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Market Preview

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HSBC to cap off earnings season for UK's big-four banks

HSBC Holdings PLC (LON:HSBA) is the last of the UK's big-four banks to post its interims after a mixed bag of results from rivals.

Analysts at Jefferies see a 50/50 chance that the lender will announce a share buyback at the first-half report on Monday.

At the first quarter results, chief financial officer Ewen Stevenson said HSBC would announce its decision on 2019 share buybacks at the half year.

Share Information

MarketTopic Synopsis:
Market Preview is published daily before trading kicks off, giving investors a roundup of macroeconomic and corporate news that is likely to move the markets along with the expected opening level of the major indices.

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Jefferies said it finds HSBC's hesitation a surprise given that it generated US$2bn excess capital to a self-imposed common tier equity 1 ratio of 14% in the first quarter.

"Whilst any share buy back would be small relative to market cap, a retrenchment would be a bearish signal," the broker said.

The investment bank expects HSBC to report a pre-tax profit of £5.9bn and net income of £14.0bn for the second quarter.

HSBC derives most of its profits from Asia so the region's performance will be a key area of focus. Investors will also want to see an improvement in the US operations, which have been undergoing a restructuring.

In the UK, profit margins have been modest amid competitive pressures in the mortgage market.

HSBC's three largest rivals - Lloyds Banking Group PLC (LON:LLOY), Barclays PLC (LON:BARC) and Royal Bank of Scotland Group PLC (LON:RBS) - have also been hit by competition in mortgages, which was evident in their first-half numbers published over the past week.

Standard Life Aberdeen needs to 'stop the rot' after Lloyds pulls assets
Ahead of its first-half results on Wednesday, Standard Life Aberdeen PLC (LON:SLA) has settled a dispute with Lloyds over a contract to manage £100bn worth of assets.

Lloyds has agreed to pay SLA a £140mln settlement after severing the fund manager's contract to run its Scottish Widows portfolio following the merger of Standard Life and Aberdeen.

SLA will continue to manage about £35bn of assets until at least April 2022 while the rest of the assets will be transferred to BlackRock and Schroders.

"Unfortunately Lloyds isn't the only investor that's been looking to pull assets from SLA funds in recent years," said Hargreaves Lansdown equity analyst Nicholas Hyett.

"While strong market performances have kept total assets under management growing, it's crucial the company stops the rot. Markets don't rise forever."

At the end of March, SLA had assets under management and administration of £568.9bn, up 3% from the end of December.

A joint venture agreed with Virgin Money in January added £3.5bn of assets while the acquisition of Asia-based real estate manager, Orion Partners, added £700mln.

In the second quarter, Hargreaves' Hyett thinks positive news is likely to be driven by the group's retail platforms, which have continued to see assets grow, and new partnerships with Virgin Money and Phoenix.

Phoenix bought SLA's insurance arm business for £3bn last year. As part of the deal SLA received a near-20% stake in Phoenix.

William Hill hit by betting machines crackdown
The odds are that half-year results from William Hill PLC (LON:WMH) on Friday will focus on the impact of the crackdown on betting machines in betting shops and its efforts to expand overseas.

Following the cutting of the staking limit to £2 in April from what had been £100 before, the company said last month that it would have to shut 700 of its shops.

The FTSE 250 bookie had written down the value of its UK retail arm by almost £900mln ahead of its implementation, as bosses predicted it would dent profits by as much as £100mln a year.

In its July update, William Hill said it had already seen a "significant fall" in gaming machine revenues, as forecast, but it's thought that many gamblers will have migrated from machines to counters.

The first half will have been "remarkably tough", predicted broker Peel Hunt, forecasting a 46% fall in underlying earnings (EBITA) as a result of increased investment in the US and betting shop profits reduced by the machines changes.

"There are now 12 US states that have authorised sports betting. Eight are live and we believe that William Hill is operating in seven of them. Eldorado (20% holder in William Hill in the US and 2% holder in the group) has agreed to acquire Caesars. William Hill believes this will bring it access to Caesars' licences/properties."

And for the full year, the broker has cut its earnings per share forecast to 8.2p from 9.0p, reflecting greater caution over the acquisition of Sweden's Mr Green.

Hargreaves Lansdown under the microscope after Woodford scandal
Hargreaves Lansdown (LON:HL.) has had quite a challenging last few months, especially in terms of dealing with regulators and politicians attacking the group's business model through its close connections with fund manager Neil Woodford and his stricken Equity Income fund.

On Thursday, the FTSE 100 group will hope for some less negative PR as it published its final results.

"Ultimately, we believe that HL will emerge relatively unscathed but undoubtedly this has knocked confidence in the short term," said analysts at Peel Hunt.

Beyond this, the analysts expect a good set of results, with profits forecast to rise by 7% despite the stock market wobble during the period, with a boost coming from the new Active Savings service adding client numbers, with more banks signing up to the platform.

Starting to recover after dipping on the recent Woodford issues, the shares now trade at 29 times December 2019 earnings, though Peel Hunt expects rising equity markets to prove a tailwind for future consensus forecasts.

Intercontinental Hotels valuation 'a bit toppy'
Intercontinental Hotels Group PLC (LON:IHG) shares hit an all-time high earlier this week, as more investors checked in ahead of the Holiday Inn owner's interims next Tuesday.

The FTSE 100 group switched to an asset-light business model in the middle of the decade, selling off many of its major flagship properties and focusing on franchising and managing hotels, which lowered leverage and beefed up return on capital and cashflow generation.

In recent months the shares have continued to rise like a lift to the penthouse suite despite a mixed first-quarter update and a few bearish broker notes.
May's trading update revealed that IHG had opened its 400th hotel in China, among roughly 12,000 rooms opened across the first quarter, but disappointed investors with news that occupancy fell 0.2 percentage points.

Comparable revenue per available room (revpar) was up 0.3% against strong comparative numbers this time last year.

UBS analysts warned last month that said the stock was benefiting from the weak pound, but the premium to the market was "pricing in too much future growth" amid slowing revpar trends that are expected to worsen.

Barclays also suggested the valuation is a bit toppy as it seems to ignore "the significant downside risks associated with a macro slowdown", with hotels being a highly cyclical industry with any decline in revenue per available room tending to be significant.

The consensus forecast is for revenues of US$1bn underlying earnings (EBITA) of US$410mln.

UK GDP expected to be flat as Brexit stockpiling impact unwinds
On the macro-economic front, the Office for National Statistics publishes UK economic growth data for the second quarter on Friday.

ING Economics reckons the gross domestic product (GDP) report will be dominated by the "unwinding of the impact of the pre-Brexit stockpiling frenzy of the first quarter".

"Firms will need to rebuild stocks ahead of the new October Brexit deadline, but in the meantime, many firms will have had little choice but to unwind the inventory they had previously built up," it said.

"After all, stock is expensive to store (particularly given a lack of warehousing space in the UK) and comes with an opportunity cost."

In the first quarter, UK GDP growth accelerated to 0.5% from 0.2% in the previous three months, helped by unprecedented stockpiling by manufacturers worried about the impact of potential no-deal Brexit.

ING expects flat GDP in the second quarter as the stockpiling effect unwinds.

"We'll be watching to see if business investment resumes its downward trend, while retail spending also looked fairly lacklustre through the spring," it said.

"With Brexit noise set to intensity, we don't expect the Bank of England to move interest rates this year."

Major announcements expected:

Monday August 5:
Interims: HSBC Holdings PLC (LON:HSBA), BBA Aviation PLC (LON:BBA), Dialight PLC (LON:DIA), Senior PLC (LON:SNR)

AGMs: Premier African Minerals PLC (LON:PREM)

Economic data: UK PMI services, US PMI composite, US ISM non-manufacturing index, Eurozone PMI composite

Tuesday August 6:
Interims: Genel Energy PLC (LON:GENL), Intercontinental Hotels PLC (LON:IHG), IWG PLC (LON:IWG), Rolls-Royce Holdings PLC (LON:RR.), Rotork PLC (LON:ROR), Synthomer PLC (LON:SYNT), TP ICAP PLC (LON:TCAP), Zotefoams Plc (LON:ZTF)

Economic data: UK retail sales

Wednesday August 7:
Interims: Glencore PLC (LON:GLEN), Hill & Smith PLC (LON:HILS), Legal & General PLC (LON:LGEN), Morgan Sindall Group PLC (LON:MGNS), Phoenix Group Holdings PLC (LON:PHNX), Spirax-Sarco PLC (LON:SPX), Standard Life Aberdeen PLC (LON:SPX), Ultra Electronics PLC (LON:ULE)

Economic data: Halifax house price index, US consumer credit

Thursday August 8:
Finals: Hargreaves Lansdown PLC (LON:HL)

Interims: Arrow Global PLC (LON:ARW), Aviva PLC (LON:AV.), Coca-Cola HBC PLC (LON:CCH), Hastings PLC (LON:HSTG), Tritax Big Box PLC (LON:BBOX), Telecom Egypt S (LON:TEEG), Temple Bar Investment Trust PLC (LON:TMPL)

FTSE 100 ex-dividends: BT Group PLC (LON:BT.A), Diageo plc (LON:DGE), Astrazeneca PLC (LON:AZN), GlaxoSmithKline PLC (LON:GSK)

Economic data: US weekly jobless claims, RICS UK housing market survey

Friday August 9:
Interims: William Hill PLC (LON:WMH), HIkma Pharmaceuticals PLC (LON:HIK)

Economic data: China CPI and PPI; UK GDP preliminary second quarter; UK industrial, construction and manufacturing production

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