

FUTURE LIFESTYLE FASHIONS

Core stable

India Equity Research | Retail

Future Lifestyle Fashion's (FLF) Q4FY18 revenue, EBITDA and PAT came in line with our estimates. Key highlights: i) 4.8% YoY SSSG came on a strong base of 19.7% (versus -1% and -6% SSSG for Shoppers Stop and Pantaloons, respectively), aided by 13.7% SSSG in *Brand Factory*; ii) SSSG for *Central* came at 1% YoY, partially owing to strong base of 23.3% and strategy to have lower sale days of ~4 weeks vs. 8-10 weeks in the base (ex-off which, SSSG up 11% YoY); iii) most power brands have started to fuel growth (30.5% YoY growth) at MRP level; and iv) investment by L Capital to the extent of 10% (mix of preferential and secondary issue) is sentimentally positive. For FY19, FLF continues to guide for double digit SSSG coupled with margin expansion. Maintain 'BUY'.

SSSG mixed

In spite of a strong base of 19.7%, FLF reported overall SSSG of 4.8% YoY, amply led by 13.7% YoY SSSG in *Brand Factory*. *Central's* SSSG at 1% YoY appears optically soft, but when seen on high base of 23.3% YoY and lower sales days (four weeks vs. eight weeks in base), it is not bad. Management has decided to refrain from longer EOSS period going forward - Q2FY19 may thus see softer SSSG. This strategy will support margin expansion – *Central* logged 100bps expansion in EBITDA margin. **FLF retained its guidance of double digit SSSG for FY19.**

Power brands improving performance

Post the hiccup in H1FY18, power brands continued to improve performance. At MRP, power brands grew at 30.5% YoY led by *Jealous 21* (up 107.4% YoY), *John Millers* (47.8% YoY), *Indigo Nation* (45.3% YoY) and *Lee Cooper* (up 37.8% YoY). Performance of other power brands too is improving. **Overall growth rate of power brands has been much better than industry, suggesting improving share of owned brands which will also aid EBITDA margin improvement.**

Outlook and valuations: On growth trajectory; maintain 'BUY'

We expect 10% SSSG in *Central* and 11/12% SSSG for *Brand Factory* in FY19-20, aided by recovery in urban consumption and better execution. On account of sharpened focus on power brands, strong SSSG and margin expansion trajectory, we increase target multiple to 16x FY20E EV/EBITDA (earlier 12x) to arrive at a revised TP of INR536 (earlier INR439). Maintain 'BUY/SO'. At CMP, stock is trading at 13.3 FY20E EV/EBITDA.

Financials		(INR mn)						
Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18E	FY19E	FY20E
Revenues	10,720	9,874	8.6	12,256	(12.5)	44,980	56,077	67,592
EBITDA	920	948	(3.0)	1,149	(19.9)	4,087	5,542	6,947
Adj. Profit	220	192	14.5	444	(50.5)	1,261	2,036	3,009
Adj. dil. EPS	1.2	1.0	14.5	2.3	(50.5)	6.6	10.5	15.5
EV / EBITDA (x)						22.5	16.3	13.3
ROAE (%)						7.9	12.1	15.4

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: FLFL BO, B: FLFL IN)

CMP	: INR 437
Target Price	: INR 536
52-week range (INR)	: 482 / 272
Share in issue (mn)	: 190.4
M cap (INR bn/USD mn)	: 83 / 1,238
Avg. Daily Vol.BSE/NSE('000)	: 205.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	60.5	60.5	60.6
MF's, FI's & BK's	17.4	17.4	17.5
FII's	5.5	5.5	5.1
Others	16.5	16.5	16.8
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(3.1)	0.7	(3.8)
3 months	(19.7)	1.4	(4.0)
12 months	(19.1)	12.4	4.2

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Table 1: Trends at a glance

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenues (INR mn)	8,501	8,005	10,188	10,597	9,874	10,830	11,178	12,256	10,720
Material costs (INR mn)	5,286	4,895	6,606	6,762	6,190	6,870	7,114	7,853	6,630
Rent expense (INR mn)	941	995	1,118	1,143	1,081	1,200	1,062	1,136	1,130
EBITDA (INR mn)	865	737	873	1,015	948	980	1,040	1,149	920
Key metrics									
FLF (SSSG growth)	9.0	10.1	16.1	21.4	17.4	29.4	4.5	10.0	4.8
Central (SSSG growth)	8.2	10.0	15.6	21.7	23.3	31.1	3.0	11.8	1.0
Brand Factory (SSSG growth)	NA	11.8	23.2	20.7	9.6	31.2	12.5	6.6	13.7
Central stores	31	31	33	34	35	36	37	39	40
Brand factory outlets	42	46	46	51	53	54	57	60	63
EBOs	296	289	288	295	284	267	256	246	229
Total sq ft (mn)	4.97	5.05	5.27	5.50	5.40	5.20	5.50	5.60	5.70
Power brands MRP sales (INR mn)									
Lee Cooper	1,800	1,190	2,240	1,650	1,430	1,370	1,930	1,400	1,970
Scullers	510	360	640	440	580	340	390	430	530
Indigo Nation	470	370	630	580	530	320	570	500	770
John Millers	630	480	540	640	460	400	700	770	680
Bare Casuals	360	330	450	560	510	470	490	610	570
aLL	482	358	486	400	550	450	480	440	570
Jealous 21	400	270	320	220	270	150	390	390	560
% of revenues									
Material costs	62.2	61.1	64.8	63.8	62.7	63.4	63.6	64.1	61.8
Rent expense	11.1	12.4	11.0	10.8	10.9	11.1	9.5	9.3	10.5
EBITDA margin	10.2	9.2	8.6	9.6	9.6	9.0	9.3	9.4	8.6
YoY growth									
Lee Cooper		33.7	89.8	(8.3)	(20.6)	15.1	(13.8)	(15.2)	37.8
Scullers		12.5	36.2	41.9	13.7	(5.6)	(39.1)	(2.3)	(8.6)
Indigo Nation		19.4	50.0	28.9	12.8	(13.5)	(9.5)	(13.8)	45.3
John Millers		(2.0)	(25.0)	8.5	(27.0)	(16.7)	29.6	20.3	47.8
Bare Casuals		(10.8)	(8.2)	60.0	41.7	42.4	8.9	8.9	11.8
aLL		50.4	33.5	14.9	14.1	25.7	(1.2)	10.0	3.6
Jealous 21		-	(25.6)	(37.1)	(32.5)	(44.4)	21.9	77.3	107.4

Source: Edelweiss research

Outlook and valuations: On growth trajectory; maintain 'BUY'

FLF is one of the largest branded apparels and physical retailers in India with total retail space of 5.7mn sq ft spread across >90 cities (ABFRL is spread across ~6mn sq ft) and diversified portfolio of 30 brands straddling different segments (men's, women's and kid's wear) and price points. The company has been logging strong SSSG (double-digit adjusted for base effect) and outperforming industry led by better inventory management, focus on premiumisation, better store layout, inventory liquidation and strong brands. From its strong portfolio of owned, licensed and investee brands, the company has identified six power brands to drive growth (*Lee Cooper* being the largest), which are currently contributing ~64% of FLF's total brands (share expected to further increase on sharper focus and better brands).

Power brands are margin accretive as they gain scale and garner operating leverage. Investee brands, on the other hand, provide an opportunity for stake sale as the brands grow. On account of having an integrated model, FLF is a much better bet than other retailers. On account of sharpened focus on power brands, strong SSSG and margin expansion trajectory, we increase target multiple to 16x FY20E EV/EBITDA (earlier 12x) to arrive at a revised TP of INR536 (earlier INR439). Maintain 'BUY/SO'. At CMP, stock is trading at 13.3 FY20E EV/EBITDA.

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	10,720	9,874	8.6	12,256	(12.5)	44,980	56,077	67,592
Raw material costs	6,630	6,190	7.1	7,853	(15.6)	28,466	35,376	42,506
Employee expenses	700	530	32.0	671	4.3	2,649	3,140	3,718
Lease charges	1,130	1,081	4.5	1,136	(0.5)	4,528	5,608	6,759
Other expenses	1,340	1,125	19.2	1,448	(7.4)	5,250	6,410	7,662
Total expenditure	9,800	8,926	9.8	11,107	(11.8)	40,892	50,534	60,645
EBITDA	920	948	(3.0)	1,149	(19.9)	4,087	5,542	6,947
Depreciation	410	487	(15.8)	387	5.9	1,539	1,845	1,963
EBIT	510	461	10.7	762	(33.0)	2,548	3,697	4,984
Interest	340	283	20.1	225	51.4	1,033	1,014	907
Other income	110	18	518.0	114	(3.3)	341	375	413
Add: Prior period items								
Profit before tax	280	193	45.2	651	(57.0)	1,856	3,058	4,490
Provision for taxes	60	4	1,614.3	206	(70.9)	586	1,009	1,482
Minority interest	-	-		-		10	12	-
Associate profit share								
Add: Exceptional items		(3)	(100.0)					
Reported net profit	220	189	16.2	444	(50.5)	1,261	2,036	3,009
Adjusted Profit	220	192	14.5	444	(50.5)	1,261	2,036	3,009
Diluted shares (mn)	190	190		190		190	194	194
As % of net revenues								
Purchases (% of revenue)	61.8	62.7		64.1		63.3	63.1	62.9
Employee cost	6.5	5.4		5.5		5.9	5.6	5.5
Lease charges	10.5	10.9		9.3		10.1	10.0	10.0
Other expenses as % of net revenues	12.5	11.4		11.8		11.7	11.4	11.3
EBITDA	8.6	9.6		9.4		9.1	9.9	10.3
Reported net profit	2.1	1.9		3.6		2.8	3.6	4.5

Company Description

FLF was formed from the de-merged branded fashion business of Future Consumer (erstwhile Future Ventures India) and the Lifestyle Fashion business of Future Retail. FLF commenced operations in May 2013. Starting from a small portfolio, it now boasts of ~30 brands spread over retail footprint of 5.7mn sq ft. Post demerger, FLF has continued to build and strengthen its portfolio as a lifestyle fashion arm of Future group. In its fourth successful year of operations, FLF has reinforced its position as a leading fashion retailer with a strong fashion portfolio in India.

Investment Theme

The Indian retail landscape is evolving with interplay of several demographic and economic factors. The big opportunity lies in the growing share of organised retail with the growing trend among consumers to allocate a larger share of income to consumption and gradual improvement in lifestyle. The improving liquidity is also positive as it means better delivery of retail space for expansion. FLF is a niche play with strong brand position in the lifestyle space. The strong positioning and brand recall gives the company a strategic advantage in the light of increasing competition. With its steadfast focus on systems and processes and its ability to attract global brands as venture partners, it is well placed to emerge as a leading departmental store player in the long run.

Key Risks

Slower GDP revival leading to lower traction in discretionary spending

Currently, FLF's target customers are in tier I & II geographies. Clothing and footwear spending is discretionary and correlated with increase in consumer confidence index, GDP revival, etc. Any delay in revival of GDP and slowdown in these geographies can impact the company's growth.

Heightened competition

Many foreign brands are enhancing presence in India to cash in on the humongous growth opportunity. While foreign brands such as Zara, Tommy Hilfiger, etc., have already established themselves, other brands such as H&M and GAP, among others, are venturing into India's fast fashion market. Entry of these foreign brands, more sale period and offers will keep the competitive intensity high.

Threat from e-commerce

FY15 and FY16 were marked by aggressive discounts and sale seasons by e-commerce companies, leading to shift in customers' loyalty. FLF has Braand Factory to counter the threat from e-commerce. However, any other unexpected action taken by e-commerce companies may hamper FLF's SSG and hence its growth.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Central - SSS growth (%)	18.1	10.0	10.0	10.0
Brand factory - SSS growth (%)	16.6	15.8	12.0	11.0
Central - Total stores	35	40	45	50
Brand factory - Total stores	53	63	71	79
Capex (INR mn)	1,655	3,632	1,933	1,968
Staff costs (% of rev)	5.3	5.9	5.6	5.5
Shoppers-COGS (% of rev)	63.1	63.3	63.1	62.9
Electricity (% of rev)	2.5	2.5	2.4	2.4
Rent costs (% of rev)	11.3	10.7	10.1	10.0
Debtor days	20	20	18	15
Inventory days	203	186	170	168
Payable days	153	143	150	150
Dep. (% gross block)	7.9	8.0	7.8	7.5
Tax rate (%)	24.0	31.6	33.0	33.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	38,771	44,980	56,077	67,592
Materials costs	24,452	28,466	35,376	42,506
Gross profit	14,319	16,514	20,700	25,086
Employee costs	2,049	2,649	3,140	3,718
Electricity expenses	951	1,124	1,346	1,622
Rent and lease expenses	4,157	4,528	5,608	6,759
Ad. & sales costs	900	1,046	1,307	1,579
Other Expenses	2,682	3,079	3,757	4,461
Total operating expenses	10,739	12,427	15,158	18,139
EBITDA	3,580	4,087	5,542	6,947
Depreciation	1,869	1,539	1,845	1,963
EBIT	1,710	2,548	3,697	4,984
Less: Interest Expense	1,172	1,033	1,014	907
Add: Other income	66.25	341.00	375.1	412.61
Profit Before Tax	602	1,856	3,058	4,490
Less: Provision for Tax	145	586	1,009	1,482
Less: Minority Interest	-	10	12	-
Add: Exceptional items	(3)	-	-	-
Reported Profit	457	1,261	2,036	3,009
Exceptional Items	(3)	-	-	-
Adjusted Profit	460	1,261	2,036	3,009
Shares o /s (mn)	190	190	194	194
Diluted shares o/s (mn)	190	190	194	194
Adjusted Diluted EPS	2.4	6.6	10.5	15.5
Dividend per share (DPS)	0.8	1.2	2.6	3.9
Dividend Payout Ratio(%)	33.2	18.0	25.0	25.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Rent and lease expenses	10.7	10.1	10.0	10.0
Materials costs	63.1	63.3	63.1	62.9
Staff costs	5.3	5.9	5.6	5.5
S G & A expenses	6.9	6.8	6.7	6.6
EBITDA margins	9.2	9.1	9.9	10.3
Net Profit margins	1.2	2.8	3.7	4.5

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	17.5	16.0	24.7	20.5
EBITDA	10.1	14.2	35.6	25.4
Adjusted Profit	144.8	174.4	61.5	47.7
EPS	144.3	173.8	58.3	47.7

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	380	381	388	388	
Reserves & Surplus	16,350	14,915	18,036	20,142	
Shareholders' funds	16,730	15,296	18,425	20,530	
Minority Interest	-	-	13	13	
Long term borrowings	4,701	7,739	7,239	7,239	
Short term borrowings	2,123	1,356	856	856	
Total Borrowings	6,824	9,095	8,095	8,095	
Long Term Liabilities	833	747	784	824	
Def. Tax Liability (net)	649	(392)	(392)	(392)	
Sources of funds	25,036	24,747	26,925	29,070	
Gross Block	18,242	20,817	23,200	25,618	
Net Block	12,644	8,940	14,127	14,624	
Capital work in progress	1,898	2,905	2,405	1,905	
Intangible Assets	99	304	134	143	
Total Fixed Assets	14,642	12,150	16,667	16,672	
Non current investments	70	1,749	1,749	749	
Cash and Equivalents	661	751	3,011	1,073	
Inventories	14,180	14,829	18,125	21,004	
Sundry Debtors	1,889	3,155	2,376	3,180	
Loans & Advances	5,954	2,378	2,530	2,611	
Other Current Assets	144	2,581	2,671	2,766	
Current Assets (ex cash)	22,166	22,943	25,702	29,561	
Trade payable	11,331	10,932	18,144	16,792	
Other Current Liab	1,172	1,914	2,059	2,193	
Total Current Liab	12,503	12,846	20,203	18,985	
Net Curr Assets-ex cash	9,663	10,097	5,498	10,576	
Uses of funds	25,036	24,747	26,925	29,070	
BVPS (INR)	88.0	80.3	94.9	105.7	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	457	1,261	2,036	3,009	
Add: Depreciation	1,869	1,539	1,845	1,963	
Interest (Net of Tax)	890	707	680	607	
Others	587	(5)	(28)	(113)	
Less: Changes in WC	(1,315)	789	(4,636)	5,039	
Operating cash flow	5,117	2,712	9,169	427	
Less: Capex	2,481	3,632	1,933	1,968	
Free Cash Flow	2,635	(919)	7,236	(1,541)	

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Operating cash flow	5,117	2,712	9,169	427	
Financing cash flow	(5,841)	967	(2,617)	(1,809)	
Investing cash flow	876	(5,028)	(1,558)	(555)	
Net cash Flow	152	(1,349)	4,994	(1,938)	
Capex	(2,481)	(3,632)	(1,933)	(1,968)	
Dividend paid	(91)	(272)	(611)	(903)	

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	6.9	12.1	16.0	19.6
ROAE (%)	2.8	7.9	12.1	15.4
Inventory Days	203	186	170	168
Debtors Days	20	20	18	15
Payable Days	153	143	150	150
Cash Conversion Cycle	70	64	38	33
Current Ratio	1.8	1.8	1.4	1.6
Gross Debt/EBITDA	1.9	2.2	1.5	1.2
Gross Debt/Equity	0.4	0.6	0.4	0.4
Adjusted Debt/Equity	0.4	0.6	0.4	0.4
Interest Coverage Ratio	1.5	2.5	3.6	5.5

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.4	1.8	2.2	2.4
Fixed Asset Turnover	3.1	4.1	4.8	4.7
Equity Turnover	2.4	2.8	3.3	3.5

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	2.4	6.6	10.5	15.5
Y-o-Y growth (%)	144.3	173.8	58.3	47.7
Adjusted Cash EPS (INR)	12.3	14.7	20.0	25.6
Diluted P/E (x)	180.8	66.0	41.7	28.2
P/B (x)	5.0	5.4	4.6	4.1
EV / Sales (x)	2.3	2.0	1.6	1.4
EV / EBITDA (x)	24.9	22.4	16.2	13.2
Dividend Yield (%)	0.2	0.3	0.6	0.9

Additional Data

Directors Data

Mr. Kishore Biyani	Group CEO, Future Group	Mr. Rakesh Biyani	Non Executive Director
Ms. Avni Biyani	Non Executive Director	Mr. C.P. Toshniwal	Non Executive Director
Mr. Shailesh Haribhakti	Non-Executive Independent Director	Dr. Darlie Koshy	Non-Executive Independent Director
Mr. Bijou Kurien	Non-Executive Independent Director	Ms. Sharda Agarwal	Non-Executive Independent Director
Ms. Sukanya Kripalu	Non Executive - Independent Director		

Auditors - Auditor - M/s NGS & Co., LLP

Top 10 holdings

	Perc. Holding		Perc. Holding
Pioneer Investment Fund	8.15	L&TMutual Fund	4.12
TIMF Holdings	2.68	Bennett Coleman & Co Ltd	2.40
Idfc Mutual Fund	1.60	Hsbc	1.12
L&T Investment Management Ltd	1.10	HSBC Holdings Plc	0.29
Vardhaman Publishers Ltd	0.22	Manning & Napier Advisors Llc	0.20

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
25 Jul 2017	Bennett Coleman & Co Ltd	Sell	1000000	319.00
17 Jul 2017	India Opportunities Growth Fund Ltd Pinewood Strategy	Sell	3650000	316.00
17 Jul 2017	Bennett Coleman & Co Ltd	Sell	2550000	316.00
17 Jul 2017	Pi Opportunities Fund I	Buy	6200000	316.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
20 Jul 2017	Ryka Commercial Ventures Pvt. Ltd.	Buy	368472.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Fashion and Retail Ltd	BUY	SO	L	Avenue Supermarts Limited	HOLD	SU	H
Future Lifestyle Fashions Limited	BUY	SO	L	Future Retail	BUY	SO	H
Jubilant Foodworks	HOLD	SP	M	Shoppers Stop	BUY	SO	L
Titan Company	BUY	SO	L	TRENT LTD	BUY	SO	H
V-MART Retail	BUY	SO	H	Wonderla Holidays	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Retail

Aditya Birla Fashion and Retail Ltd, Avenue Supermarts Limited, Future Lifestyle Fashions Limited, Future Retail, Jubilant Foodworks, Shoppers Stop, TRENT LTD, Titan Company, V-MART Retail, Wonderla Holidays

Recent Research

Date	Company	Title	Price (INR)	Recos
11-May-18	Aditya Birla Fashion and Retail	Margin at multi-quarter high; <i>Result Update</i>	151	Buy
10-May-18	Titan Company	Ending the year on a high note; <i>Result Update</i>	973	Buy
09-May-18	Retail	Walmart-Flipkart deal: Amplifying domestic retail boom; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

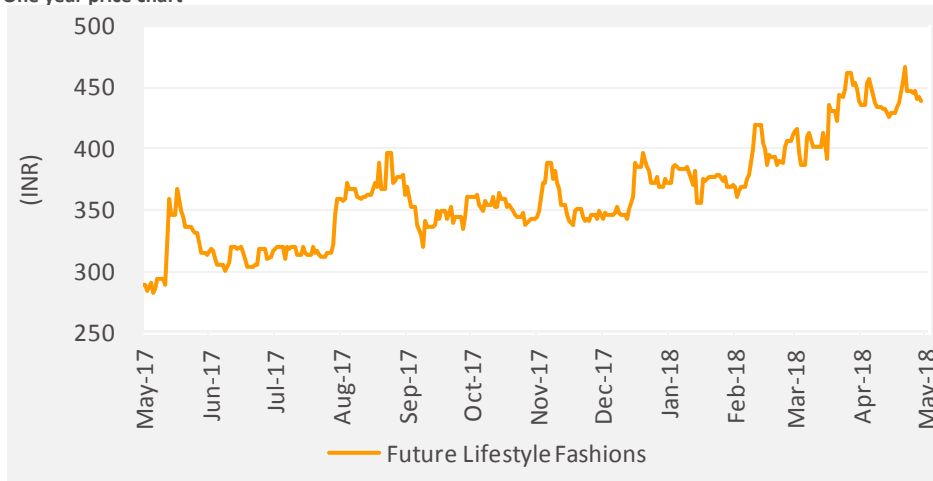
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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