

India

HOLD (no change)

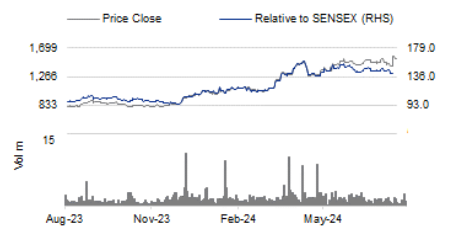
Consensus ratings*: Buy 17 Hold 13 Sell 10

| | |
|------------------------------|--------------------------|
| Current price: | Rs1,550 |
| Target price: ▲ | Rs1,620 |
| Previous target: | Rs1,378 |
| Up/downside: | 4.5% |
| InCred Research / Consensus: | 9.3% |
| Reuters: | VOLT.NS |
| Bloomberg: | VOLT IN |
| Market cap: | US\$6,111m Rs512,971m |
| Average daily turnover: | US\$29.4m Rs2465.9m |
| Current shares o/s: | 330.8m |
| Free float: | 69.7% |

*Source: Bloomberg

Key changes in this note

- For FY25F/26F, we increased our revenue estimates by 8%/7% and PAT estimates by 18%/8%, respectively. We also introduce FY27F EPS of Rs42.

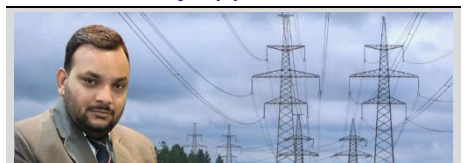


Source: Bloomberg

| | | | |
|--------------------------|-----|------|------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | 1.3 | 18.9 | 87.8 |
| Relative (%) | 3.3 | 9.7 | 55.3 |

| | |
|----------------------------|--------|
| Major shareholders | % held |
| Promoter (Tata Sons Ltd) | 30.3 |
| Life Insurance Corporation | 10.3 |
| HDFC Life | 2.5 |

Research Analyst(s)



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Voltas Ltd

Strong RAC volume; turnaround in EMPS

- 1Q EBITDA stood at Rs4.2bn, up 129% YoY, 43% above our estimate and 31% above Bloomberg consensus. The EBITDA margin rose 310bp YoY to 8.6%.
- The order book stands at ~Rs75bn. Strong project execution, and timely assessment of costs ensure a better bottom line in the coming quarters.
- For FY25F/26F, we increased revenue estimates by 8%/7% and PAT estimates by 18%/8%, respectively. We retain HOLD rating with a higher TP of Rs1,620.

Strong volume-led growth in 1QFY25

Voltas reported a healthy all-round performance in 1QFY25, with a revenue growth of 47% YoY to Rs49.2bn (+17% QoQ), 11% above our estimate and 9% above Bloomberg or BB consensus estimate. The EMP segment's revenue was up 40% YoY at Rs9.5bn, engineering product segment's revenue was up 13% YoY at Rs1.6bn while the UCP segment grew 51% YoY to Rs38bn. Voltas achieved a milestone of 1m air-conditioner or AC sales in 1QFY25, with a volume growth of 67% in UCP, which drove the segment. EBITDA stood at Rs4.2bn, up 129% YoY, 43% above our estimate and 31% above BB consensus estimate, while the margin expanded by 310bp YoY to 8.6%. PAT grew 160% YoY to Rs3.4bn, beating our estimate by 73% and BB consensus estimate by 39%.

EMPS business turns profitable

The EMPS segment reported a healthy 40% YoY revenue growth and turned EBIT-positive after several quarters of losses, thereby reflecting improved project execution and governance. The domestic projects business witnessed 50% growth, although order bookings were subdued due to general elections in India. International projects, particularly in the UAE and Saudi Arabia, continued to perform well. The total order book stands at ~Rs75bn. Strong project execution, timely assessment of costs and profitability ensure a better bottom-line performance in the coming quarters.

Outlook and valuation

After posting record-breaking sales of 2m ACs (35% volume growth) in FY24, Voltas started 1QFY25 on a strong note with 1m ACs (67% volume growth). It has started commercial operations at the RAC factory (Chennai) with a capacity of 1m ACs and water dispenser capacity of ~3,50,000 units which provide the strategic advantage of location to meet the growing demand for the under-penetrated AC and commercial refrigeration products. For FY25F/26F, we increased revenue estimates by 8%/7% factoring in higher volume in the UCP segment and raised PAT estimates by 18%/8%, respectively, factoring in higher margin in the EMPS segment. We also introduce FY27F EPS of Rs42. We retain HOLD rating on Voltas with a higher target price of Rs1,620 (Rs1,378 earlier), as we roll forward our valuation to Sep 2026F, valuing the stock at 42x. Upside risks: Quick margin recovery & strong revenue growth. Downside risks: More EMP segment losses & market share contraction in the RAC segment.

Financial Summary

| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 94,988 | 124,812 | 161,959 | 183,513 | 205,339 |
| Operating EBITDA (Rsm) | 5,724 | 4,746 | 12,750 | 14,863 | 16,967 |
| Net Profit (Rsm) | 1,362 | 2,481 | 9,658 | 11,702 | 13,808 |
| Core EPS (Rs) | 7.4 | 7.5 | 29.2 | 35.4 | 41.7 |
| Core EPS Growth | (51.7%) | 1.5% | 289.3% | 21.2% | 18.0% |
| FD Core P/E (x) | 376.58 | 206.75 | 53.11 | 43.83 | 37.15 |
| DPS (Rs) | 5.5 | 4.3 | 8.8 | 10.6 | 12.5 |
| Dividend Yield | 0.36% | 0.28% | 0.56% | 0.68% | 0.81% |
| EV/EBITDA (x) | 89.53 | 107.86 | 40.19 | 34.28 | 29.93 |
| P/FCFE (x) | 146.33 | 152.44 | 231.54 | 103.47 | 96.32 |
| Net Gearing | (1.7%) | (2.4%) | (1.4%) | (5.2%) | (6.7%) |
| P/BV (x) | 9.41 | 8.81 | 7.90 | 7.01 | 6.19 |
| ROE | 4.5% | 4.4% | 15.7% | 16.9% | 17.7% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 conference-call highlights

- **Overview:** In 1QFY25, Voltas posted a strong volume growth of 67% YoY at 1m AC units. The company has successfully regained market share, mainly due to its focus on volume and customer-centric strategies while other Korean competitors appear to be shifting their focus towards maintaining margins rather than pursuing volume growth. This shift led to a more rational pricing environment in the industry, allowing Voltas to strengthen its position.
- **Guidance and outlook:** Although the coming quarters can typically be a lean period for cooling products, Voltas expects higher demand due to the festive season. The company mentioned the importance of monitoring external factors such as inflation, crude oil prices, and geopolitical challenges. Voltas is also restructuring its overseas investments, which is expected to be completed by Sep 2024F.
- **Margin pressure:** Management stated that maintaining margins have been a challenge, particularly in the cooling products segment. It said that while commodity prices are rising, the company is implementing value engineering initiatives to mitigate the impact and stabilize margins. The focus remains on optimizing operational efficiency and maintaining competitive pricing without sacrificing quality. The company has increased advertising expenses to 3% of its sales in 1Q, vs. 1.7% in FY24, especially TV advertisements. Management has maintained its high single-digit margin guidance
- **New facilities:** Voltas has started commercial operations at its RAC factory in Chennai having a capacity of 1m ACs and water dispenser capacity of ~3,50,000 units which provides the strategic advantage of location to meet the rising demand for the under-penetrated AC and commercial refrigeration products.
- **Segments:**
 - **Unitary Cooling Products (UCP):** The segment, which constitutes 78% of Voltas' total revenue, achieved significant growth driven by high demand for ACs amid extreme weather conditions. Volume growth was at 67%, with a surge in sales of split ACs and premium products. The company maintained its market leadership position with a 21.2% market share in Jun 2024. Despite strong sales, the segment faced challenges with stock liquidation of non-quality-controlled inventory, leading to a slight drop in margins. However, management is optimistic about future capacity expansion and operational efficiency, particularly with new factories. Voltas cooler models were well accepted and further fueled the growth with their market share rising to 10.5%, the No. 2 brand in Jun 2024. Water heater sales had a good start and are expected to grow bigger in the coming months, despite being a lean period for the product.
 - **Electro-Mechanical Projects and Services (EMPS):** The segment posted a 40% revenue growth, reporting a positive EBIT of Rs670m after losses in the previous quarters, reflecting improved project execution and governance. The domestic projects business witnessed 50% growth, although order bookings were subdued due to general elections in India. International projects, particularly in the UAE and Saudi Arabia, continued to perform well. The total carry-forward order book for this segment stood at ~Rs75bn.
 - **Engineering Products and Services (EPS):** The segment received traction from the mining and construction vertical, which showed positive momentum, but margins were affected by increased overhead costs. The textile industry faced headwinds, impacting demand for related services. Despite these challenges, the after-sales segment remained strong, and the company is focused on maintaining growth in both Mozambique and India.

- Voltas Beko:** In the home appliances sector, Voltas Beko recorded a volume growth of over 50% compared to the previous year, with significant improvement in market share across various product categories. The brand is now among the top three in the semi-automatic washing machine segment, holding a 14% market share in semi-automatic and 7.8% share in automatic washing machines. The refrigerator segment also achieved over 50% growth in business, reporting a YTD Jun 2024-end market share of 5.2%.

Figure 1: Quarterly results snapshot

| (Rs m) | 1QFY25 | 1QFY24 | YoY (%) | 4QFY24 | QoQ (%) |
|-------------------------------|---------------|---------------|--------------|---------------|--------------|
| Net Sales | 49,210 | 33,599 | 46.5 | 42,029 | 17.1 |
| Raw Material Costs | 38,922 | 26,504 | 46.9 | 33,727 | 15.4 |
| Employee Costs | 2,023 | 1,805 | 12.1 | 1,992 | 1.6 |
| Other Expenses | 4,027 | 3,436 | 17.2 | 4,404 | (8.6) |
| Total Expenditure | 44,972 | 31,745 | 41.7 | 40,123 | 12.1 |
| EBITDA | 4,238 | 1,854 | 128.6 | 1,906 | 122.4 |
| Depreciation | 134 | 113 | 19.3 | 118 | 13.7 |
| EBIT | 4,104 | 1,741 | 135.7 | 1,788 | 129.6 |
| Interest | 98 | 101 | (3.6) | 208 | (53.1) |
| Other Income | 803 | 700 | 14.7 | 544 | 47.5 |
| PBT | 4,809 | 2,340 | 105.5 | 2,124 | 126.4 |
| PBT Excl. Extraordinary Items | 4,809 | 2,340 | 105.5 | 2,124 | 126.4 |
| Total Tax | 1,165 | 735 | 58.6 | 634 | 83.7 |
| Share of Profit in JV | (294) | (310) | (5.4) | (383) | (23.4) |
| PAT | 3,350 | 1,293 | 159.1 | 1,106 | 202.8 |
| Adj. PAT | 3,350 | 1,293 | 159.1 | 1,106 | 202.8 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

| Margins (%) | 1QFY25 | 1QFY24 | YoY bp | 4QFY24 | QoQ bp |
|--------------------|--------|--------|--------|--------|--------|
| EBITDA Margin | 8.6 | 5.5 | 310 | 4.5 | 408 |
| EBIT Margin | 8.3 | 5.2 | 316 | 4.3 | 409 |
| PBT Margin | 9.8 | 7.0 | 281 | 5.1 | 472 |
| NPM | 6.8 | 3.8 | 296 | 2.6 | 418 |
| Effective Tax Rate | 24.2 | 31.4 | (718) | 29.9 | (564) |
| Cost (%) | | | | | |
| Raw Material Costs | 79.1 | 78.9 | 21 | 80.2 | (115) |
| Other Expenses | 8.2 | 10.2 | (204) | 10.5 | (230) |
| Personnel Costs | 4.1 | 5.4 | (126) | 4.7 | (63) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment-wise revenue and EBIT mix

| Revenue (Rs m) | 1QFY25 | 1QFY24 | YoY (%) | 4QFY24 | QoQ (%) |
|----------------------------|---------------|---------------|----------------|---------------|----------------|
| Electro-mechanical | 9,491 | 6,791 | 39.8 | 10,979 | (13.6) |
| Engineering Products | 1,608 | 1,423 | 13.0 | 1,564 | 2.8 |
| Unitary Cooling Products | 38,022 | 25,140 | 51.2 | 29,551 | 28.7 |
| Total | 49,121 | 33,353 | 47.3 | 42,094 | 16.7 |
| EBIT (Rs m) | 1QFY25 | 1QFY24 | YoY (%) | 4QFY24 | QoQ (%) |
| Electro-mechanical | 675 | -519 | 230.1 | -1,077 | (162.7) |
| Engineering Products | 448 | 541 | (17.1) | 478 | (6.2) |
| Unitary Cooling Products | 3,270 | 2,073 | 57.7 | 2,704 | 20.9 |
| Total | 4,394 | 2,096 | 109.6 | 2,105 | 108.7 |
| EBIT margin (%) | 1QFY25 | 1QFY24 | YoY bp | 4QFY24 | QoQ bp |
| Electro-mechanical | 7.1 | (7.6) | 1475 | (9.8) | 1692 |
| Engineering Products | 27.9 | 38.0 | (1014) | 30.6 | (268) |
| Unitary Cooling Products | 8.6 | 8.2 | 35 | 9.2 | (55) |
| Blended EBIT margin | 8.9 | 6.3 | 266 | 5.0 | 394 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

| vs. InCred Estimates (Rs m) | 1QFY25 | 1QFY25F | Diff. (%) |
|---------------------------------------|---------------|----------------|--------------|
| Revenue | 49,210 | 44,426 | 10.8 |
| EBITDA | 4,238 | 2,957 | 43.3 |
| Margin (%) | 8.6 | 6.7 | 195 bps |
| PAT | 3,350 | 1,932 | 73.4 |
| vs. Consensus Estimates (Rs m) | 1QFY25 | 1QFY25C | Diff. |
| Revenue | 49,210 | 45,334 | 8.5 |
| EBITDA | 4,238 | 3,246 | 30.5 |
| Margin (%) | 8.6 | 7.2 | 145 bps |
| PAT | 3,350 | 2,408 | 39.1 |

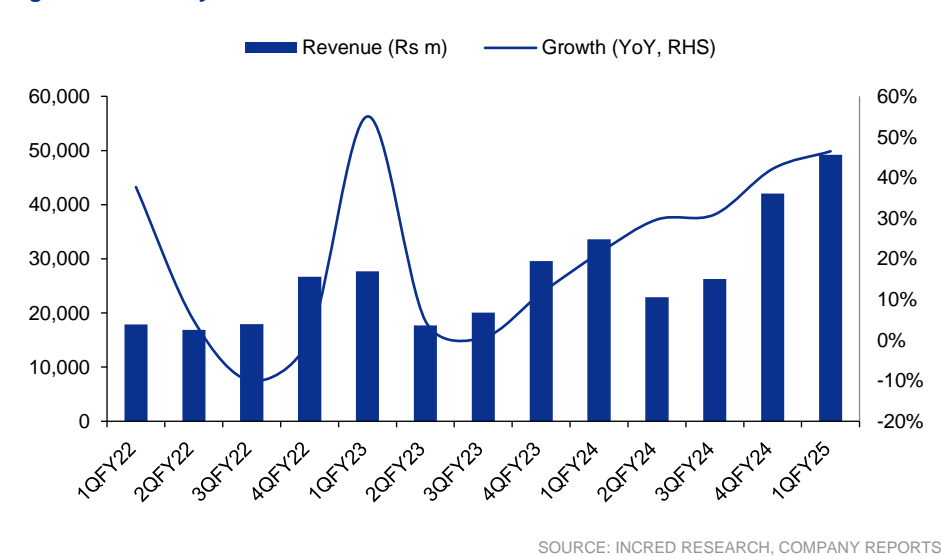
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

| (Rs m) | New Estimates | | Old Estimates | | Change (%) | | Introduced |
|----------|---------------|----------|---------------|----------|------------|-------|------------|
| | FY25F | FY26F | FY25F | FY26F | FY25F | FY26F | |
| Revenue | 1,61,959 | 1,83,513 | 1,49,661 | 1,71,532 | 8.2% | 7.0% | 2,05,339 |
| EBITDA | 12,773 | 14,913 | 10,945 | 14,462 | 16.7% | 3.1% | 17,049 |
| Core PAT | 9,658 | 11,702 | 8,223 | 10,854 | 17.5% | 7.8% | 13,808 |

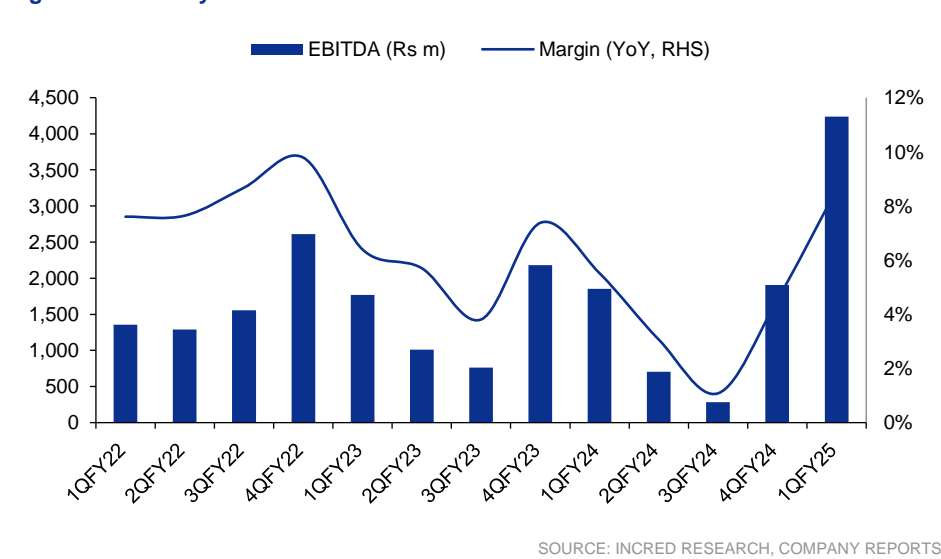
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 6: Quarterly revenue trend



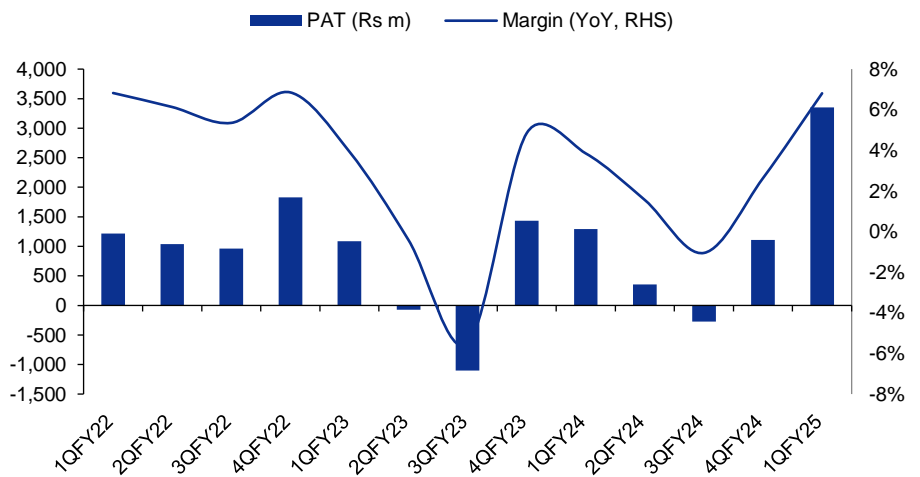
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly EBITDA trend



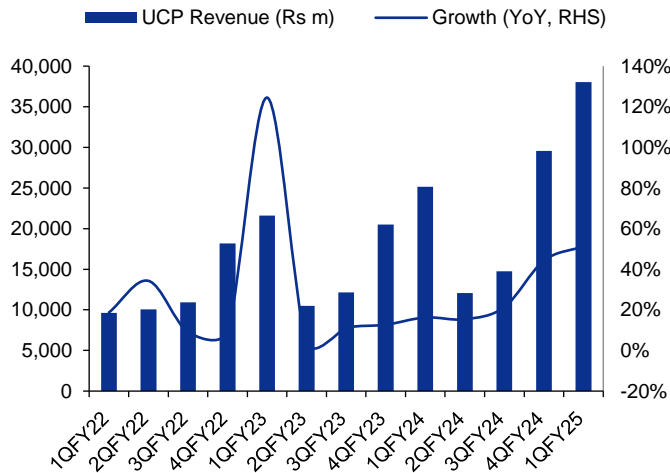
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Quarterly PAT trend



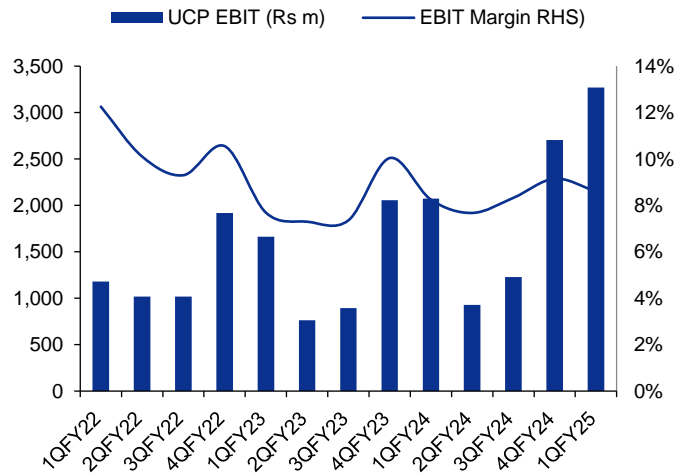
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: UCP segment witnesses a healthy volume



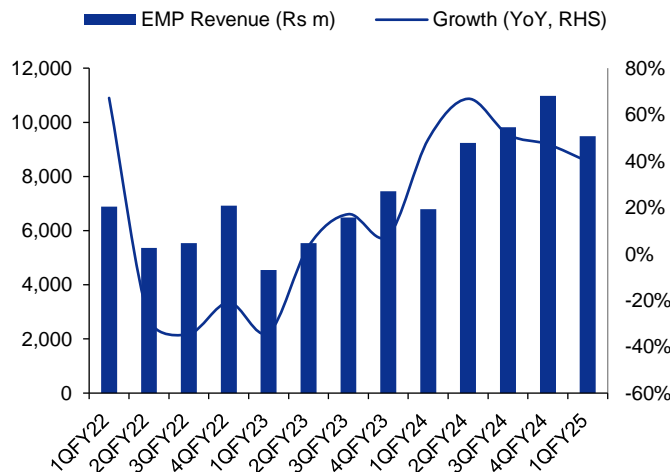
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 10: Strong profitability in UCP segment



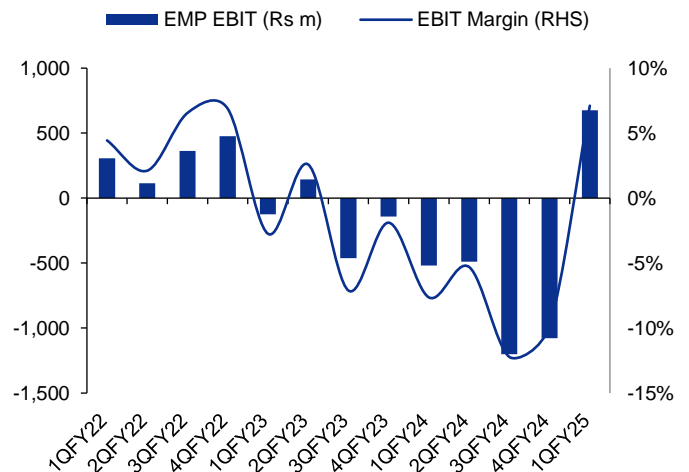
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 11: Healthy revenue growth in EMPS segment...



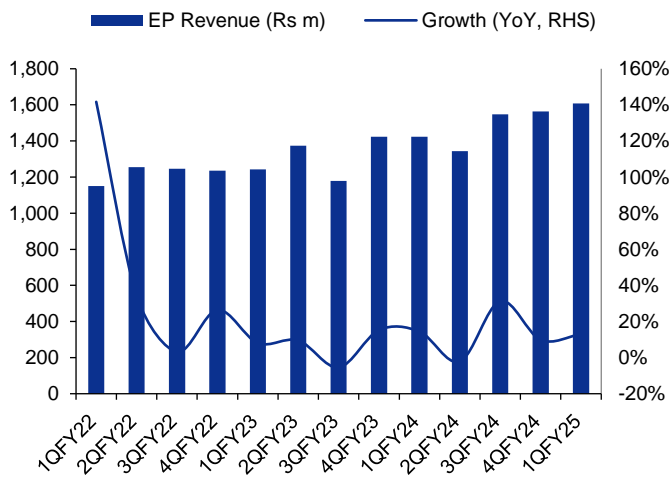
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 12: ...with positive EBIT after several quarters



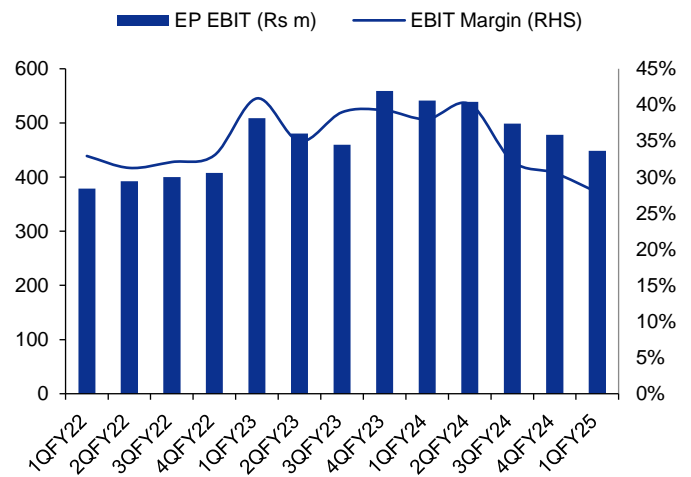
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 13: EPS segment's sales trend



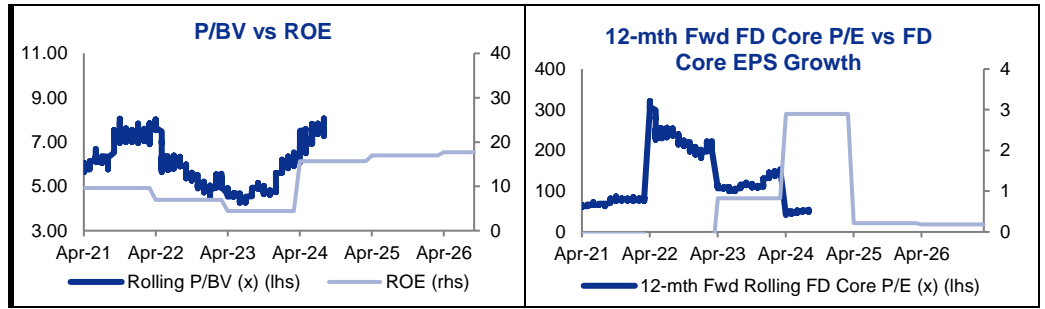
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 14: EPS segment's margin declines to below 30%



SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---|---------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 94,988 | 124,812 | 161,959 | 183,513 | 205,339 |
| Gross Profit | 21,206 | 26,672 | 38,870 | 42,942 | 48,460 |
| Operating EBITDA | 5,724 | 4,746 | 12,750 | 14,863 | 16,967 |
| Depreciation And Amortisation | (396) | (476) | (556) | (612) | (668) |
| Operating EBIT | 5,328 | 4,270 | 12,194 | 14,251 | 16,299 |
| Financial Income/(Expense) | (296) | (559) | (611) | (655) | (699) |
| Pretax Income/(Loss) from Assoc. | (1,207) | (1,386) | (1,247) | (998) | (699) |
| Non-Operating Income/(Expense) | 1,685 | 2,533 | 2,997 | 3,383 | 3,794 |
| Profit Before Tax (pre-EI) | 5,510 | 4,858 | 13,333 | 15,981 | 18,696 |
| Exceptional Items | (2,438) | | | | |
| Pre-tax Profit | 3,071 | 4,858 | 13,333 | 15,981 | 18,696 |
| Taxation | (1,709) | (2,377) | (3,674) | (4,279) | (4,887) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 1,362 | 2,481 | 9,658 | 11,702 | 13,808 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 1,362 | 2,481 | 9,658 | 11,702 | 13,808 |
| Recurring Net Profit | 2,444 | 2,481 | 9,658 | 11,702 | 13,808 |
| Fully Diluted Recurring Net Profit | 2,444 | 2,481 | 9,658 | 11,702 | 13,808 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|--------------|----------------|----------------|----------------|----------------|
| EBITDA | 5,724 | 4,746 | 12,750 | 14,863 | 16,967 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (3,836) | 801 | (6,081) | (3,254) | (3,928) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 1,362 | 4,183 | 2,429 | 2,753 | 3,080 |
| Net Interest (Paid)/Received | | | | | |
| Tax Paid | (1,656) | (2,115) | (3,674) | (4,279) | (4,887) |
| Cashflow From Operations | 1,594 | 7,615 | 5,424 | 10,082 | 11,231 |
| Capex | (1,774) | (2,883) | 984 | (1,120) | (1,120) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 958 | (2,341) | (4,549) | (4,379) | (5,179) |
| Cash Flow From Investing | (816) | (5,224) | (3,565) | (5,499) | (6,299) |
| Debt Raised/(repaid) | 2,728 | 974 | 357 | 374 | 393 |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (1,829) | (1,432) | (2,898) | (3,511) | (4,143) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (355) | (713) | (108) | (449) | (484) |
| Cash Flow From Financing | 544 | (1,172) | (2,649) | (3,585) | (4,234) |
| Total Cash Generated | 1,322 | 1,219 | (791) | 998 | 699 |
| Free Cashflow To Equity | 3,506 | 3,365 | 2,215 | 4,958 | 5,326 |
| Free Cashflow To Firm | 778 | 2,392 | 1,859 | 4,583 | 4,932 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Total Cash And Equivalents | 7,084 | 8,523 | 8,433 | 11,684 | 13,813 |
| Total Debtors | 21,919 | 25,328 | 31,948 | 35,194 | 39,380 |
| Inventories | 15,920 | 21,354 | 26,623 | 29,161 | 32,629 |
| Total Other Current Assets | 16,471 | 17,027 | 22,231 | 24,686 | 27,622 |
| Total Current Assets | 61,393 | 72,232 | 89,235 | 100,726 | 113,444 |
| Fixed Assets | 5,012 | 7,980 | 6,441 | 6,949 | 7,401 |
| Total Investments | 31,581 | 35,532 | 38,870 | 42,208 | 47,228 |
| Intangible Assets | 723 | 723 | 723 | 723 | 723 |
| Total Other Non-Current Assets | 4,081 | 3,890 | 5,669 | 7,341 | 8,214 |
| Total Non-current Assets | 41,397 | 48,125 | 51,702 | 57,220 | 63,565 |
| Short-term Debt | 5,948 | 4,853 | 5,096 | 5,351 | 5,618 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 30,126 | 38,557 | 49,697 | 55,808 | 62,445 |
| Other Current Liabilities | 8,461 | 12,043 | 13,312 | 15,083 | 16,877 |
| Total Current Liabilities | 44,535 | 55,453 | 68,105 | 76,242 | 84,941 |
| Total Long-term Debt | 212 | 2,280 | 2,394 | 2,514 | 2,639 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 1,393 | 1,383 | 1,944 | 2,202 | 2,464 |
| Total Non-current Liabilities | 1,605 | 3,663 | 4,338 | 4,716 | 5,103 |
| Total Provisions | 1,713 | 2,699 | 3,192 | 3,493 | 3,805 |
| Total Liabilities | 47,853 | 61,815 | 75,634 | 84,451 | 93,849 |
| Shareholders Equity | 54,521 | 58,205 | 64,966 | 73,158 | 82,824 |
| Minority Interests | 417 | 337 | 337 | 337 | 337 |
| Total Equity | 54,937 | 58,542 | 65,303 | 73,495 | 83,161 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Revenue Growth | 19.7% | 31.4% | 29.8% | 13.3% | 11.9% |
| Operating EBITDA Growth | (16.0%) | (17.1%) | 168.6% | 16.6% | 14.2% |
| Operating EBITDA Margin | 6.0% | 3.8% | 7.9% | 8.1% | 8.3% |
| Net Cash Per Share (Rs) | 2.79 | 4.20 | 2.85 | 11.55 | 16.79 |
| BVPS (Rs) | 164.77 | 175.91 | 196.34 | 221.10 | 250.31 |
| Gross Interest Cover | 18.00 | 7.64 | 19.97 | 21.77 | 23.33 |
| Effective Tax Rate | 55.6% | 48.9% | 27.6% | 26.8% | 26.1% |
| Net Dividend Payout Ratio | 48.1% | 57.7% | 30.0% | 30.0% | 30.0% |
| Accounts Receivables Days | 82.65 | 69.08 | 64.54 | 66.77 | 66.28 |
| Inventory Days | 80.47 | 69.31 | 71.13 | 72.42 | 71.88 |
| Accounts Payables Days | 147.29 | 127.72 | 130.85 | 136.98 | 137.57 |
| ROIC (%) | 16.7% | 12.3% | 29.5% | 31.8% | 32.9% |
| ROCE (%) | 8.9% | 6.7% | 17.5% | 18.4% | 18.8% |
| Return On Average Assets | 4.0% | 2.6% | 7.7% | 8.2% | 8.6% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.