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Deal Talk Thrusts China Construction Bank Into Spotlight

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NEW YORK -- China Construction Bank Corp. (0939.HK), the poster child for promising but still challenged Chinese banks, is back in the spotlight again.

The country's third-largest lender by assets is reportedly in talks to take a stake in Bear Stearns Cos. (BSC), a move that some analysts say makes strategic sense for both.

Word of that bold move comes at a time when China Construction Bank is still feeling success from the big splash it made last October when it raised $9.2 billion in the world's largest initial public offering ever for a bank. The stock has since risen in price by about 50%. With the listing in Hong Kong, CCB became the first of the "Big Four" Chinese state-owned banks to sell shares. Ahead of the IPO, CCB collected another $4 billion by selling a 9% stake to Bank of America Corp. (BAC) and a 5% stake to Temasek (TEMAH.YY), Singapore's state investment arm.

With the injection of capital, the state bank, though still struggling with bad loans like most other Chinese banks, looks healthier than ever. Now, CCB appears to be venturing onto Wall Street to further its ambition to be a "world-class" commercial and investment bank. According to The Wall Street Journal, published by Dow Jones & Co. (DJ), CCB is in early talks with Bear Stearns that could result in the Chinese bank buying a minority stake in the fifth-largest U.S. securities firm. The deal could be worth as much as $4 billion, the Journal said Monday, citing people familiar with the matter.

"Chinese like to say equality and mutual benefits. A deal like this provides a great potential for mutual benefits," says Joseph Massey, former U.S. trade representative for China from 1985 to 1992, who now teaches at Dartmouth College. For Bear Stearns, a partnership with CCB could give the renowned Wall Street firm a significant leg up when competing for business in China, where banks - not its still-infant capital markets - are dominant in raising capital for businesses.

At the same time, a deal with Bear Stearns would provide CCB "a huge opportunity for a transfer of knowledge," Massey said, adding: "Zhou Xiaochuan (the chief of China's central bank) must welcome the involvement of some of the best Wall Street banks with Chinese banks" because they can help the Chinese rationalize their lending process.

Usha Haley, director of the global business center at the University of New Haven and author of The Chinese Tao of Business, said the deal, if carried out, would enable CCB to access the kind of "management know-how" that is usually lacking at Chinese companies.

A CCB official in New York said the branch office hasn't heard of any such plan from CCB's headquarters in Beijing. Representatives at CCB's main office couldn't be reached for comment. A Bear Stearns spokeswoman declined to comment on the report.

CCB, which dates back to 1954, has come a long way to reach the scale it has today. The Banker magazine ranked it 25th among the world's top 1,000 banks based on tier-one capital. The bank, plagued by bad debts, underwent a major restructuring in 2003 as part of the government bailout of state-owned banks.

The bank entered 2003 with non-performing loans accounting for 17% of its portfolio. Now, that number is down to 3.8%, which is slightly lower than the 3.9% figure for 2005. Although its net income declined by 4% to 47 billion yuan (about $5.9 billion) in 2005, operating income - another key measure of the bank's operations - rose by 12.9% to almost 129 billion yuan (about $16 billion), largely thanks to the robust loan growth amid China's rapid economic expansion.

However, experts say, to achieve further growth, the bank, like other state banks, must learn to lend money based on assessment of borrowers' risks, rather than lend by government decrees. The bank said it has improved its governance structure as well as risk-management systems.

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