Banco Santander (SAN)

Updated February 17th, 2021 by Josh Arnold

Key Metrics

Current Price:	$3.56	**5 Year CAGR Estimate:**	3.0%	**Market Cap:**	$61 B
Fair Value Price:	$3.60	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$4	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Last Dividend Increase:**	N/A

Overview & Current Events

Banco Santander, headquartered in Madrid, Spain, is a diversified banking business with operations in Retail Banking, Santander Corporate and Investment Banking, Wealth Management, and Spain Real Estate Activity. The company is truly global, with a presence in Europe, North America, and South America. Santander's top markets by attributable profit include Brazil (26% of profit), Spain (17%), The United Kingdom (13%), Santander Consumer Finance (13%), Mexico (8%), Chile (6%), USA (5%), Portugal (5%), Poland (3%) and Argentina (1%). The $61 billion market capitalization company has 11,200 branches, with 191,000 employees serving tens of millions of customers around the globe. Santander reports results in euro, but all numbers for this report are in U.S. dollars.

Santander reported fourth quarter and full year results on February 3rd, 2021 with the bank capping what turned out to be a poor year due mostly to the COVID-19 pandemic. Total revenue for the year was roughly equal to 2019, but higher expenses meant that earnings declined. The company touted its high penetration levels with Fiat Chrysler's new car loan originations, which is a huge business for Santander, and noted its credit quality – while poor in 2020 – is improving. Still, earnings-per-share fell from 52 cents in 2019 to 32 cents on an adjusted basis in 2020. We expect 45 cents per share in earnings for 2021 on a rebound from what should be temporarily depressed credit conditions in 2020, although we note that Santander remains beholden to new car loan originations.

Further, Santander noted it had exhausted all of its previous share repurchase allocation per regulator rules on capital returns for banks. Santander can continue to repurchase shares for the time being in amounts that are equal to those issued for employee compensation, but no more.

In addition, the company noted it is still barred from paying cash dividends on common shares, and while it has appealed this rule for an exception – noting it is more than capable of affording a dividend with its current level of earnings and capital – it has no indication this exception will be granted.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.84	$0.29	$0.54	$0.64	$0.45	$0.45	$0.46	$0.53	$0.52	$0.32	***$0.45***	***$0.50***
DPS	$0.78	$0.79	$0.83	$0.73	$0.22	$0.22	$0.26	$0.27	$0.26	---	***---***	***$0.15***
Shares[1]	8,909	10,321	11,333	12,584	14,434	14,582	16,136	16,237	16,618	14,996	***15,000***	***15,000***

Note that all of the numbers in this report refer to the Banco Santander American Depository Receipts (ADRs) in USD, listed on the NYSE (ticker: SAN). Keep in mind that the Euro to USD exchange rate has varied over this time, going from roughly 1.3 or 1.4 Euro / USD from 2009 to 2014 to 1.1 or 1.2 Euro / USD from 2015 to 2020. Today, the exchange rate is 1.21 USD per Euro. The company had traditionally paid three cash dividends and one scrip dividend each year (which is why the share count rises over time). However, recent restrictions put into place by regulators have changed that, and the future of the company's share repurchases, and dividends is in some measure of doubt today.

[1] Share count in millions

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Santander's Latin America markets have higher growth rates than their European counterparts. Of course, this is also a point of risk as these markets are not as established and overall credit tends to be more finicky. Due to extremely low rates around the world, we are reiterating our growth forecast of 2% annually. Santander continues to struggle with rates and credit quality to an extent, and we don't see that changing given its focus on auto loan origination.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.1	27.8	16.6	13.3	11.0	11.6	14.3	8.5	8.5	8.3	***7.9***	***8.0***
Avg. Yld.	10.3%	9.8%	9.3%	8.6%	4.4%	4.2%	4.0%	6.0%	5.9%	---	***---***	***3.8%***

Santander has somewhat of a peculiar trading history, as the dividend was held relatively steady for years even after earnings collapsed. Eventually, the high dividend payment caught up with the firm and a dividend cut was required. As mentioned, the cash dividend has been suspended for 2020 and so far in 2021 for the same reasons. We see Santander as keen to resume paying its dividend once it is permitted to by the ECB.

Since the dividend cut shares have been trading in a more normalized range. Our fair value estimate is 8 times earnings, due to the obvious growth struggles the company is facing, in addition to the lateness of the global economic cycle. With shares trading at 7.9 times our earnings estimate, we see essentially no impact from the valuation on total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	93%	272%	154%	114%	49%	49%	57%	51%	50%	---	***---***	***30%***

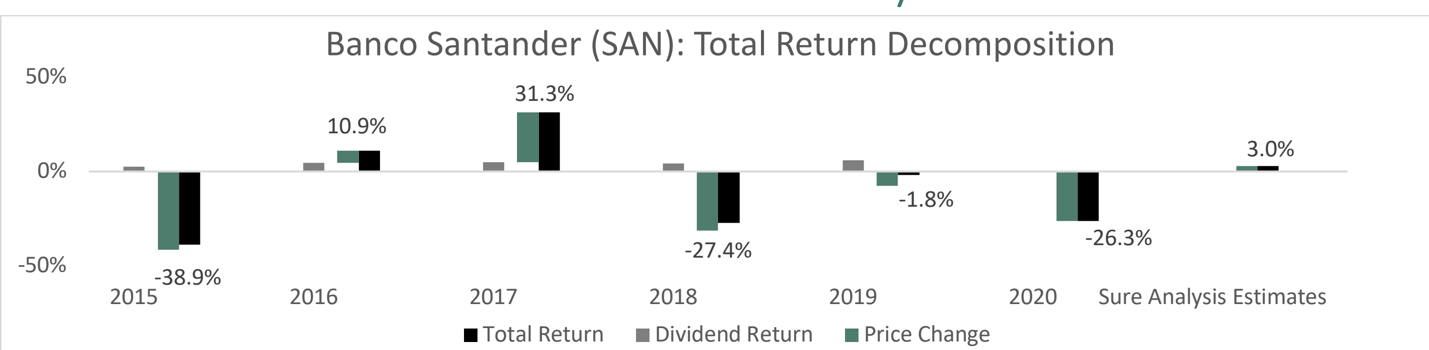
Santander has a few advantages over a typical bank, stemming from its top-five deposit market share in countries like Spain, Brazil, Mexico, Chile and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

Recession performance and its aftermath are noteworthy. Santander went from earning $1.79 per share in 2008 down to $0.84 in 2011 and $0.29 in 2012. Since then, earnings had rebounded, but not nearly to the same level. We believe Santander should have slashed the dividend much earlier. Despite the material and lasting impact to earnings, the dividend continued along until 2014. Those four years of a near (or well above) 100% payout ratio required significant dilutive action. We see 2020's recession as damaging as well, but a rather swift recovery into 2021.

Final Thoughts & Recommendation

We are forecasting 3% annual total returns going forward. We are reiterating Santander at a sell rating due to unattractive growth prospects and a risky business model. The stock no longer offers a dividend and Santander's balance sheet is overly leveraged, increasing risks during a time of economic uncertainty.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	70652	64580	62234	67078	53524	52466	59337	51617	50561
SG&A Exp.	30332	26250	26076	25137	19784	20184	23075	24742	23729
D&A Exp.	2925	2807	3175	3041	2683	2616	2937	2863	3360
Net Profit	7432	2935	5545	7734	6620	6866	7496	9222	7294
Net Margin	10.5%	4.5%	8.9%	11.5%	12.4%	13.1%	12.6%	17.9%	14.4%
Free Cash Flow	45324	26029	-50.5B	-20.1B	-3948	14923	35334	-10.3B	-12.0B
Income Tax	2447	751	2701	4944	2456	3632	4399	5769	4956

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	1620	1679	1541	1540	1465	1416	1733	1669	1706
Cash & Eq. ($B)	125	157	106	85	85	81	133	130	113
Goodwill & Int.	36376	37112	36235	36968	32176	31103	34411	32670	31014
Total Liab. ($B)	1516	1572	1431	1431	1357	1307	1605	1546	1582
Accounts Payable	2123	1926	1692	1786	---	1491	2218	1814	1891
Long-Term Debt	29782	24120	22286	---	---	---	---	---	---
Total Equity ($B)	96	95	97	98	96	96	113	110	112
D/E Ratio	0.31	0.25	0.23	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.5%	0.2%	0.3%	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%
Return on Equity	7.6%	3.1%	5.8%	7.9%	6.8%	7.1%	7.2%	8.2%	6.6%
ROIC	5.3%	2.2%	4.2%	6.4%	6.1%	6.3%	6.3%	7.3%	5.9%
Shares Out.	8,909	10,321	11,333	12,584	14,434	14,582	16,136	16,237	16,618
Revenue/Share	7.89	6.57	5.72	5.64	3.72	3.57	3.84	3.19	2.80
FCF/Share	5.06	2.65	-4.63	-1.69	-0.27	1.02	2.29	-0.64	-0.73

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

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