

Voltas

Performance Highlights

Quarterly highlights - Consolidated

Y/E March (₹ cr)	4QFY16	4QFY15	3QFY16	% chg (yoy)	% chg (qoq)
Net sales	1,876	1,484	1,301	26.4	44.2
EBITDA	172	137	52	25.6	233.0
PAT	176	118	54	49.5	225.6

Source: Company, Angel Research;

Voltas reported a strong set of numbers for 4QFY2016. The top-line at ₹1,876cr is up 26.4% yoy and is higher than our expectation, mainly driven by strong execution across the EMP segment. The EMP segment impressed us with a 36.5% yoy increase in revenue to ₹819cr (accounting for 44% of the company's overall 4QFY2016 revenues), whereas the UCP segment's revenue at ₹859cr is almost in-line with our estimate. The EBITDA margin for the quarter was flat yoy at 9.2%. Notably, with most of the legacy projects nearing completion, the EMP segment reported a strong EBIT margin of 3.4%, as against a loss in 3QFY2016 and 0.7% margin in the corresponding quarter of the previous year. Better than expected execution coupled with higher other income helped the company report a PAT of ₹176cr, which is up 49.5% on a yoy basis. On adjusting for exceptional items, the PAT stood at ₹149cr, reporting a sharp increase of 27.1% yoy. The Adj. PAT margin for the quarter stood at 7.9%, which is the same as in the corresponding quarter a year ago.

Another positive is the company announcing order inflow of ₹959cr for the quarter. The order book for the EMP segment as of 4QFY2016-end stands at ₹3,914cr (order book [OB] to LTM ratio of 1.4x). Recent report by GFK Nielsen states that Voltas has retained its top slot in the domestic AC sales market in FY2016, with ~21% market share.

Valuation: We expect Voltas to report a strong 13.3% top-line and 18.1% bottom-line CAGR during FY2016-18E, respectively. On considering the case for improvement in all of its business segments' performances, we expect improved profitability and better investment return ratios for the company, going forward. We now assign Voltas 25.0x PE multiple to our FY2018E EPS estimate of ₹16.3/share and arrive at price target of ₹407. This reflects 25% upside potential from the stock's current market price. **Accordingly, we continue to maintain our BUY rating on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Sales	5,531	5,266	5,183	5,857	6,511	7,514
% chg	6.7	(4.8)	(1.6)	13.0	11.2	15.4
Net Profit	208	245	384	386	427	538
% chg	28.2	18.1	56.6	0.3	10.8	26.0
EBITDA (%)	4.4	5.0	7.9	7.5	7.9	8.7
EPS (₹)	6.3	7.4	11.6	11.7	12.9	16.3
P/E (x)	52.3	44.3	28.3	28.2	25.4	20.2
P/BV (x)	6.7	6.0	5.2	4.5	4.0	3.5
Adj. RoE (%)	12.8	14.2	19.6	17.1	16.7	18.5
RoCE (%)	19.3	22.4	36.4	42.2	46.4	52.7
EV/Sales (x)	1.9	2.1	2.1	1.9	1.7	1.4
EV/EBITDA (x)	44.2	40.8	26.2	25.0	21.0	16.5

Source: Company, Angel Research; Note: CMP as of May 24, 2016

BUY

CMP	₹327
Target Price	₹407

Investment Period	12 Months
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Stock Info	
Sector	Construction & Eng.
Market Cap (₹ cr)	10,807
Net debt (₹ cr)	63
Beta	1.4
52 Week High / Low	360/211
Avg. Daily Volume	2,160,720
Face Value (₹)	1
BSE Sensex	25,305
Nifty	7,749
Reuters Code	VOLT.BO
Bloomberg Code	VOLT@IB

Shareholding Pattern (%)	
Promoters	30.3
MF / Banks / Indian Fls	29.0
FII / NRIs / OCBs	19.5
Indian Public / Others	21.2

Abs. (%)	3m	1yr	3yr
Sensex	11.1	(7.7)	27.4
Voltas	36.0	(6.1)	260.7

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: Quarterly Performance (Consolidated)

Particulars (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)	FY2016	FY2015	% chg
Net Sales	1,876	1,301	44.2	1,484	26.4	5,832	5,144	13.4
Total Expenditure	1,704	1,249	36.3	1,347	26.5	5,421	4,773	13.6
Cost of materials consumed	1,060	796	33.1	801	32.4	3,453	2,905	18.9
Purchase of stock-in-trade	292	131	122.4	231	26.1	673	692	(2.8)
Employee benefits Expense	183	170	7.5	152	20.5	670	590	13.5
Other Expenses	169	152	11.4	163	3.5	625	586	6.7
EBITDA	172	52	233.0	137	25.6	411	371	10.8
EBITDA %	9.2	4.0		9.2		7.1	7.2	
Depreciation	8	7	17.1	8	(1.1)	28	28	(0.8)
EBIT	164	45	265.9	129	27.3	384	343	11.7
Interest and Financial Charges	6	3	78.1	6	1.9	15	23	(34.1)
Other Income	61	25	143.8	36	68.3	143	148	(2.9)
PBT before Exceptional Items	219	67	229.5	159	37.5	511	467	9.4
Exceptional Items	28	2		1		41	46	
PBT	247	69	259.7	161	53.8	552	514	7.5
Tax	66	13	427.0	41		160	128	
% of PBT	26.9	18.3		25.7		29.0	24.8	
PAT bef. Min. Int.	181	56	222.2	119	51.4	392	386	1.6
Share of profit/ (loss) of associate	1	1	(13.6)	(0)	<i>nmf</i>	2	2	39.9
Minority interest in (profit)/ loss	(5)	(2)		(1.2)		(9)	(3)	
PAT after Min. Int.	176	54	225.6	118	49.5	386	384	0.3
Adj. PAT	149	52	185.5	117	27.1	345	338	2.0
Adj. PAT %	7.9	4.0		7.9		6.7	7.5	
Dil. EPS	5.33	1.64	225.0	3.57	49.3	11.65	11.62	0.3

Source: Company, Angel Research; Note: *nmf*- Not meaningful

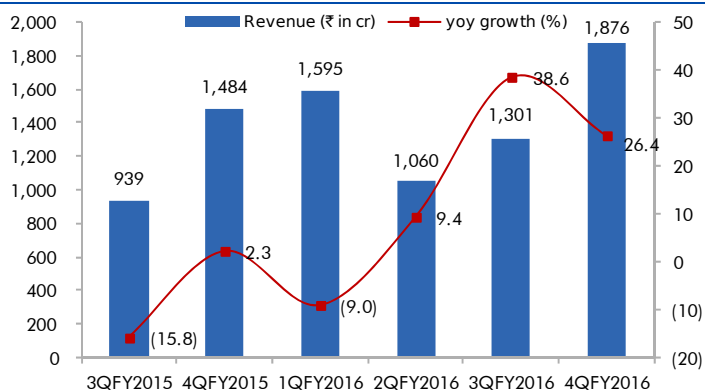
Strong EMP segment execution leads to strong 4Q sales

Voltas reported better than expected top-line numbers for the quarter, mainly driven by strong execution across the EMP segment. The top-line grew 26.4% yoy to ₹1,876cr as the EMP segment impressed with a 36.5% yoy increase in revenue to ₹819cr (accounting for 44% of 4QFY2016 revenues), whereas the revenue of the UCP segment came in in-line with our estimate at ₹859cr. The performance of the EMP segment was supported by strong execution across both, domestic (~₹203.6cr) as well as the international business (~₹615.0cr). Also, revenue booking during the quarter benefitted from ₹106cr of irrigation projects executed across the Omanese subsidiary (reported under Others segment; Others segment had reported ₹22.9cr in revenues in 4QFY2015).

For FY2016, Voltas reported a 13.4% yoy increase in sales to ₹5,832cr, on the back of 23% yoy increase in the EMP segment's sales and 1.8% growth across the UCP segment. EMP segment revenues in FY2016 also benefitted on account of ₹108.1cr of contribution coming in from 4 overseas subsidiary (Lalbuksh Voltas Engineering Services & Trading LLC, Weathermaker Ltd., Saudi Ensas, Voltas Oman LLC) and 1 JV (Universal Weathermaker Factory Ltd) as they changed their accounting period to coincide with the company's reporting period. The UCP segment on the other hand, benefitted from strong traction seen across sale of Air Coolers launched a few months back. The company sold ~70,000 units in

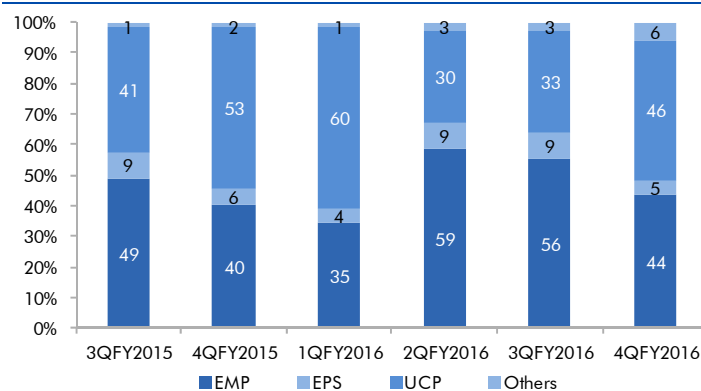
FY2016, translating to sales of ~₹35cr. On adjusting for Air Cooler sales, the UCP segment reported almost flattish sales in FY2016. On the positive side, Voltas has been able to retain its numero-uno position commanding a ~21% share in the domestic air conditioning market in FY2016.

Exhibit 2: Strong revenue growth in 4QFY2016



Source: Company, Angel Research

Exhibit 3: Revenue mix

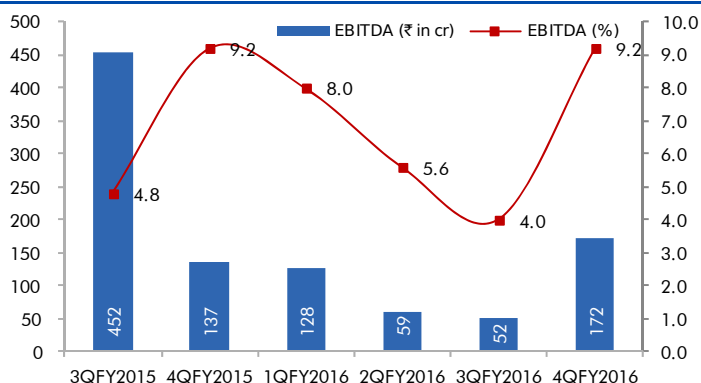


Source: Company, Angel Research

EBITDA margin remains flattish at 9.2%

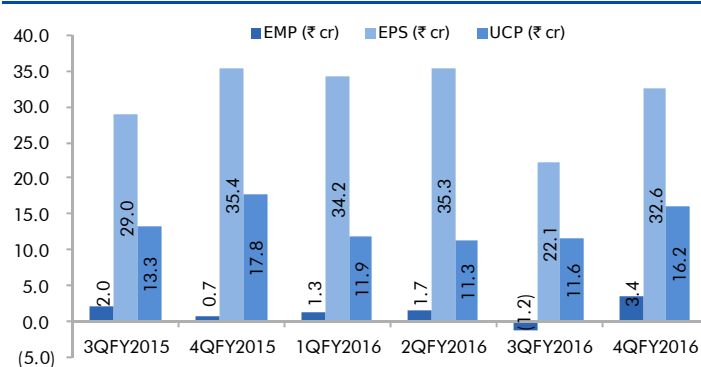
Voltas reported almost flat yoy EBITDA margin at 9.2% for 4QFY2016 which is slightly lower than our expectation. One positive emerging on the operational front is that with most of the legacy projects nearing completion the EMP segment for the first time in the recent few quarters reported a strong segment level EBIT margin of 3.4%, against a loss in 3QFY2016 and 0.7% margin in 4QFY2015.

Exhibit 4: EBITDA margin remains flat yoy at 9.2%



Source: Company, Angel Research

Exhibit 5: EMP segment margins expand



Source: Company, Angel Research

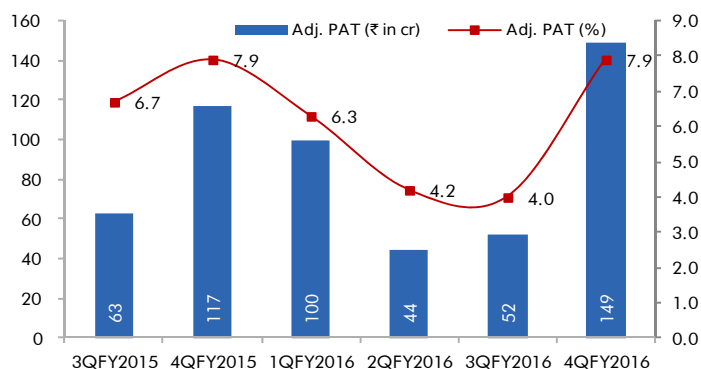
Higher sales promotion activities led Voltas to report a decline in the UCP segment's EBIT margin to 16.2% in 4QFY2016 (from 17.8% in 4QFY2015).

For the full year FY2016, the EBITDA margin marginally declined to 7.1% from 7.2% in FY2015. Segment-wise, the EMP segment's EBIT margin improved from 1.0% in FY2015 to 1.4% in FY2016, whereas, the UCP segment's margin declined from 13.9% in FY2015 to 13.2% in FY2016. If we adjust for shift in subsidiaries and JVs' accounting period then the EMP segment's EBIT margin for FY2016 stood at 1.2%.

Adj.PAT margin remains flat at 7.9%

Better than expected execution, coupled with higher other income helped the company report a PAT of ₹176cr, which is up 49.5% yoy. Other income increased 68.3% yoy to ₹61cr (reflecting impact of 20% yoy increase in current investments and cash balance, combined at ₹864cr).

Exhibit 6: Adj. PAT margin remains flat at 7.9%



Source: Company, Angel Research

Exhibit 7:

	4QFY16	3QFY16	4QFY15	FY16	FY15
Reported PAT	176	54	118	386	384
Adjustments:					
Sidra Project Charges	0	0	0	0	(190)
Profit from sale of properties	31	2	1	33	236
Profit on sale of investments	1	0	0	12	0
Rev. of prov. for contingencies	4	0	0	4	0
Impair. of goodwill on consol.	(8)	0	0	(8)	0
Adj. PAT	149	52	117	345	338

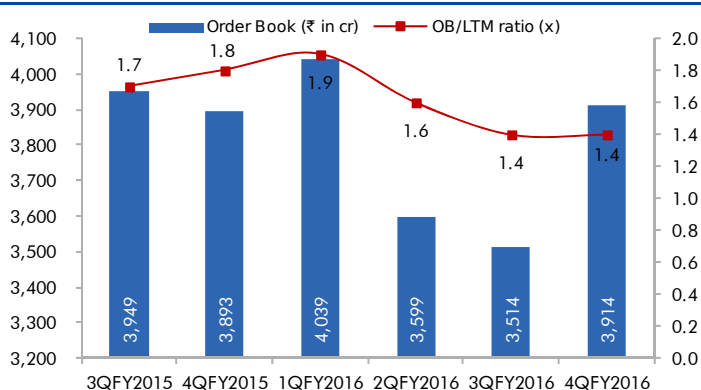
Source: Company, Angel Research

On adjusting for exceptional items, the PAT stood at ₹149cr, still reporting a sizable 27.1% yoy increase. The Adj. PAT margin for 4QFY2016 stood at 7.9%, same as in the year ago quarter.

Order Book grows 11.4% qoq to ₹3,914cr

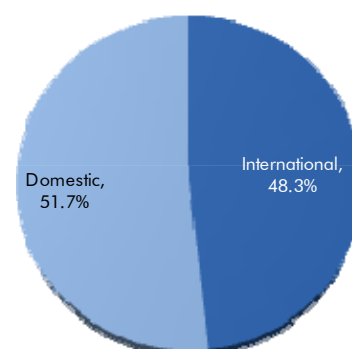
Voltas reported a 11.4% qoq increase in its Order book to ₹3,914cr (OB to LTM ratio of 1.4x), reflecting ₹959cr of Order wins during 4QFY2016. Among the projects won during the quarter, the two key ones are (1) ₹381cr order for MEP works of commercial office building in Dubai, and (2) ₹100cr order for MEP works of a Hotel in Oman.

Exhibit 8: OB/LTM sales ratio stands at 1.4x



Source: Company, Angel Research

Exhibit 9: 4QFY2016 Order Book Mix (%)



Source: Company, Angel Research

Valuation

At the current market price of ₹327, the stock is trading at FY2017E and FY2018E P/E of 25.3x and 20.1x, respectively. With inflation under control, rate cut cycle expected to continue, coupled with Voltas' strong positioning in the air conditioning market, we believe that the company should continue to report strong growth in air conditioner sales, going forward.

In FY2015, the UCP segment contributed ~72% of the consol. EBIT. Also, completion of the low margin EMP projects and increased contribution of high margin projects indicate that the EBIT margins of the EMP segment would improve from 1.4% in FY2016 to 5.0% in FY2018E. On the whole, we expect Voltas to report a top-line and bottom-line CAGR of 13.3% and 18.1% during FY2016-18E, respectively. Our growth assumption captures (a) pick-up in international award activity, which should lead to top-line growth as well as EMP segment EBIT margin expansion, and (b) continued growth in domestic AC sales, with Voltas being able to retain its 'numero uno' status. Noticeably in the last few years, the EBIT mix of Voltas has shifted from being heavily dependent on the EMP segment to a now dominant share of the UCP segment. The contribution of the UCP segment in the consol. EBIT has increased from 32% in FY2011 to 72% in FY2015. We expect the same to be over 61% levels during FY2016-18E. Considering the shift in the consol. EBIT mix, positive cues, and case for improvement in the business segments' performances, we expect scope for improved profitability and better investment return ratios, going forward. We now assign Voltas 25.0x PE multiple to our FY2018E EPS estimate of ₹16.3/share and arrive at a price target of ₹407. This reflects 25% upside potential from the current levels. **Accordingly, we continue to maintain our Buy rating on the stock.**

Investment Arguments

Growth in UCP segment to continue: Voltas has maintained 20%+ market share in the domestic air-conditioning market despite stiff competition from MNC players. Its 'numero uno' position is owing to its (1) wide distribution network (10,000-11,000 touch-points), (2) wide portfolio of 65+ models, (3) strong post-sale support (including 5-year warranty on compressor), and (4) strong advertising focus with the company being among the top 5 media spenders in the AC segment. With economic indicators turning favorable, the company's competitive positioning should help the UCP segment report a 19.5% top-line and 16.6% EBIT CAGR, respectively, during FY2016-18E.

Gradual recovery in the EMP business: Voltas' EMP business was adversely affected due to weak awarding environment, slow execution and cost over-runs. In the run-up to the Qatar World Cup 2022 and Dubai Expo 2020, we expect international awarding activity to gradually catch-up from FY2017E onwards. Surge in order book should translate to uptick in execution (we expect 10.7% top-line CAGR during FY2016-18E). With legacy projects almost completed and contribution of high margin projects kicking-in, we expect the segment's margins to expand from 1.4% in FY2016 to 5.0% in FY2018E.

Balance Sheet strength: Voltas pursues an asset light business model and in the due course of business it resorts to outsourcing and strategic tie-ups, thereby enabling it to control its operating costs and generate high profitability. As a result, we expect Voltas to revert to its earlier trend of higher RoEs. Given the asset light business model, the company has been generating strong cash flows (it generated ₹1,029cr of cash flows from business during FY2013-16). As of 4QFY2016-end, Voltas is a debt free company (on net basis), with cash & liquid investment balance of ₹863cr.

Risks & Concerns

- AC sales contributed ~35% of FY2016 consolidated revenues. Given that Voltas is present only in the AC business across the entire Consumer Durables space, loss of major market share could act as a risk to our estimates. Any such development could lead to lower than expected EBIT contribution to the consol. profits and our estimates.
- Revenues from the EPS segment are based on agreement for supplying Textile, Mining & Construction equipment. Any termination of such agreements shall impact our forecasted revenues for the segment.
- Most of the long term international projects are fixed price contracts and in the due course of its business, Voltas also imports. Any adverse currency fluctuations may impact the raw material pricing as well as margins.
- Cancellation of Qatar World Cup 2022 or Expo 2020 could affect our EMP segment assumptions.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Sales	5,531	5,266	5,183	5,857	6,511	7,514
% Chg	6.7	(4.8)	(1.6)	13.0	11.2	15.4
Total Expenditure	5,287	5,000	4,773	5,421	5,995	6,859
Cost of RM Consumed	4,167	3,854	3,597	4,126	4,568	5,242
Employee benefits Expense	633	595	590	670	746	845
Other Expenses	487	551	586	625	681	771
EBITDA	244	266	410	437	516	655
% Chg	(27.5)	8.9	54.4	6.6	18.1	26.9
EBITDA %	4.4	5.0	7.9	7.5	7.9	8.7
Depreciation	28	25	28	28	31	33
EBIT	216	241	382	409	485	622
% Chg	(28.6)	11.4	58.7	7.1	18.5	28.3
Interest and Fin. Charges	38	23	23	15	15	9
Other Income	90	100	109	118	131	142
PBT	268	318	467	511	600	755
Exceptional Items	12	22	46	41	0	0
Prior Period Adjustments	0	0	0	0	0	0
Tax	73	94	128	160	174	219
% of PBT	27.2	29.6	27.3	31.3	29.0	29.0
PAT from ordinary activities	207	246	386	392	426	536
Share of Profit / (loss of Associate) & Minority Interest in (profit)/ loss	1	(0)	(2)	(7)	1	3
PAT	208	245	384	386	427	538
% Chg	28.2	18.1	56.6	0.3	10.8	26.0
PAT %	3.8	4.7	7.4	6.6	6.6	7.2
Diluted EPS	6.3	7.4	11.6	11.7	12.9	16.3
% Chg	28.2	18.1	56.6	0.3	10.8	26.0

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Sources of Funds						
Equity Capital	33	33	33	33	33	33
Reserves & Surplus Total	1,593	1,786	2,069	2,362	2,675	3,064
Networth	1,626	1,819	2,102	2,395	2,708	3,097
Total Debt	261	263	122	260	155	100
Minority Interest	12	14	16	26	26	26
Long-term Liabilities & Provision	120	122	130	156	166	180
Total Liabilities	2,019	2,218	2,370	2,837	3,055	3,402
Application of Funds						
Gross Block	406	459	455	508	534	560
Accumulated Depreciation	195	251	266	294	325	358
Net Block	211	209	189	215	209	202
Capital WIP	0	2	4	8	6	7
Goodwill	89	80	80	72	72	72
Investments	407	732	1,094	1,526	1,609	1,844
Deferred Tax Assets	24	26	37	53	53	53
Inventories	978	901	867	893	1,013	1,190
Sundry Debtors	1,362	1,335	1,339	1,307	1,538	1,765
Cash and Bank Balance	350	282	252	197	186	131
Loans & Advances & Oth. Current Assets	1,041	1,027	922	1,167	1,174	1,338
Current Liabilities	2,548	2,527	2,519	2,762	2,969	3,375
Net Current Assets	1,183	1,018	861	802	942	1,048
Other Assets	104	152	105	162	165	176
Total Assets	2,019	2,218	2,370	2,837	3,055	3,402

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	243	257	434	511	600	755
Depreciation	22	19	22	28	31	33
Other Adjustments	(147)	(40)	(248)	47	(75)	(83)
Change in Working Capital	21	164	83	(26)	(144)	(159)
Interest & Fin. Charges (net)	17	8	10	11	10	5
Direct taxes paid	(92)	(74)	(80)	(160)	(174)	(219)
Cash Flow from Operations	64	334	221	411	249	332
(Inc)/ Dec in Fixed Assets	8	(20)	210	(57)	(23)	(27)
(Inc)/ Dec in Invest. & Int. recd.	36	(273)	(269)	(432)	(3)	(145)
Cash Flow from Investing	44	(292)	(59)	(489)	(26)	(173)
Inc./ (Dec.) in Borrowings	34	(19)	(140)	138	(105)	(55)
Issue/ (Buy Back) of Equity	0	0	0	0	0	0
Dividend Paid (Incl. Tax)	(61)	(57)	(64)	(92)	(114)	(150)
Finance Cost	(26)	(17)	(16)	(15)	(15)	(9)
Cash Flow from Financing	(53)	(93)	(221)	30	(234)	(214)
Inc./ (Dec.) in Cash	54	(51)	(59)	(47)	(11)	(55)
Opening Cash balances	200	255	203	144	97	86
Closing Cash balances	255	203	144	97	86	31

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	52.0	44.0	28.1	28.0	25.3	20.1
P/CEPS	45.9	40.0	26.2	26.1	23.6	18.9
Dividend yield (%)	0.6%	0.6%	0.7%	0.7%	0.9%	1.2%
EV/Sales	1.9	2.0	2.1	1.9	1.7	1.4
EV/EBITDA	43.9	40.6	26.0	24.9	20.9	16.5
EV / Total Assets	5.3	4.9	4.5	3.8	3.5	3.2
Per Share Data (₹)						
EPS (Diluted)	6.3	7.4	11.6	11.7	12.9	16.3
Cash EPS	7.1	8.2	12.5	12.5	13.9	17.3
DPS	1.9	1.9	2.3	2.4	3.0	3.9
Book Value	49.1	55.0	63.5	72.4	81.9	93.6
Returns (%)						
RoCE (Pre-tax)	19.3	22.4	36.4	42.2	46.4	52.7
Angel RoIC (Pre-tax)	16.2	16.4	22.1	19.8	21.5	23.9
RoE	12.8	14.2	19.6	17.1	16.7	18.5
Turnover ratios (x)						
Asset Turnover (Gross Block) (x)	13.6	12.2	11.3	12.2	12.5	13.7
Inventory / Sales (days)	65	65	62	55	53	54
Receivables (days)	90	93	94	82	80	80
Payables (days)	113	116	112	102	100	95
NWC days	41	43	45	35	33	38
Leverage Ratios (x)						
Net D/E ratio (x)	(0.1)	(0.0)	(0.1)	0.0	(0.0)	(0.0)
Interest Coverage Ratio (x)	8.0	15.1	21.1	34.4	41.0	81.1

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Disclosure of Interest Statement

	Voltas
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)