

# Bangkok Life Assurance

BLA TB / BLA.BK

13 November 2014

## Deep 3Q14 loss, due to extra provision

### 3Q14 profit missed our estimate

BLA posted a disappointing 3Q14 loss of Bt881m (it had reported profits of Bt1.1bn for 3Q13 and Bt169m for 2Q14). We had expected earnings for the quarter. BLA set a heavy extra provision of Bt2.25bn against interest rate risk. As such, its provisioning for the life policy reserve shot up 31% YoY to Bt7.1bn, which was 9% above our assumption of Bt6.5bn. Besides, its total premiums fell by 13% YoY and 26% QoQ (which was 25% below our assumption). The 9M14 profit was Bt384m, down 89% YoY.

### Results highlights

Total premiums for the quarter fell by 13% YoY and 26% QoQ to Bt7.2bn. 3Q14 total premiums were 25% below our model. During the quarter, BLA set provisions for its life policy reserve equal to 98% of total premiums—its loss ratio—which was substantially above our assumption of 68%. The heavy provisioning was prompted by the Bank of Thailand cutting its policy interest rate in March 12, 2014. BLA set an extra reserve of Bt2.25bn for losses on its life policy reserve, due to a diminished interest rate expectation.

3Q14 ROI was 5.2%, up 10 bps YoY but flat QoQ. Investment income was Bt2.4bn, up by 25% YoY and 11% QoQ, driven by swift investment asset expansion. BLA also booked a net investment gain of Bt162m for 3Q14, up 54% YoY (but down 50% QoQ, as the gain on the stock market was smaller than for 2Q13).

### Outlook

We expect the firm's performance to normalize and its focus to shift to sales of longer-term endowment products and credit protection products in 4Q14 onward in order to boost margin and reduce provisioning needs for its life policy reserve. Thus, we forecast YoY and QoQ profit expansion for the quarter.

### What's changed?

Given the poor 3Q14 results, we have slashed our earnings projections by 72% to Bt1.1bn for FY14 and by 18.5% to Bt4.4bn for FY15. Note that we have raised our provisioning assumptions to 83% of total premiums for FY14 (from 76%) and to 70% of total premiums in FY15 (from 68.5%).

### Recommendation

BLA's ongoing focus switch from short-duration endowment policies to long-duration policies and pension products will boost its profitability, as it won't have to set heavy provisions for the life policy reserve in FY15 onward. However, our earnings forecast cuts prompted us to slash our YE15 target price by 15% to Bt67 (based upon VNB of Bt37.98 and Embedded Value of Bt29.10). We still rate BLA a BUY.

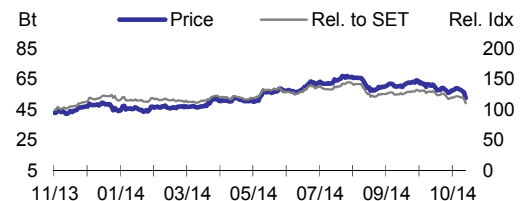
Sector: Insurance Overweight

Rating: BUY

Target Price: Bt67.00

Price (12 November 2014): Bt52.75

### Price chart

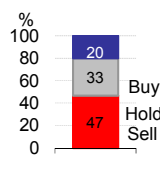


Share price perf. (%)	1M	3M	12M
Relative to SET	(15.5)	(42.7)	(24.1)
Absolute	(14.2)	(41.6)	(13.5)

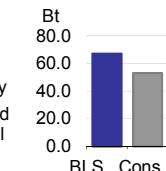
### Key statistics

Market cap	Bt64.0bn	USD1.9bn
12-mth price range	Bt52.0/Bt95.5	
12-mth avg daily volume	Bt78m	USD2.4m
# of shares (m)	1,213	
Est. free float (%)	40.8	
Foreign limit (%)	25.0	

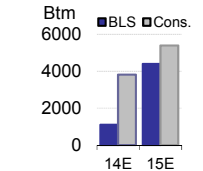
### Consensus rating



### BLS Target price vs. Consensus



### BLS earnings vs. Consensus



### Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Total rev (Btm)	46,396	60,859	62,794	67,045
Net profit (Btm)	4,381	1,100	4,400	5,000
Fully diluted EPS (Bt)	2.56	0.64	2.58	2.93
EPS growth (%)	-5.9%	-74.9%	+300.0%	+13.6%
PER (x)	14.6	81.9	20.5	18.0
EV/EBITDA (x)	15.9	67.9	15.6	13.3
PBV (x)	2.87	4.16	3.70	3.32
Dividend (Bt)	0.91	1.00	1.10	1.20
ROA (%)	2.5	0.5	1.7	1.7
Net gearing (x)	6.7	8.0	8.4	8.8
Total loss ratio (%)	65.4	83.0	70.0	70.0
Total premium Mkt (%)	8.8	12.0	10.0	10.0

### CG rating



Suwat Bumrungratadom

Securities Fundamental Investment Analyst

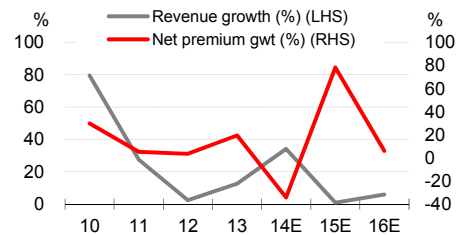
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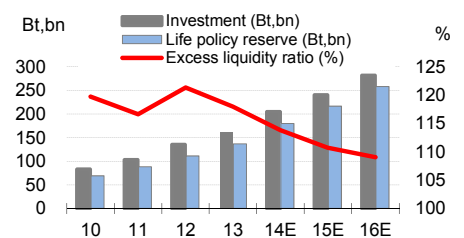
## BLA : Financial Tables – Year

<b>PROFIT &amp; LOSS (Btm)</b>					
Insurance premium	34,128	38,795	52,038	52,533	55,685
Less Life policy reserve	(22,873)	(25,357)	(43,191)	(36,773)	(38,980)
<b>Net premium</b>	<b>11,255</b>	<b>13,438</b>	<b>8,846</b>	<b>15,760</b>	<b>16,706</b>
Underwriting expenses	(11,094)	(13,939)	(14,440)	(17,369)	(18,411)
<b>Profit from insurance</b>	<b>161</b>	<b>(501)</b>	<b>(5,594)</b>	<b>(1,609)</b>	<b>(1,705)</b>
Revenue on investment	6,204	7,601	8,822	10,261	11,359
Other income/exp.	(28)	39	33	33	35
<b>Net revenue</b>	<b>6,337</b>	<b>7,139</b>	<b>3,260</b>	<b>8,685</b>	<b>9,689</b>
Operating expenses	(1,573)	(1,828)	(2,064)	(3,196)	(3,519)
<b>EBIT</b>	<b>4,764</b>	<b>5,311</b>	<b>1,197</b>	<b>5,489</b>	<b>6,169</b>
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(1,480)	(930)	(97)	(1,089)	(1,169)
<b>Net profit (loss)</b>	<b>3,284</b>	<b>4,381</b>	<b>1,100</b>	<b>4,400</b>	<b>5,000</b>
Reported EPS	2.73	3.62	0.64	2.58	2.93
<b>Fully diluted EPS</b>	<b>2.73</b>	<b>3.62</b>	<b>0.64</b>	<b>2.58</b>	<b>2.93</b>
<b>Core net profit</b>	<b>3,313</b>	<b>4,341</b>	<b>1,067</b>	<b>4,367</b>	<b>4,965</b>
Core EPS	2.75	3.58	0.62	2.56	2.91
<b>EBITDA</b>	<b>4,860</b>	<b>5,407</b>	<b>1,292</b>	<b>5,584</b>	<b>6,265</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	2.5	12.7	34.1	1.0	6.0
Gross margin (%)	15.7	15.4	5.4	13.8	14.4
EBITDA margin (%)	12.1	11.6	2.1	8.9	9.3
Operating margin (%)	8.2	9.4	1.8	7.0	7.4
Net margin (%)	8.1	9.4	1.8	7.0	7.5
Core profit margin (%)	8.2	9.4	1.8	7.0	7.4
ROA (%)	2.3	2.5	0.5	1.7	1.7
ROE (%)	16.4	19.7	4.6	16.3	16.6
Commission/Insurance premium	13.3	11.2	9.3	9.0	9.0
Life policy Provision/insurance premium	67.0	65.4	83.0	70.0	70.0
Cost/income	24.8	34.0	34.0	34.0	34.0
Combined ratio	85.0	81.3	114.7	109.1	109.4
<b>BALANCE SHEET (Btm)</b>					
Cash & Equivalent	866	1,331	1,400	1,550	1,750
Total investment in securities	134,979	161,126	204,670	239,751	281,616
Total net loans	2,649	3,526	4,139	4,710	5,338
Premises & equipment (Net)	305	327	400	770	910
Other assets	3,988	5,925	7,139	8,659	7,054
<b>Total assets</b>	<b>142,787</b>	<b>172,234</b>	<b>217,748</b>	<b>255,440</b>	<b>296,668</b>
Life policy reserve	111,259	136,616	179,808	216,581	258,210
Unpaid benefit to life policy	8,787	8,800	11,804	4,268	6,191
Premium received in advance	0	950	0	0	0
Other liabilities	2,768	3,604	2,146	7,603	2,158
<b>Total liabilities</b>	<b>122,814</b>	<b>149,971</b>	<b>193,758</b>	<b>228,452</b>	<b>266,559</b>
Paid-up capital	1,205	1,212	1,708	1,708	1,708
Share premium	2,759	2,846	2,358	2,358	2,358
Retained earnings	15,945	18,138	19,841	22,921	26,043
<b>Shareholders' equity</b>	<b>19,973</b>	<b>22,264</b>	<b>23,990</b>	<b>26,988</b>	<b>30,109</b>
Minority interests	0	0	0	0	0
<b>Total Liab.&amp;Shareholders' equity</b>	<b>142,787</b>	<b>172,234</b>	<b>217,748</b>	<b>255,440</b>	<b>296,668</b>
<b>CASH FLOW (Btm)</b>					
Net income	3,284	4,381	1,100	4,400	5,000
Depreciation and amortization	129	136	143	150	157
Change in working capital	22,996	23,571	43,145	37,712	39,992
FX, non-cash adjustment & others	837	804	805	806	807
<b>Cash flows from operating activities</b>	<b>27,247</b>	<b>28,087</b>	<b>44,388</b>	<b>42,262</b>	<b>45,149</b>
Capex (Invest)/Divest	1	(88)	(73)	(370)	(140)
Others	(28,585)	(27,427)	(42,642)	(39,414)	(41,523)
<b>Cash flows from investing activities</b>	<b>(28,583)</b>	<b>(27,515)</b>	<b>(42,715)</b>	<b>(39,784)</b>	<b>(41,663)</b>
Debt financing (repayment)	200	0	0	0	0
Equity financing	100	809	0	0	0
Dividend payment	(835)	(917)	(1,103)	(1,708)	(1,879)
Others	(28,585)	(27,427)	(42,642)	(39,414)	(41,523)
<b>Cash flows from financing activities</b>	<b>(535)</b>	<b>(107)</b>	<b>(1,103)</b>	<b>(1,708)</b>	<b>(1,879)</b>
Net change in cash	(1,871)	465	570	770	1,607
<b>Free cash flow (Btm)</b>	<b>27,249</b>	<b>28,000</b>	<b>44,314</b>	<b>41,892</b>	<b>45,009</b>
<b>FCF per share (Bt)</b>	<b>22.6</b>	<b>23.1</b>	<b>25.9</b>	<b>24.5</b>	<b>26.4</b>
<b>Insurance data</b>					
FYP (Btm)	7,481	6,818	9,079	9,165	9,715
RYP (Btm)	25,175	28,545	38,011	38,373	40,675
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	34,128	39,079	52,038	52,533	55,685
FYP mkt (%)	7.8	9.7	8.4	7.6	7.2
Total premium Mkt (%)	7.7	8.9	9.6	8.7	8.9

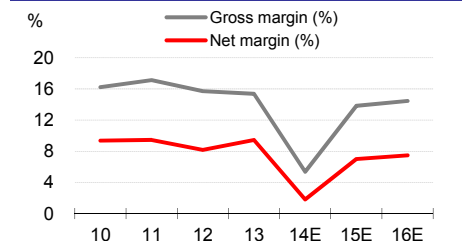
### Revenue and net premium growth



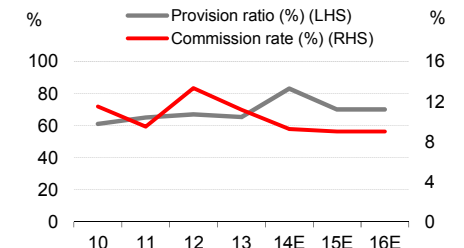
### Excess liquidity



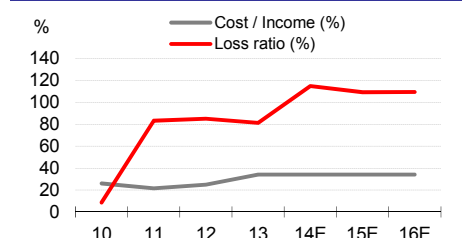
### Profit margins



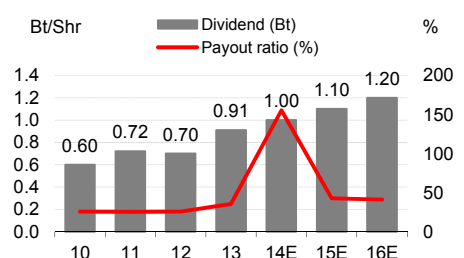
### Commission and life policy provision ratios



### Cost/Income and Loss ratios



### Dividend payout



## BLA : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q13	4Q13	1Q14	2Q14	3Q14
Net insurance premium revenue	8,372	8,350	26,712	9,769	7,245
Less provision for life policy reserve	5,446	4,151	22,415	8,099	7,118
Revenue realization on premium	2,926	4,199	4,297	1,670	127
Underwriting expenses	3,159	4,519	4,525	3,497	3,389
<b>Profit from insurance business</b>	<b>(232)</b>	<b>(320)</b>	<b>(228)</b>	<b>(1,828)</b>	<b>(3,261)</b>
Net investment income	1,909	1,768	2,014	2,153	2,386
Gain on investment	105	89	8	322	162
<b>Total revenue from investment</b>	<b>2,015</b>	<b>1,857</b>	<b>2,022</b>	<b>2,475</b>	<b>2,548</b>
Other income	(5)	23	9	17	10
Total revenues	1,777	1,560	1,803	664	(703)
Total operating expenses	465	442	496	501	482
Exceptional items	0	0	0	0	0
EBT	1,311	1,118	1,307	163	(1,185)
<b>Income tax</b>	<b>211</b>	<b>213</b>	<b>211</b>	<b>(6)</b>	<b>(304)</b>
Minority Interest	0	0	0	0	(0)
<b>Net profit</b>	<b>1,101</b>	<b>905</b>	<b>1,096</b>	<b>169</b>	<b>(881)</b>
<b>EPS</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>(1)</b>
Core profit before tax	1,212	1,006	1,290	(175)	(1,357)
<b>Core EPS</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>(0)</b>	<b>(1)</b>

### KEY RATIOS

Premium/life policy reserve (%)	25	24	67	23	17
Life policy provision/Premium (%)	65	50	84	83	98
Claim/life policy (%)	6	10	8	6	5
ROI (%)	5	5	5	5	5
Net margin (%)	11	9	4	1	(9)
Equity/Life policy reserve (%)	17	17	16	15	14
BV (Bt)	18	19	20	20	20
ROE (%)	20	16	20	3	(14)
ROA (%)	3	2	3	0	(2)
D/E (x)	6	7	7	7	7
Cost to Income (%)	26	28	28	75	(69)

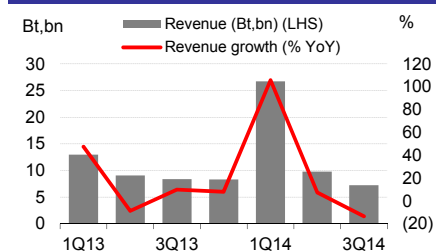
QUARTERLY BALANCE SHEET (Btm)	3Q13	4Q13	1Q14	2Q14	3Q14
Cash & Equivalent	401	1,331	1,810	2,800	2,184
Total investment in securities	157,157	161,126	182,310	190,289	196,098
Total net loans	3,231	3,526	3,645	3,939	4,323
Premises & equipment (Net)	301	327	336	358	388
<b>Other assets</b>	<b>6,295</b>	<b>5,925</b>	<b>8,807</b>	<b>7,618</b>	<b>7,435</b>
Total assets	167,384	172,234	196,908	205,003	210,428
Life policy reserve	132,466	136,616	159,031	168,314	174,248
Unpaid benefit to life policy	94	8,800	9,033	427	91
Premium received in advance	1,437	450	551	504	487
<b>Other liabilities</b>	<b>11,420</b>	<b>4,104</b>	<b>4,224</b>	<b>11,438</b>	<b>11,607</b>
Total liabilities	145,418	149,971	172,839	180,683	186,434
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,700	2,700	2,700	2,700	2,700
<b>Retained earnings</b>	<b>12,320</b>	<b>13,225</b>	<b>14,321</b>	<b>13,872</b>	<b>12,449</b>
Shareholders equity	21,966	22,264	24,069	24,320	23,994
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Insurance data	3Q13	4Q13	1Q14	2Q14	3Q14
FYP (Btm)	717	819	2,861	642	757
RYP (Btm)	6,139	6,194	12,251	8,103	6,147
SP (Btm)	1,641	1,129	11,885	1,154	472
Total premium (Btm)	8,498	8,141	26,997	9,899	7,376
FYP+SP mkt (%)	6.3	5.5	29.1	4.3	3.2
Total premium Mkt (%)	7.8	6.9	20.0	8.2	6.3

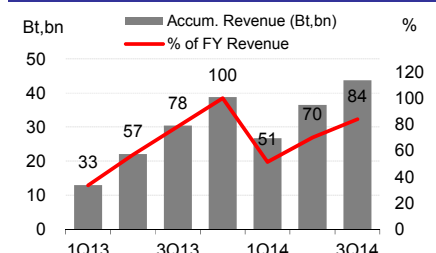
### Company profile

Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

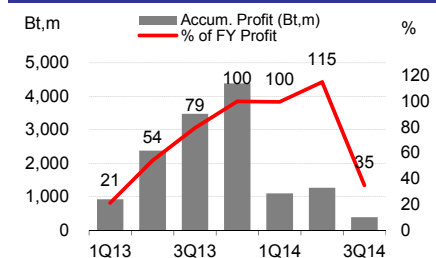
### Revenue trend



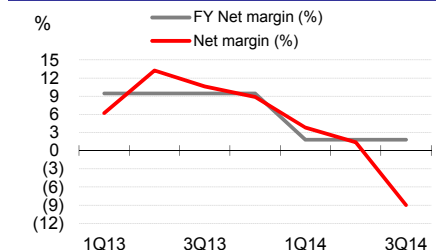
### Revenue trend (accumulated)



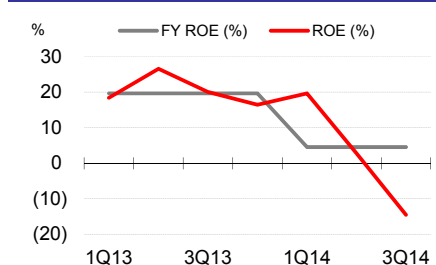
### Net profit trend (accumulated)



### Net margin



### ROE



**Figure 1 : 3Q14 results**

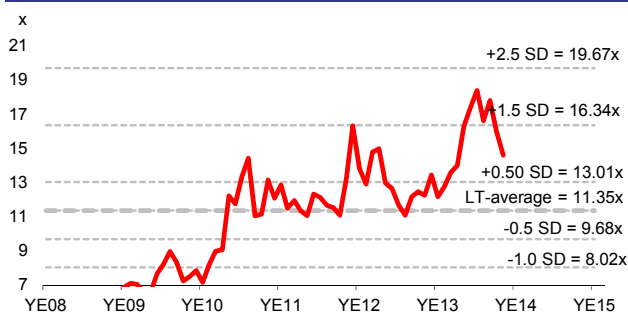
FY Ended 31 Dec (Btm)	3Q14	3Q13	YoY %	2Q14	QoQ %	9M14	9M13	YoY %	
<b>Income Statement</b>									
Net insurance premium revenue	7,245	8,372	(13)	9,769	(26)	43,726	30,445	44	
Less provision for life policy res	7,118	5,446	31	8,099	(12)	37,632	21,207	77	
Revenue realization on premiurr	127	2,926	(96)	1,670	(92)	6,094	9,239	(34)	• FYPs were down YoY and QoQ
Underwriting expenses	3,389	3,159	7	3,497	(3)	11,411	9,420	21	
Profit from insurance business	(3,261)	(232)	1,304	(1,828)	78	(5,317)	(181)	2,829	• Heavier YoY provisioning for the life policy reserve
Net investment income	2,386	1,909	25	2,153	11	6,553	5,288	24	
Gain on investment	162	105	54	322	(50)	492	456	8	
Other income	10	(5)	nm	17	(39)	36	17	nm	• Bigger YoY investment gain
<b>Total revenues</b>	<b>(703)</b>	<b>1,777</b>	<b>(140)</b>	<b>664</b>	<b>(206)</b>	<b>1,764</b>	<b>5,579</b>	<b>(68)</b>	
Total operating expenses	482	465	4	501	(4)	1,479	1,386	7	
EBT	(1,185)	1,311	(190)	163	(826)	285	4,193	(93)	
Income tax	(304)	211	(245)	(6)	nm	(99)	717	(114)	
<b>Net profit</b>	<b>(881)</b>	<b>1,101</b>	<b>(180)</b>	<b>169</b>	<b>(622)</b>	<b>384</b>	<b>3,476</b>	<b>(89)</b>	
<b>EPS</b>	<b>(0.52)</b>	<b>0.91</b>	<b>(157)</b>	<b>0.14</b>	<b>(470)</b>	<b>0.53</b>	<b>2.89</b>	<b>(82)</b>	
<b>Key ratios</b>									
Premium/life policy reserve (%)	16.6	25.3		23.2		35.7	32.3		• Fatter ROI in YoY terms, due to a big investment gain and an expanded investment portfolio in 3Q14
Life policy provision/Premium (%)	98.2	65.0		82.9		86.1	69.7		
ROI (%)	5.2	5.1		5.2		5.0	5.1		
Tax rate (%)	25.7	16.1		(3.4)		(34.8)	17.1		
Net margin (%)	(9.0)	10.6		1.4		(1.3)	10.0		
D/E (x)	7.4	6.5		7.2		7.4	6.5		
Cost to Income (%)	(68.5)	26.2		75.4		83.8	24.8		
Asset/Equity (%)	8.4	7.5		8.2		8.4	7.5		
<b>Balance Sheet</b>									
Cash & Equivalent	2,184	401	445	2,800	(22)				
<b>Total assets</b>	<b>210,428</b>	<b>167,384</b>	<b>26</b>	<b>205,003</b>	<b>3</b>				
Unpaid benefit to life policy	91	94	(3)	427	(79)				
Premium received in advance	487	1,437	100	504	0				
<b>Total liabilities</b>	<b>186,434</b>	<b>145,418</b>	<b>28</b>	<b>180,683</b>	<b>3</b>				
Retained earnings	12,449	12,320	1	13,872	(10)				
<b>Shareholders equity</b>	<b>23,994</b>	<b>21,966</b>	<b>9</b>	<b>24,320</b>	<b>(1)</b>				
Minority interests	0	0	nm	0	nm				
BV (Bt)	20.0	18.3	9	20.3	(1)				

Sources: Company data, Bualuang Research estimates

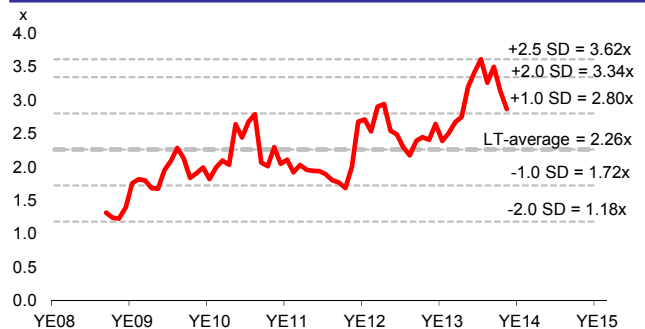
## Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Ping An Insurance (Group)	601318 CH	CNY43.8	58,096	9.4	8.0	28.2	18.5	13	12	17.1	17.2	17	19
China Life Insurance	601628 CH	CNY16.8	78,996	14.7	12.5	29.9	17.1	16	15	13.3	13.0	2.2	2.6
China Pacific Insurance (Group)	601601 CH	CNY20.8	31,625	16.2	13.3	26.3	21.6	15	14	12.0	11.2	2.2	2.6
T&D Holdings	8795 JP	JPY1425.5	8,406	119	113	3.0	4.5	0.8	0.8	7.4	7.8	17	18
Bangkok Life Assurance	BLA TB	THB52.75	2,727	819	20.5	-82.2	300.0	3.8	3.3	4.6	16.3	19	2.1
Thaire Life Assurance	THREL TB	THB14.60	267	25.5	19.1	-10.5	33.7	6.9	5.5	29.0	31.9	2.8	3.7
Simple average				26.6	14.1	-0.9	65.9	2.7	2.3	13.9	16.2	2.1	2.4

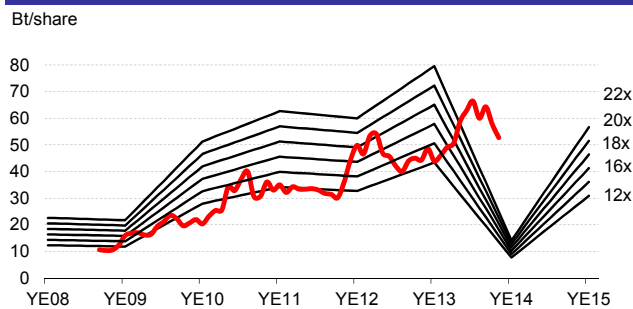
PER band versus SD (next 12 months)



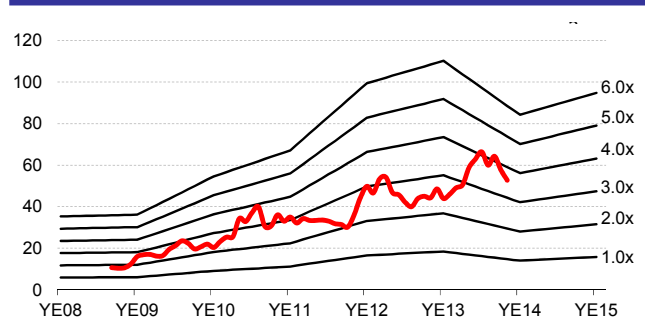
PER band versus SD (next 12 months)



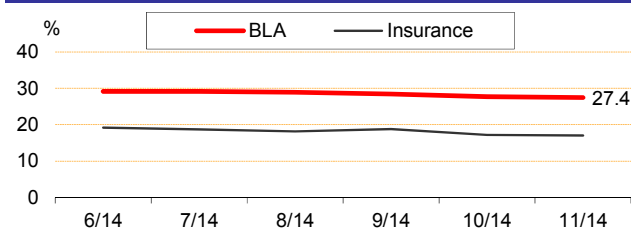
PER band and share price



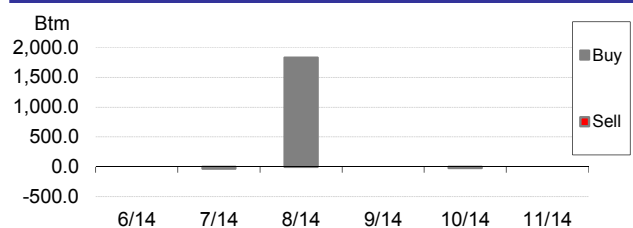
PBV band and share price



Foreign holding



Management trading activities during past six months



## Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
TSE	BA, BGH, CBG, TSE

### Score Range

90 – 100  
80 – 89  
70 – 79  
60 – 69  
50 – 59  
Below 50

### Score Range



No logo given

### Description

Excellent  
Very Good  
Good  
Satisfactory  
Pass  
N/A

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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.