

Vietnam

ADD (no change)

Consensus ratings*: Buy 3 Hold 7 Sell 0

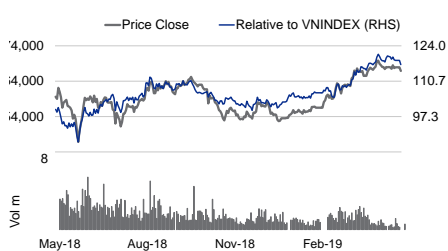
Current price:	VND66,900
Target price:	VND73,800
Previous target:	VND73,800
Up/downside:	10.3%
CGS-CIMB / Consensus:	7.6%

Reuters:	VCB.HM
Bloomberg:	VCB VN
Market cap:	US\$10,666m
	VND248,123,904m
Average daily turnover:	US\$2.82m
	VND65,399m
Current shares o/s:	3,709m
Free float:	1.8%

*Source: Bloomberg

Key changes in this note

➤ No changes



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.9	18.4	14.9
Relative (%)	-0.1	10.7	19.8

Major shareholders

	% held
State Bank of Vietnam	74.8
Mizuho Corporate Bank	15.0
GIC Private Limited	2.6

Analyst(s)

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Vietcombank

A good start to the year

- VCB reported 1Q19 pre-tax profit of VND5.8tr (+34.9% yoy); this account for 29% our full-year forecast.
- Targets 9.5% pretax profit growth in FY19, relatively in line with our forecast.
- Maintain Add, with unchanged TP of VND73,800.

Vibrant NIM expansion drove robust net interest income growth

1Q19 net interest income (NII) rose 37.1% yoy on solid loan growth (+16.5% yoy) and impressive net interest margin (NIM) expansion (+77bp yoy). 1Q19 NIM rose to 3.3% due to: 1) higher asset yield (+105bp yoy), thanks to its strong push into retail lending; and 2) loan growth (+16.5% yoy) outpacing customer deposit growth (+14.7% yoy), bringing loan-to-deposit ratio to 73.6% at end-1Q19 from 71.9% at end-1Q18. However, non interest income was weak (-12.3% yoy) as 1Q19 saw no one-off gains from divestments.

Flattish provision expenses growth amid improving asset quality

1Q19 provision expenses grew a slim 0.5% yoy, which pushed annualised credit cost to 0.9%, down from 1.1% in 1Q18. The bank did not write-off any bad debts in 1Q19. However, Vietnamese banks tend to aggressively book provisions and write-offs towards the end of the fiscal year so we refrain from linear extrapolation of 1Q figures. NPL ratio has been well-controlled at 1.0% since end-FY18, and much lower than the 1.4% level seen at end-1Q18. Loan loss reserves (LLR) edged up from 165.3% at end-FY18 to 169.2% at end-1Q19.

The bank targets modest 9.5% yoy pre-tax profit growth in FY19

At its AGM held on 26 Apr 2019, management said it aims for VND20tr FY19 pre-tax profit, relatively in line with our expectation. The target was set on the back of initial loan growth goal of 15% (FY18: 16.4%) and customer deposit growth of about 11-13% (FY18: 13.2%). Management reiterated the shifting of its focus towards retail banking and even into consumer finance (especially car loans) with the support of Mizuho Bank.

Capital raising plan in 2019

After the successful private placement of 3% of its outstanding shares to Mizuho and GIC (Unlisted) in Jan 2019, another private issuance (~6%) will be offered to both foreign and local investors. According to management, FY18 cash dividend of VND800/share and ~1.48bn bonus shares (equivalent to 40% of outstanding shares) would likely be distributed to existing shareholders. Management expects capital adequacy ratio (under Basel II) to be kept at above 8% at year-end.

Maintain Add, with unchanged TP of VND73,800

Our TP is based on an equal weighting combination of residual income (COE:14.5%, LTG: 4%) and P/BV multiple (3.4x FY19F P/BV). Potential re-rating catalysts include a potential exclusive bancassurance deal. Downside risk to our call is VCB's inability to raise sufficient capital to comply with Basel II by 2020; this could weigh on loan growth.

Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Net Interest Income (VNDb)	21,938	28,409	32,972	38,513	44,591
Total Non-Interest Income (VNDb)	7,469	10,879	11,403	13,149	15,174
Operating Revenue (VNDb)	29,406	39,288	44,375	51,662	59,765
Total Provision Charges (VNDb)	(6,198)	(7,379)	(7,685)	(8,838)	(10,253)
Net Profit (VNDb)	9,091	14,642	16,219	18,970	21,922
Core EPS (VND)	2,103	3,386	3,638	4,255	4,918
Core EPS Growth	16.9%	61.0%	7.5%	17.0%	15.6%
FD Core P/E (x)	31.81	19.76	18.39	15.72	13.60
DPS (VND)	799.9	800.0	800.0	800.0	800.0
Dividend Yield	1.20%	1.20%	1.20%	1.20%	1.20%
BVPS (VND)	14,584	17,739	22,343	26,540	31,514
P/BV (x)	4.59	3.77	2.99	2.52	2.12
ROE	15.1%	21.0%	18.4%	17.4%	16.9%
CIMB/consensus EPS (x)			1.12	1.14	1.08

SOURCES: VND RESEARCH, COMPANY REPORTS

A good start to the year

1Q19 highlights ►

Figure 1: Results comparison (VND bn unless otherwise noted)

Profit & Loss statement	1Q19	1Q18	yoy%	qoq%	VND	% VND	Comments
					FY19F	FY19F	
			chg	chg			
Net interest income	8,499	6,197	37.1%	6.5%	32,972	25.8%	
Non-interest income	3,269	3,727	-12.3%	20.6%	11,403	28.7%	slightly above our expectation due to higher income from bad debt recovery
Operating revenue	11,768	9,924	18.6%	10.1%	44,375	26.5%	
Operation expenses	(4,384)	(4,067)	7.8%	158.9%	(16,419)	26.7%	
Pre-provision profit	7,384	5,857	26.1%	-17.9%	27,956	26.4%	
Provision expenses	(1,506)	(1,498)	0.5%	-36.8%	(7,685)	19.6%	below our expectation as banks tend to aggressively book provisions and write-offs toward the end of fiscal years
Pre-tax profit	5,878	4,359	34.9%	-11.2%	20,271	29.0%	above our expectation due to higher Non-II and lower provision expenses
Net profit	4,707	3,504	34.3%	-10.8%	16,219	29.0%	

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 2: VCB's key ratios by quarter

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
NII/Total Operating Income (TOI)	77.2%	72.0%	76.7%	62.4%	73.4%	78.9%	74.7%	72.2%
Non-II/TOI	22.8%	28.0%	23.3%	37.6%	26.6%	21.1%	25.3%	27.8%
NIM (annualised)	2.8%	2.5%	2.4%	2.5%	2.8%	3.1%	3.2%	3.3%
CIR	43.6%	42.6%	32.3%	41.0%	41.7%	42.3%	15.8%	37.3%
Loan-to-deposit ratio	72.4%	70.1%	67.4%	71.9%	72.3%	74.4%	69.1%	73.6%
NPL	1.5%	1.2%	1.1%	1.4%	1.2%	1.2%	1.0%	1.0%
LLR	140.3%	164.8%	130.7%	121.4%	140.6%	155.5%	165.3%	169.2%
Credit cost (annualised)	1.3%	1.1%	1.3%	1.1%	1.2%	1.1%	1.5%	0.9%
ROAA (trailing 12m)	1.0%	1.0%	1.0%	1.2%	1.2%	1.3%	1.4%	1.5%
ROAE (trailing 12m)	15.2%	16.0%	17.9%	19.5%	20.5%	20.9%	25.2%	24.6%

SOURCES: VND RESEARCH, COMPANY REPORTS

Maintain Add with unchanged target price of VND73,800 ►

Figure 3: Our target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	71,731	35,865
P/BV multiple (at 3.4x FY19F BVPS)	50%	75,965	37,983
Target price (VND/share)			73,848
Target price (VND/share, rounded)			73,800

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 4: Key assumptions of residual income valuation, based on our estimates

Assumptions	2019F	2020F	2021F	2022F	2023F
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	0.9	0.9	0.9	0.9	0.9
Cost of equity	14.5%	14.5%	14.5%	14.5%	14.5%
Long-term growth rate					
Long-run COE					
<i>(In VND bn, otherwise noted)</i>					
Opening shareholders' equity	63,820				
PV of RI (5 years)	24,212				
PV of Terminal value	178,008				
Implied EV	266,040				
No. of outstanding shares (m shares)	3,709				
Implied value per share (VND/share)	71,731				

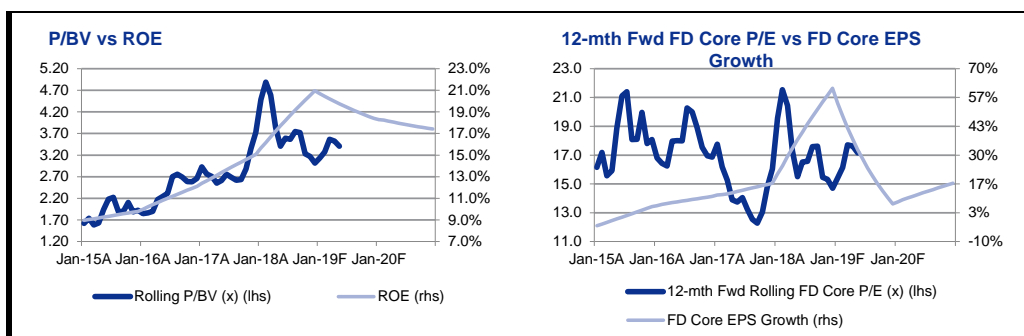
SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 5: Regional peer comparison

Company	Bloomberg Ticker	Recommendation	Closing price	Target Price	Market cap	P/BV(x)		P/E (x)		3-yr Forward CAGR	ROE (%)	
			(local curr.)	(local curr.)	(US\$m)	Dec-19F	Dec-20F	Dec-19F	Dec-20F	%	Dec-19F	Dec-20F
HDFC Bank	HDFCB IN	ADD	2,116	2,500	80,802	3.5	3.0	22.5	18.1	22.0%	16.8%	17.8%
Bank Central Asia	BBCA IJ	HOLD	27,525	25,500	48,229	3.9	3.4	22.6	20.2	13.0%	18.4%	17.8%
Bank Rakyat Indonesia	BBRI IJ	ADD	3,910	4,500	34,275	2.3	2.0	13.0	11.4	13.9%	18.8%	18.8%
ICICI Bank	ICICIBC IN	ADD	351	450	31,772	2.0	1.8	17.2	13.2	35.8%	11.9%	14.1%
Bank Mandiri	BMRI IJ	ADD	7,325	8,800	24,293	1.7	1.5	12.0	10.4	15.4%	14.9%	15.5%
Public Bank Bhd	PBK MK	HOLD	25	26	23,803	2.2	2.0	15.9	15.1	7.0%	14.4%	14.1%
Indusind Bank	IIB IN	ADD	1,472	2,100	12,448	2.9	2.4	16.9	13.3	24.6%	18.3%	19.6%
Yes Bank	YES IN	HOLD	215	230	6,985	1.5	1.2	8.4	6.5	24.0%	19.1%	20.9%
Military Commercial Joint Stock Bank	MBB VN	ADD	21,900	31,100	2,057	1.2	1.0	6.9	5.9	32.0%	17.9%	17.9%
Average regional peers						2.3	2.0	15.0	12.7	20.8%	16.7%	17.4%
Vietcombank	VCB VN	ADD	66,900	73,800	9,604	3.0	2.5	19.4	15.7	13.2%	18.4%	17.4%

NOTE: AS OF 2 MAY 2019
 SOURCES: VND RESEARCH, CIMB RESEARCH

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Net Interest Income	21,938	28,409	32,972	38,513	44,591
Total Non-Interest Income	7,469	10,879	11,403	13,149	15,174
Operating Revenue	29,406	39,288	44,375	51,662	59,765
Total Non-Interest Expenses	(11,866)	(13,610)	(16,419)	(19,115)	(22,113)
Pre-provision Operating Profit	17,540	25,679	27,956	32,547	37,652
Total Provision Charges	(6,198)	(7,379)	(7,685)	(8,838)	(10,253)
Operating Profit After Provisions	11,341	18,300	20,271	23,709	27,399
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Operating EBIT (incl Associates)	11,341	18,300	20,271	23,709	27,399
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	11,341	18,300	20,271	23,709	27,399
Exceptional Items					
Pre-tax Profit	11,341	18,300	20,271	23,709	27,399
Taxation	(2,231)	(3,642)	(4,034)	(4,718)	(5,453)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	9,111	14,658	16,237	18,991	21,946
Minority Interests	(20)	(16)	(18)	(21)	(25)
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	9,091	14,642	16,219	18,970	21,922
Recurring Net Profit	7,568	12,182	13,494	15,783	18,239

Balance Sheet Employment

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Gross Loans/Cust Deposits	76.7%	78.9%	81.0%	82.4%	83.5%
Avg Loans/Avg Deposits	77.3%	77.8%	80.0%	81.7%	83.0%
Avg Liquid Assets/Avg Assets	43.5%	42.7%	38.9%	37.9%	37.0%
Avg Liquid Assets/Avg IEAs	44.6%	43.9%	39.9%	38.7%	37.7%
Net Cust Loans/Assets	51.7%	58.0%	59.3%	60.5%	61.4%
Net Cust Loans/Broad Deposits	67.4%	69.1%	70.7%	71.7%	72.4%
Equity & Provs/Gross Cust Loans	11.1%	11.7%	13.3%	13.8%	14.4%
Asset Risk Weighting	59.2%	69.4%	67.3%	68.5%	69.5%
Provision Charge/Avg Cust Loans	1.23%	1.25%	1.13%	1.13%	1.14%
Provision Charge/Avg Assets	0.68%	0.70%	0.68%	0.69%	0.71%
Total Write Offs/Average Assets	0.68%	0.49%	0.39%	0.40%	0.40%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Gross Loans	776,408	880,889	1,000,609	1,139,777	1,304,681
Liquid Assets & Invst. (Current)	234,069	163,072	176,112	190,201	205,417
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,010,477	1,043,960	1,176,721	1,329,978	1,510,098
Total Provisions/Loan Loss Reserve	(8,113)	(10,274)	(13,538)	(17,293)	(21,700)
Total Net Interest Earning Assets	1,002,364	1,033,686	1,163,183	1,312,686	1,488,399
Intangible Assets	1,964	2,068	2,147	2,228	2,313
Other Non-Interest Earning Assets	20,862	24,437	25,366	26,330	27,331
Total Non-Interest Earning Assets	22,826	26,505	27,513	28,559	29,644
Cash And Marketable Securities	10,103	12,792	13,278	13,783	14,307
Long-term Investments	0	0	0	0	0
Total Assets	1,035,293	1,072,983	1,203,974	1,355,028	1,532,350
Customer Interest-Bearing Liabilities	726,734	823,684	922,312	1,041,974	1,182,507
Bank Deposits	66,942	76,524	88,002	101,202	116,383
Interest Bearing Liabilities: Others	171,408	90,711	92,525	94,376	96,263
Total Interest-Bearing Liabilities	965,085	990,919	1,102,839	1,237,552	1,395,153
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	17,651	18,175	18,197	18,972	20,243
Total Liabilities	982,735	1,009,094	1,121,036	1,256,524	1,415,396
Shareholders' Equity	52,469	63,820	82,867	98,433	116,883
Minority Interests	(89)	(69)	(71)	(71)	(71)
Total Equity	52,379	63,751	82,795	98,362	116,812

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Income Growth	18.2%	33.6%	12.9%	16.4%	15.7%
Operating Profit Growth	17.5%	46.4%	8.9%	16.4%	15.7%
Pretax Profit Growth	33.1%	61.4%	10.8%	17.0%	15.6%
Net Interest To Total Income	74.6%	72.3%	74.3%	74.5%	74.6%
Cost Of Funds	2.86%	2.81%	2.99%	3.09%	3.15%
Return On Interest Earning Assets	5.20%	5.44%	5.79%	5.96%	6.06%
Net Interest Spread	2.33%	2.63%	2.80%	2.87%	2.91%
Net Interest Margin (Avg Deposits)	3.38%	3.76%	3.88%	4.02%	4.11%
Net Interest Margin (Avg RWA)	3.98%	4.19%	4.24%	4.43%	4.47%
Provisions to Pre Prov. Operating Profit	35.3%	28.7%	27.5%	27.2%	27.2%
Interest Return On Average Assets	2.41%	2.70%	2.90%	3.01%	3.09%
Effective Tax Rate	19.7%	19.9%	19.9%	19.9%	19.9%
Net Dividend Payout Ratio	31.7%	20.3%	18.3%	15.6%	13.5%
Return On Average Assets	1.00%	1.39%	1.42%	1.48%	1.52%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Loan Growth (%)	17.9%	16.4%	15.0%	15.0%	15.0%
Net Interest Margin (%)	2.5%	2.8%	3.0%	3.1%	3.1%
Non Interest Income Growth (%)	17.6%	45.7%	4.8%	15.3%	15.4%
Cost-income Ratio (%)	40.4%	34.6%	37.0%	37.0%	37.0%
Net NPL Ratio (%)	-3.2%	-3.9%	-4.3%	-4.6%	-4.9%
Loan Loss Reserve (%)	130.7%	165.3%	180.8%	193.2%	204.0%
GP Ratio (%)	0.8%	0.8%	0.9%	1.1%	1.2%
Tier 1 Ratio (%)	8.0%	8.2%	9.9%	10.3%	10.7%
Total CAR (%)	11.6%	10.2%	11.5%	11.5%	11.6%
Deposit Growth (%)	20.0%	13.2%	12.0%	13.0%	13.5%
Loan-deposit Ratio (%)	75.6%	77.6%	79.5%	80.7%	81.6%
Gross NPL Ratio (%)	1.1%	1.0%	1.0%	1.1%	1.1%
Fee Income Growth (%)	20.5%	34.0%	35.0%	30.0%	25.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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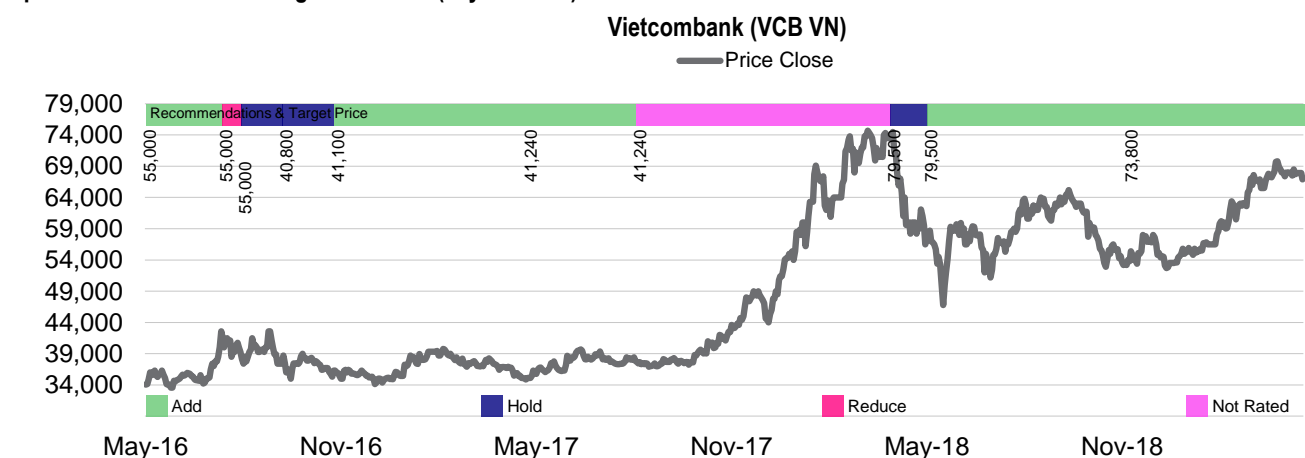
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	Rating Distribution (%)	Investment Banking clients (%)
Add	57.8%	4.0%
Hold	27.0%	2.1%
Reduce	15.2%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, Declared, **BR** – Good, Declared, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% 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:

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

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Definition:

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

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