

“**HSBC Holdings plc** (HBC 53.47 NYSE – yield 3.40%) continues to recover from the U.S. subprime mortgage fiasco, with profits doubling in 2010, though still below pre-crisis level. Loan impairment charges also fell sharply, though they remain conservative. Offsetting that, however, costs are up again, and continue to be high, while new (excessive?) capital requirements in Britain will cut return on equity going forward. Asia remains the key to the group’s profitability and growth. Last year, for example, Asia achieved an ROE of over 20%, twice that achieved for the entire group, and accounted for over 60% of the global profit. HSBC is not highly exposed to Japan, so the devastation there will not affect it too much, though China’s growth continues to be important, less for the bank’s direct exposure to China, growing but still very modest, but because of China’s impact on the region’s growth. There has been speculation that HSBC might move its headquarters back to Hong Kong, and though the bank has stated there are no such plans at present, executives have suggested that it would be considered if regulations in Britain keep increasing. A forward P/E of under 11, high margins, a conservative balance sheet and profit growth make the stock, with a yield of almost 4%, a solid long-term buy at the current level.”

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