Daiwa Capital Markets

CaixaBank S.A.

William Hahn
Credit Research
+44 20 7597 8321
William.Hahn@uk.daiwacm.com

	Sr. Preferred	Sr. Non-Preferred	Outlook
Moody's	Baa1	Baa3	Stable
S&P	A-	BBB	Stable
Fitch	A-	BBB+	Stable

Source: Moody's, S&P and Fitch;

Surge in profitability driven by higher lending income

CaixaBank reported higher than expected net income of EUR1.52bn (+70% yoy), driven by higher lending income compared with 2022. Top-line earnings benefitted from a strong net interest income (NII) result of EUR2.74bn (+71% yoy), comfortably ahead of analyst forecasts. NII is CaixaBank's primary source of income, making up 68% of the 3Q23 total. Yields on customer loans increased by 48bps in 3Q23 to a net total of 4.23% while the average cost on customer deposits only increased by 16bps to 0.71%, widening the customer spread to 352bps (+32bps qoq), following a similar increase in the spread the previous quarter (2Q23: +34bps qoq).

Spanish bank earnings have shown to have benefitted more strongly from ECB's interest rate increases than those of other banks in major European economies. The reason for this is that the vast majority of customer loans are priced on variable rates (e.g. 66% mortgage book), allowing for swift upward adjustments on large segments of the lending portfolio by lenders, while maintaining low interest passthrough rates on customer deposit accounts. The sizeable profit taking by banks resulted in the Spanish government introducing a temporary windfall tax for two years, applicable since 2023. It imposes a 4.8% charge on bank's NII and net commission (above a EUR800m threshold). In October, CaixaBank senior management publicly criticised a potential extension of the tax and its application on revenues rather than profits.

On the back of positive earnings figures, Caixa revised its 2023 NII guidance to >EUR10bn, up EUR750m from its previous target and also announced that it intends to keep NII revenues stable in 2024. It expects to achieve this by maintaining relatively low deposit pass-through rates. In 3Q23, the rate was just 13% and projected to reach 20% by end-2023, rising into the mid-20% range in 2024. We deem the NII projection achievable with the pass-through levels projected by Caixa. Other management targets remain unchanged, including the cost-to-income ratio, despite the cost base rising on the back of continued inflationary pressure as these are offset by higher income. Recurring operating expenses rose 7% yoy to EUR1.47bn but remained broadly in line on a quarterly basis, reflective of the slowdown in the inflation rate. Other 2024 financial targets will likely be communicated during the 4Q23 earnings presentation. The strong revenue performance meant that return on tangible equity (RoTE) rose strongly to 14.1% during the quarter (+210bps), which was also a significant improvement against the 2014-2021 average of 6.5%.

Slowing lending and deposit volumes are manageable headwinds

Loans and advances to customers stood at EUR355bn, amounting to 58% of total assets. Lending volumes on the whole were down 1.7% yoy and 2.4% on the quarter. Both mortgage lending and unsecured borrowing were adversely affected by the higher rates environment but may find some stability as Daiwa economist expect no further ECB rate hikes over the near term. Meanwhile, customer deposits of EUR383bn also experienced reductions, falling 0.7% yoy and 1.3% qoq. There was a meaningful shift from demand to term deposit accounts as well as insurance and mutual funds as customers are increasingly seeking higher returns on idle deposits, thus presenting an earnings headwind into 2024. Despite the above-mentioned reductions in interest bearing assets, we do not anticipate this to overly diminish top-line revenue performance as new mortgage production in 9M23 for instance is 80% at higher-yielding fixed rates. Clients coming off of variable rate products or refinancing lower-yielding fixed rate contracts are likely to offset lower lending volumes.

Asset quality remains robust

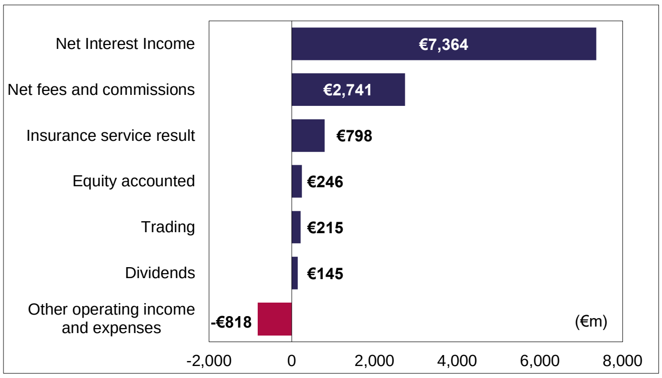
Asset quality remained robust with NPLs amounting to just 2.7% of customer loans at 3Q23 while provisions for the same were adequate at 76%. Caixa's NPL ratio is below the domestic sector average of 3.6% as reported by the Bank of Spain. We take additional comfort from the fact that Caixa's loan portfolio is 60% collateralised or extended to the public sector, reducing potential losses at default. Furthermore, the loan-to-value (LTV) of the EUR119bn residential mortgage portfolio is adequate at 54% while the LTV on new mortgage production is around 70% on average. Loan loss provisions (LLP) are prudently managed and up to EUR738m at 9M23 (+34.7% yoy). Annualised cost of risk (CoR) is projected at 25bps, below the <30bps 2023 management guidance.

Improving operational efficiency and solid capital position

Cost discipline has been adequate in light of inflationary pressures, reflected in the down trending cost-to-income ratio of 43%. Pressure could emerge from wage negotiation with unions taking place in November, with a 3% increase possible in 2024. Capital and liquidity indicators remain strong on the back of retained earnings and lower RWAs. CET1 stood at 12.25%, while the LCR (205%) and NSFR (139%) ratios were well above regulatory minimums.

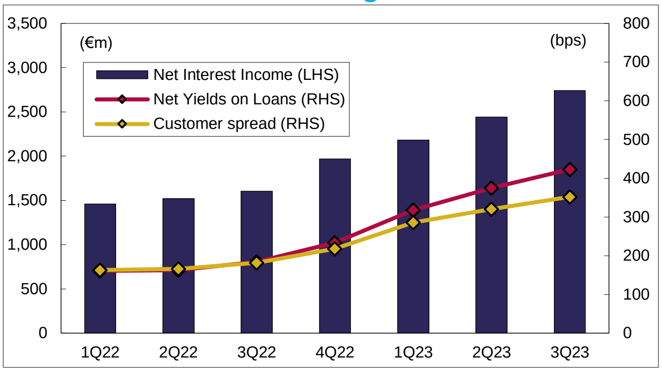
Appendix:

Revenue distribution 9M23



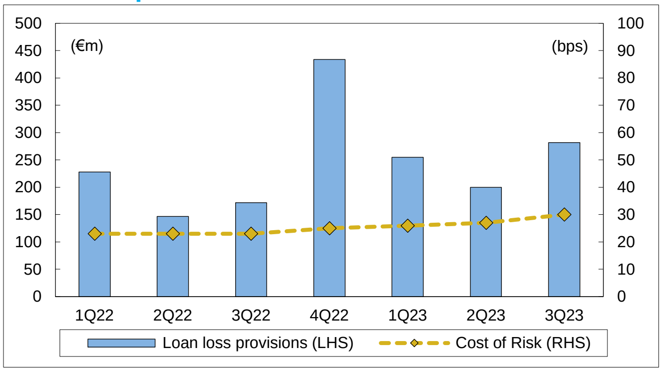
Source: Company reports

Net interest income and margins



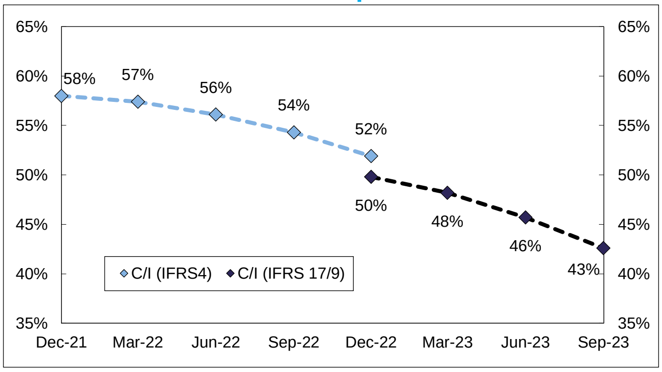
Source: Company reports

Loan loss provisions and cost of risk



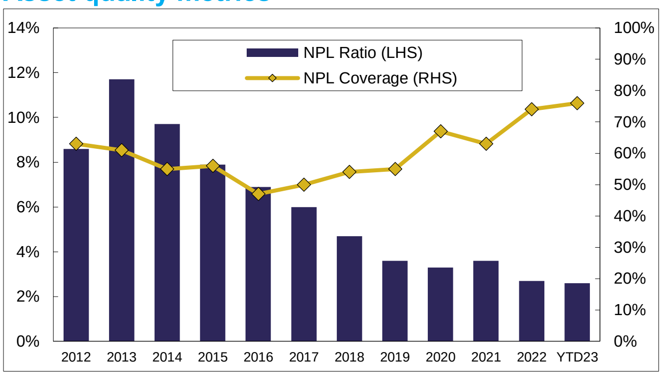
Source: Company reports

Cost-to-income ratio development



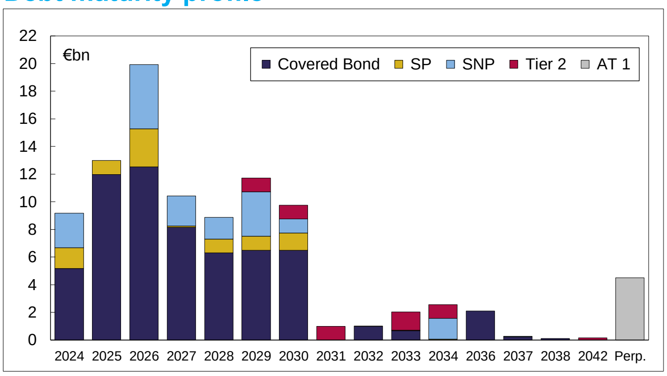
Source: Company reports, C/I = Cost to income; Restated in Dec-22 to reflect new insurance accounting (IFRS 17/9)

Asset quality metrics



Source: Company reports

Debt maturity profile



Source: Bloomberg

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 8321
Head of Translation, Economic and Credit	*Maki Duffield*	+44 20 7597 8327
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst, Financials, Power, Communication, Wholesale Trade, Air Transportation	*Toshiyasu Ohashi*	+81 3 5555 8753
Local government, Government agency	*Kouji Hamada*	+81 3 5555 8791
Electronics, Non-Banks, Real Estate, REIT, Retail trade, Chemicals, Iron & Steel, Marine	*Takao Matsuzaka*	+81 3 5555 8763
Transportation, Pulp & Paper, Oil, Land Transportation	*Kazuaki Fujita*	+81 3 5555 8765
Automobiles, Foods, Heavy equipment, Construction, Machinery	*Ayumu Nomura*	+81 3 5555 8693
International Credit		
Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Non-Japanese/Financials	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
ESG		
Chief Securitisation Strategist	*Koji Matsushita*	+81 3 5555 8778
Strategist	*Shun Otani*	+81 3 5555 8764
Strategist	*Takao Matsuzaka*	+81 3 5555 8763
Strategist	*Kaori Ichikawa*	+81 3 5555 8758

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at RESP DAIR <GO>.

Access our research at:
http://www.uk.daiwacm.com/ficc-research/research-reports

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association