

ICHITAN GROUP ICHI TB

THAILAND / FOOD & BEVERAGE

BUY
 UNCHANGED

Summer drove growth in 1Q23

- ICHI reported 1Q23 net profit growth of 15% q-q and 113% y-y. It was a 28-quarter high.
- Expect 2Q23 net profit to continue to grow q-q and y-y, in line with the high season.
- Maintain BUY recommendation with TP of THB14.

TARGET PRICE	THB14.00
CLOSE	THB12.00
UP/DOWNSIDE	+16.7%
TP vs CONSENSUS	-4.5%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	6,340	6,914	7,464	7,991
Net profit	642	732	802	872
EPS (THB)	0.49	0.56	0.62	0.67
vs Consensus (%)	-	(4.1)	(2.8)	(6.0)
EBITDA	1,319	1,422	1,512	1,601
Core net profit	651	732	802	872
Core EPS (THB)	0.50	0.56	0.62	0.67
EPS growth (%)	19.0	12.5	9.6	8.8
Core P/E (x)	24.0	21.3	19.5	17.9
Dividend yield (%)	5.0	4.7	5.1	2.8
EV/EBITDA (x)	11.3	10.8	10.1	7.7
Price/book (x)	2.5	2.5	2.5	2.4
Net debt/Equity (%)	(10.6)	(4.4)	(5.8)	(49.0)
ROE (%)	10.5	11.9	13.0	13.6

1Q23 net profit hit a 28-quarter high

ICHI reported a 1Q23 net profit of THB222m (+15% q-q, +113% y-y), beating our estimate by 8%. It was a 28-quarter high. We are impressed by its solid revenue growth at 13% q-q and 27% y-y, thanks to the summer season supporting its beverage products such as ready-to-drink green tea and Tansansu. In addition, the company has started to recognise revenue from a new OEM customer since March 2023. As a result, its domestic revenue grew solidly by 15% q-q and 30% y-y. In addition, 1Q23 overseas revenue grew by 0.6% due to a consumption recovery in Cambodia.

Solid gross margin and a lower-than-expected selling expense

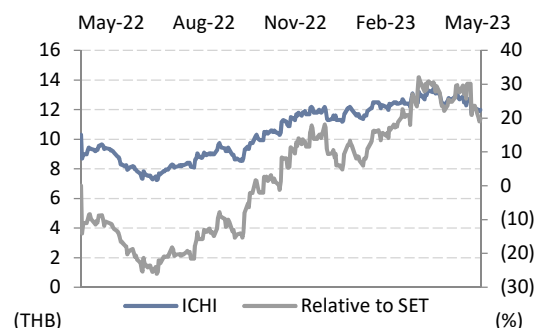
The 1Q23 gross margin rose to 20.8% from 14.7% in 1Q22. Excluding an extra item of THB15m from COGS in 4Q22, its 4Q22 normalised gross margin was equal to 20.3%. Hence, we are impressed by its 1Q23 gross margin as it slightly increased from 4Q22, supported by 1) a high utilisation rate; 2) declining packaging costs; and 3) reduced sugar content with its new beverage formula to avoid the negative impact from the sugar excise tax, as well as lower sugar costs. In addition, SG&A to sales decreased to 6.5% in 1Q23 (vs 8.3% in 4Q22 and 6.7% in 1Q22), better than our estimate, even though the company set up more advertising and marketing events in the high season.

Expect 2Q23 profit to continue to grow

ICHI's 1Q23 net profit accounts for 30% of our 2023 net profit forecast. We expect 2Q23 net profit to continue to grow both q-q and y-y due to the high season and a full-quarter's revenue recognition from the new OEM customer. Currently, we maintain our outlook for 2H23 profit, which should slightly drop from 1H23 in line with seasonality. Hence, we maintain our 2023 net profit forecast of THB732m (+14% y-y).

Maintain BUY call

We retain our BUY recommendation and our TP of THB14, based on 25x 2023E P/E, in line with its five-year historical average. We see an upside for our net profit forecast if the company can hit its target to generate 2H23 net profit growth from 1H23 by launching new products and receiving more orders from new OEM customers.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(4.8)	(2.4)	14.3
Relative to country (%)	(3.3)	3.5	18.2
Mkt cap (USD m)	464		
3m avg. daily turnover (USD m)	2.9		
Free float (%)	53		
Major shareholder	Passakornnatee Family (42%)		
12m high/low (THB)	13.60/7.20		
Issued shares (m)	1,300.00		

Sources: Bloomberg consensus; FSSIA estimates


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Exhibit 1: 1Q23 earnings results

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	----- Change -----	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Sales	1,289	1,442	1,616	1,664	1,617	1,833	13.3	27.1
Cost of sales	1,055	1,230	1,325	1,339	1,275	1,452	13.9	18.1
Gross profit	234	212	291	325	343	381	11.0	79.2
SG&A	123	97	119	115	135	120	(11.2)	24.1
Operating profit	127	121	176	222	206	269	30.8	122.1
Interest expense	0.5	0.5	0.5	0.3	0.5	0.4	(4.3)	(9.0)
Tax expense	21	47	38	50	44	45	0.9	(4.9)
Profit (loss) sharing	28	30	15	21	17	9	(42.9)	(68.3)
Reported net profit	133	104	153	192	193	222	14.9	113.3
Core profit	133	128	153	192	178	222	24.6	73.3
Key ratios (%)							(ppt)	(ppt)
Gross margin	18.2	14.7	18.0	19.5	21.2	20.8	(0.4)	6.0
SG&A to sales	9.6	6.7	7.3	6.9	8.3	6.5	(1.8)	(0.2)
Operating margin	9.8	8.4	10.9	13.3	12.7	14.7	2.0	6.3
Net margin	10.3	7.2	9.4	11.6	11.9	12.1	0.2	4.9
Core margin	10.3	8.9	9.4	11.6	11.0	12.1	1.1	3.2
Operating statistics (THB m)								
Domestic	1,156	1,309	1,437	1,507	1,474	1,698	15.2	29.8
Overseas	133	134	179	157	143	134	(6.1)	0.6

Source: ICHI

Financial Statements

Ichitan Group

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	5,228	6,340	6,914	7,464	7,991
Cost of goods sold	(3,637)	(4,575)	(4,925)	(5,340)	(5,735)
Gross profit	1,591	1,765	1,989	2,124	2,256
Other operating income	23	19	21	22	24
Operating costs	(445)	(465)	(588)	(634)	(679)
Operating EBITDA	1,168	1,319	1,422	1,512	1,601
Depreciation	(584)	(594)	(606)	(616)	(626)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	585	726	816	896	975
Net financing costs	(3)	(2)	(2)	(3)	(2)
Associates	59	82	90	97	104
Recurring non-operating income	59	82	90	97	104
Non-recurring items	0	(9)	0	0	0
Profit before tax	641	797	903	990	1,077
Tax	(94)	(155)	(172)	(188)	(205)
Profit after tax	547	642	732	802	872
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	547	642	732	802	872
Non-recurring items & goodwill (net)	0	9	0	0	0
Recurring net profit	547	651	732	802	872
Per share (THB)					
Recurring EPS *	0.42	0.50	0.56	0.62	0.67
Reported EPS	0.42	0.49	0.56	0.62	0.67
DPS	0.50	0.60	0.56	0.62	0.34
Diluted shares (used to calculate per share data)	1,300	1,300	1,300	1,300	1,300
Growth					
Revenue (%)	2.5	21.3	9.1	7.9	7.1
Operating EBITDA (%)	1.7	12.9	7.8	6.3	5.9
Operating EBIT (%)	5.1	24.1	12.4	9.8	8.8
Recurring EPS (%)	6.1	19.0	12.5	9.6	8.8
Reported EPS (%)	6.1	17.4	14.0	9.6	8.8
Operating performance					
Gross margin inc. depreciation (%)	19.3	18.5	20.0	20.2	20.4
Gross margin of key business (%)	19.3	18.5	20.0	20.2	20.4
Operating EBITDA margin (%)	22.3	20.8	20.6	20.3	20.0
Operating EBIT margin (%)	11.2	11.4	11.8	12.0	12.2
Net margin (%)	10.5	10.3	10.6	10.7	10.9
Effective tax rate (%)	14.7	19.5	19.0	19.0	19.0
Dividend payout on recurring profit (%)	118.9	119.9	100.0	100.0	50.0
Interest cover (X)	244.4	462.2	371.2	335.4	499.4
Inventory days	56.3	44.6	55.5	64.5	64.4
Debtor days	61.8	62.5	62.4	57.8	36.3
Creditor days	53.4	51.3	49.9	43.0	82.3
Operating ROIC (%)	8.0	10.8	12.6	14.2	21.6
ROIC (%)	8.3	11.2	12.6	13.5	18.6
ROE (%)	8.8	10.5	11.9	13.0	13.6
ROA (%)	7.6	9.0	10.1	11.3	10.9
* Pre exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Ready-to-drink green tea	3,264	4,405	4,713	5,090	5,446
Non-tea and others	1,964	1,936	2,201	2,374	2,545

Sources: Ichitan Group; FSSIA estimates

Financial Statements

Ichitan Group

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	547	651	732	802	872
Depreciation	584	594	606	616	626
Associates & minorities	(59)	(82)	(90)	(97)	(104)
Other non-cash items	-	-	-	-	-
Change in working capital	(35)	(27)	(443)	(92)	2,102
Cash flow from operations	1,036	1,136	805	1,229	3,496
Capex - maintenance	-	-	-	-	-
Capex - new investment	(65)	(138)	(247)	(200)	(155)
Net acquisitions & disposals	(65)	-	-	-	-
Other investments (net)	46	58	(220)	(130)	(26)
Cash flow from investing	(83)	(80)	(467)	(330)	(181)
Dividends paid	(650)	(644)	(732)	(802)	(436)
Equity finance	0	0	0	0	0
Debt finance	(238)	(9)	(79)	0	0
Other financing cash flows	(62)	(6)	8	(11)	3
Cash flow from financing	(950)	(658)	(802)	(813)	(433)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	132	0	0	0	0
Net other adjustments	132	0	0	0	0
Movement in cash	135	397	(464)	86	2,882
Free cash flow to firm (FCFF)	955.69	1,057.45	340.38	901.88	3,317.54
Free cash flow to equity (FCFE)	785.29	1,040.82	267.27	887.84	3,318.02

Per share (THB)	2021	2022	2023E	2024E	2025E
FCFF per share	0.74	0.81	0.26	0.69	2.55
FCFE per share	0.60	0.80	0.21	0.68	2.55
Recurring cash flow per share	0.82	0.89	0.96	1.02	1.07

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	9,261	9,370	9,620	9,820	10,020
Less: Accumulated depreciation	(4,483)	(5,032)	(5,638)	(6,255)	(6,881)
Tangible fixed assets (net)	4,778	4,338	3,982	3,565	3,139
Intangible fixed assets (net)	12	10	10	10	10
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	254	312	375	575	679
Cash & equivalents	338	735	270	357	3,239
A/C receivable	1,054	1,304	1,212	1,302	391
Inventories	531	588	909	979	1,046
Other current assets	0	0	0	0	0
Current assets	1,923	2,627	2,392	2,638	4,675
Other assets	140	99	346	373	400
Total assets	7,106	7,386	7,104	7,161	8,903
Common equity	6,191	6,170	6,173	6,173	6,609
Minorities etc.	0	0	0	0	0
Total shareholders' equity	6,191	6,170	6,173	6,173	6,609
Long term debt	73	65	0	0	0
Other long-term liabilities	47	41	48	37	40
Long-term liabilities	119	105	48	37	40
A/C payable	546	739	606	653	1,934
Short term debt	15	14	0	0	0
Other current liabilities	235	357	277	299	320
Current liabilities	796	1,110	883	951	2,254
Total liabilities and shareholders' equity	7,106	7,386	7,104	7,161	8,903
Net working capital	804	795	1,238	1,330	(817)
Invested capital	5,987	5,554	5,951	5,854	3,410

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

Per share (THB)	2021	2022	2023E	2024E	2025E
Book value per share	4.76	4.75	4.75	4.75	5.08
Tangible book value per share	4.75	4.74	4.74	4.74	5.08

Financial strength	2021	2022	2023E	2024E	2025E
Net debt/equity (%)	(4.0)	(10.6)	(4.4)	(5.8)	(49.0)
Net debt/total assets (%)	(3.5)	(8.9)	(3.8)	(5.0)	(36.4)
Current ratio (x)	2.4	2.4	2.7	2.8	2.1
CF interest cover (x)	323.9	675.2	211.8	368.5	1,608.8

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	28.5	24.0	21.3	19.5	17.9
Recurring P/E @ target price (x) *	33.3	28.0	24.9	22.7	20.9
Reported P/E (x)	28.5	24.3	21.3	19.5	17.9
Dividend yield (%)	4.2	5.0	4.7	5.1	2.8
Price/book (x)	2.5	2.5	2.5	2.5	2.4
Price/tangible book (x)	2.5	2.5	2.5	2.5	2.4
EV/EBITDA (x) **	13.1	11.3	10.8	10.1	7.7
EV/EBITDA @ target price (x) **	15.4	13.3	12.6	11.8	9.3
EV/invested capital (x)	2.6	2.7	2.6	2.6	3.6

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

Sources: Ichitan Group; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) **Sustainability Investment List (THSI)** by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

AGM Checklist by the Thai Investors Association (TIA)²

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

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History of change in investment rating and/or target price

Ichitan Group (ICHI TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
21-Mar-2023	BUY	14.00	-	-	-	-	-	-

Sureeporn Teewasuwet started covering this stock from 21-Mar-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Ichitan Group	ICHI TB	THB 12.00	BUY	Downside risks to our P/E-based TP would be 1) a slower-than-expected recovery in consumption; 2) high volatility in packaging costs; and 3) increased competition and government policy changes such as excise taxes for sugary drinks.

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 Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 10-May-2023 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.