

India

ADD (no change)

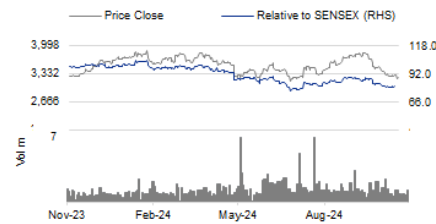
Consensus ratings*: Buy 18 Hold 11 Sell 5

| | |
|------------------------------|--------------|
| Current price: | Rs3,230 |
| Target price: | Rs3,600 |
| Previous target: | Rs3,840 |
| Up/downside: | 11.5% |
| InCred Research / Consensus: | -7.1% |
| Reuters: | TITN.NS |
| Bloomberg: | TTAN IN |
| Market cap: | US\$34,096m |
| | Rs2,867,771m |
| Average daily turnover: | US\$59.7m |
| | Rs5020.3m |
| Current shares o/s: | 887.8m |
| Free float: | 47.1% |

*Source: Bloomberg

Key changes in this note

- Lower the target price to Rs3,600.
- Cut FY25F/26F EPS by 9.4%/9.1%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|--------|-------|--------|
| Absolute (%) | (12.0) | (3.1) | (1.1) |
| Relative (%) | (9.5) | (4.2) | (19.2) |

| Major shareholders | % held |
|--------------------|--------|
| Promoter group | 52.9 |
| LIC | 2.3 |
| Vanguard Group | 1.9 |

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Titan Co Ltd

Gold rush drives sales growth

- Titan Co's standalone jewellery segment posted 25%/15% yoy sales/SSSG growth in 2Q while Caratlane's sales/SSSG grew 28%/28% yoy, respectively.
- Demand environment was strong on account of a duty cut of 900bp, barring a lull during the 'Shraad' period. EBIT margin guidance cut by 100bp for FY25F.
- We believe Titan Co's long-term structural growth story remains intact. We maintain our ADD rating with a lower TP of Rs3,600 (60x Sep 2026F EPS).

Gold rush due to duty cut and healthy festive demand drives sales

Titan Company (Titan) posted a consol. sales growth of 16% yoy in 2QFY25. The standalone jewellery segment's sales grew by 25% yoy to Rs105.7bn with SSSG at 15%, while consol. jewellery sales (incl. bullion & Caratlane) grew by 15.3% yoy to Rs128bn. Caratlane grew by 28% yoy with SSSG at 28%. The gold rush triggered by a 900bp drop in customs duty lasted well into mid-Sep 2024, which then saw a pause due to the 'Shradhh' period this year from 17 Sep to 03 Oct (vs. largely falling in Oct last year). Demand picked up in Oct 2024, with both festive and wedding-related demand remaining healthy. The studded mix stood at 30% in 2QFY25 (vs. 33% in 2QFY24), posting a 12% yoy growth. The gold segment (incl. coins) grew 30%. The growth of new buyers in the studded range remained healthy, growing in double digits, but solitaire sales (large size) were impacted as consumers seemingly preferred to wait and watch due to soft international prices. In the sub-Rs200,000 segment, the growth in buyers remained healthy, with the lower-priced studded range doing well.

EBIT margin guidance range cut by 100bp for FY25F

The jewellery division's EBIT margin at 8.7% was down by 540bp yoy on account of 1) a 900bp drop in customs duty resulting in an impact of Rs2.9bn, 2) lower studded mix driven by gold rush and pressure on the solitaire segment, 3) discounts on gold rates, making charges and the new exchange program, and 4) higher media spending. Management expects an impact of Rs2.7-2.8bn in 3QFY25F on account of duty revision. The watches division's EBIT margin at 14.9% expanded by 26bp yoy led by a better mix of analog watches & premiumization. The eyewear division posted an EBIT margin of 11.9%. Caratlane's margin expanded by 289bp yoy to 7%. Management remains confident of navigating the demand environment and will focus on driving sales growth over protecting margins in the near term, cutting its EBIT margin guidance for FY25F to 11%-11.5% from its earlier guided range of 11.5%-12.5%.

Structural play remains intact; retain ADD with a lower TP of Rs3,600

We feel the structural story of market share gains remains intact, despite heightened competition and volatile gold/solitaire prices impacting consumer demand. We retain our ADD rating on Titan with a new target price of Rs3,600 (60x Sep 2026F EPS) as we roll forward our valuation, from Rs3,840 earlier. Downside risks: Slowdown in the jewellery industry's sales growth, and lower-than-expected store addition as well as EBITDA margin.

Financial Summary

| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-----------------------------------|---------|---------|----------|---------|---------|
| Revenue (Rsm) | 405,750 | 510,840 | 563,742 | 642,805 | 738,203 |
| Operating EBITDA (Rsm) | 48,790 | 52,920 | 60,095 | 71,398 | 85,716 |
| Net Profit (Rsm) | 32,500 | 34,960 | 39,622 | 48,096 | 58,552 |
| Core EPS (Rs) | 36.5 | 39.3 | 44.5 | 54.0 | 65.8 |
| Core EPS Growth | 46.9% | 7.6% | 13.3% | 21.4% | 21.7% |
| FD Core P/E (x) | 88.46 | 82.23 | 72.56 | 59.77 | 49.10 |
| DPS (Rs) | 11.0 | 11.8 | 13.4 | 17.3 | 23.0 |
| Dividend Yield | 0.34% | 0.36% | 0.41% | 0.54% | 0.71% |
| EV/EBITDA (x) | 58.67 | 55.20 | 48.51 | 40.83 | 33.95 |
| P/FCFE (x) | 555.00 | 44.97 | (111.53) | 81.46 | 111.22 |
| Net Gearing | (11.0%) | 49.5% | 24.1% | 22.4% | 16.0% |
| P/BV (x) | 24.26 | 30.61 | 17.25 | 16.03 | 13.22 |
| ROE | 30.7% | 32.9% | 30.4% | 27.8% | 29.5% |
| % Change In Core EPS Estimates | | | (9.44%) | (9.14%) | (3.97%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gold rush drives sales growth

Highlights from the 2QFY25 earnings call

Jewellery >

- **Margin impact:** 1) It was on account of one-time customs duty revision (substantial reason for the drop in margin) of Rs2,900m due to lower customer realization. 2) Lower studded mix than expected on account of the gold rush in 2Q and pressure on the solitaire segment, linked to international demand/supply situation. 3) Some amount of A&P spending (small impact). Excluding the solitaire studded segment, growth was healthy. Management expects 3QFY25F to witness a Rs2.7-2.8bn impact due to customs duty revision.
- **Outlook:** Traction in gold demand is continuing. The EBIT margin is expected between 11-11.5% in FY25F (from 11.5% to 12% guided earlier). The growth trajectory in 2HFY25F should be slightly better than where it was in 1H.
- **'Shradh' period impact:** Last year, the 'Shradh' period was in Oct, but this year it was from 17 Sep to 3 Oct, after which demand has been healthy. The festive sentiment has also been strong. Wedding jewellery demand started picking up post customs duty reduction announcement, which led to some unlocking of pent-up demand from 1Q. Management expects it to be healthy for the next two quarters.
- Higher-value gold jewellery continued to do well. Lower-priced products moved up the price band due to the rise in gold prices. In the diamond studded range, the ticket sizes were partly impacted on solitaires and delayed launch by Tanishq at certain price points. Lower-priced diamonds have done well across Tanishq, Mia and Caratlane brands.
- Caratlane and Mia saw healthy growth during the quarter. The growth in buyers was in double digits in studded (especially the sub-Rs100,000 segment). No impact from lab-grown diamonds, as per management. Not expecting much of an impact either.
- Caratlane's EBIT margin improvement was led by 1) sales growth, 2) holding studded margin, and 3) marginal gains from prices. Expects to do better going ahead.
- **Golden harvest:** Titan has launched another scheme which allows customers to fix their gold rate. Now two programs exist. Enrolments in both have been healthy.
- **Retail network:** Added 22 stores under the Tanishq brand (10-11 more added in Oct 2024). The aim is to add 40-50 stores if the right properties are available. Mia is likely to reach 250 stores by FY25F. Caratlane topped the 300-stores mark (now at 301). The net addition is 29 for the year. Targeting another 20 by the end of the year.
- **Competitive intensity:** Tanishq was offering discounts for the first time. Competitive intensity in gold rates has gone up. Many local players, on their own or in response to other national chains, came out with more aggressive offers. Discounts during the festive period were distributed between making charges, exchanges and the gold rate, which gave the customers some psychological benefit.

Figure 1: Quarterly results summary - consolidated

| Y/E Mar (Rs. m) | 2QFY24 | 1QFY25 | 2QFY25 | YoY (%) | QoQ (%) | 1HFY24 | 1HFY25 | Gr (%) |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
| Revenue | 1,25,290 | 1,32,660 | 1,45,340 | 16.0 | 9.6 | 2,44,260 | 2,78,000 | 13.8 |
| Expenditure | 1,11,180 | 1,20,190 | 1,32,980 | 19.6 | 10.6 | 2,18,900 | 2,53,170 | 15.7 |
| Consumption of RM | 95,990 | 1,03,360 | 1,15,220 | 20.0 | 11.5 | 1,88,540 | 2,18,580 | 15.9 |
| as % of sales | 76.6 | 77.9 | 79.3 | | | 77.2 | 78.6 | |
| Employee Costs | 4,630 | 5,230 | 5,190 | 12.1 | -0.8 | 9,110 | 10,420 | 14.4 |
| as % of sales | 3.7 | 3.9 | 3.6 | | | 3.7 | 3.7 | |
| Other Expenditure | 10,560 | 11,600 | 12,570 | 19.0 | 8.4 | 21,250 | 24,170 | 13.7 |
| as % of sales | 8.4 | 8.7 | 8.6 | | | 8.7 | 8.7 | |
| EBITDA | 14,110 | 12,470 | 12,360 | -12.4 | -0.9 | 25,360 | 24,830 | -2.1 |
| Depreciation | 1,440 | 1,640 | 1,710 | 18.8 | 4.3 | 2,720 | 3,350 | 23.2 |
| EBIT | 12,670 | 10,830 | 10,650 | -15.9 | -1.7 | 22,640 | 21,480 | -5.1 |
| Other Income | 1,240 | 1,200 | 1,220 | -1.6 | 1.7 | 2,380 | 2,420 | 1.7 |
| Interest | 1,400 | 2,300 | 2,400 | 71.4 | 4.3 | 2,490 | 4,700 | 88.8 |
| PBT | 12,510 | 9,730 | 9,470 | -24.3 | -2.7 | 22,530 | 19,200 | -14.8 |
| Total Tax | 3,360 | 2,580 | 2,440 | -27.4 | -5.4 | 5,820 | 5,020 | -13.7 |
| PAT (before MI) | 9,150 | 7,150 | 7,030 | -23.2 | -1.7 | 16,710 | 14,180 | -15.1 |
| Minority Interest (MI) | 0 | 0 | -10 | NA | NA | 30 | -10 | NA |
| Adjusted PAT | 9,150 | 7,150 | 7,040 | -23.1 | -1.5 | 16,680 | 14,190 | -14.9 |
| Extraordinary items | 0 | 0 | 0 | NA | NA | 0 | 0 | NA |
| Reported PAT | 9,150 | 7,150 | 7,040 | -23.1 | -1.5 | 16,680 | 14,190 | -14.9 |
| Margins (%) | 2QFY24 | 1QFY25 | 2QFY25 | YoY (bp) | QoQ (bp) | 1HFY24 | 1HFY25 | (bp) |
| Gross margin | 23.4 | 22.1 | 20.7 | -270 | -140 | 22.8 | 21.4 | -140 |
| EBIDTA | 11.3 | 9.4 | 8.5 | -280 | -90 | 10.4 | 8.9 | -150 |
| EBIT | 10.1 | 8.2 | 7.3 | -280 | -80 | 9.3 | 7.7 | -150 |
| EBT | 10.0 | 7.3 | 6.5 | -350 | -80 | 9.2 | 6.9 | -230 |
| PAT | 7.3 | 5.4 | 4.8 | -250 | -50 | 6.8 | 5.1 | -170 |
| Effective Tax Rate | 26.9 | 26.5 | 25.8 | -110 | -80 | 25.8 | 26.1 | 30 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental breakup

| Y/E Mar (Rs. m) | 2QFY24 | 1QFY25 | 2QFY25 | YoY (%) | QoQ (%) | 1HFY24 | 1HFY25 | Gr (%) |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
| Segment Revenues | | | | | | | | |
| Watches | 10,920 | 10,230 | 13,040 | 19.4 | 27.5 | 20,050 | 23,270 | 16.1 |
| Jewellery | 1,10,810 | 1,18,080 | 1,27,710 | 15.3 | 8.2 | 2,17,770 | 2,45,790 | 12.9 |
| Eyewear | 1,880 | 2,100 | 2,020 | 7.4 | -3.8 | 3,910 | 4,120 | 5.4 |
| Others | 2,050 | 2,770 | 3,010 | 46.8 | 8.7 | 3,420 | 5,780 | 69.0 |
| Corporate (Unallocated) | 600 | 680 | 780 | 30.0 | 14.7 | 1,220 | 1,460 | 19.7 |
| Total | 1,26,260 | 1,33,860 | 1,46,560 | 16.1 | 9.5 | 2,46,370 | 2,80,420 | 13.8 |
| Segment Results | | | | | | | | |
| Watches | 1,600 | 1,110 | 1,960 | 22.5 | 76.6 | 2,610 | 3,070 | 17.6 |
| Jewellery | 12,170 | 11,020 | 9,740 | -20.0 | -11.6 | 22,390 | 20,760 | -7.3 |
| Eyewear | 250 | 190 | 220 | -12.0 | 15.8 | 600 | 410 | NA |
| Others | -20 | -150 | -40 | 100.0 | -73.3 | -390 | -190 | -51.3 |
| Total | 14,000 | 12,170 | 11,880 | -15.1 | -2.4 | 25,210 | 24,050 | -4.6 |
| Add- Unall. Income / (Exp) | 80 | 140 | 0 | -100.0 | -100.0 | 180 | 140 | -22.2 |
| Less- Interest Exp | 1,400 | 2,300 | 2,400 | 71.4 | 4.3 | 2,490 | 4,700 | 88.8 |
| PBT | 12,520 | 9,730 | 9,480 | -24.3 | -2.6 | 22,540 | 19,210 | -14.8 |
| Segment Margins (%) | | | | YoY (bp) | QoQ (bp) | | | (bp) |
| Watches | 14.7 | 10.9 | 15.0 | 40 | 420 | 13.0 | 13.2 | 20 |
| Jewellery | 11.0 | 9.3 | 7.6 | -340 | -170 | 10.3 | 8.4 | -180 |
| Eyewear | 13.3 | 9.0 | 10.9 | -240 | 180 | 15.3 | 10.0 | -540 |
| Others | (1.0) | (5.4) | (1.3) | -40 | 410 | (11.4) | (3.3) | 810 |

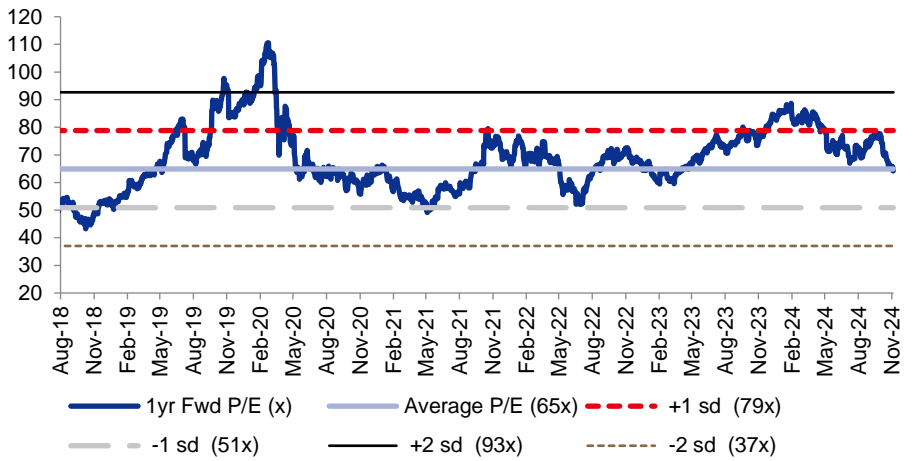
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Our revised earnings estimates

| Y/E Mar (Rs. m) | FY25F | | | FY26F | | | FY27F | | |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Earlier | Revised | % Change | Earlier | Revised | % Change | Earlier | Revised | % Change |
| Revenue | 5,78,548 | 5,63,742 | (2.6) | 6,59,254 | 6,42,805 | (2.5) | 7,44,885 | 7,38,203 | (0.9) |
| EBITDA | 65,648 | 60,095 | (8.5) | 77,906 | 71,398 | (8.4) | 88,976 | 85,716 | (3.7) |
| EBITDA Margin (%) | 11.3 | 10.7 | -70bp | 11.8 | 11.1 | -70bp | 11.9 | 11.6 | -30bp |
| APAT | 43,753 | 39,622 | (9.4) | 52,931 | 48,096 | (9.1) | 60,974 | 58,552 | (4.0) |
| EPS | 49.2 | 44.5 | (9.4) | 59.5 | 54.0 | (9.1) | 68.5 | 65.8 | (4.0) |

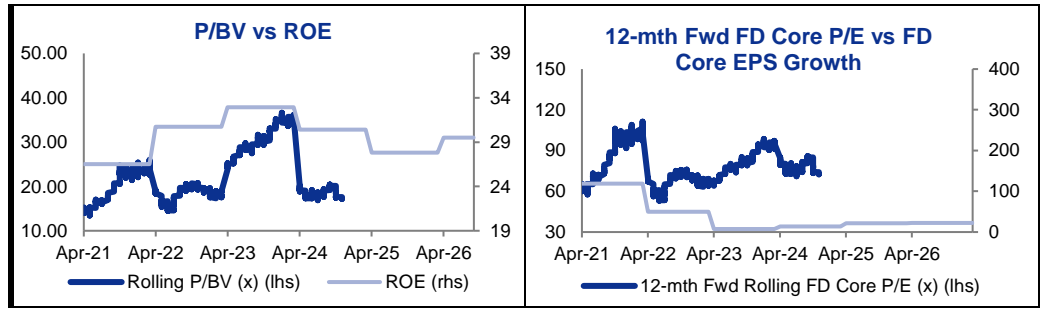
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Titan's one-year forward P/E trades close to its five-year average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---|----------|----------|----------|----------|----------|
| Total Net Revenues | 405,750 | 510,840 | 563,742 | 642,805 | 738,203 |
| Gross Profit | 102,200 | 116,520 | 136,479 | 157,548 | 183,144 |
| Operating EBITDA | 48,790 | 52,920 | 60,095 | 71,398 | 85,716 |
| Depreciation And Amortisation | (4,410) | (5,840) | (6,253) | (6,563) | (6,873) |
| Operating EBIT | 44,380 | 47,080 | 53,841 | 64,835 | 78,843 |
| Financial Income/(Expense) | 80 | (860) | (604) | (124) | (65) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 44,460 | 46,220 | 53,238 | 64,711 | 78,778 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 44,460 | 46,220 | 53,238 | 64,711 | 78,778 |
| Taxation | (11,730) | (11,270) | (13,629) | (16,631) | (20,246) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 32,730 | 34,950 | 39,609 | 48,080 | 58,532 |
| Minority Interests | (230) | 10 | 13 | 16 | 20 |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 32,500 | 34,960 | 39,622 | 48,096 | 58,552 |
| Recurring Net Profit | 32,500 | 34,960 | 39,622 | 48,096 | 58,552 |
| Fully Diluted Recurring Net Profit | 32,500 | 34,960 | 39,622 | 48,096 | 58,552 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|----------|----------|----------|----------|----------|
| EBITDA | 48,790 | 52,920 | 60,095 | 71,398 | 85,716 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (17,790) | (24,260) | (68,639) | (16,352) | (36,556) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | (3,000) | (6,190) | (6,200) | (6,000) | (6,000) |
| Tax Paid | (11,730) | (11,270) | (13,629) | (16,631) | (20,246) |
| Cashflow From Operations | 16,270 | 11,200 | (28,373) | 32,415 | 22,914 |
| Capex | (8,730) | (10,730) | (4,000) | (3,000) | (3,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | (19,130) | 7,030 | 5,597 | 5,876 | 5,935 |
| Cash Flow From Investing | (27,860) | (3,700) | 1,597 | 2,876 | 2,935 |
| Debt Raised/(repaid) | 16,770 | 56,430 | 1,000 | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (9,750) | (10,488) | (11,886) | (15,391) | (20,493) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 2,990 | (49,862) | 45,000 | (20,000) | |
| Cash Flow From Financing | 10,010 | (3,920) | 34,114 | (35,391) | (20,493) |
| Total Cash Generated | (1,580) | 3,580 | 7,337 | (99) | 5,356 |
| Free Cashflow To Equity | 5,180 | 63,930 | (25,777) | 35,291 | 25,849 |
| Free Cashflow To Firm | (8,590) | 13,690 | (20,577) | 41,291 | 31,849 |

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 | 35,070 | 31,920 | 39,257 | 39,157 | 44,514 |
| Total Debtors | 6,740 | 10,180 | 14,673 | 16,731 | 19,214 |
| Inventories | 165,840 | 190,510 | 209,738 | 225,432 | 260,995 |
| Total Other Current Assets | 22,910 | 32,070 | 38,612 | 45,789 | 52,584 |
| Total Current Assets | 230,560 | 264,680 | 302,280 | 327,109 | 377,306 |
| Fixed Assets | 30,180 | 36,820 | 34,567 | 31,004 | 27,131 |
| Total Investments | 3,520 | 6,800 | 6,800 | 6,800 | 6,800 |
| Intangible Assets | 1,230 | 1,230 | 1,230 | 1,230 | 1,230 |
| Total Other Non-Current Assets | 4,710 | 5,940 | 10,335 | 13,287 | 17,009 |
| Total Non-current Assets | 39,640 | 50,790 | 52,932 | 52,321 | 52,169 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 65,130 | 67,510 | 48,295 | 54,792 | 60,780 |
| Other Current Liabilities | 41,630 | 48,420 | 34,496 | 39,137 | 44,691 |
| Total Current Liabilities | 106,760 | 115,930 | 82,791 | 93,930 | 105,471 |
| Total Long-term Debt | 21,950 | 78,380 | 79,380 | 79,380 | 79,380 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 18,730 | 23,490 | 23,490 | 23,490 | 23,490 |
| Total Non-current Liabilities | 40,680 | 101,870 | 102,870 | 102,870 | 102,870 |
| Total Provisions | 3,720 | 3,740 | 2,898 | 3,288 | 3,754 |
| Total Liabilities | 151,160 | 221,540 | 188,559 | 200,087 | 212,095 |
| Shareholders Equity | 118,510 | 93,930 | 166,665 | 179,370 | 217,429 |
| Minority Interests | 530 | | (13) | (28) | (48) |
| Total Equity | 119,040 | 93,930 | 166,653 | 179,342 | 217,381 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Revenue Growth | 40.9% | 25.9% | 10.4% | 14.0% | 14.8% |
| Operating EBITDA Growth | 46.1% | 8.5% | 13.6% | 18.8% | 20.1% |
| Operating EBITDA Margin | 12.0% | 10.4% | 10.7% | 11.1% | 11.6% |
| Net Cash Per Share (Rs) | 14.74 | (52.20) | (45.08) | (45.19) | (39.18) |
| BVPS (Rs) | 133.16 | 105.54 | 187.26 | 201.54 | 244.30 |
| Gross Interest Cover | 14.79 | 7.61 | 8.68 | 10.81 | 13.14 |
| Effective Tax Rate | 26.4% | 24.4% | 25.6% | 25.7% | 25.7% |
| Net Dividend Payout Ratio | 30.0% | 30.0% | 30.0% | 32.0% | 35.0% |
| Accounts Receivables Days | 5.57 | 6.04 | 8.05 | 8.92 | 8.89 |
| Inventory Days | 181.53 | 164.93 | 170.96 | 163.66 | 159.93 |
| Accounts Payables Days | 79.39 | 61.39 | 49.46 | 38.77 | 38.00 |
| ROIC (%) | 35.5% | 29.3% | 23.8% | 27.1% | 28.9% |
| ROCE (%) | 39.6% | 33.5% | 28.4% | 28.0% | 30.5% |
| Return On Average Assets | 13.5% | 12.2% | 12.0% | 13.1% | 14.5% |

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.