Santander

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BUY

Banco Santander S.A

April 6th, 2025

Price Target: **$10.65** | Price: **$5.97** | Upside: **79.73%**

Executive Summary

Santander (SAN)

Santander's governance is structured to ensure free decision-making within the board as well as effective communication between the group's various divisions and subsidiaries. The board is primarily made up of independent directors, which account for 66,67% of the board seats, of which only two are occupied by members of the Botín family. This idea of independence can also be seen by analysing the composition of the members of several of Santander's committees, in which independent members take up the majority of the seats in all but one (the executive committee, in which the proportion between independent and executive members is equal).

Capital Structure

Santander's capital is quite diluted. As of the 31st of December 2024, the board only holds about 1,29% of SAN's shares, while shares of institutional investors amount to about 58,7%. Among them, Santander's top 3 shareholders are BlackRock, Vanguard and Dodge & Cox. The rest of the shares are owned by minority investors. The group's stock is very much locally held as 89,83% of shareholders are European while stockholders in the Americas only make up 9,51% of the ownership of the bank.

Santander's geographical segmentation

Santander has a very diversified client base. Its two strongest markets with regards to AUM are Spain and the UK but its presence in South America is also significant, while growth in its Mexican and, especially, US division have made the North America division a top priority for Santander's executives.

When it comes to market share Banco Santander holds strong market positions across key regions. In Spain, it leads with 17% of loans and 19% of deposits, while Portugal surpasses that in lending with 18% but holds 13% in deposits. In the UK, it has a solid but more competitive presence with 9% in loans and 7% in deposits, while Poland maintains 13% and 11%, respectively.

In the Americas, Mexico has a balanced position (12% loans, 11% deposits), while Brazil (9% and 10%) has room for expansion. Chile stands out with 17% in loans and 18% in deposits, reinforcing Santander's leadership. Argentina remains stable at 12% in both. In the U.S., Santander focuses on auto lending with a 3% share, and deposits remain low.

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Company Overview

Santander's product offering

Santander retail

Santander is divided into five major global businesses. Its core business activity is its retail division, which provides everyday banking services like checking and savings accounts, mortgages, personal loans, and insurance to individuals and small businesses. This business unit generated 52% of Santander's 62,2 billion revenue in 62% and is headed by Daniel Barriuso.

Santander consumer 5inance

This division provides financing for consumer goods, including loans and leasing solutions for cars, electronics, and home improvements. Santander Consumer Finance collaborates with car manufacturers and retailers to offer tailored financial products such as auto loans, credit cards, and personal loans. The division is headed by Nitin Prabhu and brought in 20% of Santander's revenue in 2024.

Santander CIB

The CIB division offers a full suite of services to large corporations, financial institutions, and government entities. These services include capital raising, debt and equity underwriting, mergers and acquisitions advisory, treasury and cash management, trade finance, and corporate banking services. This business unit's revenues in 2024 represented 13% of those of the group and grew by 14% year-on-year. The division is headed by José M. Linares.

Santander wealth management and insurance

This unit headed by Javier García-Carranza provides tailored wealth management services for high-net-worth individuals, offering financial planning, investment solutions, and private banking. Santander also offers a broad range of insurance products such as life insurance, health insurance, and home insurance through its subsidiary, Santander Insurance. These products allowed Santander to generate 3,7bn in 2024, about 6% of the group's revenues.

Santander payments

This business unit includes services like international money transfers, digital wallets, merchant acquiring, and other payment technologies for both businesses and consumers. The bank, under the leadership of Juan Guitard, developed platforms like PagoNxt, which provides payment services across borders, enhancing Santander's role in the global digital payments space and generating 9% of the group's revenues.

US

Growing the CIB business

Since the COVID pandemic Santander has refrained from hiding its intentions of becoming an investment banking powerhouse in the US market. It's no secret that penetrating the infamous New York M&A market is no easy feat. Many European giants like Deutsche Bank or Barclays have failed at doing so before but now Santander aims to exploit its market share and presence in Latin America to stand out from the crowded US market. As early as 2021, the Spanish lender bought fixed- income broker Amherst Pierpont Securities for $600 million.

During the Summer of 2023, Santander launched its so-called 'US build- out' plan, which notably included hiring more than 150 bankers (60 of them at MD level), mainly in the US and mainly from the then recently acquired Credit Suisse. A recent re-shuffling left the US CIB and M&A business division at the helm of two ex-CS bankers (David Harmer and Steven Geller). Although group CEO Héctor Grisi stated that "In no way are we thinking about being a major player (..) nor do we plan to compete with the big players", the bank earmarked $250 million to grow its CIB division with a focus on leveraged finance and the Latin American market.

Almost 4 years later the results seem to be paying off. On the 13th of March the bank announced that during 2024 the US CIB division had managed to gain more than 1,000 new clients, increase revenues from commissions by 81% (which now sit at $661 million) and earn $3,887 million from its interest margin, an increase of 6,3% YoY. Although the considerable salaries and signing bonuses that were granted to the ex-CS executives in order to poach them and compensate for the deferred salaries, they were owed at their maiden employers still keep the division's numbers from reflecting their true potential, the division managed to post a $2,740 million profit in 2024 (a 15,8% increase YoY). Santander has managed to find its footing among American industrial powerhouses as well as traditional financial institutions and private equity firms and sits at the second most active US investment bank in the first 3 months of 2025 after participating in three American IPOs.

FY'24	Revenue (€bn)	Contribution to Group revenue	Efficiency	Profit (€bn)	RoTE	2025 RoTE ID target
Retail	32.5 +11%	52%	39.7% -3.4pp	7.3 +29%	18.9% +3.7pp	c.17%
Consumer	12.9 +6%	20%	40.1% -2.7pp	1.7 -12%	9.8% -1.8pp (excl. CHF and Motor Finance 12.0%)	>14%
CIB	8.3 +14%	13%	45.6% +0.6pp	2.7 +16%	18.1% +0.5pp	>20%
Wealth	3.7 +15%	6%	35.9% -2.0pp	1.6 +14%	78.7% +6.5pp	c.60%
Payments	5.5 +9%	9%	45.0% +0.7pp	0.7[1] +18%	PagoNxt EBITDA margin 27.5% +2.7pp	>30%
Group	62.2 +10%		41.8% -2.3pp	12.6 +15%	16.3% +1.2pp	15-17%

	Total	Loans	Deposits	Mutual funds
Spain	626	226	306	94
United Kingdom	467	236	223	
Portugal	82	39	38	
Poland	95	39	50	
US	227	118	94	
Mexico	107	45	42	
Brazil	224	94	81	49
Chile	84	41		

UK

The UK is Santander's second biggest market in terms of AUM. Since 2004, when it bought out Abbey National, it has not stopped growing its deposit and loan base through organic growth as well as through acquisitions and alliances with fellow British lenders like Alliance & Leicester and Bradford & Bingley. Santander's chair Ana Botín is especially acquainted with this division of the bank because she was responsible for it from 2010 to 2014. This, however, hasn't stopped her from questioning the convenience of maintaining control over a division which has, over the last couple of years, underperformed when compared to other divisions, brought serious legal troubles and been unable to exploit the recent wave of interest rate hikes. These factors, added to the high-cost base the UK business incurs in and Britain's ringfencing regime (which obliges banks with more than £25 billions of "core deposits" to separate its retail banking services to other activities like investment banking) have led to suspicions about the sale of Santander UK to a British competitor.

As early as October 2024, the lender announced considerable headcount reductions while other divisions like Santander US embarked in a wave of signings. Although this only contributed to the rumours, Santander continued to deny their intent of selling its British arm, despite having negotiated with Barclays last year in talks that concluded with the rejection of Barclay's offer. During February, Santander allegedly negotiated with NatWest to explore a sale of Santander UK, but the negotiations have not yet produced any results.

These rumours of Santander's plans to exit the UK have only heightened during the last weeks, when Santander announced it would be closing down a fifth of its UK branches, putting 750 jobs at risk, adding to the October headcount reductions in a clear effort to divest in the region. Although many other high street UK banks like Lloyds have also announced similar measures and the move may be sector-wide and may not necessarily indicate this exit plan, the size of the overhaul seems symptomatic of a bigger issue.

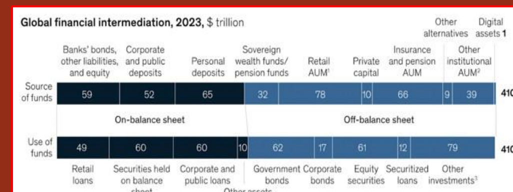
If Santander decided to end up selling its UK unit, the excess capital derived from the sale would most likely be distributed to its shareholders. Calculations assuming a sale price in the price-to-book range of 0,8-1 reveal that 13-16% of Santander's current market capitalisation could be liberated as excess capital that could either be re-distributed to shareholders or re-invested into the business. Local rival BBVA carried out a similar move with its US unit a couple of years ago and managed to prop its stock up by almost 315% in a historic rally that has valued the Spanish lender at multiples clearly above Santander's, whose stock has fallen by nearly a third since Ana Botín became chair of the bank in 2014.

Other experts, however, argue that the current economic climate would preclude Santander from pulling off a move comparable to that of BBVA, as Santander UK's valuation would currently be curtailed by a recent UK court ruling that found it unlawful for banks to pay undisclosed commissions to car dealerships. As a result of this ruling, Santander UK set aside £295 million to cover potential costs, which substantially reduced its 2024 result.

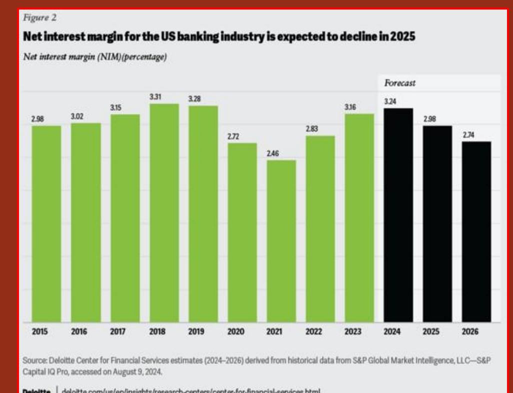
Industry Overview

General Figures

The global banking industry has demonstrated strong historical performance and responses to the subsequent macroeconomic and technological shifts of the last decade. A McKinsey report published in 2024, reported that the industry recorded global revenues of approximately $7 trillion, alongside a net income of $1.1 trillion, resulting in a Return on Tangible Equity (ROTE) of 11.7%. In terms of asset intermediation, the global banking industry managed $410 trillion in assets worldwide in 2023, coming to show its pivotal role in global financial stability and liquidity.

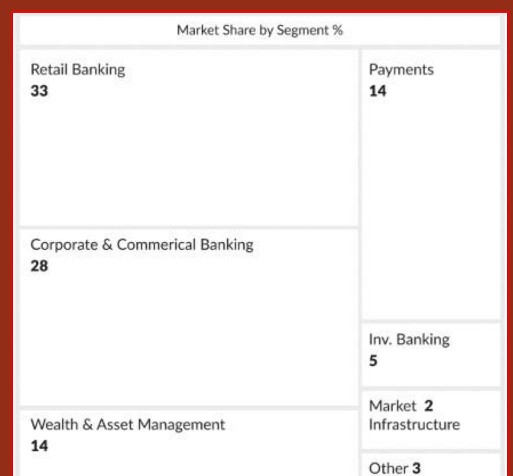


Hence, the global banking sector is dealing with major marginal declines when it comes to profitability. The most notable change is in net interest margins (NIM) as the US banking industry is projected to see a noticeable dip to 3% in 2025 from the 3.25% in 2024.



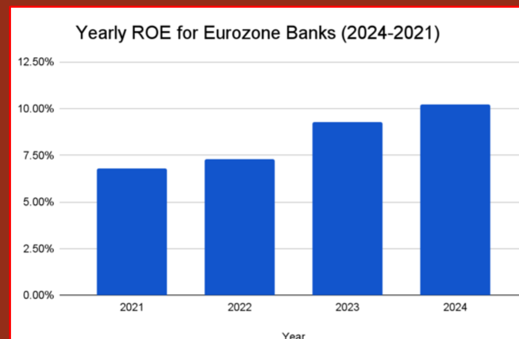
The shift towards digitalization the banking industry has experienced for the last decade or so continues to translate its impact in the industry with digital payments expected to reach a total transaction value of $20.4 trillion in 2025 and $36.8 trillion by 2029. Thus, it is promising to see the banking sector embracing the benefits of digital technologies. Furthermore, according to a 2024 Citigroup report, AI could propel industry profits by a staggering $2 trillion by 2028, a 9% increase over the next couple of years.

Concerning the distinct segments of the banking industry, it is no news that retail and commercial banking, together account for 61% of the global market. Retail banking alone is projected to reach $2.2 trillion by 2025, driven by a 7% annual growth rate, fueled by the major adoption of mobile and personalized financial services. Meanwhile, commercial banking is on track for a 14% YoY growth in 2025, building on the $3.8 trillion recorded in 2024. Despite these promising numbers, the banking sector seems increasingly volatile towards challenges that could temper its recent growing trends. Among these stated factors, McKinsey addressed the industry might encounter anticipated marginal declines oscillating around 5-10% by 2026, driven by certain evolving interest rate environments and regulatory pressures that are projected to impact the banking sector's profitability.

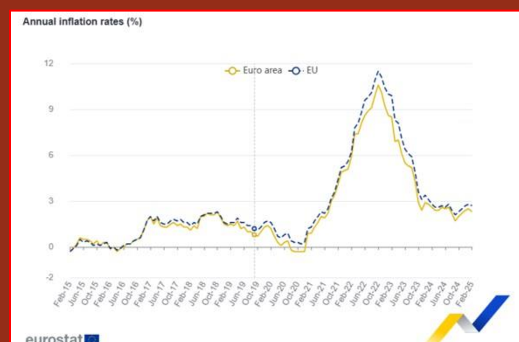


Macroeconomic & Regulatory Environment – Europe

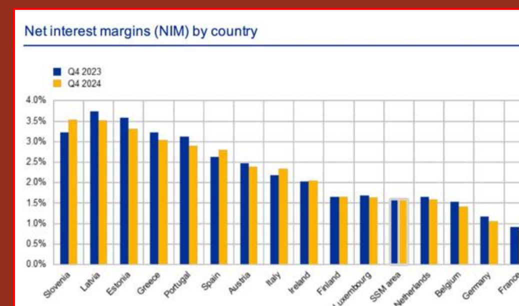
The outlook for the macroeconomic and regulatory landscape for European banks remains solid, marked by ongoing economic recovery and shift in monetary and regulatory policies. Hence, the European banking landscape is expected to undergo a period of modest economic acceleration with average real GDP to rise between 1.3% to 1.5% in 2025 and 1.8% in 2026, up from 0.7% in 2024 as per Ernst & Young (EY). This subsequent improvement is bolstered by continuous efforts to decline inflation rates to a healthy 2%. However, the current geopolitical imbalances including trade uncertainties pose evident pressures on credit flows and limits the pace of the Eurozone's economic recovery.



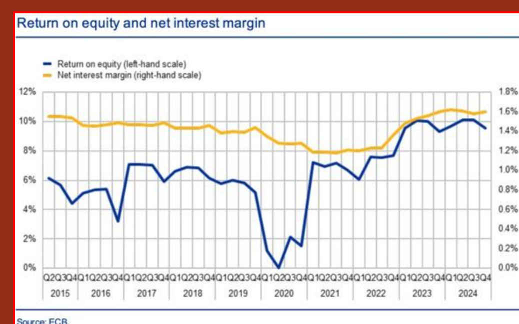
As of March 2025, the president of the European Central Bank, Christine Lagarde, announced Europe's new key monetary policies towards anticipating an accommodative stance. As a direct consequence of the growing economic trade tensions and subdued growth, leading to a downgrade in the ECB's growth projections for 2025, Europe is transitioning to take control of its future as Lagarde recently stated: "I've tried to describe this as a moment for our Europe... and I see it as the start of a march towards independence."



The ECB's new monetary policy dynamics further complement our macroeconomic outlook for the Eurozone banking industry. It is expected that the ECB will continue easing and lowering interest rates, which further translates to a growing burden on net interest income (NII) and profitability of European banks relative to its peers in the US. Many European banks have since reduced dependency on short-term deposits by developing new deposit management strategies to protect their net interest income. Since the global financial crisis in 2007, the ratio of NII to total assets has been declining. This decline was far more noticeable for small to medium sized banks, while larger banks maintained stable ratios. For smaller to medium sized banks, where NII tends to be more sensitive towards interest rate fluctuations, we are expecting earnings to slow down for the upcoming years. For larger institutions like Santander, compressed interest margins may pose a risk, but activities in international markets may help offset these marginal intricacies. NII being an important revenue driver, our prospects lean towards seeing more and more European banks adapting their revenue models towards fee-based streams in areas such as wealth management and advisory to preserve their subsequent margins against lower interest rates.



The total bank lending rate in the Eurozone has been quite steady in 2024 with almost no yearly growth. According to an Ernst & Young (EY) report, the total lending rate in Europe is projected to grow 3.1% in 2025 and 4.2% in 2026, up 0.2% over the previous 2 years. Among the best prospects in the Eurozone, Spain is expected to be a bright spot for lending in 2025, bolstered by falling inflation rates reaching 2.2%, proper use of EU recovery funds and GDP expected to grow between 2.8-3%, posing favourable for growth in credit demand. This poses an opportunity for Spanish banks such as Santander or BBVA to grow their lending volumes and strengthen their revenue projections.



Macroeconomic & Regulatory Environment – USA.

On the other side of the Atlantic, the US banking industry has always been a pillar of economic growth with its robust financial services system, and now, its influence in the global banking landscape is more evident than ever. With the Trump administration making its return to the White House, uncertainty looms over the future of both the US and global banking industry. Trump's return suggests a major transition towards deregulation, which happened to trigger a noticeable increase in M&A transactions within the sector. In January alone, 11 M&A deals were recorded with a transaction value of $678.4 million. This amount grew by 19 additional deals in February, an increase from last year's recorded 10 deals. However, it is the volatility in trade policies & tariffs that could hit the industry the most. Although Banks aren't directly affected by tariffs, it has indirectly cooled bank stocks over the last three months. The KBW Index (Keefe, Bruyette, Woods), which is the benchmark stock of the banking index, is on track for its worst three-month stretch being down 6.4%. The US's recent "Liberation Day" tariffs of a foreign states raise even more questions about potential stagflationary effects on the retail sector. Just recently, Citi addressed that tariffs exceeding 20% could lead to a scenario where stagflation, due to elevated tariffs, could leave banks facing lower loan demands. With 51% of the total goods imported to the US being intermediary goods, tariffs could translate to a decrease in investment and an increase in costs of finished goods, expecting tighter monetary policies implemented by the Federal Reserve. Banks in turn can expect higher borrowing costs with the subsequent decline in loan demand from sectors reliant on imported goods such as retail or manufacturing, dampening corporate borrowings and bank profits.

Internationally, United States' tariffs have prompted responses from major trading partners. The European Union has considered taking counter-retaliatory measures such as levies and actions targeting US services including American banks. Hence, the measures taken by the US will most probably impact foreign banks, especially those in Europe or Asia. Most importantly, these policies could lead to further economic consequences fragmenting relations and lending activity within the international banking landscape.

Despite this, we can still observe a handful of European banks shifting their operations to the US. The reason behind this lies under the US financial sector, historically, offering a more profitable and less regulatory environment for European banks. As of 2024, the return on equity (ROE) for European banks stands at 10.2%, however, it was 9.29% in 2023, 7.3% in 2022 and 6.77% in 2021. On the other hand, US Banks achieved more stable values around 10.52%. This polarity between both landscapes is mainly driven by a combination of drastic differences in economic growth, continuing dropping interest rates and extra regulatory costs. Consequently, as noted in our Eurozone analysis, we can expect European banks to transition to retail, wealth management or advisory services, which global data indicates the US dominates. Thus, European banks, especially the big ones, will naturally view the US market as an opportunity for expansion.

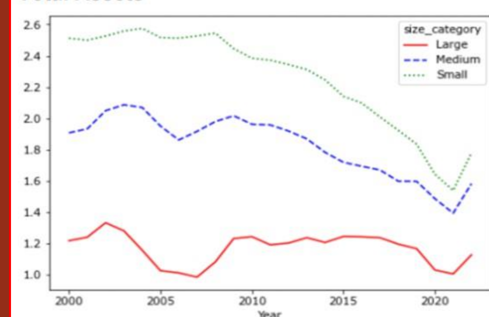
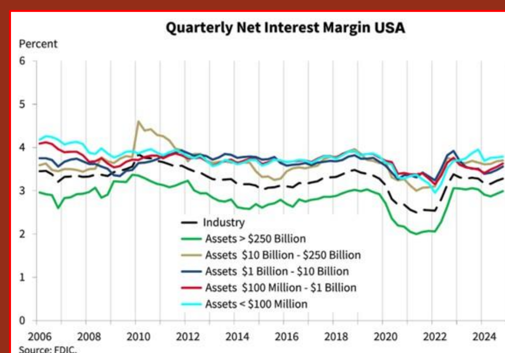
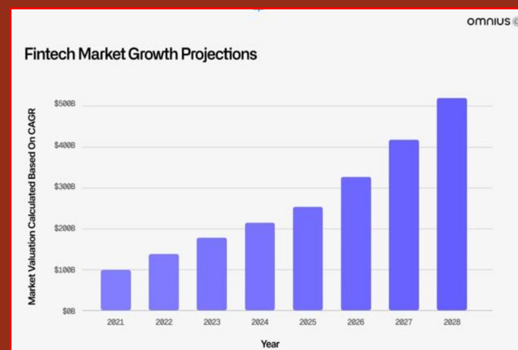


Figure 9: European Banks' Net Interest Income to Total Assets

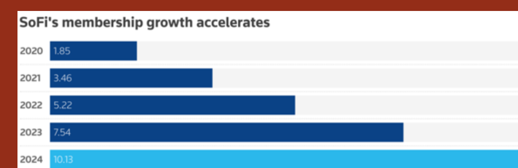


Competitive Landscape

The competition in the banking industry is changing with an ever-growing number of non-traditional banks in the market such as fintech banks. In today's banking landscape, fintech banks have a greater propensity to capitalize on the growing demand for agile, customer centric and cost-efficient services. A Mckinsey report indicates that fintech revenues are projected to grow almost three times faster than those in the traditional banking sector between 2024 and 2028 in terms of financial service offerings and convenience. From a survey conducted by the American Bankers Associations (ABA) in 2024, it was found that 82% of millennials now favour digital banking channels over traditional branches, emphasizing the grand shift in consumer profiles and preferences in the industry. These numbers effectively pressured major institutions to respond by investing in digital branches. However, the competition ahead is increasingly more intense with digital banking services gaining market share in areas such as lending, wealth management and insurance, with US fintech companies such as SoFi offering convenient and accessible solutions for competitive rates. SoFi recently sealed up to $5 billion in loan agreements, coming to show how fintech lending gains ground.



From an industry standpoint, Santander's presence in the US exposes itself to two fierce points of competition: investment and retail banking. Historically, important names like JPMorgan, Goldman Sachs and Morgan Stanley have long dominated the investment banking segment, consistently landing at the top of global rankings when it comes to M&A. Although, when it comes to investment banking, it isn't only these bulge bracket banks that thrive but elite boutique banks as well, handling more specialised deals. Despite this, Banco Santander's investment banking operations are experiencing consistent growth as their profits more than doubled in 2024 relative to 2023. The retail side of the sector includes major institutions such as JPMorgan Chase, Bank of America, Citigroup and Wells Fargo. JPMorgan alone controls over $2.7 trillion in domestic assets and with that, holds more than 12% of all US deposits. In 2025, its consumer banking segment alone is projected to be the single-biggest revenue driver with $74 billion. Hence, it is indisputable that at first, Santander will face major challenges given that Santander's footprint in the US is much smaller, with approximately $102 billion in assets according to the FED. Furthermore, the consumer banking segment is experiencing a macro shift towards digitalization. It is reported that JPMorgan invests over $15 billion a year on their digital services. Santander matched this trend by investing $20 billion in launching its own fintech branches like Openbank. As of March 2025, the platform topped $2 billion in consumer deposits since its introduction to the market in late 2024.



Bank Name / Holding Co Name	Nat'l Rank	Consol Assets (Mil $)	Domestic Assets (Mil $)
JPMORGAN CHASE	1	3,459,261	2,657,422
BANK OF AMERICA	2	2,589,060	2,440,102
WELLS FARGO BK	3	1,705,538	1,683,723
CITIBANK	4	1,696,818	1,058,302
U S BK NA/U S BC	5	662,906	655,538
GOLDMAN SACHS	6	558,235	504,533
PNC BK	7	556,139	552,160
TRUIST BK/TRUIST FC	8	523,132	523,095
CAPITAL ONE	9	487,193	486,726
T D BK NA/TD GRP US HOLDS LLC	10	372,778	372,778
....			
SANTANDER BK NA/SANTANDER HOLDS USA	28	102,701	102,676

Financial Analysis

Liquidity

Structural liquidity management is a key area for Santander group and is closely controlled for three reasons: to ensure that liquidity levels cover short- term needs, to reduce funding costs, and to comply with regulations. To achieve these objectives Santander uses a decentralized liquidity model where each subsidiary monitors local liquidity risk management (they cover their own liquidity needs) allowing the group to have an effective control system. This type of governance is relevant and well-suited for the current economic environment to adapt quickly to differences in interest rates, geopolitical turmoil, and economic growth; moreover, it explains in part the robust liquidity position that we are going to analyse through the next metrics.

Santander's funding strategy relies heavily on customer deposits. This reflects the strong proportion of the retail banking division in the group and ensures a predictable funding base compared to financial assets. Additionally, the growth in lending, following the ECBs interest rate cuts in 2024, was matched by an equal growth in deposits resulting in a solid liquidity position.

The net loan-to-deposit ratio remained constant between 2022 and 2024 at around 100% which means that the bank effectively uses its deposit base into lending activities. Similarly, the credit-to-net-assets ratio stayed stable in 2024 compared to previous years at around 68%. Additionally, we can observe a limited use of short-term wholesale funding, accounting for only 2%, indicating minimal exposure to more volatile markets. Structural liquidity surplus stood at EUR 340,438 million at year-end and is in constant increase since 2022. It provides a significant buffer against unexpected collateral needs and reflects prudent management practices.

Furthermore, Santander's regulatory liquidity ratios were well above the minimum requirements in 2024. The liquidity coverage ratio, one of the key components of the Basel III regulatory framework, demonstrates the ability to withstand stress scenarios (short-term liquidity shocks) over a 30-day period. Although the required level was 100%, all Santander's subsidiaries LCR exceeded this number in 2024 with variations in levels according to geography.

Finally, the repayment of the Targeted Longer-Term Refinancing Operations III (TLTRO-III) was completed in 2024 and immediately replaced by a mix of funding sources. The issuance of new medium and long-term debt exceeded the funding plan proposed at the beginning of the year to pre-fund part of the 2025 maturities thanks to the favourable market condition at the end of 2024. Thus, we can expect liquidity metrics to remain at good levels during the next year.

Group liquidity balance sheet

%. December 2024

Liquidity Coverage Ratio (LCR)

%

	December 2024	December 2023
Parent bank	162%	159%
United Kingdom	154%	159%
Portugal	142%	150%
Poland	220%	221%
Santander Consumer Finance	263%	357%
US	179%	138%
Mexico	212%	171%
Brazil	168%	154%
Chile	181%	207%
Argentina	226%	226%
Group LCR	**168%**	—

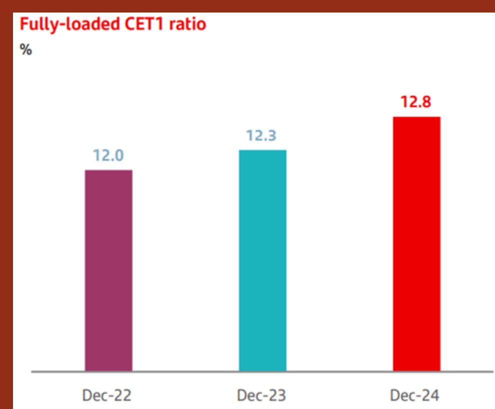
Group's liquidity monitoring metrics

%

	2024	2023	2022
Loans [A] / Net assets	68%	68%	72%
Loan [A] -to-deposit ratio (LTD)	100%	99%	103%
Customer deposits and medium- and long-term funding / Loans [A]	128%	127%	121%
Short-term wholesale funding / Net liabilities	2%	3%	3%
Structural liquidity surplus (% of net liabilities)	24%	23%	19%

Solvency

Regarding Santander's solvency, the group has successfully maintained a robust position with a general increase in ratios compared to the previous years. Firstly, the fully loaded Common Equity Tier 1 (CET1) increased by 0.5 points to 12.8% in 2024 and reflects how much of the bank's assets are funded by its most stable form of capital. This increase was driven by both higher retained earnings and an improved asset rotation (selling riskier assets and securitization) that reduced risk-weighted assets, equipping the bank with more loss-absorbing form of capital.



Secondly, the fully loaded leverage ratio stood at 4.78% at the end of 2024, representing a slight increase from 4.69% in 2023. Unlike risk-weighted ratios such as CET1, the leverage ratio is not risk-sensitive providing a transparent view of Santander's total exposure. This key regulatory metric exceeds again the standards, allowing the bank to maintain confidence of regulators and investors. The latter directly affects positively the future financial stability and sustainability of the bank by ensuring lower cost of funding.

Credit Risk

Regarding credit risk, Santander's non-performing loan (NPL) ratio decreased from 3.14% in 2023 to 3.05% in 2024, continuing a multiyear decline. This measure is slightly above the average European banks' NPL ratio and could be negatively affected in the upcoming years by a deterioration in credit quality due to the potential reduction in disposable income of households (fiscal stimulus progressively withdrawn).

Main capital data and solvency ratios

EUR million

	Fully loaded		Phased in[A]	
	2024	2023	2024	2023
Common equity (CET1)	79,705	76,448	79,800	76,741
Tier 1 (T1)	90,076	85,450	90,170	85,742
Eligible capital	107,106	101,747	108,589	102,240
Risk-weighted assets	624,477	623,652	624,503	623,731
CET1 capital ratio	12.8%	12.3%	12.8%	12.3%
T1 capital ratio	14.4%	13.7%	14.4%	13.7%
Total capital ratio	17.2%	16.3%	17.4%	16.4%
Leverage ratio	4.78%	4.68%	4.78%	4.69%

Finally, Santander's Net Stable Funding Ratio (NSFR) stood at 126% at the end of 2024, comfortably exceeding the regulatory requirement of 100%. This ensures that the bank maintains a long-term stable funding profile, and it provides greater flexibility to manage its balance sheet. This flexibility could allow Santander to pursue strategic opportunities such as continuing to develop its global platform of innovative payments (PagoNxt) without being concerned about funding stability.

Valuation

Methodology

To value Banco Santander, we decided to conduct a relative valuation based on the price-to-book ratio adjusted using the Gordon Growth Model. We decided to use this model as it is more appropriate for valuing typical financial institutions such as banks where the balance sheet composition plays a crucial role in the company's overall performance, which is often expressed through the ROE.

For this analysis, we began by sourcing our data from Yahoo Finance through a Python script to ensure accurate and up-to-date data. For Banco Santander, as well as 4 other competitors (BBVA, HSBC, Deutsche Bank, and Barclays), we extracted three main variables: ROE, Beta, and the current Price to book ratio. By extracting the beta and following up with additional research, we then estimated the cost of equity according to the following assumptions: a risk-free rate of 3.5% based on the yield of a 10-year US Treasury bond and a market risk premium of 5% (consistent with averages of developed markets). Banco Santander's Beta was recorded at 1.37, which, following the CAPM formula, gave us a cost of equity of 10.35%.

Afterwards, we tried to estimate the theoretical P/B ratio with a ROE of 12.99% and a growth rate of 4%, which can be justified by the diversified and significant exposure the bank has in developing markets such as Latina America, where macroeconomics growth rates are expected to be higher compared to developed markets. Moreover, it is in line with the Financial Analysis performed above, showcasing an 11.91% and 13% ROE in 2023 and 2024 respectively. By plugging these values into the formulas, we got a P/B Ratio of 1.41.

Surprisingly, the retrieved P/B ratio from the market is 1.04. This spread between the intrinsic GGM value, and the current market value shows us a 26% undervaluation. This suggests that Banco Santander is not fairly valued momentarily on the market as it may not have priced the potential growth deriving from its geographical diversification and growth prospects.

	Bank	Ticker	Beta
0	Banco Santander	SAN	1.37
1	BBVA	BBVA	1.52
2	HSBC	HSBC	0.49
3	Deutsche Bank	DB	1.19
4	Barclays	BCS	1.29

	Cost of Equity (%)	Growth Rate (%)
0	10.37	4.0
1	11.12	4.0
2	5.97	3.5
3	9.44	3.0
4	9.94	3.0

P/B Adjustment for Banco Santander

For Banco Santander, we applied an ROE of 12.99% and a long-term growth rate of 4.0%, which is justified by Santander's diversified footprint and its significant exposure to emerging markets such as Latin America, where higher macroeconomic growth rates are expected compared to developed markets. Plugging these values into the GGM formula produced a fundamental (theoretical) P/B ratio of 1.41.

For context, we applied the same framework to Santander's peers. BBVA showed an even greater undervaluation (GGM P/B of 2.01 vs. market P/B of 1.42), while HSBC and Barclays appeared overvalued relative to their fundamentals.

This approach offers a straightforward and reliable way to compare banks, especially given how capital-heavy and regulated the industry is. By using CAPM to figure out the cost of equity, we're also factoring in each bank's risk profile through its beta, which helps make the results more realistic.

	Actual P/B	GGM P/B
1	1.42	2.01
2	6.18	3.85
3	0.58	0.41
4	3.71	0.84

Resulting Share Price

Finally, we will estimate the share price of Santander by multiplying the pb_ggm * bv (ps) giving us a share price of **10.65** signifying a strong upside potential.

All in all, our analysis, where we adjusted the Price-to-Book ratio using the Gordon Growth Model, suggests that Banco Santander might be undervalued by the market. For investors who are thinking long-term and looking for stable financial institutions with exposure to higher-growth regions like Latin America, Santander could be a solid option to consider.

Thesis & Recommendation

Outstanding Upside

The most appealing trait of Santander is its apparent undervaluation with respect to its peers. The value approach, where the intrinsic value of the company is lower than that reflected by the market, together with an apparent bright future in terms of growth, makes the 'value-trap' scenario highly unlikely. Overall, the close to 80% upside is plausible, however, contingent to the expected success in the expansion plain to the US market, while maintaining its position in the current regions. The P/B ratio of 1.41, that results in an implied share price of **$10.65** causes Santander at the top of our Spanish watchlist in 2025.

Expansion Plans

Our Company Overview section clearly reflects Santander's intention to expand its operations to the most important capital markets region of the world. It is no secret that the US is the most prestigious and profitable region for the banking industry. The low regulation environment and higher historical average ROE in the industry in comparison to Europe are key drivers of the strategic decision. These are complemented by the opportunity that presented itself after the acquisition of Credit Suisse, a gap in the market that Santander intends to fill. Although it is recognized by executives that becoming a major player is not the target, the extra growth and expansionist sentiment is certainly appealing for investors. The competitive environment in the region is not to be taken lightly, Santander will need to thrive where other large European banks have failed (Deutsche Bank) to consolidate its position.

Macro Environment

From our Industry Overview it is clear that there are challenges that the company needs to overcome to fulfil its growth expectations. For one, volatility in international markets, driven by the new administration in the US. As mentioned before, the isolationist policies involving tariffs can not only be responsible for the decline in activity in one of the most important regions for the bank, but can also affect global activity by limiting trade, and consequently increasing global borrowing costs that may negatively impact the demand for loans in corporate and retail divisions. In addition, Santander will have to adapt to digitalization, a trend that will continue to revolutionize the industry, with an increasing number of fintech companies joining the competition, undoubtedly resulting in higher investment and development costs to match new technologies. However, we believe the future is bright for the Spanish giant. Santander has a strong balance sheet, exhibiting low risk allowing it to confidently navigate through the potential future uncertainty as seen in our Financial Analysis section. We remain expectant to next developments but confident on Santander's value and potential.

Santander

State of America's savings

Santander Bank's Growing Personal Savings (GPS) Tracker explores how Americans approach savings and how well they're doing. Overall, most are consistently putting in the effort, but low financial knowledge and underuse of higher-rate savings accounts are undermining growth.

62% of Americans met or exceeded their savings goal in Q1 2024

However, the savings are small:

56% are saving $300 or less each month

26% are saving $100 or less every month

<1 in 5 are taking advantage of each type of higher-rate savings accounts.

Higher-Rate Savings Accounts:
- High-yield savings accounts
- Certificate of Deposit (CDs)
- Money Market Accounts

Eight-in-ten (81%) Americans rate their financial knowledge below proficient and are less likely to be using higher-rate savings accounts.

Who is excelling?

Americans with higher levels of financial knowledge are more likely to be earning at least 3% on their primary savings account, growing their savings at a faster rate.

3%+

Americans with higher levels of savings are more likely to be using higher-rate savings accounts, such as CDs and High-Yield Savings Accounts.

Low Savers	$1 to $4,999 in savings account	
Medium Savers	$5,000 to $24,999 in savings account	2X as likely to utilize higher-rate savings accounts
High Savers	$25,000+ in savings account	4X as likely to utilize higher-rate savings accounts

Why are they excelling?

As financial knowledge grows, use of higher-rate savings accounts and other specific financial behaviors increases.

Higher savers take key steps to stay on top of their finances and grow their savings faster.

Over the past 12 months:

57% regularly engaged and reviewed their bank activity compared to 43% of low savers

44% conducted banking transactions digitally compared to 33% of low savers

37% moved money into accounts that offer higher interest compared to 13% of low savers

29% worked with a financial professional or banker compared to 10% of low savers

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Appendix

```
import yfinance as yf
import pandas as pd


RISK_FREE_RATE = 0.035
MARKET_PREMIUM = 0.05


banks = [
{"name": "Banco Santander", "ticker": "SAN", "growth": 0.04},
{"name": "BBVA", "ticker": "BBVA", "growth": 0.04},
{"name": "HSBC", "ticker": "HSBC", "growth": 0.035},
{"name": "Deutsche Bank", "ticker": "DB", "growth": 0.03},
{"name": "Barclays", "ticker": "BCS", "growth": 0.03}
]

results = []

for bank in banks:
ticker = yf.Ticker(bank["ticker"])
info = ticker.info
try:
roe = info.get("returnOnEquity")
pb_actual = info.get("priceToBook")
beta = info.get("beta")
growth = bank["growth"]

if roe and beta:
roe_pct = roe
cost_of_equity = RISK_FREE_RATE + beta * MARKET_PREMIUM
if cost_of_equity > growth:
pb_gordon = (roe_pct - growth) / (cost_of_equity - growth)
else:
pb_gordon = "Invalid (r ≤ g)"
results.append({
"Bank": bank["name"],
"Ticker": bank["ticker"],
"Beta": round(beta, 2),
"ROE": round(roe_pct * 100, 2),
"Cost of Equity (%)": round(cost_of_equity * 100, 2),
"Growth Rate (%)": round(growth * 100, 2),
"Actual P/B": round(pb_actual, 2) if pb_actual else "N/A",
"GGM P/B": round(pb_gordon, 2) if isinstance(pb_gordon, float) else
pb_gordon
})
except Exception as e:
print("Error")

# Display results
df = pd.DataFrame(results)
print(df)
```