



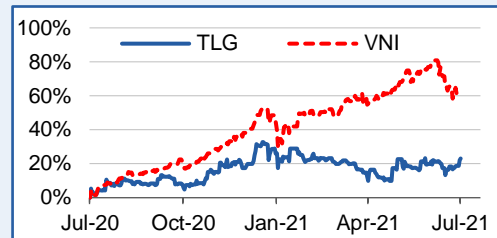
# Thien Long Group (TLG) [BUY +26.1%]

## Update Report

Industry Report Date	Stationery July 29, 2021		2020A	2021F	2022F	2023F
Current Price	VND38,700	Rev y/y	-17.5%	13.3%	17.2%	13.5%
Target Price	VND46,800	EPS y/y	-31.3%	10.8%	39.0%	14.6%
Previous Target Price	VND47,000	GPM	38.4%	37.5%	38.1%	38.4%
Upside to TP	+20.9%	NPM	8.9%	8.7%	10.4%	10.5%
Dividend Yield	5.2%	EV/EBITDA	6.5x	6.0x	4.1x	3.6x
TSR	+26.1%	P/B	1.7x	1.7x	1.5x	1.4x
		P/E	13.9x	12.6x	9.1x	7.9x

Market Cap	USD130.9mn		TLG	Peers*	VNI
Foreign Room	USD98.8mn	P/E (ttm)	8.4x	14.7x	17.0x
ADTV30D	USD0.2mn	P/B (curr)	1.6x	1.2x	2.6x
State Ownership	0.0%	Net D/E	-33.0%	-10.1%	N/A
Outstanding Shares	77.8 mn	ROE	21.9%	6.7%	15.4%
Fully Diluted Shares	77.8 mn	ROA	16.5%	4.5%	2.5%

\* Global peers



### Company Overview

TLG is a leading stationery maker with various products (writing instruments and office, school and art supplies). TLG holds ~60% of the domestic writing instrument market and is expanding globally. TLG has had a partnership with Newell Brands, a leading US-based global consumer goods company, since early 2019.

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## Earnings to decline in H2 amid COVID-19 resurgence

- We maintain a BUY rating and keep our target price almost unchanged at VND46,800/share as a 7% cut in our 2021F NPAT-MI forecast due to higher forecast SG&A which is partly offset by a higher cash balance at end-Q2 2021. We make no material changes to our 2022-2025F NPAT-MI forecasts.
- TLG reported strong H1 2021 results with NPAT-MI reaching VND176bn (USD7.7mn; +929% YoY), which was mainly driven by a 1) a recovery in stationery demand, 2) TLG continuing to benefit from low-cost input plastic, and 3) TLG pushing sales of product categories with higher margins.
- We trim our 2021F NPAT-MI by 7% to VND266bn (USD11.6mn; +11% YoY) mainly because we raise our forecast for SG&A as we expect 1) TLG's logistics costs and spending related to COVID-19 prevention in production sites to increase and 2) TLG will be more aggressive in pushing sales amid a prolonged COVID-19 situation in Q3 2021.
- We note that although H2 is the high season for TLG and the company's H1 2021 NPAT-MI completed 66% of our current full-year forecast, we expect H2 2021 to post more modest earnings as 1) we expect TLG's gross margin to experience some pressure in H2 2021 due to the input plastic price rally in H1 2021 and 2) the current fourth wave of COVID-19 in Vietnam posing a risk of prolonged school closures in Q3 2021 (back-to-school season).
- We believe TLG's valuation is attractive at a 2021/2022F P/E of 12.6x/9.1x vs the 12-month average peer LTM P/E median of 14.5x given our forecast for a 21% EPS CAGR over 2020-2023F.
- Downside risks: Weaker-than-expected margins from high plastic costs; prolonged school closures.

**We continue to forecast positive sales growth in 2021 despite the recent resurgence of COVID-19.** TLG recorded stronger-than-expected sales growth in H1 2021 across product segments amid a rebound in stationery demand. In addition, the company was more aggressive in pushing sales. Nevertheless, we keep our 2021F revenue forecast of VND3.0tn (USD132.2mn; +13% YoY) unchanged as we believe the ongoing COVID-19 situation in Vietnam could shorten TLG's main sales season from normally April-September to June-September (details in **Figure 3**).

**Low input plastic prices supported H1 2021 gross margin — we expect contraction in H2 2021.** We continue to expect 2021F gross margin to fall vs 2020 as plastic prices have bounced back since late-2020. Nevertheless, we raise our 2021F gross margin forecast to 37.5% vs 36.7% previously due to better-than-expected gross margin in H1 2021.

**Management aims for new long-term growth initiatives.** At its recent AGM, TLG's management provided information about the company's ongoing projects, which focus on 1) developing new products that are closely related to TLG's current stationery — but with wider applications — and 2) continuing to develop e-commerce channels — both through TLG's self-developed website and through other e-commerce platforms (details are in our [AGM note](#), dated June 29, 2021). These projects are still in their early stages; however, we believe they are positive for TLG's long-term growth — especially as post-pandemic consumer behavior has been shifting toward a more digital lifestyle.

## H1 2021 Recap: Healthy sales, low cost inventory support strong results

Figure 1: TLG's H1 2021 results

VND bn	H1 2020	H1 2021	Growth	2021F Old	H1 as % of 2021F Old	VCSC comments on H1 2021 results
<b>Net revenue</b>	<b>1,113</b>	<b>1,428</b>	<b>28%</b>	<b>3,041</b>	<b>47%</b>	* Strong YoY revenue rebound across all product segments (except for merchandise trading and others). * In 2020, educational institutions of all levels and types in Vietnam were forced to close for nearly full of three months (February-April 2020) due to COVID-19. * The re-emergence of COVID-19 community spread in February 2021 caused authorities in some provinces/cities to allow students to study online at home one week before and one to two weeks after the Tet Holiday (February 10-16). After completing the remaining 2020 schoolyear, the fourth wave of COVID-19 in Vietnam, which started in late April 2021, continued to force schools in some provinces/cities to close just before the summer break.
Writing instruments	374	581	56%	1,306	45%	* Strong decline YoY of merchandise trading was due to a surge in specific products such as sanitizer and facemasks under TLG's 'Safe & Convenient' group that was launched to capture soaring demand for these products due to COVID-19 in early 2020. Nevertheless, TLG actively removed some products from this line and downsized the scale of its merchandise trading activity (which has a thin margin) in Q4 2020 and H1 2021 to focus on higher-margin stationery.
Office supplies	366	502	37%	1,077	47%	
School supplies	74	125	68%	257	49%	
Art supplies	117	209	78%	380	55%	
Merchandise trading & others	183	10	-95%	21	47%	
<i>Of which: Export</i>	255	314	23%	591	53%	* The export market (including two major markets — the US and Philippines) was less impacted by COVID-19 disruptions compared to the domestic market in H1 2020.
<b>Gross profit</b>	<b>351</b>	<b>611</b>	<b>74%</b>	<b>1,115</b>	<b>55%</b>	
SG&A expenses	-338	-406	20%	-760	53%	* SG&A expenses as a proportion of sales remained high at 29.6% in Q2 2021 vs 27.0% in Q1 2021 and 26.7% in Q2 2020. * We note that SG&A on sales was abnormally high in Q1 2020 (35.3%) due to low sales.
<b>EBIT</b>	<b>14</b>	<b>205</b>	<b>1383%</b>	<b>355</b>	<b>58%</b>	
Interest expense	-7	-4	-49%	-15	25%	
Net other gain/loss	17	21	23%	16	132%	
<b>NPAT-MI</b>	<b>17</b>	<b>176</b>	<b>929%</b>	<b>285</b>	<b>62%</b>	
<i>Gross margin %</i>	<i>31.6%</i>	<i>42.8%</i>		<i>36.7%</i>		* Gross margin remained high at 43.5% in Q2 2021 vs 42.0% in Q1 2021 and 33.5% in Q2 2020 due to 1) TLG continuing to benefit from low-cost input plastic and 2) TLG pushing sales of product categories with higher margins.
<i>SG&amp;A as % sales</i>	<i>30.3%</i>	<i>28.4%</i>		<i>25.0%</i>		
<i>EBIT margin %</i>	<i>1.2%</i>	<i>14.4%</i>		<i>11.7%</i>		
<i>NPAT-MI margin %</i>	<i>1.5%</i>	<i>12.3%</i>		<i>9.4%</i>		

Source: Company's financial statements, VCSC forecasts

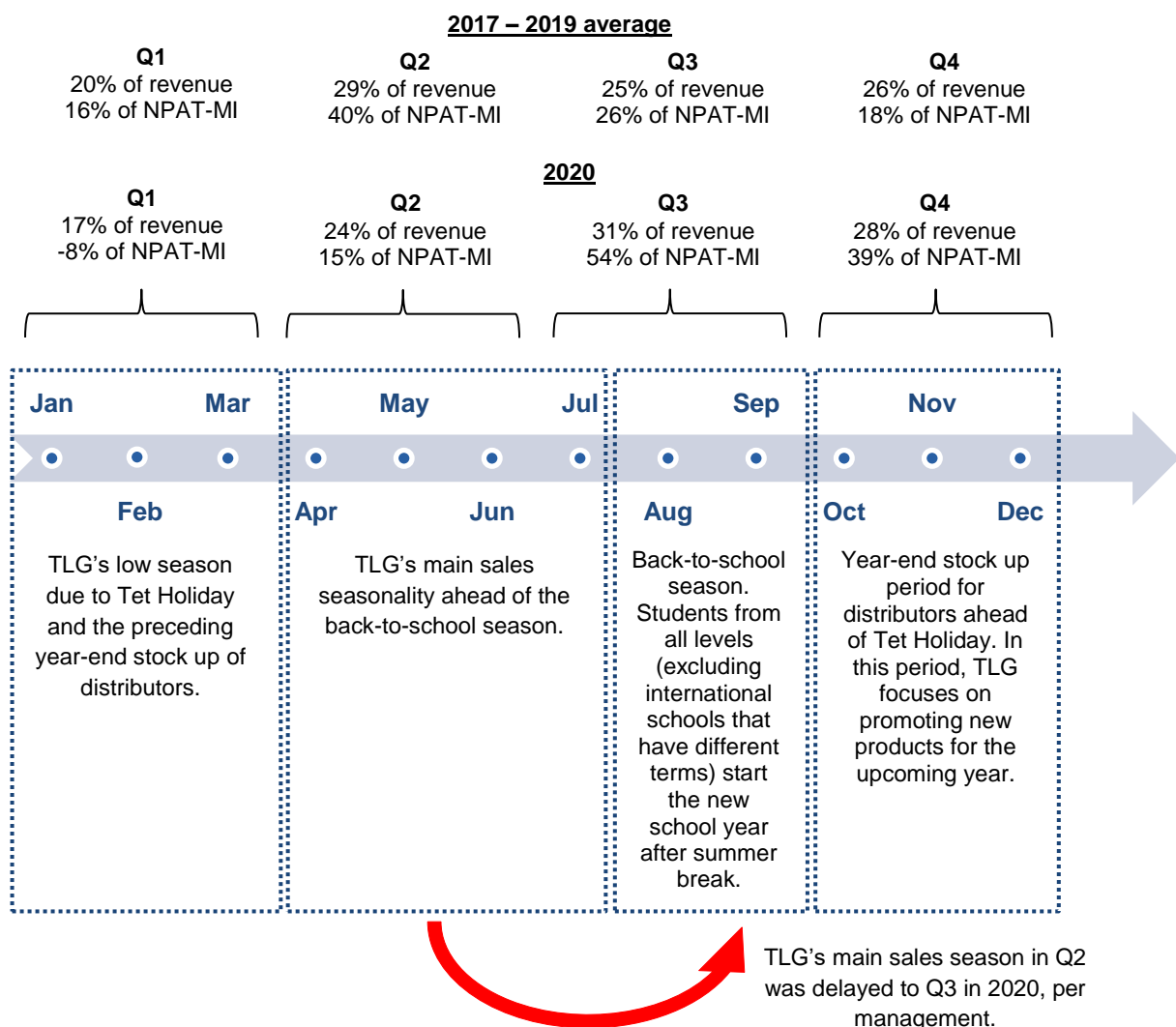
## 2021 Outlook: Earnings to rebound despite higher input prices, COVID-19 resurgence

Figure 2: 2021 forecast

VND bn	2020A	2021F Old	2021F Revised	2021F Revised vs Old	2021F Revised vs 2020A	VCSC assumptions for 2021F
<b>Net revenue</b>	<b>2,685</b>	<b>3,041</b>	<b>3,041</b>	<b>0%</b>	<b>13%</b>	<p>* We keep our sales forecast unchanged across TLG's product segments as H1 2021 results were in line with our expectation.</p> <p>* We expect less disruption to TLG's sales progress caused by the new wave of COVID-19 community spread that began in April 2021 as mandatory school closures in some provinces/cities were ordered just before the summer break.</p> <p>* Nevertheless, we believe this new wave of COVID-19 in Vietnam could shorten TLG's main sales season from normally April-September to June-September — similar to what occurred in 2020 (details in <b>Figure 3</b>).</p>
Writing instruments	1,067	1,306	1,306	0%	22%	
Office supplies	880	1,077	1,077	0%	22%	
School supplies	210	257	257	0%	22%	
Art supplies	322	380	380	0%	18%	
Merchandise trading & others	207	21	21	0%	-90%	
<i>Of which: Export</i>	<i>491</i>	<i>591</i>	<i>591</i>	<i>0%</i>	<i>20%</i>	* We maintain our 2021F export sales forecast as H1 2021 results were in line with our expectation.
<b>Gross profit</b>	<b>1,030</b>	<b>1,115</b>	<b>1,141</b>	<b>2%</b>	<b>11%</b>	
SG&A expenses	-744	-760	-821	8%	10%	
<b>EBIT</b>	<b>286</b>	<b>355</b>	<b>320</b>	<b>-10%</b>	<b>12%</b>	
Interest expense	-12	-15	-9	-36%	-21%	* We cut our interest expense forecast as TLG's effective interest rate in H1 2021 was lower than our expectation.
Net other gain/loss	29	16	21	35%	-28%	
<b>NPAT-MI</b>	<b>240</b>	<b>285</b>	<b>266</b>	<b>-7%</b>	<b>11%</b>	* We trim 2021F NPAT-MI by 7% mostly due to the increase in SG&A forecast which is partly offset by the higher gross margin and lower interest expense assumptions.
<i>Gross margin %</i>	<i>38.4%</i>	<i>36.7%</i>	<i>37.5%</i>			<p>* We continue to forecast 2021F gross margin to fall vs 2020 as plastic prices have bounced back since late-2020. We note that plastic prices in 2020 were abnormally low due to the oil price crisis in early 2020 amid the beginning of the COVID-19 pandemic (see <b>Figure 4</b>).</p> <p>* Nevertheless, we raise our 2021F gross margin forecast to 37.5% vs 36.7% previously due to better-than-expected H1 2021 results.</p>
<i>SG&amp;A as % sales</i>	<i>27.7%</i>	<i>25.0%</i>	<i>27.0%</i>			* We raise our forecast for SG&A on sales as 1) we expect the company's spending related to logistics costs and COVID-19 prevention in production sites to increase and 2) TLG will be more aggressive in pushing for sales amid a prolonged COVID-19 situation in Q3 2021.
<i>EBIT margin %</i>	<i>10.7%</i>	<i>11.7%</i>	<i>10.5%</i>			
<i>NPAT-MI margin %</i>	<i>8.9%</i>	<i>9.4%</i>	<i>8.7%</i>			

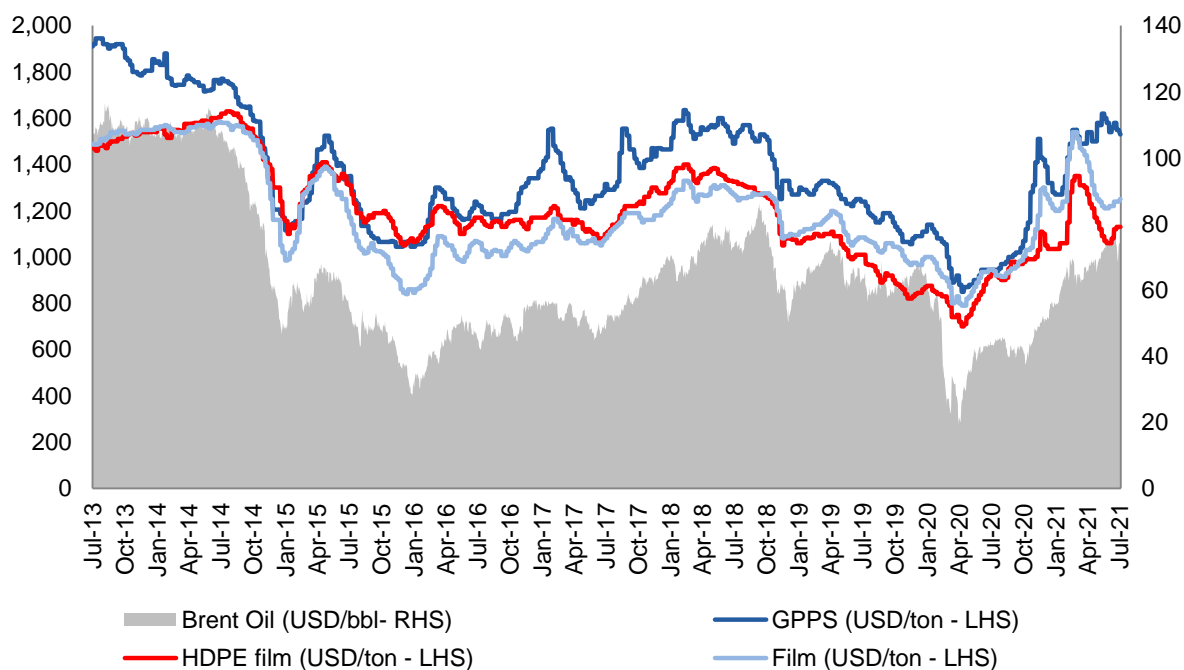
Source: Company's financial statements, VCSC forecasts

Figure 3: TLG's business seasonality



Source: VCSC compilation

Figure 4: TLG's main input plastic prices compared to oil prices



Source: Bloomberg, VCSC compilation

## Valuation

We continue to use a combination of the DCF (80% weighting) and P/E (20% weighting) methodologies to derive a one-year target price of VND46,800/share for TLG.

1. We attribute a weighting of 80% to the DCF method as we believe it fairly reflects TLG's long-term growth prospects and stable cash flow generation. Our DCF-derived valuation is broadly flat compared to our last report (VND45,100/share) as our 7% cut in 2021F NPAT-MI amid higher forecast SG&A is offset by the higher cash balance at end-June 2021 (VND846bn/USD36.8mn) vs end-March 2021 (VND799bn/USD34.7mn) while we keep our 2022-2025F earnings forecast broadly unchanged.
2. Our P/E-derived valuation is 2% lower than our last update as we use lower average 2021-2022F EPS of VND3,674 compared to VND3,759 previously while we maintain our targeted P/E of 14.5x based on the one-year average of our global peer group median.

Our lower P/E-derived valuation is partially offset by our flat DCF-derived valuation, which causes our target price to remain almost unchanged at VND46,800/share from VND47,000/share as previously.

**Figure 5: Valuation summary**

Valuation method	Fair price (VND/share)	Weight	Contribution (VND/share)
DCF	45,200	80%	36,200
Targeted PER at 14.5x	53,300	20%	10,600
<b>Target price</b>			<b>46,800</b>
2021F P/E at target price			15.2x
2022F P/E at target price			10.9x

Source: VCSC

**Figure 6: Discounted cash flow (VND bn)**

FCF forecast	2021F	2022F	2023F	2024F	2025F
<b>EBIT</b>	342	481	553	610	692
- Tax	-68	-96	-111	-122	-138
+ Depreciation	78	119	119	147	161
- Capex	-157	-257	-140	-140	-140
- Working cap increase	-276	-194	-200	-243	-281
<b>Free Cash Flow</b>	<b>-82</b>	<b>53</b>	<b>222</b>	<b>252</b>	<b>293</b>
<b>Present value of FCF</b>	<b>-78</b>	<b>46</b>	<b>174</b>	<b>180</b>	<b>190</b>
<b>Cumulative total PV of FCF</b>	<b>-78</b>	<b>-32</b>	<b>142</b>	<b>322</b>	<b>512</b>

Cost of Capital	Previous report	Revised	FCFF	VND bn
Beta	0.8	0.8	PV of Free Cash Flow	512
Market Risk Premium %	9.9	9.9	PV of Terminal Val (2% growth)	2,383
Risk Free Rate %	2.6	2.6	<b>PV of FCF and TV</b>	<b>2,894</b>
Cost of Equity %	10.5	10.5	Plus: Cash + Short term deposit	846
Cost of Debt %	8.0	8.0	Less: Debt	225
Corporate Tax Rate %	21.0	21.0	<b>Value of Equity</b>	<b>3,516</b>
Debt-to-capital ratio %	9.3	9.3	Fully diluted shares (million)	78
<b>WACC %</b>	<b>10.1</b>	<b>10.1</b>	<b>Value per share (VND)</b>	<b>45,193</b>

Source: VCSC

**Figure 7: Sensitivity analysis of our target price for TLG in relation to DCF's WACC and terminal growth rate, ceteris paribus**

Terminal growth rate %	WACC %							
		8.6%	9.1%	9.6%	10.1%	10.6%	11.1%	11.6%
	0.5%	48,300	46,200	44,300	42,700	41,200	39,900	38,600
	1.0%	50,100	47,800	45,700	43,900	42,300	40,800	39,500
	1.5%	52,200	49,600	47,300	45,300	43,500	41,900	40,500
	2.0%	54,500	51,600	49,000	<b>46,800</b>	44,800	43,100	41,500
	2.5%	57,300	54,000	51,100	48,500	46,300	44,400	42,700
	3.5%	64,500	59,900	56,100	52,800	50,000	47,600	45,400
	4.0%	69,300	63,700	59,200	55,400	52,200	49,500	47,100

Source: VCSC

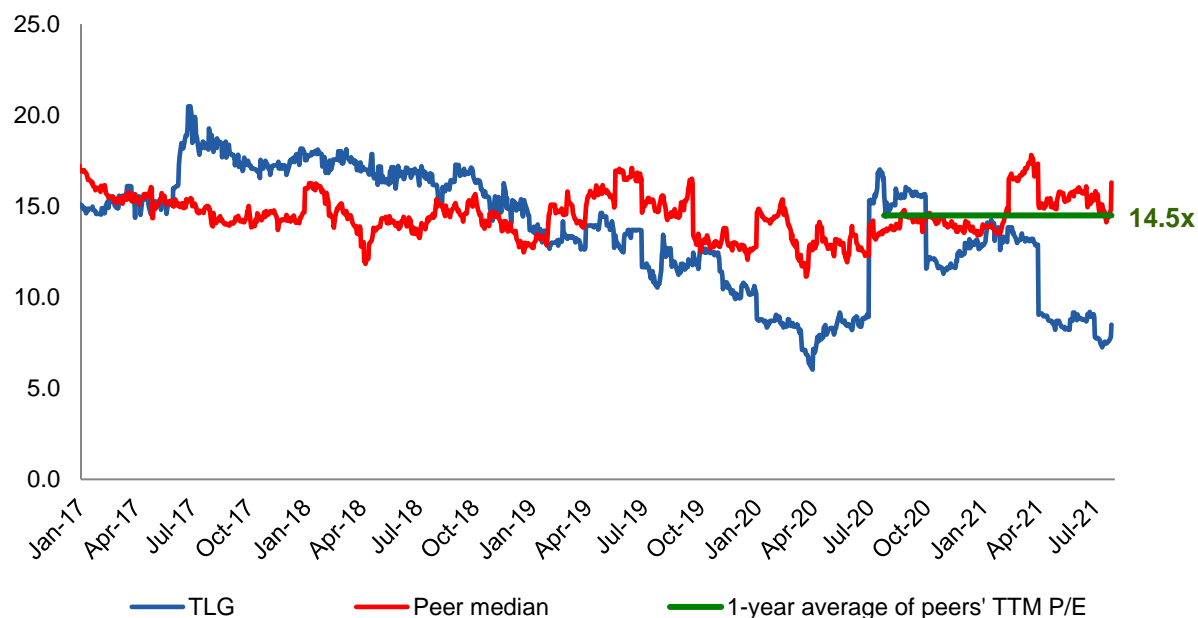
**Figure 8: Global peers**

Company name	Country	Market cap (USD mn)	TTM Net Sales (USD mn)	YoY (%)	TTM NPAT (USD mn)	YoY (%)	Gross margin (%)	Net margin (%)	Net debt/Equity (%)	ROA (%)	ROE (%)	TTM P/E (x)	LQ P/B (x)
Societe BIC	France	3,010	1,963	-11.1	269	42.3	48.3	13.7	-10.1	9.5	14.5	11.0	1.6
SDI Corp	Taiwan	909	309	5.3	17	25.7	17.4	5.4	29.3	4.5	8.4	N.M.	4.3
Mitsubishi Pencil	Japan	849	524	-7.7	41	17.2	48.6	7.8	-40.5	3.7	4.8	18.7	0.9
Max Co	Japan	829	604	-8.1	49	-6.5	42.7	8.0	-27.9	5.1	6.7	17.9	1.2
ACCO Brands	United States	780	1,682	-13.6	34	-70.9	29.5	2.0	160.7	1.2	4.7	14.7	1.1
Asia File Corp	Malaysia	106	62	-12.0	11	26.5	N.M.	18.1	-26.8	6.4	7.1	9.6	0.7
Linc Pen & Plastics	India	40	35	-34.5	0	-99.8	N.M.	0.0	5.8	0.0	0.0	N.M.	2.2
<b>Average</b>		<b>932</b>	<b>740</b>	<b>-11.7</b>	<b>60</b>	<b>-9.4</b>	<b>37.3</b>	<b>7.9</b>	<b>12.9</b>	<b>4.3</b>	<b>6.6</b>	<b>14.4</b>	<b>1.7</b>
<b>Median</b>		<b>829</b>	<b>524</b>	<b>-11.1</b>	<b>34</b>	<b>17.2</b>	<b>42.7</b>	<b>7.8</b>	<b>-10.1</b>	<b>4.5</b>	<b>6.7</b>	<b>14.7</b>	<b>1.2</b>
<b>Thien Long Group</b>	<b>Vietnam</b>	<b>131</b>	<b>130</b>	<b>5.9</b>	<b>17</b>	<b>121</b>	<b>43.0</b>	<b>13.3</b>	<b>-33.0</b>	<b>16.5</b>	<b>21.9</b>	<b>8.4</b>	<b>1.6</b>

Source: Bloomberg, VCSC



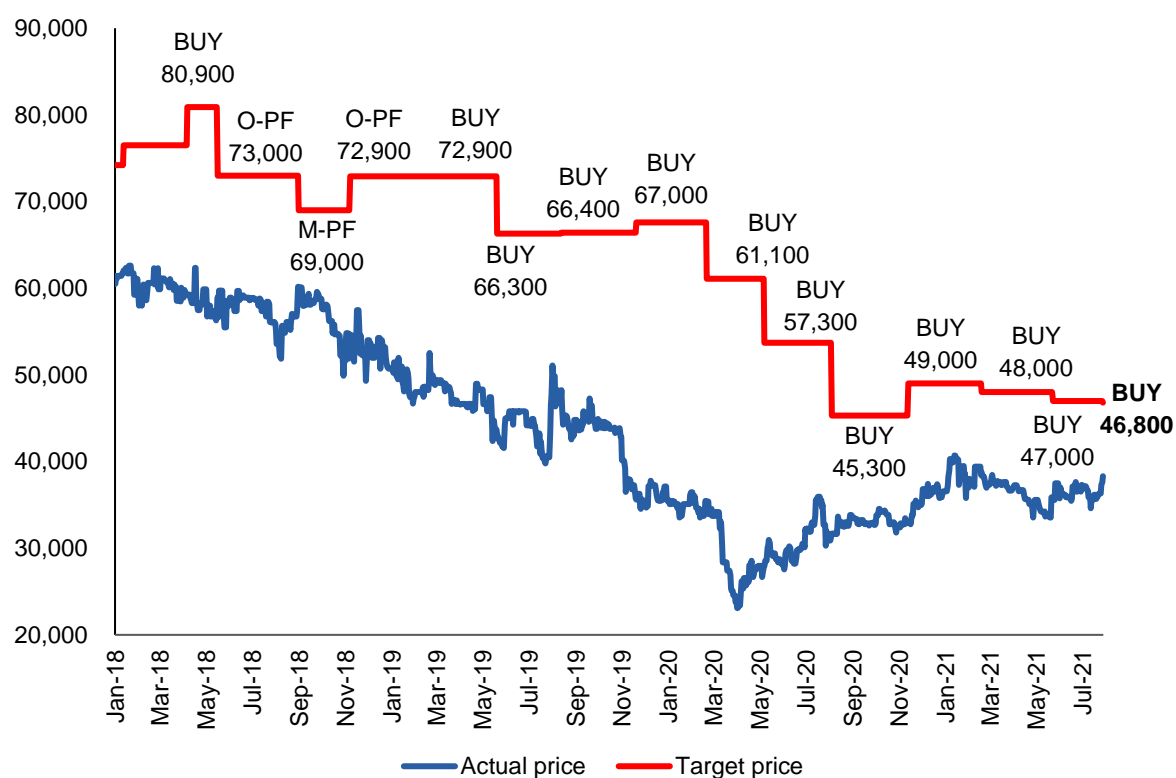
Figure 9: Historical Price-to-Earnings Ratio (P/E) of TLG vs peers



Source: Bloomberg, VCSC

## Recommendation History

Figure 10: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC. Note: Historical target prices adjusted for changes in shares outstanding.

## Financial statements

P&L (VND bn)	2020	2021F	2022F	2023F
<b>Revenue</b>	<b>2,685</b>	<b>3,041</b>	<b>3,565</b>	<b>4,045</b>
COGS	-1,655	-1,899	-2,205	-2,493
<b>Gross Profit</b>	<b>1,030</b>	<b>1,141</b>	<b>1,360</b>	<b>1,551</b>
Sales & Marketing exp	-489	-502	-570	-647
General & Admin exp	-255	-319	-321	-364
<b>Operating Profit</b>	<b>286</b>	<b>320</b>	<b>469</b>	<b>540</b>
Financial income	27	15	7	7
Financial expenses	-16	-10	-20	-24
- o/w interest expense	-12	-9	-20	-24
Associates	0	0	0	0
Net other income/(loss)	7	7	7	7
<b>Profit before Tax</b>	<b>304</b>	<b>332</b>	<b>462</b>	<b>529</b>
Income Tax	-64	-66	-92	-106
<b>NPAT before MI</b>	<b>240</b>	<b>266</b>	<b>369</b>	<b>423</b>
Minority Interest	0	0	0	0
<b>NPAT less MI, reported</b>	<b>240</b>	<b>266</b>	<b>369</b>	<b>423</b>
<b>NPAT less MI, adjusted</b>	<b>240</b>	<b>266</b>	<b>369</b>	<b>423</b>

EBITDA	367	398	588	659
EPS reported, VND	2,775	3,074	4,274	4,898
EPS adjusted, VND	2,775	3,074	4,274	4,898
EPS fully diluted, VND	2,775	3,074	4,274	4,898
DPS, VND	2,000	2,000	2,500	3,000
DPS/EPS (%)	72%	65%	58%	61%

RATIOS	2020	2021F	2022F	2023F
<b>Growth</b>				
Revenue growth	-17.5%	13.3%	17.2%	13.5%
Op profit (EBIT) growth	-30.6%	12.0%	46.3%	15.2%
PBT growth	-30.5%	9.4%	39.0%	14.6%
EPS growth, adjusted	-31.3%	10.8%	39.0%	14.6%

<b>Profitability</b>				
Gross Profit Margin	38.4%	37.5%	38.1%	38.4%
Op Profit, (EBIT) Margin	10.7%	10.5%	13.1%	13.4%
EBITDA Margin	13.7%	13.1%	16.5%	16.3%
NPAT-MI Margin, adj,	8.9%	8.7%	10.4%	10.5%
ROE	13.5%	14.9%	19.6%	20.9%
ROA	10.1%	11.2%	14.4%	14.8%

<b>Efficiency</b>				
Days Inventory On Hand	123	115	121	128
Days Accts, Receivable	63	53	57	59
Days Accts, Payable	32	23	23	22
Cash Conversion Days	153	145	155	165

<b>Liquidity</b>				
Current Ratio x	3.4	3.2	2.6	2.5
Quick Ratio x	2.3	2.0	1.5	1.4
Cash Ratio x	0.7	0.6	0.3	0.3
Debt / Assets	7.7%	9.5%	13.6%	15.2%
Debt / Capital	9.3%	11.1%	16.0%	17.9%
Net Debt / Equity	-32.3%	-15.9%	-4.8%	-0.9%
Interest Coverage x	26.6	36.5	24.6	23.5

B/S (VND bn)	2020	2021F	2022F	2023F
Cash & equivalents	372	304	252	259
ST investment	372	215	215	215
Accounts receivables	387	500	606	709
Inventories	530	665	802	941
Other current assets	41	41	41	41
<b>Total Current assets</b>	<b>1,702</b>	<b>1,725</b>	<b>1,915</b>	<b>2,165</b>
Fix assets, gross	1,003	1,160	1,417	1,557
- Depreciation	-551	-629	-748	-867
Fix assets, net	452	532	669	690
LT investment	22	22	22	22
LT assets other	139	133	128	123
<b>Total LT assets</b>	<b>613</b>	<b>687</b>	<b>820</b>	<b>835</b>
<b>Total Assets</b>	<b>2,315</b>	<b>2,412</b>	<b>2,735</b>	<b>3,001</b>

Accounts payable	113	130	145	157
Short-term debt	147	207	356	445
Other ST liabilities	239	194	228	258
Total current liabilities	500	531	729	860
Long term debt	32	21	16	11
Other LT liabilities	35	35	35	35
<b>Total Liabilities</b>	<b>566</b>	<b>588</b>	<b>780</b>	<b>906</b>

Preferred Equity	0	0	0	0
Paid in capital	778	778	778	778
Share premium	362	362	362	362
Retained earnings	609	684	815	955
Other equity	200	232	276	327
Minority interest	0	0	0	0
<b>Total equity</b>	<b>1,748</b>	<b>1,824</b>	<b>1,954</b>	<b>2,094</b>
<b>Liabilities &amp; equity</b>	<b>2,315</b>	<b>2,412</b>	<b>2,735</b>	<b>3,001</b>

Y/E shares out, mn	78	78	78	78
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CASH FLOW (VND bn)	2020	2021F	2022F	2023F
<b>Beginning Cash Balance</b>	<b>191</b>	<b>372</b>	<b>304</b>	<b>252</b>
Net Income	240	266	369	423
Dep, & amortization	80	78	119	119
Chge in Working Cap	209	-276	-194	-200
Other adjustments	-160	-29	-40	-45
<b>Cash from Operations</b>	<b>369</b>	<b>39</b>	<b>255</b>	<b>298</b>

Capital Expenditures, net	-85	-157	-257	-140
Investments, net	124	157	0	0
<b>Cash from Investments</b>	<b>39</b>	<b>0</b>	<b>-257</b>	<b>-140</b>

Dividends Paid	-153	-156	-194	-233
Δ in Share Capital	15	0	0	0
Δ in ST debt	-48	60	150	88
Δ in LT debt	6	-10	-5	-5
Other financing C/F	-46	0	0	0
<b>Cash from Financing</b>	<b>-227</b>	<b>-106</b>	<b>-50</b>	<b>-150</b>

<b>Net Change in Cash</b>	<b>181</b>	<b>-68</b>	<b>-52</b>	<b>8</b>
<b>Ending Cash Balance</b>	<b>372</b>	<b>304</b>	<b>252</b>	<b>259</b>

Source: Company's financial statements, VCSC forecasts



## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
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UNDERPERFORM	If the projected TSR is between -10% and -20%
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