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What's behind HSBC's privatisation of Hang Seng Bank? Drive for efficiency, analysts say

The privatisation will lead to synergies, save costs and improve efficiency in terms of personnel and systems, Everbright's Kenny Ng says

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HSBC Holdings' plan to take its Hang Seng Bank subsidiary private marked a key step in the UK lender's strategic overhaul, with Hong Kong's troubled property market potentially aiding the move, according to analysts.

The proposal on Thursday was "many months" in the making and had "nothing to do with the bad-debt situation" at Hang Seng Bank, HSBC group CEO Georges Elhedery said during a media round table in Hong Kong after the announcement. HSBC currently owns about 63 per cent of the city's largest domestic bank.

Elhedery, who has heralded a sweeping business reorganisation since becoming CEO in September 2024, characterised the latest move as "an investment for growth" – both for HSBC and Hong Kong's economy.

“This proposal is very aligned to everything we have said for the last 12 months in terms of customer segments,” Elhedery said. “Hang Seng is a leading local bank; HSBC is a leading international bank operating in Hong Kong. We expect them both to cover the whole market, so customers can choose between the two, or bank with both.”



HSBC group CEO Georges Elhedery said on Thursday that Hang Seng Bank's privatisation deal would be positive for the group. Photo: Jelly Tse

The deal would be accretive as HSBC gains full access to Hang Seng Bank's earnings, rather than deducting the non-controlling interest, according to Elhedery. Additional upside was expected from revenue and cost synergies through expanded product offerings, a stronger international network and the consolidation of capabilities in areas such as insurance, asset management, markets and technology, he added.

The strategy alignment between HSBC and Hang Seng Bank was long overdue, according to some analysts.

“Currently, HSBC and Hang Seng are two relatively independent banks with local operations, so sometimes there is competition between them,” said Kenny Ng Lai-yin, a strategist at Everbright Securities International. “After privatisation, various businesses will have synergies, saving costs and improving efficiency in terms of personnel and systems.”

The privatisation offer could entice Hang Seng Bank's minority shareholders to sell, given their focus on the bank's non-performing loan ratios, Ng said.

Hang Seng Bank's relatively aggressive lending to property developers has left it exposed to the prolonged slump in Hong Kong's residential and commercial real estate markets. Impaired real estate loans surged 85 per cent year on year to HK\$25 billion (US\$3.2 billion) as of June, prompting the bank to boost provisions to safeguard its loan book. Bad loans rose to 6.69 per cent of total lending in the first half, up from 6.12 per cent at the end of 2024.

Meanwhile, HSBC booked US\$1.9 billion in credit losses in the year's first six months, almost double from a year ago, despite holding a much bigger loan book of US\$981.7 billion, with Hong Kong accounting for more than 23 per cent.

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Hang Seng Bank's shares have severely underperformed its parent's since 1986, according to the earliest available data on Bloomberg. In Hong Kong, HSBC has climbed more than 2,000 per cent since then, while Hang Seng Bank has gained just over 800 per cent.

While streamlining Hang Seng Bank's Hong Kong operations was the official line, the privatisation proposal could serve as a way to clean up the bad debt, according to Mofiz Chan, chairman of the Hong Kong Securities and Futures Professionals Association.

The move echoed HSBC's original acquisition of Hang Seng Bank in 1965, when at the urging of the colonial government – which viewed the bank's high debt levels and critical role in local savings as a systemic risk – HSBC stepped in to acquire a controlling interest and restore stability, he said.

Everbright's Ng said HSBC's scale gave it ample capacity to absorb Hang Seng's non-performing loans. "After privatisation, its discretion in managing such assets would likely increase – whether it opts to sell part of these non-performing assets or absorb them itself, HSBC has considerable room to manoeuvre," he said.

"Once Hang Seng completes its delisting and becomes a wholly owned subsidiary of HSBC, it will be able to make business and personnel adjustments without having to comply with listing disclosure requirements or hold independent shareholders' meetings for approval," said Kenny How Sze-ming, managing director of Patrons Capital. "This should help accelerate improvements in Hang Seng Bank's operations and asset quality" as it continued to comply with the Hong Kong Monetary Authority's regular disclosure rules, he added.

"[Hang Seng Bank] does have a higher debt, but let's not lose sight of its very strong capitalisation," said Elhedery, citing its common equity tier one ratio of 21 per cent. "The benefit of HSBC as a 100 per cent shareholder is that it gives Hang Seng even more flexibility to manage its capital and ratios more efficiently under the umbrella of HSBC's strength."

HSBC aimed to restore its capital ratio to its operating range of 14-14.5 per cent by refraining from share buy-backs in the coming three quarters, according to Elhedery.

Additional reporting by Julie Zhang



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