KAS Bank

Back on track

KAS Bank reported a 09H1 net profit of EUR 11.5m, 10% higher than our EUR 10.4m expected. Revenues are resilient due to a +40% yoy rise in interest income and despite -78% yoy decline in securities lending commissions. KAS will pay a EUR 0.33 interim dividend. Solvency is strong and risk control has improved. We increase our price target by EUR 1 to EUR 16 which is about 10x our 2010 EPS.

Forecast	2008	2009E	2010E	2011E
Net income (EUR m)	-39	24	25	27
EPS Published New (EUR)	-2.49	1.52	1.58	1.72
EPS Published Old (EUR)	-2.49	1.16	1.37	1.52
Dividend per share	0.45	0.80	0.95	1.03
Equity Per share	10.67	12.25	12.88	13.57
P/E	10.5	9.2	8.3	7.6
P/Equity	1.2	1.1	1.0	1.0
FCF Yield (%)	0	0	0	0
Dividend Yield (%)	3.4	6.1	7.3	7.9

Source: Company data, Rabo Securities *Year to December, fully diluted*

Revenues resilient and likely to improve

Total revenues were EUR 67m which is 2% higher than we expected and driven by 1) higher net interest income (+40% yoy) as net interest margins were resilient while we expected a decline and as clients continued to store excess liquidity at KAS (funds entrusted rose by 12% vs end 2008 to EUR 7.5bn) and 2) by lower securities lending commissions (EUR 2.9m down 78% yoy) as the willingness at pension funds to lend securities has been hurt by the crisis. We believe that this will only gradually improve when counterparty trust returns. Other commission income was down 3% yoy and we see more upside with rising stock markets. Costs were flat yoy and down 7% vs 08H2 despite higher costs in 09H1 related to the acquisition in Germany. Further upside to revenues comes from increased demand for valued added services such as risk management, reporting to regulators and from adding clients in Germany.

No more impairments in 09H1

Impairments in 09H1 were zero as the EUR 5m net IFRS impairments on own investments in 09Q1 were reversed in 09Q2. Shares NYSE rebounded in 09Q2 to the same level end 2008 but this goes through equity. The market values of the five perpetuals that KAS Bank owns in the available-for-sale portfolio have also significantly rebounded since 09Q1 and positive revaluations of those perpetuals goes through the P&L. As prices have further increased the positive P&L impact as of today is EUR 2m according to KAS Bank. Going forward we expect no further material losses in the AFS portfolio. About 90% of own investments is government guaranteed and rated Aaa/Aa3. Due to the low risk profile of own investments total RWA declined 17% tot EUR 779m. The Tier-1 ratio end 09H1 was 19% and we estimate an excess core capital buffer of EUR 80m end 2009.

Price target EUR 16 (10x 2010 EPS)

We estimate a 2010 EPS of EUR 1.58 so KAS is currently trading at 8.2x this 2010 EPS. For 09H2 we expect an EPS of EUR 0.79 and given a 60% pay-out ratio the dividend for FY 2009 is about EUR 0.8 so the dividend yield is 6%. We increase our price target by EUR 1 to EUR 16 (10x 2010 EPS) and keep our Hold recommendation as we believe that ING and Binck have more upside.

Rating	Hold
Price target (12m)	EUR 16.00
Price 20-Aug-2009	EUR 13.10
Up-/downside:	+22.1%

Financials

Netherlands

Market capitalisation
EUR 206m

Avg (3month) daily volume
31,959 shares

Reuters
KASNc.AS

Bloomberg
KASA NA

Web site
www.kasbank.nl

Share Price Performance %

	-1m	-3m	-12m
KAS Bank	+18.6	+9.8	-48.0
MSCI Europe	+6.3	+9.6	-16.0
MSCI Netherlands	+7.4	+11.9	-20.9

Agenda

Results 09FY	04 Mar 2010
AGM	21 Apr 2010
Ex Dividend	23 Apr 2010
Results 10H1	26 Aug 2010
Ex Dividend	27 Aug 2010

Analysts

Georg Krijgh
+31 20 460 4860
Georg.Krijgh@rabobank.com

Cor Kluis
+31 (0) 20 460 4870
Cor.Kluis@rabobank.com

Rabo Securities Amsterdam

Equity Sales + 31 20 460 4707
Equity Sales Trading +31 20 460 4723

www.rabosecurities.com

Please note the disclaimer on the last page of this document