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## Bank Values in Europe Fail to Lure Buyers

By Chris V. Nicholson and Jacqueline Simmons - Dec 7, 2011

European banks are struggling to find buyers for at least \$32 billion of businesses earmarked for sale as the sovereign-debt crisis drags on, raising the likelihood they'll have to settle for fire-sale prices.

European Union lenders including [Deutsche Bank AG](#) and [France's Societe Generale SA \(GLE\)](#) have announced plans to shed more than \$1 trillion of assets over the next two years to bolster capital. On top of selling loans, the banks put at least 50 businesses up for sale in markets spanning the globe, according to data compiled by Bloomberg.

"Expected valuations on many assets that are going to be sold will need to come down," said Eric Richard, co-head of the financial institutions group in [Europe](#), the [Middle East](#) and [Africa](#) at Credit Suisse Group AG. "There is a lot of backlog."

While some of the assets are prized possessions in [emerging markets](#) such as [China](#) and eastern Europe, buyers are balking amid concern over the future of the euro region and the value of sovereign debt, as well as financing limitations. That may lead the region's banks, already trading near record low valuations, to swallow losses on the sales.

[Denizbank \(DENIZ\)](#) AS, the Turkish lender of [Dexia \(DEXB\)](#) SA, and [Bank Millennium SA \(MIL\)](#), a Warsaw-based unit of [Banco Comercial Portugues SA \(BCP\)](#), are examples of profitable businesses in attractive markets that have seen bidders drop out, according to people familiar with those discussions. Dexia spokesman Benoit Gausseron said "there are several candidates" for Denizbank, without elaborating. A BCP spokesman declined to comment.

### Consuming Capital

Pressure on European banks to raise funds is growing as they write down sovereign debt and seek to comply with rules requiring higher capital ratios. Banks may be forced to raise 106 billion euros (\$142 billion) by the middle of 2012 to meet guidelines from the European Banking Authority, the regulator estimated in October. A revised figure is scheduled to be released today.

The benefits of getting capital-consuming assets off their balance sheets may outweigh the disadvantages of selling at [low valuations \(BEBANKS\)](#), said Alain Garnier, a partner at Linklaters LLP specializing in financial-services M&A transactions.

“Keeping these assets can in some cases cost them,” said Garnier. “It’s not that some of these activities are loss- making, but that they consume a lot of capital.”

European banks in the [Dow Jones Stoxx 600 Index](#) traded at 0.57 times [book value](#) last month, the lowest since February 2009, just months after the collapse of Lehman Brothers Holdings Inc. Western European bank units sold at an average of 2 times book value from 2005 to 2007, while this year they have sold for 0.6 times, according to Bloomberg data.

## Selling at Loss

Billionaire Richard Branson’s Virgin Money Holdings U.K. Ltd. agreed to buy Northern Rock Plc for 747 million pounds (\$1.2 billion) last month, the first sale of a British government bank holding since the 2008 financial crisis. With additional payments, the total price of as much as 1.03 billion pounds was lower than the bank’s book value of 1.1 billion pounds at the end of June, and almost 400 million pounds less than the sum invested by the government.

KBC Groep NV’s shares [dropped \(KBC\)](#) 16 percent in the 10 days after the company announced the sale of its private banking unit to Precision Capital, backed by a Qatari investor, for 1.05 billion euros, at the low end of the range the Belgian bank had sought and 300 million euros less than an earlier deal that collapsed for regulatory reasons.

“The valuation of these businesses is not making transactions any easier,” said Thierry Marais, global head of [BNP Paribas \(BNP\)](#) SA’s financial institutions group. “Banks want to create capital, but many of them face selling at a loss, which is why negotiations often take a long time.”

## Private Equity

Potential hot spots for sales are asset management and private-banking operations, because regulations for the businesses make deals more feasible for nonbank buyers. [Deutsche Bank](#) has begun talks with potential bidders for its asset management arm, which it may break up to raise capital. The unit may fetch less than \$4 billion, people familiar with the matter said on Nov. 30. Klaus Winker, a spokesman for Deutsche Bank, declined to comment.

“Sovereign wealth funds and [private equity](#) firms can play a role in asset management and private banking, but would find it more difficult in traditional retail banking from a regulatory standpoint,” said Credit Suisse’s Richard.

Newedge, the futures and options brokerage jointly owned by Societe Generale and Credit Agricole SA previously valued at about 2 billion euros, may be sold, according to two people with knowledge of the process. At least part of the business has been open to acquirers for about a year, the people said.

The unit may be valued at between 800 million euros and 1.2 billion euros, based on its 2010 earnings, estimated Christophe Nijdam, a Paris-based analyst at AlphaValue. Spokeswomen for Societe Generale and Credit Agricole declined to comment.

## Santander Retreat

Europe's debt crisis drove [Banco Santander SA \(SAN\)](#), [Spain](#)'s largest bank, to retreat from its expansion in [Latin America](#) as it seeks to raise 5.2 billion euros in capital. The bank announced two days ago the sale of its Colombian unit to Chile's Corpbanca for \$1.2 billion, and yesterday raised \$958 million by selling a 7.8 percent stake in its Chilean unit. Latin America accounted for 62 percent of Santander's net income last year and 21 percent of its assets, according to data compiled by Bloomberg.

Dexia, the Franco-Belgian lender that's being broken up, has seen potential bidders for Denizbank drop away as banks including [Russia](#)'s OAO Sberbank withdrew, people familiar with the discussions said.

## 'Big Promises'

The Istanbul-based lender, which had a book value of 4 billion Turkish new lira (\$2.2 billion) at the end of September, might be valued at about 3 billion euros, said Alex Koagne, a Paris-based analyst at Natixis SA.

Banco Comercial Portugues has delayed the sale of Bank Millennium because of market conditions, after failing to get firm offers in the latest round of bidding, according to people with knowledge of the discussions. In October, the Polish company reported its highest quarterly profit in three years, beating analyst estimates.

"Banks are making big promises for next year, but they are not finding buyers," said Chris Wheeler, a financial-services analyst at Mediobanca SpA in [London](#). "What CEO would be thanked for doing an M&A deal these days? They may miss fantastic opportunities, but it's all about being cautious."

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