

CH.KARNCHANG CK TB

THAILAND / CONSTRUCTION SERVICES

BUY

UNCHANGED

2Q23 results at first glance

TARGET PRICE	THB26.00
CLOSE	THB22.00
UP/DOWNSIDE	+18.2%
TP vs CONSENSUS	-0.5%

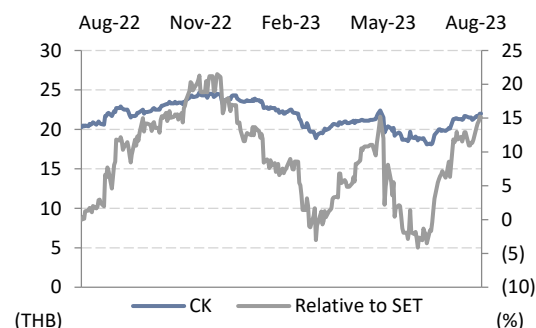
Robust 2Q23 profit beats our forecast, but in line with consensus estimate

Highlights

- CK reported a 2Q23 net profit of THB486m (+124% q-q, +62% y-y), beating our estimate by 13% due to a higher-than-expected gross margin. Excluding extra items in 1Q23, its core profit surged by 188% q-q and 62% y-y in 2Q23.
- The q-q growth in profit was mainly due to higher contributions from its associates (Bangkok Expressway and Metro (BEM TB, NR) and CK Power (CKP TB, NR)) and dividend income from TTW (TTW TB, NR). Meanwhile, 2Q23 earnings soared y-y from the significant increase in construction revenue.
- 2Q23 construction revenue came in at THB9.2b, dipping 2% q-q from seasonality, but surging 165% y-y, driven by a greater realisation of the Luang Prabang hydroelectric plant as well as the progress of the MRT Purple Line and Denchai double-track projects.
- Its 2Q23 gross margin increased to 7.4% (vs 7.1% in 1Q23 and 7% in 2Q22), exceeding our forecast of 7.1%. This was mainly due to the increasing proportion of MRT and double-track projects which had a higher margin than building works.
- Share of profits from its associates amounted to THB255m in 2Q23, up 28% q-q, mainly from BEM's robust profit, but down 45% y-y due to CKP's slower performance. Additionally, CK received a dividend from TTW of THB232m.
- CK has announced a DPS of THB0.15 for its performance in 1H23, implying a dividend yield of 0.7%. The stock's XD is on 28 August and the dividend will be paid on 12 September 2023.
- CK's 1H23 core profit was equal to THB655m (+56% y-y), accounting for 46% of our 2023 profit forecast. We expect 3Q23 core profit to rise q-q, supported by higher profit contributions from BEM and CKP in the peak season, plus dividend income from TTW. Moreover, we see a y-y construction revenue improvement on the high backlog.
- We maintain our 2023E core profit of THB1.4b (+62% y-y). Retain our BUY rating with the same target price at THB26. Meanwhile, the successful formation of the new government should be a positive catalyst.

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	18,097	20,696	31,720	37,517
Net profit	1,105	1,427	2,394	2,769
EPS (THB)	0.65	0.84	1.41	1.63
vs Consensus (%)	-	(11.9)	17.3	21.6
EBITDA	1,438	1,641	2,444	2,856
Recurring net profit	882	1,427	2,394	2,769
Core EPS (THB)	0.52	0.84	1.41	1.63
EPS growth (%)	783.4	61.8	67.7	15.7
Core P/E (x)	42.2	26.1	15.6	13.5
Dividend yield (%)	1.1	1.5	2.6	3.0
EV/EBITDA (x)	53.5	45.6	30.8	26.3
Price/book (x)	1.6	1.5	1.4	1.3
Net debt/Equity (%)	160.3	146.6	139.8	131.4
ROE (%)	3.6	5.8	9.4	10.2



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	10.6	(0.9)	4.3
Relative to country (%)	7.8	1.2	10.2
Mkt cap (USD m)	1,063		
3m avg. daily turnover (USD m)	2.4		
Free float (%)	65		
Major shareholder	Trivisvavet Family (32%)		
12m high/low (THB)	24.80/17.80		
Issued shares (m)	1,693.90		

Sources: Bloomberg consensus; FSSIA estimates



Thanayatorn Songwutti

Analyst register no. 101203

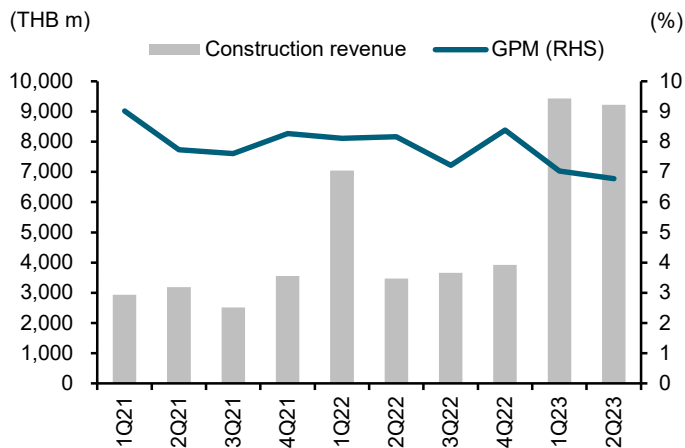
thanyatorn.s@fssia.com, +66 2646 9805

Exhibit 1: CK – 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	3,474	3,663	3,920	9,425	9,220	(2.2)	165.4
Cost of sales	3,230	3,414	3,617	8,756	8,541	(2.5)	164.4
Gross profit	244	248	303	669	679	1.4	177.9
SG&A	496	480	481	495	470	(5.1)	(5.3)
Operating profit	(252)	(232)	(178)	174	209	19.9	na
Other income	452	422	224	217	545	151.2	20.5
Interest expense	363	355	362	396	474	19.7	30.4
Tax expense	(5)	(19)	8	(10)	(23)	na	na
Associates	468	736	241	200	255	27.6	(45.5)
Reported net profit	300	571	112	217	486	123.6	62.3
Core profit	300	536	(75)	169	486	188.2	62.3
Key ratios (%)						(ppt)	(ppt)
Gross margin	7.0	6.8	7.7	7.1	7.4	0.3	0.3
SG&A / Sales	14.3	13.1	12.3	5.2	5.1	(0.2)	(9.2)
Operating margin	(7.3)	(6.3)	(4.5)	1.9	2.3	0.4	9.5
Net margin	8.6	15.6	2.9	2.3	5.3	3.0	(3.3)
Norm margin	8.6	14.6	(1.9)	1.8	5.3	3.5	(3.3)

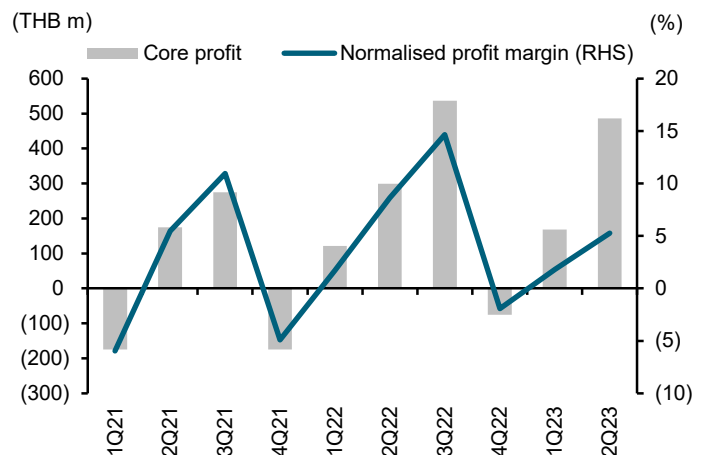
Sources: CK; FSSIA's compilation

Exhibit 2: Quarterly construction revenue and GPM



Sources: CK; FSSIA's compilation

Exhibit 3: Quarterly core profit and normalised profit margin



Sources: CK; FSSIA's compilation

Financial Statements

CH.Karnchang

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	12,199	18,097	20,696	31,720	37,517
Cost of goods sold	(11,235)	(16,711)	(19,112)	(29,277)	(34,628)
Gross profit	963	1,386	1,583	2,442	2,889
Other operating income	1,415	1,341	1,315	1,265	1,265
Operating costs	(1,915)	(1,927)	(1,908)	(1,917)	(1,955)
Operating EBITDA	1,158	1,438	1,641	2,444	2,856
Depreciation	(695)	(638)	(651)	(654)	(658)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	463	800	991	1,790	2,198
Net financing costs	(1,386)	(1,411)	(1,472)	(1,469)	(1,494)
Associates	1,088	1,530	1,955	2,155	2,225
Recurring non-operating income	1,088	1,530	1,955	2,155	2,225
Non-recurring items	806	222	0	0	0
Profit before tax	971	1,142	1,473	2,477	2,929
Tax	(38)	(21)	(29)	(64)	(141)
Profit after tax	933	1,121	1,444	2,412	2,788
Minority interests	(28)	(16)	(17)	(18)	(19)
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	906	1,105	1,427	2,394	2,769
Non-recurring items & goodwill (net)	(806)	(222)	0	0	0
Recurring net profit	100	882	1,427	2,394	2,769
Per share (THB)					
Recurring EPS *	0.06	0.52	0.84	1.41	1.63
Reported EPS	0.53	0.65	0.84	1.41	1.63
DPS	0.25	0.25	0.34	0.57	0.65
Diluted shares (used to calculate per share data)	1,694	1,694	1,694	1,694	1,694
Growth					
Revenue (%)	(27.2)	48.3	14.4	53.3	18.3
Operating EBITDA (%)	(24.1)	24.2	14.1	48.9	16.8
Operating EBIT (%)	(42.0)	72.8	23.8	80.7	22.8
Recurring EPS (%)	(70.4)	783.4	61.8	67.7	15.7
Reported EPS (%)	48.0	22.0	29.2	67.7	15.7
Operating performance					
Gross margin inc. depreciation (%)	7.9	7.7	7.7	7.7	7.7
Gross margin exc. depreciation (%)	13.6	11.2	10.8	9.8	9.5
Operating EBITDA margin (%)	9.5	7.9	7.9	7.7	7.6
Operating EBIT margin (%)	3.8	4.4	4.8	5.6	5.9
Net margin (%)	0.8	4.9	6.9	7.5	7.4
Effective tax rate (%)	3.9	1.8	2.0	2.6	4.8
Dividend payout on recurring profit (%)	424.0	48.0	40.0	40.0	40.0
Interest cover (X)	1.1	1.7	2.0	2.7	3.0
Inventory days	167.4	161.3	165.2	110.8	91.8
Debtor days	88.7	48.6	48.0	42.2	47.2
Creditor days	83.3	57.0	62.2	55.5	61.8
Operating ROIC (%)	2.7	4.2	5.1	8.8	9.8
ROIC (%)	1.9	2.8	3.6	4.7	5.2
ROE (%)	0.4	3.6	5.8	9.4	10.2
ROA (%)	1.5	2.4	3.1	4.0	4.3
* Pre exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Construction services	12,199	18,097	20,696	31,720	37,517
Others					

Sources: CH.Karnchang; FSSIA estimates

Financial Statements

CH.Karnchang

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	100	882	1,427	2,394	2,769
Depreciation	695	638	651	654	658
Associates & minorities	331	377	366	364	363
Other non-cash items	-	-	-	-	-
Change in working capital	(1,109)	(2,237)	412	(2,126)	(1,844)
Cash flow from operations	16	(340)	2,856	1,286	1,946
Capex - maintenance	-	-	-	-	-
Capex - new investment	(1,346)	-	(207)	(646)	(644)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	-	233	-	-	-
Cash flow from investing	(1,346)	233	(207)	(646)	(644)
Dividends paid	-	(509)	(588)	(976)	(1,127)
Equity finance	(821)	(2,031)	15	20	(44)
Debt finance	827	2,835	(1,790)	200	0
Other financing cash flows	531	-	-	-	-
Cash flow from financing	537	295	(2,362)	(755)	(1,171)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	(793)	187	286	(115)	130
Free cash flow to firm (FCFF)	55.04	1,303.02	4,120.78	2,108.55	2,795.44
Free cash flow to equity (FCFE)	27.94	2,727.35	859.02	840.05	1,301.34

Per share (THB)

FCFF per share	0.03	0.77	2.43	1.24	1.65
FCFE per share	0.02	1.61	0.51	0.50	0.77
Recurring cash flow per share	0.66	1.12	1.44	2.01	2.24

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	17,891	18,625	18,141	18,247	18,352
Less: Accumulated depreciation	(5,996)	(6,798)	(7,204)	(7,764)	(8,327)
Tangible fixed assets (net)	11,895	11,827	10,936	10,482	10,025
Intangible fixed assets (net)	0	0	0	0	0
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	50,910	49,847	49,947	50,047	50,147
Cash & equivalents	6,772	6,960	7,246	7,131	7,261
A/C receivable	2,273	2,549	2,897	4,441	5,252
Inventories	6,094	8,112	8,601	8,783	8,311
Other current assets	4,930	5,436	6,309	9,616	11,355
Current assets	20,069	23,057	25,053	29,971	32,179
Other assets	546	420	441	463	486
Total assets	83,421	85,151	86,377	90,963	92,838
Common equity	25,669	24,026	24,883	26,319	27,981
Minorities etc.	439	440	455	476	431
Total shareholders' equity	26,108	24,466	25,338	26,795	28,412
Long term debt	36,634	37,991	37,662	37,842	37,842
Other long-term liabilities	2,931	2,651	3,058	3,513	3,463
Long-term liabilities	39,565	40,642	40,720	41,355	41,305
A/C payable	2,174	2,850	3,440	5,270	6,233
Short term debt	6,721	8,199	6,738	6,758	6,758
Other current liabilities	8,853	8,994	10,141	10,785	10,130
Current liabilities	17,748	20,043	20,319	22,813	23,121
Total liabilities and shareholders' equity	83,421	85,151	86,377	90,963	92,838
Net working capital	2,270	4,253	4,226	6,785	8,556
Invested capital	65,621	66,347	65,550	67,778	69,214

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

Per share (THB)

Book value per share	15.15	14.18	14.69	15.54	16.52
Tangible book value per share	15.15	14.18	14.69	15.54	16.52

Financial strength

Net debt/equity (%)	140.1	160.3	146.6	139.8	131.4
Net debt/total assets (%)	43.9	46.1	43.0	41.2	40.2
Current ratio (x)	1.1	1.2	1.2	1.3	1.4
CF interest cover (x)	2.0	2.9	1.7	2.0	2.3

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	373.2	42.2	26.1	15.6	13.5
Recurring P/E @ target price (x) *	441.0	49.9	30.9	18.4	15.9
Reported P/E (x)	41.1	33.7	26.1	15.6	13.5
Dividend yield (%)	1.1	1.1	1.5	2.6	3.0
Price/book (x)	1.5	1.6	1.5	1.4	1.3
Price/tangible book (x)	1.5	1.6	1.5	1.4	1.3
EV/EBITDA (x) **	64.2	53.5	45.6	30.8	26.3
EV/EBITDA @ target price (x) **	70.0	58.2	49.7	33.5	28.6
EV/invested capital (x)	1.1	1.2	1.1	1.1	1.1

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

Sources: CH.Karnchang; 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 **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

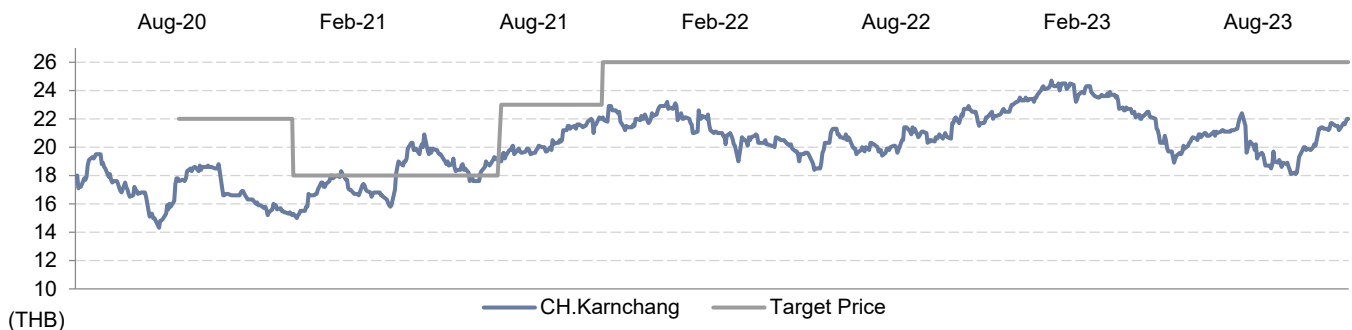
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

This report has been prepared by FSS International Investment Advisory Company Limited (FSSIA). The information herein has been obtained from sources believed to be reliable and accurate; however FSS makes no representation as to the accuracy and completeness of such information. Information and opinions expressed herein are subject to change without notice. FSS has no intention to solicit investors to buy or sell any security in this report. In addition, FSS does not guarantee returns nor price of the securities described in the report nor accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Investors should study this report carefully in making investment decisions. All rights are reserved.

This report may not be reproduced, distributed or published by any person in any manner for any purpose without permission of FSSIA. Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

History of change in investment rating and/or target price

CH.Karnchang (CK TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
12-Nov-2020	BUY	22.00	13-Aug-2021	BUY	23.00	-	-	-
18-Feb-2021	BUY	18.00	10-Nov-2021	BUY	26.00			

Thanyatorn Songwutti started covering this stock from 11-Apr-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
CH.Karnchang	CK TB	THB 22.00	BUY	Key downside risks to our SoTP-based TP include 1) delays in the signing of the Luang Prabang hydropower plant and Orange Line projects; 2) fewer new projects 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 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 11-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.