

BBVA

4Q23 first take: NII miss; offset by better outlook in 2024

Maintain Rating: NEUTRAL | PO: 8.85 EUR | Price: 8.11 EUR

Net profit is 5% ahead of consensus

BBVA reported a net profit of €2,058m in 4Q23, a beat vs. €1,960m from consensus and broadly inline vs. €2,054m BofA est. The P&L beat was mainly driven by better fees, trading and costs, as NII and loan losses were a miss. Key highlight was the new €0.78bn buyback announced, ahead of cons./BofA expectations but comes with a lower, 40% dividend payout. BBVA sees 2024 ROTE at 'high teens', above 2023 levels of 17%, conf. call at 8:30 UKT. All-in, we expect the shares to perform broadly in-line/weaker than the market today. We have a Neutral rating on BBVA.

NII was a miss in 4Q23 on softer Spain and Mexico

NII was €5,246m vs. cons. €5,633m in 4Q. The 7% miss was mainly affected by hyperinflation accounting in Argentina. NII in Spain and Mexico were 1-2% weaker than cons. respectively. Cust. spreads in Spain were up reaching 3.42% with NII +4% QoQ. Loan yields were up to 4.28% from 4.01% in 3Q, while cost of deposits increased to 0.86% implying a deposit beta in Spain up to c.20%. In Mexico, cust. spreads dropped QoQ, NII was down QoQ for the first time since 1Q 2021, despite higher volumes at +2.7% QoQ. However, BBVA still sees 2024 NII in Spain growing 'mid single digit' (vs. cons. flat) and 'high single digit' in Mexico (vs. cons. +5% YoY).

Fees were strong, +9% better than expected

Fees stood at €1,694m in 4Q, a 9% beat to consensus mainly on better asset management and banking services. Fees in Spain were +10% QoQ in 4Q. Group trading was €753m ahead of consensus €425m.

Costs were a 1% beat vs. consensus

Opex were at €3,068m, 1% lower than cons. of €3,100m and 2% lower vs. BofA est. of €3,146m. 4Q23 C/I ratio stood at 41%. Staff costs were down 4% QoQ to €1,693m driving the beat. Mgmt. guided for 2024e efficiency 'slightly' beating their 42% goal.

Loan losses were a miss vs. consensus

Loan losses in 4Q were at €1,225m, c.3% higher than cons. of €1,194m. Full-year CoR of 115bps (BBVA defined) closed in line with guidance of 'slightly above' c.110bps. BBVA retains c.€220m in overlays. Gross NPE ratio was up 7bps QoQ to 3.4% with coverage at 77% and gross NPLs increasing c.3% in the quarter. CoR guidance for 2024e at c.40bps in Spain (BofA 35bps), 325bps Mexico (BofA 290bps) and 110bps Türkiye (BofA 105bps).

CET1 at 12.67% down 6bps QoQ and inline with cons.

4Q CET1 FL was at 12.67%, inline with cons. of 12.66%. This included +57bps organic generation, -36bps from RWA, -32bps dividend accrual/AT1, +5bps others (incl. FX & MtM). Dividend for 2023 at €55c, implying c.40% cash payout, the interim divi is €39c. A new buyback program of €781m was announced, at face value this looks better than expected but is a mix effect. CET1 target range 11.5-12% reiterated.

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Equity

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Stock Data

Price (Common / ADR)	8.11 EUR / 8.85 USD
Price Objective	8.85 EUR / 9.70 USD
Date Established	12-Oct-2023 / 16-Jan-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	5.74 EUR-8.73 EUR
Market Value (mn)	47,369 EUR
Shares Outstanding (mn)	5,837.9 / 5,837.9
Average Daily Value (mn)	79.34 USD
Free Float	99.1%
BofA Ticker / Exchange	BBVXF / SQC
BofA Ticker / Exchange	BBVA / NYS
Bloomberg / Reuters	BBVA SQ / BBVA.MC
ROE (2023E)	16.8%
ESGMeter™	High

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NII = Net Interest Income
CoR = Cost of Risk
C/I = Cost to Income ratio
LLP = Loan Loss Provisions
EPS = Earnings per Share
DPS = Dividend per Share
CET1 = Common Equity Tier 1
RWA = Risk-Weighted Assets
NPE = Non-Performing Exposures
FX = Foreign Exchange
MtM – Mark-to-market
Cust. Spreads = Customer spreads

4Q23 results summary

Exhibit 1: BBVA 4Q23 results table

NII miss but more than offset by better fees, costs and trading. Net profit 5% ahead

BBVA - results	Actuals	Actuals	Actuals	BofA est.	Consensus	Actuals			
P&L €'m	4Q22	3Q23	4Q23	4Q23e	4Q23 Cons.	y/y %	q/q %	vs. BofA	vs. Cons
Net interest income	5,342	6,434	5,246	5,980	5,633	-2%	-18%	-12%	-7%
Fees	1,323	1,685	1,694	1,671	1,557	28%	1%	1%	9%
Trading	269	658	753	393	425	n.m.	15%	91%	77%
Other revenues	(410)	(820)	(255)	(251)	(310)	-38%	-69%	2%	-18%
Total revenues	6,524	7,956	7,438	7,793	7,305	14%	-7%	-5%	2%
Personnel expenses	(1,550)	(1,756)	(1,693)	(1,661)	(1,635)	9%	-4%	2%	4%
Admin & D&A expenses	(1,339)	(1,547)	(1,375)	(1,485)	(1,465)	3%	-11%	-7%	-6%
Total costs	(2,889)	(3,303)	(3,068)	(3,146)	(3,100)	6%	-7%	-2%	-1%
Pre-provision profit	3,635	4,654	4,370	4,647	4,206	20%	-6%	-6%	4%
Loan loss provisions	(998)	(1,210)	(1,225)	(1,307)	(1,194)	23%	1%	-6%	3%
Other non-operating income	(56)	(79)	(213)	(179)	(96)	n.m.	n.m.	19%	n.m.
Pre-tax profit	2,581	3,365	2,932	3,162	2,915	14%	-13%	-7%	1%
Tax	(856)	(1,226)	(799)	(940)	(884)	-7%	-35%	-15%	-10%
Minority interest and others	(147)	(56)	(75)	(168)	(70)	-49%	35%	-55%	7%
Net profit (reported)	1,578	2,083	2,058	2,054	1,960	30%	-1%	0%	5%
Key KPIs	4Q22	3Q23	4Q23	4Q23e	4Q23 Cons.	y/y %	q/q %	vs. BofA	vs. Cons
NIM % (avg. loans)	5.89%	6.84%	5.52%	6.35%	5.94%	-37 bps	-132 bps	-83 bps	-42 bps
Net customer loans	357,351	376,336	377,643	371,238	376,534	6%	0%	2%	0%
Cost / income %	44%	42%	41%	40%	42%	-3 ppts	-0 ppts	+1 ppts	-1 ppts
Tax rate	33%	36%	27%	30%	30%	-6 ppts	-9 ppts	-2 ppts	-3 ppts
Cost of risk (bps) - BofA	110	129	129	139	126	+19 bps	+0 bps	-10 bps	+3 bps
Gross NPLs	14,463	14,864	15,305	13,982	14,863	6%	3%	9%	3%
NPLs ratio %	3.4%	3.3%	3.4%	3.2%	3.4%	-1 bps	+6 bps	+23 bps	-3 bps
Coverage ratio %	81.3%	79.1%	77.0%	92.8%	80.4%	-4 ppts	-2 ppts	-16 ppts	-3 ppts
Tang. Book value	44,834	47,439	49,338	46,268	47,677	10%	4%	7%	3%
ROTE %	14.1%	17.5%	16.9%	17.4%	16.4%	+2.8 ppts	-0.7 ppts	-0.5 ppts	+0.5 ppts
CET1 % - fully loaded	12.61%	12.73%	12.67%	12.47%	12.66%	+6 bps	-6 bps	+20 bps	+1 bps
RWAs	336,920	357,972	363,916	362,736	359,156	8.0%	1.7%	0.3%	1.3%

Source: BofA Global Research, Company consensus

BofA GLOBAL RESEARCH

Price objective basis & risk

BBVA (BBVXF / BBVA)

We derive our PO of €8.85 (ADR USD 9.70) using a SoTP on 2025e estimates where we value each geography using a Gordon growth-implied P/CET1 multiple assuming 13% CET1 allocation to each region's RWAs. We assume 13% CoE for Spain, 14% for Mexico, 30% for Türkiye and a blended 18% for South America. We then add the market value of the stake in Telefonica, the cumulative dividends over 2024-25 and capital excess/deficit to steady-state CET1, and discount back to 1yr fwd from today.

Upside risks to our forecasts:

1. Positive earnings revision deriving from NII and cost of risk, provide upside to capital distribution
2. More stable markets would favour a recovery in AUMs, driving fee growth
3. Stronger real GDP growth in Spain and Mexico

Downside risks to our forecasts:

1. Deterioration in sovereign risk in key geographies
2. Türkiye risk could still affect capital and shareholders' returns
3. Asset quality deteriorating more than we forecast

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BBVA (BBVA) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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