Banco Santander (SAN)

Updated February 7th, 2025, by Josh Arnold

Key Metrics

Current Price:	$5.77	**5 Year CAGR Estimate:**	1.0%	**Market Cap:**	$88 B
Fair Value Price:	$4.94	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	04/30/2025[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	05/06/2025
Dividend Yield:	3.6 %	**5 Year Price Target**	$4.94	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Sell

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, Spain, The United Kingdom, Santander Consumer Finance, Mexico, Chile, USA, Portugal, Poland and Argentina. The $88 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.

Banco Santander posted fourth quarter and full-year earnings on February 5th, 2025, and results were quite good. Net interest income was up 7% to $12.4 billion, while net profit came to $3.4 billion. For the full year, earnings achieved were $13.1 billion.

Fee income rose by 11% as the company's wealth, CIB, and payments businesses all contributed. Payments volume rose by 11%, nearing a 30% EBITDA margin. Operating expenses grew at a slower rate than revenue, leading to an efficiency ratio improvement to 41.8% for the full year. Management noted this was the best efficiency ratio for 15 years.

Other successes included record customer additions, reduced costs per transaction, and a global rollout of its app driving customer acquisition.

The bank expects more than $64 billion in revenue for 2025, which should be supported by mid- to high-single digit growth in fee income. In addition, management expects to reduce absolute costs year-over-year, which if achieved, would result in stronger margins. On the other side, management sees increased macroeconomic volatility and lower interest rates in Europe potentially offsetting some of its momentum.

We start the year with 76 cents in adjusted earnings-per-share.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.45	$0.45	$0.46	$0.53	$0.52	$0.32	$0.53	$0.58	$0.71	$0.80	***$0.76***	***$0.76***
DPS	$0.22	$0.22	$0.26	$0.27	$0.26	---	$0.06	$0.11	$0.15	$0.21	***$0.21***	***$0.23***
Shares[2]	14,434	14,582	16,136	16,237	16,618	17,312	17,063	16,551	15,886	15,137	***15,000***	***14,500***

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. It's also paid semi-annually. Share repurchases have resumed as well.

[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.

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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 changing given its focus on auto loan origination. However, efficiency efforts are yielding higher margins, and therefore, higher earnings. We note guidance for 2025 speaks of economic volatility.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.0	11.6	14.3	8.5	8.5	8.3	6.8	5.1	5.8	5.7	***7.6***	***6.5***
Avg. Yld.	4.4%	4.2%	4.0%	6.0%	5.9%	---	1.6%	3.7%	3.6%	4.6%	***3.6%***	***4.7%***

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

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	49%	49%	57%	51%	50%	---	11%	19%	21%	26%	***28%***	***31%***

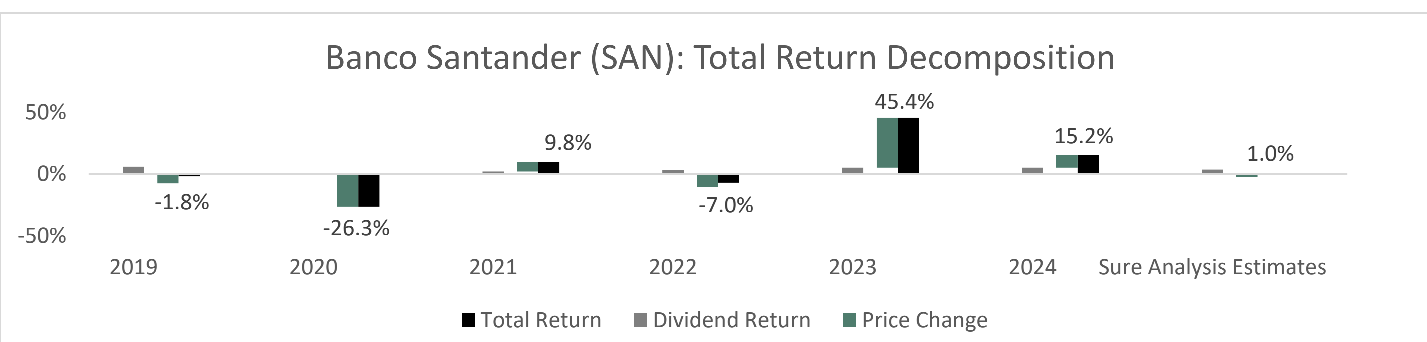
Santander has a few advantages over a typical bank, stemming from its top five deposit market share in countries like Spain, Brazil, Mexico, Chile, and Argentina. The wide geographical base gives the company multiple positions in markets that are not necessarily correlated.

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 1% annual total returns going forward. We see Santander as a sell with little growth prospects, a strong yield, and subpar valuation. Santander is a risky bank to own, and after Q4 results, we see the stock as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	52,610	50,608	56,762	58,703	58,574	53,461	57,323	57,183	64,516	68,717
SG&A Exp.	20,832	20,202	22,443	23,377	22,118	20,922	22,077	21,471	24,078	23,191
D&A Exp.	2,683	2,616	2,937	2,863	3,360	3,209	3,261	3,148	3,447	---
Net Profit	6,620	6,866	7,496	9,222	7,294	-10,017	9,612	10,129	11,991	13,609
Net Margin	12.6%	13.6%	13.2%	15.7%	12.5%	-18.7%	16.8%	17.7%	18.6%	19.8%
Free Cash Flow	-3,948	14,923	35,334	-10,366	-12,039	65,818	53,584	17,787	-9,341	---
Income Tax	2,456	3,632	4,399	5,769	4,956	6,432	5,790	4,731	4,629	5,718

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets ($B)	1465	1416	1733	1669	1706	1855	1807	1860	1986	1912
Cash & Eq. ($B)	105	104	164	160	144	213	320	336	366	317
Goodwill & Int.	32176	31103	34411	32670	31014	19,566	18,777	19,995	21,965	20,040
Total Liab. ($B)	1357	1307	1605	1546	1582	1,743	1,697	1,756	1,871	1,800
Accounts Payable	---	1491	2218	1814	1891	2,457	2,717	3,244	3,674	---
LT Debt ($B)	247	242	261	282	293	289	279	301	341	339
Total Equity ($B)	96	96	113	110	112	100	98	96	105	103
LTD/E Ratio	2.57	2.52	2.31	2.56	2.62	2.89	2.83	3.15	3.23	3.30

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.4%	0.5%	0.5%	0.5%	0.4%	-0.6%	0.5%	0.6%	0.6%	0.7%
Return on Equity	6.8%	7.1%	7.2%	8.2%	6.6%	-9.4%	9.7%	10.4%	10.9%	12.0%
ROIC	6.1%	6.3%	6.3%	7.3%	5.9%	-2.4%	2.4%	2.6%	2.8%	3.0%
Shares Out.	14,434	14,582	16,136	16,237	16,618	17,312	17,063	17,787	17,040	16,329
Revenue/Share	3.72	3.57	3.84	3.19	2.80	3.28	3.08	3.21	3.79	4.21
FCF/Share	-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.