

KeyCorp (KEY)

\$12.41 (As of 07/23/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

Shares of KeyCorp have underperformed the industry so far this year. Its earnings outpaced the Zacks Consensus Estimate in three of the trailing four quarters and met the same on one occasion. Its second-quarter 2020 results reflect a rise in revenues and solid loan balance. Inorganic expansion strategies, efforts to improve fee income, and robust loan and deposit balances will likely continue to aid growth. Also, given a strong balance sheet position, its current capital deployment actions look sustainable. However, near-zero interest rates will likely continue hurting the bank's margins and interest income. Coronavirus-induced concerns are expected to keep hampering overall business activities and in turn hurt loan growth to some extent. Further, elevated costs due to investments in franchise and acquisitions will likely hurt the bottom line.

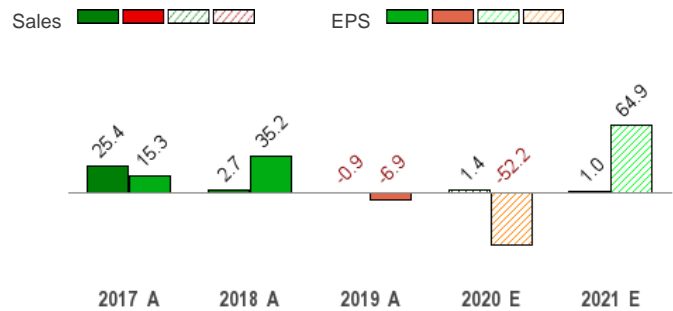
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.53 - \$7.45
20 Day Average Volume (sh)	10,917,086
Market Cap	\$12.1 B
YTD Price Change	-38.7%
Beta	1.53
Dividend / Div Yld	\$0.74 / 6.0%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 32% (172 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.7%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	16.7%
Expected Report Date	10/15/2020
Earnings ESP	8.1%
P/E TTM	10.0
P/E F1	16.3
PEG F1	2.1
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,628 E	1,651 E	1,655 E	1,670 E	6,527 E
2020	1,458 A	1,710 A	1,677 E	1,676 E	6,460 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	\$0.27 E	\$0.28 E	\$0.34 E	\$0.37 E	\$1.27 E
2020	\$0.12 A	\$0.16 A	\$0.19 E	\$0.25 E	\$0.77 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 07/23/2020. The reports text is as of 07/24/2020.

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.

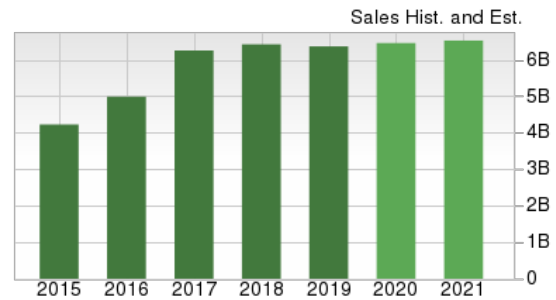
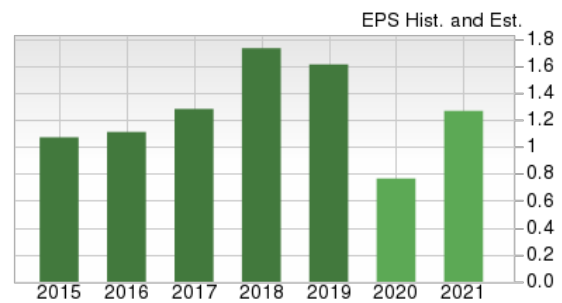
Additionally, KeyCorp's bank, KeyBank National Association, its registered investment advisor, and its trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products 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 Jun 30, 2020, KeyCorp had \$171.2 billion in total assets, \$106.2 billion of total loans, deposits of \$135.5 billion and shareholders' equity of \$17.5 billion.



Reasons To Buy:

- ▲ 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 revenues, loans and deposits continued in first-half 2020. Decent growth in loans and deposit balances, along with efforts to strengthen fee income are expected to keep supporting top-line growth in the upcoming quarters.
- ▲ As of Jun 30, 2020, KeyCorp had a total debt worth \$15.72 billion, and cash and due from banks of \$1.06 billion. Nevertheless, its second-quarter 2020 times-interest-earned ratio declined on a sequential basis to 4.5. Thus, despite higher debt burden, the company's earnings strength indicates that it is less likely to default in interest and debt payments in case the economic situation worsens.
- ▲ KeyCorp has been meaningfully rewarding shareholders. Following the announcement of 2020 stress test results, the company will be maintaining the dividend level. Since mid-March, it has suspended share buybacks amid coronavirus-related slowdown. Nevertheless, driven by strong capital position and earnings strength, the company is expected to sustain dividend payments.
- ▲ 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.
- ▲ Shares of KeyCorp have underperformed the industry so far this year. However, the company's earnings estimates for 2020 have been revised 20% upward over the past 30 days. Further, the stock seems undervalued than the broader industry. Its current price-book and price-cash flow ratios are below the respective industry averages. Therefore, given the strong fundamentals and positive estimate revisions, the stock has upside potential in the near term.

KeyCorp remains well positioned to benefit from improvement in loan and deposit balances, and robust balance sheet. Moreover, inorganic growth strategy is likely to continue supporting its financials.

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 six months of 2020. NIM is expected to remain under pressure in the near term as there is very less chance that the central bank will raise rates anytime soon.
- ▼ 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 first-half 2020, the company's persistent investment in franchise, technological upgrades and inorganic growth strategy are likely to keep costs elevated in the near term.
- ▼ KeyCorp has substantial exposure to residential prime loans and commercial real estate loans. As of Jun 30, 2020, the company's exposure to these loan portfolios was 31.3% 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 8.52% compares unfavorably with 15.29% for the S&P 500, reflecting that it is less efficient in using shareholders' funds.

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

Last Earnings Report

KeyCorp Q2 Earnings & Revenues Beat, Provisions Rise

KeyCorp's second-quarter 2020 earnings of 16 cents per share surpassed the Zacks Consensus Estimate by a penny. However, the figure compares unfavorably with 44 cents earned in the prior-year quarter.

The results benefited from a rise in revenues, slight decline in operating expenses, and higher loan and deposit balances. However, lower rates and significantly higher provisions were the undermining factors.

Net income from continuing operations was \$159 million, down 60.5% year over year.

Revenues & Loan Balance Rise, Expenses Decline

Total revenues grew 6.6% year over year to \$1.72 billion. Also, the figure beat the Zacks Consensus Estimate of \$1.60 billion.

Tax-equivalent net interest income increased 3.6% on a year-over-year basis to \$1.03 billion. The rise was attributed to higher earning asset balances, partially offset by lower net interest margin (NIM).

Taxable-equivalent NIM from continuing operations decreased 30 basis points (bps) year over year to 2.76%.

Non-interest income was \$692 million, increasing 11.3% year over year. The rise was primarily due to substantial growth in consumer mortgage income.

Non-interest expenses declined marginally from the prior year to \$1.01 billion. The decrease largely reflects the implementation of the company's expense initiatives, partially offset by costs from the Laurel Road acquisition.

At second quarter-end, average total deposits were \$128 billion, up 16% from the prior quarter. Average total loans were \$107.9 billion, up 12.2% on a sequential basis.

Credit Quality Worsens

Net loan charge-offs, as a percentage of average loans, grew 7 bps year over year to 0.36%. Also, provision for credit losses surged substantially from the year-ago quarter to \$482 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 \$1.71 billion, surging 91.9% 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 0.89%, up 23 bps.

Capital Ratios Deteriorate

KeyCorp's tangible common equity to tangible assets ratio was 7.6% as of Jun 30, 2020, down from 8.6% in the corresponding period of 2019. Also, Tier 1 risk-based capital ratio was 10.4%, down from 11.0% in the comparable prior-year period.

Third-Quarter 2020 Outlook

Management expects average loan growth to be relatively stable on a sequential basis, which will reflect consumer loan growth and lower commercial line utilization.

Likewise, deposits are expected to remain stable sequentially. Further, deposit costs are expected to further decline approximately 15 bps.

Driven by a relatively stable balance sheet and modest NIM improvement, NII is anticipated to be up in low-single digits from the second quarter.

On a sequential basis, non-interest income is expected to be down in high-single digits. This indicates lower operating lease gains and return to more normal level of activity in consumer mortgage.

Moreover, non-interest expenses are anticipated to be down in low-single digits sequentially.

NCOs are expected to be at the lower end of the 50-60 bps range.

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 06/2020

Report Date	Jul 22, 2020
Sales Surprise	6.72%
EPS Surprise	6.67%
Quarterly EPS	0.16
Annual EPS (TTM)	1.24

Recent News

Dividend Update

On Jul 8, KeyCorp announced a quarterly cash dividend of 18.5 cents per share. The dividend will be paid out on Sep 15 to shareholders of record as of Sep 1.

Valuation

KeyCorp's shares are down 38.7% in the year-to-date period and 31.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 17.7% and 21.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 25.5% and 13.6%, respectively.

The S&P 500 index is up 2% in the year-to-date period and 9.3% in the past year.

The stock is currently trading at 11.89X forward 12 months earnings, which compares to 13.43X for the Zacks sub-industry, 16.55X for the Zacks sector and 23.05X 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 10.93X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 12.50X 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	11.89	13.43	16.55	23.05
	5-Year High	16.7	14.2	16.55	23.05
	5-Year Low	4.32	8.01	11.59	15.25
	5-Year Median	10.93	11.31	14.16	17.52
P/TB TTM	Current	0.96	1.53	3.36	12.94
	5-Year High	2.16	2.68	4	12.94
	5-Year Low	0.66	1.21	2.01	5.96
	5-Year Median	1.54	2.11	3.48	9.51
P/S F12M	Current	1.89	2.77	6.04	3.62
	5-Year High	4.07	4.59	6.66	3.62
	5-Year Low	1.21	2.39	4.96	2.53
	5-Year Median	2.74	3.59	6.06	3.02

As of 07/23/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Associated BancCorp (ASB)	Neutral	3
BankUnited, Inc. (BKU)	Neutral	3
Comerica Incorporated (CMA)	Neutral	3
Huntington Bancshares Incorporated (HBAN)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	4
Regions Financial Corporation (RF)	Neutral	4
Fifth Third Bancorp (FITB)	Underperform	4

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	KEY	X Industry	S&P 500	BKU	FITB	MTB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	F	C	D
Market Cap	12.10 B	32.35 B	22.58 B	1.75 B	13.81 B	13.47 B
# of Analysts	10	8	14	8	8	8
Dividend Yield	5.96%	4.29%	1.81%	4.85%	5.57%	4.19%
Value Score	C	-	-	D	C	C
Cash/Price	0.50	1.15	0.06	0.46	0.75	0.90
EV/EBITDA	8.04	3.09	13.13	10.51	5.16	3.09
PEG Ratio	2.06	2.22	3.04	8.13	1.76	4.24
Price/Book (P/B)	0.77	0.83	3.15	0.70	0.67	0.92
Price/Cash Flow (P/CF)	5.72	6.21	12.33	5.17	5.34	6.21
P/E (F1)	16.12	14.55	22.09	21.95	14.48	11.92
Price/Sales (P/S)	1.61	1.70	2.41	1.26	1.50	2.03
Earnings Yield	6.12%	6.88%	4.30%	4.54%	6.90%	8.39%
Debt/Equity	0.88	0.88	0.76	2.04	0.79	0.43
Cash Flow (\$/share)	2.17	6.63	7.01	3.67	3.64	16.90
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	13.97%	12.36%	10.82%	11.94%	13.28%	17.81%
Proj. EPS Growth (F1/F0)	-52.48%	-45.12%	-9.01%	-72.40%	-51.62%	-35.93%
Curr. Cash Flow Growth	-3.09%	2.66%	5.47%	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	0.92	0.90	1.31	0.93	0.90	1.02
Debt/Capital	43.91%	44.79%	44.41%	67.15%	42.23%	28.39%
Net Margin	15.85%	18.16%	10.46%	15.57%	16.55%	22.36%
Return on Equity	8.52%	8.52%	15.13%	7.67%	7.37%	10.22%
Sales/Assets	0.05	0.05	0.54	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	1.44%	-1.94%	-2.06%	-1.94%	-9.29%	-3.67%
Momentum Score	A	-	-	F	A	A
Daily Price Chg	3.68%	1.41%	-0.20%	2.49%	-0.08%	1.51%
1 Week Price Chg	1.21%	-1.05%	3.82%	0.90%	2.01%	-1.05%
4 Week Price Chg	-3.87%	-2.73%	6.02%	-7.01%	-5.34%	-0.13%
12 Week Price Chg	6.52%	0.74%	10.03%	-4.29%	3.83%	-6.32%
52 Week Price Chg	-31.51%	-27.05%	-2.89%	-44.42%	-34.35%	-35.71%
20 Day Average Volume	10,917,086	5,820,133	2,026,477	1,371,415	6,415,951	764,633
(F1) EPS Est 1 week change	-1.28%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	16.67%	6.65%	0.15%	-4.03%	5.75%	12.43%
(F1) EPS Est 12 week change	7.84%	7.84%	-3.24%	-59.24%	1.30%	12.02%
(Q1) EPS Est Mthly Chg	42.86%	26.06%	0.00%	-1.75%	-10.46%	26.06%

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.

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	F
Momentum Score	A
VGM Score	D

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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