REUTERS

Category: Business | Created: Wed Dec 7, 2016 l 11:18AM | Written By Anjuli Davies

Knight Vinke warns European investment banks too small to thrive

Activist investor Knight Vinke expects European investment banks will have to merge with U.S. or Chinese rivals because they lack scale in wholesale trading and have no deep domestic market to subsidize their activities.

Eric Knight, who founded the fund in 2002 and now has about $800 million under management, said that slimming down by cutting jobs and risk was not the answer to a progressive squeeze on margins driven by tighter regulation.

“The problem for European investment banks is the lack of scale, not the quality of the banks. They’re unprofitable because they’re too small,” Knight told Reuters.

But Europe’s fragmented capital markets means mergers within the region would not work and banks must look further afield, Knight, who is known for bets on companies including Carrefour, Royal Dutch Shell, HSBC and Swiss bank UBS, said.

“Is there a future for investment banks in Europe? I think there is, but it comes from the outside. They need to merge and re-incorporate outside Europe. You could maybe merge one or two big banks, the rest will have to liquidate,” he added.

“One place is the U.S. and the other is China. European investment banks should merge with peers in those countries to create something viable. There would be tremendous value for shareholders,” Knight said.

Knight Vinke unsuccessfully tried to get UBS to split its wealth management business from its investment bank in 2013. It closed its position a year ago, although Knight said in February he could be tempted to reinvest.

He remains particularly interested in UBS and Credit Suisse and predicts that with risks growing in the economic system, change could come next year if there is another crisis.

European banks have shed thousands of jobs and closed whole business lines to stay competitive since the financial crisis, but have lagged U.S counterparts in coping with low interest rates, regulation and sluggish economic growth.

Many are still struggling, with Credit Suisse pledging another 1 billion Swiss francs ($991 million) in cost cuts and paring its profit targets.

Activist investors buy shares in companies and then push them to change strategy, hoping the value of the stock rise.

Knight Vinke’s main fund is up about 50 percent so far this year, driven by its holding in electrical retailer Darty which was bought by French music and book chain Fnac.

Knight invests across sectors in Europe as well as in banks, but is looking in particular at Switzerland, Germany and the Nordic nations.

“I’m focused on countries that would survive a breakup of the euro zone,” he said.

Editing by Alexander Smith