

**HOLD**  
 TP: Rs 5,400 | ▼ 5%

**SUPREME INDUSTRIES** | Building Materials

22 July 2024

**Misses estimates on destocking of pipe channel inventory**

- Q1 misses our estimates on lower-than-expected pipe performance due to destocking of pipe inventories in the channel in the month of Jun'24
- Maintained strong volume growth guidance of 20% (pipe: +25%) for FY25, which in our view is a difficult task to be achieved based on Q1
- Maintain HOLD on expensive valuations (trades at 52.2x on 1Y forward P/E vs. 5Y average of 29.6x); raise TP by 16% to Rs 5,400

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**Q1 miss:** SI missed our estimates (Revenue/EBITDA/APAT: -1.0%/-9.0%/-7.9%) driven by lower pipe volume (+19.5% vs +23.0% estimate due to destocking of pipe inventory in the channel in the month of Jun'24) as well as slightly weak pipe margin (-29bps QoQ to 15.7% vs 16.0% estimate due to inferior mix). Overall, SI's Revenue/EBITDA/ APAT grew by 11.3%/20.4%/26.8% YoY in Q1FY25 due to weak base. However, SI's EBITDA grew 13% on a 6Y CAGR basis in Q1FY25.

**Key highlights:** Pipe sales volume grew at 19.5% YoY (5Y CAGR: +10.5%) in Q1FY25, indicating demand momentum slowed from 26.8% YoY in Apr-May'24 to 6.8% YoY in Jun'24 on account of destocking of pipe inventory in the channel due to volatile resin prices. Despite higher PVC resin prices, SI's pipe realisation was down 2.2% QoQ in Q1FY25 due to inferior product mix. Consequently, the pipe segment margin was down 29bps QoQ to 15.7% in Q1FY25. Non-pipe segment volume grew at +7.7% YoY (5Y CAGR: +3.6%), but the segment EBITDA grew sharply by 17.9% YoY in Q1FY25 due to a sharp improvement in the packaging segment margin (up 310bps YoY to 14.7% over a low base).

**Concall KTAs:** SI has maintained its total volume growth guidance of 20% YoY (pipe: +25%) for FY25. This implies an asking run rate of pipe volume growth of 26.7% YoY for the remaining 9MFY25 – which in our view is a difficult task to be achieved based on Q1 and weak demand in the month of Jul'24. EBITDA margin guidance has been tweaked to 15.0-15.5% for FY25 from 15.5% earlier. SI's target is to increase its total capacity from 950ktpa (pipe: 740ktpa) in FY24 to 1,250ktpa (pipe: 1,000ktpa) by Mar'26 at a capex cost of Rs 15bn.

**Maintain HOLD, raise TP by 16% to Rs 5,400:** We maintain our HOLD rating on the stock due to expensive valuations (trades at 52.2x on 1Y forward P/E vs. 5Y average of 29.6x). We have raised our TP to Rs 5,400 (Rs 4,650 earlier) due to a slight increase in our EPS estimates (+1.5%/3.5% for FY25E/FY26E due to a sharp increase in profit from associates), increase in our target P/E multiple (from 40x to 45x due to re-rating of valuation multiple in the past one year) and roll forward of our valuation from Mar'26 to Jun'26. We have introduced FY27 estimates.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	SI IN/Rs 5,694
Market cap	US\$ 8.8bn
Free float	51%
3M ADV	US\$ 19.3mn
52wk high/low	Rs 6,460/Rs 3,182
Promoter/FPI/DII	49%/24%/13%

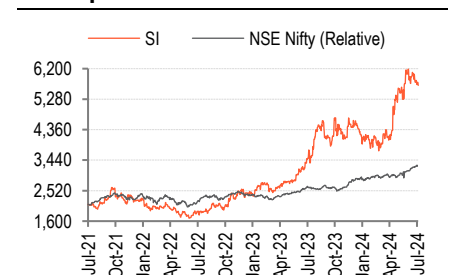
Source: NSE | Price as of 22 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,01,343	1,16,487	1,36,165
EBITDA (Rs mn)	15,473	18,630	21,886
Adj. net profit (Rs mn)	10,697	13,135	15,289
Adj. EPS (Rs)	84.2	103.4	120.3
Consensus EPS (Rs)	84.2	102.9	121.6
Adj. ROAE (%)	22.5	23.7	23.5
Adj. P/E (x)	67.6	55.1	47.3
EV/EBITDA (x)	47.2	39.4	33.7
Adj. EPS growth (%)	23.6	22.8	16.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	26,364	23,686	11.3	30,079	(12.4)
Raw material expense	17,958	16,560	8.4	20,262	(11.4)
Gross profit	8,406	7,126	18.0	9,817	(14.4)
Employee expense	1,213	1,032	17.5	1,233	(1.6)
Energy cost	866	793	9.2	863	0.3
Other expense	2,454	2,085	17.7	2,815	(12.8)
EBITDA	3,873	3,216	20.4	4,907	(21.1)
D&A	860	721	19.4	772	11.5
EBIT	3,013	2,495	20.7	4,135	(27.1)
Interest cost	33	17	97.0	77	(56.9)
Non-operating income/(expense)	214	142	51.0	181	18.5
Share of profit/(loss) from associate	375	213	76.0	407	(7.8)
PBT	3,569	2,834	26.0	4,646	(23.2)
Tax	836	678	23.2	1,097	(23.8)
Reported PAT	2,734	2,155	26.8	3,548	(23.0)
Adjusted PAT	2,734	2,155	26.8	3,548	(23.0)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>
Gross margin	31.9	30.1	180	32.6	(75)
Employee cost	4.6	4.4	24	4.1	50
Energy cost	3.3	3.3	(6)	2.9	42
Other cost	9.3	8.8	51	9.4	(5)
EBITDA margin	14.7	13.6	111	16.3	(162)
Tax rate	23.4	23.9	(52)	23.6	(21)
APAT margin	10.4	9.1	127	11.8	(143)

Source: Company, BOBCAPS Research

**Fig 2 – Segment financials**

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Revenue (Rs mn)</b>					
Pipe	18,584	16,261	14.3	21,525	(13.7)
Industrial	3,064	2,985	2.6	3,516	(12.9)
Packaging	3,681	3,231	13.9	3,764	(2.2)
Consumer	972	1,049	(7.4)	1,184	(17.9)
Others	63	160	(60.4)	90	(30.1)
<b>Total</b>	<b>26,364</b>	<b>23,686</b>	<b>11.3</b>	<b>30,079</b>	<b>(12.4)</b>
<b>Sales volume (ktpa)</b>					
Pipe	140.2	117.3	19.5	158.8	(11.7)
Industrial	15.0	13.4	11.6	16.9	(11.3)
Packaging	14.7	13.6	8.5	15.1	(2.2)
Consumer	4.0	4.3	(6.8)	4.7	(14.0)
<b>Total</b>	<b>173.8</b>	<b>148.5</b>	<b>17.0</b>	<b>195.4</b>	<b>(11.0)</b>
<b>Realisation (Rs/kg)</b>					
Pipe	132.6	138.7	(4.4)	135.6	(2.2)
Industrial	205	223	(8.0)	208	(1.7)
Packaging	250	238	5.0	250	0.0
Consumer	243	244	(0.6)	254	(4.5)
<b>Total</b>	<b>151.3</b>	<b>158.4</b>	<b>(4.5)</b>	<b>153.5</b>	<b>(1.4)</b>

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>EBITDA (Rs mn)</b>					
Pipe	2913	2401	21.3	3437	(15.3)
Industrial	285	279	2.4	485	(41.2)
Packaging	540	373	44.5	796	(32.2)
Consumer	202	219	(7.5)	247	(18.0)
Others	(67)	(56)	18.9	(59)	13.1
<b>Total</b>	<b>3873</b>	<b>3216</b>	<b>20.4</b>	<b>4907</b>	<b>(21.1)</b>
<b>EBITDA margin (%)</b>					
			<b>(bps)</b>		<b>(bps)</b>
Pipe	15.7	14.8	91	16.0	(29)
Industrial	9.3	9.3	(2)	13.8	(449)
Packaging	14.7	11.6	310	21.2	(650)
Consumer	20.8	20.9	(4)	20.9	(3)
<b>Total</b>	<b>14.7</b>	<b>13.6</b>	<b>111</b>	<b>16.3</b>	<b>(162)</b>
<b>EBITDA (Rs/kg)</b>					
Pipe	20.8	20.5	1.5	21.6	(4.0)
Industrial	19.1	20.8	(8.3)	28.8	(33.7)
Packaging	36.7	27.5	33.2	52.9	(30.7)
Consumer	50.6	51.0	(0.8)	53.1	(4.7)
<b>Total</b>	<b>22.3</b>	<b>21.6</b>	<b>2.9</b>	<b>25.1</b>	<b>(11.3)</b>

Source: Company, BOBCAPS Research

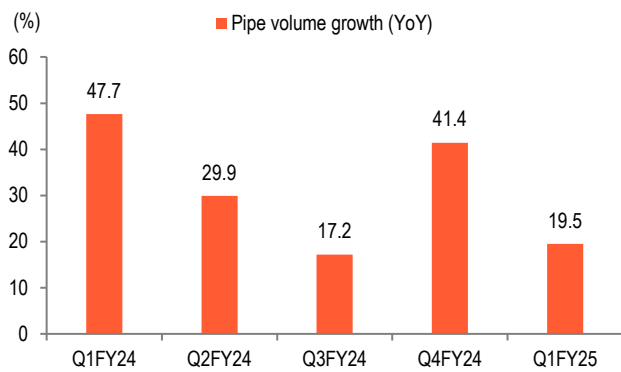
## Earnings call highlights

- Plastic pipes:** Segment volumes grew at a robust 19.5% YoY (5Y CAGR: +10.5%) in Q1FY25. Despite higher PVC resin prices, SI's pipe realisation declined 2.2% QoQ in Q1FY25 due to inferior product mix. Consequently, pipe segment margin was down 29bps QoQ to 15.7% in Q1FY25 due to a high share of agri pipe mix. CPVC pipe volume grew at 14% YoY in Q1FY25.
- Industrial:** Segment volumes grew by 11.6% YoY (5Y CAGR: +7.6%) in Q1FY25. Segment EBITDA margin was relatively flat on a YoY basis at 9.3% in Q1FY25.
- Packaging:** Segment volume grew by 8.5% YoY (5Y CAGR: +2.9%) in Q1FY25. Segment EBITDA margin improved by 310bps YoY to 14.7% in Q1FY25, but it was down 650bps QoQ due to stiff competition in cross laminated films.
- Consumer:** Segment volumes fell by 6.8% YoY (5Y CAGR: -4.7%) in Q1FY25. Segment EBITDA margin was relatively flat on YoY basis at 20.8% in Q1FY25.
- Guidance:** The demand momentum for plastic pipe slowed from 26.8% YoY in Apr-May'24 to 6.8% YoY in Jun'24 on account of destocking of pipe inventory in the channel due to volatile resin prices. Demand has remained slow in the month of Jul'24. However, the company has maintained its volume growth guidance of 20% YoY (pipe: +25%) for FY25 in anticipation of good pick-up in demand from Aug'24. EBITDA margin guidance has been tweaked from the earlier 15.5% to 15.0-15.5% for FY25.
- New product launches:** The company plans to increase its piping systems from 36 at present to 41 in FY25 (i.e. Acoustic PP Pipe System in collaboration with Poloplast GmbH of Austria, Polyethylene Gas Piping System, PERT Piping

System, PE single wall corrugated Pipes, and Rainwater Harvesting System) to increase its share of value-added products.

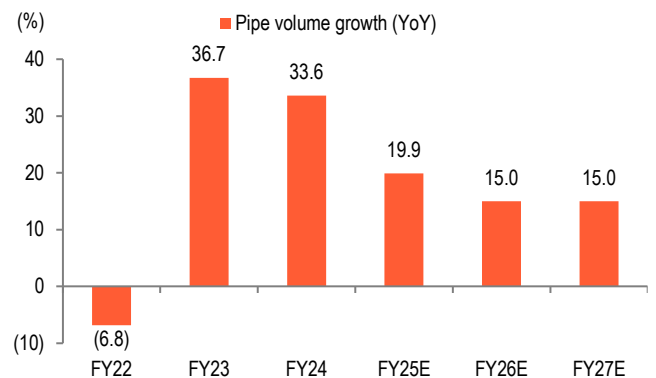
- **Capex:** SI's plans to increase its total capacity from 950ktpa (pipe: 740ktpa) in FY24 to 1,250ktpa by FY26 at a cost of Rs 15bn through brownfield expansion of existing facilities as well as setting up seven new greenfield facilities.
- **Net cash** position has gone up from Rs 11.8bn in Mar'24 to Rs 12.5bn in Jun'24.
- **MTM inventory loss:** The company did not book an MTM inventory gain in Q1FY25.
- **VAP:** Share of value-added products (VAP) rose by 304bps YoY to 35.2% in Q1FY25. The company aims to increase the contribution of VAP to 38-40% over the medium term.
- **Share of profit from associate (Supreme Petrochem):** The share of profit was up by 76.0% YoY in Q1FY25 due to strong resin spread.

**Fig 3 – SI's pipe volumes grew at a strong 19.5% YoY and 10.5% on 5Y CAGR basis in Q1FY25**



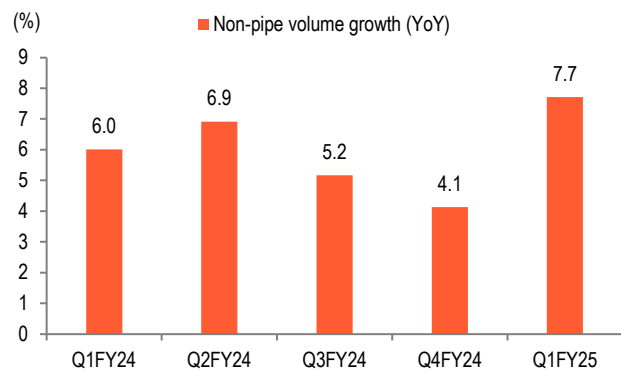
Source: Company, BOBCAPS Research

**Fig 4 – SI's pipe volume to grow at 16.6% CAGR over FY24-FY27E on strong demand across end-user sector**



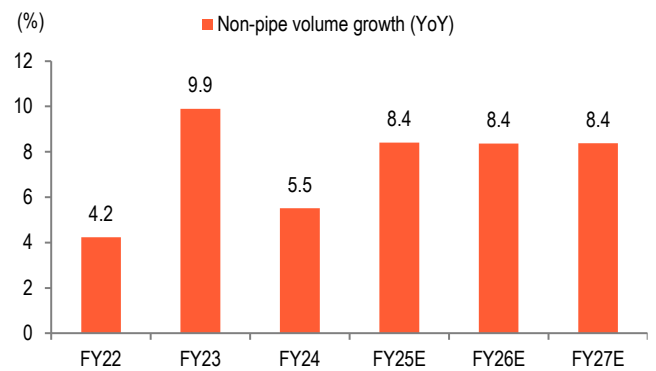
Source: Company, BOBCAPS Research

**Fig 5 – Non-pipe volumes grew at 7.7% YoY (5Y CAGR: +3.6%) in Q1FY25**



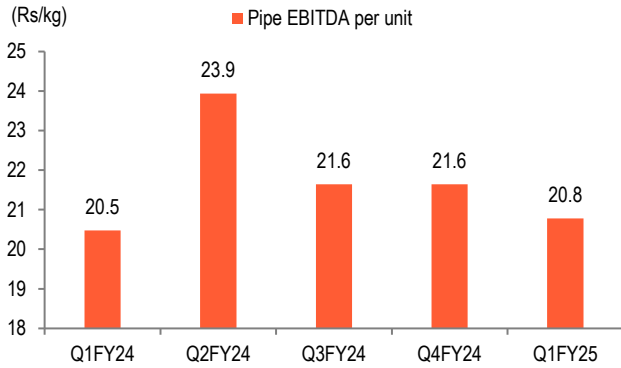
Source: Company, BOBCAPS Research

**Fig 6 – SI's non-pipe volume to grow at 8.4% CAGR over FY24-FY27E over a weak base**



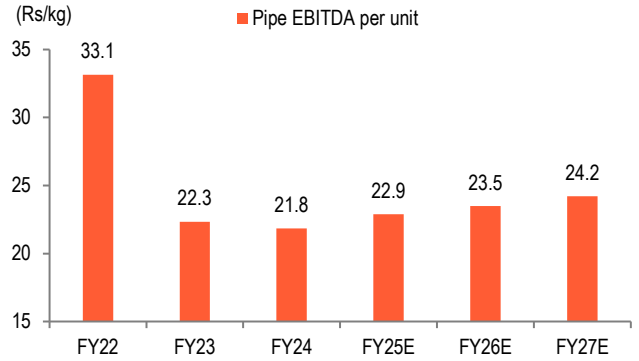
Source: Company, BOBCAPS Research

**Fig 7 – Pipe EBITDA per unit was down 4.0% QoQ in Q1 on inferior product mix**



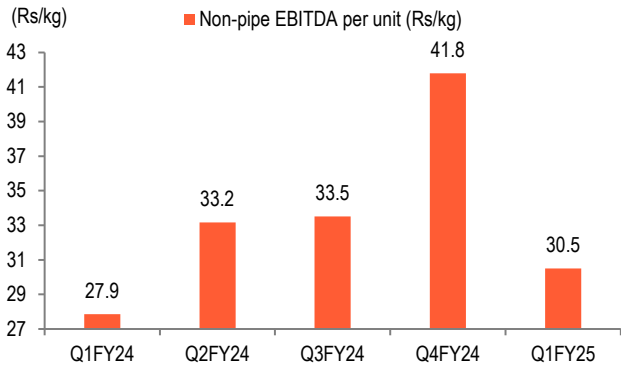
Source: Company, BOBCAPS Research

**Fig 8 – We expect SI pipe EBITDA per unit to improve at 3.5% CAGR over FY24-FY27E**



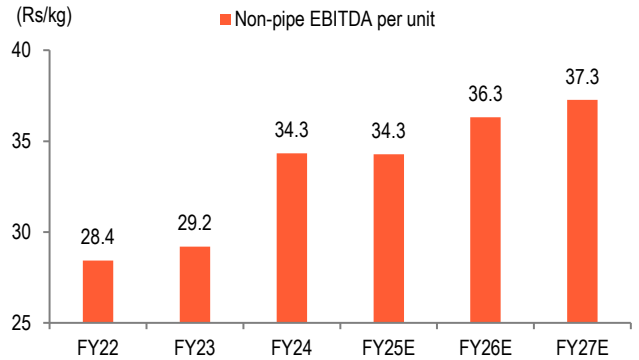
Source: Company, BOBCAPS Research

**Fig 9 – Non-pipe EBITDA per unit improved sharply in Q1FY25 on sharp recovery in packaging margin**



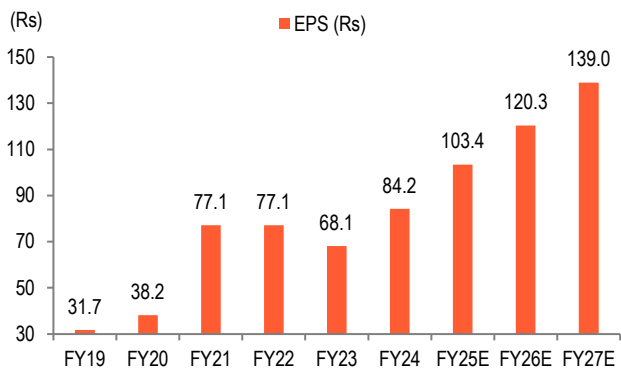
Source: Company, BOBCAPS Research

**Fig 10 – SI non-pipe EBITDA per unit to rise gradually at 2.8% CAGR over FY24-FY27E**



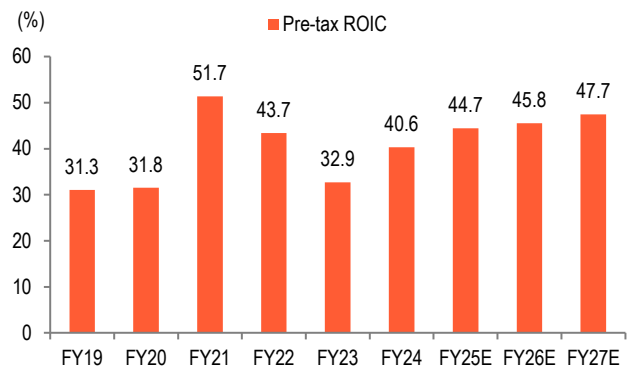
Source: Company, BOBCAPS Research

**Fig 11 – SI EPS is projected to grow at strong 20.3% CAGR over FY19-FY27E**



Source: Company, BOBCAPS Research

**Fig 12 – SI's pre-tax ROIC to remain healthy at >40% over FY25E-FY27E**



Source: Company, BOBCAPS Research

## Valuation methodology

We expect SI's EPS to log a strong 20.3% CAGR over FY19-FY27E and operate at a healthy pre-tax ROIC of >40% over FY25-FY27E. However, we maintain our HOLD rating on the stock with a higher TP of Rs 5,400 (previously Rs 4,650) due to stretched valuations (trades at 52.2x on 1Y forward P/E vs 5Y average of 29.6x).

We raise our TP due to a slight increase in our EPS estimates (+1.5%/3.5% for FY25E/FY26E due to a sharp increase in profit from associates), increase in our target P/E multiple (from 40x to 45x due to re-rating of valuation multiple in the past one year) and roll forward of our valuation from Mar'26 to Jun'26. We have introduced FY27 estimates.

**Fig 13 – Revised estimates**

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	116.5	136.2	119.3	138.3	(2.4)	(1.5)
EBITDA	18.6	21.9	18.9	21.9	(1.4)	(0.1)
EBITDA margin	16.0	16.1	15.8	15.8	15bps	22bps
Adjusted PAT	13.1	15.3	12.9	14.8	1.5	3.5
Adjusted EPS (Rs)	103.4	120.3	101.8	116.2	1.5	3.5

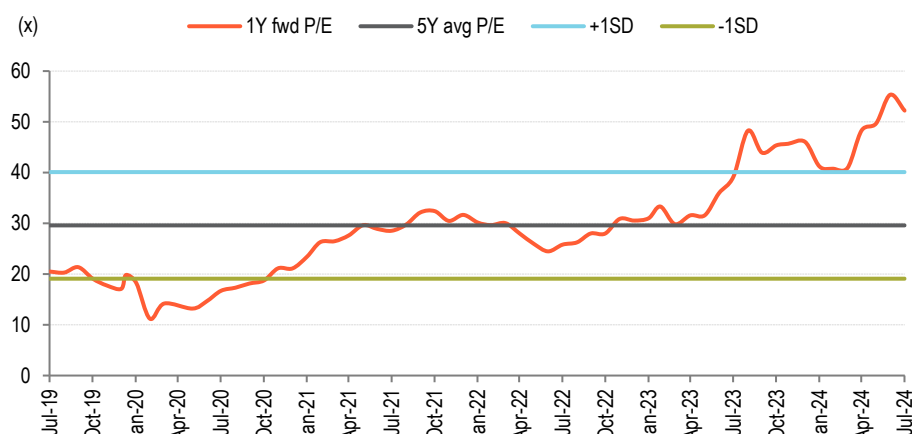
Source: BOBCAPS Research

**Fig 14 – Key assumptions**

(%)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue mix</b>					
Pipe	65.6	68.4	70.2	71.6	72.8
Packaging	14.3	13.9	13.5	12.7	12.0
Industrial	14.6	12.9	12.0	11.6	11.3
Consumer	4.8	4.4	4.0	3.8	3.6
<b>Sales volume growth</b>					
Pipe	36.7	33.6	19.9	15.0	15.0
Packaging	0.1	7.9	7.3	7.0	7.0
Industrial	22.8	5.0	10.3	10.0	10.0
Consumer	4.8	0.0	5.3	7.0	7.0
Total	28.6	26.3	17.4	13.7	13.7
Average realisation growth	(7.5)	(12.6)	(1.9)	2.9	2.4
<b>EBITDA margin</b>					
Pipe	13.9	15.8	16.8	16.7	16.7
Packaging	10.5	16.7	16.5	17.0	17.0
Industrial	11.9	11.4	11.4	12.0	12.0
Consumer	19.0	20.9	20.8	20.9	20.9
Total	13.0	15.3	16.0	16.1	16.1

Source: Company, BOBCAPS Research

**Fig 15 – Trading at 52.2x on 1Y forward P/E vs. 5Y average of 29.6x**



Source: Company, BOBCAPS Research

### Key risks

- Better-than-expected recovery in the real estate sector would be a key upside risk to our estimates.
- Market share loss in plastic pipes would represent a key downside risk.

### Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	607	650	HOLD
Astral	ASTRA IN	7.4	2,260	2,200	HOLD
Century Plyboards	CPBI IN	1.9	688	700	HOLD
Cera Sanitaryware	CRS IN	1.4	8,985	7,700	HOLD
Finolex Industries	FNXP IN	2.4	317	265	HOLD
Greenlam Industries	GRLM IN	0.9	584	550	HOLD
Greenpanel Industries	GREENP IN	0.5	315	340	HOLD
Greenply Industries	MTLM IN	0.5	304	320	BUY
Hindware Home Innovation	HINDWARE IN	0.4	418	600	BUY
Kajaria Ceramics	KJC IN	2.7	1,389	1,400	BUY
Prince Pipes & Fittings	PRINCP IN	0.9	674	750	HOLD
Somany Ceramics	SOMC IN	0.4	739	900	BUY
Supreme Industries	SI IN	8.8	5,694	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 22 Jul 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>92,016</b>	<b>1,01,343</b>	<b>1,16,487</b>	<b>1,36,165</b>	<b>1,58,550</b>
EBITDA	11,997	15,473	18,630	21,886	25,545
Depreciation	2,634	2,984	3,385	3,880	4,374
EBIT	9,363	12,490	15,244	18,007	21,171
Net interest inc./(exp.)	(80)	(161)	(133)	(133)	(133)
Other inc./(exp.)	298	657	858	858	858
Exceptional items	0	0	0	0	0
EBT	9,580	12,985	15,969	18,731	21,895
Income taxes	2,460	3,357	4,334	5,143	5,939
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	1,533	1,069	1,501	1,701	1,701
<b>Reported net profit</b>	<b>8,653</b>	<b>10,697</b>	<b>13,135</b>	<b>15,289</b>	<b>17,657</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,653</b>	<b>10,697</b>	<b>13,135</b>	<b>15,289</b>	<b>17,657</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	9,038	10,156	11,747	13,731	15,988
Other current liabilities	2,237	2,410	2,410	2,410	2,410
Provisions	85	162	187	219	255
Debt funds	0	0	0	0	0
Other liabilities	1,562	1,741	1,741	1,741	1,741
Equity capital	254	254	254	254	254
Reserves & surplus	43,767	50,834	59,650	70,111	82,432
Shareholders' fund	44,021	51,088	59,904	70,365	82,686
<b>Total liab. and equities</b>	<b>56,942</b>	<b>65,557</b>	<b>75,989</b>	<b>88,466</b>	<b>1,03,081</b>
Cash and cash eq.	7,461	11,873	15,504	20,776	28,116
Accounts receivables	4,924	5,114	5,879	6,872	8,001
Inventories	13,856	13,586	15,616	18,254	21,255
Other current assets	2,546	2,301	2,692	3,147	3,664
Investments	5,713	6,254	6,254	6,254	6,254
Net fixed assets	19,764	21,801	25,416	28,536	31,162
CWIP	1,129	2,363	2,363	2,363	2,363
Intangible assets	878	1,472	1,472	1,472	1,472
Deferred tax assets, net	0	0	0	0	0
Other assets	672	793	793	793	793
<b>Total assets</b>	<b>56,942</b>	<b>65,557</b>	<b>75,989</b>	<b>88,466</b>	<b>1,03,080</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>10,762</b>	<b>14,937</b>	<b>14,227</b>	<b>16,375</b>	<b>18,952</b>
Capital expenditures	(4,753)	(6,849)	(7,000)	(7,000)	(7,000)
Change in investments	(954)	(542)	0	0	0
Other investing cash flows	298	657	858	858	858
<b>Cash flow from investing</b>	<b>(5,409)</b>	<b>(6,734)</b>	<b>(6,142)</b>	<b>(6,142)</b>	<b>(6,142)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(80)	(161)	(133)	(133)	(133)
Dividends paid	(3,303)	(3,812)	(4,320)	(4,828)	(5,336)
Other financing cash flows	228	181	0	0	0
<b>Cash flow from financing</b>	<b>(3,156)</b>	<b>(3,791)</b>	<b>(4,453)</b>	<b>(4,961)</b>	<b>(5,469)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,197</b>	<b>4,412</b>	<b>3,631</b>	<b>5,271</b>	<b>7,340</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,461</b>	<b>11,873</b>	<b>15,504</b>	<b>20,776</b>	<b>28,116</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	68.1	84.2	103.4	120.3	139.0
Adjusted EPS	68.1	84.2	103.4	120.3	139.0
Dividend per share	26.0	30.0	34.0	38.0	42.0
Book value per share	346.5	402.1	471.5	553.8	650.8

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.9	7.2	6.3	5.4	4.7
EV/EBITDA	60.8	47.2	39.4	33.7	29.0
Adjusted P/E	83.6	67.6	55.1	47.3	41.0
P/BV	16.4	14.2	12.1	10.3	8.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	90.3	82.4	82.3	81.6	80.6
Interest burden (PBT/EBIT)	102.3	104.0	104.8	104.0	103.4
EBIT margin (EBIT/Revenue)	10.2	12.3	13.1	13.2	13.4
Asset turnover (Rev./Avg TA)	161.6	154.6	153.3	153.9	153.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.3
Adjusted ROAE	21.0	22.5	23.7	23.5	23.1

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.4	10.1	14.9	16.9	16.4
EBITDA	(4.5)	29.0	20.4	17.5	16.7
Adjusted EPS	(11.7)	23.6	22.8	16.4	15.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.0	15.3	16.0	16.1	16.1
EBIT margin	10.2	12.3	13.1	13.2	13.4
Adjusted profit margin	9.4	10.6	11.3	11.2	11.1
Adjusted ROAE	21.0	22.5	23.7	23.5	23.1
ROCE	21.9	25.7	26.9	26.8	26.6
<b>Working capital days (days)</b>					
Receivables	20	18	18	18	18
Inventory	55	49	49	49	49
Payables	36	37	37	37	37
<b>Ratios (x)</b>					
Gross asset turnover	2.5	2.4	2.4	2.5	2.6
Current ratio	2.5	2.6	2.8	3.0	3.3
Net interest coverage ratio	116.7	77.5	114.4	135.2	158.9
Adjusted debt/equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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**BUY** – Expected return >+15%

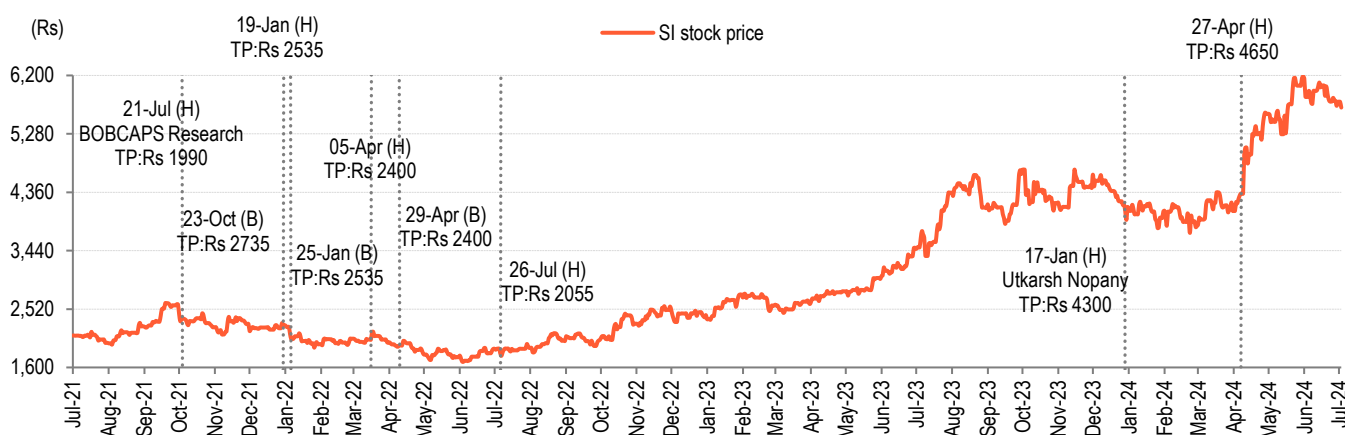
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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