

27 May 2015

# UMW Holdings

## Disappointing 1Q15

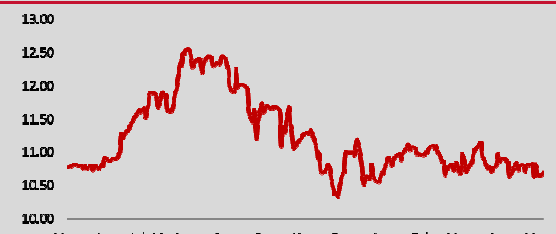
By **Desmond Chong** | [cwchong@kenanga.com.my](mailto:cwchong@kenanga.com.my)

- |                                |   |
|--------------------------------|---|
| <b>Period</b>                  | <ul style="list-style-type: none"> <li>1Q15</li> </ul>  |
| <b>Actual vs. Expectations</b> | <ul style="list-style-type: none"> <li><b>Below expectations.</b> The group reported 1Q15 normalised PATAMI of RM173.6m (-7% QoQ, -18% YoY), which made up only 19% of our and the consensus full-year estimates, respectively.</li> <li>Note that the 1Q15 normalised PATAMI has been adjusted to exclude the non-core items totalling -RM8.4m which consists of: (i) impairment losses of receivables amounting to RM4.6m, (ii) provision for write down of inventories amounting of RM6.7m, (iii) reversal of impairment of assets/investments amounting to RM4.6, as well as others immaterial non-core items of RM1.7m</li> <li>The negative deviation factors were lower-than-expected earnings from: (i) the Automotive segment (subpar Toyota sales), and (ii) the Oil &amp; Gas segment (on discounted charter rates and additional OpEx on NAGA 7 which contract with Frontier Oil Corporation was terminated).</li> </ul>  |
| <b>Dividends</b>               | <ul style="list-style-type: none"> <li>As expected, no dividend was declared for the quarter under review.</li> </ul>   |
| <b>Key Result Highlights</b>   | <ul style="list-style-type: none"> <li><b>YoY,</b> 1Q15 revenue decreased by 10% owing to lower revenue contributions from the Automotive and M&amp;E segment. Compounded with lower EBIT margins of 8.7% (-3.4ppts) which was dragged mainly by higher costs arising from unfavourable forex in Automotive segments and discounts on time charter rates and additional OpEX (of NAGA 7) in Oil &amp; Gas segment, EBIT declined by 35%.</li> <li><b>QoQ,</b> despite the robust revenue growth in the Equipment segment (+47%), 1Q15 revenue still came in lower at RM3.24bn (-13%) mainly dragged down by lower vehicle sales in the lion share contributor, namely the Automotive segment (-22%). Consequently, core PATAMI was also reduced by 7%.</li> <li><b>YoY, Automotive:</b> 1Q15 revenue decreased by 25%, which seen Toyota's prime position in the passenger vehicle segment losing ground to Honda and Nissan due to the latter's attractive model launches. Meanwhile, segmental PBT dropped steeper by 43% with PBT margin corroded by 3.7ppts which we believe was mainly due to: (i) higher discounts given to clear stock prior to GST implementation, and (ii) higher imported CKD costs on unfavourable forex.</li> <li><b>YoY, Equipment:</b> 1Q15 revenue jumped by 50% boosted by pent-up demand for equipment, parts and services pre-GST implementation as well as the resumption of jade mining activities in Myanmar. Coupled with better operational efficiency, PBT soared by 154%.</li> <li><b>YoY, Oil &amp; gas:</b> 1Q15 revenue increased by 60% on the back of: (i) full contribution from NAGA 5 and NAGA 6 which commenced operations in May and October 2014, (ii) improved operating efficiency by NAGA 2 and NAGA 3, and (iii) additional contribution from hydraulic workover GAIT 3. However, PBT dropped by 27% mainly due to additional OpEx on NAGA 7 which contract with Frontier Oil Corporation was terminated.</li> <li><b>QoQ, M&amp;E:</b> 1Q15 revenue came in flat at RM171.1m (-1%) mainly due to lower sales by the auto-component manufacturers, especially on the four wheelers products. However, segment PBT break even in the quarter helped by better contribution from its lubricant business.</li> </ul> |
| <b>Outlook</b>                 | <ul style="list-style-type: none"> <li>For FY15, we are now expecting its Automotive segment to register a lower combined total sales (Perodua, UMW Toyota) of 293k units (-2% YoY) from 303k units previously, vs. management's forecast of 298k units with unchanged sales volume assumptions from Perodua (205k units, mainly driven by Perodua Axia and MyVi) and a lower sales volume assumption of UMW Toyota (lowered to 88k units vs. 98k units previously) amidst the lack of new attractive models as well as the weaker sales performance in 1Q15.</li> </ul>  |

# MARKET PERFORM ↔

**Price:** RM10.70  
**Target Price:** RM11.17 ↑

### Share Price Performance



KLCI 1764.07  
YTD KLCI chg 0.2%  
YTD stock price chg -2.4%

### Stock Information

|                      |                |
|----------------------|----------------|
| Bloomberg Ticker     | UMWH MK Equity |
| Market Cap (RM m)    | 12,500.7       |
| Issued shares        | 1,168.3        |
| 52-week range (H)    | 12.68          |
| 52-week range (L)    | 10.00          |
| 3-mth avg daily vol: | 1,258,966      |
| Free Float           | 39%            |
| Beta                 | 1.0            |

### Major Shareholders

|                      |       |
|----------------------|-------|
| SKIM AMANAH SAHAM BU | 36.9% |
| EMPLOYEES PROVIDENT  | 15.9% |
| PERMODALAN NASIONAL  | 8.3%  |

### Summary Earnings Table

| FYE Dec (RM m)        | 2014A | 2015E | 2016E |
|-----------------------|-------|-------|-------|
| Turnover              | 14959 | 14012 | 14721 |
| EBITDA                | 1427  | 1351  | 1590  |
| PBT                   | 1621  | 1602  | 1862  |
| <b>Core NP</b>        | 792   | 758   | 861   |
| Consensus (NP)        | -     | 906   | 988   |
| Earnings Revision (%) | -     | -17%  | -10%  |
| EPS (sen)             | 67.7  | 64.9  | 73.7  |
| EPS growth (%)        | -7.1  | -4.2  | 13.6  |
| DPS (sen)             | 41.0  | 38.9  | 44.2  |
| BVPS (RM)             | 5.6   | 5.9   | 6.2   |
| PER                   | 15.8  | 16.5  | 14.5  |
| Price/BV (x)          | 1.9   | 1.8   | 1.7   |
| Gearing (%)           | 0.1   | 0.1   | 0.1   |
| Dividend Yield (%)    | 3.8   | 3.6   | 4.1   |

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- On the Oil and Gas segment, we expect headwinds in the Oil & Gas segment with oil prices expected to remain soft. With major oil companies implementing cost-cutting measures and delaying capital expenditures, we expect downward pressure on the charter rates in the near-term. In addition to that, the recent contract termination by Frontier of the charter contract for recently-delivered NAGA-7 will also exert further negative effect on the group's near-term earnings.
- Change to Forecasts**
- Post-results, we have reduced our FY15E-FY16E PATAMI by 10%-17% to account mainly for: (i) lower Toyota sales (from 98k units to 88k units), and (ii) lower earnings from Oil & Gas segment (reduction in average rig utilisation to 64%/73% in FY15/FY16 from 93% due to weaker charter contract renewal prospects.)
- Rating** **Maintain MARKET PERFORM**
- Valuation**
- Post-results, we rollover our valuation base year from FY15E to FY16E. Our SoP-derived TP has been marginally raised to RM11.17 (which implies 15.1 FY16 PER, which is close to its 3-year PER mean).
- Risks to Our Call**
- Higher-than-expected vehicle sales.
  - Earlier than expected recovery in Oil & Gas segment.
  - Better than expected drilling margins.

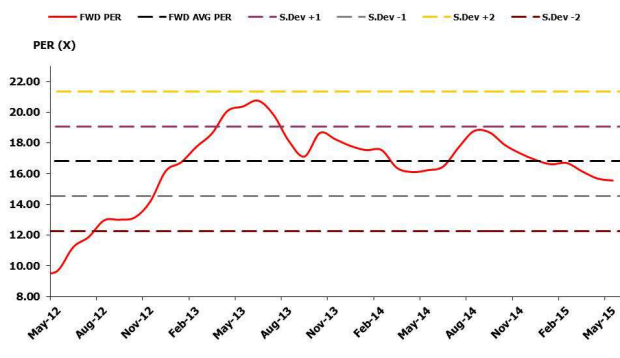
| <b>Result Highlight</b> |               |               |               |               |               |               |               |               |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                         | 1Q            | 4Q            | QoQ           | 1Q            | YoY           | 3M            | 3M            | YoY           |
| FYE: Dec (RM 'm)        | FY15          | FY14          | Chg           | FY14          | Chg           | FY15          | FY14          | Chg           |
| <b>Turnover</b>         | <b>3240.4</b> | <b>3706.1</b> | <b>-12.6%</b> | <b>3583.4</b> | <b>-9.6%</b>  | <b>3240.4</b> | <b>3583.4</b> | <b>-9.6%</b>  |
| EBIT                    | 283.5         | 226.5         | 25.1%         | 433.3         | -34.6%        | 283.5         | 433.3         | -34.6%        |
| PBT/(LBT)               | 320.0         | 289.1         | 10.7%         | 479.4         | -33.2%        | 320.0         | 479.4         | -33.2%        |
| Taxation                | -84.0         | -93.1         | 9.8%          | -87.3         | 3.8%          | -84.0         | -87.3         | 3.8%          |
| PATAMI                  | 165.2         | 83.2          | 98.6%         | 235.5         | -29.9%        | 165.2         | 235.5         | -29.9%        |
| <b>Core PATAMI</b>      | <b>173.6</b>  | <b>186.0</b>  | <b>-6.7%</b>  | <b>211.8</b>  | <b>-18.0%</b> | <b>173.6</b>  | <b>211.8</b>  | <b>-18.0%</b> |
| EPS (sen)               | 14.9          | 15.9          | -6.7%         | 18.1          | -18.0%        | 14.9          | 18.1          | -18.0%        |
| DPS (sen)               | 0.0           | 16.0          |               | 0.0           |               | 0.0           | 0.0           |               |
| EBIT margin             | 8.7%          | 6.1%          |               | 12.1%         |               | 8.7%          | 12.1%         |               |
| Pretax margin           | 9.9%          | 7.8%          |               | 13.4%         |               | 9.9%          | 13.4%         |               |
| Core NP margin          | 5.4%          | 5.0%          |               | 5.9%          |               | 5.4%          | 5.9%          |               |
| Effective tax rate      | -26.3%        | -32.2%        |               | -18.2%        |               | -26.3%        | -18.2%        |               |

Source: Kenanga Research

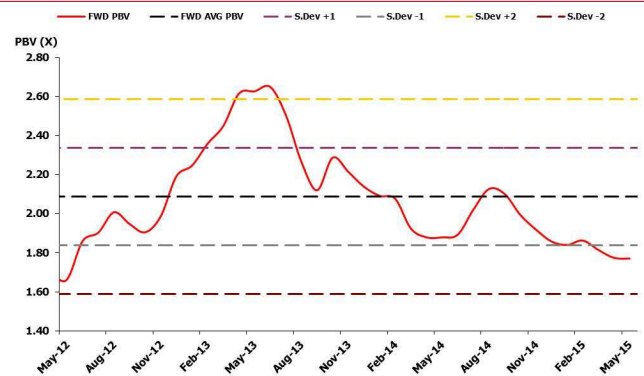
| <b>Segmental Breakdown</b> |        |        |        |         |        |        |         |        |
|----------------------------|--------|--------|--------|---------|--------|--------|---------|--------|
|                            | 1Q     | 4Q     | QoQ    | 1Q      | YoY    | 3M     | 3M      | YoY    |
| FYE Dec (RM'm)             | FY15   | FY14   | Chg    | FY14    | Chg    | FY15   | FY14    | Chg    |
| <b>Revenue</b>             |        |        |        |         |        |        |         |        |
| Automotive                 | 2005.5 | 2573.5 | -22.1% | 2,656.4 | -24.5% | 2005.5 | 2,656.4 | -24.5% |
| Equipment                  | 653.0  | 445.6  | 46.5%  | 434.9   | 50.1%  | 653.0  | 434.9   | 50.1%  |
| O&G                        | 312.5  | 327.7  | -4.6%  | 195.6   | 59.8%  | 312.5  | 195.6   | 59.8%  |
| M&E                        | 171.1  | 173.3  | -1.3%  | 181.9   | -6.0%  | 171.1  | 181.9   | -6.0%  |
| Other segment              | 98.3   | 186.1  | -47.2% | 114.5   | -14.2% | 98.3   | 114.5   | -14.2% |
| <b>Segment PBT</b>         |        |        |        |         |        |        |         |        |
| Automotive                 | 233.5  | 313.1  | -25.4% | 406.6   | -42.6% | 233.5  | 406.6   | -42.6% |
| Equipment                  | 99.3   | 78.7   | 26.2%  | 39.1    | 154.0% | 99.3   | 39.1    | 154.0% |
| O&G                        | 42.5   | 85.8   | -50.5% | 58.3    | -27.2% | 42.5   | 58.3    | -27.2% |
| M&E                        | 1.8    | -4.4   | 141.0% | 9.6     | -81.3% | 1.8    | 9.6     | -81.3% |
| Other segment              | -57.1  | -184.1 | 69.0%  | -34.2   | -66.8% | -57.1  | -34.2   | -66.8% |
| <b>Segment PBT margin</b>  |        |        |        |         |        |        |         |        |
| Automotive                 | 11.6%  | 12.2%  |        | 15.3%   |        | 11.6%  | 15.3%   |        |
| Equipment                  | 15.2%  | 17.7%  |        | 9.0%    |        | 15.2%  | 9.0%    |        |
| O&G                        | 13.6%  | 26.2%  |        | 29.8%   |        | 13.6%  | 29.8%   |        |
| M&E                        | 1.1%   | -2.5%  |        | 5.3%    |        | 1.1%   | 5.3%    |        |
| Other segment              | -58.1% | -98.9% |        | -29.9%  |        | -58.1% | -29.9%  |        |

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Sum-of-Parts Valuation of UMW

| Sum-of-Parts Valuation of UMW Segment | PER (x)                                   | FY16 PAT                                 | FY16         |                |
|---------------------------------------|---|--|--------------|----------------|
|                                       |   |  | FY16 PATAMI  | Value (RMm)    |
| Automotive                            | 13.0                                      | 935.6                                    | 601.6        | 7820.9         |
| O&G (Post-listing assumption)         | 13.0                                      | 274.1                                    | 160.7        | 2089.4         |
| Equipment                             | 10.0 <span style="color: green;">▲</span> | 313.3                                    | 313.3        | 3141.9         |
| M&E                                   | 0.0                                       | 3.4 <span style="color: green;">▲</span> | -80.1        | 0.0            |
| Others                                | 0.0 <span style="color: green;">▲</span>  | -134.6                                   | -134.6       | 0.0            |
| <b>Total</b>                          |   | <b>1391.9</b>                            | <b>860.9</b> | <b>13052.2</b> |
| <b>Total value</b>                    |   |  |              | 13052.2        |
| No of shares                          |   |  |              | 1168.3         |
| <b>Fair value</b>                     |   | <b>11.17</b>                             |              |                |

Source: Kenanga Research

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| Income Statement          |                |                |                |                |                 | Financial Data & Ratios             |        |        |        |        |        |
|---------------------------|----------------|----------------|----------------|----------------|-----------------|-------------------------------------|--------|--------|--------|--------|--------|
| FY Dec (RM m)             | 2012A          | 2013A          | 2014A          | 2015E          | 2016E           | FY Dec (RM m)                       | 2012A  | 2013A  | 2014A  | 2015E  | 2016E  |
| Revenue                   | 15,816.9       | 13,951.5       | 14,958.9       | 14,012.5       | 14,721.2        | <b>Growth</b>                       |        |        |        |        |        |
| EBITDA                    | 2,197.2        | 1,621.7        | 1,806.2        | 1,862.5        | 2,130.8         | Turnover                            | 16.9   | -11.8  | 7.2    | -6.3   | 5.1    |
| Depre. & Amort            | -298.2         | -325.3         | -379.4         | -511.9         | -540.9          | EBITDA                              | 41.3   | -26.2  | 11.4   | 3.1    | 14.4   |
| Operating Profit          | 1,899.0        | 1,296.5        | 1,426.8        | 1,350.5        | 1,589.8         | Operating Profit                    | 51.1   | -31.7  | 10.1   | -5.3   | 17.7   |
| Other Income              | 78.5           | 80.8           | 136.6          | 122.9          | 124.1           | PBT                                 | 48.0   | -28.9  | 12.9   | -1.1   | 16.2   |
| Interest Exp              | -83.4          | -99.2          | -82.0          | -81.9          | -65.2           | Adj Net Profit                      | 105.3  | -14.5  | -7.1   | -4.2   | 13.6   |
| Associate                 | 126.2          | 157.5          | 139.5          | 210.7          | 212.9           | <b>Profitability (%)</b>            |        |        |        |        |        |
| PBT                       | 2,020.3        | 1,435.7        | 1,620.8        | 1,602.3        | 1,861.7         | EBITDA Margin                       | 13.9   | 11.6   | 12.1   | 13.3   | 14.5   |
| Taxation                  | -431.5         | -351.5         | -409.1         | -404.4         | -469.9          | Operating Margin                    | 12.0   | 9.3    | 9.5    | 9.6    | 10.8   |
| MI                        | -594.5         | -431.3         | -554.1         | -439.9         | -531.0          | PBT Margin                          | 12.8   | 10.3   | 10.8   | 11.4   | 12.6   |
| <b>Core Net Profit</b>    | <b>997.2</b>   | <b>852.3</b>   | <b>657.7</b>   | <b>758.0</b>   | <b>860.9</b>    | Core Net Margin                     | 6.3    | 6.1    | 5.3    | 5.4    | 5.8    |
| <b>Balance Sheet</b>      |                |                |                |                |                 | Eff. Tax Rate                       | 21.4   | 24.5   | 25.2   | 25.2   | 25.2   |
| FY Dec (RM m)             | 2012A          | 2013A          | 2014A          | 2015E          | 2016E           | ROA                                 | 9.0    | 5.0    | 4.2    | 4.5    | 5.0    |
| Fixed Assets              | 2,997.3        | 3,898.9        | 5,646.0        | 6,134.1        | 6,593.2         | ROE                                 | 21.9   | 11.7   | 10.2   | 11.2   | 12.2   |
| Int. Assets               | 138.3          | 37.9           | 37.9           | 37.9           | 37.9            | <b>DuPont Analysis</b>              |        |        |        |        |        |
| Other FA                  | 2,051.8        | 2,131.1        | 2,221.4        | 2,221.4        | 2,221.4         | Net Margin (%)                      | 6.3    | 6.1    | 5.3    | 5.4    | 5.8    |
| Inventories               | 1,768.8        | 1,754.2        | 1,834.6        | 1,657.6        | 1,717.7         | Assets Turnover (x)                 | 1.4    | 1.0    | 0.9    | 0.8    | 0.8    |
| Receivables               | 1,542.7        | 1,209.6        | 1,326.0        | 1,187.6        | 1,247.7         | Leverage Factor (x)                 | 2.4    | 2.3    | 2.5    | 2.5    | 2.4    |
| Other CA                  | 14.1           | 674.4          | 815.2          | 815.2          | 815.2           | ROE (%)                             | 21.9   | 11.7   | 10.2   | 11.2   | 12.2   |
| Cash                      | 2,492.6        | 2,557.7        | 3,376.4        | 3,738.3        | 3,594.2         | <b>Leverage</b>                     |        |        |        |        |        |
| <b>Total Assets</b>       | <b>11,495</b>  | <b>14,595</b>  | <b>16,439</b>  | <b>16,974</b>  | <b>17,409</b>   | Debt/Asset (x)                      | 0.2    | 0.2    | 0.2    | 0.2    | 0.2    |
| Payables                  | 2,045.8        | 2,070.1        | 2,118.7        | 1,934.8        | 2,004.9         | Debt/Equity (x)                     | 0.4    | 0.3    | 0.4    | 0.4    | 0.4    |
| ST Borrowings             | 1,013.9        | 1,389.2        | 2,177.5        | 2,177.5        | 2,177.5         | Net Cash/(Debt) Net Debt/Equity (x) | -155.3 | -355.7 | -715.2 | -353.3 | -497.4 |
| Other ST Liability        | 223.7          | 234.6          | 415.0          | 603.1          | 378.5           |                                     | 0.0    | 0.06   | 0.1    | 0.1    | 0.1    |
| LT Borrowings             | 1,633.9        | 1,524.2        | 1,914.2        | 1,914.2        | 1,914.2         | <b>Valuations</b>                   |        |        |        |        |        |
| Other LT Liability        | 279.6          | 444.5          | 371.2          | 371.2          | 371.2           | Core EPS (sen)                      | 85.4   | 73.0   | 67.7   | 64.9   | 73.7   |
| <b>Net Assets</b>         | <b>6,298.4</b> | <b>8,932.5</b> | <b>9,442.7</b> | <b>9,973.1</b> | <b>10,562.7</b> | NDPS (sen)                          | 50.0   | 44.0   | 41.0   | 38.9   | 44.2   |
| Shareholders Equity       | 4,848.3        | 6,290.4        | 6,590.1        | 6,893.3        | 7,237.7         |                                     | 4.15   | 5.38   | 5.64   | 5.90   | 6.20   |
| Minority Interest         | 1,450.2        | 2,642.2        | 2,852.6        | 3,079.8        | 3,325.0         | BVPS (RM)                           | 12.5   | 14.7   | 15.8   | 16.5   | 14.5   |
| <b>Total Equity</b>       | <b>6,298.4</b> | <b>8,932.5</b> | <b>9,442.7</b> | <b>9,973.1</b> | <b>10,562.7</b> | PER (x)                             | 4.7    | 4.1    | 3.8    | 3.6    | 4.1    |
| <b>Cashflow Statement</b> |                |                |                |                |                 | Net Div. Yield (%)                  | 2.6    | 2.0    | 1.9    | 1.8    | 1.7    |
| FY Dec (RM m)             | 2012A          | 2013A          | 2014A          | 2015E          | 2016E           | PBV (x)                             | 6.4    | 9.6    | 8.9    | 8.6    | 7.7    |
| Operating CF              | 1,192.8        | 947.6          | 1,284.0        | 2,291.1        | 1,807.6         | EV/EBITDA (x)                       |        |        |        |        |        |
| Investing CF              | -428.0         | -95.3          | -723.3         | -1,000.0       | -1,000.0        |                                     |        |        |        |        |        |
| Financing CF              | -470.1         | -811.0         | 235.6          | -838.0         | -951.7          |                                     |        |        |        |        |        |
| Change In Cash            | 294.7          | 41.3           | 796.4          | 453.2          | -144.1          |                                     |        |        |        |        |        |
| Free CF                   | 773.7          | -52.4          | -892.1         | 1,291.1        | 807.6           |                                     |        |        |        |        |        |

Source: Kenanga Research

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Malaysian Automotive Peers Comparison

| NAME                         | Price @  | Mkt Cap | PER (x) |          |          | Est. Div. Yld. | Hist. ROE | Net Profit (RMm) |       |        | 1 Yr     | 2 Yr     | Target Price | Rating |
|------------------------------|----------|---------|---------|----------|----------|----------------|-----------|------------------|-------|--------|----------|----------|--------------|--------|
|                              | 26/05/15 |         | Actual  | 1 Yr Fwd | 2 Yr Fwd |                |           | (%)              | (%)   | Actual | 1 Yr Fwd | 2 Yr Fwd |              |        |
|                              | (RM)     | (RMm)   |         |          |          | (%)            | (%)       |                  |       |        | (%)      | (%)      | (RM)         |        |
| DRB-HICOM BHD                | 1.62     | 3131.8  | 12.0    | 19.1     | 11.3     | 1.7%           | 6.3%      | 262              | 164.8 | 277.9  | -37.1%   | 68.6%    | 2.15         | MP     |
| MBM RESOURCES BERHAD         | 3.44     | 1344.0  | 11.8    | 11.7     | 10.1     | 2.3%           | 7.7%      | 114.2            | 115.3 | 132.7  | 1.0%     | 15.0%    | 3.40         | MP     |
| TAN CHONG MOTOR HOLDINGS BHD | 2.90     | 1893.1  | 28.0    | 17.4     | 12.9     | 3.1%           | 2.5%      | 67.6             | 109.0 | 146.9  | 61.3%    | 34.7%    | 2.87         | UP     |
| UMW HOLDINGS BHD             | 10.70    | 12500.8 | 15.8    | 16.5     | 14.5     | 3.6%           | 10.2%     | 791.5            | 758.0 | 860.9  | -4.2%    | 13.6%    | 11.17        | MP     |
| BERJAYA AUTO BHD             | 3.58     | 2885.1  | 22.0    | 14.1     | 11.4     | 3.5%           | 39.9%     | 142.0            | 206.9 | 255.9  | 45.7%    | 23.7%    | 4.29         | OP     |

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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