

India

HOLD (no change)

Consensus ratings*: Buy 18 Hold 14 Sell 9

Current price:	Rs4,972
Target price:	Rs5,197 ▲
Previous target:	Rs4,841
Up/downside:	4.5%
InCred Research / Consensus:	-3.4%
Reuters:	EICH.NS
Bloomberg:	EIM IN
Market cap:	US\$15,698m
	Rs1,363,083m
Average daily turnover:	US\$30.0m
	Rs2601.2m
Current shares o/s:	273.3m
Free float:	50.9%

*Source: Bloomberg

Key changes in this note

- FY25F-27F volume cut by 4-5%.
- FY25F-27F sales cut by 3-4%.
- FY25F-27F EPS cut by 1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.7)	3.7	29.5
Relative (%)	(0.3)	7.0	20.6

Major shareholders	% held
Lal Family	49.2
SBI Mutual Fund	2.0
NEW WORLD FUND INC	1.9

Research Analyst(s)



Pramod AMTHE

T (91) 22 4161 1541
E pramod.amthe@incredresearch.com

Ravi GUPTA

T (91) 02241611552
E ravi.gupta@incredresearch.com

Eicher Motors Ltd

Focus on volume over profitability

- 3Q EPS grew by 18% yoy to Rs42.8, in line with our/Bloomberg consensus estimates. It was supported by profitability of the Volvo truck JV (up 45% qoq).
- The premium 125cc+ segment is witnessing steady growth, despite the overall two-wheeler market fluctuations.
- New launches and recovery in exports, coupled with forward P/E and P/BV valuations at close to 10-year mean level, led us to maintain our HOLD rating.

EBITDA margin impacted by high marketing expenses

Eicher Motors' 3QFY25 EBITDA grew by 10% qoq to Rs12bn, which was 6% below our estimate but 7% above Bloomberg (BB) consensus estimate. Lower other income (-18% qoq) limits the normalized consolidated EPS growth (+2% qoq) to Rs43, in line with our estimate and BB consensus estimate. The EBITDA margin was at 24.2%, down 136bp qoq, due to incremental marketing expenses of Rs.900m for new launches and electric vehicle or EV-related events. VE Commercial Vehicles' profit rose by 43% yoy and 45% qoq to Rs3bn, a 43% beat vs. our estimate.

Management conference-call highlights

Management indicated that middleweight motorcycles (250cc-750cc) continue to outperform the broader market. The company's market share in India's two-wheeler segment touched 10.5% in 3QFY25. Out of its revenue, 0.9% was spent the on-the-ground marketing activation, which impacted its EBITDA margin. Exports surged 71% yoy in 3Q led by strong demand in the UK, Italy, North America and Brazil. Brazil & Thailand CKD operations to drive future growth. EV production is set to commence in 1QFY26F, with an annual capacity of 1,50,000 units.

We cut sales volume estimates for FY25F-FY27

The overall two-wheeler industry volume growth witnessed volatility which led us to cut sales volume by 4-5% for FY25F-27F, while Royal Enfield or RE bikes' ASP growth of 7% yoy in 9MFY25 led us to go for a lower cut of 3-4% on the revenue front for FY25F-27F but sustained elevated marketing expenses led us to cut EBITDA by 5-6% for the same period. Volvo trucks' strong profitability growth in 9MFY25 (+25% yoy) limits our FY25F-27F EPS cut to ~1%.

Maintain HOLD rating with a higher target price of Rs5,197

Improved management actions on new model/variant launches, coupled with community events, are driving customer engagement. However, in the short term, emission upgrade needs to be monitored. With forward P/E and P/BV valuations remaining below the 10-year mean level, we maintain our HOLD rating on the stock with a higher sum-of-the-parts or SOTP-based target price of Rs5,197 (Rs4,841 earlier). Upside risk: Volume growth surprise in the case of new models. Downside risk: Production challenges and export weakness.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	144,422	165,358	189,685	216,696	239,735
Operating EBITDA (Rsm)	34,436	43,269	46,733	53,263	58,982
Net Profit (Rsm)	29,140	39,831	44,197	47,639	52,710
Core EPS (Rs)	106.6	145.6	158.5	174.0	192.5
Core EPS Growth	78.0%	36.6%	8.9%	9.8%	10.6%
FD Core P/E (x)	46.66	34.16	30.80	28.58	25.83
DPS (Rs)	37.0	51.0	56.0	62.0	68.0
Dividend Yield	0.74%	1.03%	1.13%	1.25%	1.37%
EV/EBITDA (x)	35.70	28.15	26.03	22.46	19.84
P/FCFE (x)	(159.33)	97.34	85.49	78.64	56.73
Net Gearing	(87.0%)	(79.1%)	(76.6%)	(75.7%)	(76.5%)
P/BV (x)	9.07	7.54	7.19	6.25	5.44
ROE	21.1%	24.1%	23.5%	23.4%	22.5%
% Change In Core EPS Estimates			(0.48%)	(0.62%)	(0.69%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Focus on volume over profitability

Management conference-call highlights >

- **The two-wheeler industry:** The 125cc+ premium segment is seeing steady growth, despite the overall two-wheeler market fluctuations. Middleweight motorcycles (250cc-750cc) continue to outperform the broader market.
- **Domestic market:** The company's market share in India's two-wheeler industry reached 10.5% in 3QFY25.
- **Export business:** Exports surged 71% yoy in 3Q, with international retail sales outpacing wholesales by 8-9%. Top performing markets are the UK (RE is the market leader in the middleweight segment), Italy, North America and Brazil. The company forayed into Bangladesh by opening a flagship store in Dhaka. Brazil & Thailand CKD operations will drive future growth.
- **Financial performance:** Gross margin declined sequentially due to an unfavourable product mix (sales of more mid-range models), promotional discounts & marketing expenses for the festive season.
- **Marketing expenses:** Out of the company's revenue, 0.9% was spent on-the-ground marketing activation. There was Rs700m of incremental spending on new launches compared to the previous year while Rs200m was spent on the EV brand launch and related events.
- **Model-wise performance:** Bullet & Classic 350 models witnessed demand recovery. North India (Punjab, Delhi and Uttar Pradesh) saw strong demand for Bullet Battalion Black model. South & West India markets showed gradual growth.
- **CKD (Completely Knocked Down) operations:** The second CKD plant in Brazil is nearing completion. Retail outlets to be expanded in Brazil as a part of the market penetration strategy. Thailand CKD plant has been set up to serve the local market first and it is a potential export hub for Europe & ASEAN markets by leveraging free trade agreements (FTAs).
- **Europe bike duty (import tariff):** The current import duty on Royal Enfield motorcycles in Europe is 5%.
- **Flying Flea EV:** The production will begin in 1QFY26F, with an initial production capacity of 1,50,000 units per year.
- **Capex:** Management gave FY25F capex guidance of Rs10bn, which is on track. The major areas of investment would be the new Thailand CKD plant, Brazil CKD expansion project and the Flying Flea EV production set-up (Vallam plant).
- **Commodity outlook:** Commodity costs remain stable while there were slight fluctuations in steel & aluminum prices, but the company's value engineering measures are helping to offset raw material inflation.
- **Inventory level:** Inventory days normalized at two-to-three weeks post-festive season stockouts while some specific stock-keeping units or SKUs are still facing a demand-supply mismatch, but management is confident of address the problem soon.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	3QFY25	3QFY24	yoy % chg	2QFY25	qoq % chg	9MFY25	9MFY24	yoy % chg	Comments for the quarter
Revenue	49,731	41,788	19.0	42,631	16.7	1,36,292	1,22,797	11.0	3% below our estimate.
Raw material costs	27,317	22,579	21.0	22,824	19.7	73,702	67,052	9.9	
RM costs as a % of revenue	55	54	89.7	54	139.0	54	55	(52.7)	
EBITDA	12,012	10,903	10.2	10,877	10.4	34,543	31,983	8.0	6% below our estimate.
EBITDA margin (%)	24.2	26.1	(193.7)	25.5	(136.1)	25.3	26.0	(70.0)	77bp below our estimate.
Depreciation & amortization	1,793	1,475	21.5	1,801	(0.4)	5,280	4,324	22.1	
EBIT	10,219	9,427	8.4	9,077	12.6	29,264	27,659	5.8	
Interest expenses	134	124	7.7	131	1.9	388	355	9.2	
Other Income	2,888	2,537	13.8	3,538	(18.4)	9,245	7,707	20.0	4% below our estimate.
Pre-tax profit	12,973	11,840	9.6	12,483	3.9	38,121	35,011	8.9	
Tax	2,903	3,019	(3.8)	2,617	10.9	8,916	8,865	0.6	
Profit before minority interest	10,070	8,821	14	9,866	2	29,205	26,147	11.7	
Profit from joint venture	1,635	1,139	44	1,138	44	3,715	3,159	18	-
Normalized net profit	11,705	9,960	17.5	11,003	6.4	32,920	29,306	12.3	7% below our estimate.
Exceptional items	-	-	nm	-	nm	803	-	nm	
Reported net profit	11,705	9,960	17.5	11,003	6.4	32,920	29,306	12.3	
Normalized EPS (Rs)	42.8	36.4	17.5	40.2	6.4	120.2	107.0	12.3	
Volume (nos)	2,72,297	2,28,073	19.4	2,27,872	19.5	7,27,076	6,92,114	5.1	
Net realization (Rs)	1,82,636	1,83,224	(0.3)	1,87,082	(2.4)	1,87,453	1,77,424	5.7	
EBITDA/vehicle	44,113	47,804	(7.7)	47,734	(7.6)	47,510	46,210	2.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Royal Enfield's quarterly performance

(Rs m)	3QFY25	3QFY24	yoy (%)	2QFY25	qoq (%)	9MFY25	9MFY24	yoy (%)
Net sales	50,504	40,542	24.6%	42,054	20.1%	1,34,872	1,18,861	13.5%
EBITDA	13,535	11,148	21.4%	11,049	22.5%	36,370	32,249	12.8%
EBITDA margin (%)	26.8%	27.5%	-70	26.3%	53	27.0%	27.1%	-17
Normalized PAT	11,660	9,137	27.6%	10,099	15.5%	32,639	27,661	18.0%
Total volume (In nos)	2,72,297	2,28,073	19.4%	2,27,872	19.5%	7,27,076	6,92,114	5.1%
ASP (Rs)	1,85,475	1,67,983	10.4%	1,84,553	0.5%	1,85,499	1,71,736	8.0%

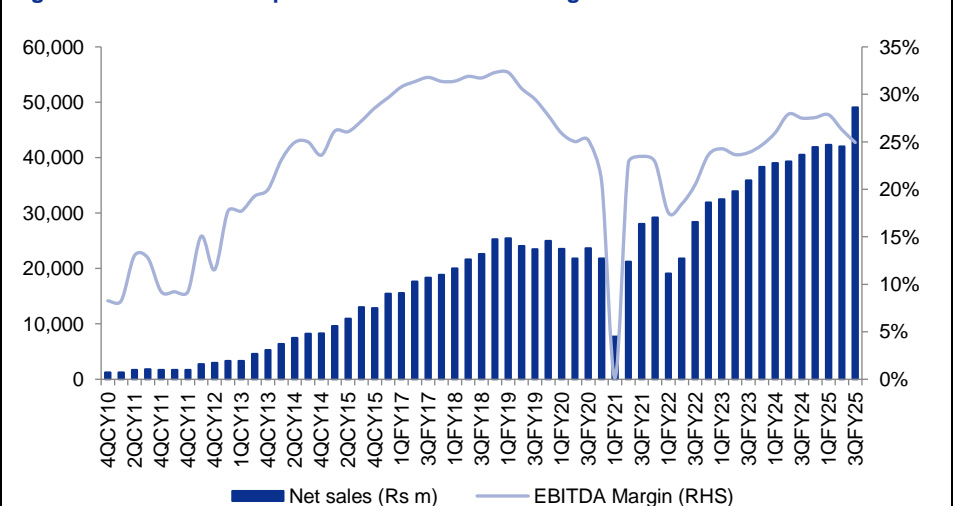
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: VE Commercial Vehicles' quarterly performance

(Rs m)	3QFY25	3QFY24	yoy (%)	2QFY25	qoq (%)	9MFY25	9MFY24	yoy (%)
Net sales	58,010	54,830	5.8%	54,350	6.7%	1,63,060	1,56,030	4.5%
EBITDA	5,090	4,380	16.2%	3,950	28.9%	12,890	11,914	8.2%
EBITDA margin (%)	8.8%	8.0%	79	7.3%	151	7.9%	7.6%	27
Normalized PAT	3,010	2,110	42.7%	2,080	44.7%	6,823	5,455	25.1%
Total volume (In nos)	21,010	20,706	1.5%	20,774	1.1%	61,486	59,828	2.8%
ASP (Rs)	27,61,066	26,48,025	4.3%	26,16,251	5.5%	26,51,986	26,07,976	1.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Revenue at its peak while the EBITDA margin moderates



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Sales volume break-up (units)

	3QFY25	3QFY24	yoy (%)	2QFY25	qoq (%)	9MFY25	9MFY24	yoy (%)
RE - domestic	2,42,013	2,13,386	13.4%	2,06,157	17.4%	6,52,856	6,36,958	2.5%
RE - export	30,284	14,687	106.2%	21,715	39.5%	73,334	55,156	33.0%
Commercial vehicles	21,010	20,056	4.8%	20,774	1.1%	61,486	59,828	2.8%
Total sales volume	2,93,307	2,48,129	18.2%	2,48,646	18.0%	7,87,676	7,51,942	4.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Product portfolio of Royal Enfield

Engine Platform	Heritage	Roadster	Scrambler	Adventure	Cruiser	Retro Sport
P Platform 650cc Twin cylinder Air-oil cooled 47 PS 52.4 N-m	Classic 650 Shotgun 650	Interceptor INT650	Bear 650		Super Meteor 650	Continental GT650
K Platform 450cc Single cylinder Liquid cooled 39.4 PS 40 N-m		Guerrilla 450		Himalayan 450		
D Platform 443cc Single cylinder Air-oil cooled 25.4 PS 34 N-m			SCRAM 440			
J Platform 350cc Single cylinder Air cooled 20.2 PS 27 N-m	Classic 350 Bullet 350	Gen Classic 350	Hunter 350		Meteor 350	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Key assumptions

Rsm	FY22A	FY23	FY24	FY25F	FY26F	FY27F
Volume (nos)						
Royal Enfield	3,94,969	8,34,895	9,12,732	9,97,666	11,19,351	12,24,286
VECV	12,631	79,623	85,560	88,109	1,00,812	1,11,213
Consol.	4,07,600	9,14,518	9,98,292	10,85,776	12,20,162	13,35,499
Sales						
Royal Enfield	66,451	1,40,667	1,61,706	1,85,646	2,11,807	2,34,210
VECV	13,905	1,89,520	2,18,780	2,28,758	2,51,545	2,77,716
Consol.	80,357	3,30,187	3,80,486	4,14,404	4,63,352	5,11,926
EBITDA Margin (%)						
Royal Enfield	24.0%	24.1%	27.7%	26.1%	25.8%	25.5%
VECV	8.0%	7.3%	7.7%	7.9%	7.4%	7.0%
Consol.	21.2%	14.5%	16.2%	16.1%	15.8%	15.5%
Net Profit						
Royal Enfield	11,947	26,225	38,418	42,494	46,773	51,059
VECV	7	2,641	3,591	5,367	3,895	4,020
Consol.	11,955	28,866	42,009	47,861	50,668	55,079

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Our revised consolidated entity's earnings estimates

	FY25F		FY26F		FY27F	
	Old	New	Old	New	New	New
RE sales volume	10,39,318	9,97,666	11,75,950	11,19,351	12,86,545	12,24,286
Change (%)		-4.0%		-4.8%		-4.8%
Net sales (Rs m)	1,96,277	1,89,685	2,25,833	2,16,696	2,49,886	2,39,735
Change (%)		-3.4%		-4.0%		-4.1%
EBITDA (Rs m)	49,923	46,733	55,887	53,263	61,882	58,982
Change (%)		-6.4%		-4.7%		-4.7%
EBITDA margin	25.4%	24.6%	24.7%	24.6%	24.8%	24.6%
Bp		(80)		(17)		(16)
EPS (Rs)	159.3	158.5	175.1	174.0	193.8	192.5
Change (%)		-0.5%		-0.6%		-0.7%

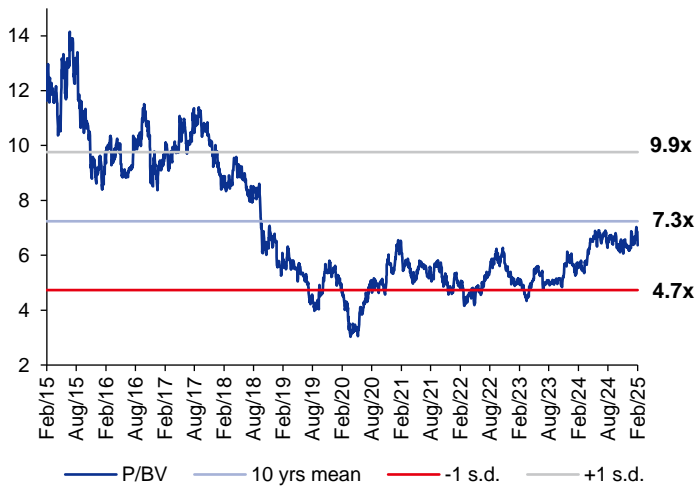
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Eicher Motors' sum-of-the-parts or SOTP valuation

Sum-of-the-parts valuation (Rs m)	EBITDA 1-year fwd	Multiple (x)	EV	Net Debt 1-year fwd	Equity Value	Stake	Attributable	No. of Shares (m)	Value per Share (Rs)
Royal Enfield	59,053	19.0	11,22,001	(1,75,846)	12,97,848	100%	12,97,848	273.3	4,749
Volvo Eicher CV (incl. engine business)	19,334	11.0	2,12,672	(12,477)	2,25,148	54.4%	1,22,481	273.3	448
SOTP value of Eicher Motors									5,197

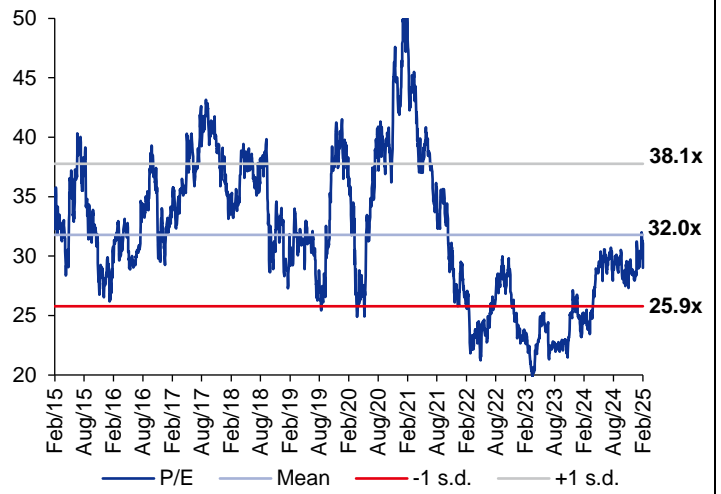
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Forward P/BV valuation below the 10-year mean level



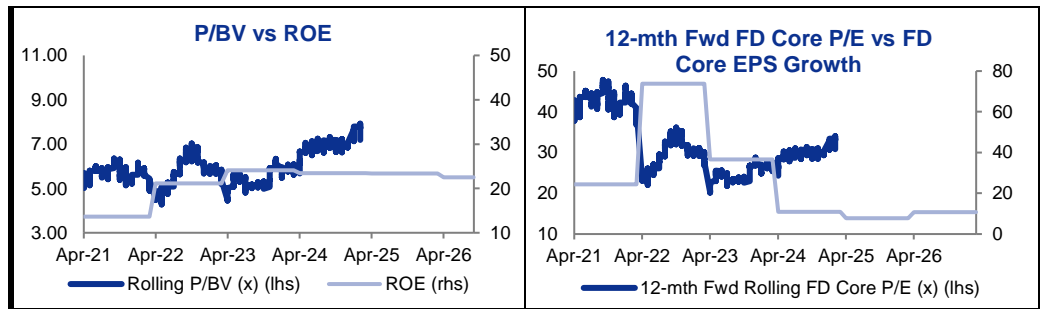
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 11: Forward P/E valuation below the 10-year mean level



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	144,422	165,358	189,685	216,696	239,735
Gross Profit	62,303	75,551	85,136	97,426	107,719
Operating EBITDA	34,436	43,269	46,733	53,263	58,982
Depreciation And Amortisation	(5,262)	(5,976)	(7,100)	(8,570)	(9,470)
Operating EBIT	29,174	37,293	39,633	44,693	49,512
Financial Income/(Expense)	(280)	(509)	(615)	(780)	(700)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,951	10,759	13,518	15,420	16,871
Profit Before Tax (pre-EI)	34,845	47,543	52,536	59,333	65,683
Exceptional Items					
Pre-tax Profit	34,845	47,543	52,536	59,333	65,683
Taxation	(8,857)	(12,010)	(13,804)	(16,341)	(17,770)
Exceptional Income - post-tax			803		
Profit After Tax	25,988	35,533	39,535	42,992	47,914
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	3,152	4,298	4,661	4,646	4,796
Net Profit	29,140	39,831	44,197	47,639	52,710
Recurring Net Profit	29,140	39,831	43,394	47,639	52,710
Fully Diluted Recurring Net Profit	29,140	39,831	43,394	47,639	52,710

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	34,436	43,269	46,733	53,263	58,982
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,906)	1,436	(3,067)	(580)	(61)
(Incr)/Decr in Total Provisions	6,309	(18,329)	1,652	(5,981)	(5,000)
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	3,152	4,298	5,464	4,646	4,796
Net Interest (Paid)/Received	5,671	10,250	12,903	14,640	16,171
Tax Paid	(8,857)	(13,620)	(13,804)	(16,341)	(17,770)
Cashflow From Operations	38,805	27,305	49,882	49,648	57,118
Capex	(7,592)	(9,050)	(12,534)	(10,470)	(10,470)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(40,486)	(4,070)	(22,025)	(21,866)	(22,651)
Cash Flow From Investing	(48,078)	(13,120)	(34,559)	(32,336)	(33,121)
Debt Raised/(repaid)	739	(206)	602		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,120)	(13,964)	(15,333)	(16,976)	(18,618)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(9,381)	(14,170)	(14,731)	(16,976)	(18,618)
Total Cash Generated	(18,654)	14	592	336	5,379
Free Cashflow To Equity	(8,534)	13,978	15,924	17,312	23,997
Free Cashflow To Firm	(8,993)	14,693	15,938	18,092	24,697

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	131,778	143,855	146,810	166,674	193,178
Total Debtors	3,689	3,738	11,190	13,347	14,758
Inventories	12,784	14,096	13,224	16,248	17,967
Total Other Current Assets	12,104	29,357	27,552	34,833	39,833
Total Current Assets	160,356	191,046	198,776	231,102	265,737
Fixed Assets	30,606	35,845	40,129	42,029	43,029
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	30,606	35,845	40,129	42,029	43,029
Short-term Debt	1,327	1,121	1,723	1,723	1,723
Current Portion of Long-Term Debt					
Total Creditors	18,104	20,901	24,414	29,015	32,084
Other Current Liabilities	17,149	13,841	16,000	17,000	17,000
Total Current Liabilities	36,581	35,863	42,137	47,737	50,806
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	5,493	9,422	7,305	7,605	7,605
Total Liabilities	42,074	45,285	49,441	55,342	58,411
Shareholders Equity	149,903	180,455	189,464	217,789	250,355
Minority Interests					
Total Equity	149,903	180,455	189,464	217,789	250,355

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	40.2%	14.5%	14.7%	14.2%	10.6%
Operating EBITDA Growth	61.5%	25.7%	8.0%	14.0%	10.7%
Operating EBITDA Margin	23.8%	26.2%	24.6%	24.6%	24.6%
Net Cash Per Share (Rs)	476.97	521.31	529.90	602.45	699.25
BVPS (Rs)	548.09	659.08	691.98	795.43	914.37
Gross Interest Cover	104.19	73.30	64.44	57.30	70.73
Effective Tax Rate	25.4%	25.3%	26.3%	27.5%	27.1%
Net Dividend Payout Ratio	34.7%	35.1%	35.3%	35.6%	35.3%
Accounts Receivables Days	8.48	8.20	14.36	20.66	21.40
Inventory Days	53.58	54.63	47.69	45.10	47.30
Accounts Payables Days	79.97	79.27	79.10	81.75	84.46
ROIC (%)	110.8%	155.8%	82.1%	86.5%	81.9%
ROCE (%)	20.6%	21.9%	20.7%	21.3%	20.6%
Return On Average Assets	16.7%	19.3%	18.9%	18.9%	18.4%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	0.2%	5.2%	5.0%	1.7%	1.1%
Unit sales grth (% , main prod./serv.)	38.6%	9.3%	9.3%	12.2%	9.4%
ASP (% chg, 2ndary prod./serv.)	7.3%	9.5%	1.0%	(4.0%)	N/A
Unit sales grth (% ,2ndary prod/serv)	39.6%	7.5%	3.0%	14.4%	10.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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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.