

# Banco Popular (POP.MC)

Rating **UNDERPERFORM\***  
Price (09 Nov 12, Eu) 1.12  
Target price (Eu) (from 0.60) 0.55<sup>1</sup>  
Market cap. (Eu m) 2,431

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

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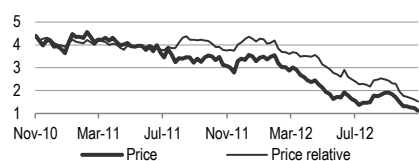
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DECREASE TARGET PRICE

## Rights issue terms confirmed, in line with CS

- On the EGM celebrated on Saturday, **POP's shareholders approved the announced €2.5bn capital increase**, through the issuance of 6,234mn of new shares at an **issuance price of €0.401**, which stands 64% below Friday's close and 32% below TERP (€0.59). When the shares are also diluted for the convertibles, the new number of total shares is 10,156mn.
- The announcement comes fairly in line with our expectations** (we had assumed shares were issued at minimum levels of €0.40) and confirms the pressures suffered by the bank to raise such a significant amount of capital at the current juncture, when Spain's prospects remain highly uncertain.
- In our note simultaneously published today (please refer to "*Spanish banks – Progress made, but too early to look through*"), and following Q3 results on the 26<sup>th</sup> of October, **we have lowered our earnings**, now expecting POP to post losses of €2.4bn in 2012, stay around breakeven in 13E (€59mn losses) and book profits of €672mn by 2014E (from -€2.4bn, +€32mn and +€914mn respectively).
- On that basis, and having rolled our valuation into 14E, we come up with a **new fully diluted TP of €0.55/share (vs. old €0.60/share)**, and remain **negative** into the announced €2.5bn rights issue, due to **(i) unattractive valuation**, with our post money TP standing 7% below TERP and the bank trading on 0.75x PTBV, **(ii) uncertain earnings outlook**, with our 8% RoTBV estimate for 14E predicated on a largely stable PPP progression over 12-14E (€2.1bn p.a.), and no property impairments, both assumptions looking vulnerable in our opinion, and **(iii) no improvement** of POP's capital base post rights issue, with all the funds used to absorb RDL requirements (Basel 2.5 core at 10-10.5% in 13-14E). **Maintain Underperform rating.**

### Share price performance



The price relative chart measures performance against the MADRID SE INDEX which closed at 768.14 on 09/11/12. On 09/11/12 the spot exchange rate was €1./Eu 1. - Eu .79/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-14.5	-25.0	-63.7
Relative (%)	-14.1	-32.3	-53.2

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
Net Income Reported (Eu m)	480	-2,432	-59	672
Adjusted Net Income (Eu m)	120	-2,574	-57	673
EPS stated (Eu)	0.30	-0.27	-0.01	0.07
CS adj. EPS (Eu)	0.07	-0.29	-0.01	0.07
Prev. EPS (Eu)	—	-0.28	0.00	0.09
Tangible Book Value (Eu m)	8,088	8,293	8,234	8,759
CS adj. ROTE	1.5	-31.4	-0.7	7.9
P/E (adj., x)	14.93	-3.86	-198.49	16.91
Price/T. book per share (x)	0.2	1.4	1.4	1.3
Dividend (12/12E, Eu)	—	Tier 1 ratio (12/12E, %)		9.9
Dividend yield (%)	—	EqT Tier 1 Ratio (12/12E, %)		9.9
Free float (%)	60.0	Number of shares (m)		2,174.08

Source: FTI, Company data, Thomson Reuters, Credit Suisse Securities (EUROPE) LTD. Estimates.

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**Figure 1: Banco Popular: Credit Suisse's assumptions for the capital increase**
*in € millions, unless otherwise stated*

Current price	1.12
Current NOSH	2,173
Market Cap	2,434
<b>K raised</b>	<b>2,500</b>
Issue price	0.401
<b>vs. current mkt price</b>	<b>-64%</b>
NOSH issued	6,234
vs. current NOSH	2.87
Proforma mkt cap	4,934
New NOSH	8,408
<b>TERP</b>	<b>0.59</b>
<b>Issue discount vs. TERP</b>	<b>-32%</b>
Theoretical value of rights	0.53
Floating convertibles	1,119
NOSH	1,561
Fixed convertibles	681
NOSH	187
<b>FINAL NOSH</b>	<b>10,156</b>

*Source: Company data, Credit Suisse estimates*
**Figure 2: Banco Popular: Impact of capital increase**
*in € millions, unless otherwise stated*

	2012E	2013E	2014E	2015E
Stated earnings	-2,432	-59	672	736
<b>Stated EPS</b>	<b>-0.27</b>	<b>-0.01</b>	<b>0.07</b>	<b>0.07</b>
Adjusted earnings	-2,574	-57	673	737
<b>Adjusted EPS</b>	<b>-0.29</b>	<b>-0.01</b>	<b>0.07</b>	<b>0.07</b>
<b>Book Value</b>	<b>10,861</b>	<b>10,802</b>	<b>11,327</b>	<b>11,902</b>
Intangibles	-2,568	-2,568	-2,568	-2,568
<b>Tangible book value</b>	<b>8,293</b>	<b>8,234</b>	<b>8,759</b>	<b>9,334</b>
Credit Suisse adjustments	-319	-319	-319	-319
Capital deficit	0	0	0	0
<b>CS adjusted TBV</b>	<b>7,974</b>	<b>7,915</b>	<b>8,440</b>	<b>9,015</b>
NOSH	10,156	10,156	10,210	10,269
Diluted for deficit	10,156	10,156	10,210	10,269
BV/sh	1.22	1.06	1.11	1.16
<b>TBV/sh</b>	<b>0.82</b>	<b>0.81</b>	<b>0.86</b>	<b>0.91</b>
<b>CS adjusted TBV/sh</b>	<b>0.79</b>	<b>0.78</b>	<b>0.83</b>	<b>0.88</b>
<b>RoTBV</b>	<b>n.m.</b>	<b>n.m.</b>	<b>7.9%</b>	<b>8.2%</b>
<b>P/TBV</b>	<b>0.72</b>	<b>0.72</b>	<b>0.68</b>	<b>0.65</b>
<b>CS adjusted P/TBV</b>	<b>0.75</b>	<b>0.75</b>	<b>0.71</b>	<b>0.67</b>

*Source: Company data, Credit Suisse estimates \* Note new valuation multiples have been calculated on the basis of TERP*
**Figure 3: Banco Popular: Valuation (€)**

	2012E	2013E	2014E
CS TBV per share (€)	0.79	0.78	0.83
CS adjusted RoTBV 14E	7.9%	7.9%	7.9%
CoE	12.0%	12.0%	12.0%
Fair valuation multiple	0.66	0.66	0.66
<b>Fair TP (€)</b>			<b>0.55</b>
<b>Downside vs. TERP</b>			<b>7%</b>

*Source: Company data, Credit Suisse estimates*

**Figure 41: Banco Popular: Credit Suisse - changes to estimates 2012-2014E**
*in millions, unless otherwise stated*

	New estimates				Old estimates				Change to estimates			
	2012E	2013E	2014E	12-14E	2012E	2013E	2014E	12-14E	2012E	2013E	2014E	12-14E
<b>Net interest income</b>	<b>2,784</b>	<b>2,781</b>	<b>2,799</b>	<b>8,364</b>	<b>2,880</b>	<b>2,938</b>	<b>2,963</b>	<b>8,781</b>	<b>-3%</b>	<b>-5%</b>	<b>-6%</b>	<b>-5%</b>
Net fees & commissions	801	800	810	2,411	806	804	814	2,423	-1%	-1%	-1%	-1%
Other operating income	-43	-36	-35	-114	-33	-36	-35	-105	29%	-1%	-1%	8%
Trading income	295	200	200	695	290	190	190	671	1%	5%	5%	4%
<b>Gross operating income</b>	<b>3,837</b>	<b>3,745</b>	<b>3,774</b>	<b>11,356</b>	<b>3,942</b>	<b>3,896</b>	<b>3,932</b>	<b>11,770</b>	<b>-3%</b>	<b>-4%</b>	<b>-4%</b>	<b>-4%</b>
Personnel expenses	-945	-923	-917	-2,786	-934	-912	-905	-2,751	1%	1%	1%	1%
Other admin expenses	-616	-597	-593	-1,806	-597	-583	-583	-1,763	3%	2%	2%	2%
Depreciation	-134	-134	-134	-403	-134	-134	-134	-403	0%	0%	0%	0%
<b>Total Operating Costs</b>	<b>-1,696</b>	<b>-1,655</b>	<b>-1,644</b>	<b>-4,996</b>	<b>-1,665</b>	<b>-1,629</b>	<b>-1,623</b>	<b>-4,917</b>	<b>2%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>
<b>Net operating income</b>	<b>2,141</b>	<b>2,091</b>	<b>2,129</b>	<b>6,361</b>	<b>2,277</b>	<b>2,268</b>	<b>2,309</b>	<b>6,853</b>	<b>-6%</b>	<b>-8%</b>	<b>-8%</b>	<b>-7%</b>
Impairment charges	-5,766	-2,171	-1,181	-9,118	-5,888	-2,212	-1,011	-9,111	-2%	-2%	17%	0%
Other provisions				0				0	0%	0%	0%	0%
Gains/(losses) on disposals	200	-2	-2	196	200	-2	-2	196	0%	0%	0%	0%
<b>Income before taxes</b>	<b>-3,425</b>	<b>-83</b>	<b>946</b>	<b>-2,561</b>	<b>-3,411</b>	<b>53</b>	<b>1,296</b>	<b>-2,062</b>	<b>0%</b>	<b>-255%</b>	<b>-27%</b>	<b>24%</b>
Corporate income tax	993	24	-274	743	989	-15	-376	598	0%	-255%	-27%	24%
Minority interests	0	0	0	0	-5	-6	-6	-17	-100%	-100%	-100%	-100%
Other	0	0	0	0	0	0	0	0	0%	0%	0%	0%
<b>Net attributable income</b>	<b>-2,432</b>	<b>-59</b>	<b>672</b>	<b>-1,818</b>	<b>-2,427</b>	<b>32</b>	<b>914</b>	<b>-1,481</b>	<b>0%</b>	<b>-282%</b>	<b>-26%</b>	<b>23%</b>

*Source: Company data, Credit Suisse estimates*

# Banco Popular POP.MC

Price (09 Nov 12): **Eu1.12**, Rating: **UNDERPERFORM**, Target Price: **Eu(from 0.60) 0.55**

Income statement (Eu m)	12/11A	12/12E	12/13E	12/14E
Net interest income	2,087	2,784	2,781	2,799
Fee and commission income	686	801	800	810
Trading income	81	251	164	166
Other non interest income	143	—	—	—
<b>Total revenue</b>	<b>2,997</b>	<b>3,837</b>	<b>3,745</b>	<b>3,774</b>
Admin expense	—	—	—	—
Other expenses	(484)	(616)	(597)	(593)
<b>Total expenses</b>	<b>(1,369)</b>	<b>(1,696)</b>	<b>(1,655)</b>	<b>(1,644)</b>
<b>Pre-provision profit</b>	<b>1,627</b>	<b>2,141</b>	<b>2,091</b>	<b>2,129</b>
Loan loss provisions	(959)	(4,069)	(1,645)	(1,181)
Other provisions	(6)	71	—	—
Other non-recurring pre-tax	(231)	(1,426)	(528)	(2)
<b>Pre-tax profit</b>	<b>444</b>	<b>(3,425)</b>	<b>(83)</b>	<b>946</b>
Income taxes	40	993	24	(274)
Minority interests & other	4	—	—	—
<b>Net profit (reported)</b>	<b>480</b>	<b>(2,432)</b>	<b>(59)</b>	<b>672</b>
<b>Net profit (adjusted)</b>	<b>120</b>	<b>(2,574)</b>	<b>(57)</b>	<b>673</b>

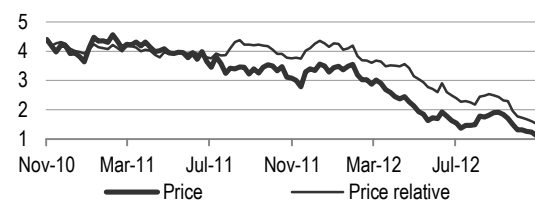
Balance sheet (Eu m)	12/11A	12/12E	12/13E	12/14E
<b>Assets</b>				
Net customer loans	96,771	110,544	109,765	107,479
Loan loss reserves	2,102	8,386	9,643	10,631
Investments	20,902	24,742	25,467	26,227
Other interest earning assets	4,493	5,829	5,829	5,829
Avg interest earnings assets	130,533	143,475	156,266	155,745
Goodwill & intangibles	649	2,568	2,568	2,568
Other assets	8,110	12,342	12,879	12,879
<b>Total assets</b>	<b>130,926</b>	<b>156,024</b>	<b>156,507</b>	<b>154,982</b>
<b>Liabilities</b>				
Total deposits	59,085	75,819	75,819	75,819
Long term funding	23,284	27,129	24,908	22,584
Interbank deposits	25,326	34,988	36,685	39,352
Avg interest bearing liabilities	116,811	128,495	139,856	139,087
Other liabilities	7,667	7,918	8,014	7,947
Retirement benefit liabilities	—	—	—	—
<b>Shareholders' equity</b>	<b>8,737</b>	<b>10,861</b>	<b>10,802</b>	<b>11,327</b>
Minority interest	—	—	—	—
<b>Total liabilities and</b>	<b>130,926</b>	<b>156,024</b>	<b>156,507</b>	<b>154,982</b>

% YOY change	12/11A	12/12E	12/13E	12/14E
Net interest income	(14.19)	33.42	(0.12)	0.63
F&C income	1.58	16.90	(0.20)	1.23
Trading income	(43.90)	208.66	(34.62)	0.68
Other non-interest income	(2.02)	(100.00)	(300.00)	(350.00)
Total revenues	(11.80)	28.05	(2.40)	0.76
Admin expense	0.06	21.40	(2.33)	(0.67)
Other expenses	13.03	27.32	(3.17)	(0.71)
Total expenses	5.09	23.90	(2.45)	(0.63)
Pre-prov operating profit	(22.31)	31.55	(2.35)	1.85
Pre-tax profit	(42.97)	(871.11)	(97.59)	(1,246.09)
Tax rate	26.50	(8.97)	29.00	29.00
Net customer loans	0.77	14.23	(0.70)	(2.08)
Other IE assets	(33.31)	29.73	—	—
Customer deposits	(11.43)	28.32	—	—

Per share data	12/11A	12/12E	12/13E	12/14E
<b>Reported EPS (Eu)</b>	<b>0.30</b>	<b>(0.27)</b>	<b>(0.01)</b>	<b>0.07</b>
<b>CS adj. EPS (Eu)</b>	<b>0.07</b>	<b>(0.29)</b>	<b>(0.01)</b>	<b>0.07</b>
Prev. EPS (Eu)	—	(0.28)	0.00	0.09
% YOY change	(44.56)	(487.13)	98.06	1,273.89
Dividend (Eu)	0.25	—	—	0.04
% YOY change	14.52	(100.00)	—	—
Dividend payout ratio	338.26	—	—	60.04
NAVPS (Eu)	4.93	0.82	0.81	0.86
Shares outstanding (mn)	1,639.40	10,155.5	10,155.5	10,209.7

Key ratios and valuation	12/11A	12/12E	12/13E	12/14E
P/E (adj., x)	14.93	(3.86)	(198.49)	16.91
P/BVPS (x)	0.21	1.05	1.05	1.01
P/NAVPS (x)	0.2	1.4	1.4	1.3
<b>Profitability (%)</b>				
ROE	5.7	(24.8)	(0.5)	6.1
RoNAV	6.1	(29.7)	(0.7)	7.9
ROA	0.1	(1.8)	(0.0)	0.4
RoRWA	0.5	(2.7)	(0.1)	0.7
NIM (NII/AIEA)	1.6	1.9	1.8	1.8
Total revenue /avg assets	2.3	2.7	2.4	2.4
Total revenue/RWAs	3.3	4.3	4.1	4.2
NII/revenues	69.6	72.6	74.3	74.2
F&C/revenues	22.9	20.9	21.4	21.5
Trading/revenue	2.7	6.6	4.4	4.4
<b>Efficiency</b>				
Cost/assets	1.0	1.1	1.1	1.1
Cost/income	45.7	44.2	44.2	43.6
Cost / RWAs	1.6	1.9	1.8	1.8
<b>Balance sheet gearing</b>				
Loan/deposit	163.8	145.8	144.8	141.8
Investment/assets	15.0	15.2	15.6	16.2
Loan/assets	73.9	70.9	70.1	69.3
Customer	48.4	52.2	52.0	52.8
LT Debt/funding	17.4	17.7	16.1	14.6
<b>Asset Quality</b>				
NPLs	7,066.8	13,506.6	15,864.8	16,387.2
% YOY change	21.29	91.13	17.46	3.29
NPL/ gross loans	7.6	12.0	14.1	14.7
Loan loss reserves/NPLs	30	62	61	65
LLP/Loans	1.03	3.63	1.46	1.06
<b>Capital adequacy</b>				
Core tier 1 capital basel II	8,853	9,020	8,961	9,486
Common eq tier 1 capital	8,853	9,020	8,961	9,486
Basel II RWA	88,181	91,530	90,157	90,157
Basel II core tier 1 ratio	10.0	9.9	9.9	10.5

Source: FTI, Company data, Thomson Reuters, Credit Suisse Securities (EUROPE) LTD. Estimates.



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**Companies Mentioned** (Price as of 09 Nov 12)  
 Banco Popular (POP.MC, Eu1.12, UNDERPERFORM, TP Eu0.55)

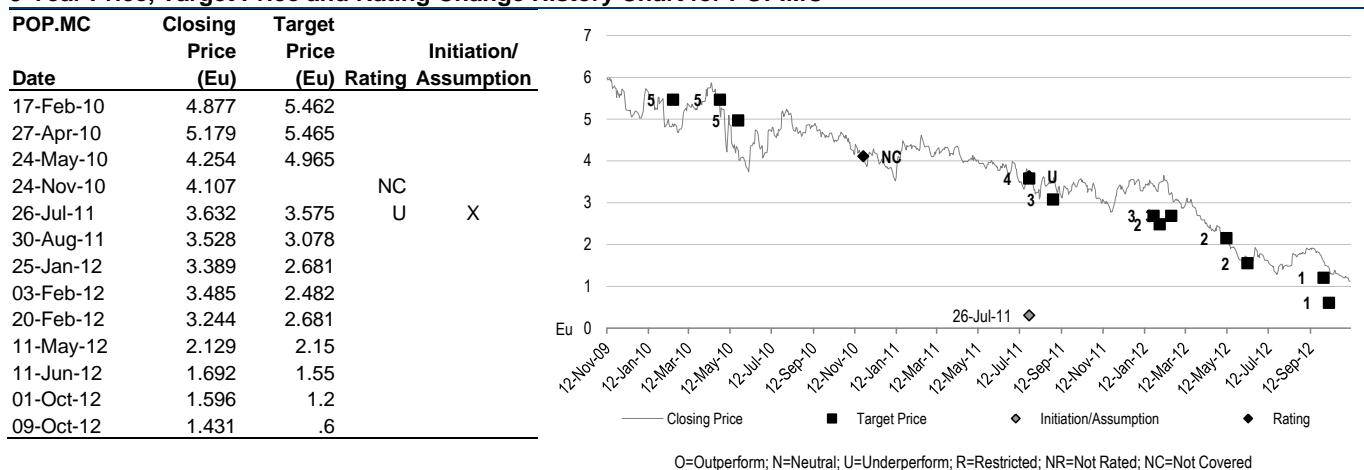
## Disclosure Appendix

### Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for POP.MC



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### As of October, 2012 Analysts' stock rating are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% or more, (depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

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**Overweight:** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight:** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight:** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

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Global Ratings Distribution		
<b>Outperform/Buy*</b>	43%	(53% banking clients)
<b>Neutral/Hold*</b>	40%	(48% banking clients)
<b>Underperform/Sell*</b>	15%	(40% banking clients)
<b>Restricted</b>	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (POP.MC)

**Method:** We value the stock under the traditional P/BV (RoTBV/CoE) methodology, applying an 12% CoE and 2014E's RoTBV of 8% to the bank's TBVS in 14E

**Risks:** Main upside risks to our target price are related to (i) higher NII benefits from recent ECB liquidity initiatives, (ii) better than expected EL assumptions in government's clean up plans than those embedded in our valuation, (iii) larger extraction of cost synergies from PAS deal, (iv) less dilutive ways to raise capital

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