



Banco Santander (SAN)

Updated May 1st, 2023, by Josh Arnold

Key Metrics

Current Price:	\$3.47	5 Year CAGR Estimate:	9.7%	Market Cap:	\$57 B
Fair Value Price:	\$4.42	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	04/25/2023
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	5.0%	Dividend Payment Date:	05/02/2023
Dividend Yield:	3.5%	5 Year Price Target	\$4.88	Years Of Dividend Growth:	2
Dividend Risk Score:	C	Retirement Suitability Score:	C	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 \$57 billion market capitalization company has 11,000+ branches, with 206,000 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 first quarter earnings on April 25th, 2023, and results were quite strong. The bank posted revenue that was 17% higher year-over-year to nearly \$11 billion. Total income was up 13% year-over-year at more than \$14 billion. Earnings-per-share came to 17 cents. Active customers were 99 million, which was +2 million year-over-year. Its efficiency ratio also improved fractionally, which helped with margins.

Nonperforming loans were 3.05%, which was down slightly year-over-year, but extremely high by the standards of Santander's US competitors, so credit quality remains a concern. Total loan loss reserves were ~\$26 billion, and a total coverage ratio of impaired assets of 68%. Net interest income was up 17%, driven by higher volumes and higher lending interest rates. Net fee income was up 8% year-over-year. Forex translation was a 1% headwind to revenue.

Deposits were \$1.1 trillion, up 6% year-over-year. Over 80% of the bank's deposits from individuals are covered by deposit insurance funds. We see 68 cents per share in earnings for this year after a good start in Q1.

The bank also boosted its dividend for a total payout of 12 cents per share for this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.54	\$0.64	\$0.45	\$0.45	\$0.46	\$0.53	\$0.52	\$0.32	\$0.53	\$0.58	\$0.68	\$0.75
DPS	\$0.83	\$0.73	\$0.22	\$0.22	\$0.26	\$0.27	\$0.26	---	\$0.06	\$0.11	\$0.12	\$0.13
Shares¹	11,333	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063	16,551	16,450	16,000

Note that all the numbers in this report refer to the Banco Santander American Depositary 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 1.10 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 see 2% earnings

¹ Share count 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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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.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.6	13.3	11.0	11.6	14.3	8.5	8.5	8.3	6.8	5.1	5.1	6.5
Avg. Yld.	9.3%	8.6%	4.4%	4.2%	4.0%	6.0%	5.9%	---	1.6%	3.7%	3.5%	2.7%

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 5.1 times our earnings estimate, we see a tailwind on total returns in the coming years from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	154%	114%	49%	49%	57%	51%	50%	---	11%	19%	18%	18%

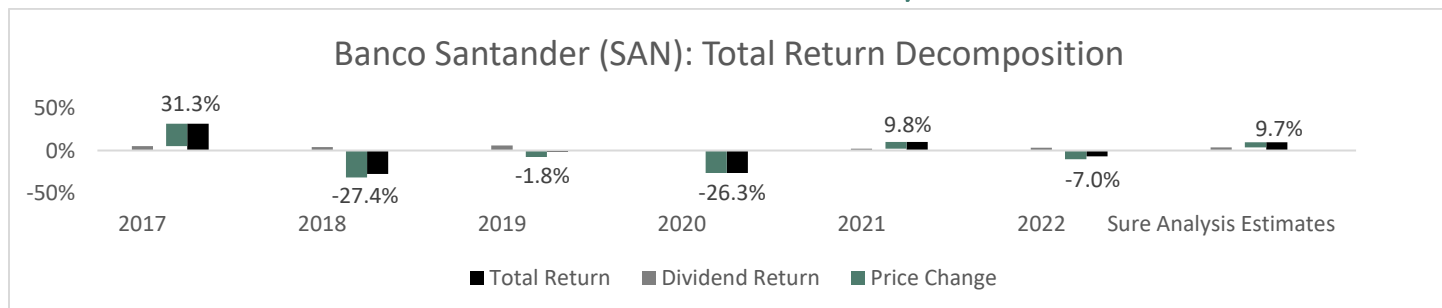
Santander has a few advantages over a typical bank, stemming from its top-five deposit market share in countries like Spain, Brazil, Mexico, Chile, and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

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 have rebounded, but not nearly to the same level. We believe Santander should have slashed the dividend much earlier. Despite the material and lasting impact on 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 strong, record earnings.

Final Thoughts & Recommendation

We are forecasting 9.7% annual total returns going forward. We see Santander as a hold due to unattractive growth prospects, but a decent projected yield and low valuation. Santander is a risky bank to own, but 2% growth is made up for with a 3.5% yield and 5% valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	62,795	62,893	52,610	50,608	56,762	58,703	58,574	53,461	57,323	57,183
SG&A Exp.	28,705	23,188	20,832	20,202	22,443	23,377	22,118	20,922	22,077	21,471
D&A Exp.	3,175	3,041	2,683	2,616	2,937	2,863	3,360	3,209	3,261	---
Net Profit	5,545	7,734	6,620	6,866	7,496	9,222	7,294	-10,017	9,612	10,129
Net Margin	8.8%	12.3%	12.6%	13.6%	13.2%	15.7%	12.5%	-18.7%	16.8%	17.7%
Free Cash Flow	-50,458	-20,055	-3,948	14,923	35,334	-10,366	-12,039	65,818	53,584	---
Income Tax	2,701	4,944	2,456	3,632	4,399	5,769	4,956	6,432	5,790	4,731

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	1541	1540	1465	1416	1733	1669	1706	1855	1807	1860
Cash & Eq. (\$B)	107	102	105	104	164	160	144	213	320	336
Goodwill & Int.	36235	36968	32176	31103	34411	32670	31014	19,566	18,777	19,995
Total Liab. (\$B)	1431	1431	1357	1307	1605	1546	1582	1,743	1,697	1,756
Accounts Payable	1692	1786	---	1491	2218	1814	1891	2,457	2,717	---
LT Debt (\$B)	265	260	247	242	261	282	293	289	279	301
Total Equity (\$B)	97	98	96	96	113	110	112	100	98	96
LTD/E Ratio	2.72	2.64	2.57	2.52	2.31	2.56	2.62	2.89	2.83	3.15

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.3%	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%	-0.6%	0.5%	0.6%
Return on Equity	5.8%	7.9%	6.8%	7.1%	7.2%	8.2%	6.6%	-9.4%	9.7%	10.4%
ROIC	4.2%	6.4%	6.1%	6.3%	6.3%	7.3%	5.9%	-2.4%	2.4%	2.6%
Shares Out.	11,333	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063	17,787
Revenue/Share	5.72	5.64	3.72	3.57	3.84	3.19	2.80	3.28	3.08	3.21
FCF/Share	-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.

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