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CORRIERE DELLA SERA

European banks will surprise us

Between the major players and the small fintech companies, they could become the next “Nasdaq”. Here is why

by **Gabriele Petrucciani**

An enormous opportunity is taking shape in Europe, and it is represented by the banks, stocks that most investors continue to ignore, but which, in the long run, will show their enormous potential. Francesco Castelli, Head of Fixed Income at Banor Capital, is convinced of this when he talks about valuations that are twenty years behind their time. “Consider the price-to-book ratio (this is the ratio between market price of a security and its book value as reported on the balance sheet), which, for European credit institutions, is currently around 0.6 to 0.7, a 30-40% discount on the book value, compared to a ratio of 1.25 for the same sector in the US”.

The results

If we then look at performance since the lows recorded in 2009, and also taking into account distributed dividends, American banks have earned approximately 500%, to recover the peak value reached in 2007. European credit institutions, on the other hand, have risen by just 6 percent. “And so, the banks of the Old Continent are operating at practically the same levels as ten years ago”, emphasized Castelli. “This is because, while the US has rebuilt value over the years, Europe is still at the starting blocks, both due to a less dynamic economy and to a regulatory problem that still represents a stopping point. And then, the zero interest rate policy of the Old Continent is helping to destroy interest margins, which are the banks’ main source of revenue”.

However, according to the Banor Capital expert, the scenario is destined to change, and the first signs could come from the upcoming season of quarterly results (in November). “Our impression is that, in the future, the market will turn back on its tracks, correcting this excessive distrust in European banks”, argued Castelli. “We have been hit by a once-in-a-century tsunami, which destroyed the sector and is still eroding profit margins today. But there is already a lot of bad news in the prices. Arguably, too much. It is precisely for this reason that we are convinced that today’s underestimation is excessive. In the short term, therefore, the classical technical rebound is taking place, as often happens to asset classes that have been forgotten. When everybody is “short”, investing only a little or even divesting, it is easy for a price recovery in a specific sector or theme to materialise. Therefore, let us look at banks as a tactical opportunity that could become real as soon as the next season of quarterlies”.

In short, Castelli is convinced that, in the assessment of banks, there are more positives than negatives. “For the moment, we continue to look favourably on American credit institutions, which represent a more prudent investment. At the same time though, we start to adopt a positive approach even with regard to Europe, a more speculative investment that offers potentially more attractive returns over the long term. However, one has to be wary of singular stories”, warned the Banor Capital expert, who also convinced believes that, in ten years’ time, we will witness, on a smaller scale, success stories like the ones we witnessed on the Nasdaq in the last decade with companies on the scale of Apple, Facebook and Google.

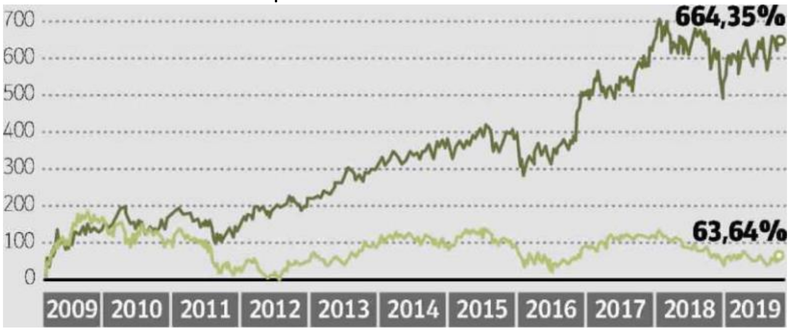
A club

“In Europe, only a limited number of banks will achieve full success, a couple per country”, suggested Castelli. “What do you look for then? On the one hand, you look for dominant players making significant investments in technology and, on the other hand, small fintech companies that are very focused on providing services”, concluded Castelli.

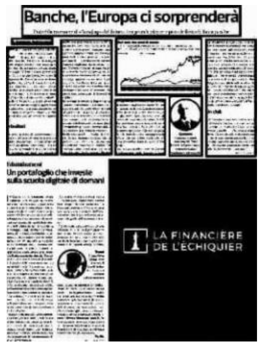
Ten years, two different gears

A comparison between American banks in the S&P 500 and European banks in the Eurostoxx Index from 9 March 2009 to 16 October 2019 (as a % of the return including dividends)

■ US Banks ■ European Banks



Asset Manager
Francesco Castelli, Head of Fixed Income at Banor Capital:
Banks have attractive valuations


Banche, l'Europa ci sorprenderà

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