HSBC Holdings Plc

bordier 1844

Europe Satellite* Recommended since 29.05.2024

Country	GB	Market capitalization (bn)	GBP 129.1	Perf. since reco. (%)	
Sector	Banks	Free float	98.1%	HSBC Holdings Plc	0.0
Factset	HSBA-GB	Closing price	GBP 6.88	Sector	0.0
ISIN	GB0005405286	ESG Risk score*	24.9 Medium risk		

Profile
HSBC Holdings is one of the world's largest banks. The group provides banking and financial services. HSBC operates through the following business segments: Global Banking and Market (GBM: 42.4% of revenue), Commercial Banking (CMB: 36.6%) and Wealth & Personal Banking (WPB: 28.9%). The Group serves around 42 million customers in 62 countries and territories. The company was founded in 1865 and is headquartered in London, although its principal market is Hong Kong.

Strengths/opportunities
- Income/risk diversification -> reduced volatility
- Wealth management captures the increase in wealth in Asia
- High solvency and balance sheet quality

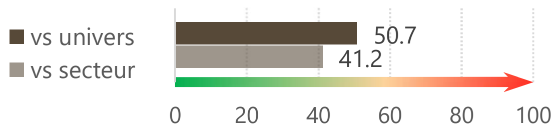
Weaknesses/threats
- Continuing political/social tensions in Hong Kong
- Tensions between the USA and China, with a negative effect on the volume of trade transactions
- High sensitivity of interest income to US interest rates

Investment case
- HSBC is a bank with a long history in Hong Kong. Not only that, but its activities, particularly in Singapore and the rest of Asia, position it ideally to benefit from a rebound in Chinese economic activity, and therefore from the intensification of trade between China and South-East Asia.
- Its US and Hong Kong (HKD) activities give it positive exposure to high US interest rates. Interest rates are expected to remain relatively stable over the medium term, before falling slightly from the end of the year. This explains why net interest income is expected to come under pressure from 2025 onwards.
- In addition, HSBC has long been a prudent lender (with an average loan-to-value of around 50%), which will be able to withstand a deterioration in the credit environment.
- In addition, HSBC is a robust group with one of the highest solvency ratios in the sector (CET1 15.2% > target 14-14.5%) and is a capital generator quarter after quarter. Management is expected to buy back $9-10 billion of shares per year over 2024-2025, helped also by disposals of non-strategic assets (Canada in 2024 and Argentina in 2025-26).

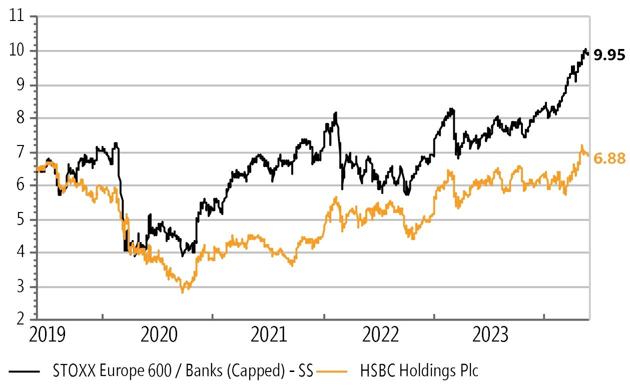
Valuation
The stock is at a slight discount (PE and P/BV) to the sector but remains at a premium to UK banks. Return on equity and dividend yield are slightly ahead of the sector.

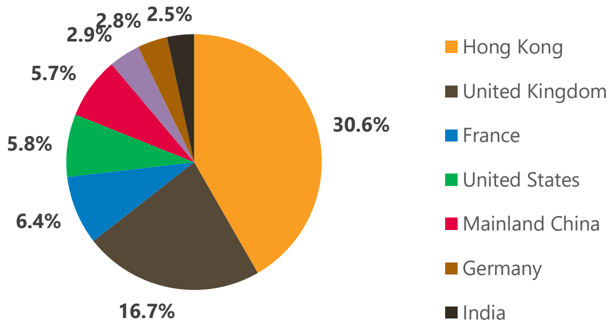
USD	12/2023	2024e	2025e
Sales revenue (mio)	66'058	65'717	63'556
Sales growth	*19.4%*	*-0.5%*	*-3.3%*
EBIT adjusted (mio)	33'845	31'540	29'092
% of sales	*51.2%*	*48.0%*	*45.8%*
Net income (mio)	22'432	24'736	20'875
Net income growth	*51.3%*	*10.3%*	*-15.6%*
CET1	14.8%	14.7%	14.5%
ROE	12.8%	13.1%	11.8%
Dividend yield	5.5%	9.2%	7.2%
PE	6.9x	7.0x	7.3x
P/BV	0.9x	0.9x	0.9x

Factset estimates

ESG risk vs. universe & sector (percentile)*


ESG - risks and key points
- HSBC is a medium risk, in line with the sector, because despite its very good governance, the group has been subject to numerous controversies, which have now stabilised.
- The Group does not particularly stand out in terms of the governance of its products, where there is not enough control.
- The group's investments meet ethical and environmental criteria in line with the sector average.

5-year performance vs sector


Sales breakdown - 12/2023


*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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