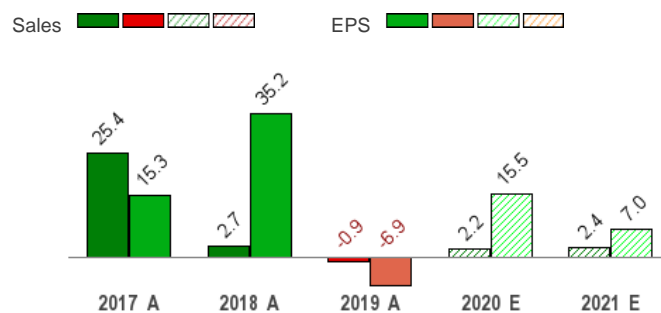
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.53 - \$10.53
20 Day Average Volume (sh)	13,696,971
Market Cap	\$10.5 B
YTD Price Change	-46.3%
Beta	1.33
Dividend / Div Yld	\$0.74 / 6.8%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 27% (184 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	04/16/2020
Earnings ESP	-2.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,607 E	1,640 E	1,668 E	1,699 E	6,663 E
2020	1,592 E	1,628 E	1,657 E	1,687 E	6,506 E
2019	1,513 A	1,603 A	1,622 A	1,630 A	6,368 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$0.48 E	\$0.51 E	\$0.52 E	\$1.99 E
2020	\$0.43 E	\$0.45 E	\$0.48 E	\$0.49 E	\$1.86 E
2019	\$0.40 A	\$0.44 A	\$0.48 A	\$0.48 A	\$1.61 A

*Quarterly figures may not add up to annual.

P/E TTM	6.0
P/E F1	5.8
PEG F1	0.8
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/12/2020. The reports text is as of 03/13/2020.

Overview

Cleveland, OH-based KeyCorp provides a wide range of products and services, such as commercial and retail banking, commercial leasing, investment management, consumer finance as well as investment banking products in 15 states.

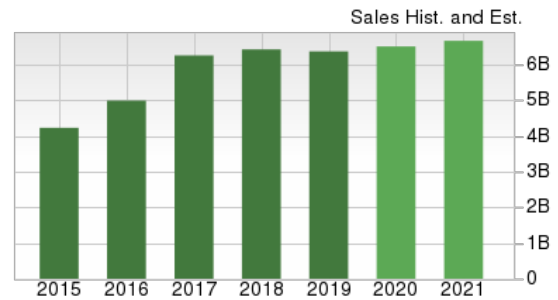
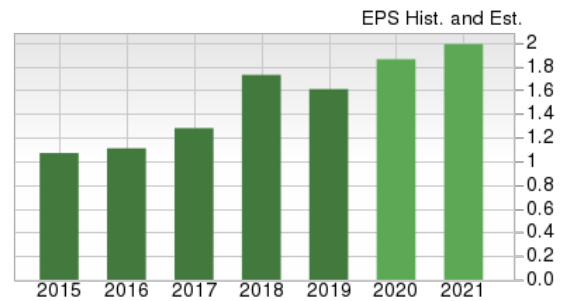
Additionally, KeyCorp's bank, KeyBank National Association, its registered investment advisor, and its trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products as well as international banking services.

KeyCorp operates through the following three business segments:

- **Consumer Bank** serves consumers and small to mid-sized businesses by offering a variety of deposit, investment as well as lending and wealth management products and services. The segment also purchases retail auto sales contracts. These products and services are provided through a 15-state branch network.
- **Commercial Bank** is a full-service corporate and investment bank, focused largely on serving the needs of middle market clients. The segment offers a wide-range of products to its clients, including syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, financial advisory and public finance.
- **Other Segments** consists of Corporate Treasury, Community Development, Principal Investing unit and a diverse range of exit portfolios.

In 2016, KeyCorp acquired First Niagara Financial Group. In 2017, it acquired HelloWallet and Cain Brothers & Company, LLC. In 2018, it sold Key Insurance & Benefits Services, Inc. In 2019, the company acquired Laurel Road Bank's digital lending business.

As of Dec 31, 2019, KeyCorp had \$145 billion in total assets, \$94.6 billion of total loans, deposits of \$111.9 billion and shareholders' equity of \$17 billion.



Reasons To Buy:

- ▲ KeyCorp is witnessing solid organic growth over the past several years. Though the company witnessed a decline in revenues (tax equivalent basis) in 2019, the same saw a CAGR of 10.7% over the last five years (2015-2019). Rise in loans and deposits, and improving economy are expected to continue supporting top-line growth in the upcoming quarters. Loans witnessed a CAGR of 12.1% over the last five years (ended 2019) and deposits reflect a CAGR of 12% over the same time frame.
- ▲ Improving credit quality continues to be a growth catalyst for KeyCorp. The bank is witnessing a decline in provision for loan losses over the past several quarters. Improving economy and conservative lending policy will continue to support the company's financials. In the long term, management anticipates net charge-offs (NCOs) rate to be 40-60 basis points (bps) while provisions are expected to rise modestly, given loan growth.
- ▲ KeyCorp has been meaningfully rewarding shareholders. The company's exemption from the Federal Reserve's annual stress tests in accordance with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 provides flexibility in announcing capital plans. In sync with this, in April 2019, it announced its capital plan. The plan includes 8.8% dividend hike and \$1 billion share repurchase authorization. As of Dec 31, 2019, nearly 747 million shares were left to be repurchased. Driven by its strong capital position and earnings strength, the company is expected to sustain improved capital deployment plans.
- ▲ KeyCorp has been growing inorganically as well. In 2019, the company acquired Laurel Road Bank's digital lending operation. In 2017, it acquired Cain Brothers and HelloWallet, while in 2016, the company acquired First Niagara. The bank's inorganic growth strategy bodes well for the future, and will enhance profitability and market share. It is expected to continue with opportunistic buyouts as these are expected to help diversify revenue sources.
- ▲ Further, KeyCorp seems undervalued compared with the broader industry as its current price-book and price-earnings (F1) ratio is below the industry average, while price-book is at par. Also, the stock has a Value Score of B.

KeyCorp remains well positioned to benefit from improvement in loan and deposit balances. Moreover, inorganic growth strategy and strong asset quality are likely to continue supporting its financials.

Reasons To Sell:

- ▼ KeyCorp's net interest margin (NIM) remains under pressure amid lower interest rates. It declined to 3.04% in 2019 from 3.17% in both 2018 and 2017. Further, subsequent to the Fed rate cuts, the company decreased its prime lending rate, which presently stands at 4.25%. Thus, given the lower rates and high chance of the central bank further cutting rates in the near term, NIM growth is expected to be affected to some extent.
- ▼ Mounting costs is a major area of concern for KeyCorp. While expenses declined in 2019 driven by the company's \$200 million cost reduction program, the same witnessed a five-year (2015-2019) CAGR of 8.3%. The rise in expenses was mainly due to higher personal costs. Expenses are expected to remain elevated, given investments in franchise, technological upgrades and inorganic growth strategy.
- ▼ KeyCorp has substantial exposure to residential prime loans and commercial real estate loans. As of Dec 31, 2019, the company's exposure to these loan portfolios was 34.1% of total loans. Though there has been an improvement in the housing sector, any further deterioration in the real estate prices will create troubles for the company.
- ▼ KeyCorp's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 12.54% compares unfavorably with ROE of 16.74% for the S&P 500, reflecting that it is less efficient in using shareholders' funds.
- ▼ Shares of KeyCorp have underperformed the industry over the past six months. Moreover, the bank's current-year earnings estimates have moved 1.1% lower the past seven days. Given the rate related concerns and downward estimate revisions, the stock has limited upside potential.

Pressure on margins due to lower rates will likely hamper KeyCorp's top-line growth. Also, increasing expenses (mainly due to acquisitions and technological upgrades) will hurt profitability.

Last Earnings Report

KeyCorp's Q4 Earnings Meet Estimates, Expenses Decline

KeyCorp's fourth-quarter 2019 adjusted earnings of 48 cents per share were in line the Zacks Consensus Estimate. Also, the figure was on par with the prior-year quarter level.

Results benefited from slight improvement in non-interest income and lower operating expenses. Moreover, growth in loans and deposit balances was a tailwind. However, lower net interest income and significantly higher provisions were the undermining factors.

After taking into consideration certain non-recurring items, net income from continuing operations was \$439 million or 45 cents per share compared with \$459 million or 45 cents per share in the prior-year quarter.

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	-0.56%
EPS Surprise	0.00%
Quarterly EPS	0.48
Annual EPS (TTM)	1.80

Revenues & Expenses Decline

Total revenues for the quarter were down 0.9% year over year to \$1.64 billion. Also, the figure was marginally below with the Zacks Consensus Estimate.

Tax-equivalent net interest income declined 2.1% year over year to \$987 million. The decline was due to lower net interest margin (NIM) and loan fees, partially offset by higher earning asset balances.

Taxable-equivalent net interest margin from continuing operations decreased 18 basis points (bps) year over year to 2.98%.

Non-interest income was \$651 million, improving 0.9% year over year. The rise was primarily driven by an increase in operating lease income and other leasing gains, consumer mortgage income and mortgage servicing fees.

Non-interest expenses declined 3.2% year over year to \$980 million. The decrease largely reflects the implementation of the company's expense initiatives, partially offset by expenses from the Laurel Road acquisition.

At the end of the fourth quarter, average total deposits were \$112.6 billion, up 2.1% from the prior quarter. Average total loans were \$93.6 billion, up 1.8% on a sequential basis.

Credit Quality Worsens

Net loan charge-offs, as a percentage of average loans, grew 15 bps year over year to 0.42%. Also, provision for credit losses rose 84.7% to \$109 million. Further, KeyCorp's allowance for loan and lease losses was \$900 million, up 1.9% from the prior-year quarter. These metrics included certain notable non-recurring items.

Also, non-performing assets, as a percentage of period-end portfolio loans, other real estate owned properties assets and other nonperforming assets, were 0.75%, up 11 bps.

Capital Ratios Mixed

KeyCorp's tangible common equity to tangible assets ratio was 8.64% as of Dec 31, 2019, up from 8.30% as of Dec 31, 2018. However, Tier 1 risk-based capital ratio was 10.85%, down from 11.08%.

Share Repurchase Update

During the reported quarter, KeyCorp repurchased \$241 million worth of shares as part of its 2019 capital plan.

2020 Outlook

Management expects average loans to be up in 4-6%, driven by growth in commercial and consumer loan balances.

Average deposits are expected to rise in the 1-3% range. Similar to 2019, deposit cost is expected to continue declining.

NII (FTE basis) is anticipated to grow at the rate of 1-3% on the assumptions of solid balance sheet growth, lower deposit rates and continued benefit from asset liability positioning.

NIM is projected to be relatively stable, reflecting the benefit of balance sheet positioning.

Non-interest income is expected to increase 4-6%. The rise is expected to be driven by growth in most of its core fee-based businesses, with increase in investment banking and debt placement fees, and residential mortgage fees to continue.

Moreover, non-interest expenses (excluding notable items) are anticipated to be relatively stable.

NCO rate (excluding fraud loss impact) are expected to be below through-the-cycle range of 40-60 bps. Also, provisions are anticipated to increase marginally and exceed NCOs, given loan growth. Further, the adoption of CECL will result in an increase to provision for loan growth.

The effective tax rate (GAAP basis) is likely to be 17-18%.

Long-Term Targets

The company expects to achieve cash efficiency ratio of 54-56%.

Loan-to-deposit ratio to be in the 90% to 95% range.

NCO rate is expected to be 40-60 bps.

Return on tangible common equity (ROTCE) is expected to be 16-19%.

Recent News

KeyCorp Lowers Prime Lending Rate – Mar 3, 2020

Pursuant to the U.S. Federal Reserve interest rate cut by 50 bps, KeyCorp reduced its prime lending rate to 4.25% from 4.75%.

KeyCorp Lowers Prime Lending Rate – Oct 30, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, KeyCorp reduced its prime lending rate to 4.75% from 5.00%.

Dividend Update

On Jan 16, KeyCorp announced a quarterly cash dividend of 18.5 cents per share. The dividend is scheduled to be paid on Mar 13 to shareholders of record as of Mar 3.

Valuation

KeyCorp's shares are down 37.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.5% and 15.4% over the past year, respectively.

The S&P 500 index is down 3.5% in the past year.

The stock is currently trading at 5.71X forward 12 months earnings, which compares to 7.00X for the Zacks sub-industry, 11.79X for the Zacks sector and 15.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.70X and as low as 5.71X, with a 5-year median of 11.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$12 price target reflects 6.32X forward earnings.

The table below shows summary valuation data for KEY

Valuation Multiples - KEY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.71	7	11.79	15.84
	5-Year High	16.7	13.85	14.85	18.69
	5-Year Low	5.71	7	11.79	15.84
	5-Year Median	11.12	11.31	13.95	17.15
P/B TTM	Current	0.71	1.01	2.21	3.69
	5-Year High	1.69	1.93	2.86	4.56
	5-Year Low	0.71	1.01	2.21	3.69
	5-Year Median	1.24	1.49	2.67	4.05
P/S F12M	Current	1.61	2.31	5.99	2.91
	5-Year High	4.07	4.59	6.64	3.44
	5-Year Low	1.61	2.31	5.9	2.91
	5-Year Median	2.86	3.59	6.22	3.16

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 253)



Top Peers

M&T Bank Corporation (MTB)	Outperform
Associated Banc-Corp (ASB)	Neutral
BankUnited, Inc. (BKU)	Neutral
Fifth Third Bancorp (FITB)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
The PNC Financial Services Group, Inc (PNC)	Neutral
Regions Financial Corporation (RF)	Neutral
Comerica Incorporated (CMA)	Underperform

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	KEY Neutral	X Industry	S&P 500	BKU Neutral	FITB Neutral	MTB Outperform
VGM Score	B	-	-	B	C	D
Market Cap	10.54 B	23.16 B	17.38 B	2.16 B	11.31 B	13.29 B
# of Analysts	10	8	13	8	11	8
Dividend Yield	6.81%	4.72%	2.51%	3.65%	6.04%	4.30%
Value Score	B	-	-	B	A	B
Cash/Price	0.21	0.94	0.05	0.08	0.35	0.56
EV/EBITDA	7.98	3.36	10.90	11.02	5.31	3.99
PEG Ratio	0.79	0.87	1.54	0.88	0.67	1.27
Price/Book (P/B)	0.71	0.73	2.35	0.73	0.58	0.93
Price/Cash Flow (P/CF)	5.01	5.53	9.60	6.27	4.37	6.05
P/E (F1)	6.19	7.19	13.98	7.80	5.49	7.50
Price/Sales (P/S)	1.37	1.51	1.89	1.51	1.16	1.91
Earnings Yield	17.11%	13.90%	7.07%	12.82%	18.18%	13.35%
Debt/Equity	0.82	0.86	0.70	1.50	0.77	0.48
Cash Flow (\$/share)	2.17	6.63	7.01	3.67	3.64	16.90
Growth Score	B	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	14.67%	13.58%	10.85%	14.47%	13.58%	17.92%
Proj. EPS Growth (F1/F0)	15.65%	1.54%	5.99%	-5.79%	4.46%	-0.76%
Curr. Cash Flow Growth	-3.09%	2.66%	6.15%	47.99%	17.50%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	12.28%	9.49%	8.52%	71.12%	6.10%	11.65%
Current Ratio	0.90	0.90	1.24	0.93	0.88	1.08
Debt/Capital	42.22%	43.35%	42.57%	60.05%	41.38%	30.77%
Net Margin	22.06%	22.06%	11.64%	21.91%	25.65%	27.79%
Return on Equity	12.54%	11.95%	16.74%	10.72%	10.96%	13.37%
Sales/Assets	0.05	0.05	0.54	0.04	0.06	0.06
Proj. Sales Growth (F1/F0)	2.17%	-0.07%	3.54%	-1.78%	-7.31%	-3.15%
Momentum Score	D	-	-	F	C	F
Daily Price Chg	-11.27%	-10.22%	-10.03%	-9.23%	-9.97%	-8.01%
1 Week Price Chg	-9.05%	-9.20%	-0.67%	-7.10%	-9.02%	-10.86%
4 Week Price Chg	-44.88%	-41.25%	-28.22%	-30.98%	-46.70%	-40.04%
12 Week Price Chg	-46.24%	-41.95%	-25.63%	-37.95%	-48.71%	-39.26%
52 Week Price Chg	-37.60%	-37.60%	-16.72%	-35.80%	-44.03%	-40.99%
20 Day Average Volume	13,696,971	7,859,821	3,061,271	1,085,381	7,859,821	1,136,980
(F1) EPS Est 1 week change	-0.75%	-1.35%	0.00%	-0.97%	-1.06%	-1.35%
(F1) EPS Est 4 week change	-1.53%	-2.12%	-0.32%	-2.12%	-1.94%	-2.56%
(F1) EPS Est 12 week change	-0.85%	-1.97%	-0.65%	-2.59%	-2.03%	1.83%
(Q1) EPS Est Mthly Chg	-1.45%	-1.27%	-0.62%	-0.60%	-1.73%	-1.25%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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