

# HSBC Holdings PLC (0005 HK)

## Maintain unchanged valuation

Bloomberg | Reuters | POEMS  
0005.HK | 0005.HK | 0005.HK  
Industry: Banking

Phillip Securities Research Pte Ltd  
4 October 2012

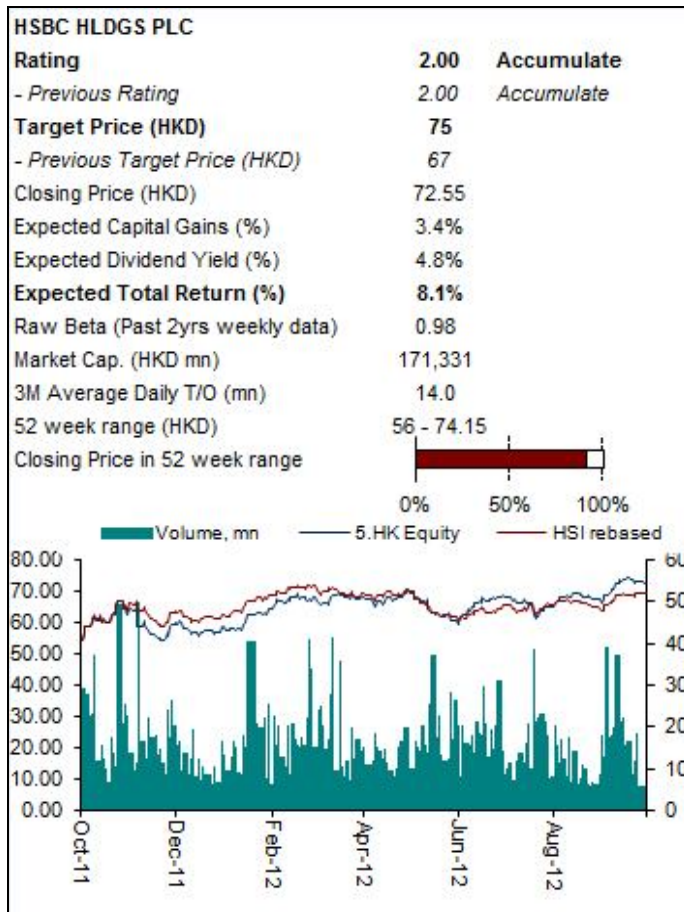
Rating: Accumulate Closing Price:\$72.55 Target Price \$75

Since we recommended HSBC on early August, the stock price rose as our expectation and was close to our target price, \$75. The return was more than 10% during the period which was impressive as a HSI constituent stock. Comparing with Standard Chartered Bank (2888), HSBC's stock price is relatively stable. Although stock price of Standard Chartered Bank surged after our recommendation and even exceeded our target price of \$180, the bank is still bothered by the allegation of money laundering. Standard Chartered Bank signed a consent order completing a \$340 million agreement stuck with New York's banking regulator. But it is still discussing reconciliation with other US Judiciaries and the penalty amount is unknown, the market is a bit too optimistic. In addition, Standard Chartered Bank's allegations are more severe than HSBC's and it is rumored that the major shareholder, Temasek Holdings Pte would sell its stake. We expect downward pressure on its stock price and still a target price of \$180 unchanged, maintaining "neutral" rating.

In contrast, HSBC's stock price continued to rise since August, coupled with fewer fines of Standard Chartered Bank than the market expected which favors HSBC's relatively lighter money laundering allegations. At the same time, HSBC made USD\$700 million reserve for the related money laundering case in the interim results. If the fines are fewer than expected, HSBC can make an appropriate call-back which has positive impact.

From the fundamental view, there is still room for improvement for HSBC's business. For HSBC's global restructuring, we expect the Group will be able to reach the lower limit of the target set by last year. In addition, HSBC's profit contribution is evenly distributed in different regions, not like Standard Chartered Bank which only focuses on emerging markets. If the regulators tighten the supervision on emerging markets, Standard Chartered Bank will be expected to suffer from greater negative impact. Therefore, the overall prospect of HSBC is better.

From the above reason, we remain HSBC "Accumulate" investment rating and the target price of \$75. We expect the short term trend follows the market fluctuation. Investors should pay attention to the Group's third quarter operating report. As stated in our August report, our target price and investment rating will be based on the Group's third quarter operating condition.



Source: PSHK Company report

**Analyst**  
**Phillip Research Team**  
+65 65311240  
+65 63367607  
research@phillip.com.sg

**Fig. 1 Interim Results Summary**

Summary of interim result	1 H 2012	2 H 2011	1 H 2011	Target
ROE	10.5	9.5	12.3	12-15%
Cost Efficiency Ratio	57.5	57.5	57.5	48-52%
EPS (USD)	0.45	0.41	0.51	N/A
Core tier 1 CAR	11.3	10.1	10.8	9.5-10.5%

Source: Company report, PSR

**Fig. 2 Profit contribution in interim result**

By Global Business (USD Mn)	1 H 2012	1 H 2011
Retail Banking & Wealth Management	6,410	3,126
Commercial Banking	4,429	4,189
Global Banking and Markets	5,047	4,811
Global Private Banking	527	552
Other	-3,676	-1,204
<b>Profit Before Tax</b>	<b>12,737</b>	<b>11,474</b>

Source: PSR, Company report

**Fig. 3 Geographical Segment**

By Geographical Regional (USD Mn)	1 H 2012	1 H 2011	2 H 2011	1 H 12/11 Change (%)
Europe	-667	2,147	2,524	-131%
Hong Kong	3,761	3,081	2,742	22%
Rest of Asia Pacific	4,372	3,742	3,729	17%
Middle East	772	747	745	3%
North America	3,354	606	-506	453%
Latin America	1,145	1,151	1,164	-1%
<b>Total Profit before tax</b>	<b>12,737</b>	<b>11,474</b>	<b>10,398</b>	<b>11%</b>

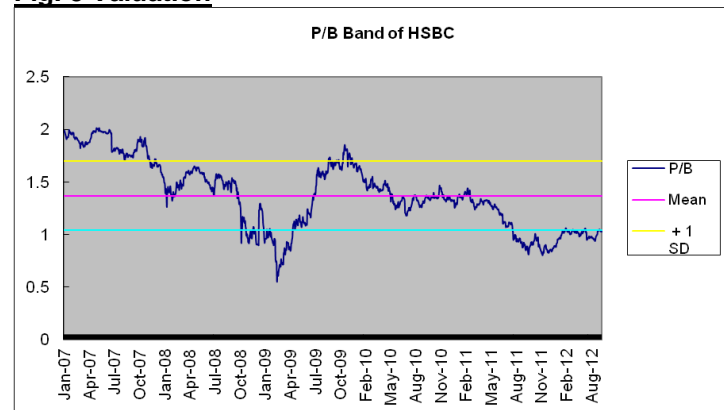
Source: PSR, Company report

**Fig. 4 Dividend Policy**

Year	Dividend Per Share (HK\$)	Earning Per Share (HK\$)	Payout ratio
2000	3.39	5.92	57%
2001	3.74	4.59	81%
2002	4.12	5.22	79%
2003	4.67	6.54	71%
2004	5.14	5.22	98%
2005	5.68	10.5	54%
2006	6.3	10.74	59%
2007	7	12.76	55%
2008	4.98	3.66	136%
2009	2.65	2.65	100%
2010	2.808	5.6	50%
2011	3.19	7.16	45%
2012(E)	1 H 1.4	3.5	40%
	2 H 2.05	4.2	49%

Source: PSR, Company report

**Fig. 5 Valuation**



Source: Company report, PSR, Bloomberg

## Financial Status

Financial Report	2010	2011	2012 (E)	2013 (E)
<b>US\$ Million</b>				
Interest Income	58,345	63,005	65,525	68,474
Interest Expense	-18,904	-22,343	-23,460	-24,469
<b>Net interest income</b>	<b>39,441</b>	<b>40,662</b>	<b>42,065</b>	<b>44,005</b>
Fee Income	21,117	21,497	22,786	23,629
Fee Expense	-3,762	-4,337	-4,420	-4,597
<b>Net Fee Expense</b>	<b>17,355</b>	<b>17,160</b>	<b>18,366</b>	<b>19,032</b>
Trading income excluding net interest income	4,680	3,283	3,723	3,527
Net interest income on trading activities	2,530	3,223	3,520	3,320
<b>Net Trading income</b>	<b>7,210</b>	<b>6,506</b>	<b>7,243</b>	<b>6,847</b>
Changes in fair value of the long term debt issued and related derivatives	-258	4,161	3,121	2,103
Net income/(expense) from other financial instruments designated at fair value	1,478	-722	1,532	1,898
<b>Net income/(expense) from financial instruments designated at fair value</b>	<b>1,220</b>	<b>3,439</b>	<b>4,653</b>	<b>4,001</b>
Gains less losses from financial investment	968	907	982	982
Dividend income	112	149	153	153
Net earned insurance premiums	11,146	12,872	13,321	13,321
Other operating income	2,562	1,766	1,923	1,923
<b>Total operating income</b>	<b>80,014</b>	<b>83,461</b>	<b>88,706</b>	<b>90,264</b>
Net insurance claims incurred and movement in liabilities to policyholders	-11,767	-11,181	-12,322	-12,630
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>68,247</b>	<b>72,280</b>	<b>76,384</b>	<b>77,634</b>
Loan impairment charges and other credit risk provisions	-14,039	-12,127	-13,221	-13,672
<b>Net operating income</b>	<b>54,208</b>	<b>60,153</b>	<b>63,163</b>	<b>63,962</b>
Employee compensation and benefits	-19,836	-21,166	-21,344	-21,876
General and administrative expenses	-15,156	-17,459	-18,515	-18,790
Depreciation and impairment of intangible assets	-1,713	-1,570	-1,843	-1,590
Amortisation and impairment of intangible assets	-983	-1,350	-1,520	-1,590
<b>Total operating expenses</b>	<b>-37,688</b>	<b>-41,545</b>	<b>-43,222</b>	<b>-43,846</b>
<b>Operating profit</b>	<b>16,520</b>	<b>18,608</b>	<b>19,941</b>	<b>20,116</b>
share of profit in associates and joint ventures	2,517	3,264	3,523	3,763
<b>Profit before tax</b>	<b>19,037</b>	<b>21,872</b>	<b>23,464</b>	<b>23,879</b>
Tax expense	-4,846	-3,928	-4,213	-4,213
<b>Profit for the year</b>	<b>14,191</b>	<b>17,944</b>	<b>19,251</b>	<b>19,666</b>
<b>Profit attributable to shareholders of the parent company</b>	<b>13,159</b>	<b>16,797</b>	<b>18,085</b>	<b>18,496</b>
<b>Profit attributable to non-controlling interests</b>	<b>1,032</b>	<b>1,147</b>	<b>1,154</b>	<b>1,170</b>
	US \$	US \$	US \$	US \$
<b>Basic earnings per ordinary share</b>	<b>0.73</b>	<b>0.92</b>	<b>0.987</b>	<b>1.01</b>
<b>Diluted earnings per ordinary share</b>	<b>0.72</b>	<b>0.91</b>	<b>0.977</b>	<b>1</b>

Source: Reuters Company, PSR

Per Share Data \$	2010	2011	2012 (E)	2013 (E)
EPS	0.73	0.91	0.977	1.01
DPS	0.36	0.41	0.44	0.45
Payout ratio	0.49	0.45	0.45	0.45
Book Value	7.94	8.48	9.017	9.577

Source: Company, PSR

Balance Sheet	2010	2011	2012 (E)	2013 (E)
US\$ Million				
Cash & Interbanking Assets	1,166,087	1,266,762	1,355,435	1,409,653
Net Loans	1,166,637	1,121,416	1,188,701	1,239,815
Long Term Assets	121,965	167,401	205,903	214,139
<b>Total Assets</b>	<b>2,454,689</b>	<b>2,555,579</b>	<b>2,750,040</b>	<b>2,863,607</b>
Payables and Accrued Expenses	13,906	13,106	13,815	14,091
Deposits	1,338,309	1,366,747	1,499,252	1,532,332
Other Current Liabilities	410,729	485,138	531,262	592,037
Total Long Term Debt	33,387	30,606	32,025	34,328
Other Liabilities	510,691	501,257	509,081	517,397
<b>Total Liabilities</b>	<b>2,307,022</b>	<b>2,396,854</b>	<b>2,585,435</b>	<b>2,690,185</b>
<b>Total Equity</b>	<b>147,667</b>	<b>158,725</b>	<b>164,605</b>	<b>173,422</b>

Source: Reuters, Company, PSR

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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**Contact Information (Singapore Research Team)**

---

**Chan Wai Chee**  
CEO, Research  
Special Opportunities  
+65 6531 1231  
yebo@phillip.com.sg

**Magdalene Choong, CFA**  
Investment Analyst  
Gaming, US  
+65 6531 1791  
magdalenechoongss@phillip.com.sg

**Ken Ang**  
Investment Analyst  
Financials  
+65 6531 1793  
kenangwy@phillip.com.sg

**Roy Chen**  
Macro Analyst  
Global Macro, Asset Strategy  
+65 6531 1535  
roychencz@phillip.com.sg

**Lee Kok Joo, CFA**  
Head of Research  
S-Chips, Strategy  
+65 6531 1685  
leekj@phillip.com.sg

**Go Choon Koay, Bryan**  
Investment Analyst  
Property  
+65 6531 1792  
gock@phillip.com.sg

**Travis Seah**  
Investment Analyst  
REITS  
+65 6531 1229  
travisseahhk@phillip.com.sg

**Nicholas Ong**  
Investment Analyst  
Commodities  
+65 6531 5440  
nicholasonghg@phillip.com.sg

**Joshua Tan**  
Macro Strategist  
Global Macro, Asset Strategy  
+65 6531 1249  
joshuatan@phillip.com.sg

**Derrick Heng**  
Investment Analyst  
Transportation, Telecom.  
+65 6531 1221  
derrickhengch@phillip.com.sg

**Ng Weiwen**  
Macro Analyst  
Global Macro, Asset Strategy  
+65 6531 1735  
ngww@phillip.com.sg

**Research Assistant**  
General Enquiries  
+65 6531 1240 (Phone)  
+65 6336 7607 (Fax)  
research@phillip.com.sg

**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Octa Phillip Securities Ltd**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (03) 9629 8288  
Fax (03) 9629 8882  
Website: [www.octaphillip.com](http://www.octaphillip.com)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel: (81-3) 3666-2101  
Fax: (81-3) 3666-6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel (86-21) 51699200  
Fax (86-21) 63512940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005