To: Instructors using the case

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Subject: HSBC’s acquisition of KEB - Case Highlights

In September 2007, HSBC Holdings PLC, Europe's biggest bank, agreed to buy 51.02% of Korea Exchange Bank, South Korea's sixth-biggest bank, for $6.3B cash from US private equity fund Lone Star, but the deal would face regulatory problems because of legal cases involving the current owner. In 2008 HSBC, similar to other banks would also be hit by the financial crisis and the playing ground would change drastically leading to HSBC dropping the bid to acquire KEB. This case explores the pressures faced by all involved parties, with special focus on HSBC and KEB, during this tumultuous time.

This case talks about the impact of the financial crisis on HSBC, the South Korean economy, its banking industry and prompts readers to think about the critical question of what is the true worth of Korea Exchange Bank for HSBC in 2007 when the bid was made and in 2008 when HSBC withdrew the bid and what were the macroeconomic and regulatory factors that played a role in the decision making.

The case uses bank valuations and prices KEB through a) abnormal earnings method b) relative valuation using Korean Banks as comparable and c) valuation using Price to LTM Book Value, 5 Year Beta, and ROE of Global Bank. These models incorporate the country and project risks involved in the deal through the valuation models for reaching at realistic results. We then use decision analytics and qualitative reasoning to evaluate the regulatory and economic risks that were present for HSBC both in 2007 and 2008.

This case illustrates the significance of risk assessment, and how unforeseen risks can jeopardize an entire project being considered. It forces the readers to think if HSBC might have underestimated the controversial legal disputes which Lone Star was trapped in and corresponding uncertainty of regulatory approval. It also stimulates the reader to ponder on whether the liquidity crunch that HSBC faced during the crisis made situations really worse and was the main cause for the failing of the deal. It raises another interesting question on why did HSBC abandon the deal in South Korea, while it continued certain other deals across the globe. This is a perfect case to brainstorm the kind of risks, projects especially new market entry projects are faced with and how it impacts the decision making of corporations, incorporating the concepts of finance, strategy, geo-politics and macro-economics.