

Gulf Oil Lubricants

Refer to important disclosures at the end of this report

Better volumes lead to earnings beat; in-line margins

CMP: Rs 675

as of (November 9, 2020)

TP: Rs 910 (▲)

12 months

Rating: BUY (■)

Upside: 34.9 %

- Gulf Oil Lubricants India (GOLI) posted revenue/EBITDA/PAT of Rs4.12bn/783mn/591mn in Q2FY21, down 2%/up 3%/down 5% yoy (up 71%/208%/244% qoq), beating estimates by 7%/10%/11% on the back of a 9% volume beat and higher Other Income.
- Total reported lube sales volume rose 7% yoy/69% qoq to 29.5mn ltr, with growth across segments driven by industry recovery, pent-up demand and GOLI's targeted initiatives. EBITDA/ltr came in at Rs26.5, up 83% qoq/down 4% yoy (in line with estimates).
- Net realization rose 1% qoq to Rs139.6/ltr (2% miss), while unit COGS fell 3%. Gross margin was up 7% qoq at Rs67.4/ltr. Unit opex fell 15/16% yoy/qoq to Rs40.9/ltr. EBITDA/ltr was Rs26.5, up 83% qoq/down 4% yoy (in line). EBITDA margin recovered to 19% high.
- We raise FY21E volumes by 7-8% and EBITDA/ltr by 7%, but cut FY22/23E unit margin by 7/8% due to base oil tightness. We raise FY21E EPS by 17% but cut FY22/23E by 2%/5%, building in high depreciation. We roll over to Sep'22E with a TP of Rs910. Retain Buy.

Highlights: Absolute opex was down 9% yoy (up 42% qoq) at Rs1.21bn. Interest cost fell 32% yoy (down 30% qoq) to Rs48mn, while depreciation was in line. The tax rate was 25.2% in Q2. Q2 overall saw pre-Covid level revenues and highest ever PAT. It generated OCF of Rs1.33bn in H1, aided by working capital. GOLI leveraged its Chennai Super Kings and MS Dhoni tie-ups, helping bazaar sales, and focused on specific brand building (social media) and channel initiatives. 2W, CV and B2B contributed to growth in Q2, while PCMO saw a pickup toward the quarter end. GOLI re-launched AdBlue. Management remains optimistic about the demand outlook, though the base oil market seems to be tightening.

Guidance: Volume mix was 61% B2C and 49% B2B in Q2. DEO was 36-37%, PM 24%, industrial 15% and the remaining share in others. Factory fill volume share recovered to 5% against a very low rate in previous quarters. Q2 generally is seasonally weak due to monsoon but this time, it had the impact of pent-up demand. H2 is better than H1 usually with Q4FY21 to see the base effect. It had rolled back certain schemes and discounts, though some product specific schemes were still there in Q2. July saw lower raw material base oil costs as there was surplus and low demand, but August onward, costs have gone up with recovering demand. Realization growth in Q2 was affected by mix in terms of higher factory fill share. It maintains EBITDA margin guidance of 16-18% with rising input costs. S-Oil tie-up would be a smaller business but Korean PCMO OEMs can be a good opportunity. The deal should be revenue and earnings accretive. It is end to end. GOLI has options to raise dividend payout.

Valuation: We value GOLI at 20x Sep'22E EPS and maintain our Buy rating with a revised TP of Rs910 (5% increase). Key risks are adverse base oil prices/currency, competition, economic slowdown, Covid-19 relapse and technological changes.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Oil & Gas \(page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17,058	16,435	15,165	17,270	19,133
EBITDA	2,831	2,865	2,527	2,854	3,178
EBITDA Margin (%)	16.6	17.4	16.7	16.5	16.6
APAT	1,778	2,025	1,860	2,135	2,427
EPS (Rs)	35.7	40.4	37.1	42.6	48.4
EPS (% chg)	11.9	13.2	(8.2)	14.8	13.7
ROE (%)	33.7	30.0	22.5	22.2	21.9
P/E (x)	18.9	16.7	18.2	15.8	13.9
EV/EBITDA (x)	11.8	11.2	12.0	10.2	8.8
P/BV (x)	5.7	4.4	3.8	3.3	2.9

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	17/(2)
Target Price change (%)	4.6
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	37.1	42.6
Consensus	31.7	41.6
Mean Consensus TP (12M)	Rs 810	

Stock Details

Bloomberg Code	GOLI IN
Face Value (Rs)	2
Shares outstanding (mn)	50
52 Week H/L	887 / 450
M Cap (Rs bn/USD bn)	34 / 0.46
Daily Avg Volume (nos.)	34,011
Daily Avg Turnover (US\$ mn)	0.3

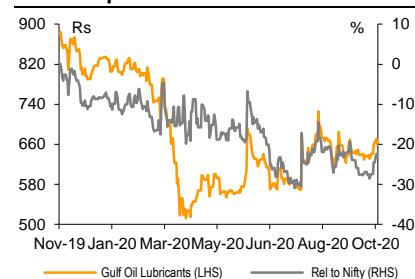
Shareholding Pattern Sep '20

Promoters	72.2%
FIIIs	11.0%
DIIIs	6.3%
Public and Others	10.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	8	19	(21)
Rel. to Nifty	1	(3)	(11)	(25)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs. Estimates (Q2FY21)

Rs mn	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	4,117	3,854	3,861	7%	7%	
Adjusted EBITDA	783	714	657	10%	19%	Due to higher-than-expected volumes
EBITDA Margin (%)	19%	19%	17%	50bps	201bps	
Adjusted Net Profit	591	533	444	11%	33%	Due to higher Other Income

Source: Company, Emkay Research

Exhibit 2: Detailed quarterly highlights

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	% yoy	% qoq	H1FY20	H1FY21	% yoy
Sales volume (mn.ltr)	27.5	28.4	25.2	17.5	29.5	7%	69%	57.0	47.0	-18%
Automotive^	17.6	18.2	15.6	10.3	18.0	2%	74%	36.2	28.3	-22%
Non-automotive^	9.9	10.2	9.6	7.2	11.5	16%	60%	20.8	18.7	-10%
Core Sales volume (mn.ltr)	27.5	28.4	25.2	17.5	29.5	7%	69%	57.0	47.0	-18%
Total revenue	4,213	4,219	3,597	2,412	4,117	-2%	71%	8,620	6,529	-24%
Net realization (Rs./ltr)	153.2	148.5	142.7	137.8	139.6	-9%	1%	151.2	138.9	-8%
Decrease in stocks	114	-33	27	204	-118			(144)	86	
Raw material cost	1,861	1,996	1,658	1,029	2,044	10%	99%	4,166	3,074	-26%
Purchases	162	131	123	73	202	25%	176%	371	276	-26%
COGS	2,138	2,094	1,808	1,307	2,129	0%	63%	4,393	3,435	-22%
COGS/ltr (Rs.)	77.7	73.7	71.7	74.7	72.2	-7%	-3%	77.1	73.1	-5%
Gross profit	2,075	2,124	1,789	1,105	1,989	-4%	80%	4,227	3,094	-27%
Gross margin (Rs./ltr)	75.5	74.8	71.0	63.1	67.4	-11%	7%	74.2	65.8	-11%
Employee cost	295	287	291	261	306	3%	17%	562	566	1%
Other expenses	1,022	1,061	944	590	900	-12%	52%	2,129	1,490	-30%
OPEX	1,318	1,349	1,235	851	1,205	-9%	42%	2,691	2,056	-24%
OPEX/ltr (Rs.)	47.9	47.5	49.0	48.6	40.9	-15%	-16%	47.2	43.8	-7%
Total expenditure	3,456	3,443	3,043	2,158	3,334	-4%	55%	7,084	5,492	-22%
EBITDA	757	775	554	254	783	3%	208%	1,536	1,037	-32%
EBITDA/ltr (Rs.)	27.5	27.3	22.0	14.5	26.5	-4%	83%	26.9	22.1	-18%
Depreciation	79	81	87	84	85	7%	1%	159	169	6%
EBIT	678	694	467	170	698	3%	310%	1,377	868	-37%
Interest	70	44	100	68	48	-32%	-30%	104	116	11%
Other income	84	85	102	129	140	67%	8%	168	269	60%
PBT	692	736	468	232	790	14%	241%	1,441	1,022	-29%
Tax expense	72	177	109	60	199	177%	232%	334	259	-22%
PAT	620	559	359	172	591	-5%	244%	1,107	763	-31%
EPS (Rs)	12.4	11.2	7.2	3.4	11.8	-5%	244%	22.1	15.2	-31%
No. of shares O/S (mn)-FV 5	50.1	50.1	50.1	50.1	50.2	0%	0%	50.1	50.2	0%
EBITDA margin	18%	18%	15%	11%	19%			18%	16%	
NPM	15%	13%	10%	7%	14%			13%	12%	
Effective tax rate	10%	24%	23%	26%	25%			23%	25%	
Reported net debt (ex CM)	(744)	-	(1,750)	-	(2,845)			(744)	(2,845)	
Inventories	3,235	-	3,283	-	2,735			3,235	2,735	
Sundry debtors	1,904	-	1,870	-	1,452			1,904	1,452	
Creditors	2,086	-	2,585	-	1,915			2,086	1,915	

Source: Company, Emkay Research; ^not reported in results

Exhibit 3: Changes in assumptions

Rs mn	FY21E			FY22E			FY23E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
EBITDA/ltr (Rs.)	21.9	23.5	7%	25.9	24.1	-7%	26.9	24.8	-8%
Growth	-15%	-9%	608bps	18%	3%	-1,556bps	4%	3%	-112bps
Sales Volume (mn.ltr)	100	107	8%	109	118	8%	120	128	7%
Growth	-10%	-3%	724bps	10%	10%	0bps	10%	9%	-138bps

Source: Company, Emkay Research

Exhibit 4: Changes in estimates

Rs mn	FY21E			FY22E			FY23E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	14,436	15,165	5%	16,439	17,270	5%	18,433	19,133	4%
EBITDA	2,182	2,527	16%	2,838	2,854	1%	3,235	3,178	-2%
EBITDA Margins	15%	17%	155bps	17%	17%	-74bps	18%	17%	-94bps
PAT	1,591	1,860	17%	2,180	2,135	-2%	2,557	2,427	-5%
EPS (Rs)	31.8	37.1	17%	43.5	42.6	-2%	51.0	48.4	-5%

Source: Company, Emkay Research

Concall highlights

Volumes

- Gulf Oil Lubricants India (GOLI) recorded 29.5mn ltr lube sales volume in Q2FY21 vs. 27.5mn ltr in Q2FY20, up 7% yoy. It recorded volume growth across the board, with Sep'20 clocking the highest ever B2C sales and industry-B2B also at record levels.
- Volume mix was 61% B2C and 49% B2B in Q2. DEO was 36-37%, PM 24% (improving from 20% in Q1), industrial 15% and the remaining share in others. DEO supported by CV OEMs in the last 2 months.
- PCMO was slower in recovering as cities were yet to open and work-from-home was still going on. MCO did well in both urban and rural markets.
- Factory fills volume share recovered to 5% against a very low rate in previous few quarters. Factory fill normal share run rate used to be 9-10%. GOLI expects it to recover going ahead.
- Q2 is generally a seasonally weak quarter due to monsoon but this time, it had the impact of pent-up demand. H2 is better than H1 usually (construction-activities picks up) and Q4 growth this time should be good due to yoy base effect. GOLI is seeing positive demand conditions.
- The market is estimated to decline 5-7% yoy in FY21, against that GOLI achieved over 2-3x in Q2 and hence, there could be market share gains if momentum is maintained.
- Plants are functioning normally (75% overall utilization) with no supply-side challenges. Lube is not a labor intensive industry and the Chennai plant in particular is highly automated.
- GOLI is strong in MCO, DEO, etc. while being relatively weaker in PCMO. Infra-mining and factory fill will take time to recover fully. Positive demand conditions keep improving.
- Export is mostly to neighboring countries and is seeing good traction with share improving from 2-3% to 5% in the segment mix. The Chennai plant is supplying to export markets. Covid-19 has affected those markets too but looking to scale up.

Pricing, costs and margins

- GOLI had rolled back certain schemes and discounts, though some product specific schemes were still there in Q2.
- Jul'20 saw lower raw material base oil costs as there was surplus and low demand, but Aug'20 onward, costs have gone up with recovering demand. If tolerance levels are hit, pricing action/roll back of schemes may happen and GOLI would take a call on that.
- Realization growth in Q2 was affected by mix in terms of higher factory fill share besides continuing schemes.
- GOLI maintains EBITDA margin guidance of 16-18% due to rising input costs (lag impact). But the company has been doing better than that usually.
- The company did a lot of cost management and A&P was recalibrated. It has invested in IPL and social media under A&P but BTL costs relating to travel and events were low due to Covid-19. Ad spends were 3% of sales vs. 5-7% historically. Other players may have also calibrated A&P costs.
- Cost optimization is a key focus and travel, rental and supply chain costs should be under control. It is going for mother warehouses to optimize costs. Warehouse expense is part of opex.

S-Oil tie up

- GOLI has a long-term base oil supply relationship with S-Oil (key supplier to GOLI with many grades). They have high-quality oils with a good PCMO range (Seven is a leader) and is looking to launch outside South Korea.
- It would be a smaller business but Korean PCMO OEMs can be good opportunities. GOLI's market share is still low at 5-6%, hence there is incremental growth through this option also. Both brands can grow together.
- The deal should be revenue and earnings accretive. It is end to end (manufacture + marketing) and be part of the standalone business.

Others

- Net cash as on Sep'20-end was Rs3bn vs. Rs2bn as on Mar'20-end. Other income was driven by interest income.
- GOLI has options to increase dividend payout depending on future outlook. It is looking at M&A.
- BS6 is a better quality oil with higher prices. It is currently supplying to factory fill and franchise workshops but will ultimately reach after market.
- Synthetic oil volume share is in a single digit. Synthetic oils in India may be mineral or ester based.
- Market share in 2W batteries improved and Pride brand is in Top 5 now. GOLI has distribution and technical back-up. Q2 saw 25% volume growth yoy. It is getting good acceptance. Battery gross margin has been stable.

Exhibit 5: Valuation

Rs.	FY18	FY19	FY20	FY21E	FY22E	FY23E
EPS	31.9	35.7	40.4	37.1	42.6	48.4
Target Multiple (x)						20.0
Target Price						910

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17,058	16,435	15,165	17,270	19,133
Expenditure	14,227	13,570	12,638	14,417	15,955
EBITDA	2,831	2,865	2,527	2,854	3,178
Depreciation	224	327	340	365	383
EBIT	2,607	2,538	2,187	2,489	2,795
Other Income	295	355	528	546	550
Interest expenses	152	248	228	181	101
PBT	2,751	2,645	2,487	2,854	3,245
Tax	973	620	627	719	818
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,778	2,025	1,860	2,135	2,427
Adjusted PAT	1,778	2,025	1,860	2,135	2,427

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	100	100	100	100	100
Reserves & surplus	5,768	7,513	8,815	10,202	11,731
Net worth	5,867	7,613	8,915	10,303	11,832
Minority Interest	0	0	0	0	0
Loan Funds	2,831	3,759	2,759	1,759	759
Net deferred tax liability	196	143	123	103	82
Total Liabilities	8,895	11,515	11,797	12,164	12,673
Net block	2,705	2,805	2,647	2,461	2,258
Investment	58	57	58	59	60
Current Assets	8,655	11,597	11,844	12,781	13,825
Cash & bank balance	2,926	5,509	6,227	6,383	6,738
Other Current Assets	507	595	549	625	693
Current liabilities & Provision	2,530	2,951	2,756	3,140	3,474
Net current assets	6,125	8,647	9,089	9,641	10,352
Misc. exp	0	0	0	0	0
Total Assets	8,895	11,515	11,797	12,164	12,673

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	2,455	2,290	1,959	2,308	2,694
Other Non-Cash items	(39)	57	0	0	0
Chg in working cap	(1,826)	8	256	(415)	(377)
Operating Cashflow	170	2,368	2,155	1,718	1,982
Capital expenditure	(275)	(426)	(179)	(179)	(179)
Free Cash Flow	(105)	1,942	1,976	1,539	1,803
Investments	(2)	1	(1)	(1)	(1)
Other Investing Cash Flow	(237)	244	0	0	0
Investing Cashflow	(219)	174	347	366	370
Equity Capital Raised	0	1	0	0	0
Loans Taken / (Repaid)	350	928	(1,000)	(1,000)	(1,000)
Dividend paid (incl tax)	(653)	(421)	(558)	(747)	(898)
Other Financing Cash Flow	166	(218)	1	1	1
Financing Cashflow	(288)	41	(1,785)	(1,927)	(1,998)
Net chg in cash	(336)	2,583	717	157	355
Opening cash position	3,262	2,926	5,509	6,227	6,383
Closing cash position	2,926	5,509	6,227	6,383	6,738

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	16.6	17.4	16.7	16.5	16.6
EBIT Margin	15.3	15.4	14.4	14.4	14.6
Effective Tax Rate	35.4	23.4	25.2	25.2	25.2
Net Margin	10.4	12.3	12.3	12.4	12.7
ROCE	35.9	28.4	23.3	25.3	26.9
ROE	33.7	30.0	22.5	22.2	21.9
RoIC	53.3	42.9	38.2	44.3	48.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	35.7	40.4	37.1	42.6	48.4
CEPS	40.2	46.9	43.9	49.9	56.1
BVPS	117.8	151.9	177.9	205.6	236.1
DPS	11.5	14.0	11.1	14.9	17.9

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	18.9	16.7	18.2	15.8	13.9
P/CEPS	16.8	14.4	15.4	13.5	12.0
P/BV	5.7	4.4	3.8	3.3	2.9
EV / Sales	2.0	2.0	2.0	1.7	1.5
EV / EBITDA	11.8	11.2	12.0	10.2	8.8
Dividend Yield (%)	1.7	2.1	1.6	2.2	2.7

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.2)	(0.4)	(0.4)	(0.5)
Net Debt/EBIDTA	0.0	(0.6)	(1.4)	(1.6)	(1.9)
Working Cap Cycle (days)	68.4	69.7	68.9	68.8	68.9

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	28.0	(3.7)	(7.7)	13.9	10.8
EBITDA	20.1	1.2	(11.8)	12.9	11.4
EBIT	15.7	(2.6)	(13.8)	13.8	12.3
PAT	12.1	13.9	(8.2)	14.8	13.7

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	4,213	4,219	3,597	2,412	4,117
EBITDA	757	775	554	254	783
EBITDA Margin (%)	18.0	18.4	15.4	10.5	19.0
PAT	620	559	359	172	591
EPS (Rs)	12.4	11.2	7.2	3.4	11.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	72.3	72.3	72.3	72.3	72.2
FIs	11.9	11.9	12.0	11.9	11.0
DIs	4.8	5.2	5.4	5.5	6.3
Public and Others	11.0	10.6	10.3	10.4	10.5

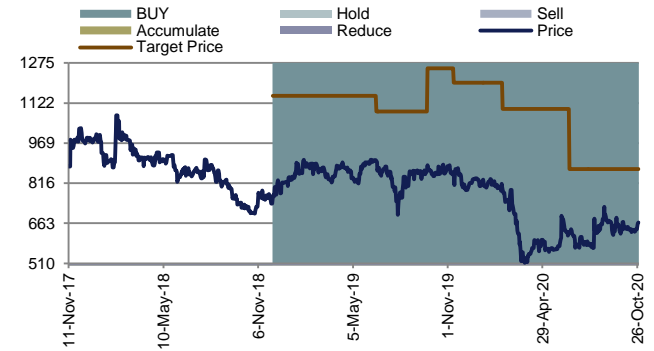
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Sep-20	668	870	12m	Buy	Sabri Hazarika
13-Aug-20	631	870	12m	Buy	Sabri Hazarika
19-Jun-20	630	870	12m	Buy	Sabri Hazarika
6-May-20	565	1,100	12m	Buy	Sabri Hazarika
13-Feb-20	791	1,100	12m	Buy	Sabri Hazarika
24-Jan-20	810	1,200	12m	Buy	Sabri Hazarika
4-Dec-19	797	1,200	12m	Buy	Sabri Hazarika
12-Nov-19	848	1,200	12m	Buy	Sabri Hazarika
25-Oct-19	853	1,255	12m	Buy	Sabri Hazarika
23-Sep-19	885	1,255	12m	Buy	Sabri Hazarika
31-Jul-19	766	1,090	12m	Buy	Sabri Hazarika
18-Jun-19	900	1,090	12m	Buy	Sabri Hazarika
10-Jun-19	900	1,150	12m	Buy	Sabri Hazarika
16-May-19	831	1,150	12m	Buy	Sabri Hazarika
14-Feb-19	889	1,150	12m	Buy	Sabri Hazarika
3-Dec-18	762	1,150	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Oil & Gas



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Sector

Oil & Gas

Analyst bio

Sabri Hazarika holds an MBA and comes with 11 years of research experience. His team currently covers 12 stocks in the Indian Oil & Gas space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Oil & Gas	11.94	11.91	0%	-3	100.00
BPCL	0.43	0.48	12%	5	4.03
GAIL	0.23	0.22	-4%	-1	1.85
Gujarat Gas	0.08	0.08	0%	0	0.66
Gujarat State Petronet	0.08	0.08	6%	0	0.71
Gulf Oil Lubricants	0.00	0.00	NA	0	0.00
HPCL	0.23	0.25	10%	2	2.08
Indian Oil	0.30	0.29	-4%	-1	2.43
Indraprastha Gas	0.22	0.21	-3%	-1	1.77
Petronet LNG	0.26	0.26	3%	1	2.20
Oil India	0.05	0.00	-93%	-4	0.03
ONGC	0.37	0.35	-4%	-2	2.94
Reliance Industries	9.71	9.68	0%	-3	81.03
Cash	0.00	0.03	NA	3	0.26

Source: Emkay Research

* Not under coverage: Equal Weight

High Conviction/Strong Over Weight High Conviction/Strong Under Weight

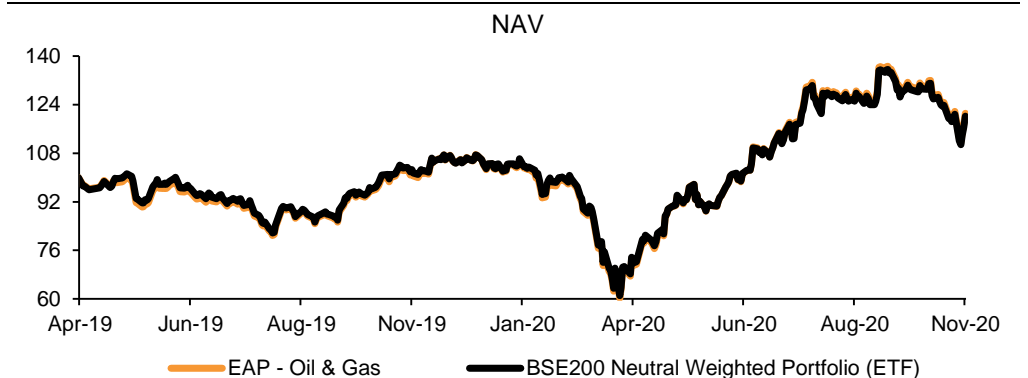
Sector portfolio NAV

	Base					Latest
	1-Apr-19	7-Feb-20	8-May-20	7-Aug-20	7-Oct-20	6-Nov-20
EAP - Oil & Gas	100.0	97.4	96.9	128.7	131.2	121.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	98.6	96.8	127.9	130.3	120.3

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 09 Nov 2020 22:52:20 (SGT)

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