

THE WALL STREET JOURNAL.

English Edition | March 5, 2020 | Print Edition | Video

Pietro Lombardi ▼
EXPLORE VIDEOS

Home World U.S. Politics Economy Business Tech Markets Opinion Life & Arts Real Estate WSJ Magazine Q

UNSMOKE YOUR MIND

LET'S TALK >



NEWSPLUS

Talking Markets: Time May Have Come for Consolidation in Italy's Banking Sector



Consolidation could help Italian banks boost profitability.
REUTERS/Guglielmo Mangiapane
PHOTO: GUGLIELMO MANGIAPANE/REUTERS

By *Pietro Lombardi*
Jan. 29, 2020 5:11 am ET | WSJ Pro

SAVE PRINT TEXT

The Italian banking industry is ripe for consolidation, analysts say, and a round of M&A deals among mid-sized lenders may take place as early as the middle of this year.

Industry trends and country-specific factors make for a challenging environment for Italian banks, and consolidation could help them boost profitability.

“We believe that, in addition to market structure, there are also several variables that could indicate that time for consolidation is getting closer: profitability is impacted by revenue pressure from lower rates, as well as regulation, and also asset quality and capital position are in a much better position vs. the past,” Citi analysts said.

This could happen “from mid-2020 onwards, as banks continue to generate capital organically,” they added.

Italian banks have struggled for years with bad loans amassed during the financial crisis. More recently, low interest rates in Europe have hit their core business of making money through loans, making it less profitable, while costs related to IT and regulation add another drag to profitability.

Italy's stuttering economy and unstable politics haven't helped either.

“Italian banks have had a volatile 18 months, as political instability drove government-bond yields sharply higher.” Goldman Sachs said.

UNSMOKE YOUR MIND

LEARN MORE >



PHILIP MORRIS INTERNATIONAL



RECOMMENDED VIDEOS

1. On the Greek-Turkish Border, Migrants' Hopes Meet a Violent Pushback



2. Japan Boosts





The Italian banking sector has made substantial progress in cleaning up balance sheets, shedding billions of bad loans. They have also tried to adapt to the low-rate environment by cutting costs or increasing their focus on activities that generate fees and commissions, such as asset management and insurance.

Now, with Europe's top banking regulator taking a softer stance toward potential mergers among the continent's banks, the time may have come for consolidation. Mid-sized lenders like [Banco BPM SpA \(BAMI.MI\)](#), [Unione di Banche Italiane SpA \(UBI.MI\)](#), [BPER Banca SpA \(BPE.MI\)](#) and [Banca Monte dei Paschi di Siena SpA \(BMPS.MI\)](#) are seen as players with the most potential.

"Successful nonperforming-loan reduction, low sovereign spreads and less room to cut costs further on a stand-alone basis together form a backdrop which we see as conducive for a resumption of M&A among smaller banks, where fragmentation and low profitability has been a perennial challenge, and returns accretion through cost-cutting is possible, in our view," GS analysts said.

A stronger capital position and cleaner balance sheets make tie-ups easier. According to the Italian Banking Association, bad loans fell almost 60% between the end of 2015 and June last year.

Tidy balance sheets decrease "the risk of bad surprises in case of consolidation with regards to asset quality of the counterparty," Citi said.

In any deal, cost synergies would be decisive.

Over the past 10 years, the number of Italian banks has fallen roughly 40% to slightly fewer than 500 in December, ECB data show. The number of branches declined by roughly a quarter in the 10 years to June 2019, which is less than other countries in Southern Europe, analysts say.

That leaves market concentration below many European peers and some potential branch overlap in case of mergers, Citi says.

The overlap of some operations, for example, means a merger between Banco BPM and UBI Banca could bring cost synergies of between 15% and 25%, GS said.

The U.S. bank recently increased its target price on several Italian lenders to reflect the higher probability of M&A, including a 64% hike of Monte dei Paschi's target.




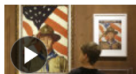
Morgan Stanley says the Siena-based lender may play a key role in kicking off sector M&A.

"Progress on Monte Paschi's clean-up is key to unlocking Italian M&A," it said.






Founded in 1472, Monte dei Paschi is considered the oldest bank still in operation. In recent years, it has undergone a major overhaul that included state recapitalization and the disposal of billions in bad loans. So far, the bad loans still on its balance sheet have been a stumbling block to any tie-up.

However, recent press reports mention that the bank may transfer 10 billion euros (\$11.02 billion) of bad loans. This would cut its NPL ratio to less than 5%, meaning M&A could be in the cards, MS said. It would also be an option for Italy's government to exit its 68% stake in the bank, it said.

"At this stage there could be many different potential combinations, and none can obviously be excluded," Citi said.

4. Coronavirus Containment Efforts to Keep Olympic Games 
3. Bloomberg's Digital Spending Couldn't Save Him, but May Help Democrats 
4. Biden Sweeps the South as Sanders Takes California 
5. The Rise and Fall of the Boy Scouts 

MOST POPULAR ARTICLES

1. U.S. Death Toll From Coronavirus Rises to 11 
2. Another Princess Cruise Ship Is Caught Up in Coronavirus Outbreak 
3. How to Prepare for the Coronavirus 
4. Smart Travel Planning in the Time of Coronavirus 
5. Biden, Sanders Look to Next Contests While Warren Assesses Campaign 

WSJ MEMBER MESSAGE: NEWSLETTER

Do You Want To Get Ahead?

Sign up to the Careers newsletter for curated news, analysis and advice on professional life, sent straight to your inbox.

[SIGN UP NOW](#)

1.1 billion smokers* is one of them.

*According to World Health Organization estimates



SPONSORED OFFERS

MACY'S:

Macy's Spring Preview Sale: Extra 25% off on your purchase with code

HOTELS.COM:

Hotels.com coupon code: Additional 10% off your reservation

NIKE:

Nike promo: 40% off newly-added shoes & apparel

TURBOTAX:

TurboTax discount: \$20 off Deluxe version

BARCELÓ HOTELS:

15% promo code all-inclusive Bavaro hotels

EBAY:

eBay coupon code: 20% off on select Dyson products

THE WALL STREET JOURNAL.

THE EXPERIENCE REPORT

A Weekly Report Tracking Trends and Analysis in Experience Management

[SIGN UP](#)

Sponsored by

[BACK TO TOP](#)

WSJ Membership

- [WSJ+ Membership Benefits](#)
- [Subscription Options](#)
- [Why Subscribe?](#)
- [Corporate Subscriptions](#)
- [Professor Journal](#)
- [Student Journal](#)
- [WSJ High School Program](#)
- [WSJ Amenity Program](#)

Customer Service

- [Customer Center](#)
- [Contact Us](#)

Tools & Features

- [Emails & Alerts](#)
- [Guides](#)
- [My News](#)
- [RSS Feeds](#)
- [Video Center](#)
- [Watchlist](#)
- [Podcasts](#)

Ads

- [Advertise](#)
- [Commercial Real Estate Ads](#)
- [Place a Classified Ad](#)
- [Sell Your Business](#)
- [Sell Your Home](#)
- [Recruitment & Career Ads](#)
- [Coupons](#)

More

- [About the Newsroom](#)
- [Content Partnerships](#)
- [Corrections](#)
- [Jobs at WSJ](#)
- [Masthead](#)
- [News Archive](#)
- [Register for Free](#)
- [Reprints](#)
- [Buy Issues](#)

