

Berli Jucker

BJC TB / BJC.BK

14 August 2014

Super-weak 2Q14 profit

25% below estimate

BJC reported a 2Q14 net profit of Bt328m, down by 48% YoY and 37% QoQ, due to weaker performances across all supply chains. The result was 25% below our estimate, as GM was lower than expected and SG&A expenses were higher than assumed.

Results highlights

Packaging Supply Chain sales were Bt4.4bn, flat YoY and QoQ—the effect of lower demand for glass packaging was offset by greater aluminum can volume. The chain's profit dived 33% YoY to Bt278m, due to high fixed costs in the face of lower sales of glass packaging products.

Consumer Supply Chain sales were Bt4bn, flattish both YoY and QoQ. Greater non-food sales and revenue for the trading business in Vietnam were offset by weaker food sales. The chain's profit dived by 96% YoY and 95% QoQ to just Bt7m, as the cost of palm oil and potatoes increased, while the firm launched several marketing and promotion campaigns during the quarter to stimulate demand and maintain market share.

Healthcare & Technical Supply Chain sales increased 16% YoY to Bt1.95bn, due to higher medicine sales and revenue booked from a galvanized steel structure project for EGAT, which outweighed the effect of weaker sales of medical equipment. However, the chain's profit fell 9% YoY to Bt122m, BJC cut medicine prices to compete with other firms for sales.

Outlook

We expect 3Q14 earnings to rise QoQ, driven by a better performance by the Healthcare & Technical Supply Chain after public hospitals resumed orders following the NCPO's policy to accelerate fiscal budget disbursement. But in YoY terms, profit is likely to continue declining, as the Packaging and Consumer Supply chains will remain weak.

What's changed?

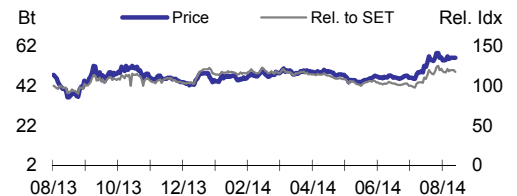
We have downgraded our FY14 earnings forecast by 7% to reflect weaker-than-expected results. Our YE14 target price falls from Bt42 to Bt40.

Recommendation

BJC's current PERs of 44.7x for FY14 and 34.8x for FY15 are very expensive, in our view. Moreover, there is downside risk to our FY15 EPS projection, as we have yet to factor the acquisition of Metro Vietnam into our model. Our SELL rating stands.

Sector: Consumer/Retail Neutral
Rating: SELL
Target Price: Bt40.00
Price (13 August 2014): Bt55.00

Price chart

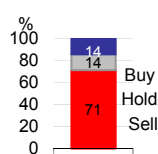


Share price perf. (%)	1M	3M	12M
Relative to SET	14.2	12.3	15.0
Absolute	15.2	22.9	20.9

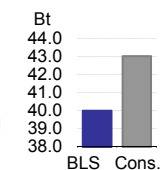
Key statistics

Market cap	Bt87.6bn	USD2.7bn
12-mth price range	Bt34.0/Bt60.5	
12-mth avg daily volume	Bt131m	USD4.1m
# of shares (m)	1,592	
Est. free float (%)	26.2	
Foreign limit (%)	49.0	

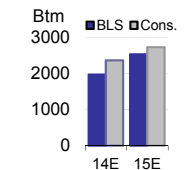
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	42,226	44,330	48,888	53,437
Net profit (Btm)	2,426	1,964	2,523	2,925
EPS (Bt)	1.52	1.23	1.58	1.83
EPS growth (%)	+0.3%	-19.2%	+28.2%	+15.7%
Core profit (Btm)	2,324	1,955	2,523	2,925
Core EPS (Bt)	1.46	1.23	1.58	1.83
Core EPS growth (%)	-0.4%	-16.1%	+28.8%	+15.7%
PER (x)	36.1	44.7	34.8	30.1
PBV (x)	4.9	4.7	4.3	4.0
Dividend (Bt)	0.8	0.7	0.9	1.0
Dividend yield (%)	1.5	1.2	1.6	1.8
ROE (%)	17.0	12.9	15.2	16.1

CG rating

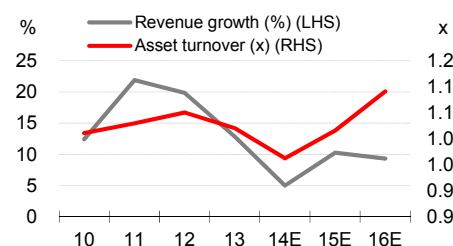


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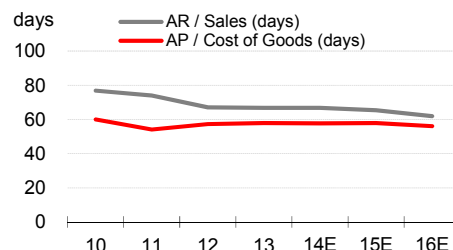
BJC : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	37,429	42,226	44,330	48,888	53,437
Cost of sales and services	(28,402)	(32,131)	(34,082)	(37,301)	(40,812)
Gross profit	9,027	10,095	10,248	11,586	12,625
SG&A	(6,116)	(7,017)	(7,668)	(8,241)	(8,943)
EBIT	2,911	3,078	2,580	3,345	3,682
Finance costs	(503)	(575)	(643)	(674)	(631)
Other income/exp.	539	511	682	639	760
EBT	2,947	3,015	2,619	3,310	3,811
Corporate tax	(605)	(567)	(541)	(662)	(762)
After-tax net profit (loss)	2,342	2,448	2,079	2,648	3,049
Minority interest	(80)	(189)	(197)	(207)	(217)
Equity earnings from affiliates	66	65	73	82	92
Extra items	87	102	9	0	0
Net profit (loss)	2,415	2,426	1,964	2,523	2,925
Reported EPS	1.52	1.52	1.23	1.58	1.83
Fully diluted EPS	1.51	1.51	1.23	1.57	1.82
Core net profit	2,328	2,324	1,955	2,523	2,925
Core EPS	1.47	1.46	1.23	1.58	1.83
EBITDA	5,201	5,612	5,539	6,439	7,012
KEY RATIOS					
Revenue growth (%)	19.8	12.8	5.0	10.3	9.3
Gross margin (%)	24.1	23.9	23.1	23.7	23.6
EBITDA margin (%)	13.9	13.3	12.5	13.2	13.1
Operating margin (%)	9.2	8.5	7.4	8.1	8.3
Net margin (%)	6.5	5.7	4.4	5.2	5.5
Core profit margin (%)	6.2	5.5	4.4	5.2	5.5
ROA (%)	6.8	5.9	4.3	5.2	6.0
ROCE (%)	8.8	7.6	5.5	6.7	7.7
Asset turnover (x)	1.1	1.0	1.0	1.0	1.1
Current ratio (x)	1.4	1.3	1.4	1.6	1.7
Gearing ratio (x)	0.8	0.9	1.0	0.8	0.7
Interest coverage (x)	5.8	5.4	4.0	5.0	5.8
BALANCE SHEET (Btm)					
Cash & Equivalent	2,015	1,780	1,824	1,756	1,623
Accounts receivable	6,871	7,721	8,111	8,747	9,065
Inventory	6,864	8,443	9,035	9,616	10,538
PP&E-net	16,583	18,607	20,483	20,202	19,825
Other assets	5,927	7,951	8,196	8,263	8,329
Total assets	38,260	44,503	47,648	48,585	49,381
Accounts payable	4,460	5,094	5,393	5,911	6,272
ST debts & current portion	4,828	6,155	5,895	3,800	3,800
Long-term debt	8,344	10,521	12,500	13,300	12,000
Other liabilities	4,345	5,034	5,066	5,100	5,135
Total liabilities	21,976	26,804	28,854	28,111	27,207
Paid-up capital	1,588	1,590	1,594	1,597	1,600
Share premium	3,751	3,865	3,995	4,125	4,254
Retained earnings	8,865	9,765	10,456	11,900	13,358
Shareholders equity	13,728	14,760	15,757	17,334	18,925
Minority interests	2,556	2,939	3,038	3,141	3,249
Total Liab.&Shareholders' equity	38,260	44,503	47,648	48,585	49,381
CASH FLOW (Btm)					
Net income	2,415	2,426	1,964	2,523	2,925
Depreciation and amortization	1,751	2,022	2,277	2,455	2,570
Change in working capital	(997)	(958)	(682)	(700)	(879)
FX, non-cash adjustment & others	490	597	767	799	756
Cash flows from operating activities:	3,659	4,088	4,326	5,077	5,372
Capex (Invest)/Divest	(3,819)	(3,800)	(4,219)	(2,229)	(2,240)
Others	(73)	(1,247)	0	0	0
Cash flows from investing activities	(3,892)	(5,047)	(4,219)	(2,229)	(2,240)
Debt financing (repayment)	1,563	2,010	1,076	(1,969)	(1,931)
Equity financing	288	349	133	133	133
Dividend payment	(1,345)	(1,707)	(1,272)	(1,079)	(1,467)
Others	(73)	(1,247)	0	0	0
Cash flows from financing activities	505	651	(63)	(2,915)	(3,265)
Net change in cash	272	(307)	44	(67)	(133)
Free cash flow (Btm)	(160)	288	107	2,848	3,132
FCF per share (Bt)	(0.1)	0.2	0.1	1.8	2.0
Key Assumptions	2012	2013	2014E	2015E	2016E
Packaging sales growth	15.3%	5.2%	1.4%	7.5%	7.0%
Consumer sales growth	19.3%	40.4%	7.0%	11.0%	15.0%
Healthcare/Technical sales growth	13.5%	-1.0%	8.4%	9.7%	5.0%

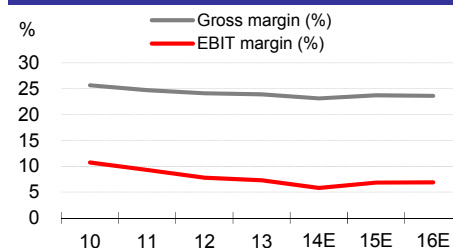
Revenue growth and asset turnover



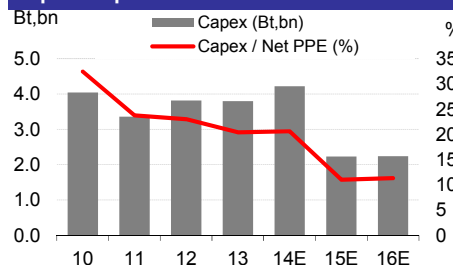
A/C receivable & A/C payable days



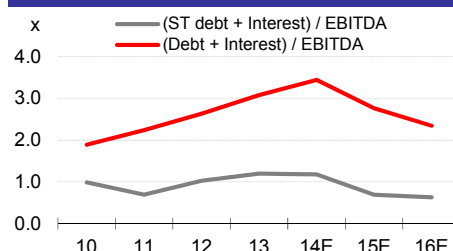
Profit margins



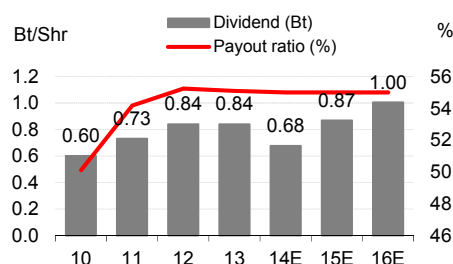
Capital expenditure



Debt serviceability



Dividend payout



BJC : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	10,477	10,327	11,064	10,696	10,665
Cost of sales and services	(7,936)	(7,824)	(8,612)	(8,201)	(8,299)
Gross profit	2,540	2,503	2,452	2,496	2,367
SG&A	(1,709)	(1,761)	(1,838)	(1,842)	(1,915)
EBIT	831	742	614	654	451
Finance costs	(133)	(153)	(151)	(151)	(150)
Other income/exp.	101	76	250	231	97
EBT	799	665	713	734	398
Corporate tax	(151)	(122)	(141)	(144)	(99)
After-tax net profit (loss)	649	542	572	590	298
Minority interest	(125)	(33)	2	(57)	(36)
Equity earnings from affiliates	23	20	18	20	20
Extra items	86	5	2	(36)	45
Net profit (loss)	633	535	593	516	328
Reported EPS	0.40	0.34	0.37	0.32	0.21
Fully diluted EPS	0.40	0.34	0.37	0.32	0.21
Core net profit	547	529	592	553	282
Core EPS	0.34	0.33	0.37	0.35	0.18
EBITDA	1,425	1,342	1,417	1,436	1,109

KEY RATIOS

Gross margin (%)	24.2	24.2	22.2	23.3	22.2
EBITDA margin (%)	13.6	13.0	12.8	13.4	10.4
Operating margin (%)	7.9	7.2	5.5	6.1	4.2
Net margin (%)	6.0	5.2	5.4	4.8	3.1
Core profit margin (%)	5.2	5.1	5.3	5.2	2.6
BV (Bt)	11.1	11.1	11.1	11.4	11.3
ROE (%)	17.9	15.2	16.5	13.8	8.7
ROA (%)	6.1	5.0	5.4	4.6	2.9
Current ratio (x)	1.3	1.2	1.3	1.3	1.3
Gearing ratio (x)	0.9	0.9	0.9	0.9	1.0
Interest coverage (x)	6.2	4.9	4.1	4.3	3.0

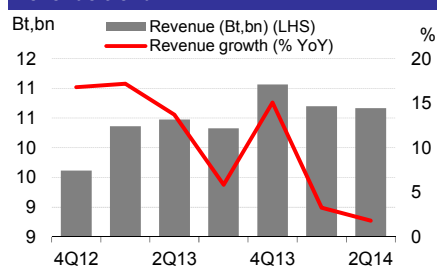
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,471	1,659	1,780	1,539	1,899
Accounts receivable	7,137	6,837	7,721	7,513	7,726
Inventory	7,391	8,251	8,443	8,187	7,662
PP&E-net	17,940	18,238	18,607	19,002	19,495
Other assets	8,140	8,010	7,951	8,118	8,137
Total assets	42,079	42,996	44,503	44,359	44,919
Accounts payable	4,616	4,718	5,094	4,248	3,864
ST debts & current portion	6,303	6,917	6,155	5,963	7,289
Long-term debt	8,835	9,233	10,521	10,786	10,629
Other liabilities	4,698	4,532	5,034	5,222	5,222
Total liabilities	24,452	25,400	26,804	26,220	27,004
Paid-up capital	1,590	1,590	1,590	1,590	1,591
Share premium	3,854	3,863	3,865	3,866	3,872
Retained earnings	9,337	9,172	9,765	10,251	9,951
Shareholders equity	14,124	14,028	14,760	15,204	14,942
Minority interests	3,504	3,568	2,939	2,936	2,973
Total Liab.&Shareholders' equity	42,079	42,996	44,503	44,359	44,919
Key Assumptions	2Q13	3Q13	4Q13	1Q14	2Q14
Packaging sales growth	9.8%	-3.5%	5.9%	0.4%	-0.8%
Consumer sales growth	48.8%	33.8%	46.4%	14.7%	1.8%
Healthcare/Technical sales growth	-12.7%	-21.8%	12.9%	-6.1%	16.1%

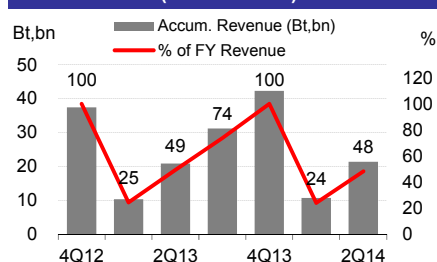
Company profile

Berli Jucker (BJC) is Thailand's leading consumer conglomerate and integrated supply chain operator, ranging from raw material development, manufacturing, R&D, marketing and distribution.

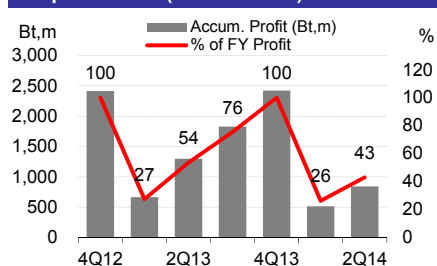
Revenue trend



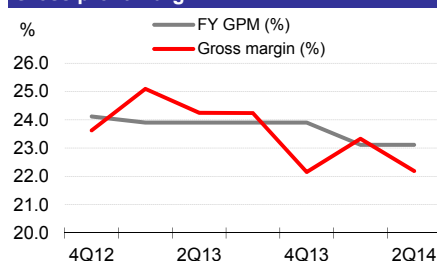
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

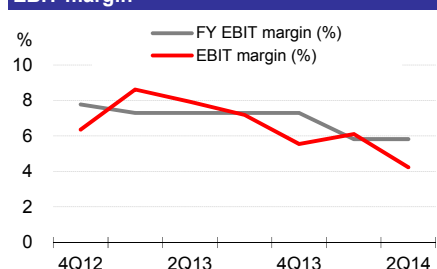


Figure 1 : 2Q14 results

FY Ended 31 Dec (Btm)	2Q14	2Q13	YoY %	1Q14	QoQ %	6M14	6M13	YoY %	6M14 vs. FY14E
Income Statement									
Revenue	10,665	10,477	2	10,696	(0)	21,362	20,835	3	48
Cost of sales and services	(8,299)	(7,936)	5	(8,201)	1	(16,499)	(15,695)	5	48
EBITDA	1,109	1,425	(22)	1,436	(23)	2,545	2,853	(11)	46
SG&A	(1,915)	(1,709)	12	(1,842)	4	(3,757)	(3,417)	10	49
EBIT	451	831	(46)	654	(31)	1,105	1,723	(36)	43
Finance costs	(150)	(133)	13	(151)	(1)	(302)	(272)	11	47
Other income/exp.	97	101	(4)	231	(58)	328	186	76	48
Equity earnings from affiliates	20	23	(12)	20	(0)	40	27	47	54
Extra items	45	86	(47)	(36)	<i>nm</i>	9	95	(91)	100
EBT	398	799	(50)	734	(46)	1,131	1,637	(31)	43
Corporate tax	(99)	(151)	(34)	(144)	(31)	(243)	(303)	(20)	45
Minority interest	(36)	(125)	<i>nm</i>	(57)	<i>nm</i>	(93)	(158)		47
Net profit (loss)	328	633	(48)	516	(37)	844	1,298	(35)	43
Reported EPS	0.21	0.40	(48)	0.32	(37)	0.53	0.82	(35)	43
Core net profit	282	547	(48)	553	(49)	835	1,203	(31)	43
Key ratios									
Gross margin (%)	22.2	24.2		23.3		22.8	24.7		
EBITDA margin (%)	10.4	13.6		13.4		11.9	13.7		
EBIT margin (%)	4.2	7.9		6.1		5.2	8.3		
SG&A / Revenue (%)	18.0	16.3		17.2		17.6	16.4		
Tax rate (%)	25.0	18.8		19.6		21.5	18.5		
Net margin (%)	3.1	6.0		4.8		4.0	6.2		
Current ratio (x)	1.3	1.3		1.3		1.3	1.3		
Gearing ratio (x)	1.0	0.9		0.9		1.0	0.9		
Interest coverage (x)	3.0	6.2		4.3		3.7	6.3		
Balance Sheet									
Cash & Equivalent	1,899	1,471	29	1,539	23				
Total assets	44,919	42,079	7	44,359	1				
ST debts & current portion	7,289	6,303	16	5,963	22				
Long-term debt	10,629	8,835	20	10,786	(1)				
Total liabilities	27,004	24,452	10	26,220	3				
Retained earnings	9,951	9,337	7	10,251	(3)				
Shareholders equity	14,942	14,124	6	15,204	(2)				
Minority interests	2,973	3,504	(15)	2,936	1				
BV (Bt)	11.3	11.1	2	11.4	(1)				

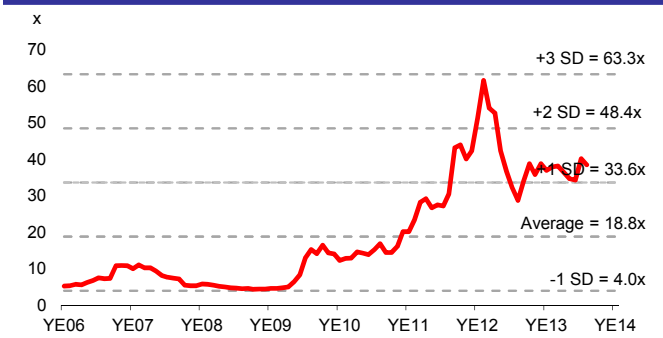
- The Industrial Supply Chain's sales were flat; its profit dived 33% YoY
- The Consumer Supply Chain's sales were flat; its profit plunged 96% YoY
- The Healthcare & Technical Chain's sales rose 16% YoY, but its profit dropped 9% YoY

Sources: Company data, Bualuang Research

Regional Comparisons

Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)		
			2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	
Suning Appliance Co Ltd	002024 CH	CNY7.2	8,615	n.a.	n.a.	-268.0	-33.3	19	17	-3.1	-3.1	0.6	0.7
Wumart Stores Inc	1025 HK	HKD7.2	1,190	13.8	12.2	18.3	12.7	17	17	13.9	13.1	3.6	4.0
Parkson Retail Group	3368 HK	HKD2.4	861	15.0	14.9	0.0	16	0.9	0.9	6.4	6.4	3.0	3.0
Nitori Hldg Co Ltd	9843 JT	JPY5,890.0	6,581	16.3	15.3	3.2	6.8	2.0	19	14.3	15.0	0.9	1.0
Lawson Inc	2651 JT	JPY7,950.0	7,785	19.8	18.4	5.7	7.5	2.8	2.6	16.0	15.6	3.0	3.3
Seven & I Holdings Co Ltd	3382 JT	JPY4,298.5	37,203	20.0	18.3	7.4	9.8	16	15	9.0	8.7	1.7	1.8
Family Mart	8028 JP	JPY4,725.0	4,506	18.0	18.0	10.1	12	16	15	9.1	9.3	2.2	2.3
President Chain Store Corp	2912 TT	TWD220.5	7,638	23.8	22.6	20.5	4.4	7.6	7.1	34.6	35.2	3.1	3.5
Capitaland Limited	CAPL SP	SGD3.4	11,419	20.7	18.4	12.5	4.9	0.8	0.8	5.0	4.9	2.3	2.4
SM Prime Holdings Inc.	SMPH PM	PHP16.2	10,297	24.1	20.9	12.6	13.8	2.4	2.2	11.4	10.9	1.4	1.6
Home Depot	HD US	USD83.1	13,676	18.9	16.3	16.9	15.3	10.6	10.8	80.6	55.8	2.3	2.6
Costco whole sale corp	COST US	USD118.6	51,999	25.9	23.1	-18	12.2	3.9	3.3	17.5	17.4	1.1	1.2
Carrefour	CA FP	EUR26.0	25,542	16.8	14.3	-11.4	13.1	19	17	13.8	13.0	2.7	3.1
Home Product Center	HMPRO TB	THB10.50	3,602	34.5	30.0	9.0	14.7	7.5	6.5	23.9	23.3	1.2	1.6
Big C Supercenter	BIGC TB	THB232.00	5,992	26.4	23.2	4.0	13.7	4.5	4.0	18.3	18.2	1.1	1.3
Beauty Community	BEAUTY TB	THB24.10	226	28.4	22.1	20.3	28.4	6.8	6.2	24.6	29.4	3.2	4.1
Kamarts	KAMART TB	THB5.80	120	19.0	18.4	25.3	3.0	5.1	5.0	29.6	27.8	4.5	4.8
Berli Jucker	BJC TB	THB55.00	2,741	44.9	34.9	-19.1	28.5	4.7	4.3	12.9	15.2	1.2	1.6
C.P. All	CPALL TB	THB46.50	13,076	34.6	27.2	14.5	27.3	11.3	9.4	39.3	42.2	1.9	2.2
Central Pattana	CPN TB	THB47.75	6,708	29.7	24.9	14.8	19.0	5.1	4.5	18.7	19.6	1.3	1.6
Siam Global House	GLOBAL TB	THB12.80	1,222	43.9	32.2	0.6	36.4	2.6	2.4	7.0	7.7	0.7	0.9
Robinson Department Store	ROBINS TB	THB57.25	1,990	30.7	21.9	4.2	40.1	4.8	4.1	17.4	21.7	1.6	2.3
Siam Future Development	SF TB	THB7.00	324	14.0	12.4	28.9	12.9	16	14	12.1	12.6	0.2	0.2
Officemate	OFM TB	THB49.25	493	32.8	25.6	17.7	28.1	3.2	3.0	10.2	12.2	1.2	1.6
Siam Makro	MAKRO TB	THB39.75	5,973	36.6	29.9	21.2	22.3	14.8	13.3	43.6	46.9	2.4	2.8
Simple average				25.3	21.5	-1.3	13.8	4.5	4.1	19.4	19.2	1.9	2.2

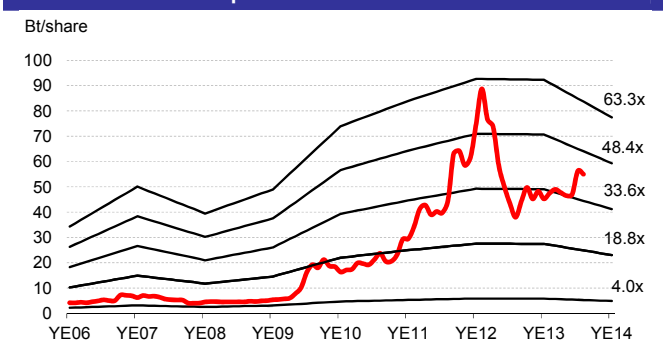
PER band versus SD (next 12 months)



PBV band versus SD (next 12 months)



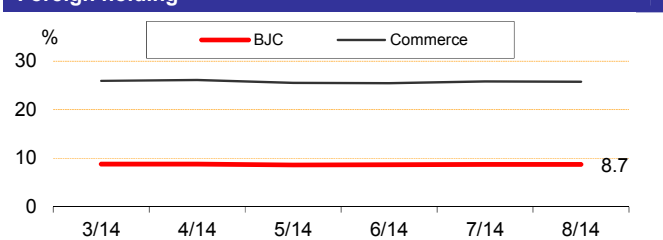
PER band and share price



PBV band and share price



Foreign holding








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

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.