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Italy challenging for the title

In a mature market – Europe's second largest – with a high level of consolidation, lessors are having to diversify and innovate in order to grow.

Brendan Malkin investigates

LIKE Italy's politics, its economy is in flux too. Market consolidation is taking place and with it an obsession with securitisations and sales of asset portfolios unseen elsewhere in Europe, even in the burgeoning eastern European economies.

Also, figures collected by Leaseurope for leasing in 2005 shows new production totalled €44.1bn by year end, a 16 per cent growth on 2004. Such growth is slightly higher than the equivalent mean figure for the whole of Europe, and is also significantly higher than the growth figures in the UK. While retaining its position as Europe's number one lessor by several furlongs, new production volumes in the UK last year rose by just less than 4 per cent. Is Italy about to take Britain's place at the top of the table?

Outsourcing and consolidation

Antonello Lupo, a partner based in the Milan office of the law firm Norton Rose, has a bird's eye view of activities in the Italian leasing market. Most of his leasing clients are international and domestic banks which dominate asset finance throughout the country, and it was he who assisted in the legal work behind the sale of Italian truck lessor, Iveco, to Barclays Bank last year, one of the biggest and certainly the most high profile Italian leasing deal of 2005. "Many of the deals relate to outsourcing trends, many companies are outsourcing their services and dismissing areas which are not core to their businesses," he remarks. In recent weeks, for instance, Banca Popolare Italia sold its leasing business, BPL Leasing, to Banca Italease, Italy's largest leasing player.

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In such a heated corporate climate it is no surprise that several players are beginning to dominate the market. Banca Italease itself now owns 14 per cent of the leasing marketplace, and this is bound to grow, not least as it also recently purchased Bipielle Leasing (giving it access to 900 more branches), and it recently signed three-year exclusive commercial agreement over its leasing products with Popolare Italiana and its unit Reti Bancaria SpA. Being ambitious appears to be paying off as Banca Italease saw its size of its leasing portfolio grow by 30.5 per cent in 2005 and in the same period saw its factoring portfolio grow by 38.2 per cent to reach €3.6bn. It now plans to triple net income within the next two years, and reduce its cost-income ratio by 13 per cent.

It is far from being the only one with acquisitions ▶

TOP 10 LEASING COMPANIES BY MARKET SHARE

Locat	13.0%
Intesa Leasing SpA	12.6%
Banca per il Leasing – Italease SpA	7.4%
Sanpaolo Leasint SpA	5.4%
Fineco leasing SpA	4.9%
Banca Agrileasing SpA	4.6%
Locafit SpA	3.9%
Monte dei Paschi di Siena Leasing & Factoring	3.7%
Gruppo Selmabipiemme Leasing SpA	3.2%
Centro Leasing SpA	2.9%

Source: Assilea

and ambition on its mind. Mediocredito Centrale (MCC) merged earlier this year with Capitalia Leasing & Factoring, and this followed a successful 2005 during which its profits almost doubled to reach €124m, while Intesa Leasing, which recently set aside €250m for investment in financing technology for SMEs, posted a net profit of €21m in 2005.

French 'New Wave'

But from Lupo's bird's eye another presence is busily entrenching itself in the Italian marketplace: the multinationals. "Traditionally Italy had a closed marketplace, and while foreign investors had access to the market, it was limited," says Lupo. He points to the French banks – BNP Paribas and Société Générale – as becoming increasingly dominant. "There may be external problems to do with the Italian economy in general," Lupo remarks, "but previously it did not go through a period of consolidation, but now it is doing so, and it is appealing for foreign players."

"Our renting business is of growing interest to both vendors and end-customers alike who are increasingly recognising that it's the user of the asset that counts rather than the eventual ownership."

Last year, for instance, SG Equipment Finance acquired the €40m leasing portfolio of Italian insurer Generale, and according to its country head, Carlo Mescieri, it has begun leasing yachts, a booming part of the Italian market which now represents 4 per cent of all leasing deals in the country. Also reflective of the Italian leasing market in general is SG Equipment Finance's concentration on the Italian real estate leasing market which, according to Mescieri, is more advantageous than taking out mortgages as repayments can be made over a shorter period – 15 years – while for mortgages the pay back period is 30 years. As a result, says Mescieri, real estate lessees have a lower tax burden. Until recently the repayment period for real estate leases was eight years, however Mescieri does not believe the increase to 15 years will drive lessees into the hands of the mortgage lenders. "They can still feel the considerable benefit of real estate leasing over mortgages," he points out.

Another international player with ambitious plans in Italy - as well as across Europe - is Key Equipment Finance (KEF) which has shifted from exclusively financing IT and, according to its country manager, Pierluigi Fulvi, is now looking at the construction market, in particular financing cranes, office equipment, as well as financing trains and engineering equipment. It saw spectacular growth last year of 190 per cent and expects to see double-digit growth this year. This is impressive, especially for a small-ish business comprised of three staff (albeit with substantial financial backing from its US parent bank, Key Corp), and one which was established just five years ago.

Rent v lease

Also, few disagree that leasing is Italy is extremely competitive. Dr Federico Paganelli, general manager of Siemens Financial Services in Italy, points out: "The market is mature and highly competitive, with pressures on margins continuing to feature. The top 10 leasing companies cover some 60-70 per cent of the leasing market and have well-established positions within traditional markets." Paganelli sees competition in his market, IT and office automation, as predominantly being sourced from foreign competitors, and that his agenda is to provide a "combination of flexibility and the ability to cater for service requirements".

A unique feature of the Italian market is that alongside the regulated leasing industry is unregulated renting of equipment. Says Paganelli: "Our renting business is of growing interest to both vendors and end-customers alike who are increasingly recognising that it's the user of the asset that counts rather than the eventual ownership." However, while renting tends to suit short loan period, small ticket business, leasing is still required for larger medical assets over periods of up to 60 months.

Despite the flux in Italian leasing there is evidence that 2006 will a period of greater calm than last year. The boom in leasing securitisations during 2005, reportedly driven by sales of portfolios by public bodies in order to improve efficiency, is unlikely to be repeated in 2006, largely because it has reached its peak. Also the increase in competition as a result of consolidation is expected to put off new players from entering the market. Meanwhile the real estate, rail and yacht leasing sectors are growing markets. Italy, it seems, remains an interesting place to do business.

TOTAL VOLUME OF EQUIPMENT LEASES BY DEAL SIZE, IN MILLIONS OF EUROS

Deal size	2004	2005	% Change
<€50,000	2,052,514	2,114,424	3.0%
€50,000-€0.5m	5,946,679	6,010,625	1.1%
€0.5-€2.5m	1,892,672	2,048,282	8.2%
>€2.5m	1,313,819	1,183,142	-10.0%
Total equipment	11,205,684	11,356,473	1.4%
Without the option to purchase	696,746	793,310	13.9%

Source: Assilea

TOTAL RESULTS

Asset type	2004	2005	% Change	% of total
Real estate	€16.74bn	€21.95bn	31.1	49.7
Equipment	€11.21bn	€11.36bn	1.3	25.7
Vehicles	€8.60bn	€8.87bn	3.2	20.1
Shipping and rail	€1.64bn	€1.98bn	20.6	4.5
Total	€38.19bn	€44.16bn	15.6	100

Source: Assilea