

Soulbrain (036830 KQ)

Lee Su-bin
subin.lee@daishin.com

Rating **BUY**
initiate

6M TP (₩) **56,000**
initiate

CP (₩)
(19.06.03) **45,550**

Display

External tailwinds are building

Coverage initiated with BUY and TP of ₩56,000

- For Soulbrain, we suggest a target price of ₩56,000, which is based on a 2019E EPS and a target P/E ratio of 8.8, a 15% discount to the 2015-18 average of 10.1. The valuation discount reflects potential new competition the chemical company may face. (The company supplies etchants and other chemical solutions for display and semiconductor makers.)
- Fetching a P/E ratio of 7.4, a 10% discount to the bottom end of the five-year trading range, the stock looks grossly undervalued.

2019 preview: revenue up 8%; OP up 9%

- Soulbrain's first-quarter OP fell slightly short of the market's expectation at ₩43.1bn (up 19% qoq; up 14% yoy). Semiconductor etchant sales slid 5% qoq, reflecting lower plant utilization at customers. Thin-glass sales, on the other hand, jumped 40%, buoyed by increased sales of rigid OLED panels.
- Heading into the second half, sales of semiconductor etchants will likely recover as chip makers finish up facility revamps and boost production. Thin glass sales should also continue to grow well into the third quarter.
- For all of 2019, we expect the company to report revenue of ₩1tn and OP of ₩179.6bn.

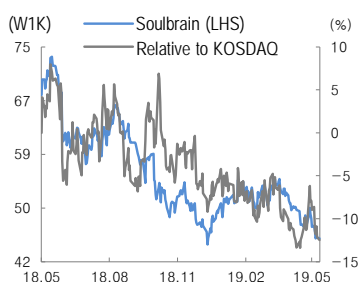
2020 should be a better year than last year

- Demand for high-selective nitride (HSN) etchants is rising as chip makers move to 5th gen 3-D NAND technology. Despite that, Soulbrain shares are under pressure due to worries over potential new competition. We believe the concern is excessive, given that it takes time for new entrants, if any, to pass the customers' quality tests.
- Display makers are stepping up plant utilization (over 90%) to meet the growing demand for rigid OLEDs from Chinese handset makers. That raises the company's growth outlook.
- The company will also benefit as major local semiconductor and display makers begin operation at their new facilities—Samsung Electronics' Pyeongtaek fab, SK Hynix' M15, Samsung Display's A5, and LG Display's Guangzhou fab—as early as 2H19—and boost investment starting from 2020.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	697.50
Market cap (₩bn)	792
Market cap portion (%)	0.33
Paid-in capital (common; ₩bn)	9
52w high/low (₩)	73,500 / 44,650
120d avg. trading volume (₩bn)	2.1
Foreign ownership (%)	29.14
Major shareholders	Jeong Ji-wan+7: 43.48%

(%)	1M	3M	6M	12M
Abs. return	-8.8	-11.0	-16.0	-36.2
Rel. return	-0.4	-6.7	-14.5	-19.2



Operating results and major financial data

	2017A	2018A	2019F	2020F	2021F
Revenue	776	963	1,044	1,126	1,238
OP	106	164	180	196	215
Pretax profit	67	147	162	178	198
NP	43	103	114	125	139
NP (controlling int.)	41	100	112	123	136
EPS	2,467	5,722	6,409	7,043	7,822
PER	27.4	8.3	7.1	6.5	5.8
BPS	38,616	41,701	47,426	53,742	60,836
PBR	1.7	1.1	0.9	0.8	0.7
ROE	6.8	14.5	14.4	13.9	13.7

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Soulbrain, Daishin Securities Research Center

Tab 1. Earnings trend and forecast (consolidated)

(Wbn)

	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19F	3Q19F	4Q19F	2018	2019F	2020F
Sales											
1) Semiconductor											
Etching	113	120	128	136	129	133	138	141	496	540	587
Precursors	8	8	9	8	8	8	9	9	33	34	36
CMP Slurry	11	11	12	12	11	10	11	11	45	43	45
Total	131	138	149	156	148	151	158	160	575	617	669
2) Display											
Chemical	30	33	33	34	30	28	30	30	130	119	122
Thin Glass & Others	37	43	46	34	44	52	54	48	160	198	219
Total	67	75	80	68	74	80	84	78	290	317	341
3) Battery electrolyte & Lead Tab	16	20	20	17	16	18	18	17	73	70	80
4) Others	3	5	6	11	9	10	11	12	25	40	36
Total	218	238	255	253	247	259	271	267	963	1,044	1,126
QoQ growth											
1) Semiconductor											
Etching	8%	6%	7%	6%	-5%	3%	4%	2%	34%	9%	9%
Precursors	0%	-3%	18%	-8%	-2%	1%	12%	-7%	10%	4%	7%
CMP Slurry	7%	4%	8%	0%	-8%	-5%	4%	2%	20%	-5%	5%
Total	8%	5%	7%	5%	-5%	2%	4%	1%	31%	7%	8%
2) Display											
Chemical	-5%	8%	2%	3%	-12%	-6%	5%	2%	1%	-9%	2%
Thin Glass & Others	13%	15%	9%	-27%	30%	18%	5%	-12%	12%	24%	11%
Total	4%	12%	6%	-15%	9%	2%	1%	-7%	7%	9%	8%
3) Battery electrolyte & Lead Tab	19%	20%	1%	-13%	-7%	10%	3%	-6%	33%	-5%	15%
4) Others	-44%	82%	33%	73%	-22%	10%	10%	10%	139%	61%	-11%
Total	6%	9%	7%	-1%	-2%	5%	8%	0%	24%	8%	8%
Sales share											
1) Semiconductor											
Etching	52%	50%	50%	54%	52%	51%	51%	53%	52%	52%	52%
Precursors	4%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%
CMP Slurry	5%	5%	5%	5%	4%	4%	4%	4%	5%	4%	4%
Total	60%	58%	58%	62%	60%	58%	58%	60%	60%	59%	59%
2) Display											
Chemical	14%	14%	13%	14%	12%	11%	11%	11%	14%	11%	11%
Thin Glass & Others	17%	18%	18%	13%	18%	20%	20%	18%	17%	19%	19%
Total	31%	32%	31%	27%	30%	31%	31%	29%	30%	30%	30%
3) Battery electrolyte & Lead Tab	8%	8%	8%	7%	7%	7%	7%	6%	8%	7%	7%
4) Others	1%	2%	3%	4%	4%	4%	4%	4%	3%	4%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OP											
OP	38	43	47	36	43	45	46	46	164	180	196
QoQ	44%	75%	58%	43%	14%	3%	-2%	27%	55%	9%	9%
OP margin	17%	18%	18%	14%	17%	17%	17%	17%	17%	17%	17%

Source: Soulbrain, Daishin Securities Research Center

Tab 2. Valuation table

(Wbn, 1K shares, W, x, %)

	2019F	12-month forward
NP (controlling interest)	112	98
Floating shares	17,398	
EPS	6,409	5,658
Target P/E	8.8	8.8
Fair value	56,399	
Target price	56,000	
CP	45,550	
P/E	7.4	
Upside potential	23%	98

Note: As of June 3, 2019

Source: Soulbrain, Quantiwise, Daishin Securities Research Center

Tab 3. Historical valuation

(W, x)

	2015	2016	2017	2018	2019F
EPS (includes treasury shares)	4,878	4,514	2,467	5,722	6,409
PER (End)	8.3	13.4	27.4	8.3	7.4
PER (High)	10.8	15.4	31.5	13.1	8.7
PER (Low)	6.3	7.6	18.4	8.1	6.9
PER (Avg)	8.6	11.6	25.3	10.4	8.0
BPS	29,865	33,711	37,072	41,701	47,426
PBR (End)	1.4	1.8	1.8	1.1	1.0
PBR (High)	1.8	2.1	2.1	1.8	1.2
PBR (Low)	1.0	1.0	1.2	1.1	0.9
PBR (Avg)	1.4	1.6	1.7	1.4	1.1
EV/EBITDA (End)	5.1	6.6	6.9	3.5	3.0
EV/EBITDA (High)	6.4	7.3	8.0	5.6	3.5
EV/EBITDA (Low)	4.0	3.9	4.3	3.4	2.7
EV/EBITDA (Avg)	5.3	5.7	6.0	4.4	3.2

Note: Based on NP contributable to controlling interest

Source: Soulbrain, Quantiwise, Daishin Securities Research Center

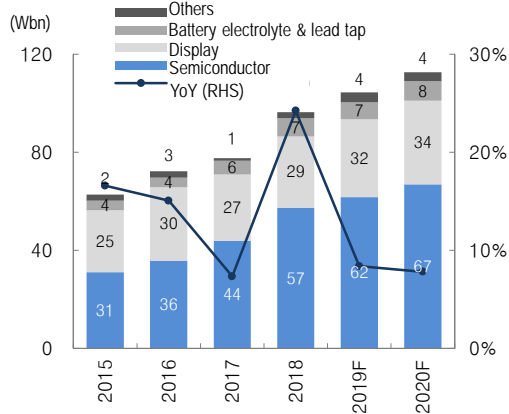
Tab 4. Peer comparison

	Year	Soulbrain	SK Materials	ENF Technology	Mecaro	Foosung	Entegris	Ube Industries
Settlement month		December	December	December	December	December	December	March
Currency		KRW	KRW	KRW	KRW	KRW	USD	JPY
Share price (local currency)		45,550	152,300	21,500	13,400	7,190	34	2,081
Market cap (local currency)		792	1,606	306	135	666	4,654	221
Market cap (USD mn)		665	1,350	257	113	560	4,654	2,037
Stock Exchange		KOSDAQ	KOSDAQ	KOSDAQ	KOSDAQ	KOSPI	SDAQ GS	Tokyo
Revenue	2018	963	687	425	101	275	1,550	69,557
(Wbn, \$mn, ¥'00mn)	2019F	1,044	800	488		306	1,601	75,549
	2020F	1,126	909	548		387	1,708	78,173
OP	2018	164	183	36	34	40	293	5,025
(Wbn, \$mn, ¥'00mn)	2019F	180	228	53		46	369	4,812
	2020F	196	263	62		70	429	5,023
OPM	2018	17.0	26.6	8.4	33.7	14.4	18.9	7.2
(%)	2019F	17.2	28.5	10.8		15.0	23.0	6.4
	2020F	17.4	29.0	11.3		18.1	25.1	6.4
NP	2018	100	123	29	29	28	241	31,680
(Wbn, \$mn, ¥'00mn)	2019F	112	153	41		37	267	32,816
	2020F	123	179	49		57	307	34,368
PER	2018	8.3	15.8	7.8	9.7	29.8	18.4	10.3
(x)	2019F	7.4	11.3	7.1		16.8	17.6	6.4
	2020F	6.8	9.6	6.1		11.5	15.4	6.1
PBR	2018	1.1	4.2	1.0	2.0	4.4	3.8	1.0
(x)	2019F	1.0	3.0	1.2		2.7	4.1	0.6
	2020F	0.9	2.4	1.0		2.2	3.6	0.6
ROE	2018	14.5	30.4	14.0		12.4	24.0	10.5
(%)	2019F	14.4	33.4	16.9		13.9	26.7	10.0
	2020F	13.9	30.9	17.0		18.3	21.3	9.8
EV/EBITDA	2018	3.5	8.8	3.9	1.5	13.1	9.9	5.8
(x)	2019F	3.0	7.2			6.1	11.6	4.7
	2020F	2.6	6.3			4.4	10.4	4.5
Dividend payout	2018	12.3	31.6	4.9	19.6	0.0	16.5	24.9
(%)	2019F	11.1					16.5	24.9
	2020F	10.1					16.5	24.9
EPS	2018	5,722	11,703	2,041	2,885	303	2	302
(local currency)	2019F	6,409	14,494	2,910		397	2	325
	2020F	7,043	16,989	3,444		619	2	343
BPS	2018	41,701	42,508	15,758	14,165	2,651	7	3,009
(local currency)	2019F	47,426	54,031	18,625		3,065	8	3,501
	2020F	53,742	68,430	21,929		3,702	10	3,765
DPS	2018	750	3,750	100	575		0.3	75
(local currency)	2019F	750	3,945	100			0.3	80
	2020F	750	4,212	100				

Note: As of June 3 for domestic companies/ As of May 31 for foreign companies

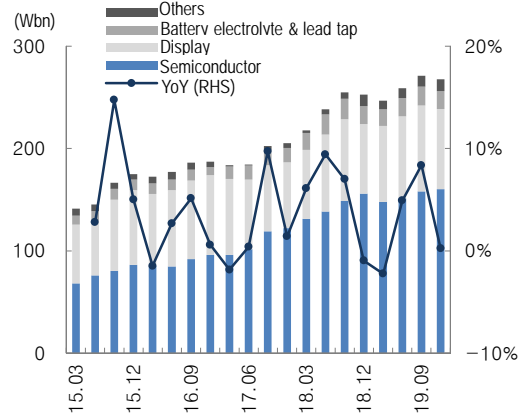
Source: Bloomberg, Quantwise, Daishin Securities Research Center

Fig 1. Annual sales



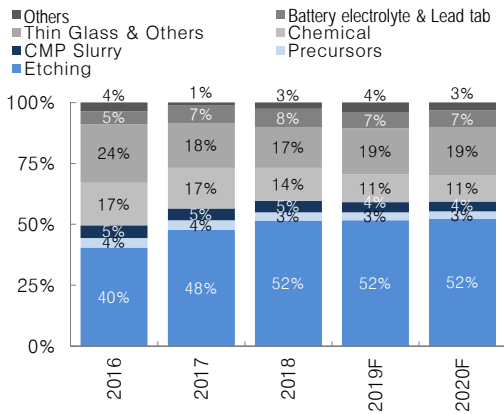
Source: Soulbrain, Daishin Securities Research Center

Fig 2. Quarterly sales



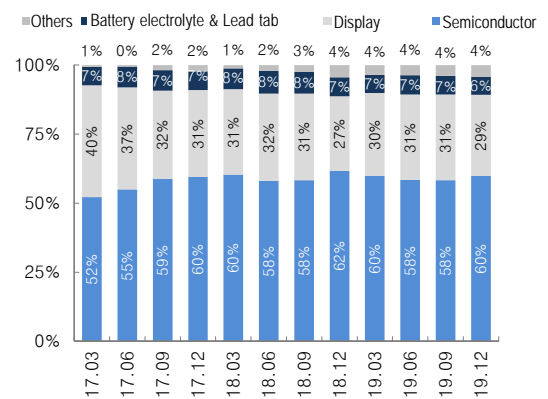
Source: Soulbrain, Daishin Securities Research Center

Fig 3. Revenue mix (1)



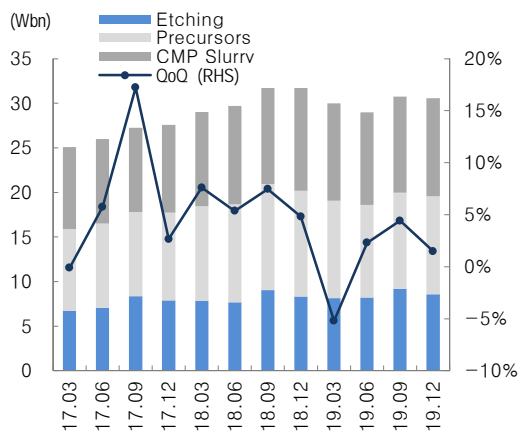
Source: Soulbrain, Daishin Securities Research Center

Fig 4. Revenue mix (2)



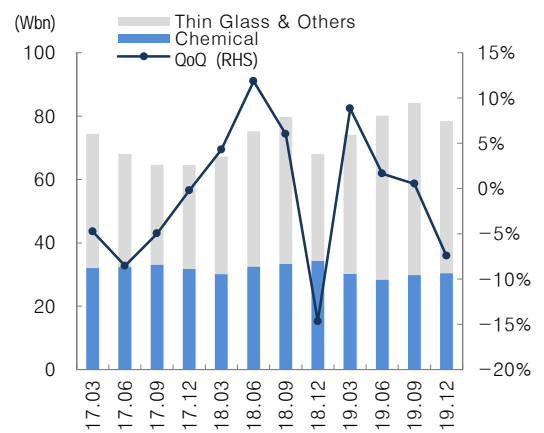
Source: Soulbrain, Daishin Securities Research Center

Fig 5. Semiconductor revenue breakdown



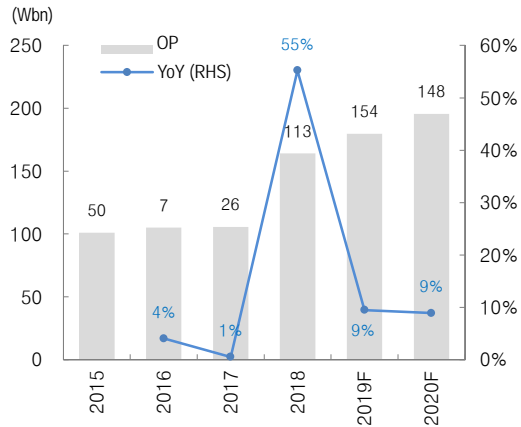
Source: Soulbrain, Daishin Securities Research Center

Fig 6. Display revenue breakdown



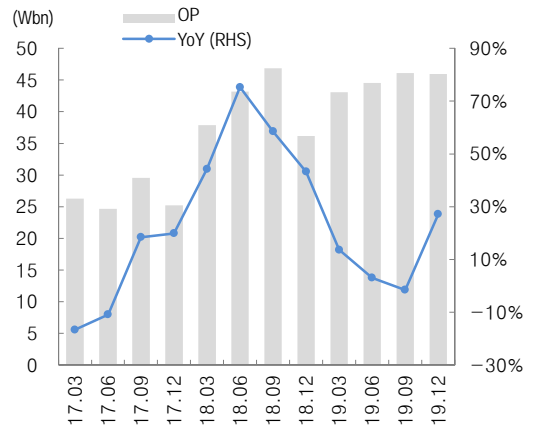
Source: Soulbrain, Daishin Securities Research Center

Fig 7. Annual OP



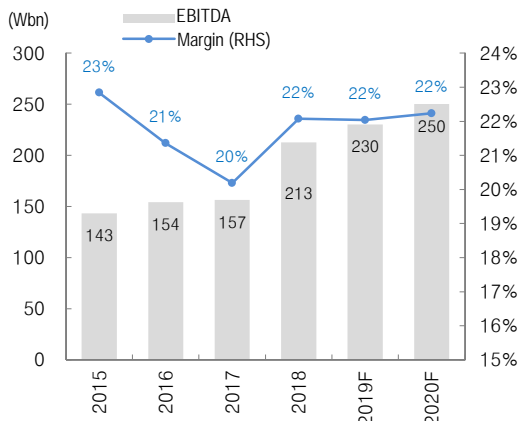
Source: Soulbrain, Daishin Securities Research Center

Fig 8. Quarterly OP



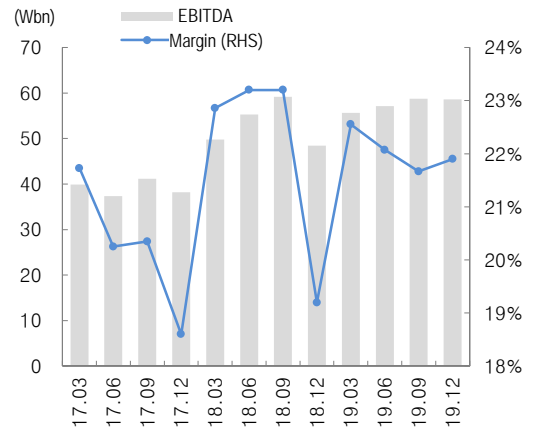
Source: Soulbrain, Daishin Securities Research Center

Fig 9. Annual EBITDA



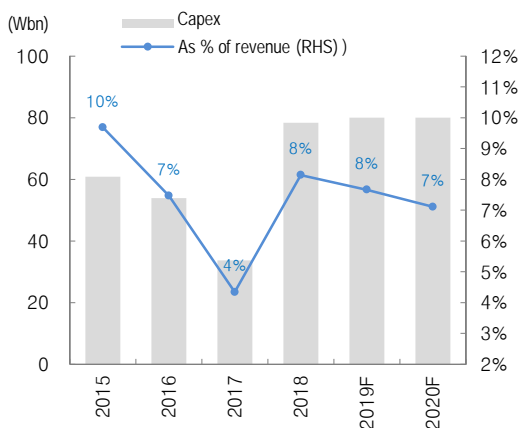
Source: Soulbrain, Daishin Securities Research Center

Fig 10. Quarterly EBITDA



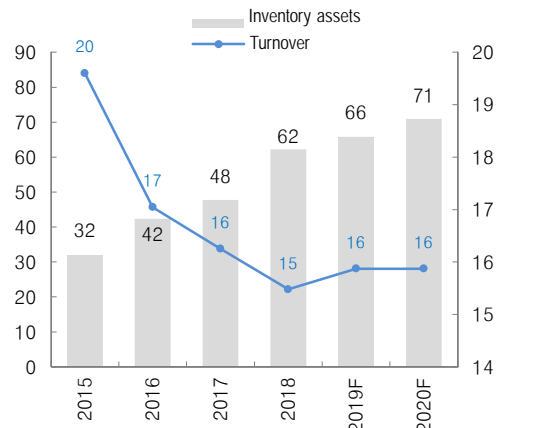
Source: Soulbrain, Daishin Securities Research Center

Fig 11. Capex



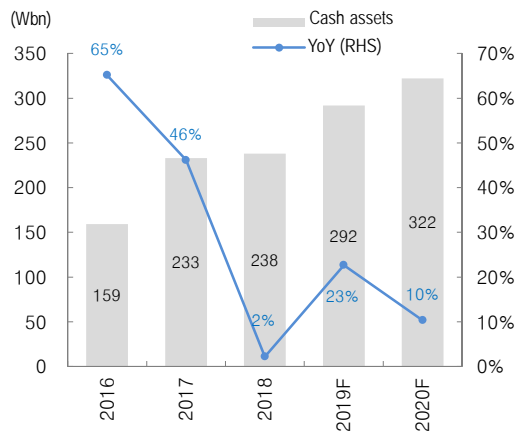
Source: Soulbrain, Daishin Securities Research Center

Fig 12. Inventory assets



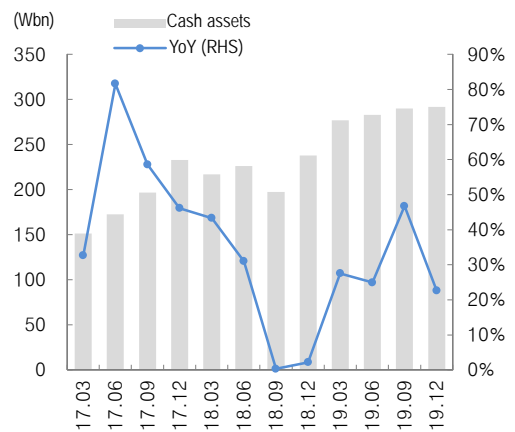
Source: Soulbrain, Daishin Securities Research Center

Fig 13. Cash and cash equivalents (1)



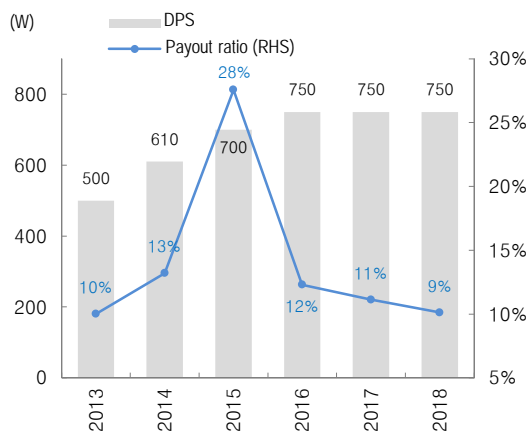
Source: Soulbain, Daishin Securities Research Center

Fig 14. Cash and cash equivalents (2)



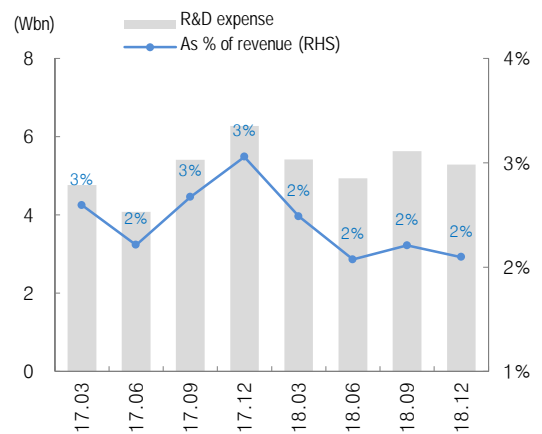
Source: Soulbain, Daishin Securities Research Center

Fig 15. Dividends



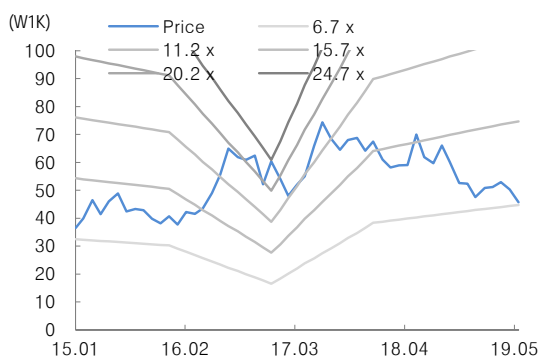
Source: Soulbain, Daishin Securities Research Center

Fig 16. R&D expense



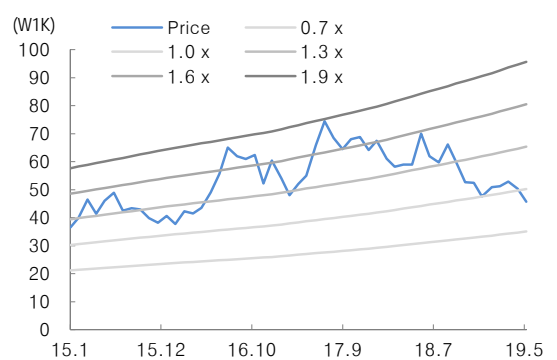
Source: Soulbain, Daishin Securities Research Center

Fig 17. P/E band



Source: Soulbain, Daishin Securities Research Center

Fig 18. P/B band



Source: Soulbain, Daishin Securities Research Center

Company profile

Overview

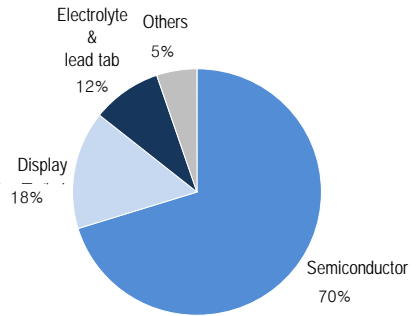
- Finances (as of Mar. 2019): Assets W1tn; liabilities W276.5bn, equity capital W766.9bn
- Major shareholders : Jeong Ji-wan 29.64%, Lim Hye-ok 6.11%
- Outstanding shares (common+preferred): 17,398,271 (treasury shares 526,253)
- Dividend payout ratio: 12.29% (as of 2018)

Share price catalysts

- Production capacity and plant utilization at domestic semiconductor and display companies

Source: Soulbrain, Daishin Securities Research Center

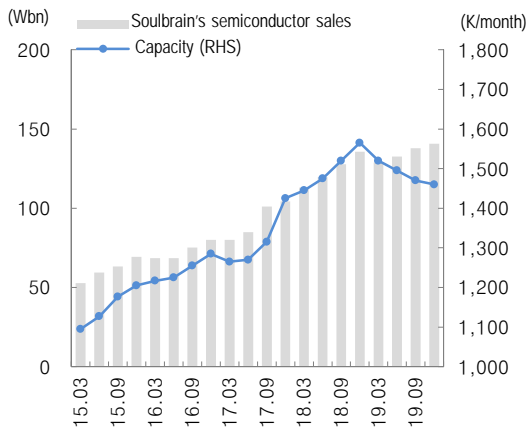
2019E revenue mix



Source: Soulbrain, Daishin Securities Research Center

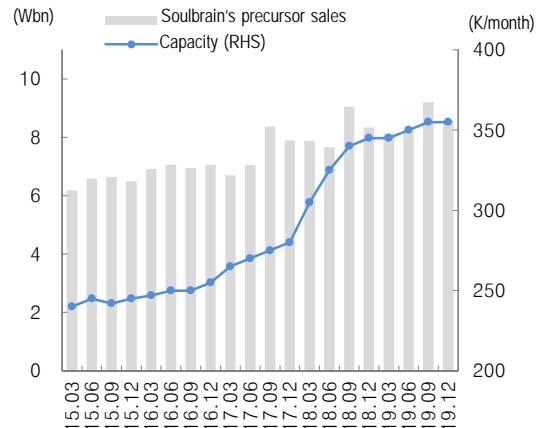
Earnings drivers

Fig 19. Domestic memory chip capacity



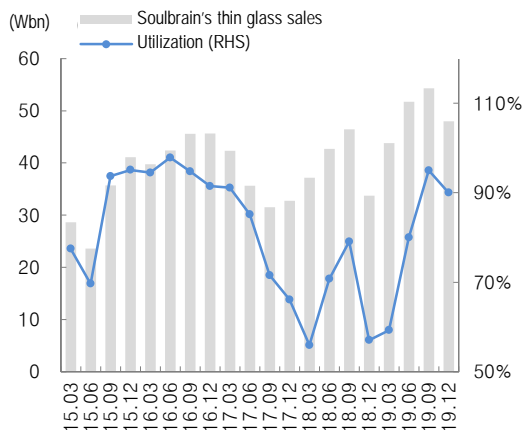
Source: Soulbrain, Daishin Securities Research Center

Fig 20. SK Hynix' DRAM capacity



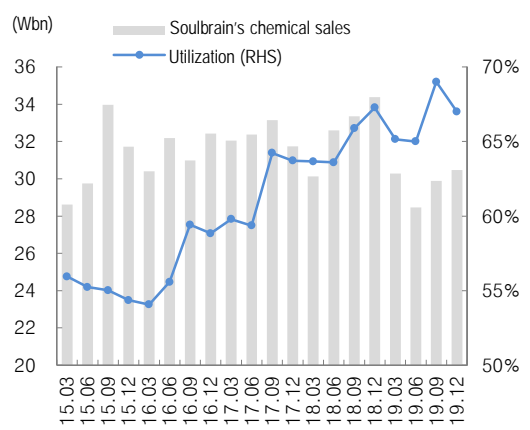
Source: Soulbrain, Daishin Securities Research Center

Fig 21. Utilization: Samsung Display's rigid OLED fabs



Source: Soulbrain, Daishin Securities Research Center

Fig 22. Utilization: LG Display's LCD fabs



Source: Soulbrain, Daishin Securities Research Center

Financial statements

Income statement		(Wbn)				
	2017A	2018A	2019F	2020F	2021F	
Revenue	776	963	1,044	1,126	1,238	
Cost of goods sold	604	726	800	869	966	
Gross profit	171	238	244	257	283	
SG&A expenses	66	74	64	61	68	
OP	106	164	180	196	215	
OP margin	13.6	17.0	17.2	17.4	17.4	
EBITDA	157	213	230	250	273	
Non-OP	-39	-17	-18	-18	-17	
Income from affiliates	-7	-19	-19	-19	-19	
Financial revenue	6	10	7	7	7	
FX related gains	6	13	12	12	12	
Financial expense	-20	-6	-5	-5	-5	
FX related losses	15	2	1	1	1	
Others	-18	-2	0	0	0	
Income before taxes	67	147	162	178	198	
Income tax expense	24	44	48	53	59	
Income from cont. op.	43	103	114	125	139	
Income from discount. op.	0	0	0	0	0	
NP	43	103	114	125	139	
NP margin	5.6	10.7	10.9	11.1	11.2	
NP for non-contr. interest	2	3	2	2	3	
NP for contr. interest	41	100	112	123	136	
Valuation of AFS fin. assets	0	0	0	0	0	
Other compreh. income	0	0	0	0	0	
Comprehensive income	43	102	113	124	138	
Comp. income for non-contr. int.	2	3	2	2	3	
Comp. income for contr. int.	41	98	110	121	135	

Valuation metrics		(W, x, %)				
	2017A	2018A	2019F	2020F	2021F	
EPS	2,467	5,722	6,409	7,043	7,822	
PER	27.4	8.3	7.1	6.5	5.8	
BPS	38,616	41,701	47,426	53,742	60,836	
PBR	1.7	1.1	0.9	0.8	0.7	
EBITDAPS	9,375	12,223	13,226	14,386	15,718	
EV/EBITDA	6.9	3.5	2.8	2.5	2.1	
SPS	46,435	55,375	60,018	64,704	71,174	
PSR	1.5	0.9	0.8	0.7	0.7	
CFPS	7,481	10,295	13,479	14,639	15,971	
DPS	700	750	750	750	750	

Financial ratios		(W, x, %)				
	2017A	2018A	2019F	2020F	2021F	
Growth potential						
Sales growth	7.3	24.2	8.4	7.8	10.0	
OP growth	0.5	55.2	9.5	8.9	10.0	
NP growth	-42.2	139.0	10.5	9.9	11.1	
Profitability						
ROIC	16.6	26.9	26.7	27.1	28.0	
ROA	12.3	17.3	17.0	16.8	16.7	
ROE	6.8	14.5	14.4	13.9	13.7	
Stability						
Debt ratio	37.9	37.1	33.1	29.5	26.1	
Net borrowings ratio	-15.1	-13.7	-18.5	-19.8	-21.8	
Interest coverage ratio	25.8	44.1	43.6	48.2	55.1	

Source: Soulbrain, Daishin Securities Research Center

Balance sheet		(Wbn)				
	2017A	2018A	2019F	2020F	2021F	
Current assets	377	413	477	520	579	
Cash & cash equiv.	210	184	267	297	338	
Trade & other receive.	78	95	101	109	119	
Inventories	48	62	66	71	78	
Other current assets	42	72	43	43	43	
Long-term assets	518	593	634	705	771	
Tangible assets	309	355	386	412	434	
Investments in affiliates	120	137	183	228	274	
Other long-term assets	89	101	66	65	64	
Total assets	896	1,006	1,111	1,224	1,350	
Current liabilities	233	253	258	262	268	
Payables & other liab.	85	100	104	108	114	
Borrowings	129	121	121	121	121	
Current portion of LT debts	0	1	1	1	1	
Other current liabilities	18	32	32	32	32	
Long-term liabilities	13	19	19	17	12	
Borrowings	6	15	15	13	8	
Convertible securities	0	0	0	0	0	
Other long-term liab.	7	4	4	4	4	
Total liabilities	246	272	276	279	279	
Controlling interest	645	726	825	935	1,058	
Capital stock	9	9	9	9	9	
Capital surplus	132	132	132	132	132	
Retained earnings	514	602	701	811	935	
Other capital changes	-10	-18	-17	-17	-17	
Non-controlling interest	5	8	9	11	12	
Total shareholder's equity	650	734	835	946	1,071	
Net borrowings	-98	-101	-155	-187	-233	

Cash flow statement		(Wbn)				
	2017A	2018A	2019F	2020F	2021F	
Operating cash flows	113	186	191	205	219	
NP	0	0	114	125	139	
Non-cash items	82	76	121	130	139	
Depreciation	51	49	50	55	58	
FX gains	10	-1	-7	-7	-7	
Equity method gain	-6	-3	-3	-3	-3	
Others	27	32	81	86	91	
Chg in assets & liab.	-13	-13	5	3	0	
Other cash flows	43	123	-48	-53	-59	
Investing cash flow	-47	-202	-125	-188	-188	
Investment assets	-10	-56	-12	-45	-45	
Tangible assets						
Others	-4	-69	-33	-62	-62	
Financing cash flows	18	-12	-13	-15	-18	
Short-term borrowings	0	0	0	0	0	
Bonds payable	0	0	0	0	0	
Long-term borrowings	-28	5	0	-2	-5	
Rights offering	56	0	0	0	0	
Cash dividends	-10	-12	-13	-13	-13	
Others	0	-5	0	0	0	
Net chg in cash	72	-26	83	30	41	
Beginning cash balance	138	210	184	267	297	
Ending cash balance	210	184	267	297	338	
NOPLAT	68	115	126	137	151	
FCF	85	82	97	112	129	

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)

Neutral Green (neutral)

Sky Blue (positive)

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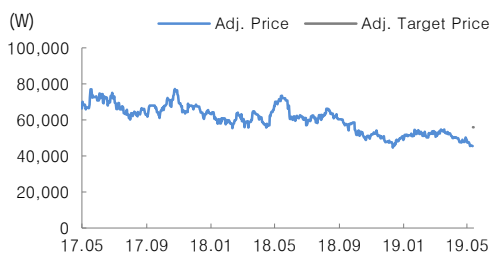
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[Investment rating & Target price history]

Soulbrain (036830 KQ)



Date	19.06.04
Rating	Buy
Target price	58,000
Diff. (avr. %)	
Diff. (max/min, %)	
Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	
Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	
Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	

Investment rating breakdown and framework (Jun. 1, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	88.4%	11.1%	0.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.