

Hong Kong

ADD (no change)

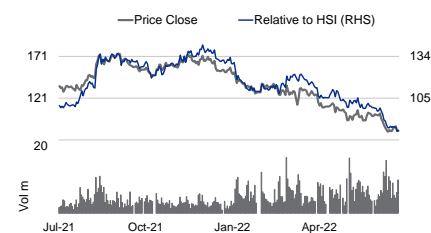
Consensus ratings*: Buy 15 Hold 1 Sell 0

Current price:	HK\$81.85
Target price:	HK\$144.8
Previous target:	HK\$192.1
Up/downside:	76.9%
CGS-CIMB / Consensus:	-6.3%
Reuters:	0669.HK
Bloomberg:	669 HK
Market cap:	US\$19,138m
	HK\$150,168m
Average daily turnover:	US\$78.71m
	HK\$617.5m
Current shares o/s:	1,833m
Free float:	79.9%

*Source: Bloomberg

Key changes in this note

- FY22-24F revenue decreased by 8-9%.
- FY22-24F GPM decreased by 0.1% pt.
- FY22-24F EPS decreased by 1.4%-8.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-21.1	-36.8	-39.6
Relative (%)	-24.6	-35.1	-15.4

Major shareholders	% held
Mr Horst Julius Pudwill	20.1
JP Morgan Chase & Co.	8.0
The Bank of New York Mellon Corp	5.0

Analyst

Ray KWOK

T (852) 2532 1113

E ray.kwok@cgs-cimb.com

Techtronic Industries Co

FY22-23F EPS outlook remains solid

- We estimate TTI's 1H22F net profit grew 10% yoy and formed 43% of our previous FY22F forecast, due to weaker US spending and higher input costs.
- Milwaukee professional tools will continue to lead revenue growth and GPM expansion over the next few years due to continuous new product launches.
- Reiterate Add. TP lowered to HK\$144.80 on 8%/4% EPS cuts for FY22F/23F, based on 22x FY23F P/E.

1H22F net profit likely grew 10% yoy due to increased input costs

We expect Techtronic Industries (TTI) to report 10% net profit growth for 1H22F due to weaker consumer spending in the US and increased logistics and material costs. We estimate revenue growth decelerated to 9% yoy (+28%/+35% in FY20/FY21), supported by c.20% growth in Milwaukee due to continuous new product launches, while Ryobi's revenue growth likely slowed down to 0-3% yoy due to low home improvement demand. GPM likely expanded by 40bp yoy (flat hoh) to 39.0%, driven by production efficiency, savings in material costs (increased inventory) and strong Milwaukee growth, but partially offset by lower production efficiency due to Covid-19 restrictions in China. 1H22F net profit likely met 43% of our previous FY22F forecast due to slower revenue growth and higher manufacturing expenses. We cut our FY22F EPS by 8% to reflect the production disruptions in 1Q22 and weakened demand for power tools in the US.

Milwaukee to continue to see high growth (20%+ yoy) in F22-24F

We expect Milwaukee's (professional tools) performance to remain strong with over 20% revenue growth in 1H22F and FY22F, underpinned by category expansion, such as lithium powered light equipment (MX fuel), thanks to accelerating lithium-ion penetration on the back of surging gasoline prices, personal protective equipment and storage products, as well as continual geographical expansion. We expect Milwaukee to continue to gain market share in the US professional segment, especially in infrastructure projects, thanks to its zero emission and less noise pollution battery-powered equipment (12V/18V-series and MX fuel). Meanwhile, we believe TTI is able to pass on the increased material costs through higher ASPs for Milwaukee's new products.

DIY growth to decelerate to 5% yoy p.a. in FY22-23F

We expect Ryobi's (DIY tools) revenue growth to decelerate in FY22F as the work-from-home trend boosted home improvement equipment demand in FY20 and FY21. Nevertheless, we expect Ryobi to maintain c.5% revenue growth per annum in FY22-23F, driven by cordless battery-powered outdoor and cleaning products, thanks to continual cordless migration among consumers.

Reiterate Add; target price cut to HK\$144.80

We reiterate Add as we believe the c.37% share price correction over the past three months has priced in US inflation and interest rate hike impact. The stock is trading at c.15x FY22F P/E, its 5-year low, which we think is attractive due to its solid earnings growth (+13%/+25% EPS in FY22F/23F). We lower our TP to HK\$144.80, now based on 22x FY23F EPS (vs. 28x), +1 s.d. from its 5-year average, reflecting its stable EPS outlook. Share price catalysts include sustained GPM expansion and stabilised material prices. Risks: a sharp slowdown in the US housing market and a surge in raw material costs.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (US\$m)	9,812	13,203	14,569	16,531	18,638
Operating EBITDA (US\$m)	1,135	1,484	1,701	2,064	2,381
Net Profit (US\$m)	801	1,099	1,244	1,559	1,845
Normalised EPS (US\$)	0.44	0.60	0.68	0.85	1.01
Normalised EPS Growth	30.1%	37.1%	13.0%	25.3%	18.3%
FD Normalised P/E (x)	23.91	17.46	15.46	12.33	10.42
DPS (US\$)	0.17	0.24	0.27	0.34	0.40
Dividend Yield	1.67%	2.28%	2.58%	3.23%	3.82%
EV/EBITDA (x)	16.61	13.81	11.76	9.36	7.78
P/FCFE (x)	45.88	17.33	NA	41.43	20.00
Net Gearing	(5.3%)	29.8%	15.0%	2.8%	(7.6%)
P/BV (x)	4.90	4.05	3.33	2.78	2.35
ROE	21.9%	25.5%	23.8%	24.7%	24.6%
% Change In Normalised EPS Estimates			(8.07%)	(3.88%)	(1.38%)
Normalised EPS/consensus EPS (x)			0.97	1.02	1.02

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

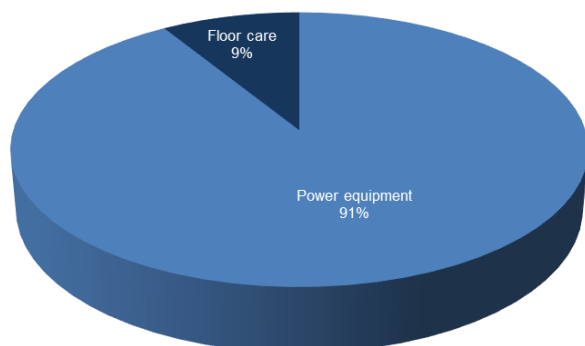
FY22-23F EPS outlook remains solid

Figure 1: 1H22F results preview

FYE 31 Dec (US\$ m)	1HFY22F	1HFY21	yoy % chg	2HFY21	hoh % chg	Prev. FY22F	Comments
Revenue	6,985	6,394	9.2	6,809	2.6	15,825	1H22F revenue likely rose c.9% yoy, led by Milwaukee (20%+ yoy) and
Operating costs	(6,181)	(5,691)	8.6	(6,015)	2.8	(14,019)	Ryobi (1-3% yoy).
EBITDA	804	702	14.5	795	1.2	1,806	
<i>EBITDA margin (%)</i>	<i>11.5</i>	<i>11.0</i>		<i>11.7</i>		<i>11.4</i>	1H22F GPM likely gained c.40bp yoy (flat hoh) to 39.0%, driven by production
Depn & amort.	(180)	(131)	37.5	(174)	3.2	(344)	efficiency, supply chain management and strong Milwaukee sales growth.
EBIT	624	571	9.2	620	0.6	1,462	
Interest expense	(20)	(25)	(20.0)	(17)	17.6	(49)	
Interest & invt inc	17	16	3.6	16	8.9	47	
Associates' contrib	-	0	NM	(0)	NM	-	
Exceptionals	-	-	NM	-	NM	-	
Pretax profit	621	563	10.3	619	0.4	1,460	
Tax	(43)	(39)	10.3	(43)	0.4	(107)	
Tax rate (%)	7.0	7.0		7.0		7.3	
Minority interests	-	(0)	NM	-	NM	(0)	
Net profit	578	524	10.3	575	0.4	1,353	1H22F net profit likely rose only 10% yoy to US\$578m due to weak
Core net profit	578	524	10.3	575	0.4	1,353	US consumer spending and higher input costs (logistics and materials
EPS (US cts)	31.5	28.6	10.1	31.4	0.2	73.8	costs). 1H22F net profit likely formed 43% of our previous FY22F forecast.
Core EPS (US cts)	31.5	28.6	10.1	31.4	0.2	73.8	

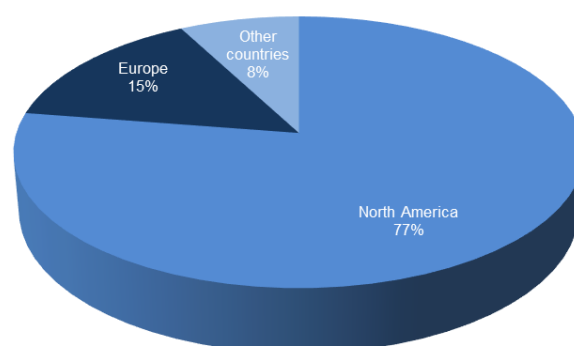
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Revenue breakdown by product segment (FY22F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Revenue breakdown by geographical area (FY22F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revisions


FYE Dec (US\$m)	Dec-21A	Dec-22F			Dec-23F			Dec-24F		
		Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	13,203	15,825	14,569	-7.9%	18,124	16,531	-8.8%	20,431	18,638	-8.8%
Gross profit	5,122	6,219	5,715	-8.1%	7,213	6,568	-9.0%	8,234	7,498	-8.9%
Gross profit margin	38.8%	39.3%	39.2%	-0.1% pts	39.8%	39.7%	-0.1% pts	40.3%	40.2%	-0.1% pts
EBITDA	1,497	1,806	1,719	-4.8%	2,107	2,084	-1.1%	2,402	2,401	0.0%
Net profit	1,099	1,353	1,244	-8.1%	1,622	1,559	-3.9%	1,871	1,845	-1.4%
EPS (US cents)	0.60	0.74	0.68	-8.1%	0.88	0.85	-3.9%	1.02	1.01	-1.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Peers comparison

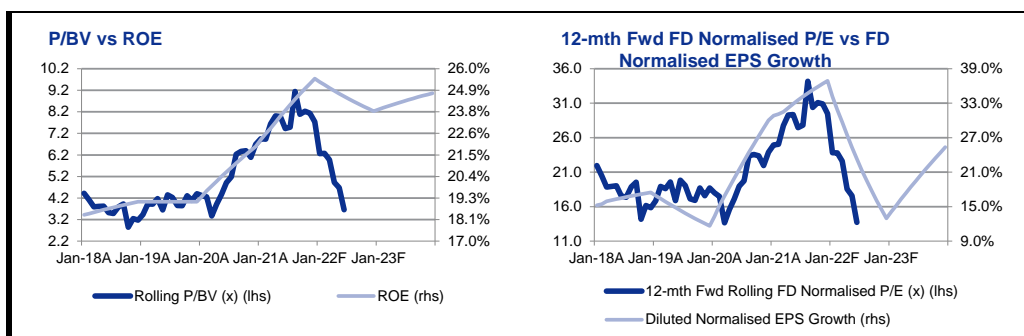
Company	Bloomberg		Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
	Ticker	Recom.				core	CY2022F		CY2023F	CY2022F	CY2023F	CY2022F	CY203F	CY2022F	CY2023F	CY2022F
Techtronic	669 HK	Add	81.85	144.80	19,138	15.4	12.3	18.8%	3.3	2.8	23.8%	24.7%	11.7	9.4	2.8%	3.4%
Makita	6586 JP	Not Rated	3,394	N/A	7,041	14.0	15.4	2.5%	1.3	1.2	9.7%	8.0%	7.6	8.7	2.1%	2.0%
Black & Decker	SWK US	Not Rated	107.29	N/A	16,197	10.9	9.5	1.6%	1.8	1.8	13.9%	16.6%	9.3	8.3	2.8%	3.1%
Emerson	EMR US	Not Rated	80.36	N/A	47,734	15.9	14.9	12.4%	4.3	3.9	29.0%	27.6%	10.9	10.1	2.6%	2.7%
Lincoln Electric	LECO US	Not Rated	124.24	N/A	7,218	15.8	14.5	10.6%	7.0	5.5	49.9%	45.6%	11.2	10.1	1.8%	1.9%
Average						14.4	13.3	9.2%	3.6	3.0	25.3%	24.5%	10.2	9.3	2.4%	2.6%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG (PRICE AS AT 30 JUN 2022)

		Refinitiv ESG Scores					
		B+ ESG Score	A+ ESG Controversies Score	B+ ESG Combined Score	B+ ESG Environment Pillar Score	A ESG Social Pillar Score	B ESG Government Pillar Score
ESG in a nutshell		<p>In 2021, Techtronic build a solid foundation and set ambitious targets for its long-term sustainability plan. It introduced two ESG specialists to its governance structure and set up emission targets. In the meantime, Techtronic donated almost US\$2bn to support the community. Also, according to Refinitiv Eikon’s rating, Techtronic achieved A+ (the highest rating) in controversies score, implying zero exposure to ESG controversies and negative events reflected in global media.</p> <p>In our view, Techtronic is not involved in any environmentally-detrimental industry practices and takes the effort to minimise the environmental impact of its operations.</p>					
Keep your eye on	<p>Techtronic has embarked on comprehensive measures and plans for decarbonisation.</p>	Implications <p>Techtronic has set a 60% greenhouse gas (GHG) emission reduction target for Scope 1 and 2 against the baseline year of 2021. Also, it expanded climate risk assessment to more effectively determine and implement mitigation and adaptation measures. In addition, it repaired 1.3m tools to reduce waste.</p> <p>In terms of third-party rating, according to Refinitiv Eikon, Techtronic’s environmental pillar scored B+ and ranked 35 out of 152 in Hong Kong. Within the pillar, the two metrics, Noise Reduction and Environmental Partnership scored ratings of 90.19 and 89.85 out of 100, respectively.</p>					
ESG highlights	<p>Techtronic, in collaboration with non-governmental organisations, provides financial support and donation of tools as well as employee volunteers.</p>	Implications <p>Techtronic has donated US\$1.9bn in cash and in kind to community projects. It also offers Leadership Development Program and other such initiatives to nurture its people to drive innovation and productivity.</p> <p>In terms of third-party rating, according to Refinitiv Eikon, Techtronic’s social pillar scored A-, and ranked 7 out of 152 in Hong Kong.</p>					
Trends	<p>Techtronic’s governance structure is designed to enable effective planning, implementation and monitoring the ESG performance.</p>	Implications <p>Techtronic’s ESG Executive Committee, the ESG Working Committee and BU leaders are required to report to the Board on a regular basis to drive execution, collect and report data, track performance, set targets, and communicate. It also has a robust risk management system to identify and address issues. This year, it added two female directors to its governance structure to improve management and specialise ESG tasks.</p> <p>In terms of third-party rating, according to Refinitiv Eikon, Techtronic’s governance pillar ranked 90 out of 152 in Hong Kong. We expect its score and rankings will improve going forward as it has introduced ESG specialists to its governance structure.</p>					

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	9,812	13,203	14,569	16,531	18,638
Gross Profit	3,753	5,122	5,715	6,568	7,498
Operating EBITDA	1,135	1,484	1,701	2,064	2,381
Depreciation And Amortisation	(278)	(305)	(366)	(390)	(405)
Operating EBIT	857	1,179	1,334	1,674	1,976
Financial Income/(Expense)	(7)	(10)	(10)	(8)	(1)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	11	13	18	20	20
Profit Before Tax (pre-EI)	861	1,182	1,342	1,686	1,995
Exceptional Items	0	0	0	0	0
Pre-tax Profit	861	1,182	1,342	1,686	1,995
Taxation	(60)	(83)	(98)	(126)	(150)
Exceptional Income - post-tax					
Profit After Tax	801	1,099	1,244	1,559	1,845
Minority Interests	(0)	(0)	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	801	1,099	1,244	1,559	1,845
Normalised Net Profit	801	1,099	1,244	1,559	1,845
Fully Diluted Normalised Profit	801	1,099	1,244	1,559	1,845

Cash Flow

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	1,135	1,484	1,701	2,064	2,381
Cash Flow from Inv. & Assoc.	(0)	(0)	0	0	0
Change In Working Capital	(139)	(1,565)	(304)	(436)	(467)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	18	18	18	18	18
Other Operating Cashflow	213	23	28	28	20
Net Interest (Paid)/Received	(7)	(10)	(10)	(8)	(1)
Tax Paid	(60)	(83)	(98)	(126)	(150)
Cashflow From Operations	1,159	(133)	1,335	1,539	1,802
Capex	(459)	(747)	(500)	(400)	(400)
Disposals Of FAs/subsidiaries	(158)	0	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	37	32	36	29	25
Cash Flow From Investing	(580)	(715)	(464)	(371)	(375)
Debt Raised/(repaid)	(162)	1,956	(983)	(703)	(465)
Proceeds From Issue Of Shares	9	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(262)	(318)	(437)	(493)	(618)
Preferred Dividends					
Other Financing Cashflow	(83)	0	0	0	0
Cash Flow From Financing	(498)	1,637	(1,420)	(1,197)	(1,084)
Total Cash Generated	81	789	(550)	(29)	343
Free Cashflow To Equity	417	1,107	(113)	464	962
Free Cashflow To Firm	623	(806)	916	1,204	1,453

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,534	1,874	1,435	1,405	1,749
Total Debtors	1,519	2,188	2,414	2,739	3,089
Inventories	3,224	4,850	5,313	5,979	6,685
Total Other Current Assets	64	149	149	149	149
Total Current Assets	6,340	9,062	9,311	10,273	11,672
Fixed Assets	1,333	1,853	2,102	2,227	2,337
Total Investments	2	2	2	2	2
Intangible Assets	1,242	1,427	1,427	1,427	1,427
Total Other Non-Current Assets	473	664	664	664	664
Total Non-current Assets	3,050	3,946	4,195	4,320	4,430
Short-term Debt	385	2,253	1,218	731	438
Current Portion of Long-Term Debt					
Total Creditors	3,310	4,039	4,425	4,980	5,568
Other Current Liabilities	387	387	408	422	449
Total Current Liabilities	4,081	6,679	6,051	6,133	6,455
Total Long-term Debt	940	1,028	1,080	864	691
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	452	564	622	706	796
Total Non-current Liabilities	1,392	1,592	1,702	1,570	1,487
Total Provisions	14	14	14	14	14
Total Liabilities	5,487	8,285	7,767	7,716	7,956
Shareholders' Equity	3,903	4,723	5,739	6,877	8,146
Minority Interests	(0)	0	0	0	0
Total Equity	3,903	4,723	5,739	6,877	8,146

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	28.0%	34.6%	10.3%	13.5%	12.7%
Operating EBITDA Growth	23.3%	30.7%	14.6%	21.4%	15.4%
Operating EBITDA Margin	11.6%	11.2%	11.7%	12.5%	12.8%
Net Cash Per Share (US\$)	0.11	(0.77)	(0.47)	(0.10)	0.34
BVPS (US\$)	2.13	2.57	3.13	3.75	4.44
Gross Interest Cover	19.38	28.06	29.04	45.64	76.07
Effective Tax Rate	7.00%	7.00%	7.30%	7.50%	7.50%
Net Dividend Payout Ratio	39.8%	39.7%	39.7%	39.7%	39.7%
Accounts Receivables Days	48.41	46.85	53.29	52.59	52.89
Inventory Days	161.2	182.3	209.5	206.8	208.0
Accounts Payables Days	163.9	163.5	172.4	170.2	171.2
ROIC (%)	22.6%	28.3%	19.9%	23.1%	25.4%
ROCE (%)	17.6%	18.3%	17.1%	20.6%	22.5%
Return On Average Assets	9.5%	9.9%	9.5%	11.2%	12.0%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Power tools (% yoy growth)	28.5%	37.0%	11.0%	14.0%	13.0%
Floorcare (% yoy growth)	23.6%	14.8%	4.0%	8.0%	10.0%
Gross profit margin (%)	38.3%	38.8%	39.2%	39.7%	40.2%
Operating profit margin (%)	8.8%	9.0%	9.3%	10.2%	10.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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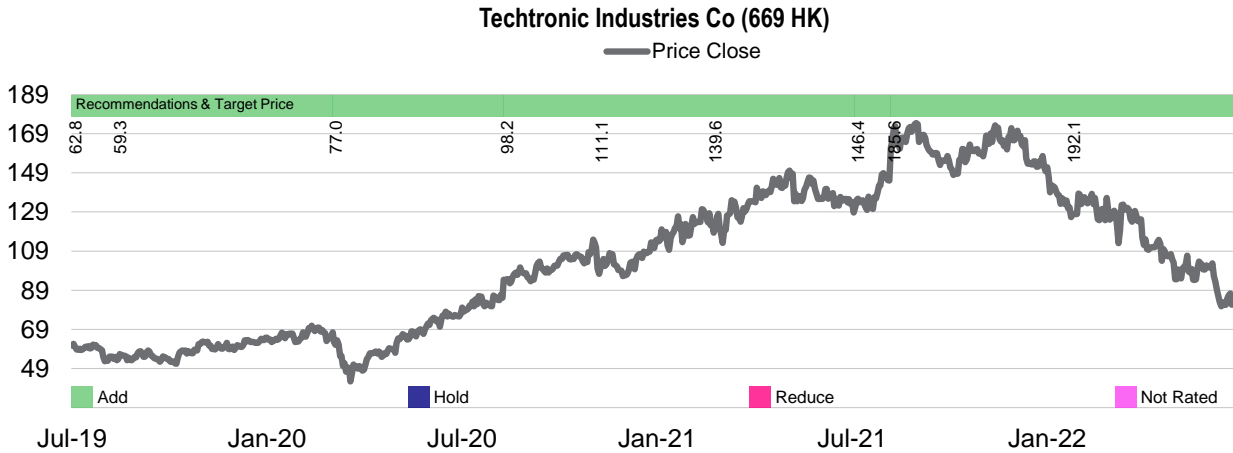
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Spitzer Chart for stock being researched (2 year data)



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**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.