

Dhanuka Agritech

Refer to important disclosures at the end of this report

Tracking expectations; outlook upbeat

CMP	Target Price
Rs 720 as of (May 24, 2022)	Rs 1,000 (■) 12 months
Rating	Upside
BUY (■)	39.0 %

- DAGRI delivered a healthy performance in Q4FY22, beating consensus EBITDA/PAT estimates by 11%/20%. Revenues grew by 16% YoY, beating street estimates by 4%. Operating profit, on the other hand, grew by only 1% due to RM cost inflation and a 33% rise in other expenses YoY. Top-line growth of 16% was driven by 11% volume growth and the rest through pricing gains. Despite flat EBITDA, Q4 PAT grew by 12% YoY, aided by higher other income (due to insurance claim) and a lower effective tax rate.
- DAGRI's topline performance was driven by encouraging double-digit growth across all the regions, except South, which fell ~3% YoY due to cyclones and black thrips attacks. Herbicides registered a robust ~39% YoY growth, followed by Fungicides/Others/Insecticides, up ~22%/~16%/4% YoY.
- Management has guided for double-digit topline growth in FY23, aided by expectations of a normal monsoon in H1FY23 and a buoyant commodity price environment, which will encourage farmers to use high-quantity crop protection products. Management expects EBITDA margins to remain at the same level as FY22 (17.8%).
- DAGRI's greenfield expansion project is progressing as per the schedule and is expected to be commissioned by FY23-end with material revenue contribution from FY24. Additionally, it has established a biological products division and a new exports division to support revenue growth in the future. We remain optimistic about DAGRI's growth prospects on the back of ongoing Rs3bn capex to foray into exports and for new initiatives such as biologicals and drones.
- **What we liked?** 1) Strong Q4 revenue growth driven by volumes amid challenging market conditions; 2) Growing focus on high-value specialty products driving mix improvement; 3) Healthy new product launch pipeline with target to launch 7 new products in FY23E; 4) Investment in new high-growth areas to sustain growth momentum in the future.
- **What we didn't like?** 1) Slow pace of cost pass through; 2) Lagging innovation momentum
- DAGRI's FY22 innovation turnover index (ITI) was a tad lower at 10% (11%) due to 1) a delay in new product introduction caused by Covid-19 (~9-10 months), 2) a relatively longer gestation period for registering 9(3) products (up to 6-7yrs), and 3) phase-out of some of the new 9(4) launches in 2-3 years. Management has addressed this issue and is now launching products with longevity. Barring monsoon vagaries, FY23 double-digit revenue growth guidance is intact.
- **Valuation and Outlook:** We believe that Dhanuka's healthy new product pipeline will keep up growth momentum in the domestic market, while Dahej greenfield capex will help the company to tap the export opportunity. For FY23/FY24, we have revised our revenue estimates by 2.4%/0.8%, EBITDA estimates by 6.9%/2.8% and earnings estimates by 5.6%/1.7%, factoring in new product launches and improving mix. We maintain Buy with an unchanged Mar'23E TP of Rs1,000, implying FY24E P/E of 19x. Key assumptions: 1) 10.75% cost of equity, 2) 10% PAT CAGR in FY25-35E, and 3) terminal growth rate of 5% starting from FY35E.
- **Downside Risk:** Due to increased working capital requirements, we have factored in additional borrowings, which may lead to a slight moderation in earnings. If management fails to deliver on the guidance, our earnings estimates will witness further moderation.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Agri Input & Chemicals \(Page 10\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	13,875	14,778	16,112	18,450	20,871
EBITDA	2,691	2,635	2,858	3,272	3,741
EBITDA Margin (%)	19.4	17.8	17.7	17.7	17.9
APAT	2,106	2,089	2,189	2,468	2,801
EPS (Rs)	45.2	44.8	47.0	53.0	60.1
EPS (% chg)	52.2	(0.8)	4.8	12.8	13.5
ROE (%)	28.0	23.8	21.1	20.7	20.5
P/E (x)	15.9	16.0	15.3	13.6	12.0
EV/EBITDA (x)	11.4	11.4	10.6	9.1	7.8
P/BV (x)	4.2	3.5	3.0	2.6	2.3

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	5.6/1.7
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	47.0	53.0
Consensus	48.2	53.8
Mean Consensus TP (12M)	Rs 937	

Stock Details

Bloomberg Code	DAGRI IN
Face Value (Rs)	2
Shares outstanding (mn)	47
52 Week H/L	1,054 / 635
M Cap (Rs bn/USD bn)	34 / 0.43
Daily Avg Volume (nos.)	51,862
Daily Avg Turnover (US\$ mn)	0.5

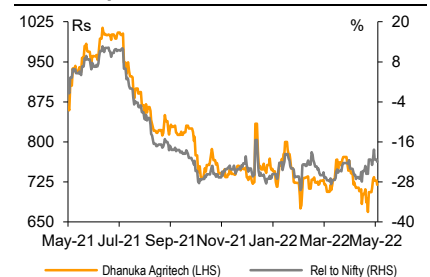
Shareholding Pattern Mar '22

Promoters	70.0%
FIIIs	3.7%
DIIIs	17.5%
Public and Others	8.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	6	(2)	(19)
Rel. to Nifty	3	11	6	(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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Concall highlights – Guided for double-digit revenue growth with flat EBITDA margins YoY; three 9(3) and four 9(4) products slated for launch in FY23

Business Highlights

- FY22 ITI – 10% (FY21 – 11%)
- FY22 – ~Rs200mn revenue impact due to discontinuation of sale of Red Triangle Products; no Red Triangle Products in basket now
- Strong growth coming from weedicide portfolio
- Drone start-up – invested Rs200mn, investment commitment of Rs300mn (as per previous concall)
- Dependent on China for technicals and intermediates – Impacted by one-and-a-half-month long shutdown of Shanghai port
- Established Biological Products Division and a new Exports Division – To start contributing from FY23
- Importing RM on CIF basis
- Shanghai port – Easing situation; supply situation to improve from the June first week

Q4/ FY22 Financial Performance – Volume growth of 3.1% in FY22

- FY22 6.5% revenue growth – volume growth 3.1%
- Q4 volume growth – 11%
- Market volume growth – guess of 2-4%
- Input cost inflation – not completely passed on, will be able to pass on in Q1 (3-4% YoY) and Q2 (~2% YoY)

Q4 Region-wise Sales Breakup

- North – 27% (25%)
- South – 37% (44%)
- East – 13% (12%)
- West – 22% (19%)

Q4 Segment-wise Break-up

- Insecticides – 45% (50%)
- Fungicides – 19% (18%)
- Herbicides – 24% (20%)
- Others (PGN) – 11% (12%)

New Product Launches – Three 9(3) products slated for launch in Q1FY23 along with three 9(4) products

- Zanet (fungicide) – 9(3) Registration for Thiophanate Methyl + Kasugamycin in Dec-21, developed jointly in partnership with Nippon Soda Co Ltd, Japan and Hokko Chemicals Co. Ltd., Japan, horticulture crops for powdery mildew, to be launched on 27 May 2022
- Cornex (herbicide) – 9(3) Registration for Halosulfuron Methyl + Atrazine in Jan-22, developed in collaboration with Nissan Chemicals Corporation, Japan, herbicide for Maize crops, to be launched on 27 May 2022
- Decide (insecticide) – 9(3) Registration for Etofenprox + Diafentheturon in Jan-22, developed in collaboration with Mitsui Chemicals Ltd, Japan, control of thrips in cotton and chilly, to be launched in June 2022
- Revenue potential of Rs500mn over the next 2-3 years
- Three 9(4) herbicides – For paddy, tea, and cotton, to be launched in June 2022
- Targets to launch 8 new products in next 2 years

Greenfield capex – Investment going as per schedule

- Overall capex – ~ Rs3bn
- Commissioning – All units to be commissioned by Mar 23 - Formulation unit, one insecticide MPP plant for synthetic pyrethroids, and a MPP weedicide plant
- Revenue potential – no contribution in FY23, FY24E Rs2bn, FY25/ 26E – Rs3.5bn
- EBITDA margins – 12-15%

Outlook and Guidance – Double-digit revenue growth with similar to FY22 EBITDA margins

- FY23 Revenue – Expects double-digit growth due to delay in monsoon
- FY23 EBITDA – Expects to keep the EBITDA margins at FY22 levels (17.8%)
- FY23 capex – Rs1.2bn Dahej, Rs200mn regular capex
- Biologicals – Expects something by end-FY23
- Exports – to start some generics supplies in FY23

Summary of Quarterly results

Exhibit 1: Quarterly Snapshot

Rs. Mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY%	QoQ%	Comments
Sales	3,738	4,424	2,957	2,756	3,638	4,388	3,569	3,183	15.5	(10.8)	Volume led growth across regions except South
Cost of Raw Material	2,457	2,743	1,859	1,574	2,411	2,770	2,317	1,893	20.2	(18.3)	
as % of sales	65.72	62.00	62.87	57.13	66.26	63.13	64.94	59.46			Gross margin impacted due to consistent increase in RM along with delay in cost pass-through
Employee expenses	314	339	267	263	293	338	298	275	4.8	(7.6)	
as % of sales	8.39	7.66	9.03	9.54	8.07	7.71	8.35	8.65			
Other Expenses	315	452	329	272	323	458	403	363	33.4	(9.9)	
as % of sales	8.42	10.22	11.12	9.88	8.87	10.44	11.29	11.41			Higher fuel and logistics costs
Total Expenditure	3,086	3,534	2,454	2,109	3,027	3,567	3,018	2,531	20.0	(16.1)	
EBITDA	653	890	502	646	611	822	550	652	0.9	18.5	Gross margin contraction along with steep increase in other expenses
Depreciation	32	32	41	47	38	41	40	45			
EBIT	621	858	461	599	573	781	511	607	1.3	18.9	
Other Income	74	82	94	87	77	69	67	122			
Interest cost	3	3	10	11	9	7	9	8	(32.6)	(12.5)	
PBT	692	937	545	676	642	843	569	722	6.8	26.8	
Total Tax	174	236	144	189	156	210	144	178	(6.0)	23.4	
PAT before Minority Interest	518	701	400	486	486	634	425	544	11.8	28.0	
PAT before extra	518	701	400	486	486	634	425	544	11.8	28.0	
Exceptional Items	-	-	-	-	-	-	-	-			
Reported PAT	518	701	400	486	486	634	425	544	11.8	28.0	
Minority Interest	-	-	-	-	-	-	-	-			
Share of Profit/(loss) from asso.	-	-	-	-	-	-	-	-			
Reported Consolidated PAT	518	701	400	486	486	634	425	544	11.8	28.0	
Adj. Consolidated PAT	518	701	400	486	486	634	425	544	11.8	28.0	Higher Other income along with lower Tax outgo
Margins (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	bps	bps	
EBIDTA	17.5	20.1	17.0	23.5	16.8	18.7	15.4	20.5	(297)	506	
EBIT	16.6	19.4	15.6	21.8	15.8	17.8	14.3	19.1	(267)	477	
PBT	18.5	21.2	18.4	24.5	17.6	19.2	16.0	22.7	(184)	673	
PAT	13.9	15.8	13.5	17.7	13.4	14.4	11.9	17.1	(56)	518	
Effective Tax rate	25.2	25.2	26.5	28.0	24.3	24.9	25.3	24.6	(337)	(68)	

Source: Company, Emkay Research

Exhibit 2: Quarterly Result Summary

Rs. Mn	Q4FY22	Q4FY21	YoY%	Q3FY21	QoQ%	FY22	FY21	Chg%
Sales	3,183	2,756	15.5	2,957	7.7	14,778	13,875	6.5
Cost of Raw Material	1,893	1,574	20.2	1,859	1.8	9,391	8,633	8.8
as % of sales	59.46	57.13		62.87	-	63.55	62.22	
Employee expenses	275	263	4.8	267	3.1	1,205	1,183	1.9
as % of sales	8.65	9.54		9.03	-	8.15	8.52	
Other Expenses	363	272	33.4	329	10.5	1,547	1,368	13.1
as % of sales	11.41	9.88		11.12	-	10.47	9.86	
Total Expenditure	2,531	2,109	20.0	2,454	3.1	12,143	11,184	8.6
EBITDA	652	646	0.9	502	29.8	2,635	2,691	(2.1)
Depreciation	45	47		41	-	163	152	
EBIT	607	599	1.3	461	31.8	2,472	2,539	(2.6)
Other Income	122	87		94	-	336	337	
Interest cost	8	11	(32.6)	10	(25.0)	32	27	18.9
PBT	722	676	6.8	545	32.5	2,776	2,849	(2.6)
Total Tax	178	189	(6.0)	144	23.3	687	744	(7.6)
PAT before Minority Interest	544	486	11.8	400	35.9	2,089	2,106	(0.8)
Minority Interest	-	-		-	-	-	-	
P&L from associate/JV	-	-		-	-	-	-	
PAT before extra	544	486	11.8	400	35.9	2,089	2,106	(0.8)
Exceptional Items	-	-		-	-	-	-	
Reported PAT	544	486	11.8	400	35.9	2,089	2,106	(0.8)
Minority Interest	-	-	-	-	-	-	-	-
Share of Profit/(loss) from asso.	-	-	-	-	-	-	-	-
Reported Consolidated PAT	544	486	11.8	400	35.9	2,089	2,106	(0.8)
Adj. Consolidated PAT	544	486	11.8	400	35.9	2,089	2,106	(0.8)
Margins (%)	Q4FY22	Q4FY21	bps	Q3FY21	bps	FY22	FY21	bps
EBIDTA	20.5	23.5	(297)	17.0	350	17.8	19.4	(157)
EBIT	19.1	21.8	(267)	15.6	349	16.7	18.3	(157)
PBT	22.7	24.5	(184)	18.4	426	18.8	20.5	(175)
PAT	17.1	17.7	(56)	13.5	355	14.1	15.2	(104)
Effective Tax rate	24.6	28.0	(337)	26.5	(185)	24.7	26.1	(135)

Source: Company, Emkay Research

Exhibit 3: Actual vs. Estimates

(in Rs mn)	Actual	Estimates Consensus	% Variation Consensus	Comment
Revenue	3,183	3,051	4.3	
EBITDA	652	590	10.5	
Adj. PAT	544	453	20.1	

Source: Emkay Research, Company

Exhibit 4: Changes in estimates

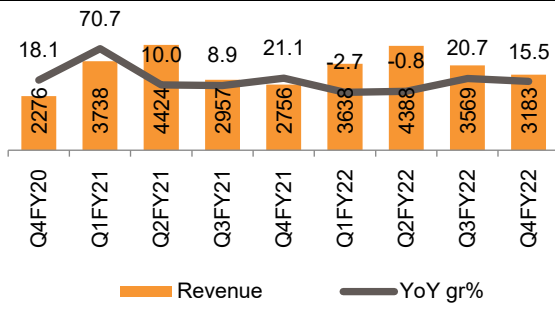
Rs mn	FY23E			FY24E			FY25E
	Old	New	%chg	Old	New	%chg	New
Revenue	15,728	15,981	1.6	18,296	18,574	1.5	21,062
EBITDA	2,674	2,760	3.2	3,184	3,236	1.6	3,661
Adj. PAT	2,074	2,130	2.7	2,426	2,456	1.2	2,757
EPS (Rs)	44.5	45.7	2.7	52.1	52.7	1.2	59.2

Source: Emkay Research, Company

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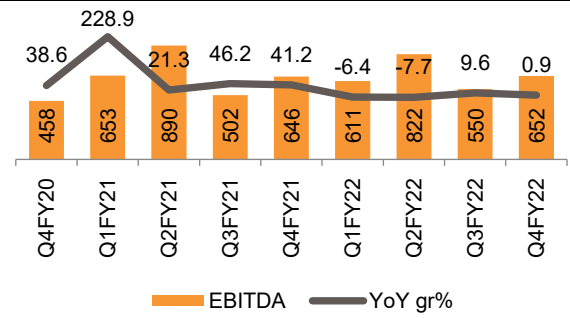
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Exhibit 5: Revenue growth at ~16% YoY in Q4FY22



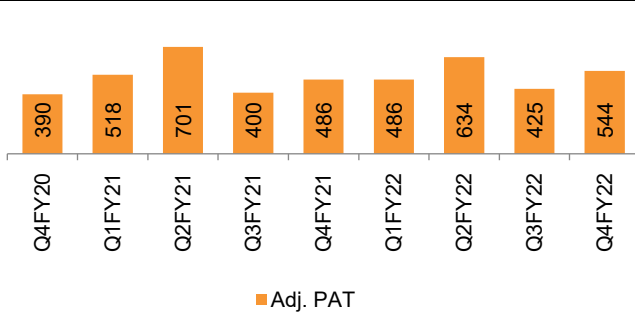
Source: Emkay Research, Company

Exhibit 6: EBITDA growth flat on YoY basis



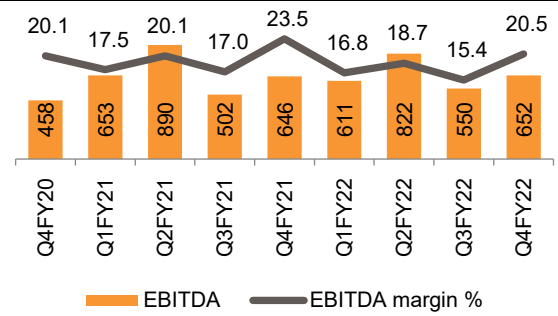
Source: Emkay Research, Company

Exhibit 7: Earnings (Rs mn) grew by ~12% YoY in Q4FY22



Source: Emkay Research, Company

Exhibit 8: Operating margin contraction on YoY basis



Source: Emkay Research, Company

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	13,875	14,778	16,112	18,450	20,871
Expenditure	11,184	12,143	13,254	15,178	17,130
EBITDA	2,691	2,635	2,858	3,272	3,741
Depreciation	152	163	239	295	336
EBIT	2,539	2,472	2,619	2,977	3,406
Other Income	337	336	353	370	389
Interest expenses	27	32	46	47	49
PBT	2,849	2,776	2,926	3,300	3,745
Tax	744	687	737	831	944
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	2,106	2,089	2,189	2,468	2,801
Adjusted PAT	2,106	2,089	2,189	2,468	2,801

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	93	93	93	93	93
Reserves & surplus	7,869	9,511	11,043	12,647	14,468
Net worth	7,962	9,604	11,136	12,741	14,561
Minority Interest	0	0	0	0	0
Loan Funds	84	10	210	210	210
Net deferred tax liability	83	56	56	56	56
Total Liabilities	8,128	9,669	11,402	13,006	14,827
Net block	1,669	1,587	2,653	3,163	3,482
Investment	2,780	3,359	3,359	3,359	3,359
Current Assets	6,785	7,693	8,283	9,451	10,999
Cash & bank balance	15	24	82	447	1,186
Other Current Assets	907	1,258	1,258	1,258	1,258
Current liabilities & Provision	3,182	3,452	3,376	3,450	3,497
Net current assets	3,603	4,240	4,906	6,001	7,502
Misc. exp	0	0	0	0	0
Total Assets	8,128	9,669	11,402	13,006	14,827

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,512	2,440	2,573	2,929	3,356
Other Non-Cash items	0	0	0	0	0
Chg in working cap	587	(655)	(609)	(729)	(763)
Operating Cashflow	2,311	1,043	1,512	1,711	2,035
Capital expenditure	(636)	(488)	(1,305)	(805)	(655)
Free Cash Flow	1,675	555	207	906	1,380
Investments	(1,191)	(579)	0	0	0
Other Investing Cash Flow	1,415	884	0	0	0
Investing Cashflow	(1,266)	(426)	(952)	(435)	(266)
Equity Capital Raised	(2)	0	0	0	0
Loans Taken / (Repaid)	4	(74)	200	0	0
Dividend paid (incl tax)	0	(652)	(657)	(864)	(981)
Other Financing Cash Flow	(1,265)	150	0	0	0
Financing Cashflow	(1,291)	(608)	(503)	(911)	(1,030)
Net chg in cash	(246)	9	57	365	739
Opening cash position	252	6	15	72	437
Closing cash position	15	24	82	447	1,186

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	19.4	17.8	17.7	17.7	17.9
EBIT Margin	18.3	16.7	16.3	16.1	16.3
Effective Tax Rate	26.1	24.7	25.2	25.2	25.2
Net Margin	15.2	14.1	13.6	13.4	13.4
ROCE	37.5	31.6	28.2	27.4	27.3
ROE	28.0	23.8	21.1	20.7	20.5
RoIC	35.5	33.6	29.5	27.5	27.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	45.2	44.8	47.0	53.0	60.1
CEPS	48.5	48.3	52.1	59.3	67.4
BVPS	170.9	206.2	239.1	273.5	312.6
DPS	0.0	14.0	14.1	18.5	21.1

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	15.9	16.0	15.3	13.6	12.0
P/CEPS	14.9	14.9	13.8	12.1	10.7
P/BV	4.2	3.5	3.0	2.6	2.3
EV / Sales	2.2	2.0	1.9	1.6	1.4
EV / EBITDA	11.4	11.4	10.6	9.1	7.8
Dividend Yield (%)	0.0	1.9	2.0	2.6	2.9

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)
Net Debt/EBIDTA	(1.0)	(1.3)	(1.1)	(1.1)	(1.2)
Working Cap Cycle (days)	94.4	104.1	109.3	109.9	110.5

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	23.9	6.5	9.0	14.5	13.1
EBITDA	55.2	(2.1)	8.5	14.5	14.3
EBIT	61.7	(2.6)	6.0	13.6	14.4
PAT	49.0	(0.8)	4.8	12.8	13.5

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	2,756	3,638	4,388	3,569	3,183
EBITDA	646	611	822	550	652
EBITDA Margin (%)	23.5	16.8	18.7	15.4	20.5
PAT	486	486	634	425	544
EPS (Rs)	10.2	10.4	13.6	9.1	11.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	75.0	70.0	70.0	70.0	70.0
FIs	-	-	4.7	4.2	3.7
DIs	13.2	14.3	14.9	17.1	17.5
Public and Others	11.8	15.7	10.4	8.8	8.8

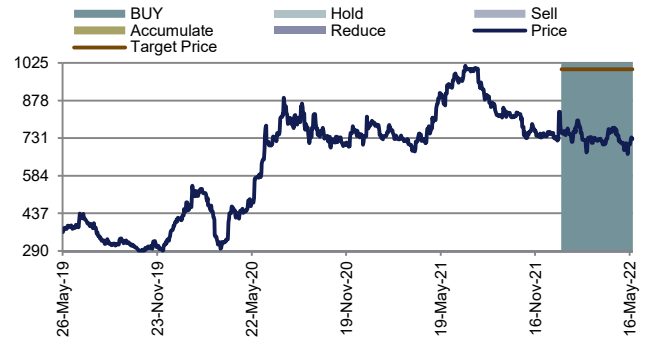
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
03-Feb-22	780	1,000	12m	Buy	Rohit Nagraj
05-Jan-22	752	1,000	12m	Buy	Rohit Nagraj

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Agri Input & Chemicals



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Sector

Agri Input & Agrochemicals and
Speciality Chemicals

Analyst bio

Rohit holds MMS in Finance and B. Tech. in Chemical Engineering. He has more than 20 years of experience with 15 years in equity research.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Agri Input & Chemicals	0.87	0.86	-1%	-1	100.00	
Bayer CropScience*	0.06	0.04	-39%	-2	4.51	0
Coromandel International*	0.12	0.04	-64%	-8	4.85	0
Dhanuka Agritech	0.00	0.08	NA	8	8.80	0
PI Industries*	0.22	0.18	-18%	-4	20.88	0
Rallis India	0.00	0.03	NA	3	3.55	0
UPL	0.47	0.49	5%	2	56.41	0
Cash	0.00	0.01	NA	1	1.00	0

Source: Emkay Research

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

Sector portfolio NAV

	Base						Latest
	1-Apr-19	24-May-21	23-Nov-21	21-Feb-22	22-Apr-22	23-May-22	
EAP - Agri Input & Chemicals	100.0	150.6	146.9	138.2	156.7	150.2	
BSE200 Neutral Weighted Portfolio (ETF)	100.0	144.7	142.1	133.7	152.4	149.0	

*Performance measurement base date 1st April 2019

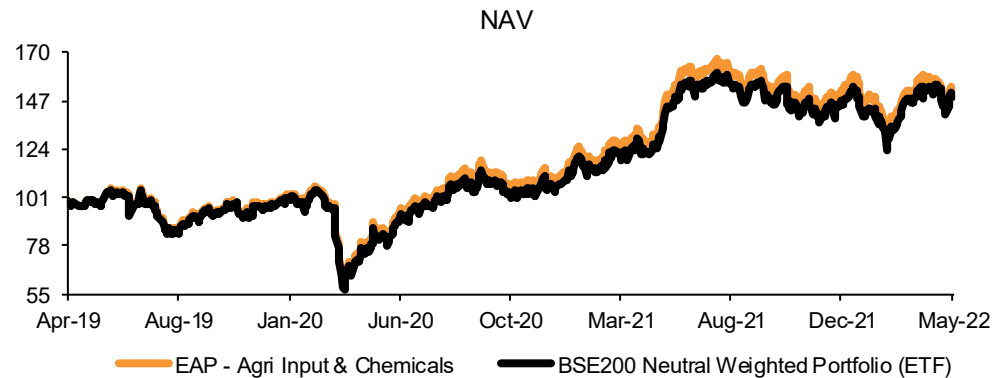
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Agri Input & Chemicals	-4.2%	8.7%	2.2%	-0.3%
BSE200 Neutral Weighted Portfolio (ETF)	-2.2%	11.5%	4.9%	3.0%

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%

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