

THE OIC GROUP

HKG GROUP 4

Monthly Report

November 2025



恒生銀行
HANG SENG BANK

OIC Research Group | Analyst Group Report

Director: Renee Ngan, Scott Tang

Analysts: Matthew Poedjianto, Billy Lam, Max Qin, Joey Shi, Ryan Lee

November 2025

HSBC to Fully Privatize Hang Seng Bank in HK\$106bn Deal

Transaction Summary

Announcement Date	October 9, 2025
Transaction Size	HK\$106 bn
Close Date	1H 2026
Deal Structure	Cash, HK\$155 per share
P/B	1.8x
Premium	33% premium over 30-day undisturbed average price (HK\$116.5/share)

Deal Background

- HSBC already owns **63.5%** of Hang Seng Bank
- Proposed full privatization via **Scheme of Arrangement** to purchase the remaining **36.5%** from minority shareholders at **HK\$155/share**
- The proposal values **100% of Hang Seng at HK\$290 billion**
- Hang Seng will **retain its brand, branch network, banking license, governance structure**, and operate as a wholly owned subsidiary
- HSBC will **pause its group share buyback program for 3 quarters** after closing to preserve CET1 capacity
- Hang Seng's asset quality concerns, particularly HK/China property exposure, accelerated the move

Deal Rationale

Acquirer: HSBC

- Strengthens HSBC's leadership in Hong Kong retail/wealth banking, fully aligning with **HSBC's "Pivot to Asia" strategy**
- Eliminates minority interest leakage, **improving EPS accretion** and reducing P&L minority deductions
- Back-end integration efficiencies without disrupting Hang Seng's front-end customer operations
- **"Bet on Hong Kong"** despite macro/property headwinds; leverages Hang Seng's strong deposit franchise and sticky customer base
- HSBC expects the deal to be EPS-accretive; CET1 initially drops 125 bps but restored to target 14.0%–14.5% range over time

Target: Hang Seng Bank

- **Immediate cash realization** for minority shareholders, unlocking value at 1.8x P/B which is far above mean peer valuations; Removes uncertainty around prolonged recovery from credit cycle
- Brand & operations remain unchanged; Assurances that Hang Seng retains its established brand and heritage, **separate banking license governance** and customer-facing proposition
- Achieving **operational stability**, minimizing integration disruption since transaction is a holding-structure consolidation, not a full merger

Acquirer



HSBC (NYSE: HSBC/HKG: 0005)

HSBC is one of the world's largest financial institutions with a strong footprint in Asia, particularly Hong Kong and Mainland China. The group has pivoted its strategic focus toward wealth, retail, and commercial banking in Asia, supported by balance-sheet strength and diversified global operations.

Founded Year	1865
HQ	London/Hong Kong
Market Cap	US\$252 bn
LTM Revenue	US\$59.4 bn
FY24 PBT	US\$32.3 bn
P/S	4.35x
P/B	1.30x
CET1 Ratio	15.1% prior to deal

Target

Hang Seng Bank (HKG: 0011)



Hang Seng Bank is one of Hong Kong's largest, most trusted retail and wealth banks. Known for its strong brand heritage, high-quality deposit base, and market leadership in affluent and SME banking, Hang Seng remains integral to HSBC's Hong Kong ecosystem.

Founded Year	1933
HQ	Hong Kong
Market Cap	US\$36.8 bn
LTM Revenue	US\$5.3 bn
LTM Net Profit	US\$1.7 bn
P/S	6.79x
P/B	1.79x
Trailing P/E	19.88x

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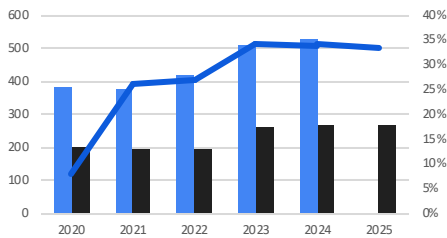
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Acquirer Overview: HSBC Holdings (0005.HK)

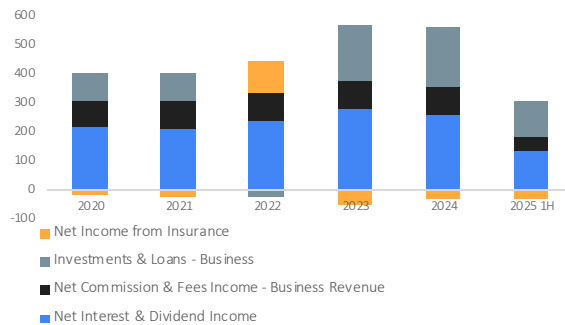


HSBC Holdings 5-Y Revenue (HK\$ Bn) and Net Margin (%)



Left: Annual Revenue, Right: First Half Revenue

Gross Revenue Item Breakdown (Bn)



• Revenue and Profitability Analysis

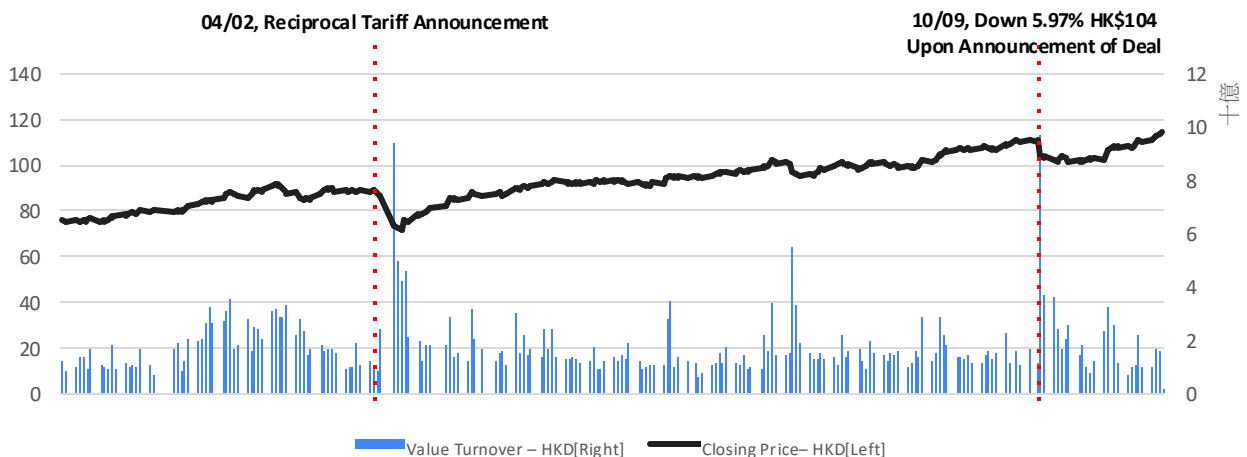
HSBC earns money through three main divisions. In 2024, Wealth and Personal Banking brought in US\$28.7 billion, which represented 42% of core revenue. Commercial Banking contributed \$21.6 billion (32%) and has been the fastest-growing segment, up over 60% since 2020, driven by booming trade finance and lending to small and mid-sized businesses in Hong Kong and mainland China. Global Banking and Markets brought in \$17.5 billion (26%), growing more slowly due to volatile markets. Overall, revenue climbed from \$50 billion in 2020 to \$66 billion in 2024, while profit reached \$23 billion with a healthy 15.6% return on tangible equity.

• Cash Flow Analysis

HSBC has a strong and stable cash flow. They generated around \$45 billion in operating cash in 2024, readily covering \$9.5 billion in dividends, \$9 billion in buybacks (before the pause), and \$3 billion in technology spending. The day one capital impact of this \$13.6 billion all cash deal is approximately 125 basis points. However, HSBC is expected to restore its CET1 ratio to its target operating range of 14.0%-14.5% through a combination of organic capital generation and not initiating any further buyback for the next three quarters.

• Future Strategy Outlook & Market Sentiment

HSBC is reorganizing in 2025 into four focused units, Hong Kong, UK, Corporate & Institutional Banking, and International Wealth to sharpen its Asia-led growth engine. The Hang Seng privatization allows HSBC to strengthen its Hong Kong positioning, enable seamless cross-border wealth flows, unified digital platforms, and stronger trade connectivity with mainland China, further cementing HSBC's identity as Asia's global bank.



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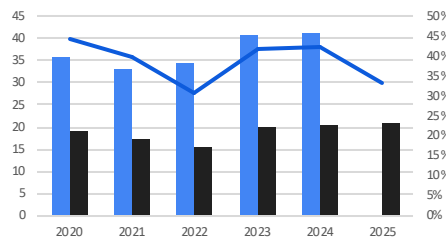
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Target Overview: Hang Seng Bank (0011.HK)

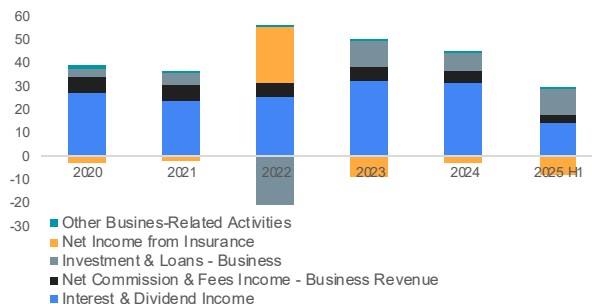


Hang Seng Bank 5-Y Revenue (HK\$ Bn) and Net Margin (%)



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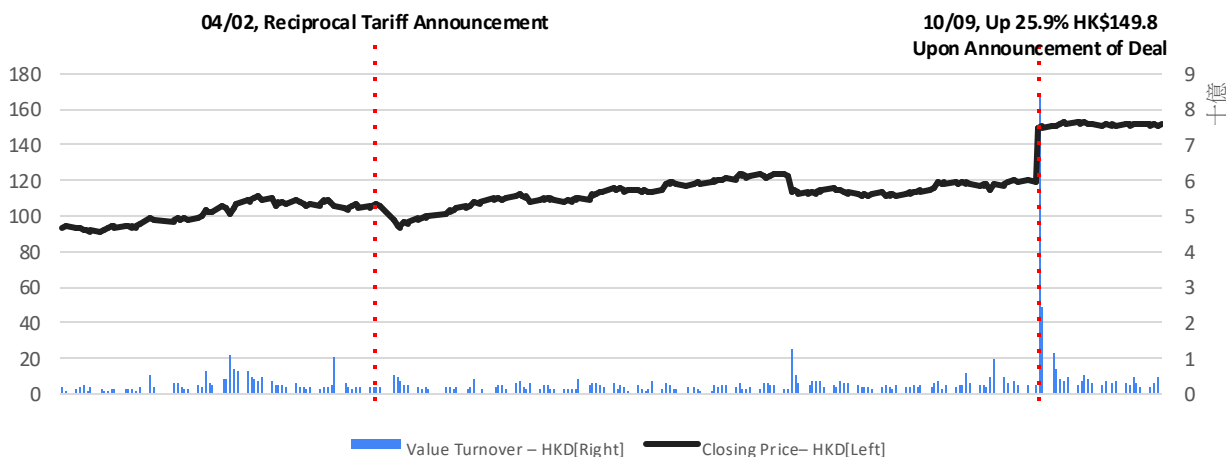
Hang Seng Bank serves over 3.9 million customers through four major business functions: Wealth and Personal Banking (WPB), Commercial Banking (CMB), Global Banking (GB), and Global Markets (GM). With WPB being the major revenue growth driver, driving the upward momentum of Hang Seng Bank since the pandemic, with a solid contribution during first half of 2025 by delivering 43% YoY increase in Wealth income and 57% YoY increase in Insurance businesses.

First half 2025 experienced a 34% down YoY on Earnings per share, due to a significant surge in Provision & Impairment for Loan Losses from HK\$1.5bn to HK\$4.7bn first half 2025. With NPL reached 6.69%, due to ongoing credit pressure in the Hong Kong commercial real estate sector, while the average NPL ratio among Hong Kong banks were around 2.2%. The poor credit risk management is the major component in dragging the profitability of Hang Seng bank and considered a major factor leading the privatization deal.

• Bank Operation Ratio Analysis and Future Strategy Focus

ROA and ROE fall to 0.8% and 7.9% from 1.2% and 12.4%, respectively. While the major banking ratio CET1 Capital ratio and T1 capital ratio, and total capital ratio was 21.3%, 23.3% and 24.9% healthily above the regulatory requirement. Major issue and future focus remain with credit risk management in improving the NPL ratios and to build stronger foundations in driving the growth of the wealth and retail banking businesses.

Hang Seng Bank Stock Price Movement After Deal Announcement



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Trading Comparables

Company	Ticker	Market Cap	Enterprise Value	Revenue	Net Income	EV/Revenue	P/B
HSBC Holdings	0005.HK	1.93 T	56.3 bn	58.0 bn	16.6 bn	0.97x	1.30x
Hang Seng Bank	0011.HK	284.1 bn	205.8 bn	34.2 bn	14.35 bn	6.02x	1.66x
Standard Chartered HK	2888.HK	381.3 bn	127.5 bn	20.2 bn	4.6 bn	6.31x	0.94x
Citicorp	NYSE:C	180.3 bn	502.9 bn	75.4 bn	13.4 bn	6.67x	0.93x
JP Morgan	NYSE:JPM	872.2 bn	1.0 T	167.2 bn	56.7 bn	6.27x	2.53x
DBS Holdings	D05.SI	156.2 bn	151.6 bn	22.3 bn	11.1 bn	6.79x	2.27x
Bank of America	NYSE:BAC	391.4 bn	744.6 bn	101.5 bn	28.3 bn	7.34x	1.41x
Bank of China	3988.HK	1.89 T	3.5 T	550.5 bn	223.4 bn	6.45x	0.46x
Mean						5.82x	1.40x
Median						6.45x	1.30x

Precedent Transaction

Announcement Date	Target	Acquirer	%Cash	Transaction Value (\$US bn)	EQV (\$US bn)	P/B
Apr 1, 2014	Wing Hang Bank	OCBC Bank	100%	5.0 bn	5.0 bn	1.8x
May 1, 2008	Wing Lung Bank	China Merchants Bank	100%	4.2 bn	4.2 bn	2.9x
April 1, 2001	Dao Heng Bank	DBS Bank	100%	5.5 bn	5.5 bn	3.3x
Jul 1, 2000	Overseas Union Bank (OUB)	United Overseas Bank (UOB)	100%	5.8 bn	5.8 bn	2.3x
Mean				5.1 bn		2.5x
Median				5.2 bn		2.6x

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Synergies

Financial Consolidation & EPS Accretion

- We believe a full consolidation of Hang Seng Bank will eliminate profit leakage to minority interests, **providing a direct and significant boost to HSBC's EPS**. This is a financial synergy with a high degree of certainty, as it does not depend on complex operational integration and will be immediately reflected in the consolidated financial statements.

Risk Management & Asset Quality Improvement

- This acquisition will directly address Hang Seng Bank's core deficiency in credit risk management, evidenced by its **Non-Performing Loan ratio of 6.69%**, which is well above the industry average. By implementing HSBC's superior risk framework to manage the commercial real estate exposure, we can not only stabilize the balance sheet but also transform Hang Seng from a potential risk point into a contributor to stable future growth.

Strengthening "Pivot to Asia" Strategy

- We assess that taking full control of Hang Seng Bank will deepen HSBC's "Pivot to Asia" strategy, solidifying its leadership position in Hong Kong's critical retail banking and wealth management markets. More importantly, we can leverage Hang Seng's vast and loyal local customer base, unlocking significant revenue synergies by cross-selling HSBC's global wealth management and insurance products.

Potential Risks & Challenges

Macroeconomic & Asset Quality Risks

- This deal represents a significant bet on the Hong Kong market amid economic uncertainty. Macro-level headwinds (e.g., a slower-than-expected recovery, adverse interest rate movements) are compounded **by the risk of inheriting Hang Seng Bank's high 6.69% NPL ratio**, driven by commercial real estate. A further deterioration in market conditions could cause NPLs to climb, creating dual pressure by eroding acquisition value and straining HSBC's consolidated financials.

Short-term Financial Pressure

- The transaction will create immediate and significant financial pressure, including an estimated **125 bps drop in the CET1 Ratio** and tighter liquidity **due to the HK\$106 billion cash outlay**. This could lead to a suspension of the share buyback program and weaken HSBC's financial buffer against future market shocks.

Brand Dilution and Cannibalization Risk

- Hang Seng Bank possesses an extremely strong and cherished brand identity as "Hong Kong's local bank," which is key to attracting its loyal customer base. If the brand positioning becomes blurred post-integration or is perceived as a subsidiary of HSBC, its unique brand equity could be diluted, alienating customers who chose it specifically for its local character.

Regulatory Risk

- The transaction is subject to rigorous scrutiny from antitrust, national security and other regulatory bodies. This could result in significant delays in the approval process, the imposition of costly remedies, or an outright rejection of the deal.

Conclusion

A Strategically Compelling Acquisition Accompanied by Short-Term Financial Pressure

- This privatization is a cornerstone of HSBC's "Pivot to Asia" strategy, aimed at fully consolidating Hang Seng Bank to solidify its leadership in key Asian markets and achieve immediate EPS accretion by eliminating profit leakage. However, this strategically compelling move comes at a significant short-term cost, as the HK\$106 billion cash outlay will cause a notable drop in the CET1 Ratio and necessitate a suspension of the share buyback program, temporarily weakening HSBC's financial buffer against potential market shocks.

A Duality of Risk and Opportunity Centered on Credit Risk Management

- A fundamental driver for this acquisition is to address Hang Seng Bank's severe asset quality issues, particularly its high Non-Performing Loan (NPL) ratio, which has been a major drag on profitability. This creates a duality of risk and opportunity: while HSBC assumes the risk of these NPLs deteriorating further, successfully applying its sophisticated risk management framework to stabilize Hang Seng's balance sheet would neutralize a major threat and unlock the full potential of its strong deposit franchise for future growth.

Long-Term Strategic Merit Outweighs Short-Term Risks, with Execution as the Decisive Factor

- In summary, the long-term strategic rationale for this transaction is highly persuasive, with the expected synergies and consolidation benefits poised to outweigh the short-term financial pressures and macroeconomic risks. Ultimately, however, the success of this acquisition will hinge entirely on HSBC's execution capability. The key challenge will be to act decisively in rectifying Hang Seng's credit risk issues while delicately preserving its cherished brand identity, as balancing these two objectives is critical to unlocking the deal's full value.