



Rating
Hold

Asia
Hong Kong

Banking / Finance
Banks

Company
HSBC Holdings Plc

Reuters
0005.HK

Bloomberg
5 HK

Exchange
HSI

Ticker
0005

ADR Ticker
HBC

ISIN
US4042804066

Date
23 October 2017

Results

Price at 23 Oct 2017 (HKD)	76.50
Price target - 12mth (HKD)	76.00
52-week range (HKD)	79.35 - 57.45
HANG SENG INDEX	28,487

3Q17 preview

4am UK time on 30 October 2017

HSBC reports 3Q17 results on 30 October 2017. We forecast US\$5,323m of adjusted PBT for 3Q17, a CET1 of 14.6% and TNAV of 731c (higher on positive FX movements in the quarter). Given the recent announcement of a new CEO (John Flint, who will take over on 21 Jan '18), we expect limited comments on the outlook for HSBC beyond 4Q17, and expect a strategic update will follow at some point during 1Q or 2Q18. We extend our forecasts out to 2020, but our TP remains unchanged at 76HKD. Trading at 1.35x TNAV and 12.7x 2018E EPS. Given proximity to the current share price, we retain our Hold rating.

Key issues

- **Rate sensitivity:** at 2Q17 results, HSBC revealed higher sensitivity to rising rates, particularly to sterling block. Our forecasts assume a further 50bps of US Rate rises from here (making this 6 rises in total this interest rate cycle), and 50bps of rate rises in the UK by end of 2018.
- **Loan impairments:** we expect 3Q17 to be a quiet quarter for loan losses given limited sign of stress in key markets.
- **GBM revenues:** US banks reported FICC revenues down 22% YoY, but Citi Group reported a 7% increase in ICG revenues for Asia YoY at 3Q17. We have assumed c.15% YoY weakness in FICC, but stronger cash management revenues.
- **TNAV:** FX movements in 3Q17 should increase tangible equity by c.US\$2.2bn, which drives our TNAV forecast of 731p. Note the scrip uptake for interim dividend was low, at 10%. We forecast 14.6% CET1, which is in line with consensus for the quarter.

Valuation & Risks, TP u/c, Hold

We extend our forecasts to 2020, with small reductions in 2019 forecasts on higher costs & lower revenues. We also refresh our DDM & SOTP valuation methodology, rolling out to 2020 forecasts. The forecast changes, combined with TVM and FX mean our TP, based on an average of the DDM and SOTP, remains unchanged at 76HKD. Given proximity to the current price, we retain our Hold rating. This leaves HSBC trading at 1.35x 2017E TNAV, 12.7x 2018E EPS for a 10.6% RoTE in 2018. Key upside risks are higher US rates, an improvement in Emerging Markets outlook, lower-than-expected loan losses, better-than-expected outcomes for regulation, lower costs, and better than expected distributions / buybacks, weaker sterling (given USD earnings). Key downside risks relate to regulatory change, legacy liabilities, a slowdown in emerging markets, sustained low interest rate environment, and stronger sterling. See pages 4-5 for more details on valuation and risks

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Provisioning (USDm)	3,721	3,400	1,862	2,777	3,488
PER (x)	11.9	89.5	16.6	12.8	11.9
Price/book (x)	0.91	1.01	1.18	1.17	1.14

Source: Deutsche Bank estimates, company data

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.4	1.9	30.1
HANG SENG INDEX	2.2	6.7	21.9

Source: Deutsche Bank



Model updated: 23 October 2017

Running the numbers

Asia

Hong Kong

Banks

HSBC Holdings Plc

Reuters: 0005.HK

Bloomberg: 5 HK

Hold

Price (23 Oct 17) HKD 76.50

Target Price HKD 76.00

52 Week range HKD 57.45 - 79.35

Market Cap (m) HKDm 1,545,286
USDm 198,034

Company Profile

HSBC is one of the world's largest banking and financial institutions with c.3,900 offices, 233,000 employees and 38 million customers in 67 countries across Europe, Hong Kong, Asia-Pacific, Middle East, North Africa, North America and Latin America. HSBC has 4 main business divisions: Retail Banking & Wealth Management, Commercial Banking, Global Banking and Markets and Global Private Banking.

Fiscal year end 31-Dec

Data Per Share

	2014	2015	2016	2017E	2018E	2019E
EPS (stated)(USD)	0.72	0.67	0.09	0.59	0.76	0.82
EPS (DB) (USD)	0.82	0.68	0.60	0.71	0.77	0.80
Growth Rate - EPS (DB) (%)	3.7	-17.2	-11.2	17.8	9.3	4.0
DPS (USD)	0.50	0.51	0.51	0.51	0.52	0.53
BVPS (stated) (USD)	9.24	8.73	7.91	8.29	8.41	8.58
Tang. NAV p. sh. (USD)	7.80	7.48	6.92	7.26	7.40	7.58
Market Capitalisation	183,368	157,220	159,152	198,034	198,034	198,034
Shares in issue	19,056	19,517	19,761	20,019	20,381	20,743

Valuation Ratios & Profitability Measures

P/E (stated)	13.3	11.9	89.5	16.6	12.8	11.9
P/E (DB)	11.7	11.8	13.4	13.9	12.7	12.2
P/B (stated)	1.0	0.9	1.0	1.2	1.2	1.1
P/Tangible equity (DB)	1.2	1.1	1.2	1.4	1.3	1.3
ROE(stated)(%)	7.7	7.5	1.1	7.2	9.2	9.6
ROTE (tangible equity) (%)	10.5	8.9	8.3	10.0	10.6	10.7
ROIC (invested capital) (%)	8.8	7.6	7.2	8.7	9.3	9.5
Dividend yield(%)	4.8	5.9	7.3	5.2	5.3	5.4
Dividend cover(x)	1.4	1.3	0.2	1.2	1.5	1.5

Profit & Loss (USDm)

Net interest revenue	34,705	32,531	29,813	28,589	31,959	33,677
Non interest income	26,704	27,308	18,153	22,738	21,867	22,177
Commissions	0	0	0	0	0	0
Trading Revenue	0	0	0	0	0	0
Other revenue	26,704	27,308	18,153	22,738	21,867	22,177
Total revenue	61,409	59,839	47,966	51,327	53,826	55,854
Total Operating Costs	41,410	39,807	39,808	34,238	30,219	29,872
Employee Costs	0	0	0	0	0	0
Other costs	41,410	39,807	39,808	34,238	30,219	29,872
Pre-Provision profit/(loss)	19,999	20,032	8,158	17,089	23,608	25,982
Bad debt expense	3,851	3,721	3,400	1,862	2,777	3,488
Operating Profit	16,148	16,311	4,758	15,228	20,830	22,494
Pre-tax associates	2,532	2,556	2,354	2,310	2,345	2,392
Pre-tax profit	18,680	18,867	7,112	17,538	23,175	24,886
Tax	3,975	3,771	3,666	3,946	5,562	5,973
Other post tax items	-1,107	-2,040	-1,662	-1,876	-1,928	-2,009
Stated net profit	13,598	13,056	1,784	11,716	15,685	16,904
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	1,972	142	10,089	2,454	77	-217
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	15,570	13,198	11,873	14,170	15,762	16,687

Key Balance Sheet Items (USDm) & Capital Ratios

Risk-weighted assets	1,219,800	1,102,995	857,181	893,799	909,607	935,744
Interest-earning assets	974,660	924,454	861,504	919,079	933,536	951,490
Customer Loans	974,660	924,454	861,504	919,079	933,536	951,490
Total Deposits	1,350,642	1,289,586	1,272,386	1,306,527	1,312,240	1,318,674
Stated Shareholder Equity	177,510	171,943	156,869	167,514	173,004	179,440
Equals: Tangible Equity	149,933	147,338	137,219	146,625	152,115	158,551
Tier 1 capital	152,739	153,303	138,022	153,846	159,336	165,772
Tier 1 ratio (%)	13	14	16	17	18	18
o/w core tier 1 capital ratio (%)	10.9	11.9	13.6	14.6	14.7	14.8

Credit Quality

Gross NPLs/Total Loans(%)	3.00	2.57	2.12	1.71	1.71	1.71
Risk Provisions/NPLs(%)	42	40	43	42	42	42
Bad debt / Avg loans (%)	0.39	0.39	0.38	0.21	0.30	0.37
Bad debt/Pre-Provision Profit(%)	19.3	18.6	41.7	10.9	11.8	13.4

Growth Rates & Key Ratios

Growth in revenues (%)	-5	-3	-20	7	5	4
Growth in costs (%)	7	-4	0	-14	-12	-1
Growth in bad debts (%)	-34	-3	-9	-45	49	26
Growth in RWA (%)	0	-10	-22	4	2	3
Net int. margin (%)	1.94	1.92	1.89	1.70	1.87	1.93
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	72	72	68	70	71	72

ROTE Decomposition

Revenue % ARWAs	5.04	5.15	4.89	5.86	5.97	6.05
Net interest revenue % ARWA	2.85	2.80	3.04	3.27	3.54	3.65
Non interest revenue % ARWA	2.19	2.35	1.85	2.60	2.43	2.40
Costs/income ratio (%)	67.4	66.5	83.0	66.7	56.1	53.5
Bad debts % ARWAs	0.32	0.32	0.35	0.21	0.31	0.38
Tax rate (%)	24.6	23.1	77.0	25.9	26.7	26.6
Adj. Attr. earnings % ARWA	1.07	0.92	0.97	1.35	1.49	1.55
Capital leverage (ARWA/Equity)	8.2	7.8	6.9	6.2	6.0	5.9
ROTE (Adj. earnings/Ave. equity)	8.8	7.2	6.7	8.4	9.0	9.2

Source: Company data, Deutsche Bank estimates



3Q17 preview

Forecasts

Our forecasts are shown below compared with last available company consensus. We are above consensus for 2017-2019 driven primarily by higher revenues and lower costs.

Figure 1: DB forecasts vs. consensus

	DB estimates				Company consensus											
	3Q17e	2017e	2018e	2019e	3Q17e	2017e	2018e	2019e	3Q17e	2017e	2018e	2019e	3Q17e	2017e	2018e	2019e
NII	7,382	28,589	31,959	33,677	7,173	28,232	30,171	31,913	3%	1%	6%	6%	209	357	1,788	1,764
Non-interest income	5,182	22,738	21,867	22,177	5,549	23,023	23,149	23,861	-7%	-1%	-6%	-7%	-367	-285	-1,282	-1,684
Total income	12,564	51,327	53,826	55,854	12,722	51,255	53,320	55,774	-1%	0%	1%	0%	-158	72	506	80
Operating costs	-8,390	-34,238	-30,219	-29,872	-8,104	-33,940	-31,472	-30,981	4%	1%	-4%	-4%	-286	-298	1,253	1,109
Pre-provision profit	4,174	17,089	23,608	25,982	4,618	17,315	21,848	24,793	-10%	-1%	8%	5%	-444	-226	1,760	1,189
Impairments	-561	-1,862	-2,777	-3,488	-573	-1,924	-2,904	-3,478	-2%	-3%	-4%	0%	12	62	127	-10
Associates	624	2,310	2,345	2,392	606	2,351	2,203	2,186	3%	-2%	6%	9%	18	-41	142	206
Profit before tax	4,238	17,538	23,175	24,886	4,651	17,742	21,147	23,501	-9%	-1%	10%	6%	-413	-204	2,028	1,385
Tax expense	-1,017	-3,946	-5,562	-5,973	-1,130	-4,177	-5,119	-5,628	-10%	-6%	9%	6%	113	231	-443	-345
Profit after tax	3,221	13,592	17,613	18,913	3,580	13,565	16,028	17,873	-10%	0%	10%	6%	-359	27	1,585	1,040
Profit attributable to non-contr	-251	-1,008	-1,038	-1,069	-254	-1,036	-1,074	-1,118	-1%	-3%	-3%	-4%	3	28	36	49
Dividends on prefs / capital	-291	-868	-890	-940	-350	-1,130	-1,248	-1,283	-17%	-23%	-29%	-27%	59	262	358	343
Ordinary attributable profit	2,678	11,716	15,685	16,904	2,976	11,399	13,706	15,472	-10%	3%	14%	9%	-298	317	1,979	1,432
Adjusted income statement																
Revenue	12,564	51,214	53,826	55,854	12,722	51,146	53,321	55,775	-1%	0%	1%	0%	-158	68	505	79
Operating expenses	-7,305	-30,236	-29,819	-29,872	-7,344	-30,308	-30,246	-30,708	-1%	0%	-1%	-3%	39	72	427	836
PPP	5,259	20,978	24,008	25,982	5,378	20,838	23,075	25,067	-2%	1%	4%	4%	-119	140	933	915
Loan impairments	-561	-1,862	-2,777	-3,488	-573	-1,924	-2,904	-3,478	-2%	-3%	-4%	0%	12	62	127	-10
Associates	624	2,310	2,345	2,392	606	2,351	2,203	2,186	3%	-2%	6%	9%	18	-41	142	206
PBT	5,323	21,427	23,575	24,886	5,411	21,264	22,373	23,775	-2%	1%	5%	5%	-88	163	1,202	1,111
TNAV	7.31	7.26	7.40	7.58	7.27	7.20	7.31	7.56	1%	1%	1%	0%	0.04	0.06	0.09	0.02
EPS	0.13	0.57	0.76	0.80	0.15	0.57	0.68	0.77	-13%	1%	12%	4%	-0.02	0.00	0.08	0.03
DPS	0.10	0.51	0.52	0.53	0.10	0.51	0.52	0.53	0%	0%	0%	0%	0.00	0.00	0.00	0.00
Sharecount	20.13	19.84	20.20	20.56	19.99	20.01	20.11	20.29	1%	-1%	0%	1%	0.14	-0.17	0.09	0.27
CET1	14.6%	14.6%	14.7%	14.8%	14.6%	14.4%	14.4%	14.6%								
Dividend payout	76%	88%	69%	65%	67%	89%	76%	69%								
C/I ratio	67%	67%	56%	53%	58%	59%	57%	55%								
Effective tax rate	24%	22%	24%	24%	24%	24%	24%	24%								

Source: Deutsche Bank estimates, company data, company consensus as of 23/10/2017



Forecast changes

Our forecast changes are shown Figure 2 below. Our forecasts are left broadly unchanged. DPS we now have increasing from 51c by 1c a year from 2018. We have extended our forecasts out to 2020. Please contact us for the updated model.

Figure 2: Forecast changes

	OLD FORECASTS				NEW FORECASTS					CHANGES (£m)					CHANGES (%)				
	2016	2017e	2018e	2019e	2016	2017e	2018e	2019e	2020e	2016	2017e	2018e	2019e	2020e	2016	2017e	2018e	2019e	2020e
NII	29,813	28,589	31,959	33,512	29,813	28,589	31,959	33,677	34,500	0	0	0	165		0%	0%	0%	0%	n/a
OOI	18,153	22,863	22,095	22,510	18,153	22,738	21,867	22,177	23,145	0	-125	-228	-333		0%	-1%	-1%	-1%	n/a
Total income	47,966	51,452	54,055	56,022	47,966	51,327	53,826	55,854	57,645	0	-125	-228	-168		0%	0%	0%	0%	n/a
Opex	-39,808	-34,491	-30,121	-29,705	-39,808	-34,238	-30,219	-29,872	-29,585	0	253	-98	-168		0%	-1%	0%	1%	n/a
PPP	8,158	16,961	23,934	26,317	8,158	17,089	23,608	25,982	28,060	0	129	-326	-336		0%	1%	-1%	-1%	n/a
LLPs	-3,400	-2,140	-3,254	-3,653	-3,400	-1,862	-2,777	-3,488	-3,734	0	279	477	165		0%	-13%	-15%	-5%	n/a
Associates	2,354	2,310	2,380	2,451	2,354	2,310	2,345	2,392	2,440	0	0	-35	-59		0%	0%	-1%	-2%	n/a
Stated PBT	7,386	17,131	23,060	25,115	7,386	17,538	23,175	24,886	26,766	0	407	116	-230		0%	2%	1%	-1%	n/a
Tax / Minorities / AT1	-5,812	-5,962	-7,689	-8,254	-5,812	-6,060	-7,717	-8,199	-8,682	0	-98	-28	55		0%	2%	0%	-1%	n/a
Earnings	1,574	11,168	15,370	16,861	1,574	11,477	15,458	16,687	18,084	0	309	88	-175		0%	3%	1%	-1%	n/a
Adjusted PBT	18,552	21,020	23,460	25,115	18,552	21,427	23,575	24,886	26,766	0	407	116	-230		0%	2%	0%	-1%	n/a
Adjusted earnings	11,873	13,860	15,674	16,861	11,873	14,170	15,762	16,687	18,084	0	309	88	-175		0%	2%	1%	-1%	n/a
EPS stated (US\$)	8.0	55.8	75.4	81	8.0	57.3	75.8	80.4	85.7	0.0	1.5	0.4	-0.8		0%	3%	1%	-1%	n/a
EPS adjusted (US\$)	60.1	69.2	76.9	81	60.1	70.8	77.3	80.4	85.7	0.0	1.5	0.4	-0.8		0%	2%	1%	-1%	n/a
DPS (US\$)	51.0	51.0	51.0	51	51.0	51.0	52.0	53.0	54.0	0.0	0.0	1.0	2.0		0%	0%	2%	4%	n/a
BVPS (US\$)	790.8	827.8	839.5	857	790.8	829.3	841.4	857.6	878.5	0.0	1.5	1.9	0.4		0%	0%	0%	0%	n/a
TBVPs (US\$)	691.7	724.3	737.9	757	691.7	725.9	739.8	757.8	780.4	0.0	1.5	1.9	0.4		0%	0%	0%	0%	n/a
RoTE	8.3%	9.8%	10.5%	10.9%	8.3%	10.0%	10.6%	10.7%	11.1%	0.0%	0.2%	0.0%	-0.1%		0%	2%	0%	-1%	n/a
CET1	13.6%	14.9%	15.0%	15.1%	13.6%	14.6%	14.7%	14.8%	15.1%	0.0%	-0.3%	-0.3%	-0.3%		0%	-2%	-2%	-2%	n/a
Divisional PBT	2016	2017e	2018e	2019e	2016	2017e	2018e	2019e	2020e	2016	2017e	2018e	2019e	2020e	2016	2017e	2018e	2019e	2020e
RB&WM	3,602	5,518	7,448	8,088	3,602	5,907	7,806	8,448	9,287	0	389	358	360		0%	7%	5%	4%	n/a
Commercial Banking	5,757	6,549	6,705	7,102	5,757	6,779	7,017	7,120	7,596	0	230	313	19		0%	4%	5%	0%	n/a
GB&M	5,172	6,046	7,202	7,590	5,172	5,901	7,032	7,415	7,826	0	-145	-170	-175		0%	-2%	-2%	-2%	n/a
GPB	-3,340	291	300	306	-3,340	291	300	306	291	0	0	0	0		0%	0%	0%	0%	n/a
Corporate centre	-3,805	-1,273	1,406	2,030	-3,805	-1,340	1,020	1,597	1,765	0	-67	-386	-433		0%	5%	-27%	-21%	n/a
Total	7,386	17,131	23,060	25,115	7,386	17,538	23,175	24,886	26,766	0	407	116	-230		0%	2%	1%	-1%	n/a

Source: Deutsche Bank estimates, company data

Valuation & Risks

We use two methodologies to value HSBC: Sum-of-the-parts (SoTP) and Dividend-Discount-Model (DDM); our 12-month target price is the average of the two. For the DDM we assume 9% cost of equity and a 1% growth rate and include cash dividends and buybacks out to 2020, as well as a terminal value in 2020. For the SoTP, we use 2020e bank earnings, and then value each business division based on our assessment of appropriate P/E multiples, deducting the NPV of non-operating items, a 10% conglomerate discount, before discounting back to a 12 month target.

Figure 3: HSBC SoTP

	Net profit (2020E)	Average RWAs (USD'm 2020E)	Ave allocated TNAV (USD'm) 2020E	P/E	P/TNAV	Value (USD'm)	Value per share (USD)
HSBC SoTP (2019E)							
RB&WM	7,058	127,627	21,907	13.5x	4.3	95,286	476.0
Commercial Banking	5,773	326,316	56,013	12.5x	1.3	72,165	360.5
GBM	5,948	317,638	54,523	11.0x	1.2	65,426	326.8
GPB	221	17,234	2,958	14.5x	1.1	3,212	16.0
Other	1,341	156,866	26,926	11.0x	0.5	14,753	73.7
HSBC Group	20,342	945,680	162,328	12.3	1.5	250,842	1253.0
Minus Minorities and hybrids	-2,258			12.3x		-27,848	-139.1
NPV of non-operating items						-2,529	-12.6
Conglomerate discount (10%)						-22,047	-110.1
Total FV	18,084		162,328	11.0	1.2	198,419	991
12-month target (USD)	14,971			11.0		164,268	820.6
12-month target (GBP)							64.0

Source: Deutsche Bank estimates, company data



Our TP remains 737p and given proximity to the TP we retain our Hold rating.

Key upside risks are higher US rates, an improvement in Emerging Markets outlook, lower-than-expected loan losses, better-than-expected outcomes for regulation, lower costs, and better-than-expected distributions / buybacks, weaker sterling (given USD earnings). Key downside risks relate to regulatory change, legacy liabilities, a slowdown in emerging markets, sustained low interest rate environment, and stronger sterling.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
HSBC Holdings Plc	0005.HK	76.50 (HKD) 23 Oct 17	1,7,13,14

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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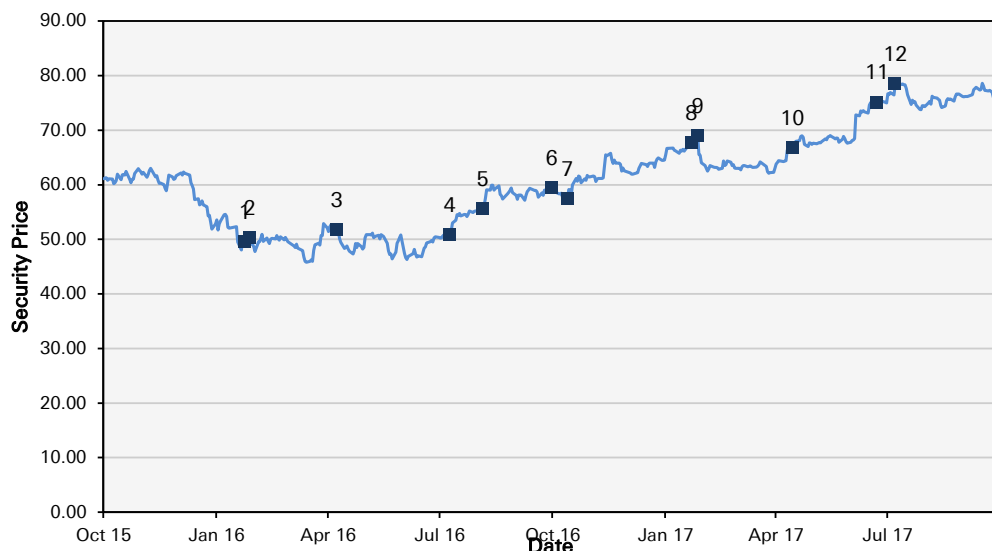
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Historical recommendations and target price: HSBC Holdings Plc (0005.HK) (as of 10/23/2017)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

**Analyst is no longer at Deutsche
Bank

1. 18/02/2016:	Hold, Target Price Change HKD55.60 David Lock	7. 07/11/2016:	Hold, Target Price Change HKD56.00 David Lock
2. 22/02/2016:	Hold, Target Price Change HKD47.80 David Lock	8. 16/02/2017:	Hold, Target Price Change HKD64.00 David Lock
3. 03/05/2016:	Hold, Target Price Change HKD50.00 David Lock	9. 21/02/2017:	Hold, Target Price Change HKD61.00 David Lock
4. 03/08/2016:	Hold, Target Price Change HKD51.30 David Lock	10. 09/05/2017:	Hold, Target Price Change HKD64.00 David Lock
5. 30/08/2016:	Hold, Target Price Change HKD53.00 David Lock	11. 17/07/2017:	Hold, Target Price Change HKD71.00 David Lock
6. 25/10/2016:	Hold, Target Price Change HKD55.00 David Lock	12. 01/08/2017:	Hold, Target Price Change HKD76.00 David Lock

Equity rating key

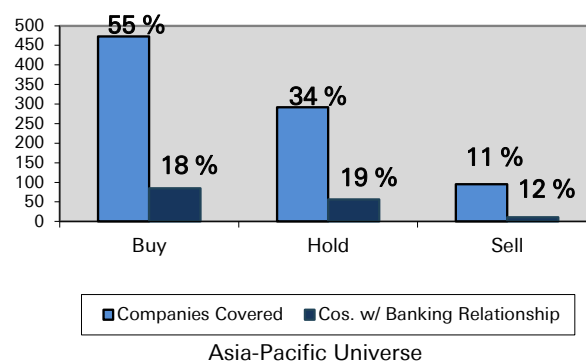
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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Equity rating dispersion and banking relationships



Asia-Pacific Universe



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