ING WHOLESALE BANKING

Change in recommendation

**Banks** **Netherlands**

Previously: Hold

# KAS Bank

**Buy**

## Encouraging 1H09 results, upgrade to BUY

20/08/09

Previously: €10.0

**Reuters: KASNc.AS** **Price: €13.10** **12-mth target: €16.20**

- **KAS reported an encouraging set of 1H09 results. Net interest income was ahead of our forecasts and is likely to remain at elevated levels. Although commission income missed our estimates, we believe it has passed its trough given the strong commercial momentum. We raise our 2009F and 2010F EPS estimates by 40% and 52% to €1.36 and €1.48, respectively. Target price increased from €10.0 to €16.2; upgrade from Hold to BUY.**

**KAS reported encouraging 1H09 results.** Net profit of €11.4m (EPS €0.79) exceeded our forecast of €10.4m (EPS €0.69). These figures do not include one-off items, hence earnings quality looks sound (see Figure 9 for more detail). The interim dividend was set at €0.33, reflecting a payout ratio at the bottom of the 60-80% range.

**Net interest income beat our forecasts and should remain strong.** Net interest income was better than expected at €18.5m (INGF €14m) and is likely to remain strong in the coming quarters as a result of a more pro-active approach to managing the interest margin. In addition, KAS moved a larger part of its AFS portfolio into government securities (see Figure 4).

**Commission income mixed, but has passed its trough.** Commission income of €38m missed our forecast of €41m, with securities lending being the main culprit. Considering the lower market price levels and volumes, the other line items surprised positively. According to KAS, commercial momentum is gaining traction and this clearly shows in the results (see Figure 3).

**Expanding into Germany.** With the acquisition of Deutsche Postbank Private Investment KAG (PPI) for €13m or 1.3x book value, as announced in July 2009, we believe KAS has found an interesting entry point to expand into the extremely large German fund administration market. Together with the existing German fund business (acquired last year from Delta Lloyd), the activities remain small in KAS's bigger picture. However, we believe growth opportunities are abundant in this market (increase in regulatory scrutiny, focus on costs and transparency) and, as a result, KAS is likely to continue to explore and exploit those opportunities.

**Revising estimates and target price, upgrade to BUY.** Factoring in the 1H09 results and the increased net interest income expectations, we increase our EPS estimates to €1.36 in 2009F and €1.48 in 2010F (previously €0.97 and €0.98, respectively). Our target price increases from €10.0 to €16.2, implying KAS shares are able to trade at 8.9x our 2010F EPS estimate, compared with 11.7x historically. We base our TP on the average of our earnings-based valuation (€18.3) and discount tangible equity approach (€14.1). With capital markets stabilising in recent quarters and revenues proving resilient due to commercial momentum, we believe KAS is set for a re-rating and upgrade the stock from a Hold to a **BUY**.

**12-month forecast returns (%)**

| | |
|---|---|
| Share price | 23.7 |
| Dividend | 5.9 |
| **12m f'cst total return** | **29.6** |

**Forecasts and ratios**

| Yr to Dec (€m) | 2008 | 2009F |
|---|---|---|
| Total income | 132.3 | 129.6 |
| Net operating income | 25.0 | 27.1 |
| Net income | (39.9) | 20.3 |
| Adj EPS (€) | (2.70) | 1.36 |
| DPS (€) | 0.5 | 0.8 |
| Adj PER (x) | N/A | 9.6 |
| Dividend yield (%) | 3.4 | 5.9 |
| P/BVPS (x) | 1.2 | 1.1 |
| ROE (%) | N/A | 11.0 |

**Share data**

| | |
|---|---|
| No. of shares (m) | 15.7 |
| Daily turnover (shares) | 73,490 |
| Free float (%) | 35.7 |
| BVPS (€) | 11.3 |
| Market cap (€m) | 205.7 |

**Share price performance**

Source: ING

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