



Equity Rating Price Target
BUY \$ 46 / £ 7.1

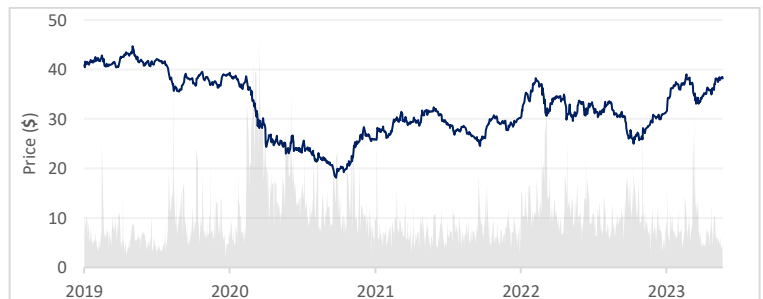
Business Overview

HSBC Holdings plc is a British multinational universal bank, which dates back to 1865 and is one of the largest banking and financial services organisations in the world. The bank is engaged in three main business lines; Wealth and Personal Banking, Commercial Banking and Global Banking and Markets.

Company Name	HSBC Holdings plc
Ticker	HSBC
Country	United Kingdom
Industry	Financials
Current Price	\$37.25 / £5.99
Price Target (1 Year)	\$46 / £7.1
Upside/ Downside to PT	23% / 18%
Dividend Yield	4.28%

Our view: why?

- **Strong market positioning due to its name and diversified geographical distribution across major global markets:** Due to its long-standing practice and renowned name across major global markets, the bank is positioned well to continue on its path of success. The bank services a full spectrum of clients ranging from retail customers to ultra-high net worth individuals. HSBC operates in Europe, Asia, MENA, North America and Latin America, with the largest portion of operating income coming from Europe and Asia at 29% and 49% respectively. The bank is focusing heavily on digitizing at scale with 20% of the banks operating expenses in FY22 dedicated to technology. During FY22, around 50% of Wealth and Personal Banking customers were active users of their mobile applications and over 75% of their Commercial Banking customers were active on the digital applications. The bank also continues to pursue its climate ambition of becoming net zero by 2030.
- **Results:** Net interest margin (“NIM”) of 1.48% (FY21: 1.20%), operating income of \$48.1bn (FY21: \$50.5bn), down 4.8% from last year, profit before tax of \$17.5bn (FY21: \$18.9bn), down 7.4% from last year and EPS of \$0.75 (FY21: \$0.62) up 17.3% over last year. The common equity tier 1 capital ratio came in at 14.2% (FY21: 15.6%) whilst the return on average tangible equity was 9.9% (FY21: 8.3%)
- **Valuation approach:** Our 1-year price target is calculated using an average between a Book Value approach and a Dividend Discount Model (“DDM”). The weighted cost of equity for the bank was calculated at 10.3%.
- **Dividends:** Dividend payments were \$0.32 per share (FY21: \$0.25) with a dividend payout ratio of 44% (FY21:40%).



Outlook

- **NIM:** The bank has averaged a NIM of 1.56% since FY15. Over this period, the economy was experiencing a depressed interest rate environment. The bank has benefitted from the recent interest rate hikes in worldwide economies through higher reported NIM. Since we expect the higher rates to stay, going forward we have projected NIM to average 1.7% until FY29.
- **Efficiency Ratio – Cost to income:** Since FY15, the banks efficiency ratio has averaged 70%. Recently however, this ratio has shown consistent improvements due to various cost saving exercises carried out and reached 64.4% in FY22. Going forward we have projected the efficiency ratio to decrease to 62% in 2023 and 2024, 61% in 2025 and 60% after that.
- **Loan loss provisions:** Historically, provisions have been around 0.32% of Gross loans. This includes the rapid credit deterioration period experienced in FY20 due to COVID-19 which came in at 0.85%. In FY22, the bank had provisions of 0.36% of Gross loans and going forward we are projecting this to average 0.4% due to the elevated interest rates we are experiencing.



Research Analyst

Christian Bajada

+356 25 688 316

christianbajada@cc.com.mt

Disclaimer:- This equity research document is issued by Calamatta Cuschieri Investment Services Ltd (“CCIS”) of Ewropa Business Centre, Triq Dun Karm, Birkirkara, BKR9034, Malta (C13729). CCIS is licensed to conduct Investment Services under the Investment Services Act in Malta by the Malta Financial Services Authority. The value of the investment may go down as well as up. Any performance figures quoted refer to the past and past performance is not a guarantee of future performance nor a reliable guide to future performance. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal, or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax, and/or legal recommendations or advice. CCIS has not verified and consequently neither warrants the accuracy nor the veracity of any information, views, or opinions appearing on this document. CCIS does not accept liability for actions, proceedings, costs, demands, expenses, damages, and losses suffered by persons as a result of information, views, or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.