

SC ASSET CORPORATION

THAILAND / PROPERTY DEVELOPMENT

SC TB

BUY

 UNCHANGED

2Q23 results at first glance

2Q23 profit beat our and consensus estimates due to a gain from an investment in a new JV project

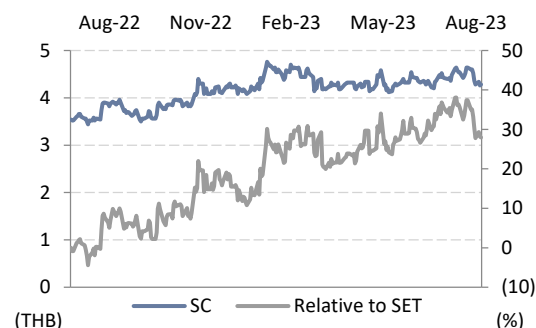
Highlights

- SC reported a 2Q23 net profit of THB593m (+11% q-q, +2% y-y), beating our forecast and BBG's consensus estimate by 9-10%, due to higher-than-expected other income as it booked a gain from an investment in the new JV condo project, Reference Sathorn-Wongwianyai, worth THB96m.
- Excluding one-time gains, its core profit was THB497m (-7% q-q, -15% y-y) in 2Q23. Overall, 2Q23 performance was unexciting due to sluggish low-rise transfers and higher SG&A. Transfers posted THB4.95b (+6% q-q, -1% y-y) in 2Q23, split 78:22 between low-rise and condo transfers. Low-rise transfers were stable with 1Q23 at THB3.8b, but dropped 13% y-y due to late-quarter launches. Meanwhile, condo transfers jumped by 21% q-q and 99% y-y, led by a greater realisation of the SCOPE Langsuan project's backlog.
- The 2Q23 property gross margin was equal to 2Q22's at 31.3%, but slightly decreased from 32.2% in 1Q23 due to the project mix. Meanwhile, SG&A to sales increased to 19.4% in 2Q23 (vs 18.7% in 1Q23 and 18.3% in 2Q22) on the back of more new projects.
- Sharing from its JV decreased 32% q-q, but turned to a profit of THB19m in 2Q23 from a loss of THB2m in 2Q22, driven by transfer improvement from The Crest Park Residence condo project.
- SC's 1H23 performance was equal to THB1.1b (+16% y-y), accounting for 43% of our 2023 profit forecast. SC has announced a DPS of THB0.08 for its performance in 1H23, implying a dividend yield of 1.9%. The stock's XD is on 23 August and the dividend will be paid on 6 September 2023.
- Even though there are many challenges for the property market, we estimate SC's 2H23 performance to recover h-h. This should be supported by a number of new launches, especially low-rise projects totalling THB21b in 2H23 (vs THB11b in 1H23). The gradual realisation of its high backlog of THB13b at end-2Q23 would also provide support. Of that, it will book THB9b this year, which is enough to secure 84% of our 2023 transfer estimate. However, 2H23 earnings might drop y-y due to the high base last year, which saw two newly built condos.
- We maintain our 2023E net profit of THB2.6b (+3% y-y). Retain our BUY rating with the same target price at THB5.0.

TARGET PRICE	THB5.00
CLOSE	THB4.28
UP/DOWNSIDE	+16.8%
TP vs CONSENSUS	-0.6%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	21,583	23,225	22,683	22,750
Net profit	2,556	2,636	2,705	2,822
EPS (THB)	0.61	0.63	0.65	0.68
vs Consensus (%)	-	(0.8)	(4.8)	(6.8)
EBITDA	3,453	3,601	3,657	3,735
Recurring net profit	2,597	2,636	2,705	2,822
Core EPS (THB)	0.62	0.63	0.65	0.68
EPS growth (%)	28.2	1.5	2.6	4.4
Core P/E (x)	6.9	6.8	6.6	6.3
Dividend yield (%)	5.8	5.8	6.0	6.2
EV/EBITDA (x)	12.9	12.9	12.7	12.5
Price/book (x)	0.8	0.8	0.7	0.7
Net debt/Equity (%)	121.5	122.3	114.5	106.9
ROE (%)	12.4	11.7	11.3	11.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(3.2)	(4.5)	22.3
Relative to country (%)	(5.6)	(2.3)	28.7
Mkt cap (USD m)	523		
3m avg. daily turnover (USD m)	1.3		
Free float (%)	39		
Major shareholder	Shinawatra Family (64%)		
12m high/low (THB)	4.78/3.44		
Issued shares (m)	4,222.62		

Sources: Bloomberg consensus; FSSIA estimates


Thanyatorn Songwutti

Analyst register no. 101203

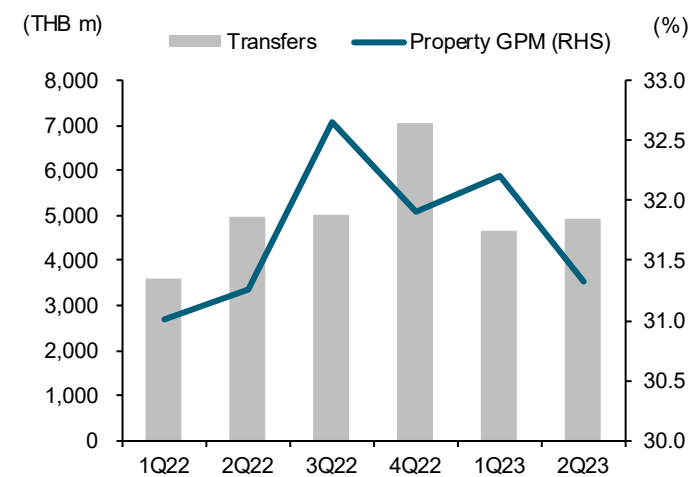
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Exhibit 1: SC – 2Q23 operations summary

	2Q22	3Q22	4Q22	1Q23	2Q23	----- Change -----	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Total revenue	5,204	5,244	7,308	4,922	5,213	5.9	0.2
Cost of sales	3,510	3,469	4,861	3,265	3,510	7.5	(0.0)
Gross profit	1,693	1,775	2,447	1,657	1,704	2.8	0.6
SG&A	951	935	1,264	921	1,009	9.6	6.2
Other income	10	17	48	7	20	186	104
Operating profit	743	839	1,183	737	694	(5.8)	(6.5)
Interest expense	18	29	65	95	96	1.0	427.8
Tax	155	175	238	140	138	(2.0)	(11.0)
Associates	(2)	(2)	64	29	19	(32.0)	n/a
Reported net profit	581	652	935	535	593	10.9	2.1
Normalised profit	581	653	976	535	497	(7.1)	(14.6)
Key ratios (%)	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)
Property gross margin	31.3	32.6	31.9	32.2	31.3	(0.9)	0.1
Gross margin	32.5	33.8	33.5	33.7	32.7	(1.0)	0.1
SG&A to sales	18.3	17.8	17.3	18.7	19.4	0.7	1.1
Operating margin	14.3	16.0	16.2	15.0	13.3	(1.6)	(1.0)
Net profit margin	11.2	12.4	12.8	10.9	11.4	0.5	0.2
Normalised profit margin	11.2	12.5	13.4	10.9	9.5	(1.3)	(1.6)
Operating statistics	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Property transfers	4,975	5,009	7,061	4,673	4,948	6	(1)
-- Low-rise	4,418	4,580	5,218	3,759	3,838	2	(13)
-- High-rise	557	429	1,843	914	1,110	21	99
Presales	6,736	5,161	7,286	4,918	7,300	48	8
-- Low-rise	5,119	4,181	5,648	3,256	5,475	68	7
-- High-rise	1,617	980	1,638	1,662	1,825	10	13
New launches	13,785	9,940	18,960	930	16,250	1,647	18

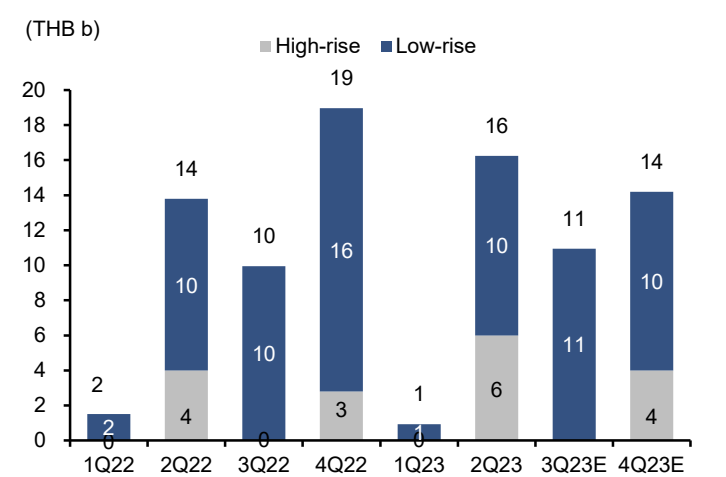
Sources: SC; FSSIA's compilation

Exhibit 2: Quarterly transfers and property GPM



Sources: SC; FSSIA's compilation

Exhibit 3: Quarterly new launches



Sources: SC; FSSIA's compilation

Financial Statements

SC Asset Corporation

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	19,475	21,583	23,225	22,683	22,750
Cost of goods sold	(13,482)	(14,414)	(15,650)	(15,128)	(15,114)
Gross profit	5,993	7,169	7,575	7,554	7,635
Other operating income	41	102	60	60	60
Operating costs	(3,336)	(3,910)	(4,218)	(4,151)	(4,163)
Operating EBITDA	2,846	3,453	3,601	3,657	3,735
Depreciation	(149)	(92)	(184)	(193)	(203)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	2,697	3,361	3,417	3,463	3,532
Net financing costs	(104)	(134)	(170)	(182)	(182)
Associates	(27)	55	123	141	189
Recurring non-operating income	(27)	55	123	141	189
Non-recurring items	37	(41)	0	0	0
Profit before tax	2,603	3,241	3,370	3,422	3,540
Tax	(552)	(678)	(682)	(689)	(704)
Profit after tax	2,051	2,563	2,688	2,733	2,836
Minority interests	11	(7)	(52)	(28)	(14)
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	2,062	2,556	2,636	2,705	2,822
Non-recurring items & goodwill (net)	(37)	41	0	0	0
Recurring net profit	2,025	2,597	2,636	2,705	2,822
Per share (THB)					
Recurring EPS *	0.48	0.62	0.63	0.65	0.68
Reported EPS	0.49	0.61	0.63	0.65	0.68
DPS	0.20	0.25	0.25	0.26	0.27
Diluted shares (used to calculate per share data)	4,180	4,180	4,180	4,180	4,180
Growth					
Revenue (%)	2.6	10.8	7.6	(2.3)	0.3
Operating EBITDA (%)	3.5	21.3	4.3	1.5	2.1
Operating EBIT (%)	3.7	24.6	1.7	1.3	2.0
Recurring EPS (%)	5.0	28.2	1.5	2.6	4.4
Reported EPS (%)	8.7	24.0	3.1	2.6	4.4
Operating performance					
Gross margin inc. depreciation (%)	30.8	33.2	32.6	33.3	33.6
Gross margin exc. depreciation (%)	31.5	33.6	33.4	34.2	34.5
Operating EBITDA margin (%)	14.6	16.0	15.5	16.1	16.4
Operating EBIT margin (%)	13.8	15.6	14.7	15.3	15.5
Net margin (%)	10.4	12.0	11.4	11.9	12.4
Effective tax rate (%)	21.2	20.9	20.2	20.1	19.9
Dividend payout on recurring profit (%)	41.3	39.8	39.6	39.6	39.6
Interest cover (X)	25.8	25.6	20.8	19.8	20.5
Inventory days	865.9	963.1	1,058.5	1,169.2	1,202.3
Debtor days	3.1	2.2	2.7	3.5	3.5
Creditor days	17.0	32.6	43.6	44.9	44.5
Operating ROIC (%)	7.2	7.6	6.5	6.2	6.1
ROIC (%)	5.6	6.1	5.5	5.3	5.3
ROE (%)	10.5	12.4	11.7	11.3	11.0
ROA (%)	4.5	5.1	4.7	4.6	4.7
* Pre exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Project sales	18,612	20,654	22,252	21,686	21,710
Rental and services	816	880	924	942	980
Consulting and management	47	49	50	55	60

Sources: SC Asset Corporation; FSSIA estimates

Financial Statements

SC Asset Corporation

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	2,025	2,597	2,636	2,705	2,822
Depreciation	149	92	184	193	203
Associates & minorities	-	-	-	-	-
Other non-cash items	-	-	-	-	-
Change in working capital	(1,879)	(7,877)	(3,239)	(1,434)	(1,266)
Cash flow from operations	296	(5,187)	(419)	1,464	1,759
Capex - maintenance	-	-	-	-	-
Capex - new investment	(1,030)	(2,121)	(512)	(475)	(582)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	-	-	-	-	-
Cash flow from investing	(1,030)	(2,121)	(512)	(475)	(582)
Dividends paid	(696)	(1,201)	(1,054)	(1,082)	(1,129)
Equity finance	82	260	(59)	28	14
Debt finance	3,186	4,077	2,007	(999)	(999)
Other financing cash flows	-	-	-	-	-
Cash flow from financing	2,571	3,135	894	(2,052)	(2,114)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	1,837	(4,173)	(36)	(1,063)	(937)
Free cash flow to firm (FCFF)	(631.19)	(7,174.97)	(760.80)	1,171.19	1,359.05
Free cash flow to equity (FCFE)	2,450.98	(3,231.46)	1,076.70	(9.61)	178.25

Per share (THB)

FCFF per share	(0.15)	(1.70)	(0.18)	0.28	0.32
FCFE per share	0.58	(0.77)	0.25	0.00	0.04
Recurring cash flow per share	0.52	0.64	0.67	0.69	0.72

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	1,993	2,192	2,302	2,417	2,538
Less: Accumulated depreciation	(848)	(568)	(460)	(483)	(508)
Tangible fixed assets (net)	1,145	1,624	1,841	1,933	2,030
Intangible fixed assets (net)	87	122	69	69	70
Long-term financial assets	370	370	441	431	432
Invest. in associates & subsidiaries	7,024	8,538	8,630	8,830	9,110
Cash & equivalents	6,313	2,140	2,104	1,041	103
A/C receivable	146	119	223	218	218
Inventories	33,092	42,488	47,214	48,471	49,759
Other current assets	450	1,096	697	680	682
Current assets	40,002	45,843	50,238	50,410	50,764
Other assets	1,128	904	1,010	1,010	1,010
Total assets	49,754	57,401	62,229	62,684	63,416
Common equity	20,084	21,733	23,204	24,826	26,520
Minorities etc.	(30)	(23)	29	57	71
Total shareholders' equity	20,054	21,709	23,232	24,884	26,591
Long term debt	11,048	12,453	11,334	11,006	11,007
Other long-term liabilities	1,349	1,567	2,323	2,268	2,275
Long-term liabilities	12,398	14,020	13,657	13,274	13,282
A/C payable	722	1,837	1,858	1,815	1,820
Short term debt	13,387	16,059	19,186	18,515	17,515
Other current liabilities	3,194	3,776	4,297	4,196	4,209
Current liabilities	17,303	21,672	25,340	24,526	23,544
Total liabilities and shareholders' equity	49,754	57,401	62,229	62,684	63,416
Net working capital	29,772	38,090	41,979	43,359	44,632
Invested capital	39,525	49,648	53,971	55,632	57,284

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

Per share (THB)

Book value per share	4.79	5.15	5.50	5.88	6.28
Tangible book value per share	4.77	5.12	5.48	5.86	6.26

Financial strength

Net debt/equity (%)	90.4	121.5	122.3	114.5	106.9
Net debt/total assets (%)	36.4	45.9	45.7	45.4	44.8
Current ratio (x)	2.3	2.1	2.0	2.1	2.2
CF interest cover (x)	34.6	(7.3)	10.3	3.6	5.2

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	8.8	6.9	6.8	6.6	6.3
Recurring P/E @ target price (x) *	10.3	8.0	7.9	7.7	7.4
Reported P/E (x)	8.7	7.0	6.8	6.6	6.3
Dividend yield (%)	4.7	5.8	5.8	6.0	6.2
Price/book (x)	0.9	0.8	0.8	0.7	0.7
Price/tangible book (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x) **	12.7	12.9	12.9	12.7	12.5
EV/EBITDA @ target price (x) **	13.7	13.7	13.8	13.6	13.3
EV/invested capital (x)	0.9	0.9	0.9	0.8	0.8

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

Sources: SC Asset Corporation; 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).

Corporate Governance Report Disclaimer

The disclosure of the survey result 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 companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). 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 data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. FSSIA does not confirm nor certify the accuracy of such survey result.

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 **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. 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: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (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

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Thanyatorn Songwutti FSS International Investment Advisory Securities Co., Ltd

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History of change in investment rating and/or target price

SC Asset Corporation (SC TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
12-Jan-2023	BUY	5.00	-	-	-	-	-	-

Thanyatorn Songwutti started covering this stock from 12-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
SC Asset Corporation	SC TB	THB 4.28	BUY	Downside risks to our P/E-based TP include 1) weaker-than-expected take-up rates of new launches; 2) weak purchasing power; 3) cancellation of presales; 4) bank loan rejections; and 5) construction delays.

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 09-Aug-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.