

European Banks Strategy

Upgrade cycle ahead

Industry Overview

Higher earnings, higher distributions

YTD bank earnings upgrades at 8-11% (Exhibit 5) are the strongest in the market. We see upside to earnings through results, as rates and yields are up 26-147bp since 1Q 23 (Exhibit 4). We already see the banks delivering 33% Profit Before Tax growth 2024E/22, with a further 7% into 2025E (Exhibit 6). This gears to stronger EPS growth as the share count shrinks 10% in just three years (Exhibit 7). Buybacks are now set to more-than consume all the shares that banks issued over the last decade (Exhibit 1).

No next regulatory thing in Europe

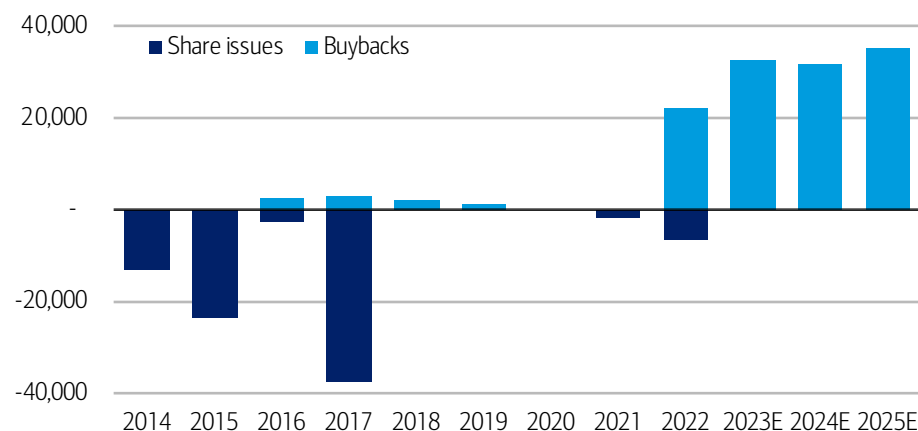
We see no regulatory or supervisory agenda in Europe, as discussed in [Of cash and clouds](#) (report link), thanks to growing profits (Exhibit 2) and rising margins providing additional resilience to peak capital (Exhibit 3). This contrasts with the US (Exhibit 11) and implies that the European cost of equity could fall from today's record 16%.

Having it all

Bank returns are now set to consistently best a 13% Return on Common Equity Tier 1 (Exhibit 8), more than double historical averages and high enough to deliver both an 11% cash yield and sustained volume growth (Exhibit 9). Banks typically grow in line with nominal GDP, at 4% 2024E (Exhibit 10); the stagnation of the last decade was the result of regulatory capital inflation eating €70bn a year, now completed.

Exhibit 1: from share issues to sustained buybacks: a decade in banking (€ mn)

European banks: shares issued and repurchased, 2014-25E



Source: BofA Global Research estimates, company report

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Equity
Europe
Banks-Multinational/Universal

Alastair Ryan >>
Research Analyst
MLI (UK)
+44 20 7996 4806
alastair.ryan@bofa.co.uk

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

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

Filippo Munari >>
Research Analyst
MLI (UK)
filippo.munari@bofa.com

Olga Veselova >>
Research Analyst
Merrill Lynch (DIFC)

Ilija Novosselsky >>
Research Analyst
MLI (UK)

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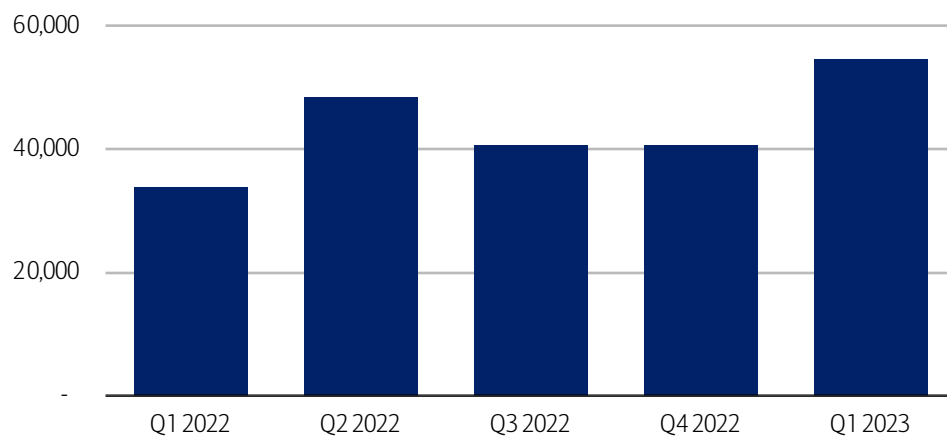
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Key charts

Exhibit 2: euro area PBT up 61% y/y and 34% q/q in 1Q 23 (€ mn)

Profit Before Tax, euro area banks, 2022-23

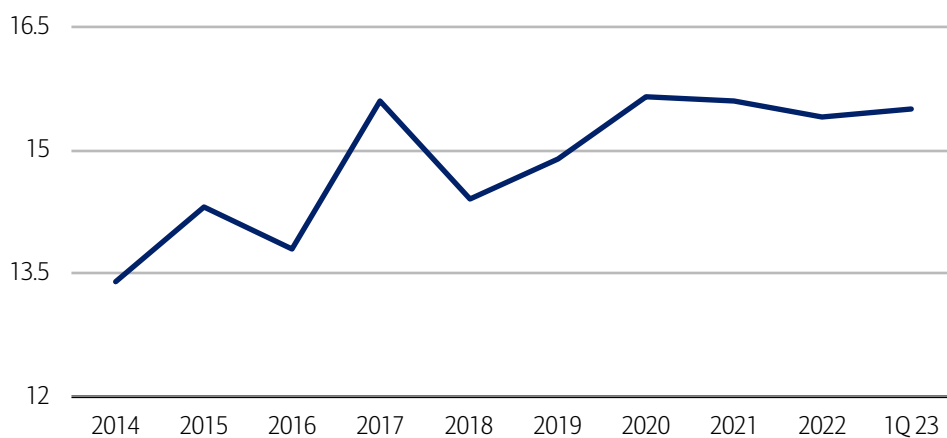


Source: ECB

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Exhibit 3: Banks' Common Equity Tier 1 ratio at a high (%)

Euro area bank CET1 2014-23

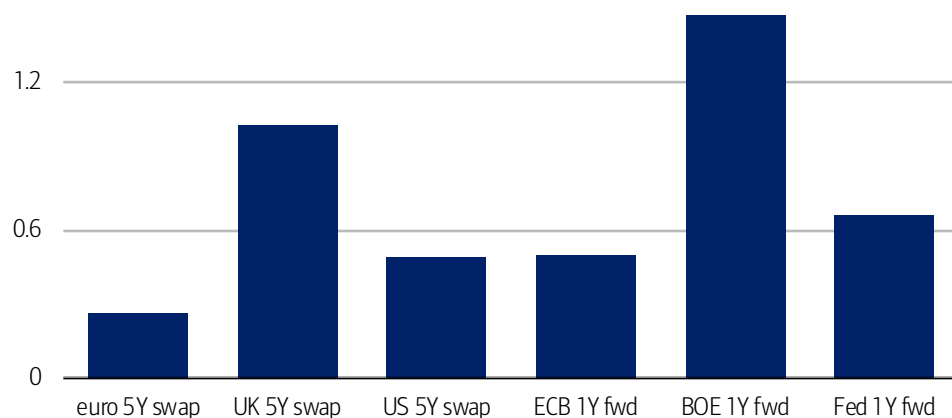


Source: ECB

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Exhibit 4: most-important yields up 26-147bp since 1Q 23 results

Rate forwards and 5Y swaps, change since 1Q results (% points)

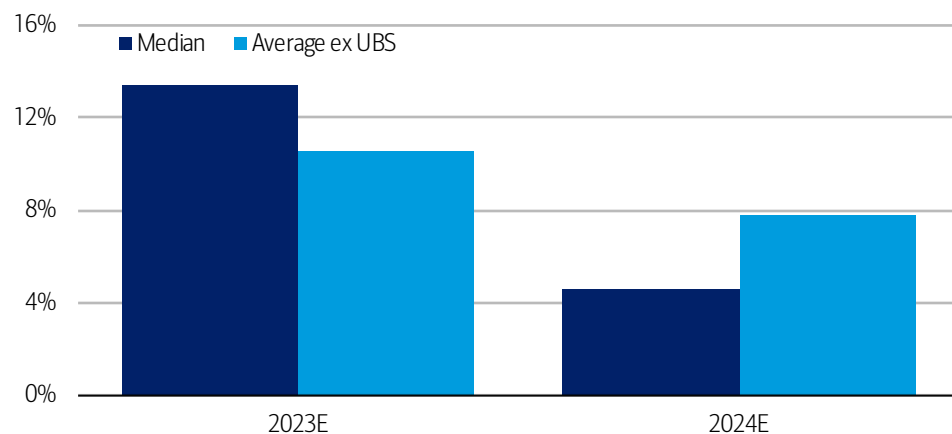


Source: BofA Global Research, Bloomberg

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Exhibit 5: 8-11% Profit Before Tax upgrades YTD

PBT revisions since 1 Jan 2023, median bank and average ex UBS (%)

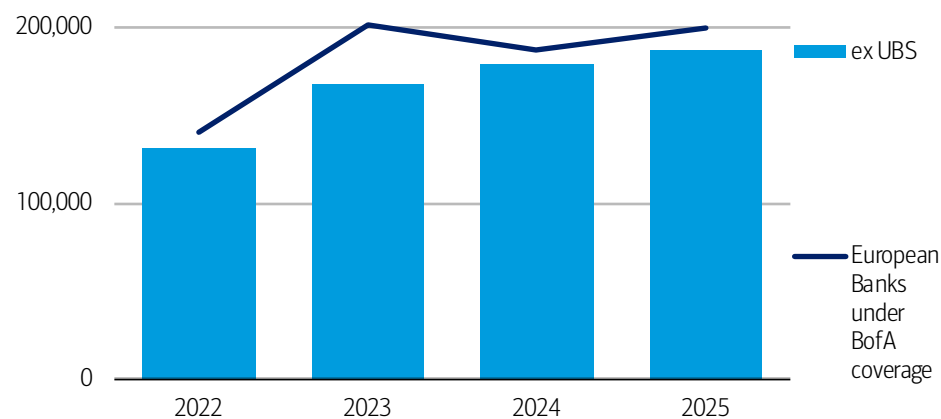


Source: BofA Global Research estimates, company report

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Exhibit 6: 33% profit growth 2024E/ 2022

European banks Profit Before Tax, € mn, 2022-25E



Source: BofA Global Research estimates, company report

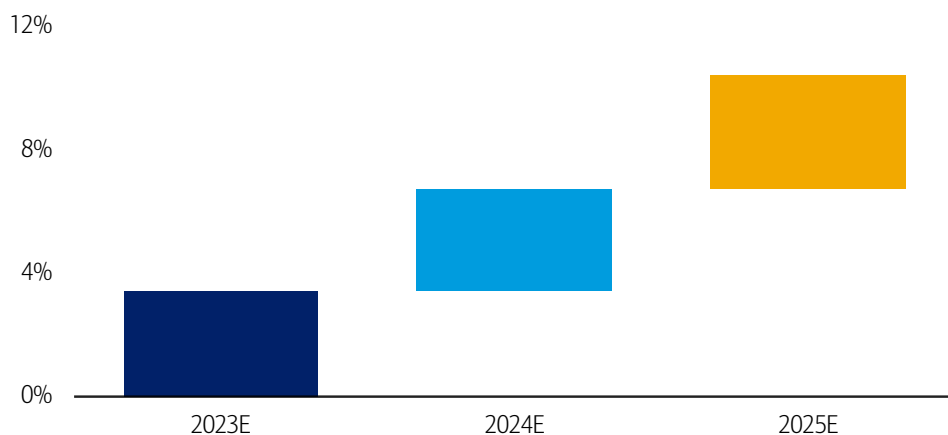
Exhibit 6: 33% profit growth 2024E/ 2022

European banks Profit Before Tax, € mn, 2022-25E

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Exhibit 7: a 10% reduction in industry shares over three years

Buybacks % market cap 2023-25E

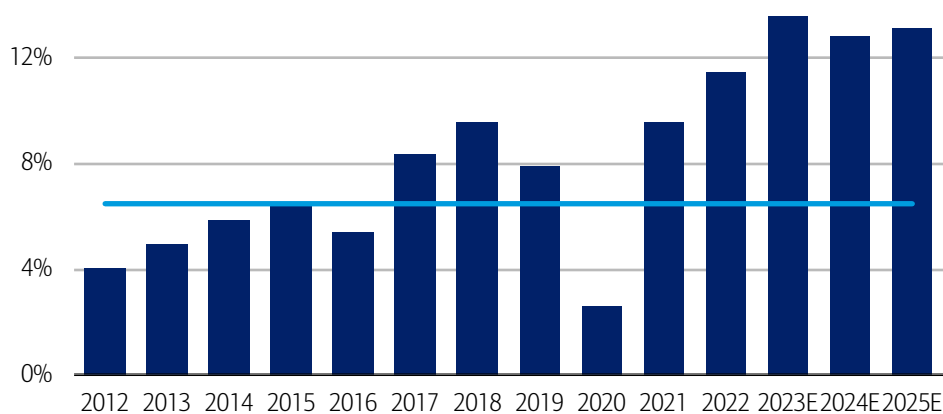


Source: BofA Global Research estimates, company report

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Exhibit 8: Return on Common Equity Tier 1 set to more than double the average of zero rate years

European banks Return on CET1 (%) 2012-25E and average 2012-21

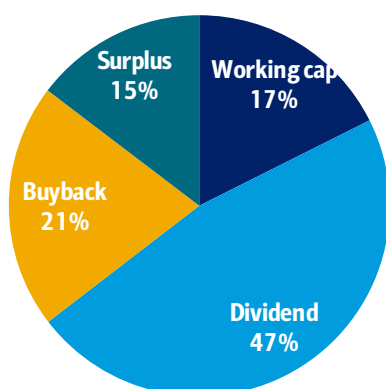


Source: BofA Global Research estimates, company report

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Exhibit 9: European banks set to distribute 68% 2024E and build surplus capital

Uses of profit 2024E, European banks (€ mn)

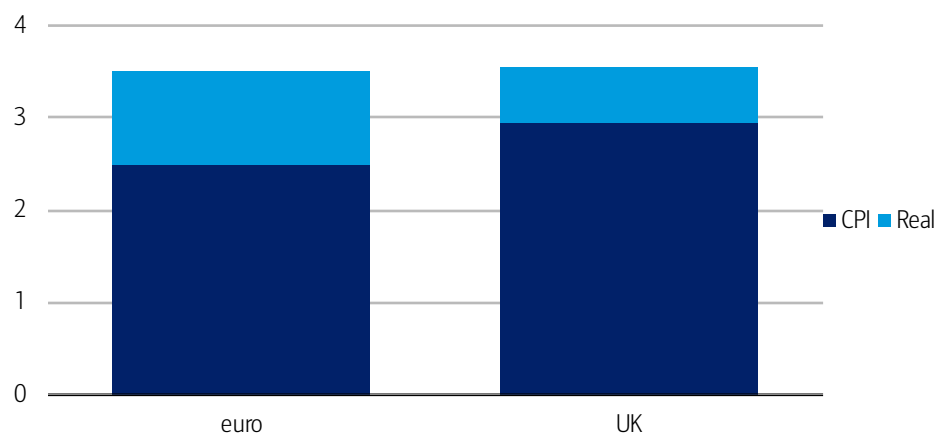


Source: BofA Global Research estimates. Note: excludes UBS. Surplus build would be larger including UBS

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Exhibit 10: nominal European GDP at 4% 2024E

Contributors to GDP growth (% y/y) 2024E

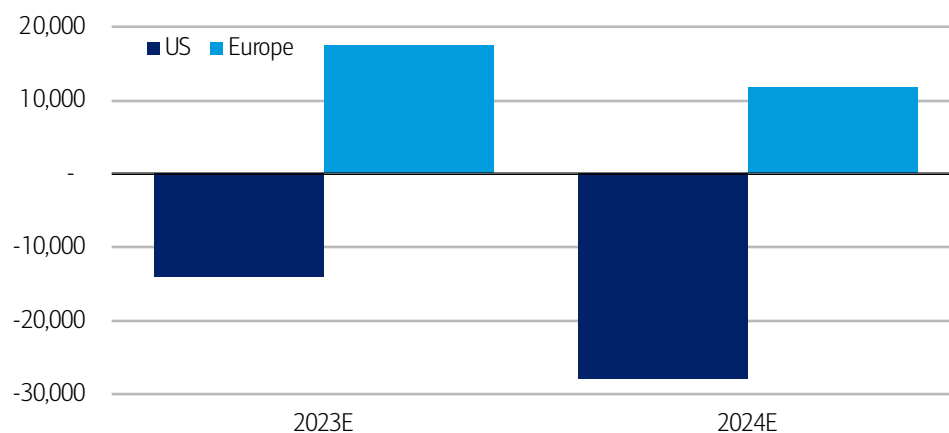


Source: Bloomberg

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Exhibit 11: Europe PBT revisions +8% 2024E YTD, compared with minus 18% for US banks

Change in forecast 2024E PBT YTD (€ mn)



Source: BofA Global Research estimates

Exhibit 11: Europe PBT revisions +8% 2024E YTD, compared with minus 18% for US banks
Change in forecast 2024EPBT YTD (€ mn)

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