

SEAFCO SEAFCO TB

THAILAND / CONSTRUCTION SERVICES

BUY

UNCHANGED

Strong recovery in 1Q23

- 1Q23 net profit jumped to THB59m (vs THB10m in 4Q22 and a loss of THB43m in 1Q22), hitting the highest level in 11 quarters.
- Expect 2Q23 earnings to soften q-q due to seasonality, but grow solidly y-y from the progress of ongoing projects.
- Retain BUY call and TP of THB4.7; a turnaround play.

TARGET PRICE	THB4.70
CLOSE	THB3.74
UP/DOWNSIDE	+25.7%
TP vs CONSENSUS	+3.7%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	781	1,742	1,862	1,962
Net profit	(129)	114	157	164
EPS (THB)	(0.18)	0.15	0.21	0.22
vs Consensus (%)	-	(11.8)	(3.2)	(4.3)
EBITDA	19	308	367	399
Core net profit	(133)	114	157	164
Core EPS (THB)	(0.18)	0.15	0.21	0.22
EPS growth (%)	nm	nm	36.9	4.5
Core P/E (x)	(20.8)	24.2	17.6	16.9
Dividend yield (%)	-	2.1	2.8	3.0
EV/EBITDA (x)	156.5	9.7	8.1	7.3
Price/book (x)	1.9	1.9	1.8	1.7
Net debt/Equity (%)	16.4	15.1	11.8	9.8
ROE (%)	(8.9)	7.9	10.3	10.2

Ongoing projects and higher worker numbers boosted 1Q23 profit

SEAFCO reported a 1Q23 net profit of THB59m, the highest in 11 quarters, jumping from THB10m in 4Q22 and a loss of THB43m in 1Q22. Excluding a reversal from an expected credit loss for receivables worth THB20m, its core profit amounted to THB39m (vs THB7m in 4Q22 and a loss of THB42m in 1Q22). The strong profit was driven by the progress of construction works, especially the Tenth Avenue project which was delivered in March, as well as ongoing projects: the Highway Route No.82 (Rama II), North Pole, and MRT Purple Line projects.

A fresh start with revenue and gross margin recoveries

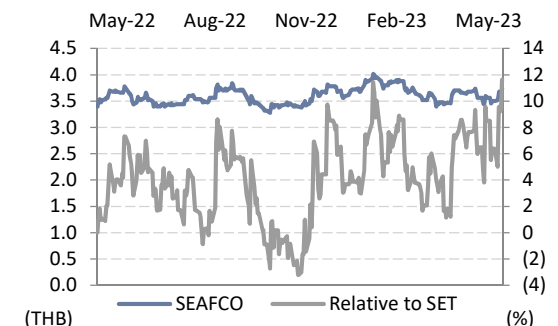
1Q23 construction revenue was THB473m (+108% q-q, +100% y-y) with an increasing utilisation rate to 80%, from 30-40% in 4Q22, from more workers at 500 persons vs 200-300 persons during Covid. Moreover, the gross margin improved to 15.6% in 1Q23 (vs 11% in 4Q22 and -12.6% in 1Q22), the highest in 10 quarters from economies of scale, as well as a higher realisation from MRT Purple Line, which had a good margin. SEAFCO's 1Q23 earnings account for 34% of our 2023E core profit.

Expect 2Q23 profit to improve solidly y-y

We expect 2Q23 profit to drop q-q from fewer workdays, plus the Highway Route No.82 project has moved to night shifts from daytime work in 4Q22-1Q23. However, earnings should strongly improve y-y from a loss of THB57m in 2Q22. This should be supported by the continuous realisation from its backlog of THB1.3b at end-1Q23, mainly from the North Pole project, and full construction on three sections of MRT Purple Line. Note that MRT Purple Line works comprise PP17 Parliament House station, which started in Dec-22, and PP18 Sri Yan station and PP19 Vajira Hospital station, which were gradually started in Mar-23.

Maintain BUY call; a turnaround play

We maintain our 2023E core profit of THB114m, recovering from a loss of THB133m in 2022, and our TP of THB4.7. Currently, SEAFCO is trading at 1.9x 2023E P/BV, 1.0SD below its historical average of 3.1x. Though mega-project bidding might slow during the establishment of the new government, the key new potential backlog is the MRT Orange Line project, for which an agreement might be signed with the winner in 4Q23.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	1.6	(3.6)	10.0
Relative to country (%)	3.7	1.7	11.6
Mkt cap (USD m)	81		
3m avg. daily turnover (USD m)	0.1		
Free float (%)	74		
Major shareholder	Thasnanipan Family (26%)		
12m high/low (THB)	4.10/3.28		
Issued shares (m)	739.71		

Sources: Bloomberg consensus; FSSIA estimates



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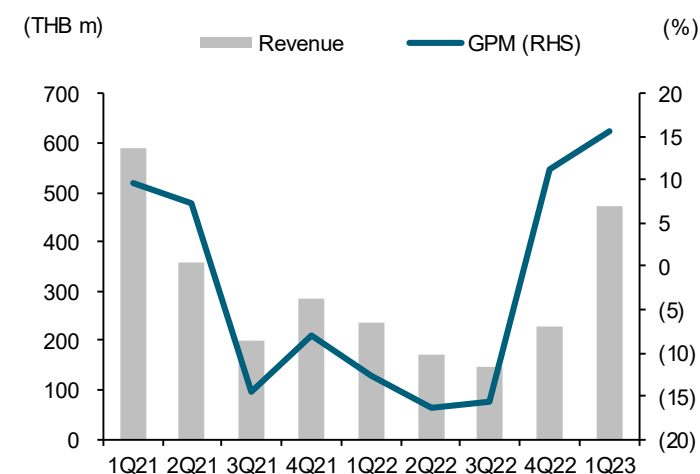
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Exhibit 1: 1Q23 results summary

	1Q22	2Q22	3Q22	4Q22	1Q23	Change	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Total revenue	237	172	146	227	473	108.5	99.5
Cost of sales	267	200	168	202	399	98.1	49.6
Gross profit	(30)	(28)	(23)	25	74	191.3	na
SG&A	28	27	30	24	27	11.3	(1.6)
Operating profit	(58)	(55)	(52)	1	46	5,541.8	na
Interest expense	4	3	3	5	4	(5.2)	7.6
Tax expense	(10)	3	(3)	(15)	10	na	na
Reported net profit	(43)	(57)	(39)	10	59	504.4	na
Core profit	(42)	(52)	(47)	7	39	430.2	na
Key ratios (%)						(ppt)	(ppt)
Gross margin	(12.6)	(16.4)	(15.5)	11.1	15.6	4.4	28.2
SG&A / Sales	11.7	15.7	20.4	10.8	5.8	(5.0)	(5.9)
Operating margin	(24.3)	(32.1)	(35.9)	0.4	9.8	9.4	34.1
Net margin	(18.3)	(33.0)	(26.8)	4.3	12.4	8.1	30.7
Norm margin	(17.7)	(30.1)	(32.3)	3.2	8.2	5.0	25.9

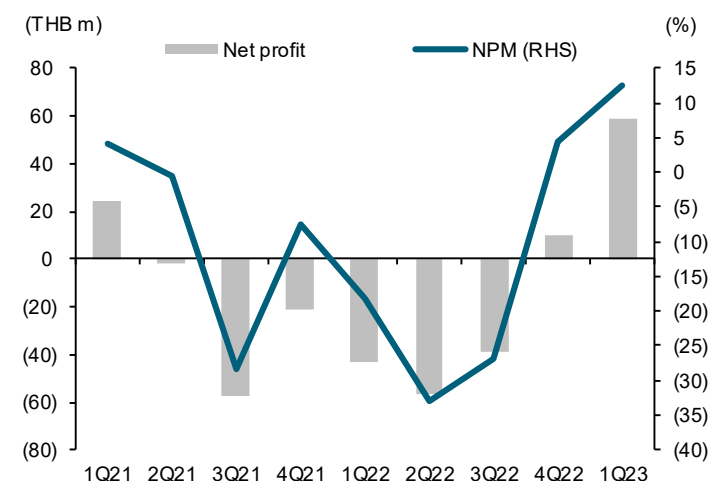
Sources: SEAFCO; FSSIA's compilation

Exhibit 2: Quarterly revenue and GPM



Sources: SEAFCO; FSSIA's compilation

Exhibit 3: Quarterly net profit and NPM



Sources: SEAFCO; FSSIA's compilation

Financial Statements

Seafo

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	1,435	781	1,742	1,862	1,962
Cost of goods sold	(1,196)	(678)	(1,340)	(1,399)	(1,465)
Gross profit	240	103	402	463	497
Other operating income	41	25	25	25	25
Operating costs	(120)	(109)	(120)	(121)	(123)
Operating EBITDA	161	19	308	367	399
Depreciation	(209)	(158)	(174)	(192)	(211)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	(48)	(139)	134	175	188
Net financing costs	(21)	(15)	(15)	(15)	(15)
Associates	-	-	-	-	-
Recurring non-operating income	0	0	0	0	0
Non-recurring items	(2)	4	0	0	0
Profit before tax	(70)	(150)	118	161	174
Tax	11	25	0	0	(6)
Profit after tax	(60)	(125)	118	161	168
Minority interests	3	(5)	(4)	(4)	(4)
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	(57)	(129)	114	157	164
Non-recurring items & goodwill (net)	2	(4)	0	0	0
Recurring net profit	(55)	(133)	114	157	164
Per share (THB)					
Recurring EPS *	(0.07)	(0.18)	0.15	0.21	0.22
Reported EPS	(0.08)	(0.18)	0.15	0.21	0.22
DPS	0.00	0.00	0.08	0.11	0.11
Diluted shares (used to calculate per share data)	740	740	740	740	740
Growth					
Revenue (%)	(43.9)	(45.6)	123.0	6.9	5.4
Operating EBITDA (%)	(62.8)	(88.1)	1,504.0	19.2	8.7
Operating EBIT (%)	nm	nm	nm	31.3	7.3
Recurring EPS (%)	nm	nm	nm	36.9	4.5
Reported EPS (%)	nm	nm	nm	36.9	4.5
Operating performance					
Gross margin inc. depreciation (%)	2.2	(7.1)	13.1	14.6	14.6
Gross margin of key business (%)	2.2	(7.1)	13.0	14.5	14.5
Operating EBITDA margin (%)	11.2	2.5	17.7	19.7	20.3
Operating EBIT margin (%)	(3.3)	(17.8)	7.7	9.4	9.6
Net margin (%)	(3.8)	(17.1)	6.6	8.4	8.3
Effective tax rate (%)	15.2	17.0	0.0	0.0	3.3
Dividend payout on recurring profit (%)	-	-	50.0	50.0	50.0
Interest cover (X)	(2.3)	(9.5)	8.8	11.9	12.8
Inventory days	22.4	31.4	17.9	20.9	19.9
Debtor days	170.4	214.9	96.2	117.6	118.4
Creditor days	161.5	188.1	111.7	140.9	142.7
Operating ROIC (%)	(2.7)	(8.4)	8.5	10.8	11.1
ROIC (%)	(1.8)	(6.0)	6.1	7.8	8.1
ROE (%)	(3.5)	(8.9)	7.9	10.3	10.2
ROA (%)	(1.4)	(4.8)	5.6	6.7	6.7
* Pre exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Hire of work	1,434	780	1,740	1,860	1,960
Sales of materials and services	1	2	2	2	2

Sources: Seafo; FSSIA estimates

Financial Statements

Seafo

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	(55)	(133)	114	157	164
Depreciation	209	158	174	192	211
Associates & minorities	(3)	5	4	4	4
Other non-cash items	-	-	-	-	-
Change in working capital	45	194	(42)	11	(8)
Cash flow from operations	196	224	250	363	371
Capex - maintenance	-	-	-	-	-
Capex - new investment	(44)	(93)	(179)	(242)	(261)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	-	-	-	-	-
Cash flow from investing	(44)	(93)	(179)	(242)	(261)
Dividends paid	0	0	(61)	(82)	(86)
Equity finance	(9)	1	0	0	0
Debt finance	(31)	(254)	32	(29)	0
Other financing cash flows	8	4	0	0	0
Cash flow from financing	(32)	(249)	(30)	(112)	(86)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	121	(118)	41	10	24
Free cash flow to firm (FCFF)	173.16	145.01	86.00	136.66	124.90
Free cash flow to equity (FCFE)	130.13	(119.44)	102.44	92.66	110.20

Per share (THB)

FCFF per share	0.23	0.20	0.12	0.18	0.17
FCFE per share	0.18	(0.16)	0.14	0.13	0.15
Recurring cash flow per share	0.20	0.04	0.40	0.48	0.51

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	2,567	2,494	2,504	2,554	2,604
Less: Accumulated depreciation	(1,390)	(1,390)	(1,390)	(1,390)	(1,390)
Tangible fixed assets (net)	1,177	1,104	1,114	1,164	1,214
Intangible fixed assets (net)	0	0	0	0	0
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	76	85	80	80	80
Cash & equivalents	231	113	154	165	189
A/C receivable	582	338	580	620	653
Inventories	65	52	80	80	80
Other current assets	73	78	78	78	78
Current assets	952	581	893	943	1,001
Other assets	508	395	415	425	435
Total assets	2,713	2,164	2,501	2,611	2,729
Common equity	1,553	1,428	1,485	1,564	1,646
Minorities etc.	1	2	2	2	2
Total shareholders' equity	1,553	1,430	1,488	1,566	1,648
Long term debt	235	210	125	156	156
Other long-term liabilities	82	41	60	80	80
Long-term liabilities	317	251	185	236	236
A/C payable	402	298	522	558	588
Short term debt	366	138	254	194	194
Other current liabilities	75	47	52	57	63
Current liabilities	842	483	828	809	845
Total liabilities and shareholders' equity	2,713	2,164	2,501	2,611	2,729
Net working capital	244	123	164	163	161
Invested capital	2,005	1,706	1,773	1,831	1,889

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

Per share (THB)

Book value per share	2.10	1.93	2.01	2.11	2.22
Tangible book value per share	2.10	1.93	2.01	2.11	2.22

Financial strength

Net debt/equity (%)	23.8	16.4	15.1	11.8	9.8
Net debt/total assets (%)	13.6	10.8	9.0	7.1	5.9
Current ratio (x)	1.1	1.2	1.1	1.2	1.2
CF interest cover (x)	9.4	(0.8)	19.6	23.7	26.2

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	(50.5)	(20.8)	24.2	17.6	16.9
Recurring P/E @ target price (x) *	(63.5)	(26.1)	30.4	22.2	21.2
Reported P/E (x)	(48.8)	(21.4)	24.2	17.6	16.9
Dividend yield (%)	-	-	2.1	2.8	3.0
Price/book (x)	1.8	1.9	1.9	1.8	1.7
Price/tangible book (x)	1.8	1.9	1.9	1.8	1.7
EV/EBITDA (x) **	19.5	156.5	9.7	8.1	7.3
EV/EBITDA @ target price (x) **	23.9	193.6	12.0	10.0	9.1
EV/invested capital (x)	1.6	1.8	1.7	1.6	1.6

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

Sources: Seafo; 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

Thanyatorn Songwutti FSS International Investment Advisory Securities Co., Ltd

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History of change in investment rating and/or target price

Seafo (SEAFCO TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
04-Apr-2023	BUY	4.70	-	-	-	-	-	-

Thanyatorn Songwutti started covering this stock from 04-Apr-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Seafo	SEAFCO TB	THB 3.74	BUY	Downside risks to our P/BV-based TP include 1) fewer new projects than expected; 2) fewer projects up for bidding than expected; 3) political uncertainty; 4) delays in construction; 5) labour shortages; 6) higher raw material and labour costs; and 7) intense competition.

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

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 Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 12-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.