Industry Focus

Regional Energy Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Jan 2022

2022 outlook – what's hot, what's not

- If the energy crisis this winter taught us anything, it is that renewables and fossil fuels must coexist for a stable future and too much emphasis on either will cause ripples in the short run, notwithstanding the long-term energy transition scenario
- Thus, we don't foresee a hard landing anytime soon for energy commodity prices, even after a remarkable run in 2021
- Post COVID demand recovery, coupled with underinvestment trends on supply side, will continue to support fossil fuel prices. This will benefit upstream names; but we will be more selective in downstream operators and utility plays like refineries, chemicals, and gas distributors.
- Meanwhile, a clearer decarbonisation roadmap in China, combined with lower polysilicon and wind turbine prices as supply issues ease, should lead to a pickup in new solar installations and benefit windfarm operators in the country

"Energy crunch" shows pitfalls of ongoing energy transition push, balance is essential. The global push towards energy transition got a bit messy late last year. Natural gas prices spiked worldwide, electricity prices skyrocketed in Europe, China implemented factory shutdowns to deal with coal shortage, and in turn, ironically, the cost of solar panels went up. There are COVID related supply chain factors involved and geopolitical factors as well (read Russia and Nord Stream 2), but one important factor that has stood out is the inability of renewables to fill the gap without cheap battery storage options. The energy crisis is a reminder that the world cannot do without fossil fuels for the moment. Hence, while there is no doubt renewables' proportion of the electricity mix will keep on increasing over time, investments in oil and gas will also be needed just to keep supplies steady. In the meantime, a period of high energy prices will prevail.

High fossil fuel prices boon for many, bane for some. Upstream names are key beneficiaries, whereas we need to be more selective in downstream operators and utility plays. Our top picks among DBS Energy team's coverage include CNOOC, PTTEP, ITMG, Towngas Smart Energy, China Gas Holdings, Flat Glass, and China Longyuan Power.

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STOCKS

	Price LCY	Mkt Cap US$m	12-mth Target Price LCY	Performance (%) 3 mth	Performance (%) 12 mth	Rating
CNOOC	9.24	52,952	15.00	5.3	27.8	BUY
PTT Exploration & Production	124	14,733	160	0.4	19.3	BUY
Yangzijiang Shipbuilding (Holdings) Ltd	1.35	3,939	1.95	(1.5)	28.3	BUY
Keppel Corporation	5.17	6,990	6.20	(2.1)	(8.0)	BUY
Indo Tambangraya Megah	20,600	1,628	31,000	(23.1)	43.3	BUY
Towngas China	6.22	2,243	6.80	46.3	83.3	BUY
China Gas Holdings	15.68	10,227	21.30	(25.4)	(49.6)	BUY
Flat Glass Group Co., Ltd.	34.65	8,005	48.00	4.0	8.0	BUY
China Longyuan Power	16.74	7,177	21.00	7.7	47.3	BUY

Source: DBS Bank, DBSVTH, DBSVI, DBS HK, Bloomberg Finance L.P.
Closing price as of 13 Jan 2022

Regional Energy Coverage – Summary Outlook and Top Picks

Sector	Key Outlook Considerations	Top Picks
Oil & Gas – Upstream	• Brent crude oil prices remain above US$80/bbl for now as supply outages in Libya and elsewhere offset any demand fears from Omicron spread • Omicron outbreak so far looks less deadly, unlikely to derail oil demand recovery in 2022; big risk is if China shutters down to contain the spread • For now, we maintain our average Brent crude oil price forecasts for 2022/2023 at US$75-80/bbl and US$85-90/bbl respectively • Oil proxies should continue to benefit	CNOOC (883 HK) PTT Exploration and Production (PTTEP TB)
Oil & Gas Services/ Shipyards	• Brent crude oil prices expected to remain elevated in near to medium term • Capex spending trends by national oil companies, if not international oil majors, could recover in 2022 • We believe asset owners and oil service providers in the region should see earnings recover as well as E&P capex potentially picks up from the lows	Yangzijiang Shipbuilding (YZJ SP) Keppel Corporation (KEP SP)
Refinery & Petrochemicals	• Reopening of economies to support refinery margins in 2022 • Rising crude premium cost to weigh down refinery performance in 2022 • Chemical margins will be squeezed by rising feedstock costs and ample supply	-
Coal (Indonesia)	• Heavy rainfall hinders major output expansion in Indonesia • Current Newcastle coal price at premium to China's Qinghuangdao (QHD) coal price • We expect current high coal price will gradually ease in 2022 but still stay at elevated levels historically	Indo Tambangraya Megah (ITMG IJ)
China Gas Sector	• Expect overall gas volume growth in China to slow down from 13% in 2021 to 10% in 2022 • Expect dollar margin to stay flat in 2022 • Diversifying into new energy will be critical factor for gas players	Towngas Smart Energy (1083 HK) China Gas Holdings (384 HK)
China Renewables	• China released more clarity on decarbonization roadmap • Solar: Increased polysilicon supply to help value chain return to more rational levels, new installations may pick up • Wind: stiff competition leading to turbine ASP and margin pressure, windfarm operators likely benefit	Flat Glass (6865 HK) China Longyuan Power (916 HK)

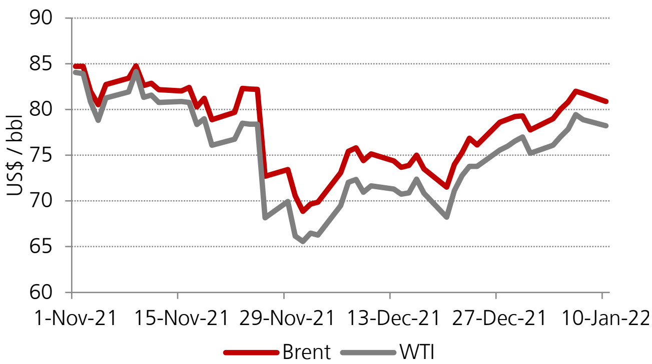
Source: Bloomberg Finance L.P., DBS Bank, DBSVTH, DBSVI, DBS HK

Oil & Gas - Upstream & Integrated

- Brent crude oil prices remain above US$80/bbl for now as supply outages in Libya and elsewhere offset any demand fears from Omicron spread
- Omicron outbreak so far looks less deadly, unlikely to derail oil demand recovery in 2022; only big risk is if China brings down the shutters to contain the spread
- For now, we maintain our average Brent crude oil price forecasts for 2022/2023 at US$75-80/bbl and US$85-90/bbl respectively
- Oil proxies should continue to benefit; CNOOC and PTTEP are our top picks

Omicron variant emergence led to some volatility. With the discovery of the Omicron variant in South Africa towards the end of November 2021, oil prices crashed initially, with Brent down to US$69/bbl from US$82/bbl, down 16% in a matter of days. The December OPEC+ meeting, where they decided to keep to their schedule of 0.4mmbpd per month increases in January, did not help matters either as the market was expecting some deferments.

Oil markets shrug off Omicron fears quite quickly



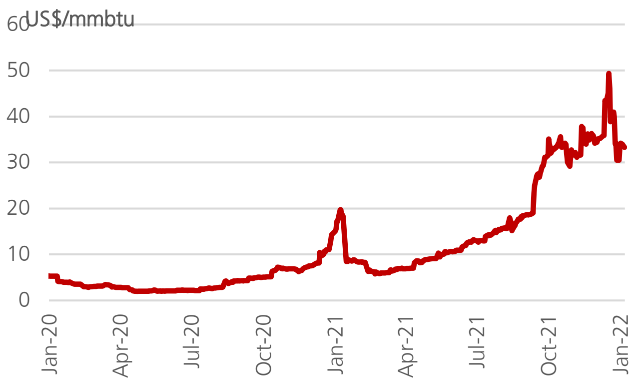
Source: Bloomberg Finance L.P., DBS Bank

But not seen as a big threat yet. Omicron fears are easing – while the strain seems to be highly transmissible, it does not seem to be as deadly as Delta or other variants, and high vaccination rates in most developed countries seem to be limiting the damage as well. Oil prices have kept creeping up steadily in December, before a slew of supply disruptions and geopolitical uncertainties again led to Brent breaching the US$80/bbl mark. Key among these are political issues in Libya, which has resulted in a third of output shut in, and protests in Kazakhstan against high LPG prices, which have hit oil production in the country.

Near term, we could see some correction but overall, we remain sanguine on oil prices in 2022/23. In the near term, we believe crude oil prices could weaken somewhat from current levels as we enter the seasonally weaker demand period and some of these supply disruptions ease. But with Omicron variant not really resulting in any widespread lockdowns, overall oil demand trends look set to resume towards pre-COVID levels and should help boost oil prices again in second half of the year. For now, there is no change to our average oil price forecasts for 2022/23 – the key driving factors will be continuing demand recovery and underinvestment trends in non-OPEC countries hampering supply growth. On the supply side, OPEC+ strategy, U.S.-Iran nuclear talks and speed of U.S. shale recovery may all come into play at some point of time but will be secondary to the demand side of the picture.

Gas market crisis is still on, supporting high energy prices in general. Spot LNG prices in Asia and Europe are hovering around historic highs for the past 3 months, as demand supply mismatch in gas sector has soared owing to muted upstream investments and lower renewables generation in the summer, leading to low gas inventory levels ahead of the winter months, especially in Europe and even in North Asia. Following the winter gas crunch, we anticipate both gas and oil prices to moderate in 1H22, before firming up again in 2H22 on the back of high season demand.

High spot LNG prices continue to rub off on oil



Source: Bloomberg Finance L.P., DBS Bank

OPEC+ response remains consistent. In its latest meeting in January 2022, OPEC+ members decided to stick to the 0.4mmbpd monthly output increase. This seems to indicate that OPEC+ remains comfortable with the demand impact (or lack thereof) from the spread of the Omicron variant. To recap, OPEC+ countries plan to increase production every month by 0.4mmbpd and exit the production cuts in an orderly fashion by end of September 2022. The lack of a sharp response from US shale drillers to the oil price increase so far seems to be one of the reasons that the OPEC+ bloc remains comfortable with oil prices above US$70/bbl, as unlike in the past, they are not expecting a deluge of production from the US to cut into their market share. In reality though, a lot of OPEC+ members may be even struggling to meet their production quotas owing to underinvestment.

Maintaining our 2022/2023 forecasts. 2022 should still represent a reasonably balanced market, as the expected recovery in demand should be offset by higher OPEC+ supplies over the next 9 months. But, looking further ahead, we believe there could be oil price spikes towards US$80/bbl or higher in late 2022 and beyond, once demand has recovered to pre-COVID levels, with air travel still recovering well into 2023, and OPEC spare capacity is down to normalised levels. The severe systemic underinvestment on the upstream side in recent years could have an impact on non-OPEC supply growth. **Thus, we maintain our 2022 average Brent crude oil price forecast at US$75-80/bbl and 2023 average Brent crude oil price forecast at an elevated level of US$85-90/bbl.**

Key risk - Omicron spread in China ahead of Winter Olympics. Unlike many other countries, who have decided to "live with" COVID, China has had a zero-tolerance policy to contain the virus, implementing strict mini lockdowns as and when there are local flare ups. In recent days, there have been Omicron flare ups in Henan province and in Tianjin, both of which are adjacent to Hebei province, which is hosting some events during the upcoming Winter Olympics. Beijing thus remains on high alert for new outbreaks and if cases spread or rise in other provinces, lockdowns could get more intensive and widespread, affecting economic growth trajectory, and in turn, oil demand, in the world's second largest consumer. This could freak out oil markets and lead to oil prices testing levels of US$70/bbl again.

Buy the oil proxies. We continue to favour upstream companies, as best proxies to ride on the oil price momentum, in particular, Chinese names, which have underperformed the regional peers despite the earlier and firmer recovery from COVID-19. We believe there is more legs to the share price rally in view of the oil price optimism. Our top picks are **CNOOC** and **PTTEP.** Chinese oil majors offer the highest dividend yield of 8-12% relative to peers' average yield of ~5%.

Share prices have lagged oil price performance. Oil prices have staged a strong rally since early 2021, steadily climbing above US$80/bbl, 30% higher than expectations of US$60/bbl pre-covid. Oil majors are mostly delivering profits higher than 2019 levels as well. Despite the favourable macro backdrop, stock prices have been significantly below 2020-highs. This is especially apparent for CNOOC as the share price has not fairly reflected the strong oil price rebound, as illustrated in the table below. It is worth noting that CNOOC – whose share price is historically 0.9x correlated to oil prices – saw the correlation break down in end 2020, due largely to US military blacklist inclusion.

Top pick: CNOOC (BUY, HK$15.00). CNOOC remains our top pick in the O&G sector. CNOOC is currently trading at -1 SD below mean at 0.7x PB and 4x PE, which we believe presents an attractive entry point for investors in view of the positive catalysts in place: (1) favourable production outlook in 2022 backed by healthy realised oil prices, (2) special dividend for FY21 and lucrative dividend yield of 10-11% in the next 3-years; (3) A-Share listing. Share buyback exercise would also lend support to CNOOC's share price.

Top pick: PTT Exploration and Production (PTTEP TB, BUY, Bt160). We maintain BUY rating with a higher FY22F-based TP of Bt160, based on DCF method with WACC of 10.69% and terminal growth rate of 1%. Our positive stance is underpinned by the following: i) strong demand recovery despite Omicron pandemic in Europe and US, ii) significant drawdown of crude inventory, iii) expected strong oil price in 4Q21F supported by tight supply, and iv) fuel demand recovery from global reopening.

Chinese oil majors underperformed regional and global upstream peers

Company	Share price (LC)			P/Bv			Current share price vs:	
	2020 High	2020 Low	Current	2020 High	2020 Low	Current	2020 High	2020 Low
Date	Jan-20	Mar-20	Jan-22	Jan-20	Mar-20	Jan-22		
Upstream/Integrateds								
CNOOC	13.34	6.40	8.57	1.2	0.6	0.6	-36%	34%
Petrochina	3.82	2.23	3.70	0.5	0.3	0.4	-3%	66%
Sinopec	4.57	3.20	3.88	0.7	0.5	0.5	-15%	21%
Medco	640	312	474	0.7	0.4	1.3	-26%	52%
PTT	46.5	25.75	39	1.5	0.8	1.1	-16%	51%
PTTEP	131.5	55	123.5	1.5	1.4	1.2	-6%	125%
Global Peers								
Chevron	113.31	54.22	125.28	1.6	0.8	1.7	11%	131%
Shell	58.55	19.58	47.48	1.4	0.5	1.0	-19%	142%
Total	53.15	24.8	53.72	1.3	0.6	1.2	1%	117%
BP	38.32	16.11	29.86	1.6	0.7	1.2	-22%	85%
Exxon	67.58	31.45	69.46	1.8	0.8	1.7	3%	121%

Source: Bloomberg Finance L.P., DBS Bank, DBSVTH, DBSVI, DBS HK.

Regional Upstream & Integrated Oils Peer Comparisons

			P/E		EV-to-EBITDA		P/B		ROE (%)		Div yld
Company	Share price (local)	Market cap (US$m)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F
Integrated & Upstream											
CNOOC	8.57	49,073	4.3x	4.0x	2.3x	2.0x	0.7x	0.6x	15.3%	14.9%	9.5%
Sinopec	3.88	77,151	5.0x	5.6x	2.9x	3.2x	0.5x	0.5x	9.9%	8.5%	11.7%
PetroChina	3.70	143,107	5.9x	6.6x	3.6x	3.3x	0.4x	0.4x	7.2%	6.3%	8.1%
PTT Group	39.00	33,318	10.1x	9.6x	5.4x	5.3x	1.2x	1.1x	11.4%	11.2%	4.8%
PTT Exploration & Production	123.50	14,665	11.9x	9.5x	3.4x	3.0x	1.3x	1.2x	10.7%	12.5%	4.0%
Medco Energi	474.00	832	16.6x	16.6x	nm	nm	1.7x	1.3x	8.3%	8.8%	0.0%

Source: Bloomberg Finance L.P., DBS Bank, DBSVTH, DBSVI, DBS HK (prices as of 11 Jan 2021)

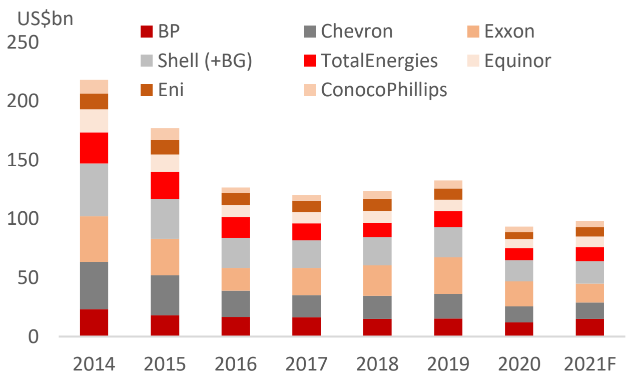
DBS
Live more, Bank less

Oil & Gas Services & Shipyards

- Brent crude oil prices expected to remain elevated in near to medium term
- Capex spending trends by national oil companies and international oil majors could recover in 2022
- We believe asset owners and oil service providers in the region should see earnings recover as well as E&P capex potentially picking up from the lows
- Top picks - Keppel Corp, Yangzijiang Shipbuilding

Capex spending by global oil majors have not recovered despite higher oil prices in 2021. Following the oil price crash of 2014, upstream E&P and total capex spending by global oil majors has slowed down considerably, as seen in the chart below. The trend is partly a reflection of strategies to meet emission targets in future and diversion of capex towards clean energy, especially in Europe, and partly to adhere to demands of shareholder returns in place of production growth.

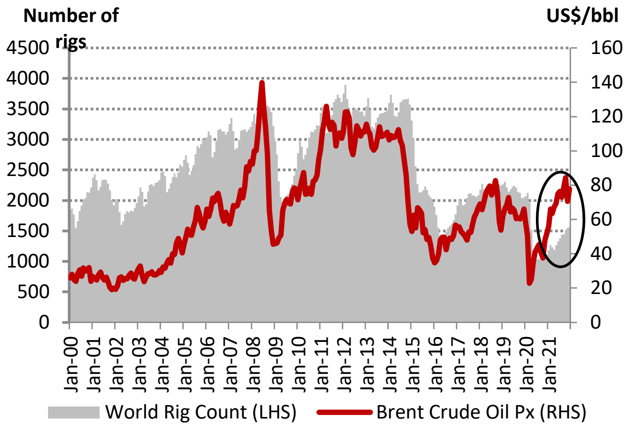
International Oil Companies (IOCs) total capex spending by year



Source: Companies, DBS Bank

Global rig counts are lagging oil price recovery markedly. As seen in the chart above, global oil rig count tends to mirror the direction and slope of oil prices quite closely over the years. However, the oil price recovery since mid-2020 has not been met by a similar enthusiasm in rig counts as producers have so far held back capex owing to a multitude of reasons. Thus, we could expect national oil companies' (NOC) capex to increase in 2022, though the impact on oil supplies may not be felt for a while, given the long lead time of conventional E&P projects.

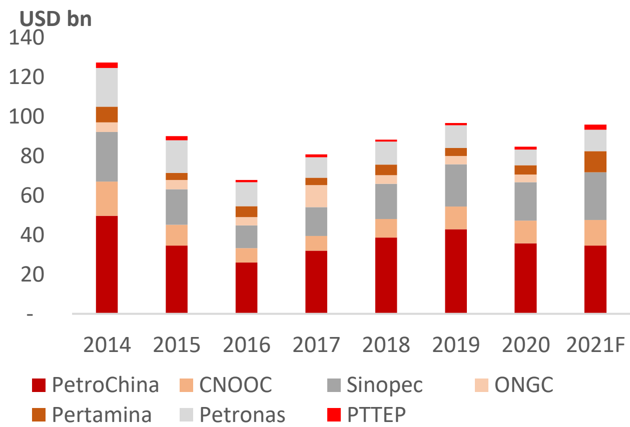
Global rig counts (proxy to E&P spending) lagging the oil price recovery this time round



Source: Bloomberg Finance L.P., DBS Bank

National oil companies could come to the rescue and up the ante on capex, going forward. NOCs, especially in Asia, including the Middle East, are not bound by the same compulsions as listed oil majors or independent oil companies in terms of adhering to emission targets or clean energy investment targets. Given the presence in parts of the world where oil demand is still increasing, the primary motivation for most NOCs would be national energy security, which involves producing more and higher capex when necessary. If we take a look at the chart below, it is evident that NOC capex is more resilient than IOC capex, and there was a 15% increase in capex in 2021. We expect a further boost in NOC capex in 2022.

Asian National Oil Companies (NOCs) total capex spending by year



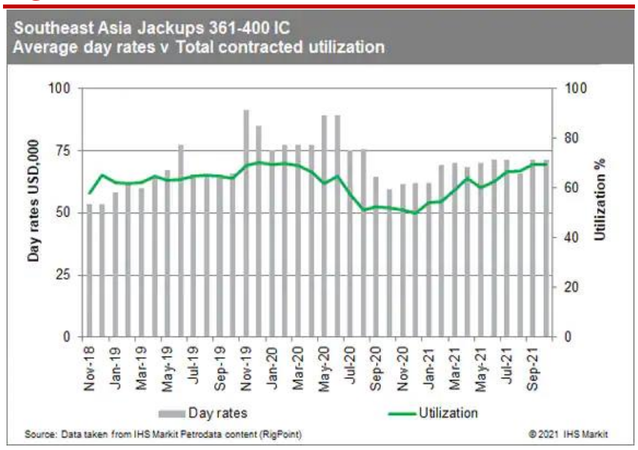
Source: Bloomberg Finance L.P., DBS Bank

This potential capex revival could rejuvenate oil services as well. We could see the current period of sustained high oil prices incentivising some recovery in upstream capex, especially from the NOC front. Thus, apart from the pure play oil price proxies in the region – upstream and integrated oil companies– we would also keep a keen watch for signs of emerging green shoots for the downstream oil services sector.

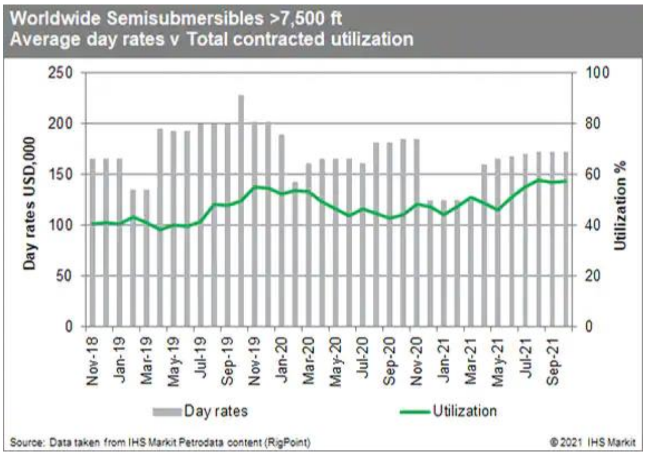
Oilfield service providers and equipment makers coming back to the limelight. After years of underinvestment on O&G assets especially upstream exploration, risks of supply shortage are becoming more apparent. One key point to monitor in upcoming strategy previews and 2021 results announcement in early 2022 would be oil majors' capex stance, especially the supermajors. Chinese players have stepped up investment all these years to support the government's push to enhance energy security and these initiatives should continue.

On the back of high oil prices, drilling activities are already creeping up. Rig utilisation has improved towards 80% and market is looking to reactivate cold-stacked rigs as well as completed / half-built rigs. This bodes well for recovery of drillers and oilfield service providers such as COSL.

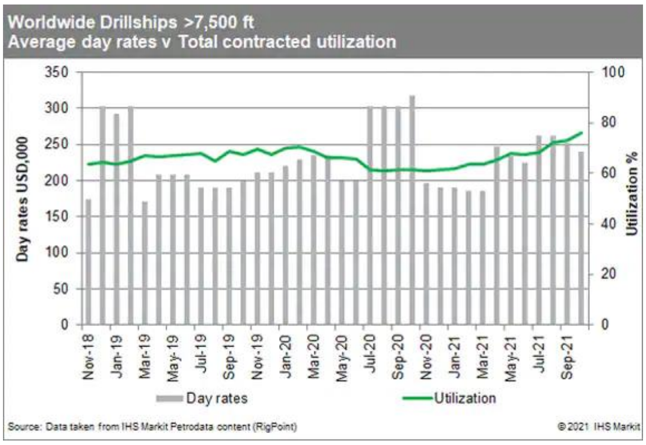
Rig utilisation trends



Source: IHS Markit



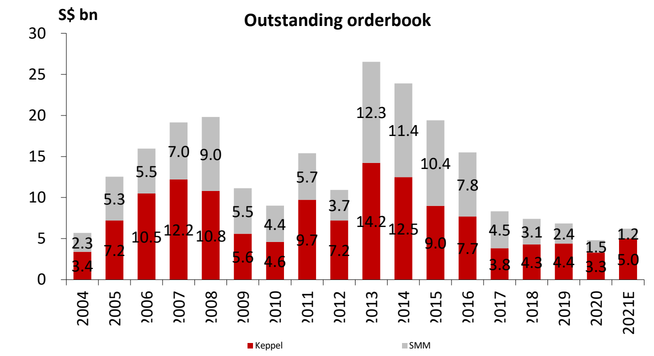
Source: IHS Markit

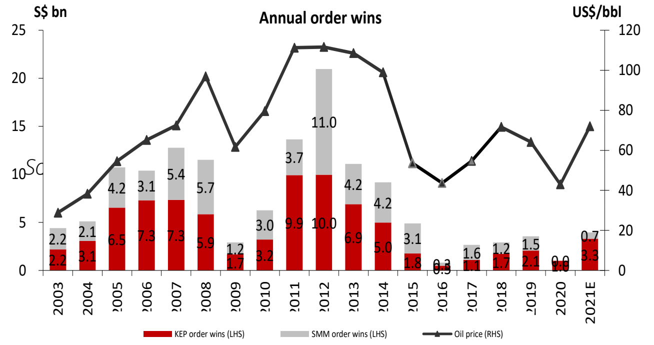


Source: IHS Markit

Shipyards like Keppel O&M and Sembcorp Marine are benefiting from this trend. Keppel's stranded rigs and floating accommodation platforms should see higher utilisation ahead. Enquiries for production platforms should also pick up, translating into stronger order flows this year. This is particularly critical for SMM, whose orderbook has dwindled to S$1.24bn, way below annual revenue run rate of >S$2bn required to breakeven. Keppel is in a better position with a ~S$5bn orderbook and S$3.3bn order wins in 2021, compared to peer SMM's mere ~S$600-700m new wins.

Singapore shipyards' order trend





Source: Bloomberg Finance L.P., DBS Bank

Regional Oil & Gas Shipyard Comparisons

Company	Share price (local)	Market cap (US$m)	P/E		EV-to-EBITDA		P/B		ROE (%)		Div yld
			CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F
Shipyards											
Keppel Corp	5.07	6,815	13.9x	11.3x	16.9x	13.7x	0.8x	0.8x	6.1%	7.3%	4.1%
Sembcorp Marine	0.082	1,901	nm	nm	nm	29.0x	0.6x	0.7x	-20.6%	-3.2%	0.0%
Yangzijiang Shipbuilding	1.33	3,855	8.1x	6.5x	5.5x	4.2x	0.7x	0.7x	9.4%	10.6%	3.8%

Source: Bloomberg Finance L.P., DBS Bank (prices as of 11 Jan 2021)

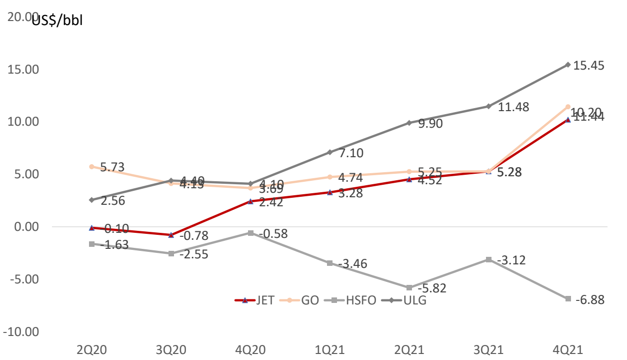
Downstream Refinery and Petrochemical

- Reopening of economies to support refinery volumes in 2022
- But rising crude premium cost to weigh down market GRMs and refinery performance in 2022
- Chemical margins will also be squeezed by rising feedstock costs and ample supply

Reopening of economies to support refinery volumes in 2022. Despite the fourth wave of COVID-19 outbreak in European countries, the global COVID-19 condition is improving with less severe symptoms from the Omicron variant. As a result, we expect local governments to further ease travel restrictions and city lockdowns as well as reopen the countries. As a result, sales volumes of gasoil, gasoline, and jet oil are expected to improve q-o-q.

In 4Q21, JET/GO/ULG crack spreads stand at US$10.2/11.4/15.4 per barrel (+93%/+117%/+35% q-o-q). On the other hand, crude premium cost was on a downtrend, as major oil players from the Middle East reduced their selling prices to gain market share after OPEC+ agreed to boost crude production by c.400kbd during Dec 2021.

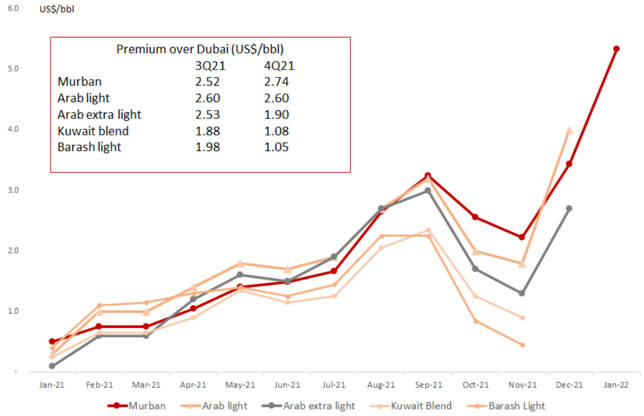
Crack spreads



Source: PTTGC, TOP, DBSVTH

Rising crude premium cost to weigh on refinery performance in 2022. Despite the downtrend of crude premium in 4Q21 with the official selling price (OSP) average at US$2.13/bbl (-8% q-o-q), we see a spike in the crude premium trend in 2022. For Jan 2022 delivery, Murban is averaging at c.US$5.33 (+54% m-o-m). As a result, refinery's market GRM could be partly weighed down by a rise in crude premium in 2022.

OSP discount/premium by month



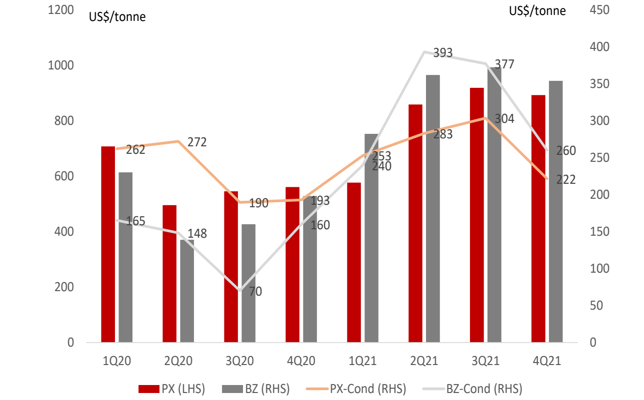
Source: Company, DBSVTH

Chemical margins will be squeezed by rising feedstock costs. Crude oil, natural gas, and liquefied petroleum gas (LPG) are primary feedstock for chemical products. We expect to see strong oil prices in 2022, supported by i) tight global crude supply, ii) switch in fuel demand from gas to oil, and iii) fuel demand recovery from reopening. Thus, we expect softer chemical margins y-o-y in 2022.

Moreover, spot LNG prices continue to rise, both in the European and Asian markets, as inventory levels remain low amidst peak winter demand months. In 4Q21, Japan Korea Marker (JKM) price averaged at US$22/mmbtu (+408% y-o-y) and LNG (Japan landed) price averaged at US$8.4/mmbtu (+8% y-o-y). We expect natural gas prices to normalise post winter. However, they are expected to remain strong in 2022, which would adversely affect chemical margins.

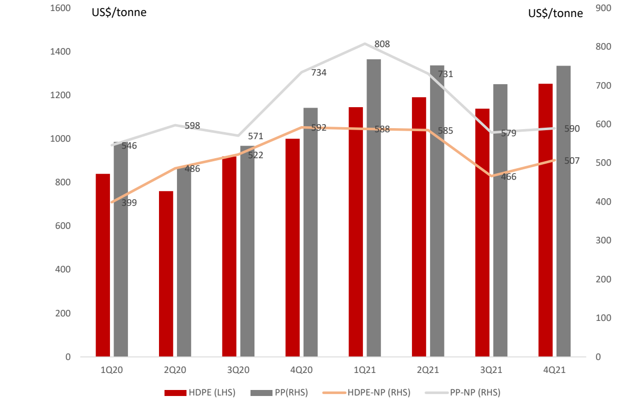
Chemical margins also pressured by ample supply. Looking forward to 2022, one key fundamental factor, i.e., additional supply, could also limit the upside potential for chemical prices. We anticipate aromatics capacity of c.6.5mtpa was added in 2021 (4.7mtpa for PX and 1.8mtpa for BZ) from China and Korea. Moreover, there will be an additional polymer capacity of c.6.0mtpa from players in Asia and the US, such as ExxonMobil, Formosa Plastics Corporation (FPC), Sasol, China Petroleum & Chemical Corporation (Sinopec) and Zhejiang Energy, to name a few. Coupled with rising feedstock costs, this additional capacity could limit any rise in margins for at least the next 12 months, in our view.

Aromatic prices and spreads (by quarter)



Source: PTTGC, DBSVTH

Olefin prices and spreads (by quarter)



Source: PTTGC, DBSVTH

Dual control in China helps limit supply to an extent. We deem chemical prices to be supported to an extent by the dual control policy from China, which promotes higher efficiency of energy consumption in the manufacturing process. As a result, we expect Chinese chemical players to cut down their PE/PP production by c.10.4/13.9mtpa, which accounts for c.41.6%/40% of total domestic capacity.

Regional Downstream Refinery & Petrochemical Peer Comparisons

			P/E		EV-to-EBITDA		P/B		ROE (%)		Div yld
Company	Share price (local)	Market cap (US$m)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F
Downstream refinery & petrochemical											
Bangchak Corp	27.00	1,096	6.8x	8.4x	4.8x	5.3x	0.7x	0.7x	13.1%	8.8%	6.9%
Thai Oil	52.00	3,173	9.7x	11.1x	10.5x	11.2x	0.9x	0.8x	7.8%	7.2%	3.3%
Indorama Ventures	47.25	7,935	10.6x	11.7x	7.9x	8.4x	1.8x	1.6x	17.6%	14.2%	2.6%
PTT Global Chemical	60.25	8,125	7.0x	9.3x	6.8x	7.0x	0.9x	0.8x	14.0%	9.3%	6.6%
Star Petroleum Refining	10.60	1,375	13.5x	12.4x	7.3x	6.1x	1.6x	1.4x	14.2%	12.0%	2.2%
Sinopec Shanghai Petrochem	1.86	5,789	5.6x	4.9x	8.1x	7.0x	0.5x	0.5x	10.0%	12.1%	8.2%

Source: Bloomberg Finance L.P., DBSVTH (prices as of 11 Jan 2021)

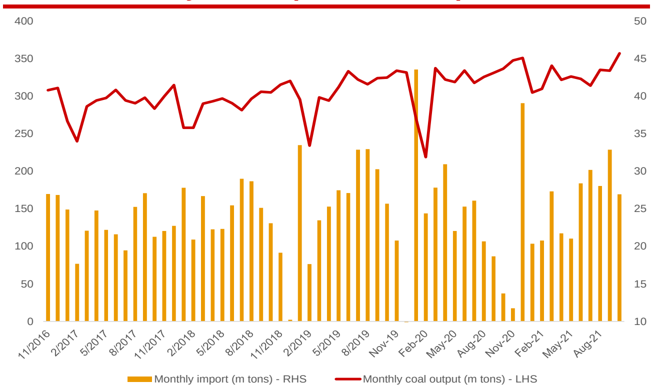
Indonesia Coal Sector

- Heavy rainfall hinders major coal output expansion in Indonesia
- Current Newcastle coal price at premium to China's Qinghuangdao (QHD) coal price
- We expect the current high coal price to gradually ease in 2Q22
- Top pick - ITMG

Heavy rainfall hinders major output expansion. Newcastle coal price retreated from its record high levels and stabilized at around US$150 per ton in November. We believe coal price at US$150 per ton coal could sustain in 1Q22 before gradually normalizing during spring and summer. Heavy rainfall in Indonesia, mainly in Kalimantan, has been the major factor of slower than expected output expansion.

Meanwhile, we believe China's opportunity to accelerate its domestic coal output will be slower than market expectations. China has entered the winter season and wet season in 1Q22. With stricter operational inspections, we believe China's domestic coal miners will conservatively expand their mining activities and coal output amid the wet weather. China's domestic output rose in October to fight against coal scarcity but this has not successfully led a drop in coal price to below US$100 per ton.

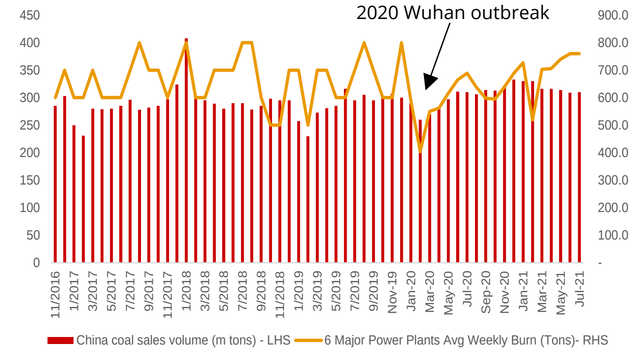
China's monthly coal imports and output



Source: Bloomberg Finance L.P., DBSVI

China will resume importing coal beyond winter. The current power crunch in China is under control, albeit not fully dissipated. We believe China is carefully addressing the issue via power rationing which seems successful so far without any major manufacturing outage, though factory gate product prices are rising. We believe the Chinese government intends to keep domestic power supplies available during the peak winter and upcoming Chinese New Year festive season. Hence, the short-term solution will be importing coal from Indonesia and Australia, though coal from both countries is not cheap anymore. As seen in the chart below, the domestic production has been relatively flat since the power crunch announcement back in October.

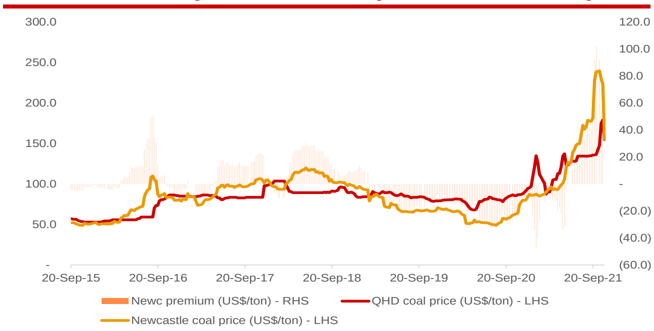
China's domestic coal consumption and average weekly burn rate for power plants



Source: Bloomberg Finance L.P, DBSVI

Current Newcastle coal price at a premium to China's Qinghuangdao (QHD) coal price, as QHD coal price has lower calorific value of 5,500kcal/kg vs. Newcastle's 6,300 kcal/kg. Newcastle coal price has been trading at a discount in the last few years which we think is the key factor behind China importing coal. However, China may tighten its grip on the coal market when supplies are higher in 2Q22 and onwards.

Newcastle coal price at a wide premium to QHD price



Source: Bloomberg Finance L.P, DBSVI

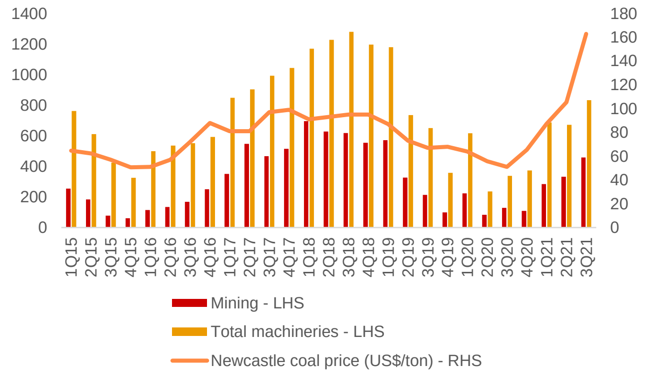
We expect current high coal price will gradually ease in 2022. We do not expect coal price to sustain at above US$150 per ton and we have pegged coal mining companies' earnings forecast and valuation at US$85 per ton of coal price in 2022, assuming weaker coal price from 2Q22 onwards. We believe the current extraordinary high coal prices will encourage more investments into the sector and higher coal output, albeit we do not expect the additional supply will harm the coal price due to oversupply situation.

In Indonesia, we note there was minimal new large-scale investments in the coal sector in 2021, since most coal miners reiterated their flat production volume guidance in 2021-2022 amid rising coal prices, as well as their long-term plan to expand into non-coal mining business and renewable energy. However, if coal price stays above US$100 per ton for longer, we believe major coal mining companies may start to amend their capital expenditure targets on increased appetite to add to production capacity.

The Indonesia government indicated last week that 2022 annual coal production could reach 650m (+12% y-o-y).

Another indicator is Komatsu machineries sales volume, which has been picking up since June 2021 despite the supply chain glut. It is quite interesting to see that mining machineries, which is historically dominated by coal mining demand, started to rise alongside coal price uptrend, albeit the recognized sales volume is still lower than the previous 2017-2019 uptrend coal price cycle.

Komatsu machineries to mining rebounded, but still below 2017-2019 coal price cycle



Source: Bloomberg Finance L.P., DBSVI

Stock pick and valuation: ITMG is our top BUY. The performance of coal mining stocks have been muted since last week, as the market is concerned that current high coal price will not sustain due to global push to diversify away from coal energy, as well as fear of supply expansion from both China and Indonesia if coal price stays too high for too long.

However, we believe the market is ignoring strong earnings and dividend prospects beyond 2021 due to still decent coal price outlook. We believe the most attractive play for Indonesia coal miners is ITMG. ITMG has better exposure to the export market due to its higher CV coal, which is not suitable for Indonesia's domestic coal market.

ITMG earnings were decent in 9M21 and we believe the trend will continue in 4Q21 and 2022. ITMG has the highest exposure to the coal spot market with 30%-40% of its sales volume unhedged to capitalize on stronger demand and price in 4Q of the year.

ITMG trades at the lowest PE multiple of 7.0x FY22 PE among its peers, while PTBA and ADRO have re-rated to 10x and 13x FY22 PE.

We believe concern over ITMG's limited coal reserves is overdone, since current reserves life is still 12 years. Meanwhile, ITMG prefers to deliver generous dividends while searching for new acquisitions beyond thermal coal assets. This has been demonstrated by its reluctancy to acquire any big coal mining projects except the GPK (Graha Panca Karsa) concession in 2020, bringing in 1m tons of coal in the next two-three years, which is considered small. The reason for this acquisition back then was COVID-19 discount and GPK's mining concession being near to its existing concession.

Indonesia Coal Sector peer comparison table

	Market cap	(ROAE) %					Net Income Margin %					PE (Pre-Ex) Forward (X)					Dividend Yield %				
Companies	(US$m)	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
ADRO	5,233	11.0	4.0	12.2	10.0	8.6	12	6	14	13	12	10	21.9	11.2	13.0	13.0	5.3	1.7	4.4	3.8	3.5
ITMG	1,594	13.5	4.4	37.1	25.4	19.3	7	3	17	14	12	13	41.9	4.7	6.3	6.3	13.4	4.2	14.8	11.1	9.0
PTBA	2,433	23.6	13.6	19.5	15.8	16.6	19	14	18	16	18	8	13.7	9.3	10.1	10.1	11.7	12.1	3.2	3.0	3.5

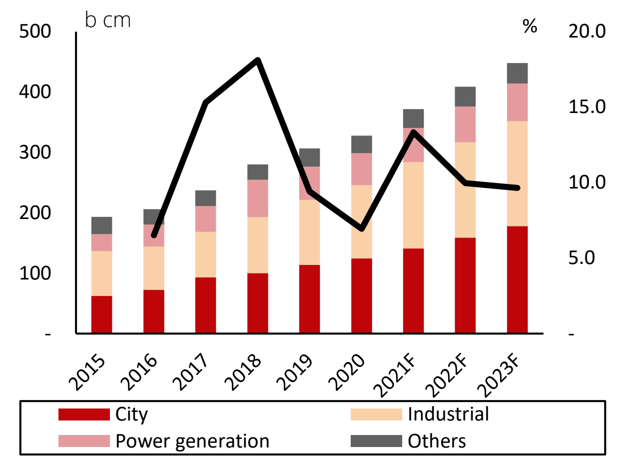
Source: Bloomberg Finance L.P., DBSVI (Prices as of 11 Jan 2021)

China Gas Sector

- Expect overall gas volume growth to moderate from 13% in 2021 to 10% in 2022
- Expect dollar margin to stay flat in 2022
- Diversifying into new energy is a critical factor
- Top picks: Towngas Smart Energy (1083 HK) and China Gas (384 HK)

Economic slowdown weighs on gas demand. Our DBS economist team forecasts China GDP growth rate of 5.3% in 2022, compared with 8.0% in 2021. Notwithstanding the recent reduction in reserve requirement ratio, the property downturn and slowing manufacturing are putting increasing pressure on China's economic growth. Zero-tolerance approach to COVID-19 and the new Omicron variant will also constrain retail consumption growth. All these will weigh on the overall gas demand in China. On a positive note, China's target of increasing the percentage of natural gas in the energy mix from 8% in 2020 to >15% in 2030 remains intact. Decarbonisation will continue to shift the energy demand from coal to gas. As such, we estimate gas consumption to reach around 10% of energy mix in 2022

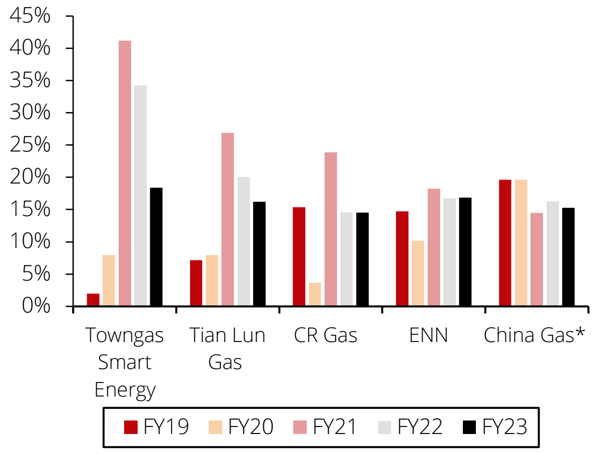
Breakdown in natural gas consumption in China



Source: Development Report of Natural Gas in China, DBS Bank

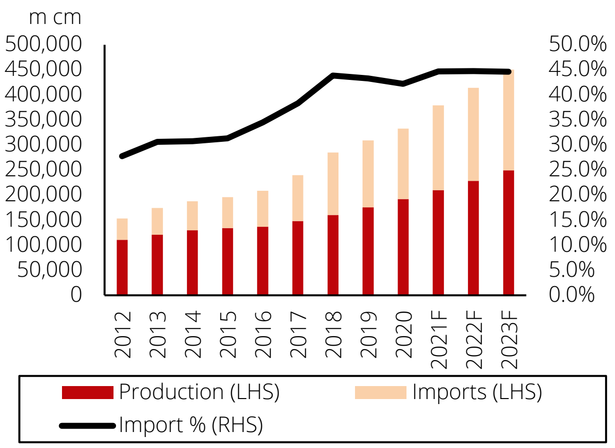
Mid-teens gas volume growth for listed gas distributors. With a low comparison base in FY20, most listed gas distributors are expected to enjoy a substantial rebound in gas volume growth in FY21 but growth rate should normalise to low- to mid-teens in FY22. The exceptions are Towngas Smart Energy (1083 HK) and Tian Lun Gas (1600 HK), both are expected to achieve gas volume growth of over 20% due to acquisitions.

Natural gas volume growth



** FY19 = FY3/20, FY20 = FY3/21, FY21 = FY3/22*
Source: Companies, DBS Bank

Breakdown of natural gas supply in China

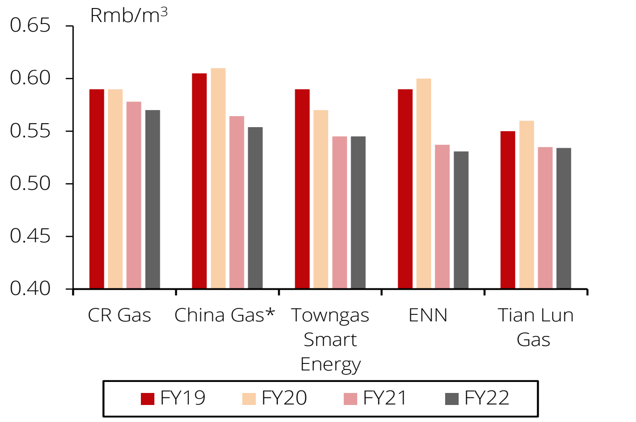


Source: CEIC, DBS Bank

Strong growth in imports in 2021. On the supply side, domestic production of natural gas climbed 9.8% in 10M2021 but total imports (including piped gas and LNG) increased by around 23%. The percentage of imported natural gas is expected to rebound to over 45% in 2021, from 42% in 2020. The tight global supply of natural gas in 2021 is mainly due to the robust rebound in demand post pandemic. At the request of National Development and Reform Commission, the three oil majors have stepped up procurement of natural gas supply for the winter heating season, which usually lasts from mid-November until mid-March of the following year, by increasing imports from

Russia and Myanmar. In addition, domestic unconventional and offshore gas production have also increased. On a positive note, the cold weather in December 2021 was not too extreme and a spike in LNG prices did not happen. Nevertheless, we expect high LNG prices to lower dollar margin of listed gas distributors by Rmb0.02-0.04/m^3 in FY21.

Dollar margin

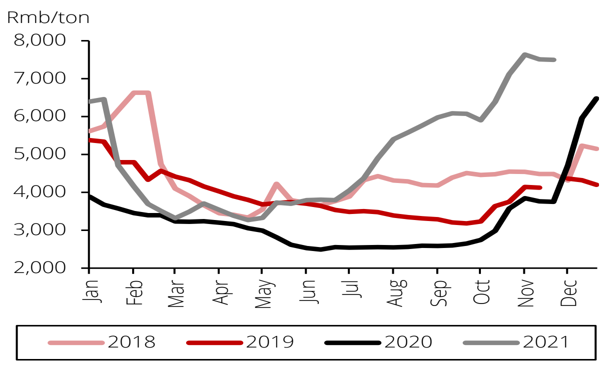


** FY19 = FY3/20, FY20 = FY3/21, FY21 = FY3/22*

Source: Companies, DBS Bank

Supply shortage to ease slightly in 2022. Looking into 2022, although accelerating actions against climate change will continue to be the major demand driver, demand growth is expected to be more moderate, given a higher comparison base. While piped gas supply from the new gas pipeline, the Power of Siberia, will continue to ramp up and jump by over 40%, LNG supply from the US will also climb. Domestic production of natural gas in China is also estimated to increase 9-11%. Notwithstanding the increase in supply, we expect LNG prices to remain at relatively high level. As such, we expect dollar margin to remain at a low level. Extreme weather remains a swing factor for dollar margin.

LNG price



Source: CEIC, DBS Bank

Tightening operational safety. Several gas explosions in 2021 have raised the safety alarm in the gas sector, prompting the State Council to launch safety checks on city gas supply. Several issues have been identified, including corrosion of gas pipelines, loose connections between pipelines, flawed system of safety checks and lack of safety training and management. As government's requirement on gas safety has stepped up with more frequent inspections, gas operators would also have to strengthen operational safety standards. Apart from more safety training to employees, there will be increasing application of Internet of Things and digitalized platform / system for inspection, real-time monitoring of construction progress and pipeline operation and detection of abnormalities of gas consumption. The financial impacts will be higher capex and increased operating costs. On a positive note, higher revenue from value-added service will come from sales of flammable gas detectors.

Diversification into new energy is critical. With the exception of CR Gas (1193 HK), the other four gas distributors under our coverage have already disclosed their development strategies in new / smart energy businesses under China's decarbonisation plan. Most will diversify into integrated energy (fuelled by gas, distributive solar power, biomass or geothermal power), coupled with energy and carbon management services. Despite the increasing number of players entering the integrated energy market or distributive solar power segment, we see strong demand in energy optimisation, carbon asset management, carbon reduction solution services, as well as distributive solar power.

Rising demand for distributive solar power. In June 2021, National Energy Administration of China issued documents to encourage installation of distributive solar power on 30-50% of rooftops of various types of buildings, including government buildings, schools, hospitals, and industrial / commercial buildings. This is the major driver for the distributive solar market, which we expect to account for at least 30% of the total solar power installations in China. In addition, after launching the first batch of pilot projects for sales of electricity to third parties through distributive network by Jiangsu government, more provinces, such as Shandong and Zhejiang, have also issued similar policies to encourage installation of distributive solar power. Thus, after self-consumption, any excess electricity can be sold to third parties, significantly reducing operational risk of distributive solar operators and further stimulating demand.

Despite a strong rally by as much as 40% in 4Q2021, valuation of Towngas Smart Energy (1083 HK) is not demanding, considering the growth potential of its green transformation. The company has already achieved its short-term target of securing 30 industrial parks this year for its smart energy business. We believe it is on track to install at least 1.5GW of distributive solar power each year in FY22 and FY23, increasing the percentage of revenue from smart energy from 4% of total revenue in FY22 to 8% in FY23. In addition, it enjoys the highest gas volume growth in these two years which will more than offset the impact of a decline in dollar margin. We have a BUY rating on the company.

We also like China Gas (384 HK). After correcting by over 50%, the stock is trading at -2SD from its 5-year historical average PE which we reckon has already reflected all negatives. The company is taking new initiatives in integrated energy and carbon operation to provide carbon asset management to a wider range of users (both local governments and energy users) through smart cloud platform, big data, and the Internet of Things. Good progress in these new initiatives, coupled with improved free cashflow on increase in receivable collection and less capex in 2H, should help the share price to rebound.

Our rating on Tian Lun Gas (1600 HK) is HOLD. The company is also targeting at industrial and commercial users for its green low-carbon business. However, due to its relatively small business scale and constrained financial strength, it takes an asset light approach and has partnered with SPIC Henan Electric Power to jointly develop the market where Tian Lun Gas will be responsible for EPC and O&M. Thus, the percentage of revenue from green low-carbon business is expected to be relatively small at 10% by FY24. In addition, Tian Lun Gas will put more effort in M&A, and is exploring industrial and commercial segment through adoption of flexible pricing policies in order to achieve 25% CAGR in retail gas volume from FY22 to FY24, one of the highest gas volume growth amongst our coverage in gas distributors.

ENN (2688 HK) Is a pioneer in integrated energy with at least 119 operational projects and 24 under construction by August 2021. Similar to Towngas Smart Energy, ENN mainly targets at industrial / commercial users with the majority of projects fuelled by gas. However, to meet specific needs of customers, ENN is looking to incorporate the use of more clean energy (such as biomass, solar and geothermal heat). We expect integrated energy to account for 20% of total revenue in five years, up from 7% in FY20. In addition, both gas volume growth and dollar margin are expected to decline slightly in FY22. Coupled with a valuation at +1SD from 5-year historical PE, which is the highest amongst our coverage in gas distributors, we maintain our HOLD rating.

Our rating of CR Gas (1193 HK) remains HOLD because of its conversative approach in the green transformation which we believe will result in low earnings visibility and loss of business opportunities. Despite its strong balance sheet, the progress of M&A is relatively slow. Gas volume growth is expected to be stable in the mid-teens with a downtrend in dollar margin in FY22. Nevertheless, gradual increase in dividend payout ratio is expected to give a 9% growth in dividend each year.

China Gas Sector peer valuation comparison

			P/E		EV-to-EBITDA		P/B		ROE (%)		Div yld
Company	Share price (local)	Market cap (US$m)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F
Gas utilities											
China Gas	15.54	11,033	9.5x	8.1x	8.4x	7.2x	1.3x	1.2x	14.8%	15.6%	3.1%
China Resources Gas	42.70	12,672	15.7x	14.2x	8.8x	8.1x	2.4x	2.2x	16.1%	16.2%	2.6%
China Tian Lun Gas	8.35	1,075	6.6x	6.0x	5.5x	4.8x	1.2x	1.1x	19.3%	18.5%	4.5%
ENN Energy	137.00	19,857	17.6x	15.5x	11.2x	9.8x	3.6x	3.1x	21.1%	20.8%	2.0%
Towngas China	6.34	2,569	12.1x	10.3x	12.2x	11.9x	0.9x	0.8x	8.0%	8.6%	2.7%
Kunlun Energy	7.48	8,307	10.6x	9.4x	5.3x	4.8x	1.0x	0.9x	10.4%	11.7%	3.3%

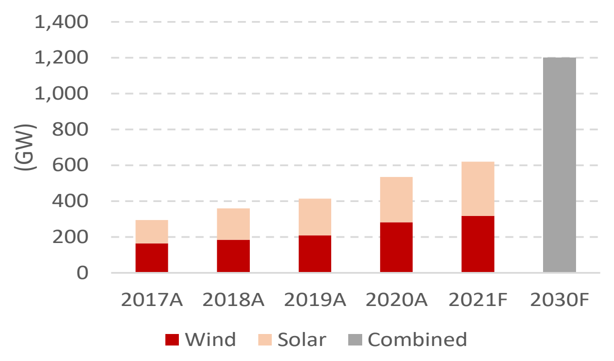
Source: Bloomberg Finance L.P., DBS HK (prices as of 11 Jan 2021)

China Renewables Sector

- China released more clarity on decarbonization roadmap
- Solar: Increased polysilicon supply to help value chain return to more rational levels, new installations may pick up
- Wind: stiff competition leading to turbine ASP and margin pressure, windfarm operators likely to benefit
- Top picks: Flat Glass (6865 HK), China Longyuan Power (916 HK)

China released more clarity on decarbonization roadmap. In the lead up to COP26 in Oct-21, China's government had released more specifics on its decarbonization roadmap to achieve the dual "30-60" emission reduction goals. For the energy sector, China targets to reduce carbon emission per unit of GDP by 18% by 2025 compared to 2020 levels, and 65% reduction by 2030 compared to 2005 levels. China also targets to increase the share of non-fossil fuel sources in its primary energy mix to 20% by 2025, and 25% by 2030, compared to 16% in 2020. For the longer term, China plans to increase the share of non-fossil fuels in the primary energy mix to 80% by 2060. Specific cumulative capacity targets for hydro, solar, and wind were released as well. By 2030, China plans to achieve installed capacity of 450GW for hydro and 1,200 GW for combined wind and solar.

Wind and solar generation capacity in China



Source: BNEF

Visible growth runway for wind and solar capacity. We expect China to achieve c.630GW of cumulative combined wind and solar capacity by end of 2021, consisting of c.316GW for wind and c.314GW for solar. Based on the 1,200GW installation target, combined wind and solar capacity stands to grow by at least 7.5% CAGR in 2021-30. This translates to a minimum of c.64GW of new installed combined wind and solar capacity per annum.

More controls in response to power crunch. In Sep to Oct-21, a coal shortage-driven power crunch led Chinese authorities to restrict electricity usage at various factories. These "dual" restrictions encompass both aggregate energy usage and energy intensity. As an indication of China's commitment to its emission reduction goals, the power curbs were implemented despite of the disruption to industrial production. To lessen the future impact on industry, in Dec-21 the National Development and Reform Commission (NDRC) announced clearer electricity usage controls while reiterating support for renewables.

China will transition towards controlling total carbon cap and carbon intensity. Under this new mechanism, additional power generated by renewable sources will not be subjected to cap/intensity controls. Fossil fuels used as feedstock/raw material for industrial production will also not be subjected to the cap/intensity controls. The new mechanism has two main benefits. First, broad-based blackouts due to aggregate power restrictions could be avoided as renewable energy sources will be able to supply electricity with no restrictions. Second, the mechanism will help differentiate fossil fuel raw materials from fossil fuel energy use. For example, petrochemical plants use crude oil as feedstock and burn fuel for power. The new mechanism could ensure less disruption to the production process.

Construction of renewable projects underway with solid policy support in the 14th Five Year Plan (FYP). In Oct-21, President Xi announced that the construction of the first batch of desert renewable projects with capacity of 100GW was underway. This was followed by the NEA asking provinces to submit a list of second batch of projects by mid-Dec. Each individual project must have at least 1GW in capacity with construction starting in 2022 and completing by 2023-24. In Dec-21, a high-ranking NEA official revealed details on new solar-related initiatives. China will continue to promote the development of solar generation bases, especially in the desert areas such as the Gobi. For distributed solar, the government plans to organize pilot programs, with 676 locations identified. The NEA also plans to promote development of power generation bases which integrate both hydro and solar.

China new solar installations delayed in 2021 but could pick up in 2022. In 11M21, China's new installed solar generation capacity rose 34.5% y-o-y to c.34.8GW. However, high prices along the solar value chain, particularly polysilicon, hindered installations. As at the time of writing there is substantial uncertainty regarding the Dec-21 installations, which historically had accounted for most of the installations for the year. Initial surveys show that solar new installations in Dec in China could reach c.25GW, which translates to c.60GW for the full year of 2021. Awaiting more rational pricing, downstream solar project developers have delayed their projects.

Polysilicon prices likely return to more rational levels on the back of increased supply. Looking forward, prices along the solar value chain could return to more rational levels in 2022. BNEF estimates polysilicon production could rise as much as 39% y-o-y in 2022. New players are also entering the polysilicon production business. A recent high-profile announcement is the entry of the Xinyi Group. Xinyi Solar (968.HK) and Xinyi Glass (868.HK) announced the intention to form a 52%/48% joint venture, Xinyi Silicon, in Dec-21. Xinyi Silicon is expected to initially produce c.60,00 tons/year with plans to further expand to 200,000 tons/year. Given increased supply we reckon polysilicon prices could decrease 20% from the 2021 peak to c.US$30/kg.

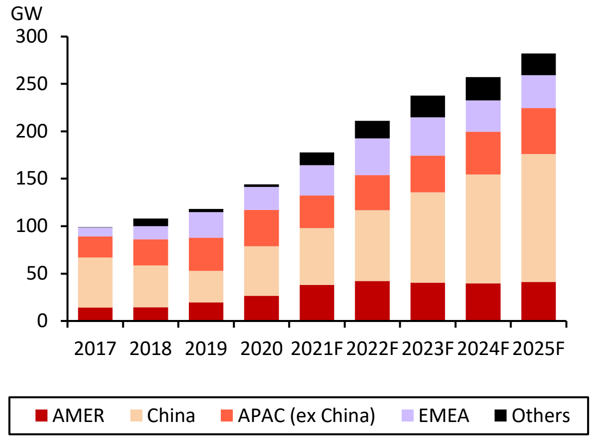
Polysilicon price

Source: BNEF

Responding to shifting expectations, wafer producers have started to lower their selling prices. LONGi (601012.CH) had reportedly cut wafer selling prices twice in Dec-21, down 9.8% followed by another 5.7%. Tianjin Zhonghuan (002129.CH) has also reportedly cut its wafer ASP by c.12% in early Dec-21. Elsewhere in the value chain, solar glass prices softened 25% to c.Rmb25/sm compared to c.Rmb34/sm in 1H21.

Expect China new solar installations to expand by 22% CAGR in 2021-25. As the solar value chain returns to more rational levels, we reckon the pace of installations could pick up. We estimate China's 2022 new solar installations to reach 75GW in 2022, or 25% y-o-y growth. For 2023-25, we estimate China's new solar installations of c.95-135GW per year, which translates to 2021-25 CAGR of c.22%.

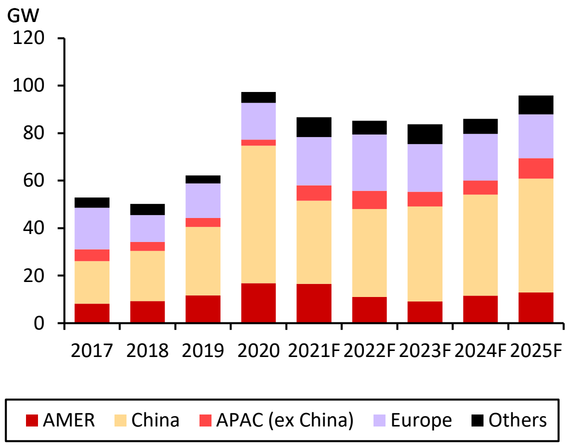
New solar installations by geography



Source: BNEF, DBSV calculations

Expect China's new wind installation CAGR of 8% in 2022-25. In 11M21, China's new installed wind generation capacity rose 0.3% y-o-y to c.24.7GW. This represents 70% of our full year 2021 forecast of 35GW. The low y-o-y growth rate is largely expected as 2020 installations were boosted by wind farm operators rushing to beat the deadline for government subsidies. Looking ahead, we estimate China to add new wind installations of 37GW in 2022 and 40-48GW per year in 2023-25, which translates to 2021-25 CAGR of 8%.

New wind installations by geography



Source: BNEF, NEA, DBSV calculations

China eying upgrades for aging wind infrastructure. Besides ongoing growth of new wind capacity, China is also eyeing upgrades for its older wind infrastructure. The first generation of China's wind turbines are entering the final stages of their useful life. Aging wind turbines require more maintenance which result in suboptimal usage of wind resources. In Dec-21 China's National Energy Administration (NEA) released a consultation document regarding the "upgrade and decommissioning of aging wind farms." In this consultation document, the government aims to upgrade wind farms which have been operating for >15 years. The focus of this series of upgrades is to replace smaller turbines with larger models. Besides upgrading turbines to models with larger blades, the upgrades will also involve transformers and transmission lines. In terms of pricing, the tariff on the original capacity will remain unchanged. Tariff on the additional capacity will be based on the latest policy benchmark.

Stiff competition among wind turbine manufacturers leading to lower ASP, wind farm operators may benefit. In Dec-21, Chinese media reported that prices at wind auctions were declining. In an auction for a wind development project held by Huaneng Power, turbine manufacturers had bid as low as Rmb2,300/kw, down c.25% y-o-y. Given intensifying competition, Xinjiang Goldwind (2208.HK) is likely to see ASP and margin pressure for wind turbine products. On the other hand, cheaper turbines should directly benefit downstream wind power operators such as China Longyuan Power (CLYP 916.HK) via CAPEX savings. This should translate to higher project IRR's as CLYP continues to expand its wind generation capacity.

Our top pick in the renewable sector is Flat Glass (6865.HK) as it stands to benefit from a pick-up in solar installations. The company is aggressively expanding production capacity to meet firm demand for solar glass. We expect solar glass ASP to stay relatively steady at c.Rmb30/sm and gross profit margin of c.30-31% in FY22-23. After the recent correction, the counter is trading at <0.8x PEG which is attractive in view of its visible growth trajectory. We rate Flat Glass BUY with HK$48.00 TP and A-shares HOLD with TP of Rmb57.20.

China Longyuan Power (CLYP, 916.HK) is another sector pick. First, lower turbine ASP should directly translate to CAPEX savings for CLYP's future wind farm projects, resulting in project IRR enhancements and improving ROE. Second, CLYP has been a pioneer in the latest replacement cycle. In Dec-21, CLYP completed an upgrade project in Ningxia province, the first project of its kind in China. This project will replace the original 79.5MW capacity with new turbines and add another 240MW. Further upgrades should benefit CLYP's revenue growth as the company can extract more power from existing wind infrastructure. We rate CLYP a BUY with TP of HK$21.00.

Xinjiang Goldwind (2208.HK) has corrected c.30% since the peak of HK$19.82 reached in early Nov-21 as investors became concerned about further ASP cuts for its turbine products. On the cost side, Goldwind is not directly exposed to spikes in commodity prices as the company sources components, not raw materials. Goldwind is negotiating component supply contracts for FY22 and discounts on bulk purchases could offset part of the margin pressure from ASP cuts. Thus, the company maintains its gross profit margin guidance of c.15-18% for wind turbines at this stage. We maintain our HOLD rating with H-share TP of HK$13.20 and A-share TP of Rmb15.70.

China Renewables peer comparisons

		Mkt	PE	PE	EV/EBITDA		P/Bk	P/Bk	ROE	ROE	Yield	Yield
	Share Price	Cap	21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
Company Name	Local$	US$m	x	x	x	x	x	x	%	%	%	%
Renewable sector												
China Longyuan Power	16.14	16,639	16.6	14.6	9.6	8.4	1.7	1.5	10.6	11.1	1.2	1.4
Flat Glass Group - H	34.80	14,756	25.7	22.7	17.4	14.5	5.0	4.2	24.0	20.2	0.8	0.9
Flat Glass Group - A	48.14	14,839	43.5	38.4	29.1	23.3	8.5	7.3	24.1	20.4	0.6	0.7
XJ Goldwind - H	13.82	11,151	11.7	11.5	8.7	8.2	1.3	1.2	11.5	10.8	3.2	3.2
XJ Goldwind - A	15.00	9,877	15.5	15.3	10.7	10.2	1.7	1.6	11.5	10.8	2.4	2.4

Source: Bloomberg Finance L.P., DBS HK (prices as of 11 Jan 2021)

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

Share price appreciation + dividends

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