

European Telecoms

Outlook: establishing defensive credentials

Estimate Change

Telco delivering, credentials improving, outlook +ve

Q4 completes a positive year for European telco in terms of wider delivery against expectations, predicated on a transition to more sustainable growth as pricing power returns. And encouragingly EBITDA has followed suit and has grown ahead of top line as cost pressures ease YoY. Capex remains more of a debate but comprises a more contrasting story underneath with fibre leaders guiding lower, laggards slightly higher. But the former are now setting new benchmarks for efficiency that should ultimately benefit the wider industry and support telco cash flow re-rating over time. Post Q4 results we continue to flag Telefonica & Orange as Buys with favourable thematic exposure.

Top-down: Price rises, costs easing, capex mixed

Telco top line inflected through 2023 and has maintained its c2% run-rate into year end, this should be sustainable into FY24 with the Nordics leading, Swiss/Italian markets remaining competitive. Easing costs also supported EBITDA momentum, growing ahead of revenues with Telefonica and Tele2 ahead of expectations. Capex messaging remains mixed with Telefonica's CMD confirming new, industry-low capex/sales ratios as copper is fully decommissioned in 2024. Orange FCF growth also shows clear benefits post fibre capex peak, while KPN and BT provide more granularity around post-fibre cash flows. But 'laggards' such as Deutsche Tel nudged capex upwards, while Swisscom's investment needs remain elevated and Liberty Global must accelerate spend.

Bottom up: good delivery, capex trends mixed

Telcos reported an aggregate beat in Q4 sector revenues and EBITDA by +1.6% and +0.5% (median: +1.2%/+0.2%) with underlying trends supportive: Service revenue growth sustained at c2% and EBITDA trends continue to accelerate at +2.2% YoY. We expect this to continue with +1-2% service revenue/+1.8% EBITDA growth in 2024. While capex was ahead of expectations and led to a small miss in OpFCF (median: -0.8% below), those operators post (fibre)-capex peak were generally ahead on OpFCF. For the sector, we expect another -0.2pp reduction in '24 vs '23 capex/sales (-0.6pp '23 vs '22).

Wider themes: M&A / restructuring.

M&A should remain in focus following the Spanish consolidation and EU white paper with Italian deals proposed during Q4 (Iliad-VOD) and Q1 (VOD-Fastweb discussions confirmed), and VOD's UK merger with Three now under regulatory review. Beyond mergers, we expect more portfolio restructuring with VOD in focus (selling Spain, Italy), Cellnex selling towers in Ireland & potentially Austria, LBTYA demerging Switzerland.

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Exhibit 1: List of acronyms

Acronyms used within the report

Acronym	Explanation
CMD	Capital markets day
LBTYA	Liberty Global
VOD	Vodafone

Source: BofA Global Research

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Refer to important disclosures on page 10 to 13. Analyst Certification on page 9. Price Objective Basis/Risk on page 8.

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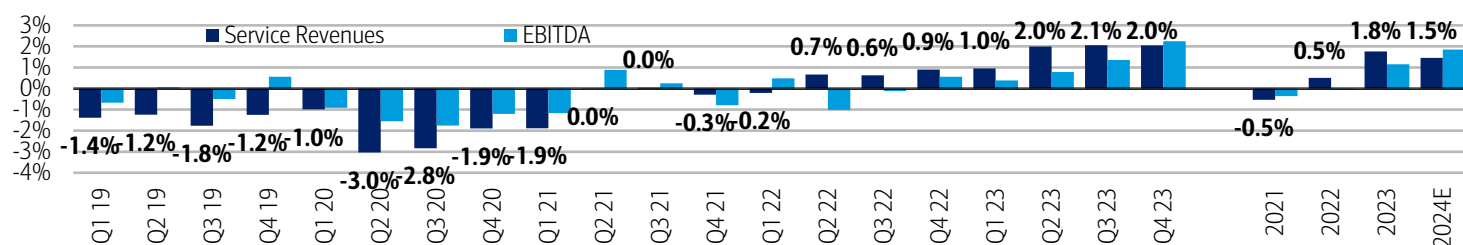
Q4 wrap/outlook

Per the chart below, we see that domestic service revenue trends confirmed a new, higher growth rate of around +2% after accelerating in Q2 '23. We expect this trend to continue more or less with around +1.5% in 2024 as telecom operators have established positive top line growth trends after years of declines, albeit with a smaller boost from (inflation-linked) price increases. Across the wider European telecom landscape, we saw the Nordics and Benelux leading in service revenue growth after outright price hikes during 2023 with trends in Switzerland/Italy comparatively slower, still reflecting some higher levels of competition.

Meanwhile, increases in wage costs/lagging energy price effects prevented full operational leverage during the beginning of the year, but particularly the latter is increasingly becoming a tailwind. See our year-ahead publication for a detailed analysis of the different cost drivers (see our report, [Year Ahead 2024: moving overweight, telco has turned the corner](#)). And indeed, underlying EBITDA trends have gradually improved after turning positive in 4Q22 with low-single digit growth in 1H23, +1.4% in Q3 and at +2.2% in Q4 surpassing the top line growth. For 2024, we expect firmly positive trends to continue at +1.8% as operators benefit from top line growth and lower cost inflation/some energy benefits.

Exhibit 2: European Telecoms – Organic service revenue and EBITDA forecasts

Service revenue trends remained at +2% in Q4, EBITDA growth continues to accelerate



Source: BofA Global Research estimates

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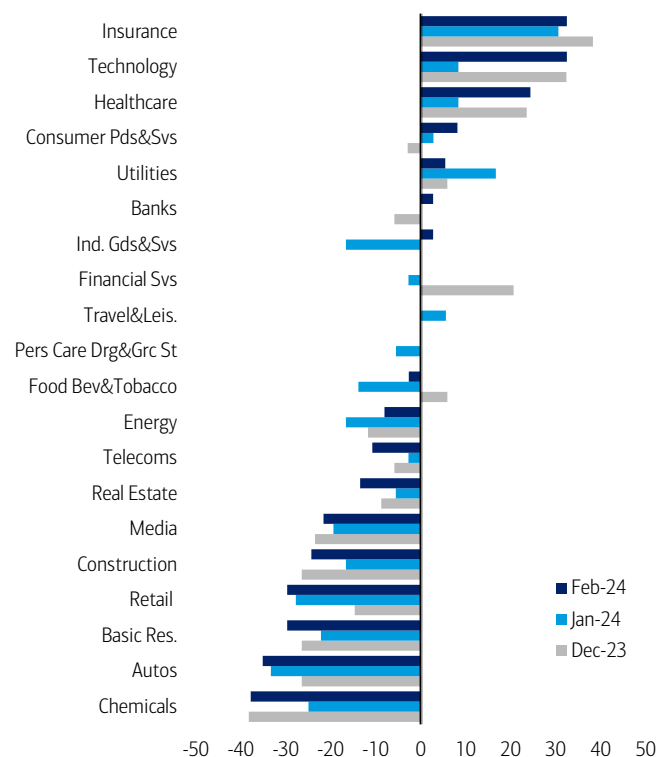
Investor positioning

Year to date the European telecom sector has underperformed the wider market (SXXP flat vs SXXP up +6.1%). This followed a good start into the year with telcos outperforming during January, but giving up the relative gains as the wider market remained strong.

Per the latest European Fund Manager survey, telecom perception is relatively consistent with historical sentiment over the last couple of years. In the latest edition from mid-February (see our report, [From soft landing to no landing](#)), we observe that positioning has weakened again (-8pp month-on-month) and stayed net-underweight the sector. Meanwhile, investors continue to perceive the sector as relatively under-valued (-11pp month-on-month).

Exhibit 3: European sector positioning (% saying overweight-% saying underweight)

Telco positioning remains underweight...

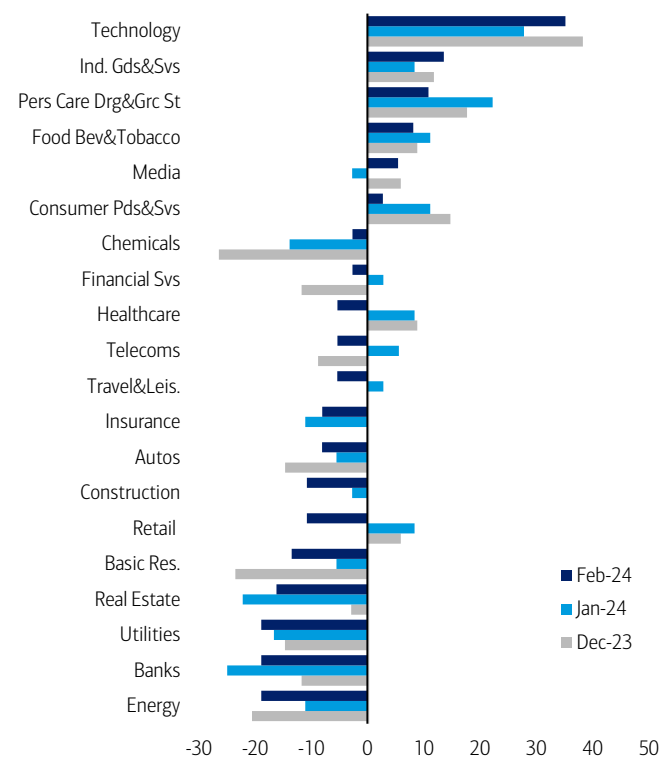


Source: BofA European Fund Manager Survey

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Exhibit 4: European sector valuation (% saying overvalued-% saying undervalued)

... despite investors acknowledging some undervaluation.



Source: BofA European Fund Manager Survey

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Current recommendations and relative valuation

We highlight our recommendations and valuation multiples below.

Exhibit 5: European Telecoms – Ratings and valuation

We provide an overview of our ratings, POs and multiples

Stock	Rating	PO	Potential Upside	EV/EBITDA		EV/OpFCF		FCFF (%)		FCFE (%)		Net debt/EBITDA		Dividend yield (%)	
				'24E	'25E	'24E	'25E	'24E	'25E	'24E	'25E	'24E	'25E	'24E	'25E
As of 14 Mar 24	BofA	BofA	%												
ORA	Buy	13.50	29	5.2	5.0	11.6	10.4	8.7	9.4	10.6	12.0	3.0	2.8	6.9	7.2
TEF	Buy	4.60	18	5.5	5.4	10.7	10.0	5.8	5.9	11.8	13.0	3.0	2.9	2.7	2.7
VOD	Buy	122	83	5.6	5.7	13.0	13.1	5.3	5.7	13.0	14.4	2.9	3.1	11.8	11.8
All Operators			20	6.9	6.6	13.5	12.5	6.3	6.7	8.3	9.3	2.5	2.3	5.1	5.1
Median			13	6.4	6.1	13.0	13.0	5.8	6.5	7.2	8.1	2.2	2.1	5.3	5.1

Source: BofA Global Research, priced 15 November 2023

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Bottom-up reporting

We consider beats & misses, BofA earnings revisions and positioning vs. company guidance and consensus forecasts.

Beat & misses

Overall, 4Q23 results were mixed compared to consensus expectations: On a weighted aggregate, revenues for the European telecom sector were +1.6% above consensus, while combined EBITDA was ahead by +0.5%. At the median level, the aggregate beat was a little bit less pronounced at +1.2%/+0.2%.

However, results for capex/OpFCF were softer again compared to consensus expectations. After a positive result in Q3 (capex -1.7% below/OpFCF +3.6% ahead), Q4 average capex was +8.2% ahead, driving an OpFCF miss of -5.7%. At the median level, the trends were more muted but still +4.9%/-0.8%. Positively, those operators well-advanced in their fibre build (e.g. Telefonica/Orange/Telenor) generally beat on OpFCF with misses rather coming from those operators still at their peak of roll-out.

Looking at the driver of beats & misses in each category, we highlight the below:

- **Revenue vs consensus:** With overall results ahead of consensus expectations, we highlight beats from Deutsche Telekom (driven by the US/Germany also supportive), Cellnex (continued mid-teens top-line growth) and Liberty Global (helped by Switzerland), each +2% ahead or more. On the negative side, we highlight misses from Elisa (digital services/mobile equipment) and Proximus (again due to BICS/Telesign), both more than -2% below.
- **EBITDA vs consensus:** The largest beats to consensus EBITDA were reported by Telefonica (on an underlying basis), Tele2 (strong improvement in Sweden) and Swisscom (but underlying domestic EBITDA growth was negative). On the other hand, misses by >1% were only reported by Liberty Global (Belgium below) and Telenor (due to Norway & Amp). Overall, we had 11/16 companies beating on EBITDA.
- **Capex vs consensus:** Capex was considerably higher than expected for Deutsche Telekom (driven by the US), Elisa (above full-year guidance, investing in 5G & distributable energy storage) and KPN (fibre- and consumer-related, with some inflationary effect as well), each more than 15% above consensus. On the other hand, Telenor, Tele2 and Orange all reported lower-than-expected capex investments during Q4.
- **OpFCF vs consensus:** A miss in OpFCF was mainly driven by higher-than-expected capex, for example in the case of Deutsche Telekom, Elisa, KPN, Liberty Global and Proximus. On the other hand, those operators with lower-than-expected capex such as Orange/Tele2/Telenor/Swisscom all posted beats on OpFCF as well.

Exhibit 6: 4Q23 results – Beats and misses vs consensus estimates

Sector revenues ahead, EBITDA ahead as well (but less), OpFCF below due to capex

	Revenues	EBITDA	Capex	OpFCF	Reaction
BT	1.4%	0.3%	na	na	-2.9%
CLNX	2.5%	0.0%	na	na	0.3%
DTE	3.1%	-0.6%	27.7%	-10.5%	-1.0%
ELISA	-2.1%	0.8%	22.0%	-12.8%	2.6%
FNTN	1.7%	0.2%	na	na	2.4%
INWIT	-1.4%	-0.6%	na	na	-0.4%
KPN	1.5%	0.2%	16.2%	-14.8%	0.5%
LBTYA	2.0%	-3.4%	8.6%	-42.7%	-6.1%
ORA	0.4%	0.9%	-3.3%	7.5%	1.1%
PROX	-2.1%	0.2%	6.3%	-100.0%	2.2%
SCMN	1.2%	1.8%	-0.6%	5.7%	-0.7%
TIT	0.5%	1.2%	1.6%	130.0%	0.4%

Exhibit 6: 4Q23 results – Beats and misses vs consensus estimates

Sector revenues ahead, EBITDA ahead as well (but less), OpFCF below due to capex

	Revenues	EBITDA	Capex	OpFCF	Reaction
TEL2B	0.7%	1.8%	-4.2%	6.8%	-1.8%
TEF	1.6%	4.1%	4.2%	4.0%	1.6%
TNOR	1.3%	-1.9%	-10.3%	3.7%	1.6%
TELIA	-1.0%	-0.3%	5.6%	-5.2%	-0.2%
VOD	0.9%	na	na	na	-3.3%
Sector	1.6%	0.5%	8.2%	-5.7%	
Median	1.2%	0.2%	4.9%	-0.8%	0.3%

Source: BofA Global Research, consensus compiled by company or Visible Alpha, BT/VOD with 3Q24 results

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BofA forecast changes

Following 4Q23 results, we illustrate BofA forecast changes spanning 2024/25 compared to our estimates as of January (pre-4Q23 results). Aggregate changes to our sector expectations for 2024 are minimal at +0.2%/-0.1% for revenues and EBITDA. For 2024, we also keep our revenue estimates largely unchanged (+0.2%) with slightly lower EBITDA (-0.2%).

Exhibit 7: BofA 2024/25 estimates post-4Q23 vs January 2024

We made only limited changes to our aggregate forecasts

	Revenue	EBITDA	Revenue	EBITDA
ORA	-0.1%	1.0%	0.0%	0.8%
TEF	0.3%	0.0%	0.4%	-0.3%
VOD	0.8%	0.3%	0.6%	0.1%
Sector	0.2%	-0.1%	0.2%	-0.2%
Margin		-0.1pp		-0.1pp

Source: BofA Global Research estimates

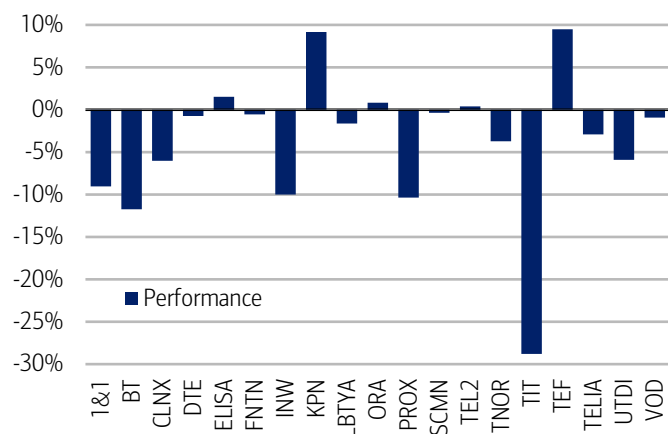
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Consensus forecast changes and share price implications

After introducing it as part of our 3Q23 preview, we now show most recent changes in consensus expectations for 2024/25 EBITDA and contrast them with share price performance since the beginning of the quarter. We find that Telefonica/KPN/Orange/Elisa/Tele2 outperformed the sector vs worse trends for Telecom Italy/Proximus/BT/Inwit/1&1. In terms of 2024/25 revisions, we see most positive changes for 1&1/United Internet (post guidance announcement in December), Telecom Italia, Telefonica, Orange (all with Q4 EBITDA beats) and Deutsche Telekom vs reductions for Telenor (likely including some M&A), Inwit, Swisscom (guidance below consensus) and Liberty Global. However, not that this is based on Visible Alpha consensus, which does not necessarily mirror company-compiled street expectations and can be based on a small number of estimates.

Exhibit 8: European Telecoms – quarter-to-date performance (%)

TEF/KPN/Elisa/Orange/Tele2 leading year-to-date performance

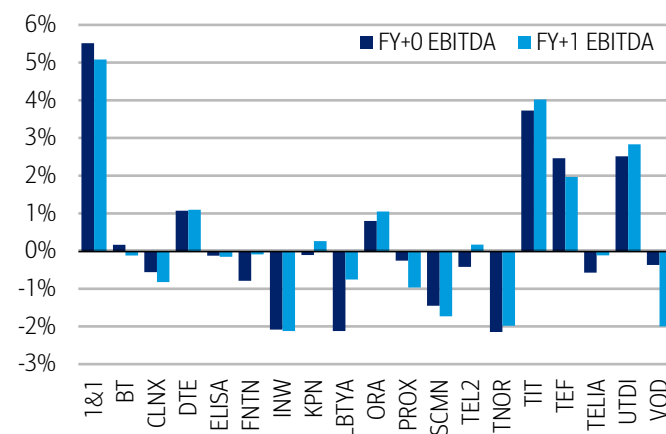


Source: BofA Global Research, Bloomberg

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Exhibit 9: European Telecoms – 2024/25 EBITDA consensus updates

Year-to-date forecast revisions mixed



Source: BofA Global Research, Visible Alpha

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BofA vs guidance, where do we stand?

Below, we show company guidance compared to BofA estimates for full-year 2024 (FY24 in the case of Vodafone given that full-year results are still upcoming).

Exhibit 10: 2024 outlook – company guidance vs BofA estimates

BT and Vodafone due to provide new guidance at upcoming full-year results

	Revenues		EBITDA		Capex		FCF	
	2024 Guide	BofA	2024 Guide	BofA	2024 Guide	BofA	2024 Guide	BofA
Orange			Low-single digit growth	3.3%	Disciplined	2.0%	>=E3.8bn	3.83
Telefonica	+1%	0.7%	+1-2%	2.8%	Up to 13% capex/sales	13.4%		
Vodafone			E13.3bn	13.27			E3.3bn	3.26

Source: BofA Global Research estimates, *BT and Vodafone with FY24 guidance (Mar-24 year end); revenue guide includes 'service revenues' and other comparable metrics and are based on company definition

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BofA vs consensus, where do we stand?

For 2024, we are largely in-line with consensus expectations for sector revenues and EBITDA, (+0.0%/+0.1%). For 2025, we are a bit below for both, but we attribute this mainly to more cautious assumptions for Vodafone's Egyptian currency exposure.

Exhibit 11: BofA vs. consensus

We are slightly ahead for 2024, more in-line for 2025

	2024		2025		Comment
	Revenue	EBITDA	Revenue	EBITDA	
ORA FP	0.7%	0.9%	0.7%	1.5%	Some upside for '24/25
TEF SM	-0.5%	0.8%	-0.7%	0.3%	Broadly in-line
VOD LN	0.8%	-1.0%	0.0%	-3.3%	More cautious on Egyptian currency
Sector	0.0%	0.1%	-0.4%	-0.4%	
Margin		0.1pp		0.0pp	

Source: BofA Global Research estimates, Visible Alpha

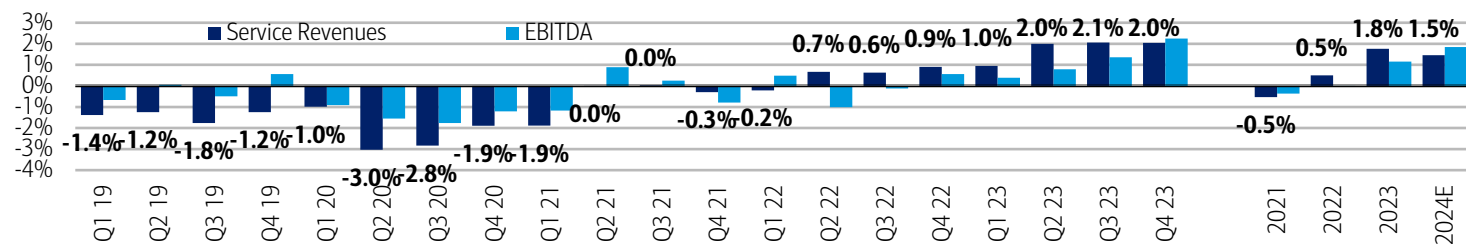
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Summary sector expectations

We estimate that sector service revenue trends accelerated further to +1.8% in 2023 after turning positive to +0.5% in 2022, following a decline in 2019-21. This has been particularly visible since Q2 with trends at or above +2%. EBITDA was lagging but has now caught up, reaching +2.2% in Q4. Looking ahead, we expect service revenue trends to only slightly slow down to +1.5% in 2024, with EBITDA trends above at +1.8%.

Exhibit 12: European Telecoms – Organic service revenue and EBITDA forecasts

Service revenue trends remained at +2% in Q4, EBITDA growth continues to accelerate



Source: BofA Global Research estimates

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Post 4Q23 research library

We highlight below the company-specific reports published following 4Q23 results so far:

- **Orange:** [Good Q4, supportive guidance & Spanish M&A decision ahead – reiterate Buy](#) (16 February 2024)
- **Telefonica:** [Beat & raise, executing well](#) (23 February 2024)
- **Vodafone:** [Dividend next, a potential turning point](#) (5 February 2024) and [Dividend outlook; rebase, but with 'substitute' buyback](#) (29 February 2024)

Exhibit 13: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
FNCTF	ORA FP	Orange	EUR 10.428	A-1-7
ORAN	ORAN US	Orange	US\$ 11.39	A-1-7
TEF	TEF US	Telefonica SA	US\$ 4.23	B-1-7
TEFOF	TEF SQ	Telefonica SA	EUR 3.87	B-1-7
VOD	VOD US	Vodafone Group	US\$ 8.56	B-1-8
VODPF	VOD LN	Vodafone Group	66.09p	B-1-8

Source: BofA Global Research

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Price objective basis & risk

Orange (FNCTF / ORAN)

Our PO for Orange is €13.5 (US\$14.53 ADR), based on a sum-of-the-parts (SOTP) analysis, in which businesses are valued on a multiple or discounted cash flow (DCF) basis and Orange's Poland unit is marked to market. We note that for Spain we use a weighted valuation between a sector-implied multiple and the Orange-Masmovil target valuation. For Orange Bank, we incorporate the remaining FCF before an exit from 2025.

The SOTP is further adjusted for minorities, associates, hybrids, pension, provisions as well as the net present value (NPV) of spectrum payments and renewals. We also apply a 10% conglomerate discount in line with the rest of our coverage for complex incumbents.

Downside risks to our PO are (1) mobile and fixed pricing pressure, (2) failure to execute on cost cutting, (3) regulatory hurdles to in-market consolidation in Spain and (4) digressing to far from its core (European) communications business.

Upside risks to our PO are (1) market consolidation in Spain or France, (2) re-rating from a sustainably growing dividend profile, (3) improving competition in France and (4) optionality in Orange's mobile infra holdings.

Telefonica SA (TEFOF / TEF)

Our price objective of €4.6 per share (US\$4.97/ADR) is calculated using a Sum-of-the-Parts analysis comprising a mixture of DCF valuations for the larger units and market multiples for the Latam base. Domestic valuation is based on DCF with 8.0% WACC and 1.0% terminal growth. We include the UK JV as an associate based on DCF. In line with the remaining coverage, we apply a conglomerate discount of 10% for the group.

Upside risks to our PO are better-than-expected price trends in Spain, and recovery in Germany post 1&1 loss. New NetCo in UK could provide a route to M&A and accretive funding.

Downside risks to our PO are increasing competitive pressures in Spain as Digi builds network, deterioration of performance in Brazil in the face of macroeconomic volatility, increasing UK capex needs to support fibre build.

Vodafone Group (VODPF / VOD)

Our 122p PO (US\$13.22 ADR) is based on a sum-of-the-parts analysis.

We value each of the European subsidiaries (where Vodafone discloses revenues, EBITDA and capex) via DCF and/or multiples. We apply multiples of 5.0-6.5x EBITDAaL for operations in Europe and 4.5-6.0x in emerging markets. In line with the remaining coverage, we apply a conglomerate discount of 10% for the group.

We include liabilities for future License spend and potential German capex network investment. We include assets for VOD's deferred tax asset.

Upside risks to our PO are:

1) Market consolidation leading to improved pricing power, 2) unexpected and positive macroeconomic changes, given VOD's diversified footprint.

Downside risks to our PO are:

1) Pressing needs to invest in cable operations in the face of fibre competition, 2) Ongoing dilutive ROCE in non-core regions, 3) unexpected and negative macroeconomic changes, given VOD's diversified footprint.

Analyst Certification

We, David Wright and Titus Krahn, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

BofA Securities is currently acting as Financial advisor to Masmovil Ibercom SA in connection with its proposed 50-50 joint venture with Orange SA, which was announced on March 8, 2022.

BofA Securities is currently acting as Financial Advisor to Telefonica SA in connection with its voluntary public cash offer for outstanding shares of Telefonica Deutschland Holding AG, which was announced on November 7, 2023.

EMEA - Telecoms Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BT	BTGOF	BT/A LN	David Wright
	Cellnex	CLNXF	CLNX SQ	David Wright
	Cellnex	CLLNY	CLLNY US	David Wright
	Deutsche Telekom	DTEGY	DTEGY US	David Wright
	Deutsche Telekom	DTEGF	DTE GY	David Wright
	Freenet AG	FRTAF	FNTN GY	Titus Krahn
	Helios Towers plc	HTWSF	HTWS LN	David Wright
	Inwit	IFSUF	INW IM	David Wright
	Orange	FNCTF	ORA FP	Titus Krahn
	Orange	ORAN	ORAN US	Titus Krahn
	Tele2 AB	TLTZF	TEL2B SS	Titus Krahn
	Telecom Italia -RSP	TIAJF	TITR IM	David Wright
	Telecom Italia SPA	TIIAY	TIIAY US	David Wright
	Telecom Italia SPA	TIAOF	TIT IM	David Wright
	Telefonica SA	TEFOF	TEF SQ	David Wright
	Telefonica SA	TEF	TEF US	David Wright
	United Internet AG	UDIRF	UTDI GY	Titus Krahn
	Vodafone Group	VOD	VOD US	David Wright
	Vodafone Group	VODPF	VOD LN	David Wright
NEUTRAL				
	1&1 AG	DRHKF	1U1 GY	Titus Krahn
	KPN	KKPNF	KPN NA	Titus Krahn
	Telenor	TELNF	TEL NO	Titus Krahn
	Telenor	TELNY	TELNY US	Titus Krahn
UNDERPERFORM				
	Bouygues	BOUYF	EN FP	Titus Krahn
	Elisa	ELMUF	ELISA FH	Titus Krahn
	Liberty Global	LBTYA	LBTYA US	David Wright
	Proximus	BGAOF	PROX BB	Titus Krahn
	Swisscom	SWZCF	SCMN SW	Titus Krahn
	Swisscom	SCMWY	SCMWY US	Titus Krahn
	Telia Company	TLSNF	TELIA SS	Titus Krahn
	Telia Company	TLSNY	TLSNY US	Titus Krahn
RSTR				
	Telefonica Deutschland	TELDF	O2D GY	David Wright

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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