KeyCorp. (NYSE: KEY)
Sector: Financials

Target Price	Current Price	52 Week High	52 Week Low	P/B	Market Cap.	Dividend Yield	Beta
$25.21	$19.93	$22.40	$16.28	1.40x	$20.51 B	2.16%	1.23

Business Description
KeyCorp is a diversified financial services company that provides and commercial banking, commercial leasing, investment management, and investment banking for individual and corporate clients. They operate approximately 1,200 branches and 1,500 ATMs in 15 states, primarily concentrated in the Northeast and Northwest US. Currently, about 60% of revenue comes from the interest rate-sensitive Retail and Commercial Banking segment and the remaining 40% comes from the fee-based asset management and investment banking segment.

Industry Trends
The US regional banking sector is mature and highly saturated with players who dominate their home geographies. The industry is heavily impacted by interest rates, including 30-yr. mortgage rates, as well as aggregate debt levels in the economy. In 2018, US banks will benefit from several planned rate hikes by the Fed, as well as potential deregulation by Congress. KeyCorp (~$140B in assets) is at the midpoint of US regulatory spectrum, meaning they could see significant compliance cost savings if Congress raises the threshold for SIFI recognition.

Investment Thesis
We recommend KeyCorp because of (1) revenue gains from their recent acquisitions of First Niagara (FN) and Cain Brothers, (2) best-in-class investment banking (IB) capabilities among regional banks, (3) a burgeoning loan portfolio with low charge-off rates, and (4) a clear plan for operational improvement from management. First, KeyCorp continues to realize cost savings from its merger with FN ($50MM per annum.) and capitalize on advisory relationships from the health-care focused Cain Brothers. Next, we think KeyCorp's full suite of IB products, and its surging fee-based businesses, will drive long-term returns (Segment Rev. increased 25% in 2017). Finally, KeyCorp's loan portfolio has grown steadily through the current economic cycle (13% CAGR 2012-2017), while management has improved cash efficiency and returns on capital. We believe they will achieve their optimistic ROTCE goals as macro factors, such as rising rates and decreased regulation, provide near-term tailwinds.

Valuation Assumptions
Cost of Equity: 9.15%
Terminal Dividend Growth: 2.5%
Upside to Target Price: 26.5%

Key Financials
Current Stock Price: $19.93
Intrinsic Value: $25.21

Corporate Social Responsibility
ESG Disclosure Score: 35.5% (Industry Average: 16.1%)
Percent Women on Board: 29.4% (Industry Average: 23.6%)
ISS Governance Quickscore: 4 (Industry Average: 4)

5-Year Stock Performance

White: KEY, Green: S&P 500 Index (SPY)

Competitive Analysis
KeyCorp's closest regional competitors are Capital One, BB&T, US Bancorp, PNC Bank, and SunTrust Bank. Banks are poised to take advantage of the rising interest rate environment given that it will drive net interest margin expansion in the near term. Many of these companies operate in their distinct geographic footholds where they source a large amount of their loans. Many of their direct competitors stand to benefit less from the new Dodd-Frank asset thresholds given their larger size.

Competitive Advantages
The commercial banking industry is comprised of companies with similar business models that are sensitive to interest rates and experience higher profitability during times of tightening. KeyCorp has made strides in building out their fee-based offerings to insulate performance against economic downturns. With an extensive suite of product offerings, KeyCorp's investment banking and capital market capabilities allows them to develop lasting customer relationships and foster growth into the future.

Risks
We recognize a few key risks with an investment in KeyCorp. First, the firm has a scattered deposit base across the Northeast region and lacks dominance in any one state. We see the FN acquisition as an important mitigant: the deal increased overall deposits by 30% and thickened their coverage in NY, PA, CT, and MA. We also see risk in KeyCorp's sensitivity to interest rates and the credit cycle, and its expanding debt balance ($15B or 1.02x D/E). However, the firm's credit profile has been strong, the quality of their loans has been improving (NPLs as a % of overall loans is in decline), and all three ratings agencies maintain a stable outlook (Baa2).

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Sources: Bloomberg, Charles Schwab, JP Morgan, Annual reports