

**Sunway (BUY ↑; EPS ↔)**

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

30 August 2013

Price Target: RM3.18 (↔)

Share price: RM2.75

**2Q results: Property shines**

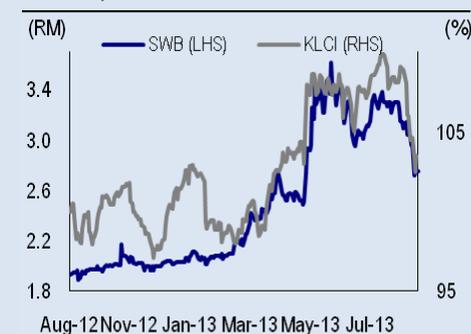
Results	<ul style="list-style-type: none"> <li>1HFY13 core earnings (adjusted for RM0.2m derivative gain and RM59.7m SunREIT revaluation gain) surged by 42% to RM201.0m (15.55 sen/share), making up 51% and 52% of ours and consensus estimates respectively.</li> </ul>
Deviations	<ul style="list-style-type: none"> <li>Largely in line.</li> </ul>
Dividends	<ul style="list-style-type: none"> <li>Net dividend of 5 sen/share declared as opposed to none declared in the previous corresponding period. Going forward, investors will see semi-annual dividend payout. Payment date to be determined later.</li> </ul>
Highlights	<ul style="list-style-type: none"> <li><b>Quarter review...</b> 2Q revenue climbed by 12% and 10% YoY and QoQ respectively to RM1.1bn, due to strong property development billings and rebound in business of the trading and manufacturing division after affected by challenging economic conditions. The construction division posted lower revenue of RM372.8m as it was hampered by delays in the LRT/MRT project. Overall, core earnings expanded by a faster pace of 43% and 23% YoY and QoQ respectively to RM110.7m (8.57 sen/share).</li> <li><b>1HFY13 review...</b> 1HFY13 revenue climbed by 18% to RM2.1bn, lifted by higher activities in all divisions. Property division was the stellar performer whereby its division's revenue grew by 40% to RM489.6m. EBIT margins expanded for nearly all divisions and coupled with lower effective tax rate, core earnings grew by 42%.</li> <li><b>Property...</b> The BRT and MRT project benefitted launches in South Quay, Damansara and Velocity. Achieved effective new property sales of RM288m in 2Q, hence bring YTD sales of RM491m, making up 44.6% of its RM1.1bn new sales target for FY13. Its unbilled property sales stood at RM1.8bn (see Figure #3), translating to 2.0x FY12's property revenue.</li> <li><b>Construction...</b> Secured RM1.3bn worth of orders, making up 87% of our RM1.5bn order book replenishment assumption. External outstanding order book stood at RM3.3bn (see Figure #4), translating to 2.6x FY12's construction revenue.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.</li> </ul>
Forecasts	<ul style="list-style-type: none"> <li>Although earnings are expected to be stronger in the 2H, we prefer to remain conservative buy keeping our forecasts unchanged. Raised FY13-14 dividend forecast to 10 sen/share and 11 sen/share respectively from 5.5 sen/share.</li> </ul>
Rating	<b>BUY (↑)</b> <ul style="list-style-type: none"> <li>Despite the potential headwinds from property tightening measures and slower contract flows, its recapitalised balance sheet and order book will be able to provide earnings visibility over the next two years. Share price has also retraced to a more palatable level, hence we upgrade Sunway to a <b>BUY</b>.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>TP maintained at <b>RM3.18</b> based on SOP valuation (see Figure #5).</li> </ul>

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KLCI	1,703.8
Expected share price return	15.6%
Expected dividend return	3.6%
Expected total return	19.3%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,723
Market cap (RM m)	4,740
3-mth avg. volume ('000)	1,317

Price Performance	1M	3M	12M
Absolute	-15.9	-18.4	42.6
Relative	-11.4	-15.0	37.8

**Major shareholders**

Tan Sri Jeffrey	44.5%
GIC	12.2%
Free Float	43.3%

**Summary Earnings Table**

FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	3,692	3,877	3,957	4,491
EBITDA	457	594	528	622
EBIT	366	505	433	509
Profit Before Tax	499	728	509	601
PATAMI	372	532	390	462
Core PATAMI	328	351	390	462
Core EPS (sen)	25.4	27.1	22.7	26.8
FD EPS (sen)	21.1	22.6	19.4	22.9
Net DPS (sen)	-	6.0	10.0	11.0
Net DY (%)	-	2.2	3.6	4.0
P/E (x)	10.8	10.1	12.1	10.3
FD P/E (x)	13.0	12.2	14.2	12.0
P/B (x)	1.2	1.0	1.0	1.0
Net Gearing (%)	45.4	49.1	26.1	26.7
ROE (%)	10.1	10.7	9.6	9.7
ROA (%)	4.4	4.2	4.5	5.1

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY12	1QFY13	2QFY13	QoQ (%)	YoY (%)	Comments
Revenue	996.1	1,021.0	1,118.0	10	12	Made up 28% and 26% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	188.6	202.7	286.9	42	52	YoY/QoQ: Higher progress billings from South Quay, D'sara, Velocity and Eastwood. Achieved effective new sales of RM288m in 2Q. Backed by effective unbilled sales of RM1.8bn.
Property Investment	143.7	133.5	141.8	6	-1	YoY: Lower contribution from hospitality division due to lower occupancy rate. QoQ: Seasonal rebound.
Construction	388.3	429.4	372.8	-13	-4	YoY/QoQ: Affected by delays in both LRT and MRT project. Backed by external outstanding construction order book of RM3.3bn.
Trading/Manufacturing	145.0	129.6	171.6	32	18	YoY: Better sales volume from heavy equipment division. QoQ: Seasonal rebound.
Quarry	48.5	44.3	55.8	26	15	YoY/QoQ: Stronger sales volume and higher average selling prices.
EBIT	104.2	86.1	116.6	35	12	Refer to segmental.
Property Development	27.8	25.5	44.3	74	59	YoY/QoQ: Due to increase in revenue and EBIT margin.
Property Investment	37.5	22.1	28.6	29	-24	YoY: Affected by higher operating expenses due to major overhaul of PPE.
Construction	17.6	27.3	15.7	-43	-11	YoY/QoQ: LRT and MRT projects garner lower margins.
Trading/Manufacturing	12.7	9.0	15.6	73	23	
Quarry	2.9	4.8	6.9	44	>100	
Net Interest Expense	(22.8)	(11.7)	(12.6)	8	-45	Net debt climbed to RM2.0bn from RM1.7bn in 1QFY13. Hence, net gearing ratio increased to 54.1% from 46.6%.
Share of Associates/JCE	111.6	47.9	108.6	>100	-3	Revaluation gain of RM59.7m from Sunway REIT. Contribution from Singapore developments was flat.
PBT	193.1	122.5	212.5	73	10	
PAT	162.8	96.2	180.1	87	11	Effective tax rate of 31.2%.
PATAMI	154.3	90.6	170.3	88	10	
EI	(76.7)	(0.3)	(59.6)	>100	-22	Derivative loss of RM0.1m and Sunway REIT revaluation gain of RM59.7m.
Core Earnings	77.7	90.3	110.7	23	43	Made up 28% and 29% of ours and consensus' estimates respectively.
Core EPS (sen)	6.01	6.99	8.57	23	43	
EBIT Margin (%)	10.5%	8.4%	10.4%	24	-0	
Property Development	14.7%	12.6%	15.5%	23	5	Ranges between 15-20%.
Property Investment	26.1%	16.6%	20.2%	22	-23	
Construction	4.5%	6.4%	4.2%	-34	-7	Expected to sustain between 5-7%.
Trading/Manufacturing	8.7%	7.0%	9.1%	30	4	
Quarry	5.9%	10.8%	12.3%	14	>100	Due to higher selling prices.
PBT Margin Ex-Assoc (%)	8.2%	7.3%	9.3%	27	13	

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	1HFY12	1HFY13	YoY (%)	Comments
Revenue	1,810.9	2,139.1	18	Made up 54% and 50% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	348.7	489.6	40	Billings from South Quay, D'sara, Velocity and Eastwood. Achieved effective new sales of RM491m in 1HFY13. Backed by effective unbilled sales of RM1.8bn.
Property Investment	274.2	275.3	0	Flattish growth.
Construction	647.3	802.2	24	Lifted by strong 1Q performance. Backed by external outstanding construction order book of RM3.3bn.
Trading/Manufacturing	292.7	301.1	3	Lifted by strong 2Q performance.
Quarry	85.9	100.1	17	Stronger sales volume and higher average selling prices.
EBIT	164.6	202.6	23	Refer to segmental.
Property Development	45.9	69.8	52	Due to increase in revenue and EBIT margin.
Property Investment	58.7	50.7	-14	Hit by higher expenses in 2Q.
Construction	25.0	43.0	72	Lifted by strong 1Q performance.
Trading/Manufacturing	25.0	24.6	-2	Affected by poor 1Q performance.
Quarry	3.8	11.6	>100	
Net Interest Expense	(41.4)	(24.3)	-41	Net debt climbed to RM2.0bn from RM1.6bn in FY12. Hence, net gearing ratio increased to 54.1% from 45.2%.
Share of Associates/JCE	154.4	156.5	1	Stronger contribution from Singapore developments after adjusting for Sunway REIT revaluation gain.
PBT	278.0	335.0	20	
PAT	229.2	276.2	21	Effective tax rate of 32.9%.
PATAMI	218.8	260.9	19	
EI	(76.9)	(59.9)	-22	Derivative gain of RM0.2m and Sunway REIT revaluation gain of RM59.7m.
Core Earnings	141.9	201.0	42	Made up 51% and 52% of ours and consensus' estimates respectively.
Core EPS (sen)	10.98	15.55	42	
EBIT Margin (%)	9.1%	9.5%	4	
Property Development	13.2%	14.3%	8	Ranges between 15-20%.
Property Investment	21.4%	18.4%	-14	
Construction	3.9%	5.4%	39	Expected to sustain between 5-7%.
Trading/Manufacturing	8.5%	8.2%	-4	
Quarry	4.4%	11.6%	>100	Due to higher selling prices.
PBT Margin Ex-Assoc (%)	6.8%	8.3%	22	

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Figure #3 Effective unbilled property sales as of 2QFY13

Developments	(RM m)
Singapore	636
Sunway Damansara	168
Sunway South Quay	272
Sunway Velocity	240
Sunway Melawati	205
Sunway Mas	130
Sunway Suria	84
Penang	58
Others	24
<b>Total</b>	<b>1,817</b>

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Figure #4 External outstanding construction order book as of 2QFY13

Projects	(RM m)
MRT Package V4	1,074
LRT KJ Extension Package B	305
Pinewood Studios	37
BioXcell – CUF	12
Singapore precast	393
Others	251
Legoland Water Park	28
BRT – Sunway Line	415
KLCC Park basement carpark	304
KLCC Package 2 substructure	222
Urban Wellness	283
<b>Total</b>	<b>3,324</b>

\*shaded in grey denotes jobs won in 2013  
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Figure #5 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY13-14 Earnings	100%	917	0.46	14
Property	NPV of profits + Shareholders Fund	100%	4,761	2.37	74
Trading/Manufacturing	9X P/E	100%	277	0.14	4
Quarry	15X P/E	100%	186	0.09	3
		Sub-Total (RM m)	6,142		
		No. of shares (m)	1,723		
		RM per share	3.56		
		Proceeds from warrants (RM m)	724	0.36	11
		Estimated Holding Company Net Debt	(468)	(0.23)	(7)
		SOP (RM m)	6,399		100
		Total no. of diluted shares (m)	2,013		
		<b>Target Price (RM)</b>	<b>3.18</b>		

HLIB

Figure #6 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	3,957.1	4,236.1	-7%	4,491.0	4,668.2	-4%
PATAMI	390.5	388.5	1%	461.7	452.8	2%

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## Financial Projections for Sunway (BUY; TP: RM3.18)

### Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
<b>Revenue</b>	<b>3,102.1</b>	<b>3,691.7</b>	<b>3,876.8</b>	<b>3,957.1</b>	<b>4,491.0</b>
EBITDA	670.2	457.0	594.5	527.7	621.7
D&A	(79.7)	(90.7)	(89.9)	(95.0)	(112.4)
<b>EBIT</b>	<b>590.5</b>	<b>366.3</b>	<b>504.5</b>	<b>432.8</b>	<b>509.3</b>
Interest Income	27.3	27.5	27.1	32.7	30.7
Finance Costs	(101.1)	(80.9)	(104.6)	(109.2)	(98.5)
Associates/JCE	199.3	185.6	301.2	153.0	159.1
<b>Profit Before Tax</b>	<b>715.9</b>	<b>498.5</b>	<b>728.2</b>	<b>509.3</b>	<b>600.6</b>
Tax	277.7	(86.1)	(128.5)	(88.9)	(109.6)
<b>Net Profit</b>	<b>993.7</b>	<b>412.4</b>	<b>599.7</b>	<b>420.4</b>	<b>491.0</b>
Minority Interests	(309.2)	(40.4)	(67.4)	(29.9)	(29.3)
<b>PATAMI</b>	<b>684.4</b>	<b>372.1</b>	<b>532.3</b>	<b>390.5</b>	<b>461.7</b>
Exceptionals	392.4	44.1	181.8	-	-
<b>Core Earnings</b>	<b>292.0</b>	<b>328.0</b>	<b>350.6</b>	<b>390.5</b>	<b>461.7</b>
Basic Shares (m)	1,292.5	1,292.5	1,292.5	1,723.4	1,723.4
Core EPS (sen)	22.6	25.4	27.1	22.7	26.8
FD Core EPS (sen)	18.8	21.1	22.6	19.4	22.9

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2
Revenue	996.1	867.0	1,198.9	1,021.0	1,118.0
Expenses	(917.8)	(786.0)	(1,109.8)	(946.8)	(1,024.4)
Other Income	25.9	25.1	144.4	11.8	22.9
EBIT	104.2	106.1	233.5	86.1	116.6
Derivatives	0.2	(0.3)	0.3	0.3	(0.1)
Net Interest Expense	(22.8)	(19.4)	(16.7)	(11.7)	(12.6)
Associates & JCE	111.6	56.1	99.3	47.9	108.6
Profit Before Tax	193.1	142.4	316.3	122.5	212.5
Tax	(30.3)	(32.4)	(55.8)	(26.3)	(32.5)
Net Profit	162.8	110.0	260.5	96.2	180.1
Minority Interests	(8.5)	(15.7)	(41.2)	(5.6)	(9.7)
<b>PATAMI</b>	<b>154.3</b>	<b>94.3</b>	<b>219.3</b>	<b>90.6</b>	<b>170.3</b>
Exceptionals	(76.7)	0.3	(105.2)	(0.3)	(59.6)
<b>Core Earnings</b>	<b>77.7</b>	<b>94.6</b>	<b>114.1</b>	<b>90.3</b>	<b>110.7</b>
Core EPS (sen)	6.01	7.32	8.83	6.99	8.57
FD Core EPS (sen)	6.01	7.32	8.83	6.99	8.26
W. Ave. Shares (m)	1,292.5	1,292.5	1,292.5	1,292.5	1,292.5

### Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Cash	868.5	776.7	1,140.2	1,042.5	1,002.8
Trade Receivables	741.5	789.4	1,404.0	975.7	1,107.4
Inventories	301.5	451.8	626.0	596.3	676.7
Development Costs	621.3	669.3	600.2	787.8	994.0
Associates/JCE	1,241.8	1,281.2	1,553.2	1,630.8	1,694.7
PPE	2,197.4	2,875.6	3,007.6	3,212.7	3,400.3
Goodwill	329.2	326.5	318.7	318.7	318.7
Others	679.2	673.1	94.9	94.9	94.9
<b>Total Assets</b>	<b>6,980.5</b>	<b>7,843.6</b>	<b>8,744.9</b>	<b>8,659.4</b>	<b>9,289.6</b>
Trade Payables	826.2	1,039.5	1,605.1	1,084.1	1,230.4
Total Debt	1,405.8	2,253.7	2,746.9	2,107.1	2,272.3
Others	849.9	1,238.6	524.5	524.5	524.5
<b>Total Liabilities</b>	<b>3,081.9</b>	<b>4,531.8</b>	<b>4,876.4</b>	<b>3,715.7</b>	<b>4,027.2</b>
Shareholders' Funds	3,517.9	2,985.4	3,558.4	4,603.8	4,893.2
Minority Interests	380.7	326.4	310.0	339.9	369.3
<b>Total Capital</b>	<b>3,898.6</b>	<b>3,311.8</b>	<b>3,868.4</b>	<b>4,943.8</b>	<b>5,262.5</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Core PER (x)	12.2	10.8	10.1	12.1	10.3
FD Core PER (x)	14.6	13.0	12.2	14.2	12.0
Net DPS (sen)	-	-	6.0	10.0	11.0
Net DY (%)	-	-	2.2	3.6	4.0
BVPS (RM)	2.7	2.3	2.8	2.7	2.8
P/B (x)	1.0	1.2	1.0	1.0	1.0
NTA/Share (RM)	2.5	2.1	2.5	2.5	2.7
EBITDA Margin (%)	21.6	12.4	15.3	13.3	13.8
EBIT Margin (%)	19.0	9.9	13.0	10.9	11.3
PBT Margin (%)	29.5	18.5	26.6	16.7	16.9
PATAMI Margin (%)	9.4	8.9	9.0	9.9	10.3
ROE (%)	8.3	10.1	10.7	9.6	9.7
ROA (%)	4.2	4.4	4.2	4.5	5.1
Net Gearing (%)	15.3	45.4	49.1	26.1	26.7

### Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
EBITDA	670.2	457.0	594.5	527.7	621.7
Working Capital	492.0	(52.9)	(154.1)	(250.5)	(272.0)
Interest Received	27.3	27.5	27.1	32.7	30.7
Dividends fr Assoc	70.7	153.9	151.8	75.4	95.2
Others	(792.6)	(186.5)	(233.2)	(88.9)	(109.6)
<b>CFO</b>	<b>467.4</b>	<b>399.0</b>	<b>386.1</b>	<b>296.4</b>	<b>366.0</b>
Capex	(121.4)	(142.2)	(465.5)	(300.0)	(300.0)
Purchase/Disposal	3,322.4	(71.2)	317.4	-	-
Others	(1,203.9)	(79.6)	(209.7)	-	-
<b>CFI</b>	<b>1,997.0</b>	<b>(293.0)</b>	<b>(357.7)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	46.9	847.9	493.2	(639.8)	165.2
Shares Issued	(128.0)	(42.5)	-	732.5	-
Dividends	(1,958.3)	(944.2)	-	(77.6)	(172.3)
Interest Paid	(101.1)	(80.9)	(104.6)	(109.2)	(98.5)
Others	(92.7)	23.5	(141.7)	-	-
<b>CFF</b>	<b>(2,233.2)</b>	<b>(196.3)</b>	<b>246.9</b>	<b>(94.1)</b>	<b>(105.7)</b>
<b>Net Cashflow</b>	<b>231.3</b>	<b>(90.2)</b>	<b>275.2</b>	<b>(97.7)</b>	<b>(39.7)</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
<b>Revenue</b>	<b>3,102</b>	<b>3,692</b>	<b>3,877</b>	<b>3,957</b>	<b>4,491</b>
Property	623	916	923	959	1,209
Property Investment	547	518	591	609	627
Construction	1,005	1,221	1,275	1,255	1,463
Trading/Manufacture	482	553	559	587	616
Quarry	179	184	197	207	217
Others	267	300	332	341	358
EBIT Margins (%)	19.0	9.9	13.0	10.9	11.3

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.