

## Singapore

**ADD** (previously HOLD)

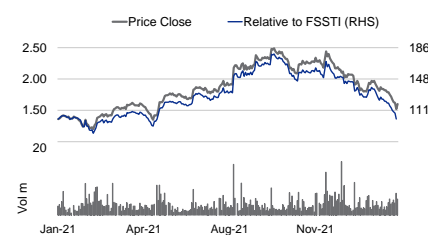
Consensus ratings\*: Buy 4 Hold 1 Sell 0

Current price:	S\$1.60
Target price:	S\$2.07
Previous target:	S\$2.44
Up/downside:	29.2%
CGS-CIMB / Consensus:	-15.9%
Reuters:	FREN.SI
Bloomberg:	FRKN SP
Market cap:	US\$505.3m
	S\$683.2m
Average daily turnover:	US\$6.11m
	S\$8.29m
Current shares o/s:	424.3m
Free float:	75.8%

\*Source: Bloomberg

**Key changes in this note**

- Upgrade from Hold to Add.
- TP reduced to S\$2.07.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-14	-29.8	17.6
Relative (%)	-18.2	-31.6	6

**Major shareholders**

	% held
Micro compact Sdn Bhd	6.2
Precico Singapore Pte Ltd	6.1
Sinn Hin Co Sdn Bhd	4.8

**Analyst(s)**

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# Frencken Group Ltd

## A small acquisition

- Frencken has announced a small acquisition (51.92% stake in Penchem Technologies) for S\$5.4m.
- We think the acquisition will have no immediate material impact but could provide an opportunity to grow a new revenue stream in 5-10 years.
- Reflecting the valuation de-rating in equities, our TP for Frencken falls to S\$2.07. We upgrade to Add as current rate hike fears appear to be priced in.

**A small acquisition...**

Frencken has announced that it is acquiring a 51.92% stake in Penchem Technologies Sdn Bhd (unlisted). As the proposed acquisition did not trigger any disclosure rules (on potential financial impact), we believe Penchem's revenue and net profit base is likely small. Frencken will pay cash for the acquisition which translates into a historical FY21 P/BV of 1.92x.

**...for long-term opportunities**

Penchem focuses on designing, developing, formulating and manufacturing polymer materials for use in the electrical and electronics industry and also coatings, adhesives, and fillers for industries such as automotive, marine and aerospace. Penchem has also invested in the development of environmental and ethically responsible bio-based polymers to serve the rapidly expanding market for eco-friendly materials that support the sustainability framework. Penchem has a manufacturing facility in Penang and its customers include multi-national companies in the semiconductors, fibre optics, solid-state lighting, consumer electronics and automotive markets.

**Model – no changes for now...**

We make no changes to our FY21-23F forecasts pending the announcement of Frencken's FY21F results (FY20 results were released on 25 Feb 2021). 4Q21F net profit likely grew 35.2% yoy (-4.1% qoq) to S\$14.2m. Note that 4Q20 net profit was depressed by a S\$6.2m impairment loss.

**...but markets have de-rated**

Although there are no changes to our current FY21-23F forecasts, peer valuations have declined given the concerns over interest rate hikes. The CY23F sector average P/E has come down to 10.4x currently from 12.3x in Nov 2021. Keeping our 10% premium to the sector average P/E (given Frencken's 17.3% 3-year EPS CAGR), our new P/E multiple is 11.44x, translating into a lower TP of S\$2.07. As the market has adjusted for current rate hike concerns, we upgrade our call on Frencken to Add (previously Hold). Downside risks are potential production disruptions arising from Covid-19 infections in its workforce and further cost pressures from higher raw material costs.

**Financial Summary**

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (S\$m)	659.2	620.6	752.0	831.3	879.7
Net Profit (S\$m)	42.37	42.57	60.28	71.01	77.13
Core EPS (S\$)	0.11	0.12	0.14	0.17	0.18
Core EPS Growth	39.9%	4.9%	23.5%	17.8%	8.6%
FD Core P/E (x)	14.53	13.89	11.24	9.54	8.79
Price To Sales (x)	1.03	1.09	0.90	0.82	0.77
DPS (S\$)	0.030	0.030	0.030	0.030	0.030
Dividend Yield	1.88%	1.88%	1.88%	1.88%	1.88%
EV/EBITDA (x)	8.22	8.18	5.84	4.90	4.24
P/FCFE (x)	8.99	12.57	15.26	14.96	11.50
Net Gearing	(23.2%)	(31.9%)	(36.2%)	(39.0%)	(43.2%)
P/BV (x)	2.29	2.03	1.78	1.54	1.34
ROE	16.6%	15.5%	16.9%	17.3%	16.3%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			1.00	1.01	1.00

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Peer Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY21F	CY22F	CY23F		CY21F	CY22F		
Frencken Group Ltd	FRKN SP	Add	1.60	2.07	505	11.2	9.5	8.8	17.3%	1.78	1.54	16.9%	1.9%
AEM Holdings Ltd	AEM SP	Add	4.59	7.90	1,050	14.9	11.1	10.1	8.4%	3.57	2.90	31.5%	1.5%
Aztech Global Ltd	AZTECH SP	Add	0.84	1.59	477	7.9	7.2	6.3	14.6%	2.27	1.86	50.1%	3.4%
Fu Yu Corp Ltd	FUYU SP	Add	0.27	0.33	148	10.2	8.9	8.5	11.9%	1.29	1.21	12.2%	18.7%
Grand Venture Technology Ltd	GVTL SP	Add	0.96	1.74	234	15.2	10.9	8.7	71.5%	3.16	2.57	30.7%	1.1%
ISDN Holdings Ltd	ISDN SP	Add	0.64	1.00	208	10.7	9.3	8.2	17.4%	1.47	1.32	14.6%	2.4%
Nanofilm Technologies Int'l Ltd	NANO SP	Add	2.83	3.92	1,376	29.4	22.7	18.5	18.5%	3.89	3.44	14.0%	0.7%
UMS Holdings Ltd	UMSH SP	Add	1.19	1.63	587	12.2	10.9	10.6	18.9%	2.87	2.57	25.0%	5.0%
Valuetronics Holdings Ltd	VALUE SP	Reduce	0.53	0.53	171	10.6	10.7	9.3	-8.4%	0.97	0.93	9.4%	5.3%
Venture Corporation	VMS SP	Add	17.69	23.32	3,802	16.6	14.3	13.2	10.1%	1.92	1.82	11.7%	4.2%
<b>Simple average excluding FRKN</b>						<b>14.2</b>	<b>11.8</b>	<b>10.4</b>	<b>21.4%</b>	<b>2.38</b>	<b>2.07</b>	<b>22.1%</b>	<b>4.7%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG  
DATA AS AT 28 JAN 2022

Figure 2: Target price derivation

		Comments
FY23F net profit (S\$ m)	77.13	
IC (mil)	427.00	
EPS (S\$)	0.1806	
Tgt P/E (x)	11.44	10% premium to CY23F sector average P/E of 10.4x
<b>TP (S\$)</b>	<b>2.07</b>	
Last price (S\$)	1.60	
Upside	29.15%	
FY23F DPS (S\$)	0.0300	Company aims to maintain its historical DPS at a minimum
Dividend yield	1.88%	
<b>Potential total return</b>	<b>31.03%</b>	<b>Recommendation: Add</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS



## ESG in a nutshell

Frencken Group Limited (Frencken) provides original design, original equipment and diversified integrated manufacturing solutions for customers in the automotive, healthcare, industrial, analytical & life sciences, and semiconductor industries. Frencken believes a solid governance structure is essential for the long-term prosperity of an organisation. With the guidance of the Code of Corporate Governance (2018 Code) issued by the Monetary Authority of Singapore (MAS) in August 2018, Frencken ensures compliance and strives to uphold the highest standards of corporate governance.

### Keep your eye on

Customer concentration risk.

### Implications

Frencken has one customer that accounted for 17.6% of its FY20 revenue. This risk is offset by Frencken's exposure to other business segments and efforts to recruit new customers.

### ESG highlights

The group aims to reduce its environmental footprint and keeps itself updated on local environmental regulations and guidelines. The group aims to achieve a balance between its economic growth and contribution in sustaining the environment.

### Implications

Frencken's efforts to reduce its environmental impact include replacing legacy lighting with energy efficient LED lighting, and the use of renewable energy. One of its subsidiaries completed the installation of 940 solar panels at its head office in Feb 2021. Further progress in the usage of energy efficient lighting and renewable energy could lower the group's operating costs.

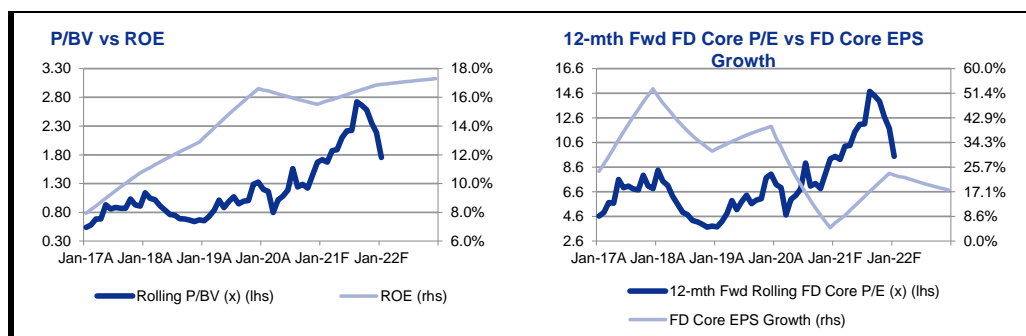
### Trends

Frencken has established occupational safety and health (OSH) policies as well as set up a safety and health committee within each of its various entities. The committee comprises representatives from the executive and non-executive staff.

### Implications

According to Frencken's FY20 sustainability report, there were zero cases of occupational diseases and zero work-related fatalities reported by three entities that were covered for this study. Regrettably, a case of injury occurred at another entity, which resulted in 52 lost man days. The accident was properly documented and reported to the Department of Occupational Safety and Health and the entity has also performed an investigation on the matter alongside the implementation of necessary rectification actions. Such accidents are unlikely to have a material impact on our earnings forecasts.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**BY THE NUMBERS**

**Profit & Loss**

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>Total Net Revenues</b>	<b>659.2</b>	<b>620.6</b>	<b>752.0</b>	<b>831.3</b>	<b>879.7</b>
<b>Gross Profit</b>	<b>132.6</b>	<b>127.1</b>	<b>152.1</b>	<b>166.9</b>	<b>175.6</b>
<b>Operating EBITDA</b>	<b>74.4</b>	<b>70.0</b>	<b>92.8</b>	<b>103.8</b>	<b>109.0</b>
Depreciation And Amortisation	(21.1)	(21.7)	(22.0)	(22.3)	(22.6)
<b>Operating EBIT</b>	<b>53.3</b>	<b>48.3</b>	<b>70.8</b>	<b>81.5</b>	<b>86.4</b>
Financial Income/(Expense)	(1.3)	(0.8)	(1.8)	(1.8)	(1.8)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	6.1	10.6	5.2	5.5	4.0
<b>Profit Before Tax (pre-EI)</b>	<b>58.1</b>	<b>58.1</b>	<b>74.3</b>	<b>85.2</b>	<b>88.6</b>
Exceptional Items	(4.2)	(6.2)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>53.9</b>	<b>51.9</b>	<b>74.3</b>	<b>85.2</b>	<b>88.6</b>
Taxation	(11.3)	(8.8)	(13.5)	(14.0)	(11.3)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>42.6</b>	<b>43.0</b>	<b>60.8</b>	<b>71.2</b>	<b>77.3</b>
Minority Interests	(0.2)	(0.5)	(0.5)	(0.2)	(0.2)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>42.4</b>	<b>42.6</b>	<b>60.3</b>	<b>71.0</b>	<b>77.1</b>
Recurring Net Profit	46.5	48.8	60.3	71.0	77.1
<b>Fully Diluted Recurring Net Profit</b>	<b>46.5</b>	<b>48.8</b>	<b>60.3</b>	<b>71.0</b>	<b>77.1</b>

**Cash Flow**

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>EBITDA</b>	<b>74.40</b>	<b>70.01</b>	<b>92.81</b>	<b>103.75</b>	<b>109.00</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	26.05	8.08	(8.69)	(17.77)	(10.96)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00	0.00
Other Operating Cashflow	4.36	8.40	4.60	4.10	4.50
Net Interest (Paid)/Received	(1.29)	(0.84)	(1.80)	(1.80)	(1.80)
Tax Paid	(8.65)	(6.01)	(13.53)	(13.98)	(12.83)
<b>Cashflow From Operations</b>	<b>94.87</b>	<b>79.64</b>	<b>73.40</b>	<b>74.31</b>	<b>87.91</b>
Capex	(15.22)	(23.66)	(30.00)	(30.00)	(30.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	1.61	0.91	1.00	1.00	1.00
<b>Cash Flow From Investing</b>	<b>(13.61)</b>	<b>(22.76)</b>	<b>(29.00)</b>	<b>(29.00)</b>	<b>(29.00)</b>
Debt Raised/(repaid)	(6.06)	(2.98)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.59	0.84	0.00	0.00	0.00
Shares Repurchased		0.00	0.00	0.00	0.00
Dividends Paid	(9.06)	(12.76)	(12.81)	(12.81)	(12.81)
Preferred Dividends					
Other Financing Cashflow	0.00	(0.07)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(14.53)</b>	<b>(14.96)</b>	<b>(12.81)</b>	<b>(12.81)</b>	<b>(12.81)</b>
Total Cash Generated	66.73	41.92	31.59	32.50	46.10
<b>Free Cashflow To Equity</b>	<b>75.20</b>	<b>53.91</b>	<b>44.40</b>	<b>45.31</b>	<b>58.91</b>
<b>Free Cashflow To Firm</b>	<b>84.16</b>	<b>59.30</b>	<b>47.20</b>	<b>48.11</b>	<b>61.71</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	122.4	174.5	206.6	240.0	286.6
Total Debtors	97.6	111.4	123.9	135.7	142.8
Inventories	140.7	143.2	160.2	176.8	187.1
Total Other Current Assets	14.1	0.3	0.3	0.3	0.3
<b>Total Current Assets</b>	<b>374.8</b>	<b>429.3</b>	<b>490.9</b>	<b>552.8</b>	<b>616.8</b>
Fixed Assets	92.1	118.1	126.2	133.9	141.3
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	17.5	11.7	11.2	10.7	10.2
Total Other Non-Current Assets	21.8	4.7	4.7	4.7	4.7
<b>Total Non-current Assets</b>	<b>131.4</b>	<b>134.5</b>	<b>142.1</b>	<b>149.3</b>	<b>156.2</b>
Short-term Debt	53.1	67.3	67.3	67.3	67.3
Current Portion of Long-Term Debt					
Total Creditors	87.8	129.6	150.5	161.1	167.6
Other Current Liabilities	49.5	14.7	14.7	14.7	14.7
<b>Total Current Liabilities</b>	<b>190.4</b>	<b>211.7</b>	<b>232.5</b>	<b>243.2</b>	<b>249.7</b>
Total Long-term Debt	0.2	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	17.5	15.8	15.8	15.8	15.8
<b>Total Non-current Liabilities</b>	<b>17.7</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>208.0</b>	<b>227.5</b>	<b>248.4</b>	<b>259.0</b>	<b>265.5</b>
Shareholders' Equity	295.4	334.0	381.4	439.6	503.9
Minority Interests	2.8	2.3	3.2	3.4	3.6
<b>Total Equity</b>	<b>298.2</b>	<b>336.3</b>	<b>384.6</b>	<b>443.0</b>	<b>507.5</b>

### Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	5.3%	(5.8%)	21.2%	10.6%	5.8%
Operating EBITDA Growth	21.2%	(5.9%)	32.6%	11.8%	5.1%
Operating EBITDA Margin	11.3%	11.3%	12.3%	12.5%	12.4%
Net Cash Per Share (S\$)	0.16	0.25	0.33	0.41	0.52
BVPS (S\$)	0.70	0.79	0.90	1.04	1.19
Gross Interest Cover	18.34	20.05	25.30	29.10	30.87
Effective Tax Rate	21.0%	17.0%	18.2%	16.4%	12.8%
Net Dividend Payout Ratio	27.4%	26.2%	21.3%	18.0%	16.6%
Accounts Receivables Days	59.12	57.89	50.95	51.42	52.51
Inventory Days	98.9	105.3	92.3	92.6	94.3
Accounts Payables Days	57.88	62.26	55.08	58.38	59.54
ROIC (%)	19.4%	19.6%	28.9%	31.2%	30.2%
ROCE (%)	15.9%	13.2%	16.8%	17.1%	16.1%
Return On Average Assets	9.9%	9.4%	10.5%	10.9%	10.7%

### Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Industrial automation revenue (S\$m)	118.9	101.0	106.1	114.3	123.1
Semiconductor revenue (S\$m)	186.3	282.3	335.0	352.0	377.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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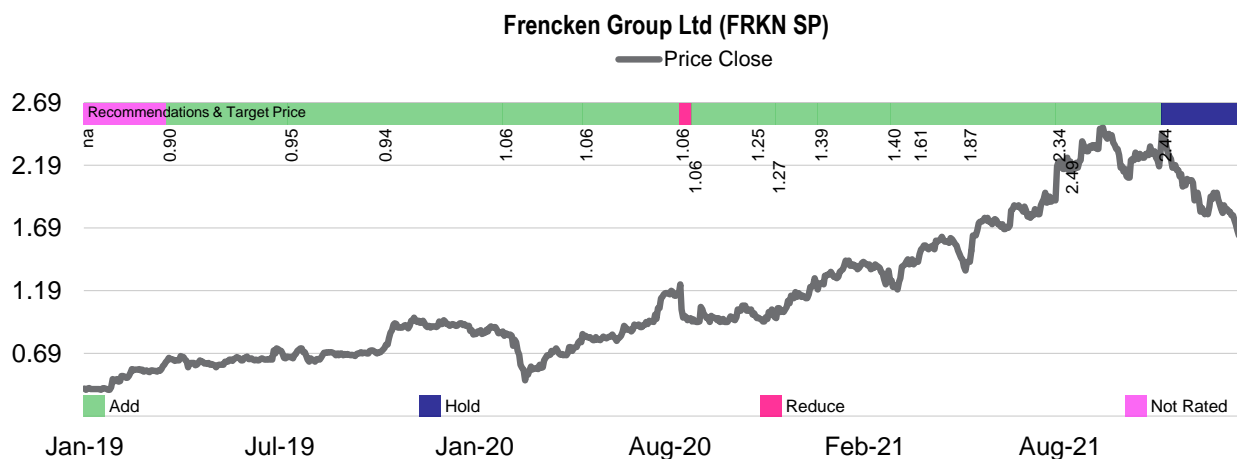
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Spitzer Chart for stock being researched ( 2 year data )



**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	
<b>Stock Ratings</b>	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.
<i>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.</i>	
<b>Sector Ratings</b>	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.
<b>Country Ratings</b>	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.

