

## KeyCorp (KEY)

**\$19.48** (As of 01/13/20)

Price Target (6-12 Months): **\$21.00**

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: C

Momentum: C

## Summary

Shares of KeyCorp have underperformed the industry over the past year. The company has a decent earnings surprise history. Its earnings surpassed the Zacks Consensus Estimate in two and matched in one of the trailing four quarters. Driven by continued growth in loans, revenues are expected to improve further. Moreover, the company's inorganic growth strategies are expected to aid profitability. Further, steady capital deployment actions indicate strong balance sheet position and are expected to enhance shareholder value. However, pressure on margins due to lower yields and the Federal Reserve's accommodative policy will likely hamper revenue growth to an extent. Further, continuously mounting operating expenses, mainly owing to the company's investments in franchise and acquisitions, will likely hurt the bottom line to some extent.

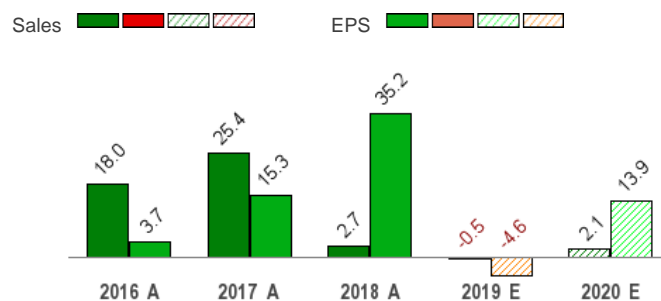
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$20.53 - \$14.82</b>
20 Day Average Volume (sh)	<b>7,026,377</b>
Market Cap	<b>\$19.2 B</b>
YTD Price Change	<b>-3.8%</b>
Beta	<b>1.32</b>
Dividend / Div Yld	<b>\$0.74 / 3.8%</b>
Industry	<a href="#">Banks - Major Regional</a>
Zacks Industry Rank	<b>Top 14% (36 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>2.1%</b>
Last Sales Surprise	<b>-0.9%</b>
EPS F1 Est- 4 week change	<b>-0.0%</b>
Expected Report Date	<b>01/23/2020</b>
Earnings ESP	<b>0.4%</b>
P/E TTM	<b>10.8</b>
P/E F1	<b>10.4</b>
PEG F1	<b>1.3</b>
P/S TTM	<b>2.5</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,587 E	1,635 E	1,672 E	1,698 E	6,530 E
2019	1,513 A	1,603 A	1,622 A	1,639 E	6,395 E
2018	1,545 A	1,639 A	1,595 A	1,645 A	6,424 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.43 E	\$0.46 E	\$0.49 E	\$0.51 E	\$1.88 E
2019	\$0.40 A	\$0.44 A	\$0.48 A	\$0.48 E	\$1.65 E
2018	\$0.38 A	\$0.44 A	\$0.45 A	\$0.48 A	\$1.73 A

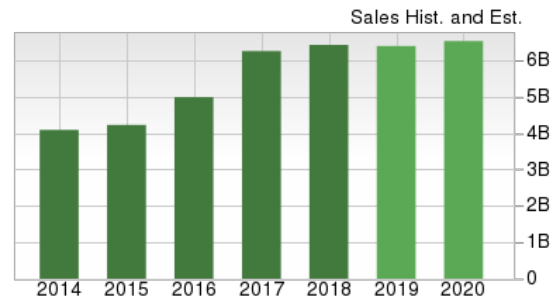
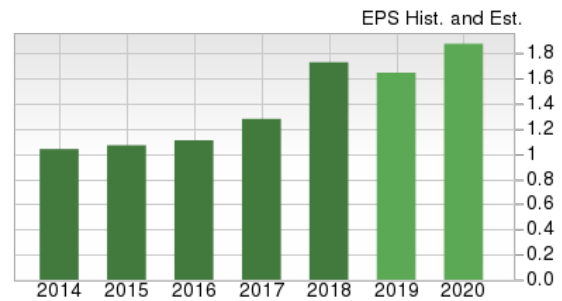
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

## 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. The company operates through the following three business segments:

- **Key Community Bank** (constituting nearly 62.2% of total revenues from continuing operations in 2018) 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. These products and services are provided through a 12-state branch network organized into 8 internally defined geographic regions.
- **Key Corporate Bank** (35.4%) 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** (2.4%) consists of Corporate Treasury, Community Development, Principal Investing unit and a diverse range of exit portfolios.



Additionally, KeyCorp's bank, 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.

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 April 2019, the company acquired Laurel Road Bank's digital lending business.

As of Sep 30, 2019, KeyCorp had \$146.7 billion in total assets, \$91.9 billion of net loans, deposits of \$111.6 billion and shareholders' equity of \$17.1 billion.



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## Reasons To Buy:

- ▲ KeyCorp is witnessing solid organic growth over the past several years. The company witnessed an increase in revenues (tax equivalent basis) at a CAGR of 14.9% over the last four years (2015-2018). While revenues declined in the first nine months of 2019, improvement in loans and deposits are expected to support top-line growth in the upcoming quarters. Loans witnessed a CAGR of 14.4% over the last four years (ended 2018) and deposits reflect a CAGR of 14.7% over the same time frame. Both witnessed year-over-year rise in the first nine months of 2019.
- ▲ 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. Though provisions increased in the first nine months of 2019, 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 Sep 30, 2019, nearly 988 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 April 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. The bank 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. Its current price-cash flow and price-book ratios are lower than the respective industry averages. 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 will likely continue to support its financials.

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## Reasons To Sell:

- ▼ While KeyCorp's net interest margin (NIM) has witnessed an improvement over the last few years — 3.17% in 2018 and 2017, 2.92% in 2016, and 2.85% in 2015, the same declined in the first nine months of 2019. Further, subsequent to the Fed rate cuts, the company decreased its prime lending rate, which presently stands at 4.75%. Thus, given the recent decline in yields and lower rates, NIM growth is expected to be hurt to some extent.
- ▼ Mounting costs is a major area of concern for KeyCorp. While expenses declined in the first nine months of 2019, the same witnessed a five-year (2014-2018) CAGR of 9.5% mainly due to rise in personal expenses. Although the company recorded cost savings of \$450 million annually from the First Niagara deal, 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 Sep 30, 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 12.71% compares unfavorably with ROE of 17.16% 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 year. Moreover, the bank's current-year earnings estimates have been unchanged over the past 30 days. Given the concerns and no 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 the bottom line.

## Last Earnings Report

### KeyCorp Q3 Earnings Beat Estimates as Revenues Rise

KeyCorp's third-quarter 2019 adjusted earnings of 48 cents per share surpassed the Zacks Consensus Estimate of 47 cents. Also, the figure reflects an improvement of 6.7% from the prior-year quarter.

Results benefited from an improvement in non-interest income and a decline in 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 \$383 million or 38 cents per share, down from \$468 million or 45 cents per share in the prior-year quarter.

### Revenues Improve, Expenses Decline

Total revenues were up 1.7% year over year to \$1.62 billion. However, the figure lagged the Zacks Consensus Estimate of \$1.64 billion.

Tax-equivalent net interest income declined 1.3% year over year to \$980 million. The decline resulted from lower 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 3.00%.

Non-interest income was \$650 million, improving 6.7% year over year. The rise was primarily driven by an increase in almost all components of fee revenues, except for corporate-owned life insurance.

Non-interest expenses declined 2.6% year over year to \$939 million. The decrease reflects the successful implementation of the company's expense initiatives and the elimination of FDIC surcharge, partially offset by expenses from the Laurel Road acquisition.

At the end of the third quarter, average total deposits were \$110.3 billion, up marginally from the prior quarter. Average total loans were \$92 billion, up 1.3% on a sequential basis.

### Credit Quality Worsens

Net loan charge-offs, as a percentage of average loans, grew 58 bps year over year to 0.85%. Also, provision for credit losses rose significantly to \$200 million.

Further, KeyCorp's allowance for loan and lease losses was \$893 million, up marginally from the prior-year quarter. Also, non-performing assets, as a percentage of period-end portfolio loans, other real estate owned properties assets and other nonperforming assets were 0.77%, up 2 bps.

### Capital Ratios Mixed

KeyCorp's tangible common equity to tangible assets ratio was 8.58% as of Sep 30, 2019, up from 8.05% as of Sep 30, 2018. However, Tier 1 risk-based capital ratio was 10.96%, down from 11.11%.

### Share Repurchase Update

During the reported quarter, KeyCorp repurchased \$248 million worth of shares as part of its 2019 capital plan.

### Fourth-Quarter 2019 Outlook (Includes Impact of Laurel Road Acquisition)

Management expects average loans to be up in the low-single-digit range, driven by growth in commercial and industrial loans along with continued growth in consumer loan balances.

Average deposits are expected to be stable on a sequential basis.

NII (FTE basis) is anticipated to be stable, sequentially.

Non-interest income is expected to increase in the low-single-digit range. The rise is expected to be driven by growth in most of its core fee-based businesses, with growth in investment banking and debt placement business to continue.

Moreover, non-interest expenses are also anticipated to be up in the low-single-digit range.

NCOs (excluding fraud loss impact) are expected to remain unchanged from the third-quarter level. Also, provisions are anticipated to increase marginally and exceed NCOs, given loan growth.

The effective tax rate (GAAP basis) is likely to be 16%.

### Long-Term Targets

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

NCO rate is expected to be 40-60 bps.

Quarter Ending **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	-0.88%
EPS Surprise	2.13%
Quarterly EPS	0.48
Annual EPS (TTM)	1.80

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

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## Recent News

### 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%.

### KeyCorp Lowers Prime Lending Rate – Sep 18, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, KeyCorp reduced its prime lending rate to 5.00% from 5.25%.

### KeyCorp Lowers Prime Lending Rate – Jul 31, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, KeyCorp reduced its prime lending rate to 5.25% from 5.50%.

## Dividend Update

On Nov 21, KeyCorp announced a quarterly cash dividend of 18.5 cents per share. The dividend was paid on Dec 13 to shareholders of record as of Dec 3.

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## Valuation

KeyCorp's shares are up 19.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 24.6% and 13.7%, respectively over the past year.

The S&P 500 index is up 24.2% in the past year.

The stock is currently trading at 10.35X forward 12 months earnings, which compares to 11.84X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.70X and as low as 7.25X, with a 5-year median of 11.29X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$21 price target reflects 11.17X 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	10.35	11.84	14.88	18.87
	5-Year High	16.7	13.85	16.21	19.34
	5-Year Low	7.25	9.04	12.01	15.17
	5-Year Median	11.29	11.43	13.98	17.44
P/TB TTM	Current	1.58	2.35	3.28	12.5
	5-Year High	2.16	2.68	3.98	12.53
	5-Year Low	0.89	1.44	2.44	6.03
	5-Year Median	1.51	2.11	3.46	9.07
P/S F12M	Current	2.94	4.07	6.53	3.5
	5-Year High	4.07	4.59	6.61	3.5
	5-Year Low	1.62	2.61	5.2	2.54
	5-Year Median	2.84	3.59	6.04	3

As of 01/13/2020

## Industry Analysis Zacks Industry Rank: Top 14% (36 out of 254)



## Top Peers

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	KEY Neutral	X Industry	S&P 500	BKU Neutral	FITB Neutral	MTB Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Market Cap	19.19 B	43.08 B	24.31 B	3.33 B	21.19 B	22.02 B
# of Analysts	4	7	13	4	9	6
Dividend Yield	3.80%	2.64%	1.76%	2.39%	3.21%	2.64%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.26	0.68	0.04	0.07	0.32	0.68
EV/EBITDA	10.08	5.22	14.12	15.69	8.44	5.22
PEG Ratio	1.33	1.45	2.05	1.32	1.40	2.08
Price/Book (P/B)	1.26	1.38	3.34	1.15	1.11	1.53
Price/Cash Flow (P/CF)	9.13	10.74	13.66	15.38	8.91	11.07
P/E (F1)	10.45	12.05	18.82	11.64	10.05	12.28
Price/Sales (P/S)	2.49	2.58	2.64	2.18	2.31	3.17
Earnings Yield	9.65%	8.30%	5.29%	8.60%	9.95%	8.15%
Debt/Equity	0.95	0.95	0.72	1.69	0.74	0.48
Cash Flow (\$/share)	2.13	6.05	6.94	2.28	3.35	15.07
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>F</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	13.90%	13.07%	10.56%	13.92%	12.31%	16.90%
Proj. EPS Growth (F1/F0)	13.98%	4.47%	7.49%	2.40%	5.61%	-0.34%
Curr. Cash Flow Growth	17.06%	17.06%	14.83%	-15.96%	-9.51%	24.17%
Hist. Cash Flow Growth (3-5 yrs)	15.62%	7.49%	9.00%	29.62%	-1.28%	8.94%
Current Ratio	0.91	0.88	1.23	0.94	0.88	1.06
Debt/Capital	45.81%	45.81%	42.99%	62.89%	40.34%	30.74%
Net Margin	21.93%	23.17%	11.08%	18.04%	24.36%	28.58%
Return on Equity	12.71%	12.25%	17.16%	9.76%	11.40%	13.82%
Sales/Assets	0.05	0.05	0.55	0.05	0.06	0.06
Proj. Sales Growth (F1/F0)	2.12%	0.57%	4.23%	1.53%	-3.82%	-1.70%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>A</b>	<b>B</b>
Daily Price Chg	0.15%	0.48%	0.73%	-0.43%	0.34%	0.52%
1 Week Price Chg	-2.31%	-1.64%	0.39%	-3.16%	-2.23%	-1.97%
4 Week Price Chg	-3.13%	-0.10%	1.84%	-3.91%	-3.43%	-1.87%
12 Week Price Chg	7.45%	8.32%	6.48%	3.08%	6.57%	8.32%
52 Week Price Chg	19.95%	19.90%	23.15%	8.90%	17.70%	10.47%
20 Day Average Volume	7,026,377	3,745,891	1,578,594	430,640	3,745,891	410,023
(F1) EPS Est 1 week change	-0.24%	0.47%	0.00%	-0.05%	0.27%	0.73%
(F1) EPS Est 4 week change	-0.01%	0.56%	0.00%	-0.38%	0.55%	1.42%
(F1) EPS Est 12 week change	0.28%	0.28%	-0.48%	-2.76%	-0.82%	-2.57%
(Q1) EPS Est Mthly Chg	0.93%	0.41%	0.00%	-0.46%	0.10%	-1.04%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>B</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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