

Linde

# Strong pricing and growing backlog bolster near- and long-term earnings

Reiterate Rating: BUY | PO: 475.00 USD | Price: 415.56 USD

## Strong 4Q displays steady execution

Linde posted 4Q adj EPS of \$3.59, better than our \$3.51 and consensus' \$3.46, driven by 4% pricing and productivity initiatives. Sales were up mid-single-digits in all regions, driven by strong pricing (+5% AMRS, +2% APAC, +6% EMEA) with volumes flat (+1% Americas, +3% APAC, -4% EMEA). 4Q results were slightly down sequentially, reflecting a \$30mn charge (Argentine devaluation), and slower industrial demand in EMEA. Helium is a small business for LIN and was not a meaningful factor in 4Q. While headcount is roughly flat near 66k, down from 88k post-merger, Linde drives productivity with efficient plants (operate off-peak) and logistics for liquid, packaged, and homecare (Lincare) products.

## Expecting price to drive continued double-digit EPS growth

Linde posted mid-teens EPS growth in each of the last 2 years, driven by 6-7% pricing globally combined with steady productivity gains and project start-ups. We model 3% pricing and modest volume gains throughout 2024, resulting in \$15.70 EPS for 2024 (\$15.85 prior). We expect continued resilience in Linde's healthcare and food & beverage end markets, with a cyclical recovery in electronics and some industrial end markets. Our PO moves to \$475 from \$455, based on the average of our DCF analysis (7.5% WACC and 4.0% terminal growth) and a 26x P/E (previously 25.5x, due to higher historical average) applied to 2024.

## Clean energy pipeline is primarily blue hydrogen

Linde's project backlog has steadily climbed for both sale of plant (SOP) and sale of gas (SOG) in recent years (see Exhibit 1). We expect SOG will accelerate longer term, driven by the \$8-10bn pipeline of decarbonization projects, which Linde believes could be converted into contracts in the next 3 years. We believe SOG projects ultimately drive a higher ROC than SOP as Linde can leverage the new plant to sell other onsite, merchant, and packaged gases. This pipeline is likely mostly blue hydrogen projects, owing to 45Q tax credits (for US) and modest capex to carbon capture from methane reformers.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.30	14.20	15.70	17.37	19.26
GAAP EPS	11.80	12.70	14.10	15.74	17.58
EPS Change (YoY)	15.1%	15.4%	10.6%	10.6%	10.9%
Consensus EPS (Bloomberg)			15.21	16.77	18.32
DPS	4.68	5.10	5.64	6.24	6.92
EPS (LINGY - EUR)	7.84	8.80	9.79	10.83	12.01
DPS (LINGY - EUR)	2.98	3.16	3.52	3.89	4.31
Valuation (Dec)					
P/E	33.8x	29.3x	26.5x	23.9x	21.6x
GAAP P/E	35.2x	32.7x	29.5x	26.4x	23.6x
Dividend Yield	1.1%	1.2%	1.4%	1.5%	1.7%
EV / EBITDA*	17.8x	16.8x	17.0x	15.9x	14.8x
Free Cash Flow Yield*	2.7%	2.6%	2.8%	2.9%	3.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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07 February 2024

Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	455.00	475.00
2024E Rev (m)	34,171.2	34,130.3
2025E Rev (m)	36,766.5	36,408.4
2026E Rev (m)	38,607.5	38,599.9
2024E EPS	15.85	15.70
2025E EPS	17.59	17.37
2026E EPS	19.53	19.26
2024E DPS	5.72	5.64

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### Stock Data

Price (NAS / GER)	415.56 USD / 386.75 EUR
Price Objective	475.00 USD / 416.00 EUR
Date Established	7-Feb-2024 / 16-Jan-2024
Investment Opinion	B-1-7 / A-1-7
52-Week Range	318.88 USD - 434.21 USD
Market Value (mn)	208,258 USD
Free Float	541.4%
Average Daily Value	627.99 USD
Shares Outstanding (mn)	501.2 / 748.0
BoFA Ticker / Exchange	LIN / NAS
BoFA Ticker / Exchange	LINGY / GER
Bloomberg / Reuters	LIN US / LIN.OQ
ROE (2024E)	19.2%
Net Dbt to Eqty (Dec-2023A)	35.8%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Linde

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.6%	9.9%	10.6%	11.6%	12.5%
Return on Equity	14.7%	17.5%	19.2%	20.9%	22.4%
Operating Margin	23.7%	27.6%	28.9%	29.4%	30.0%
Free Cash Flow	5,691	5,518	5,870	6,018	6,422

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.3x	1.4x	1.4x	1.3x
Asset Replacement Ratio	0.8x	1.0x	1.2x	1.3x	1.3x
Tax Rate	24.2%	23.5%	23.7%	23.8%	23.9%
Net Debt-to-Equity Ratio	30.1%	35.8%	40.4%	43.9%	46.6%
Interest Cover	NM	42.0x	41.5x	38.3x	36.6x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	33,364	32,854	34,130	36,408	38,600
% Change	8.3%	-1.5%	3.9%	6.7%	6.0%
Gross Profit	15,358	16,327	16,312	17,458	18,669
% Change	15.6%	6.3%	-0.1%	7.0%	6.9%
EBITDA	12,355	13,125	12,968	13,874	14,855
% Change	21.4%	6.2%	-1.2%	7.0%	7.1%
Net Interest & Other Income	145	(48)	(69)	(111)	(148)
<b>Net Income (Adjusted)</b>	<b>6,195</b>	<b>6,989</b>	<b>7,545</b>	<b>8,134</b>	<b>8,779</b>
<b>% Change</b>	<b>11.0%</b>	<b>12.8%</b>	<b>7.9%</b>	<b>7.8%</b>	<b>7.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	5,945	6,250	6,776	7,370	8,014
Depreciation & Amortization	4,204	3,816	3,881	3,951	4,027
Change in Working Capital	(153)	(559)	101	(175)	(243)
Deferred Taxation Charge	(319)	(139)	(139)	(139)	(139)
Other Adjustments, Net	(813)	(63)	1	(2)	(1)
Capital Expenditure	(3,173)	(3,787)	(4,750)	(4,988)	(5,237)
<b>Free Cash Flow</b>	<b>5,691</b>	<b>5,518</b>	<b>5,870</b>	<b>6,018</b>	<b>6,422</b>
<b>% Change</b>	<b>-14.3%</b>	<b>-3.0%</b>	<b>6.4%</b>	<b>2.5%</b>	<b>6.7%</b>
Share / Issue Repurchase	(5,132)	(3,925)	(4,500)	(4,500)	(4,500)
Cost of Dividends Paid	(2,344)	(2,482)	(2,960)	(2,921)	(3,152)
Change in Debt	4,475	1,060	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	5,436	4,664	3,067	1,657	420
Trade Receivables	4,559	4,718	4,753	4,956	5,254
Other Current Assets	3,052	3,238	3,440	3,502	3,625
Property, Plant & Equipment	23,548	24,552	25,421	26,458	27,667
Other Non-Current Assets	43,063	43,639	43,778	43,917	44,056
<b>Total Assets</b>	<b>79,658</b>	<b>80,811</b>	<b>80,459</b>	<b>80,490</b>	<b>81,022</b>
Short-Term Debt	5,716	5,976	5,976	5,976	5,976
Other Current Liabilities	10,763	9,741	10,079	10,170	10,348
Long-Term Debt	12,198	13,397	13,397	13,397	13,397
Other Non-Current Liabilities	9,594	10,602	10,602	10,602	10,602
<b>Total Liabilities</b>	<b>38,271</b>	<b>39,716</b>	<b>40,054</b>	<b>40,145</b>	<b>40,323</b>
<b>Total Equity</b>	<b>41,387</b>	<b>41,095</b>	<b>40,405</b>	<b>40,345</b>	<b>40,699</b>
<b>Total Equity &amp; Liabilities</b>	<b>79,658</b>	<b>80,811</b>	<b>80,459</b>	<b>80,490</b>	<b>81,022</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Chemicals-Specialty

## Company Description

Linde is the largest industrial gas company in the world, with sales nearing \$30bn following the merger of Praxair and Linde. It produces and distributes atmospheric and process gases, high -performance surface coatings, and engineering solutions. Linde products, services and technologies bring productivity and environmental benefits to a wide variety of industries, including aerospace, chemicals, food and beverage, electronics, energy, healthcare, manufacturing, metals, and others.

## Investment Rationale

We remain attracted to Linde's ability to grow earnings following the Praxair/Linde merger and see upside to synergies and increased pricing power. We also believe Linde is attractively valued at current prices given its defensible business model.

## Stock Data

Average Daily Volume	1,511,179
Shares / Common - Dual Listed	0.67

## Quarterly Earnings Estimates

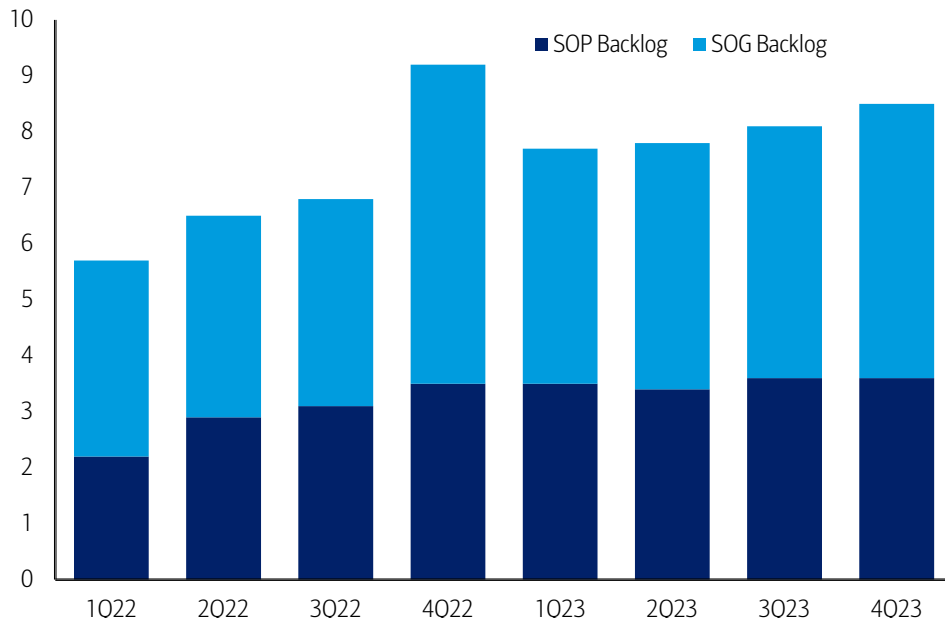
	2023	2024
Q1	3.42A	3.71E
Q2	3.57A	3.95E
Q3	3.63A	4.02E
Q4	3.59A	4.01E

## Key Changes

(EUR)	Previous	Current
2024E EPS	9.88	9.79
2025E EPS	10.97	10.83
2026E EPS	12.18	12.01
2024E DPS	3.57	3.52

**Exhibit 1: Sale of Plant & Sale of Gas Backlog over time (\$Bn)**

Project backlog has steadily climbed by roughly 50% for both sale of plant (SOP) and sale of gas (SOG) over the last 2 years



Source: Company materials, BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 2: Linde Income Statement Summary**

We lower our 2024 EPS to \$15.70/share from \$15.85/share

	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
<b>Net Sales:</b>													
Americas	\$13,874	\$3,551	\$3,541	\$3,629	\$3,583	\$14,304	\$3,654	\$3,701	\$3,823	\$3,802	\$14,980	\$16,239	\$17,361
EMEA	8,443	2,177	2,160	2,105	2,100	8,542	2,286	2,236	2,193	2,226	8,941	9,425	9,921
Asia	6,480	1,598	1,683	1,639	1,639	6,559	1,581	1,719	1,717	1,713	6,730	7,235	7,777
Gas Sub-Total	28,797	7,326	7,384	7,373	7,322	29,405	7,521	7,655	7,733	7,741	30,651	32,899	35,060
Global / Other	1,805	327	325	315	322	1,289	330	328	318	325	1,302	1,315	1,328
E&C	2,762	540	495	467	658	2,160	544	499	471	663	2,177	2,195	2,212
Total	33,364	8,193	8,204	8,155	8,302	32,854	8,396	8,482	8,522	8,730	34,130	36,408	38,600
Annual Change	-11%	13%	12%	15%	-5%	-2%	0%	-3%	-7%	5%	3%	-3%	7%
<b>EBITDA:</b>													
EBITDA	12,355	3,213	3,310	3,324	3,278	13,125	3,138	3,271	3,302	3,279	12,968	13,874	14,855
EBITDA Margin	37.0%	39.2%	40.3%	40.8%	39.5%	39.9%	37.4%	38.6%	38.7%	37.6%	38.0%	38.1%	38.5%
<b>Operating Income:</b>													
Americas	3,732	1,025	1,070	1,074	1,075	4,244	1,108	1,167	1,186	1,184	4,646	5,048	5,483
EMEA	2,013	607	630	634	615	2,486	667	681	691	678	2,717	2,936	3,175
Asia	1,670	423	472	459	452	1,806	441	502	504	496	1,943	2,144	2,361
Gas Sub-Total	7,415	2,055	2,172	2,167	2,142	8,536	2,217	2,351	2,381	2,358	9,306	10,128	11,019
Global / Other	(66)	2	7	23	11	43	11	11	11	11	44	46	47
E&C	555	149	107	116	119	491	126	126	126	126	503	516	529
Total	7,904	2,206	2,286	2,306	2,272	9,070	2,354	2,487	2,518	2,495	9,854	10,690	11,595
Interest Expense, net	98	46	56	42	72	216	59	59	59	59	237	279	316
Net pension and OPEB cost (benefit)	(243)	(45)	(45)	(35)	(43)	(168)	(42)	(42)	(42)	(42)	(168)	(168)	(168)
Income Before Income Taxes	1,322	2,205	2,036	2,043	2,020	1,501	2,205	2,275	2,299	2,243	1,622	5,796	1,699
Income Taxes	1,945	532	539	536	511	2,118	554	586	593	588	2,320	2,519	2,737
Tax Rate	24.2%	24.1%	23.7%	23.3%	22.8%	23.5%	23.7%	23.7%	23.7%	23.7%	23.7%	23.8%	23.9%
Income of Consolidated Entities	6,104	1,673	1,736	1,763	1,732	6,904	1,782	1,884	1,908	1,890	7,465	8,059	8,709
Equity Income and NCI, Net	91	20	24	20	21	85	20	20	20	20	80	75	70
Net Income from Operations	6,195	1,693	1,760	1,783	1,753	6,989	1,802	1,904	1,928	1,910	7,545	8,134	8,779

**Exhibit 2: Linde Income Statement Summary**

We lower our 2024 EPS to \$15.70/share from \$15.85/share

	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Peer Comparable Adjusted EPS	\$10.01	\$3.00	\$3.17	\$3.21	\$3.16	\$12.64	\$3.32	\$3.55	\$3.62	\$3.61	\$14.10	\$15.74	\$17.58
Deal Related Amortization	(\$2.28)	(\$0.41)	(\$0.40)	(\$0.42)	(\$0.43)	(\$1.56)	(\$0.40)	(\$0.40)	(\$0.40)	(\$0.40)	(\$1.60)	(\$1.64)	(\$1.68)
Adjusted Earnings Per Share	\$12.30	\$3.42	\$3.57	\$3.63	\$3.59	\$14.20	\$3.71	\$3.95	\$4.02	\$4.01	\$15.70	\$17.37	\$19.26
Shares Outstanding (Mil.)	503.8	495.7	493.5	491.1	488.2	492.1	485.2	482.1	479.0	475.9	480.5	468.2	455.9
Operating Margin:													
Americas	26.9%	28.9%	30.2%	29.6%	30.0%	29.7%	30.3%	31.5%	31.0%	31.2%	31.0%	31.1%	31.6%
EMEA	23.8%	27.9%	29.2%	30.1%	29.3%	29.1%	29.2%	30.5%	31.5%	30.5%	30.4%	31.2%	32.0%
Asia	25.8%	26.5%	28.0%	28.0%	27.6%	27.5%	27.9%	29.2%	29.3%	28.9%	28.9%	29.6%	30.4%
Gas Sub-Total	25.7%	28.1%	29.4%	29.4%	29.3%	29.0%	29.5%	30.7%	30.8%	30.5%	30.4%	30.8%	31.4%
Global / Other	-3.7%	0.6%	2.2%	7.3%	3.4%	3.3%	3.4%	3.4%	3.5%	3.4%	3.4%	3.5%	3.5%
E&C	20.1%	27.6%	21.6%	24.8%	18.1%	22.7%	23.1%	25.2%	26.7%	19.0%	23.1%	23.5%	23.9%
Total	23.7%	26.9%	27.9%	28.3%	27.4%	27.6%	28.0%	29.3%	29.5%	28.6%	28.9%	29.4%	30.0%

Source: Company materials, BofA Global Research estimates

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Linde (LIN / LINGY)

Our \$475 PO (EUR441/ADR) is based on the average of a 3 stage DCF analysis and the average 24-month forward P/E multiple over the last ten years as applied to a CY2024 EPS estimate. The 3-stage DCF is predicated on a 7.5% WACC and a 4% terminal growth rate, and the P/E component applies a 26x average P/E against our calendar 2024 estimate. The average multiple over the last ten years reflects a cycle average, while also considers the current low interest rate regime has had on multiples.

Upside risks to our PO are increased share repurchases, synergy realization faster than anticipated, a depreciating dollar, higher steel operating rates, a rebound in oil, acceleration in global industrial production and increased gains from productivity initiatives.

Downside risks to our PO are a strengthening dollar, slower global growth, and declining US industrial production.

## Analyst Certification

I, Steve Byrne, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
<b>NEUTRAL</b>				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
<b>UNDERPERFORM</b>				
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA



## US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

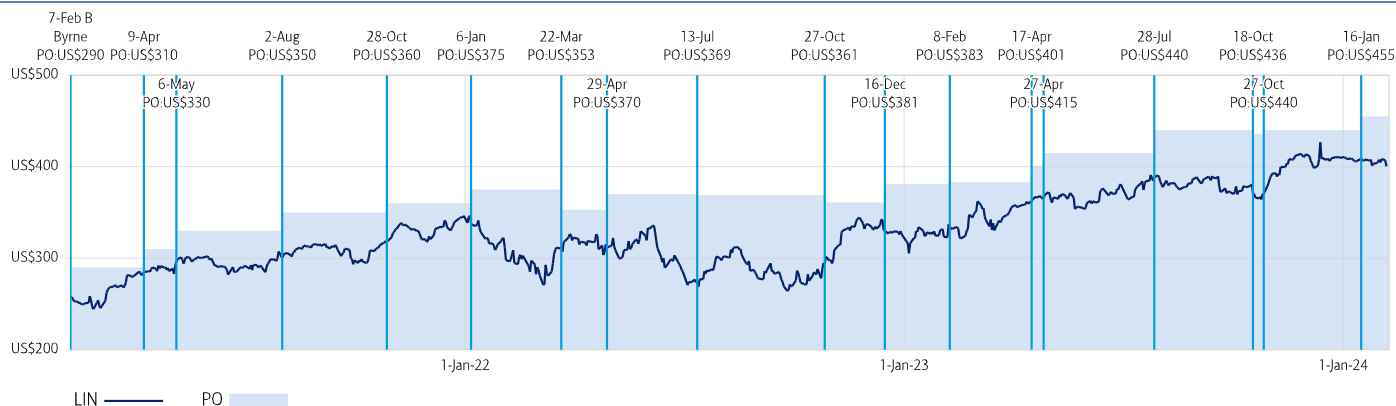
iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

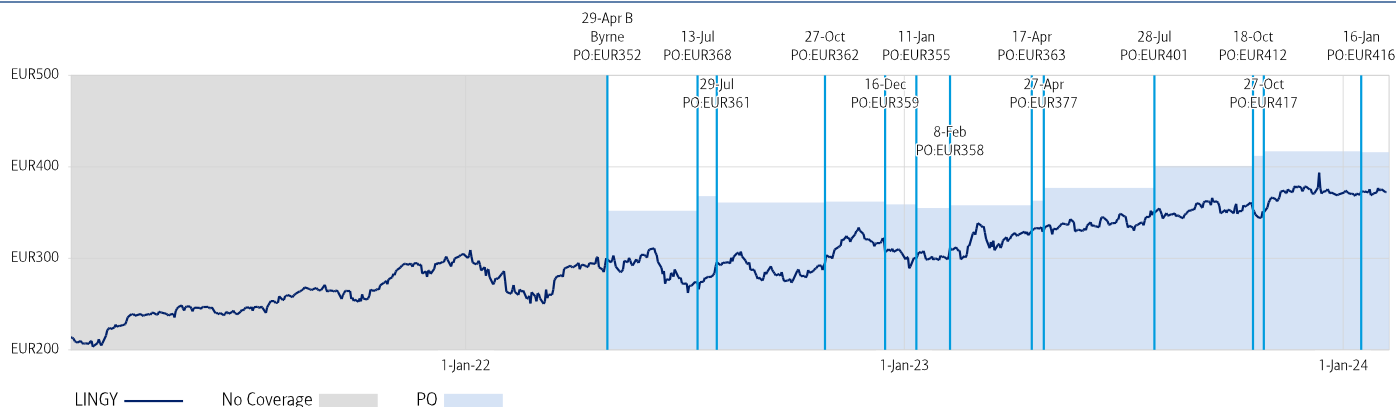
### Linde (LIN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Linde (LINGY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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.

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

<sup>R2</sup>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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