

**Malaysia**
**ADD** (no change)

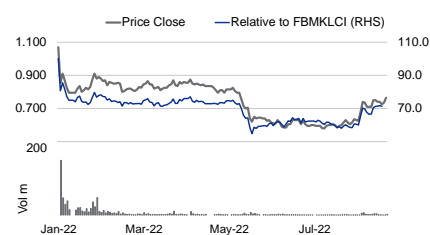
Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	RM0.765
Target price:	RM0.90
Previous target:	RM0.80
Up/downside:	17.6%
CGS-CIMB / Consensus:	12.5%
Reuters:	SENH.KL
Bloomberg:	5305 MK
Market cap:	US\$256.9m
	RM1,148m
Average daily turnover:	US\$0.19m
	RM0.85m
Current shares o/s:	1,500m
Free float:	31.3%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY22-24F EPS by 7.5-12.3% on higher margin assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	30.8	9.3	
Relative (%)	30.6	14.1	

Major shareholders	% held
SQ Digital Sdn Bhd	58.0
Lim Kim Heng	5.4
Lim Kim Chieng	5.4

**Analyst(s)**
**KHOO Zhen Ye**

T (60) 3 2635 9278

E zhenye.khoo@cgs-cimb.com

**Walter AW**

T (60) 3 2635 9255

E walter.aw@cgs-cimb.com

# Senheng New Retail Bhd

## Two-prong strategies yielding higher margin

- We deem Senheng's 1H22 core net profit of RM33.1m (+31.1% yoy) above our expectations due to higher-than-expected margins.
- We expect it to post stronger hoh results in 2H22F on i) seasonality factors with a bumper 4Q, ii) better product mix, and iii) higher operational efficiency.
- Reiterate Add, with a higher TP of RM0.90 (17.4x CY23F P/E) as we raise our FY22-24F EPS by 7.5-12.3% to account for higher margin assumptions.

### 1H22 core net profit of RM33.1m (+31.1% yoy) above expectations

Senheng's 1H22 revenue rose 13.5% yoy to RM765.0m, boosted by strong 2Q22 performance on the back of Raya festive sales and more new/upgraded stores, leading to higher sales particularly at its "senQ" digital stations (+11.3% yoy) and "Grand Senheng" stores (+51.1% yoy). We deem 1H22 core net profit above our expectations, at 48.3% of our FY22F estimate, owing to better-than-expected GP and operating margins. 1H22 GP margin expanded to 20.3% (+0.6% pts yoy) on a better product mix while EBITDA margin rose to 8.4% (+0.9% pts yoy), which we attribute to its ongoing internal cost efficiency efforts (enhancing productivity by having trucks cover a wider area and more delivery orders fulfilled per truck) and more cost-effective promotional activities, thanks to targeted marketing via automated digital marketing solutions.

### 2Q22 core net profit rose to RM20.0m (+68.0% yoy)

Senheng New Retail Bhd's (Senheng) 2Q22 revenue increased 32.9% yoy to RM397.7m, mainly driven by i) various marketing campaigns (i.e. Raya festive sales, Member Month, and 6.6 Macam-Macam Sales), ii) higher per-store sales on six new/upgraded stores during the quarter, and iii) higher footfall on easing of Omicron wave and full lifting of Covid-19 travel and business restrictions. In addition, 2Q22 GP margin climbed 1.2% pts yoy to 22.1% on a more favourable product mix due to its ongoing store expansion strategy with wider higher-margin product selection, in our view. On top of that, opex as a percentage of revenue declined to 12.7% in 2Q22 (vs. 2Q21: 13.3%), which we believe was due to its ongoing efficiency initiatives yielding higher operational efficiency.

### Expecting stronger hoh results in 2H22 on margin expansion

Going forward, we expect Senheng to post stronger hoh results in 2H22, premised on i) seasonality factor (4Q is typically the strongest quarter, accounting for 42-44% of FY20/21 core net profit on strong year-end and holiday promotional campaigns), ii) more favourable GP margin from its aggressive plan to grow its higher-margin in-house and exclusive products, and iii) higher operational efficiency via ongoing internal efficiency projects and proprietary digital marketing solutions, which should lower its A&P costs.

### Reiterate Add, with a higher TP of RM0.90

We reiterate our Add call on Senheng given its effective business execution leading to margin expansion. Hence, we raise our FY22-24F EPS by 7.5-12.3% to account for our higher margin assumptions. Accordingly, our TP is raised to RM0.90 (17.4x CY23F P/E, a 20% discount to CGS-CIMB's consumer discretionary sector's 5-year mean P/E of 21.8x). The discount is to account for the competitive nature of the retail E&E sector. We like Senheng for its: i) leading position in consumer electronics, ii) loyal customer base of 3.5m PlusOne members, and iii) wider product offerings vs. peers.

**Financial Summary**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	1,295	1,444	1,602	1,727	1,863
Operating EBITDA (RMm)	114.0	127.0	149.7	164.9	181.5
Net Profit (RMm)	54.69	65.05	73.96	78.11	83.40
Core EPS (RM)	0.036	0.043	0.049	0.052	0.056
Core EPS Growth	20.4%	18.9%	13.7%	5.6%	6.8%
FD Core P/E (x)	20.98	17.64	15.51	14.69	13.76
DPS (RM)	0.008	0.013	0.015	0.016	0.017
Dividend Yield	1.05%	1.70%	1.93%	2.04%	2.18%
EV/EBITDA (x)	9.95	9.07	6.19	5.66	5.14
P/FCFE (x)	22.02	47.84	NA	18.42	15.33
Net Gearing	(8.2%)	2.2%	(39.8%)	(35.2%)	(32.2%)
P/BV (x)	6.90	4.91	2.08	1.89	1.72
ROE	37.8%	32.5%	18.8%	13.5%	13.1%
% Change In Core EPS Estimates			8.1%	12.3%	7.5%
CGS-CIMB/Consensus EPS (x)			1.07	1.13	1.07

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Two-prong strategies yielding higher margin

### Re-rating catalysts and downside risks

**Re-rating catalysts:** A strong recovery in footfall and lower-than-expected operating expenses.

**Downside risks:** supply disruptions, slowdown in consumer E&E sales, sharp rise in operating expenses and intensifying competition.

**Figure 1: Results Comparison**

FYE Dec (RM m)	2QFY22	2QFY21	yoy % chg	qoq % chg	1HFY22 Cum	1HFY21 Cum	yoy % chg	Prev. FY22F	Comments
Revenue	397.7	299.4	32.9	8.3	765.0	673.9	13.5	1601.9	Higher revenue yoy due to higher number of upgraded/new stores on its ongoing expansion strategy, higher consumer footfall following easing of Omicron wave and Raya festive sales as well as its more effective marketing
Cost of sales	(310.0)	(237.0)	30.8	7.0	(610.0)	(541.2)	12.7	(1263.5)	
<b>Gross profit</b>	<b>87.8</b>	<b>62.4</b>	<b>40.7</b>	<b>13.1</b>	<b>155.0</b>	<b>132.7</b>	<b>16.8</b>	<b>338.4</b>	
GP margin %	22.1%	20.8%	1.2	0.9	20.3%	19.7%	0.6	0.2	Higher GP margin yoy due to more favourable product mix in 1H22
Operating costs	(50.7)	(39.8)	27.4	0.6	(101.1)	(89.1)	13.4	(1459.4)	Higher yoy and qoqo due to higher operating and administrative expenses, which included listing expenses on the Main Market of Bursa Malaysia but at a slower pace than revenue growth
<b>EBITDA</b>	<b>37.1</b>	<b>22.6</b>	<b>64.2</b>	<b>36.4</b>	<b>64.2</b>	<b>50.7</b>	<b>26.8</b>	<b>142.5</b>	
EBITDA margin (%)	9.3%	7.5%	1.8	1.9	8.4%	7.5%	0.9	8.9	Higher EBITDA margin yoy in 1H22 due to higher GP margin on better margin mix and higher operational efficiency due to its ongoing internal efficiency
Depn & amort.	(10.9)	(7.7)	42.2	7.1	(21.1)	(17.2)	22.2	(50.3)	
<b>EBIT</b>	<b>26.2</b>	<b>14.9</b>	<b>75.5</b>	<b>53.9</b>	<b>43.2</b>	<b>33.4</b>	<b>29.2</b>	<b>92.2</b>	
Interest expense	(1.1)	(1.3)	(11.0)	(12.0)	(2.4)	(2.5)	(3.7)	(5.4)	
Interest & invt inc	0.5	0.3	58.4	46.3	0.9	0.6	40.9	2.7	
Exceptionals & revaln	(3.9)	(0.6)	507.3	(7.7)	(8.1)	(1.9)	nm	0.0	1H22 included one-off listing expenses of RM1.7m in 1Q22 (not recurring), forex gains and losses and impairment loss
<b>Pretax profit</b>	<b>21.7</b>	<b>14.0</b>	<b>55.2</b>	<b>82.7</b>	<b>33.5</b>	<b>29.6</b>	<b>13.3</b>	<b>89.4</b>	
Tax	(5.6)	(2.7)	105.7	88.0	(8.5)	(6.3)	36.0	(21.0)	
Tax rate (%)	25.7%	19.4%	6.3	0.7	25.5%	21.2%	4.2	23.5%	Certain expenses are non tax deductible
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	nm	0.0	
<b>Net profit</b>	<b>16.1</b>	<b>11.3</b>	<b>43.0</b>	<b>81.0</b>	<b>25.0</b>	<b>23.3</b>	<b>7.2</b>	<b>68.4</b>	
<b>Core net profit</b>	<b>20.0</b>	<b>11.9</b>	<b>68.0</b>	<b>52.5</b>	<b>33.1</b>	<b>25.2</b>	<b>31.1</b>	<b>68.4</b>	Above expectation at 48.3% of our FY22F full year estimates
EPS (sen)	1.1	0.8	43.0	81.0	1.7	1.6	7.2	4.6	
Core EPS (sen)	1.3	0.8	68.0	52.5	2.2	1.7	31.1	4.6	

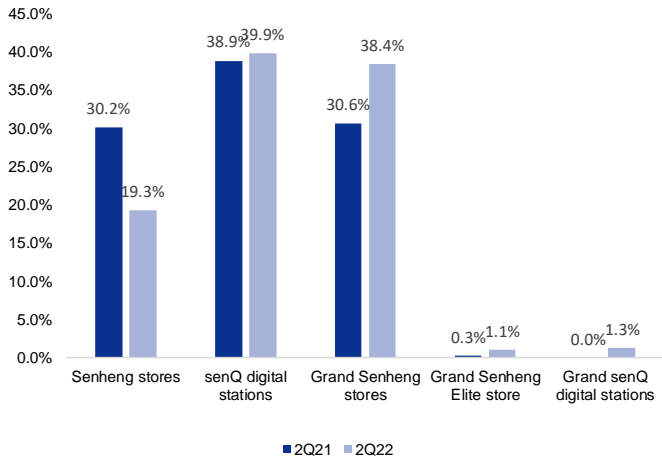
SOURCES: CGS-CIMB, COMPANY REPORTS

**Figure 2: Earnings revision**

RM m	FY21	FY22F			FY23F			FY24F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	1444.1	1601.9	1601.9	0.0%	1727.1	1727.1	0.0%	1862.6	1862.6	0.0%
EBITDA	127.0	142.5	149.7	5.1%	153.6	164.9	7.3%	174.1	181.5	4.3%
Core pretax profit	84.5	89.4	96.7	8.1%	91.5	102.8	12.3%	102.1	109.7	7.5%
Core net profit	65.1	68.4	74.0	8.1%	69.5	78.1	12.3%	77.6	83.4	7.5%

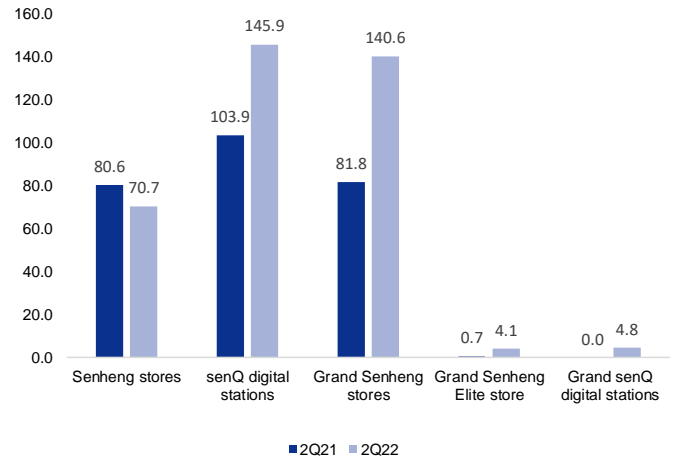
SOURCES: CGS-CIMB, COMPANY REPORTS

**Figure 3: Revenue breakdown by physical store formats in 2Q22 vs. 2Q21 (%)**



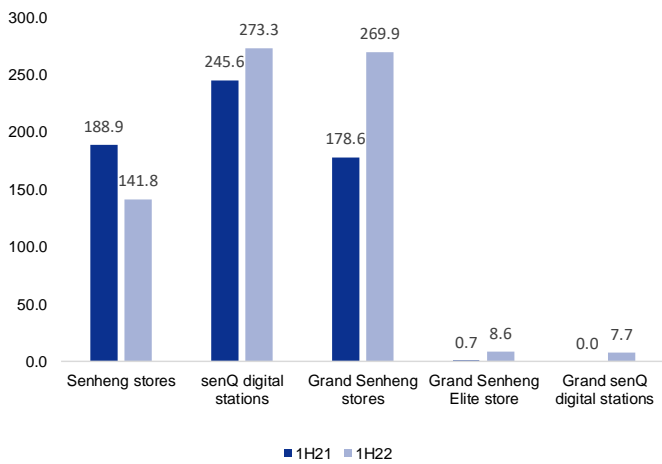
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: Revenue breakdown by physical store formats in 2Q22 vs. 2Q21 (RM'm)**



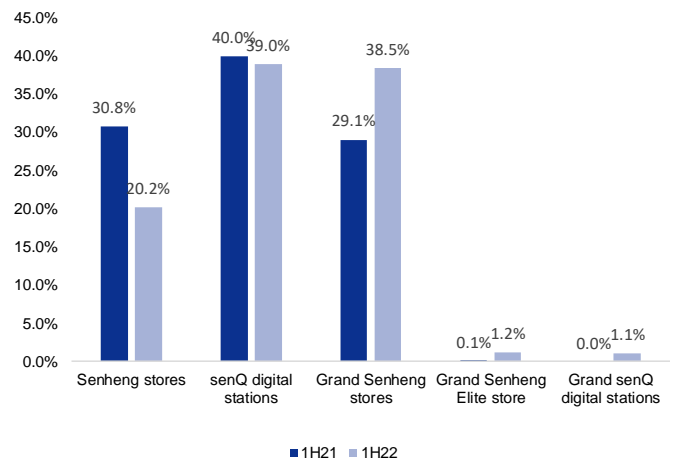
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 5: Revenue breakdown by physical store formats in 1H22 vs. 1H21 (RM'm)**



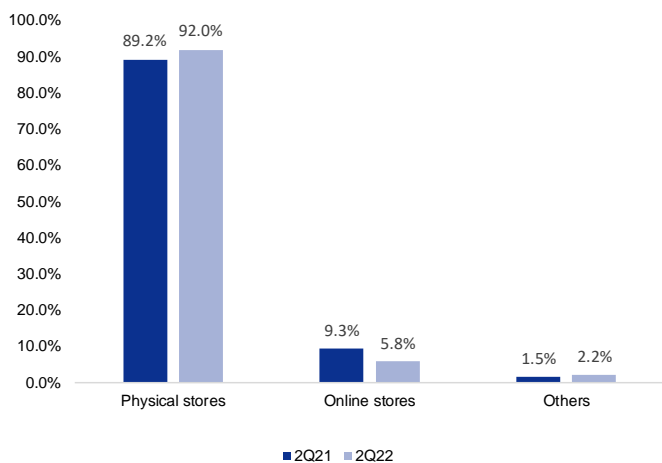
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 6: Revenue breakdown by physical store formats in 1H22 vs. 1H21 (%)**



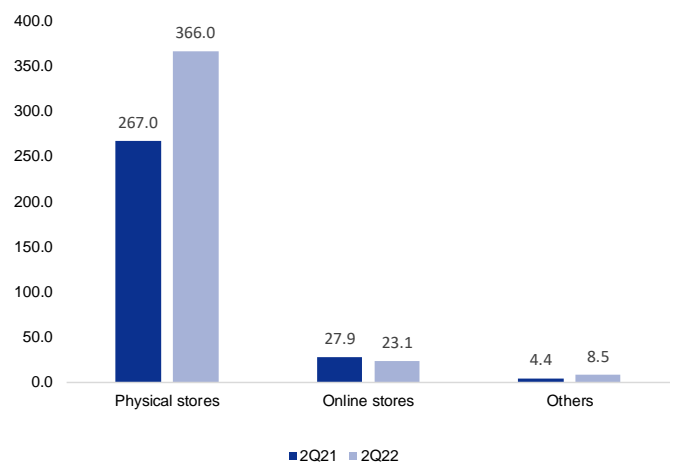
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 7: Revenue breakdown by retail channels in 2Q22 vs. 2Q21 (%)**



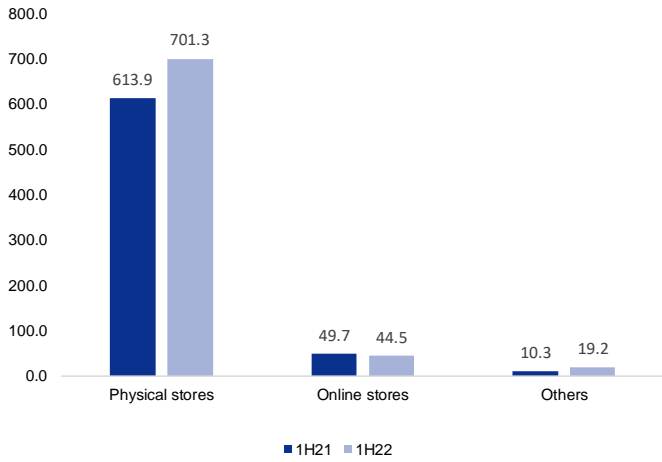
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 8: Revenue breakdown by retail channels in 2Q22 vs. 2Q21 (RM'm)**



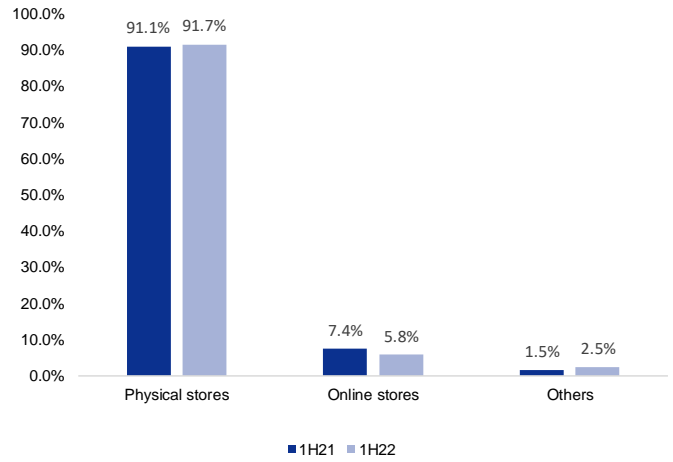
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 9: Revenue breakdown by retail channels in 1H22 vs. 1H21 (RM'm)**



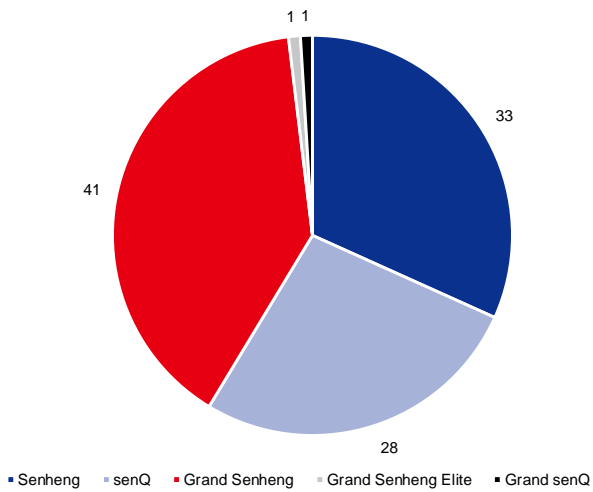
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 10: Revenue breakdown by retail channels in 1H22 vs. 1H21 (%)**



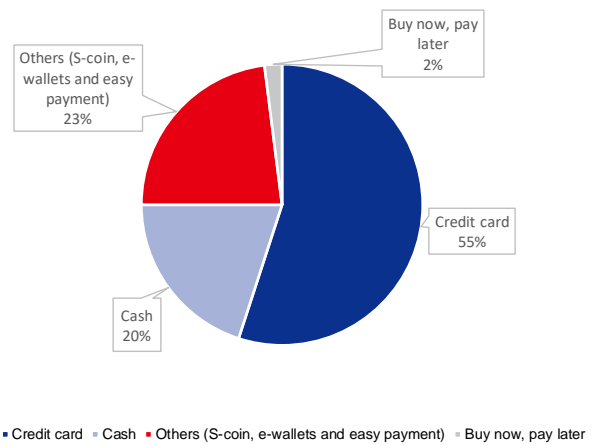
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 11: Senheng's store count as of 1Q22 (Total: 104)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 12: Senheng's sales breakdown by mode of payment in 1H22 (%) (CGS-CIMB Research estimates)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## ESG in a nutshell

In 2013, Senheng launched its e-waste recycling programme to encourage and facilitate the disposal of electronic waste in a responsible and safe manner. Through this programme, customers can bring their non-bulky electronic appliances, such as personal computers, mobile phones, tablet computers, projectors and media players, to any of Senheng's physical stores for recycling at no charge. In addition, Senheng collects for recycling at no added charge any unwanted electronic appliances from customers' premises when it delivers customers' purchases. The collected electronic waste will then be sent to licensed e-waste recycling centres for processing.

### Keep your eye on

Currently, only two out of Senheng's seven directors are female. This is below the Malaysian Code of Corporate Governance's recommendation of at least 30% female directors.

### Implications

While we view this negatively, Senheng has set a target of appointing additional female directors within two years of its listing date (25 Jan 2022).

### ESG highlights

Senheng was able to grow its revenue base by a CAGR of 10.1%, despite gradually closing physical outlets over 2016-2021 (it had 105 outlets as at end-FY21 vs. 125 at end-FY16). We also note that Senheng has been aggressively expanding its online sales business, with online sales accounting for 8.6% of its revenue in FY21.

### Implications

We are positive on this matter as the company is showing efforts to reduce its energy consumption (in terms of water and electricity) with a lower number of physical outlets in operation. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.

### Trends

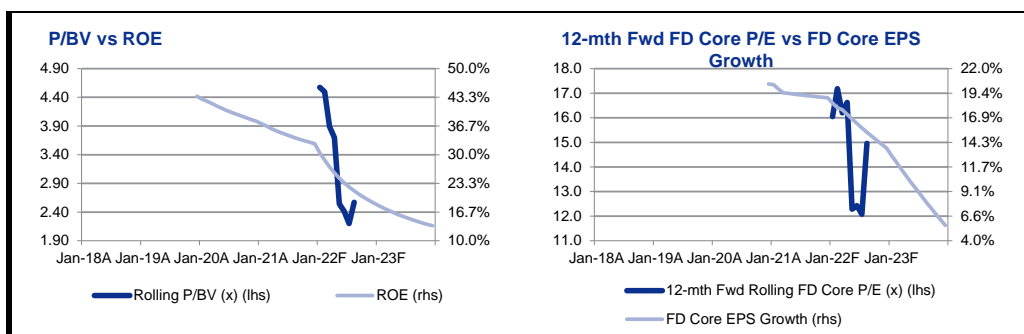
Senheng has initiated various environmentally friendly programmes, such as "Tree Planting Project" (since 2010), "Paperless Initiatives" (since 2015), "E-waste Recycling Programme" (since 2013) and "Adoption of Bio-Degradable Plastic" (since 2003).

### Implications

We are positive on the company's efforts towards environmental sustainability. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>1,295</b>	<b>1,444</b>	<b>1,602</b>	<b>1,727</b>	<b>1,863</b>
<b>Gross Profit</b>	<b>270</b>	<b>304</b>	<b>342</b>	<b>374</b>	<b>404</b>
<b>Operating EBITDA</b>	<b>114</b>	<b>127</b>	<b>150</b>	<b>165</b>	<b>182</b>
Depreciation And Amortisation	-37	-39	-50	-60	-70
<b>Operating EBIT</b>	<b>77</b>	<b>88</b>	<b>99</b>	<b>105</b>	<b>112</b>
Financial Income/(Expense)	-4	-3	-3	-2	-2
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>74</b>	<b>85</b>	<b>97</b>	<b>103</b>	<b>110</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>74</b>	<b>85</b>	<b>97</b>	<b>103</b>	<b>110</b>
Taxation	-18	-19	-23	-25	-26
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>56</b>	<b>65</b>	<b>74</b>	<b>78</b>	<b>83</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	-1	-0	0	0	0
<b>Net Profit</b>	<b>55</b>	<b>65</b>	<b>74</b>	<b>78</b>	<b>83</b>
Recurring Net Profit	55	65	74	78	83
<b>Fully Diluted Recurring Net Profit</b>	<b>55</b>	<b>65</b>	<b>74</b>	<b>78</b>	<b>83</b>

### Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>114.0</b>	<b>127.0</b>	<b>149.7</b>	<b>164.9</b>	<b>181.5</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(45.3)	(49.8)	(56.9)	(26.2)	(28.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	38.7	41.5	53.0	62.1	71.8
Other Operating Cashflow	(40.3)	(42.5)	(53.0)	(62.1)	(71.8)
Net Interest (Paid)/Received	(2.1)	(1.9)	(1.3)	(0.0)	(0.0)
Tax Paid	(6.4)	(20.3)	(22.7)	(24.7)	(26.3)
<b>Cashflow From Operations</b>	<b>58.6</b>	<b>54.1</b>	<b>68.8</b>	<b>114.0</b>	<b>126.4</b>
Capex	(7.5)	(22.8)	(55.0)	(55.0)	(55.0)
Disposals Of FAs/subsidiaries	21.9	6.5	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(20.7)	(16.9)	0.0	0.0	0.0
Other Investing Cashflow	(5.0)	1.8	2.7	3.3	3.4
<b>Cash Flow From Investing</b>	<b>(11.3)</b>	<b>(31.3)</b>	<b>(52.3)</b>	<b>(51.7)</b>	<b>(51.6)</b>
Debt Raised/(repaid)	4.8	1.3	(57.0)	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(12.0)	(12.0)	(22.2)	(23.4)	(25.0)
Preferred Dividends					
Other Financing Cashflow	(26.6)	(29.3)	231.1	(45.0)	(49.3)
<b>Cash Flow From Financing</b>	<b>(33.8)</b>	<b>(40.0)</b>	<b>151.9</b>	<b>(68.5)</b>	<b>(74.3)</b>
Total Cash Generated	13.5	(17.3)	168.4	(6.2)	0.5
<b>Free Cashflow To Equity</b>	<b>52.1</b>	<b>24.0</b>	<b>(40.5)</b>	<b>62.3</b>	<b>74.9</b>
<b>Free Cashflow To Firm</b>	<b>49.4</b>	<b>24.7</b>	<b>17.8</b>	<b>62.3</b>	<b>74.9</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	68.8	51.7	220.2	214.0	214.5
Total Debtors	74.3	97.2	109.7	118.3	127.6
Inventories	211.4	253.9	293.3	315.2	339.7
Total Other Current Assets	13.0	37.3	37.3	37.3	37.3
<b>Total Current Assets</b>	<b>367.4</b>	<b>440.1</b>	<b>660.5</b>	<b>684.8</b>	<b>719.1</b>
Fixed Assets	96.4	108.4	154.4	193.1	229.2
Total Investments	15.1	2.9	2.9	2.9	2.9
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	178.0	181.4	228.1	242.2	247.3
<b>Total Non-current Assets</b>	<b>289.5</b>	<b>292.6</b>	<b>385.4</b>	<b>438.2</b>	<b>479.4</b>
Short-term Debt	14.5	16.9	0.0	0.0	0.0
Current Portion of Long-Term Debt					
Total Creditors	124.8	135.5	138.0	148.3	159.9
Other Current Liabilities	114.1	107.4	121.4	125.0	126.7
<b>Total Current Liabilities</b>	<b>253.4</b>	<b>259.9</b>	<b>259.5</b>	<b>273.4</b>	<b>286.6</b>
Total Long-term Debt	40.7	40.1	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	188.0	194.2	228.4	237.0	240.9
<b>Total Non-current Liabilities</b>	<b>228.7</b>	<b>234.2</b>	<b>228.4</b>	<b>237.0</b>	<b>240.9</b>
Total Provisions	8.6	5.1	5.1	5.1	5.1
<b>Total Liabilities</b>	<b>490.7</b>	<b>499.1</b>	<b>492.9</b>	<b>515.4</b>	<b>532.6</b>
Shareholders' Equity	166.2	233.7	552.9	607.6	666.0
Minority Interests					
<b>Total Equity</b>	<b>166.2</b>	<b>233.7</b>	<b>552.9</b>	<b>607.6</b>	<b>666.0</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	13.1%	11.5%	10.9%	7.8%	7.8%
Operating EBITDA Growth	12.5%	11.5%	17.8%	10.1%	10.1%
Operating EBITDA Margin	8.80%	8.80%	9.35%	9.55%	9.75%
Net Cash Per Share (RM)	0.01	-0.00	0.15	0.14	0.14
BVPS (RM)	0.11	0.16	0.37	0.41	0.44
Gross Interest Cover	14.32	17.69	18.26	20.32	19.86
Effective Tax Rate	24.4%	22.8%	23.5%	24.0%	24.0%
Net Dividend Payout Ratio	21.9%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	20.91	21.66	23.57	24.09	24.16
Inventory Days	68.41	74.46	79.30	82.04	82.16
Accounts Payables Days	44.42	41.65	39.63	38.61	38.66
ROIC (%)	26.8%	26.3%	22.8%	18.6%	17.7%
ROCE (%)	40.6%	35.0%	24.2%	18.6%	18.1%
Return On Average Assets	9.39%	9.83%	8.62%	7.37%	7.38%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth %Physical stores	8.9%	9.2%	12.4%	7.1%	6.9%
Revenue Growth %Online stores	154.6%	29.8%	-14.8%	1.0%	1.0%
Revenue Growth %Others	-19.1%	63.2%	50.0%	45.0%	40.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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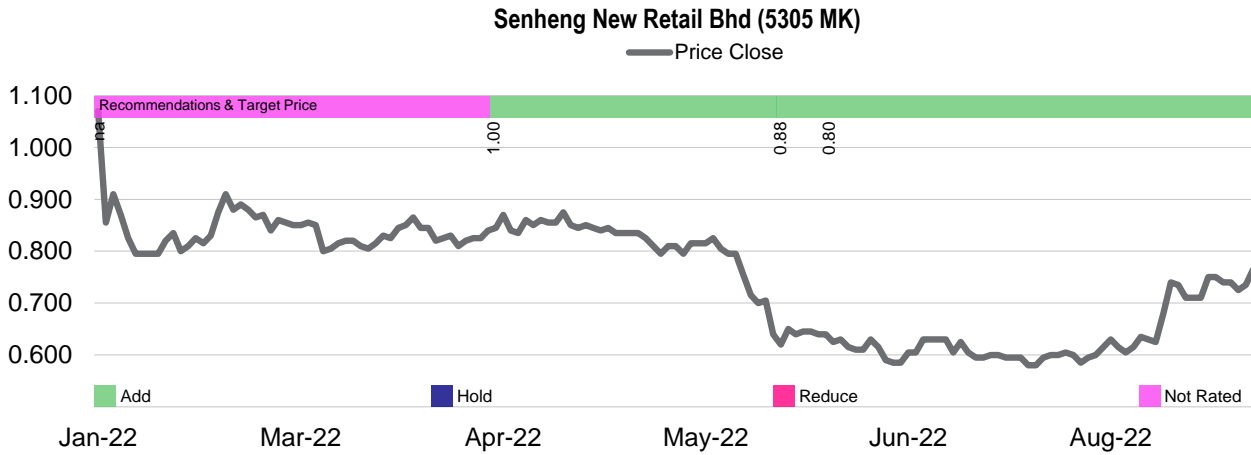
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



**Recommendation Framework**

**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

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.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- 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.