

# Land and Houses LH TB / LH.BK

15 January 2016

## Strong belief in solid FY16 earnings

### Investment thesis

LH's disappointing FY15 business plan is behind us, so we look ahead to impressive 4Q15 performance in presales and revenue. The dividend for 2H15 will beat our earlier view on gains from asset sales in 4Q15. We have high conviction about its promising FY16 core profit growth forecast (17%). Our BUY rating stands at a SOTP-derived YE16 target price of Bt9.80 (housing PER of 16x and Bt3.0/share of market value of investment). LH trades at a FY16 PER of 13.8x, below 15.2x of its FY06-15 mean PER.

### No surprise over missed full-year business plan targets

LH will post FY15 presales of Bt24.9bn (82% low rise and 18% condos), down 21% YoY and below the firm's target of Bt34bn. Poor presales in FY15 is due to weak demand and the downsizing of new launches from Bt37bn to Bt25bn (eight projects delayed). Presales of low rises, LH's core product, are flat YoY at Bt20bn for FY15, which is good in our view. However, condo presales plunged 60% YoY to Bt4.4bn for FY15 due to the lack of new condo launches. We forecast FY15 residential revenue of Bt25bn for FY15, down 5% YoY and an 11% below its target of Bt28bn.

### Presales and earnings to jump on year and quarter in 4Q15

LH will post impressive presales and residential revenue in 4Q15 (the best quarter of the year). Presales in 4Q15 will be Bt7.8bn, a jump of 50% YoY and 36% QoQ driven by growth in low rises of 84% YoY and 58% QoQ. Residential revenue will hit a record Bt8.9bn, up 20% YoY and 67% QoQ on strong low-rise sales and the transfer of three condos (*The Key Wutthakat*, *The Room* projects at Pan Road and Rama IV). We expect 4Q15 core profit of Bt2.2bn, up 25% YoY and 52% QoQ; net profit of Bt3bn boosted by Bt800m-odd gains from Terminal 21 hotel sales to REIT. With gains, DPS for 2H15 would be Bt0.28 (over the Bt0.23 of our earlier view).

### Looking for conservative blueprint for FY16 operations

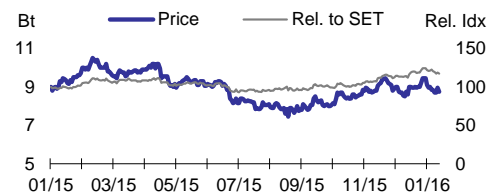
LH will unveil its business plan for FY16 next week—it is likely to be conservative, in our view. FY16 presales target growth should show only a single-digit gain. However, LH should aim at double-digit growth for FY16 residential revenue. Our modeled residential revenue is Bt28bn for FY16, or 14% growth. We conservatively assume GM flattish but a 50bps lower SG&A/sales due to top-line expansion. LH plans to buy new apartments in US and develop shopping malls in upcountry Thailand.

### High earnings visibility for 2016

The earnings growth outlook for FY16 is quite prominent, with Bt19bn of condos scheduled for completion against Bt6bn for FY15. Three sizable condos are to start transferring in FY16—*The Room* Sukhumvit 69 in 1Q16 (Bt2.6bn in total value, 49% booked), *333 Riverside* in 3Q16 (Bt7bn, 92% booked), *The Room* Sathorn 11 (Bt1.9bn, 32% booked) and *The Bangkok Sathorn* in 4Q16 (Bt7.5bn, 62% booked). Presales backlog secures 23% of our FY16 residential revenue forecast, the company's highest on record.

**Sector: Residential Property – NEUTRAL**
**Rating: BUY**
**Target Price: Bt9.80**
**Price (14 January 2016): Bt8.75**

### Price chart

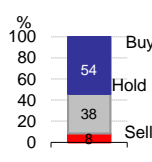


Share price perf. (%)	1M	3M	12M
Relative to SET	0.3	18.7	14.3
Absolute	-	7.4	(2.8)

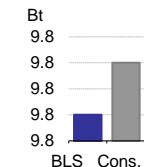
### Key statistics

Market cap	Bt102.8bn	USD2.8bn
12-mth price range	Bt7.5/Bt10.5	
12-mth avg daily volume	Bt155m	USD4.3m
# of shares (m)	11,748	
Est. free float (%)	53.1	
Foreign limit (%)	30.0	

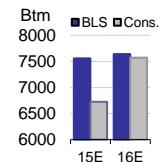
### Consensus rating



### BLS Target price vs. Consensus



### BLS earnings vs. Consensus



### Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	28,317	26,969	30,548	32,898
Net profit (Btm)	8,423	7,559	7,639	8,401
EPS (Bt)	0.77	0.63	0.64	0.70
EPS growth (%)	+18.7%	-17.9%	+1.1%	+10.0%
Core profit (Btm)	6,947	6,546	7,639	8,401
Core EPS (Bt)	0.63	0.54	0.64	0.70
Core EPS growth (%)	-1.6%	-13.8%	+16.7%	+10.0%
PER (x)	11.4	13.9	13.8	12.5
PBV (x)	2.2	2.2	2.1	2.0
Dividend (Bt)	0.7	0.5	0.5	0.6
Dividend yield (%)	7.4	6.1	6.2	6.8
ROE (%)	22.0	16.9	16.1	17.1

**CG/Anti-Corruption**


Narumon Ekasamut

Securities Fundamental Investment Analyst

narumon.e@bualuang.co.th

+66 2 618 1345

## LH: Financial Tables – Year

Btm	2013	2014	2015E	2016E	2017E
Revenue	25,075	28,317	26,969	30,548	32,898
Cost of sales and services	(15,990)	(18,206)	(17,477)	(19,780)	(21,224)
<b>Gross profit</b>	<b>9,085</b>	<b>10,111</b>	<b>9,491</b>	<b>10,768</b>	<b>11,674</b>
SG&A	(3,436)	(4,005)	(3,947)	(4,313)	(4,686)
<b>EBIT</b>	<b>5,649</b>	<b>6,106</b>	<b>5,544</b>	<b>6,455</b>	<b>6,987</b>
Interest expense	(570)	(503)	(369)	(382)	(388)
Other income/exp.	464	467	500	579	611
<b>EBT</b>	<b>5,544</b>	<b>6,070</b>	<b>5,675</b>	<b>6,652</b>	<b>7,210</b>
Corporate tax	(1,102)	(1,235)	(1,182)	(1,370)	(1,505)
<b>After-tax net profit (loss)</b>	<b>4,442</b>	<b>4,835</b>	<b>4,493</b>	<b>5,282</b>	<b>5,706</b>
Minority interest	(109)	(98)	(150)	(125)	(125)
Equity earnings from affiliates	2,109	2,210	2,203	2,482	2,821
Extra items	37	1,476	1,012	0	0
<b>Net profit (loss)</b>	<b>6,478</b>	<b>8,423</b>	<b>7,559</b>	<b>7,639</b>	<b>8,401</b>
Reported EPS	0.65	0.77	0.63	0.64	0.70
<b>Fully diluted EPS</b>	<b>0.65</b>	<b>0.77</b>	<b>0.63</b>	<b>0.63</b>	<b>0.70</b>
<b>Core net profit</b>	<b>6,442</b>	<b>6,947</b>	<b>6,546</b>	<b>7,639</b>	<b>8,401</b>
Core EPS	0.64	0.63	0.54	0.64	0.70
<b>EBITDA</b>	<b>6,133</b>	<b>6,615</b>	<b>6,118</b>	<b>6,827</b>	<b>7,368</b>

### KEY RATIOS

Revenue growth (%)	4.0	12.9	(4.8)	13.3	7.7
Gross margin (%)	36.2	35.7	35.2	35.2	35.5
EBITDA margin (%)	24.5	23.4	22.7	22.4	22.4
Operating margin (%)	22.5	21.6	20.6	21.1	21.2
Net margin (%)	25.8	29.7	28.0	25.0	25.5
Core profit margin (%)	25.7	24.5	24.3	25.0	25.5
ROA (%)	9.2	10.4	8.8	9.0	9.7
ROCE (%)	10.0	11.3	9.5	9.7	10.5
Asset turnover (x)	0.4	0.3	0.3	0.4	0.4
Current ratio (x)	0.1	4.4	4.4	4.4	4.4
Gearing ratio (x)	1.0	0.8	0.6	0.6	0.6
Interest coverage (x)	9.9	12.1	15.0	16.9	18.0

### BALANCE SHEET (Btm)

Cash & Equivalent	1,216	6,738	7,017	2,810	2,742
Accounts receivable	136	172	145	165	177
Inventory	38,496	43,024	40,806	44,876	46,798
PP&E-net	4,375	4,478	4,657	4,757	4,857
Other assets	31,146	32,476	32,586	32,710	32,851
<b>Total assets</b>	<b>75,369</b>	<b>86,888</b>	<b>85,212</b>	<b>85,319</b>	<b>87,426</b>
Accounts payable	2,806	3,089	2,375	2,688	2,884
ST debts & current portion	8,836	10,365	4,090	4,170	4,171
Long-term debt	26,104	25,206	26,500	25,000	25,001
Other liabilities	2,780	3,953	3,953	3,953	3,953
<b>Total liabilities</b>	<b>40,526</b>	<b>42,613</b>	<b>36,917</b>	<b>35,810</b>	<b>36,008</b>
Paid-up capital	10,026	10,986	12,015	12,015	12,015
Share premium	10,026	10,986	12,015	12,015	12,015
Retained earnings	11,957	16,157	16,575	17,789	19,698
<b>Shareholders' equity</b>	<b>33,573</b>	<b>42,831</b>	<b>46,851</b>	<b>48,065</b>	<b>49,974</b>
Minority interests	1,270	1,444	1,444	1,444	1,444
<b>Total Liab.&amp;Shareholders' equity</b>	<b>75,369</b>	<b>86,887</b>	<b>85,212</b>	<b>85,319</b>	<b>87,426</b>

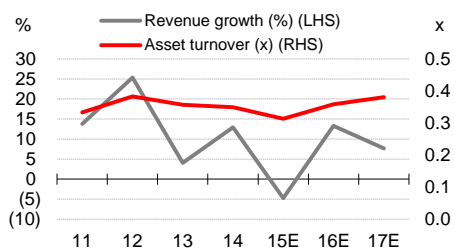
### CASH FLOW (Btm)

Net income	6,478	8,423	7,559	7,639	8,401
Depreciation and amortization	484	509	574	373	381
Change in working capital	(14,504)	(19,775)	(20,311)	2,393	(3,902)
FX, non-cash adjustment & others	8,203	13,433	19,437	(8,644)	(648)
<b>Cash flows from operating activities</b>	<b>662</b>	<b>2,590</b>	<b>7,259</b>	<b>1,761</b>	<b>4,232</b>
Capex (Invest)/Divest	(2,828)	4,620	1,541	1,877	2,191
Others	(39)	729	0	0	0
<b>Cash flows from investing activities</b>	<b>(2,867)</b>	<b>5,349</b>	<b>1,541</b>	<b>1,877</b>	<b>2,191</b>
Debt financing (repayment)	6,075	(370)	(4,632)	(1,250)	251
Equity financing	0	3,396	3,602	0	0
Dividend payment	(3,977)	(5,123)	(7,141)	(6,425)	(6,493)
Others	(39)	729	0	0	0
<b>Cash flows from financing activities</b>	<b>1,945</b>	<b>(2,650)</b>	<b>(8,520)</b>	<b>(7,845)</b>	<b>(6,491)</b>
Net change in cash	(260)	5,289	280	(4,207)	(68)
<b>Free cash flow (Btm)</b>	<b>(2,166)</b>	<b>7,209</b>	<b>8,800</b>	<b>3,638</b>	<b>6,423</b>
<b>FCF per share (Bt)</b>	<b>(0.22)</b>	<b>0.66</b>	<b>0.73</b>	<b>0.30</b>	<b>0.53</b>

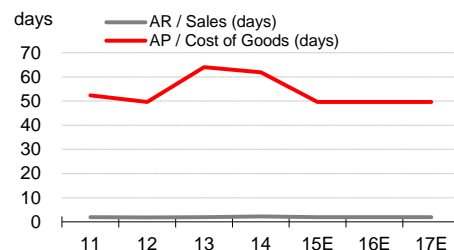
### KEY ASSUMPTIONS

	2013	2014	2015E	2016E	2017E
Total bookings (Btm)	30,191	31,514	34,035	37,439	41,182
Housing revenue (Btm)	22,939	26,037	24,869	28,301	30,516
Housing revenue growth	3%	14%	-4%	14%	8%
Housing GM	35.8%	35.4%	34.4%	34.5%	34.7%
Presales backlogs (Btm)	-	-	24,869	6,591	10,583
% secured housing revenue by backlogs	-	-	100%	23%	35%

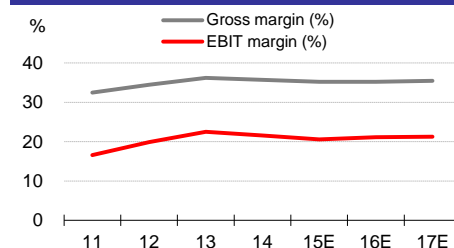
### Revenue growth and asset turnover



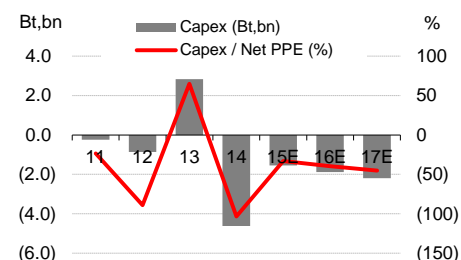
### A/C receivable & A/C payable days



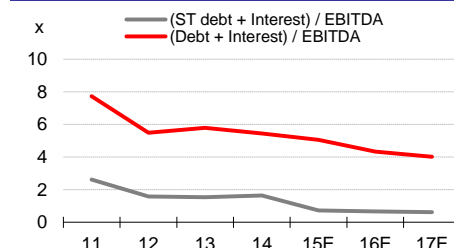
### Profit margins



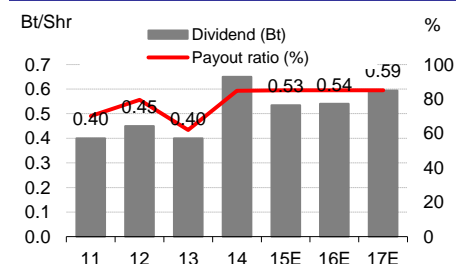
### Capital expenditure



### Debt serviceability



### Dividend payout



## LH: Financial Tables – Quarter

Revenue	6,569	8,096	5,696	5,885	5,849
Cost of sales and services	(4,153)	(5,333)	(3,838)	(3,833)	(3,850)
Gross profit	2,415	2,763	1,859	2,051	1,999
SG&A	(944)	(1,364)	(840)	(842)	(847)
<b>EBIT</b>	<b>1,471</b>	<b>1,398</b>	<b>1,019</b>	<b>1,209</b>	<b>1,152</b>
Interest expense	(98)	(99)	(54)	(88)	(67)
Other income/exp.	109	155	149	110	124
<b>EBT</b>	<b>1,482</b>	<b>1,454</b>	<b>1,114</b>	<b>1,231</b>	<b>1,208</b>
Corporate tax	(302)	(211)	(245)	(250)	(262)
After-tax net profit (loss)	1,179	1,243	869	981	947
Minority interest	(32)	(33)	(6)	(45)	(27)
Equity earnings from affiliates	584	567	484	568	550
Extra items	(1)	1,508	(1)	201	12
<b>Net profit (loss)</b>	<b>1,731</b>	<b>3,286</b>	<b>1,345</b>	<b>1,704</b>	<b>1,482</b>
Reported EPS	0.16	0.30	0.12	0.15	0.13
<b>Fully diluted EPS</b>	<b>0.16</b>	<b>0.30</b>	<b>0.11</b>	<b>0.14</b>	<b>0.12</b>
<b>Core net profit</b>	<b>1,732</b>	<b>1,777</b>	<b>1,346</b>	<b>1,504</b>	<b>1,470</b>
Core EPS	0.16	0.16	0.12	0.13	0.13
<b>EBITDA</b>	<b>1,727</b>	<b>1,693</b>	<b>1,280</b>	<b>1,445</b>	<b>1,323</b>

### KEY RATIOS

Gross margin (%)	36.8	34.1	32.6	34.9	34.2
EBITDA margin (%)	26.3	20.9	22.5	24.6	22.6
Operating margin (%)	22.4	17.3	17.9	20.6	19.7
Net margin (%)	26.3	40.6	23.6	29.0	25.3
Core profit margin (%)	26.4	22.0	23.6	25.6	25.1
BV (Bt)	3.8	4.0	4.4	3.9	3.8
ROE (%)	17.7	30.7	11.5	15.6	13.7
ROA (%)	8.4	15.1	6.2	7.6	6.4
Current ratio (x)	2.6	3.2	3.2	3.6	2.7
Gearing ratio (x)	0.9	0.8	0.7	0.8	0.9
Interest coverage (x)	15.0	14.1	18.8	13.7	17.2

### QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,051	6,738	2,824	5,403	3,099
Accounts receivable	135	172	147	155	142
Inventory	43,085	43,024	43,964	44,450	48,079
PP&E-net	4,425	4,478	6,848	6,658	6,611
Other assets	33,618	32,476	33,378	33,530	34,126
<b>Total assets</b>	<b>82,314</b>	<b>86,888</b>	<b>87,161</b>	<b>90,197</b>	<b>92,058</b>
Accounts payable	2,877	3,089	2,923	2,731	3,256
ST debts & current portion	11,911	10,365	8,635	8,119	11,686
Long-term debt	23,231	25,206	22,694	29,183	26,716
Other liabilities	3,773	3,953	4,773	5,055	5,740
<b>Total liabilities</b>	<b>41,792</b>	<b>42,613</b>	<b>39,025</b>	<b>45,088</b>	<b>47,398</b>
Paid-up capital	10,798	10,986	10,996	11,695	11,702
Share premium	10,643	12,574	13,042	0	13,069
Retained earnings	12,900	16,157	17,502	14,538	13,102
<b>Shareholders equity</b>	<b>39,187</b>	<b>42,831</b>	<b>46,686</b>	<b>43,614</b>	<b>43,138</b>
Minority interests	1,335	1,444	1,450	1,495	1,522
<b>Total Liab.&amp;Shareholders' equity</b>	<b>82,314</b>	<b>86,887</b>	<b>87,161</b>	<b>90,197</b>	<b>92,058</b>

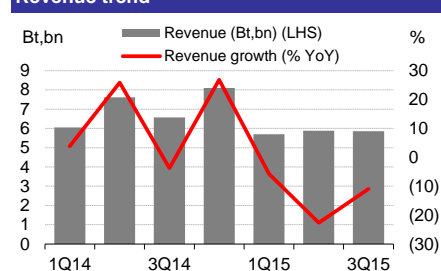
### KEY STATS

	3Q14	4Q14	1Q15	2Q15	3Q15
Total bookings (Btm)	10,880	5,198	5,601	5,632	5,747
YoY change in total booking	9%	0%	-15%	-37%	-47%
Housing revenue (Btm)	5,965	7,440	5,214	5,395	5,332
YoY change in housing revenue	3%	34%	-26%	-10%	-28%
Housing GM	36.3%	33.4%	32.4%	34.0%	34.2%
Rental revenue (Btm)	603	656	482	489	517

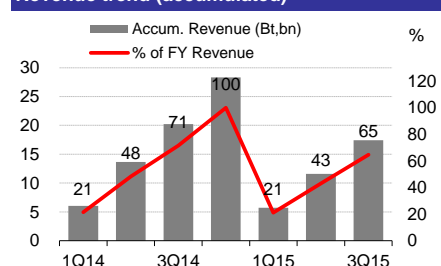
### Company profile

Land and Houses Public Company Limited (LH) is the largest home builder in Thailand by market capitalization. It is the leader in the Single Detached House category. LH pioneered the prebuilt model in Thailand. Although most of its developments have been in greater Bangkok and vicinity. The 2012 housing portfolio breakdown is 83% low-rise and 17% condo. LH has recurring income on four serviced apartments (Center Point Rachadamri, Wireless Road, and Sukhumvit 21), and retail space (Terminal 21). LH has stakes in the following associates—35% of LHBANK, 30% of HMPRO, 25% of QH and 21% of Q-CON.

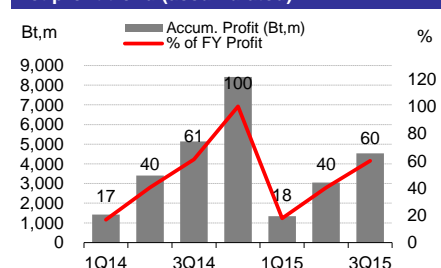
### Revenue trend



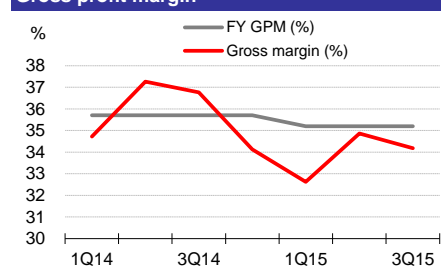
### Revenue trend (accumulated)



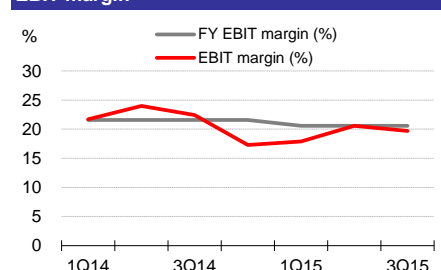
### Net profit trend (accumulated)



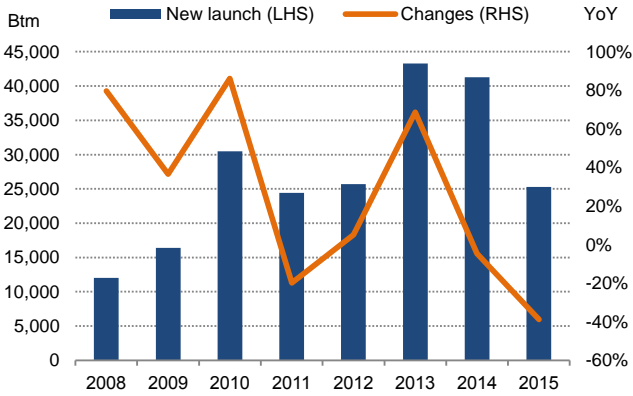
### Gross profit margin



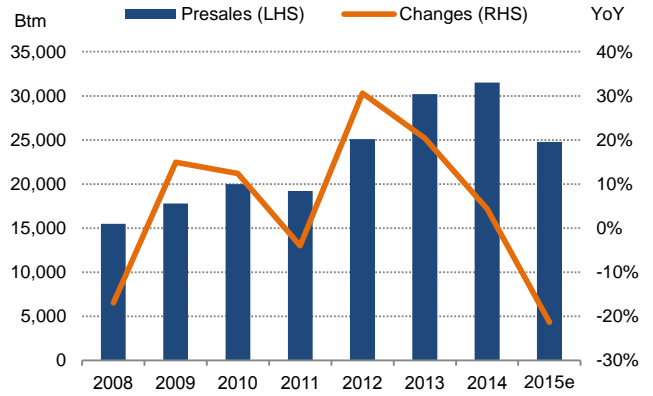
### EBIT margin



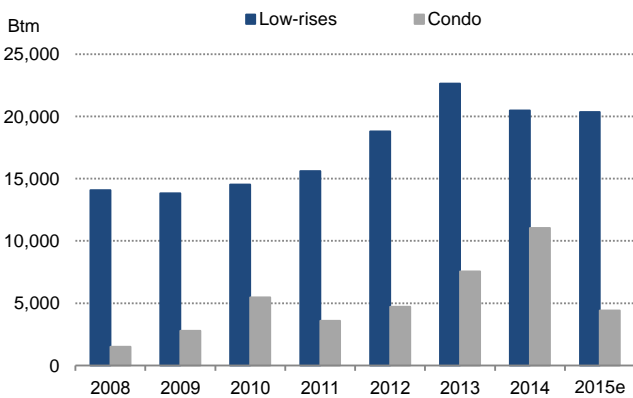
**Figure 1 : New launch profile**



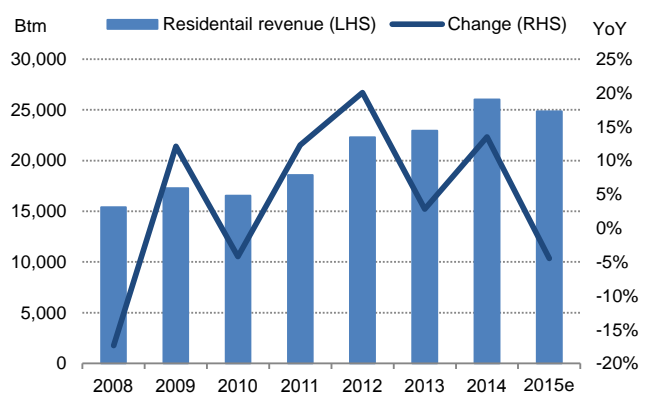
**Figure 2 : Presales profile**



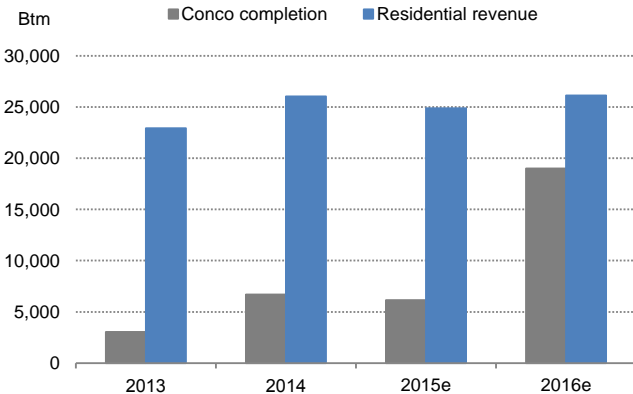
**Figure 3 : Presales breakdown by low-rises and condo**



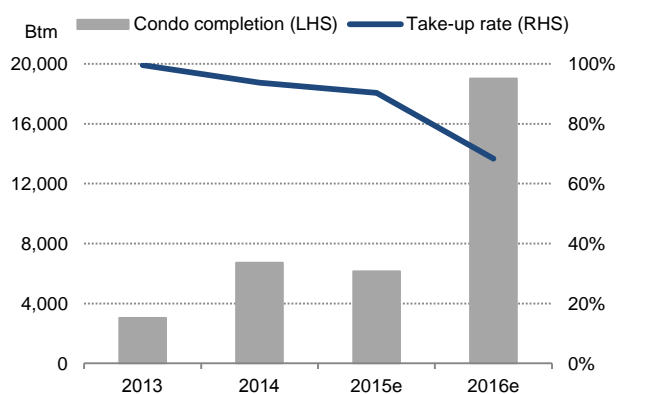
**Figure 4 : Residential revenue profile**



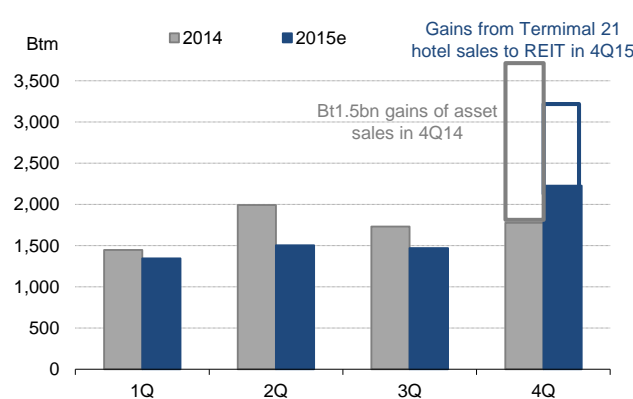
**Figure 5 : Condo completion schedule and our total residential revenue forecast**



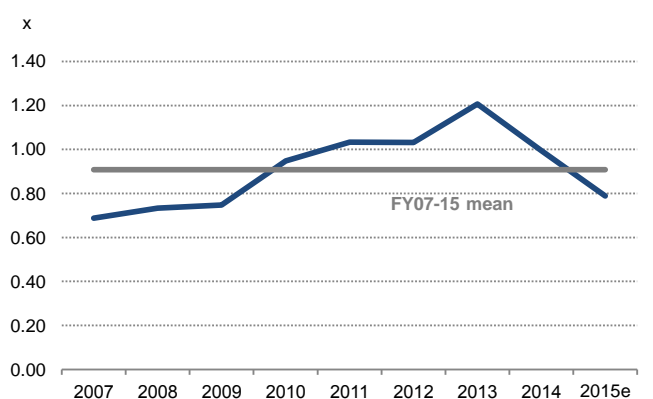
**Figure 6 : Condo completion and take-up rate mean**



**Figure 7 : Quarterly core and net earnings profile**



**Figure 8 : Net gearing ratio**

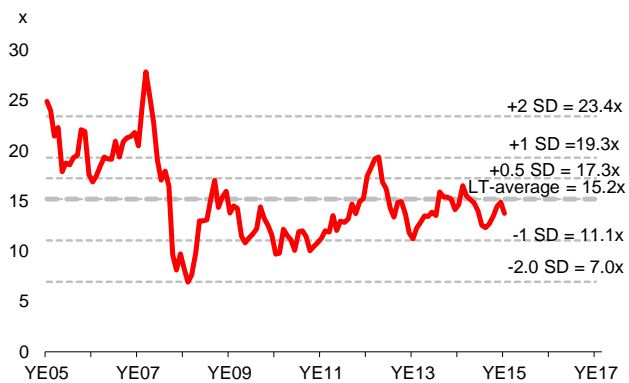


Sources: Company data, Bualuang Research

## Sector Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Ananda Development	ANAN TB	THB3.92	359	13.3	9.8	-24.7	36.3	1.7	1.5	13.5	16.5	1.9	2.6
AP (Thailand)	AP TB	THB5.55	480	6.1	5.9	9.8	2.6	1.0	0.9	17.0	15.6	5.3	5.5
Land and Houses	LH TB	THB8.75	2,828	13.9	13.8	-18.1	1.1	2.2	2.1	16.9	16.1	6.1	6.2
L.P.N. Development	LPN TB	THB15.30	621	9.0	7.8	24.2	15.5	1.9	1.7	22.7	23.1	5.6	6.4
Prukka Real Estate	PS TB	THB24.10	1,479	8.0	6.8	1.1	17.0	1.6	1.3	21.0	21.2	4.2	4.9
Quality Houses	QH TB	THB2.22	654	8.1	7.1	-24.1	12.9	1.1	1.0	14.4	14.5	5.5	6.2
Raimon Land	RML TB	THB1.30	128	4.0	6.6	9.1	-40.3	0.9	0.8	31.1	15.8	8.0	4.8
SC Asset Corporation	SC TB	THB2.88	331	7.6	6.4	-5.2	17.6	0.9	0.8	12.9	13.8	5.3	6.2
Sansiri	SIRI TB	THB1.51	594	6.8	7.4	-4.7	-7.4	0.8	0.8	12.9	11.2	8.6	8.0
Supalai	SPALI TB	THB18.90	893	7.5	6.5	-2.8	14.5	1.6	1.4	23.2	23.0	5.6	6.5
<b>Simple average</b>				<b>8.4</b>	<b>7.8</b>	<b>-3.5</b>	<b>7.0</b>	<b>1.4</b>	<b>1.2</b>	<b>18.6</b>	<b>17.1</b>	<b>5.6</b>	<b>5.7</b>

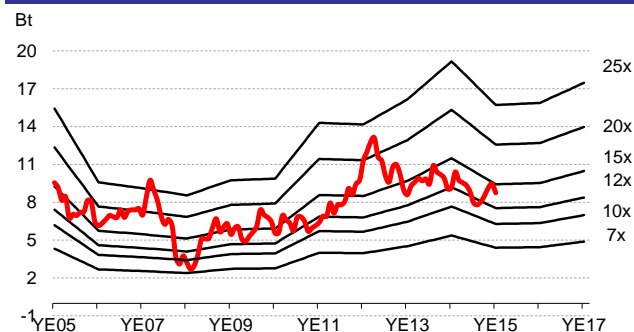
PER band versus SD (next 12 months)



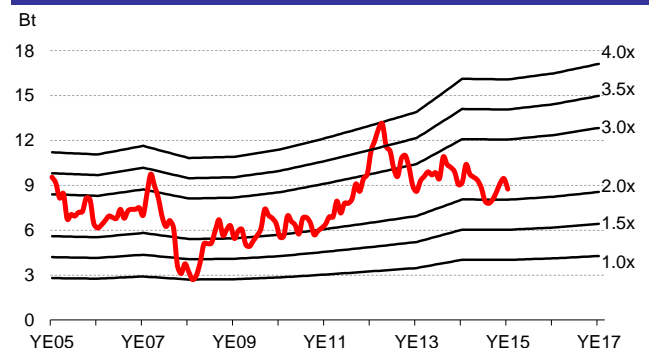
PBV band versus SD (next 12 months)



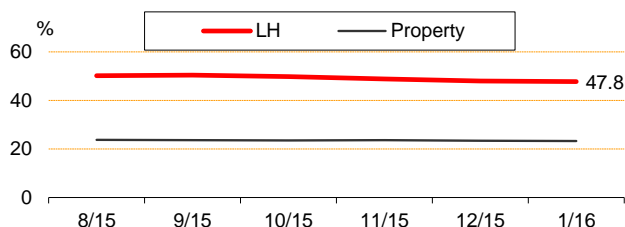
PER band and share price



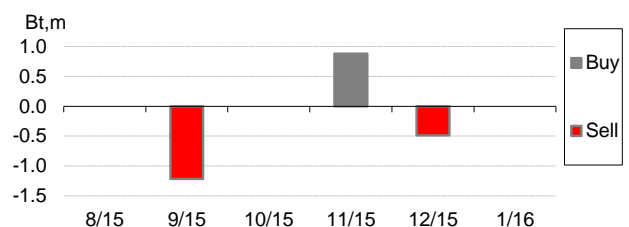
PBV band and share price



Foreign holdings



Management trading activities during past six months



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

**CG Rating**

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

**Anti-Corruption Progress Indicator**

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Expected positive total returns of 15% or more over the next 12 months.

**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**SELL:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.