

## Santander

# 4Q first take: Low quality beat; Better outlook ahead

Reiterate Rating: BUY | PO: 4.80 EUR | Price: 3.66 EUR

## 4Q net profit is 11% ahead of consensus

Santander reported 4Q net profit of €2,933m, a beat vs. €2,756m BofA est and €2,635m from consensus. The beat was mainly driven by better NII and a lower tax rate. While costs, fees and loan losses were a miss, capital was in-line. At the divisional level, Spain, the US and the UK were weaker. Brazil was mixed. Overall, this is not a high-quality beat, but the outlook is encouraging with Santander now targeting a ROTC of 16% for 2024e. Overall, the better outlook should support share price today. We have a Buy on SAN.

## NII 3% beat; Brazil positive while Spain/UK disappointing

NII was €11,122m in the quarter, a 3% beat with BofA ests of €10,831m and a 3% beat to consensus despite hyperinflation in Argentina. 2023 NII was up 12% YoY in line with guidance of “double-digit” growth. Spain NII was a negative surprise, flat QoQ and a 3% miss vs. BofA est. Deposit beta moved up c.2pp to c.24%. NII in the UK was -9% QoQ and weaker than the already low expectations. While the US was stable and Brazil was 3% ahead of consensus, +8% QoQ and was the highlight this quarter. Group fees stood at €2,835m, a 5% miss vs. cons. SAN guides for ‘mid-single’ digit revenue growth in 2024e.

## Asset quality miss in US and Brazil

LLPs were €3,421m in the quarter, a miss vs. the €3,363m from cons. CoR (BofA calculated) stood at 131bps in 4Q, mainly affected by higher provisions in Brazil and the US. LLPs at group level were up +5% QoQ. CoR guidance for 2024 at c.120bps CoR. BofA est at 119bps.

## Brazil showing sequential improvement

Brazil NII of €2,504m was +8% QoQ and ahead of consensus and in-line with BofA mainly driven by rate cuts and improving loan volumes. Fees were down -1.5% QoQ on lower insurance and cards. Costs were higher impacted by salary accrual. LLPs were affected by single ticket charges with CoR up 10bps QoQ at 477bps (475bps BofA est). NPL ratio down further to 6.56% from 6.7% suggesting peak is now behind us.

## US NII stabilizing, higher costs and higher LLPs

Santander continues to de-risk its book, shifting its mix from subprime to prime clients. 4Q was affected by lower loan origination and higher funding costs. Overall, NII was flat QoQ while loan loss provisions has been normalizing in Q4. CoR was 192bps inline with guidance and vs. BofA est 193bps. NPL ratio was up by c.+33bps QoQ to 4.57%. Costs were +4% QoQ partly affected by investments in CIB/WM.

## CET1 flat QoQ at 12.3% inline with consensus

CET1 ratio was flat QoQ at 12.3% in 4Q, in line with consensus and ahead of BofA est of 12.2%. Organic capital generation of +29bps was offset by -12bp of cash dividend accrual and -26bps of buybacks, while markets/other contributed +4bps and regulation another +4bps. RWA down -1% QoQ. Guidance for 2024 CET1 of >12%, vs. BofA est at 12.20%. Basel III fully loaded impact now guided to be c.30bps.

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.**

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### Stock Data

Price (Common / ADR)	3.66 EUR / 3.96 USD
Price Objective	4.80 EUR / 5.26 USD
Date Established	26-Jul-2023 / 16-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	2.94 EUR-3.97 EUR
Market Value (mn)	59,226 EUR
Shares Outstanding (mn)	16,184.1 / 16,184.1
Average Daily Value (mn)	125.73 USD
Free Float	97.9%
BofA Ticker / Exchange	BCDRF / SQC
BofA Ticker / Exchange	SAN / NYS
Bloomberg / Reuters	SAN SQ / SAN.MC
ROE (2023E)	12.0%
ESGMeter™	High

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NII = Net Interest Income  
NIM = Net Interest Margin  
CoR = Cost of Risk  
LLP = Loan Loss Provisions  
NPE = Non-Performing Exposures  
EPS = Earnings per Share  
DPS = Dividend per Share  
SELIC = Brazilian Policy Rate  
CET1 = Common Equity Tier 1  
RWA = Risk-Weighted Assets  
DCB = Digital Consumer Business

## 4Q23 results summary

### Exhibit 1: Santander 4Q23 results table

Low quality net profit beat, with revenues / costs in line, higher provisions and lower taxes

Santander - 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	10,159	11,219	11,122	10,831	10,819	9%	-1%	3%	3%
Fees	2,923	3,119	2,835	2,981	2,988	-3%	-9%	-5%	-5%
Trading	538	667	664	378	692	23%	0%	76%	-4%
Other revenues	(95)	(144)	(69)	242	(45)	-27%	-52%	n.m.	53%
<b>Total revenues</b>	<b>13,525</b>	<b>14,861</b>	<b>14,552</b>	<b>14,432</b>	<b>14,454</b>	<b>8%</b>	<b>-2%</b>	<b>1%</b>	<b>1%</b>
Personnel expenses	(3,422)	(3,477)	(3,646)	(3,164)	(3,382)	7%	5%	15%	8%
Admin & D&A expenses	(2,886)	(3,005)	(2,818)	(3,105)	(3,016)	-2%	-6%	-9%	-7%
<b>Total costs</b>	<b>(6,308)</b>	<b>(6,482)</b>	<b>(6,464)</b>	<b>(6,269)</b>	<b>(6,398)</b>	<b>2%</b>	<b>0%</b>	<b>3%</b>	<b>1%</b>
<b>Pre-provision profit</b>	<b>7,217</b>	<b>8,379</b>	<b>8,088</b>	<b>8,162</b>	<b>8,056</b>	<b>12%</b>	<b>-3%</b>	<b>-1%</b>	<b>0%</b>
Loan loss provisions	(3,018)	(3,266)	(3,421)	(3,349)	(3,363)	13%	5%	2%	2%
Other non-operating income	(710)	(666)	(745)	(628)	(664)	5%	12%	19%	12%
<b>Pre-tax profit</b>	<b>3,489</b>	<b>4,447</b>	<b>3,922</b>	<b>4,185</b>	<b>4,029</b>	<b>12%</b>	<b>-12%</b>	<b>-6%</b>	<b>-3%</b>
Tax	(948)	(1,271)	(724)	(1,175)	(1,130)	-24%	-43%	-38%	-36%
Minority interest and others	(252)	(274)	(265)	(254)	(264)	5%	-3%	4%	0%
<b>Net profit (reported)</b>	<b>2,289</b>	<b>2,902</b>	<b>2,933</b>	<b>2,756</b>	<b>2,635</b>	<b>28%</b>	<b>1%</b>	<b>6%</b>	<b>11%</b>
Key KPIs	4Q22	3Q23	4Q23	4Q23e	4Q23 Cons.	y/y %	q/q %	vs. BofA	vs. Cons
NIM % (avg. loans)	3.83%	4.27%	4.25%	4.14%	4.12%	+42 bps	-2 bps	+11 bps	+12.8 bps
Net customer loans	1,036,004	1,039,172	1,036,349	1,035,988	1,042,698	0%	0%	0%	-1%
Cost / income %	47%	44%	44%	43%	44%	-2 ppts	+1 ppts	+1 ppts	+0 ppts
Tax rate	27%	29%	18%	28%	28%	-9 ppts	-10 ppts	-10 ppts	-10 ppts
Cost of risk (bps) - BofA	114	124	131	128	128	+17 bps	+6 bps	+3 bps	+3 bps
Gross NPLs	34,673	35,558	35,319	35,459	36,056	2%	-1%	0%	-2%
NPLs ratio %	3.1%	3.2%	3.1%	3.2%	3.3%	+1 bps	-5 bps	-5 bps	-12 bps
Coverage ratio %	67.5%	67.5%	66.0%	68.4%	67.1%	-2 ppts	-2 ppts	-2 ppts	-1 ppts
Tang. Book value	70,459	74,561	75,552	73,446	74,545	7%	1%	3%	1%
ROTE %	12.7%	15.5%	15.5%	14.8%	14.0%	+2.8 ppts	-0.0 ppts	+0.7 ppts	+1.5 ppts
<b>CET1 % - fully loaded</b>	<b>12.04%</b>	<b>12.27%</b>	<b>12.3%</b>	<b>12.16%</b>	<b>12.28%</b>	<b>+22 bps</b>	<b>-2 bps</b>	<b>+10 bps</b>	<b>-3 bps</b>
RWAs	609,404	628,873	623,652	624,100	631,948	2%	-1%	0%	-1%

Source: BofA Global Research, company consensus, Visible Alpha consensus (for KPIs)

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## Price objective basis & risk

### Santander (BCDRF / SAN)

We derive our PO of €4.80 (ADR USD 5.26) 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, 13.5% for the UK and the US, 14% for Mexico and 15% for Brazil. We then add cumulative dividends over 2024-25 and capital excess/deficit to the steady-state CET1, and discount back to 1yr fwd from today.

Upside risks to our forecasts:

1. Geared to interest rates in Spain
2. Positive earnings revision deriving from NII and cost of risk, from more resilient US and better growth in Brazil
3. Better asset quality than market fears

Downside risks to our forecasts:

1. Selic rate in Brazil may not drop as fast as we forecast
2. Deposit beta may be higher than we forecast affecting funding mix
3. Higher default rates may affect cost of risk normalization and capital levels

## Analyst Certification

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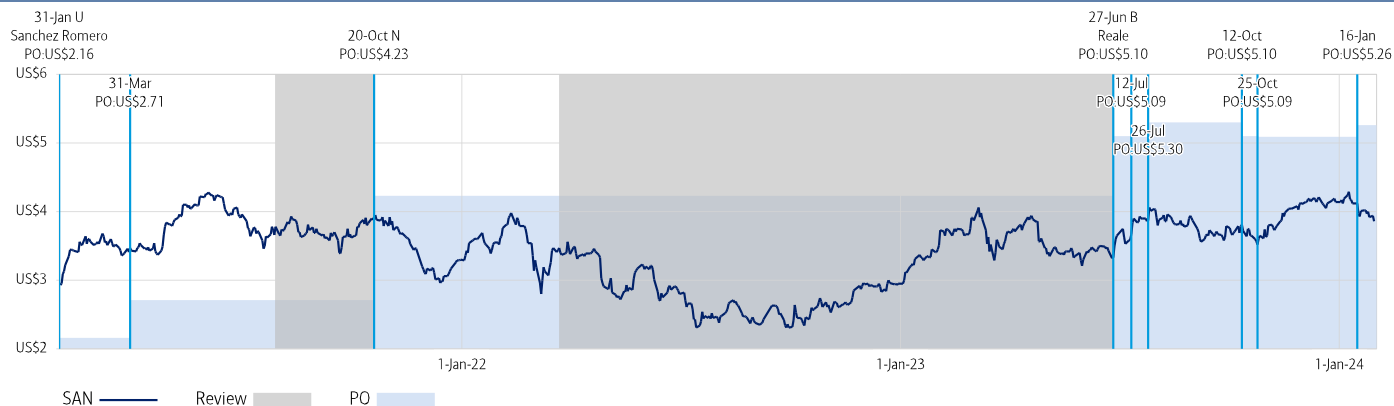
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### Santander (SAN) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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