Banco Santander (SAN)

Updated November 13th, 2022, by Josh Arnold

Key Metrics

Current Price:	$2.65	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$44 B
Fair Value Price:	$3.58	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	01/28/2023[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.2%	**Dividend Payment Date:**	02/04/2023
Dividend Yield:	4.2%	**5 Year Price Target**	$3.58	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $44 billion market capitalization company has 11,200 branches, with 198,000 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 third quarter earnings on October 26th, 2022, and results were strong. Earnings-per-share came to 14 cents for the quarter. Revenue was up 13% year-over-year to $14 billion.

Profit was $2.5 billion, which included a charge of about $200 million net of tax for the company's mortgage business in Poland. That was 3% higher, and would have been 11% higher without the $200 million charge. The bank said profits are up 25% so far for the year. Santander has been a beneficiary of the weaker Euro against other currencies as results in constant currency are much weaker than reported.

Santander said it has a share repurchase program of about $1 billion underway, just over 2% of the float.

Loan volumes were up 2% during the quarter and customer funds were up 3%.

We see 55 cents in earnings-per-share for this year after decent Q3 earnings.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.29	$0.54	$0.64	$0.45	$0.45	$0.46	$0.53	$0.52	$0.32	$0.53	***$0.55***	***$0.55***
DPS	$0.79	$0.83	$0.73	$0.22	$0.22	$0.26	$0.27	$0.26	---	$0.06	***$0.11***	***$0.12***
Shares[2]	10,321	11,333	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063	***17,000***	***17,000***

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. Today, the exchange rate is 1.04 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). The company's earnings have stabilized, which is putting the future of capital returns in a better spot. The dividend has been restarted, but it is quite variable in both amount and timing, and therefore difficult to predict. Share repurchases have resumed as well.

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. We continue to see 0% earnings growth ahead. 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.

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[1] Estimated date

[2] 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	***4.8***	***6.5***
Avg. Yld.	9.8%	9.3%	8.6%	4.4%	4.2%	4.0%	6.0%	5.9%	---	1.6%	***4.2%***	***3.4%***

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 6.5 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 just 4.8 times our earnings estimate, we see a massive tailwind on total returns in the coming years from the valuation.

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%	***20%***	***22%***

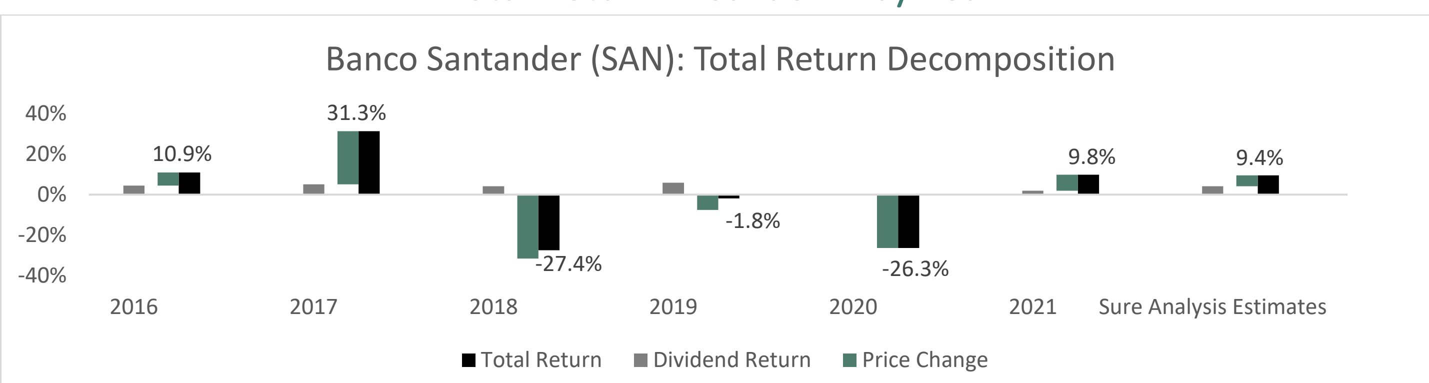
Santander has a few advantages over a typical bank, stemming from its top-five deposit market share in countries like Spain, Brazil, Mexico, Chile, and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

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 9.4% annual total returns going forward. We see Santander as a hold due to unattractive growth prospects, but a decent projected yield and very low valuation. Santander is a risky bank to own, but 0% growth is made up for with a 4.2% yield and 6.2% valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	65,553	62,795	62,893	52,610	50,608	56,762	58,703	58,574	53,461	57,323
SG&A Exp.	28,713	28,705	23,188	20,832	20,202	22,443	23,377	22,118	20,922	22,077
D&A Exp.	2,807	3,175	3,041	2,683	2,616	2,937	2,863	3,360	3,209	3,261
Net Profit	2,935	5,545	7,734	6,620	6,866	7,496	9,222	7,294	-10,017	9,612
Net Margin	4.5%	8.8%	12.3%	12.6%	13.6%	13.2%	15.7%	12.5%	-18.7%	16.8%
Free Cash Flow	26,029	-50,458	-20,055	-3,948	14,923	35,334	-10,366	-12,039	65,818	53,584
Income Tax	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
Total Assets ($B)	1679	1541	1540	1465	1416	1733	1669	1706	1855	1807
Cash & Eq. ($B)	157	107	102	105	104	164	160	144	213	320
Goodwill & Int.	37112	36235	36968	32176	31103	34411	32670	31014	19,566	18,777
Total Liab. ($B)	1572	1431	1431	1357	1307	1605	1546	1582	1,743	1,697
Accounts Payable	1926	1692	1786	---	1491	2218	1814	1891	2,457	2,717
LT Debt ($B)	297	265	260	247	242	261	282	293	289	279
Total Equity ($B)	95	97	98	96	96	113	110	112	100	98
LTD/E Ratio	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
Return on Assets	0.2%	0.3%	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%	-0.6%	0.5%
Return on Equity	3.1%	5.8%	7.9%	6.8%	7.1%	7.2%	8.2%	6.6%	-9.4%	9.7%
ROIC	2.2%	4.2%	6.4%	6.1%	6.3%	6.3%	7.3%	5.9%	-2.4%	2.4%
Shares Out.	10,321	11,333	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063
Revenue/Share	6.57	5.72	5.64	3.72	3.57	3.84	3.19	2.80	3.28	3.08
FCF/Share	2.65	-4.63	-1.69	-0.27	1.02	2.29	-0.64	-0.73	4.04	3.09

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