

# GUNKUL ENGINEERING

# GUNKUL TB

THAILAND / UTILITIES - RENEWABLES

## BUY

UNCHANGED

## Cannabis: frail growth to holy grail

TARGET PRICE	THB8.10
CLOSE	THB6.75
UP/DOWNSIDE	+20.0%
PRIOR TP	THB5.40
CHANGE IN TP	+50.0%
TP vs CONSENSUS	+38.2%

- We turn more positive on NP growth upside from hemp and cannabis ventures due to the COD with an initial 2 greenhouses.
- We project hemp NPs of THB1.5b-1.7b in 2022-23, THB4.1b in 2024, from 100 greenhouses projected in 2022-23, 200 in 2024.
- Maintain BUY and upgrade our SoTP TP from THB5.4 to THB8.1.

### Hemp venture gets a head start

As GUNKUL has already commenced growing hemp, with an initial 2 greenhouses in operation and up to 90-100 additional greenhouses in the pipeline within 2022, we now turn more positive on GUNKUL's net profit growth upside from its hemp and cannabis venture. We forecast its net profit to grow by 2x y-y in 2022 and 6.7% y-y in 2023, based on our projection of 100 greenhouses in 2022-23, before rising to 200 greenhouses in 2024 to reach GUNKUL's production volume target.

### Net profit upside from hemp is now visible

We project that GUNKUL could earn a net profit from hemp of THB1.5b-1.7b in 2022-23 and THB4.1b in 2024 as it doubles its production capacity from 100 greenhouses in 2022-23 to 200 in 2024. Our analysis indicates that under our base case scenario, if GUNKUL produces 193,406kg per annum with a product sales mix of 35% CBD, 30% full-spectrum extract, and 30% dried hemp flowers, GUNKUL would generate a net profit of THB1.5b in 2022 with an annual operating expense of THB600m and a depreciation expense of THB220m.

### Price visibility is key under TiHTA

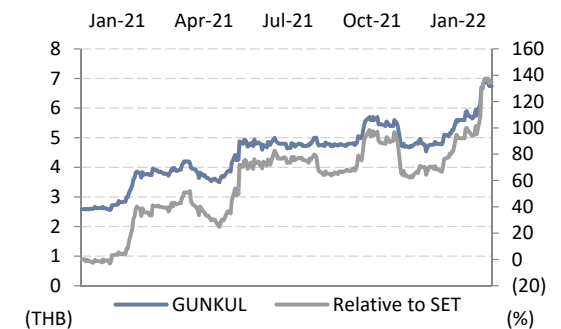
Thanks to the newly founded Thai Industrial Hemp Trade Association (TiHTA), we think the future selling prices for hemp and cannabis products will be relatively predictable in Thailand. Given GUNKUL's competitive advantages: 1) first mover; 2) a highly integrated play; 3) lower cost of land and electricity tariff compared to local peers; and 4) the highly favorable industry environment for hemp and cannabis after the government's legalisation of hemp and cannabis in 2020, we think GUNKUL's earnings upside from hemp is now highly achievable.

### Upgrade TP to THB8.1

We maintain BUY and upgrade our SoTP-based target price from THB5.4 to THB8.1, incorporating: 1) our higher EPS forecast in 2022, our base year for the P/E valuation; 2) the increased P/E for GUNKUL's cannabis business from 15x to 22x to reflect our higher earnings and margin assumptions from cannabis as we think the potential for cannabis earnings is now much higher as GUNKUL has already commenced its cannabis farming operation; and 3) the price range suggested by TiHTA.

### KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Revenue	8,649	10,547	12,315	13,048
Net profit	3,412	1,990	3,913	4,175
EPS (THB)	0.38	0.22	0.44	0.47
vs Consensus (%)	-	(16.7)	33.3	27.0
EBITDA	3,439	3,875	5,755	6,141
Core net profit	1,189	1,990	3,913	4,175
Core EPS (THB)	0.13	0.22	0.44	0.47
Chg. In EPS est. (%)	-	(23.3)	26.1	24.2
EPS growth (%)	(54.2)	67.5	96.6	6.7
Core P/E (x)	50.4	30.1	15.3	14.4
Dividend yield (%)	2.7	2.7	2.7	2.7
EV/EBITDA (x)	24.0	21.0	13.7	12.3
Price/book (x)	4.9	4.7	4.0	3.4
Net debt/Equity (%)	179.4	162.7	119.5	83.2
ROE (%)	10.3	15.9	28.2	25.6



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	20.5	22.7	165.7
Relative to country (%)	20.7	22.2	143.6
Mkt cap (USD m)	1,804		
3m avg. daily turnover (USD m)	30.6		
Free float (%)	44		
Major shareholder	GUNKUL Group Plc (50%)		
12m high/low (THB)	7.15/2.48		
Issued shares (m)	7,418.62		

Sources: Bloomberg consensus; FSSIA estimates



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## Investment thesis

GUNKUL is well positioned to capture Thailand's renewable energy (solar and wind power) growth, both as an operator and through engineering, procurement and construction (EPC), in our view. Its core power equipment trading business could further benefit from the LED boom, while its strong ties with the Myanmar government (20-year relationship) could enhance its earnings growth from power plants.

We expect contributions from its cannabis business to rise to 43% of its total net profit in 2022. GUNKUL is poised to register strong earnings growth, in our view, driven by potential net profit growth from its renewable power projects in Vietnam and higher net profits from its EPC backlog of THB11b from large-scale bidding for power substations and transmission lines. GUNKUL is likely to also see net profit growth from its new cannabis venture in 2022 onward.

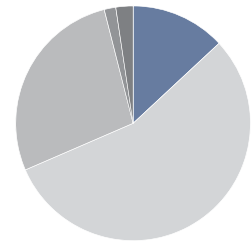
## Company profile

GUNKUL is one of the largest renewable plays in Thailand with capacities for solar, wind, and gas engine power plants in Thailand and Myanmar.

[www.gunkul.com](http://www.gunkul.com)

## Principal activities (revenue, 2020)

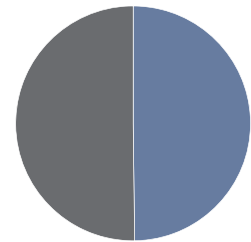
- Manufacturing and selling of equipment for electrical systems - 13.7 %
- Generating and selling electricity - 58.2 %
- Construction service - 28.9 %



Source: Gunkul Engineering

## Major shareholders

- GUNKUL Group Plc - 49.8 %
- Others - 50.2 %



Source: Gunkul Engineering

## Catalysts

Higher utilisation rates of power plants and rising demand for electricity in Thailand and Japan are key potential growth drivers.

## Risks to our call

The downside risks to our SoTP-based TP on GUNKUL include 1) lower-than-expected demand for electricity in Thailand, 2) declining EPC backlogs, and 3) lower-than-expected utilisation rates for solar and wind farms.

## Event calendar

Date	Event
Feb 2022	4Q21/2021 results announcement

## Key assumptions

	2021E	2022E	2023E
EPC revenue (THB m)	1,500	1,000	1,200
Trading revenue(THB m)	1,483	1,483	1,483
Cannabis flower production (kg)	5,754	58,022	58,022
Cannabis spectrum production (kg)	888	10,444	10,444
Cannabis CBD production (kg)	395	5,415	5,415
Cannabis net profit (THB m)	0	1,677	1,679

Source: FSSIA estimates

## Earnings sensitivity

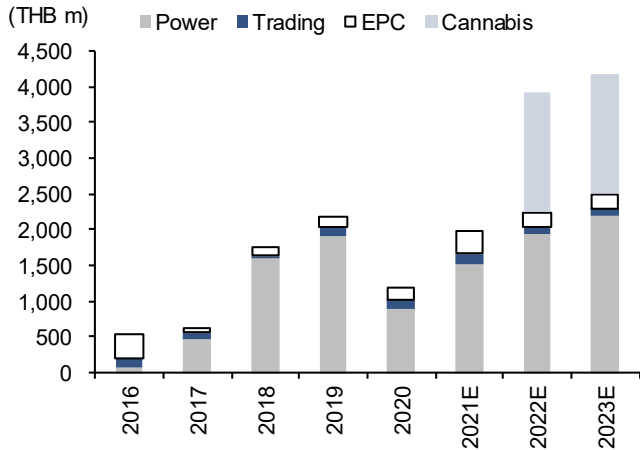
- For every 1% increase in the gas price, we estimate 2022 earnings would rise by 1.1%, and vice versa, all else being equal.
- For every 1% increase in interest rates, we estimate 2022 earnings would fall by 1.3%, and vice versa, all else being equal.
- For every 1% increase in power utilisation rate, we estimate 2022 earnings would rise by 1.3%, and vice versa, all else being equal.

Source: FSSIA estimates

## Cannabis: frail growth to holy grail

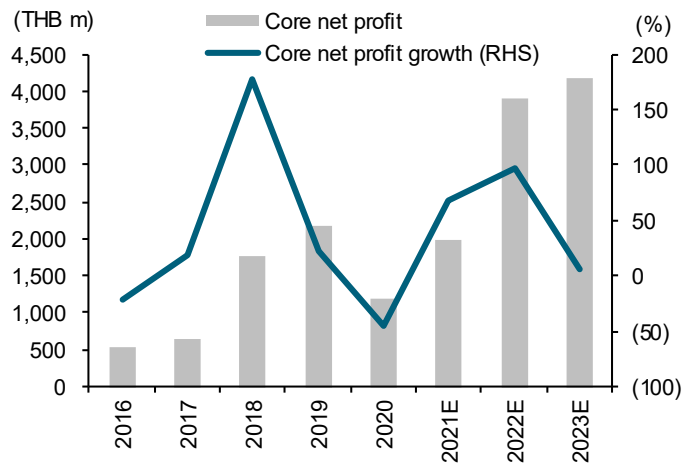
Now that GUNKUL has already commenced hemp production, with an initial 2 greenhouses in operation, and 90-100 additional greenhouses in the pipeline within 2022, we now turn more positive on GUNKUL's net profit growth upside from its hemp and cannabis venture.

Exhibit 1: Net profit breakdown by segment



Sources: GUNKUL; FSSIA estimates

Exhibit 2: Core net profit and core net profit growth



Sources: GUNKUL; FSSIA estimates

We now forecast net profit to grow by 2x y-y in 2022 and 6.7% y-y in 2023, based on our projection of 100 greenhouses in 2022-23, before rising to 200 greenhouses in 2024 to reach GUNKUL's hemp production target.

Exhibit 3: History of GUNKUL's business growth and development

Provides end-to-end solution in the development of renewable energy projects

Penetration of Renewable Energy into new s-curve projects

**Trading and Manufacturing**

Reliable manufacturer and supplier of over 5,000 electrical equipment and innovative electrical products from power plant to low voltage line

Samples of In-House Products

**Construction and Turnkey**

Reputable one-stop renewable energy EPC and O&M, substation and transmission line design and construction services

Project Reference

Project Owner	MW
1) Solar Power Plant	203.9
2) Wind Power Plant	170
3) Solar Rooftop	43.01
4) Solar Rooftop (Private PPA)	98.10
5) Solar Floating	0.95
<b>Total</b>	<b>515.96</b>

**Power Producer**

Total Equity Capacity of 642 MW

Trustworthy generating and distributing power from renewable energy sources to government and private sectors

Existing Equity MW

Geographical Diversification

Japan: 10%

Thailand: 62%

Malaysia: 3%

Vietnam: 25%

Energy Mix

Solar: 71%

Wind: 28%

**GUNKUL Spectrum\***

Extending the limit of renewable energy usage through innovation and technology in order to empowering a new generation of energy consumer

Projects Pipeline

**Cannabis & Hemp**

Operational synergy from our renewable energy supply to cultivation and wind power land available without initial investment which will be a big opportunity for cannabis business

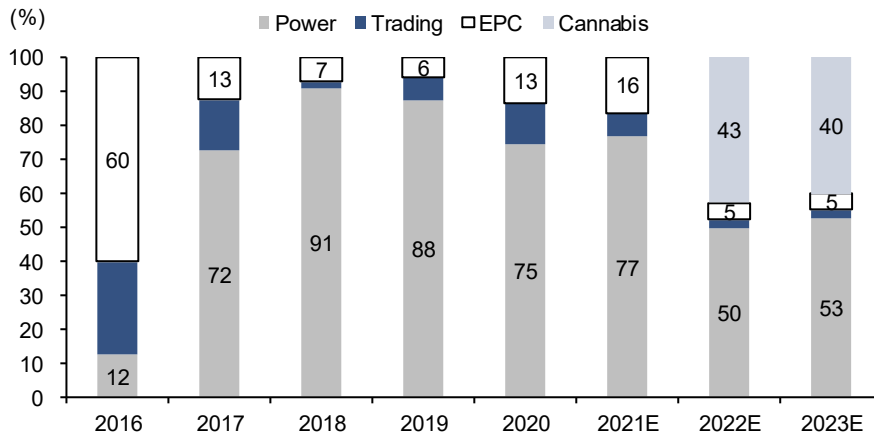
Samples of In-House Brands

Source: GUNKUL

**A second transformation is underway.** In 2017, GUNKUL transformed from a volatile, low-margin EPC venture and power equipment dealer into a high-margin, sustainable-energy driven company. GUNKUL's earnings from its power business accounted for 72% of total in 2017. Since then, the proceeds from its power business have accounted for 75-91% of its total net profits from 2018-21E.

Starting in 2022, we project GUNKUL to transform again from a power-driven company to a cannabis-focused company, with the projected net profit generated from cannabis to rise from zero in 2021 to 43% in 2022 and 40% in 2023.

#### Exhibit 4: Net profit breakdown (%)



Sources: GUNKUL; FSSIA estimates

#### Cannabis growth is coming soon

In 2021, when GUNKUL's management presented its plans for seeking the next growth phase from the cannabis venture, we remained highly sceptical on its project feasibility, let alone the growth potential, given that cannabis is a new business not only for GUNKUL but also for Thailand's operators and consumers.

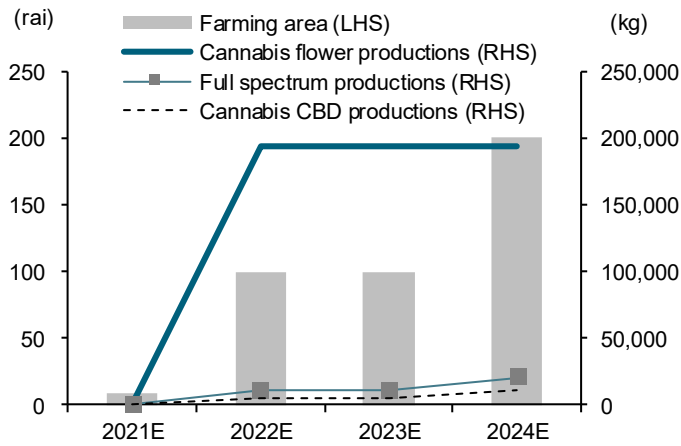
**A brief background of cannabis in Thailand.** According to the Bangkok Post, in Dec-20 Thailand's Ministry of Public Health (MPH) announced that in 2021 the country would proceed with the legalisation of all cannabis parts, lifting the last remaining hurdle preventing full use and commercialisation of the plant.

- **Prior to 2020:** Thailand earlier removed stems, roots, leaves and sprigs of cannabis from its Category 5 narcotics list, but kept flowers and buds on it.
- **Dec-20:** The new Narcotics Code, which took effect in Dec-20, no longer has cannabis and hemp on it.
- **2021:** The MPH announced a revised narcotics list of all five categories based on the new law. Cannabis in all but one form will no longer be on the prohibited list. The only exception is cannabidiol (CBD) extracts with tetrahydrocannabinol (THC) of more than 0.2%.
- **2021:** Once the new list comes into effect in 2021, all cannabis products such as oil, soap, cosmetics and supplements, which normally have less than 0.2% of THC, can be made and used freely, based on the World Health Organisation standard, according to the Minister of Public Health, Mr. Anutin Charnvirakul.
- **2021:** The approval of medicines with cannabis extracts on the main drug list for the universal coverage scheme available to all people.
- **2021:** The full removal of cannabis stems, roots, leaves, buds, flowers, seeds, and sprigs from the narcotics list.

**GUNKUL: first mover into cannabis ventures.** In anticipation of the changes in the cannabis industry, GUNKUL moved quickly to seize growth opportunities, leveraging the competitive electricity cost from its renewable wind farms and the unused land plots sitting idle within its wind farm areas.

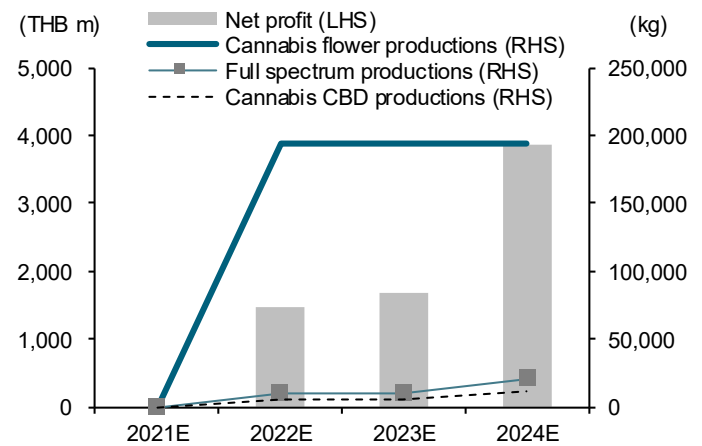
We project that GUNKUL will earn hemp net profits of THB1.5b-1.7b in 2022-23 and THB4.1b in 2024 as it doubles the number of its cannabis and hemp production greenhouses from 100 in 2022-23 to 200 greenhouses in 2024.

**Exhibit 5: Farming area vs cannabis production**



Sources: GUNKUL; FSSIA estimates

**Exhibit 6: Projected net profit vs cannabis production**



Sources: GUNKUL; FSSIA estimates

**Lower selling price but higher production yield.** According to management, GUNKUL is now growing over 3,500 cannabis plants in its two greenhouses on two rai (one greenhouse per rai). The company expects to harvest its first crop of cannabis flowers in Mar-22.

**Changes in cannabis yields and prices.** Management's new guidance indicates that there have been several assumption changes in GUNKUL's cannabis production yields and the projected selling prices:

- First, GUNKUL now expects 1,776 plants per greenhouse, up from 1,000 under the previous assumption, as GUNKUL plans to grow a higher density crop of smaller-sized plants to maximise its production yield;
- Second, the flower yield per plant is now at 0.3kg of dried flowers per plant, down from 0.5kg given the smaller size;
- Third, every tonne of dried cannabis flowers processed could yield 180kg of the full spectrum extract, up from the 150kg previously cited, given the denser crop's higher potency;
- Fourth, every tonne of dried cannabis flowers is projected to yield 80kg of CBD, assuming that the concentration of CBD from the plants will be 12% CBD, down from 18 under our previous assumption due to the change in the plant size and cannabis plant type;
- Fifth, the selling price of the dried cannabis flowers will now be THB15,000/kg, down from THB45,000/kg under the previous assumption, given the projected higher supply of cannabis flowers in Thailand.

**From seed-to-sales.** Based on a set of guided assumptions from GUNKUL's management, our analysis indicated that under our base-case scenario if GUNKUL produces 193,406kg per annum with a product sales mix of 35% CBD, 30% full-spectrum extract, and 30% dried cannabis flowers, GUNKUL would generate a net profit of THB1.5b in 2022 with an annual operating expense of THB600m and a depreciation expense of THB220m.

### Exhibit 7: Key assumptions

Assumptions		Unit
Greenhouses per rai	1.0	Greenhouse per rai
Cannabis plants per greenhouse	1,776	plants
Flowers per plant	0.3	kg
Crops per year	3.3	crop
Flower production	193,406	kg per annum
<b>Conversion</b>		
Flowers	1,000	kg of flowers
Flower-to-full spectrum liquid	180	kg of full-spectrum extract
Flower-to-CBD	80	kg of CBD (12%)
<b>Selling prices</b>		
Dried cannabis flowers	15,000	THB/kg of flowers
Full spectrum extract	100,000	THB/kg of full-spectrum extract
Isolated distilled CBD	150,000	THB/kg of CBD
<b>Investment cost</b>		
Investment	5,000	THB/sqm
Sqm-to-rai ratio	1,600	sqm/rai
Investment per greenhouse	800	THB m
Extraction plant	300	THB m
Total investment	1,100	THB m

Sources: GUNKUL; FSSIA estimates

**Short payback period.** Based on our set of assumptions, we project GUNKUL to achieve a short payback period range of only 0.5-0.8 years for its total investment of THB1.1b, depending on the product sales mix, ranging from our base case (35%/30%/30%/5%) for (CBGD isolate/full spectrum extract/dried flowers/others) as guided by management, which could require only 0.6 years for the payback period.

In other scenarios, including sales of only 100% dried flowers, 100% full-spectrum extract, and 100% CBD isolate, we estimate that the payback period would be 0.6/0.5/0.8 years, respectively.



**GUNKUL's competitive advantages.** The short payback period in every scenario indicates that GUNKUL's cannabis venture, which is a fully integrated value chain from upstream farming to downstream CBD-related products, could be a highly lucrative business compared to GUNKUL's traditional EPC and trading – and could even exceed the returns from its solar and wind farms. We base this on GUNKUL's competitive advantages: 1) first mover; 2) a highly integrated play; 3) lower cost of land and electricity tariff compared to local peers; and 4) the highly favorable industry environment for hemp and cannabis after the government legalised cultivation in 2020.

#### Exhibit 8: Financial analysis of GUNKUL's cannabis venture

					Unit
<b>Operating expense</b>	<b>600</b>				<b>THB m/year</b>
Depreciation	220				THB m/year
Greenhouses	160				THB m/year
Extraction plant	60				THB m/year
	<b>Mixed (base case)</b>	<b>Dried flowers</b>	<b>Full-spectrum cannabis extract</b>	<b>CBD isolate</b>	
Selling price	22,435	15,000	100,000	150,000	THB/kg
<b>Sales mix</b>					
CBD isolate	35			100	%
Full-spectrum cannabis extract	30		100		%
Dried flowers	30	100			%
<b>Sales volume</b>					
CBD isolate	5,415			15,473	kg
Full-spectrum cannabis extract	10,444		34,813		kg
Dried flowers	58,022	193,406			kg
<b>Financial forecasts</b>					
Revenue	2,727	2,901	3,481	2,321	THB m
Gross profit	1,907	2,081	2,661	1,501	THB m
Interest expense	(31)	(31)	(31)	(31)	THB m
EBT	1,876	2,050	2,631	1,470	THB m
Tax expense	(375)	(410)	(526)	(294)	THB m
<b>Net profit</b>	<b>1,501</b>	<b>1,640</b>	<b>2,104</b>	<b>1,176</b>	<b>THB m</b>
<b>Payback period</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.8</b>	<b>years</b>

Sources: GUNKUL; FSSIA estimates

**Pricing of hemp and cannabis products in Thailand.** We think the most important factors behind our positive projections for GUNKUL's financial upsides from the cannabis and hemp venture mainly come the price and demand risks for dried flowers, full-spectrum extract, and CBD isolate, to be marketed in Thailand beginning in 2022, when most companies plan on entering the cannabis business, forming upstream to downstream value chains, and will commence sales of dried flowers, full-spectrum extract, and CBD isolate.

**TiHTA will be the key guide for hemp and cannabis industry players.** Founded on 21 Apr-20 by entrepreneurs with experience in the cannabis and hemp industry, the newly established Thai Industrial Hemp Trade Association (TiHTA) comprises a number of companies focused on the cannabis and hemp-related product trade in the form of fibre, extracts for medical and commercial use, supplements, food and beverage products, and skincare and cosmetic products.

On 17 Nov-21, TiHTA launched its food standard symbol for hemp and cannabis products under the slogan "Cann Food Certified" as an industry benchmark to certify the quality of hemp and cannabis products. On 18 Nov-21, TiHTA also organised a workshop for "Cann Food Certified" training to give restaurants logos to indicate the use of hemp and cannabis products.

**Exhibit 9: TiHTA activities**



Source: [TiHTA](#)

**Exhibit 10: TiHTA's training event for restaurants using hemp and cannabis products**



Source: [TiHTA](#)

The main purpose of TiHTA is to be a centre for business cooperation, promotion, and support for its members, and to coordinate efforts among organisations, government agencies, and private companies in Thailand and overseas to stimulate industry growth, and eventually stabilise prices and the demand-supply situation for hemp and cannabis in Thailand.

**Exhibit 11: Cannabis and hemp outdoor plantations**



Source: [TiHTA](#)

**Exhibit 12: Hemp seeds**



Source: [TiHTA](#)



**Price stability is key.** According to TiHTA, its members consist of entrepreneurs, companies, shops, and community enterprises as well as the general public involved in the hemp industry along with growers, processors and manufacturers of products for sale to consumers. Their common objective is to develop the hemp industry's potential and production quality to be on par with other countries in order to create new, stable, industries that benefit all entrepreneurs in Thailand in the future.

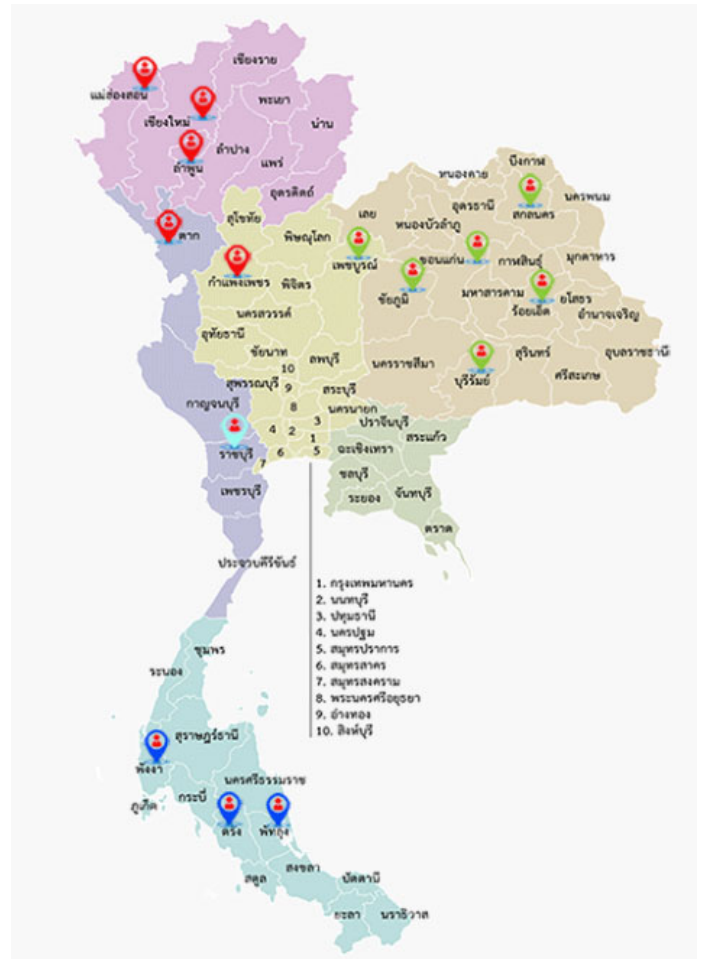
Based on management's guidance, over 80% of all hemp and cannabis companies in Thailand will become members of TiHTA, which should lead to price stability and a manageable demand-supply situation for hemp and cannabis products.

**Exhibit 13: TiHTA's global network for hemp and cannabis business**



Source: [TiHTA](https://www.tihta.com)

**Exhibit 14: Current members of TiHTA**



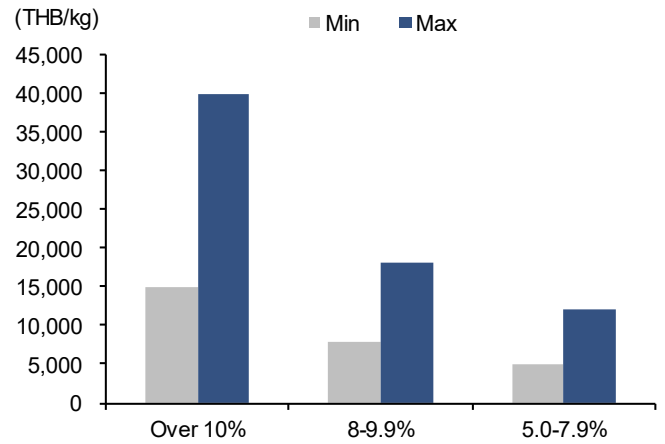
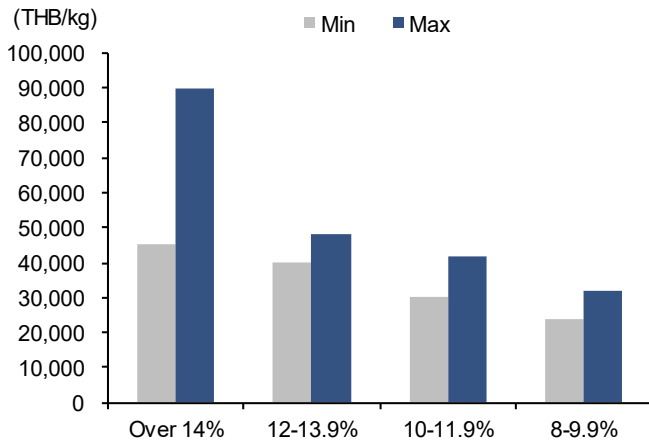
Source: [TiHTA](https://www.tihta.com)

**CBD price range.** TiHTA issued a suggested price range for CBD, produced both indoors and in greenhouses. The CBD produced indoors would be in the range of THB5,000-12,000 per kg for 5.0% to 7.9% CBD content, rising to THB15,000-40,000 per kg for CBD content over 10%. The CBD produced in greenhouses would see a higher price range than CBD produced indoors given the higher CBD content, with the price ranging from THB24,000-32,000 per kg for 8.0-9.9% CBD content to THB45,000-90,000 per kg for CBD content over 14%.

We believe the suggested price range of CBD by TiHTA is in line with the global prices for CBD at USD1,000 to USD6,000 per kg depending on the purity and CBD content. Hence, once GUNKUL launches its sales of cannabis products, including dried flowers, full-spectrum extract, and CBD isolate, we think the price and demand risks will be relatively low, thanks to the management of the industry under TiHTA.

**Exhibit 15: Price range of CBD from greenhouse farming**

**Exhibit 16: Price range of CBD from indoor production**



Source: [TiHTA](#)

Source: [TiHTA](#)

## EPS and target price upgrades

We revise our EPS forecasts for 2021-23 by -23.3%/+26.1%/+24.2% to reflect the changes in our assumptions for hemp and cannabis production, selling prices, and conversion yields. The -23.3% EPS forecast in 2021 is due to the changes in our expectations for the shift in the net profit generated from hemp and cannabis from 2021 to 2022.

### Exhibit 17: Key changes in our assumptions and EPS forecasts

	Current			Previous			Change		
	2021E (THB m)	2022E (THB m)	2023E (THB m)	2021E (THB m)	2022E (THB m)	2023E (THB m)	2021E (%)	2022E (%)	2023E (%)
Revenue	10,547	12,315	13,048	11,259	11,370	12,103	(6.3)	8.3	7.8
Gross profit	5,130	7,137	7,631	5,842	6,192	6,686	(12.2)	15.3	14.1
Operating profit	2,756	4,616	4,982	3,397	3,765	4,131	(18.9)	22.6	20.6
Net profit	1,990	3,913	4,175	2,595	3,102	3,361	(23.3)	26.1	24.2
EPS (THB/shr)	0.22	0.44	0.47	0.29	0.35	0.38	(23.3)	26.1	24.2
<b>Key assumptions</b>									
EPC revenue	1,500	1,000	1,200	1,500	1,000	1,200	0.0	0.0	0.0
Trading revenue	1,483	1,483	1,483	1,483	1,483	1,483	0.0	0.0	0.0
Cannabis flower production (kg)	5,754	58,022	58,022	na	na	na	nm	nm	nm
Cannabis spectrum production (kg)	888	10,444	10,444	na	na	na	nm	nm	nm
Cannabis CBD production (kg)	395	5,415	5,415	4,752	11,880	11,880	21.1	388.4	388.4
Cannabis net profit	0	1,677	1,679	na	na	na	nm	nm	nm

Sources: GUNKUL; FSSIA estimates

We maintain BUY and upgrade our SoTP-based target price from THB5.4 to THB8.1, incorporating: 1) the higher EPS forecast in 2022, our base year for the P/E valuation; 2) the higher P/E projection for GUNKUL's cannabis business from 15x to 22x to reflect the higher earnings and margin assumptions from hemp and cannabis as we think the viability for cannabis earnings is now much higher given that GUNKUL has already commenced its cannabis production; and 3) the price range suggested by TiHTA.

### Exhibit 18: SoTP-based target price

Cost of equity assumptions	(%)	Cost of debt assumptions	(%)
Risk-free rate	2.3	Pretax cost of debt	3.5
Market risk premium	8.5	Marginal tax rate	20.0
Stock beta	0.80		
Cost of equity, Ke	9.1	Net cost of debt, Kd	2.7
Weight applied	20.0	Weight applied	80.0
WACC (%)	4.0		
Sum-of-the-parts valuation estimate	THB m	THB/share	Comments
EPC	3,900	0.4	20x FY21E P/E, discount to industry average of 22x
Trading	1,898	0.2	20x FY21E P/E, discount to industry average of 22x
Solar power	18,022	2.0	DCF WACC 4%
Wind power	20,936	2.4	DCF WACC 4%
Gas engine power	535	0.1	DCF WACC 4%
Cannabis	45,279	5.1	22x FY24E P/E
Net cash	(18,378)	(2.1)	Net cash on hand at end 2022E
<b>Residual ordinary equity</b>	<b>72,192</b>	<b>8.1</b>	

Sources: GUNKUL; FSSIA estimates

## Financial Statements

### Gunkul Engineering

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Revenue	7,099	8,649	10,547	12,315	13,048
Cost of goods sold	(2,313)	(4,255)	(5,417)	(5,179)	(5,418)
<b>Gross profit</b>	<b>4,786</b>	<b>4,394</b>	<b>5,130</b>	<b>7,137</b>	<b>7,631</b>
Other operating income	-	-	-	-	-
Operating costs	(840)	(955)	(1,255)	(1,382)	(1,490)
<b>Operating EBITDA</b>	<b>3,945</b>	<b>3,439</b>	<b>3,875</b>	<b>5,755</b>	<b>6,141</b>
Depreciation	(1,137)	(1,353)	(1,119)	(1,139)	(1,159)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>2,808</b>	<b>2,086</b>	<b>2,756</b>	<b>4,616</b>	<b>4,982</b>
Net financing costs	(872)	(915)	(839)	(793)	(775)
Associates	269	73	210	208	97
Recurring non-operating income	347	150	340	403	389
Non-recurring items	(20)	2,224	0	0	0
<b>Profit before tax</b>	<b>2,263</b>	<b>3,545</b>	<b>2,256</b>	<b>4,225</b>	<b>4,596</b>
Tax	(41)	(119)	(161)	(205)	(304)
<b>Profit after tax</b>	<b>2,222</b>	<b>3,425</b>	<b>2,095</b>	<b>4,020</b>	<b>4,292</b>
Minority interests	(75)	(13)	(105)	(107)	(117)
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>2,147</b>	<b>3,412</b>	<b>1,990</b>	<b>3,913</b>	<b>4,175</b>
<b>Non-recurring items &amp; goodwill (net)</b>	<b>20</b>	<b>(2,224)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Recurring net profit</b>	<b>2,167</b>	<b>1,189</b>	<b>1,990</b>	<b>3,913</b>	<b>4,175</b>
<b>Per share (THB)</b>					
Recurring EPS *	0.29	0.13	0.22	0.44	0.47
Reported EPS	0.29	0.38	0.22	0.44	0.47
DPS	0.14	0.18	0.18	0.18	0.18
Diluted shares (used to calculate per share data)	7,420	8,883	8,883	8,883	8,883
<b>Growth</b>					
Revenue (%)	13.9	21.8	21.9	16.8	6.0
Operating EBITDA (%)	28.1	(12.8)	12.7	48.5	6.7
Operating EBIT (%)	21.2	(25.7)	32.1	67.5	7.9
Recurring EPS (%)	22.7	(54.2)	67.5	96.6	6.7
Reported EPS (%)	96.9	32.7	(41.7)	96.6	6.7
<b>Operating performance</b>					
Gross margin inc. depreciation (%)	51.4	35.2	38.0	48.7	49.6
Gross margin of key business (%)	51.4	35.2	38.0	48.7	49.6
Operating EBITDA margin (%)	55.6	39.8	36.7	46.7	47.1
Operating EBIT margin (%)	39.6	24.1	26.1	37.5	38.2
Net margin (%)	30.5	13.7	18.9	31.8	32.0
Effective tax rate (%)	2.1	3.4	7.9	5.1	6.8
Dividend payout on recurring profit (%)	46.6	136.0	80.3	40.9	38.3
Interest cover (X)	3.6	2.4	3.7	6.3	6.9
Inventory days	94.1	55.3	48.8	55.9	53.5
Debtor days	54.8	82.9	99.1	84.9	80.1
Creditor days	155.7	134.3	184.1	211.0	201.7
Operating ROIC (%)	9.7	6.4	(1.9)	(3.3)	(3.6)
ROIC (%)	8.3	5.4	(1.7)	(2.8)	(3.1)
ROE (%)	22.1	10.3	15.9	28.2	25.6
ROA (%)	7.9	4.5	4.3	8.6	8.6
* Pre-exceptional, pre-goodwill and fully diluted					
<b>Revenue by Division (THB m)</b>					
Manufacturing and selling of equipment for electrical systems	1,468	1,188	1,500	1,000	1,200
Generating and selling electricity	3,715	5,031	6,117	6,158	6,691
Construction service	2,000	2,500	3,000	2,500	2,500
Maintenance service	131	145	145	145	145

Sources: Gunkul Engineering; FSSIA estimates



## Financial Statements

### Gunkul Engineering

Cash Flow (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Recurring net profit	2,167	1,189	1,990	3,913	4,175
Depreciation	1,137	1,353	1,119	1,139	1,159
Associates & minorities	269	73	210	208	97
Other non-cash items	-	-	-	-	-
Change in working capital	2,463	(4,192)	201	(362)	(10)
<b>Cash flow from operations</b>	<b>6,036</b>	<b>(1,577)</b>	<b>3,520</b>	<b>4,898</b>	<b>5,421</b>
Capex - maintenance	(1,137)	(1,353)	(399)	(424)	(449)
Capex - new investment	(1,549)	(2,376)	(101)	(76)	(51)
Net acquisitions & disposals	78	165	0	0	0
Other investments (net)	(530)	(707)	210	208	97
<b>Cash flow from investing</b>	<b>(3,139)</b>	<b>(4,271)</b>	<b>(290)</b>	<b>(292)</b>	<b>(403)</b>
Dividends paid	0	0	(1,617)	(1,599)	(1,599)
Equity finance	366	0	0	0	0
Debt finance	(1,249)	4,449	(3,638)	(1,353)	1,821
Other financing cash flows	(796)	1,574	(315)	(308)	(77)
<b>Cash flow from financing</b>	<b>(1,680)</b>	<b>6,023</b>	<b>(5,570)</b>	<b>(3,261)</b>	<b>145</b>
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
<b>Net other adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Movement in cash</b>	<b>1,218</b>	<b>174</b>	<b>(2,340)</b>	<b>1,346</b>	<b>5,163</b>
Free cash flow to firm (FCFF)	3,807.51	(4,936.97)	4,157.01	5,440.32	5,860.71
Free cash flow to equity (FCFE)	851.94	173.91	(722.93)	2,944.44	6,761.96

#### Per share (THB)

FCFF per share	0.51	(0.67)	0.56	0.73	0.79
FCFE per share	0.11	0.02	(0.10)	0.40	0.91
Recurring cash flow per share	0.48	0.29	0.37	0.59	0.61

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Tangible fixed assets (gross)	27,103	30,754	31,254	31,754	32,254
Less: Accumulated depreciation	(2,536)	(3,811)	(4,931)	(6,070)	(7,229)
<b>Tangible fixed assets (net)</b>	<b>24,567</b>	<b>26,943</b>	<b>26,323</b>	<b>25,684</b>	<b>25,025</b>
<b>Intangible fixed assets (net)</b>	<b>4,117</b>	<b>3,578</b>	<b>3,578</b>	<b>3,578</b>	<b>3,578</b>
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	1,731	1,566	1,566	1,566	1,566
Cash & equivalents	4,218	4,392	2,053	3,398	8,561
A/C receivable	1,063	2,864	2,864	2,864	2,864
Inventories	653	637	812	776	812
Other current assets	1,351	3,889	4,743	5,538	5,868
<b>Current assets</b>	<b>7,285</b>	<b>11,782</b>	<b>10,470</b>	<b>12,575</b>	<b>18,104</b>
Other assets	1,342	2,163	2,163	2,163	2,163
<b>Total assets</b>	<b>39,042</b>	<b>46,032</b>	<b>44,100</b>	<b>45,566</b>	<b>50,435</b>
Common equity	10,712	12,350	12,724	15,038	17,614
Minorities etc.	621	125	230	337	454
<b>Total shareholders' equity</b>	<b>11,333</b>	<b>12,475</b>	<b>12,954</b>	<b>15,375</b>	<b>18,068</b>
Long term debt	18,991	18,793	15,155	13,802	15,622
Other long-term liabilities	513	1,781	1,781	1,781	1,781
<b>Long-term liabilities</b>	<b>19,504</b>	<b>20,574</b>	<b>16,936</b>	<b>15,583</b>	<b>17,403</b>
A/C payable	726	2,404	3,061	2,926	3,061
Short term debt	3,328	7,975	7,975	7,975	7,975
Other current liabilities	4,151	2,604	3,175	3,708	3,929
<b>Current liabilities</b>	<b>8,205</b>	<b>12,983</b>	<b>14,210</b>	<b>14,608</b>	<b>14,964</b>
<b>Total liabilities and shareholders' equity</b>	<b>39,042</b>	<b>46,032</b>	<b>44,100</b>	<b>45,566</b>	<b>50,435</b>
Net working capital	(1,810)	2,383	2,182	2,544	2,554
Invested capital	29,947	36,632	35,812	35,535	34,885

\* Includes convertibles and preferred stock which is being treated as debt

#### Per share (THB)

Book value per share	1.44	1.39	1.43	1.69	1.98
Tangible book value per share	0.89	0.99	1.03	1.29	1.58

#### Financial strength

Net debt/equity (%)	159.7	179.4	162.7	119.5	83.2
Net debt/total assets (%)	46.4	48.6	47.8	40.3	29.8
Current ratio (x)	0.9	0.9	0.7	0.9	1.2
CF interest cover (x)	3.8	3.8	0.3	4.8	9.8

Valuation	2019	2020	2021E	2022E	2023E
<b>Recurring P/E (x) *</b>	<b>23.1</b>	<b>50.4</b>	<b>30.1</b>	<b>15.3</b>	<b>14.4</b>
<b>Recurring P/E @ target price (x) *</b>	<b>27.7</b>	<b>60.5</b>	<b>36.1</b>	<b>18.4</b>	<b>17.2</b>
Reported P/E (x)	23.3	17.6	30.1	15.3	14.4
Dividend yield (%)	2.0	2.7	2.7	2.7	2.7
Price/book (x)	4.7	4.9	4.7	4.0	3.4
Price/tangible book (x)	7.6	6.8	6.6	5.2	4.3
EV/EBITDA (x) **	17.4	24.0	21.0	13.7	12.3
EV/EBITDA @ target price (x) **	20.0	27.5	24.1	15.8	14.2
EV/invested capital (x)	2.3	2.3	2.3	2.2	2.2

\* Pre-exceptional, pre-goodwill and fully diluted \*\* EBITDA includes associate income and recurring non-operating income

Sources: Gunkul Engineering; FSSIA estimates

## Corporate Governance report of Thai listed companies 2020

EXCELLENT LEVEL										
AAV	ADVANC	AF	AIRA	AKP	AKR	ALT	AMA	AMATA	AMATAV	ANAN
AOT	AP	ARIP	ARROW	ASP	BAFS	BANPU	BAY	BCP	BCPG	BDMS
BEC	BEM	BGRIM	BIZ	BKI	BLA	BOL	BPP	BRR	BTS	BWG
CENTEL	CFRESH	CHEWA	CHO	CIMBT	CK	CKP	CM	CNT	COL	COMAN
COTTO	CPALL	CPF	CPI	CPN	CSS	DELTA	DEMCO	DRT	DTAC	DTC
DV8	EA	EASTW	ECF	ECL	EGCO	EPG	ETE	FNS	FPI	FPT
FSMART	GBX	GC	GCAP	GEL	GFPT	GGC	GPSC	GRAMMY	GUNKUL	HANA
HARN	HMPRO	ICC	ICI	III	ILINK	INTUCH	IRPC	IVL	JKN	JSP
JWD	K	KBANK	KCE	KKP	KSL	KTB	KTC	LANNA	LH	LHFG
LIT	LPN	MAKRO	MALEE	MBK	MBKET	MC	MCOT	METCO	MFEC	MINT
MONO	MOONG	MSC	MTC	NCH	NCL	NEP	NKI	NOBLE	NSI	NVD
NYT	OISHI	ORI	OTO	PAP	PAP	PCSGH	PDJ	PG	PHOL	PLANB
PLAT	PORT	PPS	PR9	PREB	PRG	PRM	PSH	PSL	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QTC	RATCH	RS	S	S & J	SAAM
SABINA	SAMART	SAMTEL	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SDC
SEAFCO	SEOIL	SE-ED	SELIC	SENA	SIRI	SIS	SITHAI	SMK	SMPC	SNC
SONIC	SORKON	SPALI	SPI	SPRC	SPVI	SSSC	SST	STA	SUSCO	SUTHA
SVI	SYMC	SYNTEC	TACC	TASCO	TCAP	TFMAMA	THANA	THANI	THCOM	THG
THIP	THRE	THREL	TIP	TIPCO	TISCO	TK	TKT	TTB	TMILL	TNDT
TNL	TOA	TOP	TPBI	TQM	TRC	TRC	TSC	TSR	TSTE	TSTH
TTCL	TTW	TU	TVD	TVI	TVO	TWPC	U	UAC	UBIS	UV
VGI	VIH	WACOAL	WAVE	WHA	WHAUP	WICE	WINNER	TRUE		

VERY GOOD LEVEL										
2S	ABM	ACE	ACG	ADB	AEC	AEONTS	AGE	AH	AHC	AIT
ALLA	AMANAHA	AMARIN	APCO	APCS	APURE	AQUA	ASAP	ASEFA	ASIA	ASIAN
ASIMAR	ASK	ASN	ATP30	AUCT	AWC	AYUD	B	BA	BAM	BBL
BFIT	BGC	BJC	BJCHI	BROOK	BTW	CBG	CEN	CGH	CHARAN	CHAYO
CHG	CHOTI	CHOW	CI	CIG	CMC	COLOR	COM7	CPL	CRC	CRD
CSC	CSP	CWT	DCC	DCON	DDD	DOD	DOHOME	EASON	EE	ERW
ESTAR	FE	FLOYD	FN	FORTH	FSS	FTE	FVC	GENCO	GJS	GL
GLAND	GLOBAL	GLOCON	GPI	GULF	GYT	HPT	HTC	ICN	IFS	ILM
IMH	INET	INSURE	IRC	IRCP	IT	ITD	ITEL	J	JAS	JCK
JCKH	JMART	JMT	KBS	KCAR	KGI	KIAT	KOOL	KTIS	KWC	KWM
L&E	LALIN	LDC	LHK	LOXLEY	LPH	LRH	LST	M	MACO	MAJOR
MBAX	MEGA	META	MFC	MGT	MILL	MITSIB	MK	MODERN	MTI	MVP
NETBAY	NEX	NINE	NTV	NWR	OCC	OGC	OSP	PATO	PB	PDG
PDI	PICO	PIMO	PJW	PL	PM	PPP	PRIN	PRINC	PSTC	PT
QLT	RCL	RICHY	RML	RPC	RWI	S11	SALEE	SAMCO	SANKO	SAPPE
SAWAD	SCI	SCP	SE	SEG	SFP	SGF	SHR	SIAM	SINGER	SKE
SKR	SKY	SMIT	SMT	SNP	SPA	SPC	SPCG	SR	SRICHA	SSC
SSF	STANLY	STI	STPI	SUC	SUN	SYNEX	T	TAE	TAKUNI	TBSP
TCC	TCMC	TEAM	TEAMG	TFG	TIGER	TITLE	TKN	TKS	TM	TMC
TMD	TMI	TMT	TNITY	TNP	TNR	TOG	TPA	TPAC	TPCORP	TPOLY
TPS	TRITN	TRT	TRU	TSE	TVT	TWP	UEC	UMI	UOBKH	UP
UPF	UPOIC	UT	UTP	UWC	VL	VNT	VPO	WIJK	WP	XO
YUASA	ZEN	ZIGA	ZMICO							

GOOD LEVEL										
7UP	A	ABICO	AJ	ALL	ALUCON	AMC	APP	ARIN	AS	AU
B52	BC	BCH	BEAUTY	BGT	BH	BIG	BKD	BLAND	BM	BR
BROCK	BSBM	BSM	BTNC	CAZ	CCP	CGD	CITY	CMAN	CMO	CMR
CPT	CPW	CRANE	CSR	D	EKH	EP	ESSO	FMT	GIFT	GREEN
GSC	GTB	HTECH	HUMAN	IHL	INOX	INSET	IP	JTS	JUBILE	KASET
KCM	KKC	KUMWEL	KUN	KWG	KYE	LEE	MATCH	MATI	M-CHAI	MCS
MDX	MJD	MM	MORE	NC	NDR	NER	NFC	NNCL	NPK	NUSA
OCEAN	PAF	PF	PK	PLE	PMTA	POST	PPM	PRAKIT	PRECHA	PRIME
PROUD	PTL	RBF	RCI	RJH	ROJNA	RP	RPH	RSP	SF	SFLEX
SGP	SISB	SKN	SLP	SMART	SOLAR	SPG	SQ	SSP	STARK	STC
SUPER	SVOA	TC	TCCC	THMUI	TIW	TNH	TOPP	TPCH	TIPIP	TPLAS
TTI	TYCN	UKEM	UMS	VCOM	VRANDA	WIN	WORK	WPH		

## Description

## Score Range

Excellent

90-100

Very Good

80-89

Good

70-79

## Disclaimer:

The disclosure of the survey results of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.

\* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive; \*\* delisted

Source: Thai Institute of Directors Association (IOD); FSSIA's compilation

## Anti-corruption Progress Indicator 2020

CERTIFIED										
2S	ADVANC	AI	AIE	AIRA	AKP	AMA	AMANAHA	AP	AQUA	ARROW
ASK	ASP	AYUD	B	BAFS	BANPU	BAY	BBL	BCH	BCP	BCPG
BGC	BGRIM	BJCHI	BKI	BLA	BPP	BROOK	BRR	BSBM	BTS	BWG
CEN	CENTEL	CFRESH	CGH	CHEWA	CHOTI	CHOW	CIG	CIMBT	CM	CMC
COL	COM7	CPALL	CPF	CPI	CPN	CSC	DCC	DELTA	DEMCO	DIMET
DRT	DTAC	DTC	EASTW	ECL	EGCO	FE	FNS	FPI	FPT	FSS
FTE	GBX	GC	GCAP	GEL	GFPT	GGC	GJS	GPSC	GSTEEL	GUNKUL
HANA	HARN	HMPRO	HTC	ICC	ICHI	IFS	INET	INSURE	INTUCH	IRPC
ITEL	IVL	K	KASET	KBANK	KBS	KCAR	KCE	KGI	KKP	KSL
KTB	KTC	KWC	L&E	LANNA	LHFG	LHK	LPN	LRH	M	MAKRO
MALEE	MBAX	MBK	MBKET	MC	MCOT	MFC	MFEC	MINT	MONO	MOONG
MPG	MSC	MTC	MTI	NBC	NEP	NINE	NKI	NMG	NNCL	NSI
NWR	OCC	OCEAN	OGC	ORI	PAP	PATO	PB	PCSGH	PDG	PDI
PDJ	PE	PG	PHOL	PL	PLANB	PLANET	PLAT	PM	PPP	PPPM
PPS	PREB	PRG	PRINC	PRM	PSH	PSL	PSTC	PT	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QLT	QTC	RATCH	RML	RWI	S & J
SABINA	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SEAOIL	SE-ED	SELIC
SENA	SGP	SIRI	SITHAI	SMIT	SMK	SMPC	SNC	SNP	SORKON	SPACK
SPC	SPI	SPRC	SRICHA	SSF	SSSC	SST	STA	SUSCO	SVI	SYNTEC
TAE	TAKUNI	TASCO	TBSP	TCAP	TCMC	TFG	TFI	TFMAMA	THANI	THCOM
THIP	THRE	THREL	TIP	TIPCO	TISCO	TKT	TTB	TMD	TMILL	TMT
TNITY	TNL	TNP	TNR	TOG	TOP	TPA	TPCORP	TPP	TRU	TSC
TSTH	TTCL	TU	TVD	TVI	TVO	TWPC	U	UBIS	UEC	UKEM
UOBKH	UWC	VGI	VIH	VNT	WACOAL	WHA	WHAUP	WICE	WIJK	XO
ZEN	TRUE									

DECLARED										
7UP	ABICO	AF	ALT	AMARIN	AMATA	AMATAV	ANAN	APURE	B52	BKD
BM	BROCK	BUI	CHO	CI	COTTO	DDD	EA	EFORL	EP	ERW
ESTAR	ETE	EVER	FSMART	GPI	ILINK	IRC	J	JKN	JMART	JMT
JSP	JTS	KWG	LDC	MAJOR	META	NCL	NOBLE	NOK	PK	PLE
ROJNA	SAAM	SAPPE	SCI	SE	SHANG	SINGER	SKR	SPALI	SSP	STANLY
SUPER	SYNEX	THAI	TKS	TOPP	TRITN	TTA	UPF	UV	WIN	ZIGA

Level	
Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

**Disclaimer:**

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Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Source: The Securities and Exchange Commission, Thailand; \* FSSIA's compilation

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### ANALYST(S) CERTIFICATION

Suwat Sinsadok, CFA, FRM, ERP FSS International Investment Advisory Securities Co., Ltd

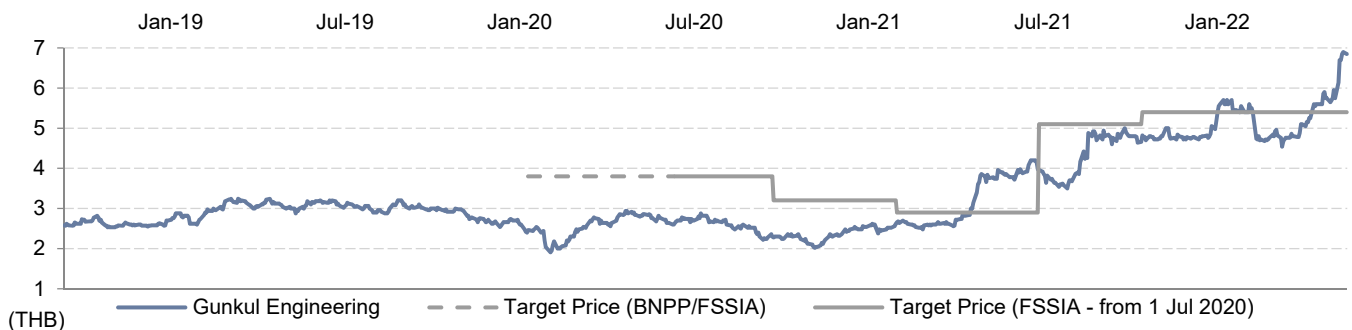
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### History of change in investment rating and/or target price

#### Gunkul Engineering (GUNKUL TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
27-Feb-2020	BUY	3.80	05-Jan-2021	BUY	2.90	02-Aug-2021	BUY	5.40
22-Sep-2020	BUY	3.20	06-May-2021	BUY	5.10			

Suwat Sinsadok, CFA, FRM, ERP started covering this stock from 14-May-2020

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Gunkul Engineering	GUNKUL TB	THB 6.75	BUY	The downside risks to our SoTP-based TP on GUNKUL include 1) lower-than-expected demand for electricity in Thailand, 2) declining EPC backlogs, and 3) lower-than-expected utilisation rates for solar and wind farms.

Source: FSSIA estimates

### Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finasia Syrus Securities Public Company Limited

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All share prices are as at market close on 27-Jan-2022 unless otherwise stated.



## RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

**BUY (B).** The upside is 10% or more.

**HOLD (H).** The upside or downside is less than 10%.

**REDUCE (R).** The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

**Overweight.** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Neutral.** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Underweight.** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.