

Power Grid Corporation

Refer to important disclosures at the end of this report

Strong capitalization and operational performance

CMP: Rs 190
as of (November 12, 2020)

TP: Rs 220 (■)
12 months

Rating: BUY (■)

Upside: 15.8 %

- PGCIL's asset capitalization in Q2FY21 increased by 153.2% yoy to Rs106.9bn, led by the commissioning of the first phase of the Raigarh-Pugalur HVDC project during the quarter. Capex, however, declined 14.4% yoy to Rs31bn vs. our estimate of Rs25bn.
- Revenue grew 4.3% yoy to Rs90.6bn, owing to 6.3% growth in the Transmission business, while revenue from Consulting/Telecom businesses fell 37.6%/4.3 yoy. EBITDA rose 5.5% yoy to Rs79.7bn, while margins improved 99bps yoy to 88.0% due to lower other expenses.
- Management has retained its FY21 capex and capitalization guidance of Rs105bn and Rs200-250bn, respectively. We expect capitalization of Rs200bn in FY21 (another Rs82bn in H2FY21 related to the pending work of Raigarh-Pugalur HVDC project) and ~Rs173.3bn for FY22.
- PGCIL has total projects worth Rs410bn in hand and ~Rs179bn of projects are likely to be bid in H1FY21. We have maintained our estimates and TP of Rs220. Retain Buy on strong cash flow, high dividend yield of 6% and InvIT proposal to be executed in Q4FY21E.

Earnings beat estimate: Power Grid reported revenues of Rs90.6bn (+4.3% yoy), in line with our estimate, largely driven by growth in its Transmission segment (+6.3% yoy). Consulting and Telecom segments reported a decline of 37.6% and 4.3% yoy, respectively. EBITDA grew 5.5% yoy to Rs79.7bn and margins improved 99bps to 88% on account of lower other expenses of Rs6.0bn (-7.2% yoy). Other income increased 67.1% yoy to Rs8.3bn on higher surcharge income of Rs2.2bn vs. Rs820mn yoy. Interest expenses were down 11.8% yoy at Rs20.9bn due to debt repayments, while depreciation was up 5.4% yoy at Rs29bn. Overall tax expenses declined 9.7% yoy to Rs6.8bn, while PAT rose 23.5% yoy to Rs31.2bn (above our estimate of Rs26.6bn).

Raigarh-Pugalur HVDC line was commissioned in Q2FY21: In Q2FY21, capitalization stood at Rs106.9bn, up 153.2% yoy, while capex stood at Rs31bn, down 14.4% yoy. H1FY21 capitalization and capex stood at Rs118.7bn and Rs50bn, respectively. The Raigarh-Pugalur project (~Rs95bn) was commissioned in Q2FY21. PGCIL has total projects worth Rs410bn in hand as of Q2FY21, of which CWIP and TBCB stood at Rs290bn and Rs120bn, respectively. We expect these projects to be capitalized over the next 2.5 years. On the new project opportunity, roughly around ~Rs179bn of projects (Rs160bn for renewables and Rs20bn intra-state TBCB) are likely to be bid in the next 1-2 quarters. Considering the scale of renewable capacity addition planned over the next 3-4 years, management expects a total transmission project opportunity worth Rs280-300bn will be tendered in the next two years. Management has retained its capex guidance of Rs105bn and capitalization guidance of Rs200-250bn for FY21. We expect capitalization of Rs200bn in FY21 and ~Rs173.3bn for FY22.

Maintain Buy: We have maintained our FY21/22/23 earnings estimates, with an unchanged TP of Rs220. We maintain Buy, factoring in the risk-averse regulated business model, upcoming transmission opportunity for renewable projects, strong operating cash flow of Rs310bn (FY20) and a high dividend payout on the back of a fall in capex. Key risks include a prolonged delay in project execution, failure to win new projects and delay in lowering its receivable levels.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Power \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,41,191	3,61,855	3,68,148	4,08,618	4,28,714
EBITDA	2,92,821	3,14,017	3,19,928	3,56,889	3,73,355
EBITDA Margin (%)	85.8	86.8	86.9	87.3	87.1
APAT	99,386	1,08,112	1,17,134	1,28,423	1,36,390
EPS (Rs)	19.0	20.7	22.4	24.5	26.1
EPS (% chg)	20.6	8.8	8.3	9.6	6.2
ROE (%)	17.9	17.2	17.3	17.6	17.5
P/E (x)	10.0	9.2	8.5	7.7	7.3
EV/EBITDA (x)	7.7	7.3	7.0	6.3	6.0
P/BV (x)	1.6	1.5	1.4	1.3	1.2

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	22.4	24.5
Consensus	21.4	23.3
Mean Consensus TP (12M)	Rs 208	

Stock Details

Bloomberg Code	PWGR IN
Face Value (Rs)	10
Shares outstanding (mn)	5,232
52 Week H/L	211 / 122
M Cap (Rs bn/USD bn)	992 / 13.34
Daily Avg Volume (nos.)	1,05,73,680
Daily Avg Turnover (US\$ mn)	24.6

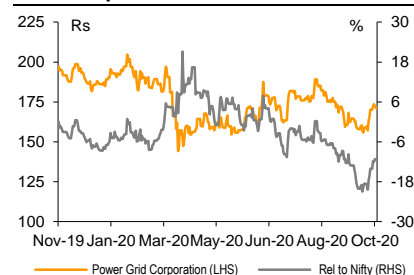
Shareholding Pattern Sep '20

Promoters	51.3%
FIIIs	26.0%
DIIIs	16.1%
Public and Others	6.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	20	7	19	(1)
Rel. to Nifty	12	(5)	(13)	(8)

Relative price chart



Source: Bloomberg

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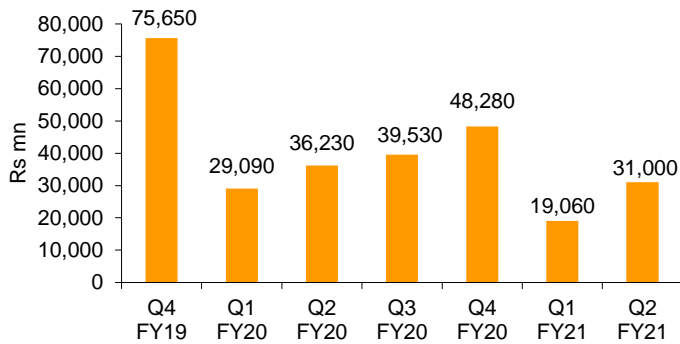
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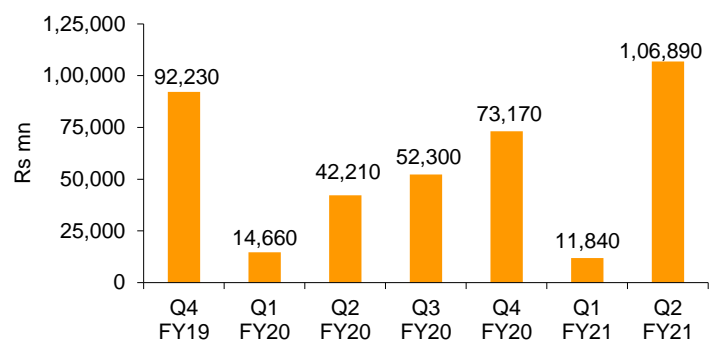
Story in Charts

Exhibit 1: Quarterly capex trend



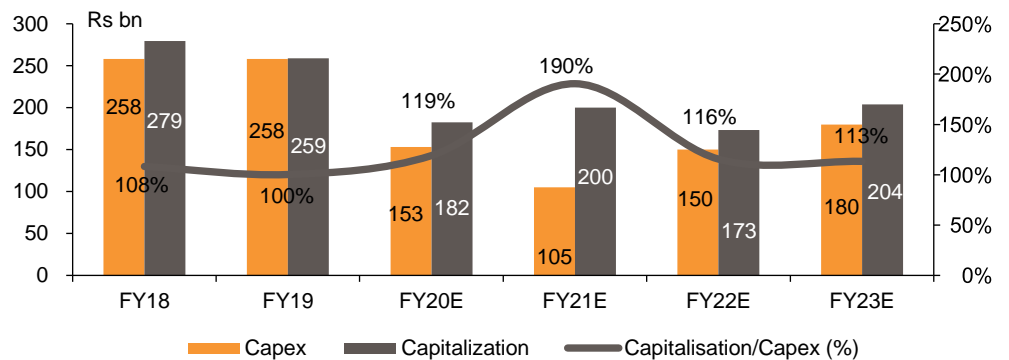
Source: Company, Emkay Research

Exhibit 2: Quarterly capitalization trend



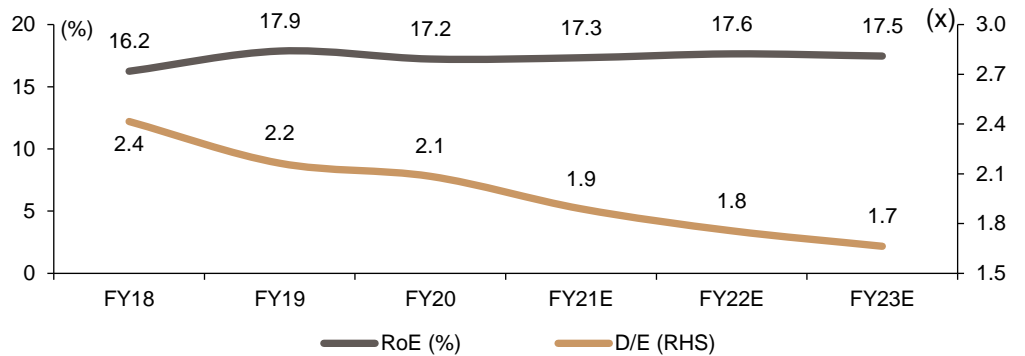
Source: Company, Emkay Research

Exhibit 3: Capex and capitalization trend



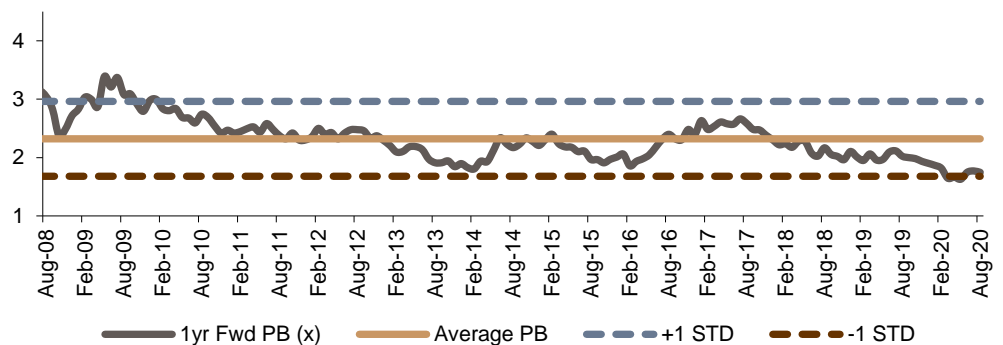
Source: Company, Emkay Research

Exhibit 4: RoE and D/E trend



Source: Company, Emkay Research

Exhibit 5: 1-year Forward P/BV



Source: Company, Emkay Research

Exhibit 6: Actual vs. Estimates (Q2FY21)

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	90,579	90,324	94,454	0.3%	-4.1%	Revenue was driven by growth in the Transmission segment.
EBITDA	79,711	79,124	82,352	0.7%	-3.2%	
EBITDA Margin (%)	88.0	87.6	87.2	+0 bps	+1 bps	
Adjusted net profit	31,174	26,637	28,525	17.0%	9.3%	PAT beat was due to better-than-anticipated other income and lower-than-expected interest income.

Source: Company, Emkay Research

Exhibit 7: Quarterly performance

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	1HFY20	1HFY21	YoY (%)
Revenue	86,850	89,920	97,045	89,887	90,579	4.3	0.8	1,73,718	1,80,466	3.9
Expenditure	(11,281)	(11,157)	(16,323)	(11,116)	(10,868)	-3.7	-2.2	-20,358	-21,984	8.0
as % of sales	-13.0%	-12.4%	-16.8%	-12.4%	-12.0%			-11.7%	-12.2%	
Employee Cost	(4,846)	(4,791)	(4,977)	(4,861)	(4,894)	1.0	0.7	-9,826	-9,755	-0.7
as % of sales	-5.6%	-5.3%	-5.1%	-5.4%	-5.4%			-5.7%	-5.4%	
Other expenditure	(6,435)	(6,366)	(11,346)	(6,255)	(5,974)	-7.2	-4.5	-10,531	-12,229	16.1
as % of sales	-7.4%	-7.1%	-11.7%	-7.0%	-6.6%			-6.1%	-6.8%	
EBITDA	75,569	78,762	80,722	78,772	79,711	5.5	1.2	1,53,361	1,58,482	3.3
Depreciation	(27,482)	(28,024)	(28,636)	(27,970)	(28,967)	5.4	3.6	-54,072	-56,937	5.3
EBIT	48,088	50,738	52,086	50,802	50,744	5.5	-0.1	99,289	1,01,546	2.3
Other Income	4,982	5,049	7,051	6,314	8,323	67.1	31.8	9,225	14,637	58.7
Interest	(23,761)	(24,740)	(26,044)	(22,786)	(20,950)	-11.8	-8.1	-47,352	-43,736	-7.6
PBT	32,827	34,668	42,850	27,520	37,998	15.8	38.1	65,789	65,518	-0.4
Total Tax	7,555	7,933	11,024	7,731	6,824	-9.7	-11.7	16,239	14,555	-10.4
Adjusted PAT	25,271	26,735	31,827	30,539	31,211	23.5	2.2	48,378	61,750	27.6
Extra ordinary items	-	-	-	10,750	36			0	10,786	
Reported PAT	25,271	26,735	31,827	19,789	31,174	23.4	57.5	49,550	50,963	2.9
Adjusted EPS	4.8	5.1	6.1	5.8	6.0	23.5	2.2	9	12	27.6

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	87.0	87.6	83.2	87.63	88.00	99	37	88.3	87.8	-46
EBIT	55.4	56.4	53.7	56.5	56.0	65	-50	57.2	56.3	-89
EBT	37.8	38.6	44.2	30.6	41.9	415	1133	37.9	36.3	-157
APAT	29.1	29.7	32.8	22.0	34.5	536	1244	27.8	34.2	637
Effective Tax rate	23.0	22.9	25.7	28.1	18.0	-506	-1013	24.7	22.2	-247

Source: Company, Emkay Research

Exhibit 8: Capex and capitalization data

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	1HFY20	1HFY21	YoY (%)
Capitalization	42,210	52,300	73,170	11,840	1,06,890	153.2	802.8	56,870	1,18,730	108.8
Capex	36,230	39,530	48,280	19,060	31,000	-14.4	62.6	65,320	50,060	-23.4
Cumulative capitalization	22,98,528	23,50,828	24,23,998	24,35,838	25,42,728	10.6	4.4	22,98,528	25,42,728	10.6

Source: Company, Emkay Research

Exhibit 9: Segment-wise details

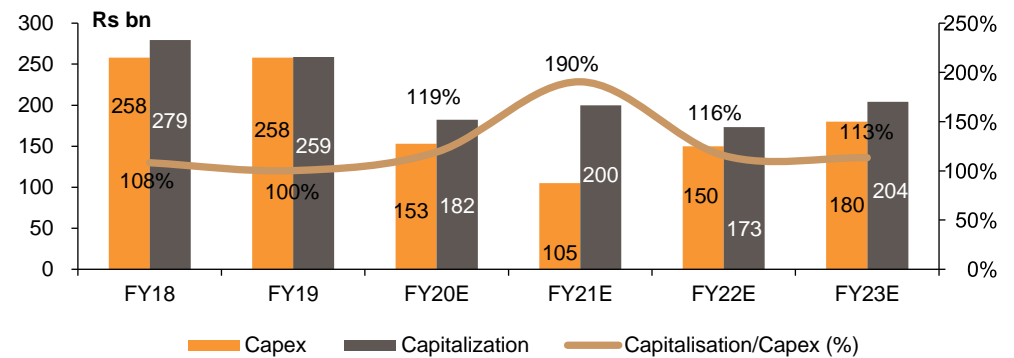
Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	1HFY20	1HFY21	YoY (%)
Total income	88,495	91,350	99,572	93,139	93,152	5.3	0.0	1,78,011	1,86,291	4.7
Transmission	84,976	88,137	96,004	90,450	90,344	6.3	-0.1	1,71,488	1,80,794	5.4
Consultancy	1,736	1,440	1,741	985	1,084	-37.6	10.0	2,999	2,069	-31.0
ULDC/RLDC	0	0	0	0	0			0	0	
Telecom	1,987	1,980	1,916	1,876	1,902	-4.3	1.4	3,927	3,778	-3.8
Less: Intersegment	-203	-207	-90	-173	-177	-12.8	2.4	-403	-350	-13.2

Source: Company, Emkay Research

Capitalization/capex ratio to rise in FY21E due to low capex but would settle at 1.1x in subsequent years

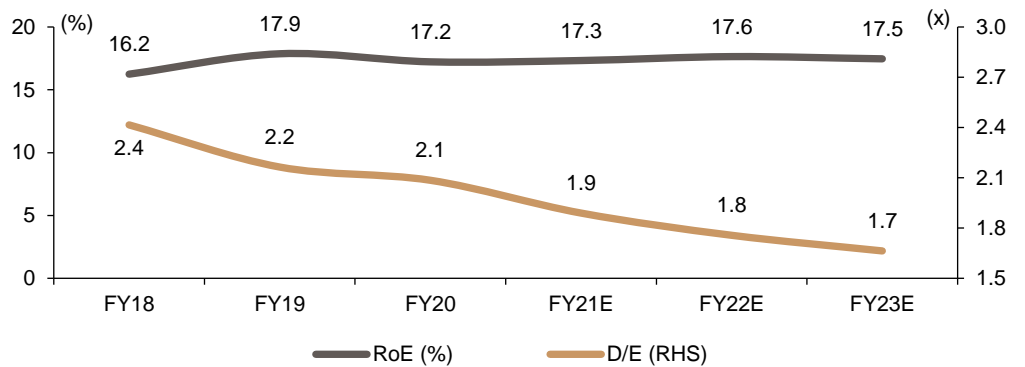
PGCIL's capitalization-to-capex ratio in FY20 stood at ~1.2x. For FY21, we expect the ratio to increase to 1.9x due to the commissioning of the Raigarh-Pugalur project (~Rs90bn project) in the current fiscal and a fall in capex (Rs105bn in FY21 vs. Rs153bn in FY20). However, we expect the capitalization-to-capex ratio to normalize at 1.1x going ahead, with the revival in capex from FY22.

Exhibit 10: Capex and capitalization trend



Source: Emkay Research, Company

Exhibit 11: RoE and D/E trend



Source: Company, Emkay Research

Exhibit 12: Capex and capitalization trend

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Capex (Rs bn)	258.0	258.1	153.1	105.0	150.0	180.0
Capitalization (Rs bn)	279.3	258.7	182.3	200.0	173.3	204.0

Source: Company, Emkay Research

Exhibit 13: SoTP valuation table

SOTP	Total value (Rs mn)	Per/share	Multiple	TP
Regulated Equity	798544	153	1.3	201
CWIP	85119	16	1.0	16
Cash & Inv	13600	3	1.0	3
Total Value				220

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,41,191	3,61,855	3,68,148	4,08,618	4,28,714
Expenditure	48,370	47,838	48,220	51,728	55,359
EBITDA	2,92,821	3,14,017	3,19,928	3,56,889	3,73,355
Depreciation	1,02,007	1,10,732	1,16,032	1,20,625	1,26,031
EBIT	1,90,815	2,03,285	2,03,896	2,36,264	2,47,324
Other Income	14,990	21,324	17,226	17,552	17,092
Interest expenses	90,914	98,136	93,831	92,767	93,382
PBT	1,14,890	1,26,474	1,27,292	1,61,050	1,71,033
Tax	(35,033)	52,030	29,937	32,627	34,644
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	99,386	1,08,112	1,17,134	1,28,423	1,36,390
Adjusted PAT	99,386	1,08,112	1,17,134	1,28,423	1,36,390

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	52,316	52,316	52,316	52,316	52,316
Reserves & surplus	6,79,947	7,44,255	7,96,965	8,48,335	9,02,890
Net worth	7,32,263	7,96,571	8,49,281	9,00,651	9,55,206
Minority Interest	0	0	0	0	0
Loan Funds	13,10,395	13,54,211	13,26,662	13,23,811	13,44,255
Net deferred tax liability	1,00,930	1,13,819	1,14,137	1,14,477	1,14,837
Total Liabilities	21,43,589	22,64,601	22,90,080	23,38,938	24,14,299
Net block	16,22,669	16,83,390	17,78,245	18,30,953	19,08,922
Investment	1,53,882	1,79,936	1,58,926	1,49,815	1,41,615
Current Assets	2,29,378	2,45,363	2,91,997	3,20,591	3,50,183
Cash & bank balance	43,320	53,945	83,237	81,959	89,166
Other Current Assets	54,806	63,476	73,476	88,476	1,03,476
Current liabilities & Provision	3,21,141	2,90,896	2,90,896	2,90,896	2,90,896
Net current assets	(91,764)	(45,533)	1,101	29,695	59,287
Misc. exp	1,23,021	1,42,812	1,42,812	1,42,812	1,42,812
Total Assets	21,43,589	22,64,601	22,90,080	23,38,938	24,14,299

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	99,900	1,05,149	1,10,066	1,43,498	1,53,941
Other Non-Cash items	76,082	10,082	0	0	0
Chg in working cap	(10,361)	(22,718)	(17,024)	(29,532)	(22,024)
Operating Cashflow	3,11,105	2,70,564	2,92,747	3,90,159	3,16,687
Capital expenditure	(2,35,406)	(1,39,669)	(1,15,887)	(1,50,000)	(1,80,000)
Free Cash Flow	75,699	1,30,896	1,76,860	2,40,159	1,36,687
Investments	(16,094)	(26,054)	21,010	9,111	8,200
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(2,36,510)	(1,44,398)	(77,651)	(1,23,337)	(1,54,708)
Equity Capital Raised	0	0	0	(95,428)	0
Loans Taken / (Repaid)	86,192	43,816	(27,550)	(2,851)	20,445
Dividend paid (incl tax)	(48,257)	(61,222)	(64,424)	(77,054)	(81,834)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(52,979)	(1,15,542)	(1,85,804)	(2,68,100)	(1,54,771)
Net chg in cash	21,616	10,625	29,292	(1,278)	7,207
Opening cash position	21,704	43,320	53,945	83,237	81,959
Closing cash position	43,320	53,945	83,237	81,959	89,166

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	85.8	86.8	86.9	87.3	87.1
EBIT Margin	55.9	56.2	55.4	57.8	57.7
Effective Tax Rate	(30.5)	41.1	23.5	20.3	20.3
Net Margin	29.1	29.9	31.8	31.4	31.8
ROCE	10.6	10.9	10.4	11.7	11.9
ROE	17.9	17.2	17.3	17.6	17.5
RoIC	13.2	13.2	12.4	13.6	13.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	19.0	20.7	22.4	24.5	26.1
CEPS	38.5	41.8	44.6	47.6	50.2
BVPS	115.8	124.2	134.2	144.0	154.5
DPS	7.9	10.0	12.3	14.7	15.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	10.0	9.2	8.5	7.7	7.3
P/CEPS	4.9	4.5	4.3	4.0	3.8
P/BV	1.6	1.5	1.4	1.3	1.2
EV / Sales	6.6	6.3	6.1	5.5	5.2
EV / EBITDA	7.7	7.3	7.0	6.3	6.0
Dividend Yield (%)	4.2	5.3	6.5	7.8	8.2

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	2.1	2.0	1.8	1.6	1.6
Net Debt/EBIDTA	4.3	4.1	3.9	3.5	3.4
Working Cap Cycle (days)	(144.5)	(100.3)	(81.4)	(46.7)	(25.4)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	14.7	6.1	1.7	11.0	4.9
EBITDA	12.9	7.2	1.9	11.6	4.6
EBIT	13.3	6.5	0.3	15.9	4.7
PAT	20.6	8.8	8.3	9.6	6.2

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	86,850	89,920	97,045	89,887	90,579
EBITDA	75,569	78,762	80,722	78,772	79,711
EBITDA Margin (%)	87.0	87.6	83.2	87.6	88.0
PAT	25,271	26,735	31,827	19,789	31,174
EPS (Rs)	4.8	5.1	6.1	3.8	6.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	55.4	55.0	51.3	51.3	51.3
FII's	27.8	27.3	27.0	25.3	26.0
DII's	12.4	13.2	16.7	18.3	16.1
Public and Others	4.5	4.5	5.1	5.1	6.6

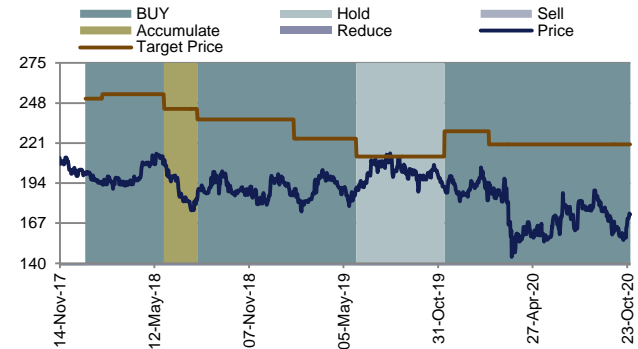
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
30-Sep-20	162	220	12m	Buy	Anuj Upadhyay
11-Aug-20	177	220	12m	Buy	Anuj Upadhyay
05-Aug-20	176	220	12m	Buy	Anuj Upadhyay
30-Jul-20	177	220	12m	Buy	Anuj Upadhyay
30-Jun-20	175	220	12m	Buy	Anuj Upadhyay
23-Jun-20	187	220	12m	Buy	Anuj Upadhyay
31-May-20	158	220	12m	Buy	Anuj Upadhyay
16-May-20	160	220	12m	Buy	Anuj Upadhyay
01-May-20	162	220	12m	Buy	Anuj Upadhyay
10-Apr-20	164	220	12m	Buy	Anuj Upadhyay
27-Feb-20	186	220	12m	Buy	Anuj Upadhyay
04-Feb-20	194	220	12m	Buy	Anuj Upadhyay
30-Jan-20	194	229	12m	Buy	Anuj Upadhyay
29-Jan-20	192	229	12m	Buy	Anuj Upadhyay
01-Jan-20	196	229	12m	Buy	Anuj Upadhyay
27-Nov-19	195	229	12m	Buy	Anuj Upadhyay
12-Nov-19	192	229	12m	Buy	Anuj Upadhyay
25-Sep-19	199	212	12m	Hold	Anuj Upadhyay
29-Aug-19	205	212	12m	Hold	Anuj Upadhyay
02-Aug-19	211	212	12m	Hold	Anuj Upadhyay
24-Jun-19	199	212	12m	Hold	Anuj Upadhyay
29-May-19	190	212	12m	Hold	Anuj Upadhyay
22-Apr-19	195	224	12m	Buy	Anuj Upadhyay
31-Jan-19	189	224	12m	Buy	Anuj Upadhyay
18-Jan-19	194	237	12m	Buy	Anuj Upadhyay
16-Dec-18	186	237	12m	Buy	Anuj Upadhyay
01-Aug-18	185	237	12m	Buy	Anuj Upadhyay
03-Jul-18	185	244	12m	Accumulate	Anuj Upadhyay
30-May-18	210	244	12m	Accumulate	Anuj Upadhyay
02-May-18	205	254	12m	Buy	Anuj Upadhyay
01-Mar-18	197	254	12m	Buy	Anuj Upadhyay
02-Feb-18	193	254	12m	Buy	Anuj Upadhyay
30-Jan-18	195	251	12m	Buy	Anuj Upadhyay
01-Jan-18	200	251	12m	Buy	Anuj Upadhyay

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Power



Analyst: Anuj Upadhyay

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Sector

Power

Analyst bio

Anuj Upadhyay holds an MMS in Finance and FRM (US GARP), and has total 10 years of research experience. He currently covers 8 stocks in the Power sector and 2 in the Ports space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Power	1.59	1.59	0%	0	100.00
Apar Industries	0.00	0.00	NA	0	0.00
CESC	0.00	0.00	NA	0	0.01
Gujarat Industries Power	0.00	0.00	NA	0	0.00
JSW Energy	0.04	0.02	-56%	-2	0.98
NHPC	0.08	0.08	5%	0	4.97
NTPC	0.65	0.65	1%	1	41.01
Power Grid Corporation	0.70	0.70	0%	0	43.90
Cash	0.00	0.00	NA	0	0.03

Source: Emkay Research

* Not under coverage: Equal Weight

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

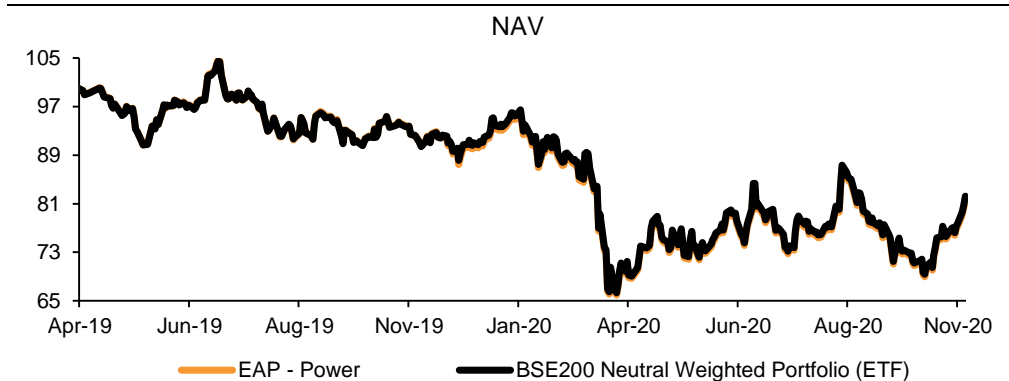
Sector portfolio NAV

	Base					Latest
	1-Apr-19	12-Feb-20	13-May-20	12-Aug-20	12-Oct-20	11-Nov-20
EAP - Power	100.0	91.4	76.0	77.2	71.2	81.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	91.9	76.4	77.6	71.6	82.2

*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: 12 Nov 2020 21:30:59 (SGT)

Dissemination Date: 12 Nov 2020 21:31:59 (SGT)

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