

Spanish Banks

Alert: Bank of Spain Recommends 25% Dividend Payout Cap for 2013 – Reiterating Preference for BKT

Bank of Spain's 25% Dividend Cap Recommendation – Bank of Spain's Department of Regulation and Financial Stability sent today a letter to the financial sector professional associations AEB and CECA regarding the dividend policy of credit institutions. The Bank states that adequate capitalization remains an important goal in the current environment and recommends that banks limit the distribution of dividends. It recommends that cash dividend payouts do not exceed 25% of attributable profit. As for scrip dividends, the Bank notes that dividend policies should take into account the growth in the number of outstanding shares and profitability.

The Good & Bad Sides – The good side of the recommendation is that banks that have historically been generous in dividend payouts would need to keep the cash in-house (or not issue as many shares for scrip dividends). The bad side of the recommendation mostly concerns investors who rely on cash dividends for income. And depending on the point of view, the fact that the recommendation is for 2013 could be either a good thing (more flexibility from 2014) or a bad thing (not strict enough to rein in undercapitalized banks from paying dividends). Of course, the Bank of Spain could theoretically recommend a dividend cap every year.

Most Impacted Banks – We expect five of the six banks we cover (ex POP, 3H) to declare dividends for 2013. CABK (2H) and SAB (3H) are loss-making on our 2013 estimates so their dividend payouts may be brought down to zero. SAN, BBVA and BKT should pay out 34%, 44% and 56% *in cash* in 2013 – these could go down to 25% or below if the Bank of Spain believes a bank's circumstances do not allow higher payouts. SAN, BBVA and CABK also pay scrip dividends – SAN pays out 136% of 2013E EPS in scrip, BBVA 27% and CABK NM.

Implications for Shareholders – We believe dividends are likely to come down for 2013 and beyond, until the end of the current crisis. But reported book values should increase driven by lower payouts and less scrip-related share issuance (SAN, BBVA, CABK would benefit).

Prefer BKT in Spain – In the case of BKT, we believe Bank of Spain could be OK with the company maintaining its current 50% cash payout policy given superior organic capital generation. And even if the Bank of Spain does recommend to BKT to reduce payouts, BKT shares should benefit from the higher accumulated 'excess' capital. We reiterate our preference for BKT among the Spanish names. We also recently upgraded our stance on the Spanish banks to Neutral ([Spanish Banks: Upgrading Stance to Neutral](#), 26 June).

Overleaf: Dividend Forecasts and Cash vs Scrip, 2013-16E

Stefan Nedialkov

+44-20-7986-4188

stefan.nedialkov@citi.com

Ronit Ghose

+44-20-7986-4028

ronit.ghose@citi.com

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Figure 1. Spanish Banks – Dividend Forecasts and Dividend Composition (Cash vs Scrip), 2013-16E

DPS	2010	2011	2012	2013E	2014E	2015E	2016E	EPS	2010	2011	2012	2013E	2014E	2015E	2016E
SAN	0.60	0.60	0.60	0.60	0.60	0.60	0.60	SAN	0.99	0.62	0.25	0.35	0.46	0.49	0.52
BBVA	0.42	0.42	0.42	0.42	0.42	0.42	0.42	BBVA	1.10	0.64	0.32	0.59	0.55	0.78	0.94
CABK	0.31	0.23	0.23	0.23	0.23	0.24	0.28	CABK	0.36	0.28	0.05	-0.04	0.18	0.27	0.33
POP	0.17	0.11	0.00	0.00	0.01	0.11	0.22	POP	1.19	0.94	-2.24	-0.08	0.03	0.10	0.43
SAB	0.12	0.08	0.03	0.02	0.04	0.06	0.08	SAB	0.25	0.14	0.03	-0.02	0.17	0.22	0.30
BKT	0.10	0.12	0.05	0.06	0.09	0.16	0.19	BKT	0.20	0.24	0.15	0.11	0.19	0.32	0.37

Scrip	2010	2011	2012	2013E	2014E	2015E	2016E	Payout (Scrip)	2010	2011	2012	2013E	2014E	2015E	2016E
SAN				0.48	0.48	0.24	0.24	SAN				136%	105%	49%	46%
BBVA				0.16	0.17	0.08	0.08	BBVA				27%	31%	11%	9%
CABK				0.21	0.12	0.12	0.14	CABK				-509%	65%	44%	42%
POP				0.00	0.01	0.08	0.17	POP				0%	17%	75%	38%
SAB				0.00	0.00	0.00	0.00	SAB				0%	0%	0%	0%
BKT				0.00	0.00	0.00	0.00	BKT				0%	0%	0%	0%

Cash	2010	2011	2012	2013E	2014E	2015E	2016E	Payout (Cash)	2010	2011	2012	2013E	2014E	2015E	2016E
SAN				0.12	0.12	0.36	0.36	SAN				34%	26%	73%	70%
BBVA				0.26	0.25	0.34	0.34	BBVA				44%	46%	43%	36%
CABK				0.02	0.12	0.12	0.14	CABK				-41%	65%	44%	42%
POP				0.00	0.00	0.03	0.06	POP				0%	6%	25%	13%
SAB				0.02	0.04	0.06	0.08	SAB				-111%	24%	27%	27%
BKT				0.06	0.09	0.16	0.19	BKT				56%	50%	48%	49%

Payout (Scrip + Cash)	2010	2011	2012	2013E	2014E	2015E	2016E
SAN	61%	97%	242%	170%	132%	122%	116%
BBVA	38%	66%	130%	71%	76%	54%	44%
CABK	86%	81%	423%	-550%	130%	87%	84%
POP	14%	12%	0%	0%	22%	100%	51%
SAB	49%	57%	85%	-111%	24%	27%	27%
BKT	49%	50%	32%	56%	50%	48%	49%

Source: Company reports, Citi Research

Companies Discussed: Banco Bilbao Vizcaya Argentaria SA (BBVA.MC; €6.54; 2H); Bankinter SA (BKT.MC; €2.83; 1H); CaixaBank SA (CABK.MC; €2.41; 2H); Banco Popular Espanol (POP.MC; €2.40; 3H); Banco de Sabadell SA (SABE.MC; €1.29; 3H); Banco Santander (SAN.MC; €4.97; 2H)

Appendix A-1

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