

HSBC

4Q was all over the place

Earnings Review

Key takeaways

- This was a messy set of numbers from HSBC but even so the overall impression is not very good.
- Net profit of USD 222m hit by charges (viz. France disposal, attempts to fix Treasury, NII reclassification, Argentina)
- 2024 guidance also looks a bit underwhelming. Not a great set of numbers for the investment case.

A messy set of numbers

HSBC delivered an 'all over the place' set of 4Q23 numbers, missed consensus and gave subdued guidance. We were expecting a messy set of 4Q numbers and on that, at least, the bank did not disappoint. The net profit for the quarter was \$222m as a result of a number of charges. The \$2bn charge for the sale of France with the \$0.4bn cost of restructuring the Treasury portfolio were both guided and expected. In addition, there was a \$0.5bn impact on PBT from Argentina hyperinflation (the impact however runs through the P&L) plus a \$3bn impairment from Bank of Communications (BoCom). NII was also hit this quarter by a reclassification of cashflow hedge revenue between interest and non-interest income of \$0.3bn. The sense we get is of a messy quarter, unhelpful to the investment case, which should pressure spreads today. We have a Buy Protection on the HSBC SLA at +64bps.

Operating profit is stalling

Operating profit ex extraordinary fell sharply by 24% to \$6.6bn in 4Q. The subdued guidance underlines the potential challenges next year and is unlikely to lead to any upgrades to forecasts, we think. In 2024, returns are likely to be mid-teens ex-extraordinary, costs +5%, NII likely to be down high single digits compared to 2023, little loan growth is likely and provisions look set to remain at the relatively high 0.4% we also saw this quarter. In 2023, the bank made \$3.4bn of provisions of which \$1bn for China CRE, although exposure to this segment fell a further \$1.5bn in the quarter to \$12.1bn. Total CRE exposure is \$83.5bn of which the US \$3.9bn. The bank announced a further \$2bn buyback. Deducting this from the reported CET1 ratio we get 14.5%, within the guided range now. The bank is guiding lower issuance for the year with only \$10bn of senior MREL issuance versus \$12bn of redemptions. AT1 issuance is expected to replace calls. T2 may see \$3bn of issuance versus \$2bn of redemptions however.

21 February 2024

High Grade Credit
United Kingdom
Banks

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Valuation & risk

HSBC (HSBC)

We see a number of pressures on the bank in addition to the tough income generation environment and past peak net interest income, including costs and the future strategic direction of the bank (concern over China focus), and its configuration which make us more cautious, although the mooted break-up of the bank looks a long shot. In CDS, HSBC trades tight vs peers. We still think caution is warranted given the uncertainty over China real estate. 2024 guidance is also underwhelming. We are OW the Tier 2 \$7.399% which offers an attractive yield.

Downside risk for HSBC stems from China backdrop. Also if Hong Kong and the UK economy perform worse than expected. Group restructuring is ongoing but we are clear a bank more focused on Hong Kong isn't necessarily a credit positive at this juncture, especially given the risk of an uptick in anti-China action. We see rather uneven capital outcomes. Upside risk is better profitability for the group and restructuring benefits.

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Security	Amt	Maturity date	Ratings		Price date	Yield (%)	Spread (Govt+bps)
			Moody's/S&P/Fitch	Price			
5.25, Junior Subordinated, EUR, 2049:B	1,500	29-DEC-2049	WR/NR/WD	100.23	17-Nov-2023	3.06	286
6.375, Junior Subordinated, USD, 2049:B	2,250	29-DEC-2049	Baa3/NR/BBB	99.29	20-Feb-2024	7.66	242
Subordinated, EUR, Y5:CDS	350				20-Feb-2024	9.59	102
Senior Unsecured, EUR, Y5:CDS	350				20-Feb-2024	9.59	63
6.1, Senior, USD, 2042:B	750	14-JAN-2042	A3/A-/A+	109.48	20-Feb-2024	5.27	74
SLA, EUR, Y5:CDS					20-Feb-2024		63
6.375, , USD, Perp/2049:B	2,450	31-DEC-2049	Baa3/NR/BBB	99.08	20-Feb-2024	7.24	231
8, , USD, Perp/2049:B	2,000	31-DEC-2049	Baa3/NR/BBB	103.39	20-Feb-2024	7.02	269
7.399, Subordinated, USD, 2034:B	2,000	13-Nov-2034	Baa1/BBB/A-	107.84	20-Feb-2024	6.31	202

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B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

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Security	Date ^{R1}	Action	Recommendation	Price
5.25, Junior Subordinated, EUR, 2049:B	31-Jan-2023		Marketweight	
6.375, Junior Subordinated, USD, 2049:B	31-Jan-2023		Marketweight	
Subordinated, EUR, Y5:CDS	31-Jan-2023		Neutral	
Senior Unsecured, EUR, Y5:CDS	31-Jan-2023		Neutral	
6.1, Senior, USD, 2042:B	31-Jan-2023		Marketweight	
SLA, EUR, Y5:CDS	31-Jan-2023		Buy Protection	
6.375, , USD, Perp/2049:B	18-Oct-2023	Initial	Overweight	94.79
8, , USD, Perp/2049:B	18-Oct-2023	Initial	Marketweight	98.33
7.399, Subordinated, USD, 2034:B	21-Nov-2023	Initial	Overweight	101.80

Table reflects credit opinion history as of previous business day's close.^{R1} First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

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Neutral: No purchase or sale of CDS is recommended.

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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