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Political uncertainty hangs over UniCredit capital scramble

By Matei Rosca

UniCredit SpA is set to announce a major capital increase and asset sales next month, but its restructuring efforts hang in the balance as investors await the outcome of Italy's Dec. 4 constitutional referendum.

Italy's largest bank is looking to tap markets for up to €13 billion through a combination of bad loan sales, subsidiary divestments and equity raising, sources familiar with the matter said.

A source at the bank, who requested anonymity due to the sensitivity of the issue, confirmed the figure to S&P Global Market Intelligence.

UniCredit will table its new strategy, expected to include both a cash call and accelerated sales of soured loans, at an investors' day on Dec. 13, a few days after the referendum.

"The referendum poses a problem that goes beyond Italy," a buy-side bank analyst who wished to remain anonymous said in an interview, referring to what is perceived as an unprecedented wave of anti-establishment voter sentiment which has seen the UK vote to leave the European Union and the US elect Donald Trump as president.

"Of course, if it is a no, the conditions for a bank to raise equity will not be favorable," the analyst added.

"The €13 billion will not be all equity," he said, noting that included in this sum is the amount UniCredit plans to raise by selling or securitizing a large chunk of its €36.4 billion nonperforming loan portfolio, and selling subsidiaries such as Pioneer Global Asset Management SpA and Bank Pekao SA.

In a research note, Deutsche Bank analysts wrote that they expect UniCredit to announce a €7 billion net capital increase alongside other measures.

But with Banca Monte dei Paschi di Siena SpA planning a capital increase at the same time, investor appetite might be strained if political instability grows, the buy-side analyst warned.

"Definitely investor appetite for the capital increase will depend on the outcome of the referendum, especially with Monte dei Paschi going to the market in those same days. There could be some overlap," he said.

UniCredit reported a net profit of €447 million in the third quarter of 2016, down from €916 million in the second quarter, when it saw a one-off boost of €229 million. In October, it sold off NPLs with a book value of about €940 million, a transaction which will be reflected in fourth-quarter earnings, the bank said. Helped by this and other disposals, it added 49 basis points to its common equity Tier 1 capital ratio, reaching 10.82%. The €13 billion figure corresponds to the roughly 3.3% of risk-weighted assets that the bank was short in the adverse scenario of a recent stress test conducted by the European banking Authority.

"I think there is a quite a lot of interest by various investors [in buying] NPLs. We have, in the past 36 months, sold so far an equivalent of €10 billion of gross book value of NPLs," Unicredit CEO Jean Pierre Mustier said on a Nov. 11 conference call.

The referendum asks Italian citizens whether they agree with a smaller, less powerful Senate, and with the central government having more control over decisions while regional administrations have less. However, promoted by current Prime Minister Matteo Renzi as the best way to reform Italy's arcane public sector and government and generate economic growth, the poll has come to be seen by investors as a gauge for the current leadership's ability to deliver on its promises.

The risks are compounded by the possibility that Renzi will resign if the referendum's proposition is rejected, leaving Italy without a government at a time of global uncertainty, the buy-side bank analyst said.

"Prime Minister Renzi has invested significant political capital in [the referendum], so the question mark would be about possible repercussions on government stability," said Marco Troiano, an analyst at Scope Ratings. "The impact on banks would be more of the second order type if confidence gets really affected negatively."

"A 'no' victory would spark panic among investors in the already battered Italian banking sector," said Marcello Minenna, a lecturer in quantitative finance at the London Graduate School and Bocconi University in Milan.

"The 'no' victory would be a formidable signal against the government's policies, [and] that could be a harbinger of strong political instability until the next election cycle in 2018. Obviously this is the last thing the markets want at this moment," Minenna said in an interview.

Opinion surveys cited by Reuters indicate that the referendum proposals are likely be rejected.

Separately, UniCredit was rumored in Italian media Nov. 14 to be considering a merger with France's Société Générale SA.

Regarding both the capital increase and the rumored SocGen merger, a UniCredit spokesperson wrote in an emailed statement: "As a policy, we never comment on rumors and speculations."

However, S&P Global Market Intelligence's source at Unicredit categorically dismissed the SocGen merger report.