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China Merchants Bank acquires HK's Wing Lung

China Merchants Bank Co, the mainland's fifth largest listed bank, will acquire control of Wing Lung Bank Ltd, a family-run bank in Hong Kong, Merchants Bank said in a statement Monday.

The Shenzhen-based bank signed an agreement with Wing Lung on May 30 to buy a 53.1 percent stake at HK\$156.50 (\$20.05) per share, in a cash deal costing Merchants Bank 17.2 billion yuan (\$2.48 billion).

Merchants Bank was suspended from trading in Shanghai Monday because of the acquisition, it said.

Acquiring a controlling stake of Wing Lung, which has 35 branches in Hong Kong, will help Merchants Bank to boost its business in Hong Kong and catch up with rivals Industrial and Commercial Bank of China (ICBC) and Bank of China in the city.

"The acquisition is a significant step for China Merchants Bank to build its franchise overseas," said Wang Yihuan, a Beijing-based bank analyst at China Asset Management Co.

ICBC and Australia & New Zealand Banking Group Ltd have also made offers for Wing Lung. But Merchants Bank beat them by paying 3.1 times the book value of Wing Lung.

The stake deal, also the bank's first overseas acquisition, reflects the bank's determination to expand outside the mainland, analysts said.

Merchants Bank has only one branch in Hong Kong, while Bank of China, the mainland's third largest lender by market value, has more than 280 branches and ICBC has more than 40.

Acquiring Wing Lung is a convenient way for Merchants Bank to open branches in Hong Kong, analysts said.

Merchants Bank plans to make a general offer to other shareholders for the entire company after sealing the deal, Shanghai Securities News reported.

Wing Lung, founded in 1933 with registered capital of \$5,700, has \$12 billion of assets. Chairman Michael Wu owns 24.9 percent of the bank, while Vice-Chairman Patrick Wu and CEO Philip Wu own 28.2 percent, according to the bank's annual report.

Wu's family will sell off the combined 53.1 percent stake.

Wing Lung reported a first-quarter loss on April 30 after writing off \$61 million investment in collateralized debt obligations and structured investment vehicles.

Merchants Bank, based in Shenzhen, has 570 branches on the mainland.

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