

HSBC

Less rate sensitive than one might think

Reiterate Rating: BUY | PO: 760.00 GBp | Price: 619.20 GBp

Modest EPS cuts

We cut our forecasts to include the lower US\$ forward curve (Exhibit 1). The 3% 2024E and 4% 2025E EPS reductions are relatively modest and reflect the closing of the HIBOR-LIBOR spread (Exhibit 4), to which HSBC is positively geared with its Current and Savings Account surplus in Hong Kong (Exhibit 2, Exhibit 3).

A balanced hedge

We discussed in our report [HSBC: Treasury tales 15 September 2023](#) how HSBC historically hedged less interest rate risk than other banks, in spite of its highest-quality deposit base. HSBC recently built its hedge significantly, toward other banks although still short (Exhibit 6) relative to the duration of its deposit base, with only 17% of cash and bonds over 5 years. HSBC locked in “higher for longer” while it lasted, supporting Net Interest Income over 2024-26E.

Investing...

We leave cost forecasts unchanged at 5% per annum underlying 2024-26E. This leaves us expecting HSBC to grow above revenues, excluding disposals, in 2024E and 2025E (Exhibit 7, Exhibit 8). This gives back a little of the cost/income improvement over 2022-23E, but at 53% 2025E the cost/income is well within its historical range. And the benefit of continued investment should be re-acceleration of revenue growth across Asia beyond 2024E.

...And distributing

We see HSBC with US\$23bn shareholder payouts in 2023E, normalising to US\$16bn (Exhibit 10), an 11% ongoing yield. Combined with a sustainable 14% Return on Tangible Equity in the present yield curve environment and a sustainable 5% revenue growth rate, we see the 6x 2025E PE as compelling. We reiterate our Buy rating, with a 30p reduction in our Price Objective to £7.60 (HK\$72.05).

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
Net Profit (US\$m)	12,607	13,717	25,009	25,104	21,652
EPS (Reported Diluted)	0.62	0.69	1.30	1.37	1.25
Dividend / Share	0.25	0.32	0.60	0.82	0.62
Adjusted NAV PS	7.79	7.46	7.68	7.82	8.16
Valuation (Dec)					
P/E	13.51x	10.87x	6.00x	5.65x	6.22x
EPS Change (YoY)	226%	10.4%	89.0%	6.10%	-9.15%
Price / BV	0.80x	0.87x	0.86x	0.86x	0.83x
Price / NAV	1.00x	1.04x	1.01x	0.99x	0.95x
Net Yield	3.22%	4.12%	7.72%	10.6%	7.98%
DPS Change (YoY)	66.7%	28.0%	87.5%	36.7%	-24.4%
Price / GOP	10.6x	8.99x	4.40x	4.03x	4.35x

11 December 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	790.00p	760.00p
2024E EPS	1.41	1.37
2025E EPS	1.30	1.25

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Stock Data

Price (UK Ord, HK Ord, ADR)	619.20 GBp / 60.30 HKD / 39.21 USD
Price Objective	760.00 GBp / 72.05 HKD / 46.36 USD
Date Established	11-Dec-2023 / 11-Dec-2023 / 11-Dec-2023
Investment Opinion	A-1-7 / B-1-7 / B-1-7
52-Week Range	481.00 GBp-665.60 GBp
Market Val / Shares Out (mn)	120,001 GBp / 19,380.0
Average Daily Value (mn)	125.93 USD
BofA Ticker / Exchange	HBCYF / LSE
BofA Ticker / Exchange	XHSBF / HKG
BofA Ticker / Exchange	HSBC / NYS
Bloomberg / Reuters	HSBA LN / HSBA.L
ROE (2023E)	14.2%
Free Float	100.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 11 to 14. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

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Timestamp: 11 December 2023 05:00PM EST

iQprofileSM HSBC

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	26,489	30,377	36,747	35,990	36,825
Net Fee Income	15,319	9,774	19,131	21,203	17,558
Securities Gains / (Losses)	7,744	10,469	10,888	11,214	11,551
Other Income	0	0	0	0	0
Total Non-Interest Income	23,063	20,243	30,019	32,418	29,109
Total Operating Income	49,552	50,620	66,766	68,407	65,934
Operating Expenses	(34,620)	(33,330)	(32,677)	(33,234)	(34,992)
Pre-Provision Profit	14,932	17,290	34,089	35,173	30,942
Provisions Expense	928	(3,584)	(3,717)	(3,898)	(4,094)
Operating Profit	15,860	13,706	30,372	31,275	26,848
Non-Operating Items	3,046	2,723	2,810	2,951	3,099
Pre-Tax Income	18,906	16,429	33,182	34,226	29,946
Net Income to sh/holders	12,607	13,717	25,009	25,104	21,652
Adjusted Cash Earnings	12,607	13,717	25,009	25,104	21,652

Key Balance Sheet Data	2021A	2022A	2023E	2024E	2025E
Total Assets	2,957,939	2,949,286	3,052,362	3,104,352	3,258,078
Average Interest Earning Assets	2,231,207	2,286,576	2,267,112	2,293,996	2,382,556
Risk Weighted Assets	838,263	839,720	853,681	862,603	907,116
Total Gross Customer Loans	1,059,769	938,227	963,888	1,009,732	1,060,054
Total Customer Deposits	1,710,574	1,570,303	1,576,369	1,655,188	1,737,947
Tier 1 Capital	156,292	139,057	141,700	142,176	146,652
Tangible Equity	177,628	166,414	162,567	152,579	150,964
Common Shareholders' Equity	198,250	177,833	173,986	163,998	162,383

Key Metrics	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	1.19%	1.33%	1.62%	1.57%	1.55%
Tier 1 Ratio	18.6%	16.6%	16.6%	16.5%	16.2%
Effective Tax Rate	22.3%	4.92%	19.0%	21.0%	21.0%
Loan / Assets Ratio	35.4%	31.3%	31.1%	32.0%	32.0%
Loan / Deposit Ratio	61.1%	58.8%	60.2%	60.0%	60.0%
Oper Leverage (Inc Growth - Cost Growth)	-2.29%	5.88%	33.9%	0.75%	-8.91%
Gearing (Assets / Equity)	14.9x	16.6x	17.5x	18.9x	20.1x
Tangible Equity / Assets	6.01%	5.64%	5.33%	4.91%	4.63%
Tangible Equity / RWAs	21.2%	19.8%	19.0%	17.7%	16.6%

Business Performance	2021A	2022A	2023E	2024E	2025E
Revenue Growth	-1.74%	2.16%	31.9%	2.46%	-3.62%
Operating Expense Growth	0.55%	-3.73%	-1.96%	1.70%	5.29%
Provisions Expense Growth	-111%	-486%	3.71%	4.88%	5.02%
Operating Revenue / Average Assets	0.53%	0.46%	1.01%	1.02%	0.84%
Operating Expenses / Average Assets	-1.17%	-1.13%	-1.09%	-1.08%	-1.10%
Pre-Provision ROA	0.50%	0.59%	1.14%	1.14%	0.97%
ROA	0.42%	0.46%	0.83%	0.82%	0.68%
Pre-Provision ROE	7.57%	9.19%	19.4%	20.8%	19.0%
ROE	6.39%	7.29%	14.2%	14.9%	13.3%
RoTE	8.01%	8.92%	16.8%	17.2%	15.2%
RoRWAs	1.49%	1.63%	2.95%	2.93%	2.45%
Dividend Payout Ratio	40.3%	46.7%	46.3%	59.6%	49.6%
Efficiency Ratio (Cost / Income Ratio)	69.9%	65.8%	48.9%	48.6%	53.1%

Quality of Earnings	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	46.5%	40.0%	45.0%	47.4%	44.1%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	-6.21%	20.7%	10.9%	11.1%	13.2%
NPLs plus Foreclosed Real Estate / Loans	1.82%	2.13%	2.18%	2.19%	2.19%
Loan Loss Reserves / NPLs	0%	0%	0%	0%	0%
Loan Loss Reserves / Total Loans	1.32%	1.56%	1.59%	1.58%	1.56%
Provisions Expense / Average Loans	-0.09%	0.36%	0.40%	0.40%	0.40%

Company Sector

Banks-Multinational/Universal

Company Description

HSBC Holdings is the leading cross-border international banking group, with particular strength in Asia (ex Japan), but also with strong presence in the UK, the Middle East, and North America. Regional banking franchises are largely focused on retail banking and business banking, with the UK and Hong Kong its home markets. The group's corporate and investment bank is based around its unique trade finance franchise, which gives pricing power and has allowed credit discipline

Investment Rationale

HSBC has built its capital position and now sits with a pro-forma, fully phased in Basel 3 Common Equity Tier 1 at 14.3%. CET1 leverage ratio is above 5%. The dividend is high and sustainable, we believe - appropriate in a low-growth banking environment. Our Buy rating reflects strong distributions, including buybacks and a return to revenue growth.

Stock Data

Price to Book Value

0.9x

Key charts

Exhibit 1: a close to 100bp decline in 2 years ahead US\$ rate forwards from peak

Market Implied US\$ Policy Rate, 2022-23 (%)



Source: Bloomberg

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Exhibit 2: loans and deposits in Hong Kong, June 2023 (US\$ mn)

HSBC has a strong surplus of Current & Savings Accounts

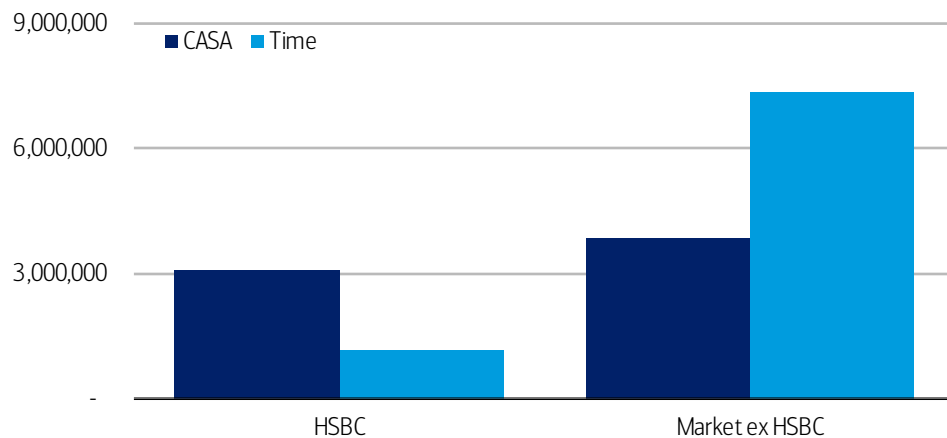
	HSBC	Standard Chartered
Deposits	529,574	142,766
CASA	386,589	90,030
Time	142,985	52,736
Loans	288,957	85,004
Loans/ CASA	75%	94%
CASA % deposits	73%	63%
Loan/ deposit	55%	60%

Source: BofA Global Research estimates, company data

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Exhibit 3: HSBC in Hong Kong is 73% CASA, the market is only 34%

Deposits in Hong Kong by nature: Current and Savings Accounts vs Time deposits (HK\$ bn) June 2023

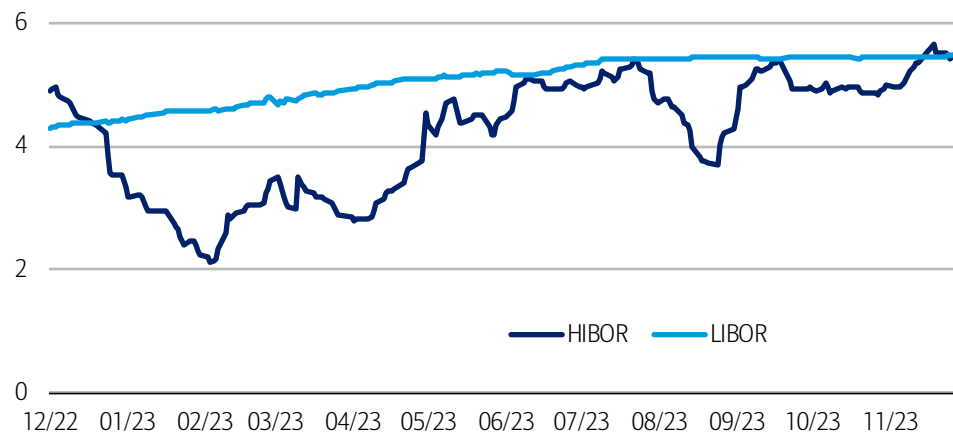


Source: BofA Global Research estimates, HKMA

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Exhibit 4: interbank rates: Hong Kong dollar HIBOR and US\$ LIBOR, 1 month

A gap opened and then closed (%) 2022-23

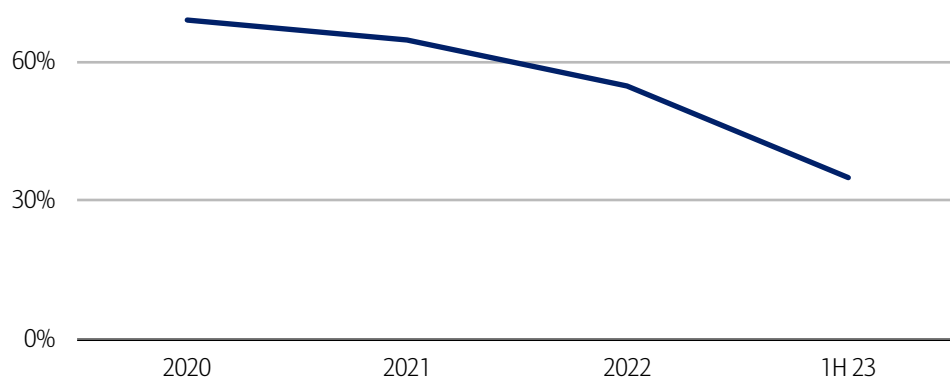


Source: Bloomberg

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Exhibit 5: HSBC has halved its NII exposure to rates, locking in current yields

HSBC percentage of 5 year NII gain from a 100bp upward parallel yield curve shift experienced in year 1, 2020-23

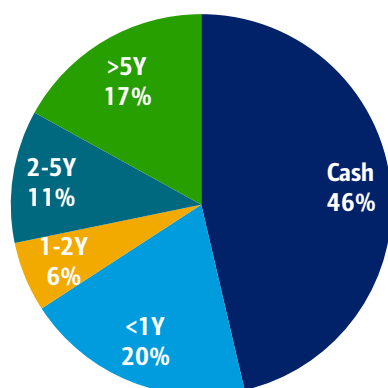


Source: BofA Global Research estimates, company report

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Exhibit 6: only 17% of cash and financial investments at 5 years or longer

HSBC US\$705bn cash and financial investments by duration, 2022 (%)



Source: BofA Global Research estimates, company report

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Exhibit 7: we see zero revenue growth 2024E, picking up to 3% 2025E

HSBC revenues, notable items and revenues from businesses to be disposed, 2022-26E (US\$ mn)

		2023E	2024E	2025E	2026E
Revenues	50,620	66,766	68,407	65,934	69,080
Notable items		1,000	4,500		
Canada and France	2,000	2,000			
Comparable revenues	48,620	63,766	63,907	65,934	69,080
% y/y		31%	0%	3%	5%

Source: BofA Global Research estimates, company report

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Exhibit 8: we see 5% ongoing underlying cost growth 2024-26E

HSBC costs and those costs from businesses to be disposed

Costs	2022	2023E	2024E	2025E	2026E
Costs	- 32,701	- 32,677	- 33,234	- 34,992	- 36,742
Canada and France	- 1,100	- 1,100			

Exhibit 8: we see 5% ongoing underlying cost growth 2024-26E

HSBC costs and those costs from businesses to be disposed

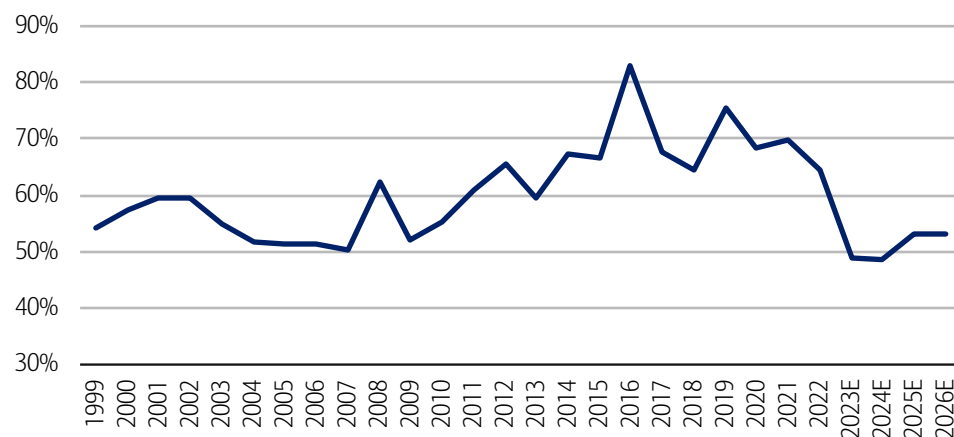
Costs	2022	2023E	2024E	2025E	2026E
Comparable revenues	- 31,601	- 31,577	- 33,234	- 34,992	- 36,742
% y/y		0%	5%	5%	5%

Source: BofA Global Research estimates, company report

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Exhibit 9: HSBC cost/income ratio set to be well within its historical range

HSBC cost/income 1999-2025E (%)

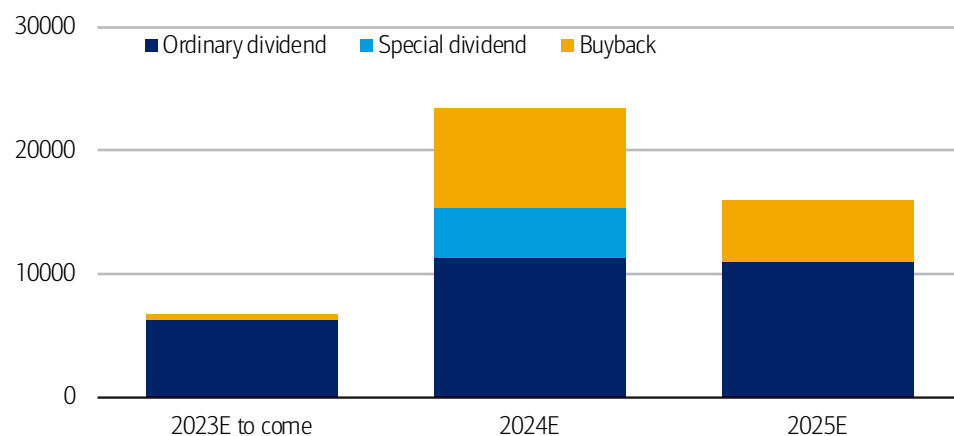


Source: BofA Global Research estimates, company report

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Exhibit 10: US\$23bn distributions in 2024E, still US\$16bn a year beyond that

HSBC distributions, US\$ mn 2022-25E



Source: BofA Global Research estimates

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Valuation

We value HSBC using a Gordon growth model, shown in Exhibit 11. Lower earnings cut our price objective from £7.90 to £7.60 (HK\$72.05). We reiterate our Buy rating.

Exhibit 11: HSBC Gordon growth model 2025E (US\$, HK\$, GBP)

A sustained premium return

Gordon growth	2025E
Tangible equity	141,549
Net profit	21,652
ROE	15.3%

Exhibit 11: HSBC Gordon growth model 2025E (US\$, HK\$, GBP)
A sustained premium return

Gordon growth	2025E
G	2%
COE	12%
P/NAV (x)	1.4
Implied value GBP, discounted	7.60

Source: BofA Global Research estimates

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Price objective basis & risk

HSBC (HBCYF)

Our price objective is £7.60, using a Gordon Growth model. We use a 2025E underlying ROE of 16%, 2% growth and a 12% cost of equity to drive the valuation. At 9x our 2023E adjusted attributable income, the multiple at our PO would be below historical averages, considering macro risks.

Upside risks to our price objective are a greater-than-expected rise in US rates and a stronger global economy than we presently expect.

Downside risks are rate reductions and a slowdown in China spilling over into the rest of Asia.

HSBC (XHSBF / HSBC)

Our price objective is HK\$72.05 (US\$46.36), using a Gordon Growth model. We use a 2025E underlying ROE of 16%, 2% growth and a 12% cost of equity to drive the valuation. At 9x our 2023E adjusted attributable income, the multiple at our PO would be below historical averages, considering macro risks.

Upside risks to our price objective are a greater-than-expected rise in US rates and a stronger global economy than we presently expect. Downside risks: rate reductions. In addition, a slowdown in China spilling over into the rest of Asia.

Analyst Certification

I, Alastair Ryan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Allied Irish Banks	AIBRF	AIBG ID	Alastair Ryan
	Bank of Ireland Group	XBOIF	BIRG ID	Alastair Ryan
	BFF Banking Group	XBBZF	BFF IM	Antonio Reale
	BNP Paribas	BNPQF	BNP FP	Tarik El Mejjad
	BNP Paribas	BNPQY	BNPQY US	Tarik El Mejjad
	CaixaBank	CIXPF	CABK SQ	Antonio Reale
	Credit Agricole	CRARF	ACA FP	Tarik El Mejjad
	Danske Bank	DNSKF	DANSKE DC	Tarik El Mejjad
	Erste Bank	EBKOF	EBS AV	Alastair Ryan
	Erste Bank	EBKDY	EBKDY US	Alastair Ryan
	HSBC	XHSBF	5 HK	Alastair Ryan
	HSBC	HBCYF	HSBA LN	Alastair Ryan
	HSBC -A	HSBC	HSBC US	Alastair Ryan
	ING Groep NV	ING	ING US	Tarik El Mejjad
	ING Groep NV	INGVF	INGA NA	Tarik El Mejjad
	Intesa Sanpaolo	IITSF	ISP IM	Antonio Reale
	Intesa Sanpaolo	ISNPY	ISNPY US	Antonio Reale
	KBC Group	KBCSF	KBC BB	Tarik El Mejjad
	KBC Group NV	KBCSY	KBCSY US	Tarik El Mejjad
	Lloyds Banking Group	LLDTF	LLOY LN	Rohith Chandra-Rajan
	Lloyds Banking Group	LYG	LYG US	Rohith Chandra-Rajan
	NatWest Group	RBSPF	NWG LN	Rohith Chandra-Rajan
	Natwest Group PLC	NWG	NWG US	Rohith Chandra-Rajan
	Nordea	NBNKF	NDA FH	Tarik El Mejjad
	Nordea	XSABF	NDA SS	Tarik El Mejjad
	Nordea Bank Abp	NRDBY	NRDBY US	Tarik El Mejjad
	Santander	SAN	SAN US	Antonio Reale
	Santander	BCDRF	SAN SQ	Antonio Reale

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Societe Generale	SCGLF	GLE FP	Tarik El Mejjad
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	StanChart	SCBFF	STAN LN	Alastair Ryan
	StanChart	XCHBF	2888 HK	Alastair Ryan
	Unicredit	UNCFF	UCG IM	Antonio Reale
	Unicredit	UNCRY	UNCRY US	Antonio Reale

NEUTRAL

	ABN AMRO	ABMRF	ABN NA	Tarik El Mejjad
	Banco Bilbao Vizcaya Argentaria	BBVA	BBVA US	Antonio Reale
	Banco BPM	BNCZF	BAMI IM	Antonio Reale
	Bankinter	BKIMF	BKT SQ	Antonio Reale
	BBVA	BBVXF	BBVA SQ	Antonio Reale
	Commerzbank	CRZBF	CBK GY	Rohith Chandra-Rajan
	Handelsbanken	SVNLF	SHBA SS	Tarik El Mejjad
	Monte dei Paschi	BMDPF	BMPS IM	Antonio Reale
	Svenska Handelsbanke	SVNLY	SVNLY US	Tarik El Mejjad
	UBS	XUJHF	UBSG SW	Alastair Ryan
	UBS	UBS	UBS US	Alastair Ryan

UNDERPERFORM

	Banco Sabadell	BNSDF	SAB SQ	Antonio Reale
	Barclays	BCLYF	BARC LN	Rohith Chandra-Rajan
	Barclays	BCS	BCS US	Rohith Chandra-Rajan
	Deutsche Bank	DB	DB US	Rohith Chandra-Rajan
	Deutsche Bank	XDUSF	DBK GY	Rohith Chandra-Rajan
	DNB	DNBBF	DNB NO	Tarik El Mejjad
	DNB ASA	DNBBY	DNBBY US	Tarik El Mejjad
	Mediobanca	MDIBF	MB IM	Antonio Reale
	Permanent TSB	ILPMF	PTSB ID	Alastair Ryan
	Poste Italiane	PITAF	PST IM	Antonio Reale
	Raiffeisen Bank International	RAIFF	RBI AV	Alastair Ryan
	SEB	SVKEF	SEBA SS	Tarik El Mejjad
	Swedbank	SWDBF	SWEDA SS	Tarik El Mejjad
	Swedbank AB	SWDBY	SWDBY US	Tarik El Mejjad
	Virgin Money UK PLC	CBBYF	VMUK LN	Rohith Chandra-Rajan
	Virgin Money UK PLC	CYBBF	VUK AU	Rohith Chandra-Rajan

Method SM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

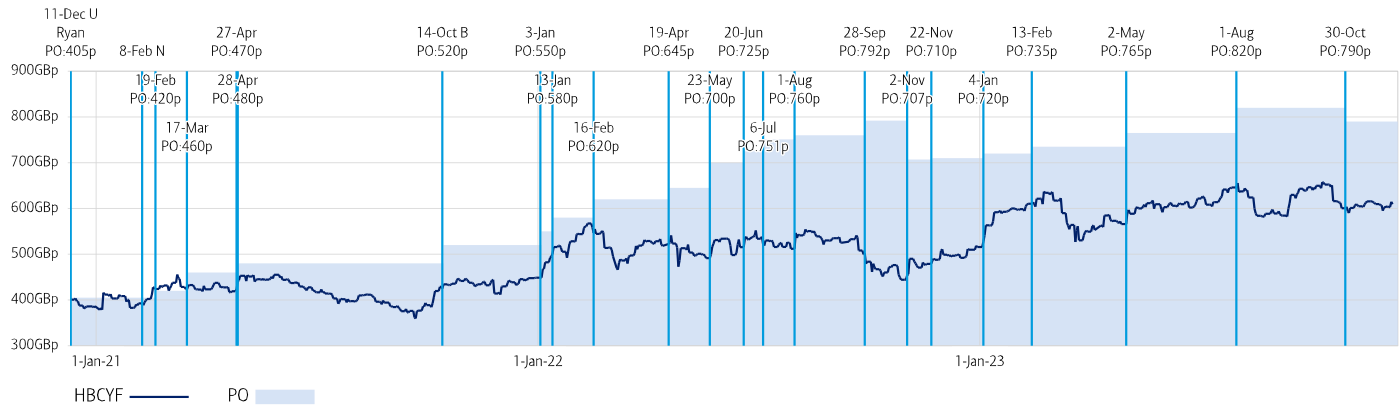
Basic EBIT + Depreciation + Amortization

Valuation Toolkit	Numerator	Denominator
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Disclosures

Important Disclosures

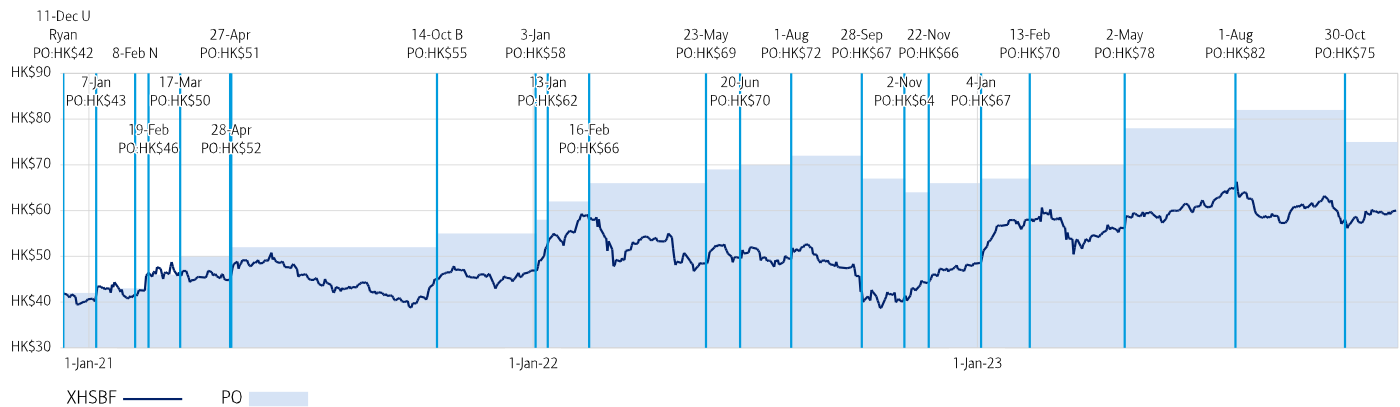
HSBC (HBCYF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

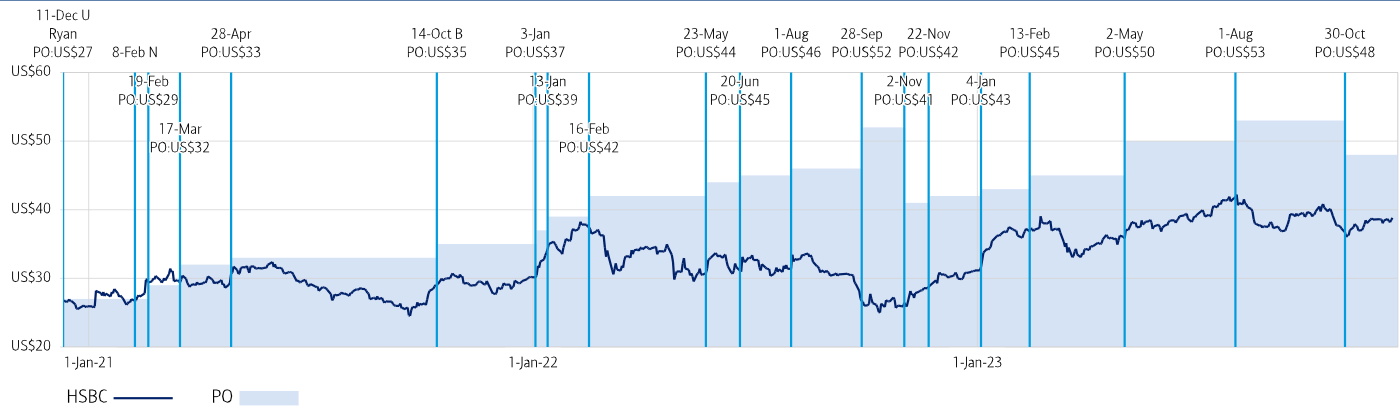
HSBC (XHSBF) Price Chart



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HSBC-A (HSBC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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