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Santander seen snubbed in Intesa/Sanpaolo merger

By Lisa Jucca

MILAN, Aug 25 (Reuters) - Banca Intesa <BIN.MI> and Sanpaolo IMI's <SPI.MI> plan to create Europe's 10th largest bank could prompt the exit of Spain's Santander <SAN.MC> as a shareholder and trigger more bank tie-ups in the country, analysts said.

France's Credit Agricole <CAGR.PA>, Intesa's top investor with about 18 percent, welcomed the planned merger which would create a dominant domestic player worth over \$70 billion.

But Spain's Santander, which owns 8.4 percent of Sanpaolo, remained tight-lipped, saying only that it would make a capital gain of 1.2 billion euros (\$1.53 billion) if it sold its stake.

Italian newspapers said on Friday Santander is likely to seek a premium to relinquish its stake and may not be happy with a pure share deal.

"We believe the Intesa-Sanpaolo merger is likely to go through," analyst Alessandro Roccati at Fox-Pitt, Kelton said in a research note. "There is a possibility that Santander could sell its 8 pct Sanpaolo stake," the analyst added.

Corriere della Sera newspaper and Milano Finanza also both suggested Santander could take a slice of Sanpaolo's fund management arm Fideuram <FIBK.MI> or its Eurizon insurance and asset management unit.

Shares in both Intesa, Italy's second-largest bank, and third-largest lender Sanpaolo extended Thursday's gains ahead of board meetings of the two banks scheduled for Saturday afternoon.

Rival Capitalia <CPTA.MI> was also up as investors saw it as a target for the next bank bid, possibly from Italy's leading bank UniCredito <CRDI.MI>, which was down 2 percent.

Some analysts said Santander could switch its interest to Capitalia, which rebuffed Intesa's approaches earlier this year.

"Bank consolidation in Italy will first be a national one. Foreign banks will be either cautious to get involved, or are left out," said Christopher Kummer, Director at the Institute of Mergers, Acquisition and Alliances in Vienna.

"In this particular deal, foreign banks are even losing importance as they see their share holdings diluted."

The deal, which has already won support from government and key shareholders in Italy, would be the first major domestic bank merger since pro-consolidation Bank of Italy Governor Mario Draghi replaced Antonio Fazio, who had protected Italian banks, in January.

TOP PLAYER

The deal will be an all-share swap, a source familiar with the matter told Reuters, and analysts expect an exchange ratio of 3.1 to 3.3 Intesa shares for every Sanpaolo share. Estimates suggest synergies could be worth 600 million to 800 million euros.

Current market prices indicate Intesa would have about 54 percent of the merged entity, which would be the top retail player in Italy with 6,300 domestic branches and about 1,000 branches in fast-growing eastern European countries.

The two banks would have total assets worth 545 billion euros, still behind UniCredito's 787 billion euros. The deal is likely to be closed by year end, financial sources told Reuters.

Intesa Chief Executive Corrado Passera, who has been seeking a partner for his bank for months, is likely to head the new bank.

But the headquarters would be in Sanpaolo's home base of Turin, as the banks strive for an unusual merger of equals.

Intesa Chairman Giovanni Bazoli would chair the supervisory board and Sanpaolo Chairman Enrico Salza would become chairman of the executive board.

Analysts said a possible conflict of interest in asset management and insurance distribution could be hurdles.

The business of Eurizon, which plans a public offering worth up to 3.5 billion euros later this year, could overlap with the asset management operation of Credit Agricole.

It could also clash with an insurance agreement between Intesa and Alleanza Assicurazioni <ALZIMI>, a unit of top Italian insurer Generali <GASIMI> -- which has stakes in both banks and has given its support to the deal.

(Additional reporting by Gianluca Semeraro in Milan, Mathieu Robbins in London and Elizabeth O'Leary in Madrid)