

## Hong Kong Banks

■ Positive (unchanged)

■ Neutral

■ Negative

# M&A comes to life again

### Grace Wu

(852) 2532 4383  
grace.wu@hk.daiwacm.com

### Samuel Ng

(852) 2773 8745  
samuel.ng@hk.daiwacm.com

- Wing Hang Bank confirms takeover talks are under way
- Chong Hing Bank still in talks with potential buyers, including Yue Xiu Group
- Reiterate Buy on DSF, DSBG

#### ■ What's new

Wing Hang Bank (WHB, 302 HK, HKD83.8, Hold [3]) announced yesterday evening that the Fung family and the Bank of New York Mellon, which owns around 45% of WHB, have been approached by independent third parties for a possible sale of their shares in WHB, and that such a sale would trigger a mandatory general offer. WHB will cancel 1H13's scrip dividend scheme in light of a possible transaction. WHB was approached by China Life Insurance (2628 HK, HKD21.25, Hold [3]) On 20 August 2008 for a 10% interest in WHB, but this was ruled down by the SFC as the SFC deemed it would trigger a mandatory general offer.

#### ■ What's the impact

Chong Hing Bank's (CHB) (Not rated) share price has risen by 41% since it announced on 7 August 2013 that its substantial investors were also in talks for a possible takeover; and it confirmed yesterday that Yue Xiu Group is one of the bidders for the bank. CHB shares are up 132%

since the bank appointed a non-family member to become CEO on 28 November 2012. Local media suggested the target M&A PBR for CHB may range from 2-2.4x vs. its current 2013E PBR of 1.8x based on Bloomberg consensus.

As WHB has one of the best and most consistent ROE track records among the smaller banks, we believe a potential takeover of WHB would be priced at the upper end of Hong Kong's historical banking M&A PBR range of 2.5-3.3x, vs. an average of 1.9x since 2000.

Based on our current 2013E BVPS forecast of HKD68.5 for WHB, we estimate a 2.5x PBR would imply a share price of HKD171, or nearly 100% upside from its latest closing price. We believe a higher target PBR is warranted for WHB under a M&A scenario, as it has a balanced geographic exposure with one-third of its loans in China and Macau via its organic operations.

#### ■ What we recommend

We believe the share prices for WHB, Dah Sing Banking Group (DSBG) (2356 HK, HKD11.32, Buy [1]) and its parent, Dah Sing Financial (DSF) (440 HK, HKD37.05, Buy [1]) are all likely to outperform the sector in the near term on M&A expectations. Fundamentally, we believe DSBG and DSF have delivered a solid earnings turnaround since 2012 and hence we maintain our Buy ratings on both DSF and DSBG.

#### ■ How we differ

Some investors argue that they would prefer to buy DSBG over DSF as potential buyers may not be interested in acquiring the insurance operations at DSF. However, we believe DSF shareholders are

unlikely to agree to a disposal of DSBG without the sale of the insurance business, as it would carry little value in our view without the banking arm. Further, in the event of a mandatory offer for DSBG, this would also constitute a notifiable transaction for DSF. And as DSBG makes up more than 75% of the profits for DSF, it would be a substantial disposal for DSF, which would require shareholder approval under Rule 14 of Listing Rules. Hence, we believe DSF shareholders would need to approve any potential takeover of DSBG, and that DSF's minority shareholders are unlikely to do so unless they also benefit from such a transaction. Given the narrow stub value at DSF currently, we prefer DSF over DSBG on a valuation basis.

#### ■ HK banks: market share (1H13)

(%)	Loans	Deposits
BEA	7.2	5.9
DSBG	1.6	1.4
WHB	2.1	2.0
CHB	0.7	0.8

Source: Companies, CEIC

#### ■ HK banks: ROE track record

(%)	2005	2006	2007	2008	2009	2010	2011	2012	1H13
BEA	12.0	13.3	14.4	0.1	7.7	10.6	9.5	11.6	11.6
DSBG	12.0	13.3	8.6	2.2	6.3	8.8	7.7	8.6	10.5
WHB	17.2	18.9	20.5	11.0	10.4	12.1	13.6	9.8	9.2
CHB	7.0	8.5	8.2	1.0	3.8	7.5	8.3	7.6	7.7

Source: Companies, Bloomberg; annualised for 1H13

#### ■ HK banks: geographical loan mix (1H13)

(% of loans)	China	Macau	Others
BEA*	46	NA	11
DSBG	15.5	10.5	1.0
WHB	18	13	NA
CHB	0.8	1.0	2.0

Source: Companies

Note: BEA figures includes China, Taiwan and Macau

#### ■ HK banks: no. of branches (2012)

No. of branches	BEA	DSBG	WHB	CHB
Hong Kong	88	45	43	52
China	114	8	15	3
Macau and overseas	7	14	12	2
Total	209	67	70	57

Source: Companies

■ **Hong Kong banks: historical M&A activities**

Acquirer	Ticker	Company acquired	Date	PBR at transaction price (x)
Bank of East Asia	23 HK	First Pacific Bank	Nov-00	1.50
DBS Group	DBS SP	Dao Heng Bank	Apr-01	3.33
Fubon Bank (Hong Kong)	636 HK	International Bank of Asia	Sep-01	1.26
CITIC IFH	183 HK	Hong Kong Chinese Bank	Nov-01	1.26
Wing Hang Bank	302 HK	Chekiang First Bank	Aug-03	1.22
ICBC (Asia)	349 HK	Fortis Bank Asia Hong Kong	Aug-03	1.05
Standard Chartered	2888 HK	Prime Credit	Jun-04	1.99
Dah Sing Financial	440 HK	Pacific Finance	Jun-05	1.77
JCG Holdings	626 HK	Asia Commercial Bank	Feb-06	2.50
China Merchants Bank	3968 HK	Wing Lung Bank	Jun-08	3.00
ICBC	1398 HK	ICBC (Asia)	Aug-10	2.14
Fubon Financial	2881 TT	Fubon Bank (Hong Kong)	Jun-11	1.20
<b>Simple average</b>				<b>1.86</b>

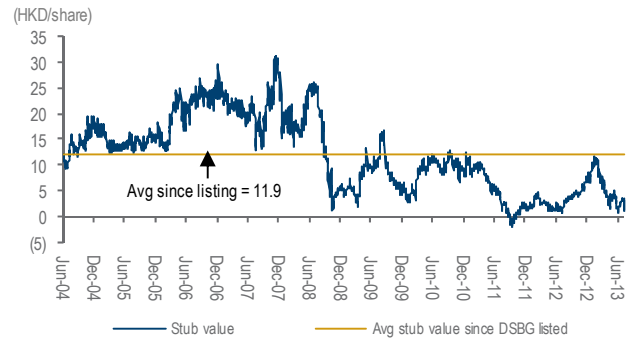
Source: Companies, Bloomberg, Daiwa estimates

■ **WHB: 12-month rolling-forward PBR chart**



Source: Datastream, Daiwa forecasts

■ **DSF: stub value**



Source: Datastream, Daiwa forecasts

■ **DSF: 12-month rolling-forward PBR chart**



Source: Datastream, Daiwa forecasts

■ **Hong Kong Banks: deposit market share**

(%)	2012
HSBC HK	23.1
BOCHK	14.8
HSB	9.3
SCB HK	9.1
BEA	6.0
ICBC Asia	3.1
DBS HK	2.6
WHB	2.0
WLB	1.6
CKW	1.6
DSF	1.4
CHB	0.8
FBHK	0.6
PF	0.4

Source: Companies, HKMA

■ **Hong Kong Banks: book value**

(HKDm)	2012	2013E	2014E	2015E
BEA	61,639	67,119	70,846	74,975
DSBG	15,419	16,580	17,776	19,069
WHB	19,044	20,704	21,873	23,144
CHB*	8,028	8,319	8,628	8,967

Source: Companies, Daiwa forecasts, \* Bloomberg consensus

Note: for the book value of CHB, we have factored in the effect on land and buildings revaluation reserve due to the change in accounting policy in 2005

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