

BBVA

4Q nothing special

Earnings Review

Key takeaways

- BBVA marginally beat consensus but we thought the numbers were pretty mixed, supported by a bumper trading outcome.
- Mexico and Türkiye have faltered somewhat this quarter, although guidance is better for next year.
- The bank announced a EUR 781m share buyback higher than consensus expectations. CET1 was 12.67%.

30 January 2024

High Grade Credit
Spain
Banks

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Mixed numbers in 4Q

BBVA reported net income of €2bn in 4Q, in line with the previous quarters and marginally better than consensus. We thought the numbers were a bit mixed. Revenues were supported by a bumper trading outcome of €753m, ~€100m higher than the 3Q's abundant outcome but net interest income is stalling owing to margin pressure in Mexico (and to a lesser extent Türkiye where the customer spread crumbled in 4Q to only 0.38%). Fees were a bright spot driven by Spain. The bank announced a €781m buyback (ill-advised in our view given e.g. very high growth in RWA), although higher than consensus was expecting. We'd say the numbers, although not great, are neutral for spreads this morning. We have a Buy Protection on the 5Y SLA CDS at +79.5bps.

Rising impairments and RWA

Impairments were up 23% yoy (flat on the quarter) at €1.2bn, indicating that the credit cycle has turned. Note that NPLs, although flattish at 3.4% of loans, reflecting growth, are €1.2bn higher than March at €15.3bn. €10bn exposure to CRE. The CET1 ratio came in at 12.67%, above the bank's 11.5-12% target, explaining the buyback. However, we note too that RWA have expanded some €27bn in the year; CET1 capital has grown €3.4bn.

Spain outperforming

In 4Q23, it was actually Spain that contributed most to the group's growth (of course Mexico is the growth driver for the year), although net income there was 27% down qoq to €645m owing to higher taxes and charges. The outcome in Mexico at €1.3bn net was flat on the quarter, as main operating revenue lines faltered growth wise qoq (although up 20% yoy). Mexico is now 47% of group revenues. There is a big jump in impairments yoy to €663m in Mexico too. Türkiye is still weak with net of €161m as operating income fell 42% and trading income dropped. BBVA guides that net profit will 'continue to grow' in 2024 with ROTE above 2023 levels (stated ROTE is 17%, our calculated ROE this quarter is 12%), with efficiency better than 42%. We note that Mexico NII is guided to recover next year with growth at high single digit on double digit loan growth.

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Valuation & risk

BBVA (BBVASM)

BBVA is sturdily positioned in its key markets of Spain and Mexico. Earnings delivery is good in 2023 but we see some signs of slowing momentum. We see too great a dependence on the Mexico operations especially now Türkiye, with hyperinflation accounting, is less reliable as a performer. This makes us less comfortable with the credit. We express our caution on the name through CDS, including our Buy Protection for the SLA. We see a lack of true diversification and in our view the benefits of the disposal of the US, which boosted capital and could have positioned the bank well, strategically speaking, has disappeared as a result of share buybacks. For the bank's senior preferred bonds, we prefer Santander, hence, our Underweight. We think the €0.375% '26 senior preferred where we are MW is better value than the equivalent €0.5% '27 SNP where we are UW. We are UW the €1% 2026 SNP as we find the equivalent Santander bond offers better value, and we prefer it on fundamentals too.

Downside risks: Negative strategic moves, although capital is arguably lacking for anything major strategically. Further deterioration of conditions in Turkey. Domestic consolidation.

Upside risks: greater diversification and further progress in profitability in Spain.

Analyst Certification

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Security/Loan pricing

BBVA / BBVASM

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
Senior Unsecured, EUR, Y5:CDS	1,132				31-Oct-2023	2.33	78
Subordinated, EUR, Y5:CDS	400				27-Jan-2024	4.45	139
5.875, Junior Subordinated, EUR, 2049:B	1,000	31-DEC-2049	Ba2/NR/WD	100.14	31-Oct-2023	4.69	123
SLA, EUR, Y5:CDS					31-Oct-2023		124
1.125, Senior, USD, 2025:B	800	18-Sep-2025	A3/A/A-	93.50	29-Jan-2024	5.33	86
.125, Senior, EUR, 2027:B	1,000	24-Mar-2027	A3/NR/A-	93.20	29-Jan-2024	3.46	100
1, Senior, EUR, 2026:B	1,000	21-Jun-2026	Baa2/BBB+/BBB+	94.60	29-Jan-2024	3.39	100
.5, Senior, EUR, 2027:B	1,250	14-Jan-2027	Baa2/BBB+/BBB+	92.07	29-Jan-2024	3.36	103
.375, Senior, EUR, 2026:B	1,000	15-Nov-2026	A3/NR/A-	92.19	29-Jan-2024	3.35	101
9.375, Junior Subordinated, USD, 2049:B	1,000	25-Oct-2049	Ba2/NR/BB	105.81	29-Jan-2024	7.99	406
6.5, Junior Subordinated, USD, Perp/2049:B	1,000	25-Oct-2049	Ba2/NR/BB	98.00	29-Jan-2024	8.42	380

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

Disclosures

Important Disclosures

Credit opinion history

BBVA / BBVASM

Security	Date ^{R1}	Action	Recommendation	Price
Senior Unsecured, EUR, Y5:CDS	31-Dec-2022		Buy Protection	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Buy Protection	
Subordinated, EUR, Y5:CDS	31-Dec-2022		Buy Protection	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Buy Protection	
5.875, Junior Subordinated, EUR, 2049:B	31-Dec-2022		Marketweight	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Marketweight	
SLA, EUR, Y5:CDS	31-Dec-2022		Buy Protection	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Buy Protection	
1.125, Senior, USD, 2025:B	31-Dec-2022		Underweight	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Underweight	
.125, Senior, EUR, 2027:B	31-Dec-2022		Underweight	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Underweight	
1, Senior, EUR, 2026:B	31-Dec-2022		Underweight	
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Underweight	
.5, Senior, EUR, 2027:B	17-Jan-2023	Initial	Underweight	88.47
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Underweight	
.375, Senior, EUR, 2026:B	17-Jan-2023	Initial	Marketweight	89.22
	13-Jun-2023	Restricted	NA	NA
	13-Jun-2023	Coverage Resumed	Marketweight	
9.375, Junior Subordinated, USD, 2049:B	18-Oct-2023	Initial	Underweight	97.40
6.5, Junior Subordinated, USD, Perp/2049:B	18-Oct-2023	Initial	Marketweight	93.30

Table reflects credit opinion history as of previous business day's close.^{R1} 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."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

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Neutral: No purchase or sale of CDS is recommended.

Sell Protection: Sell CDS, therefore going long credit risk.

Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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