EDINBURGH FINANCE SOCIETY

# HSBC’s $13.6 billion privatisation of Hang Seng Bank

CHARIS WONG

EDINBURGH FINANCE SOCIETY 2025

## DEAL OVERVIEW

Acquirer: HSBC Holdings plc

Target: Hang Seng Bank Limited

Total Transaction Size: $13.6 billion

Closed Date: Ongoing

Target Advisors: Morgan Stanley Asia Limited and Somerley Capital Limited (Financial), Slaughter and May (Legal)

Acquirer Advisors: Bank of America Securities and Goldman Sachs (Financial), Clifford Chance (Legal)

On 9 October 2025, HSBC Holdings plc ("HSBC") announced its Proposal to fully privatise Hang Seng Bank Limited ("Hang Seng") by acquiring the remaining 36.5% of Hang Seng's shares it does not yet own. The Proposal offers $19.9 (HKD155) per share, a 33% premium over the 30-day average closing price of $15.0 (HKD116.5) per share. To build up the total amount of $13.6bn (HKD106.1bn), HSBC would pause its share buybacks for three quarters. The banking giant claimed that this action was not driven by the pressure to bail out Hang Seng amidst property market downturn, as some suggested; instead it was an opportunity to streamline operations, capture more of Hang Seng's earnings, and increase its customer base – a prudent move that aligns with HSBC's strategic priority to grow its business in Hong Kong ("HK").

The complete Scheme document is scheduled to be dispatched on or before 17 December 2025, thereupon Hang Seng Board's Independent Board Committee (IBC), along with its financial advisors, will make a recommendation as to whether the Proposal is fair and reasonable. The final resolution will be based on the voting decision of minority shareholders. If approved, Hang Seng will be delisted from the Hong Kong Stock Exchange and will become a wholly-owned subsidiary of HSBC. It is made clear that Hang Seng's distinct brand, governance, and branch network will be retained, however, showing HSBC's respect for Hang Seng's legacy and its intent to keep Hang Seng a separate authorization. Completion of the entire proposal is targeted for the first or second quarter of 2026.

This attempt at obtaining full ownership follows HSBC's previous acquisition of Hang Seng in the 1965 HK stock market crash. On 10 April 1965, after losing almost one-quarter of its reserves due to a bank run, Hang Seng agreed to sell 51% of its shares for $8.93mn (HKD51mn) to The Hongkong and Shanghai Banking Corporation Limited ("HSBC Asia Pacific"), a current subsidiary of HSBC. The deal was made on the conditions that both parties have preemptive rights to purchase each other's shares and that Hang Seng's operations would remain unchanged for as long as Hang Seng's founder remained alive. Consequently, Hang Seng was able to survive the market crash, while HSBC, by absorbing its biggest local competitor, solidified its market leadership in the HK banking sector. Over the years, HSBC increased its ownership stake to eventually holding 63.5% of Hang Seng.

"Our offer is an exciting opportunity to grow both Hang Seng and HSBC. We will preserve Hang Seng's brand, heritage, distinct customer proposition and a branch network, while investing to unlock new strengths in products, services, and technology to deliver more choice and innovation for customers. Our offer also represents a significant investment into Hong Kong's economy, underscoring our confidence in this market and commitment to its future as a leading global financial centre, and as a super-connector between international markets and mainland China."

– Georges Elhedery, Group CEO of HSBC

## COMPANY DETAILS (ACQUIRER – HSBC)

HSBC is a British financial services group established in British Hong Kong. It is the largest Europe-based bank and the 7th largest in the world by total assets ($3.017tn as of December 2024). Although it maintains the greatest presence in Asia and Europe, it has expanded internationally since the 1950s to form branches and subsidiaries in 57 countries across six continents and listings on the London, HK, New York and Bermuda stock exchanges. Through its thousands of subsidiaries and its seven principal ones, it provides a wide range of services in mainly the banking and insurance sectors.

Founded: March 1865

Headquarters: London, England

CEO: Georges Elhedery

Number of employees: 221,000

Market Cap: $231.946bn

Enterprise Value (EV): N/A

LTM Revenue: $57.98bn

LTM EBITDA: N/A

LTM EV/Revenue: 1.01

LTM EV/EBITDA: N/A

Recent acquisitions: Axa Singapore for $575mn in 2021, L&T Investment Management for $425mn in 2021, Silkroad Property Partners in 2023

## COMPANY DETAILS (TARGET – HANG SENG BANK)

Hang Seng is a public financial services company in HK. It is a leading domestic bank, serving close to 4 million customers and consistently outperforming its local peers in terms of market capitalization and in rankings such as Brand Finance Banking 500. The Hang Seng Index, established by Hang Seng, has become the primary indicator of the HK stock market. Besides in HK, it is active mostly in mainland China through its subsidiary Hang Seng Bank (China) Limited. It provides services in mainly the banking, insurance, and real estate industries.

Founded: March 1933

Headquarters: Hong Kong, China

CEO: Luanne Lim

Number of employees: 9,680

Market Cap: HKD283.56B

Enterprise Value (EV): N/A

LTM Revenue: HKD34.24B

LTM EBITDA: N/A

LTM EV/Revenue: 6.01

LTM EV/EBITDA: N/A

## PROJECTIONS AND ASSUMPTIONS

### SHORT-TERM CONSEQUENCES

Following the announcement, Hang Seng's shares surged 26% and remained at a stable 1-year high just shy of $20 (HKD155). Meanwhile, HSBC shares fell 7.3% by mid-morning in HK and 6% in morning trading in London. The plunge in price continued for a week until 17 October, where it rose again to eventually reach a 5-year high.

The jump in the price of Hang Seng's shares was highly foreseeable. Through this proposal, HSBC offers Hang Seng minority shareholders immediate cash realisation at the proposed cash offer price of HKD155 per share. This offer is seen as highly favourable owing to the valuation premium (~33% over previous stock price) and the financial certainty of almost guaranteed liquidation. Hence, the market reacts to this news efficiently by raising the market price to ~HKD155, with a slight discount that accounts for the time value of money and the small risk that the deal might fall through.

The initial drop in HSBC's shares is likely due to the decision to pause share buybacks for about three quarters to finance the deal. Share buybacks is a common practice for large banks to raise their Earnings Per Share (EPS) by reducing the number of outstanding shares and is justified when the stock is undervalued. Therefore, the announcement likely caused investors to worry about an interruption in guaranteed EPS growth. Moreover, analysts claimed the sheer size of the deal would reduce HSBC's CET1 ratio by 165 basis points. Needless to say, this reduction in capital strength is unwelcome news to investors.

## LONG-TERM CONSEQUENCES

1. Facilitating EPS growth & Industry shift

The suspension of share buybacks is justified, however, if one looks at the long-term returns of the buyout. It is estimated that HSBC would spend about $8bn on buybacks over the next three quarters, which would raise EPS by a little over 4%. Meanwhile, the near-$1bn in annual profit currently attributable to Hang Seng's minority shareholders would raise HSBC's EPS by slightly under 4%. Given that the EPS growth generated is comparable, the allocation of funds to acquisitions is a better use of excess capital as it yields actual gain in intrinsic value. Share buybacks can be a sign of stagnation where the company finds no better alternatives to spend the money. Moreover, as HSBC is no longer considered undervalued, constant share repurchases will be expensive, making the tactic less efficient and productive. Considering these two factors and that the combination would create cost savings, the deal seems worthwhile. Indeed, HSBC's financing method might pioneer a new strategy. While share buybacks remain the norm for large banks, this might change given the rising valuations for acquirers. Success of this deal might give others the confidence to break the convention of resorting to buybacks.

2. Preparation for East-West split

In 2023, upon persistent pressure from Ping An, HSBC's largest shareholder, the bank held a vote regarding the proposal to spin off its Asian business from its Western divisions. While the proposal was defeated, some still maintain that such a move will be wise. The key rationale is that the Asian operations were much more profitable and hence was effectively subsidizing its less profitable Western counterparts. The split will allow for autonomous decisions and reduce capital requirements tied to UK regulators. As tensions continue to rise between China and the US/UK and HK's autonomy continues to diminish, HSBC's management might recognise the urgency to begin preparation for this separation. Hang Seng's market dominance in HK would prove helpful in the East while HSBC focuses on operations overseas and in the West. Therefore, the acquisition would pave the way for the East-West split, should it happen in the future.

3. Further growth & advising future strategies

This paragraph will discuss the long-term consequences of the 1965 acquisition and use this to predict the effects of the 2025 proposal. Firstly, regarding company growth, 1965's acquisition dramatically broadened HSBC's customer base and earnings potential from trade finance and corporate business to local retail and small-to-medium enterprise (SME) market. Similarly, Hang Seng thrived under the support of HSBC. It is likely that the current deal would bring about further growth in both parties by allowing each to benefit from the other's strengths – HSBC to tap into Hang Seng's local influence and Hang Seng to rely on HSBC's immense resources. Secondly, in terms of strategy, the hands-off management approach in the previous deal became a blueprint for future HSBC acquisitions. If successful, the 2025 deal may also serve as a model for future acquisitions, whether that be its financing method or the generous premium. It may even initiate other privatisations of partly owned subsidiaries, especially those in East Asia if the bank intends to commit to the aforementioned East-West split.

## RISKS AND UNCERTAINTIES

It is worth noting that this acquisition presents fewer risks and uncertainties than usual for two reasons. First, neither of the acquisitions were hostile takeovers – 1965's was a government-backed rescue while 2025's is a privatisation. Thus, it is unlikely that any risk would stem from competition. Second, since 1965, HSBC has established majority ownership, which continued to increase over the years, suggesting synergy and effective cooperation between the two banks. Along with the promise that Hang Seng will retain its unique identity, this suggests a very low chance of difficulty of integration due to clashing cultures or products.

As mentioned, some believe that the move was driven by the real estate downturn. Since Hang Seng holds a large portfolio of properties and real estate investment, as well as providing mortgages and commercial property loans, the recession might cause its current market value to be depressed and fall below its intrinsic value. This can be used as an argument by both the Independent Financial Advisor (IFA) and the minority shareholders that the offer price is not fair as it undervalues Hang Seng's long-term asset base. A severe downturn might also lead to tighter regulatory conditions imposed by the Hong Kong Monetary Authority (HKMA). All this may delay the completion timeline or even quash the deal.

The increasingly unstable political climate also proves to be another challenge given HSBC's unique structure. In HK, it provides payment services for the local government and is one of the only three banks permitted to issue paper currency. As HK is a crucial financial centre for Beijing, by extension, HSBC also has systematic importance in China's capital. However, it also needs to answer to British regulators given the location of its headquarters and its listing on the London Stock Exchange. This dichotomy caused it to face backlash regarding several issues, including dividend payments during the pandemic, deposit collection for overseas HK citizens, and British taxation policy. Geopolitical tensions can only escalate in the near future, which begs the question of whether HSBC can truly balance its operations in both the East and the West. The acquisition of Hang Seng in the attempt to establish dominance in HK while HSBC keeps expanding internationally might prove to be especially susceptible to this political risk.

Finally, the reduction in HSBC's CET1 ratio raised concern in some. The discount is supposedly temporary – the pause in share buyback is promised to restore the ratio to HSBC's target range of 14-14.5% by mid-2026. However, as stability and loss absorption capacity regress, unexpected downturn or market volatility could easily affect plans, potentially forcing HSBC to alter its dividend or buyback strategy again, leading to financial uncertainty. Especially given the HK's housing market downturn, this chain of events seems possible.

Despite all this, many investors appear optimistic that the deal will prove to be beneficial in the long-run, as reflected by the share price increase. Indeed, most believe this acquisition will synergize the two banks and generate growth.

"Together, HSBC and Hang Seng form a well-positioned platform with two iconic banking brands working side by side to deliver lasting value for customers, employees, and shareholders."

– Georges Elhedery, Group CEO of HSBC