



# Banco Santander (SAN)

Updated October 30<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

|                             |        |                                            |        |                                  |            |
|-----------------------------|--------|--------------------------------------------|--------|----------------------------------|------------|
| <b>Current Price:</b>       | \$3.61 | <b>5 Year CAGR Estimate:</b>               | 9.4%   | <b>Market Cap:</b>               | \$59 B     |
| <b>Fair Value Price:</b>    | \$4.55 | <b>5 Year Growth Estimate:</b>             | 2.0%   | <b>Ex-Dividend Date:</b>         | 10/31/2023 |
| <b>% Fair Value:</b>        | 79%    | <b>5 Year Valuation Multiple Estimate:</b> | 4.7%   | <b>Dividend Payment Date:</b>    | 11/07/2023 |
| <b>Dividend Yield:</b>      | 3.3%   | <b>5 Year Price Target</b>                 | \$5.02 | <b>Years Of Dividend Growth:</b> | 2          |
| <b>Dividend Risk Score:</b> | C      | <b>Retirement Suitability Score:</b>       | C      | <b>Rating:</b>                   | 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 \$59 billion market capitalization company has 11,000+ branches, with ~200,000 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 posted third quarter earnings on October 25<sup>th</sup>, 2023, and results were quite strong. Attributable profit rose 26% year-over-year as the company posted strong growth in revenue, particularly in Europe and Mexico. Net interest income was up 16%, reflecting growth in customer activity with nine million customers added year-over-year. In addition, positive balance sheet sensitivity to higher interest rates in Europe and Mexico.

Net fee income rose 6%, with CIB adding 15% year-over-year, and PagoNxt adding 12%. Revenue was up 13%, supported by income growth in all regions, and strong growth in global businesses like Wealth Management and Insurance.

Santander's efficiency ratio improved to 44% of revenue, driven by the company's transformation efforts to save money. Loan loss provisions continue to normalize as higher rates and inflation are normalizing.

Attributable profit was \$3.7 billion, up 26% year-over-year, and up 20% in constant currencies. We now see 70 cents in earnings-per-share for this year.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$0.54 | \$0.64 | \$0.45 | \$0.45 | \$0.46 | \$0.53 | \$0.52 | \$0.32 | \$0.53 | \$0.58 | <b>\$0.70</b> | <b>\$0.77</b> |
| <b>DPS</b>                | \$0.83 | \$0.73 | \$0.22 | \$0.22 | \$0.26 | \$0.27 | \$0.26 | ---    | \$0.06 | \$0.11 | <b>\$0.12</b> | <b>\$0.13</b> |
| <b>Shares<sup>1</sup></b> | 11,333 | 12,584 | 14,434 | 14,582 | 16,136 | 16,237 | 16,618 | 17,312 | 17,063 | 16,551 | <b>16,450</b> | <b>16,000</b> |

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 1.06 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 growth ahead. Santander continues to struggle with rates and credit quality to an extent, and we don't see that

<sup>1</sup> Share count in millions

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changing given its focus on auto loan origination. However, efficiency efforts are yielding higher margins, and therefore, higher earnings.

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  | 5.2  | 6.5  |
| Avg. Yld. | 9.3% | 8.6% | 4.4% | 4.2% | 4.0% | 6.0% | 5.9% | ---  | 1.6% | 3.7% | 3.3% | 2.6% |

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 5.2 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%  | 17%  | 17%  |

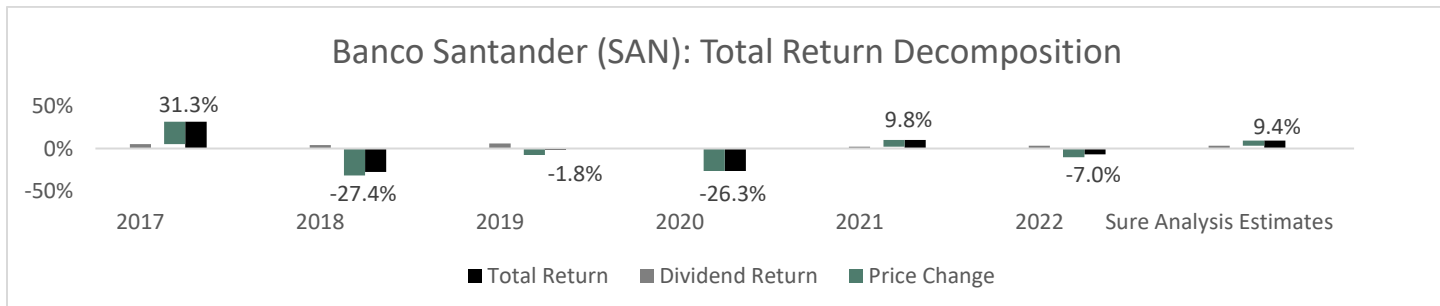
Santander has a few advantages over a typical bank, stemming from its top-five deposit market share in countries like Spain, Brazil, Mexico, Chile, and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

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 9.4% 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 3.3% yield and 4.7% 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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