

12 January 2017

Unicredit: patriotism will do us nothing but harm

The capital increase is attracting approval from investors. They'll be foreign, because our foundations can't keep pace. Do we really want to allow such an important bank to fail, and all to defend "Italian-ness"?

By Fabrizio Patti



A paper bag with a tuna sandwich and a banana. That was the buffet menu for the investors attending **Unicredit's** London roadshow for its capital increase. The choice was a bit tongue-in-cheek, given that the event took place in the super-luxury Andaz Hotel. But when a company – especially a bank, and especially if it's Italian – is going around asking for money, and a lot of it, symbols take on their own importance. Unicredit is balancing like an elephant on a high wire: there may be a stable landing point at the end but along the way there's no safety net.

If the 13 billion capital increase fails, the problems would indeed affect the bank's shareholders and bond-holders, but the shockwaves would hit Italy's entire financial and economic system. Like MPS, but to a far greater degree, because of the far greater size and impact. In this sensitive situation, the arguments over the need to protect "Italian-ness" from the onslaught of foreigners seem altogether discordant.

If we were to take the words written by Cirino Pomicino seriously, then the entire operation is nothing more than a tactic to allow the French to conquer Italian finance. According to that theory, the capital increase itself is not a move to restore the capital

requirements, which declined dangerously under the management of Federico Ghizzoni. Ghizzoni was shown the door because he lacked the credibility to ask for a new capital increase after the three that followed in close succession from 2009 to 2012.

No. According to Pomicino, it's a way to dilute the numbers of Italian shareholders, i.e. the foundations (Cariverona, CRT, Carimonte, and private ones like Caltagirone) and allow the French, most notably Société Générale, to gain access to Unicredit. And from there, gain an entrance to Mediobanca (where Unicredit is the lead shareholder, with 8.56%), along with Vincent Bolloré (second shareholder, with 8%, and represented on the board by his daughter, Marie). And from there, in turn, attack Generali, of which Mediobanca, and the other French player in all of this, Axa, are among the principal shareholders. Now, we can't rule out that this manoeuvre is in theory possible, even though at present the people following the affair most closely view it as very far-removed from reality.

But that's not really the point. The point, or points, because there's more than one, are quite different. First: **Italian shareholders have no money and there are no other private investors to be seen in Italy who can help them out.** Second: **Unicredit already has a lot of foreign capital**, from the Emirates' Aabar to America's BlackRock, who seem determined to take part in the increase by confirming their shareholdings. Third: **the Italian financial system is badly in need of capital**, which in recent years has continued to flow out of the country. What alternative would there be for anyone seeking to stand up to the foreigners? The last person (but not in terms of importance) to propose some form of resistance was, in an interview in *Corriere della Sera*, the Minister for Economic Development, **Carlo Calenda**.

However, while Calenda underscored the dangers of the protectionist nationalism that's gaining strength at the international level, he didn't spell out the solution. Or rather, he spoke of a "network of big companies, public and private, and financial institutions capable, when necessary, of acting in a coordinated manner: with each other, and with the government". A network that "we need to build". It's difficult, in this network that acts in a coordinated manner, not to think of the old Mediobanca and its inner circle presided over first by Enrico Cuccia and then by Vincenzo Maranghi. But the minister adds, appropriately, that "that doesn't mean restricting the space of the market; it means being able to react when the market is distorted or manipulated, including with ad hoc rules, to weaken our economic fabric".

**Raising the barricades against the French doesn't make sense, for three reasons: Italian shareholders have no money and there are no other private investors to be seen in Italy who can help them out. Unicredit already has a lot of foreign capital. And the Italian financial system is badly in need of capital.**

Given that we're talking not about market manipulation but a simple market operation, we shouldn't undermine that operation. Because while it's true that for the time being investors are taking a positive view, there are many issues that require close attention. The Finanze.net blog set them out, two in particular. The first: the **consortium** of banks set up to **guarantee** the capital increase included a clause envisaging **the possibility of withdrawing in the case of particularly adverse market conditions** (or rather, of remaining "under conditions in line with the market practice for operations of this kind").

That's the same condition that led the consortium led by J.P. Morgan to back off from the MPS capital increase in December and, before that, led Unicredit to back out of the Popolare di Vicenza increase. The top man at Unicredit, Pierre Mustier, rightly rejects any closer relationship between the two banks. But the financial climate could worsen considerably if anything were to go wrong (or even more wrong) on the MPS front. As Alessandro Milesi, financial adviser and curator of Finanze.net, explains, "the MPS state rescue plan can proceed only if the ECB continues to believe, as it did last June, that MPS is solvent. If it no longer believed that, a very tricky situation would be created". It's for that reason, he adds, that Unicredit's capital increase will probably proceed quickly, with the completion of the operation expected in February. It's best to avoid any further overlap with the Siena-based bank.

There's also a second point that Milesi invites us to keep in sight with regard to **Unicredit**: the price, which after the increase could fall "by about 40%". Why? Because once the capital increase takes place, the expected capital/income ratio would be very high, about 20, so higher than for European banks of a similar size. According to Milesi's reasoning, "30% for Fineco, more than 40% for Pekao, Pioneer; the various disposals already completed or in the pipeline are worth, let's say, 400 million in net profits a year".

If we suppose that the final profits for 2016 are around 2 billion, adjusted for these disposals to 1.6 billion, then if we add the current capitalisation to the 13 billion increase we arrive at a capitalisation of around 30 billion. That would put the stock at about 20 times earnings for 2017. Intesa, after its considerable increases

, is selling at 18, Santander at 15 and BNP at 11. **But who's standing in line for an increase like that? Or how much does the stock need to fall to reach the average level for European commercial banks of a similar quality?**

Among other investors, however, expectations as to profits are higher. As **Francesco Castelli**, head of Fixed Income at Banor Capital Ltd – and attendee, as a potential investor, at the London roadshow – explains, **“We like Unicredit's business plan.** It's responsible, because it's based on concrete factors: there are no forecasts of strong growth in earnings, which right now would be unrealistic. In addition, the 13 billion increase would be used to reduce non-performing loans but 1.5 billion of that would go to increasing the efficiency of internal processes by taking effective action on IT systems”. We can't assume that the stock will fall, he adds, because the business plan envisages that earnings will rise to 4.7 billion euro. “For investors, the capital increase is an excellent opportunity to gain a foothold, at a discount, in a bank with strong potential. I can't predict what will happen to the share price. I imagine that in the initial months the price could be volatile, because 13 billion is a lot of money and it'll take time for the markets to digest it”.

**Analysts and investors are taking a positive view of the capital increase. However, there are two factors to consider: the guarantee consortium could pull out if market conditions deteriorate in the event of further problems on the MPS front. And Unicredit's price could fall after the increase.**

This interest, he adds, is influenced by the fact that “at present, many international investors have a low exposure to the Italian banks' benchmark. They'll use Unicredit's increase to rebalance that weighting”. Another point in favour of the plan is the way the new management is viewed. “Mustier is a well-known and esteemed manager. Investors appreciate the fact that incentives for management are on a long-term basis: between 2019 and 2022. The CEO is showing that he wants to pursue his career on this terrain and in a new world, where what counts is long-term commitment”.

**Anyone who knows Unicredit well talks of major changes that have already taken place inside the bank, with a rotation of managers who, albeit without any defenestrations, have already changed the pattern of power.**

It's probable, although not certain, that after the capital increase and with the new board of directors (which will be reduced from 15 to 13 members) a board reshuffle will bring in people close to

Mustier and increase his power. As a bank, it will probably be even more French.

But rather than trying to stop the “raid”, the best path is to ask for equal conditions for Italian companies in France. That’s how Andrea Goldstein, managing director of Nomisma, sees it. “The question of companies’ nationality, if taken seriously, is perfectly legitimate. It mustn’t be a taboo subject”, he commented in the margins of The World in 2017, a conference organised by Nomisma. “However, we need to extend our gaze to Europe. We shouldn’t be talking about the ‘Italian-ness’ of companies but, if anything, their ‘European-ness’, because our destiny lies in Europe. **So it would be very strange to block any form of takeover within the European Union.**

We all know, however, that the question could affect Generali, and not just Unicredit. It would be strange if Axa could buy Generali but Fincantieri couldn’t buy STX France. Or that the type of measures required of Fincantieri were more burdensome than those required of Axa. There are rules and in political terms we need to be strong. I think Ministers Calenda and Padoan [Minister for the Economy and Finance] are taking a fairly responsible and well-considered line with their counterparts”.