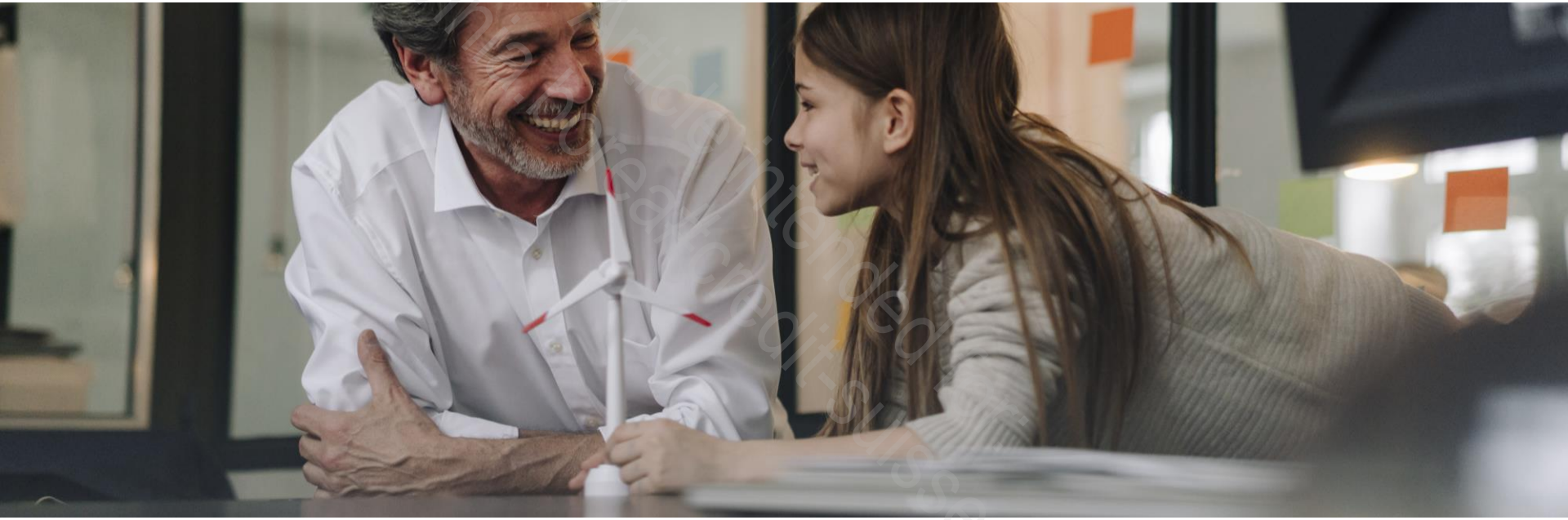
CS Family 1000: post the pandemic

2 September 2020
Equity Research Europe



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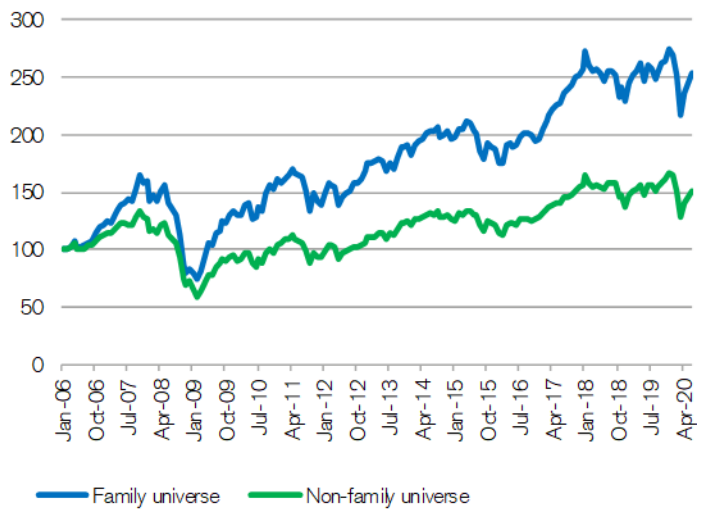
Family Ownership as a long term theme

- **Defining Family Companies:** We use shareholding or voting rights of at least 20%. The database consists of over 1,000 companies.
- **Through cycle outperformance** We calculate that since 2006 family owned companies outperformed global equities by an annual average of 370bps.
- **Everywhere, especially in small caps:**.
  - Family owned companies outperformed in every region.

    Europe: 470bps, NJ-Asia: 500bps, USA: 260bps
  - 2020 H1 proved a very strong year for family owned stocks especially in Europe. This supports our view that family owned companies have defensive characteristics

Average alpha since 2006: 370bps per year



Alpha for each region and for small (<US$3bn) and large (>US$7bn). Returns this year have been strong

	Annual average since 2006				2020: January to June			
	Overall	Small	Mid	Large	Overall	Small	Mid	Large
Global	3.7%	6.5%	3.9%	3.1%	3.0%	1.6%	3.6%	2.7%
Europe	4.7%	6.2%	3.9%	3.0%	6.2%	6.9%	6.0%	5.2%
North America	2.6%	2.3%	3.0%	1.5%	0.7%	10.1%	5.9%	–1.1%
APxJ	5.0%	4.3%	2.9%	4.5%	5.1%	5.0%	6.2%	5.1%
Japan	9.2%	13.8%	1.6%	11.8%	30.1%	15.7%	5.3%	37.1%
EMEA	3.5%	–0.5%	11.9%	2.5%	0.5%	–41.6%	–1.9%	–2.7%
Latam	3.7%	6.5%	3.9%	3.1%	–5.9%	–11.9%	1.2%	–1.2%

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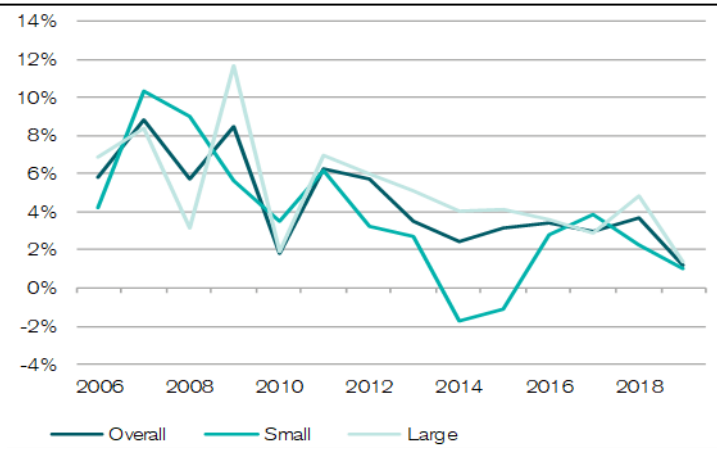
Source: Credit Suisse Research, Refinitiv

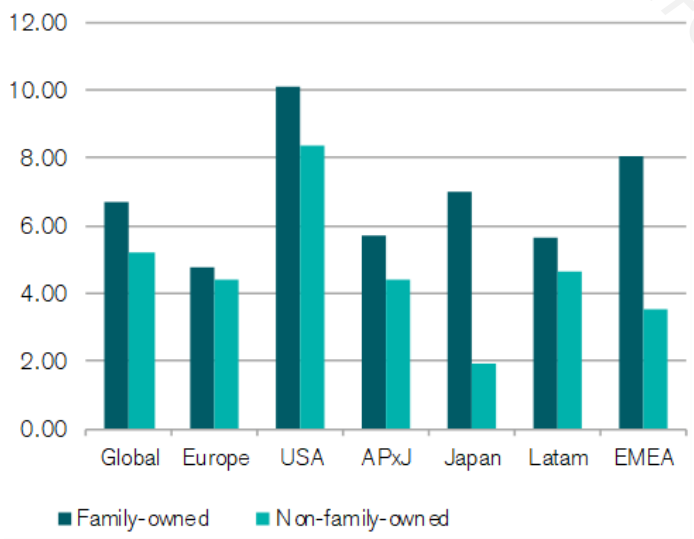
Drivers supporting share price outperformance

- Better top line growth
- Better margins
- Better cash flow returns
- Lower gearing
- Greater R&D intensity

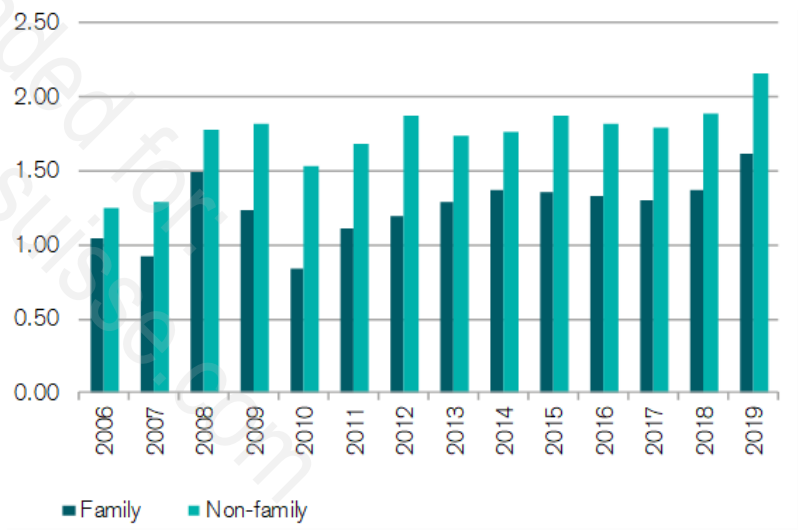
Topline growth differential (family vs. non-family owned)



CFROIs by region (2019)



Net debt/EBITDA by region



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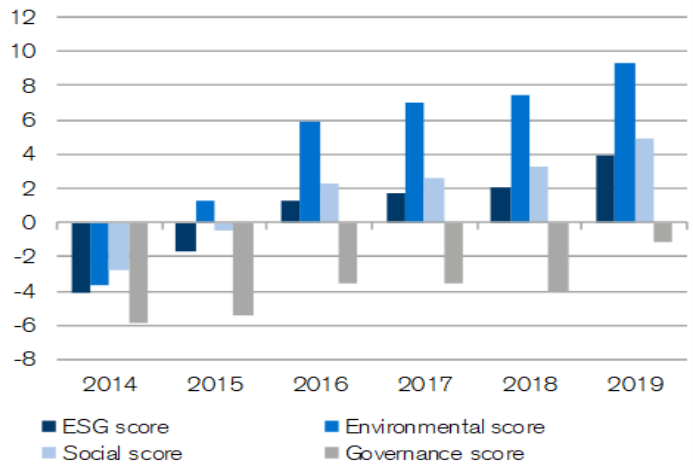
Source: Credit Suisse Research, Refinitiv

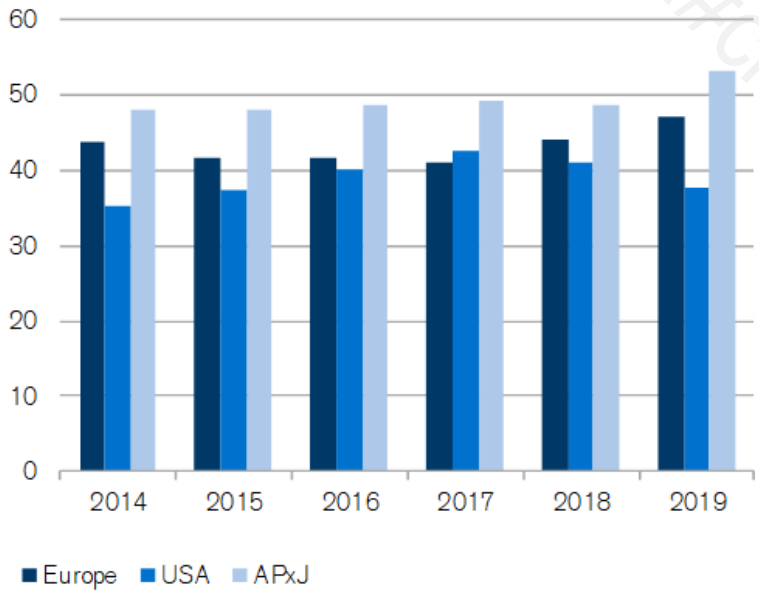
Family owned companies and ESG scores

- Overall scores are better than for non-family owned stocks
- Governance appears the key area where family owned companies underperform
- Older family owned companies tend to score well
- Asian companies score better on Governance than European and US firms

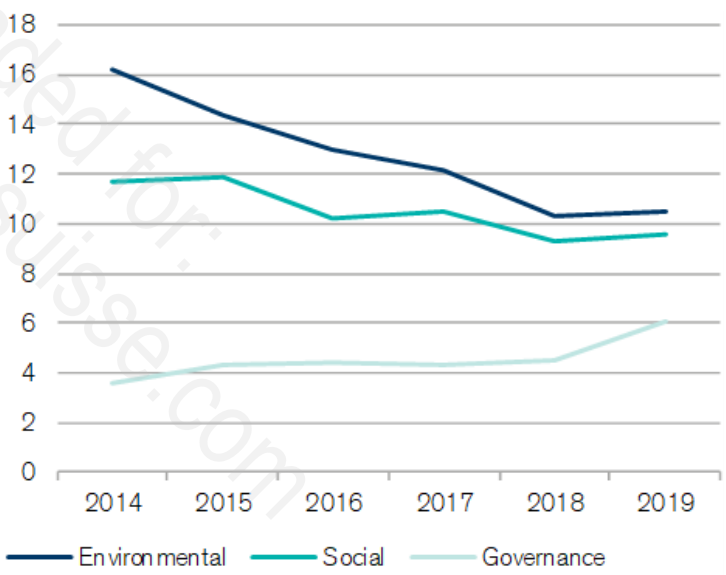
ESG score differential: family vs non-family



Average "G" score for family owned companies by region



ESG score: Generation 3-5+ vs. 1-2



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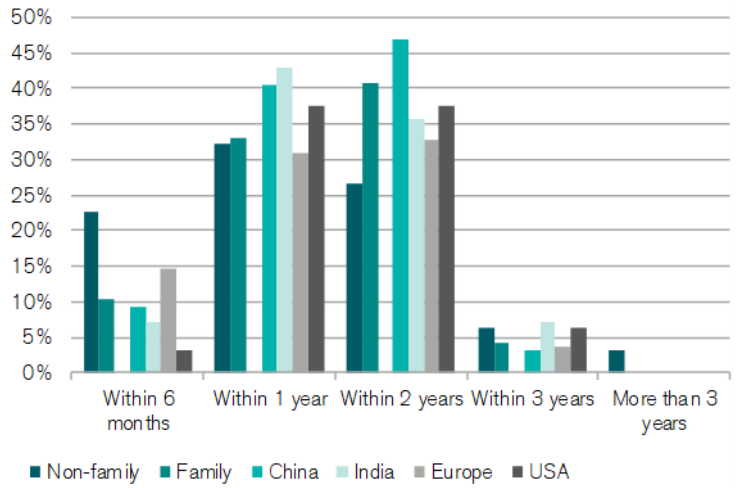
Source: Credit Suisse Research, Refinitiv

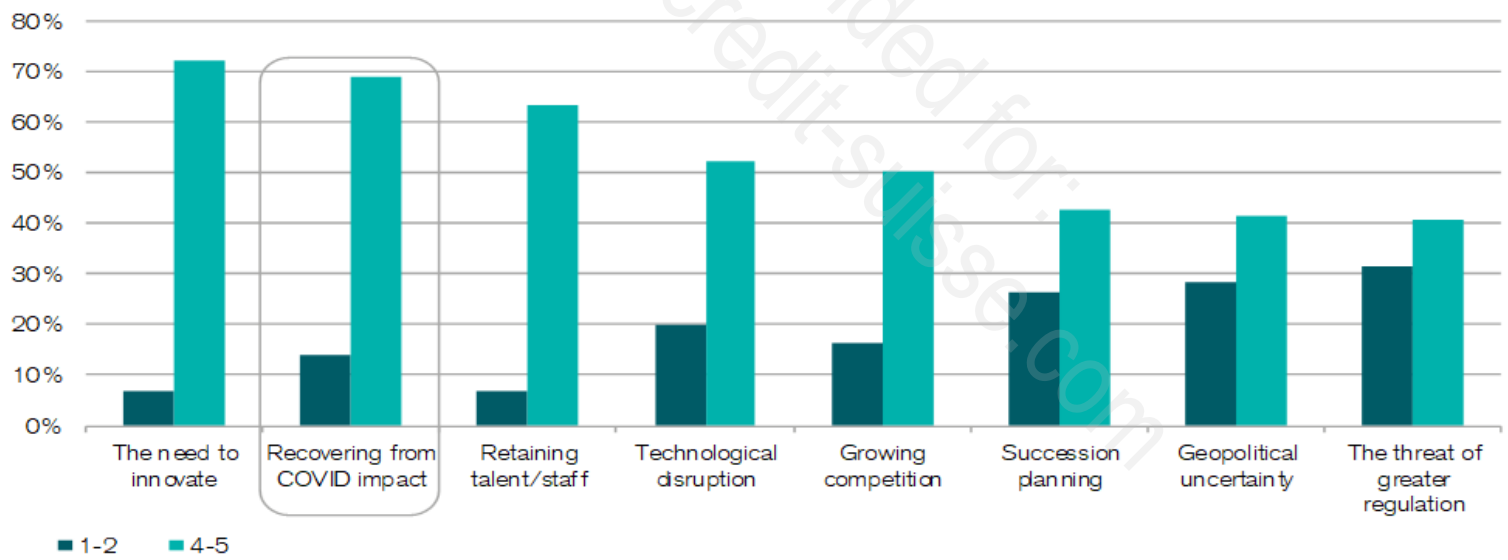
We surveyed c250 companies globally on COVID and ESG

- COVID is a clear negative and ranks as the second biggest threat faced by family owned companies
- Family owned companies appear less optimistic on the time needed to recover from the impact of the pandemic
- Nevertheless our survey suggests that Family owned companies furloughed staff less than non-family owned peers.
- Future employment, however, looks set to change as the majority believe that employment will remain below pre-COVID levels. 45% believe that their remaining workforce will move to a more flexible rather than permanent model .

"When do you expect that turnover and profitability for your company will return to pre-COVID levels?"



"On a scale of 1 (not concerned) to 5 (very concerned), how concerned are you about the following challenges over the next five years?".



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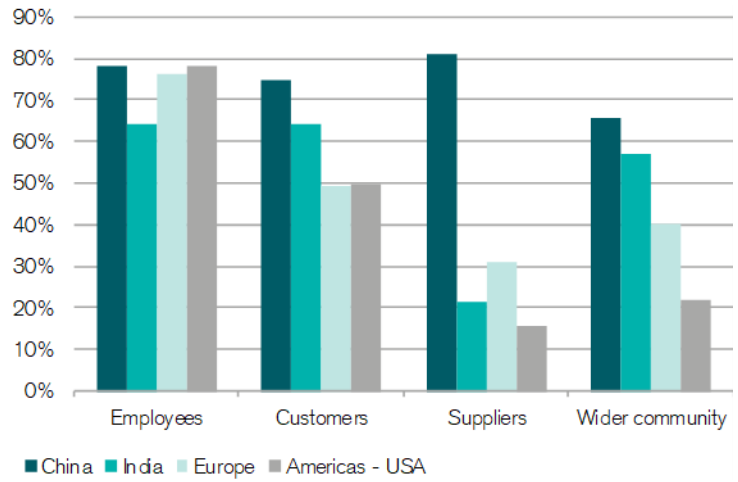
Source: Credit Suisse Research, Refinitiv

Family owned companies and ESG issues

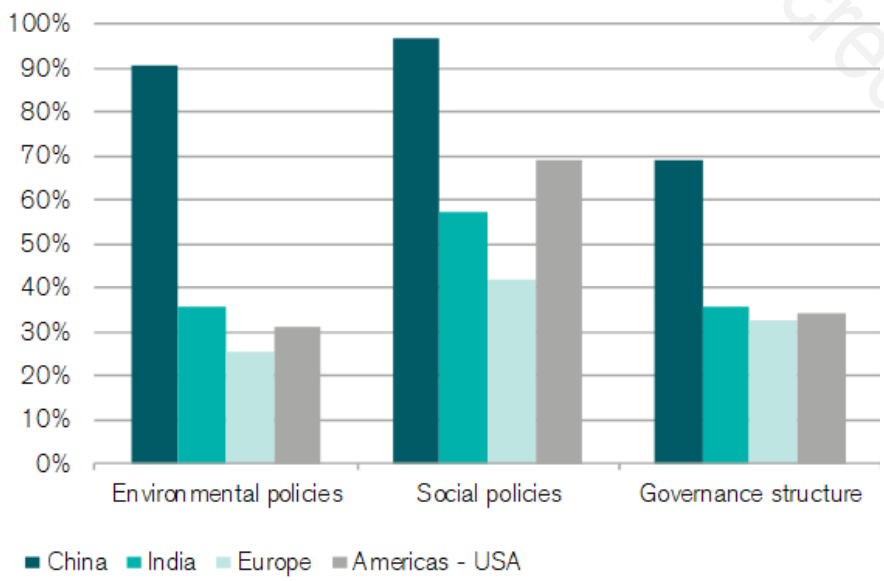
Key conclusions on ESG from our survey

- **60-80% of companies have offered support packages to their employees.**
- **Family owned companies have focussed more on supporting their customers too. Less so for suppliers and the wider community.**
- **Family owned companies in China and India appear to have become more focussed on their ESG policies this year than peers in Europe and the US.**
- **Our surveyed Family owned companies have a slightly less diverse board than their non-family owned peers. Older firms appear more diverse.**

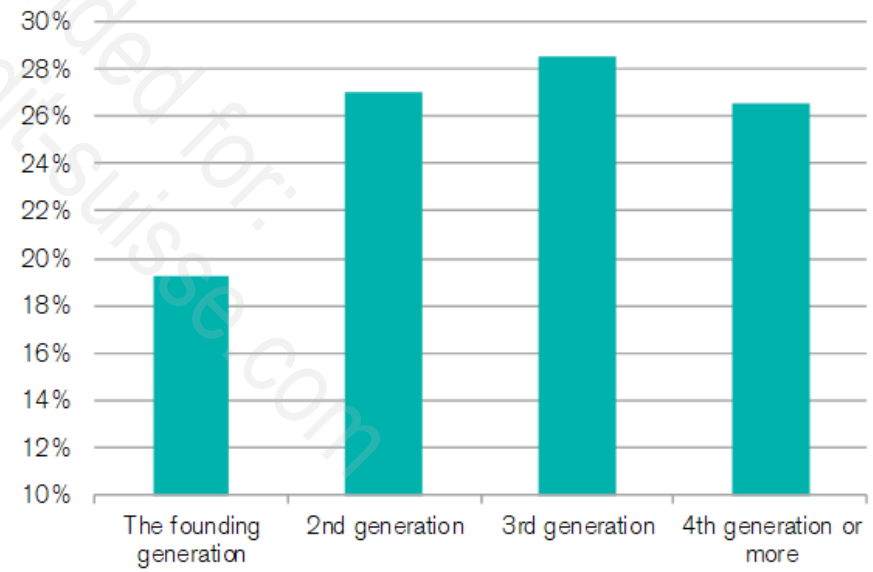
"Groups for which support packages have been developed since the COVID outbreak"



Which of the ESG areas has your company focused more on this year



Percentage of the board that is made up of women (by generation)



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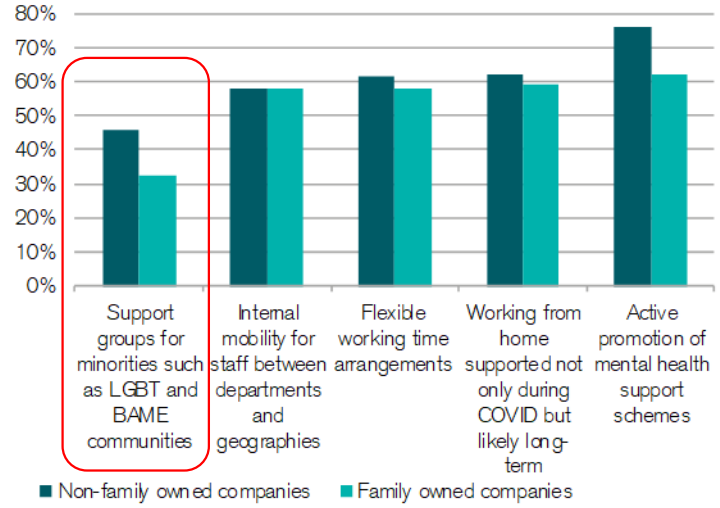
Source: Credit Suisse Research

Areas of improvement remain within the "S"

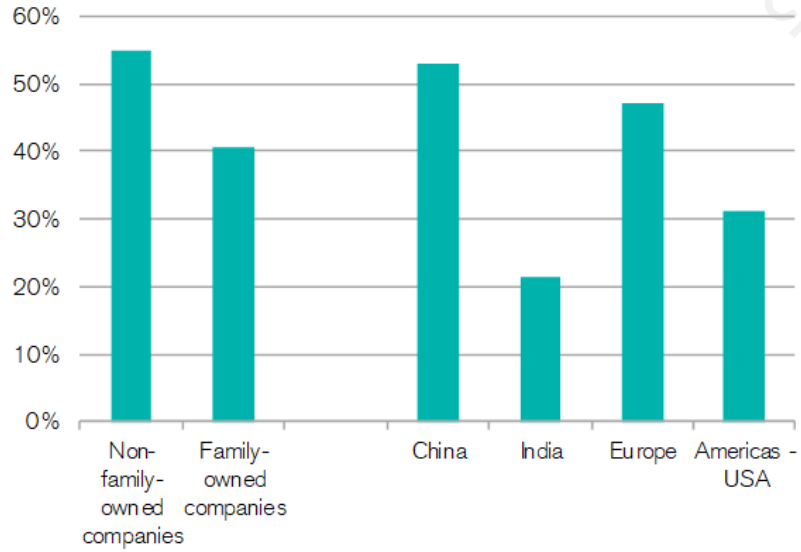
Key conclusions on ESG from our survey

- **Support for minority groups (e.g LGBT and BAME) is below average**
- **Public support for human rights appears below average**
- **Issues such as 'modern day slavery' and supplier-related workers' rights is also below average**
- **Our survey suggests that companies in China appear more focussed on these Social policies than peers elsewhere. US family-owned companies appear least focussed on this.**

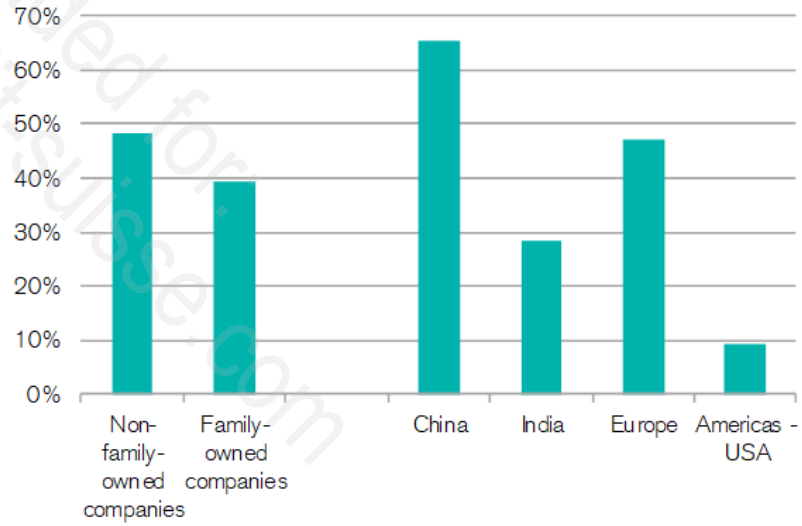
Which of the following policies are key for how your company engages with its staff?



My company has publicly stated its commitment to respect human rights or the Ten Principles of the UN Global Compact



My company has policies aimed at identifying modern day slavery



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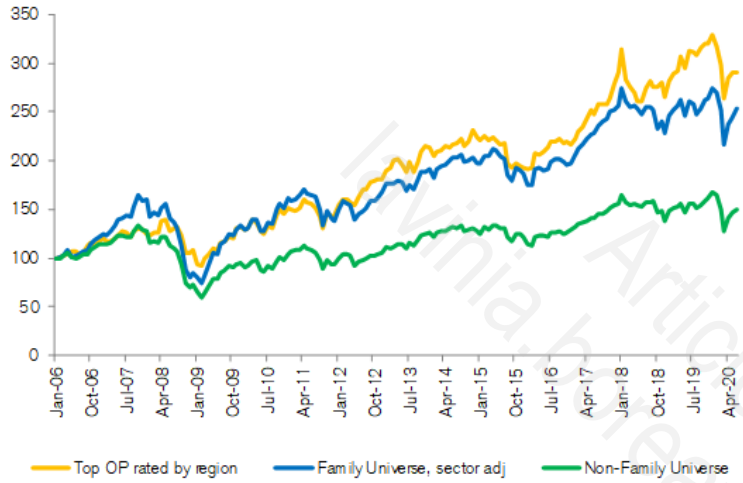
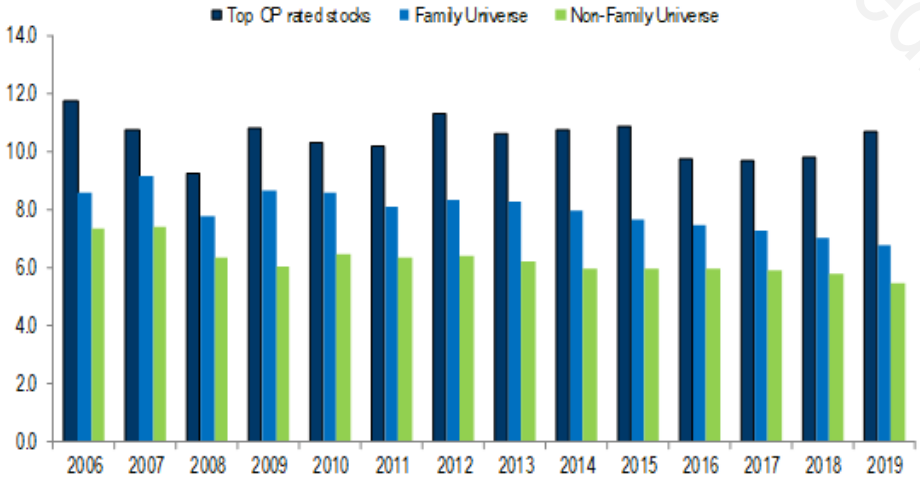
Source: Credit Suisse Research

26 family-owned companies with analyst and ESG support

Return profile of selected stocks, overall universe and non-family owned companies



CFROI profile of selected stocks is superior to wider universe



RIC	Company	CS TP Upside	MC (US$ bn)
	Asia		
2318.HK	Ping An	25%	200.5
BBCA.JK	PT Bank Central Asia Tbk	29%	53.1
1928.HK	Sands China	21%	35.7
2882.TW	Cathay Financial Holding	20%	17.9
ULTC.BO	Ultratech Cement Ltd	23%	15.4
2881.TW	Fubon Financial Holding	10%	14.9
0288.HK	WH Group Limited	51%	12.7
2688.HK	ENN Energy Holdings Ltd	22%	12.5
REDY.BO	Dr. Reddy's Laboratories Limited	15%	9.6
GOCP.BO	Godrej Consumer Products Ltd	28%	9.1
CIPL.BO	Cipla Limited	12%	7.8
	EMEA		
KCHOL.IS	Koc Holding	46%	5.1
	Europe		
HEIN.AS	Heineken	22%	53.3
CARLb.CO	Carlsberg	16%	20.8
BARN.S	Barry Callebaut	5%	12.2
CCH.L	Coca-Cola HBC	28%	9.7
DKSH.S	DKSH Holdings	12%	4.4
DOKA.S	Dormakaba	13%	2.7
	Latam		
ITUB4.SA	Itau Unibanco	40%	41.4
ORBIA.MX	Orbia Advance Corp	62%	3.4
CCB.CN	Cementos Argos, S.A.	14%	1.5
ALSEA.MX	Alsea	33%	0.9
	US		
WMT	Walmart Inc.	-3%	393.2
CMCSA	Comcast Corp.	12%	204.7
HCA	HCA Healthcare	5%	45.9
RL	Ralph Lauren Corporation	29%	5.0

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Source: Credit Suisse Research, Refinitiv

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Alsea (ALSEA.MX)

Method: We derive our MXN 30 TP and OUTPERFORM rating using a DCFE methodology, discounting FCFE after minorities, with a cost of equity (Ke) of 14.3%, and perpetuity growth rate of 3% (both in MXN terms). Our model includes forecasts until 2031. Our cost of equity (Ke) assumption is based on US risk free rate of 1.3%, weighted country risk premium of 3.3%, equity risk premium of 6.0%, beta of 1.29 and a 10 year inflation differential adjustment of 2.0%. At our target price Alsea would trade at 7.2x EV/Ebitda for 2021 and 6.2x for 2022.

Risk: Risks to our MXN 30 TP and OUTPERFORM rating include: (i) incapacity to reach an agreement with lenders; (ii) a prolonged period of mandated operational disruptions; (iii) a second wave of COVID-19 contagions; (iv) a permanent shift in consumption patterns; (v) a lasting impact on disposable income; and (vi) material tax claims from the Mexican Gov.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Barry Callebaut (BARN.S)

Method: Our SFr2,100 TP is based on the blended average of two different valuation methodologies: an EV/EBITDA target multiple of ~14x our FY22 EBITDA estimate and a three-stage DCF model (WACC 6.3%). The stock is trading below our price target, and accordingly, we have an Outperform rating.

Risk: Risk factors to our Outperform rating and target price of SFr2,100 include health pandemics, raw material prices (particularly changes in the combined ratio and an increase in sugar or milk), FX, M&A, dietary trends (eg sugar-free and vegan) and key shareholder reducing its stake.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Carlsberg (CARLb.CO)

Method: Our Outperform rating and target price of DKK 1,020 are based on an adjusted present value, which assumes i) a 8.0% cost of equity; ii) revenue growth as per our forecasts out to 2024, then declining to a terminal growth rate of 2.5% in 2033; and iii) 2024-33E margins growing at c20bps per annum. We value the minorities 23x P/E and the associates on an effective 21x P/E multiple. We rate the stock Outperform, given the potential upside to our target price.

Risk: Risks to our Outperform rating and target price of DKK 1,020 include i) worse than expected impact from Covid-19; ii) sustained market share losses; iii) less favourable raw material costs.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Cathay Financial Holding (2882.TW)

Method: Our 12-month target price of NT$48 for Cathay Financial Holding is based on sum-of-the-parts (SOTP) valuation: 1.2x price-to-book value (P/B) for Cathay United Bank, 6x implied new business multiplier for Cathay Life, 1.2x P/B for Cathay P&C, and 1.0x P/B for other subsidiaries. Our OUTPERFORM rating for Cathay FHC reflects its higher book value rebound and potentially smaller-than-expected dilution from upcoming capital raising.

Risk: Key upside risks to our NT$48 target price and OUTPERFORM rating for Cathay FHC include: (1) an unexpected decrease in long bond yields, and (2) a sharp increase of hedging costs.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Cementos Argos, S.A. (CCB.CN)

Method: We base our target price of COP$5,700 and Outperform rating for Cementos Argos on our discounted cash flow-based valuation methodology. Based on an updated WACC of 11.8% the net present value of our FCFF forecasts for Cementos Argos would imply a fair equity value of COP$7,238bn.

Risk: The factors that could impede achievement of our COP$5,700 target price and Outperform rating for Cementos Argos are: 4G infrastructure projects delaying or being cancelled due to the lack of financing sources; US economic slowdown could reduce momentum on its operations, both in terms of volumes and pricing.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Cipla Limited (CIPL.BO)

Method: Our target price of Rs 800 for Cipla Limited is based on 22x FY22E EPS (earnings per share) and factoring in upside of EPS of Rs 9.3/share from large drugs in the US - gAbraxane, gRevlimid and gAdvair. We assign a multiple of 15x to the large drug opportunities in US. We value Cipla at a 22x P/E based on CS' valuation methodology, where the India branded generics business deserves a higher multiple (25x P/E). We value South Africa private branded generic market at 20x P/E. Our OUTPERFORM rating is based on growth recovery in both India and South Africa businesses and momentum building up on respiratory filings in the US (Cipla has two inhaler filings pending approval with US FDA and is also slated to initiate clinical trials on two more inhaler assets towards end of FY21).

Risk: In our view, there are four key downside risks to our Rs 800 target price and OUTPERFORM rating for Cipla: (1) Since CY03, Cipla has been involved in a lawsuit with the National Pharmaceutical Pricing Authority in India, and if Cipla loses the lawsuit (the company believes it is likely to win), there could be downside to earnings; (2) a slow approval rate in the US in FY21 where we assume margins to pick up driven by the benefit of faster approvals; (3) inclusion of more drugs under the drug pricing policy in India, and (4) Imposition of trade margin caps by Indian government (India trade generic segment is 10%+ of Cipla's FY22E EPS). Key upside risks include: (1) Low price erosion in Albuterol inhaler market sustaining beyond FY22 and Cipla gaining disproportionate share in the market even after entry of Lupin, (2) Cipla receiving more than 20 approvals in the US and its US business growing higher than 15% YoY, and (3) India business starts growing above 11%-12% growth trajectory, despite CoViD-19 impact.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Coca-Cola HBC (CCH.L)

Method: Our Outperform rating valuation and 2550p target price are based on an APV (a hybrid DCF) as our principal valuation tool, though we also follow the multiples of the group's peers - the other Coca Cola bottlers. We have our explicit forecasts out to 2024, and thereafter assume sales growth fading to 2.5% by 2033. We rate the stock Outperform given the upside potential indicated by our target price.

Risk: Risks to our Outperform rating and 2550p target price: With the business primarily exposed to the Eastern European countries, it is the economies, consumer expenditure, disposable incomes, weather and tourism levels in those regions that the group is most sensitive to. Currency fluctuations are also a risk, with hard currency input costs and soft currency sales revenues. The company could overpay for M&A.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Comcast Corp. (CMCSA.OQ)

Method: Our $50 target and Outperform rating for CMCSA are derived via DCF, using an 7.7% cost of equity, 3.5% pre-tax cost of debt and no terminal growth. We rate CMCSA Outperform based on the total potential return to our target price and because we expect it to perform above the level of its peers.

Risk: Risks to our Outperform rating and $50 TP for CMCSA are disappointing subscriber or wireless performance, increased replacement of broadband internet with 5G Fixed Wireless service, programming cost increases, margins or capital intensity materially above expectations, changing consumer behavior, further impacts to leisure or advertising, and dilutive M&A.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for DKSH Holdings (DKSH.S)

Method: Our target price of SFr67.5 is based on ROIIC, which is in line with the rest of the sector. Our analysis is based on 2022. We assume a WACC of 7.7%, 6% NOPAT growth and 4% operating asset growth. Our Outperform rating is based on our view that the current price is not reflecting the sustainable growth or stability of the business over time.

Risk: Risk factors that could impact our SFr67.5 price target and Outperform rating are as follows. Downside risks include: 1) challenging conditions in Hong Kong (c.9% 2019 revenues); 2) shift to e-tailing disrupts traditional retail space and 3) extension on lockdown protocols in key end markets. Upside risks include: 1) use of excess cash for value create M&A; 2) margin expansion from restructuring and 3) sale of Maurice Lacroix.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Dr. Reddy's Laboratories Limited (REDY.BO)

Method: Our target price for Dr. Reddy's is Rs4,915. It is based on blended multiple of 21x on FY22E EPS and factors in NPV upside of Rs 350/share from potential gRevlimid opportunity and another Rs 232/share from potential launch of in-licensed branded Favipiravir for treatment of CoViD-19. This is based on SOTP (sum-of-the-parts) valuation, where we assign a higher multiple of 25x to the India branded generic segment, and a lower multiple of 20x to the US generic market and the Emerging Markets. We value key drugs of gSuboxone, and gCopaxone at the multiple of 20x on FY22E profits. Our TP includes net present value of Rs350 from gRevlimid, Rs20 from gNuvaRing and Rs232 from Favipiravir (Avigan). Our OUTPERFORM rating on Dr. Reddy's is on account of boost in FCF due to strong control on R&D, SG&A, and capex, and also a strong US base business growth even after factoring in delay in gNuvaRing and gCopaxone approvals. There exists an option value from proprietary pipeline, which consists of two key drugs–PPC-06 (moderate-to-severe plaque psoriasis) and E7777 (cutaneous T-cell lymphoma).

Risk: Risks to our Rs4,915 target price and OUTPERFORM rating for Dr. Reddy's include: (1) delay in US approvals due to adverse inspection outcome by US FDA in any of the multiple facilities, through which Dr. Reddy's serves the US market; (2) trade generic and generic-generic segments impacting India growth, where Dr. Reddy's is present in the branded generic segment; (3) shift in China to GPO model from branded generic market, which could further lower drug prices; and (4) further delays in gNuvaRing and gCopaxone approval in the US.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for ENN Energy Holdings Ltd (2688.HK)

Method: Our target price of HK$105.0 for ENN Energy Holdings Ltd is based on our discounted cash flow (DCF) valuation. Our 9% WACC (weighted average cost of capital) is based on a 12% cost of equity and 4% post-tax cost of debt. We rate the stock OUTPERFORM given its attractive valuation and growth potential.

Risk: Risks that could cause the share price to diverge from our target price of HK$105.0 and our OUTPERFORM rating for ENN Energy Holdings Ltd include: (1) lower-than-expected growth of gas sales, especially from industrial users; (2) lower-than-expected gas connections; and (3) worse-than-expected profitability of LNG stations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Fubon Financial Holding (2881.TW)

Method: Our 12-month target price of NT$47 for Fubon Financial Holding is based on sum-of-the-parts (SOTP) valuation: 1.1x price-to-book value (P/B) for Taipei Fubon Bank, 6x implied new business multiplier for Fubon Life, 1.2x P/B for Fubon P&C, and 0.9x P/B for other subsidiaries. Our OUTPERFORM rating for Fubon FHC reflects higher book value MTM. We see better risk-reward for the stock given better earnings growth momentum into 2H19 and hence, have an Outperform rating on the stock.

Risk: Key upside risks to our NT$47 target price and OUTPERFORM rating for Fubon Financial Holding include: (1) an unexpected decrease in long bond yields, and (2) a sharp increase in hedging costs.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Godrej Consumer Products Ltd (GOCP.BO)

Method: We value Godrej Consumer at Rs830 based on P/E (price-to-earnings) multiple of 42x (in line with one-year average) for its Jun-22E earnings. We have an OUTPERFORM rating on the stock as we believe the worst of Indonesia headwinds are now fully priced in and the business is directionally improving. We like the company's innovation-led growth strategy.

Article interpretation by davinta.com

Risk: Key downside risks to our OUTPERFORM rating and Rs830 target price for Godrej Consumer include: (1) continued intense competition in the insecticides business in Indonesia and (2) adverse cross-currency headwinds from the Africa business.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for HCA Healthcare (HCA.N)

Method: Our target price of $143 and Outperform rating for HCA are based on roughly 8.0x our 2021 EBITDA estimate as we believe the company is best positioned in the group to benefit from M&A deals, and recent capital investments. We rate HCA Outperform as we expect it to return more than its peers.

Risk: Risks to our $143 target price and Outperform rating for HCA are Medicare/Medicaid reimbursement changes, health care reform benefit levered to health insurance exchanges which may not grow as much given the current administration's lessened emphasis on enrolling individuals, HCA's footprint in competitive markets and concentrated geographic exposure to Florida and Texas (nearly 50% of revenues).

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Heineken (HEIN.AS)

Method: Our Outperform rating and €95 target price are based on an adjusted present value, which assumes: i) an 8% cost of equity; ii) revenue growth as per our forecasts out to 2024, then decelerating to a terminal growth rate of 3% in 2033; and iii) 2024-33E margins expansion fading to flat by 2034. We value the minorities, predominantly APB, Grupa Zywiec (Poland) and the Nigerian businesses, on 20x P/E and the associates on a 20x P/E multiple. We rate Heineken Outperform given 1) the resilience of premium beer in EMs during the downturn, 2) accelerating market share gains in key markets and 3) the best long-term footprint in Beer.

Risk: Risks to our Outperform rating and €95 target price include i) a deeper than expected downturn across EMs; ii) a slower on-trade recovery; iii) further FX depreciation.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Itau Unibanco (ITUB4.SA)

Method: Our R$33 target price and Outperform rating for Itau are based on an economic profit model, with explicit forecast up to 2023, implicit between 2024 AND perpetuity. Our estimated cost of equity is 12.3% and our long-term sustainable growth factor is 6.6%.

Risk: Risks to our R$33 target price and Outperform rating for Itau are severe economic slowdown, loss of market share due to further consolidation in the system or loss of efficiency.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Koc Holding (KCHOL.IS)

Method: We derive a TRY21.80 target price estimate for Koc Holding, justifying Outperform rating for the stock. In our valuation, we use a sum-of-the-parts approach as ~90% of NAV comes from the listed entities and solo-cash at the holding level. In our NAV, we take the consensus mean target prices for the listed group companies that are not under our research coverage (AYGAZ, TTRAK and OTKAR), we use the latest market capitalisation extended by 1-year cost of equity for smaller unlisted companies. We use our current TPs for those subsidiaries under our coverage (Tofas, FROTO, Arcelik, Tupras and YKB). For unlisted group companies, we use their book values disclosed in the listed subsidiary financials or recent transaction valuations where applicable. A key input to our target price and rating is our assumption of Koc Holding maintaining its leading market shares in the key underlying business segments in Turkey (autos, white-goods, retail banking and petroleum refining/distribution) while continuing its international expansion through innovation and strong capital structure. A deviation from this strategy could pose a risk factor to our target price and rating.

Risk: Key risks to our TRY21.80 target price and Outperform rating on the stock are: 1) Koc Holding is exposed to the domestic macro risks; 2) The holding company has c.US$457m adjusted free cash at the holding level. We believe investors will closely watch Koc's capital deployment, a hypothetical pricey acquisition or greenfield investment could raise investor concerns; 3) It has a consolidated short FX-position. Although operational hedge mechanisms in the highly FX-exposed subsidiaries (esp Tupras) provide a partial cushion in the long-run, there is still material FX risk to short-term interim earnings.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Orbia Advance Corp (ORBIA.MX)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 9.4% weighted average cost of capital and a 2.0% terminal growth rate, supports our P$57 target price for Orbia At P$57, Orbia would trade at 6.7 times 2019 estimated EV/EBITDA 2020E, roughly in-line with the four-year average. Our Outperform rating is mainly based on strong earnings momentun and attractive valuation, as well as transformational upside.

Risk: Risks related to our P$57 target price and Outperform rating for Orbia are: Execution and cost-related risks related to the ongoing transformation process, increased regulatory pressure against chlorine and fluorine-based products, deceleration in construction activity (particularly in Europe).

Target Price and Rating
Valuation Methodology and Risks: (12 months) for PT Bank Central Asia Tbk (BBCA.JK)

Method: We utilise the 2022 Gordon growth model discounted back to 2020 year-end using cost of equity, as we attempt to incorporate BBCA's future normalised ROE (return on equity) level on the expectation that 2020 is a one-off due to the pandemic. We have a target price of Rp40,400, implying 29x 2021E P/E (price-to-earnings) or above +2SD of its 5Y mean. We believe this valuation is not on the aggressive side and hinges on the fact that BBCA's low-cost fund franchise remains unchallenged, as it has been over the last ten years. As such, we rate the stock OUTPERFORM and BBCA is our top sector pick.

Risk: Downside risks to our target price of Rp 40,400/share and OUTPERFORM rating for BBCA include: (1) further asset quality deterioration in corporate and small/medium segment, (2) lower-than-expected loan growth, and (3) lower-than-expected margins.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ping An (2318.HK)

Method: Our HK$103 target price for Ping An is based on our base case sum-of-the-parts valuation for each division, using 6x value of new business for life insurance (implying 1.3x EV), 1.0x book value for P&C insurance, 10x P/E for securities, 10x P/E for the Trust business and 1.0x book value for the bank. We have an OUTPERFORM rating on the back of sector leading RoEV, Ping An's best-in-class agency force, and technology-powered profitability.

Risk: Key risks to our HK$103 target price and OUTPERFORM rating for Ping An (H) include: (1) weak VNB growth, (2) A-share correction and bond yield weakness and (3) management change.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ping An (601318.SS)

Method: Our Rmb94 target price for Ping An (A) is based on our base case sum-of-the-parts valuation for each division, using 6x value of new business for life insurance (implying 1.3x EV), 1.0x book value for P&C insurance, 10x P/E for securities, 10x P/E for the Trust business and 1.0x book value for the bank. Our OUTPERFORM rating reflects sector-leading RoEV, a best-in-class agency force, and technology-powered profitability

Risk: Key risks to our Rmb94 target price and OUTPERFORM rating for Ping An (A) include: (1) Weak VNB growth, (2) an unexpected capital raising, (3) sharp A-share price correction, and (4) bank asset quality worsening.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ralph Lauren Corporation (RL.N)

Method: Our $89 target price is based on ~13x our FY22 EPS. We rate the stock Outperform given the significant upside embedded in our target price.

Risk: Risks to our $89 target price and Outperform rating include a potential slowing in macroeconomic/consumer trends, brand turnaround execution, risks associated with licensor acquisitions, and fluctuations in foreign currency trends.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Sands China (1928.HK)

Method: Our target price of HK$41.3 for Sands China at mid-2021E is based on target multiple of 12-16x on normalised FY21E EV/EBITDA for its existing operations. Sands' long- term story remains unchanged for its large asset base targeting mass players, strong free cash flow generation, and solid dividend support at 5%. Similar to the Venetian hotel rooms upgrade in 2018, we believe the re-theming of SCC into Londoner should help Sands solidify its mass leadership position. Given the long-term positives, we rate Sands China as OUTPERFORM.

Risk: The downside risks that could impede achievement of our target price of HK$41.3 and OUTPERFORM rating for Sands include (1) less-than-expected GGR growth, (2) fierce competition from other hotels' new opening, and (3) higher-than-expected disruption from the renovation.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ultratech Cement Ltd (ULTC.BO)

Method: Our target price of Rs4,800 for UltraTech Cement is based on 14.3x Mar'22E EV/EBITDA (enterprise value-to-earnings before interest, tax, depreciation and amortisation). We have an OUTPERFORM rating on UltraTech on likely improvement in the demand environment from the bottom in 3Q FY20, and the industry's ability to sustain higher prices even in the face of weak demand and benign commodities.

Risk: Risks to our OUTPERFORM rating and Rs4,800 target price for UltraTech Cement on the downside include: (1) demand growth being weaker than expected, at 1-3%, for the industry; (2) cement prices being weaker than expected; and (3) lower input prices can be negated by competition, (4) weak bounce back from the COVID lockdown. On the upside however, (1) industry has reflected price discipline and (2) demand growth can be stronger on any government stimulus, etc.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for WH Group Limited (0288.HK)

Method: Our target price of HK$10.10 for WH Group is based on 9x (in line with upstream players)/20x (in line with Shuanghui, its subsidiary) 12-month forward P/E (price-to-earnings) for its upstream/downstream operations respectively, implying 13.4x 12-month forward P/E. We rate the stock OUTPERFORM due to a visible recovery of US business.

Risk: Downside risks to our target price of HK$10.10 and OUTPERFORM rating for WH Group include worse-than-expected sales recovery and deteriorating consumer confidence due to the food safety issue.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Walmart Inc. (WMT.N)

Method: Our Outperform rating and $135 target price for WMT are based on 24x our FY22 EPS estimate. That is similar to its relative valuation during prior recesionnary/slowdown periods

Risk: Risks to our Outperform rating and $135 TP include; The consumer; a significant portion of Walmart's customer base may be impacted financially by disruption caused by workplace closures. Supply chain; we are expecting more disruption across the space in Q2/3, not just from China but also stoppages in the US.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for dormakaba (DOKA.S)

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Method: Our target price of SFr660 for dormakaba is derived from: 1) common multiple targets (20x FY22E adj. EPS), 2) ROIC, 3) DCF (WACC 7.1% and terminal growth rate of 1.5%), and 4) Credit Suisse HOLT®. We rate the stock Outperform given the upside potential to our target price.

Risk: The risks that may impede our investment case (influencing our TP of SFr660 and Outperform rating) include: 1) demand for dormakaba's total access products could fluctuate depending upon variations in sectors like construction, infrastructure as well as the general consumer spending levels, 2) potential integration complications and dilllutive effect of potential acquisitions, 3) currency fluctuations (especially further weakening of the EUR).

Companies Mentioned *(Price as of 31-Aug-2020)*

Alsea (ALSEA.MX, MXN22.63)
Barry Callebaut (BARN.S, SFr2000.0)
Carlsberg (CARLb.CO, Dkr876.6)
Cathay Financial Holding (2882.TW, NT$39.85)
Cementos Argos, S.A. (CCB.CN, pesos5000.0)
Cipla Limited (CIPL.BO, Rs712.1)
Coca-Cola HBC (CCH.L, 1994.0p)
Comcast Corp. (CMCSA.OQ, $44.81)
DKSH Holdings (DKSH.S, SFr60.5)
Dr. Reddy's Laboratories Limited (REDY.BO, Rs4257.9)
ENN Energy Holdings Ltd (2688.HK, HK$86.0)
Fubon Financial Holding (2881.TW, NT$42.8)
Godrej Consumer Products Ltd (GOCP.BO, Rs650.95)
HCA Healthcare (HCA.N, $135.72)
Heineken (HEIN.AS, €77.56)
Itau Unibanco (ITUB4.SA, R$23.55)
Koc Holding (KCHOL.IS, TL14.9)
Orbia Advance Corp (ORBIA.MX, MXN35.16)
PT Bank Central Asia Tbk (BBCA.JK, Rp31,375)
Ping An (2318.HK, HK$82.55)
Ping An (601318.SS, Rmb76.62)
Ralph Lauren Corporation (RL.N, $68.83)
Sands China (1928.HK, HK$34.2)
Ultratech Cement Ltd (ULTC.BO, Rs3906.1)
WH Group Limited (0288.HK, HK$6.69)
Walmart Inc. (WMT.N, $138.85)
dormakaba (DOKA.S, SFr584.0)

Disclosure Appendix

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