



Rating  
**Hold**

Asia  
Hong Kong

Banking / Finance  
Banks

Company  
**HSBC Holdings Plc**

Reuters  
0005.HK

Bloomberg  
5 HK

Exchange  
HSI

Ticker  
0005

Date  
15 February 2018

## Results

Price at 14 Feb 2018 (HKD)	81.90
Price target - 12mth (HKD)	78.00
52-week range (HKD)	85.85 - 62.10
HANG SENG INDEX	30,516

## 4Q17 preview

### Results due on 20 February 2018

HSBC is reporting 4Q17 results on 20 February 2018 at 4am UK time - the last set of results under CEO Stuart Gulliver. We forecast underlying PBT of US\$3,636m which is down QoQ driven by lower QoQ revenues in GBM, higher costs (UK bank levy at c.US\$1bn) and higher impairments (we have assumed an uptick in Commercial Banking on Steinhoff-related exposures). We expect capital to print at 14.5%, down 10bps QoQ driven in part by the US tax changes and associated DTA write-off. Our forecasts vs. consensus are shown overleaf: we are lower on an underlying basis for 4Q17, 1% ahead in 2018, and broadly in line for 2019.

### Key issues for 4Q17 results:

- **US Tax impact:** we estimate a c.10bps impact on CET1 from the US tax changes, and around US\$1.9bn impact to TNAV. At this stage we have not changed our tax rate assumption (24%) and consensus appears similar (23-24% in 2018/19), however we expect questions on the call on the potential impact longer term. Another area of focus is likely to be BEAT, given HSBC's Holding Company structure typically issues debt and downstreams to local subsidiaries. It is unclear whether HSBC USA will be impacted by this.
- **Equity movements in the quarter:** with USD weakening in the quarter (and in 1Q18) this should provide some tailwinds from non-USD earnings and also in structural FX movements for the quarter (we estimate c.US \$900m positive impact on TNAV this quarter). Meanwhile 3Q17 scrip dividend takeup was lower than we had forecast (12%) which represents a small headwind on CET1 in the quarter.
- **Rate sensitivity:** as noted in our last HSBC report, rate sensitivity has increased over the last 2 years, particularly in sterling block. We expect some focus at results on any changes to the rate sensitivity guidance (currently US\$2.1bn annualised for a 100bps rise across USD + HKD currency blocks). Our forecasts assume 4x US rate hikes this year, and 1x GBP rate hike.
- **Cost jaws:** at 3Q17 results, management said they remained committed to positive cost jaws for FY17, even after a planned increase in investment of US\$400m in 2H17. Despite some revenue headwinds in 4Q17 in the IB, we expect overall cost jaws of c.2% for FY17. Looking longer term, we expect higher cost jaws in FY18 (due to benefits of rising rates on revenues in FY18), but c.2% in 2019/20. Management guidance is for

### Valuation & Risks

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#### Key changes

TP	72.00 to 78.00	↑	8.3%
Provisioning (FYE)	1,477.4 to 1,970.6	↑	33.4%
Net profit (FYE)	12,054.6 to 9,852.3	↓	-18.3%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.2	9.0	22.2
HANG SENG INDEX	-2.9	4.7	28.7

Source: Deutsche Bank

#### Key indicators (FY1)

ROE (%)	6.1
Loan/deposit ratio (%)	70.9
Book value/share (USD)	8.28
Price/book (x)	1.3
NPL/total loans (%)	1.7
Net int margin (%)	1.62
Adjusted ROE (%)	-

Source: Deutsche Bank



c.1.5-2.0% cost jaws going forward, measured on a calendar year basis. We expect questions on the areas that are currently being targeted for investment.

- **Capital, dividends & buyback:** we forecast capital to print at 14.5%, down 10bps QoQ. With 'Basel 4' proposals now finalised, we think HSBC may be in a better position to comment on potential impacts of the regulatory change (Basel 4 had been cited as a reason for operating above the 12-13% CET1 guidance). We expect a flat dividend of US\$0.51 for the FY17, and a further US\$3bn buyback in FY18. We have assumed US \$1.5bn is completed 1H18, announced at FY17 results.

HSBC is trading at 14.4x 2018 EPS, 1.5x TNAV for a ROTE of 10.5%, which screens relatively expensive vs. European banks, though cheaper than Hang Seng and Bank of East Asia (c.17x). Our forecasts fall in 2017 (primarily on negative tax impact), but rise 3% in 2018-20 driven by better revenues partly offset by higher loan losses. Our TP rises to 78HKD from 72HKD, driven by EPS upgrades, higher growth assumption. 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, cost inflation, and stronger sterling.

Forecasts and ratios					
Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Provisioning (USDm)	3,721	3,400	1,971	2,730	3,157
Pre-prov profit (USDm)	20,032	8,158	17,573	21,659	23,918
Net profit (USDm)	13,198	11,599	13,860	14,847	15,673
EPS (USD)	0.65	0.07	0.50	0.69	0.76
EPS growth (%)	-17.2	-13.2	18.5	6.4	5.1
PER (x)	12.3	122.8	21.0	15.2	13.7
Price/book (x)	0.91	1.01	1.26	1.26	1.23
DPS (net) (USD)	0.51	0.51	0.51	0.52	0.53
Yield (net) (%)	5.9	7.3	4.9	5.0	5.1
ROE (%)	7.2	0.8	6.1	8.4	9.0
ROE Adj(%)	-	-	-	-	-

Source: Deutsche Bank estimates, company data



## DB vs consensus

Figure 1: DB vs consensus

	DB estimates							Company consensus											
	1Q17	2Q17	3Q17	4Q17	2017e	2018e	2019e	4Q17e	2017e	2018e	2019e	3Q17e	2017e	2018e	2019e	3Q17e	2017e	2018e	2019e
NII	6,787	6,990	7,127	7,475	28,379	30,723	31,969	7,363	28,267	30,634	32,509	2%	0%	0%	-2%	112	112	89	-540
Non-interest income	6,206	6,183	5,851	5,207	23,447	23,889	24,703	5,233	23,473	23,461	24,160	0%	0%	2%	2%	-26	-26	428	543
Total income	12,993	13,173	12,978	12,682	51,826	54,612	56,673	12,596	51,740	54,095	56,669	1%	0%	1%	0%	86	86	517	4
Operating costs	-8,328	-8,115	-8,546	-9,264	-34,253	-32,953	-32,755	-9,530	-34,519	-33,006	-32,469	-3%	-1%	0%	1%	266	266	53	-286
Pre-provision profit	4,665	5,058	4,432	3,418	17,573	21,659	23,918	3,066	17,221	21,089	24,200	11%	2%	3%	-1%	352	352	570	-282
Impairments	-236	-427	-448	-860	-1,971	-2,730	-3,157	-625	-1,736	-2,647	-3,255	38%	14%	3%	-3%	-235	-235	-83	98
Associates	532	651	636	513	2,332	2,402	2,474	570	2,389	2,319	2,342	-10%	-2%	4%	6%	-57	-57	83	132
Profit before tax	4,961	5,282	4,620	3,071	17,934	21,330	23,235	3,011	17,874	20,761	23,287	2%	0%	3%	0%	60	60	569	-52
Tax expense	-1,201	-994	-1,115	-2,637	-5,947	-5,119	-5,576	-1,272	-4,582	-4,968	-5,471	107%	30%	3%	2%	-1,365	-1,365	-151	-105
Profit after tax	3,760	4,288	3,505	434	11,987	16,211	17,658	1,739	13,292	15,793	17,816	-75%	-10%	3%	-1%	-1,305	-1,305	418	-158
Profit attributable to non-contr	-295	-243	-269	-218	-1,025	-1,056	-1,088	-244	-1,051	-1,089	-1,143	-11%	-2%	-3%	-5%	26	26	33	55
Dividends on prefs / capital	-288	-92	-220	-273	-873	-1,038	-1,090	-526	-1,126	-1,260	-1,323	-48%	-22%	-18%	-18%	253	253	222	233
Ordinary attributable profit	3,177	3,953	3,016	-57	10,089	14,117	15,481	987	11,133	13,455	15,350	-106%	-9%	5%	1%	-1,044	-1,044	662	131
Adjusted income statement																			
Revenue	12,843	13,210	13,031	12,682	51,766	54,612	56,673	12,598	51,682	54,096	56,669	1%	0%	1%	0%	84	84	516	4
Operating expenses	-7,202	-7,404	-7,776	-8,699	-31,081	-31,733	-32,255	-8,639	-31,021	-31,473	-32,115	1%	0%	1%	0%	-60	-60	-260	-140
PPP	5,641	5,806	5,255	3,983	20,685	22,879	24,418	3,959	20,661	22,623	24,554	1%	0%	1%	-1%	24	24	256	-136
Loan impairments	-236	-427	-448	-860	-1,971	-2,730	-3,157	-625	-1,736	-2,647	-3,255	38%	14%	3%	-3%	-235	-235	-83	98
Associates	532	651	636	513	2,332	2,402	2,474	570	2,389	2,319	2,342	-10%	-2%	4%	6%	-57	-57	83	132
PBT	5,937	6,030	5,443	3,636	21,046	22,550	23,735	3,903	21,313	22,295	23,641	-7%	-1%	1%	0%	-267	-267	255	94
TNAV	7.08	7.26	7.29	7.23	7.23	7.27	7.47	7.28	7.28	7.38	7.63	-1%	-1%	-1%	-2%	-0.05	-0.05	-0.11	-0.16
EPS	0.16	0.19	0.15	-0.01	0.49	0.69	0.76	0.06	0.56	0.67	0.76	-109%	-12%	4%	0%	-0.07	-0.07	0.02	0.00
DPS	0.10	0.10	0.10	0.21	0.51	0.52	0.53	0.21	0.51	0.52	0.53	0%	0%	0%	0%	0.00	0.00	0.00	0.00
Sharecount	19.79	20.02	20.03	20.03	19.84	20.03	20.11	20.00	20.00	20.11	20.25	0%	-1%	0%	-1%	0.03	-0.16	-0.08	-0.14
CET1	14.3%	14.7%	14.6%	14.5%	14.5%	14.4%	14.5%	14.4%	14.4%	14.3%	14.4%								
Dividend payout	63%	51%	68%	#####	102%	76%	69%	350%	91%	78%	70%								
C/I ratio	64%	62%	66%	73%	66%	60%	58%	69%	60%	58%	57%								
Effective tax rate	24%	19%	24%	86%	33%	24%	24%	42%	26%	24%	23%								

Source: Deutsche Bank estimates, company consensus



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
HSBC Holdings Plc	0005.HK	81.90 (HKD) 14 Feb 2018	1, 7, 13, 14

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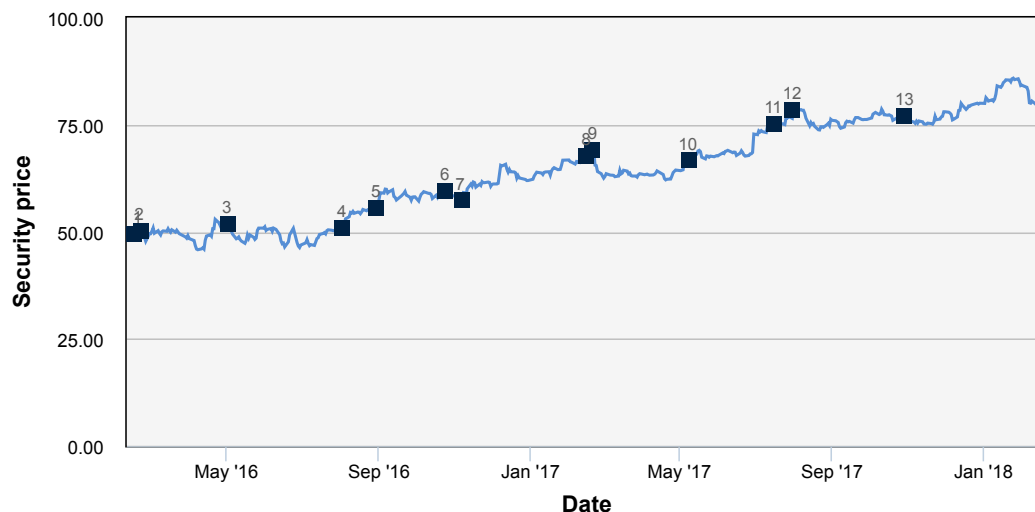
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## Historical recommendations and target price. HSBC Holdings Plc (0005.HK)

(as of 02/14/2018)



### Current Recommendations

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	02/18/2016	Hold, Target Price Change HKD 55,60 David Lock	8.	02/16/2017	Hold, Target Price Change HKD 64,00 David Lock
2.	02/22/2016	Hold, Target Price Change HKD 47,80 David Lock	9.	02/21/2017	Hold, Target Price Change HKD 61,00 David Lock
3.	05/03/2016	Hold, Target Price Change HKD 50,00 David Lock	10.	05/09/2017	Hold, Target Price Change HKD 64,00 David Lock
4.	08/03/2016	Hold, Target Price Change HKD 51,30 David Lock	11.	07/17/2017	Hold, Target Price Change HKD 71,00 David Lock
5.	08/30/2016	Hold, Target Price Change HKD 53,00 David Lock	12.	08/01/2017	Hold, Target Price Change HKD 76,00 David Lock
6.	10/25/2016	Hold, Target Price Change HKD 55,00 David Lock	13.	10/30/2017	Hold, Target Price Change HKD 72,00 David Lock
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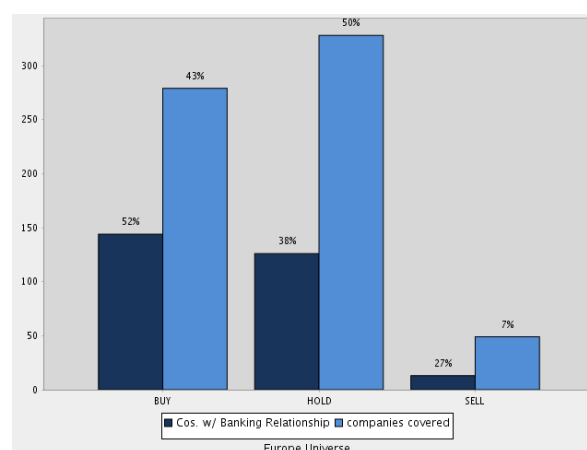
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