

EQUITY RESEARCH

HSBC - BUY



COLLINS SARRI STATHAM
INVESTMENTS

Research Report

ADVISORY SERVICES

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Analyst

Ravi Lockyer MSc L1b

Collins Sarri Statham
Investments Ltd

Stock Rating: BUY

Share Price.....501p
Target Price.....650p
Yr Hi/Low:....649p/ 485.5p
Shares o/s.....19.58bn
Market Cap.....£98.12bn
Avg Daily Vol..... 19.58m
Dividend Yield.....6.81%

Key Risks to Price Target

i) Further potential litigation / misconduct charges in US, UK and Rest of World.

ii) Sensitive to China/ HK related issues including credit demand.

iii) HSBC profit growth is reliant on expense management.

iv) A move of domicile to HK or USA would result in HSBC losing its LSE quote.

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HSBC is a global financial institution engaged in retail, commercial, investment banking, insurance, fund management and trustee activities.

HSBC; a strong Q3

We are encouraged on a number of points in HSBC Q3:-

- Capital is risen to 11.8% + 0.2% despite the drag from HSBC's dividend. Capital is up 0.7% since the 31/12/ 2014 - an impressive rise.
- So far the HK franchise (Q3: PBT \$1.81bn) (despite a drop in HK risk weighted assets of \$8.9bn) has not seen a hit from China related slowdown.
- Total operating expenses fell \$2.05bn hence good expense control
- \$84bn decline in total risk weighted assets (RWAs) reflecting disposals in Brazil and Turkey but an increase in return on risk weighted assets to 2.1% from 1.5%. HSBC intends to cut RWA by \$290bn by end 2017.
- The benefit of a few one off items; a) Debt valuation adjustment \$1.1bn b) low 10.4% tax rate c) \$1.24bn decline in other significant expenses primarily legal settlements v Q3 2014.
- Cost/ income ratio of 58.8% a 3.7% reduction on Q3 2014.

HSBC (PBT)	Q3 2015	Q3 2014	Difference (Δ)	COMMENT
Retail Banking	1,160	1,303	-143	10% drop in net interest income
Commercial Banking	2,226	2,295	-69	Similar performance
Global Banking /Markets	2,141	941	+1200	Trading +24%, expense-\$1.1bn
Private Bank	81	190	-109	15% drop in net interest income
Other Business	489	-120	+609	One off items
"Significant" expense items	-456	-1702	+1,246	Both PPI/ legal expense drop

Source; HSBC plc

EPS of 25 cents (9 months: 73 cents) leave HSBC on track to beat FY15 consensus forecasts of 52.88p (80 cents), the FY15 should be c 10 cents above consensus.

The board has flagged the potential for slippage in the time table for a decision on the domicile to the 2015 final results (due 23 Feb 2016). The UK press reported the board is considering a move to the USA as a credible alternative to Hong Kong. A move of the domicile would increase the possibility of a UK retail demerger, possibly ahead of the retail ring fencing rules by 2019. It would also mean a move of the primary listing due to FTSE Listing Rules for the parent co.

CONCLUSION

HSBC has been treated harshly in 2015 partly due to concerns over China/ HK lending but also ahead of the domicile decision. On fundamentals the stock is inexpensive on a forward multiple of just 9.5x and yield of 6.8% (net assets c.598p).

Collins Sarri Statham Investments Ltd. 6th Floor 5 Lloyds Avenue London EC3N 3AE

Telephone: +44 (0)20 7264 2360 Facsimile: +44 (0)20 7264 2361 www.css-investments.com Email: info@css-investments.com

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