KAS BANK

Banks ▪ Netherlands

KEMPEN & CO
Merchant Bank

Initiating Coverage

KAS BANK is a provider of custodian and settlement services for financial institutions and institutional investors. We view KAS BANK as highly geared to a recovery of the equity markets, which might provide some short term relief if markets rally. Longer term however we think the company is challenged to grow beyond its legacy activities and Dutch-centric focus. We initiate coverage with a HOLD and a €9.40 12-month Price Target.

Fiscal Year	2007	2008E	2009E	2010E
Total revenues (€ m)	174.1	132.3	122.9	124.8
Adj. Net profit (€ m)	23.6	21.8	11.9	12.0
Adj. EPS (pre gw) (€)	1.58	1.47	0.81	0.81
EPS Change	25.0%	-6.9%	-44.9%	0.6%
BVPS (€)	16.05	11.41	11.77	12.01
DPS (€)	2.60	0.45	0.57	0.57
PE	15.6	6.5	11.7	11.7
Price to book	1.5	0.8	0.8	0.8
Cost / Income ratio	-53.5%	-73.6%	-81.4%	-82.4%
Dividend Yield	10.6%	4.7%	6.0%	6.0%
ROE	9.2%	11.6%	6.2%	6.1%

Source: Company Data, Kempen & Co Estimates

- We view KAS BANK as top-lined challenged but well capitalized, with a high tier I ratio of 15%. We view the company as attractively cash flow generative. Ultimately, we think that KAS BANK is a geared story on equity markets: transaction levels volatility, prices and leverage. We expect lower transaction levels, prices and volatility to keep revenues under pressure.

- KAS BANK is trying to extend their business beyond the current legacy activities of custodian, clearing and settlement. Management wants to expand their footprint into higher valued added activities like performance calculation and compliance services for asset managers. The visibility on earnings in these new activities is limited given the lack of disclosure. We believe the company will be challenged to grow beyond its home market.

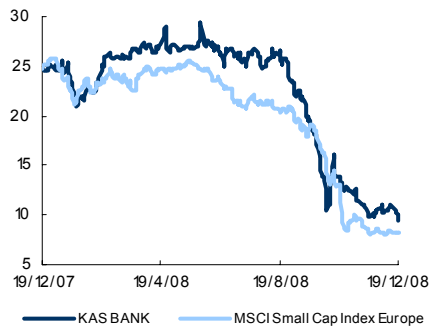
- We expect future earnings to fall back towards 2004 levels due to share price levels and the impact on KAS BANK's custody activities. We furthermore expect trading activity to fall back as a result of the decline of market volatility. Due to one-off write-downs this year on the company's investments we do not expect a final dividend. Going forward we expect the company to maintain its policy to pay out 60-80% of earnings.

- In our view KAS BANK is mainly exposed to equity market forces. Given the double gearing towards a recovery of the financial markets (and in particular the trading environment), KAS BANK could outperform on the short term. Rising equity markets increase the value of KAS BANK's stakes and revenues on the custody side as well. Longer term, however, we see more growth challenges than growth opportunities.

- Based on a blended average of p/book multiple and discounted cash flows, we come to a €9.40 price target corresponding to 0.77 times P/Book Value, and 11.6 times 2009e EPS.

Rating	**HOLD**
Price target *(12m)*	**€9.40**
Closing price *(19 December 2008)*	**€9.50**
Upside / downside	**-1.1%**
Date	**22 December 2008**

KA NA vs MSCI Small Cap Index Europe



Source: Factset

Price Performance (%)	-1m	-3m	-12m
Absolute	-4.0%	-51.2%	-61.8%
Rel. to MSCI Small Cap Index Europe	-1.8%	14.1%	16.7%

Source: Factset

Company data

52-Week range	€9.50 - 29.30
Market cap	€149.14m
Number of shares	15.7m
Free float	41%

Company data

Bloomberg / Reuters	KA NA / KA.AS

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