

KeyCorp (KEY)

\$9.74 (As of 04/16/20)

Price Target (6-12 Months): **\$6.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

Shares of KeyCorp have underperformed the industry over the past six months. The Fed's accommodative monetary policy and near-zero interest rates are expected to continue to hurt margins and interest income. Further, coronavirus-induced concerns will likely keep hampering overall business activities and thus impact loan growth to an extent. Nevertheless, KeyCorp's first-quarter 2020 results benefited from lower expenses, partly offset by a decline in revenues and significantly higher provisions. The company's earnings outpaced the Zacks Consensus Estimate in two and matched in two of the trailing four quarters. Although its inorganic expansion strategies and strong balance sheet position will likely support growth; elevated expenses, owing to investments in franchise and acquisitions, will likely hurt the bottom line to an extent.

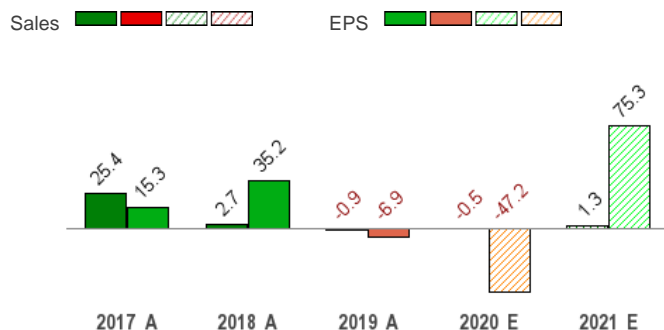
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.53 - \$7.45
20 Day Average Volume (sh)	15,534,130
Market Cap	\$9.4 B
YTD Price Change	-51.9%
Beta	1.61
Dividend / Div Yld	\$0.74 / 7.6%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 1% (251 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	100.0%
Last Sales Surprise	-6.2%
EPS F1 Est- 4 week change	-53.9%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	6.4
P/E F1	11.5
PEG F1	1.5
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,541 E	1,568 E	1,591 E	1,615 E	6,414 E
2020	1,458 A	1,559 E	1,590 E	1,623 E	6,334 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	\$0.36 E	\$0.38 E	\$0.43 E	\$0.44 E	\$1.49 E
2020	\$0.12 A	\$0.08 E	\$0.21 E	\$0.39 E	\$0.85 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

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.

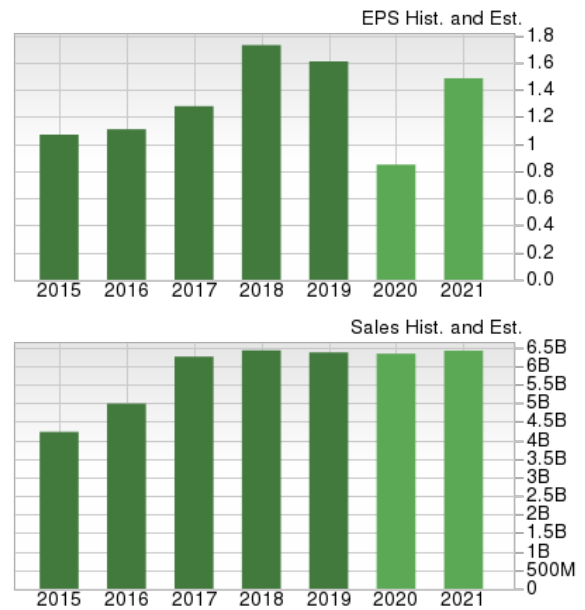
Additionally, KeyCorp's bank, KeyBank National Association, its registered investment advisor, and its trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products 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 Mar 31, 2020, KeyCorp had \$156.2 billion in total assets, \$103.2 billion of total loans, deposits of \$115.3 billion and shareholders' equity of \$17.4 billion.



Reasons To Sell:

- ▼ After slashing interest rates thrice last year, the Federal Reserve cut rates to near-zero in March in order to support the U.S. economy from the coronavirus-induced slowdown. Amid lower rates, KeyCorp's net interest margin (NIM) declined to 3.04% in 2019 from 3.17% in both 2018 and 2017. The downward trend continued in the first quarter of 2020. NIM is expected to continue to remain under pressure in the near term as there is very less chance that the central bank will raise rates anytime soon. Thus, a decline in NIM might hurt the top line to some extent.
- ▼ KeyCorp has been witnessing a persistent rise in expenses over the past few years. 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. Though expenses declined in the first quarter of 2020, the company's continued investment in franchise, technological upgrades and inorganic growth strategy are likely to lead to higher costs in the near term.
- ▼ KeyCorp has substantial exposure to residential prime loans and commercial real estate loans. As of Mar 31, 2020, the company's exposure to these loan portfolios was 31.8% of total loans. Though there has been an improvement in the housing sector over the past few years, if there is significant deterioration in the real estate prices due to the virus-induced slowdown, it will likely 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 been revised 53.8% lower over the past 30 days. So, given the lower rates, other concerns and lack of positive estimate revisions, the stock has limited upside potential in the near term.

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

Risks

- KeyCorp has been 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), mainly driven by loan growth. During the same period, loans witnessed a CAGR of 12.1% and deposits saw a CAGR of 12%. The uptrend for both loans and deposits continued in the first quarter. While tax-equivalent revenues declined in the first three months of 2020 mainly because of lower interest rates, decent growth in loans and deposit balances are expected to keep supporting top-line growth in the upcoming quarters.
 - 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 included 8.8% dividend hike and \$1 billion share repurchase authorization. Nonetheless, in mid-March, the company suspended share buybacks amid the coronavirus-related slowdown. Driven by its strong capital position and earnings strength, the company is expected to sustain its 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 is expected to enhance profitability and market share. In fact, the company 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) ratios are below the respective industry averages.
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Last Earnings Report

KeyCorp Q1 Earnings Beat Estimates on Lower Costs

KeyCorp's first-quarter 2020 earnings of 12 cents per share surpassed the Zacks Consensus Estimate of 6 cents. The figure takes into account the Current Expected Credit Losses accounting methodology, the impact of the coronavirus outbreak and market-related valuation adjustments.

The results benefited from lower operating expenses and higher loan balance. However, lower net interest income and significantly higher provisions were the undermining factors.

Net income from continuing operations was \$118 million, down 69.4% from the prior-year quarter.

Revenues & Expenses Decline

Total revenues were down 3.6% year over year to \$1.47 billion. Also, the figure lagged the Zacks Consensus Estimate of \$1.55 billion.

Tax-equivalent NII grew marginally on a year-over-year basis to \$989 million. The rise was attributable to higher earning asset balances, partially offset by lower NIM.

Taxable-equivalent NIM from continuing operations decreased 12 basis points (bps) year over year to 3.01%.

Non-interest income was \$477 million, decreasing 11% year over year. The decline was primarily due to other losses and lower operating lease income.

Non-interest expenses declined 3.3% year over year to \$931 million. The decrease largely reflects the implementation of the company's expense initiatives, partially offset by costs from the Laurel Road acquisition.

At the end of the first quarter, average total deposits were \$110.3 billion, down 2% from the prior quarter. Average total loans were \$96.2 billion, up 2.7% on a sequential basis.

Credit Quality Worsens

Net loan charge-offs, as a percentage of average loans, grew 6 bps year over year to 0.35%. Also, provision for credit losses surged substantially from the year-ago quarter to \$359 million. The rise primarily reflected the significant change in the economic scenario amid the coronavirus pandemic.

KeyCorp's allowance for loan and lease losses was \$1.36 billion, up 53.9% 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 0.82%, up 16 bps.

Capital Ratios Deteriorates

KeyCorp's tangible common equity to tangible assets ratio was 8.26% as of Mar 31, 2020, down from 8.43% in the corresponding period of 2019. However, Tier 1 risk-based capital ratio was 10.31%, down from 10.94% in the prior-year comparable period.

Share Repurchase Update

During the quarter, KeyCorp repurchased \$120 million worth of shares as part of the 2019 capital plan. In mid-March, the company suspended the share buyback plan in response to the pandemic.

Second-Quarter 2020 Outlook

Management expects average loan growth to remain strong. Deposits are expected to increase sequentially.

Driven by loan growth, NII is anticipated to improve.

On a sequential basis, non-market related fee income is expected to be down slightly, reflecting lower activity levels.

Moreover, non-interest expenses are anticipated to be relatively stable sequentially.

NCOs are expected to be in the lower end of 40-60 bps.

Given the uncertainty about the impact of coronavirus on financials in 2020, the company has withdrawn its full year guidance for now.

Long-Term Targets

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

NCO rate is expected to be 40-60 bps.

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

Quarter Ending 03/2020

Report Date	Apr 16, 2020
Sales Surprise	-6.16%
EPS Surprise	100.00%
Quarterly EPS	0.12
Annual EPS (TTM)	1.52

Recent News

KeyCorp Lowers Prime Lending Rate – Mar 16, 2020

Pursuant to the U.S. Federal Reserve interest rate cut by 100 bps, KeyCorp reduced its prime lending rate to 3.25% from 4.25%.

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%.

Dividend Update

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

Valuation

KeyCorp's shares are down 51.9% in the year-to-date period and 42% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 39.9% and 27.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 29.9% and 22.2%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 5.13X forward 12 months earnings, which compares to 11.29X for the Zacks sub-industry, 13.24X for the Zacks sector and 18.65X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.70X and as low as 4.32X, with a 5-year median of 11.04X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$6 price target reflects 3.16X 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	5.13	11.29	13.24	18.65
	5-Year High	16.7	13.85	16.19	19.34
	5-Year Low	4.32	7.66	11.23	15.19
	5-Year Median	11.04	11.29	13.95	17.45
P/TB TTM	Current	0.78	1.42	2.37	10.5
	5-Year High	2.16	2.68	3.97	12.78
	5-Year Low	0.66	1.21	1.97	6.02
	5-Year Median	1.54	2.12	3.45	9.15
P/S F12M	Current	1.44	2.53	4.93	3.09
	5-Year High	4.07	4.59	6.65	3.44
	5-Year Low	1.21	2.39	4.93	2.54
	5-Year Median	2.87	3.59	6.03	3.01

As of 04/16/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (251 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	KEY Underperform	X Industry	S&P 500	BKU Neutral	FITB Underperform	MTB Neutral
VGM Score	C	-	-	B	D	F
Market Cap	9.45 B	31.99 B	19.06 B	1.60 B	10.50 B	12.51 B
# of Analysts	10	8	14	8	12	8
Dividend Yield	7.60%	5.08%	2.26%	5.31%	7.31%	4.57%
Value Score	C	-	-	B	B	D
Cash/Price	0.26	1.22	0.06	0.11	0.44	0.61
EV/EBITDA	8.05	2.67	11.49	10.06	5.12	3.74
PEG Ratio	1.61	1.45	2.09	0.87	1.01	4.34
Price/Book (P/B)	0.61	0.77	2.55	0.55	0.54	0.88
Price/Cash Flow (P/CF)	4.49	5.70	10.06	4.72	4.06	5.70
P/E (F1)	12.61	11.47	17.56	7.71	8.36	12.19
Price/Sales (P/S)	1.25	1.58	1.94	1.12	1.07	1.80
Earnings Yield	8.73%	8.73%	5.57%	12.99%	11.98%	8.20%
Debt/Equity	0.89	0.99	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	C	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	14.67%	13.58%	10.92%	14.47%	13.58%	17.92%
Proj. EPS Growth (F1/F0)	-47.27%	-37.19%	-3.36%	-28.23%	-36.22%	-42.54%
Curr. Cash Flow Growth	-3.09%	2.66%	5.93%	47.99%	17.50%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	12.28%	9.49%	8.55%	71.12%	6.10%	11.65%
Current Ratio	0.93	0.92	1.24	0.93	0.88	1.08
Debt/Capital	44.09%	49.21%	42.78%	60.05%	41.38%	30.77%
Net Margin	18.85%	21.64%	11.64%	21.91%	25.65%	27.79%
Return on Equity	10.43%	10.72%	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)	-0.54%	-4.67%	-0.14%	-3.36%	-9.07%	-6.00%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	-5.53%	-4.62%	-0.20%	-1.54%	-6.10%	-4.62%
1 Week Price Chg	32.41%	25.18%	16.01%	28.58%	32.59%	25.18%
4 Week Price Chg	4.17%	1.04%	14.56%	-10.07%	13.01%	-8.16%
12 Week Price Chg	-50.88%	-43.48%	-22.94%	-50.60%	-49.69%	-43.48%
52 Week Price Chg	-41.99%	-39.94%	-15.02%	-51.00%	-46.29%	-42.11%
20 Day Average Volume	15,534,130	9,209,641	3,220,598	995,507	9,774,433	986,268
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-4.80%	0.00%
(F1) EPS Est 4 week change	-53.86%	-38.15%	-7.09%	-22.41%	-38.15%	-40.82%
(F1) EPS Est 12 week change	-54.62%	-40.10%	-9.32%	-24.81%	-40.10%	-42.23%
(Q1) EPS Est Mthly Chg	-81.99%	-48.65%	-10.68%	-14.78%	-59.69%	-51.66%

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	C
Growth Score	C
Momentum Score	F
VGM Score	C

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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