BUALUANG SECURITIES

COMPANY UPDATE

Bangkok Life Assurance

BLA TB / BLA.BK

7 May 2015

Gradual recovery expected in 1Q15

Investment thesis

We forecast that BLA will deliver strong earnings growth of 65% to Bt4.4bn in FY15 and another 14% to Bt5bn in FY16, driven by its focus on the sale of long-term products with fatter margins this year and next. Therefore, BLA could set lighter provisions for its life-policy reserve of 68-70% of total premiums this year (~86% in FY14), so its earnings will rise sharply. Aside from that, risk aversion on the interest rate decline (reinvestment rate) should be on less of a downside than last year. We set a BUY call on the stock, with a YE15 target price of Bt67, pegged to YE15 embedded value of Bt31.26/share and VNB of Bt35.80/share.

1Q15 sales focus shifts to long-term products with fatter margins

We forecast that its 1Q15 sales should decline 36% YoY on the back of BLA's switched focus from short-term policies (Gain 1st 245) to long-term products (long-term endowments and credit protection, such as Bualuang Huang Luk Lan and Bualuang Huang Krobkrua, pension funds 555/600) and whole-life products with premium payment periods of at least seven years. Such products carry fatter margins, but are more difficult to sell.

Provisioning returns to normal driven by long-term products

We assume a provisioning ceiling for the life-policy reserve at 70% of total premiums for this year and next. The renewed focus on fat-margin products will allow the ratio to fall moderately from 1Q15. BLA expects to set a lower extra provision level for interest rate risk in FY15 than the amount of Bt3.3bn in FY14). If interest rates were to start rising in late 2H15, BLA could reverse some of its provisioning and book it as revenue. However, we expect BLA to set its 1Q15 provision at 77% of total premiums against the 84% it set for the same period last year.

Expect 1Q15 ROI to drop below 5%

Management guides for 1Q15 ROI of 4.8-5% from 6% last year. The likelihood of lower bond yields early this year would constrain BLA from accumulating more long-term bonds. We forecast that BLA will post revenue from investment of Bt2.5bn in 1Q15 (equivalent to ROI of 4.8%), an advance of 24% YoY.

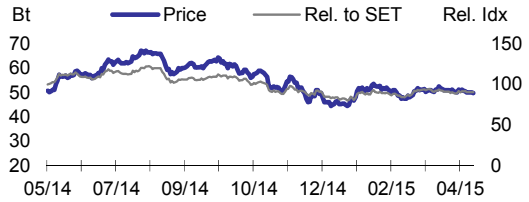
Anticipate 1Q15 earnings rise of 9% YoY

We expect the insurer to post a 1Q15 profit of Bt1.2bn, an expansion of 9% YoY (but a 47% QoQ decline). The assumed YoY increase is due to a smaller provision for its life-policy reserve (as the firm focused more on longer-term, fatter-margin products). We expect 1Q15 provisions for BLA's life-policy reserve equal to 77% of total premium revenue, dropping from the 84% posted in the same period last year. Total-premium (plus single-premium) revenue for 1Q15 is estimated at Bt17bn, a 36% YoY drop (but a big gain of 130% QoQ on seasonality).

Sector: Insurance Overweight

Rating: BUY
Target Price: Bt67.00
Price (6 May 2015)**: Bt49.75**

Price chart

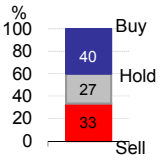


Share price perf. (%)	1M	3M	12M
Relative to SET	(0.5)	1.1	(37.9)
Absolute	(2.5)	(4.3)	(29.7)

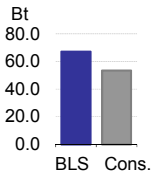
Key statistics

Market cap	Bt84.7bn	USD2.5bn
12-mth price range	Bt44.0/Bt95.5	
12-mth avg daily volume	Bt98m	USD2.9m
# of shares (m)	1,702	
Est. free float (%)	40.8	
Foreign limit (%)	25.0	

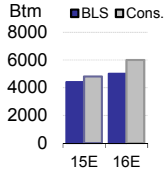
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Total rev (Btm)	61,427	57,601	61,590	66,504
Net profit (Btm)	2,662	4,400	5,000	5,600
Fully diluted EPS (Bt)	1.56	2.58	2.93	3.28
EPS growth (%)	-39.2%	+65.3%	+13.6%	+12.0%
PER (x)	31.9	19.3	17.0	15.2
EV/EBITDA (x)	24.2	13.4	11.7	9.9
PBV (x)	3.57	3.07	2.79	2.45
Dividend (Bt)	0.51	1.10	1.20	1.30
ROA (%)	1.2	1.9	1.8	1.7
Net gearing (x)	7.2	6.8	7.4	7.5
Total loss ratio (%)	79.8	70.0	70.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

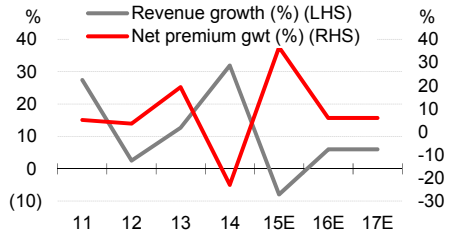
CG rating

Suwat Bumrungchatudom
Securities Fundamental Investment Analyst
suwat@bualuang.co.th
+66 2 618 1341

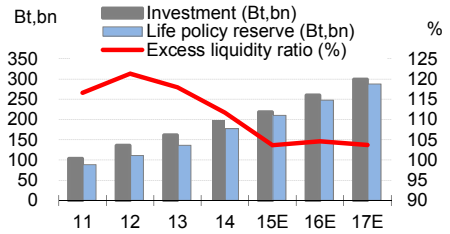
BLA : Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Insurance premium	38,795	51,172	47,110	49,937	52,933
Less Life policy reserve	(25,357)	(40,818)	(32,977)	(34,956)	(37,053)
Net premium	**13,438**	**10,354**	**14,133**	**14,981**	**15,880**
Underw riting expenses	(13,939)	(15,531)	(16,919)	(17,934)	(19,274)
Profit from insurance	**(501)**	**(5,177)**	**(2,786)**	**(2,953)**	**(3,395)**
Revenue on investment	7,601	10,255	10,491	11,653	13,571
Other income/exp.	39	48	44	47	50
Net revenue	**7,139**	**5,126**	**7,750**	**8,747**	**10,227**
Operating expenses	(1,828)	(2,018)	(2,295)	(2,596)	(2,944)
EBIT	**5,311**	**3,108**	**5,455**	**6,151**	**7,282**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(1,055)	(1,151)	(1,682)
Net profit (loss)	**4,381**	**2,662**	**4,400**	**5,000**	**5,600**
Reported EPS	3.62	1.56	2.58	2.93	3.28
Fully diluted EPS	**3.62**	**1.56**	**2.58**	**2.93**	**3.28**
Core net profit	**4,341**	**2,614**	**4,356**	**4,953**	**5,550**
Core EPS	3.58	1.53	2.55	2.90	3.25
EBITDA	**5,407**	**3,204**	**5,550**	**6,247**	**7,378**
KEY RATIOS					
Revenue grow th (%)	12.7	31.9	(7.9)	6.0	6.0
Gross margin (%)	15.4	8.3	13.4	14.2	15.4
EBITDA margin (%)	11.6	5.2	9.6	10.1	11.1
Operating margin (%)	9.4	4.3	7.6	8.0	8.3
Net margin (%)	9.4	4.3	7.6	8.1	8.4
Core profit margin (%)	9.4	4.3	7.6	8.0	8.3
ROA (%)	2.5	1.2	1.9	1.8	1.7
ROE (%)	19.7	10.4	14.8	15.3	15.0
Commission/Insurance premium	11.2	9.3	13.0	13.0	13.5
Life policy Provision/insurance premium r	65.4	79.8	70.0	70.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	110.8	111.1	112.0
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	6,000	2,200	3,650
Total investment in securities	161,126	198,238	218,061	259,493	298,417
Total net loans	3,526	4,735	5,366	5,902	6,472
Premises & equipment (Net)	327	389	770	910	992
Other assets	5,925	6,520	6,709	7,597	11,710
Total assets	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
Life policy reserve	136,616	177,435	210,412	248,017	287,720
Unpaid benefit to life policy	8,800	1,489	(8,382)	(6,771)	(5,327)
Premium received in advance	950	2,239	0	0	0
Other liabilities	3,604	8,851	5,092	2,158	1,490
Total liabilities	**149,971**	**190,013**	**207,122**	**243,405**	**283,883**
Paid-up capital	1,212	1,698	1,708	1,708	1,708
Share premium	2,846	3,091	3,091	3,091	3,091
Retained earnings	18,138	20,787	24,985	27,899	32,559
Shareholders equity	**22,264**	**25,576**	**29,784**	**32,698**	**37,358**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
CASH FLOW (Btm)					
Net income	4,381	2,662	4,400	5,000	5,600
Depreciation and amortization	136	143	150	157	165
Change in w orking capital	23,571	39,586	33,882	35,950	38,570
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**38,432**	**41,107**	**44,335**
Capex (Invest)/Divest	(88)	(126)	(381)	(140)	(82)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(25,755)**	**(41,295)**	**(38,845)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	1
Dividend payment	(917)	(678)	(871)	(1,879)	(1,440)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from financing activities	**(107)**	**(678)**	**(871)**	**(1,879)**	**(1,438)**
Net change in cash	465	5,183	11,806	(2,066)	4,052
Free cash flow (Btm)	**28,000**	**42,264**	**38,051**	**40,967**	**44,253**
FCF per share (Bt)	**23.1**	**24.7**	**22.3**	**24.0**	**25.9**
Insurance data	**2013**	**2014**	**2015E**	**2016E**	**2017E**
FYP (Btm)	6,818	8,928	8,219	8,712	9,235
RYP (Btm)	28,545	37,379	34,411	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	47,110	49,937	52,933
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

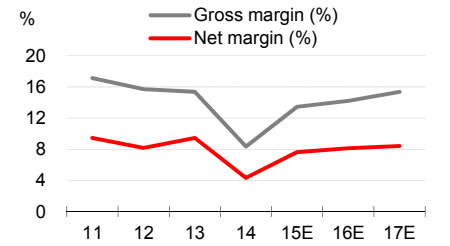
Revenue and net premium growth



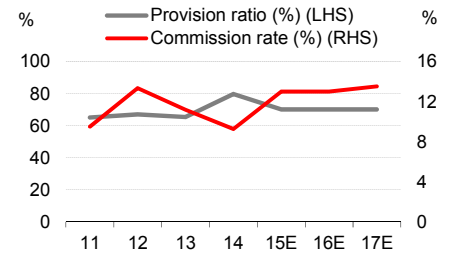
Excess liquidity



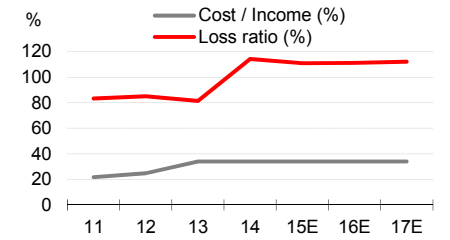
Profit margins



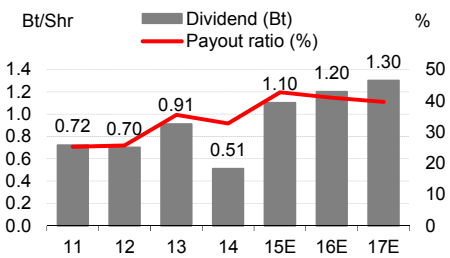
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA : Financial Tables – Quarter

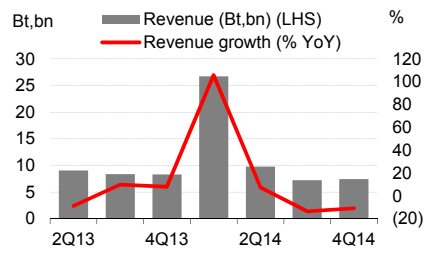
QUARTERLY PROFIT & LOSS (Btm)	4Q13	1Q14	2Q14	3Q14	4Q14
Net insurance premium revenue	8,350	26,712	9,769	7,245	7,446
Less provision for life policy reserve	4,151	22,415	8,099	7,118	3,187
Revenue realization on premium	4,199	4,297	1,670	127	4,260
Underw riting expenses	4,519	4,525	3,497	3,389	4,120
Profit from insurance business	(320)	(228)	(1,828)	(3,261)	140
Net investment income	1,768	2,014	2,153	2,386	2,259
Gain on investment	89	8	322	162	951
Total revenue from investment	1,857	2,022	2,475	2,548	3,210
Other income	23	9	17	10	13
Total revenues	1,560	1,803	664	(703)	3,362
Total operating expenses	442	496	501	482	539
Exceptional items	0	0	0	0	0
EBT	1,118	1,307	163	(1,185)	2,823
Income tax	213	211	(6)	(304)	546
Minority Interest	0	0	0	(0)	(0)
Net profit	905	1,096	169	(881)	2,278
EPS	1	1	0	(1)	1
Core profit before tax	1,006	1,290	(175)	(1,357)	1,859
Core EPS	1	1	(0)	(1)	1

KEY RATIOS					
Premium/life policy reserve (%)	24	67	23	17	17
Life policy provision/Premium (%)	50	84	83	98	43
Claim/life policy (%)	10	8	6	5	7
ROI (%)	5	5	5	5	6
Net margin (%)	9	4	1	(9)	21
Equity/Life policy reserve (%)	17	16	15	14	14
BV (Bt)	19	20	20	20	21
ROE (%)	16	20	3	(14)	38
ROA (%)	2	3	0	(2)	4
D/E (x)	7	7	7	7	8
Cost to Income (%)	28	28	75	(69)	16

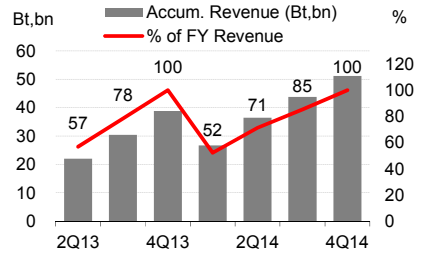
QUARTERLY BALANCE SHEET (Btm)	4Q13	1Q14	2Q14	3Q14	4Q14
Cash & Equivalent	1,331	1,810	2,800	2,184	5,708
Total investment in securities	161,126	182,310	190,289	196,098	198,238
Total net loans	3,526	3,645	3,939	4,323	4,735
Premises & equipment (Net)	327	336	358	388	389
Other assets	5,925	8,807	7,618	7,435	6,520
Total assets	172,234	196,908	205,003	210,428	215,590
Life policy reserve	136,616	159,031	168,314	174,248	177,435
Unpaid benefit to life policy	8,800	9,033	427	91	1,489
Premium received in advance	450	551	504	487	380
Other liabilities	4,104	4,224	11,438	11,607	10,710
Total liabilities	149,971	172,839	180,683	186,434	190,013
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
Retained earnings	13,225	14,321	13,872	12,449	14,678
Shareholders equity	22,264	24,069	24,320	23,994	25,576
Minority interests	0	0	0	0	0

Insurance data	4Q13	1Q14	2Q14	3Q14	4Q14
FYP (Btm)	819	2,861	642	757	768
RYP (Btm)	6,194	12,251	8,103	6,147	6,240
SP (Btm)	1,129	11,885	1,154	472	530
Total premium (Btm)	8,141	26,997	9,899	7,376	7,538
FYP+SP mkt (%)	5.5	29.1	4.3	3.2	3.2
Total premium Mkt (%)	6.9	20.0	8.2	6.3	5.8

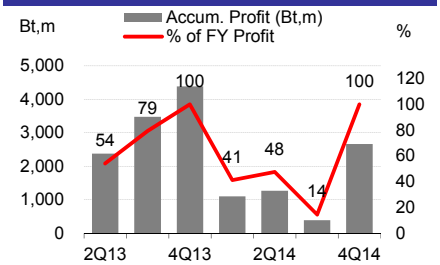
Revenue trend



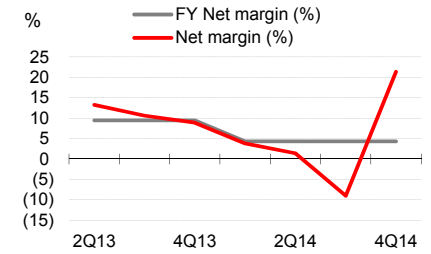
Revenue trend (accumulated)



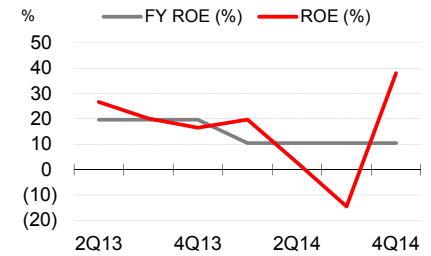
Net profit trend (accumulated)



Net margin



ROE



Company profile

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

Figure 1 : 1Q15 earnings preview

FY Ended 31 Dec (Btm)	1Q15	1Q14	YoY %	4Q14	QoQ %	3M15	3M14	YoY %
Income Statement								
Net insurance premium revenue	17,096	26,712	*(36)*	7,446	*130*	17,096	26,712	*(36)*
Less provision for life policy rese	13,164	22,415	*(41)*	3,187	*313*	13,164	22,415	*(41)*
Revenue realization on premium	3,932	4,297	*(8)*	4,260	*(8)*	3,932	4,297	*(8)*
Underwriting expenses	4,441	4,525	*(2)*	4,120	*8*	4,441	4,525	*(2)*
Profit from insurance business	(509)	(228)	*124*	140	*(464)*	(509)	(228)	*124*
Net investment income	2,417	2,014	*20*	2,259	*7*	2,417	2,014	*20*
Gain on investment	90	8	*1,046*	951	*(91)*	90	8	*1,046*
Other income	24	9	*177*	13	*92*	24	9	*nm*
Total revenues	**2,022**	**1,803**	*12*	**3,362**	*(40)*	**2,022**	**1,803**	***12***
Total operating expenses	558	496	*13*	539	*3*	558	496	*13*
EBT	1,464	1,307	*12*	2,823	*(48)*	1,464	1,307	*12*
Income tax	264	211	*25*	546	*(52)*	264	211	*25*
Net profit	**1,200**	**1,096**	***9***	**2,278**	***(47)***	**1,200**	**1,096**	***9***
EPS	**0.70**	**0.90**	*(22)*	**1.33**	*(47)*	**0.70**	**0.90**	*(22)*
Key ratios								
Premium/life policy reserve (%)	35.9	67.2		16.8		35.9	67.2	
Life policy provision/Premium (%	77.0	83.9		42.8		77.0	83.9	
ROI (%)	4.8	4.6		6.4		4.8	4.6	
Tax rate (%)	18.0	16.1		19.3		18.0	16.1	
Net margin (%)	6.1	3.8		21.4		6.1	3.8	
D/E (x)	7.4	6.7		7.8		7.4	6.7	
Cost to Income (%)	27.6	27.5		16.0		27.6	27.5	
Asset/Equity (%)	8.4	7.7		8.8		8.4	7.7	
Balance Sheet								
Cash & Equivalent	6,000	1,810	232	5,708	5			
Total assets	227,643	196,908	16	215,590	6			
Unpaid benefit to life policy	1,500	9,033	(83)	1,489	1			
Premium received in advance	388	551	100	380	0			
Total liabilities	200,866	172,839	16	190,013	6			
Retained earnings	15,878	14,321	11	14,678	8			
Shareholders equity	26,776	24,069	11	25,576	5			
Minority interests	0	0	nm	0	nm			
BV (Bt)	15.7	20.1	(22)	21.3	(26)			

- FYPs are estimated to have jumped QoQ but declined YoY
- Smaller YoY provisioning for the life-policy reserve
- A bigger YoY investment gain
- Fatter ROI in YoY terms, due to bigger investment gains

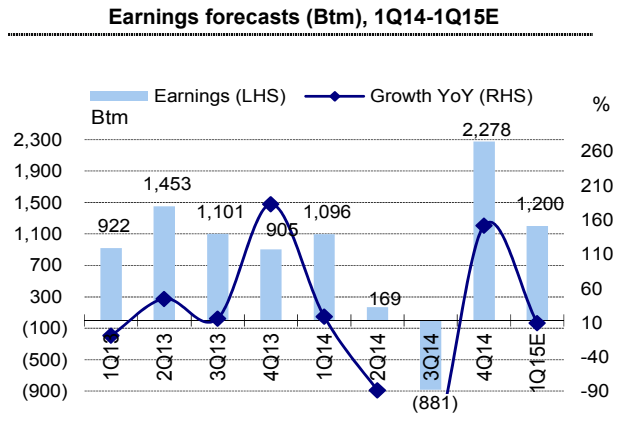
Sources: Company data, Bualuang Research estimates

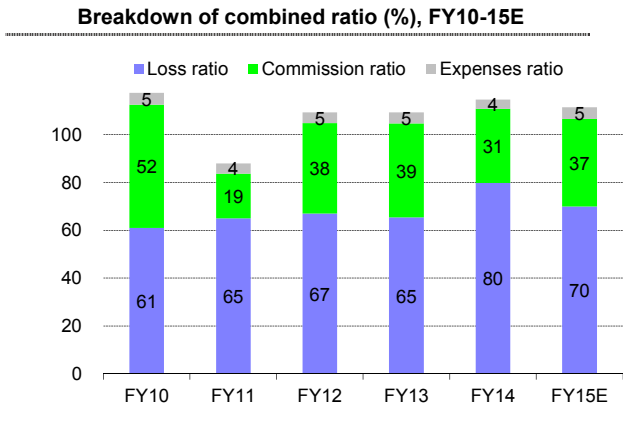
Figure 1: Total life assurance premium market share (%), FY07-2M15

Market share of Total premium (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	1Q14	1H14	FY14	2M15
American International Assurances (AIA)	38.9	37.9	33.3	31.0	28.7	26.3	24.99	19.7	20.7	22.8	20.6
Audhya Allianz C.P Life Plc., (AZAY)	9.5	6.5	6.1	6.2	6.3	5.8	5.67	4.7	4.9	5.4	5.2
Thai Life Insurance	15.2	14.4	13.7	12.4	12.2	12.5	12.44	10.3	11.6	12.5	10.6
SCB Life Insurance Plc	6.0	6.8	7.5	8.3	9.2	10.7	10.28	9.1	9.7	9.6	9.8
Muang Thai Life Assurance	6.8	7.7	8.3	10.0	11.5	12.5	13.62	14.8	15.4	14.9	16.7
Bangkok Life Assurance Plc.,	**6.1**	**6.7**	**7.7**	**8.9**	**9.6**	**8.9**	**8.83**	**20.0**	**14.4**	**10.3**	**14.6**
Krungthai AXA Life Insurance	2.9	4.1	4.9	6.0	6.4	7.4	8.53	8.1	9.3	9.7	9.1
Ocean Life Insurance	4.6	4.3	4.1	3.9	4.0	3.8	3.08	2.4	2.6	2.9	2.5
Prudential Life Assurance (Thailand) Plc.,	0.9	1.1	1.2	1.2	1.3	1.4	2.32	2.7	2.9	3.1	2.9
Others	3.2	4.2	6.6	5.5	4.9	5.5	10.24	8.23	8.5	8.8	9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100	100	101

Sources: TLAA and Bualuang estimates

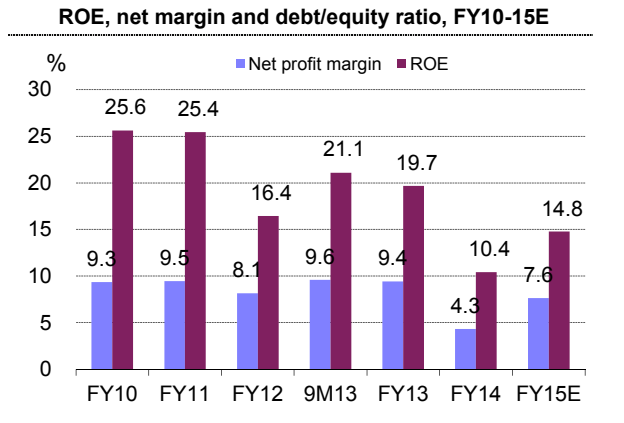
Figure 2: Earnings forecasts, 1Q14-1Q15E

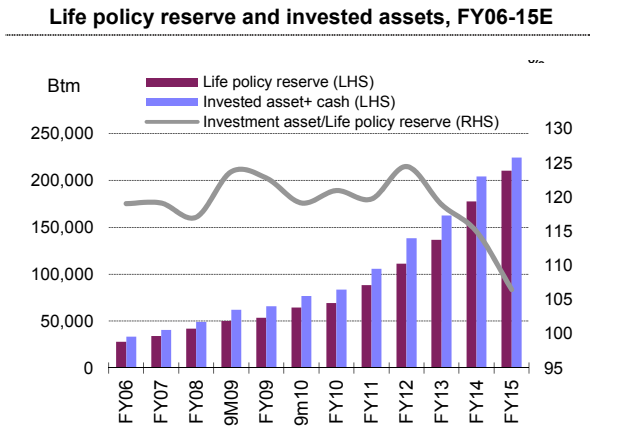




Sources: Company data and BLS' forecasts

Figure 3: Net margin (%), ROE (%) and debt/equity ratio, FY10-15E, and life policy reserve and invested assets (Btm)



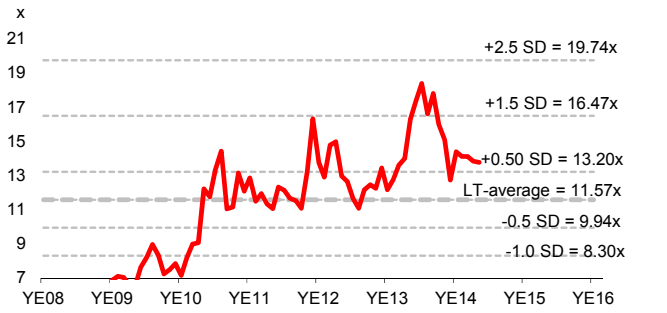


Sources: Company data and TLAA

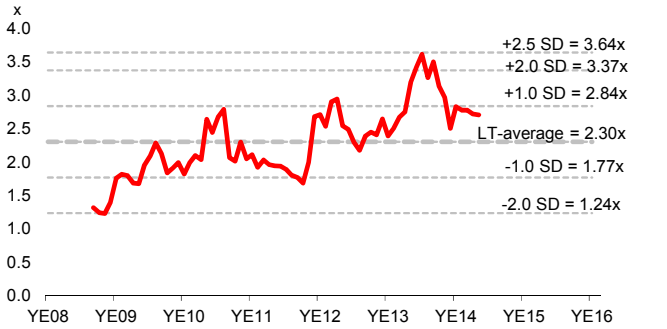
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2015E	PER (x) 2016E	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PBV (x) 2015E	PBV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	Div Yield (%) 2015E	Div Yield (%) 2016E
Ping An Insurance (Group)	601318 CH	CNY88.6	129,505	16.6	14.4	8.2	16.8	2.4	2.0	14.4	14.9	0.9	1.0
China Life Insurance	601628 CH	CNY41.0	173,839	27.5	23.2	31.1	19.2	3.7	3.3	13.6	14.4	1.2	1.4
China Pacific Insurance (Group	601601 CH	CNY36.4	51,262	22.4	19.2	33.4	17.0	2.5	2.2	12.7	13.0	1.5	1.8
T&D Holdings	8795 JP	JPY1,747.5	9,902	13.2	13.3	13.6	-1.3	1.0	0.9	7.8	6.8	1.5	1.6
Bangkok Life Assurance	BLA TB	THB49.75	2,577	19.3	17.0	65.3	13.6	2.9	2.6	14.8	15.3	2.2	2.4
Thaire Life Assurance	THREL TB	THB13.90	254	18.2	16.0	23.5	13.3	6.3	5.6	36.4	36.9	3.9	4.4
Simple average				**19.5**	**17.2**	**29.2**	**13.1**	**3.1**	**2.8**	**16.6**	**16.9**	**1.9**	**2.1**

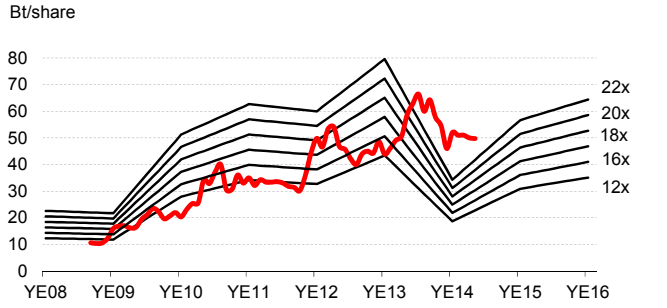
PER band versus SD (next 12 months)



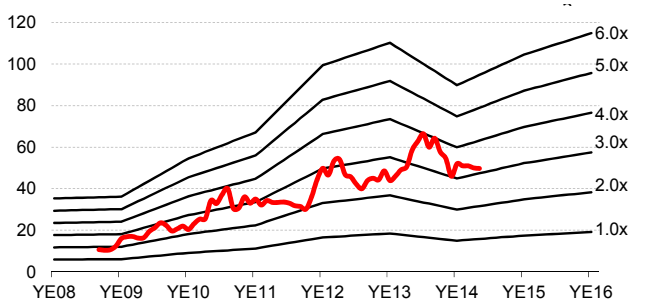
PER band versus SD (next 12 months)



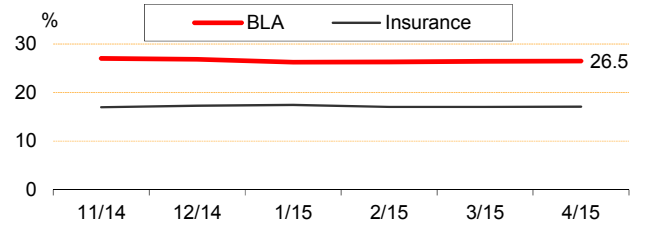
PER band and share price



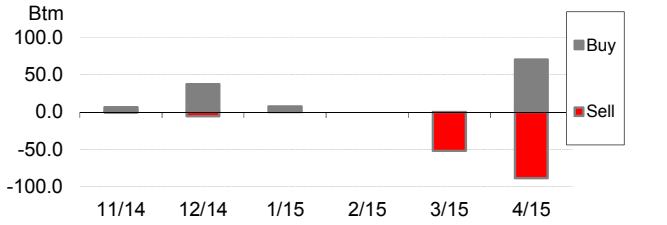
PBV band and share price



Foreign holding



Management trading activities during past six months



BUALUANG SECURITIES

Bualuang Securities Public Company Limited

DISCLAIMER

BUALUANG SECURITIES PUBLIC COMPANY LIMITED (BLS) is a subsidiary of BANGKOK BANK PUBLIC COMPANY LIMITED (BBL). This document is produced based upon sources believed to be reliable but their accuracy, completeness or correctness is not guaranteed. The statements or expressions of opinion herein were arrived at after due and careful consideration to use as information for investment. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information shall be at the sole discretion and risk of the user.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED MAY BE IN RELATIONSHIP WITH THE SECURITIES IN THIS REPORT. "Opinions, projections and other information contained in this report are based upon sources believed to be accurate including the draft prospectus, but no responsibility is accepted for any loss occasioned by reliance placed upon the contents hereof. Bualuang Securities Public Company Limited may from time to time perform investment, advisory or other services for companies mentioned in this report, as well as dealing (as principal or otherwise) in, or otherwise being interested in, any securities mentioned herein, This report does not constitute a solicitation to buy or sell any securities". Investors should carefully read details in the prospectus before making investment decision.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED MAY ACT AS MARKET MAKER AND ISSUER OF DWs, AND ISSUER OF STRUCTURED NOTES ON THESE SECURITIES. The company may prepare the research reports on those underlying securities. Investors should carefully read the details of the derivative warrants and structured notes in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED IS OR MAY BE AN UNDERWRITER/CO-UNDERWRITER/JOINT LEAD IN RESPECT OF THE INITIAL PUBLIC OFFERING ("IPO") OF SECURITIES.

Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	GPSC

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

CORPORATE GOVERMANCE REPORT DISCLAIMER

This research report was prepared by Bualuang Securities Public Company Limited and refers to research prepared by Morgan Stanley. Morgan Stanley does not warrant or guarantee the accuracy or completeness of its research reports. Morgan Stanley reserves copyright and other proprietary rights in the material reproduced in this report. Morgan Stanley is under no obligation to inform Bualuang Securities or you if the views or information referred to or reproduced in this research report change.

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 a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. 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 date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

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.