

Unicredit Capital Debate: Weighing Up Asset Sales



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Scope recognizes the below-average ranking of Unicredit capital ratios compared to European peers, at the same time highlighting the material progress achieved in recent years. In this brief report we review some of the strategic options available to the bank to boost its capital position.

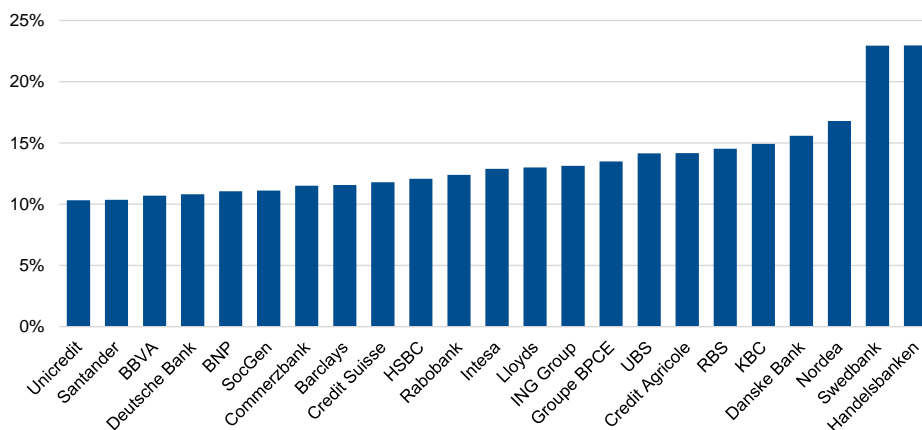
Despite a material effort over the past few years to boost solvency, Unicredit's capital ratios continue to appear low relative to peers. Moreover the bank showed one of the least robust performances in the 2016 EU-wide stress test, with a CET1 ratio of 7.12% under the adverse scenario, 347bps lower than the FY 2015 transitional number. As of H1 2016 the Group reported a transitional CET1 ratio of 10.51% and a fully-loaded ratio of 10.33%.

Unicredit's CET1 capital requirement from 1 January 2016 is 10%, which combines 9.75% SREP and 0.25% systemic buffer. As of H1 2016 the cushion stood at 51bps based on the transitional measure, which would potentially decline in 2017 given the phasing in of the systemic buffer and the high deductions from capital. The high level of non-performing loans on Unicredit balance sheet and the persisting uneasiness of the market with the provisioning of Italian NPLs (which we share only partially, as explained in our recent report [Italian Banks: Myths and Reality about Asset Quality](#)) suggest that the bank may need a larger capital buffer to reassure investors.

On July 11, shortly after his appointment, new CEO Mustier announced an in-depth strategic review, with one of the stated objectives being to "reinforce and optimize Group's capital position". Contextually, Unicredit sold, through two accelerated book building operations, shares representing 10% of Bank Pekao and 10% of FinecoBank, the Group's direct multichannel bank, by which it added an estimated 12bps and 8bps, respectively, to its fully-loaded CET1 capital ratio, taking it to 10.53%. In August, the bank announced the sale of its card processing activities in Germany, Austria and Italy to SIA, an Italian ICT company, generating a capital gain worth c. 12bps on the fully loaded CET1 ratio.

While a capital increase remains on the cards, we believe Unicredit also has other strategic options, in particular further asset sales (Pekao, Fineco, Pioneer) that could contribute to the strengthening of the balance sheet. Arguably, they would also weigh on Unicredit's future profitability as these tend to be high return businesses compared to the rest of the group.

Fully-loaded CET1 ratio (H1 2016)



Source: SNL

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Among the options at Unicredit's disposal we highlight:

- **Sale of Pioneer Investments.** At the end of July, a deal with Santander to combine Pioneer with Santander Asset Management stopped being pursued as the two banks didn't find a viable solution for meeting the regulatory requirements for the transaction. This attracted renewed attention on the capital position considering that the preliminary agreement was based on EUR 2.75bn value for Pioneer Investments (as of April 2015) and would have added 25bps to Unicredit's capital position. Recently, press reports have emerged linking a number of Italian and international asset managers to Pioneer, with unidentified sources mentioning EUR 3bn as selling price. We believe the amount is reasonable in light of the previous valuation of Pioneer and the recent strength in Italian asset management industry.
- **Sale of Bank Pekao.** After the placement Unicredit still holds a 40.1% share in the large Polish bank, with a lock-up period preventing further sales expiring in mid-October. We estimate proceeds from the divestment of the remaining stakes in Pekao would be c. EUR 3bn.
- **Sale of Fineco.** After the placement Unicredit still holds a 55.4% share in Fineco, with a lock-up period preventing further sales expiring in mid-October. We estimate proceeds from the divestment of the remaining stakes in Fineco would be c. EUR 1.7bn.



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