Southern Acids (M) Berhad

Organic Chemistry

OUTPERFORM

Price:	**RM4.61**
Target Price:	**RM5.35**

Expected Capital Gain:	*RM0.859*	*+16.0%*
Expected Divd. Yield:	*RM0.050*	*+1.1%*
Expected Total Return:	*RM0.914*	*+17.1%*

We initiate coverage on SAB with an OUTPERFORM call and TP of RM5.35 based on Sum-of-Parts. Its integrated plantation operations combine good long-term FFB growth with above-average processing margins, while the Healthcare segment is on track for expansion to support average revenue growth. This is rounded out by a solid balance sheet with net cash of RM164m (RM1.19/share) supports both expansions and a steady dividend payout of 5.0 sen/share.

Integrated plantation businesses with a natural hedge. Southern Acids (M) Berhad (SAB) was formed in 1980 with three core segments, namely Oleochemical (49% of FY17A revenue), Milling & Estate segment ("Plantation Upstream"; 38%), Healthcare segment (11%) and the Investment & Services segment ("Others"; 2%). Its integrated plantation operations have historically recorded an inverse correlation between the oleochemical and plantation upstream division, as lower CPO prices on upstream side lead to lower feedstock prices in the downstream side. This leads to a natural hedge against CPO price volatility, ensuring consistent profitability for the group's Plantation businesses.

Expansions to enhance Healthcare growth. We are positive on SAB's expansion plans in its Healthcare segment where it owns and operates the Sri Kota Specialist Medical Centre (Sri Kota), its flagship 232-bed tertiary private medical centre in Klang. The company has planned for c.RM26m capex for FY18E, of which c.RM20m is to be allocated for the enhancing and expanding of one of its core disciplines (cancer, spine, heart centres), while the remaining is allocated for licensed bed expansion of c.20 beds/year through FY19E. We expect these expansions to contribute to the Healthcare segment operating margin expansion trend, from 18-23% in FY16-17A to 24% in FY18-19E. This compares very favourably to local large-scale hospital players such as IHH at 15% operating margins and KPJ at 8%.

Strong balance sheet to support expansions. SAB balance sheet remains healthy with a net cash position of RM163.6m (RM1.19/share) supporting dividend payments of RM6.8m (14-15% payout). Note that SAB is a consistent dividend payer with 5.0 sen DPS annual payout since 2009. We understand that SAB's net cash position provides for future expansion plans without the need for cash calls. Should SAB expand on its plantation estates, we estimate that SAB could gear up to c.RM450m (assuming net gearing of 50%) which could support the purchase of c.7.1-21.4k ha of brownfield/greenfield area, substantially boosting SAB's total landbank by 1.5x-4.6x to 11.7-26.0k ha. Should management expand its plantation landbank, this would be the third major land acquisition since 5.3k ha in 2002. Nevertheless, SAB has since added a 60TPH palm oil mill which was commissioned in 2015.

Initiating coverage with an OUTPERFORM call with TP of RM5.35 based on Sum-of-Parts with an implied SOP Fwd. PER of 14.9x against their historical average of 21.1x. We value SAB's plantation upstream business at 16.0x PER, in line with the small-cap upstream average as SAB's solid OER and rising long-term yield outlook offsets weak short-term FFB growth. We apply a 15.0x PER to the Oleochemical division for a 5% discount to the upstream small cap average, very conservative compared to larger integrated players with Fwd. PER of 22-27x. Meanwhile we apply a Healthcare Fwd. PER of 18.0x, is in line with the small cap segment average. We also include a conglomerate discount of 15% for adjusted Sum-of-Parts valuation of RM732m, implying a **TP of RM5.35** for which Total Return is 17.1% (16.0% upside; 1.1% DY). With positive earnings expectations of 13-9% in FY18-19E, good expansion outlook and a solid balance sheet position, we initiate our coverage on SAB with an **OUTPERFORM** call.

KLCI Index	**1,765.59**

Stock Information

Bloomberg Ticker	SA MK Equity
Bursa Code	5134
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	136.9
Market Cap (RM m)	631.3
Par value per share (RM)	1.00
52-week range (H)	5.25
52-week range (L)	3.80
Free Float	47%
Beta	0.3
3-mth avg daily vol:	16,856

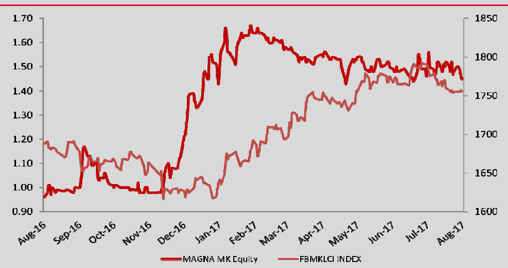
Major Shareholders

Southern Palm Industry	31.3%
Lembaga Tabung Haji	13.1%
Southern Realty (Malaya)	8.4%

Summary Earnings Table

FY Mar (RM m)	**2017A**	**2018E**	**2019E**
Turnover	740.1	723.2	755.4
EBIT	69.5	71.9	76.4
PBT	73.8	75.9	82.0
Net Profit (NP)	**48.7**	**49.0**	**53.6**
Core NP	**43.4**	**49.0**	**53.6**
Consensus (NP)	N.A	N.A	N.A
Earnings Revision	N.A	0%	0%
Core EPS (sen)	31.7	35.8	39.2
Core EPS growth (%)	50.9	12.9	9.4
NDPS (sen)	5.0	5.0	5.0
NTA per Share (RM)	4.16	4.47	4.81
Price to NTA (x)	1.1	1.0	1.0
PER (x)	14.5	12.9	11.8
Debt-to-Equity ratio(x)	Cash	Cash	Cash
Return on Asset (%)	6.1	6.5	6.7
Return on Equity (%)	7.6	8.0	8.1
Net Div. Yield (%)	1.1	1.1	1.1

Share Price Performance



	1 mth	*3 mths*	*12 mths*
Absolute (%)	-2.9%	-10.0%	15.8%
Relative (%)	-2.7%	-9.2%	10.2%

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INVESTMENT HIGHLIGHTS

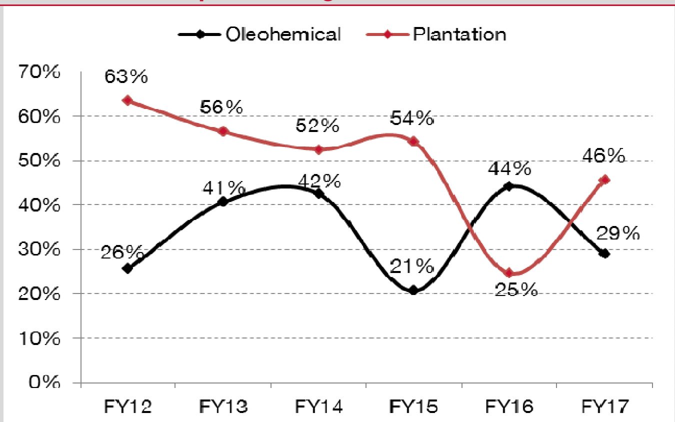
Integrated milling & estate segment player with a health angle. Southern Acids (M) Berhad (SAB) was formed in 1980 as a venture into the palm oleochemical industry. After its listing in 1991, SAB ventured into several business ventures such as dry bulk warehousing, power generation, bridge concessions, hospital, palm oil estates and milling. Since then, the company has streamlined its business lines into three core segments, namely the Oleochemical segment (49% of FY17A revenue), Milling & Estate segment ("Plantation Upstream"; 38% of revenue), Healthcare segment (11% of revenue) and the Investment & Services segment ("Others"; 2% of revenue).

FFB internal production to be driven by new maturities. As at FY17A, SAB's immature palm oil trees stood at 34% of its total planted area, above the sector average of 26%, due to the continuous replanting program in Malaysia and Indonesia that began in FY13. With 226ha (121 acres in Malaysia and 105 acres in Indonesia) of replanted area in FY13 reaching maturity, we expect FY18E share of immature area to decline to 25%. While we anticipate the higher number of young mature area to lower the group yield/mature ha to 22.8 MT/ha in FY18E (from 25.8MT/ha), we expect yields to gradually improve over the next 3-4 years. For the near-mid term, we expect FY18-19E FFB growth of -7-6% to reverse in FY19E onwards. We understand that Riau, where 95% of SAB's plantation upstream area is located, tends to see mature yields of c.26MT/ha, which we believe is achievable as their young area continues to mature. In view of this, we are positive on the group's long term FFB growth.

Oil yields set to recover post El-Nino. The region saw very dry weather due to a long El Nino period which lasted from Nov-14 to May-16, peaking in severity in 4Q15. Dry weather usually impacts oil palm productivity with reduced fruit bunch size which leads to lower oil yields. However, since mid-2016, weather has largely normalised. Hence, we expect oil extraction rate (OER) to recover to 21-22% for FY18-19E (vs. 20% in FY17A), though kernel extraction rate (KER) should remain stable at 5% for FY18-19E. Our forecast for the rebound in overall oil extraction rate is largely premised on the assumption of improved crop productivity post the severe El –Nino phenomena in FY16.

Above average Oleochemical PBT margins. Based on FY17A operating profit, SAB's oleochemical segment had consistently recorded positive operating margins between 2.3-7.8% in the last 5 years. Indeed, relative to other downstream players, SAB saw operating margins of 5.5%, higher than large-cap players such as IOICORP (2.8%) and KLK (4.7%). Going forward, we conservatively assume flat operating margins at 5% for FY18-FY19E backed by less PKO price volatility in the coming months as we expect better regional palm oil production. Our forecasts have also taken into account the potential downside pressure to the group margins as a result of higher hedging and raw material costs.

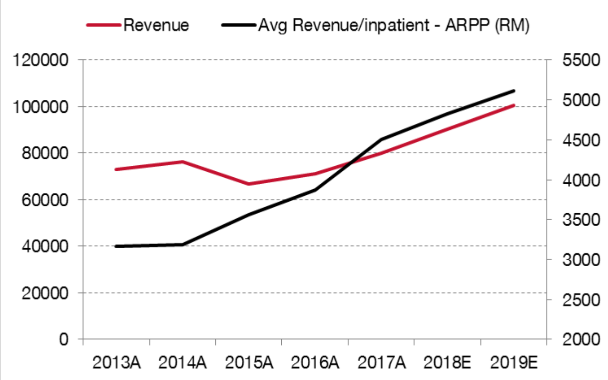
Natural Hedge For Oleochemical and Plantation Upstream Segments



Source: Company; Kenanga Research

Oleochemical business provides natural hedge to plantation upstream segment. We reckon there was an inverse correlation between oleochemical and plantation upstream division as lower CPO prices on upstream side lead to lower feedstock prices in the downstream side. In FY16, when plantation segment contribution was affected by dry weather, the Oleochemical segment contributed the largest share to the group's PBT at 44% or RM16.3m (vs. Plantation's 21% or RM9.0m in FY16). Meanwhile, when CPO prices recovered in FY17A, Plantation contribution rose to 46% or RM33.6m vs. Oleochemical's 29% or RM21.4m. We believe SAB's integrated business model provides a natural hedge against CPO price volatility, ensuring consistent profitability for the group's Plantation businesses.

Expansions Support Topline and ARPP Growth



Source: Company; Kenanga Research

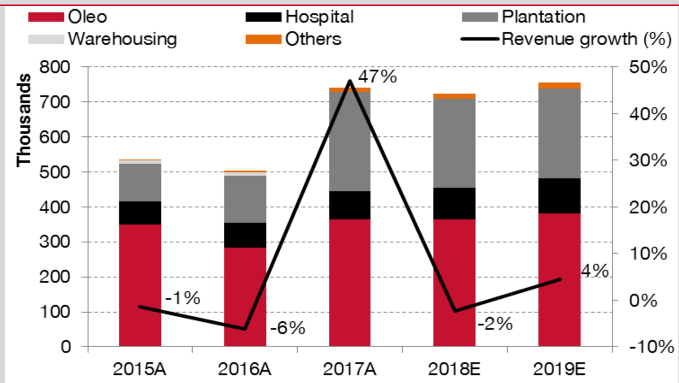
Expansions to enhance Healthcare growth. SAB owns and operates the Sri Kota Specialist Medical Centre (Sri Kota), its flagship 232-bed tertiary private medical centre in Klang, which was commissioned in 1999 and accredited with the Malaysian Society for Quality in Health (MQSH). Its core specialisations are in its Centres of Excellence for cancer, heart and spine treatment, with key advantages being its strategic location in the heart of Klang and comprehensive specialist services. We are positive on SAB's expansion plans in the Healthcare segment with approximately RM26.4m capex planned for FY18E. Of this amount, approximately RM20.0m is to be allocated for the enhancing and expanding of one of its core disciplines. The group is also planning to add 20-20 beds in FY18-19E (to 201 beds by FY19E) and to increase the number of headcount by 20-24 pax to 545 by FY20E. Management is in the midst of adding more specialist clinics for FY18E to gear up its topline growth. Its existing efforts paid off in FY17A when average revenue per patient (ARPP) was boosted due to more complex cases perform by additional specialist recruited. We expect these expansions to contribute to the Healthcare segment operating margin expansion trend, from 18-23% in FY16-17A to 24% in FY18-19E. This compares very favourably to local large-scale hospital players such as IHH at 15% operating margins and KPJ at 8%.

Strong balance sheet. SAB balance sheet remains healthy with minimal borrowings recorded in FY16-17 totalling RM0.81-0.61m respectively. We note that the group had no borrowings for FY12-15 and SAB is currently in a net cash position amounting to RM163.6-225.1m or RM1.19-1.64 per share for FY17-18E. This provides support to annual dividend payment of RM6.8m based on 14-15% payout translating into flattish net dividend yield of 1.1% each for FY17-18E, a tad below average of 3% dividend yield for small cap plantation peers within our universe. We note that SAB is a consistent dividend payer and has been paying out a 5.0 sen DPS annually since 2009 albeit its growing profit. We believe the lower dividend yield is justified by management's prudent working capital management, which relies on minimal borrowings, instead utilising its cash reserves for crop and raw material purchases in its plantation upstream and Oleochemical segments. We also understand that SAB's net cash position will provide for future expansion plans without the need for cash calls.

Solid net cash position supports potential expansions. With its substantial net cash position of RM163.2m, we believe SAB is in a good position to expand in its key businesses. This is more than sufficient for our estimated FY17-18E capex of RM11.2-26.1m largely arising from plantation upstream replanting and addition of 40-bed capacity in the Healthcare division. Should SAB plan to expand on its plantation upstream estates, we estimate that SAB could raise up to c.RM450m (assuming comfortable net gearing of 50%) which could support the purchase of c.21.4k ha of greenfield area (at USD5k/ha) and c.7.1k ha of brownfield area (at USD15k/ha). This could substantially boost SAB's total landbank by 1.5x-4.6x to 11.7-26.0k ha. Should management choose to expand its plantation upstream landbank, this would be the third major land acquisition since its second Riau investment of 5.3k ha in 2002 (the first and second being 261ha in Selangor and 2.6k ha in Riau, respectively). However, we note that SAB has since continued to develop its plantation upstream segment by adding a 60TPH palm oil mill which was just commissioned in 2015.

FINANCIALS

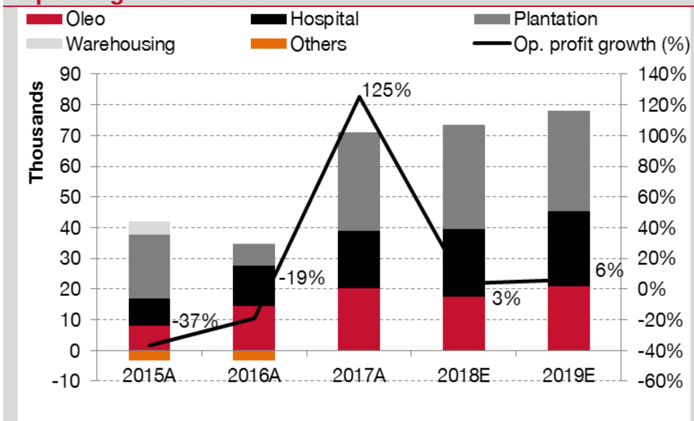
Revenue Outlook



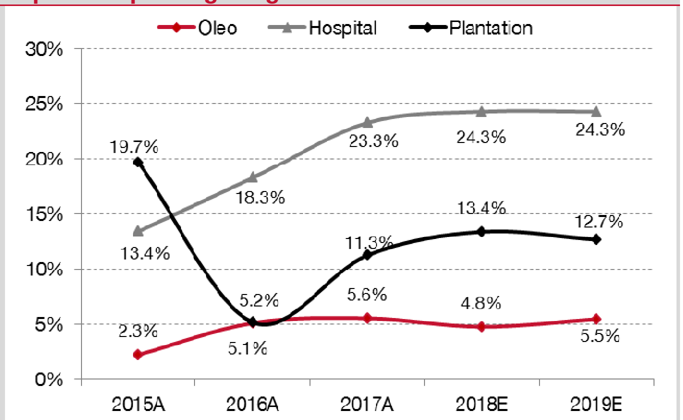
Source: Company; Kenanga Research

Stabilising revenue trend. We expect revenue to remain fairly stable in FY18-19E at -2% and +4% to RM723-755m. Oleochemical division will continue to be the largest contributor at RM365-381m as we expect higher utilisation thanks to better feedstock availability to offset a dip in average selling prices (-3% and +3%) due to softer YoY CPO prices. For the second largest contributor, the plantation upstream segment, we expect revenue to soften 11% to RM253m in FY18E on lower selling prices and a production dip due to planned replanting, but revenue should marginally improve by 1% to RM257m on the back of higher mill utilisation and oil yield improvements, leading to higher CPO production. Meanwhile, the Healthcare segment should see continued double-digit topline growth of 13-11% thanks to its rising number of beds (+6-6%), while we expect ARPP to improve thanks to SAB's efforts to expand its expertise in its core specialties.

Operating Profit Outlook



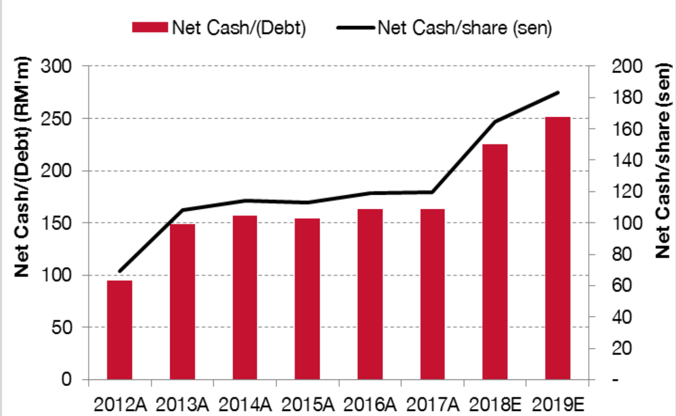
Expected Operating Margin



Source: Company; Kenanga Research

Positive operating profit outlook. We expect SAB to post continued FY18-19E Core Net Profit (CNP) improvement of +13-9% to RM49.3-52.7m with Operating Profit improvement of 3-6% to RM73.0-77.6mm. This comes on the back of rising Healthcare segment margins thanks to better ARPP and better cost efficiency as the company embarks on its expansion program. Plantation upstream segment too should see margin improvement mainly on better oil yields and higher mill utilisation, while Oleochemical segment margin could slip to 4.8% before recovering to 5.5% due to feedstock price volatility causing margin compression.

Net Cash Position Outlook

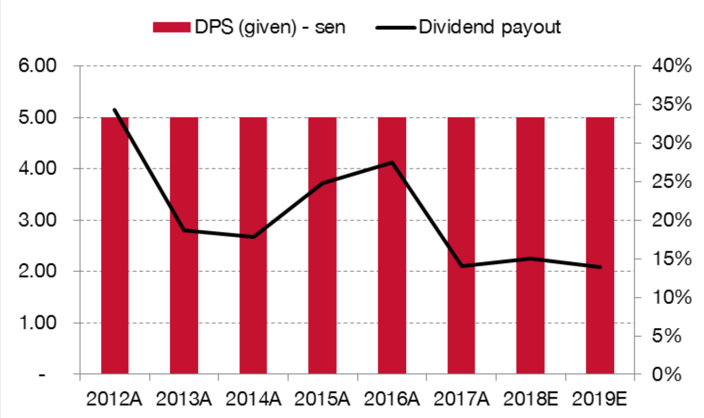


Source: Company; Kenanga Research

Long-term net cash position. SAB has been in a net cash position since 2003 and we expect this to continue over the long run, barring M&A activities. We forecast solid FY18-19E free cash flows (FCF) of RM75.9-RM41.8m to contribute to higher net cash reserves of RM225-251m which should provide ample support for dividend payments (RM6.8-8.2m) as well as potential expansions as noted above.

DIVIDEND POLICY

Dividend Payout Value & Ratio

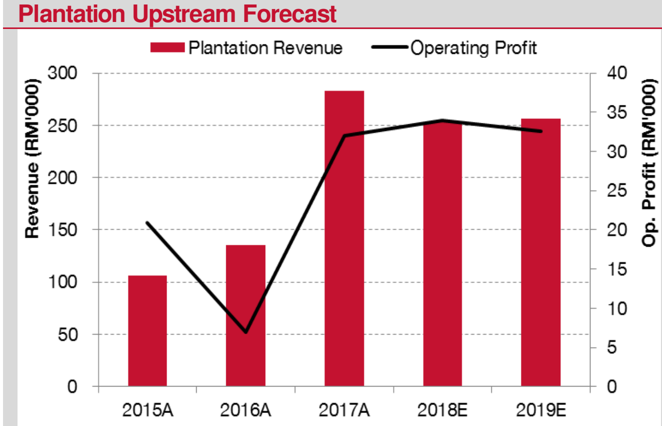


Source: Company; Kenanga Research

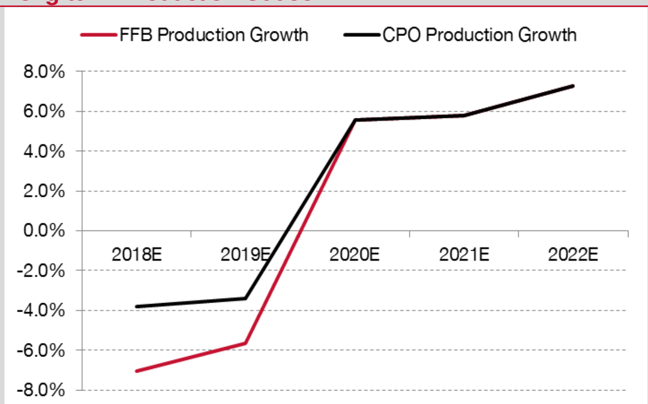
The company has no fixed dividend policy. However, it has a 5-year historical average dividend pay-out ratio of 21% (range: 14-28%) with consistent 5.0 sen dividend paid out since 2009. For FY18-19E we expect SAB to maintain a conservative 15-14% payout ratio for NDPS of 5.0-5.0 sen, implying a modest dividend yield of 1.1-1.1%.

COMPANY OUTLOOK

Plantation Upstream Forecast



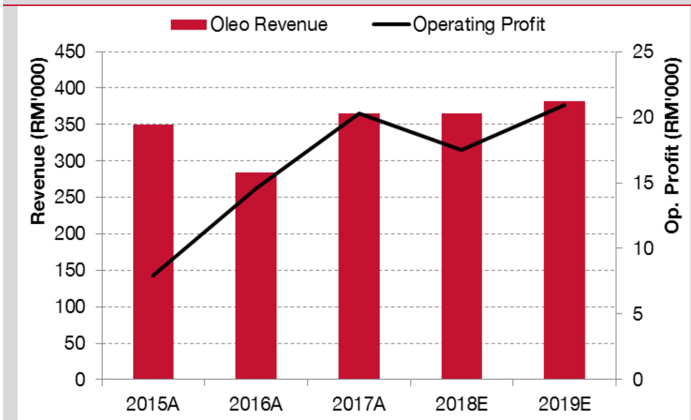
Long-term Production Outlook



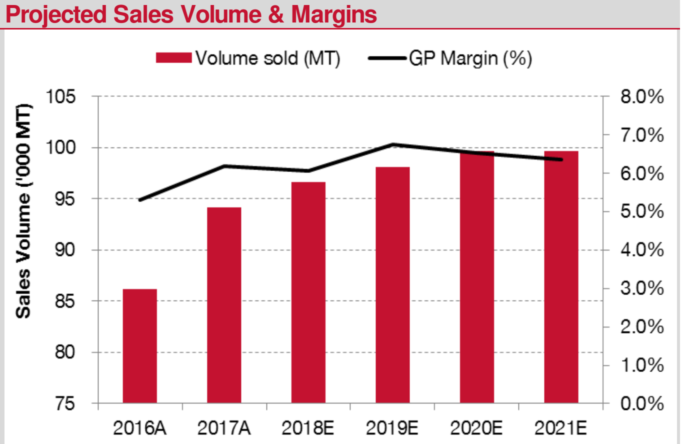
Source: Company; Kenanga Research

Good long-term yield outlook. Although we expect lower FFB production in the near term, this is largely due to young maturing areas, which have lower initial productivity, as explained above. We expect FFB yields to improve over the next 3-4 years for consistent FFB growth over 5% from FY20E onwards. Meanwhile, CPO production should be less affected as we expect OER to improve with recovery from 2015 El Nino-led droughts.

Oleochemical Forecast

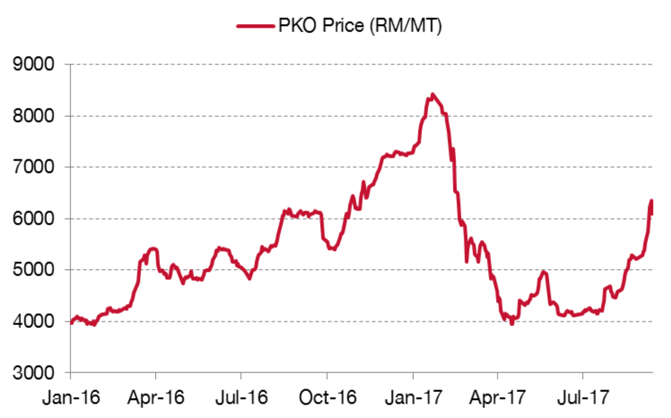


Projected Sales Volume & Margins



Source: Company; Kenanga Research

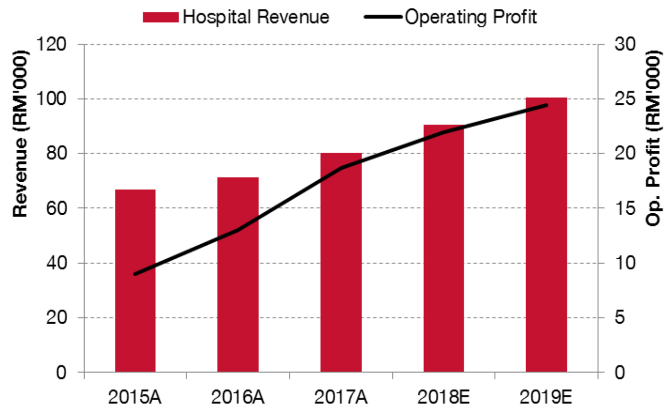
PK Oil Price History



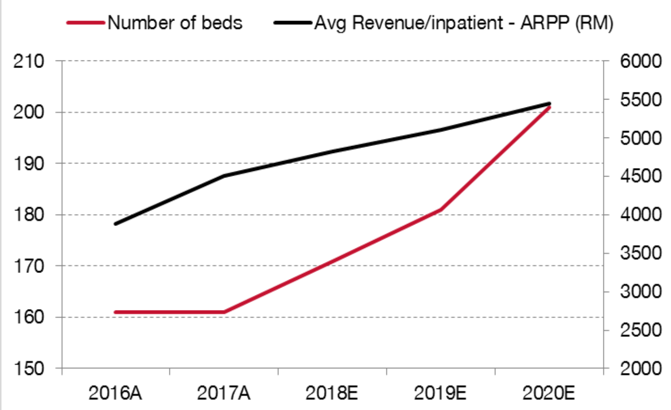
Source: Company; Kenanga Research

Oleochemical to see temporary dip on feedstock volatility. We think the recent price volatility in palm kernel oil (PKO) prices that peaked at RM8,430/MT and bottomed at RM3,935MT would lead to margin compression due to higher hedging costs and the time lag between SAB passing on its raw material cost to customers. Going forward, we expect steady revenues due to stable sales volumes. However, Operating Profit could take a hit of -14% to RM/17.5m in FY18E due to margin tightness. Looking ahead, we expect less PKO price volatility in the coming months as palm oil production improves regionally, thus leading FY19E Operating profit to recover 20% to RM20.9m.

Healthcare Forecast



Projected Bed Count and ARPP



Source: Company; Kenanga Research

Expanding hospital bed space. We expect consistent Healthcare segment revenue growth of 13-11% to RM90.4-100.5m in FY18-19E on the back of their licensed beds expansion which would increase SAB's capacity by 25% to 201 beds by FY20E. We are also positive on average revenue growth as SAB has reported consistent growth in ARPP for inpatients averaging 9% annually in the last 5 years to hit RM4,509/patient in FY17A while ARPP for outpatients grew 5% on average to hit RM219/patient in FY17A. 1Q18 ARPP is similarly encouraging at RM4,979/inpatient. We expect the higher topline to feed into higher Healthcare segment profits of 13-11% to RM22.0-24.4m in FY18-19E.

No plans for property development¸ for now. SAB has held 644.5 acres of Malaysian plantation estate in Klang for property development, valued at RM142m, for several years. However, we gather that management plans to focus on its core businesses of Plantation Upstream, Oleochemical and Healthcare segments for the foreseeable future. Hence, we do not expect management to enter into property development any time soon. Furthermore, we believe that with its strong balance sheet position, it is highly unlikely that SAB would dispose of the parcel of land in the near-to-mid term for any expansion plans.

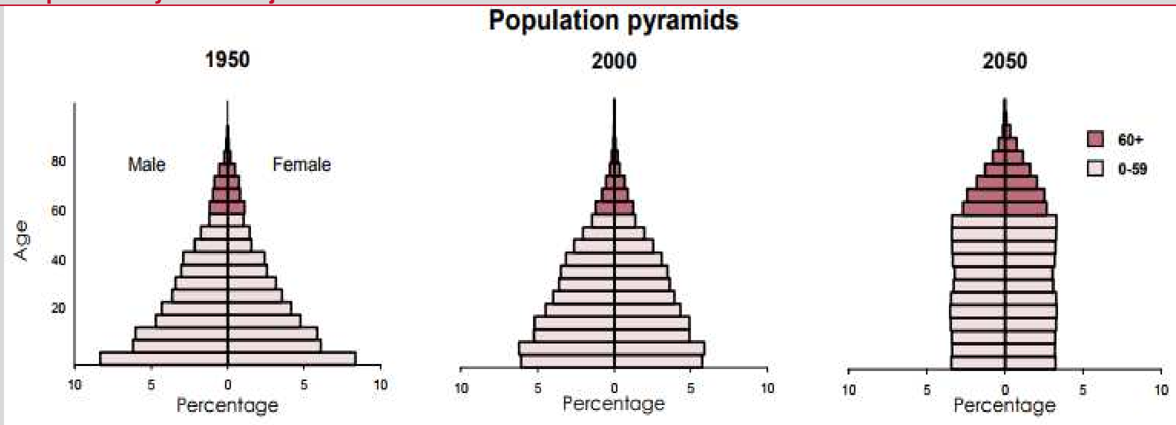
Investment stake in Paramount Corporation Berhad. SAB holds a 4.55% stake in Paramount Corporation Berhad (PARAMON) in conjunction with its holding company Southern Palm Industries Sdn. Bhd. (8.78%) and Southern Realty (Malaya) Sdn. Bhd. (2.47%), which totals to a 15.8% stake collectively. PARAMON is a property developer and education services provider involved in townships and integrated developments revolving around their education arms, which include KDU-brand university colleges and private schools in Penang and Selangor. The stake is valued at RM42.5m, which reflects the latest share price of the company. Given the collective and long-term nature of the stake (held since pre-1999), we believe SAB is unlikely to realise its investment in PARAMON and thus exclude it from our valuation basis. Nevertheless, we note the per-share valuation of the stake at RM0.31/share (6.7% of current share price).

SECTOR OUTLOOK

Weaker 2H17 CPO price outlook… as we expect palm oil inventories to continue rising to cross over the >2.0m MT psychological mark at 2.10m MT in Sep-17. Higher inventories tend to be linked to lower CPO prices. Meanwhile, although short-term festival demand should continue to support prices up to October, we expect lower demand together with the ongoing high production season between Sep-Oct to contribute to a weaker price environment in 4Q17. Although lower CPO prices could be earnings negative, we expect higher year-end yields to support margins by reducing production cost per MT of production.

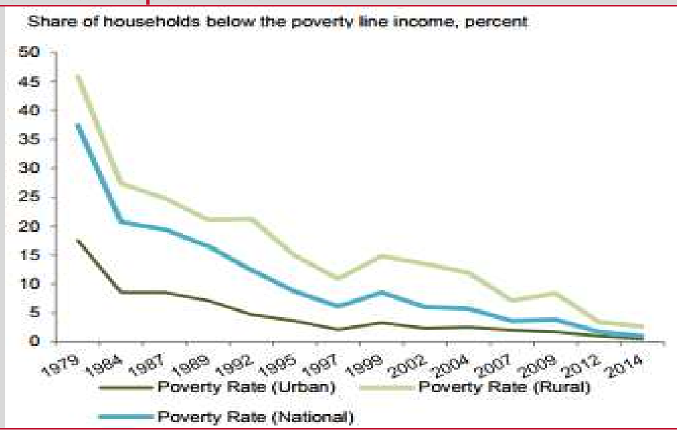
… benefits Downstream processors thanks to lower feedstock costs. With CPO and PK prices stabilising on the downtrend, we expect downstream palm oil processors to benefit from lower raw material costs, which we estimate makes up 75-80% of cost of sales. Also, note that higher FFB production would also lead to better availability of raw materials, which improves plant utilisation for better economies of scale.

Malaysia Population Pyramid Projection



Source: Population Division, DESA, United Nations

Declining Poverty Rates Support Private Hospital Needs



Source: World Bank

Positive demographic trends for Healthcare division. Malaysian demographic trends are favourable to the Healthcare segment, particularly with its aging population and rising middle income group. According to the United Nations' projections, Malaysian population aged 60 years and above made up 6.6% of the total, but this is expected to reach 13.4% by 2025, and 20.8% by 2050, which benefits the Healthcare industry as an older population requires more hospital services. Meanwhile, the increase in upper/middle class incomes, as shown by the falling poverty rates to <5% as of 2014, are a positive driver for the private hospital industry.

RISKS AND CHALLENGES

Minimum wages policies. SAB's plantation upstream operations are mainly located in Riau, Indonesia. This business segment is highly labour intensive as such any impending changes in government policies and regulations will adversely impact the group production cost which potentially leads to margin erosion. Recall that, Indonesia's Ministry of Manpower and Transmigration had increased minimum wages by 12.8% in 2015 but the policy was then reformed and raised by 15% from IDR2.7m to IDR3.1m. In order to cushion the downside risk towards higher operating cost, the group is making concerted effort to further improve production efficiency.

Increasing competition for downstream segment. The downstream segment of SAB is primarily involved in manufacturing industrialised oleochemical products in Malaysia. At present, many downstream players in Malaysia are facing intense competition, especially from Indonesia counterparts who enjoy cost advantage and favourable export tariff from the biodiesel levy which reduces local feedstock prices.

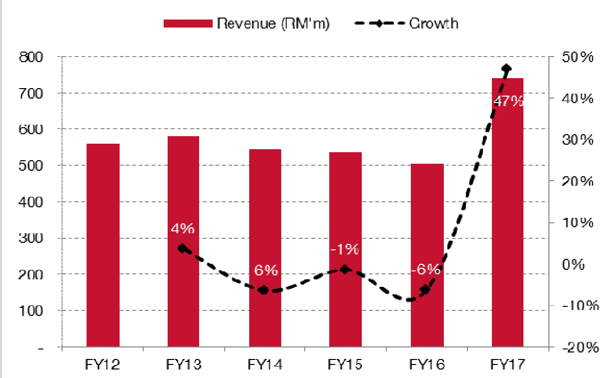
CPO price affects earnings. SAB'S plantation upstream is one of SAB's core divisions. The division could be directly affected by weaker 2H17 CPO price trend, which could have a negative impact on the group's overall earnings.

Weather vagaries. Extreme weather phenomena like El Nino and La Nina generally bring negative biological effect to the crop productivity. Severe drought could cause lags in crop production due to lower fresh fruit bunches (FFB) output. Heavy periods of rainfall increase the risk of flooding, which could affect the labour productivity and overall harvesting process.

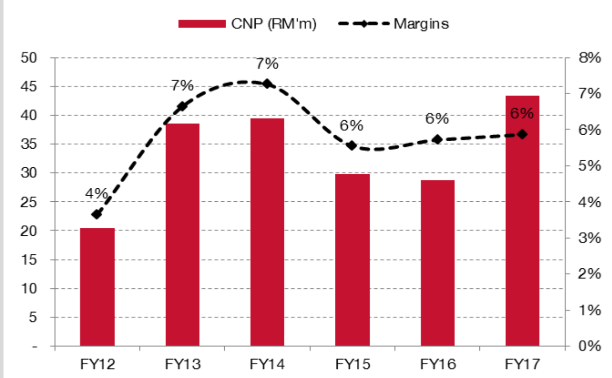
Shortage of medical specialist and qualified nurse. SAB's Sri Kota Specialist Medical Centre operates in the vicinity of Klang Valley, which has the highest concentration of private hospitals in Malaysia. We note that in FY17A, the group experienced high turnover of qualified nurse staffing. We believe it was likely due to the rising competitive operating environment in the market that demands for more medical specialists and qualified nurses. Difficulty to expand and recruit new headcounts will hinder SAB ability to cater to the patient needs which could pressure the division's topline growth. Recall that FY17A's topline growth was boosted by additional specialists recruited due to more complex cases performed.

HISTORICAL FINANCIAL ASSESSMENT

Group Revenue and Growth Analysis



Group CNP and Margins Analysis

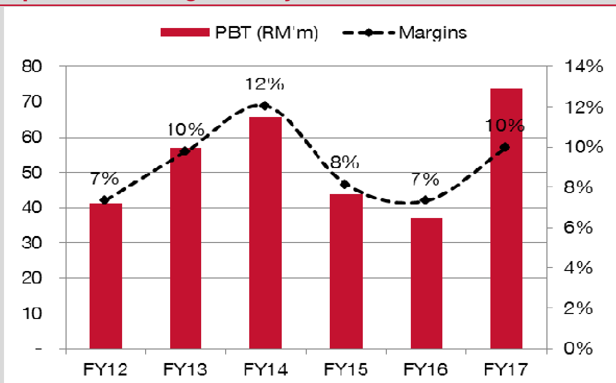


Source: Bloomberg, Kenanga Research

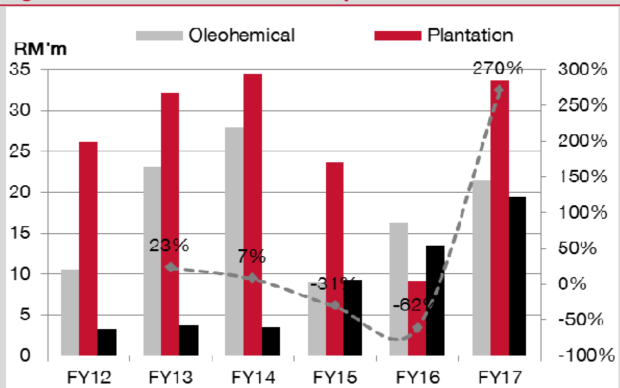
Stellar FY17A revenue growth. SAB registered a sterling topline performance in 2017 at RM740.1m, a huge jump of 47% YoY after mediocre revenue growth of between 4% to -6% in FY12-16. The impressive topline performance was largely attributable to the plantation upstream segment with FY17A revenue up more than 2-fold, 110% YoY to RM283.1m (vs. RM284.0m in FY16). Oleochemical division booked the strongest revenue growth in the last 6 years at 29% YoY (vs. -19% YoY in FY16). FY17A was also the best year for SAB's Healthcare segment with 12% YoY turnover, the highest growth recorded since FY12.

Core net profit jumped 96%. SAB recorded strong net earnings of RM48.6m, 96% YoY (vs. -10% YoY in FY16). Included in FY17A net profit was forex gain of RM5.4m attributed by its plantation upstream and oleochemical businesses. Stripping this out, core net profit was RM43.4m, 51% YoY (vs. RM28.7m in FY16, -3% YoY). Core profit margins were flattish at 6% YoY in FY16 and FY17A. FY17A PBT jumped 100% YoY to RM73.8m translating into 10% YoY PBT margins (vs.7% YoY in FY16), largely derived by the plantation upstream business. Plantation upstream segment PBT grew to RM33.6m boastings 270% YoY growth, an impeccable 6-year earnings record representing 46% contribution to the Group's total PBT. PBT margin was stronger 12% YoY underpinned by higher palm product prices in 2H17, which lifted the average selling price.

Group PBT and Margins Analysis



Segmental PBT and Plantation Upstream PBT Growth

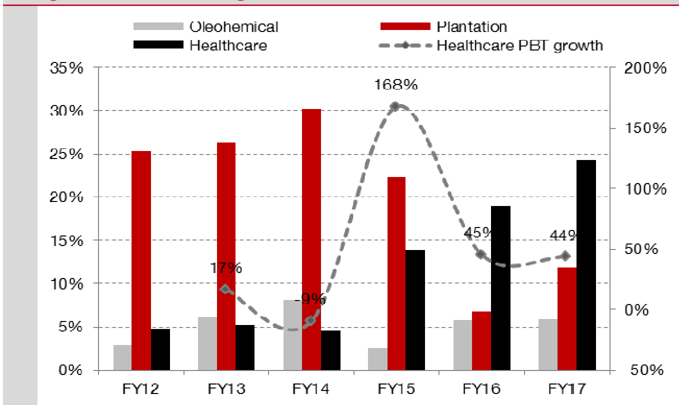


Source: Bloomberg, Kenanga Research

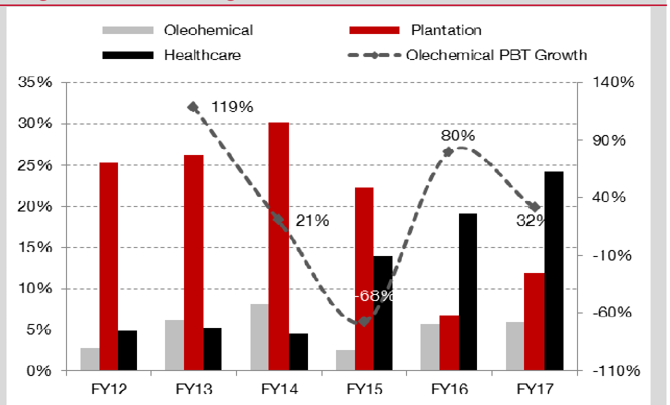
FY14 earnings lifted by plantation upstream segment. SAB booked FY17A PBT of RM73.8m, 32% YoY growth with PBT margins improved to 10% from 7% in FY16. The group impressive earnings was largely attributed by plantation upstream segment, which contributed the largest share to the group's PBT at 46% with margins improved to 12% from 7% in FY16. Based on the 6- year historical performance, SAB delivered 7-12% PBT margins, peaking at 12% in FY14. This was largely buoyed by plantation upstream segment with PBT margins recorded the highest level at 30% as compared to other core divisions such as Oleochemical and Healthcare, which only recorded decent PBT margins of 8% and 5% respectively. The increase in 9% internal FFB production and higher average FFB yield by 11% as a result of continuous planned fertiliser programme was the main driver that contributed to higher PBT in FY14.

FY16 plantation upstream PBT affected by weather. SAB'S plantation upstream arm remains a key earnings driver as it consistently contributed 46% to 63% of the group overall PBT between FY12-17. The group plantation upstream, however, hit a low, contributed only RM9.0m, 25% of the group PBT in FY16, implying a sharp plunge -62% YoY. This was primarily due to the El Nino weather phenomenon which brought setback to the supply of FFB in the region and caused higher FFB price in the market. We note that SAB purchases most of its FFB input from surrounding external estates to be processed by POM plant production unit. Thus, a hike in FFB prices led the production cost to surge higher and eroded the group's plantation upstream margins in FY16. SAB sourced 79% of FFB externally in FY16 (vs. 83% in FY17A) with POM average utilisation rate hitting a low 78% implying an under-utilisation of POM production capacity. FY17A utilization rate then recovered to 99%, running at full capacity, contributing to plantation upstream PBT recovery of 270% to RM33.6m.

Segmental PBT Margins and Healthcare PBT Growth



Segmental PBT Margins and Oleochemical PBT Growth

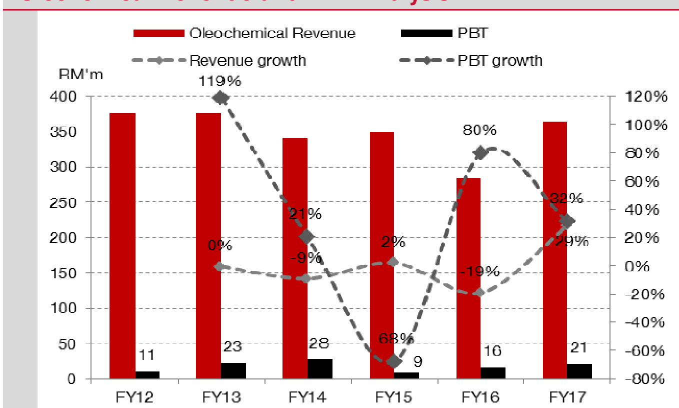


Source: Bloomberg, Kenanga Research

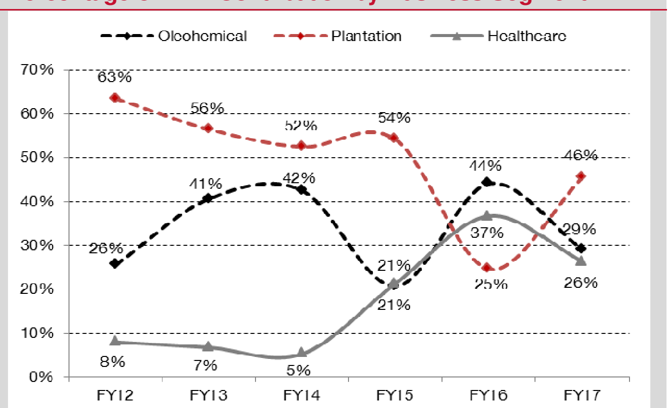
Plantation upstream generates double-digit PBT margin. On a segmental basis, we are encouraged by the rising contribution from SAB's plantation upstream business at the topline level as we believe this segment commanded the highest PBT margin based on the 6-year historical track records. Recall that, plantation upstream segment recorded PBT margin of 12% in FY17A, due to c.50% YoY higher average selling price, particularly in 2H17. We estimate the average selling price for FY17A was approximately at RM2,207/MT in line with CPO spot prices. In addition, the recovery of FFB production across the region drove the higher sales volume of the group's POMs by c.40% YoY. Moreover, IDRMYR had strengthened by 12.4% in FY17A which we believe had contributed positively to the SAB' plantation upstream segment.

Healthcare division boosted by ARPP. We believe SAB's Healthcare division is on a strong foothold as it began to register double digit margins since FY15. The highest PBT margin was in FY17A at 23 % (vs. 18% in FY16 and 13% in FY15). Despite the marginal increase in bed occupancy rate at c.61% (vs.59% in FY16) and number of inpatients dipped by -1% from 13,354 in FY16 to 13,284 in FY17A, the Average Revenue per Patient (ARPP) of inpatients was 16% higher in FY17A to RM4,509 from RM3,878 in FY16. This was mainly due to more complex cases performed, which was boosted by additional specialists recruited in FY17A. The group is planning to recruit more full time doctors as well as exploring avenues to enhance core disciplines to expand the Healthcare division topline growth.

Olechemical Revenue and PBT Analysis



Percentage of PBT Contribution by Business Segment



Source: Bloomberg, Kenanga Research

Higher production cost; downside to Olechemical margins. SAB's Oleochemical revenue was stronger at 29% YoY in FY17A after a subdued revenue growth of -19% YoY in FY16. At PBT level, the business booked RM21.4m in FY17A from RM16.3m in FY16, translating to moderate growth of 32% after a strong year of PBT growth registered at 80% YoY in FY16. The increase in revenue and PBT in FY17A was due to higher average selling price and sales volume by 13% and 9% respectively. FY17A sales volume was higher by 9% to 94,172MT from 86,149MT in FY16 and production utilisation rate rose to 95% from 86% backed by better demand in the market. Despite higher revenue, FY17A margin at gross profit level inched up by only 6% from 5% in FY16 impacted by higher raw material costs, which made up 78% of the total production costs. Margin at PBT level remained flat at 6% from FY16-17. The highest PBT margin recorded was in FY14 at 8%, lifted by low production costs. Both average prices per MT of CPO and RBD palm stearin were approximately 7% relatively lower than FY13. Ratio of local sales to overseas sales remained flattish at 26:74 from FY16-17.

PEER COMPARISONS

Peer Comparison

Company	Market Cap (RM'm)	Core Net Margin (%)		ROE (%)		Net Profit Growth (%)		Net Gearing (x)	Net Gearing (x)
		FY16/17E	FY17/18E	FY17/18E	FY18/19E	FY17/18E	FY18/19E	FY16/17A	FY17/18E
IOICORP	28,471	8%	11%	12%	12%	7%	11%	0.78	0.09
KLK	26,156	6%	7%	11%	10%	15%	1%	0.24	0.21
FGV	6,129	-1%	0%	1%	2%	N.M.	109%	0.34	0.69
HSPLANT	2,119	25%	25%	6%	7%	4%	4%	N.Cash	N.Cash
UMCCA	1,371	28%	28%	4%	4%	-3%	3%	N.Cash	N.Cash
Peers Average		**13%**	**14%**	**7%**	**7%**	**6%**	**26%**	**0.5**	**0.3**
SAB	637	6%	7%	8%	8%	13%	9%	N.Cash	N.Cash

Source: Bloomberg, Kenanga Research

On par with large cap integrated players. We find SAB's core net margins for FY18-FY19E of 6%-7% in line with large-cap integrated peers such as IOICORP and KLK. Looking ahead, for the next two years, we anticipate SAB to achieve decent net earnings growth of 13%-9% for FY18-19E. Despite being a small cap player, SAB net profit growth is at par with large cap integrated players within our universe such as IOICORP (7%-11%) and KLK (15%-1%). Sector-wide, SAB net profit growth 13%-9% appears to be lower than the peers' average, partly due to the sector performance being boosted by FGV coming from a low base. Excluding FGV from the peers, SAB net earnings growth of 13%-9% is higher than the average peers net earnings growth of 6%-5%. In terms of ROE, SAB is anticipated to records 8% for FY18-19E, slightly higher than the peers' average.

Solid net cash position to pure upstream players. On the balance sheet side, we find SAB to be positioning itself with other upstream pure players such as HSPLANT and UMCCA with a strong net cash standing. SAB's net cash position appears to be more attractive than large cap integrated players that have high gearing ratios like IOICORP (0.78-0.09x) and KLK (0.24-0.21x). We think SAB will be able to maintain its healthy balance sheet position over the long run and this should support the group ability to pay consistent dividend payment going forward.

VALUATION & RECOMMENDATION

Initiating coverage with an OUTPERFORM call with TP of RM5.35 based on Sum-of-Parts with an implied SOP Fwd. PER of 14.9x against their historical average of 21.1x. We value SAB's plantation upstream business at 16.0x PER, in line with the small-cap plantation upstream average which we believe is fair. Despite weak short-term FFB growth, we are positive on SAB's solid OER and rising yield outlook thanks to its large proportion of immature hectarage. Meanwhile, we apply a 15.0x PER to the Oleochemical division implying a 5% discount to the plantation upstream small cap average. We believe this is a very conservative estimate as compared to other integrated players which enjoy Fwd. PER of 22-27x, although we note their larger market cap of >RM8.0b compared to SAB at RM630m. Meanwhile we apply a Healthcare segment Fwd. PER of 18.0x, which is in line with the small cap Healthcare segment average. We exclude the value of SAB's 644 acres parcel of land held for property development as it is currently contributing to Plantation Upstream earnings. However, assuming agricultural land valuations of RM15-20psf, we estimate a market value of RM421-561m for the estate, and believe the valuation could be higher should management choose to convert to mixed-development use or similar. This implies an additional value of RM3.00-4.00/share should management choose to realise the land and also taking into account the loss in plantation earnings from that land. Given the disparity in its core businesses, we also include a conglomerate discount of 15% for adjusted Sum-of-Parts total valuation of RM732m. On a per share basis, this implies a **Target Price of RM5.35** for which Total Return is 17.1% (16.0% upside; 1.1% dividend yield). With its solid earnings growth prospect, integrated plantation upstream value chain, Healthcare expansion plan and strong balance sheet with potential for landbank expansion, we initiate our coverage on SAB with an **OUTPERFORM** rating.

Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	Applied PER	Net Income (RM'm)
Oleochemical	15x PER on CY18E earnings	5% discount to plantation small caps	206	15.0	13.8
Healthcare	18x PER on CY18E earnings	Small cap Healthcare average PER	294	18.0	16.3
Plantation Upstream	16x PER on CY18E earnings	In line with plantation small caps	361	16.0	22.6
Sum-Of-Parts (RM m)			**862**		
Conglomerate discount			15%		
Adj. Sum-Of-Parts (RM m)			732		
No of shares (m)			137		
TP (RM)			**5.35**		

Source: Bloomberg, Kenanga Research

APPENDIX

The history of Southern Acids (M) Berhad (SAB) dates back to 1980 when Southern Acids (M) Sdn Bhd was incorporated as a private limited company to venture into the oleochemical industry.

Southern Acids (M) Sdn Bhd was started by a group of local entrepreneurs, engaged primarily in the upstream oil palm market who were quick to see the potential presented by palm oil as an alternative feedstock to the oleochemical industry which was then still largely based on tallow and coconut oil.

Today, SAB and its subsidiaries is a group of companies whose businesses include investments in other palm oil related sectors, both locally and abroad. In addition to the palm oil industry, SAB also operates a private tertiary hospital centre in Klang, Selangor.

SAB's three core business segments as below:

1. **Oleochemical**

   The Oleochemical division is involved in the manufacturing and marketing of fatty acids and glycerine. The production mix is about 90:10 between fatty acids and glycerine. SAB's products are used in a wide variety of application; amongst others in the cosmetic production, pharmaceuticals production and food industries. Asia (72.7%) has always been SAB's major export destination followed by America (13.1%), Europe (7.0%) and Middle East (7.0%).

2. **Milling & Estate**

   As at 31 March 2017, SAB has two Palm Oil Mills (POMs) in Riau, Indonesia with a total milling capacity of 105 MT per hour. The fresh fruit bunches ("FFB") required for processing by the two POMs are supplied by both internal estates as well as from surrounding external estates. In FY2017, about 82.6% FFB are sourced from external sales. The division has a land bank of 2,880.3 hectares of which 1,510.9 hectares are immature area in Indonesia <note this down – think of why this is +ve> whereas in Peninsular Malaysia, it has a small land bank of 154.9 ha of mature area and 76.1 ha of immature area.

3. **Healthcare**

   Sri Kota Specialist Medical Centre (SKSMC) is the leading private tertiary medical centre in Klang. It is a 232-bed tertiary private medical centre in Klang. Sri Kota's main core disciplines include Orthopedics, Cardiology and Nephrology as well as Hand & Microsurgery.

   Sri Kota is accredited with the full four-year prestigious Malaysian Society for Quality in Health ("MSQH") 4th Edition (2nd Cycle) for a period of four years from 12 November 2014 to 11 November 2018. As part of the plan to increase top line of the division, SAB is recruiting more full time doctors as well as exploring avenues to enhance and expand their core disciplines.

Management Details

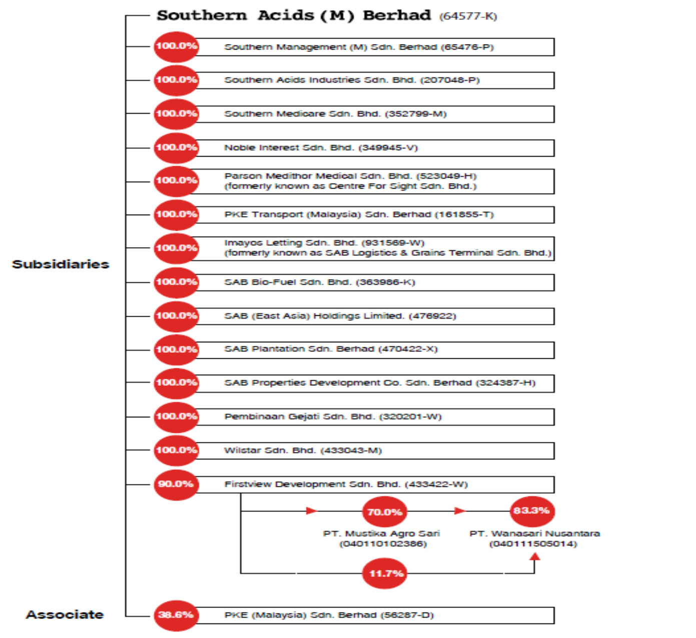
Board of Directors' Profile

Name	Position	Background
Tan Sri Datuk Seri Panglima Sulong Mat Jeraie	Independent Non-Executive Director, Chairman	• Aged 70 • Appointed as an Independent Non-Executive Chairman on 15-Jul-2015. • He is also an independent Non-Executive Chairman of Petra Energy Bhd and Ho Hup Construction Company Bhd, and an independent Non- Executive Director of Brahim's Holdings Bhd. • Possesses more than thirty years of legal and judicial experience, was a Federal Court Judge before his retirement in 2013. • Holds a Bachelor of Arts (Honours) degree and read Law at the Inns of Court School of Law, London. Conferred with a Master of Law Degree in Mercantile Law by University of Southampton, England.
Dr. Nick Low	Non-Independent Executive Director	• Aged 38 • Appointed to the Board on 15-Jul-2015. • Holds a Bachelor Diploma in Medical Sciences from International Medical University, a MBA from Open University Malaysia and a Bachelor of Medicine & Bachelor of Surgery from The University of Auckland, New Zealand. • From 2012 to 2015, he was involved in the strategic management of an oil palm plantations development project with its grounds in the province of Kalimantan Timur, Indonesia.
Lim Kim Long	Non-Independent Executive Director	• Aged 57 • Appointed to the board on 10-Aug-2005. Other than directorship in SAB and all its subsidiaries, he is also a director of several private companies. • Actively involved in the corporate affairs and general management of SAB and its subsidiaries, especially in the area of oil palm plantation and employee relations.
Chung Kin Mun	Senior independent Non- Executive Director	• Aged 50 • Appointed to the Board on 20-Mar-2012. • Possesses over twenty years of experience in merchant banking, corporate finance, accounting and general management. • Prior to the appointment to the Board, Mr. Chung was the Group Chief Financial Officer of Zelan Berhad.
Tan Sri Dato' Low Boon Eng	Non-Independent Non-Executive Director	• Aged 67 • Chairman of SAB since 1-May-2010 until re-designated to Non-Independent Non-Executive Director on 15-Jul-2015. • Holds a Bachelor of Science in Mechanical Engineering from the Imperial College, London. • An entrepreneur with experiences spanned over forty years in operations and management of oil palm plantation, palm oil milling, renewable energy and downstream activities.
Mohd. Hisham Bin Harun	Non-Independent Non-Executive Director	• Aged 49 • Appointed as an Independent Non-Executive Director since his appointment date until re-designated to Non-Independent Non-Executive Director on 6-Aug-2014. • A member of the Chartered Institute of Management Accountants, UK. • He is presently the Senior General Manager of Human Resource Department of Lembaga Tabung Haji, a major shareholder of SAB.
Leong So Seh	Independent Non-Executive Director	• Aged 65 • Appointed to the Board on 8-Apr-2009. • Holds a Bachelor of Economics from University of Malaya and a Master Degree in Economics from Vanderbilt University, USA. • She has held senior positions in the Economic Planning Unit of the Prime Minister Department of Malaysia and the Securities Commission of Malaysia.
Teo Leng	Independent Non-Executive Director	• Aged 65 • Appointed to the Board on 1-Dec-2010. Other than directorship in SAB and a director of certain subsidiaries of SAB, he is also a Non-Independent Non-Executive Director of United Malacca Berhad. • He has over thirty years of experience in the palm oil industry, with private companies and public listed corporations and government organizations.

Source: Company

Operation Details

SAB Corporate Structure



Source: Company

SAB Corporate Milestones

Date	Milestones
Nov 1980	Date of Incorporation of Southern Acids (M) Sdn Bhd
Apr 1983	Completion and commissioning of first oleochemical plant
Nov 1990	Expansion of oleochemical business by setting up the second oleochemical plant through 51% equity participation in Pofachem (M) Sdn Bhd.
Jan 1991	Conversion of Company's status from a private limited company to a public limited company
Aug 1991	Officially listed on Bursa Malaysia Main Market (or previously known as The Main Board of Kuala Lumpur Stock Exchange)
Sep 1993	Diversified into dry bulk warehousing and export loading services of palm kernel expellers through the acquisition of a majority interest in PKE (Malaysia) Sdn Bhd and PKE Transport (M) Sdn Bhd.
Nov 1994	A joint venture project via its Hong Kong based subsidiary SAB (East Asia) Holdings Ltd with IJM International Limited and two other Chinese parties to build and operate a 24 MW Co-Generation Plant under Wuxi Nenda Co-generation Company Limited in Wuxi County, Province of Jiangsu, China.
Apr 1995	Acquisition of the remaining 49% equity interest in Pofachem (M) Sdn Bhd.
Jun 1995	Acquisition of 644 acres of oil palm plantation at Bukit Kemuning, Shah Alam with potential for mixed-property development.
Jun 1995	Acquisition of 1.62 acres of freehold land in Section 14, Mukim and District of Klang to construct the future Sri Kota Specialist Medical Centre.
Nov 1995	Cooperate with IJM Corporations Berhad and one other company to joint venture with a Chinese party to form a Joint Venture Company - Yangzhong Changjiang Bridge Co., Ltd. to take charge of and hold the concession rights over Yangzhong Zhangjiang Bridge, Province of Jiangsu, People Replubic of China.
Apr 1997	Laying of Foundation Stone Ceremony of Sri Kota Specialist Medical Centre officiated by the Minister of Health, Yang Berhormat Dato' Chua Jui Meng.
Nov 1997	Acquisition of 3.25 acres of freehold land at G.M. 2172, Lot 2824, Mukim Klang, Daerah Klang.
May 1998	Divestment of equity interest in Wuxi Nenda Co-Generation Company Ltd.
Mar 1999	Joint venture with Indonesian Individuals in Pekanbaru, Province of Riau, Republic of Indonesia via Firstview Development Sdn Bhd and the acquisition of indirect interest of 56% equity in PT Mustika Agro Sari with some 6,538 acres of oil palm land/plantation.
Sep 1999	Completion and commissioning of the 232-bed Sri Kota Specialist Medical Centre.
Jun 2002	Completion and commissioning of a 45 MT/hour Palm Oil Mill at Pekanbaru, Indonesia through PT Mustika Agro Sari.
Aug 2002	Acquisition of 100% share equity in PT Wanasari Nusantara which owns some 13,136 acres of oil palm plantation land/plantation, via PT Mustika Agro Sari.
Nov 2006	Divestment of equity interest in Yangzhong Changjiang Bridge Co., Ltd.
Nov 2011	Sri Kota Specialist Medical Centre awarded with a three (3) year MSQH (Malaysian Society for Quality in Health) accreditation from 12 November 2011 to 11 November 2014
Jan 2012	Acquired 300,000 ordinary shares from two (2) minority shareholders representing 10% equity interest in Firstview Development Sdn Bhd.
Aug 2015	PT Wanasari Nusantara construction of a palm oil mill with a processing capacity of 60 MT/hour

Source: Company

Income Statement

FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	536.7	503.4	740.1	723.2	755.4
EBITDA	47.9	43.3	84.3	89.4	93.9
Depreciation	9.2	11.9	13.7	16.3	16.3
Operating Profit	38.8	31.7	69.5	71.9	76.4
Total Costs	-	0.1	0.1	0.1	0.1
PBT	43.7	36.9	73.8	75.9	82.0
Taxation	9.6	11.0	16.5	18.2	19.7
Minority Interest	6.6	1.1	8.7	8.7	8.7
Net Profit	27.5	24.9	48.7	49.0	53.6
Core Net Profit	29.8	28.8	43.4	49.0	53.6

Balance Sheet

FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E
Fixed Assets	134.9	132.2	143.4	138.2	148.0
Land for prop dev.	141.9	141.9	141.9	141.9	141.9
Biological assets	13.3	19.4	25.7	25.7	25.7
Intangibles	-	-	-	-	-
Other FA	47.6	51.4	57.6	57.6	57.6
Inventories	53.1	62.0	80.3	83.7	84.7
Receivables	52.0	36.9	71.7	61.5	68.7
Other CA	7.6	18.5	22.0	22.0	22.0
Cash	154.4	164.0	164.2	225.7	253.1
Total Assets	604.9	626.4	706.8	756.4	801.7
Payables	52.3	55.3	63.1	70.5	69.0
ST Borrowings	-	0.3	0.4	0.3	0.3
Other ST Liability	3.4	0.3	1.2	1.2	1.2
LT Borrowings	-	0.5	0.2	0.3	0.3
Other LT Liability	10.1	11.4	12.3	12.3	12.3
Minorities Int.	45.7	44.6	59.4	59.4	59.4
Net Assets	493.4	513.9	570.2	612.4	659.2
Share Capital	136.9	136.9	171.3	171.3	171.3
Reserves	356.5	377.0	399.0	441.1	487.9
Equity	**493.4**	**513.9**	**570.2**	**612.4**	**659.2**

Cashflow Statement

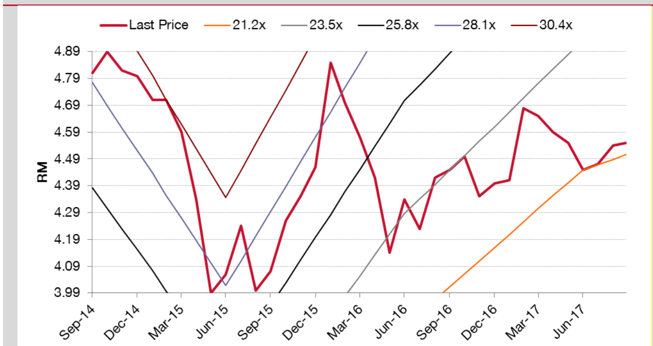
FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E
Operating CF	45.1	28.9	18.3	83.0	62.2
Investing CF	(39.0)	(14.3)	(17.6)	(7.1)	(20.5)
Financing CF	(7.9)	(8.9)	(7.2)	(6.9)	(6.9)
Change In Cash	(1.8)	5.7	(6.5)	69.0	34.9
Free CF	6.1	14.6	0.7	75.9	41.8

Financial Data & Ratios

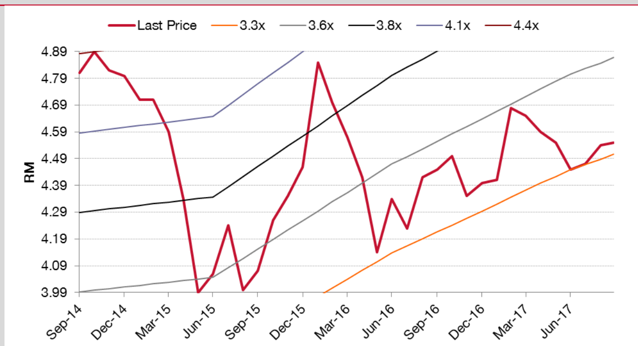
FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E
Growth					
Revenue	(1.4)	(6.2)	47.0	(2.3)	4.5
EBITDA	(31.7)	(9.7)	94.7	6.0	5.1
Operating Profit	(36.7)	(19.1)	125.1	3.4	6.2
Pre-tax Income	(33.4)	(15.5)	100.0	2.8	8.0
Core Net Income	(24.6)	(3.3)	50.9	12.9	9.4
Profitability (%)					
EBITDA Margin	8.9	8.6	11.4	12.4	12.4
Operating Margin	7.2	6.2	9.5	10.1	10.3
PBT Margin	8.1	7.3	10.0	10.5	10.9
Core Net Margin	5.5	5.7	5.9	6.8	7.1
Effective Tax Rate	21.9	29.7	22.3	24.0	24.0
ROE	6.0	5.6	7.6	8.0	8.1
ROA	4.9	4.6	6.1	6.5	6.7
DuPont Analysis					
Net Margin (%)	5.5	5.7	5.9	6.8	7.1
Assets Turnover(x)	0.9	0.8	1.0	1.0	0.9
Leverage Factor(x)	1.2	1.2	1.2	1.2	1.2
ROE (%)	6.0	5.6	7.6	8.0	8.1
Leverage					
Debt/Asset (x)	-	0.13	0.09	0.08	0.08
Debt/Equity (x)	-	0.16	0.11	0.10	0.09
Net Cash/(Debt)	154	163	164	225	252
Net Debt/Equity (x)	Cash	Cash	Cash	Cash	Cash
Valuations					
EPS (sen)	20.1	18.2	35.5	35.8	39.2
Core EPS (sen)	21.7	21.0	31.7	35.8	39.2
NDPS (sen)	5.0	5.0	5.0	5.0	5.0
BVPS (RM)	3.60	3.75	4.16	4.47	4.81
PER (x)	22.9	25.4	13.0	12.9	11.8
Core PER (x)	21.2	21.9	14.5	12.9	11.8
Net div. Yield (%)	1.1	1.1	1.1	1.1	1.1
P/BV (x)	1.3	1.2	1.1	1.0	1.0
EV/EBITDA (x)	9.9	10.8	5.5	4.5	4.0

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

NAME	Price (26-Sep-2017)	Mkt Cap	Core PER (x)			Est. Net Div. Yld.	Hist. ROE	P/BV	Core Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17A	FY17/18F	FY18/19F	(%)	(%)	(x)	FY16/17A	FY17/18F	FY18/19F	(%)	(%)	(RM)	
Core Coverage															
SIME	9.04	58,609	26.2	26.8	26.4	2.7%	6.6%	1.7	2,346.0	2,289.0	2,338.0	-2%	2%	9.50	MARKET PERFORM
IOICORP	4.53	28,471	25.9	24.2	21.9	2.3%	14.7%	3.8	1,099.0	1,174.0	1,303.0	7%	11%	5.10	OUTPERFORM
KLK	24.56	26,156	25.1	21.8	21.6	2.4%	10.0%	2.5	1,041.4	1,200.8	1,213.0	15%	1%	26.40	MARKET PERFORM
PPB	16.80	19,916	19.2	19.4	17.0	1.6%	4.9%	0.9	1,037.3	1,027.8	1,168.9	-1%	14%	18.90	OUTPERFORM
GENP	10.48	8,203	27.6	27.0	24.2	1.0%	6.4%	1.8	300.0	313.0	356.0	4%	14%	11.00	MARKET PERFORM
FGV	1.68	6,129	N.M.	143.6	68.6	1.2%	-2.7%	1.1	(157.2)	42.7	89.4	N.M.	109%	1.60	MARKET PERFORM
IJMPLNT	2.94	2,589	22.9	24.1	20.0	2.1%	6.3%	1.5	113.3	107.4	129.4	-5%	20%	3.30	OUTPERFORM
TSH	1.66	2,233	28.2	18.7	15.8	1.3%	5.7%	1.6	79.3	120.5	142.8	52%	19%	2.20	OUTPERFORM
HSPLANT	2.65	2,119	17.0	16.4	15.7	4.2%	6.0%	1.0	125.0	127.0	130.0	2%	2%	3.00	OUTPERFORM
TAANN	3.68	1,636	13.2	13.0	12.7	4.1%	9.4%	1.2	123.6	125.8	128.9	2%	2%	3.65	MARKET PERFORM
UMCCA	6.55	1,371	18.0	18.6	18.1	3.5%	4.3%	0.8	75.9	73.7	75.5	-3%	3%	7.30	OUTPERFORM
CBIP	1.93	1,025	11.2	10.6	9.9	3.8%	12.5%	1.4	90.0	95.3	102.2	6%	7%	2.20	OUTPERFORM
SAB	4.65	637	14.7	13.0	11.9	1.1%	7.1%	1.0	49.0	53.6	55.8	9%	4%	5.35	OUTPERFORM

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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