HSBC HOLDINGS PLC:
WHEN A BANK STARTS TO SELL THE *'FAMILY JEWELS'*,
WHAT DO YOU THINK IT MEANS ?

HSBC Holdings plc () (Code: 5, Main Board, The Stock Exchange of Hongkong Ltd) is said to be about to sell some $HK31-billion worth of its prime, commercial properties, located in the London, the **U**nited **K**ingdom (**UK**), Paris, France, and New York.

The news comes on the back of the successful Rights Issue which raised about $HK138 billion for this bank, which is the largest such institution in Europe.

According to reports from the UK, HSBC Holdings plc will sell not less than 3 completed office blocks.

International sales teams are said to have been put in place and the *'word'* is being spread, far and wide, that this bank wants to sell some of its prized *'family jewels'* and is willing to lease back the properties on a 10-year contract.

What may be worrying to many observers in respect of the recent, grotesque activities of HSBC Holdings plc is that the bank is not just selling some scrap commercial properties that are redundant to its requirements, but it is selling prime commercial properties in 3 of the most-important capital cities of the world, properties that it requires for at least the next decade.

It was only about 18 months ago that HSBC Holdings plc raised $HK12.54 billion by the sales of a commercial tower in London, England – and, then, leased back the tower for its own use.

Déjà vu?

Senior Management of HSBC Holdings plc has gone on record as stating that the bank is not short of money, it did not require a loan from the UK Government, as did certain other, UK-domiciled banks, and the bank only launched its Rights Issue in order to *'strengthen capital ratios.'*

Whatever the term, *'strengthen capital ratios,'* was supposed to mean is, now, obviously, open to speculation.

Some international agencies have completely changed their opinions about this bank, giving it a negative rating.

It is highly unlikely that HSBC Holdings plc would be very successful in pitching another, multi-billion dollar Rights Issue and so, as a stop-gap measure, one could speculate that selling some (or all) of the bank's *'family jewels'* might be the way to go – at least, for the time being.

There is, still, of course, the Headquarters Building of The Hongkong and Shanghai Banking Corporation Ltd, located at Number One, Queen's Road, Central, the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), and, if needs be such, perhaps, the *'For Sale'* sign could be hoisted on this unique edifice, too?

Of course, such a multi-billion, Hongkong-dollar sale would include a lease-back clause on the entire building, no doubt, so that the bank could continue to operate in the 416 square miles that constitute the sovereign territory of the PRC

What it all boils down to, it appears to **TARGET ()**, is that HSBC Holdings plc is continuing to be in need of a large amount of cash and that the recent $HK138-billion, Rights Issue is seen, clearly, as being insufficient to meet the bank's present requirements as well as those cash requirements down the 2009 *'road'*.

TARGET has made note of the fact that Senior Management of HSBC Holdings plc has yet to state, definitively, how the Rights Issue money will be applied – probably, because it does not want to let the proverbial cat out of the bag at this juncture.

In last Wednesday's **TARGET** Intelligence Report, this medium stated that some of the most-important advantages, obtained by pitching the $HK138-billion Rights Issue to existing shareholders of HSBC Holdings plc over going cap in hand to the UK Government for some emergency funding included:

(a) Not having to return the $HK138-billion, Rights Issue money to shareholders in any manner or form if Senior Management determines not so to do;

(b) Not having to open its books to the UK Government or any other Governmental agency as did other UK banks in order to pass round the begging bowl to Number 10, Downing Street; and,

(c) Not having to be concerned that any member of the Senior Management of the bank would be in danger of losing his/her job due to the real, perceived, or suspected, financial problems at the bank.

The relief that Senior Management of HSBC Holdings plc must have felt, on learning that it had obtained a 96.60-percent acceptance from its 210,000 shareholders in respect of the $HK138-billion, Rights Issue was exemplified by the following statement, issued by Mr Stephen Green, Group Chairman, HSBC Holdings plc:

> *'I would like to thank shareholders for their support in this successful Rights Issue. This underlines our determination that HSBC should maintain its signature financial strength which has served us so well over HSBC's long history. We remain confident that HSBC is well-placed in today's environment and that our strength leads to opportunity..'*

With such a large amount of money as $HK138 billion in *'free'* money, one has to ponder as to the reason (s) that HSBC Holdings plc would need to revisit the money *'well'* once again, this time via the sales of prime commercial properties in 3 of the world's most-important, capital cities.

This is especially so when one realises that commercial property prices are relatively low, with few buyers and tens of thousands of sellers.

The answer to the conundrum must lie somewhere in the US where the bank is heavily entrenched.

It is well known that HSBC Holdings plc had, in the past, lent money to people who, in the clear light of day, did not qualify for the loans.

It has been speculated that the credit-card division on the bank's North American operations may have to write off upwards of $HK80 billion.

This is because it is well known that more than $HK390 billion had been lent to Americans with questionable credit histories.

Then, there is the question of what has come to be known as American *'toxic assets'* , held by HSBC Holdings plc.

While provisions are known to have been made, during the past year or so, with regard to such assets, definitive market values of those assets have never been released, publicly.

Consumer-related loans in the US, alone, must be very worrying for Senior Management of this bank.

HSBC Holdings plc cannot extricate itself from its troubles very easily without coming clean about a number of its many problems; and, that may well be one of the problems that, thus far, has been swept under the proverbial carpet.

In a Circular to shareholders of HSBC Holdings plc, dated March 3, 2009, the bank said, in respect of the reason for the historic, $HK138-billion Rights Issue, inter alia:

> *'… We are continuing to manage the capital allocation within the HSBC Group to concentrate on our core emerging markets and faster growing businesses. In light of continuing losses from our US consumer finance business, yesterday we announced further actions in the US to restructure our operations and to put into run off all of our branch-based consumer lending operations, which are branded "HFC" and "Beneficial". We have also closed down most of our structured credit and mortgage-backed securities distribution operations. Outside the US, during 2008 we have sold certain businesses that are not core to our strategy, such as our French regional banks…*
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> *'Planned internal capital generation remains strong and this capital raising will enhance our ability to deal with the impact of an uncertain economic environment and to respond to unforeseen events. Importantly, it will also give us options regarding opportunities which we believe will present themselves to those with superior financial strength. These may involve organic investment in the continued taking of market share from more capital constrained competitors. There may also be opportunities to grow through targeted acquisitions, by taking advantage of attractive valuations where the opportunities in question align with our strategy and the risks are understood …'.*

<u>TARGET's Translation Of The Bank's Near Gibberish Statements</u>

HSBC Holdings plc has identified some of its problems at certain divisions of the bank and needs large amounts of cash in order to stick a financial finger in the leaking dykes.

It is evident that the Rights Issue cash, amounting to about $HK138 billion, is determined by Senior Management as being insufficient.

During the 2009 Financial Year, if the sales of the European properties are consummated, as the bank obviously hopes, the sales' prices may well throw up surpluses over the book cost.

But one should be aware that these are one-off profits which, rightfully, should be considered *'Extraordinary Profits'* and should not be considered part of the core activities of HSBC Holdings plc, to wit, the operations of banking and aligned activities.

While **TARGET** has been told of the above determination of Senior Management of HSBC Holdings plc to offload some of the bank's prized, European commercial properties, scattered throughout the US, there are hundreds of smaller properties that the bank may, also, be considering selling … if it can locate buyers, of course.

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