



# Banco Santander (SAN)

Updated February 8<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$3.81	<b>5 Year CAGR Estimate:</b>	2.5%	<b>Market Cap:</b>	\$61 B
<b>Fair Value Price:</b>	\$3.80	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	04/28/2022 <sup>1</sup>
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	05/04/2022
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$4.20	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 197,000 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 earnings on February 2<sup>nd</sup>, 2022, and results were better than expected. The bank said it was on track to reach its 2022 financial targets, although we're very early on in the year. It said expenses and return on equity looks good for hitting targets as it continues to improve on pandemic conditions. Q4 underlying profit before tax came to \$4.33 billion, which was up 0.6% quarter-over-quarter, and up 44% year-over-year. Net loan loss provisions came to a benefit of \$1.67 billion, down 44% from the year-ago period.

Earnings-per-share came to 14 cents in Q4, capping the year that finished with 53 cents in earnings-per-share. We see that number as difficult to replicate given the massive loan loss provision benefits that fueled it. Our initial estimate is therefore 47 cents for this year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$0.29	\$0.54	\$0.64	\$0.45	\$0.45	\$0.46	\$0.53	\$0.52	\$0.32	\$0.53	<b>\$0.47</b>	<b>\$0.52</b>
<b>DPS</b>	\$0.79	\$0.83	\$0.73	\$0.22	\$0.22	\$0.26	\$0.27	\$0.26	---	\$0.06	<b>\$0.12</b>	<b>\$0.13</b>
<b>Shares<sup>2</sup></b>	10,321	11,333	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063	<b>17,000</b>	<b>17,000</b>

Note that all 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 1.14 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. The dividend has been restarted, but it is quite variable in both amount and timing, and therefore difficult to predict.

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.

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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The early-2022 acquisition of Santander Consumer USA should help fuel consumer loan growth in the US in the years to come as well after synergies can begin to be realized.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	27.8	16.6	13.3	11.0	11.6	14.3	8.5	8.5	8.3	6.8	8.1	8.0
Avg. Yld.	9.8%	9.3%	8.6%	4.4%	4.2%	4.0%	6.0%	5.9%	---	1.6%	3.1%	3.2%

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 was suspended for 2020. The dividend is back, but we note the payout is variable.

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 8.1 times our earnings estimate, we see essentially no impact from the valuation on total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	272%	154%	114%	49%	49%	57%	51%	50%	---	11%	26%	26%

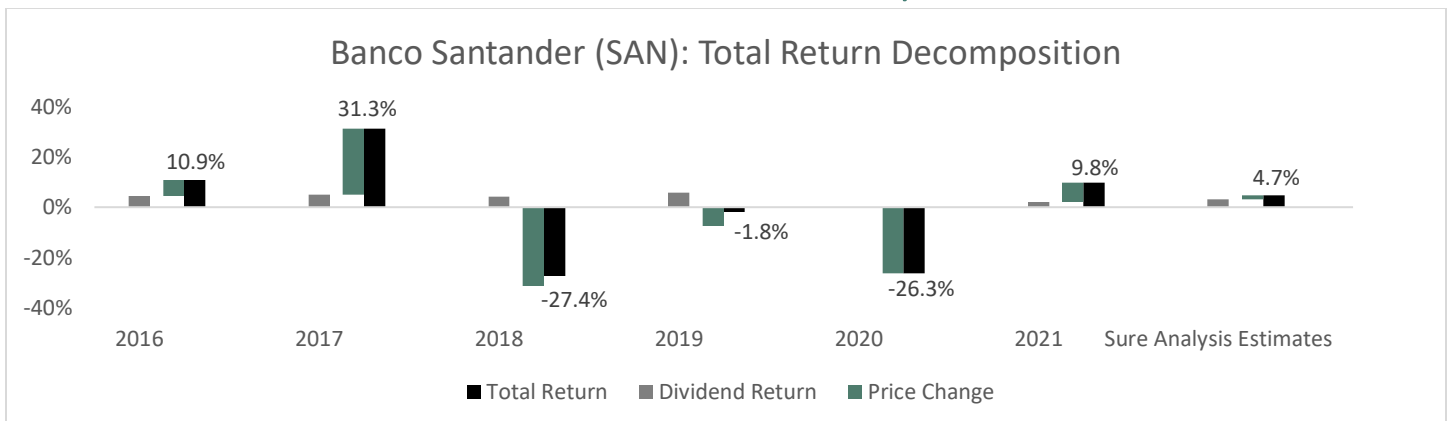
Santander has a few advantages over a typical bank, stemming from its top-five deposit market share in countries like Spain, Brazil, Mexico, Chile, and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

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 has given way to what should be normalized earnings for 2022.

## Final Thoughts & Recommendation

We are forecasting 4.7% annual total returns going forward. We see Santander as a hold due to unattractive growth prospects, but a decent projected yield. Santander is a riskier bank to own and given that the stock is fairly valued, we don't find it particularly attractive today.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	65,553	62,795	62,893	52,610	50,608	56,762	58,703	58,574	53,461	57,323
<b>SG&amp;A Exp.</b>	28,713	28,705	23,188	20,832	20,202	22,443	23,377	22,118	20,922	22,077
<b>D&amp;A Exp.</b>	2,807	3,175	3,041	2,683	2,616	2,937	2,863	3,360	3,209	---
<b>Net Profit</b>	2,935	5,545	7,734	6,620	6,866	7,496	9,222	7,294	-10,017	9,612
<b>Net Margin</b>	4.5%	8.8%	12.3%	12.6%	13.6%	13.2%	15.7%	12.5%	-18.7%	16.8%
<b>Free Cash Flow</b>	26,029	-50,458	-20,055	-3,948	14,923	35,334	-10,366	-12,039	65,818	---
<b>Income Tax</b>	751	2,701	4,944	2,456	3,632	4,399	5,769	4,956	6,432	5,790

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets (\$B)</b>	1679	1541	1540	1465	1416	1733	1669	1706	1855	1807
<b>Cash &amp; Eq. (\$B)</b>	157	107	102	105	104	164	160	144	213	320
<b>Goodwill &amp; Int.</b>	37112	36235	36968	32176	31103	34411	32670	31014	19,566	18,777
<b>Total Liab. (\$B)</b>	1572	1431	1431	1357	1307	1605	1546	1582	1,743	1,697
<b>Accounts Payable</b>	1926	1692	1786	---	1491	2218	1814	1891	2,457	---
<b>LT Debt (\$B)</b>	297	265	260	247	242	261	282	293	289	279
<b>Total Equity (\$B)</b>	95	97	98	96	96	113	110	112	100	98
<b>LTD/E Ratio</b>	3.12	2.72	2.64	2.57	2.52	2.31	2.56	2.62	2.89	2.83

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	0.2%	0.3%	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%	-0.6%	0.5%
<b>Return on Equity</b>	3.1%	5.8%	7.9%	6.8%	7.1%	7.2%	8.2%	6.6%	-9.4%	9.7%
<b>ROIC</b>	2.2%	4.2%	6.4%	6.1%	6.3%	6.3%	7.3%	5.9%	-2.4%	2.4%
<b>Shares Out.</b>	10,321	11,333	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063
<b>Revenue/Share</b>	6.57	5.72	5.64	3.72	3.57	3.84	3.19	2.80	3.28	3.08
<b>FCF/Share</b>	2.65	-4.63	-1.69	-0.27	1.02	2.29	-0.64	-0.73	4.04	---

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

### Disclaimer

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