



KeyCorp (KEY)

Updated January 20th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	14.8%	Market Cap:	\$16.3 B
Fair Value Price:	\$24	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	2/27/23
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.1%	Dividend Payment Date:	3/15/23
Dividend Yield:	4.8%	5 Year Price Target	\$29	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Headquartered in Cleveland, Ohio, KeyCorp has been in business for over 190 years and is now one of the nation's largest bank-based financial services companies with \$190 billion in assets. The company operates in 15 states with approximately 1,300 ATMs and 1,000 full-service branches. KeyCorp works in personal, small business, commercial, and corporate banking along with wealth management. The \$16 billion market cap company employs over 17,000 people.

In mid-January, KeyCorp reported (1/19/23) financial results for the fourth quarter of fiscal 2022. The company grew its loans 18% over the prior year's quarter and enhanced its net interest margin from 2.44% to 2.73% thanks to higher interest rates. As a result, it grew its net interest income 19% but its earnings-per-share slumped -41%, from \$0.64 to \$0.38, and missed the analysts' consensus by \$0.19, mostly due to high provisions for loan losses and an increased cost of deposits amid higher interest rates. Due to these factors, KeyCorp exhibited much worse performance than most of its peers, which grew their net interest income significantly thanks to high interest rates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.93	\$1.04	\$1.05	\$0.80	\$1.28	\$1.70	\$1.61	\$1.26	\$2.62	\$1.92	\$2.00	\$2.43
DPS	\$0.22	\$0.25	\$0.29	\$0.33	\$0.38	\$0.57	\$0.71	\$0.74	\$0.75	\$0.79	\$0.82	\$1.05
Shares¹	891	859	836	1,079	1,069	1,020	977	975	929	934	925	850

In 2008 and 2009, as a result of the financial crisis, KeyCorp's earnings, dividend and share count were effectively rebased, undercutting the validity of looking at longer-term growth rates. Since then, KeyCorp had been getting back on track, with earnings-per-share growing by a 7.2% average annual rate from 2011 through 2019. However, 2020 proved to be a down year, with the COVID-19 pandemic calling into question the availability of liquidity and credit around the world. The good news is that U.S. banks, KeyCorp included, have recovered strongly from the pandemic.

Just like a bevy of other banks, KeyCorp has opportunities in the years ahead thanks to general economic growth and the aggressive interest rate hikes implemented by the Fed. KeyCorp is geographically diverse, operating from Maine to Alaska, but in just 15 states total. This insulates the firm from region specific declines, but also makes it harder to get critical mass and scale. We expect loan loss provisions to moderate in the upcoming years and thus we expect 4.0% average annual growth of earnings-per-share over the next five years off this year's somewhat low comparison base.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.0	13.0	13.3	15.9	14.3	11.6	10.9	10.9	8.1	10.4	8.5	12.0
Avg. Yld.	1.9%	1.8%	2.1%	2.6%	2.1%	2.9%	4.1%	5.4%	3.5%	4.0%	4.8%	3.6%

In the last decade, KeyCorp has traded at an average price-to-earnings ratio of 12.0. The stock is now trading at a nearly 10-year low price-to-earnings ratio of 8.5. Thanks to the interest rate hikes implemented by the Fed, we expect the stock

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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to revert to its average valuation level over the next five years. If this occurs, the stock will enjoy a 7.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	24%	24%	28%	41%	30%	34%	44%	59%	29%	41%	41%	43%

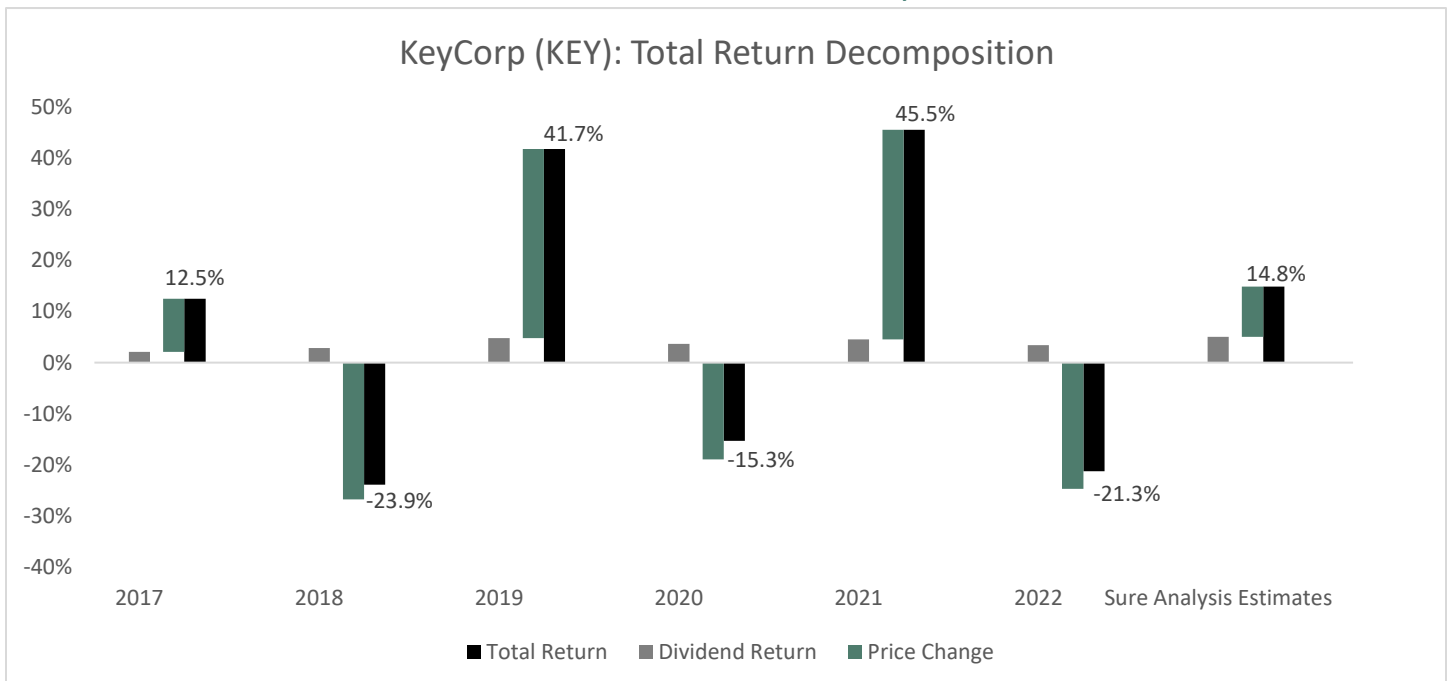
The financial crisis was harsh for all banks, but KeyCorp was severely hit. The above numbers do not quite tell the whole story, as the performance prior to the recession is not listed. From 2002 through 2007, KeyCorp was chugging along earning between \$2 and \$3 per share and paying out a dividend that topped out at \$1.50 on an annualized basis. When the crisis came, KeyCorp reported earnings-per-share of -\$3.36 and -\$2.27 in 2008 and 2009. The dividend was slashed to a penny per quarter and the share count more than doubled, from 389 million common shares outstanding in 2007 to 879 million by 2009. As we sit today, KeyCorp still hasn't reached its pre-recession marks. This is the sort of thing that can happen when you combine a true crisis with an unprepared business model.

Of course, the upside is that things are much better today as a result. All those years paying out 10% and 20% of earnings has led to a more conservative balance sheet and a strong base from which the company is growing again. While KeyCorp does not possess significant advantages over its many competitors, we believe KeyCorp has the ability to become stronger over the intermediate term.

Final Thoughts & Recommendation

The stock of KeyCorp has shed -31% over the last 12 months, much more than the broad market, mostly due to its sensitivity to recessions. The risk of an upcoming recession has increased due to the aggressive interest rate hikes of the Fed, but KeyCorp has become attractive from a long-term perspective. We expect 14.8% total return potential thanks to 4.0% earnings growth, a 4.8% dividend yield and the potential for a 7.1% annualized valuation tailwind. We are cautious on a few fronts: KeyCorp's history in lesser times, the company's stretched geographical footprint and the overall quality compared to a host of other possibilities in the sector. Shares receive a buy rating but only for patient investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,928	3,934	4,069	4,755	6,063	6,157	6,180	6,490	7,038	7,033
SG&A Exp.	1,699	1,688	1,770	2,221	2,572	2,603	2,469	2,541	2,812	2,780
D&A Exp.	221	246	247	314	407	382	241	111	32	
Net Profit	910	900	916	791	1,296	1,866	1,717	1,343	2,625	1,917
Net Margin	23.2%	22.9%	22.5%	16.6%	21.4%	30.3%	27.8%	20.7%	37.3%	27.3%
Free Cash Flow	1,447	1,223	1,056	1,544	1,703	2,407	2,821	1,610	1,087	
Income Tax	271	326	303	179	637	344	314	227	642	422

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	92.93	93.82	95.13	136.45	137.70	139.61	144.99	170.34	186.35	189.8
Cash & Equivalents	617	653	607	677	671	678	732	1091	913	887
Goodwill & Int.	1106	1158	1125	2830	2954	2832	2917	2852	2823	2,846
Total Liab. (\$B)	82.61	83.28	84.37	121.21	122.67	124.02	127.95	152.36	168.92	176.4
Long-Term Debt	7898	8203	10617	13072	14862	14177	13114	14470	12622	24,693
Total Equity	10012	10239	10456	13575	13998	14145	15138	16080	15523	10,954
D/E Ratio	0.77	0.78	0.99	0.86	0.99	0.91	0.77	0.80	0.72	1.84

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.0%	1.0%	1.0%	0.7%	0.9%	1.3%	1.2%	0.9%	1.5%	1.0%
Return on Equity	9.1%	8.9%	8.9%	6.6%	9.4%	13.3%	11.7%	8.6%	16.6%	14.5%
ROIC	5.1%	4.8%	4.5%	3.2%	4.4%	6.2%	5.7%	4.3%	8.4%	5.6%
Shares Out.	891	859	836	1,079	1,069	1,020	977	975	929	933
Revenue/Share	4.30	4.48	4.82	5.07	5.57	5.84	6.17	6.66	7.35	7.54
FCF/Share	1.59	1.39	1.25	1.65	1.56	2.28	2.81	1.65	1.14	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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