

## European Banks Strategy

Stable profits, higher distributions,  
depressed multiples

Industry Overview

## 2024 another good year. And 2025

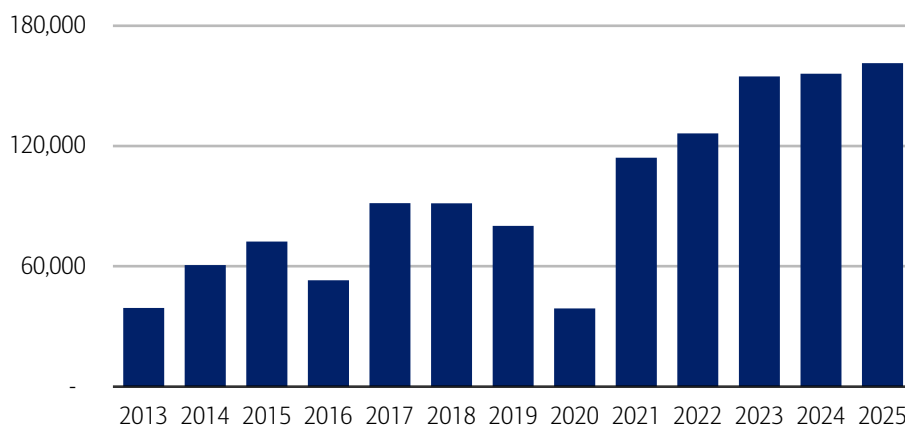
Mostly through bank 4Q 23 results, our key conclusion is that banks' guidance has been typically for a Return on Equity comparable to, or better than, 2023. We agree (Exhibit 1), noting that 50-80bp fewer rate cuts than priced at the start of the year is supportive; that [That was the credit cycle](#) and there are [Signs of the volume turn](#) (report links). And as shown in Exhibit 2, banks are set to distribute a little *more* in 2024E, at €120bn. Given most bank shares still trade cum 2023E final dividends, this makes for €172bn cash in the next 15 months (Exhibit 5), a yield of 17%. We see an average upside potential in European banks, ex dividends – to a 12 month forward PE of just 7.1x (Exhibit 5).

## A low PE. Regulators and supervisors are central

Regulators profess uncertainty as to the reason for low bank PE multiples (see Box 1 and [Ahead of the conference](#), report link). As discussed in [Year Ahead 2024: calm and re-rating](#) (report link), we think the answer is that post-crisis reforms increased the distance to loss for taxpayers (Exhibit 6), but not for investors. Regulators are more likely to intervene in a bank with a 15% Common Equity Tier 1 ratio today than they were in one with 5% pre-crisis; potential triggers include low prices of subordinated instruments that did not previously exist. To re-rate banks further towards their historical 10.5x multiple demands regulatory balance, we think.

## Exhibit 1: net profits have reset higher

European banks net profit 2013-25E (€ mn)



Source: BofA Global Research estimates, company report

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13 February 2024

Equity  
Europe  
Banks-Multinational/Universal

**Alastair Ryan** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 4806  
[alastair.ryan@bofa.com](mailto:alastair.ryan@bofa.com)

**Rohith Chandra-Rajan** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 8495

**Tarik El Mejjad** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 0014

**Antonio Reale** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 1763

**Filippo Munari** >>  
Research Analyst  
MLI (UK)  
[filippo.munari@bofa.com](mailto:filippo.munari@bofa.com)

**Olga Veselova** >>  
Research Analyst  
Merrill Lynch (DIFC)

**David Taranto** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 7510

**Ilija Novosselsky** >>  
Research Analyst  
MLI (UK)

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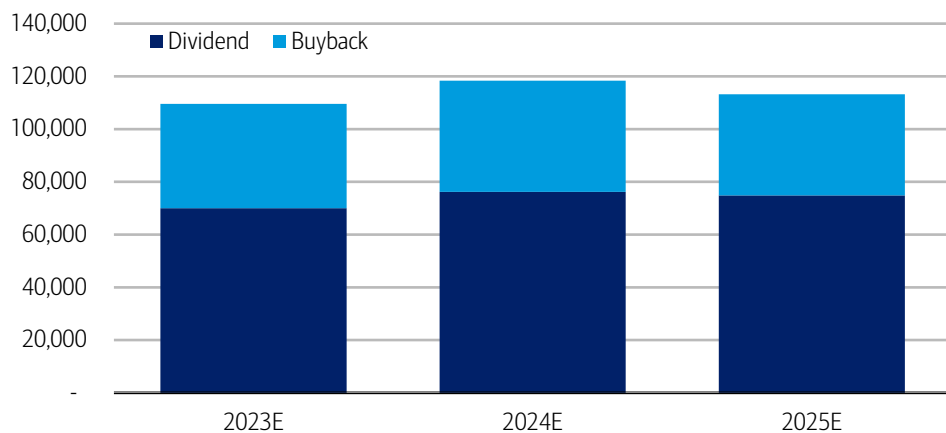
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# Key charts

## Exhibit 2: we see €110-120bn a year in bank distributions to ordinary shareholders

European banks: dividends and buybacks, 2023-25E (€ mn)

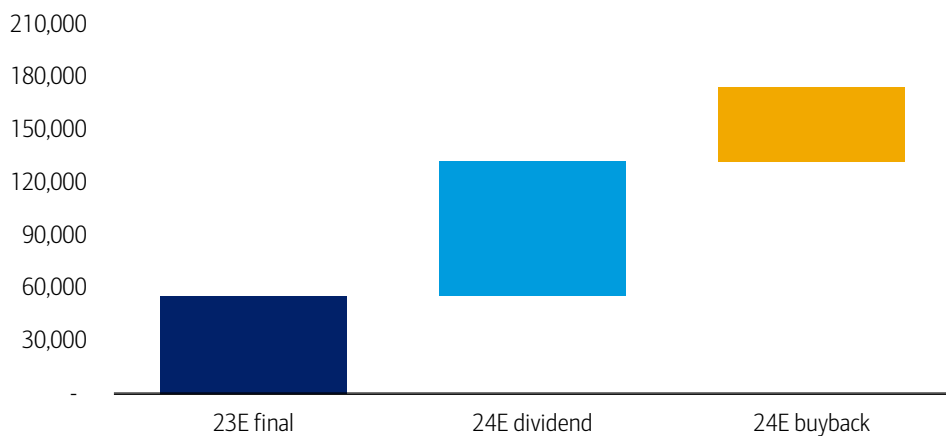


Source: BofA Global Research estimates, company report

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## Exhibit 3: banks set to distribute 17% of market cap in the next 15 months

Three sources of cash return

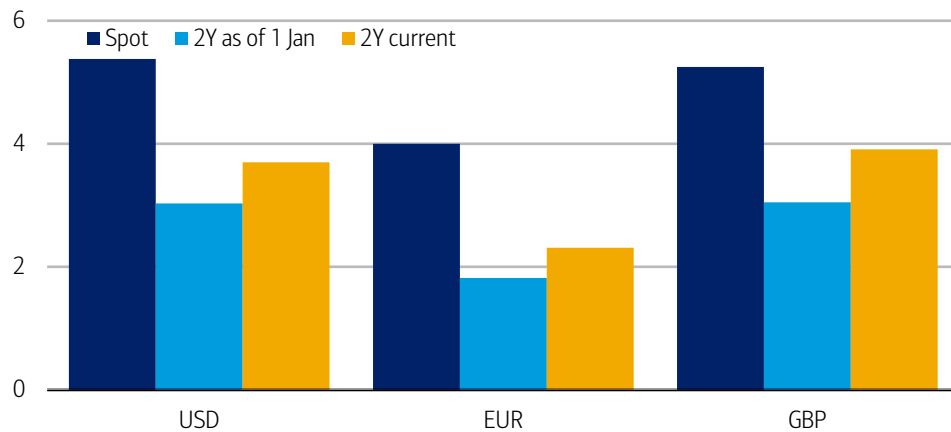


Source: BofA Global Research estimates, company report

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**Exhibit 4: market pricing 50-80bp fewer rate cuts, 2 years ahead, than at 1 January**

Market Implied Policy Rate (%)



Source: Bloomberg

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**Exhibit 5: 12 month forward PE close to a low**

European banks 12 month-forward PE (x) 2000-24



Source: BofA Global Research estimates, company report

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**Box 1: Bank of England notes a high Cost of Equity**

why are the valuations of banks so much in the doldrums?..

The cost of risk – the return equity investors demand – does not seem to have fallen in line with what appears to be greater stability and lower risk per unit of equity...

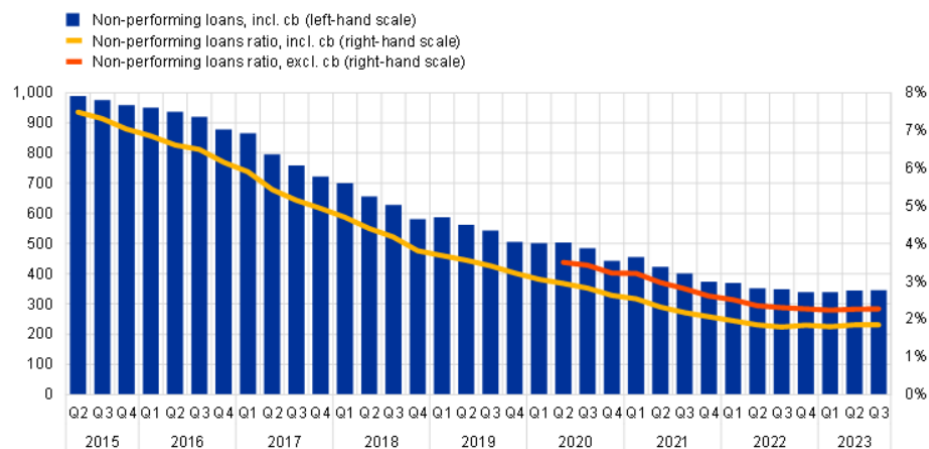
One remaining puzzle is the market valuation of the large UK banks...

With interest margins restored to more normal levels, and loan impairments subdued by historical standards, this puzzle deserves further study

*Andrew Bailey, governor, Bank of England, 12 February 2023*

**Exhibit 6: Non-Performing Loan ratio down by >70%**

Euro area problem loans, € mn, 2015-23

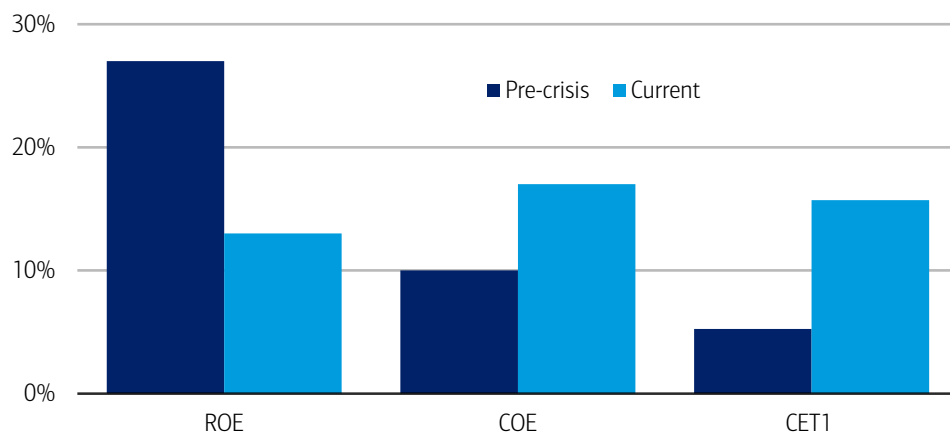


Source: ECB

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**Exhibit 7: UK banks have seen a 700bp increase in the Cost of Equity even with 3x the Common Equity Tier 1 ratio**

UK banks pre-crisis and current: Return on Equity, Cost of Equity, CET1 ratio (%)



Source: BofA Global Research estimates, Bank of England

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