

KeyCorp

BofA Securities 2024 Financial Services Conference: Takeaways

Maintain Rating: BUY | PO: 16.00 USD | Price: 14.19 USD

Returning to offense mode

Chairman and CEO Chris Gorman sounded relatively upbeat as KEY gradually moves from having to play defense last year (RWA optimization, cost cuts) to offense. Fewer rate cuts a positive, below average commercial real estate (CRE) exposure and improving balance sheet positioning (L/D ratio 78%; CET1 capital building) also helpful. Net interest income (NII) outlook (10%+ YoY 4Q24) reiterated. While significant macro uncertainties persist, we view risk/reward as attractive for investors looking to add exposure to regional banks. Maintain Buy.

Focus on targeted scale

Mgmt. focused on targeted scale within select markets/verticals. Continues to lean-in on its West Coast markets with better demographics, market share opportunities. Mass affluent consumer seen as another area of opportunity. Sees negatives of crossing regulatory thresholds (such as \$250bn or \$700bn in assets) which would increase regulatory burden and still not solve for scale relative to the global systemically important banks (GSIB) banks.

NII resiliency despite zero-six rate-cuts

KEY positioned to hit its NII guidance despite a wide range of outcomes on Fed rate-cuts (zero to six). Goal is to run with a relatively neutral balance sheet. RWA optimization actions to remain a drag on loan growth 1H24 with a pick-up in 2H24 underpinning the flat YoY loan growth guidance for FY24.

CRE exposure contained

Non-owner occupied CRE 13% of loans; office CRE 0.7%; 3.1% in reserves held against non-owner occupied CRE; 2% against multifamily, 6% against office. Leverage loans less than 2%. KEY does not assume rent increases when underwriting multifamily loans; 60% loan-to-value at origination. CMBS servicing provides a unique lens with mgmt. observing downtick in migration of office loans into special servicing, multifamily rising.

Originate to sell model an advantage

Mgmt. had been focused on de-risking the business post-GFC. The underwrite to distribute model has allowed the bank to maintain client relationships but with only 18-20% of assets retained on balance sheet. While there remains a healthy debate on the potential for private credit to step-in and gain lending market share, the potential for banks to partner with private credit could allow for retention of client relationships whereby the bank could offer non-lending banking services.

IB recovery could drive upside surprise

Underearning from suppressed activity levels in M&A and syndication but pipelines strong with good start to 2024. Opportunity for stronger than expected investment banking (IB) activity to drive upside surprise to 5%+ YoY fee growth guidance. Emphasized the retention of key bankers and that recent cost cutting actions should not lead to revenue attrition. Relevant research: [KEY: Light at the end of the tunnel](#)

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Equity

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Stock Data

Price	14.19 USD
Price Objective	16.00 USD
Date Established	18-Jan-2024
Investment Opinion	C-1-8
52-Week Range	8.54 USD -18.85 USD
Mrkt Val / Shares Out (mn)	11,859 USD / 835.8
Free Float	99.6%
Average Daily Value	278.22 USD
BofA Ticker / Exchange	KEY / NYS
Bloomberg / Reuters	KEY US / KEY.N
ROE (2024E)	8.8%
ESGMeter™	High

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Relevant research: [4Q23 Earnings / CEO/CFO meeting takeaways: EPS power nearing inflection](#)

RWA: Risk Weighted Assets

CRE: Commercial Real Estate

Price objective basis & risk

KeyCorp (KEY)

Our \$16 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 15.0x/1.5x multiples, respectively, above the bank's 5 year pre pandemic median of 11.9x/1.4x given expected tailwinds from asset repricing, owing to the macro backdrop. Downside risks to our PO: higher for longer interest rate environment increasing deposit costs, greater than expected expenses, inability to maximize balance sheet efficiency, and the announcement of expensive deals. Upside risks: lower than expected credit losses and better than expected PPNR growth.

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KeyCorp (KEY) Price Chart



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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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