

# Banco Santander SA

## 4Q was decent

### Earnings Review

### Key takeaways

- Decent numbers from Santander in 4Q beating expectations and delivering on targets - with a notch better guided for 2024
- The EUR 2.9bn in net in the quarter delivered against a background of more complex environments in many geographies
- Cost of risk up but NPLs stable. The benefits of high diversification.

### The benefit of diversity

We thought the 4Q numbers from Santander were decent and highlight the benefits of the group's diversity. However, they also point to a more complex operating environment across the usual engines of the group's growth in our view. The bank reported 4Q net income of €2.9bn which was well ahead of expectations. The bank also achieved all targets in 2023 and has set targets in 2024 (across growth, efficiency, risk, capital and returns) that imply it will at least maintain the 2023 outcome, if not marginally improve on it – return on tangible up a point to 16% for example. We think the numbers are supportive. We have an Overweight on the €3.5% senior preferred recently issued where we see value at 3.6% yield.

### Geographical pressures and offsets

Amongst the geographies of the group in 4Q, the UK stands out with an 8% decline in net interest and 23% decline in client fees, although Spain too had a weaker quarter owing to regulatory fees. In the US, the business is seeing pressures from both costs and provisions – with no let up in asset quality pressures expected in the auto loan business in 2024 as charge-offs are expected to rise again to 5.3% (2023: 4.3%). In LatAm, Brazil has been hit by one-offs in provisions (the cost of risk in 2023 there was an elevated 4.3%). Against this, other LatAm was strong in 4Q, as was the consumer finance business.

### Risk and solvency stable overall

In spite of the negative trends in Brazil, NPLs were stable qoq at 3.14%, although provisions ended the year on a high of €3.4bn or 1.3% of loans – it's a feature of the Santander model that the group is able to absorb a large level of credit risk and still deliver adequate returns (we have 15% on tangible this year). It does appear that net interest growth peaked at the end of last year although we note that margins remain solid (we estimate 2.5% in 4Q for the group). Santander reported 12.3% CET1 with a much more stable RWA evolution than BBVA has seen in 2023, no new buy back announced and guidance that the impact of Basel 3 will be a very manageable 30bps which the group can absorb over time.

31 January 2024

High Grade Credit  
Spain  
Banks

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## Valuation & risk

### Banco Santander (SANTAN)

We still see Santander's loss absorbing capacity as substantial, even in a reasonable downcase and this drives our overall positive view on this global bank which is a generally dependable performer given its diversification. We see value in senior bonds but Neutral only on the CDS reflecting some caution with relation to the Brazil/US sub prime exposure. Santander's track record for liability management has been somewhat patchy in terms of friendliness to institutional investors. However, we doubt that this patchiness would extend to retail-targeted issuances, like the Fidelity bonds, where we see significant reputational risk in not redeeming bonds. We like e.g. the €0.5% 2027-26 SNP compared to BBVA, which we find less diversified than Santander. We prefer these bonds to the 3.125% Tier 2 bullets. We also like the \$4.175% SNP and the €0.2% '28 senior preferreds. We like recent issues in senior preferred, including the €3.5% and the £5.375%. The former trade too close to the €0.625% SNP, on which we have a MW. We are OW the \$1.722% short-dated SNP as our read from the 10 October FSB paper is that bail-in risk may be overstated in the short-term for G-SIBs with US investors. We are OW the \$6.921 '33 Tier 2s, which trade too close to fundamentally weaker callable peers.

Downside risk: 1) Brazil volatility 2) FX uncertainty 3) rising provisions esp in US

Upside risk: 1) a large capital accretive disposal 2) higher capital levels

### Analyst Certification

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## Security/Loan pricing

## Banco Santander SA / SANTAN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
Subordinated, EUR, Y5:CDS	350				30-Jan-2024	9.65	134
Senior Unsecured, EUR, Y5:CDS	350				30-Jan-2024	9.65	51
3.25, , EUR, 2026:B	1,500	04-APR-2026	Baa2/BBB+/BBB	98.91	30-Jan-2024	3.78	126
4.25, Senior, USD, 2027:B	1,000	11-APR-2027	Baa1/A-/A-	96.72	30-Jan-2024	5.38	122
1%, Junior Subordinated, EUR, Perp/2024:B		29-DEC-2049	NR/NR/NR	96.01	30-Jan-2024	6.44	315
2.5, , EUR, 2025:B	1,500	18-MAR-2025	Baa2/BBB+/BBB	98.44	30-Jan-2024	3.94	85
4.375, , EUR, Perp/2049:B	1,500	31-DEC-2049	Ba1/NR/NR	91.97	30-Jan-2024	7.33	491
.5, , EUR, 2027:B	1,000	24-MAR-2027	Baa1/A-/A-	93.21	30-Jan-2024	3.85	132
3.625, Senior, EUR, 2026:B	1,500	27-Sep-2026	A2/A+/A	99.90	30-Jan-2024	3.67	93
2, , EUR, 2028:B	1,250	11-FEB-2028	A2/A+/A	88.04	30-Jan-2024	3.43	120
3.125, , EUR, 2027:B	1,000	19-JAN-2027	Baa2/BBB+/BBB	98.48	30-Jan-2024	3.68	129
7.5, , USD, 2049:B	1,200	31-Aug-2049	Ba1/NR/BB+	100.05	30-Jan-2024	7.87	248
1.722, , USD, 2027:B	1,500	14-SEP-2027	Baa1/A-/A-	90.40	30-Jan-2024	5.71	160
4.175, , USD, 2028:B	1,500	24-MAR-2028	Baa1/A-/A-	95.93	30-Jan-2024	5.60	144
6.921, , USD, 2033:B	2,000	08-AUG-2033	Baa2/BBB+/BBB	105.30	30-Jan-2024	6.18	213
3.5, Senior, EUR, 2030:B	1,000	09-Jan-2030	A2/A+/A	99.72	30-Jan-2024	3.58	144
.625, , EUR, 2029:B	1,000	24-JUN-2029	Baa1/A-/A-	88.06	30-Jan-2024	3.61	141
5.375, Senior, GBP, 2031:B	600	17-Jan-2031	A2/A+/A	100.85	30-Jan-2024	5.19	143

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

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## Important Disclosures

## Credit opinion history

## Banco Santander SA / SANTAN

Security	Date <sup>R1</sup>	Action	Recommendation	Price
Subordinated, EUR, Y5:CDS	31-Dec-2022		Neutral	
Senior Unsecured, EUR, Y5:CDS	31-Dec-2022		Neutral	
3.25, , EUR, 2026:B	31-Dec-2022		Underweight	
4.25, Senior, USD, 2027:B	31-Dec-2022		Underweight	
1%, Junior Subordinated, EUR, Perp/2024:B	31-Dec-2022		Overweight	
2.5, , EUR, 2025:B	31-Dec-2022		Overweight	
4.375, , EUR, Perp/2049:B	31-Dec-2022		Marketweight	
.5, , EUR, 2027:B	31-Dec-2022		Overweight	
	12-Jan-2023	Downgrade	Marketweight	89.01
	17-Apr-2023	Upgrade	Overweight	89.34
3.625, Senior, EUR, 2026:B	31-Dec-2022		Overweight	
2, , EUR, 2028:B	12-Jan-2023	Initial	Overweight	83.25
3.125, , EUR, 2027:B	17-Apr-2023	Initial	Marketweight	95.73
7.5, , USD, 2049:B	21-Aug-2023	Initial	Underweight	97.00
	19-Sep-2023	Upgrade	Marketweight	96.75
1.722, , USD, 2027:B	12-Oct-2023	Initial	Overweight	87.38
4.175, , USD, 2028:B	21-Nov-2023	Initial	Overweight	93.13
6.921, , USD, 2033:B	21-Nov-2023	Initial	Overweight	97.76
3.5, Senior, EUR, 2030:B	30-Jan-2024	Initial	Overweight	99.72
.625, , EUR, 2029:B	30-Jan-2024	Initial	Marketweight	88.24
5.375, Senior, GBP, 2031:B	30-Jan-2024	Initial	Overweight	100.85

Table reflects credit opinion history as of previous business day's close.<sup>R1</sup> First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

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**Neutral:** No purchase or sale of CDS is recommended.

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Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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