

HSBC HOLDINGS (00005.HK)

Q3 revenue growth is strong and core business performance is satisfactory
China HongKong | Banking |

11 Dec 2024

Overview

HSBC Holdings (0005.HK) is one of the world's largest banking and financial services institutions. HSBC's business spans all over the world, including 62 countries and regions. As of the end of 2023, HSBC's assets reached \$3 trillion (US dollars, same below) and it had approximately 42 million customers. The company provides wealth management and personal banking services, industrial and commercial banking services, and global banking and capital markets services.

Q3 Performance review

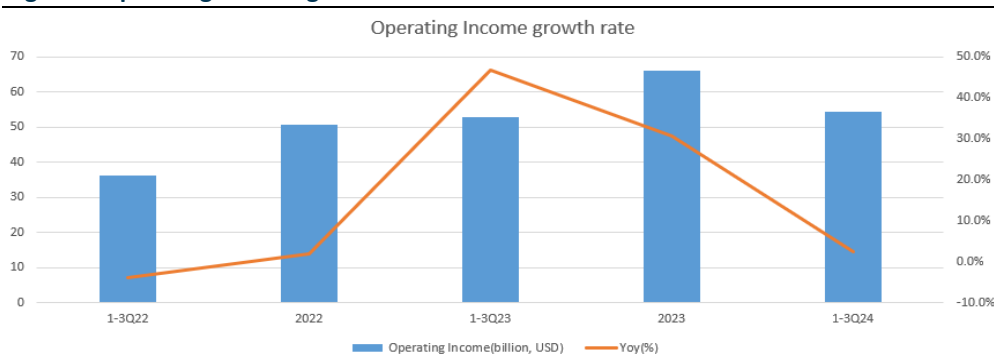
Q3 revenue growth is strong and core business performance is satisfactory.

Revenue in the third quarter of 2024 was \$17 billion with a year-on-year increase of 5%, and revenue in the first nine months of 2024 was \$54.3 billion with a year-on-year increase of 2%. The main reason for the increase in Q3 revenue was the growth in customer activity in the wealth management products of the Wealth Management and Personal Banking business and the foreign exchange, stock and global debt market businesses of the Global Banking and Capital Markets business. Revenue for the third quarter of 2024 already included a loss of \$300 million due to early redemptions of existing securities, as well as a loss of \$100 million resulting from the repositioning and risk management of the treasury business. Profit after tax was \$24.4 billion, an increase of \$100 million compared with the first nine months of 2023. Diluted earnings per share was \$1.22 with a year-on-year increase of 7%.

Both customer lending balances and customer accounts increased.

Customer lending balances increased by \$30bn compared with 2Q24. On a constant currency basis, lending balances increased by \$2bn, including growth in WPB and CMB, notably in HSBC UK. Customer accounts were \$1.7 trillion which increased by \$67bn compared with 2Q24. On a constant currency basis, customer accounts increased by \$20bn, mainly in HSBC's legal entity in Hong Kong due to an increase in term deposits prior to interest rate reductions and from short-term inflows into customer accounts amid equity market volatility. In CMB, the increase in customer accounts of \$6bn reflected balance growth in HSBC's main legal entities in the US and Hong Kong. Deposits in GBM were broadly stable.

Figure1: Operating Income growth rate



Resources : Annual Report · PSHK

Accumulate

CMP HK\$74.55
(Closing price as of 06 Dec)
Target 80.68HKD (+8.2%)

COMPANY DATA

O/S SHARES (MN) :	18004
MARKET CAP (HKD bn) :	1340
52 - WK HI/LO (HKD):	74.7/51.4

SHARE HOLDING PATTERN, %

Ping 'an Asset Management Co., Ltd	9.34%
BlackRock Inc	9.20%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY22	FY23	FY24E	FY25E	FY26E
Net operating income	47096	62611	67302	68657	69117
Net profit	18349	24559	26027	26576	26741
Diluted EPS (USD)	6.72	1.14	1.22	1.29	1.31
P/E ratio, x	13.3	8.4	7.8	7.4	7.3
Dividend yield, %	3.5%	6.6%	7.0%	7.4%	7.6%

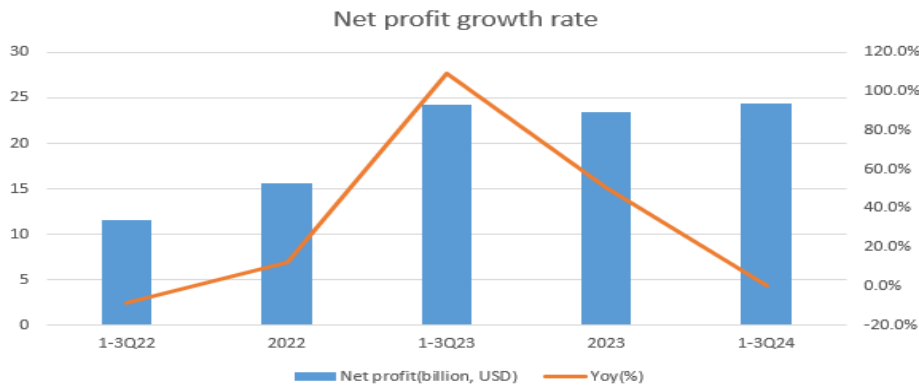
Source: Company reports, Phillip Securities Est.

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Figure2: Net profit growth rate

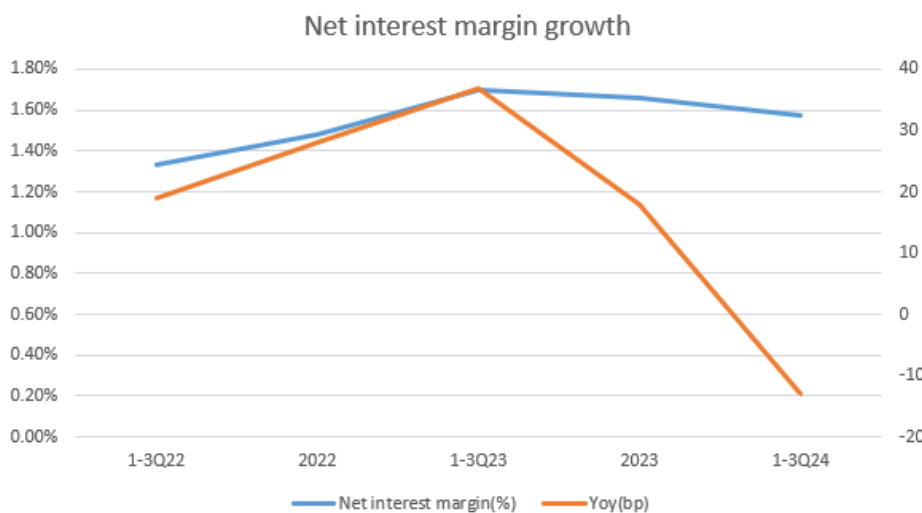


Resources : Annual Report · PSHK

Net interest margin fell year-on-year, reflecting the impact of interest rate hikes.

Q3 net interest income was \$7.6 billion with a year-on-year decrease of 17%; the net interest margin was 1.46%, a decrease of 24 basis points compared with the third quarter of 2023. Net interest income in the first nine months of 2024 was \$24.5 billion with a year-on-year decrease of 11%; the net interest margin was 1.57%, a decrease of 13 basis points compared with the first nine months of 2023. The main reasons for the decrease in net interest margin were the increase in debt interest expenses due to interest rate hike, as well as the increase in the balance of deposits and loans of industrial and commercial customers that were put into the trading accounts. As the Federal Reserve began its interest rate cut cycle, the group's debt interest expenses are expected to decrease gradually.

Figure3: Net interest Margin growth



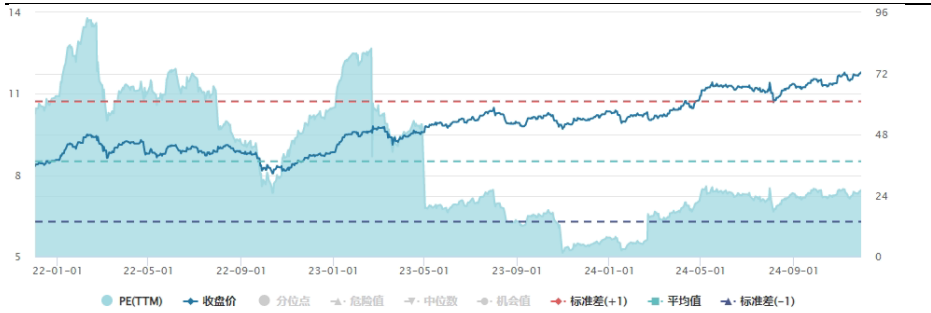
Resources : Annual Report · PSHK

Investment Thesis

HSBC Holdings will continue to maintain its leading international position, and the group's goal is still to target a mid-teens return on average tangible equity ('RoTE') in 2024 and 2025 and to manage group's CET1 capital ratio within medium-term target range of 14% to 14.5%. In addition, the group actively rewards investors and sets the target dividend payout ratio in 2024 at 50%. In 2024, the Chinese government released a series of policies to promote economic growth, which drove an increase in customer activities and had a significant impact on Hong Kong's wealth management, stocks and global foreign exchange businesses. It is expected that more favorable policies will be launched in the future, and HSBC Holdings is expected to benefit from

them. We predict that the group's operating income will be \$67.1 billion, \$68.7 billion and \$69.1 billion respectively in 2024-2026 with a compound annual growth rate of 4%. EPS will be 1.22/1.29/1.31 US dollars/share, corresponding to the P/E of 7.85x/7.45x/7.29x. The group's average P/E in the past three years is 8.5x, giving the group a P/E of 8.5 times in 2024, with a target price of HK\$80.68, and our investment rating is "Accumulate". (Current price as of December 6)

Figure4: PE Curve



Risk factors

Overseas macroeconomic affects the company's asset quality, interest rate risk, and credit risk.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, USD mn	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	30,377	35,796	37,131	38,662	39,759
Net fee income	11,770	11,845	11,861	12,243	11,863
Other(expense)/ income	8,473	18,417	21,419	20,896	20,481
Net operating income before change in expected credit losses and other credit impairment charges	50,620	66,058	70,411	71,801	72,103
Change in expected credit losses and other credit impairment charges	-3,584	-3,447	-3,309	-3,144	-2,986
Net operating income	47,036	62,611	67,102	68,657	69,117
Total operating expenses	-32,701	-32,070	-37,376	-38,242	-38,498
Profit before tax	17,058	30,348	32,533	33,222	33,426
Tax expense	-809	-5,789	-6,507	-6,644	-6,685
Profit for the year	16,249	24,559	26,027	26,578	26,741
Net profit attributable to the parent company	15,559	23,533	24,933	25,461	25,617

Consolidated Statement of Financial Position

Dec Y/E, USD mn	FY22	FY23	FY24E	FY25E	FY26E
Total assets	2,949,286	3,038,677	3,173,686	3,279,991	3,366,541
Cash and balances at central banks	327,002	285,868	322,859	343,102	421,349
Loans and advances to banks	104,475	112,902	113,967	115,032	116,097
Loans and advances to customers	923,561	938,535	947,184	955,834	964,484
Financial investments	364,726	442,763	503,988	552,819	584,135
Average interest-earning assets	2,143,758	2,161,746	2,348,528	2,427,193	2,491,240
Total liabilities	2,764,089	2,846,067	2,982,926	3,088,501	3,178,218
Customer accounts	1,570,303	1,611,647	1,676,364	1,773,610	1,822,233
Total equity	185,197	192,610	190,760	191,490	188,322
Non-controlling interests	7,364	7,281	7,145	7,046	6,866
Ordinary shareholders' equity	177,833	185,329	183,615	184,444	181,456

Key Financial Data

Dec Y/E	FY22	FY23	FY24E	FY25E	FY26E
EPS (Diluted)(USD)	0.72	1.14	1.22	1.29	1.31
BVPS (USD)	8.96	9.51	9.93	9.93	9.97
DPS (USD)	0.32	0.61	0.65	0.69	0.70
P/E	13.35	8.37	7.85	7.45	7.29
P/B	1.07	1.01	0.96	0.96	0.96
ROA (%)	0.5%	0.7%	0.7%	0.7%	0.7%
ROE (%)	8.1%	12.1%	12.4%	13.0%	13.5%
Net interest margin(%)	1.4%	1.7%	1.6%	1.6%	1.6%
Common equity tier 1 capital ratio (%)	14.2%	14.8%	15.2%	15.7%	16.2%
Tier 1 ratio (%)	16.6%	16.9%	17.0%	17.2%	17.4%

Current Price as of: 06 Dec

Source : PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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