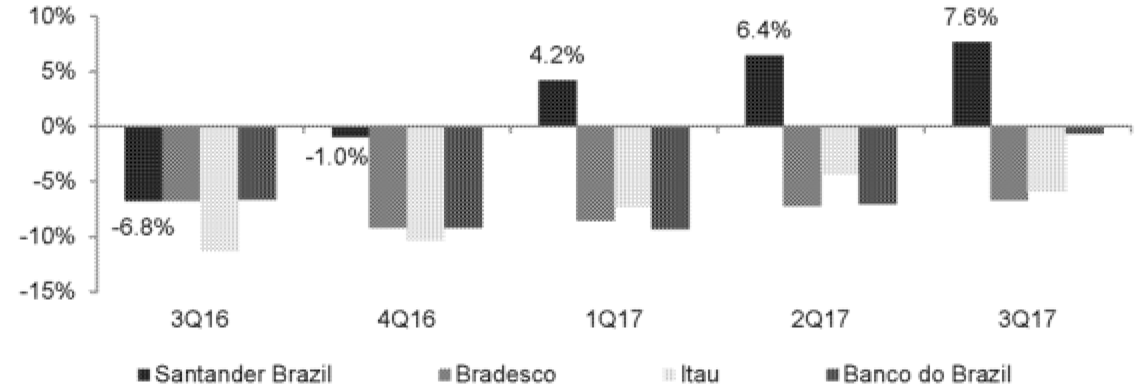
Deutsche Bank

7 Banco Santander – Ignacio Ulargui, BUY, close €5.6, €6.6 tgt, 17% upside

- Santander is a very large cap stock (**market cap > €90bn**) with significant earnings momentum and an attractive valuation.
- **We expect high-single-digit growth in Brazil** over the next two years driven by the economic recovery.
  - NII should rise at a c4% CAGR for 18-19E driven by stronger loan growth (we expect 10%/12% in 18E/19E). Santander has been the most active in increasing lending, being the only Brazilian bank posting both YoY and QoQ growth.
  - The economic recovery should help reduce cost of risk and hence provisions. We forecast a 59bps fall in the cost of risk through to 2019.
- **Costs and provisions should deliver profit growth in Spain.** Popular's contribution could be bigger than expected driven by revenues and lower provisions (the company expects the acquisition of Popular to deliver €550m of synergies), and NPAs should fall over time to non-material levels.
- The **USA** has **revenue and cost tailwinds** to come, starting 1H18.
- **The UK is becoming less of a drag.** Competition necessitates management's margin caution, but the outlook on costs of risk and operations is more positive.
- **Client loyalty focus should bring fee income outperformance.** Realising the potential from the 131m customer base should deliver a 7% fee income CAGR in 2018-19E
- Santander has a **P/B of only 0.9x** for an estimated **11.4% 18E RoTE**.
- **Catalysts** – UK & Brazil newsflow and quarterly results

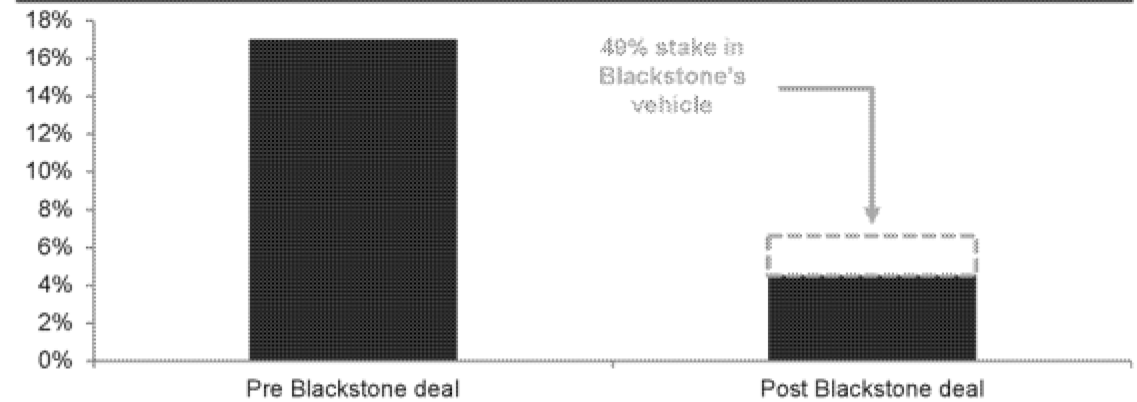
Related DB Research:
Reaffirming targets. Buy reiterated (Ulargui)

Santander Brasil is achieving market-leading loan growth



Source: Deutsche Bank estimates and company data

Spanish NPAs over loans have been materially reduced



Source: Deutsche Bank estimates, company data