

Big ticket supports Spanish new business

Spanish recovery likely to be slow, but Brazil is providing a fillip. **Antonio Fabrizio** reports

Leasing in Spain still feels heavily the effects of the economic downturn. The latest figures from the Spanish Leasing Association (AEL) show a modest recovery, but coming from a very low point.

With €7.5 billion in new business booked last year – a 7.7 percent increase compared with 2009 – the Spanish leasing market is still only one third of the size it was in 2007, at the peak of the Spanish economic boom, when it hit the €21.5 billion threshold.

Market commentators say that it couldn't have dropped any further, and that a modest increase was largely expected.

AEL president Tomas Perez summarised this by saying the country's leasing industry has "definitely known better times".

AEL figures show that the largest increase was in big ticket leasing. Rail, ship and aircraft leasing increased their share from 8 to 18 percent in the new business booked last year. This segment grew by 56 percent in 2010. Without large ticket operations, 2010 figures would have been flat.

"Excluding big ticket, for typical leasing transactions more or less we repeated the same performance of 2009," says Perez.

In mobile leasing, which includes all assets except real estate, the increase was 8.7 per-

cent. Vehicle leasing grew by 15 percent, which was however offset by a 10 percent decrease in machinery and equipment. Real estate grew by 4 percent.

Perez says: "There is a lot to recover, and it will take time. In 2011 we will repeat last year's figure, too. At best, the maximum increase for 2011 could be 5 percent."

He points to the continuing drop in car sales – with a decrease being recorded on a monthly basis – and to the huge contraction of investments in industrial equipment as the main reasons for the slow recovery.

"With the general conditions of the economy, and the increase in oil prices due to North Africa's instability, the forecast is not very optimistic," Perez says.

Economy under pressure

Macroeconomic data show an economy still under pressure on many fronts. The number of jobless in Spain grew in February 2011 by 1.6 percent on the previous month to 4.3 million. This is 20 percent of Spain's workforce, the highest figure since 1996.

GDP fell 0.1 percent in 2010 after falling 3.7 percent in 2009. The government predicts a 1.3 percent growth in 2011, but the IMF forecast is a meagre 0.6 percent.

Instituto nacional de Estadística (Ine) figures show the number of company bankruptcies in 2010 dropped by 7 percent. Most companies were SMEs with a turnover below €2 million, and one in three bankrupt companies was in the construction sector. This had repercussions on leasing of construction equipment.

Perez says: "Three years ago, we were building about 800,000 new apartments. This year we won't make more than 150,000 new apartments. We are suffering a substantial reduction of investments in that industry."

Despite all this, Spanish leasing has gained penetration as a favoured method of financing investments. Total industry investments last year decreased by around 10 percent, which meant that leasing penetration in overall investments actually increased.

Leasing now accounts for 25 to 30 percent of all investments. Additionally, despite the still high figure recorded for bad debt, Perez says this remains below the bad debt rate

Top 10 leasing companies in Spain by new business 2010

1	Banco Santander
2	BBVA
3	Banco Popular
4	Lico Leasing
5	Banco Sabadell
6	La Caixa
7	Caja Madrid
8	Bankinter
9	Baneso
10	SG Equipment Finance

Source: Leasing Life

recorded for other forms of financing. In 2010 it fell by one percent.

Perez expects a stabilisation in bad debt this year, although a recovery could take longer.

"SMEs are not having a good time, and some of them have disappeared," he says.

"We are all waiting for a recovery that was expected to start in the second half of this year, but the oil price increase has been a big blow to that expectation."

Branch distribution

Spanish banks dominate the leasing market. More than 80 percent of new business last year was done by the top nine leasing companies, all entities of Spanish banks.

Banco Santander ranked first with €1.9 billion, a 3 percent increase on 2009. The Spanish giant has a 25 percent market share in leasing and continues to gain market share over its closest competitors. Having seen sustained increases in new business in the first three months of 2011, it aims to grow by another 20 percent this year.

Santander claims its strict risk policy has secured to the lender the lowest default rate among Spain's major leasing companies at 4.42 percent.

Santander was followed by Banco Bilbao Vizcaya Argentaria (BBVA) which fell 1.2 percent to €1 billion. It has a 13.7 percent market share.

Spain's second-largest lender sees leasing as one of its banking products for enterprises, and offers it across all of its units and a network of around 3,000 branches. It is a generalist leasing company, with real estate and IT/

office equipment accounting for 20 percent and 15 percent respectively. Vehicles, medical equipment and general machinery account for another 12 percent each.

Third place went to Banco Popular, which had a 2 percent increase to €953 million, narrowing its gap with BBVA after pushing its network to do more leasing.

Spanish banks largely use their branches to sell leasing, with direct business being less relevant.

Miguel Vara, principal at Alta Group in Madrid, explains: "Banks in Spain sell leasing as a commodity, using their network and offering leasing as they would offer any type of financial product."

"In that sense, they are more efficient and their network is enormous, because they can sell leasing even in remote regions."

Like BBVA, Santander has almost 3,000 branches across Spain where its customers can request and manage a leasing operation.

Santander head of leasing Rafael Ortuño Vilar-Sancho says: "Our strategy since the beginning of our activity has been to turn into a banking product ['bancarizar'] all of our products."

Vilar-Sancho says that the nature of leasing as a form of financing investments has made it particularly attractive for customers.

"Leasing has become a priority within Santander's strategy," he adds.

"Each of our employees in our bank branches knows this product well and can show its advantages and characteristics to our clients. Additionally, almost 100 percent of the contracts can be emitted by our branches without any extra help from our central offices."

While leasing of equipment is managed by the local branch, the part which involves big-ticket deals is sometimes done centrally. Each Spanish bank has its specialist team that operate for corporate customers or large transactions.

The likes BBVA, Caja Madrid and Santander all have units that specialise in corporate customers and vendor finance – but vendor business is marginal compared with customer-originated business (see p24-25).



Follow the fleet: In January, Santander signed an agreement with dairy and food company Leche Pascual to finance one of Europe's largest fleets of hybrid vehicles

For instance, Santander is in the process of signing a €32 million deal for providing one of Spain's largest construction companies with a tunnel boring machine. In January, it signed an agreement with dairy and food company Leche Pascual to finance one of Europe's largest fleets of hybrid vehicles – including 500 Toyota Auris cars and 30 Toyota Prius.

Clean-up required

Spain's cajas, or savings banks, have come under pressure recently. A wave of consolidation seen in the past months has resulted in a reduction from 45 to the current 17 cajas, and the process is continuing.

The Spanish government recently estimated a funding gap of €20 billion for the cajas, caused by reckless lending – particularly with their mortgage activity – during the years of the property boom, but rating agencies have said that this might not be enough to restore their financial stability.

Moody's raised its estimate for the funding shortfall from €17 billion in December to €50 billion last month, most of which would concentrate in the savings banks.

Moody's senior analyst Alberto Postillo says that, in order to regain markets confidence, a "full clean-up of losses embedded in banks' balance sheets" would be needed.

With new core capital ratios approved by the Spanish government in early February, some savings banks have said that they would seek to sell parts of their business.

Whether it is leasing, it remains to be seen, but, Postillo says: "Should there be a move among Spanish savings banks to sell leasing arms, this will not lead to significant deleveraging as this type of lending does not have a material weight in banks' balance sheets."

Perez is confident that cajas-owned leasing companies will not suffer as a consequence of the consolidation.

"Savings banks are merging with different formulas," he says.

"When they have specialised leasing subsidiaries, there could be a merger of these subsidiaries, but not necessarily. For the rest it shouldn't change very much."

The lack of demand remains Spanish lessors' main challenge, but leasing association AEL hopes that as industrial production increases – it has been growing, albeit slightly, for the past two quarters – it could benefit leasing, too.

Latin America represents another opportunity.

"South America remains a big market for leasing, and a lot of the business there is done by Spanish banks like BBVA and Santander," says Vara.

This is particularly true in Brazil – where a lot of work is ongoing due to the 2014 FIFA World Cup and, in 2016, the next Olympic Games.

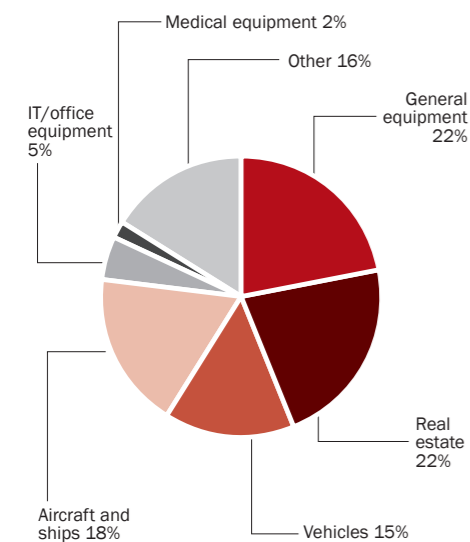
As Santander is Brazil's fourth-largest lender, a lot of business could be channelled through to its local leasing subsidiary, too.

Mike Janse, De Lage Landen manager for Spain and Portugal, adds: "We have seen an extremely strong movement towards Latin America."

"Rental companies that survived have shifted their business to Brazil and Mexico and, to a lesser extent, Chile and Peru. They are closer than Eastern Europe and Asia, for cultural and language reasons."

South America could, therefore, be a safety valve until conditions improve. For the rest, it will take time, and market commentators agree that the recovery will be much slower than the dramatic fall.

New business by asset class in Spain, 2010



Source: Spanish Leasing Association (AEL)