

8 **Credit Suisse – Kinner Lakhani, BUY, close CHF17.8, CHF21 tgt, 18% upside**

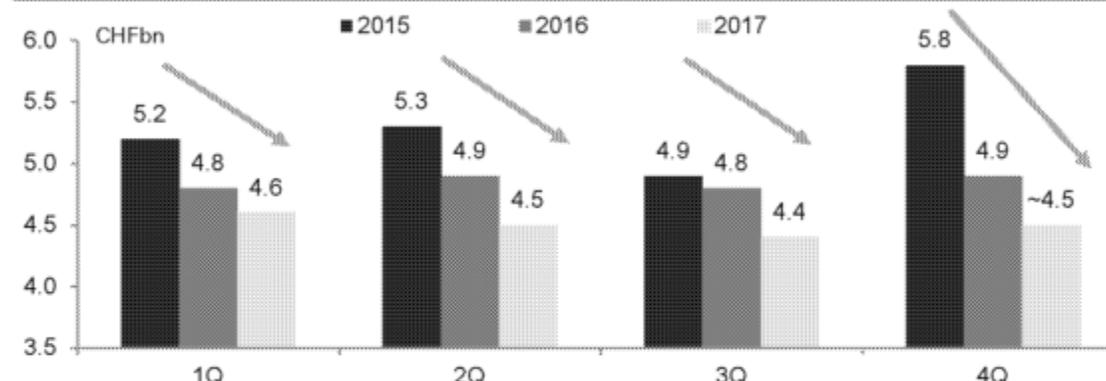
- **CS has superior Wealth Management operating momentum** of 13% CAGR PBT over the next 3 years supported by its Relationship Manager investments, One Bank strategy and strong cost control
- **It has strong cost control** with a targeted 2018 cost base of <CHF17bn, c20% down on 2015, with recent new guidance of CHF16.5-17bn over 2019-20.
- **Attractive capital return** based on c50% payout ratio through 2019 and 2020 – primarily through share buybacks and special dividends – implying a 'yield' of over 5-6%
- **There is upside potential to our forecasts.** This comes from three sources: (i) **Lower funding costs** of CHF1.1bn by 2019E (Dec-17 Investor Day), improving by CHF0.5bn vs. Dec-16 Investor Day (ii) **NII benefit from forward rate curves** of CHF0.45bn over 2018-20; and (iii) **Lower Group tax rate** of c23%, from c28%, in the event of **US tax reform**.
  - Lower tax alone could drive an earnings upgrade of c7% while better NII trends could drive a c10% upgrade. **This could increase our fair value of the stock from CHF21 to CHF24.**
- CS trades on only **c10x adj. 19E P/E** and 1.0x 19E P/TB, while offering a 10.5% 19E RoTE.
- Catalysts: US tax reform passage, further delivery towards targets

**Related DB Research:**

[Credit Suisse: From momentum to capital return \(Lakhani\)](#)

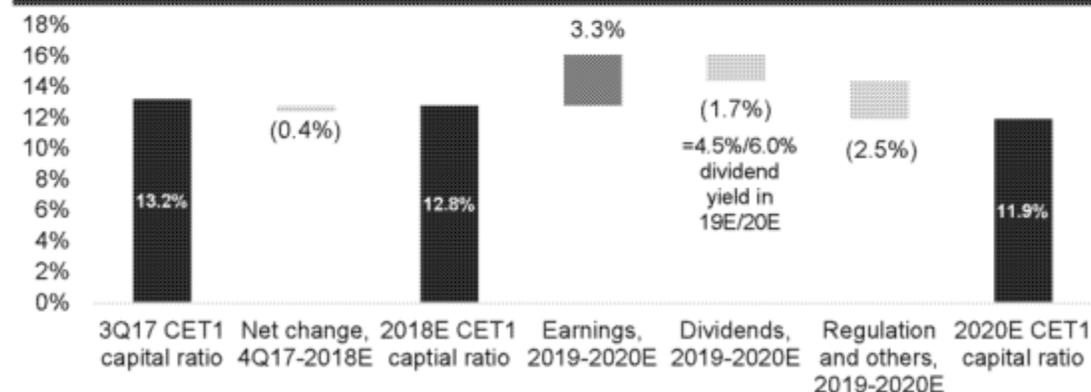
[European Banks Strategy: Road to Recovery – Intrinsic Value \(Lakhani\)](#)

**Quarterly adjusted cost trends show strong execution**



Source: Deutsche Bank ests, company data. Note: based on adj total operating expenses at constant FX rates, 4Q17 is a company est

**3Q17-2020E CET1 glide path: attractive capital return to come**



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