

HSBC

Growth geared. Reiterate Buy

Maintain Rating: BUY | PO: 760.00 GBp | Price: 597.20 GBp

More costs, to build

HSBC's focus on growth is cost intensive (Exhibit 1). Meanwhile, and as discussed in [HSBC: Steady progress under a noisy quarter 21 February 2024](#) (report link), not much grew in Hong Kong; mainland China; global trade; or the UK in the last couple of quarters. So HSBC's is a higher-risk strategy. However, it is also consistent with HSBC's positive outlook on each of these key markets. And while Net Interest Income is elevated, HSBC insurance profits are depressed (Exhibit 2) and Hong Kong stocks weak (Exhibit 3). Both are now set to improve. And we emphasise HSBC has de-risked future NII through additional hedging, at US\$1bn 2024E revenue foregone (Exhibit 4).

Problem loans are declining

Problem loans are falling (Exhibit 5 and Exhibit 6) – especially in Hong Kong and mainland China (Exhibit 7). This leaves HSBC's 40bp 2024E impairments conservative.

BoComm: don't double deduct, US\$11bn value

The low price/book of mainland banks, including Bank of Communications, still leaves a US\$10bn gap between HSBC's Value in Use and US\$11bn market value. Further write-downs are possible. However, the US\$10bn gap is already deducted from HSBC's Common Equity Tier 1 (Exhibit 8) and to simply stop accruing BoComm profits as we have seen discussed in the market, would be to undervalue the stake: we value it at market, 8% of HSBC's market cap. Adjusting for both BoComm earnings and market cap would only add 0.3 PE points (Exhibit 10) to HSBC's long-term low 6x PE (Exhibit 11).

Below guidance, but plenty to like

Our unchanged 13% 2024 Return on Tangible Equity, ex Canada, is short of HSBC's "mid teens" goal, but with Banking NII US\$43bn well above the minimum US\$41bn target. Guidance left a wide range of interpretations, but we're happy just above VisibleAlpha EPS consensus. The shares are still cum-the US\$0.31 final 2023E dividend, making for a 53 week yield of 15%, plus US\$8bn buybacks. We maintain our Buy rating.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
Net Profit (US\$m)	13,717	22,093	24,841	21,210	22,409
EPS (Reported Diluted)	0.69	1.13	1.34	1.20	1.31
Dividend / Share	0.32	0.61	0.82	0.61	0.63
Adjusted NAV PS	7.46	7.94	8.44	9.19	9.94
Valuation (Dec)					
P/E	10.48x	6.75x	5.66x	6.32x	5.76x
EPS Change (YoY)	10.4%	64.5%	18.6%	-10.3%	9.66%
Price / BV	0.85x	0.80x	0.76x	0.70x	0.65x
Price / NAV	1.01x	0.95x	0.90x	0.82x	0.76x
Net Yield	4.25%	8.09%	10.8%	8.06%	8.32%
DPS Change (YoY)	28.0%	90.6%	34.4%	-25.6%	3.28%
Price / GOP	8.73x	4.39x	4.04x	4.42x	4.05x

25 February 2024

Equity

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Stock Data

Price (UK Ord, HK Ord, ADR)	597.20 GBp / 59.25 HKD / 38.20 USD
Price Objective	760.00 GBp / 75.39 HKD / 48.51 USD
Date Established	11-Dec-2023 / 22-Jan-2024 / 22-Jan-2024
Investment Opinion	A-1-7 / B-1-7 / B-1-7
52-Week Range	512.30 GBp-665.60 GBp
Market Val / Shares Out (mn)	115,737 GBP / 19,380.0
Average Daily Value (mn)	138.47 USD
BofA Ticker / Exchange	HBCYF / LSE
BofA Ticker / Exchange	XHSBF / HKG
BofA Ticker / Exchange	HSBC / NYS
Bloomberg / Reuters	HSBA LN / HSBAL
ROE (2024E)	13.4%
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 10 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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Timestamp: 25 February 2024 06:43PM EST

iQprofileSM HSBC

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	30,377	35,796	35,776	36,018	37,776
Net Fee Income	9,774	13,601	15,360	11,368	12,953
Securities Gains / (Losses)	10,469	16,661	17,161	17,676	17,676
Other Income	0	0	0	0	0
Total Non-Interest Income	20,243	30,262	32,521	29,044	30,629
Total Operating Income	50,620	66,058	68,297	65,062	68,405
Operating Expenses	(33,330)	(32,409)	(33,432)	(34,737)	(36,537)
Pre-Provision Profit	17,290	33,649	34,865	30,325	31,867
Provisions Expense	(3,584)	(3,447)	(3,540)	(3,590)	(3,770)
Operating Profit	13,706	30,202	31,325	26,734	28,098
Non-Operating Items	2,723	(193)	2,951	3,099	3,254
Pre-Tax Income	16,429	30,009	34,276	29,833	31,351
Net Income to sh/holders	13,717	22,093	24,841	21,210	22,409
Adjusted Cash Earnings	13,717	22,093	24,841	21,210	22,409

Key Balance Sheet Data

Total Assets	2,949,286	3,038,677	3,096,778	3,250,125	3,411,139
Average Interest Earning Assets	2,286,576	2,262,693	2,284,981	2,373,180	2,418,144
Risk Weighted Assets	839,720	854,114	858,577	899,193	945,534
Total Gross Customer Loans	938,227	953,562	985,034	1,028,162	1,079,171
Total Customer Deposits	1,570,303	1,611,647	1,692,045	1,776,647	1,865,479
Tier 1 Capital	139,057	144,200	144,147	148,661	154,374
Tangible Equity	166,414	172,842	173,373	178,776	185,412
Common Shareholders' Equity	177,833	185,329	185,860	191,263	197,899

Key Metrics

Net Interest Margin	1.33%	1.58%	1.57%	1.52%	1.56%
Tier 1 Ratio	16.6%	16.9%	16.8%	16.5%	16.3%
Effective Tax Rate	4.92%	19.3%	21.0%	21.0%	21.0%
Loan / Assets Ratio	31.3%	30.9%	31.3%	31.2%	31.2%
Loan / Deposit Ratio	58.8%	58.2%	57.3%	57.0%	57.0%
Oper Leverage (Inc Growth - Cost Growth)	5.88%	33.3%	0.23%	-8.64%	-0.04%
Gearing (Assets / Equity)	16.6x	16.4x	16.7x	17.0x	17.2x
Tangible Equity / Assets	5.64%	5.69%	5.60%	5.50%	5.44%
Tangible Equity / RWAs	19.8%	20.2%	20.2%	19.9%	19.6%

Business Performance

Revenue Growth	2.16%	30.5%	3.39%	-4.74%	5.14%
Operating Expense Growth	-3.73%	-2.76%	3.16%	3.90%	5.18%
Provisions Expense Growth	-486%	-3.82%	2.70%	1.42%	5.00%
Operating Revenue / Average Assets	0.46%	1.01%	1.02%	0.84%	0.84%
Operating Expenses / Average Assets	-1.13%	-1.08%	-1.09%	-1.09%	-1.10%
Pre-Provision ROA	0.59%	1.12%	1.14%	0.96%	0.96%
ROA	0.46%	0.74%	0.81%	0.67%	0.67%
Pre-Provision ROE	9.19%	18.5%	18.8%	16.1%	16.4%
ROE	7.29%	12.2%	13.4%	11.2%	11.5%
RoTE	8.92%	14.5%	15.9%	13.3%	13.5%
RoRWAs	1.63%	2.61%	2.90%	2.41%	2.43%
Dividend Payout Ratio	46.7%	54.1%	61.3%	50.9%	47.9%
Efficiency Ratio (Cost / Income Ratio)	65.8%	49.1%	49.0%	53.4%	53.4%

Quality of Earnings

Total Non-Interest Inc / Operating Inc	40.0%	45.8%	47.6%	44.6%	44.8%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	20.7%	10.2%	10.2%	11.8%	11.8%
NPLs plus Foreclosed Real Estate / Loans	2.13%	2.21%	2.24%	2.25%	2.15%
Loan Loss Reserves / NPLs	0%	0%	0%	0%	0%
Loan Loss Reserves / Total Loans	1.56%	1.58%	1.56%	1.52%	1.49%
Provisions Expense / Average Loans	0.36%	0.37%	0.37%	0.36%	0.36%

Company Sector

Banks-Multinational/Universal

Company Description

HSBC Holdings is the leading cross-border international banking group, with particular strength in Asia, but also the UK, Middle East, and the Americas. Regional franchises are largely focused on retail and business banking, with the UK and Hong Kong home markets. The group's corporate and investment bank is based on its unique trade franchise, which gives pricing power and has allowed credit discipline. ADRs exposed to currency fluctuations. Dividends paid gross less withholding. 5 ADRs=1 share

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

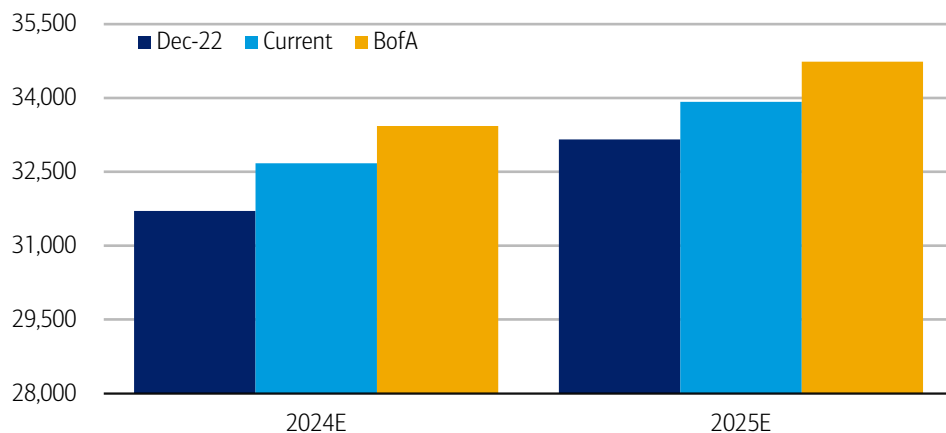
Price to Book Value

0.8x

Key charts

Exhibit 1: HSBC is growing its costs: we see 2025E costs 10% higher than 24E consensus as of end-2022 – a US\$3bn delta

HSBC costs 2024-25E, VisbleAlpha and current BofA forecasts (US\$ mn)

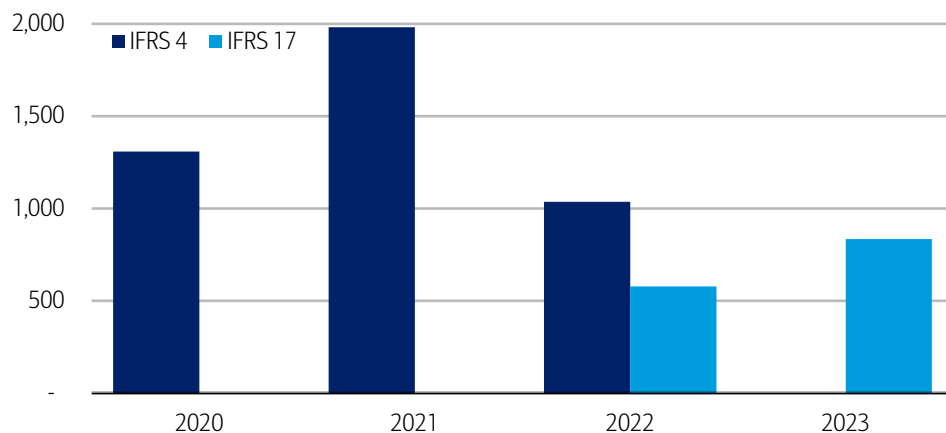


Source: BofA Global Research estimates, VisibleAlpha

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Exhibit 2: insurance profits more than halved, while business continues to grow

Life Insurance profit before tax in Wealth & Personal Banking (US\$ mn) 2020-23



Source: company

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Exhibit 3: Hang Seng index fell by 14% in 2023

Hang Seng index, level, 2023-24



Source: Bloomberg

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Exhibit 4: incremental US\$1bn revenues foregone to build hedge

HSBC grew its hedge by US\$90bn, a lost revenue of US\$1bn

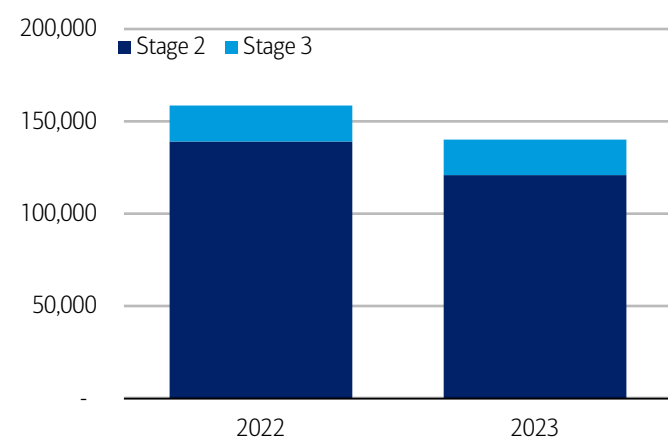
Prior hedge US\$ bn	388
Current hedge US\$ bn	478
Yield on bonds in portfolio	4.14%
Yield on cash	5.25%
Cost of hedge	(1.11%)
Incremental lost revenue US\$ bn	1.0

Source: BofA Global Research estimates, company report

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Exhibit 5: problem and potentially problem loans falling

Stage 2 and 3 loans, US\$ mn, 2022 and 2023

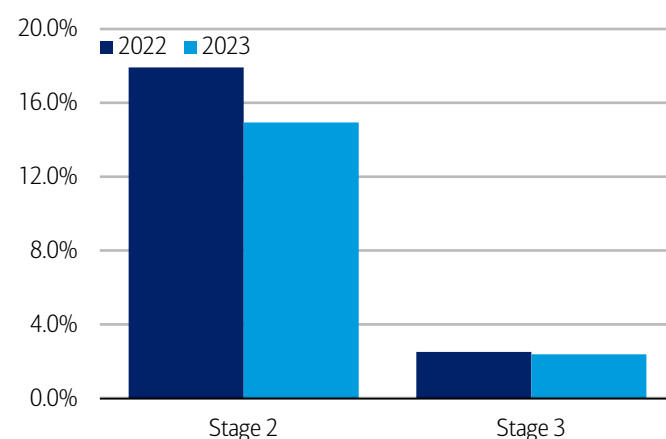


Source: company

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Exhibit 6: problem and potentially problem loans

Stage 2 and 3 loans, % stage 1 loans, 2022 and 2023

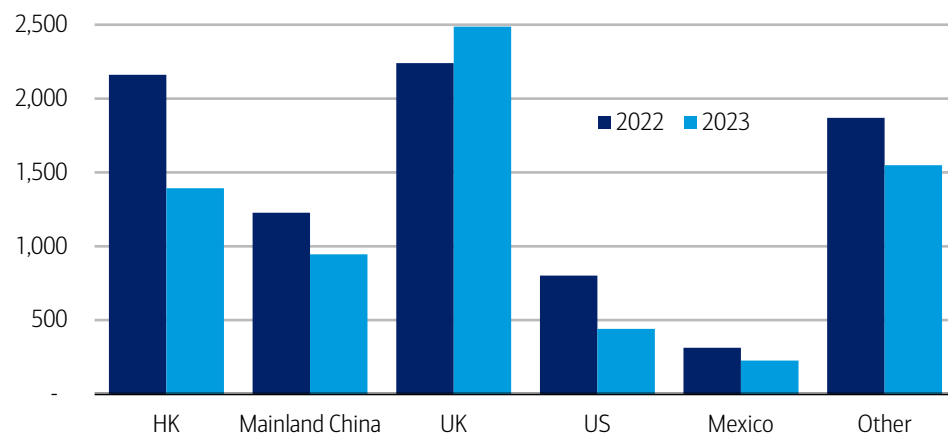


Source: company

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Exhibit 7: Downside 2 Expected Credit Loss down 18% overall, down 31% in Hong Kong and China

HSBC Downside 2 ECL, 2022 and 2023 (US\$ mn)



Source: company

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Exhibit 8: a large gap between Tangible Equity and Common Equity Tier 1 means higher effective capital generation

HSBC net profit attributable to ordinary shareholders, CET1 and contribution from Bank of Communications (US\$ mn)

	2025E
Tangible Equity	162,576
CET 1	130,961
Profit Attributable to ordinary Shareholders 2025E	21,210
BoComm	2,553
Net profit ex BoComm	18,657
RoCET1	16.2%
RoCET1 ex BoComm	14.2%

Source: BofA Global Research estimates

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Exhibit 9: HSBC's stake in BoComm worth US\$11bn

Market value of HSBC shares in BoComm

BoComm market value HK\$ bn	460.1
HSBC share	18.60%
HKD USD	7.8
Market value	11.0

Source: BofA Global Research, Bloomberg

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Exhibit 10: adjusting both sides for BoComm only adds 0.3 PE points

HSBC 2025E profits and market value

2025E	Stated	Adjusted
Net	21,210	
of which BoComm	2,553	
Adjusted		18,657
	BoComm market value US\$ bn	11,000
HSBC share price post 23 final dividend	5.73	
2025E av share count	18,000	
GBP US\$	1.26	
HSBC market cap, post final 23 dividend	129,956	
Adjusted		118,956

Exhibit 10: adjusting both sides for BoComm only adds 0.3 PE points
HSBC 2025E profits and market value

2025E	Stated	Adjusted
PE	6.1	6.4

Source: BofA Global Research estimates

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Exhibit 11: HSBC 12 month forward PE at a long-term low (x)
HSBC 12 month forward PE, last 30 years



Source: Eikon

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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\$75.39 (US\$48.51), 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
	Banco BPM	BNCZF	BAMI IM	Antonio Reale
	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
	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
	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
	Societe Generale	SCGLF	GLE FP	Tarik El Mejjad
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	Unicredit	UNCFE	UCG IM	Antonio Reale



EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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 Sabadell	BNSDF	SAB SQ	Antonio Reale
	BBVA	BBVXF	BBVA SQ	Antonio Reale
	Handelsbanken	SVNLF	SHBA SS	Tarik El Mejjad
	ING Groep NV	ING	ING US	Tarik El Mejjad
	ING Groep NV	INGVF	INGA NA	Tarik El Mejjad
	Lloyds Banking Group	LLDTF	LLOY LN	Rohith Chandra-Rajan
	Lloyds Banking Group	LYG	LYG US	Rohith Chandra-Rajan
	Monte dei Paschi	BMDPF	BMPS IM	Antonio Reale
	Raiffeisen Bank International	RAIFF	RBI AV	Alastair Ryan
	StanChart	SCBFF	STAN LN	Alastair Ryan
	StanChart	XCHBF	2888 HK	Alastair Ryan
	Svenska Handelsbanke	SVNLY	SVNLY US	Tarik El Mejjad
	UBS	XUJHF	UBSG SW	Alastair Ryan
	UBS	UBS	UBS US	Alastair Ryan
UNDERPERFORM				
	Bankinter	BKIMF	BKT SQ	Antonio Reale
	Barclays	BCLYF	BARC LN	Rohith Chandra-Rajan
	Barclays	BCS	BCS US	Rohith Chandra-Rajan
	Commerzbank	CRZBF	CBK GY	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
	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

IQmethodSM 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

EV / EBITDA

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

*IQmethod*SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

IQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

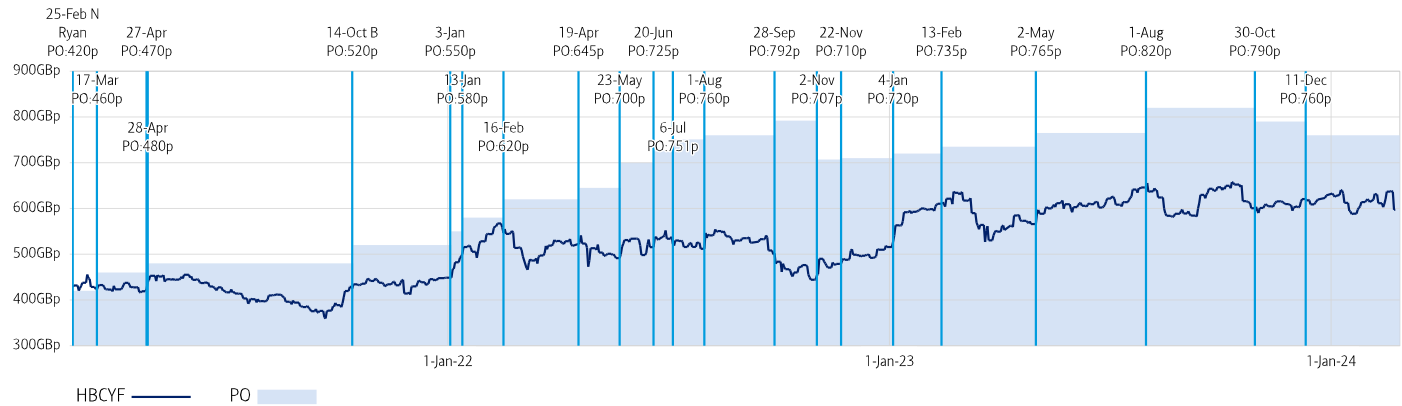
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Disclosures

Important Disclosures

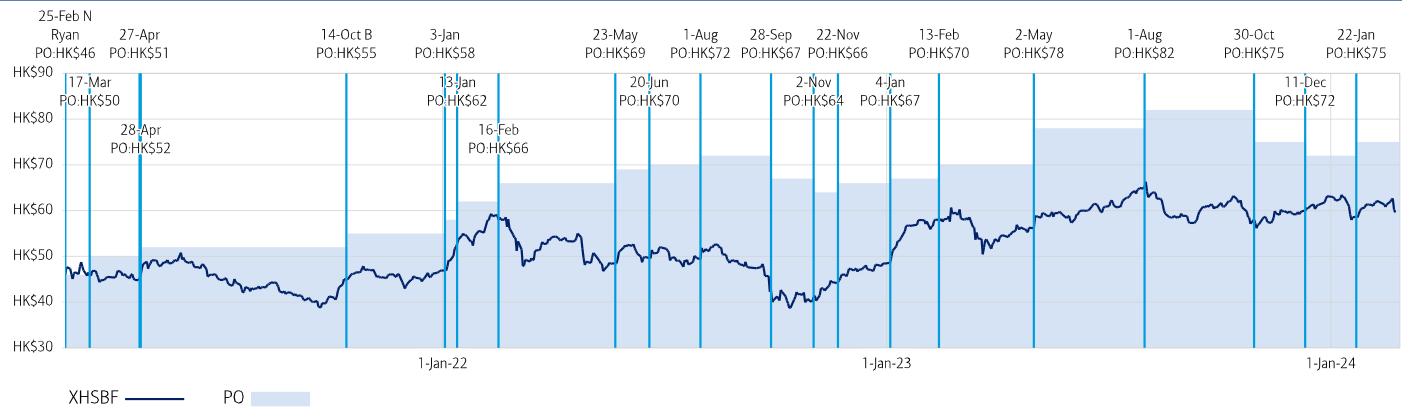
HSBC (HBCYF) Price Chart



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.

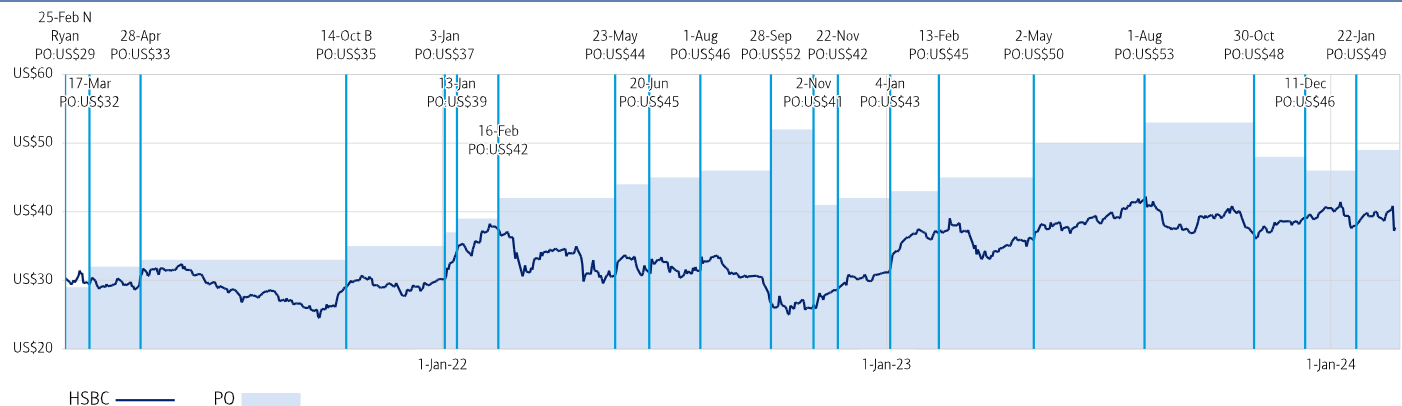
HSBC (XHSBF) Price Chart



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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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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%

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