

# UNICREDIT & COMMERZBANK - A GAME CHANGER IN EUROPEAN BANKING



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## Introduction

### Acquiring Company: UNICREDIT (MIL:UCG)

Established in 1869, UniCredit is a Pan-European commercial banking institution based in Milan, Italy. The bank offers personal and business banking services to customers across the world. UniCredit's primary products include senior debt, subordinated debt, term loans, and revolving credit lines. The bank was formed by the merger of Unicredito and Credito Italiano, and hence it was formerly known as Unicredito Italiano.

- **CEO:** Andrea Orcel
- **Employees:** 69,454
- **Serviced Companies:** 926; **Serviced Deals:** 1,482; **Serviced Investors:** 108; **Serviced Funds:** 20
- **Biggest Co-Lender:** 1st BNP (462 shared deals), 2nd Deutsche Bank (377 deals), 3rd JP Morgan (274)
- **Equity V (ace date):** €58.62Bn
- **LTM EBITDA:** 16.249 Bn
- **LTM Revenue:** 24.628 Bn
- **LTM EV/Revenue:** 2.38
- **LTM EV/EBITDA:** 3.61

### Target Company: COMMERZBANK (ETR:CBK)

The German (Frankfurt) bank operates two business segments: private and small-business customers as well as corporate clients. In its private and small-business segment, the group runs its branch business, a mobile bank with a focus on the Polish market, an online broker, and an asset manager for physical assets. Its corporate client business provides cash management and trade finance solutions to small and medium-size enterprises and large corporates

- **CEO:** Bettina Orlopp
- **Employees:** 38,708
- **Biggest Co-Lender:** 3i Group & ABN AMRO
- **52 WK High:** 16.97; **Current:** 16.63 -> on 18/09
- **Diluted shares outstanding:** 1.22Bn
- **Equity V (ace date):** 19.93Bn€
- **LTM EBITDA:** 861 million
- **LTM Revenue:** €17.96Bn (+8,61% YoY)
- **LTM EV/Revenue:** 1.66



- LTM EV/EBITDA: 23.15

Since the 23rd of September 2024, UniCredit holds a 21% stake in Commerzbank. The Italian bank, led by Andrea Orcel, steadily increased its stake from 3% in 2023, to 9% by September 2024 combining a direct purchase of 4.5% stake from the German government and total return swaps. It became the largest shareholder of the German bank by contracting two more total return swaps from Barclays and Bank of America of 5% and 6,53% respectively.

The acquirer, established in 1869, is a Pan-European commercial banking institution based in Milan with over 69,454 employees. On the sell-side we have Commerzbank, headed by Bettina Orlopp, which is located in Frankfurt since 1870 and consists of 38,708 employees. The ambitious stake building, qualified as an "unfriendly attack" by the German government, has sparked controversy. Due to its strong national roots, it raised concerns over the impact on the independent lending landscape of the country and its strategic importance among German SME's. Could we think about a takeover by UniCredit in the future?

## Upsides and Downsides

Given the current situation where UniCredit has an aggregate stake of 29.9%, effectively leapfrogging the German government as the top shareholder of Commerzbank, 3 possibilities arise: a potential tie-up between the Italian and German bank, UniCredit remaining as a financial investor, or eventually selling its stake back to the market. The German government has been vocal of its displeasure with the "hostility" of UniCredit's stake building and is fearful for their economy, citing an "Italy first" approach by the Italians.

However, given the current situation where Europe has long been calling for more consolidation between its borders, for larger financial European institutions that can compete with their foreign competitors, for a banking union, there is a certain contradiction when the Germans positioned themselves harshly against the deal. We can cite the acquisition of Italian ITA Airways by German carrier company Lufthansa, which was approved by Rome. The European Central Bank has also been indirectly vocal in favour of mergers between European banks. Christina Buch, head of ECB's bank supervision arm, supported cross border mergers speaking of their economical advantages, while ECB president Christina Lagarde, said that cross borders mergers, if they produce institutions capable of competing with their foreign counterparts, are "in my opinion desirable".

A takeover of Commerzbank by UniCredit seems the most probable outcome, by assessing this trend of European integration. This event will certainly have an impact on several of the stakeholders, with positive and negative feedback.

## Upsides:

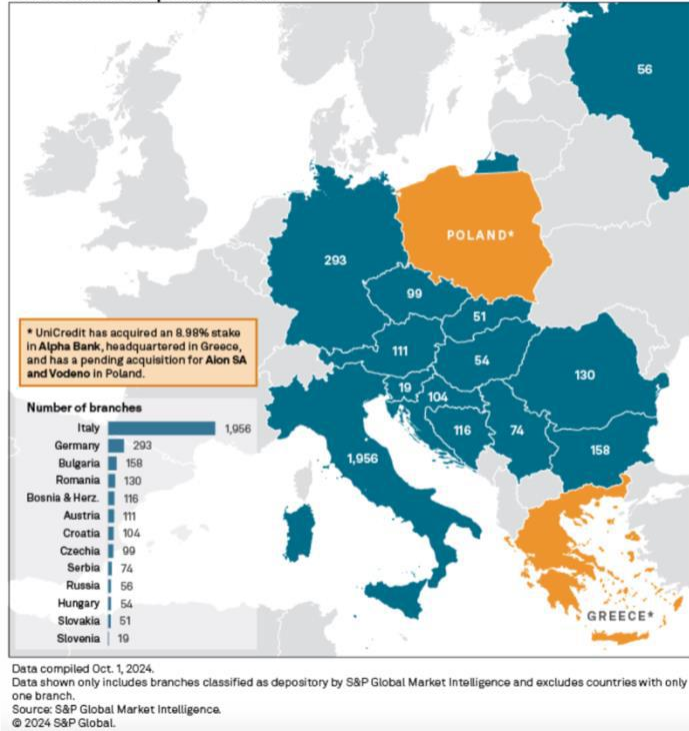
UniCredit will benefit massively if the deal comes through. This would result from the enormous financial gain through their merger with already owned HypoVereinsbank. The gain from economies of scales and cost cutting would be very attractive for business, and this would benefit Commerzbank's competitiveness largely, apart from consolidating UniCredit as a pan-European bank, certifying their position in Germany

but also in Poland, with Commerzbank's local subsidiary mBank. At the moment, it is difficult to assess any other options rather than a takeover due to the sheer attractiveness of the deal for Commerzbank.

Furthermore, a merger between two countries in the EU represents a step into an era where Europeans banks can compete with the Americans and Chinese, while better supporting their domestic economy. One of the main issues in the current European banking industry is that its largest banks tend to focus heavily on their home markets, leading to less efficiency while making their domestic markets small compared to the US. The ECB therefore praises and incentivises mergers between borders, citing a larger cooperation between its countries and a gain in efficiency which would allow them to compete more effectively. With this first step, perhaps we may see a reignition of the European banking industry, which has fallen steeply since the 2007 banking crisis.

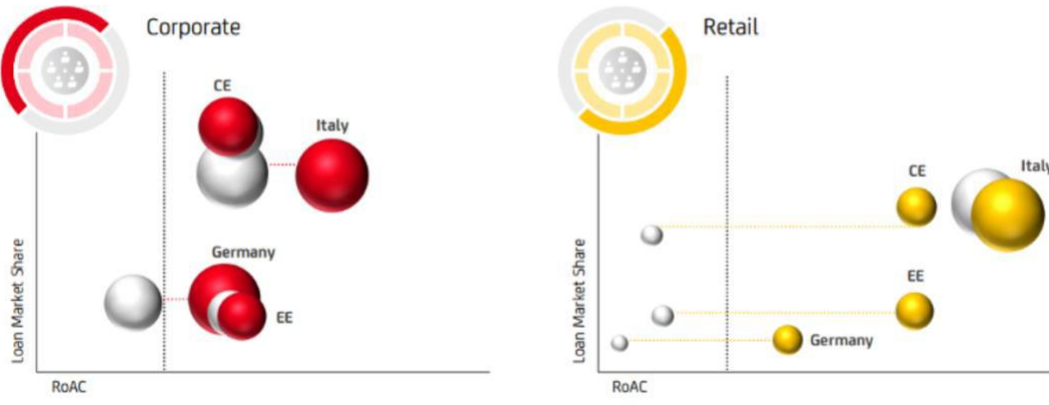
Finally, the acquisition is highly aligned with UniCredit's pan-European strategy, which aims to diversify its revenue base and reduce its reliance on the Italian market. By increasing its presence in Germany, UniCredit strengthens its foothold in Europe's largest economy, balancing its exposure between Germany, Italy, and Central and Eastern Europe (CEE). According to analysts, post-acquisition, Germany could contribute 30%–35% of UniCredit's revenue and exposure, surpassing Italy's contribution, which would also be 30%–35%. This shift is critical for reducing UniCredit's sensitivity to the Italian sovereign risk and enhancing its overall credit profile. Moreover, the acquisition allows UniCredit to expand its operations in Central Europe by regaining access to mBank, Commerzbank's Polish subsidiary, which had previously been part of UniCredit's CEE footprint.

UniCredit's European network



**Our regions**  
**Limited correlation between market share and profitability**

From **c.60%** of allocated capital in segments with RoAC higher than 10% in 2021, to **100%** in 2024



50 ● 2021 ● 2024 Bubble size: Net profit ..... Group Cost of Equity



## Downsides:

One of the most affected groups will be the German bank employees. As Commerzbank will most likely merge with UniCredit owned German subsidiary HypoVereinsbank, UniCredit will take advantage of the possible cost synergies and reduce its workforce between the 2 banks. Unions and Berlin are fearful for the loss of thousands of jobs, and this isn't news as the takeover of HypoVereinsbank in 2005 resulted in a large layoff. The German economy would then suffer, so it is crucial to see how the ECB interacts with the government to ensure that this loss does not lead to deceleration of their economy.

One risk that was mentioned was the difference in culture regarding Italy and Germany and the difficulty in adapting and integrating properly into the market, which could lead to loss of clients for the consolidated bank. However, UniCredit understands Commerzbank's importance and is competent enough to secure the loyalty of the Mittelstand, the thousands of SME (small and medium sized enterprises) which Commerzbank finances. Proof of this is found with the HypoVereinsbank, which after its acquisition did not change decision making to Milan, rather staying in Munich, shushing the fears of a "Italy first" approach which would harm the German customers.

For the German rival banks, this will also present a problem, as a larger competitor will hinder their market share and activity within the retail banking industry. A solution that was considered was for Deutsche Bank, arguably the largest bank in Germany, to acquire Commerzbank, ensuring that the financing and security of the Mittelstand stayed within domestic borders. This, however, is highly unlikely, given Deutsche's plans to return €8 billion to the shareholders by 2025, and since they would have to pay in cash in the open market. Christian Sewing, Deutsche Bank CEO was not worried with the potential takeover, stating that "Competition is good for business".

## Risk Assessment

Considering an outlook on the EU financial systems, risk remains elevated, with the sector facing a repricing of liabilities and assets. Anticipating lower interest income, slower loan growth and a challenging macroeconomic environment, complicated by ongoing geopolitical tensions, hindering economic growth.

UniCredit's ambitious attempt of a pan-European merger will also face political hurdles as a potential merger is considered a threat to the German economy. Executives at Commerzbank released that the tie-up would disrupt the lending activity to Germany's small and medium size enterprises, disrupting the lending activity to a crucial section of Europe's largest economy.

Another factor to consider is UniCredit's HypoVereinsbank (HVB) subsidiary. Risk concentration concerns that can result in a decrease in lending due to shared clients between the two banks. Both institutions would be simultaneously impacted by economic downturns, creating a clustering effect, thus limiting their financing options.

Another risk in the merger involves the credit rating, while Commerzbank holds an A-rating with the S&P credit rating agency, UniCredit holds a three tier lower BBB-rating. The result would be a lower credit rating for the merged banking institutions, that could affect their market position and the customer pool.

The imminent transaction is waiting for the approval of the ECB and BaFin to concretize their shareholding to almost 30%. The German government, shareholders of Commerzbank, are now hoping for the regulatory review by the country's BaFin to at least delay the transaction, by lobbying the regulator against the deal. The Federal Financial Supervisory Authority in Germany has started analysing the buyer's financial strength and reputation of managers providing its evaluation to the ECB, which retains the final decision-making authority.

One of their main arguments against the transaction is the concern over the entanglement of the country's financial stability, considering Italy's economic risks. As Berlin might end up bearing the cost of the bill if UniCredit were to be dragged in an Italian Debt Crisis. The main consideration is UniCredit holding 40bl € in Italian Government Bonds, worsening the situation and heightening their exposure to potential economic challenges in the Italian peninsula.

However, the ECB is known to be in wide disagreement with Germany's opposition, the belief is that European banks could better support the economy, contribute to financial stability and help to compete against the rivals in the States. The ECB has repeatedly supported the transaction, with Claudia Buch, ECB's chief supervisor, stating that the institution is driven to eliminate the hurdles of cross-border bank mergers. Christine Lagarde also referred to the deal as advantageous. Highlighting a growing trend in Europe to centralize financial markets supervision, to revive struggling capital markets by strengthening a communal regulatory oversight.

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