

HSBC

US\$31bn cash return should dominate the conversation

Reiterate Rating: BUY | PO: 760.00 GBp | Price: 588.40 GBp

De-rated as earnings rose

HSBC is rates exposed, but its vicious de-rating (Exhibit 1) as rates peaked and profits doubled (Exhibit 2) leaves the shares on an all-time low multiple – with our earnings updated for latest curves and Hong Kong volumes. Much of the weakness in Hong Kong volumes (Exhibit 4) is high rates – which HSBC earns back in deposit spreads. Some is mainland financial repression – and the move back of borrowing onshore, where it is cheaper, is partly offset by stronger Wealth flows from the mainland.

Distributing the gains

Vitally, HSBC is distributing its recovered profitability – we see US\$31bn coming to shareholders in the next 15 months (Exhibit 7). This is 21% of its market cap. Net of the ordinary and special dividends, HSBC shares are at just 5.1x 2025E profits.

Modest cuts to earnings

We cut our EPS 1-3% over 2023-25E. We estimate a negative US\$300mn 4Q 23E hyperinflation adjustment for Argentina. We put through the extra one quarter point reduction in 2025E rates since our report, HSBC: Less rate sensitive than one might think 11 December 2023 (report link), along with lower Hong Kong lending to reflect recent data. At US\$1.21 in EPS 2025E, HSBC is expected to deliver a 13% Return on Tangible Equity while investing material P&L to grow with its Asian markets (Exhibit 6). We reiterate our Buy rating.

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
Net Profit (US\$m)	12,607	13,717	24,754	24,787	20,981
EPS (Reported Diluted)	0.62	0.69	1.28	1.36	1.21
Dividend / Share	0.25	0.32	0.60	0.82	0.62
Adjusted NAV PS	7.79	7.46	7.74	8.26	9.00
Valuation (Dec)					
P/E	12.83x	10.33x	5.85x	5.50x	6.18x
EPS Change (YoY)	226%	10.4%	87.1%	5.84%	-11.0%
Price / BV	0.76x	0.84x	0.83x	0.78x	0.72x
Price / NAV	0.96x	1.00x	0.96x	0.90x	0.83x
Net Yield	3.35%	4.29%	8.04%	11.0%	8.31%
DPS Change (YoY)	66.7%	28.0%	87.5%	36.7%	-24.4%
Price / GOP	10.1x	8.64x	4.26x	3.92x	4.31x

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Refer to important disclosures on page 10 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

22 January 2024

Equity

Key Changes		
(US\$)	Previous	Current
2023E EPS	1.30	1.28
2024E EPS	1.37	1.36
2025E EPS	1.25	1.21

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Stock Data

1	Price (UK Ord, HK Ord, ADR)	588.40 GBp / 58.65 HKD /
		37.99 USD
	Price Objective	760.00 GBp / 75.39 HKD /
		48.51 USD
1	Date Established	11-Dec-2023 / 21-Jan-2024 /
		21-Jan-2024
1	Investment Opinion	A-1-7 / B-1-7 / B-1-7
	52-Week Range	512.30 GBp-665.60 GBp
1	Market Val / Shares Out	114,032 GBP / 19,380.0
	(mn)	
ı	Average Daily Value (mn)	120.25 USD
-	BofA Ticker / Exchange	HBCYF / LSE
ı	BofA Ticker / Exchange	XHSBF / HKG
-	BofA Ticker / Exchange	HSBC / NYS
-	Bloomberg / Reuters	HSBA LN / HSBA.L
-	ROE (2023E)	14.1%
-	Free Float	100.0%
1	ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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iQprofile[™] HSBC

(US\$ Millions)	IFRS	.==.			
		IFRS	IFRS	IFRS	IFRS
Net Interest Income	26,489	30,377	36,747	35,669	36,061
Net Fee Income	15,319	9,774	18,816	21,043	17,390
Securities Gains / (Losses)	7,744	10,469	10,888	11,214	11,551
Other Income	0	0	0	0	0
Total Non-Interest Income	23,063	20,243	29,704	32,258	28,941
Total Operating Income	49,552	50,620	66,451	67,927	65,002
Operating Expenses	(34,620)	(33,330)	(32,677)	(33,154)	(34,908)
Pre-Provision Profit	14,932	17,290	33,774	34,772	30,093
Provisions Expense	928	(3,584)	(3,717)	(3,898)	(4,094)
Operating Profit	15,860	13,706	30,057	30,874	25,999
Non-Operating Items	3,046	2,723	2,810	2,951	3,099
Pre-Tax Income	18,906	16,429	32,867	33,825	29,098
Net Income to sh/holders	12,607	13,717	24,754	24,787	20,981
Adjusted Cash Earnings	12,607	13,717	24,754	24,787	20,981
Key Balance Sheet Data					
Total Assets	2,957,939	2,949,286	3,052,362	3,104,352	3,258,078
Average Interest Earning Assets	2,231,207	2,286,576	2,267,112	2,293,996	2,382,556
Risk Weighted Assets	838,263	839,720	852,328	850,745	890,721
Total Gross Customer Loans	1,059,769	938,227	963,888	995,836	1,039,750
Total Customer Deposits	1,710,574	1,570,303	1,576,369	1,655,188	1,737,947
Tier 1 Capital	156,292	139,057	141,445	141,604	145,909
Tangible Equity	177,628	166,414	162,312	163,118	168,312
Common Shareholders' Equity	198,250	177,833	173,731	174,537	179,731
Key Metrics					
Net Interest Margin	1.19%	1.33%	1.62%	1.55%	1.51%
Tier 1 Ratio	18.6%	16.6%	16.6%	16.6%	16.4%
Effective Tax Rate	22.3%	4.92%	19.0%	21.0%	21.0%
Loan / Assets Ratio	35.4%	31.3%	31.1%	31.6%	31.4%
Loan / Deposit Ratio	61.1%	58.8%	60.2%	59.2%	58.9%
Oper Leverage (Inc Growth - Cost Growth)	-2.29%	5.88%	33.2%	0.76%	-9.60%
Gearing (Assets / Equity)	14.9x	16.6x	17.6x	17.8x	18.1x
Tangible Equity / Assets	6.01%	5.64%	5.32%	5.25%	5.17%
Tangible Equity / RWAs	21.2%	19.8%	19.0%	19.2%	18.9%
Business Performance					
	-1.74%	2.100/	21 20/	2 220/	-4.31%
Revenue Growth		2.16%	31.3%	2.22%	
Operating Expense Growth	0.55%	-3.73%	-1.96%	1.46%	5.29%
Provisions Expense Growth	-111%	-486%	3.71%	4.88%	5.02%
Operating Revenue / Average Assets	0.53% -1.17%	0.46% -1.13%	1.00%	1.00%	0.82%
Operating Expenses / Average Assets Pre-Provision ROA		-1.13% 0.59%	-1.09% 1.13%	-1.08% 1.13%	-1.10% 0.95%
ROA	0.50% 0.42%		1.13%	1.13% 0.81%	
Pre-Provision ROE	7.57%	0.46% 9.19%	0.82% 19.2%	20.0%	0.66% 17.0%
ROE	6.39%	7.29%	14.1%	14.2%	11.8%
RoTE		8.92%	16.6%	14.2%	13.7%
RoRWAs	8.01% 1.49%	1.63%	2.93%	2.91%	2.41%
Dividend Payout Ratio		46.7%		60.4%	51.3%
Efficiency Ratio (Cost / Income Ratio)	40.3% 69.9%	45.7% 65.8%	46.8% 49.2%	48.8%	53.7%
•	09.5%	03.070	43.270	40.070	33.170
Quality of Earnings					
Total Non-Interest Inc / Operating Inc	46.5%	40.0%	44.7%	47.5%	44.5%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	-6.21%	20.7%	11.0%	11.2%	13.6%
NPLs plus Foreclosed Real Estate / Loans	1.82%	2.13%	2.18%	2.22%	2.23%
Loan Loss Reserves / NPLs	0%	0%	0%	0%	0%
Loan Loss Reserves / Total Loans	1.32%	1.56%	1.59%	1.60%	1.59%
Provisions Expense / Average Loans	-0.09%	0.36%	0.40%	0.40%	0.41%

Company Sector

Banks-Multinational/Universal

Company Description

HSBC Holdings is the leading cross-border international banking group, with particular strength in Asia (ex Japan), but also with strong presence in the UK, the Middle East, and North America. Regional banking franchises are largely focused on retail banking and business banking, with the UK and Hong Kong its home markets. The group's corporate and investment bank is based around its unique trade finance franchise, which gives pricing power and has allowed credit discipline

Investment Rationale

HSBC has built its capital position and now sits with a proforma, fully phased in Basel 3 Common Equity Tier 1 at 14.3%. CET1 leverage ratio is above 5%. The dividend is high and sustainable, we believe - appropriate in a low-growth banking environment. Our Buy rating reflects strong distributions, including buybacks and a return to revenue growth.

Stock Data

Price to Book Value 0.8x



Key charts

Exhibit 1: HSBC shares de-rated by 400bp to an all-time low PE

HSBC 12-month forward PE (x) 1992-2024

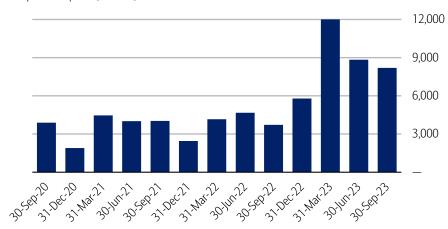


Source: Eikon

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Exhibit 2: pre-impairment profits have doubled

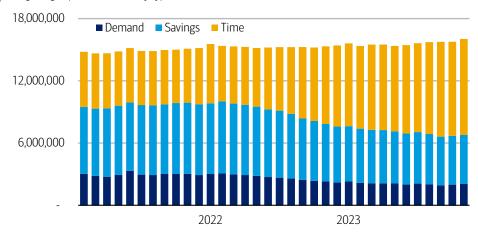
HSBC pre-impairment profit (US\$ mn) 2020-23



Source: BofA Global Research estimates, company report



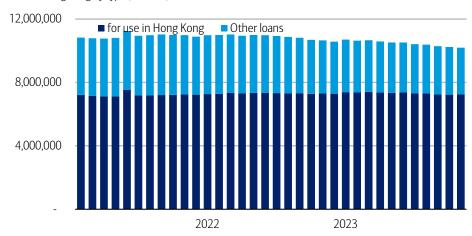
Exhibit 3: Hong Kong deposits growing, mix shift slowing Hong Kong deposits, HK\$ mn, by type 2021-23



Source: HKMA

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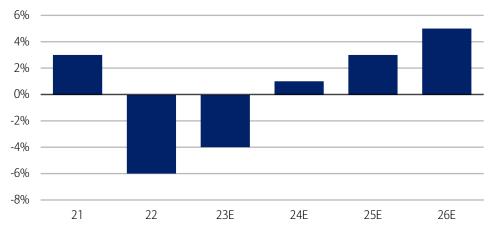
Exhibit 4: Hong Kong domestic loans stable, other loans still declining Loans in Hong Kong by type (HK\$ mn) 2021-23



Source: HKMA

Exhibit 5: HSBC loans in Hong Kong to stabilize in 2024E

HSBC Hong Kong loans (net, US\$ mn) growth y/y, 2021-26E



Source: BofA Global Research estimates, company report

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Exhibit 6: HSBC investing costs to grow

Reported and underlying revenues and costs (US\$ mn) 2022-26E

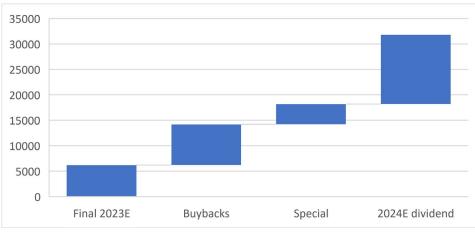
		2022		2023E	20	024E	20	25E		2026E
Revenues		50,620		66,451	6	7,927	65	,002		68,104
Notable items		2,000		1,500		4,500				
Comparable revenues		48,620		64,951	6	3,427	65	,002		68,104
% y/y				34%		-2%		2%		5%
Costs		2022		2023E	20	024E	20	25E		2026E
Costs	-	32,701	-	32,677	- 3	3,154	- 34	,908	-	36,654
Canada and France	-	1,100	-	1,100						
Comparable revenues	-	31,601	-	31,577	- 3	3,154	- 34	,908	-	36,654
% y/y				0%		5%		5%		5%

Source: BofA Global Research estimates, company report

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Exhibit 7: US\$32bn coming to shareholders in the next 15 months

HSBC shareholder distributions, US\$ mn, 2024E and early 2025E



Source: BofA Global Research estimates



Exhibit 8: HSBC 4Q 23E results to be depressed by the previously announced loss on the sale of France, plus Argentina hyperinflation

HSBC quarterly P&L (US\$ mn) 3Q23-4Q 23E

	3Q 23	4Q 23E
NII	9,248	9,235
Other revenues	6,913	4,179
Revenues	16,161	13,414
Costs	- 7,968	- 9,552
Impairments	- 1,071	- 1,301
Associates	592	635
PBT	7,714	3,196
Notable items	- 317	- 2,400
of which France		- 2,100
of which Argentina		- 300
PBT ex notable items	8,031	5,596

Source: BofA Global Research estimates, company report

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Valuation

We value HSBC using a Gordon growth model, shown in Exhibit 9. Our 760p Price Objective is unchanged, but exchange rate moves lift our HK\$ Price Objective to HK\$75.31 (US\$ 48.51 per ADR). We reiterate our Buy rating.

Exhibit 9: HSBC Gordon growth model 2025E

A premium return compared with the Cost of Equity (%)

Gordon growth	2025E
Tangible equity	156,362
Net profit	20,981
ROE	13.4%
G	2%
COE	12%
P/NAV (x)	1.2
Implied value GBP, discounted	7.60

Source: BofA Global Research estimates



Price objective basis & risk

HSBC (HBCYF)

Our price objective is £7.60, using a Gordon Growth model. We use a 2025E underlying ROE of 16%, 2% growth and a 12% cost of equity to drive the valuation. At 9x our 2023E adjusted attributable income, the multiple at our PO would be below historical averages, considering macro risks.

Upside risks to our price objective are a greater-than-expected rise in US rates and a stronger global economy than we presently expect.

Downside risks are rate reductions and a slowdown in China spilling over into the rest of Asia.

HSBC (XHSBF / HSBC)

Our price objective is HK\$75.39 (US\$48.51), using a Gordon Growth model. We use a 2025E underlying ROE of 16%, 2% growth and a 12% cost of equity to drive the valuation. At 9x our 2023E adjusted attributable income, the multiple at our PO would be below historical averages, considering macro risks.

Upside risks to our price objective are a greater-than-expected rise in US rates and a stronger global economy than we presently expect. Downside risks: rate reductions. In addition, a slowdown in China spilling over into the rest of Asia.

Analyst Certification

I, Alastair Ryan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

nvestment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Allied Irish Banks	AIBRF	AIBG ID	Alastair Ryan
	Bank of Ireland Group	XBOIF	BIRG ID	Alastair Ryan
	BFF Banking Group	XBBZF	BFF IM	Antonio Reale
	BNP Paribas	BNPQF	BNP FP	Tarik El Mejjad
	BNP Paribas	BNPQY	BNPQY US	Tarik El Mejjad
	CaixaBank	CIXPF	CABK SQ	Antonio Reale
	Credit Agricole	CRARF	ACA FP	Tarik El Mejjad
	Danske Bank	DNSKF	DANSKE DC	Tarik El Mejjad
	Erste Bank	EBKOF	EBS AV	Alastair Ryan
	Erste Bank	EBKDY	EBKDY US	Alastair Ryan
	HSBC	XHSBF	5 HK	Alastair Ryan
	HSBC	HBCYF	HSBA LN	Alastair Ryan
	HSBC -A	HSBC	HSBC US	Alastair Ryan
	Intesa Sanpaolo	IITSF	ISP IM	Antonio Reale
	Intesa Sanpaolo	ISNPY	ISNPY US	Antonio Reale
	KBC Group	KBCSF	KBC BB	Tarik El Mejjad
	KBC Group NV	KBCSY	KBCSY US	Tarik El Mejjad
	NatWest Group	RBSPF	NWG LN	Rohith Chandra-Rajan
	Natwest Group PLc	NWG	NWG US	Rohith Chandra-Rajan
	Nordea	NBNKF	NDA FH	Tarik El Mejjad
	Nordea	XSABF	NDA SS	Tarik El Mejjad
	Nordea Bank Abp	NRDBY	NRDBY US	Tarik El Mejjad
	Santander	SAN	SAN US	Antonio Reale
	Santander	BCDRF	SAN SQ	Antonio Reale
	Societe Generale	SCGLF	GLE FP	Tarik El Mejjad
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	Unicredit	UNCFF	UCG IM	Antonio Reale



EMEA - Banks Coverage Cluster

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DNB DNB ASA Mediobanca Permanent TSB Poste Italiane SEB		DB	DB US	Rohith Chandra-Rajan
DNB ASA Mediobanca Permanent TSB Poste Italiane SEB		XDUSF	DBK GY	Rohith Chandra-Rajan
Mediobanca Permanent TSB Poste Italiane SEB		DNBBF	DNB NO	Tarik El Mejjad
Permanent TSB Poste Italiane SEB		DNBBY	DNBBY US	Tarik El Mejjad
Poste Italiane SEB		MDIBF	MB IM	Antonio Reale
SEB		ILPMF	PTSB ID	Alastair Ryan
		PITAF	PST IM	Antonio Reale
Swedbank		SVKEF	SEBA SS	Tarik El Mejjad
		SWDBF	SWEDA SS	Tarik El Mejjad
Swedbank AB		SWDBY	SWDBY US	Tarik El Mejjad
Virgin Money UK PLC		CBBYF	VMUK LN	Rohith Chandra-Rajan
Virgin Money UK PLC		CYBBF	VUK AU	Rohith Chandra-Rajan

*Q*method[™] Measures Definitions

Quality of Earnings	Numerator
Free Cash Flow	Cash Flow From Operations — Total Capex
Earnings Growth	Expected 5 Year CAGR From Latest Actual
Operating Margin	Operating Profit
Return On Equity	Net Income
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 — Tax Rate) + Goodwill Amortization
Business Performance	Numerator

Quality of Earnings Numerator Cash Realization Ratio Cash Flow From Operations

Asset Replacement Ratio Capex
Tax Rate Tax Charge

Net Debt-To-Equity Ratio

Net Debt = Total Debt - Cash & Equivalents

Interest Cover EBIT

Valuation Toolkit Numerator

Price / Earnings Ratio Current Share Price
Price / Book Value Current Share Price

Dividend Yield Annualised Declared Cash Dividend
Free Cash Flow Yield Cash Flow From Operations – Total Capex

Enterprise Value / Sales EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities Enterprise Value

Denominator

Total Assets - Current Liabilities + ST Debt + Accumulated Goodwill

Amortization Shareholders' Equity

Sales N/A N/A

Denominator

Net Income Depreciation Pre-Tax Income Total Equity Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified) Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization



EV / EBITDA

Valuation Toolkit Numerator Denominator

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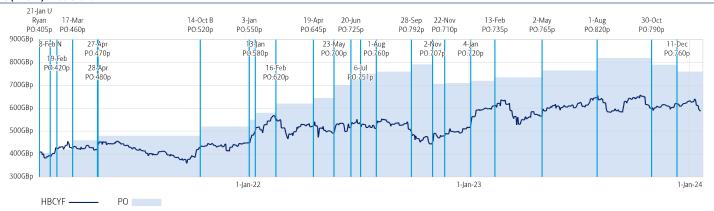
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HSBC (HBCYF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

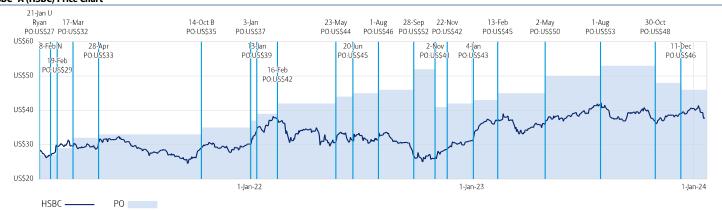
HSBC (XHSBF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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HSBC -A (HSBC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating Total return expectation (within 12-month period of date of initial rating) Ratings dispersion guidelines for coverage cluster^{R2}

Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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