Italian banks: favourable transformations

Veröffentlicht am 2. August 2017

WisdomTree
Contributor

The Italian banking industry is experiencing a profound transformation. The sector's restructuring efforts through recapitalisations, cost cutting and M&A have strengthened balance sheets and we believe, as shown in chart 1 below, that many companies are trading at deep discounts versus their European peers. While some argue that this restructuring is reducing their discounts, given the ECB continues to be supportive through cheap loans and that the macro backdrop for the Eurozone economy is stabilising, we believe Italian banks' strong run may still be sustained.

Chart 1: Italian bank's deep discount to Eurozone's peers and broader market

Price to book value (multiple)

Source: Bloomberg

So what does this restructuring mean for current and aspiring investors of Italian banks?

Below we highlight the changes that the restructuring has had specifically on the FTSE MIB Index—the only index that offers targeted exposure to Italian banks.

Summary of changes in the Italian banking sector

Below is a summary ofsome of the most relevant events affecting the Italian banking industry since November 2016:

- June 2017: A rescue deal to inject up to EUR 6.6 billion into Monte dei Paschi di Siena approved by EU authorities.
- June 2017: Banca Popolare di Vicenza and Veneto Banca are wound down through the acquisition of their good assets by Intesa Sanpaolo for one euro. The Italian government agrees to pay EUR 5.2 billion to Intesa to ensure its capital ratios and dividend policy are not affected by the deal and gives it guarantees of up to EUR 12 billion against unexpected losses.
- March 2017: Banca Monte dei Paschi di Siena was removed from the Index.
- February 2017: Following its asset sale of Polish lender Pekao and of its investment arm Pioneer to Amundi, Unicredit raised EUR 13 billion in equity in a heavily discounted rights issue.
- January 2017: Banco BPM, the bank created from the merger of Banco Popolare and Banca Popolare di Milano in 2016, started operations as the third largest retail and corporate banking conglomerate in Italy.

- December 2016: Banca Monte dei Paschi di Siena suspends trading.

How well does the FTSE MIB Index represent the transformed Italian banking industry?

Since its launch nine months ago with the investment objective to provide the performance of the FTSE MIB Banks 15% Capped Net Tax Index (<FMIBBN Index>), after fees, the Index is a sub-family of the Italian FTSE MIB Index benchmark sponsored by FTSE. It tracks the performance of the FTSE MIB Index constituents classified as “Banks” in accordance with the Industry Classification Benchmark rules.

The Index constituents are weighted by market capitalisation after adjusting for float. To provide an adequate and balanced representation of the Italian banking sector, the Index constituent weights are capped at 15% and the Index rebalances to such weights quarterly in March, June, September and December.

Tables 1 and 2: Changes in the index composition

Three of the underlying constituents in November 2016 are no longer in the new index composition at 28 June 2017. This means the Index accurately reflects the changes within the Italian banking industry.

Index composition on 12 September 2017	
Company	**Weights**
UNIONE DI BANCHE ITALIANE	17.02%
BANCO BPM	15.22%
INTESA SANPAOLO	15.04%
UNICREDIT SPA	14.82%
MEDIOBANCA	13.71%
FINECOBANK	13.44%
BPER BANCA	10.75%

Index composition on 12 September 2017

UNIONE DI BANCHE ITALIANE

INTESA SANPAOLO

UNICREDIT SPA

MEDIOBANCA

FINECOBANK

BPER BANCA

Index composition on 21 November 2017	
Company	**Weights**
INTESA SANPAOLO	15.3%
MEDIOBANCA	14.8%
UNICREDIT SPA	13.8%
FINECOBANK	11.6%
UNIONE DI BANCHE ITALIANE	11.4%
BANCA POPOLARE DELL EMILIA ROMA	11.2%
BANCO POPOLARE	9.9%
BANCA POPOLARE DI MILANO SCARL	8.3%
BANCA MONTE DEI PASCHI DI SIENA	3.8%

Index composition on 21 November 2017

INTESA SANPAOLO

MEDIOBANCA

UNICREDIT SPA

FINECOBANK

UNIONE DI BANCHE ITALIANE

BANCA POPOLARE DELL EMILIA ROMA

BANCO POPOLARE

BANCA POPOLARE DI MILANO SCARL

BANCA MONTE DEI PASCHI DI SIENA

How has the Index performed?

Performance of the Index since the launch of the Boost FTSE MIB Banks ETP (ITBL) has been 64%, outperforming the FTSE MIB index by almost 23%.

You might also be interested in reading:

+ European macro outlook: Italy

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can offen lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.