HSBC

Transcript

Analyst call following the announcement of the agreement to sell HSBC in Argentina to Grupo Financiero Galicia

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NEIL SANKOFF, GLOBAL HEAD OF INVESTOR RELATIONS: Good morning, good afternoon, everyone, and thank you for joining us today. I'm joined today by Jon Bingham, our Global Financial Controller.

We're holding this call to answer technical questions about two of the transactions we announced recently - the completion of the sale of HSBC Canada to RBC announced on the 29th of March, and the agreement to sell our operations in Argentina announced earlier today.

I know we have also spoken to most of you, possibly all of you, about Banking NII in the last month or two, but Jon and I are also happy to help you if you have any technical questions that remain unanswered.

Before we start the Q&A, I'll summarise the key details about the two transactions.

The Canada disposal will result in an estimated gain on sale of $4.9 billion, which we will recognise in the first quarter of 2024. There will be no tax payable on the gain. It will also generate approximately 0.7 percentage points of CET1 in the first quarter, after taking account of the 21 cents per share special dividend that we intend to announce together with our first quarter earnings on the 30th of April, subject to finalisation of results and Board approval.

The sale of our Argentina business will result in a loss of approximately $1 billion, which we will recognise in the first quarter of 2024. There will be no tax deduction on the loss. The impact of the transaction on our CET1 ratio will be insignificant: the loss on sale recognised in Q1 will be broadly offset by the reduction in RWAs at closing, which is expected to occur within the next 12 months.

We will also recognise foreign currency translation reserve losses in the income statement at closing. These were $4.9 billion at the end of February. These reserve losses have already been recognised in capital; recognition in the income statement will have no impact on CET1 or tangible net asset value.

Both transactions will be excluded from the payout ratio calculation used for the calculation of the ordinary dividend.

These transactions are important steps in the execution of our strategy. They simplify our business model and allow us to focus our resources on higher value opportunities across our international network.

HSBC Argentina is largely a domestically-focused bank with limited connectivity to the rest of our international network. It also creates earnings volatility for the Group when its results are translated into U.S dollars, so Galicia is better placed to invest in and grow the business.

We remain committed to Mexico and the U.S. We're also committed to focusing on our core strengths, serving international clients throughout our global network with our leading transaction banking capabilities.

Further details about the two transactions are set out in their respective announcements, which you can find on our website.

We'll start the Q&A now. Just to remind you we're in a closed period, so we will be unable to answer any questions relating to our first quarter results.

KATHERINE LEI, J.P. MORGAN: I have technical questions on the accounting of the translation reserve - my understanding is that upon the completion of the transaction, you will recognise a loss in the P&L. But this should be a notable item and should have no impact on P&L, because the related loss from this valuation reserve has been OCI already. So on recognition, this should have no impact on your CET1 ratio. I just want to confirm that understanding.

JON BINGHAM, GLOBAL FINANCIAL CONTROLLER: Correct. On an annual basis, we translate the balance sheet into the closing balance sheet rate. That goes through reserves, but on disposal of a subsidiary, we have to then recycle that out of reserves to the P&L, but we've effectively taken any impact of that at the point we do the retranslation, so it just becomes a presentational. And as you say, we'll treat that amount as a material notable item.

NICK LORD, MORGAN STANLEY: Can you just remind us, what is the income and cost contribution from the Argentina business in a normal year, excluding the inflationary impacts that you had last year?

JON BINGHAM: I'm not sure there's an easy answer to a ‘normal year’, but we give some statistics at the bottom of the RNS. Profit before tax last year was $239 million and we are saying that in effect that includes operating costs of $428 million. We did also provide some information on previous years in the past disclosures. But $240 million is not an unusual contribution.

NICK LORD: Okay, so do I just have a difference between PBT and operating costs to work out an income level?

JON BINGHAM: Yes. Income was $774 million last year. There was ECL of $107 million and operating expenses of $428 million - that should add up to the $239 million PBT.

GRACE DARGAN, BARCLAYS: Just a quick follow-up, thinking about the profitability of the Argentina business going forward. Should we just be thinking about those revenues and costs - I guess it's costs in particular - coming out as a result of this transaction - are there any costs that will remain ongoing in the business we should be thinking about for Group?

JON BINGHAM: The costs I just quoted there of the $428 million are the costs of the entities that we're selling, so we expect those to leave the business. We'll of course see what we can do on other overhead costs that relate to that, but for the minute I would focus on the $428 million.

NEIL SANKOFF: And don't forget, those costs will only come out on closing, which should take place in the next 12 months.

GRACE DARGAN: Yes, understood. So just to 100% clarify, those costs aren't including centralised costs that are going to remain in the business? They are entity costs that that should move on closing?

JON BINGHAM: Correct

JEREMY HOU, CICC: I was just wondering, considering that the average price-to-book ratio in Argentina is probably about 1x, I'm wondering why we sell the Argentina business in such a rush, and at a relatively low price. I suppose it's only around 0.3x price-to-book. So are there any other significant disposal plans for us in the future? Thanks

NEIL SANKOFF: On the valuation multiple - if you are comparing us to some of the local players, they have a lot more scale and make higher returns, so obviously that's going to have an impact on the multiple. And if you were to look at the valuation we're getting on this business and compare it to the valuation that other International players, whether in financial services or in other Industries, have received when they have exited the market then and this is very comparable.

And with respect to your second question - are there any other disposals planned - I think we have said fairly consistently for some time now that we are continuing to review the network, and that you should expect to see us exit other markets, or other businesses from time to time where, for example, we have a lack of scale in a domestically-focused business. You've seen at the Q4 results, we announced the sale of Armenia, and exits from other markets, and you should expect to see similar announcements in the future.

KATHERINE LEI: I just want to clarify one thing regarding the profitability of the Argentina business because, from the disclosure, we saw that there was $1.4 billion adverse impact due to hyperinflation accounting in 2023, so I wonder the $240 million of PBT from Argentina business is actually after the $1.4 billion of adverse impacts?

JON BINGHAM: Yes, that's, that's post the hyperinflation adjustments.

PERLIE MONG, KBW: The whole business has now moved to held for sale, so we're not going to see any more hyperinflation translation impact between now and closing? Is that correct?

Secondly, there is a note that says that the loss on sale between signing and closing will depend on all range of factors. Are there any sort of sensitivities around that number? Like, if hyperinflation is x, then the loss on sale could move by y?

JON BINGHAM: Good question. Because we still consolidate Argentina up until closing, which is expected to be within 12 months, we will still be impacted by hyperinflation adjustments. Those are partially – partially - offset by some of the price adjustments that we have on the sale.

I think the best way to think about it - there will be volatility as we go through this - but if we look back over the last few months, which have been, I think admittedly some of the more volatile periods for both devaluation and hyperinflation, it would have impacted the loss on sale by a few hundred million dollars. So we will have some level of volatility up until completion, but in the scale of the overall HSBC business and the transaction economics, we don't expect it to be huge.

PERLIE MONG: Last quarter we saw an $800 million impact on the revenue line, but now the whole thing's moved to loss on sale, so you're just going to see the impact on PBT but not by revenue, costs, etc. Is that right?

JON BINGHAM: No, you will, because it's held for sale, not a discontinued operation. We will still account for it as normal.

PERLIE MONG: Okay, understood.

JON BINGHAM: But any amounts that we take versus the purchase price we will adjust every quarter the loss on sale up until completion, and it's that loss on sale - the net effect, which I was indicating from the past few months - over the volatile period - would have been a few hundred million.

RAUL SINHA, J.P. MORGAN: Sorry to come back with this and sorry to be pedantic, but can you split the revenue number into NII please, so we can model this properly in terms of NII going forward?

JON BINGHAM: I'll speak to my IR colleagues and we'll get back to you on that.

NEIL SANKOFF: From memory, we did we did include some numbers on Argentina NII in the Q4 slides did we not? Let's get back to you Raul.

Thank you again for joining us on the call today and we look forward to speaking to you again when we publish our first quarter results on the 30th of April.