Banco Santander (SAN)

Updated November 8th, 2024, by Josh Arnold

Key Metrics

Current Price:	$4.85	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$75 B
Fair Value Price:	$5.14	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	01/31/2025[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	02/06/2025
Dividend Yield:	4.3%	**5 Year Price Target**	$5.14	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**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 $75 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 its third quarter trading update on October 29th, 2024, and results showed continued progress on key metrics. Net interest income was up 8% year-over-year to $37.4 billion, which was driven by growth in all of the company's geographic segments. Net fee income was up 5%, which was due to higher customer transaction activity in its global businesses.

Efficiency was better as well with the company's efficiency ratio coming to 41.7%, attributable to the bank's continued efforts in cost management. A lower efficiency ratio is better for profits.

Loan loss provisions were up 2% but the bank noted it is happy with its credit quality. Non-performing loans were 3.06% of total loans, a fractional improvement year-over-year. Loans were up 1% in constant euros, ending the quarter at $1.09 trillion. Deposits were up 3% in constant euros to outpace growth in loans.

Operating profit was up 12% year-over-year in the third quarter to $3.5 billion. For the nine months, it was just over $10 billion. We now estimate 79 cents in adjusted earnings-per-share for this year with one quarter to go.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.64	$0.45	$0.45	$0.46	$0.53	$0.52	$0.32	$0.53	$0.58	$0.71	***$0.79***	***$0.79***
DPS	$0.73	$0.22	$0.22	$0.26	$0.27	$0.26	---	$0.06	$0.11	$0.15	***$0.21***	***$0.23***
Shares[2]	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063	16,551	15,886	***15,800***	***15,000***

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 1.09 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. It's also paid semi-annually. 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 no earnings growth ahead. Santander continues to struggle with rates and credit quality to an extent, and we don't see that

[1] Estimated date

[2] 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.

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

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.3	11.0	11.6	14.3	8.5	8.5	8.3	6.8	5.1	5.8	***6.1***	***6.5***
Avg. Yld.	8.6%	4.4%	4.2%	4.0%	6.0%	5.9%	---	1.6%	3.7%	3.6%	***4.3%***	***4.5%***

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

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	114%	49%	49%	57%	51%	50%	---	11%	19%	21%	***27%***	***29%***

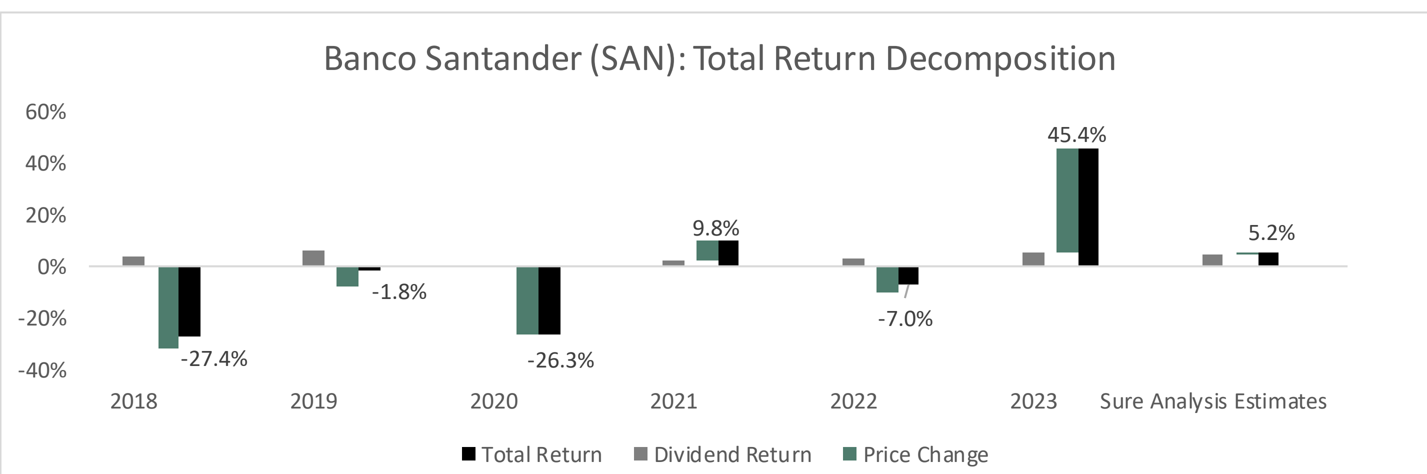
Santander has a few advantages over a typical bank, stemming from its top five deposit market share in countries like Spain, Brazil, Mexico, Chile, and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

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 gave way to strong earnings.

Final Thoughts & Recommendation

We are forecasting 5.2% annual total returns going forward. We see Santander as a hold with little growth prospects, a strong yield, and attractive valuation. Santander is a risky bank to own, and after Q3 results, we see the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	62,893	52,610	50,608	56,762	58,703	58,574	53,461	57,323	57,183	64,516
SG&A Exp.	23,188	20,832	20,202	22,443	23,377	22,118	20,922	22,077	21,471	24,078
D&A Exp.	3,041	2,683	2,616	2,937	2,863	3,360	3,209	3,261	3,148	3,447
Net Profit	7,734	6,620	6,866	7,496	9,222	7,294	-10,017	9,612	10,129	11,991
Net Margin	12.3%	12.6%	13.6%	13.2%	15.7%	12.5%	-18.7%	16.8%	17.7%	18.6%
Free Cash Flow	-20,055	-3,948	14,923	35,334	-10,366	-12,039	65,818	53,584	17,787	-9,341
Income Tax	4,944	2,456	3,632	4,399	5,769	4,956	6,432	5,790	4,731	4,629

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	1540	1465	1416	1733	1669	1706	1855	1807	1860	1986
Cash & Eq. ($B)	102	105	104	164	160	144	213	320	336	366
Goodwill & Int.	36968	32176	31103	34411	32670	31014	19,566	18,777	19,995	21,965
Total Liab. ($B)	1431	1357	1307	1605	1546	1582	1,743	1,697	1,756	1,871
Accounts Payable	1786	---	1491	2218	1814	1891	2,457	2,717	3,244	3,674
LT Debt ($B)	260	247	242	261	282	293	289	279	301	341
Total Equity ($B)	98	96	96	113	110	112	100	98	96	105
LTD/E Ratio	2.64	2.57	2.52	2.31	2.56	2.62	2.89	2.83	3.15	3.23

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%	-0.6%	0.5%	0.6%	0.6%
Return on Equity	7.9%	6.8%	7.1%	7.2%	8.2%	6.6%	-9.4%	9.7%	10.4%	10.9%
ROIC	6.4%	6.1%	6.3%	6.3%	7.3%	5.9%	-2.4%	2.4%	2.6%	2.8%
Shares Out.	12,584	14,434	14,582	16,136	16,237	16,618	17,312	17,063	17,787	17,040
Revenue/Share	5.64	3.72	3.57	3.84	3.19	2.80	3.28	3.08	3.21	3.79
FCF/Share	-1.69	-0.27	1.02	2.29	-0.64	-0.73	4.04	3.09	1.00	-0.57

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