India

Overweight *(no change)*

Highlighted Companies

Oil & Natural Gas

ADD, TP Rs190, Rs161 close

We reiterate our Add rating and SOP-based TP of Rs190. Despite a poor production performance, the stock is a key beneficiary of higher oil/gas prices.

GAIL India

ADD, TP Rs180, Rs142 close

We value GAIL at Rs180, 1.3x Sep 23F P/BV, 12.3% ROE in FY24F. We see potential for positive earnings surprise on gas trading as global oil/gas prices have been trending above our estimates.

Indian Oil Corp

ADD, TP Rs160, Rs119 close

We reiterate our Add rating with a TP of Rs160, implying 1.1x Sep 23F P/BV and 14.8% ROE in FY24F. Over 8% dividend yield is the key rerating catalyst.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Oil & Natural Gas	5.47	5.73	6.32
GAIL India	7.05	7.98	8.03
Indian Oil Corp	4.77	5.71	5.23

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Oil & Natural Gas	0.82	0.75	0.7
GAIL India	1.09	1.02	0.96
Indian Oil Corp	0.87	0.81	0.75

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Oil & Natural Gas	5.59%	6.21%	6.21%
GAIL India	5.29%	4.58%	4.58%
Indian Oil Corp	10.12%	8.43%	9.27%

Analyst(s)

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Oil & Gas - Overall

E&P is still the best

- Global oil/gas prices remain elevated and we believe there remains significant upside to our oil/gas price forecasts.
- Refining margins bounced back from earlier lows as expected. Petchem margins weakened considerably and could provide negative surprise in CY22.
- Retain sector Overweight. Our top picks in order of preference remain ONGC (TP Rs190), GAIL (TP Rs180) and IOC (TP Rs160).

Upstream likely to provide earnings upside

We forecast Brent oil at US$70/65/60 per barrel over FY22F/23F/24F and domestic gas price at US$5.5/5 per mmbtu over FY23F/24F and continue to believe there could be significant upside to these estimates. The common theme for global oil and gas is the relatively lower supply response to higher prices due to concerns on imminent peak demand. While Brent crude has bounced back above US$80/bbl, spot gas prices in Asia/Europe have corrected from all-time highs of US$40/mmbtu in Dec 2021 to (still) elevated levels of US$27-28/mmbtu currently. US Henry Hub (HH) on the other hand has corrected to around US$4/mmbtu, down from earlier highs of US$5-6/mmbtu in Sep/Oct 2021.

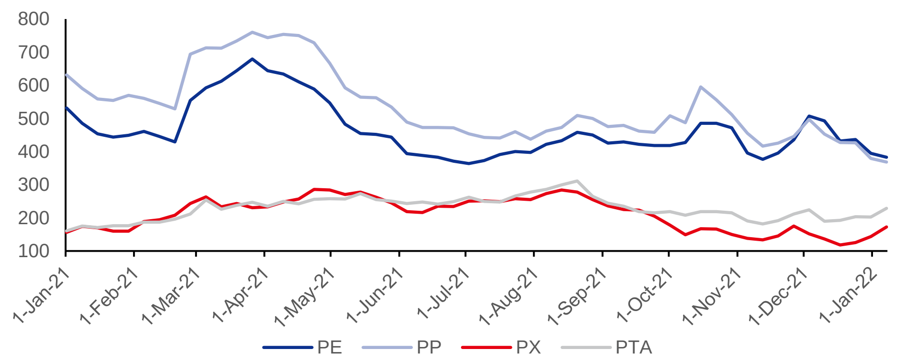
In downstream, petchem margin trends are a concern

Singapore gross refining margins (GRMs) bounced back sharply to US$6.1/bbl in 3QFY22 compared to US$3.7bbl in 2Q and US$2/bbl in 1Q reflecting higher product cracks. Note that this headline margin does not take into account the negative impact of higher energy costs (Brent was US$79/bbl in 3Q vs US$73/bbl in 2Q and US$68/bbl in 1Q) and no tangible improvement in crude differentials (critical for complex refiners) with Arab Light less Arab Heavy at US$1.5/bbl in 3Q. We expect GRMs to average around US$4/bbl in FY23F/24F. Petchem margins weakened considerably in recent months and could remain well below our expectations especially over CY22. Broadly, global demand supply balance is adverse. The industry benefited from large supply disruptions in CY21 which are unlikely to recur in CY22.

ONGC, GAIL and IOC are top picks

Rather than oil, the next stock price trigger for ONGC and OIL, in our view, is the near doubling of domestic gas price from 1 Apr 2022 as per the current gas price formula. Higher global oil and gas prices (especially relative to HH) will also result in GAIL being able to report above-average profitability in trading (as was evident in 2QFY22 results). Recovery in GRMs and Indian oil demand (latter not yet evident) and relatively robust auto fuel marketing margins (MMs) are the positive triggers for the oil marketing companies (OMCs) with IOC as our pick. Broadly sector valuations remain attractive and we view high dividend yields as key catalysts.

Figure 1: Trends in petchem margins over naphtha (US$/t)



SOURCES: INCRED RESEARCH, BLOOMBERG

E&P is still the best

Upstream likely to provide earnings surprise

Oil price has bounced back

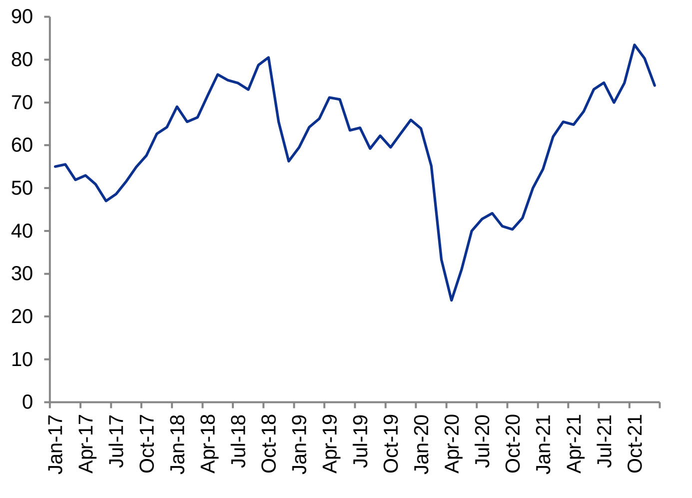
We forecast Brent oil at US$70/65/60 per barrel over FY22F/23F/24F and continue to believe that there could be significant upside to these estimates. Concerns relating to the new Omicron Covid virus (which could hit oil demand) as well as news flow on release of strategic reserves by US and its allies resulted in a sharp drop in Brent crude in Dec 2021 but prices are now back to over US$80/bbl currently.

As explained in our note, Brent/gas forecasts higher for longer, dated 14 Oct 2021, the biggest cause for the shortfall in global oil supply is the lack of private sector investment, in our view. Following clear guidance from investors, global oil/gas companies (especially in US shale) have opted to use the free cash from higher oil/gas prices to return cash to shareholders rather than invest to raise production. Consequently, the normal supply response to higher prices has not materialised and control over prices has largely moved to the OPEC+ group, in our view.

The International Energy Agency (IEA) in its World Outlook 2021 report (released in Oct 2021) also highlighted the world is not investing enough to meet its future energy needs. Spending on a transition to a lower carbon world is gradually picking up, but remains far short of what is required to meet the rising demand for energy services in a sustainable way. At the same time, the amount being spent on oil appears to be geared towards a world of stagnant or falling demand.

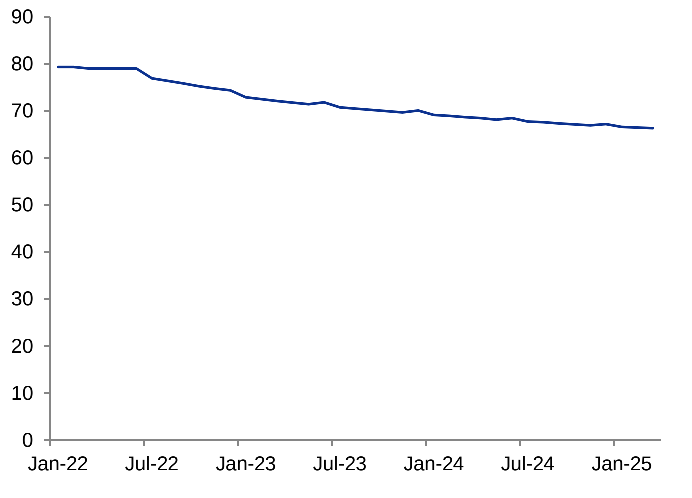
Going by the futures curve, we see high possibility of global oil prices averaging well above our forecasts, thereby benefiting the two exploration and production (E&P) companies ONGC and Oil India Limited (OIL). From the perspective of these two players, the biggest risk is a sharp run up in global prices to say US$100/bbl or higher. Such a development could lead to an unpredictable response from the Indian government (GOI), like changes in tax structure. Brent settling in the US$70-80/bbl range (which the country has already been used to) would be the best outcome for ONGC/OIL in our view.

Figure 2: Brent spot price (US$/bbl)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 3: Brent futures curve as of 3 Jan 2022



SOURCES: INCRED RESEARCH, BLOOMBERG

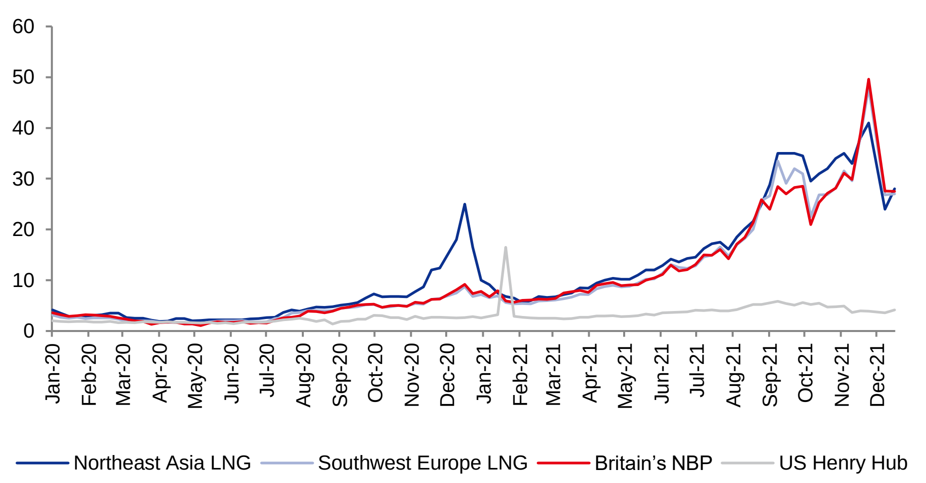
GAIL to benefit from surge in global gas prices

Spot gas prices in Asia/Europe have corrected from all-time highs of US$40/mmbtu in Dec 2021 to (still) elevated levels of US$27-28/mmbtu currently. US HH on the other hand has corrected to around US$4/mmbtu, from earlier highs of US$5-6/mmbtu in Sep/Oct 2021. Broadly there has been some reduction in the large winter premium built into this price which reflects fears of actual gas shortage in the event of a severe winter (which will cause a sharp increase in gas demand).

The abnormal rise in global spot gas prices over the last six months is largely driven by tightness in the European gas markets, which has been attributed to several factors including low inventory levels maintained by its largest gas supplier – Gazprom. Even the futures curve for most markets indicates that while gas prices will moderate from current highs with the onset of spring, they will remain elevated in the medium term (relative to historical levels).

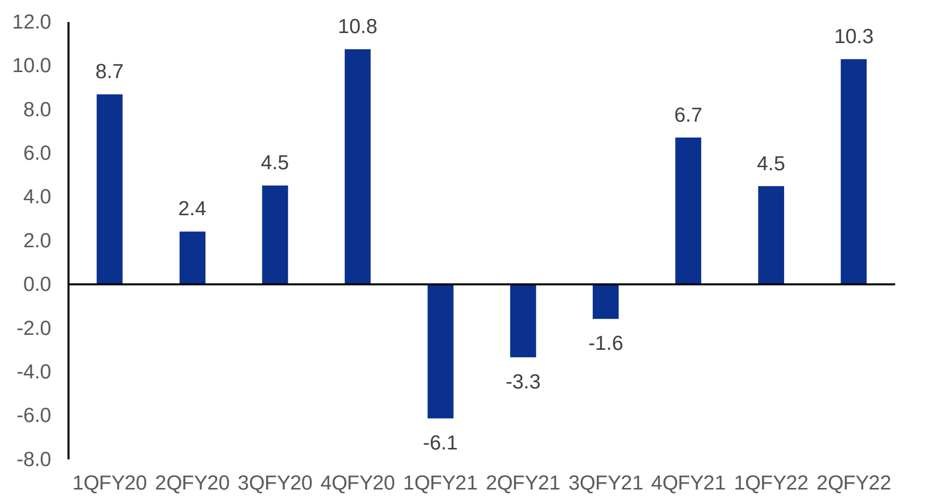
We believe that the prevalent and likely price trends over the medium term offer GAIL an opportunity to make some exceptional gains on its US LNG volumes (5.8mt on annual basis), which are priced on HH but can be sold in Europe/Asia markets based on prevailing prices there. This is already evident in 2QFY22 results as GAIL reported a larger-than-expected trading gain of Rs10bn.

Figure 4: Trend in global gas prices (US$/mmbtu)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 5: GAIL's trading profits (Rs bn)

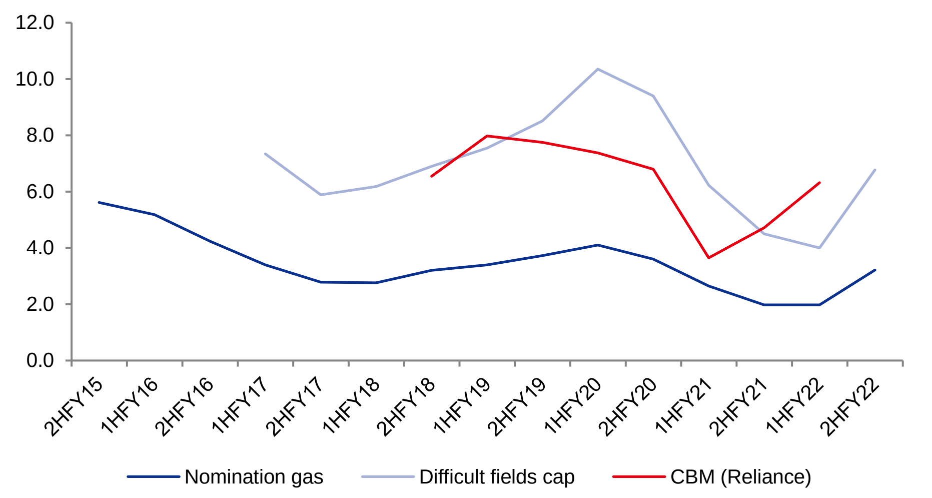


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Next change in domestic gas price key trigger for ONGC/OIL ➤

The gas pricing policy announced by the Indian government in Oct 2014 linked the domestic gas price (currently applicable to production from all nominated fields, bulk of ONGC/OIL production) to a basket of four global gas prices – Henry Hub (HH), the UK National Balancing Point (NBP), and Russian and Canadian gas prices. LNG prices were not part of the basket, thus ensuring that the formula resulted in a relatively lower gas price. Further, domestic prices are fixed for six months and determined with a considerable lag. For example, the current domestic price of US$3.2/mmbtu (net calorific value basis) applicable for 2HFY22 is based on the average of the global basket between Jul 2020 and Jun 2021. This price rose by 60% compared to the price of US$2/mmbtu prevalent in 1HFY22 (which reflected global gas pricing in CY20).

Figure 6: Pricing for domestic gas in India



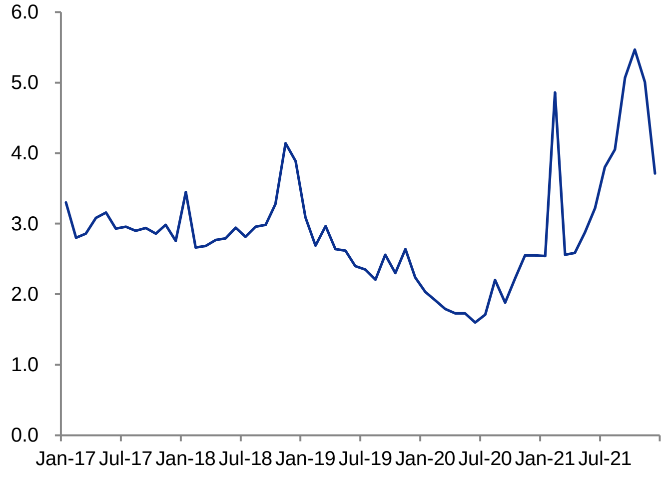
SOURCES: INCRED RESEARCH, COMPANY REPORTS, PETROLEUM PLANNING & ANALYSIS CELL

As stated above, global gas prices have been breaking all historical records Further, two of the four benchmarks (HH and NBP) have a futures market and these indicate that prices will settle long term at levels which will be significantly above recent historical levels.

As per the current gas pricing formula, the next price change due from 1 Apr 2022 (applicable for Apr-Sep 2022) will depend on gas prices for the four benchmarks prevailing in CY21. Given the recent trend in prices for these benchmarks, a near doubling of domestic gas price to US$5-6/mmbtu looks inevitable if the current formula pricing is followed. While this kind of jump in gas price would be sharp, it would take the domestic gas price merely back to where it started in 2HFY15 when the current gas pricing formula became operational.

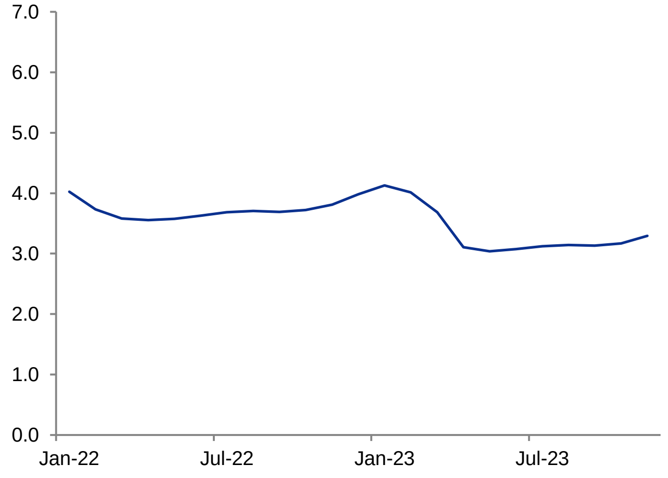
Given the extent of the projected jump in gas price, we believe that investors are still unsure about whether the formula-based pricing will be strictly adhered to, i.e., the real jump in ONGC/OIL stock prices will happen once this certainty emerges. We have observed that even with the last 60% gas price increase (effective from 1 Oct 2021), the resultant upmove in ONGC/OIL stock prices came only closer to this date once it was apparent that the gas price increase was certain to be implemented.

Figure 7: HH spot price (US$/mmbtu)



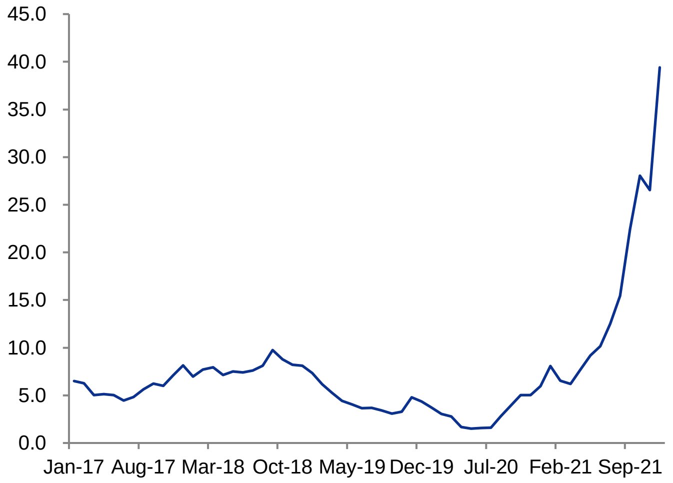
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 8: HH futures curve as of 3 Jan 2022 (US$/mmbtu)



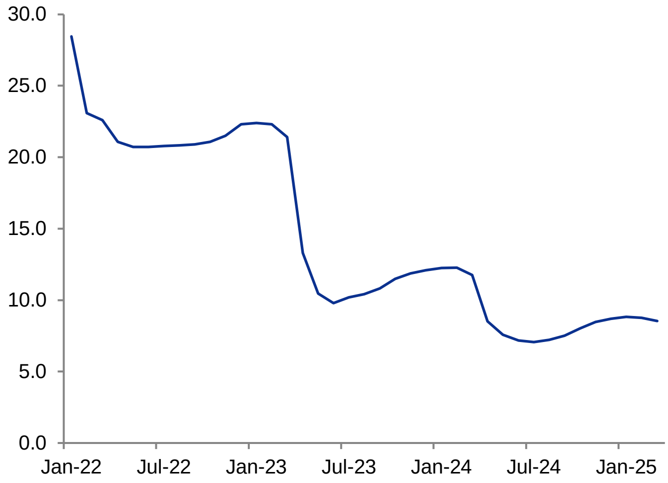
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 9: NBP gas spot price (US$/mmbtu)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 10: NBP futures curve as of 3 Jan 2022 (US$/mmbtu)



SOURCES: INCRED RESEARCH, BLOOMBERG

Downstream, petchem margins are a concern

Sharp recovery in Singapore GRMs ➤

Singapore gross refining margins (GRMs) bounced back sharply to US$6.1/bbl in 3QFY22 compared to US$3.7bbl in 2Q and US$2/bbl in 1Q reflecting higher product cracks. Note that this headline margin does not take into account the negative impact of higher energy costs (Brent was US$79/bbl in 3Q vs US$73/bbl in 2Q and US$68/bbl in 1Q) and no tangible improvement in crude differentials (critical for complex refiners) with Arab Light less Arab Heavy at US$1.5/bbl in 3Q.

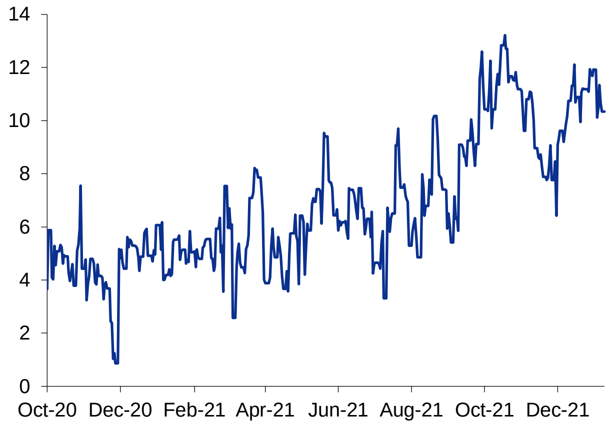
Higher 3Q GRMs result in year-to-date GRM of US$4/bbl which is in line with our expectation for FY22F as well as FY23F/24F. So, in our view, while GRMs will improve relative to the lows seen in six quarters prior to 3QFY22, they are unlikely to settle at close to the actual level of US$6/bbl in 3Q. Broadly, there is still surplus refining capacity with oil demand in CY22 projected at 100m b/d, the same as in CY19. Consistently very low margins in the earlier six quarters resulted in lower production and inventory and, hence, margins shot up in 3QFY22 once demand recovered. However, given industry overcapacity, we expect production to rise, resulting in GRMs moderating close to US$4/bbl.

Figure 11: Singapore GRMs and product cracks (US$/bbl)

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Singapore Cracking GRM	-0.94	0.08	1.22	1.80	2.00	3.70	6.10
Spreads over Dubai crude							
Diesel	6.32	5.62	4.48	5.42	6.13	7.29	10.38
Jet Fuel	0.65	0.67	3.12	3.17	3.50	3.89	9.91
Naphtha	-3.80	0.54	-0.20	1.14	-0.58	2.17	3.71
Furnace Oil	-3.97	-5.42	-4.19	-8.07	-10.85	-9.98	-11.96
Gasoline	-3.18	1.23	1.25	4.17	7.68	9.50	11.42
LPG	-1.87	-12.43	-9.90	-13.46	-19.26	-19.14	-11.02
Crude differentials							
Arab Light - Heavy Differential	0.46	0.30	-0.17	0.52	1.10	1.53	1.47

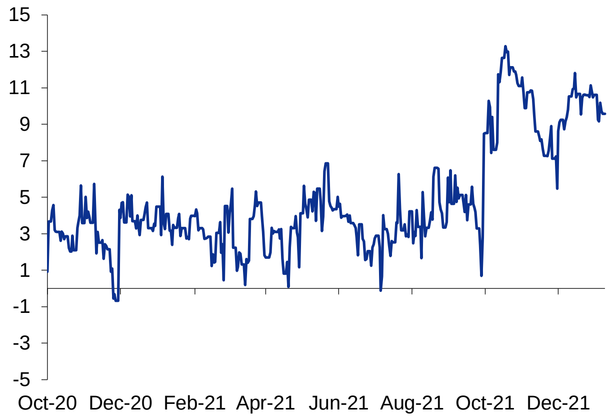
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: Diesel-Dubai (US$/bbl)



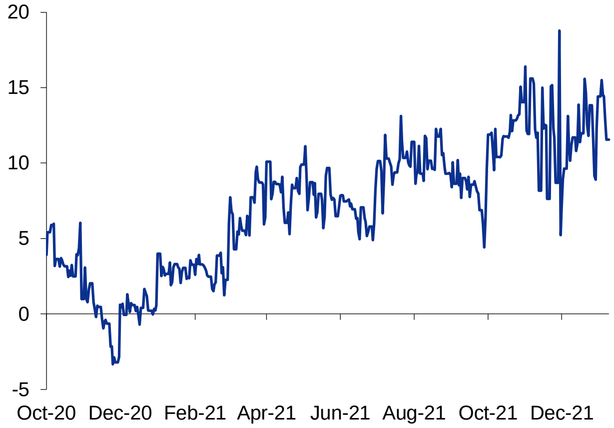
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 13: Jet fuel-Dubai (US$/bbl)



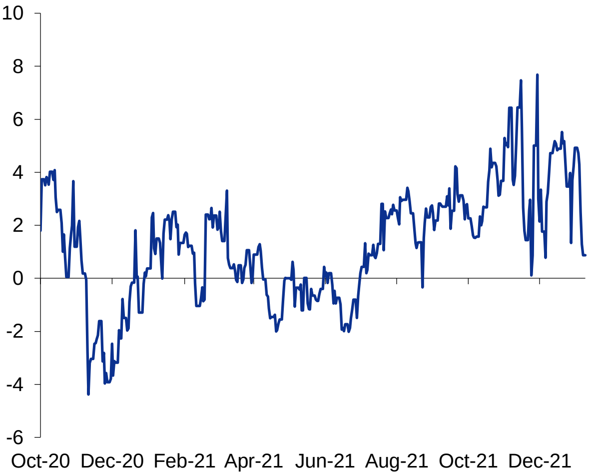
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 14: Gasoline-Dubai (US$/bbl)



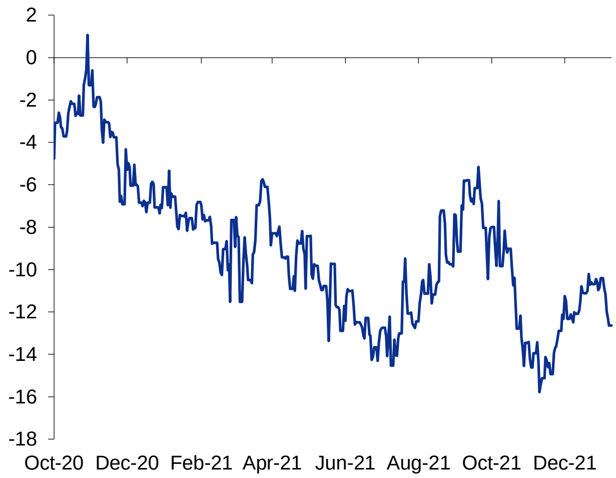
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 15: Naphtha-Dubai (US$/bbl)



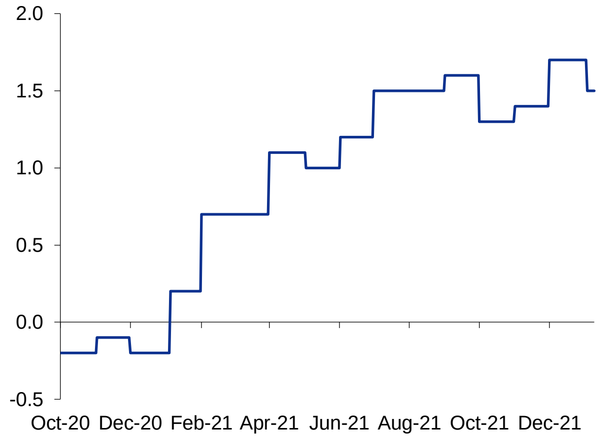
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 16: Furnace oil-Dubai (US$/bbl)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 17: Arab Light-Arab Heavy (US$/bbl)



SOURCES: INCRED RESEARCH, BLOOMBERG

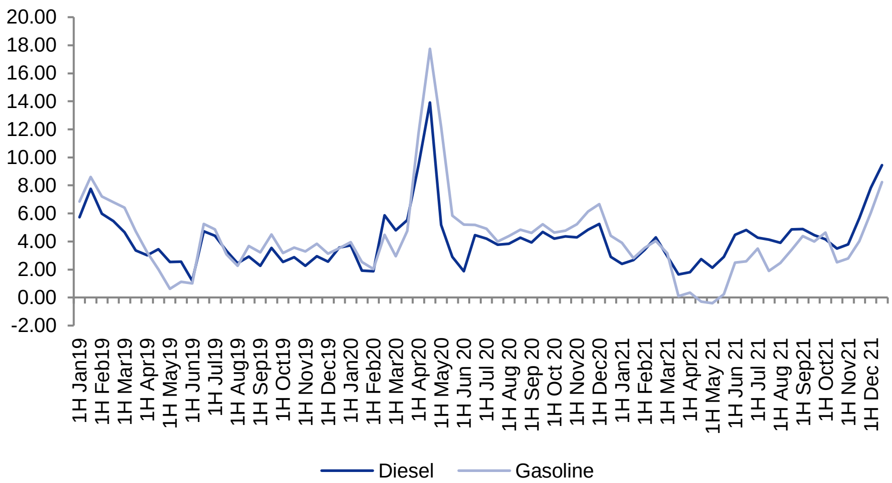
Auto fuel MMs surged in Dec 2021, but will normalise soon ›

While the OMCs generally change auto fuel prices daily to reflect global price movements, there are always some anomalies close to any major elections. On 4 Nov 2021 (when Brent crude was at US$84/bbl), GOI cut excise duties on auto fuels to lower the impact of higher global oil prices on Indian consumers. The OMCs immediately passed this on via lower retail prices, but have, since then, kept fuel prices constant (other than to reflect the state-level VAT change).

With Brent correcting by close to US$10/bbl over the subsequent six weeks, auto fuel MMs surged to unusually high levels. With Brent now back to close to US$84/bbl, MMs will now be back to earlier normal levels, but the industry will enjoy very high MMs for nearly two months (from mid Nov 2021 to mid Jan 2022).

In our view, the OMCs have raised MMs by freezing retail auto fuel prices to provide a profitability buffer in the event of any rise in global prices in 4QFY22 (which has now happened) when they may not be able to pass on the higher costs due to major state elections which will be held from mid Feb 2021 to mid Mar 2021. The freeze in retail auto fuel prices is also linked to the freeze in retail LPG prices from Nov 2021 (to protect the Indian consumer from a record level of global LPG prices) which will negatively impact OMC bottomlines. The silver lining is that the global LPG price movement is highly seasonal (spiking in winter) and we expect a sharp correction going forward. So while the LPG price moved up sharply from US$685/t in Oct 2021 to US$800/t in Nov 2021 and US$850/t in Dec 2021, it has already corrected to US$768/t in Jan 2022.

Figure 18: Auto fuel marketing margins (Rs/l)



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

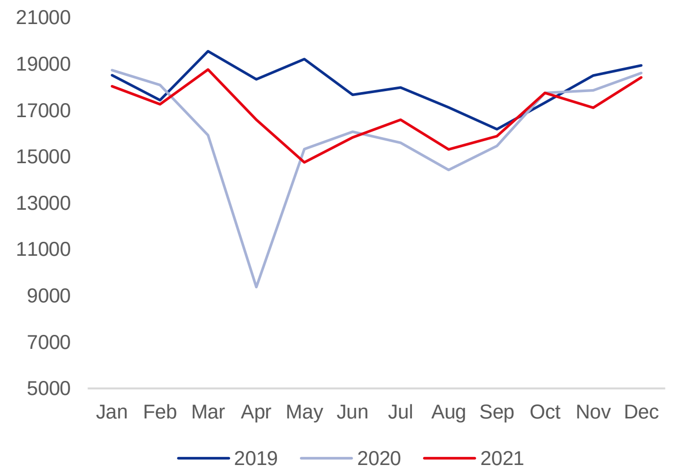
Indian oil demand recovery has been quite weak ➤

Our positive outlook for the OMCs partly assumes that Indian oil demand will recover quickly to pre-Covid levels and expand from there. This could lead to not only higher sales volumes for the OMCs, but also allow them to operate their refining capacities at full utilisation.

Overall, the trend in Indian oil demand has been disappointing. The latest figures available for Dec 2021 show overall oil demand growth up 0.4% yoy and down 2.7% from pre-Covid (Dec 2019) levels. This largely reflects diesel demand which was up 1.6% yoy but down 1.1% from pre-Covid levels. Only gasoline showed significant improvement with growth of 4.1% yoy and 13.9% from pre-Covid levels. Jet fuel demand, while recovering every month, was still 24% below pre-Covid levels.

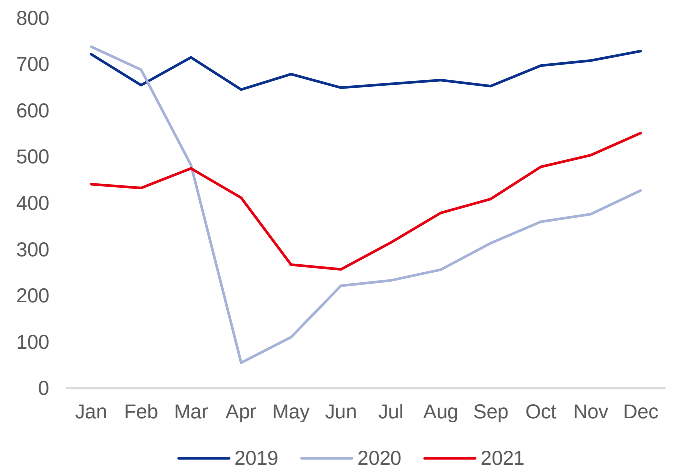
Indian oil demand is critically linked to recovery in the overall Indian economy. Given expectations that the economy will improve in the months ahead, we continue to expect stronger growth in Indian oil demand.

Figure 19: India's monthly oil demand ('000t)



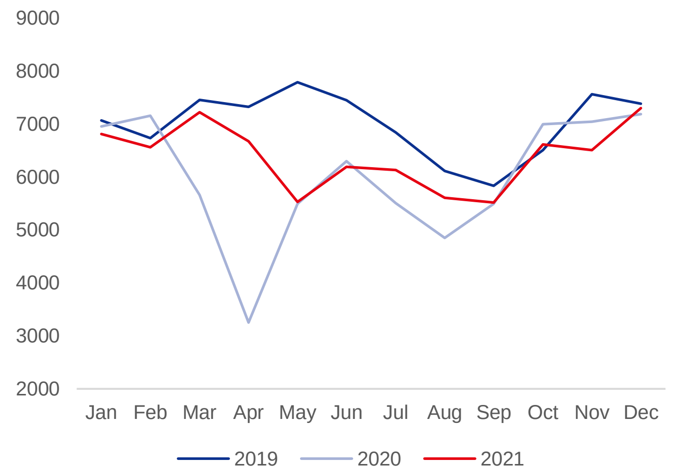
SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

Figure 20: India's monthly jet fuel demand ('000t)



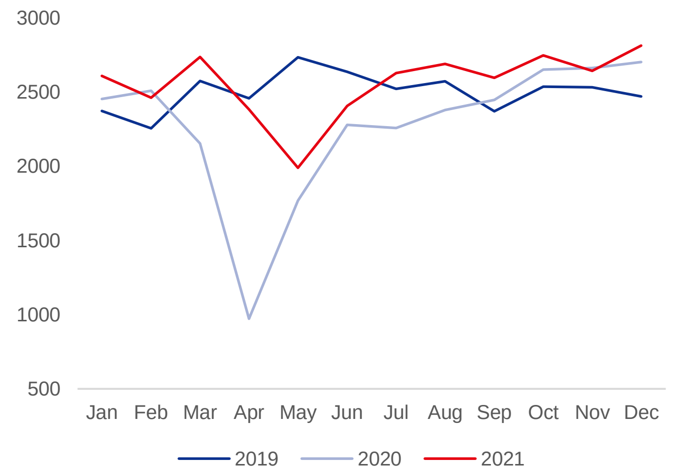
SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

Figure 21: India's monthly diesel demand ('000t)



SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

Figure 22: India's monthly gasoline demand ('000t)



SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

Petchem margins have weakened more than expected ➤

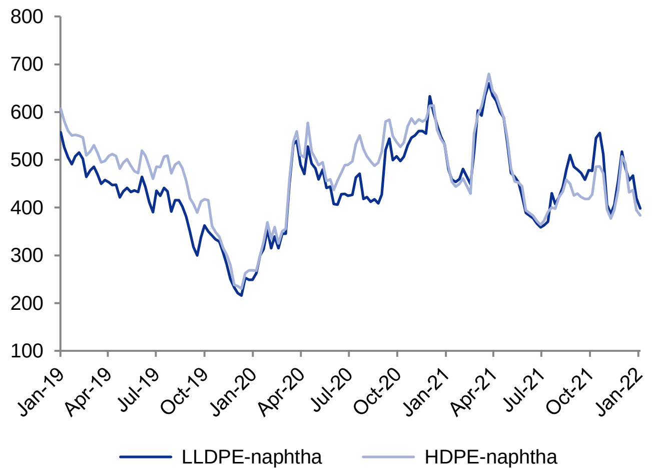
Similar to GRMs, we believe that petchem margins over FY23F/24F will settle at lower levels relative to the average over CY14-18, as there continues to be significant global capacity additions mainly in China. But margins have been on a roller coaster ride in the last year or two.

For polymers like polyethylene (PE) and polypropylene (PP), margins initially dropped sharply at the end of CY19 (i.e. pre-Covid) due to the onset of new capacity in the US. They recovered sharply only to fall again post the onset of Covid by mid-2020. They then recovered unexpectedly in 2HCY20 due to higher demand (for Covid-related items) and supply bottlenecks. Once the supply bottlenecks eased, margins again dropped in early CY21.

The onset of the winter storm Uri in the US in mid-Feb 2021 resulted in a sharp upward move which lasted for a few months and margins then corrected in line with our expectations. We have been expecting PE and PP margins to settle at around US$450/t and US$480/t respectively, but they dropped below these levels in the last two months. In paraxylene (PX), the margin drop has been particularly severe, going below US$150/t in the last two months against our expectation that it would settle around US$200/t.

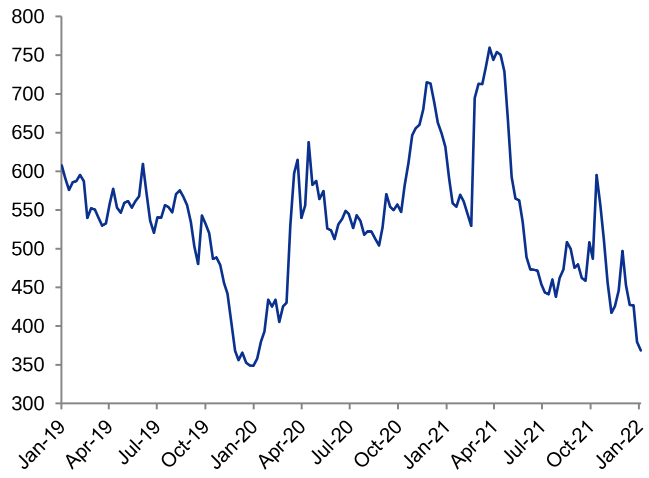
So while margins remain volatile and could still recover, the drop seen in the last two months, if sustained, would be a negative surprise relative to our expectations.

Figure 23: PE-naphtha margin (US$/t)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 24: PP-naphtha margin (US$/t)



SOURCES: INCRED RESEARCH, BLOOMBERG

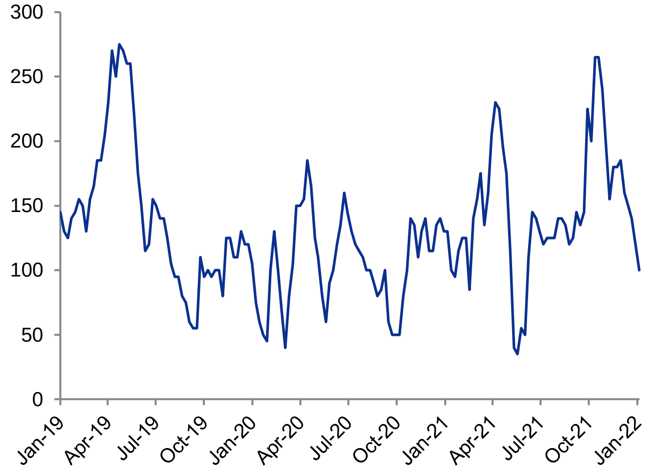
Figure 25: PX-naphtha margin (US$/t)

SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 26: PTA-naphtha margin (US$/t)

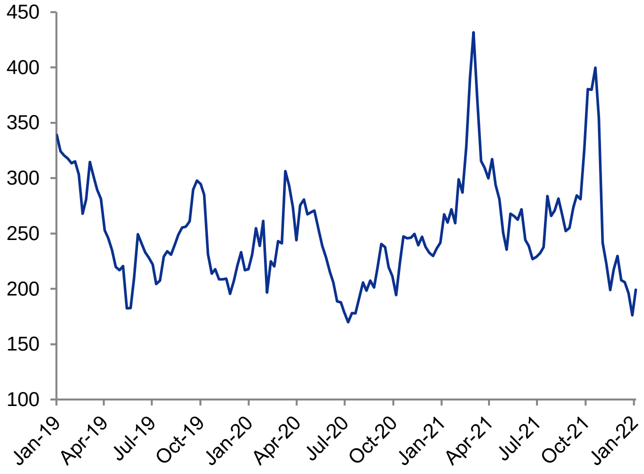
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 27: PP-propylene margin (US$/t)



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 28: MEG-naphtha margin (US$/t)



SOURCES: INCRED RESEARCH, BLOOMBERG

ONGC, GAIL and IOC are top picks

Rather than oil, the next stock price trigger for ONGC and OIL, in our view, is the near doubling of the domestic gas price from 1 Apr 2022 as per the current gas price formula. Higher global oil and gas prices (especially relative to HH) will also result in GAIL being able to report above-average profitability in trading (as was evident in 2QFY22 results). Recovery in GRMs and Indian oil demand (latter not yet evident) and relatively robust auto fuel marketing margins are the positive triggers for the oil marketing companies with IOC as our pick. Broadly sector valuations remain attractive and we view high dividend yields as key catalysts.

Reliance Industries (RIL IN, Reduce, Rs2,520, TP Rs1,540) reported an EBITDA of Rs127bn in 1QFY22 and Rs120bn in 2QFY22 for its O2C business (refining and petchem combined). Thus, the 1HFY22 figure of Rs250 compares to our full year estimate of Rs599bn, implying an increase to Rs349bn in 2HFY22. We see no upside to our existing estimate as the expected improvement in GRMs appears to be getting partially nullified by lower petchem margins.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)
- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

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.