

## Coway (021240)

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Rating **BUY**  
maintain

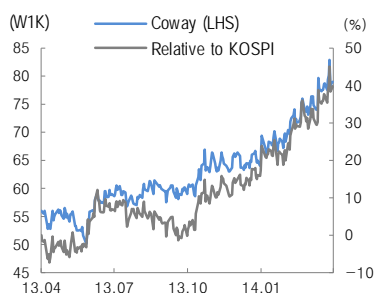
6M TP (₩) **110,000**  
raise

CP (₩) **79,000**  
(14.04.28)

Service

KOSPI	1969.26
Market cap (Wbn)	6,093
Market cap portion (%)	0.52
Paid-in capital (common; Wbn)	41
52w high/low (₩)	82,900 / 50,100
120d avg. trading volume (Wbn)	13.9
Foreign ownership (%)	53.99
Major shareholders	Coway Holdings+12: 30.99% Woori Bank: 5.83%

(%)	1M	3M	6M	12M
Abs. return	8.1	21.5	33.9	41.8
Rel. return	8.7	18.3	39.3	40.1



## Coway shines through gloom

### 1Q14 earnings beat forecast

- 1Q14 results: Sales W494.8bn (+6.4% YoY), OP W89.8bn (+29.7% YoY) and NP W66.1bn (-17.6% YoY).
- The company's mainstay rental business expanded 4.6% despite a sharp increase in the number of maturing rental accounts in 1Q14 and sluggish consumer spending.
- Exports and cosmetics registered strong growth, expanding 43.6% and 17.4%, respectively.
- OP margins came in strong at 18.1% on reduced rental equipment impairment losses and advertising cost cuts. The W34bn Woongjin Chemical disposal gains in 1Q13 make 1Q14 NP look weak, but NP surpassed our forecast by 9%.
- On a consolidated basis, sales came in at W535bn (+5.4% YoY) with an OP of W90.3bn (+29.5% YoY). The company's China operations are achieving sales growth after restructuring. Businesses in Malaysia and the U.S. continue to flourish.

### Double-digit OP growth is expected in 2014

- The rental business is expected to deliver 5% growth as the number of maturing rental accounts declines qoq and customer resistance to price hikes recedes. New upgraded models set to come on the market in 2Q14 will also help.
- Lump-sum payment sales will turn upward in 3Q14, supported by dehumidifier and air cleaner sales expansion in 2Q14.
- The cosmetics business is expected to grow by adding more home shopping channels. Overseas sales are also projected to show strong growth, bolstered by especially ODM sales in China.
- In 2014, sales are forecast to grow 6.2%. OP will expand 11.2% despite new business investment.

### Maintain BUY; raise TP to W110,000

- We raise our target price by W20,000 after upgrading our EPS forecast. Our target price is based on a 12-month forward P/E of 29.5x. The valuation looks attractive in light of the company's stable earnings, strong cash flow, and shareholder-friendly policy.
- The company's long-term growth outlook is positive, bolstered by its robust business model and strengthening cash flow, aggressive overseas expansion, and diversification into home-based healthcare.
- The company is expected to maintain its shareholder-friendly policy with share buybacks and dividend payouts. The year-end dividend payout is estimated at W1,700 or more.

	(Wbn, %)									
	1Q13	4Q13	1Q14				2Q14			
			Consensus	Previous estimates	Results	YoY	QoQ	Daishin estimates	YoY	QoQ
Sales	465	482	498	495	495	6.4	2.6	527	6.1	6.6
OP	69	88	85	90	90	29.7	2.5	91	15.1	1.7
NP	80	50	69	67	67	-16.9	32.7	65	8.0	-1.8

	2012	2013	2014(F)				Growth	
			Consensus	Previous estimates	Daishin estimates	Change	2013	2014(F)
Sales	1,807	1,934	2,112	2,054	2,054	0.0	7.0	6.2
OP	228	333	374	372	371	-0.3	46.3	11.2
NP	120	253	277	266	267	0.2	111.4	5.3

Source: Coway, WISEfn, Daishin Securities Research Center

Tab 1. 1Q14 earnings results (non-consolidated)

(Wbn, %)

	1Q14P	1Q13	YoY(%)	4Q13	QoQ(%)	Daishin est.	Var.(%)	Cons.	Var.(%)
Sales	494.8	465.2	6.4	482.4	2.6	499.7	-1.0	498.0	-0.6
OP	89.8	69.2	29.7	88.5	1.4	85.5	5.0	85.0	5.6
NP	66.1	80.2	-17.6	50.9	29.9	60.5	9.3	63.6	3.9
OP margin (%)	18.1	14.9		18.4		17.1		17.1	
NP margin (%)	13.4	17.2		10.5		12.1		12.8	

Source: Daishin Securities Research Center

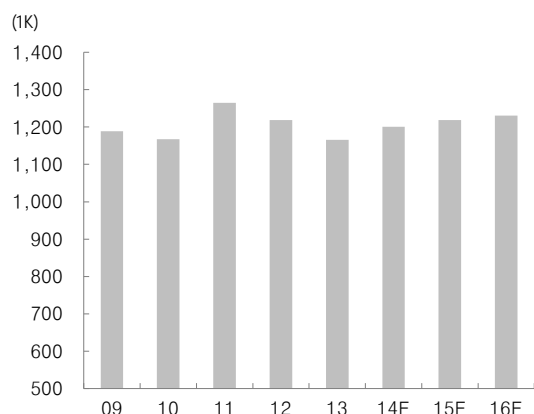
Tab 2. 1Q14 earnings results (consolidated)

(Wbn, %)

	4Q13P	4Q12	YoY(%)	Diff. with non-consolidated figures
Sales	535.0	507.4	5.4	40.2
OP	90.3	69.7	29.6	0.5
NP	66.1	57.4	15.2	0.0
OP margin (%)	16.9	13.7		
NP margin (%)	12.4	11.3		

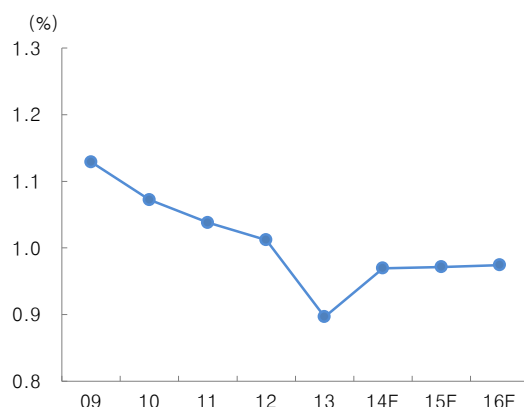
Source: Daishin Securities Research Center

Fig 1. Net rental order growth



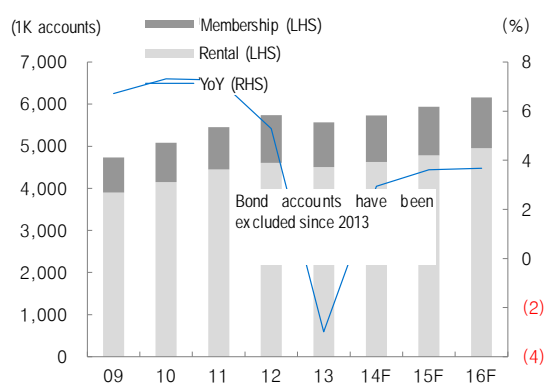
Source: Coway, Daishin Securities Research Center

Fig 2. Monthly rental cancellation trend and forecast



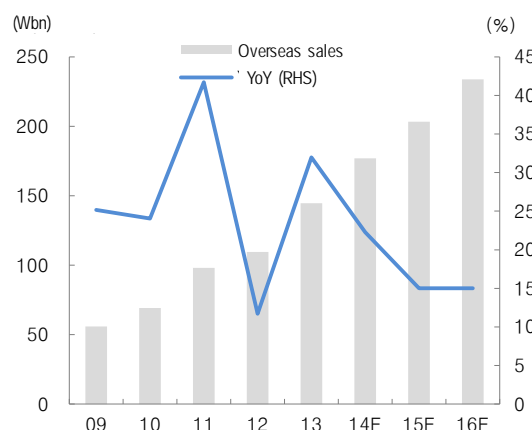
Source: Coway, Daishin Securities Research Center

Fig 3. Rental account trend and forecast



Source: Coway, Daishin Securities Research Center

Fig 4. Overseas sales trend and forecast



Source: Coway, Daishin Securities Research Center

Tab 3. Quarterly and annual earnings forecasts

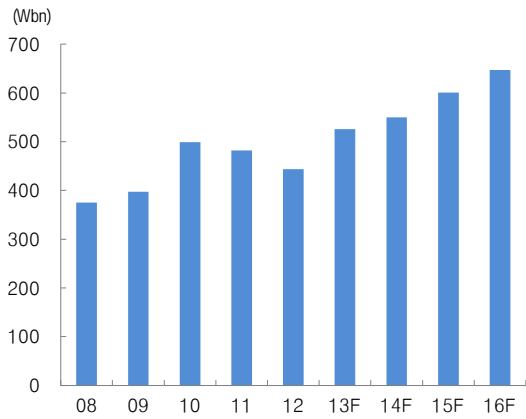
(Wbn, %)

		1Q13	2Q13	3Q13	4Q13	1Q14	2Q14F	3Q14F	4Q14F	2013	2014F	2015F	2016F
Rental orders (1K units)		318.0	298.4	257.4	292.1	317.0	304.0	283.0	297.0	1,166	1,201	1,219	1,231
Monthly avg. cancellation rate (%)		1.01%	0.90%	0.82%	0.80%	0.96%	0.96%	0.96%	0.96%	0.9%	1.0%	1.0%	1.0%
Rental accounts (1K)		4,657.8	4,716.8	4,746.4	4,799.9	4,526.0	4,578.0	4,608.0	4,629.0	4,502	4,629	4,782	4,955
Membership accounts		1,135.3	1,099.6	1,087.7	1,066.4	1,058.0	1,073.0	1,086.0	1,104.0	1,066	1,104	1,157	1,203
Total		5,793.1	5,816.4	5,834.1	5,866.4	5,584.0	5,651.0	5,694.0	5,732.0	5,569	5,732	5,940	6,158
Change		52.6	23.3	17.7	32.3	15.0	67.0	44.0	38.0	-172	164	207	219
Sales	Total	465.2	496.9	489.2	482.4	494.8	527.4	519.9	512.1	1,933.7	2,054.2	2,178.0	2,299.8
	Rental	327.4	331.9	334.9	339.1	342.4	349.1	352.6	356.5	1,333.4	1,400.6	1,465.5	1,526.7
	Membership	42.8	42.8	43.2	43.6	43.9	44.1	44.8	45.6	172.3	178.4	189.8	200.2
	Lump-sum payment	36.6	47.8	35.4	29.4	27.6	44.3	39.4	30.8	149.3	142.1	152.7	161.1
	Others	17.9	22.1	16.6	19.8	21.0	23.9	18.2	22.8	76.4	85.9	92.8	100.2
	Cosmetics	31.5	44.6	38.0	30.6	45.2	51.2	43.6	36.7	144.6	176.8	203.4	233.9
Sales	Total	9.1	7.8	21.1	19.8	14.8	14.7	21.1	19.8	57.7	70.4	74.0	77.6
YoY (%)	Total	5.2	11.3	6.8	4.9	6.4	6.1	6.3	6.2	7.0	6.2	6.0	5.6
	Rental	3.5	4.1	3.6	3.6	4.6	5.2	5.3	5.1	3.7	5.0	4.6	4.2
	Membership	10.4	9.1	5.1	3.2	2.6	3.2	3.8	4.5	6.8	3.5	6.4	5.5
	Lump-sum payment	11.9	18.1	-9.3	-9.3	-24.6	-7.3	11.2	4.7	3.2	-4.8	7.5	5.5
	Others	6.3	35.5	-4.2	18.1	17.4	8.0	10.0	15.0	13.6	12.4	8.0	8.0
	Cosmetics	5.0	111.4	35.6	0.2	43.6	15.0	15.0	20.0	32.0	22.3	15.0	15.0
YoY (%)	Total	-23.3	-45.0	125.6	85.0	63.4	90.0	0.0	0.0	50.7	22.0	5.0	5.0
GP		310.5	329.0	319.4	323.1	325.5	346.1	341.6	343.5	1,282.1	1,356.7	1,443.8	1,529.3
OP		69.2	79.4	97.0	87.6	89.8	92.1	97.4	93.5	333.2	372.8	410.2	454.0
Pre-tax profit		115.0	80.7	83.0	71.8	87.8	87.1	91.0	88.7	350.5	354.7	394.5	438.8
NP		80.2	60.6	62.3	50.2	66.1	66.0	69.0	67.2	253.2	268.3	299.0	332.6
YoY (%)	GP	4.6	8.1	4.2	10.0	4.8	5.2	6.9	6.3	6.7	5.8	6.4	5.9
	OP	7.9	21.9	54.2	145.7	29.7	16.1	0.4	6.7	46.3	11.9	10.0	10.7
	Pre-tax profit	106.7	43.1	369.2	126.3	-23.6	7.9	9.6	23.5	117.1	1.2	11.2	11.2
	NP	94.5	37.6	382.2	132.5	-17.6	9.0	10.8	34.0	111.4	6.0	11.4	11.2
GP margin (%)		66.8	66.2	65.3	67.0	65.8	65.6	65.7	67.1	66.3	66.0	66.3	66.5
OP margin (%)		14.9	16.0	19.8	18.2	18.1	17.5	18.7	18.3	17.2	18.1	18.8	19.7
Pretax profit margin (%)		24.7	16.2	17.0	14.9	17.8	16.5	17.5	17.3	18.1	17.3	18.1	19.1
NP margin (%)		17.2	12.2	12.7	10.4	13.4	12.5	13.3	13.1	13.1	13.1	13.7	14.5

Note Bond accounts have been excluded from rental and membership accounts since 2013.

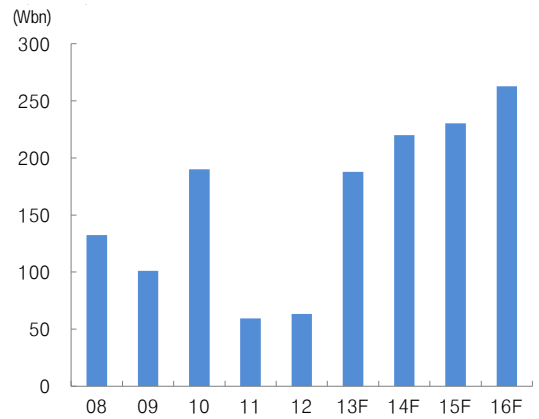
Source: Coway, Daishin Securities Research Center

Fig 5. EBITDA trend and forecast



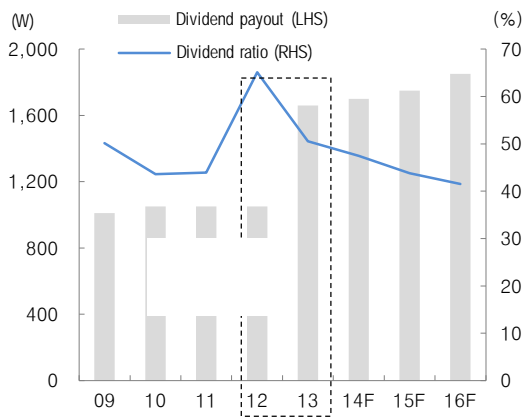
Note: EBITDA=OP+ tangible and intangible asset depreciation cost +rental equipment impairment cost.  
Source: Coway, Daishin Securities Research Center

Fig 6. FCFE trend and forecast



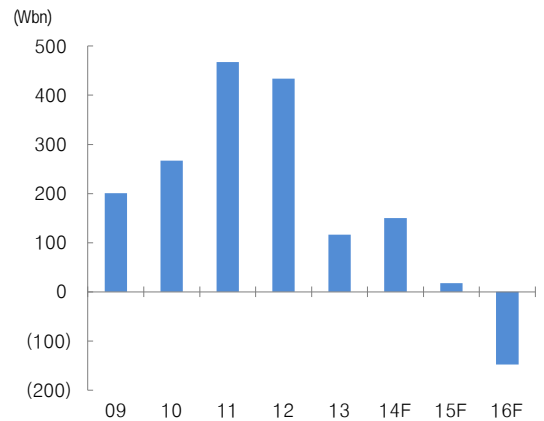
Source: Coway, Daishin Securities Research Center

Fig 7. DPS trend and forecast



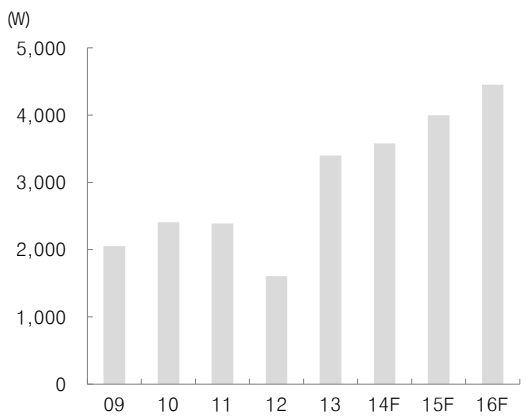
Source: Coway, Daishin Securities Research Center

Fig 8. Net borrowings trend and forecast



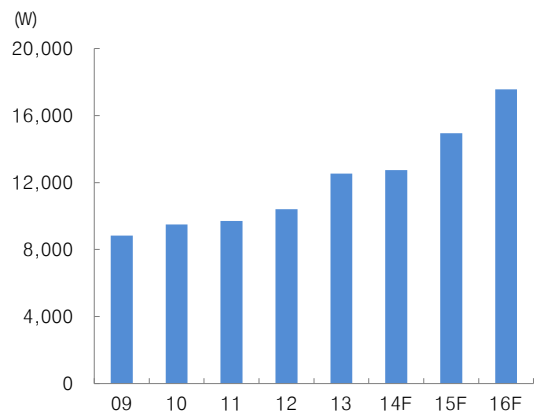
Source: Coway, Daishin Securities Research Center

Fig 9. EPS trend and forecast



Source: Coway, Daishin Securities Research Center

Fig 10. BPS trend and forecast



Source: Coway, Daishin Securities Research Center

Tab 4. Earnings forecast revision

(Wbn)

	Previous			Revised			Chg (%)		
	13	14F	15F	13	14F	15F	13	14F	15F
Sales	1,934	2,058	2,177	1,934	2,054	2,178		(0.2)	0.1
OP	334	364	405	334	373	410		2.3	1.3
Pretax profit	351	333	384	351	355	394		6.4	2.7
NP	254	253	291	254	268	299		6.2	2.7
EPS (excluding treasury shares)	3,395	3,378	3,893	3,395	3,601	4,013		6.6	3.1
YoY (%)									
Sales	7.0	6.4	5.8	7.0	6.2	6.0			
OP	46.7	9.0	11.1	46.7	11.9	10.0			
Pretax profit	117.7	(5.2)	15.2	117.7	1.2	11.2			
NP	112.0	(0.5)	15.2	112.0	6.0	11.4			
EPS	111.5	(0.5)	15.2	111.5	5.9	11.4			
OP margin (%)	17.3	17.7	18.6	17.3	18.1	18.8			
Pretax profit margin (%)	18.2	16.2	17.6	18.2	17.3	18.1			
NP margin (%)	13.1	12.3	13.4	13.1	13.1	13.7			

Source: Daishin Securities Research Center

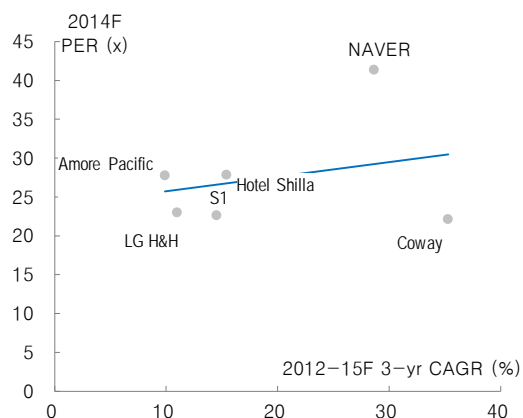
Tab 5. Valuation

(Wbn, W, x, %)

Target EV (Wbn)	8,076.5	A=a*b	
2014E EBITDA	577	a	
Target EV/EBITDA Multiple	14	b	Near the average of 14F EV/EBITDA of domestic peers
Per-share value (W)	110,000	B=(A-C)/E	
Total borrowings	242.0	c	Based on end-2014
Cash assets+short-term financial assets	46.2	d	Based on end-2014
Net borrowings (net cash)	195.8	C=c-d	Based on end-2014
No. of shares issued	77,124,796	e	
Treasury shares (common)	3,208,333	f	Share buyback is reflected
Adjusted number of shares issued	73,916,463	E=e-f	
CP (W)	79,000		2014.04.28
Upside potential (%)	39.2		
12M Fwd Implied PER (x)	29.5		
12M Fwd Implied PBR (x)	8.2		

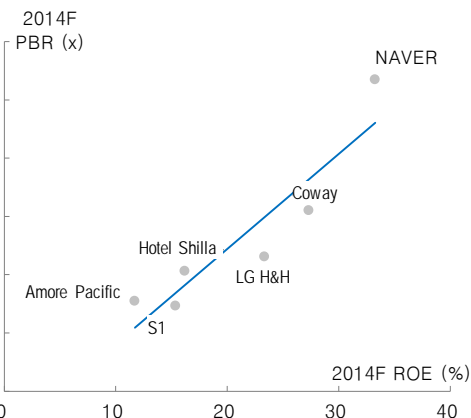
Source: Daishin Securities Research Center

Fig 11. Peer: 14F PER vs. 12-15F EPS CAGR



Source: Company data, Daishin Securities Research Center

Fig 12. Peer: 14F PBR vs. 14F ROE



Source: Company data, Daishin Securities Research Center

Tab 6. Peer group valuation

(x, %)

	Coway	AmorePacific	LG Household & Healthcare	S1	NAVER	Hotel Shilla	CJ O Shopping	Average excluding Coway
2014F PER (x)	22.1	27.8	23.0	22.6	41.4	27.9	17.4	26.7
12-15 EPS 3-yr CAGR (%)	35.3	9.9	11.0	14.5	28.7	15.4	6.2	14.3
2014F PBR (x)	6.2	3.1	4.6	2.9	10.7	4.1	3.2	4.8
2014F ROE (%)	27.3	11.7	23.3	15.4	33.3	16.2	20.8	20.1
2014F EV/EBITDA (x)	11.1	12.4	12.7	9.0	25.4	15.5	12.5	14.6

Source: Company data, Daishin Securities Research Center

Tab 7. Peer group comparison

(x, %)

Code		021240	090430	051900	012750	035420	008770	035760
Company		Coway	AmorePacific	LG Household & Healthcare	S1	NAVER	Hotel Shilla	CJ O Shopping
Stock price (W) (2014.04.28)		79,000	1,266,000	474,000	79,000	734,000	83,000	363,000
Market cap. (Wbn)		6,092.9	7,400.8	7,403.0	3,001.9	24,194.6	3,257.6	2,252.6
Sales (Wbn)	2013	1,933.7	3,100.4	4,326.3	1,274.1	2,312.0	2,275.1	1,260.7
	2014E	2,054.2	3,473.0	4,625.1	1,703.6	2,792.3	2,764.9	1,381.0
	2015E	2,178.0	3,861.7	4,974.9	1,823.6	3,298.3	3,422.2	1,507.3
OP (Wbn)	2013	333.2	369.8	496.4	129.1	524.1	88.5	157.2
	2014E	372.0	416.7	521.3	197.8	770.5	174.9	170.9
	2015E	409.4	471.4	588.5	224.0	1,063.4	219.0	190.4
EBITDA (Wbn)	2013	565.9	478.2	618.0	226.7	573.4	75.2	158.7
	2014E	566.1	560.3	642.8	335.2	914.5	230.0	183.0
	2015E	596.9	627.6	717.1	375.6	1,217.3	274.0	202.7
EPS (W)	2013	3,400	45,867	24,373	2,343	63,681	280	22,392
	2014E	3,601	45,590	20,605	3,496	17,746	2,980	20,881
	2015E	4,013	51,995	23,461	3,990	24,168	3,899	23,651
BPS (W)	2013	12,543	370,326	84,081	24,166	49,379	17,286	94,233
	2014E	12,756	408,830	102,613	26,981	68,654	20,106	113,129
	2015E	14,991	454,747	122,366	30,307	93,347	23,453	134,712
OP margin (%)	2013	17.2	11.9	11.5	10.1	22.7	3.9	12.5
	2014E	18.1	12.0	11.3	11.6	27.6	6.3	12.4
	2015E	18.8	12.2	11.8	12.3	32.2	6.4	12.6
EBITDA margin (%)	2013	29.3	15.4	14.3	17.8	24.8	3.3	12.6
	2014E	27.6	16.1	13.9	19.7	32.8	8.3	13.2
	2015E	27.4	16.3	14.4	20.6	36.9	8.0	13.5
ROE (%)	2013	28.6	11.0	27.4	10.0	112.7	2.1	20.9
	2014E	27.3	11.7	23.3	15.4	33.3	16.2	20.8
	2015E	27.8	12.1	22.1	15.7	33.0	18.2	19.7
P/E (x)	2013	23.2	27.6	19.4	33.7	11.5	296.5	16.2
	2014E	21.9	27.8	23.0	22.6	41.4	27.9	17.4
	2015E	19.7	24.3	20.2	19.8	30.4	21.3	15.3
P/B (x)	2013	6.3	3.4	5.6	3.3	14.9	4.8	3.9
	2014E	6.2	3.1	4.6	2.9	10.7	4.1	3.2
	2015E	5.3	2.8	3.9	2.6	7.9	3.5	2.7
EV/EBITDA (x)	2013	11.0	12.6	16.2	12.1	40.5	39.9	16.6
	2014E	11.1	12.4	12.7	9.0	25.4	15.5	12.5
	2015E	10.4	10.9	11.0	7.7	18.6	13.0	10.8
12-15 EPS CAGR (%)		35.7	9.9	11.0	14.5	28.7	15.4	6.2

Note: Coway's figures are based on our estimates. Figures of other companies are based on consensus figures.

Source: Daishin Securities Research Center

## Financial statements

Income statement	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Sales	1,807	1,934	2,054	2,178	2,300
Cost of goods sold	605	652	698	734	770
Gross profit	1,201	1,282	1,357	1,444	1,529
SG&A expenses	974	949	984	1,034	1,075
OP	228	333	373	410	454
OP margin	12.6	17.2	18.1	18.8	19.7
EBITDA	441	566	567	598	653
Non-OP	-66	17	-18	-16	-15
Income from affiliates	-3	40	0	-1	-1
Financial revenue	4	4	3	0	0
FX related gains	11	8	0	0	0
Financial expense	-62	-18	-11	-10	-10
FX related losses	0	0	0	0	0
Others	-5	-9	-10	-5	-5
Income before taxes	161	351	355	394	439
Income tax expense	-42	-97	-86	-95	-106
Income from cont. op.	120	253	268	299	333
Income from discount. op.	0	0	0	0	0
NP	120	253	268	299	333
NP margin	6.6	13.1	13.1	13.7	14.5
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	120	253	268	299	333
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	118	253	268	299	333
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	118	253	0	0	0

Valuation metrics	(W,x,%)				
	2012A	2013A	2014F	2015F	2016F
EPS	1,553	3,283	3,479	3,877	4,313
PER	28.0	20.2	22.7	20.4	18.3
BPS	10,408	12,543	12,756	14,991	17,613
PBR	4.2	5.3	6.2	5.3	4.5
EBITDAPS	5,712	7,338	7,351	7,750	8,472
EV/EBITDA	8.6	9.3	11.1	10.4	9.3
SPS	23,427	25,073	26,635	28,240	29,819
PSR	1.9	2.6	2.9	2.7	2.6
CFPS	6,503	7,789	6,952	7,683	8,400
DPS	0	2,710	1,700	1,750	1,800

Financial ratios	(W,x,%)				
	2012A	2013A	2014F	2015F	2016F
<b>Growth potential</b>					
Sales growth	5.7	7.0	6.2	6.0	5.6
OP growth	-6.0	46.3	11.9	10.0	10.7
NP growth	-32.4	111.4	6.0	11.4	11.2
<b>Profitability</b>					
ROIC	15.2	21.6	26.5	27.1	28.3
ROA	13.9	19.9	23.1	24.6	24.4
ROE	15.4	28.6	27.5	27.9	26.5
<b>Stability</b>					
Debt ratio	112.0	69.6	60.8	52.0	44.5
Net borrowings ratio	54.1	12.0	19.9	8.9	-2.4
Interest coverage ratio	7.9	19.0	33.3	42.6	47.8

Source: Coway, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Current assets	691	642	497	607	762
Cash & cash equiv.	119	201	46	136	268
Trade & other receive.	292	290	292	306	323
Inventories	41	41	46	48	51
Other current assets	239	110	114	117	121
Long-term assets	1,010	999	1,085	1,150	1,200
Tangible assets	594	597	680	747	801
Investments in affiliates	102	101	101	101	101
Other long-term assets	314	301	304	301	298
Total assets	1,702	1,641	1,582	1,757	1,962
Current liabilities	720	637	480	482	564
Payables & other liab.	205	202	203	205	207
Borrowings	296	172	162	159	156
Current portion of LT debts	110	146	0	0	80
Other current liabilities	109	117	115	117	120
Long-term liabilities	179	37	118	119	40
Borrowings	148	0	80	80	0
Convertible securities	0	0	0	0	0
Other long-term liab.	31	37	38	39	40
Total liabilities	899	674	598	601	604
Controlling interest	803	967	984	1,156	1,358
Capital stock	41	41	41	41	41
Capital surplus	131	131	131	131	131
Retained earnings	717	890	957	1,129	1,331
Other capital changes	-85	-95	-144	-144	-144
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	803	967	984	1,156	1,358
Total borrowings	434	116	196	103	-32

Cash flow statement	(Wbn)				
	2012A	2013A	2014F	2015F	2016F
Operating cash flows	429	518	393	430	471
Net income	120	253	268	299	333
Non-cash items	382	348	268	294	315
Depreciation	172	189	134	149	160
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	210	159	134	145	155
Chg in assets & liab.	-38	-42	-49	-58	-61
Other cash flows	-35	-41	-95	-105	-115
Investing cash flow	-301	-58	-242	-242	-241
Investment assets	-3	179	3	3	3
Tangible assets	-292	-240	-250	-250	-250
Others	-7	2	5	5	7
Financing cash flows	-74	-377	-163	-143	-147
Short-term borrowings	21	-156	-10	-3	-3
Bonds payable	0	0	50	0	-50
Long-term borrowings	0	0	30	0	-30
Rights offering	0	0	0	0	0
Cash dividends	-78	-78	-124	-127	-130
Others	-17	-142	-109	-13	67
Net chg in cash	54	82	-155	90	132
Beginning cash balance	65	119	201	46	136
Ending cash balance	119	201	46	136	268
NOPLAT	169	241	282	311	344
FCF	38	179	154	198	244

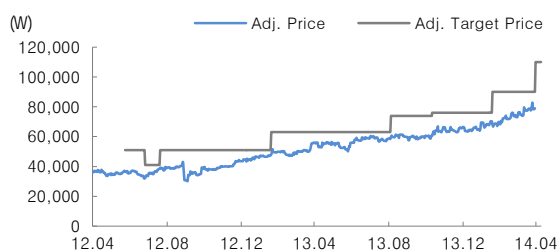
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## [Investment rating & Target price history]

### Coway (021240)



Date	14.04.29	14.02.17	14.01.15	13.12.09	13.11.10	13.10.08
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	110,000	90,000	76,000	76,000	76,000	74,000
Date	13.09.22	13.09.03	13.08.06	13.07.08	13.06.30	13.06.03
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	74,000	74,000	63,000	63,000	63,000	63,000
Date	13.05.13	13.05.06	13.04.02	13.02.18	12.12.26	12.10.26
Rating	Buy	Buy	Buy	Buy	Buy	Buy
TP	63,000	63,000	63,000	63,000	51,000	51,000
Date	12.10.07	12.08.19	12.08.09	12.07.25	12.06.22	
Rating	Buy	Buy	Buy	Buy	Buy	
TP	51,000	51,000	41,000	41,000	51,000	

### Investment ratings framework

#### Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

#### Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.