

Hong Kong

ADD (no change)

Consensus ratings*: Buy 7 Hold 0 Sell 2

Current price:	HK\$8.35
Target price:	HK\$9.65 ▲
Previous target:	HK\$8.99
Up/downside:	15.6%
CGS-CIMB / Consensus:	12.3%
Reuters:	3918.HK
Bloomberg:	3918 HK
Market cap:	US\$4,620m
	HK\$36,247m
Average daily turnover:	US\$3.69m
	HK\$32.28m
Current shares o/s:	4,341m
Free float:	34.0%

*Source: Bloomberg

Key changes in this note

- FY18F EPS increased by 14%.
- FY19F EPS increased by 6%.
- FY20F EPS increased by 6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.3	-0.5	74.7
Relative (%)	11.4	4.2	67

Major shareholders	% held
Dr. Chen Lip Keong	43.8
Fourth Star Finance	18.2
Cambodia Development Corp	3.7

Analyst(s)

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NagaCorp Ltd

VIP strength

- 1H18 net profit made up 61% of our full-year forecast due to stronger-than-expected VIP rollings and win rate.
- Naga2 is ramping up nicely, evidenced by higher win per unit per day in mass gaming. Naga2 is a competitive product regionally to attract higher spending customers.
- Despite lower margins due to the higher VIP proportion, we believe valuations will re-rate as Naga is a key thematic stock within the frontier ASEAN consumer space.
- We increase our EPS assumptions by 6-14% for FY18-20F and raise our target price to HK\$9.65 based on 11x FY18F EV/EBITDA.

1H18 results stronger than our forecast

1H18 net profit of US\$181m (+20% yoy) made up 61% of our previous full-year forecast, mainly driven by higher-than-expected VIP rollings +117% yoy and hold rate of 3.3% vs. our forecast of 60% yoy and 3% hold. Mass buy-ins were slightly slower than our forecast with a 53% yoy growth and 17.6% hold vs. our forecast of 60% growth and 19% hold. Overall GGR increased by 85% to US\$714m. As a comparison base, 1H18 Macau GGR grew by 19%.

Moving to high-end VIP at the expense of margins

Gross margin declined to 42% vs. 60% in 1H18F due to higher contributions from the lower-margin VIP segment (75% of GGR vs. 52% in 1H17). We estimate that Naga is giving a 70-80% revenue share to Suncity which is resulting in a lower VIP gross margin of 25% (-2% pts yoy). We estimate that the Suncity win per table per day is twice that of a regular junket. In our proprietary VIP table studies in Macau, Suncity tables have higher minimum bets than the Macau average.

Naga2 ramp is evident

Upon the opening of Naga2 in Nov 17, management has not seen any significant cannibalisation between Naga 1 and 2. Naga 2 has ramped up to a US\$6k win per table per day in mass vs. US\$3.5k upon opening, while Naga 1's win per table per day has remained steady at US\$4k pre and post Naga2. Based on our observations during our visit to the property last year, Naga2 is designed more to the tastes of Chinese players in terms of décor, and hence is likely to draw in more premium play.

Perfect growth situation across multiple channels

A new gaming legislation is likely to go into effect sometime in 1H19 where a mid-single digit gaming tax rate will be introduced vs. low single-digit currently. Despite higher taxes, the rate is still among the lowest in the region. Coupled with a favourable tax rate, casino license monopoly status, management's strong political connections with local government, increased Chinese tourism, growing domestic GDP and the inclusion of top tier Macau junkets, Naga is a perfect thematic consumer stock for frontier ASEAN.

Maintain Add on one of the top picks in our gaming coverage

We increase our FY18-20F EPS forecasts by 6-14% to take into account higher VIP rollings and win rate. Over the past five years, Naga has traded at an average discount of 46% to the average 13x consensus forward EV/EBITDA of the six Macau operators. Our target price is based on 11x FY18F EV/EBITDA, a 15% discount to Macau historical averages. We believe that given Naga's new capacity and limited competition, the stock can re-rate to at least 11x by end-FY18F vs. 9.5x FY18F EV/EBITDA currently. A risk to our positive view is lower-than-expected earnings in FY18F.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (US\$m)	532	956	1,821	2,323	2,752
Operating EBITDA (US\$m)	257.6	320.0	436.3	559.0	621.0
Net Profit (US\$m)	184.2	255.2	334.1	406.8	460.6
Core EPS (US\$)	0.08	0.06	0.08	0.09	0.11
Core EPS Growth	5.5%	(26.5%)	30.9%	21.8%	13.2%
FD Core P/E (x)	18.68	14.51	13.83	11.36	10.03
DPS (US\$)	0.047	0.035	0.046	0.056	0.064
Dividend Yield	4.45%	3.31%	4.34%	5.29%	5.99%
EV/EBITDA (x)	8.69	14.27	9.48	6.54	5.08
P/FCFE (x)	52.16	NA	9.50	16.52	13.76
Net Gearing	(16.9%)	(3.8%)	(24.7%)	(37.1%)	(45.0%)
P/BV (x)	1.99	3.34	2.36	1.78	1.42
ROE	19.0%	19.4%	20.0%	17.8%	15.8%
% Change In Core EPS Estimates			13.7%	5.6%	6.4%
CIMB/consensus EPS (x)			1.13	1.19	1.29

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

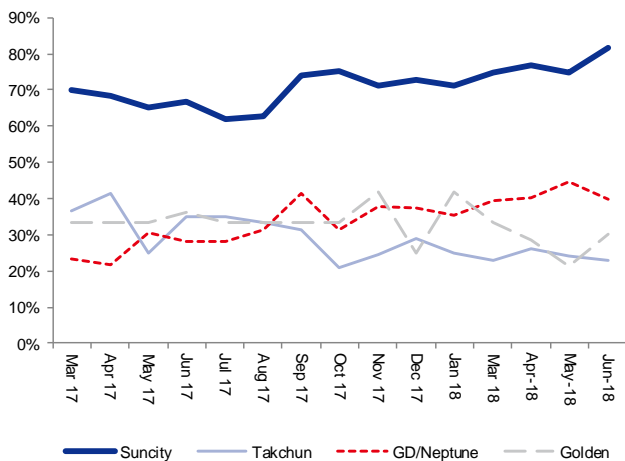
VIP strength

Figure 1: Performance highlights

US\$ '000	1H18	1H17	YoY
VIP gaming			
Rollings	16,839,635	7,765,690	116.8%
Win rate	3.3%	2.7%	
Revenue	552,824	210,524	162.6%
Mass gaming			
Buy-ins	573,764	375,162	52.9%
Win rate	17.6%	19.9%	
Revenue	101,134	74,485	35.8%
Mass electronic gaming			
Buy-ins	1,042,571	853,072	22.2%
Win rate	8.1%	7.7%	
Revenue	59,908	101,795	-41.1%
Revenue	732,955	401,598	82.5%
EBITDA	232,700	181,000	28.6%
EBITDA margin	31.7%	45.1%	-13.3%
Net profit	180,131	150,632	19.6%
Net profit margin	24.6%	37.5%	-12.9%

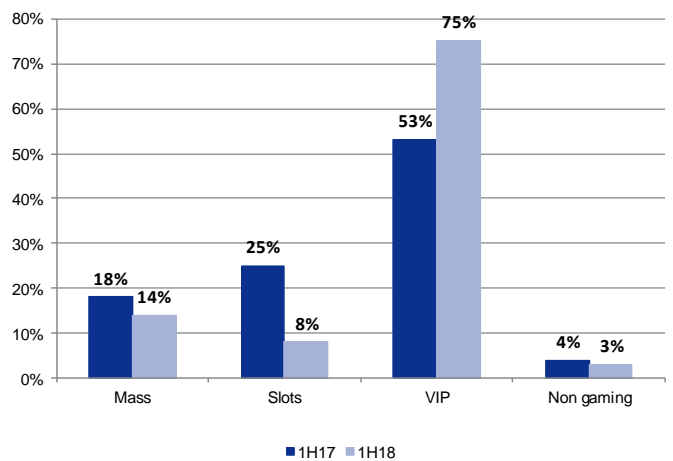
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Percentage of VIP tables with minimum bet of HK\$5k or above by junket in Macau – Suncity the highest



SOURCES: CGS-CIMB RESEARCH

Figure 3: Naga revenue breakdown



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Changes to forecasts

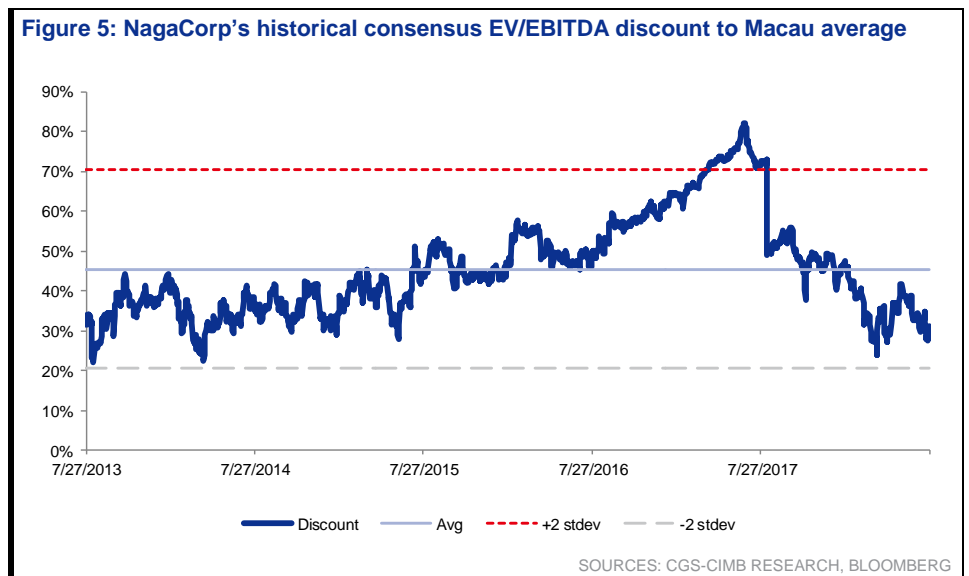
Figure 4: Estimate changes US\$m

US\$ m	2018F			2019F			2020F		
	Old	New	% change	Old	New	% change	Old	New	% change
Public floor buy-ins	1261	1,182	-6.3%	1,576	1,477	-6.3%	1,891	1,699	-10.2%
win rate	19.0%	18.0%	-1 ppt	19.0%	18.0%	-1 ppt	19.0%	18.0%	-1 ppt
revenue	239	213	-11.2%	299	266	-11.2%	359	306	-14.9%
Electronic gaming bill-ins	2,447	2,175	-11.1%	2,936	2,436	-17.0%	3,377	2,558	-24.3%
revenue	264	177	-32.8%	162	131	-19.1%	187	138	-26.2%
Junket VIP rollings	33,800	43,306	28.1%	49,010	58,463	19.3%	61,262	70,156	14.5%
win rate	3.0%	3.2%	+0.2 ppt	3.0%	3.2%	+0.2 ppt	3.0%	3.2%	+0.2 ppt
revenue	1,014	1,386	36.7%	1470	1,871	27.2%	1838	2,245	22.2%
Revenue	1,573	1,821	15.8%	1997	2,323	16.3%	2460	2,752	11.9%
gross margin	43.0%	42.0%	-1 ppt	42.0%	41.0%	-1 ppt	40.0%	40.0%	0 ppt
EBITDA	403	436	8.3%	511	559	9.4%	563	621	10.3%
EBITDA margin	25.6%	24.0%	-1.6 ppt	25.6%	24.1%	-1.5 ppt	22.9%	22.6%	-0.3 ppt
Net income	294	334	13.7%	385	407	5.6%	433	461	6.4%
EPS (US cts.)	6.77	7.70	13.7%	8.87	9.37	5.6%	9.97	10.61	6.4%

SOURCES: CGS-CIMB RESEARCH

Valuation

Figure 5: NagaCorp's historical consensus EV/EBITDA discount to Macau average

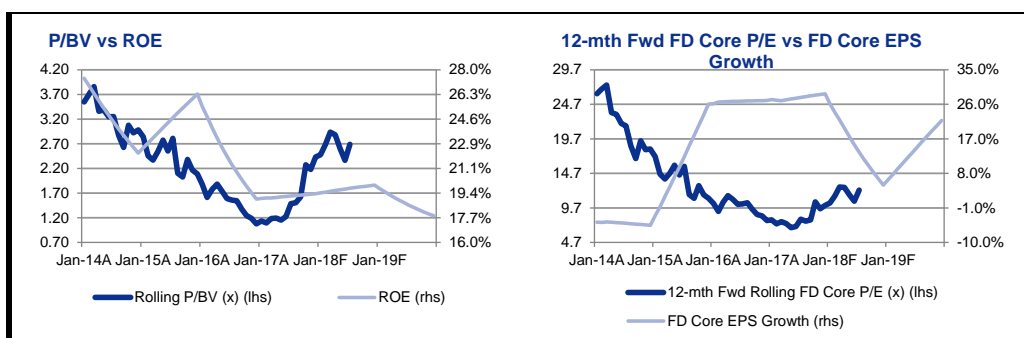


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 6: Sector Comparisons

Company	Bloomberg		Price	Target Price	Market Cap	Core P/E (x)		2-year EPS	P/BV (x)		EV/EBITDA (x)		ROE (%)		Yield (%)	
	Ticker	Recom.	(local curr)	(local curr)	(US\$ m)	FY18F	FY19F	CAGR (%)	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
Galaxy Entertainment	27 HK	ADD	64.70	88.10	35,617	20.8	18.1	20%	4.3	3.6	15.5	13.0	22%	22%	1.2%	1.3%
Sands China	1928 HK	ADD	41.50	51.39	42,738	21.1	17.2	24%	9.3	8.5	16.1	13.7	44%	52%	4.8%	4.8%
MGM China Holdings	2282 HK	ADD	18.06	24.52	8,747	24.3	16.3	34%	6.5	5.2	15.7	11.1	30%	35%	2.1%	3.7%
Wynn Macau	1128 HK	ADD	24.75	34.55	16,393	20.0	15.3	46%	65.9	43.5	14.3	11.8	261%	344%	4.5%	5.9%
SJM Holdings	880 HK	HOLD	9.83	7.63	7,090	30.2	32.1	-6%	2.2	2.2	24.4	23.7	7%	7%	1.7%	1.6%
HK listed Macau average						23.3	19.8	24%	17.7	12.6	17.2	14.6	73%	92%	2.8%	3.5%
Genting Bhd	GENT MK	ADD	8.78	10.80	8,274	15.0	12.2	25%	0.9	0.8	5.7	4.8	6%	7%	1.4%	1.4%
Berjaya Sports Toto	BST MK	ADD	2.40	2.99	795	12.5	11.4	14%	4.2	3.9	8.3	7.8	34%	36%	6.8%	7.0%
Genting Malaysia	GENM MK	HOLD	5.12	5.25	7,123	18.7	14.9	26%	1.6	1.6	12.2	10.1	8%	10%	2.3%	2.9%
Malaysia average						15.4	12.8	22%	2.2	2.1	8.8	7.6	16%	18%	3.5%	3.8%
Paradise	034230 KS	REDUCE	18,600	15,000	1,490	1113.5	53.5	na	1.7	1.7	29.6	20.2	0%	3%	0.5%	0.8%
Grand Korea Leisure	114090 KS	ADD	24,350	38,500	1,327	13.4	11.8	32%	2.7	2.4	7.8	6.6	21%	21%	3.3%	3.7%
Kangwon Land	035250 KS	HOLD	26,600	26,000	5,013	17.1	13.4	0%	1.6	1.5	5.3	3.6	9%	11%	3.7%	3.7%
Korea average						381.3	26.3	16%	2.0	1.8	14.2	10.1	10%	12%	2.5%	2.7%
NagaCorp Ltd	3918 HK	ADD	8.35	9.65	4,620	13.8	11.4	26%	2.4	1.8	9.5	6.5	20%	18%	4.3%	5.3%
Summit Ascent Holdings	102 HK	ADD	0.81	1.45	154	57.8	36.8	52%	0.7	0.7	2.3	1.7	1%	2%	0.0%	0.0%
Genting Singapore	GENS SP	ADD	1.28	1.40	11,297	21.9	21.3	8%	2.0	1.9	10.4	9.8	9%	9%	2.3%	2.3%
Other average						31.2	23.1	29%	1.7	1.5	7.4	6.0	10%	10%	2.2%	2.5%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	531.6	956.3	1,821.4	2,322.8	2,752.3
Gross Profit	366.8	472.9	765.0	952.3	1,100.9
Operating EBITDA	257.6	320.0	436.3	559.0	621.0
Depreciation And Amortisation	(47.9)	(56.4)	(78.5)	(78.5)	(78.5)
Operating EBIT	209.7	263.6	357.8	480.5	542.5
Financial Income/(Expense)	1.1	0.7	(13.6)	(26.2)	(25.9)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	(2.6)	(1.0)	(1.0)	(1.0)	(1.0)
Profit Before Tax (pre-EI)	208.2	263.3	343.2	453.3	515.6
Exceptional Items					
Pre-tax Profit	208.2	263.3	343.2	453.3	515.6
Taxation	(24.1)	(8.1)	(9.1)	(46.5)	(55.0)
Exceptional Income - post-tax					
Profit After Tax	184.2	255.2	334.1	406.8	460.6
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	184.2	255.2	334.1	406.8	460.6
Recurring Net Profit	184.2	255.2	334.1	406.8	460.6
Fully Diluted Recurring Net Profit	184.2	255.2	334.1	406.8	460.6

Cash Flow

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	257.6	320.0	436.3	559.0	621.0
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(30.6)	9.6	(1.5)	(3.7)	(1.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.3	2.7	0.0	0.0	0.0
Other Operating Cashflow	(2.6)	(1.0)	14.0	27.0	27.0
Net Interest (Paid)/Received	0.0	0.0	(15.0)	(28.0)	(28.0)
Tax Paid	(22.9)	(9.0)	(9.1)	(46.5)	(55.0)
Cashflow From Operations	201.6	322.2	424.7	507.9	563.7
Capex	(137.0)	(354.8)	(230.0)	(230.0)	(230.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1.3	0.2	1.4	1.8	2.1
Cash Flow From Investing	(135.7)	(354.6)	(228.6)	(228.2)	(227.9)
Debt Raised/(repaid)		0.0	290.0	0.0	
Proceeds From Issue Of Shares	122.6				
Shares Repurchased					
Dividends Paid	(118.1)	(125.8)	(176.7)	(222.5)	(260.7)
Preferred Dividends					
Other Financing Cashflow	(2.7)	0.0	422.6	422.6	422.6
Cash Flow From Financing	1.8	(125.8)	535.9	200.1	161.9
Total Cash Generated	67.8	(158.1)	732.1	479.8	497.7
Free Cashflow To Equity	65.9	(32.4)	486.2	279.7	335.8
Free Cashflow To Firm	65.9	(32.4)	211.2	307.7	363.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	211	53	785	1,265	1,762
Total Debtors	73	101	193	246	292
Inventories	1	2	4	5	6
Total Other Current Assets	0	0	0	0	0
Total Current Assets	285	156	982	1,516	2,060
Fixed Assets	837	1,149	1,297	1,452	1,607
Total Investments	0	0	0	0	0
Intangible Assets	66	63	60	57	54
Total Other Non-Current Assets	102	95	95	95	95
Total Non-current Assets	1,006	1,306	1,452	1,604	1,755
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	37	78	170	221	266
Other Current Liabilities	3	2	2	2	2
Total Current Liabilities	40	80	172	223	268
Total Long-term Debt			300	300	300
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	0	0	300	300	300
Total Provisions	0	0	0	0	0
Total Liabilities	40	80	472	523	568
Shareholders' Equity	1,251	1,383	1,962	2,597	3,248
Minority Interests					
Total Equity	1,251	1,383	1,962	2,597	3,248

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	5.5%	79.9%	90.4%	27.5%	18.5%
Operating EBITDA Growth	12.6%	24.2%	36.4%	28.1%	11.1%
Operating EBITDA Margin	48.5%	33.5%	24.0%	24.1%	22.6%
Net Cash Per Share (US\$)	0.09	0.01	0.11	0.22	0.34
BVPS (US\$)	0.54	0.32	0.45	0.60	0.75
Gross Interest Cover	N/A	N/A	23.85	17.16	19.37
Effective Tax Rate	11.6%	3.1%	2.7%	10.2%	10.7%
Net Dividend Payout Ratio	60.0%	60.0%	60.0%	60.1%	60.1%
Accounts Receivables Days	40.82	33.20	29.52	34.53	35.78
Inventory Days	2.94	1.23	0.99	1.20	1.24
Accounts Payables Days	79.76	43.38	42.89	52.11	53.99
ROIC (%)	38.6%	25.3%	26.9%	32.5%	33.2%
ROCE (%)	21.8%	20.1%	19.7%	18.7%	16.9%
Return On Average Assets	18.2%	18.5%	17.8%	15.6%	14.0%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
VIP Chip Volume (% Change)	10.6%	142.4%	105.0%	35.0%	20.0%
VIP Chip Win Percentage (%)	2.6%	3.0%	3.2%	3.2%	3.2%
Mass mkt chip drop (% chg.)	12.3%	27.5%	50.0%	25.0%	15.0%
Mass mkt chip win (%-tage)	21.0%	19.0%	18.0%	18.0%	18.0%
Slot Handle (% Change)	9.4%	20.9%	20.0%	12.0%	5.0%
Slot Hold Percentage (%)	8.2%	7.9%	7.7%	7.7%	7.7%
Net Win Per Slot (% Change)	5.0%	5.0%	5.0%	5.0%	5.0%
Net Win Per Table (% Change)	-1.1%	70.4%	32.0%	33.7%	19.4%
No. Of Slots	1,648	2,250	2,800	2,800	2,800
No. Of Tables	300	384	600	600	600

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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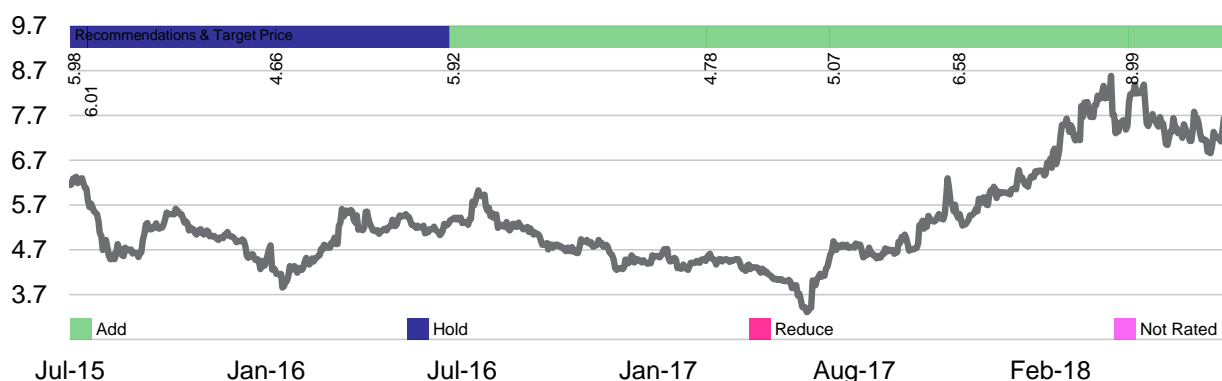
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NagaCorp Ltd (3918 HK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available,

Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.