

European Banks Strategy

Cash gusher

Industry Overview

€56bn in weeks, then €38bn, then €76bn...

We expect €56bn in final dividends with 4Q 23 results. The results will also we think be a catalyst for re-starting share buybacks – with €38bn to come by year-end 2024E. Add in €76bn 2024E dividends and there's €170bn coming to shareholders in fifteen months. Against €1.05tn market value, the 16% cash return is compelling. It's like the SX7E index were trading at 103 in March 2025 already – and a PE of 5.2x (Exhibit 1). Banks are 18% of market dividends, sustainably, on a sub-9% index weight (Exhibit 2).

Modest but continued profit growth

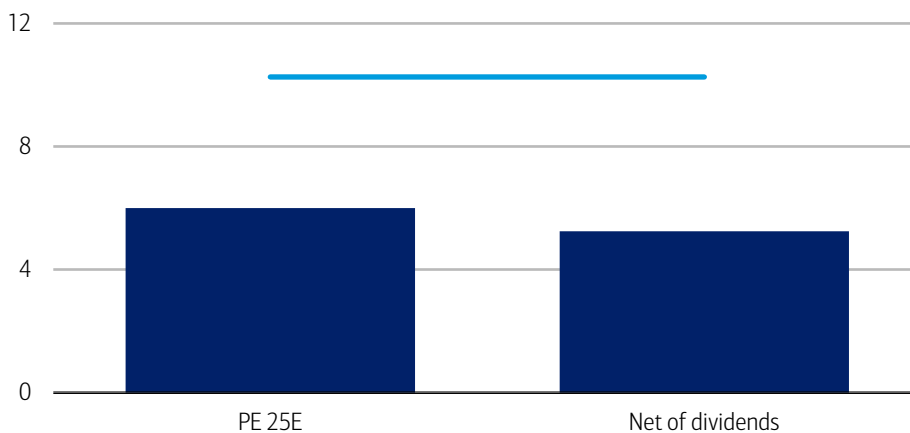
We have updated forecasts for current yield curves and see 2% net profit growth 2024E. This is complemented by 4% share count reduction for 6% y/y EPS growth, accelerating to 8% 2025E (Exhibit 6), with 2025E double 2019's profits.

Risk, regulation, rates

As discussed in [Steady but sure: at 6.6x, four in a row ahead](#) (report link) we see the three dominant problems for banks all receding rapidly in the rear-view mirror. Risks were squeezed out of banks by bitter experience and macroprudential rules and economies are bottoming out. Regulatory inflation consumed almost all cashflows for the decade to 2020 but is completed (Exhibit 7). And rates are set to fall, but to levels still favourable for banks (Exhibit 5); the era of zero rates is long gone. We reiterate our positive sector view.

Exhibit 1: European bank 2025E PE falls to 5.2x net of dividends – half the historical multiple

European bank PE (x) 2025E, current and net of 14% dividend payments



Source: BofA Global Research estimates, company report. Pale blue line shows average PE 12 months forward since 2000

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Equity

Europe

Banks-Multinational/Universal

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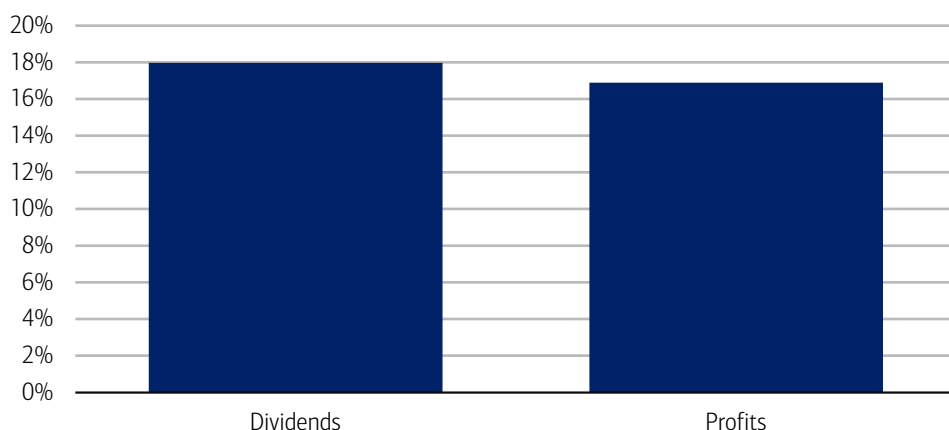
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Key charts

Exhibit 2: banks are set to be 18% of market dividends on 17% of profits 2024E

Banks % European market, profit and dividends 2024E (€)

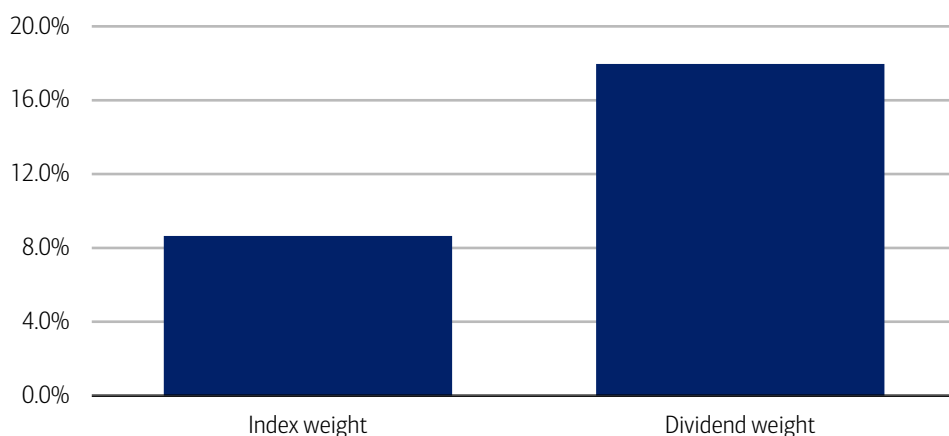


Source: BofA Global Research estimates, Bloomberg

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Exhibit 3: bank index weight just half their dividend contribution

Banks 2024E dividend contribution and current weight in SXXP index (%)



Source: BofA Global Research, Bloomberg

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Exhibit 4: Implied index level net of dividends in the coming 15 months

SX7E index and impact (points) of 2023E final and 2024E dividends

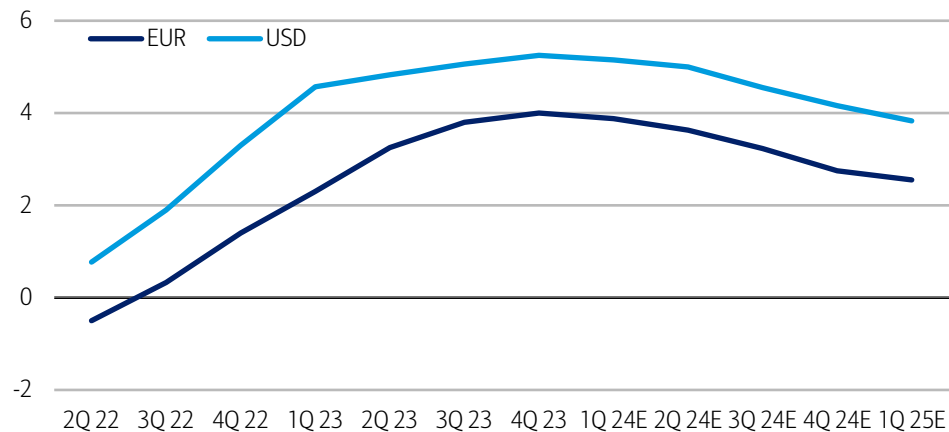
SX7E	117.9
2023E final	-6.3
2024E dividend	-8.5
Implied SX7E March 25	103.1

Source: BofA Global Research, Bloomberg

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Exhibit 5: short rates set to fall back to late 2022 levels

US\$ and € policy rates, average 2022-25 (%)



Source: BofA Global Research, Bloomberg

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Exhibit 6: net profit set to grow in 24E and 25E while share counts fall

European bank net profits (€ mn) and growth since 2019

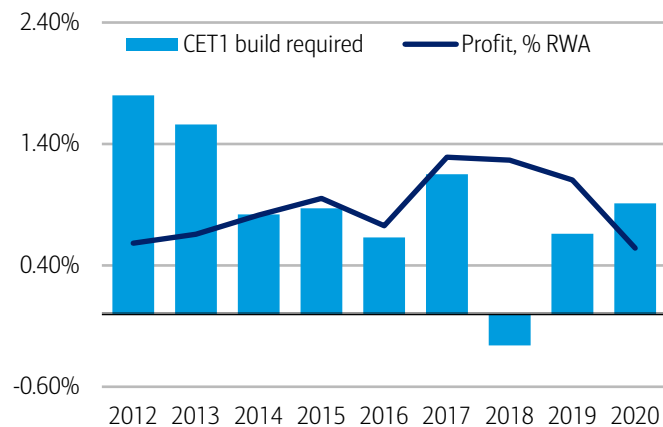
	2019	2023E	2024E	2025E
Net profit	80,125	153,116	156,486	162,219
Net profit growth			2%	4%
Share count			-4%	-4%
EPS growth			6%	8%

Source: BofA Global Research estimates, company report

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Exhibit 7: across 2012-20, increased regulatory demand consumed almost all bank profits – dividends offset by share issuance

European banks: Common Equity Tier 1 demand from regulators compared with profits (% RWA)

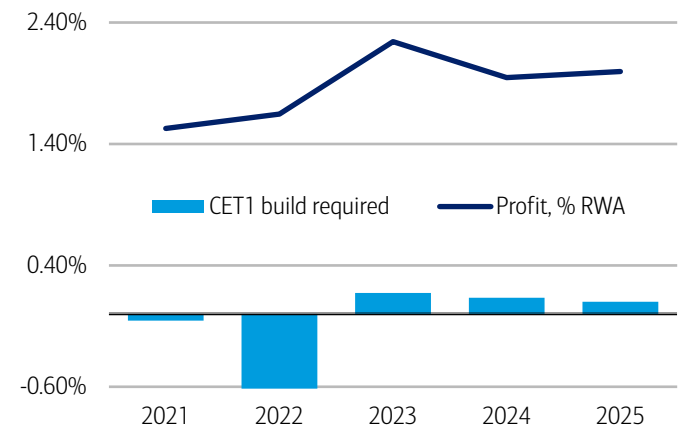


Source: BofA Global Research estimates, company report

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Exhibit 8: since 2021, regulatory demand has fallen away, while profits have risen strongly. Free cashflow has multiplied

European banks: Common Equity Tier 1 demand from regulators compared with profits (% RWA)



Source: BofA Global Research estimates, company report

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