

Singapore

April 25, 2018 - 7:38 PM

**ADD** (no change)

Consensus ratings\*: Buy 3 Hold 0 Sell 0

Current price: S\$1.45

Target price: S\$1.62

Previous target: S\$1.62

Up/downside: 12.0%

CGS-CIMB / Consensus: 0.9%

Reuters: CHSN.SI

Bloomberg: CSSC SP

Market cap: US\$536.9m

S\$713.0m

Average daily turnover: US\$1.37m

S\$1.81m

Current shares o/s 491.7m

Free float: 35.0%

\*Source: Bloomberg

**Key financial forecasts**

	Dec-18F	Dec-19F	Dec-20F
Net Profit (Rmbm)	376.6	396.1	433.2
Core EPS (Rmb)	0.77	0.81	0.88
Core EPS Growth	7.24%	5.18%	9.35%
FD Core P/E (x)	9.02	8.58	7.84
Recurring ROE	19.9%	17.9%	17.0%
P/BV (x)	1.66	1.43	1.25
DPS (Rmb)	0.15	0.17	0.17
Dividend Yield	2.11%	2.46%	2.46%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.1	31.8	95.9
Relative (%)	0.8	31.9	83.1

Major shareholders	% held
Success More Group Limited	63.3

**Analyst(s)**

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# China SunSine Chemical Holdings

## Now a high-tech enterprise with lower tax rate

- Enjoys concessionary tax rate of 15% compared to normal tax rate of 25% after attaining "High-tech Enterprise" status in China.
- Results above expectations with 1Q18 net profit forming 40%/39% of our/consensus full-year forecasts. Expect upward momentum in share price post 1Q18 results.
- Maintain Add and TP S\$1.62 for now, pending further updates from results briefing tomorrow morning.

### Another record earnings in 1Q18; exceeds expectations

- 1Q18 net profit of Rmb150m formed 40%/39% of our/consensus full-year forecasts.
- Revenue grew 49% yoy mainly on higher ASP as well as higher overall sales volume during the quarter.
- Gross margin expanded 10.5% pts to 34.9% in 1Q18 due to increased ASP.

### Enjoys concessionary 15% tax rate as a high-tech enterprise

- The main subsidiary, Shandong SunSine Chemical Co. Ltd, was granted "High-tech Enterprise" status by the authorities.
- It now enjoys a preferred tax rate of 15%, as compared to the normal tax rate of 25%. The status is valid for three years
- Assuming a lower effective tax of 18%, instead of 28%, would have **adjusted our FY18-20F earnings forecasts by 13.9%**.

### Higher R&D expenses

- List of criteria for qualifying high-tech enterprise include investing 3-6% of revenue on R&D and earning over 60% of revenue from new technology products and services.
- Higher R&D expenses (c.Rmb20m-25m by our estimates) incurred during the quarter compared to previous year.

### Our expectations on ASP normalising in 2H18 remains intact

- Rubber accelerator prices seemed to have come off by c.3-5% as indicated by price index in Sublime China Information (SCI) website.
- Management maintained its guidance on prices likely to normalise as some smaller players are resuming production.

### Prices of high-grade TBBS rubber accelerator remain stable

- Our channel checks reveal that prices of high-grade accelerator TBBS have remained fairly stable (c. Rmb40,000/ton). TBBS accounted for 29% of SunSine's 87,000-ton capacity in rubber accelerators in FY16.
- TBBS will account for 36% after the addition of a new 10,000-ton TBBS production line that is expected to kick-start production in 2HFY18, which could offset the c.3% dip in ASP for rest of its rubber accelerators, by our estimates.

### Maintain Add with TP of S\$1.62, pending updates from results brief

- SunSine currently trades at 8.6x FY19 P/E, representing a 28% discount below peers' average of 12.0x.
- Pending further updates from the results briefing on 26 April 18 morning, we maintain our Add call and TP of S\$1.62.

**Figure 1: Results comparison**

FYE Dec (Rmb m)	1QFY18	1QFY17	yoy % chg	qoq % chg	1QFY18 Cum	1QFY17 Cum	yoy % chg	Prev FY18	Comments
Revenue	857	575	49	na	857	575	49	2,888	Above expectations; 4Q/FY17 formed 30%/29% of full-year forecasts/consensus
Operating costs	(652)	(467)	40	na	(652)	(467)	40	(2,260)	Comprises higher R&D expenses (c.Rmb25m to qualify for concessionary tax rate)
EBITDA	205	107	91	na	205	107	91	629	
EBITDA margin (%)	23.9	18.7	28	na	23.9	18.7	28	21.8	Better gross margins
Depn. & amort.	(23)	(24)	(3)	na	(23)	(24)	(3)	(109)	
EBIT	182	84	117	na	182	84	117	519	
Interest expense	-	-	na	na	-	-	na	-	
Interest income	0	1	(91)	na	0	1	(91)	4	
Associates' contrib	-	-	na	na	-	-	na	-	
Exceptionals	-	-	na	na	-	-	na	-	
Pretax profit	182	85	114	na	182	85	114	523	
Tax	(32)	(28)	17	na	(32)	(28)	17	(146)	
Tax rate (%)	18	32	(46)	na	18	32	(46)	28	
Minority interests	-	-	na	na	-	-	na	-	
Net profit	150	57	161	na	150	57	161	377	Above expectations; 4Q/FY17 formed 40%/39% of full-year forecasts/consensus
<b>Core net profit</b>	<b>150</b>	<b>57</b>	<b>161</b>	<b>na</b>	<b>150</b>	<b>57</b>	<b>161</b>	<b>377</b>	<b>Above expectations; 4Q/FY17 formed 40%/39% of full-year forecasts/consensus</b>
EPS (Rmb cts)	30.4	12.3	147	na	30.4	12.3	146.7	76.6	
Core EPS (Rmb cts)	30.4	12.3	147	na	30.4	12.3	146.7	76.6	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Peers Comparison**

Company	Bloomberg Ticker	Recom.	Price		Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
			(lcl curr)	Target Price (lcl curr)		CY18F	CY19F		CY18F	CY19F	CY18F	CY19F	CY20F	CY18F	CY19F	CY18F	CY19F
China Sunshine Chemical H	CSSC SP	Add	1.45	1.62	537	9.02	8.6	9.9%	1.66	1.43	19.5%	17.9%	17.0%	4.4	3.7	2.1%	2.5%
<b>Rubber chemical peers</b>																	
Shandong Yanggu Huatai	300121 CH	Not rated	13.47	na	799	14.5	11.5	41.4%	4.18	3.38	28.9%	28.1%	25.2%	11.7	9.9	2.8%	3.4%
Eastman Chemical Co	EMN US	Not rated	105.3	na	15,032	12.4	11.5	1.0%	2.63	2.34	22.3%	21.4%	21.7%	9.2	8.9	2.2%	2.2%
LANXESS AG	LXS GY	Not rated	61.24	na	6,827	15.6	13.1	77.2%	2.22	1.96	13.3%	14.4%	14.1%	9.4	8.5	1.6%	1.8%
<b>Simple average (rubber chemical peers)</b>						<b>14.2</b>	<b>12.0</b>	<b>39.8%</b>	<b>3.01</b>	<b>2.56</b>	<b>21.5%</b>	<b>21.3%</b>	<b>20.3%</b>	<b>10.1</b>	<b>9.1</b>	<b>2.2%</b>	<b>2.5%</b>
<b>Tyre manufacturers</b>																	
Anhui Zhongding	000887 CH	Not rated	16.69	na	3,257	14.9	13.1	15.2%	2.36	2.03	15.0%	15.1%	15.4%	10.9	9.3	na	na
Shandong Linglong Tyre C	601966 CH	Not rated	16.80	na	3,187	15.0	11.9	17.4%	2.04	1.78	13.8%	14.9%	15.6%	na	na	2.1%	2.4%
Bridgestone Corp	5108 JP	Not rated	4,612	na	32,157	11.2	10.6	25.2%	1.39	1.29	12.9%	12.6%	12.5%	4.8	4.6	3.5%	3.7%
Yokohama Rubber	5101 JP	Not rated	2,588	na	4,018	10.1	9.5	38.9%	1.02	0.96	10.9%	11.0%	11.0%	7.3	6.9	2.4%	2.7%
Cie Generale des Etab.	ML FP	Not rated	116.0	na	25,378	11.2	10.3	8.8%	1.67	1.52	15.6%	15.7%	15.5%	5.0	4.7	3.3%	3.5%
Goodyear Tire & Rubber C	GT US	Not rated	26.87	na	6,462	7.5	6.3	53.6%	1.26	1.08	17.4%	18.9%	20.5%	4.8	4.3	2.2%	2.2%
Cooper Tire & Rubber Co	CTB US	Not rated	28.05	na	1,427	9.0	7.5	na	1.14	1.00	13.6%	12.9%	na	3.7	3.4	1.5%	1.5%
Apollo Tyres Ltd	APTY IN	Reduce	284.8	197.5	2,435	16.67	13.2	na	1.69	1.54	10.7%	12.2%	na	8.7	7.0	1.2%	1.5%
Cheng Shin Rubber Ind	2105 TT	Not rated	47.40	na	5,171	18.3	15.2	27.1%	1.79	1.73	9.9%	11.3%	12.4%	8.1	7.4	4.4%	4.9%
Hankook Tire	161390 KS	Add	47,650	79,000	5,462	7.27	6.8	na	0.81	0.73	11.8%	11.2%	na	4.2	4.0	0.8%	0.8%
Kumho Tire Co Inc	073240 KS	Not rated	6,100	na	890	na	na	na	0.99	1.00	-6.0%	-1.1%	na	10.7	8.4	na	na
Nexen Tire Corp	002350 KS	Not rated	12,150	na	1,096	8.5	7.6	14.4%	0.84	0.76	10.4%	10.7%	10.4%	5.2	4.8	0.8%	0.8%
<b>Simple average (tyre manufacturers)</b>						<b>11.8</b>	<b>10.2</b>	<b>25.1%</b>	<b>1.42</b>	<b>1.28</b>	<b>11.3%</b>	<b>12.1%</b>	<b>14.2%</b>	<b>6.7</b>	<b>5.9</b>	<b>2.2%</b>	<b>2.4%</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS

### Profit & Loss

(Rmbm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
<b>Total Net Revenues</b>	<b>2,738</b>	<b>2,888</b>	<b>3,205</b>	<b>3,507</b>
<b>Gross Profit</b>	<b>788</b>	<b>813</b>	<b>874</b>	<b>957</b>
<b>Operating EBITDA</b>	<b>562</b>	<b>629</b>	<b>657</b>	<b>696</b>
Depreciation And Amortisation	(89)	(109)	(110)	(99)
<b>Operating EBIT</b>	<b>473</b>	<b>519</b>	<b>546</b>	<b>598</b>
Financial Income/(Expense)	4	4	4	4
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>477</b>	<b>523</b>	<b>550</b>	<b>602</b>
Exceptional Items	0	0	0	0
<b>Pre-tax Profit</b>	<b>477</b>	<b>523</b>	<b>550</b>	<b>602</b>
Taxation	(136)	(146)	(154)	(168)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>341</b>	<b>377</b>	<b>396</b>	<b>433</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>341</b>	<b>377</b>	<b>396</b>	<b>433</b>
Recurring Net Profit	341	377	396	433
<b>Fully Diluted Recurring Net Profit</b>	<b>341</b>	<b>377</b>	<b>396</b>	<b>433</b>

### Balance Sheet

(Rmbm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	500	655	965	1,292
Total Debtors	713	870	966	1,057
Inventories	212	222	249	272
Total Other Current Assets	0	0	0	0
<b>Total Current Assets</b>	<b>1,425</b>	<b>1,747</b>	<b>2,180</b>	<b>2,621</b>
Fixed Assets	662	668	597	539
Total Investments	0	0	0	0
Intangible Assets	41	41	41	41
Total Other Non-Current Assets	0	0	0	0
<b>Total Non-current Assets</b>	<b>703</b>	<b>709</b>	<b>639</b>	<b>580</b>
Short-term Debt	0	0	0	0
Current Portion of Long-Term Debt				
Total Creditors	290	313	351	384
Other Current Liabilities	94	94	94	94
<b>Total Current Liabilities</b>	<b>385</b>	<b>407</b>	<b>446</b>	<b>479</b>
Total Long-term Debt	0	0	0	0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Provisions	0	0	0	0
<b>Total Liabilities</b>	<b>385</b>	<b>407</b>	<b>446</b>	<b>479</b>
Shareholders' Equity	1,742	2,049	2,373	2,723
Minority Interests				
<b>Total Equity</b>	<b>1,742</b>	<b>2,049</b>	<b>2,373</b>	<b>2,723</b>

### Cash Flow

(Rmbm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	561.9	628.6	656.6	696.5
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(82.6)	(144.8)	(84.3)	(81.5)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	5.5	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(99.5)	(146.5)	(154.0)	(168.4)
<b>Cashflow From Operations</b>	<b>385.3</b>	<b>337.3</b>	<b>418.3</b>	<b>446.5</b>
Capex	(209.0)	(115.0)	(40.0)	(40.0)
Disposals Of FAs/subsidiaries	0.2	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	3.7	3.7	3.7	3.7
<b>Cash Flow From Investing</b>	<b>(205.1)</b>	<b>(111.3)</b>	<b>(36.3)</b>	<b>(36.3)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	85.9	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(46.5)	(70.3)	(71.7)	(83.6)
Preferred Dividends				
Other Financing Cashflow	0.0	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>39.4</b>	<b>(70.3)</b>	<b>(71.7)</b>	<b>(83.6)</b>
Total Cash Generated	219.6	155.8	310.3	326.6
<b>Free Cashflow To Equity</b>	<b>180.2</b>	<b>226.0</b>	<b>382.0</b>	<b>410.2</b>
<b>Free Cashflow To Firm</b>	<b>180.2</b>	<b>226.0</b>	<b>382.0</b>	<b>410.2</b>

### Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	34.4%	5.5%	11.0%	9.4%
Operating EBITDA Growth	39.2%	11.9%	4.5%	6.1%
Operating EBITDA Margin	20.5%	21.8%	20.5%	19.9%
Net Cash Per Share (Rmb)	1.02	1.33	1.96	2.63
BVPS (Rmb)	3.54	4.17	4.83	5.54
Gross Interest Cover	N/A	N/A	N/A	N/A
Effective Tax Rate	28.4%	28.0%	28.0%	28.0%
Net Dividend Payout Ratio	20.6%	19.0%	21.1%	19.3%
Accounts Receivables Days	89.4	100.0	104.6	105.5
Inventory Days	33.45	38.15	36.86	37.43
Accounts Payables Days	48.00	53.03	51.98	52.78
ROIC (%)	32.7%	31.3%	29.4%	31.8%
ROCE (%)	30.7%	27.6%	24.9%	23.6%
Return On Average Assets	18.0%	16.3%	14.9%	14.3%

### 12-mth Fwd FD P/E (x) - China Sunshine Chemical Holdings



### Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	29.5%	-0.1%	4.5%	3.0%
Unit sales grth (% , main prod./serv.)	0.7%	3.0%	5.8%	5.5%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	12.1%	1.7%	3.0%	3.0%
Unit sales grth (% , 2ndary prod./serv.)	11.2%	5.1%	9.6%	8.8%
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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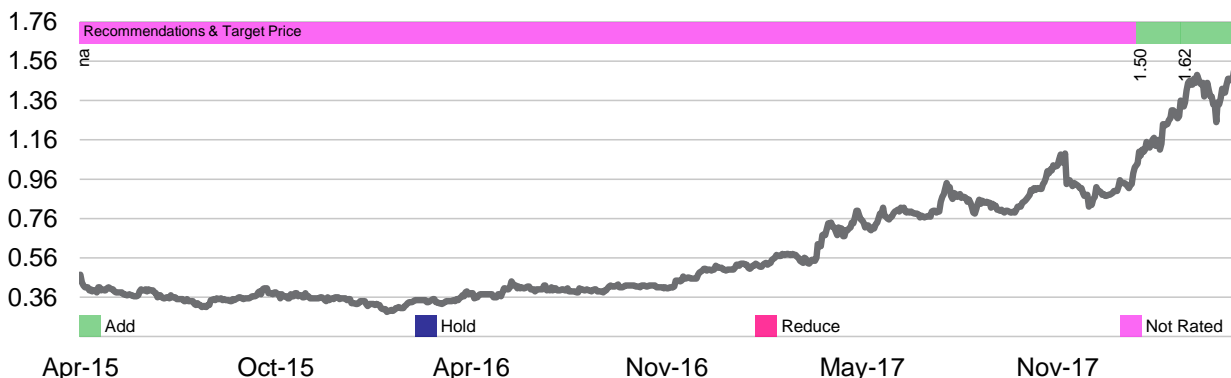
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2018		
1275 companies under coverage for quarter ended on 31 March 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.1%	5.5%
Hold	29.7%	2.0%
Reduce	8.9%	0.4%

**Spitzer Chart for stock being researched ( 2 year data )**

**China Sunshine Chemical Holdings (CSSC SP)**

— Price Close





**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017**

**AAV** – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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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.*

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Definition:

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- 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.

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Definition:

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.