

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 4 Sell 6

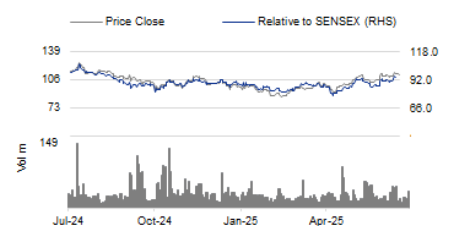
Current price: Rs108
 Target price: ▲ Rs120
 Previous target: Rs111
 Up/downside: 11.1%
 InCred Research / Consensus: 9.0%

Reuters: PNBK.NS
 Bloomberg: PNB IN
 Market cap: US\$14,211m
 Rs1,242,387m
 Average daily turnover: US\$29.7m
 Rs2599.6m
 Current shares o/s: 112.1m
 Free float: 29.9%

*Source: Bloomberg

Key changes in this note

- We revisit our earnings estimates based on 1QFY26 results.
- We marginally tweak our sustainable RoE assumption to factor in lower credit costs.

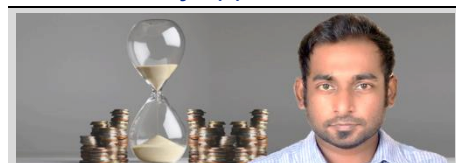


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.2)	7.9	(13.9)
Relative (%)	0.4	6.2	(13.6)

Major shareholders	% held
President of India	70.1
LIC	8.3
SBI	1.7

Research Analyst(s)



Bhavik SHAH

T (91) 22 4161 1551

E bhavik.shah@incredresearch.com

Punjab National Bank

Strong non-core income drives beat

- The 1QFY26 beat on adjusted PAT was due to strong non-core income and lower credit costs, while the core performance missed owing to higher opex.
- PNB has a few levers to offset margin compression over the next few years. Also, its balance sheet is strong & has optionality from non-core income pools.
- We raise our target price to Rs120 (11% upside), implying 0.85x target multiple. The stock appears attractive at 0.75x FY27F BV. Maintain ADD rating on it.

Core PPOp miss on higher opex; PAT beat on non-core income

Punjab National Bank (PNB) posted 1QFY26 PAT of Rs16.75bn and, adjusted for a one-time impact owing to shifting to a lower tax regime (~Rs33bn), adjusted net income was Rs49bn (~1% annualized RoA). Strong non-core income as well as a lower provision (27bp vs. our estimate of 42bp) drove the net income beat. Core PPOp missed estimate mainly owing to higher opex (17% YoY; included PSL costs of Rs8bn) while core fee income was strong (15% YoY) and net interest income was in line (1% YoY). Margin dipped by 11bp QoQ to 2.7%, mainly owing to lower loan yields (down 22bp), which were partly offset by lower funding costs (down 6bp). Non-core income included treasury gains (Rs16bn; 35bp of avg. assets) and recovery from written-off accounts (Rs12bn; 25bp). Management gave guidance of strong treasury gains through the fiscal and recovery from written-off accounts at Rs60bn (with a few lumpy recoveries likely in 2QFY26F). Loan growth moderated QoQ (11% YoY vs. 15%). Deposit growth also moderated QoQ (13% vs. 14%). Management gave loan/deposit growth guidance of 11-12%/9-10%, respectively. The CET-1 ratio was healthy at 12.95%.

Asset quality steady; credit costs can positively surprise in FY26F

Gross slippage moderated QoQ (0.8% annualized vs. 1.3% last quarter) and was broadly steady vs. last year. Healthy recovery & upgrades (Rs17bn vs. Rs22bn; moderation owing to seasonality) and elevated write-offs (Rs16bn vs. Rs21bn) drove GNPA's lower (down 3% QoQ). Headline GNPA ratio moderated by 17bp QoQ to 3.78% (target of below 3% by end-FY26F). The PCR ratio remains strong at 90%. The net NPA ratio stood at 0.38% (target of 0.35%). Credit costs inched up marginally QoQ (27bp vs. 20bp). PNB gave guidance of clocking materially lower credit costs in FY26F vs. its earlier guidance of below 50bp (we build in 36bp).

Risk-reward ratio appears attractive with valuation at 0.75x FY27F BV

We believe PNB has strong balance sheet, few levers to partly offset margin compression (lower tax rate), and optionality from non-core pools. This includes written-off income (w/off pool is 8% vs. 4-6% of peers) and the available-for-sale book stands at 6% of assets (vs. 3-4% of peers). We expect RoA to moderate to 0.7%/0.8% in FY26F/27F, respectively, from 1% in FY25F. RoE to dip to 11-12% in FY26-27F, from 14% in FY25. The risk-reward ratio appears attractive, with PNB trading at 0.75x FY27F BV. We maintain ADD rating on PNB and increase our target price on it to Rs120 (Rs111 earlier). This adjustment reflects marginally higher sustainable RoE expectation following lower-than-expected credit cost outcome. Downside risks: Lower than-expected loan/deposit growth, higher delinquencies in retail/MSME portfolios, & higher-than-expected growth in costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	400,831	427,822	439,535	508,178	574,204
Total Non-Interest Income (Rsm)	133,835	163,094	168,170	160,829	147,912
Operating Revenue (Rsm)	534,666	590,915	607,705	669,007	722,117
Total Provision Charges (Rsm)	(117,366)	(16,746)	(37,407)	(63,297)	(71,580)
Net Profit (Rsm)	82,446	166,302	139,052	177,751	187,420
Core EPS (Rs)	7.49	14.47	12.10	15.47	16.31
Core EPS Growth	229%	93%	(16%)	28%	5%
FD Core P/E (x)	14.44	7.47	8.93	6.99	6.63
DPS (Rs)	1.50	2.90	2.42	3.09	3.26
Dividend Yield	1.39%	2.68%	2.24%	2.86%	3.02%
BVPS (Rs)	96.7	110.8	120.0	133.1	146.3
P/BV (x)	1.12	0.98	0.90	0.81	0.74
ROE	8.0%	14.2%	10.5%	12.2%	11.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

Rs Mn	1QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	104,763	107,570	105,781	1%	-2%
Other Income	36,095	47,159	52,678	46%	12%
--Core Fee	21,430	19,610	24,580	15%	25%
--Treasury Income	3,260	7,330	14,700	351%	101%
--Misc. Income	11,405	20,219	13,398	17%	-34%
-----o/w Recovery from w/off	8,700	18,290	11,890	37%	-35%
Total income	140,858	154,729	158,459	12%	2%
--Core Revenues	126,193	127,180	130,361	3%	3%
Operating Expenses	75,046	86,972	87,646	17%	1%
--Staff Expenses	45,508	57,927	51,644	13%	-11%
--Other Operating Expenses	29,538	29,045	36,002	22%	24%
Operating Profit	65,812	67,757	70,814	8%	5%
--Core PPOp	51,146	40,208	42,715	-16%	6%
Provisions	13,123	3,597	3,231	-75%	-10%
PBT	52,688	64,160	67,583	28%	5%
Tax	20,173	18,490	50,833	152%	175%
Adj. Tax	20,173	18,490	17,590	-13%	-5%
PAT	32,515	45,670	16,750	-48%	-63%
Adj. PAT	32,515	45,670	49,992	54%	9%
EPS	3	4	1		
Advances	9,839,976	10,774,746	10,919,809	11%	1%
Deposits	14,082,471	15,666,233	15,893,786	13%	1%
LD Ratio	70%	69%	69%		
CASA Ratio	39%	37%	36%		
Margins (%)	3.07	2.81	2.70	-0.37	-0.11
Overall provisions (in bps)	55	13	12		
---Credit cost (in bps)	38	20	27		
-----NPA provisions	33	22	15		
GNPA	512,628	440,816	426,730	-17%	-3%
GNPA Ratio (%)	4.98%	3.95%	3.78%		
NNPA	59,301	42,906	41,322	-30%	-4%
NNPA Ratio (%)	0.60	0.40	0.38		
PCR	453,327	397,911	385,407	-15%	-3%
PCR Ratio (%)	88%	90%	90%		
Slippages	17,550	30,010	18,860	7%	-37%
--% of trailing loans	0.8%	1.3%	0.8%		
CET-1 Ratio (%)	11.4%	12.3%	12.9%		
RoA	0.8%	1.0%	0.4%		
RoE	16.8%	19.2%	6.6%		

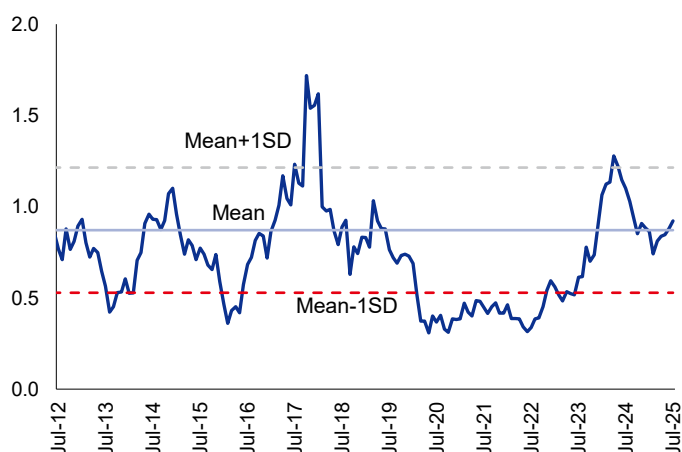
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimate

Rs bn	New Estimates				Old Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Net Interest Income	428	440	508	574	452	521	611	-3%	-2%	-6%
--Growth YoY	7%	3%	16%	13%	6%	15%	17%			
Non-Interest Income	163	168	161	148	155	156	140	9%	3%	6%
--Growth YoY	22%	3%	-4%	-8%	-7%	1%	-10%			
Total Income	591	608	669	722	607	677	751	0%	-1%	-4%
--Growth YoY	11%	3%	10%	8%	2%	12%	11%			
Opex	323	338	368	400	349	378	411	-3%	-3%	-3%
--Growth YoY	13%	5%	9%	9%	8%	8%	9%			
PPOP	268	269	301	322	258	298	341	4%	1%	-5%
--Growth YoY	8%	0%	12%	7%	-5%	16%	14%			
Provision	17	37	63	72	57	76	86	-34%	-17%	-17%
--as a % of avg. loans	17	33	50	50	50	59	59			
PBT	252	232	238	250	201	222	254	15%	7%	-1%
Tax	85	93	60	63	56	56	64	-40%	-7%	1%
PAT	166	139	178	187	146	166	190	-5%	7%	-1%
--Growth YoY	102%	-16%	28%	5%	-14%	14%	14%			
Advances	10,775	11,990	13,559	15,333	12,067	13,646	15,432	-1%	-1%	-1%
--Growth YoY	15%	11%	13%	13%	12%	13%	13%			
Deposits	15,666	17,238	19,307	21,624	16,572	18,395	18,395	4%	5%	18%
--Growth YoY	14%	10%	12%	12%	6%	11%	0%			
Book Value	111	120	133	146	121	133	146	0%	0%	0%
--Growth YoY	15%	8%	11%	10%	9%	10%	10%			
EPS	16	12	15	16	13	14	17	-5%	7%	-1%
--Growth YoY	119%	-26%	28%	5%	-16%	14%	14%			
RoA	1.0%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	-3	6	-1
RoE	14.2%	10.5%	12.2%	11.7%	11.0%	11.4%	11.9%	-48	81	-20

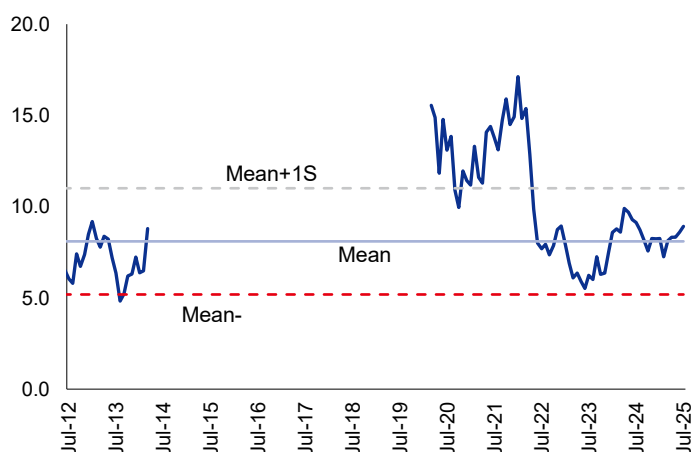
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: PNB - One-year forward P/BV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PNB - One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings highlights

- PNB's loans grew by 10% YoY (+1% QoQ), mainly led by retail (+12% YoY; 1% QoQ) and MSME segment (+19% YoY; +4% QoQ). The agri loan book's growth was subdued at 6% YoY (down 1% QoQ). The corporate loan book grew by 7% YoY and was up 1% QoQ. Management gave loan growth guidance of 11-12% YoY for FY26F and indicated sanctions are in place for Rs1.3tr (includes project financing as well).
- Deposits grew by 13% YoY (+1% QoQ), mainly led by term deposits (+19% YoY; 3% QoQ) while CASA deposit growth was soft at 4% YoY (down 1% QoQ). The domestic CASA ratio stood at 37% vs. 38% last quarter. Management targets deposit growth of 9-10% YoY in FY26F and aspires to increase the CASA share to more than 38%.
- Within term deposits, the bank noted that wholesale deposits stood at Rs2.8tr, which is expected to be repriced over the next few quarters (benefiting margin). Over the past quarter, the blended rate declined to 6.7-6.8% (down 100bp QoQ).

- Overall provision (12bp of loans) includes standard asset provision (of 11bp; against a corporate account, as per the 7th Jun 2025 circular) and write-back of investment provision (15bp; partly led by the sale of a regional rural bank). Management gave overall credit cost guidance of 50bp for FY26F and indicated that credit costs can be well below its target/guidance.
- Other operating expenses grew by 22% YoY and were up 24% QoQ (an absolute increase of Rs7bn). This was mainly owing to PSLC costs (of Rs8bn). Management noted that overall costs should be around Rs80-82bn per quarter in FY26F (including Rs50-51bn of staff costs). Moreover, the bank highlighted efforts/initiatives made to achieve its PSL target organically. These include focusing on self-help group (SHG) financing, where it has already witnessed strong growth (the book now at Rs120bn vs. Rs85bn last year). SHG loans would help qualify for both agri loans as well as the small and marginal farmer category of PSL.
- As regards the overall book, the SMA pool stood at 6.3% of loans (vs. 6.8% last year), of which SMA-0 is 3.9% (is usually repaid within weeks of default, particularly in the case of granular retail/MSME segments), SMA-1 is 1.2% and SMA-2 is 1.2%.

Figure 5: Financial summary

Punjab National Bank

Profit and Loss Statement

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Interest Income	1,217,607	1,228,500	1,393,684	1,565,730
Interest Expense	789,786	788,965	885,507	991,525
Net Interest Income	427,822	439,535	508,178	574,204
---Fee Income	45,740	47,316	44,310	47,891
---Forex Income	3,904	4,038	3,782	4,088
---Capital Gains	39,232	38,570	30,000	8,000
---Miscellaneous Inc.	123,862	129,600	130,829	139,912
Total Non Interest Income	163,094	168,170	160,829	147,912
Total Operating Income	590,915	607,705	669,007	722,116
---Employee Exp	213,577	211,078	223,924	237,798
---Other Expenses	109,032	127,419	144,247	162,278
Total Operating Expenses	322,609	338,497	368,171	400,076
Operating Profit	268,307	269,208	300,836	322,041
---Prov. For Investment Dep.	-117	-4,030	0	0
---Loan Loss Provisions	18,968	38,137	63,297	71,580
---Other Provisions	-2,106	3,300	0	0
Total provisions	16,746	37,407	63,297	71,580
Profit Before Tax	251,561	231,800	237,539	250,461
Provision for Tax	85,259	92,748	59,789	63,041
Net Profit	166,302	139,052	177,751	187,420
Core Operating profit	154,857	152,392	188,098	226,107

Balance Sheet Data

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Shareholders' equity	1,273,623	1,379,345	1,529,285	1,681,155
Deposits	15,666,233	17,238,385	19,306,991	21,623,830
Borrowings	461,317	512,062	573,509	642,331
Other Liabilities & Prov.	780,535	866,394	961,697	1,067,484
Total Liabilities	18,181,707	19,996,186	22,371,483	25,014,799
Cash & Balances w/ RBI	643,046	1,119,056	1,252,821	1,402,582
Balances w/ Banks	844,152	937,009	1,040,080	1,154,489
Investments	4,973,113	4,918,211	5,384,841	5,875,840
Advances	10,774,746	11,989,732	13,558,778	15,333,159
Fixed Assets	130,534	134,450	138,483	142,638
Other Assets	816,117	897,728	996,479	1,106,091
Total Assets	18,181,707	19,996,186	22,371,483	25,014,799
Earning Assets	17,235,057	18,964,008	21,236,521	23,766,070

Asset Quality

Credit Costs / Advances (bps)	17	36	50	50
Gross NPL	440,828	435,445	514,777	628,768
Net NPL	42,905	55,437	99,992	174,542
Reserve Coverage	397,923	380,008	414,785	454,227
Gross NPL Ratio	3.9%	3.5%	3.7%	4.0%
Net NPL Ratio	0.4%	0.5%	0.7%	1.1%
Coverage Ratio (excl. tech w/offs)	90%	87%	81%	72%

Per Share Data and Valuations

Year-end March	FY25	FY26F	FY27F	FY28F
Per Share Data (in Rs)				
EPS	16.4	12.1	15.5	16.3
Book Value	110.8	120.0	133.1	146.3
Core Op. Profit	15.6	16.0	20.1	23.8
DPS	2.9	2.4	3.1	3.3
Valuations				
P/E (Core)	6.1	8.3	6.5	6.1
Price to Book (Core)	0.9	0.8	0.8	0.7
Price to Core Op. Profit (Core)	6.4	6.3	5.0	4.2
Dividend Yield	2.7%	2.2%	2.9%	3.0%

Ratio Analysis

Year-end March	FY25	FY26F	FY27F	FY28F
Spread Analysis				
Average yield on assets	7.6%	6.8%	6.9%	7.0%
Cost of earning assets	4.9%	4.4%	4.4%	4.4%
Net Interest Margin (NIM)	2.9%	2.7%	2.8%	2.9%

Growth Ratios

Net Interest Income	6.7%	2.7%	15.6%	13.0%
Non Interest Income	21.9%	3.1%	-4.4%	-8.0%
Operating expenses	13.1%	4.9%	8.8%	8.7%
Core Operating Profit	-0.9%	2.4%	25.7%	18.7%
Net Profit	101.7%	-16.4%	27.8%	5.4%
EPS	119.2%	-26.3%	27.8%	5.4%
Deposits	14.4%	10.0%	12.0%	12.0%
Advances	15.3%	11.3%	13.1%	13.1%
Total Assets	16.4%	10.0%	11.9%	11.8%

Profitability Ratios

Return On Equity	14.2%	10.5%	12.2%	11.7%
Return on Assets	1.0%	0.7%	0.8%	0.8%

Efficiency Ratios

Cost Income Ratio	54.6%	55.7%	55.0%	55.4%
Expenses/Avg Assets	1.9%	1.8%	1.7%	1.7%

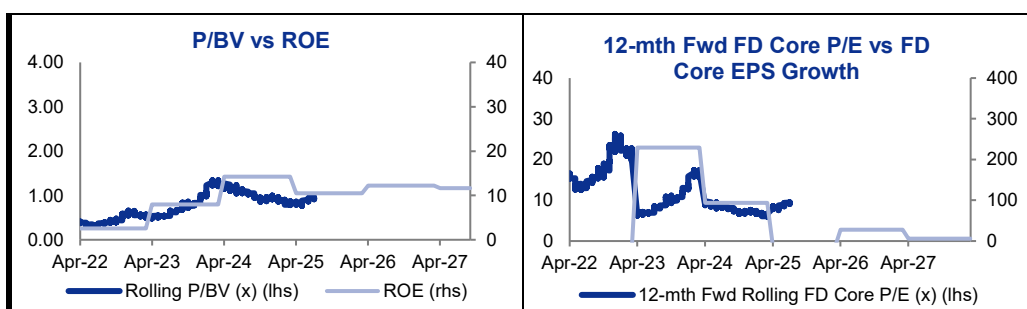
Capital Ratios

CET 1 Ratio	12.1%	12.8%	12.8%	12.8%
Tier 1 Ratio	14.1%	14.3%	14.3%	14.3%
Capital Adequacy Ratio	16.9%	17.1%	17.1%	17.1%

Source: Company Data, InCred Research
E=InCred Research Estimates

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	400,831	427,822	439,535	508,178	574,204
Total Non-Interest Income	133,835	163,094	168,170	160,829	147,912
Operating Revenue	534,666	590,915	607,705	669,007	722,117
Total Non-Interest Expenses	(285,358)	(322,609)	(338,497)	(368,171)	(400,076)
Pre-provision Operating Profit	249,308	268,307	269,208	300,836	322,041
Total Provision Charges	(117,366)	(16,746)	(37,407)	(63,297)	(71,580)
Operating Profit After Provisions	131,942	251,561	231,800	237,539	250,461
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	131,942	251,561	231,800	237,539	250,461
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	131,942	251,561	231,800	237,539	250,461
Exceptional Items					
Pre-tax Profit	131,942	251,561	231,800	237,539	250,461
Taxation	(49,496)	(85,259)	(92,748)	(59,789)	(63,041)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	82,446	166,302	139,052	177,751	187,420
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	82,446	166,302	139,052	177,751	187,420
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	66.6%	68.5%	69.2%	69.9%	70.6%
Avg Liquid Assets/Avg Assets	94.8%	94.9%	94.8%	94.9%	95.0%
Avg Liquid Assets/Avg IEAs	111.0%	109.5%	110.9%	112.1%	112.1%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.33%	0.17%	0.33%	0.50%	0.50%
Provision Charge/Avg Assets	0.78%	0.10%	0.20%	0.30%	0.30%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	9,344,306	10,774,746	11,989,732	13,558,778	15,333,159
Liquid Assets & Invst. (Current)	4,203,182	4,973,113	4,918,212	5,384,842	5,875,841
Other Int. Earning Assets					
Total Gross Int. Earning Assets	13,547,488	15,747,858	16,907,942	18,943,620	21,209,000
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	13,547,488	15,747,858	16,907,942	18,943,620	21,209,000
Intangible Assets					
Other Non-Interest Earning Assets	656,629	816,117	897,729	996,479	1,106,091
Total Non-Interest Earning Assets	779,816	946,651	1,032,178	1,134,962	1,248,729
Cash And Marketable Securities	1,291,046	1,487,198	2,056,065	2,292,902	2,557,071
Long-term Investments					
Total Assets	15,618,350	18,181,708	19,996,186	22,371,482	25,014,800
Customer Interest-Bearing Liabilities	13,697,128	15,666,233	17,238,384	19,306,992	21,623,830
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	13,850,604	16,127,550	17,750,446	19,880,500	22,266,160
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	702,981	780,535	866,394	961,697	1,067,484
Total Liabilities	14,553,584	16,908,084	18,616,840	20,842,198	23,333,644
Shareholders Equity	1,064,766	1,273,623	1,379,345	1,529,285	1,681,155
Minority Interests					
Total Equity	1,064,766	1,273,623	1,379,345	1,529,285	1,681,155

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	17.4%	6.7%	2.7%	15.6%	13.0%
Operating Profit Growth	10.7%	7.6%	0.3%	11.7%	7.0%
Pretax Profit Growth	208%	91%	(8%)	2%	5%
Net Interest To Total Income	75.0%	72.4%	72.3%	76.0%	79.5%
Cost Of Funds	4.98%	5.27%	4.66%	4.71%	4.71%
Return On Interest Earning Assets	8.3%	8.3%	7.5%	7.8%	7.8%
Net Interest Spread	3.31%	3.04%	2.87%	3.07%	3.09%
Net Interest Margin (Avg Deposits)	3.02%	2.91%	2.67%	2.78%	2.81%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	47%	6%	14%	21%	22%
Interest Return On Average Assets	2.65%	2.53%	2.30%	2.40%	2.42%
Effective Tax Rate	37.5%	33.9%	40.0%	25.2%	25.2%
Net Dividend Payout Ratio	20.0%	20.0%	20.0%	20.0%	20.0%
Return On Average Assets	0.55%	0.98%	0.73%	0.84%	0.79%

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

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.