Reach Energy Bhd (BUY; NEW)

INDUSTRY: NEUTRAL
INITIATION

4 January 2017
Price Target: RM0.83
Share Price: RM0.66

New Oil Junior in town

Highlights

- **Now an O&G Junior.** Upon getting vote acceptance for QA on 16th Nov 2016, Reach will now become a full-fledged oil junior with final adjusted Purchase Consideration worth US$175.9m. Acquisition has been completed on 26th November 2016 with dissenting shareholders already being repaid.
- **Emir-oil a balanced portfolio with high quality crude.** Situated in Kazakhstan, currently Emir-oil possesses 4 producing fields coupled with 2 development fields and 6 drillable prospects, pointing to high potential growth in pipeline of reserves. In addition, it also produces high value light and sweet crude oil and possesses high condensate yield in one of its producing fields, indicating more room to further monetize the acquired asset.
- **Oil asset was bought at low.** While the oil market has been subdued for a long time, we believe the upstream asset acquired by Reach was at the lowest price possible. The acquisition price was determined on 4th March 2016 when Brent was at US$37/bbl, not far off from its multiyear low of US$27/bbl. This shows that Reach would be able to reap full benefit of long term oil price recovery with minimal downsides. Current Brent price is at US$57.5/bbl.
- **Building CPF to unlock oilfield potential.** MIEH (vendor for the QA) has already invested in a Central Processing Facility (CPF). Phase 1 is expected to be completed in several months time and upon completion of the pipelines in 2018, Reach could easily double its oil production to more than 10,000 bbls/day by executing more well completion and drilling more wells in its proven areas. Phase 2 would again bring its oil production to level in excess of 20,000bbls/day upon completion, indicating vast opportunity to reap more value from its oil reserves.
- **Market 'under pricing' its long term prospects.** At the current share price of RM0.66, market seems to have only price in long term oil price of US$62/bbl (for 20-year time frame) - based on our backward calculation of assuming other variables being constant. We are of the view that oil prices would eventually recover to US$57/bbl beyond the implied level as oil market rebalances while cost of oil production is expected to rise in the long run.

Catalysts

- Direct beneficiary of oil price rally.
- Entering into production asset early stage providing more upside possibility.

Risks

- Oil production natural decline, oilfield operational risk, country risk.

Rating

BUY (NEW)

- Minimal downside risk at this price point while the company is expected to escalate to the next level by tapping into the reserves of a young oilfield with limited risk of straining balance sheet.

Valuation

- Our discounted FCFE (10% discount rate) approach has yielded a TP of **RM0.83** at fully diluted level (assuming dilution from potential placement and full exercise of warrants). Near term exercise of warrants is unlikely as the expiry date has been extended for another 5 years to 2022 post acceptance of QA by its shareholders. To illustrate, excluding dilution impact from warrants, our TP would be at RM0.91.

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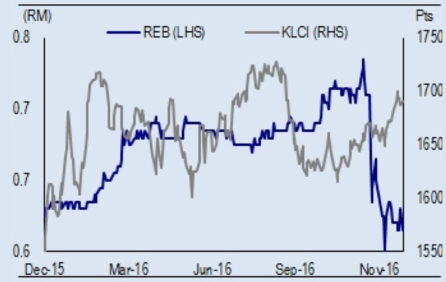
KLCI	1,635.5
Expected share price return	25.8%
Expected dividend return	0.0%
Expected total return	25.8%

Share Price



Information

Bloomberg Ticker	REB MK
Bursa Code	5256
Issued Shares (m)	1,278
Market cap (RM m)	786
3-mth avg. volume ('000)	3,213
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.7	-10.2	-1.6
Relative	-5.3	-9.3	-1.0

Major Shareholders

Reach Energy Holdings	20.0%
MTD Capital Ltd	20.1%
LTH	8.0%
JV Swasta Sdn Bhd	3.8%

Summary Earnings Table

FYE Dec (RM m)	2016E	2017F	2018F	2019F
Revenue	231	406	435	960
EBITDA	41	90	107	306
EBIT	-36	17	33	230
PATAMI	-21	10	14	133
EPS	-1.7	0.8	1.1	10.4
P/E (x)	-36.7	78.0	55.1	5.9
P/BV (x)	0.6	0.6	0.6	0.5
ROA (%)	-1.1	0.5	0.7	5.1
ROE (%)	-845.4	42.2	21.6	335.1

HLIB

Investment Thesis

Graduating to become an O&G Junior

Becoming O&G junior post QA completion

Post 81% acceptance of voting by shareholders on 16th Nov 2016, Reach Energy has evolved from a SPAC to a full-fledged E&P oil junior, the 2nd after Hibiscus Petroleum, which is quite a feat as this is the only SPAC which managed to obtain shareholders' approval for QA since oil price crash in late 2014. The acquisition has been completed on 25th November 2016 and consideration worth RM0.76351/share has been paid for the dissenting shareholders (equivalent to 180.8m shares).

Final purchase consideration has been adjusted to US$175.9m with US$131m already paid by Reach Energy. The remaining US$17m would be paid in 6 months time without any interest charge and the remaining 15% would be paid one year after completion date without any interest to be incurred.

What's next?

Upon transforming into an E&P upstream company in Malaysia, Reach would need to focus on its project execution to fully realize the potential of Emir-oil block concession, which is still a relatively early stage producing oil field. Completion of QA has enabled Reach to be regarded as one of the direct oil price proxies listed in Malaysia with a proper producing oil asset, aspiring to compete with established independent oil producers i.e. Murphy Oil, Hibiscus & etc.

Favorable risk-reward ratio with oil price bottoming

Oil prices have bottomed

The potential of upsides for Reach Energy is huge at this point of time with oil prices hovering between US$50-60/bbl. We expect an incremental upward movement in oil prices next year if OPEC and non-OPEC players keep to their promise on the recent production cut pledges, leading to a supply deficit situation in oil market. This scenario would provide significant upside to the company on higher crude oil prices.

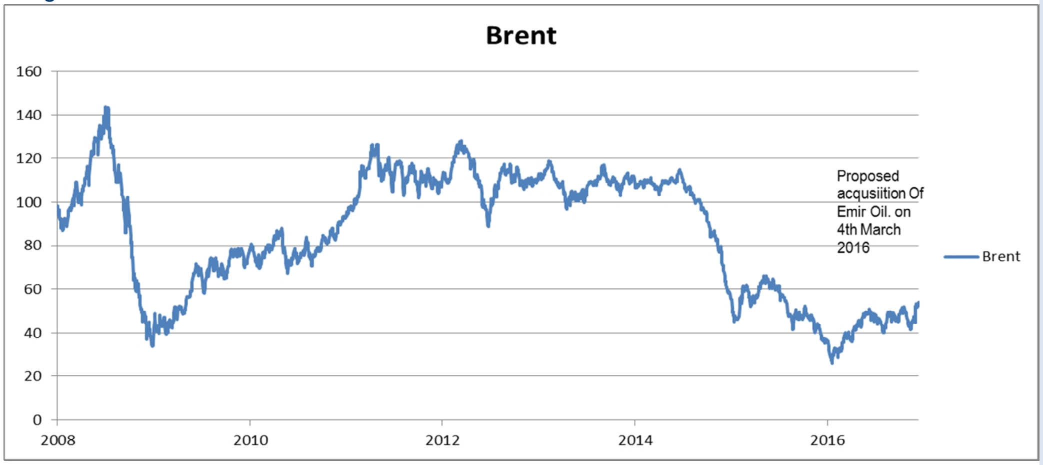
Notwithstanding the possibility of a pullback after the recent surge in oil prices post OPEC proposed production cut, we believe such downside risk for oil prices is limited to narrow ranges (up to US$5-10/bbl). We opine that investors buying into Reach Energy should put less concerned on short-term oil price fluctuations but to focus on the group's earnings and oil price dynamics in the medium to long term.

Buying Emir oil at lowest price possible…

Bought asset at lowest price possible

Referring back to Bursa announcements, the group announced the acquisition of Emir-oil from MIEH (a Chinese E&P junior) on 4th March 2016, whereby Brent was trading at US$37/bbl, not far off from the multi-year low of US$27/bbl in February 2016 (refer Fig 1). With the acquisition price agreed during the worst quarter of the year, we opine that buyer (Reach Energy in this case) would more likely be at the winning side of the bargain, implying that Reach Energy would most likely buying the early-stage oilfield at the lowest valuation possible, indicating value accretion to the acquirer. Note that oil price is currently trading at US$57.5/bbl.

Figure #1 Brent oil chart



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Consequently, Reach's shareholders would be able to reap more from the potential upside in NPV value of the stock if long term oil prices continued on growth trajectory, justifying an attractive investment proposition in Reach Energy.

Emir Oil reserves are largely untapped

Full benefit of oil price benefit can be reaped

The Emir Oil concession block is located in Mangystau Oblast, about 40km northeast of City of Aktau, Kazahkstan's largest sea-port on Caspian Sea coast.

Figure #2 Emir Oil reserves

	Gross (100%)			Attributable to our Company post completion of the Proposed Acquisition (60%)		
	1P	2P	3P	1P	2P	3P
Oil Reserves (MMstb)	24.6	70.0	116.1	14.8	42.0	69.7
Gas Reserves (Bscf)	17.7	116.3	184.1	10.6	69.8	110.4
Total Reserves (MMboe)	27.6	89.4	146.8	16.6	53.6	88.1

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Figure #3 Reserves breakdown

	Phase 1			Phase 2[3]	
	Developed Producing Reserves[1]	Developed Non-Producing Reserves[1]	Undeveloped Reserves[2]	Undeveloped Reserves[2]	Total
2P oil Reserves (MMstb)					
Aksaz	0.744	-	-	2.627	3.371
Dolinnoe	2.147	2.162	0.815	4.852	9.977
Emir	0.709	-	0.711	2.106	3.527
Kariman North	10.989	7.321	3.154	18.258	39.723
Kariman	1.622	-	1.121	3.365	6.108
Yessen	-	3.637	-	3.672	7.309
Total	**16.212**	**13.120**	**5.802**	**34.881**	**70.016**
2P gas Reserves (Bscf)					
Aksaz	5.816	-	-	20.793	26.609
Dolinnoe	13.162	15.215	5.742	33.918	68.038
Emir	0.104	-	0.104	0.309	0.518
Kariman North	4.924	3.280	1.363	7.770	17.336
Kariman	0.484	-	0.335	1.005	1.824
Yessen	-	0.975	-	0.978	1.953
Total	**24.490**	**19.471**	**7.543**	**64.773**	**116.278**

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Untapped reserves still high

Including gas, Emir-Oil possesses 89.4m bbls worth of oil equivalent of 2P reserves with 60% stake implying 53.6m bbls of oil equivalent entitled to Reach post abovementioned QA. There are still a lot of low hanging fruits for Reach without incurring huge CAPEX. To illustrate, out of its 2P reserves, Reach will only be utilizing 23.1% of its total oil reserves (16.2m bbls) and 21.1% of total gas reserves (24.5m bscf) respectively at this juncture.

On the other hand, non-producing developed reserves (shut-in wells and behind pipe reserves which require future re-completion works) are 13.1m bbls (another 18.7% of total of oil reserves) and 19.5bscf (another 16.8% of total gas reserves). This implies that the group could easily double up its production through resuming the flow of production and more well completion works which require shorter time.

2P reserves are still largely unutilized

To more than double its oil production

Overview of Emir oil transportation solution… At this juncture, crude oil produced from the Emir-oil block is sold to both international and domestic markets, whereby produced oil from multiple wells are gathered at collection point at Dolinnoe oil field and trucked to Mangyshlak processing plant, 34.4km away and adjacent to the train station. Currently, the oil processing and storage facilities are leased from Term-oil LLP (amounting to circa RM0.16m/month), which has processing capacity of 6,458 bbl/day and storing capacity of 54,100 bbls of crude. On top of that, the current gas processing facility is owned by Emir-oil with gas processing capacity of 5.5 MMscfd.

Invested in CPF to remove production bottleneck

To cater for the increase in production, MIEH (vendor for the QA), has invested in the construction of a new central processing facility (CPF) over 2 phases. Phase 1 includes oil processing capabilities of 12,000 bbls/day and 21.2 MMscf of gas, scheduled to be completed by early 2017.

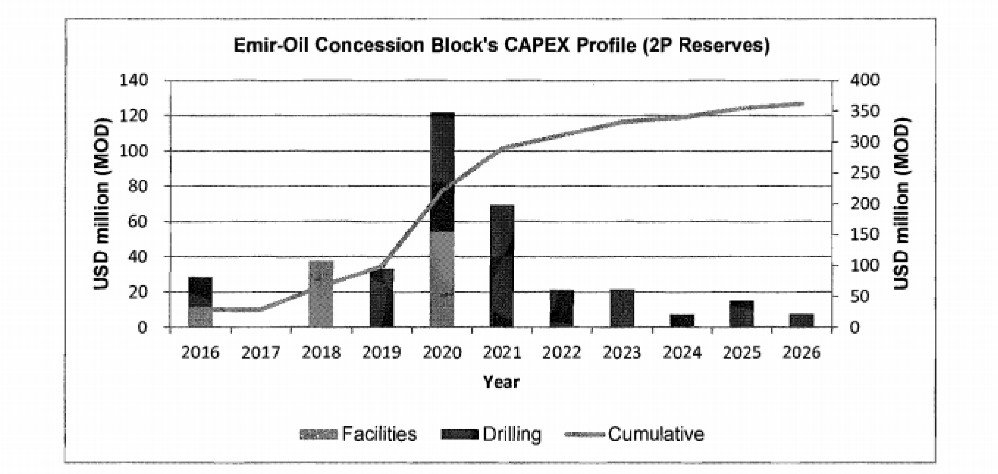
The new CPF would only commence operations when the 25-km oil pipeline and 35-km gas pipeline are being completed in 2018. Once completed, the pipelines will be connected to truckline of KTO (connected to Aktau port for export) and KTG (gas sales).

Phase 2: further 'step out' discoveries for producing fields… Phase 2 would only commence construction in 2019, involving upgrading of surface infrastructure with processing capacity to improve to 23,000 bbls for oil and 31 MMscfd for gas. It is also based on new "step out" discoveries for Kariman, Dolinnoe and Aksaz fields and additional production from North Kariman field.

Phase 2 to further boost production

Manageable CAPEX plans

Figure #4 CAPEX profile



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The group's CAPEX burden would not be substantial until 2020 as most of the CAPEX on Phase 1 processing facility has been borne by MIEH, whilst CAPEX for 2016 is expected to be US$28.6m for both drilling and remaining spending on the facility. No CAPEX is expected to be spent in 2017 while in 2018 circa US$39m would be spent on facilities, mainly on pipelines to reduce its transportation cost.

Figure #5 Oil production profile

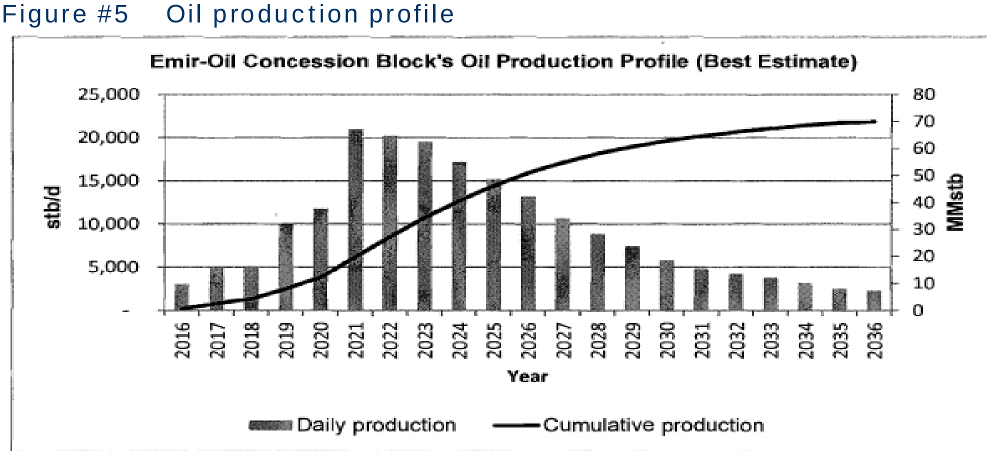

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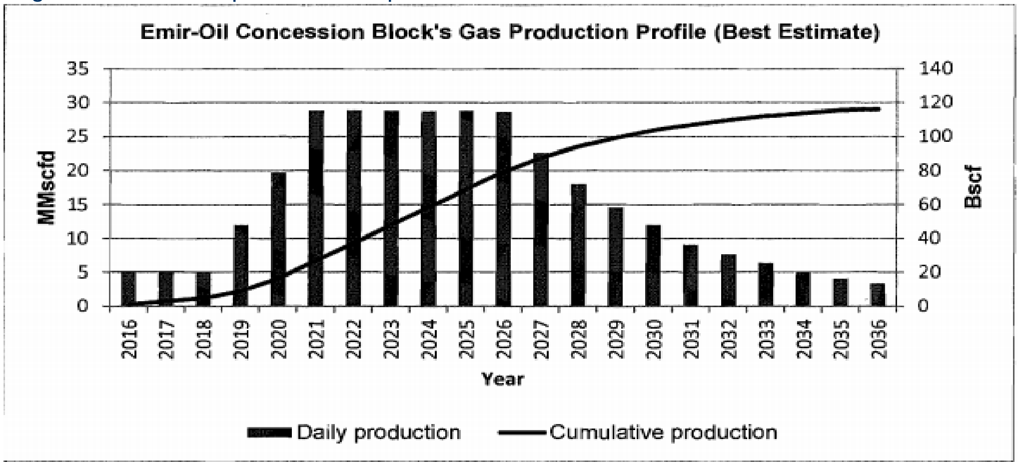
Figure #6 Gas production profile



HLIB, Company, RPS

Oil production would be cap of 5,000bbls/day (still at optimum level) up to 2018 due to oil processing capacity constraint and low oil prices. To note, this only involves producing fields, namely Kariman, Dolinnoe and Aksaz fields. In 2019-20, oil production is expected to breach the 10,000 bbls/day level and hit a high of 25,000 bbls/day during peak oil production in 2021 when the new CPF is up and running. For gas output, the level of gas production is expected to peak in 2021 and sustain for another 6 years according to RPS' estimates and start to decline from 2027 onwards.

Multiple low hanging fruits to be reaped

Aside from anticipated improvement in oil and gas volume to be produced, the group could also tap into several low hanging fruits which could be reaped through minimal CAPEX coupled with relatively short lead time:

Transportation tariff further reduction

Pipeline would further reduce cost

Upon completion of CPF in 2016 and pipelines in 2018, oil would be transported through pipeline to Aktau terminal and thereafter shipped across the Caspian Sea to the port of Makhachkala in Russia, before onward delivery via pipeline to the Black Sea port of Novorossiysk for vessel loading.

To further reduce transportation tariff, REACH has identified an alternative route skipping Caspian Sea shipping process by routing from CPF to the end point, Novorossiysk export terminal, via Uzen – Atyrau – Samara pipeline system owned by KTO (its client). This would reduce transportation tariff by US$2/bbl from early 2019 onwards, barring no unforeseen circumstances. To note, approval to construct the 25-km oil pipeline from the CPF to tie-in to the state-owned trunkline of KTO has been granted by the Kazakhstan government.

LPG extraction

LPG further unlocks value

From Jan 2019 onwards, Reach would be able to reap more benefits from the inclusion of LPG extraction, in addition to the construction of the CPF to unlock more value from its gas, which is rich in condensate and LPG yield. At this juncture, the LPG facility has been installed by MIEH, awaiting commissioning pending the completion of O&G tie-in pipelines completion in 2018. LPG extraction is expected to contribute circa 5-10% to 2019 earnings. However, we have not imputed any contribution by LPG into our numbers as no buyer has yet been secured for the time being.

Well cost reduction

When drilling of development wells resume from 2018 onwards, the company could potentially save more costs in the current depressed oil markets. Based on our estimates, the company is expected to reduce well cost by US$1.95m/development well through reduction in development drilling costs. This has not been priced into our valuation as we are still using the original budgeted CAPEX schedule provided by the company in the circular posted on Bursa, so as to remain conservative on our forecast.

Drilling cost has room for improvement

Management is not without credentials

CEO was an 'upstream' person. As project execution is the key to ensure success of the company, we have taken a look into the management's credentials and felt rather convinced. Its Managing Director, Ir. Shahul Hamid bin Mohd Ismail, has been with Exxon and Shell mainly for the past 35 years covering a wide variety of technical and commercial aspects of the business, including exploration, appraisal, development, production and decommissioning in very challenging business environments. This indicates that he has more than sufficient capability to lead an onshore oilfield development in Kazakhstan.

Management with upstream experience

Financials

Earnings would be consolidated from FY16 onwards… In 1Q17, Reach would be recognizing its full year audited FY16 net profit on its books as the acquisition was proposed in early 2016. Based on our earnings projections, we expect Reach Energy to be in the red in 2016 due to less than optimal oil production at 3000bbls/day based on oil price assumption of US$50.3/bbl.

FY16 loss, FY17 to turn into black

2017 a turnaround year… Reach Energy is expected to register profit of RM10.1m in FY17 as we expect production to be ramped up to 5,000bbls/day post acquisition. Further into FY18, net profit is expected to increase to RM14.3m due to higher oil price assumption of US$59/bbl with flattish oil production projected.

Our valuation has also imputed:

- Peak production of 18,000bbls/day (lower as per guided in circular of 20,000bbls/day) in 2022 assuming CPF phase 2 would be completed
- Average OPEX of US$54.5/bbl (inclusive of asset depreciation cost of US$12.0/bbl for 2016-2018
- Distribution expense of US$10.6/bbl for 2016-2018 before being reduced to US$8.6/bbl upon completion of pipeline.
- For period of 2016-2017, we assumed US$/MYR exchange rate of RM4.20/US$. We assume ringgit will appreciate to RM4.00/US$ in 2018 before strengthening further to RM3.80/US$ in 2021 and remaining constant from then onwards.

Debt free balance sheet post completion of acquisition

Acquired debt free asset… Post completion of the deal, the shareholder's loan (worth US$276.7m as per end 2015) owed by Paleontol B.V (asset company owner) to MIEH (vendor for the deal) would be cancelled off at Reach Energy's level as the loan also consisted part of the deal, therefore making Reach debt free upon acquiring the asset. This gives the company ample leverage to finance its future developments fully by debt without straining the balance sheet. This bodes well for shareholders who prefer anti-dilutive debt issuance over share issuance as a form of financing for the capital heavy business.

Debt free asset acquired

Figure #7 Net profit forecast (US$m)

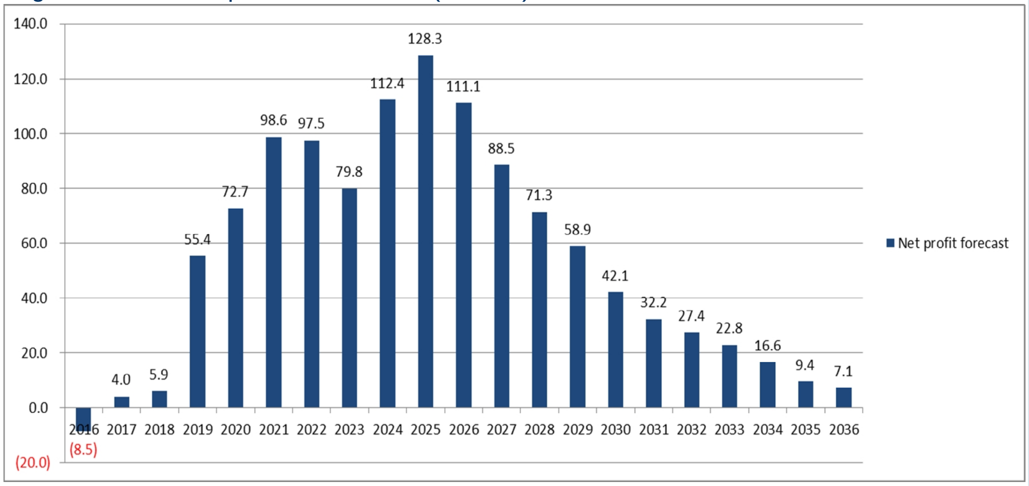


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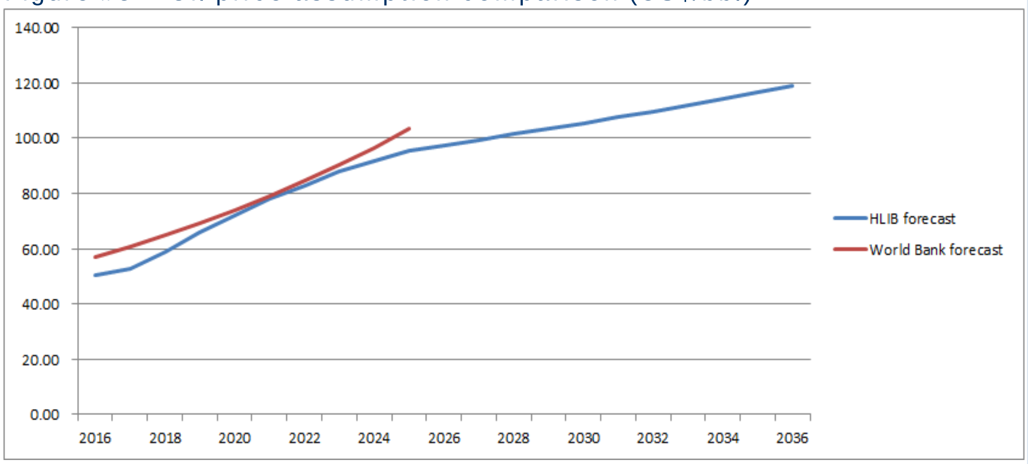
Figure #8 Oil price assumption comparison (US$/bbl)



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Oil price curve less aggressive… Instead of using single oil prices, we have assumed a conservative oil price curve assumption over the years up to 2036 for our DCF valuation. To put it into perspective, our forward price curve assumption is less aggressive compared to that of the World Bank with a flatter oil price curve for the time period of 2016-2024, giving higher buffer for margin of error for our earnings forecast and valuation.

Conservative oil price forecast

Valuation

Figure #9 Valuation table

WACC	10%	Higher WACC assumed compared to smaller peer Jupiter Oil.
NPV	1,910.5	
Reach's share	1,146.3	
Existing no. of shares	1,097.0	
NPV/share	1.04	
No. of shares to be issued	162.60	Assuming RM90m to be raised to account for cash shortfall.
Assumed placement price	0.55	10% discount to latest share price.
New no. of shares	1,259.61	
Ex-placement	**0.91**	
Warrants	1277.8	
Amount to be raised from warrant	958.35	
Fully diluted FV	**0.83**	

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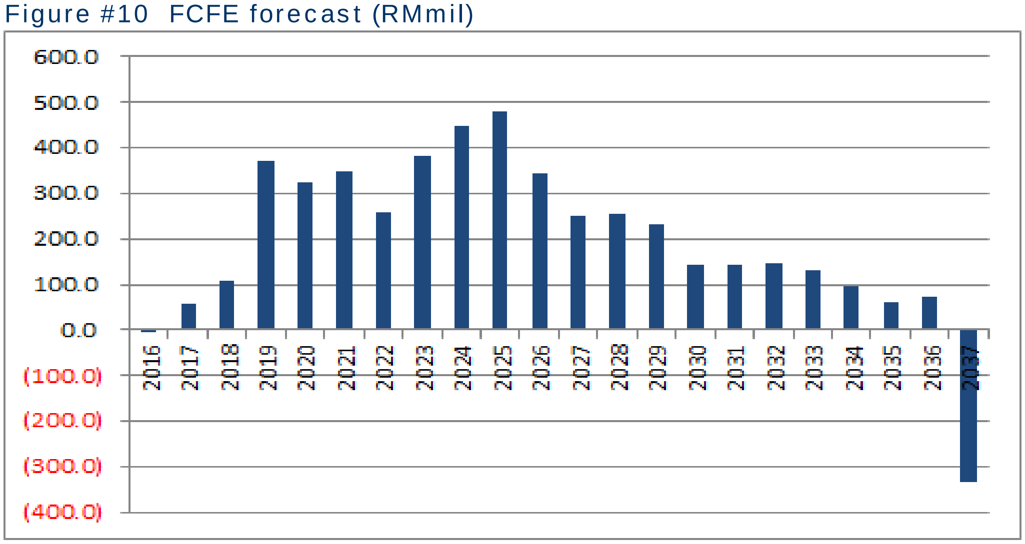
Using the discounted FCFE approach, we arrive at a fully diluted TP of **RM0.83** with forecast horizon extending until 2036, marking of the concession for its 2P reserves. This includes (i) potential dilution from the upcoming placement of RM90m (estimated) to fund the cash shortfall required to complete the deal post paying up dissenting shareholders, and (ii) full exercise of its warrants, which saw its life extended for another 5 years post 'go ahead' given in the EGM for the QA. This is a very conservative measure for its FV as we are assuming premature exercise of its warrants which still possesses huge time value to expiry.

Cost of equity assumed higher than peer

10% cost of equity has been pegged as the discount rate of our forecasted FCFE, which is also a conservative level too, given that Jupiter Energy Ltd, an E&P junior (having operations in Kazakhstan listed on Australian Stock Exchange) has a cost of equity of only 6.7%. That aside, we have also imputed full debt funding with 6% financing cost for its future CAPEX plans, which may not even put a dent on its balance sheet capabilities.

Figure #10 FCFE forecast (RMmil)



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Implied valuation currently unjustifiable

Market under pricing the stock.

At the current price of RM0.66/share, the implied average oil prices for the period from year 2016-2036 are at US$67/bbl based on our backward calculation assuming other variables remain unchanged. We strongly believe that the expectation of oil prices to remain at this level for the next 20 years is unrealistic. Steady recovery is now in place for oil market after OPEC and non-OPEC countries pledged to cut back on their oil production (circa by 1.8m bbls/day) in 2017, resulting a rebalancing of supply and demand. This indicates that the company is undervalued at this juncture with oil price expectations being set too low.

Initiate with Buy

We like the stock as we believe that the market has been pricing in overly conservative oil price outlook which is unjustifiable given the company's relatively low cost of production and its hugely untapped potential in its oil assets. Initiate coverage with a **BUY** rating.

Financial Projections

Income Statement

FYE 31 Mar (RMm)	2015A	2016E	2017F	2018F	2019F
Revenue	-	**231**	**406**	**435**	**960**
Operating cost	-	-267	-389	-402	-730
EBITDA	-	**41**	**90**	**107**	**306**
Depreciation	-	(76)	(73)	(73)	(76)
EBIT	-	(36)	17	33	230
Net Interest	-	-	-	(10)	(8)
Others	-	-	-	-	-
Associates	-	-	-	-	-
Exceptionals	-	-	-	-	-
Pretax profit	**-**	**(36)**	**17**	**24**	**221**
Taxation	**-**	**-**	**-**	**-**	**-**
Minorities	**-**	**(14)**	**7**	**10**	**89**
Reported net profit	**-**	**-21**	**10**	**14**	**133**
Normalized net profit	**-**	**-21**	**10**	**14**	**133**
Basic shares (m)	**-**	1,278	1,278	1,278	1,278
Reported EPS (sen)		(1.7)	0.8	1.1	10.4
Core EPS (sen)	**-**	**-1.7**	**0.8**	**1.1**	**10.4**

Cashflow

FYE 31 Mar (RMm)	2015A	2016E	2017F	2018F	2019F
PBT	-	(36)	17	24	221
Net interest received	-	-	-	(10)	(8)
Working cap changes	-	(39)	80	14	241
Taxation	-	-	-	-	-
Others	-	76	73	83	85
Operating cashflow	-	**1**	**170**	**119**	**539**
Capex & acquisitions	-	-120	0	-160	-140
Free cashflow	-	**-119**	**170**	**-41**	**399**
Other inv cashflow	-	**-5**	**9**	**-10**	**-8**
Net borrowings	-	120	-120	160	-20
Share issuance	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other fin cashflow	-	**0**	**0**	**0**	**0**
Net cashflow	-	**(4)**	**59**	**109**	**371**
Cash b/f	-	20	16	71	179
Cash c/f	-	16	74	179	550

Balance Sheet

FYE 31 Mar (RMm)	2015A	2016E	2017F	2018F	2019F
Fixed assets	-	1,694	1,694	1,694	1,694
Other long-term assets	-	215	215	215	215
Other short-term assets	-	44	44	44	44
Working capital	-	**(106)**	**(186)**	**(200)**	**(441)**
Receivables	-	5	8	9	19
Payables	-	-126	-221	-236	-521
Inventory	-	15	26	28	62
Net cash	-	**(105)**	**74**	**19**	**410**
Cash	-	16	74	179	550
ST debt	-	-	-	-	-
LT debt	-	(120)	-	(160)	(140)
Shareholders' funds	-	**618**	**660**	**710**	**755**
Share capital	-	82	82	78	78
Reserves	-	1,452	1,469	1,423	1,644
Minorities	-	614	620	600	689
Other liabilities	-	-511	-561	-463	-479

Valuation Ratios

FYE 31 Mar	2015A	2016E	2017F	2018F	2019F
Net DPS (sen)	-	0.00	0.00	0.00	0.00
FCF/ share (sen)	-	-9.3	13.3	-3.2	31.2
FCF yield	-	-15.1	21.6	-5.2	50.7
Market capitalization (m)	-	259	259	259	259
Net cash (m)	-	-105	74	19	410
Enterprise value	-	363	184	239	-152
EV/ EBITDA (x)	-	9.0	2.1	2.2	-0.5

Assumption Metrics

FYE 31 Mar	2015A	2016E	2017F	2018F	2019F
Revenue	-	231	406	435	960
EBITDA	-	41	90	107	306
Net profit	-	-21	10	14	133
P/E (x)	-	-36.7	78.0	55.1	5.9
BV /Share (RM)	-	0.96	1.00	1.03	1.13
P/BV (x)	-	0.64	0.61	0.60	0.54
ROA (%)	-	(1.1)	0.5	0.7	5.1
ROE (%)	-	(845.4)	42.2	21.6	335.1

Other Ratios

FYE 31 Mar	2015A	2016E	2017F	2018F	2019F
Growth (%)					
Sales Growth	-	-	75.6	7.1	120.6
EBITDA Growth	-	-	45.9	3.1	81.8
EBIT Growth	-	-	121.2	18.9	186.7
PBT Growth	-	-	(147.1)	41.6	831.5
Net Profit Growth	-	-	(147.1)	41.6	831.5
Margins (%)					
EBITDA Margin	-	17.5	22.1	24.5	31.9
PBT Margin	-	(15.4)	4.1	5.5	23.1
Net Profit Margin	-	(9.3)	2.5	3.3	13.8

Disclaimer

1. As of 4 January 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 4 January 2017, the analyst, Lim Sin Kiat who prepared this report, has interest in the following securities covered in this report:
(a) -.

Published & Printed by
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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.