SNLFinancial

Reprinted from SNLFinancial

For French lenders, 2012 to be year of 'transition'

February 10, 2012

By Emma Newlands and Alem Husain

2012 will be a "transition" year for French banks, two analysts told SNL Financial in advance of full-year 2011 reports from Crédit Agricole SA, BNP Paribas SA, Société Générale SA and Natixis.

Christophe Nijdam of AlphaValue predicted to SNL that the four banks will report aggregate full-year 2011 net profit of about €10 billion, compared to about €15 billion in 2010. That accounts for a substantial share of his forecast fall in aggregate profit for 38 banks in 13 European countries to €71 billion from €80 billion in 2010.

The French decline is enhanced by his forecast of a loss for Crédit Agricole, an assessment matched by a London-based analyst speaking on condition of anonymity. Their view, however, differs from consensus estimates of full-year 2011 profit for all four French banks.

There have been rumors that France is to demand higher Greek provisions from its banks, although it is believed that this would not substantially endanger BNP Paribas. Provisioning 60% of its Greek sovereign debt pushed BNP Paribas' third-quarter net income attributable to equity holders down to €541 million in the third quarter of 2011 from €1.91 billion in the prior-year period.

Looking at Crédit Agricole, the unnamed analyst said that bearing in mind the guidance it provided in December 2011, his forecast loss "has been expected for a while."

Like BNP Paribas, Crédit Agricole suffered in the third quarter from Greek write-downs, with profit down 65.2% year over year.

On the bright side, Nijdam said most of the bank's full-year 2011 losses are of a nonrecurring nature, comprising items such as the Greek government bond write-downs and goodwill losses on unit Emporiki Bank of Greece SA. "However, on the operating profit level, they are profitable," he said.

2011 estimates for select French banks

	Dividend per share (€)		EPS (€)		Net profit (€M)		Core Tier 1 ratio (%)	
Company	2011 est*	2010 act**	2011 est*	2010 act**	2011 est*	2010 act**	2011 est*	2010 act^
BNP Paribas SA	1.38	1.50	5.32	6.33	6,434.9	7,843.0	9.08	9.23
Crédit Agricole SA	0.37	0.45	0.88	0.53	2,150.3	1,263.0	NA	8.45
Natixis	0.22	0.00^	0.52	0.46	1,611.9	1,732.0	NA	7.91
Société Générale SA	0.00	1.75	3.96	4.96	2,902.6	3,917.0	8.91	8.31

NA = not available
* Inquiry Financial mean estimates
** Inquiry Financial actual values
^ SNL Financial actual values
As of Feb. 1, 2012
Sources: SNL Financial, Inquiry Financial Europe AB

Nijdam expects BNP Paribas to fare best by a wide margin, saying its full-year net profit will be about twice that of nearest competitor SocGen. Consensus estimates agree, calling for €6.43 billion in earnings at BNP Paribas against €2.90 billion at SocGen.

Consensus estimates also call for fourth-quarter 2011 profit at all four banks. BNP Paribas reports its full-year 2011 earnings Feb. 15. SocGen reports Feb. 16, with Crédit Agricole and Natixis to report Feb. 23.

Q4'11 estimates for select French banks

	EPS (€)		Net profit (€M)	
Company	Q4'11 est*	Q4'10 act**	Q4'11 est*	Q4'10 act**
BNP Paribas SA	0.96	1.25	1,149.9	1,550.0
Crédit Agricole SA	0.22	-0.14	545.0	-328.0
Natixis	0.11	NA	345.0	442.0
Société Générale SA	0.84	1.09	617.6	874.0

NA = not available
* Inquiry Financial mean estimates
** Inquiry Financial actual values
As of Feb. 1, 2012
Sources: SNL Financial, Inquiry Financial Europe AB

Nijdam said BNP Paribas is set to outperform its peers thanks to its risk management strategy. "This we have seen since the beginning of the 2008 crisis," he said.

Although the unnamed analyst said only BNP Paribas will report a core Tier 1 ratio of more than 9%, he said the French banks will have no problem meeting the European Banking Authority's June-end mandate. He said SocGen and Crédit Agricole will pay no dividend for the year, while BNP Paribas will reduce its dividend substantially.

Nijdam said French banks have historically had extensive international networks and corporate banking operations, as well as investment banking activities, which were "bloated" relative to the banks' size.

Consequently, French banks, which were hit harder than other European banks in the liquidity crisis of the second half of 2011, will have to strongly modify their universal banking business model, more so than their European peers, in Nijdam's view.

The unnamed analyst said French lenders' corporate and investment banking revenues look set to be reasonably fairly weak, "given what we've seen from U.S. brokers, although the equity derivatives business should perform relatively well given that volatility was lower in the quarter versus Q3."

He also said there will be interest in French banks' take-up of the ECB's longer-term refinancing operations, with a focus on how much they took in December 2011's first round, how much they plan to draw in February's second phase and how they plan to use the funds.

The analysts agreed that 2012 will be a transition year, with banks potentially moving beyond already announced deleveraging. The London-based analyst suggested that changes in business model are possible.

The markets will welcome as much deleveraging as possible, he said, with the caveat that praise will be dependent on the implied losses taken.

That change is a necessity for the country's lenders, Nijdam said.

French banks need a significant transformation, which generates a great deal of uncertainty regarding future profitability levels, he said. *i*

One SNL Plaza, P.O. Box 2124, Charlottesville, VA 22902 Phone: 434.977.1600 News fax: 434.293.0407 www.snl.com