Financial ratio analysis for hsbc

\n[toc title="Table of Contents"]\n

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HSBC is the Hong Kong and Shanghai Banking Corporation, established by Thomas Sutherland, in 1865. HSBC is one of the leading banking group on the financial market in the world today. In 2000, it ranked fifth largest global company in the world. HSBC's headquarters is located on the HSBC tower, Canary Wharf, London.

HSBC bank is a wholly owned subsidiary of HSBC Holding plc. The shares of HSBC bank are not publicly-traded, but those of HSBC Holdings plc are traded on the London, New York, Hong Kong, Paris and Bermuda stock exchanges.

The HSBC Corporation has been expanding rapidly with merger and acquiescing and it ranked second with assets for world's wealthy company. HSBC has $1. 861 trillion in assets as compared to Citigroup, which has $1. 884 trillion, 31 Dec 2006. Nearly 22% of HSBC's earnings are derived from Hong Kong, which is one of its major operational bases.

HSBC has grown into one of the largest global financial institutions with 9, 500 offices in 79 countries and identity of HSBC brand have been well recognizing in the worldwide since it established. Known as the world's local bank, HSBC has a history of helping millions of customers for their financial needs.

FINANCIAL RATIO ANALYSIS

Financial ratios for HSBC (2005-2009), for the industry of " Foreign Money Center Banks" are provided below.

Industry

2009 2008 2007 2006 2005 2009

Net profit margin(%) 9. 0 6. 1 20. 6 20. 7 25. 1 11. 9

Return on Equity(%) 4. 5 6. 1 14. 9 14. 6 16. 1 12. 6

Return on Assets(%) 0. 2 0. 2 0. 8 0. 8 1. 1 7. 9

Debt to equity 1. 38: 1 2. 23: 1 2. 12: 1 2. 33: 1 2. 90: 1 3. 68: 1

Current Ratio(2: 1) 1. 05 1. 03 1. 06 1. 06 1. 07 1. 40

Interest Coverage(times) 1. 3 1. 2 1. 4 1. 5 1. 7 1. 2

Profitability Ratios

Profitability ratios are show effectiveness of the business with generating profit. This ratio is popular that assessing a business to assess the amount of wealth generating for the amount of wealth invested.

In 2009, HSBC's net profit margin ratio (9. 0) is dramatically lower than year 2005. In 2005 net profit margin ratio is the highest (25. 1) in other years. The lowest net profit margin ratio appeared as a 6. 1 in 2008 and that had brought by global economic recession. There is slightly lower ratio (9. 0) on net profit margin compare to its industry (1. 9) in 2009.

The higher net profit margin explains HSBC has good financial performance and cost of sales lower than other years in 2005.

Liquidity Ratio

HSBC's liquidity ratios are almost remained the same, between 2005 and 2009. Although, HSBC is slightly less liquided than the average firm in the industry, with both a current ratio and a quick ratio that is lower than the industry average. If a both ratios are lower than its norm (current ratio2: 1, quick ratio1: 1), it could be face liquidity problem.

Capital Gearing Ratios

Capital gearing is concerned with the relative sizes of the funds provided by share-holders, on the other hand by loan creditors.

HSBC's Debt/equity ratio has dropped from (2. 90) in 2005 to (1. 38) in 2009. The lowest figure (1. 38) occurred in 2009 on debt to equity and it's dramatically lower than its industry (3. 68). " Debt to equity" ratio indicated that HSBC is less leveraged than other firms in industry. This lower leverage shows HSBC has good financial performance in its industry.

Management efficiency 2010 (1st quarter)

HSBC Barclays Industry S&P(500)

Income/employee 22, 226 36, 763 66, 753 99, 430

Revenue/employee 238, 067 303, 095 396, 097 896, 721

Net profit margin 14. 0 11. 6 11. 9

HSBC has net profit margin higher than other firms in industry and S&P(500). But if we look at productivity of HSBC, and compare to Barclays, its industry and S&P(500), it's dramatically lower than any other those. Which means productivity is poor and $14, 537 ($36, 763-$22, 226) lower than Barclays' productivity of per employee. Therefore, there is a conflict between practice and theory of (productivity and net profit margin). According to theory productivity should be high if net profit margin high, in that case they are not. Perhaps HSBC need to consider about poor fixed and indirect cost.

Conclusion

We need to consider about market efficiency (which form of efficient market hypothesis). Seems to me, the efficient market hypothesis is involved in semi-strong form, which means we able to use all available public information including firm's data (annual reports, income statement, exchange commission etc.), competitors' financial situation, macro economic factors etc. . . Before we invest 250, 000 pound to buy some share of HSBC.

HSBC has strong balance sheet, income statement is perfect except some losses between mid 2008 and early 2009 and price earning per share higher than its main competitors of Barclays, S&P500, and its industry. The management efficiency little bit poor but the management performance getting strong and they making their share price uptrend dramatically since the economic recession (in 2008).

HSBC’s net profit margin was 9. 1% in 2009, now it is increased at 14% in 1st quarter of 2010. Which means the management performance is strong and marketing is effective in the market place.

The history of share price chart is illustrated the share price increased slightly from at the price of 81. 00 GDP in September 2005 till at price of 90. 00 GDP in December 2007 and it is peaked up at 100. 00 GDP in January 2008. January effect is very strong in HSBC’s share price. The share price huge difference between End of December and January of every new a year and since 2005, the investors were making profit (3. 00 GDP to 5. 00 GDP) on per share in 3 weeks.

I would like to recommend that we need to make an investment on HSBC’s share with 250, 000 GDP before January effect (end of December most of the stock holders want to sell their stocks, because of tax issue). The strategy of stock investment is buy-and-hold. That would be good investment for buying HSBC’s shares.