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SocGen takes a positive step

By Lorenzo Spoerry

Société Générale SA's asset disposal program will have a significantly positive impact on its capital requirements, analysts say, as eurozone turmoil continues to batter its share price.

The French bank revealed in a Sept. 12 press release that it will accelerate its current program to dispose of legacy assets. To date, it has sold assets worth €3.5 billion in the third quarter, with no impact on the group's P&L statement, it said.

By 2013, the group expects to free €4 billion in capital through such sales, with a positive impact of 100 basis points on its core Tier 1 ratio.

"The faster SocGen can dispose of those assets, the better it will be for its stock price," Pierre Flabbee, a Paris-based analyst at Kepler Capital Markets, told SNL Financial. "The legacy assets are creating quite a burden on the capital requirements of the bank. A good performance in treating and reducing the size of those legacy assets will in the end have a positive effect."

He added there seemed little to suggest the bank would have too many problems selling them off.

"Quite a significant part of those assets are U.S.-related … so I don't think it's the case that the current turmoil in the eurozone could drag on the program.

"Another point is that … as they dismantle their CDO assets, they get a capital relief [because] the underlying assets of the CDOs — the tranches of credit — require less capital than the CDO itself, so there is a positive [mechanism] at work."

The share price of French banks has been battered in recent weeks and months as liquidity issues and the eurozone debt crisis threw markets into turmoil.

From the start of the year through Sept. 12, Société Générale's share price has fallen about 61%. The equivalent figures for its two main domestic rivals, BNP Paribas SA and Crédit Agricole SA, are at about 45% and 49%, respectively.

The banks' shares started to pare those losses on Sept. 13, with Société Générale stock closing 14.96% higher at €17.90 in Paris trading. Shares of BNP Paribas and Crédit Agricole were up by 7.20% and 6.73%, respectively.

Alpha Value analyst Christophe Nijdam told SNL on Sept. 13 that market fears of a Greek default were "not the main problem" for Société Générale, which has a small subsidiary in the country, GENIKI Bank SA.

"Société Générale doesn't have a large sovereign debt exposure to Greece. … In order of magnitude, Geniki's assets are worth approximately €6 billion, or one-fourth of [Crédit Agricole unit] Emporiki Bank of Greece SA.

"The market treatment of Société Générale's stock has been linked more to liquidity concerns. It's very difficult to say at this stage whether those liquidity concerns are justified or not."

Flabbee said the recent plunge in French banks' share price reflects the markets' skepticism that eurozone leaders will come to a workable agreement on the Greek debt problem and the structure of the European bailout fund.

In addition, it was reported Sept. 10 that Moody's will soon downgrade Société Générale, BNP Paribas and Crédit Agricole, in line with other rating agencies — news that analysts say contributed to the Sept. 12 plunge.

Société Générale CEO Frédéric Oudéa sought to reassure the markets Sept. 13, telling Germany's *Handelsblatt* newspaper that the bank's exposure to peripheral eurozone bonds is "low and manageable in every conceivable scenario" and that liquidity is "very satisfactory."