

MCOT

MCOT.TB / MCOT.BK

31 October 2014

Insights into 3Q14—earnings tumble

Investment thesis

MCOT's proportionate market shares of ad spend and audience (including digital TV) have been declining since the launches of its two digital TV channels (due largely to weak programming), causing its fundamentals to deteriorate. That deterioration together with the revenue loss caused by True Visions' subscriber migration from the MCOT concession to its new NBTC license prompted us to revisit our FY14-15 earnings projections. The operational risks are intensified by the fact that the firm still has no CEO or CFO; it may take six months to fill the two positions. Our SELL rating stands, premised on a weak 2H14-FY15 outlook and organizational leadership issues.

Insights into 3Q14—earnings tumble

We estimate a Bt100m net profit for 3Q14, down by 73% YoY and 38% QoQ. The earnings dive is attributable to the ad revenue drop (related to weak broad consumption and a lower audience share), a plunge in concession revenue (due to True Visions' migration of subscribers from the MCOT concession, which expired in Sept 2014 to its NBTC-licensed subsidiary) and greater service costs (license fee amortization expenses of Bt67m/quarter and production costs). TV ad revenue is assumed to have plunged 32% YoY (flattish QoQ)—much worse than *Nielsen's* estimate of a 17% YoY slide. Radio ad revenue is likely to post slippage of 5% YoY (but an 8% QoQ rise).

MCOT's mean 3Q14 TV loading factor is likely to be reported at 73% (82% in 3Q13; flattish QoQ). Its total audience share (including digital TV) dropped further for the quarter—6.0% against 6.4% in 2Q14 and 7.7% in 3Q13. The firm's market share of ad spend (including digital TV) also declined—13.4% in 3Q14 against 16.3% in 2Q14 and 17.8% in 3Q13. The lower shares of ad spend and audience were due to weak analog and digital TV programming (the July revamp will take time to prove higher ratings—assuming that it does). We model for a concession revenue plunge of 35% YoY and 24% QoQ.

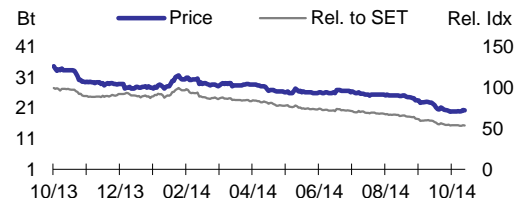
Further drops in audience share—both analog and digital

Nielsen's new ad spend and audience share statistics indicate that MCOT's share of audience (including digital TV) dropped from 7.1% in April 2014 to 6.6% in Sept. Moreover, its market share of ad spend (including digital TV) slumped from 18.4% in April to 12.3% in Sept.

The audience share of its standard-definition (SD) digital channel was flat at 0.1% during July-Sept, while the SD digital channel's share of ad spend dropped from 4.9% in July to 0.6% in Sept (due to weak digital programming). The ad spend shares of other digital TV operators (excluding existing free-to-air TV channels) jumped from 4.5% in April 2014 to 28.3% in Sept 2014. MCOT has clearly lost both audience and ad spend share to other digital TV channels.

Sector: Media Neutral
Rating: SELL
Target Price: Bt19.00
Price (30 October 2014): Bt20.30

Price chart

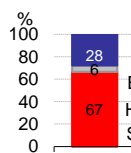


Share price perf. (%)	1M	3M	12M
Relative to SET	(10.7)	(25.0)	(51.4)
Absolute	(12.1)	(21.9)	(42.0)

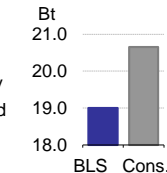
Key statistics

Market cap	Bt13.9bn	USD0.4bn
12-mth price range	Bt19.9/Bt35.3	
12-mth avg daily volume	Bt16m	USD0.5m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

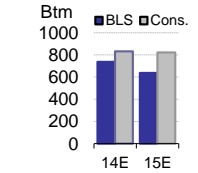
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	5,715	4,833	5,594	5,991
Net profit (Btm)	1,527	736	638	583
EPS (Bt)	2.22	1.07	0.93	0.85
EPS growth (%)	-13.2%	-51.8%	-13.4%	-8.6%
Core profit (Btm)	1,583	736	638	583
Core EPS (Bt)	2.30	1.07	0.93	0.85
Core EPS growth (%)	-10.0%	-53.5%	-13.4%	-8.6%
PER (x)	19.2	18.9	21.9	23.9
PBV (x)	3.7	1.9	1.9	1.9
Dividend (Bt)	2.1	1.0	0.9	0.8
Dividend yield (%)	5.0	4.9	4.2	3.8
ROE (%)	19.2	9.8	8.9	8.2

CG rating



Prasit Sujiravorakul

Securities Fundamental Investment Analyst

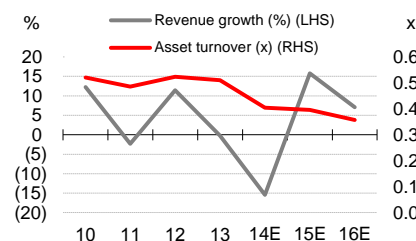
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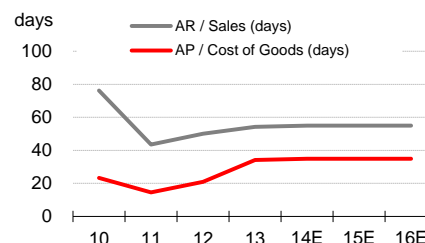
MCOT : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	5,729	5,715	4,833	5,594	5,991
Cost of sales and services	(2,422)	(2,727)	(3,099)	(3,735)	(3,905)
Gross profit	3,307	2,989	1,734	1,859	2,086
SG&A	(1,186)	(1,264)	(1,019)	(1,202)	(1,431)
EBIT	2,121	1,725	714	657	655
Interest expense	(11)	(14)	(57)	(118)	(193)
Other income/exp.	210	269	280	291	302
EBT	2,319	1,980	937	830	765
Corporate tax	(551)	(396)	(199)	(189)	(178)
After-tax net profit (loss)	1,768	1,584	738	641	587
Minority interest	(10)	(1)	(2)	(3)	(4)
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(56)	0	0	0
Net profit (loss)	1,759	1,527	736	638	583
Reported EPS	2.56	2.22	1.07	0.93	0.85
Fully diluted EPS	2.56	2.22	1.07	0.93	0.85
Core net profit	1,759	1,583	736	638	583
Core EPS	2.56	2.30	1.07	0.93	0.85
EBITDA	2,663	2,264	1,271	1,232	1,248
KEY RATIOS					
Revenue growth (%)	11.4	(0.2)	(15.4)	15.8	7.1
Gross margin (%)	57.7	52.3	35.9	33.2	34.8
EBITDA margin (%)	46.5	39.6	26.3	22.0	20.8
Operating margin (%)	37.0	30.2	14.8	11.7	10.9
Net margin (%)	30.7	26.7	15.2	11.4	9.7
Core profit margin (%)	30.7	27.7	15.2	11.4	9.7
ROA (%)	16.1	13.6	6.2	4.5	3.5
ROCE (%)	22.4	19.1	8.4	5.9	4.4
Asset turnover (x)	0.5	0.5	0.4	0.4	0.4
Current ratio (x)	3.2	3.5	4.1	4.0	4.0
Gearing ratio (x)	0.0	0.0	0.3	0.7	1.0
Interest coverage (x)	189.2	121.0	12.5	5.6	3.4
BALANCE SHEET (Btm)					
Cash & Equivalent	4,610	4,337	5,078	5,663	6,025
Accounts receivable	786	850	728	843	903
Inventory	40	51	52	62	65
PP&E-net	4,091	3,988	4,429	5,200	6,064
Other assets	830	859	1,501	2,657	3,852
Total assets	11,248	11,168	12,748	15,521	18,076
Accounts payable	139	256	297	358	374
ST debts & current portion	0	0	0	0	0
Long-term debt	5	4	2,400	4,900	7,300
Other liabilities	62	115	121	140	150
Total liabilities	3,209	3,208	5,500	8,310	10,864
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	1,107	1,107	1,107	1,107	1,107
Retained earnings	3,438	3,357	2,644	2,604	2,600
Shareholders equity	7,980	7,899	7,186	7,146	7,142
Minority interests	59	61	63	65	69
Total Liab.&Shareholders' equity	11,248	11,168	12,748	15,521	18,076
CASH FLOW (Btm)					
Net income	1,759	1,527	736	638	583
Depreciation and amortization	542	539	557	575	593
Change in working capital	(148)	41	163	(64)	(46)
FX, non-cash adjustment & others	(160)	(711)	101	(113)	(56)
Cash flows from operating activities	1,994	1,396	1,557	1,035	1,073
Capex (Invest)/Divest	(278)	(172)	(940)	(1,284)	(1,393)
Others	(663)	2,185	212	(268)	(151)
Cash flows from investing activities	(940)	2,013	(728)	(1,552)	(1,544)
Debt financing (repayment)	(5)	(5)	1,599	1,550	1,300
Equity financing	0	0	0	0	0
Dividend payment	(1,374)	(1,580)	(1,450)	(678)	(587)
Others	(663)	2,185	212	(268)	(151)
Cash flows from financing activities	(1,393)	(1,586)	149	872	713
Net change in cash	(340)	1,824	978	356	243
Free cash flow (Btm)	1,716	1,224	617	(249)	(320)
FCF per share (Bt)	2.5	1.8	0.9	(0.4)	(0.5)
Key assumptions	2012	2013	2014E	2015E	2016E
Average TV loading factor (%)	83.0%	80.0%	60.0%	65.0%	70.0%
TV ad revenue (Btm)	3,860	3,824	2,804	3,090	3,359
Radio ad revenue (Btm)	942	956	779	780	781
Concession revenue (Btm)	927	936	967	999	1,032
SG&A/sales (%)	20.4%	21.6%	21.0%	21.0%	21.0%

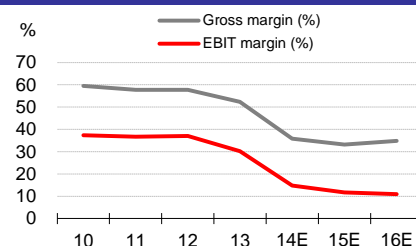
Revenue growth and asset turnover



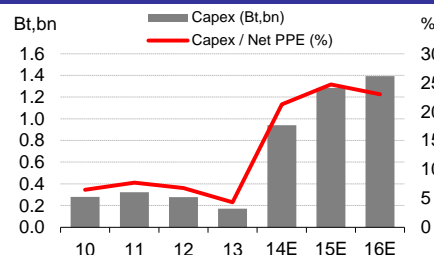
A/C receivable & A/C payable days



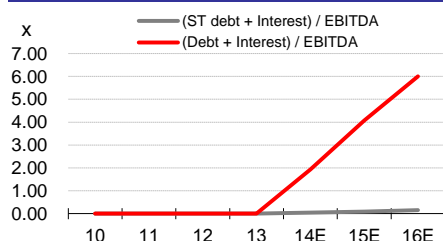
Profit margins



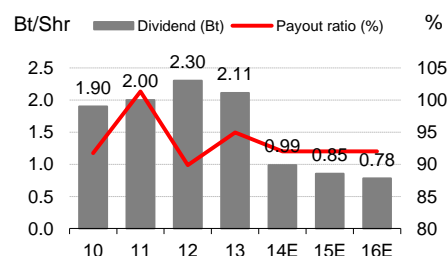
Capital expenditure



Debt serviceability



Dividend payout



MCOT : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	1,466	1,529	1,437	1,062	1,126
Cost of sales and services	(652)	(754)	(740)	(593)	(681)
Gross profit	814	775	697	469	445
SG&A	(311)	(294)	(324)	(280)	(283)
EBIT	503	481	372	190	162
Interest expense	(3)	(3)	(3)	(3)	(3)
Other income/exp.	62	50	51	51	46
EBT	562	528	420	237	205
Corporate tax	(116)	(96)	(90)	(48)	(49)
After-tax net profit (loss)	446	432	331	189	156
Minority interest	(1)	(1)	1	9	7
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(56)	0	0	0
Net profit (loss)	445	376	332	198	163
Reported EPS	0.65	0.55	0.48	0.29	0.24
Fully diluted EPS	0.65	0.55	0.48	0.29	0.24
Core net profit	445	431	332	198	163
Core EPS	0.65	0.63	0.48	0.29	0.24
EBITDA	636	618	507	330	355

KEY RATIOS

Gross margin (%)	55.5	50.7	48.5	44.2	39.5
EBITDA margin (%)	43.4	40.4	35.3	31.0	31.6
Operating margin (%)	34.3	31.5	25.9	17.9	14.4
Net margin (%)	30.3	24.6	23.1	18.6	14.5
Core profit margin (%)	30.3	28.2	23.1	18.6	14.5
BV (Bt)	11.5	11.1	11.6	11.9	11.0
ROE (%)	22.6	19.8	16.8	9.8	8.7
ROA (%)	16.4	13.4	11.9	5.6	4.9
Current ratio (x)	3.6	2.8	3.5	3.4	2.2
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	155.6	149.1	112.5	55.2	46.8

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	4,616	4,897	4,337	3,571	3,269
Accounts receivable	762	793	850	676	727
Inventory	64	61	51	54	64
PP&E-net	3,918	3,810	3,988	4,090	4,019
Other assets	949	953	948	4,946	4,877
Total assets	10,864	11,208	11,168	14,199	13,344
Accounts payable	187	262	256	301	219
ST debts & current portion	7	6	6	6	6
Long-term debt	4	3	4	3	5
Other liabilities	1,259	1,268	1,435	4,524	3,746
Total liabilities	2,949	3,605	3,208	6,050	5,812
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	3,336	3,026	3,357	3,555	2,955
Retained earnings	3,336	3,026	3,357	3,555	2,955
Shareholders equity	7,879	7,568	7,899	8,097	7,497
Minority interests	36	35	61	52	35
Total Liab.&Shareholders' equity	10,864	11,208	11,168	14,199	13,344

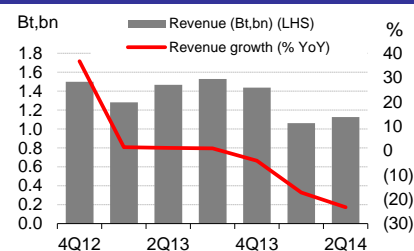
Key statistics

	2Q13	3Q13	4Q13	1Q14	2Q14
Average TV loading factor (%)	82.0%	82.0%	70.0%	60.0%	73.0%
TV ad revenue (Btm)	946	1,065	954	693	725
Radio ad revenue (Btm)	246	248	266	183	218
Concession revenue (Btm)	275	216	216	186	183
SG&A/sales (%)	21.2%	19.2%	22.6%	26.3%	25.1%

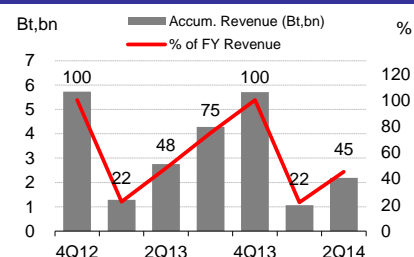
Company profile

MCOT Plc (MCOT) operates a free-to-air national terrestrial TV station, ModerNine, and 62 radio stations across the country. The firm also collects a percentage of the revenues generated by two TV operators that have MCOT-granted concessions—Bangkok Entertainment Plc (a subsidiary of BEC) and UBC (or TRUE Visions). Bangkok Entertainment operates the nationwide terrestrial TV station, Channel 3. Last year Bangkok Entertainment paid Bt182m in revenue share to MCOT. TRUE Vision runs a multi-channel pay TV business over fiber-optic cable and satellite. It pays 6.5% of its revenue to MCOT. In FY13 it paid Bt595m.

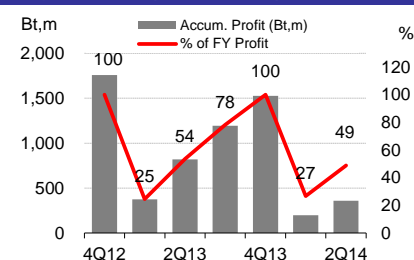
Revenue trend



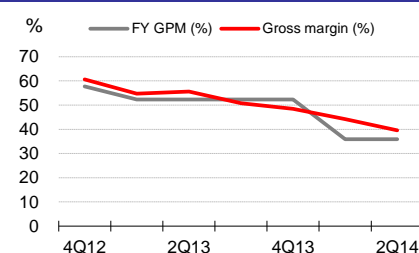
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

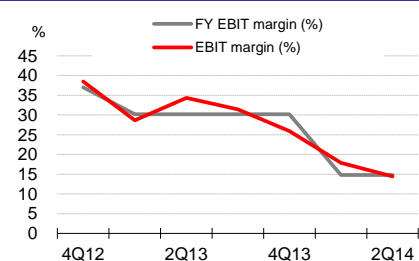
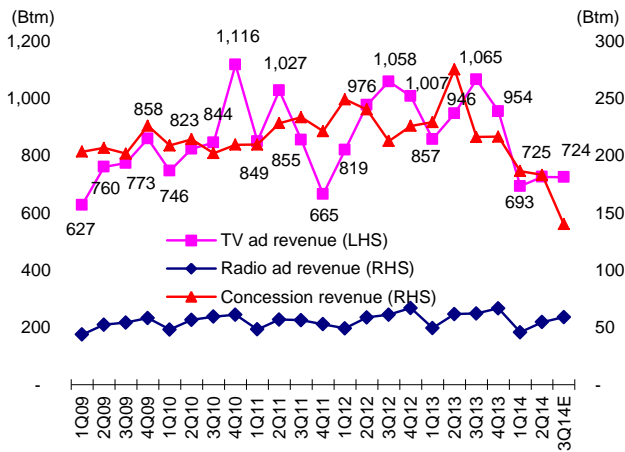
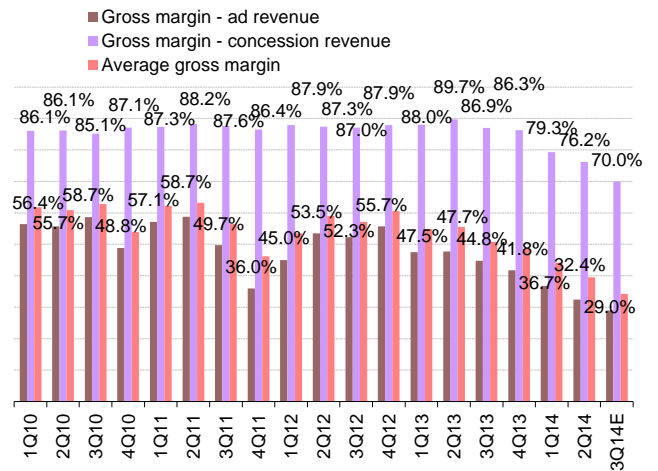


Figure 1: Revenue breakdown, by quarter



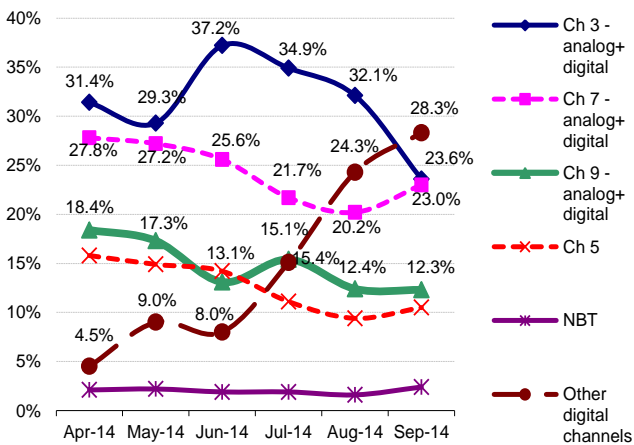
Sources: Company data, Bualuang Research

Figure 2: Gross margin breakdown, by quarter



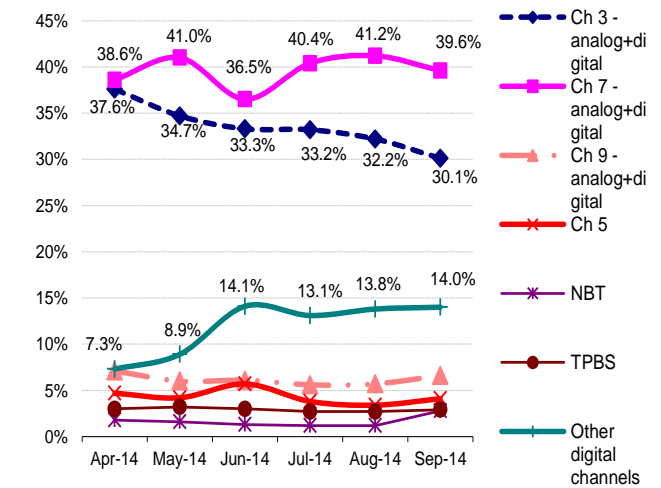
Sources: Company data, Bualuang Research

Figure 3: Ad spend share (analog and digital), by month



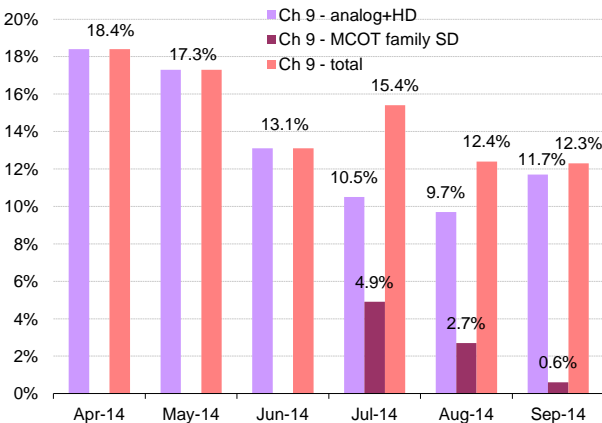
Source: The Nielsen Company

Figure 4: Audience share (analog and digital), by month



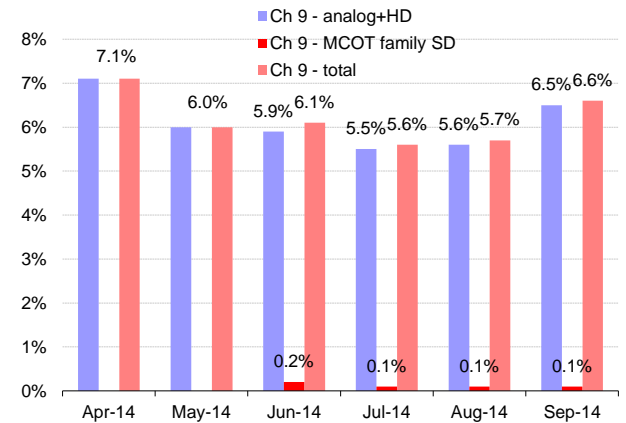
Source: The Nielsen Company

Figure 5: MCOT's ad spend share—analog and digital



Source: The Nielsen Company

Figure 6: MCOT's audience share—analog and digital



Source: The Nielsen Company

Figure 7: 3Q14 earnings preview

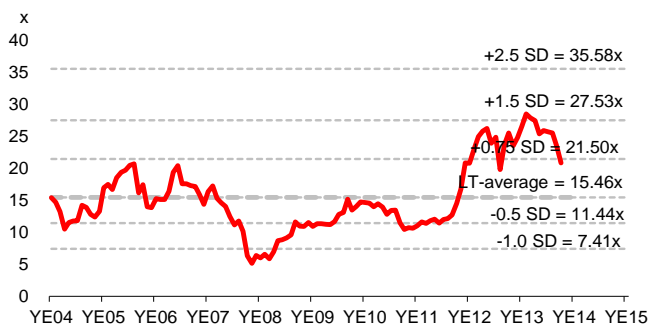
	3Q14E	3Q13	% YoY	2Q14	% QoQ	9M14E	9M13	% YoY
Total revenue	1,100	1,529	(28.1)	1,126	(2.3)	3,287	4,279	(23.2)
- TV	724	1,065	(32.0)	725	(0.1)	2,142	2,868	(25.3)
- Radio	235	248	(5.1)	218	8.0	636	691	(8.0)
- Concession	140	216	(35.2)	183	(23.5)	509	720	(29.3)
Total cost of services	(723)	(754)	(4.0)	(681)	6.3	(1,996)	(1,986)	0.5
- Cost of TV & radio	(681)	(725)	(6.1)	(637)	7.0	(1,872)	(1,902)	(1.6)
- Cost of concession	(42)	(28)	48.8	(44)	(3.7)	(124)	(84)	47.6
Gross profit	376	775	(51.5)	445	(15.5)	1,291	2,292	(43.7)
- TV & radio	278	588	(52.6)	306	(9.1)	906	1,657	(45.3)
- Concession	98	188	(47.8)	139	(29.7)	385	636	(39.4)
Gross margin (%)	34.2%	50.7%		39.5%		39.3%	53.6%	
- TV & radio	29.0%	44.8%		32.5%		32.6%	46.6%	
- Concession	70.0%	86.9%		76.2%		75.6%	88.3%	
SG&A	(286)	(294)	(2.9)	(283)	1.1	(848)	(940)	(9.8)
EBIT	90	481	(81.2)	162	(44.4)	443	1,352	(67.3)
Interest expense	(3)	(3)	7.6	(3)	(0.1)	(10)	(10)	7.0
Other income/exp.	35	50	(30.1)	46	(23.8)	132	217	(39.2)
EBT	122	528	(76.9)	205	(40.5)	564	1,560	(63.8)
Corporate tax	(26)	(96)	(73.3)	(49)	(48.1)	(123)	(307)	(59.8)
After-tax profit	96	432	(77.7)	156	(38.1)	441	1,253	(64.8)
Minority interest	4	(1)	n.m.	7	(44.1)	20	(2)	n.m.
Extra items	-	(56)	n.m.	-		-	(56)	n.m.
Net profit	100	376	(73.3)	163	(38.4)	461	1,195	(61.4)
Reported EPS	0.15	0.55	(73.3)	0.24	(38.4)	0.67	1.74	(61.4)
Fully diluted EPS	0.15	0.55	(73.3)	0.24	(38.4)	0.67	1.74	(61.4)
Core net profit	100	431	(76.7)	163	(38.4)	461	1,251	(63.2)
Core EPS	0.15	0.63	(76.7)	0.24	(38.4)	0.67	1.82	(63.2)
EBITDA	300	618	(51.4)	355	(15.5)	985	1,756	(43.9)
Gross margin (%)	34.2	50.7		39.5		39.3	53.6	
EBITDA margin (%)	27.3	40.4		31.6		30.0	41.1	
Operating margin (%)	8.2	31.5		14.4		13.5	31.6	
Net margin (%)	9.1	24.6		14.5		14.0	27.9	
Core profit margin (%)	9.1	28.2		14.5		14.0	29.2	

Sources: Company data, Bualuang Research estimates

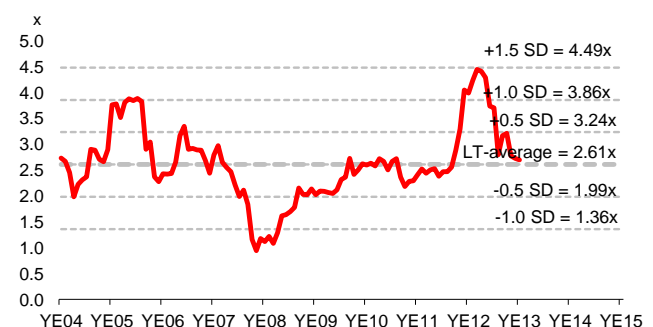
Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Abs-Cbn Corp	ABSPM	PHP45.2	859	20.6	17.2	-31.5	19.0	14	12	8.4	7.4	14	14
Gma Network Inc	GMA7PM	PHP7.4	555	31.5	21.1	-27.1	60.0	n.a.	n.a.	18.7	13.3	3.5	3.5
Sun Tv Network Ltd	SUNTVIN	INR319.3	2,051	15.5	13.2	8.0	18.1	3.3	2.8	26.4	24.9	3.4	3.9
Zee Entertainment Enterprise	ZIN	INR347.4	5,438	36.6	29.9	3.1	22.8	5.9	5.0	22.2	21.1	0.7	0.9
Television Broadcasts Ltd	511HK	HKD42.5	2,397	11.5	11.1	264.9	4.2	2.0	1.9	18.4	19.4	5.8	6.0
Phoenix Satellite Television	2008 HK	HKD2.4	1,540	13.1	11.4	349.6	18.2	2.0	1.7	16.5	15.5	2.2	2.6
Nippon Television Network	9404 JP	JPY1621.0	3,911	14.0	12.8	13.9	9.7	0.7	0.7	5.8	5.5	1.9	2.0
Tokyo Broadcasting System	9401JP	JPY1163.0	2,025	19.9	19.1	-3.8	3.6	0.5	0.5	2.8	2.7	1.6	1.7
Tv Asahi Corp	9409 JP	JPY1678.0	1,665	14.3	13.0	0.3	10.4	0.6	0.6	4.5	4.5	1.8	2.0
Beijing Gehua Catv Network-A	600037 CH	CNY15.4	2,681	31.3	24.6	34.2	26.9	2.4	2.2	10.1	8.4	0.9	1.1
BEC World	BEC TB	THB47.75	2,935	22.4	24.1	-23.9	-7.0	11.6	11.4	51.2	50.8	4.1	3.9
GMM Grammy	GRAMMY TB	THB13.90	299	n.m.	n.m.	n.m.	n.m.	3	3	-18.8	-10.8	0.0	0.0
Major Cineplex Group	MAJOR TB	THB23.80	651	20.0	18.0	0.3	11.2	3.4	3.3	17.1	18.4	4.2	4.7
MCOT	MCOT TB	THB20.30	429	18.9	21.9	-51.8	-13.4	1.9	1.9	9.8	8.9	4.9	4.2
RS	RSTB	THB8.15	252	29.4	26.2	-32.6	1.4	4.4	4.1	16.4	16.3	1.9	2.1
VGI Global Media	VGITB	THB12.90	1,361	4.7	3.5	2.8	35.0	26.3	9.4	58.0	39.6	1.9	2.5
Workpoint Entertainment	WORK TB	THB34.25	280	103.4	57.2	-66.8	80.7	5.0	4.8	5.5	8.8	0.5	0.9
Simple average				28.1	22.2	27.5	19.5	4.6	3.4	12.3	15.0	2.4	2.5

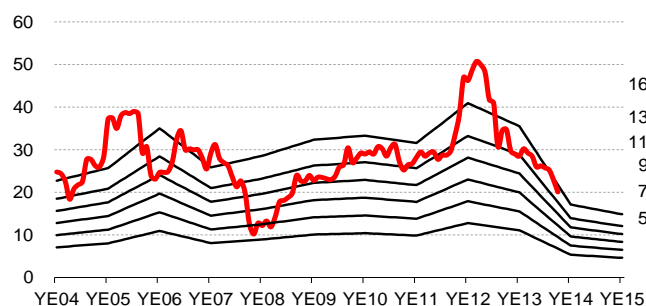
PER band versus SD (next 12 months)



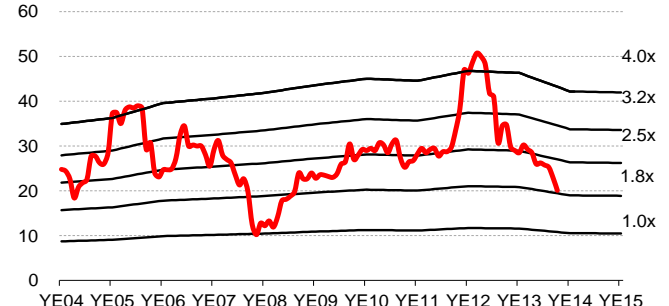
PBV band versus SD (next 12 months)



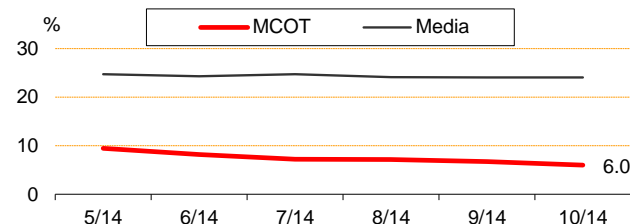
PER band and share price



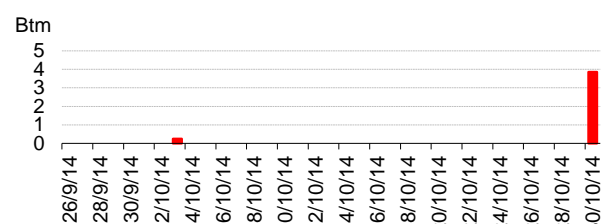
PBV band and share price



Foreign holding



Short selling activities during past four weeks



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
TSE	BA, BGH, TSE

Score Range

90 – 100
80 – 89
70 – 79
60 – 69
50 – 59
Below 50

Score Range






No logo given

Description

Excellent
Very Good
Good
Satisfactory
Pass
N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK
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BUY: Expected positive total returns of 15% or more over the next 12 months.
HOLD: Expected total returns of between -15% and +15% over the next 12 months.
SELL: Expected negative total returns of 15% or more over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.