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BNP, SocGen Lose European Loans Share

By Fabio Benedetti-Valentini - Nov 29, 2011

France's three biggest banks' share of underwriting European loans tumbled to the lowest in five years as the region's deepening crisis forces their retreat.

BNP Paribas SA (BNP), Credit Agricole SA (ACA) and Societe Generale SA's combined share of the $933 billion in syndicated loans this year in Europe, the Middle East and Africa fell to 14.9 percent from 16 percent, data compiled by Bloomberg show, as they gave back gains made after emerging stronger than rivals following the 2008 collapse of Lehman Brothers Holdings Inc. In France, the banks had the smallest slice of loans since at least 1999.

"French banks benefitted from the post-Lehman fragility of U.S. and U.K. banks, but now they've been knocked down by the euro zone's weakness," said Jacques-Pascal Porta, who helps manage 600 million euros ($799 million) at Ofi Gestion Privee in Paris and holds BNP Paribas shares. "Today their obsession is: capital, capital, capital."

The banks emerged from the U.S. subprime crisis strong enough to make $45 billion in acquisitions and were among the front runners in the 2009 rebound, chalking up market share gains in European syndicated loans, equity underwritings and initial public offerings. Now, as the euro-area crisis squeezes their funding options and puts them on the defensive, BNP Paribas and Societe Generale are trimming about 300 billion euros in assets to comply with new capital rules.

"The French banks are pulling in their horns," said Matthew Czepliewicz, an analyst at Collins Stewart Hawkpoint Plc in London. "This is going to continue into the first half of next year."

'Image Squeeze'

BNP Paribas's Paris-based spokeswoman Julia Boyce declined to comment as did Credit Agricole's corporate- and-investment- banking spokeswoman Anne Robert and Societe Generale's (GLE) spokesman Antoine Lheritier.

French financial institutions hold the most debt in the region's five troubled countries -- Greece, Portugal, Ireland, Spain and Italy -- at about $681 billion in public and private borrowings as of June, according to the Bank for International Settlements. Concern about their holdings made U.S. money-market funds reluctant to lend to them in dollars, narrowing options for international corporate-lending and trading operations.

"It's a liquidity squeeze that damaged their image and is hurting them as a consequence," said Christophe Nijdam, an analyst at AlphaValue in Paris. "After Lehman's collapse, French banks benefited as companies viewed them as among the soundest banks in the region, but things have lately turned the other way around."

Long-Term Commitment

French banks' borrowing costs have risen on investor concern about European sovereign debt. Any increase in France's borrowing costs weighs on its banks' funding capacities. The extra yield to lend to AAA rated France for 10 years rather than Germany was 200 basis points on Nov. 17, the most since 1990.

Banks will cut bond sales in Europe by 60 percent next year as the sovereign-debt crisis drives up issuance costs, Societe Generale predicts. The extra yield that investors demand to hold European bank bonds is the highest since May 5, 2009, widening to 424 basis points on Nov. 25 from 336 on Oct. 31, Bank of America Merrill Lynch's EUR Corporates Banking index shows.

Societe Generale, France's third-largest bank by assets, plans to raise as much as 15 billion euros for its long-term funding next year, or about 50 percent less than this year.

"Syndicated loans are long-term commitments, so French banks are likely to be on the back foot as long as funding is under pressure," said Collins Stewart's Czepliewicz. The analyst, who has a "buy" rating on BNP Paribas and Societe Generale, said the former may recover its market share sooner than the latter.

French Market

French banks don't breakdown syndicated loan underwriting revenue. BNP Paribas's revenue from corporate financing, which includes such loans, fell 14 percent in the third quarter to 1.01 billion euros, while Societe Generale's financing-and advisory revenue slid 16 percent to 616 million euros. Credit Agricole's commercial lending, part of its corporate financing operations, fell 16 percent to 241 million euros.

The collective market share of the three banks this year in syndicated loans is back at its pre-Lehman-collapse level. BNP Paribas and Credit Agricole remained the top lenders in Europe, while Societe Generale slipped back to its No. 6 ranking of 2009 from the fourth position last year.

The top five U.S. banks, led by Citigroup Inc. and JPMorgan Chase & Co. (JPM), captured 13 percent of the loans arranged this year in Europe, up from 9.9 percent in 2010.

In their home market in France, the three Paris-based banks have lost ground, with their combined share of the loans market this year of 30 percent the lowest since Bloomberg began compiling such data in 1999. The share was 36 percent in 2010 and 48 percent in 2009.

‘Bread-and-Butter’

Citigroup and JPMorgan were hired by Paris-based Danone SA (BN), the world’s biggest yoghurt maker to help coordinate a 2 billion-euro credit line in July, according to Bloomberg data. BNP Paribas, Credit Agricole and Societe Generale were among the leaders of Danone’s last loan in December 2007.

The decline in the French banks’ share comes even as the market reaches its highest volume since 2007 with companies refinancing before lending rates increase further as Europe’s spreading sovereign crisis endangers France’s top credit rating.

Rebuilding their share will be critical for French banks as they try to regain their place at the center of economic activity, said Pierre Flabbee, an analyst at Kepler Capital Markets in Paris.

“It is the bread-and-butter of corporate lending -- classical and simple loans securing ties with clients: you can modulate it, not stop it overnight.”

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