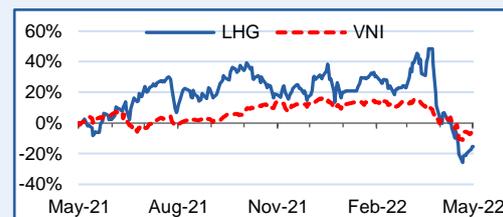




Long Hau JSC (LHG) [BUY +78.0%]

Update Report

Industry	IP Real estate		2021A	2022F	2023F	2024F
Report Date	May 30, 2022	Rev y/y	21.5%	10.1%	12.1%	30.6%
Current Price	VND35,850	EPS y/y	49.2%	8.6%	13.1%	18.6%
Target Price	VND61,900	GPM	52.7%	51.8%	53.8%	49.8%
Last Target Price	VND67,000	NPM	37.9%	37.4%	37.7%	34.3%
Upside to TP	+72.7%	EV/EBITDA	2.1x	2.0x	1.7x	1.4x
Dividend Yield	5.3%	P/E	6.8x	6.2x	5.5x	4.6x
TSR	+78.0%	P/B	1.2x	1.1x	1.0x	0.8x



		LHG	Peers	VNI
Market Cap	USD77.3mn	5.8x	15.1x	13.9x
Foreign Room	USD26.4mn	1.2x	3.5x	2.2x
ADTV30D	USD1.8mn	-0.7x	-0.9x	NA
State Ownership	48.7%	21.2%	22.2%	15.9%
Outstanding Shares	50.0 mn	10.7%	5.9%	2.6%
Fully Diluted Shares	50.0 mn			

Company Overview:

LHG is an industrial park (IP) developer in Long An Province with a total 460 ha of land. LHG's IP projects are in close proximity to HCMC and its ports (only 19 km south of central HCMC). LHG is 49% owned by State-owned Tan Thuan Industrial Development Ltd. Co. (IPC).

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Undemanding valuation for cash-rich IP developer

- We maintain our BUY rating despite cutting our target price (TP) by 7.6% to VND61,900/share. LHG's share price has plunged 35% over the last three months.
- We believe LHG's stock has been oversold due to overall weak market sentiment surrounding real estate stocks, in addition to extremely conservative profit guidance from management for 2022-2025 and unexpectedly higher total investment costs for the company's Long Hau 3.1 (LH3.1) IP project.
- Our lower TP is mainly due to (1) our 25% higher capex forecast for the LH3.1 IP following LHG's guidance for its total investment costs to increase ~24% and (2) a downward revision to our forecasts for ready-built factory (RBF) & dormitory leasing revenue with an assumed 10% CAGR in 2021-2025 vs previously 18%. These changes are partially offset by the positive effect of rolling our TP forward to mid-2023.
- Following our assumption changes for total investment and RBF & dormitory leasing revenue, we cut our aggregate NPAT-MI forecast for 2022-2025F by 22% (see page 4).
- For 2022F, we forecast revenue of VND860bn (USD37mn; +10% YoY), which is mainly driven by our assumed IP land sales recognition of 12 ha at an average selling price (ASP) of USD220/sqm/term (vs previously 13 ha at the same estimated ASP). We cut our 2022F NPAT-MI forecast by 15% to VND321bn (USD14mn; +9% YoY).
- We believe LHG is a main beneficiary of high demand for IP land in Long An Province and HCMC. In addition to its valuable cleared land bank in prime locations, we believe LHG is well positioned to capture IP land demand as the neighboring Hiep Phuoc IP faces legal obstacles.
- Downside risks: Lower-than-expected absorption rate and IP land ASP; higher-than-expected land clearance payables.

Undemanding valuation for cash-rich IP developer with a strategic project in close proximity to HCMC. In addition to LHG's large, cleared IP land area in the LH3.1 IP — which we estimate has ~45 ha of cleared IP land that has completed rental fee submission and was available to lease as of Q1 2022 — LHG had a net cash balance of VND960bn (USD41mn) as of end-Q1 2022, which is equivalent to ~55% of LHG's current market capitalization. We believe the LH3.1 IP will secure LHG's profit growth over the medium term, while its expansion pipeline (the LH3.2 and An Dinh IPs, which are awaiting investment approval from the Government) will be long-term drivers. Moreover, we believe the increases in our capex assumption and company's guidance for LH3.1's total investment costs are conservative as the company cleared 91% and paid Government rental fees for 83% of the project's total site area as of end-2021.

LHG's RBF & dormitory leasing segment to provide a steady cash inflow over the long term. We estimate net operating income (NOI) from this segment is ~VND101bn (USD4.4mn) and for it to achieve a CAGR of 10% in 2021-2025F, in which our revenue growth assumption is supported by our expected RBF space capacity expansion at a CAGR of 20%.

Q1 2022 Recap: Strong profit growth boosted by interest income

Figure 1: LHG's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY growth	Q1 2022 as % of 2022F Old	VCSC comment
Revenue	110	114	3.7%	12.2%	
<i>IP land sales</i>	53	51	-3.9%	7.6%	In Q1 2022, LHG's IP land sales revenue was down 3.9% YoY to VND51bn (USD2.2mn). Although the company has not announced its IP land sales area for Q1 2022, we estimate that it recognized 1 ha of IP land at an ASP of USD220/sqm/term in the quarter.
<i>RBF and dormitory leasing</i>	32	28	-11.7%	19.0%	In Q1 2022, RBF & dormitory revenue dropped 12% YoY to VND28bn (USD1.2mn). While the revenue breakdown between RBFs and dormitories was not announced, we believe the decrease was mainly due to the RBF segment as it targets small and mid-sized company tenants that could have been negatively affected by COVID-19 disruptions in H2 2021.
<i>Others</i>	25	35	40.6%	30.5%	
Gross profit	57	60	5.1%	11.5%	
SG&A	-15	-11	-21.1%	13.6%	
Operating profit	43	49	14.1%	11.1%	
Financial income	4	13	231.2%	31.8%	In Q1 2022, financial income surged 231% YoY to VND13bn (USD565,000), which we believe was thanks to LHG's improved financial position. As of end-Q1 2022, LHG had a net cash balance of VND960bn (USD41mn) vs VND876bn (USD38mn) as of end-Q1 2021.
Financial expenses	-4	-4	-14.1%	25.6%	
Net income from affiliates	3	2	-15.3%	44.1%	
Net other income	1	-0	N.M.	N.M.	
PBT	46	60	31.2%	12.8%	
NPAT-MI	33	49	49.0%	12.9%	
<i>GPM</i>	51.9%	52.6%			
<i>OPM</i>	38.7%	42.5%			
<i>NPM</i>	29.6%	42.6%			

Source: LHG, VCSC

2022 Outlook: Expecting single-digit profit growth due to upward cost revision starting in 2022

Figure 2: VCSC's 2022 forecast for LHG

VND bn	2021	Old 2022F	New 2022F	YoY Growth	2022F New/old	VCSC assumptions
Revenue	782	935	860	10.1%	-8.0%	
<i>IP land sales</i>	547	672	621	13.4%	-7.7%	We cut our IP land sales assumption to 12 ha (+9% YoY) vs previously 13 ha (+18% YoY) in 2022F at an unchanged estimated ASP of USD220/sqm/term. Our current forecast of 12 ha in 2022F is in line with management's guidance.
<i>RBF and dormitory leasing</i>	127	149	127	0.0%	-15.3%	We cut our 2022F RBF & dormitory leasing revenue by 15% to VND127bn (USD5.5mn; flat YoY), which is due to the lower-than-expected Q1 2022 results given that tenants were negatively affected by COVID-19 disruptions in H2 2021. We expect the J4 phase 1 expansion RBF project in the Da Nang Hi-tech IP and phase 2 of high-rise ready built (HRB) factories in the Long Hau IPs to add around 34,000 sqm of RBF space — equivalent to 36% of LHG's existing RBF space.
<i>Others</i>	108	113	113	5.0%	0.0%	
Gross profit	412	520	446	8.3%	-14.4%	
SG&A	-60	-84	-77	28.8%	-8.0%	
Operating profit	352	436	368	4.8%	-15.6%	
Financial income	33	39	39	18.6%	0.0%	We continue to forecast financial income will increase 19% YoY, which is mainly driven by LHG's improving financial position thanks to solid cash inflows from IP land sales in 2022F. We expect the average cash balance to increase 24% YoY in 2022F to VND1.1tn (USD48mn).
Financial expenses	-16	-14	-14	-17.2%	0.0%	We expect LHG to continue to lower its debt balance in 2022F and reduce its interest expenses thanks to its current strong net cash position.
Net income from affiliates	4	6	6	25.0%	0.0%	
Net other income	2	2	2	1.9%	0.0%	
PBT	375	470	402	7.3%	-14.4%	
NPAT-MI	296	376	322	8.6%	-14.4%	
<i>GPM</i>	52.7%	55.7%	51.8%			
<i>OPM</i>	45.0%	46.7%	42.8%			
<i>NPM</i>	37.9%	40.2%	37.4%			

Source: LHG, VCSC

Changes in key forecast assumptions

We lower our IP land sales revenue in 2022-2025F to reflect our more conservative forecasts as LHG's conservative guidance implies a low willingness to recognize high profit growth over the medium term despite its large amount of cleared IP land that is ready for lease.

Our gross profit forecasts for IP land sales decline following our upward cost revision. We raise our future capex forecast for the LH3.1 IP by 25% following LHG's guidance for total investment costs to increase ~24%. Our assumed average cost of IP land is USD100/sqm/term vs previously USD89/sqm/term. We note that LHG has conservatively recognized development costs for sold IP land at ~USD89/sqm/term, which is around 10% higher than the previous approved development cost of USD81/sqm/term.

We expect a lower CAGR for RBF & dormitory leasing revenue in 2021-2025F — 8.8% vs previously 15% — as we currently expect lower absorption rates for LHG's future RBF segment as its RBF capacity expansion is mainly in Da Nang (central Vietnam).

Figure 3: VCSC's changes in forecasts for LHG's P&L in 2022-2025F

Units: VND bn	2021A	2022F	2023F	2024F	2025F	CAGR [^]
Old assumptions						
Revenue	782	935	1,122	1,465	1,634	20.5%
<i>IP land sales</i>	547	672	827	1,129	1,260	23.8%
<i>RBF & dormitory leasing</i>	127	149	176	211	243	15.1%
<i>Others</i>	108	113	119	125	131	7.7%
Gross profit	782	520	653	798	920	25.7%
NPAT-MI	296	376	466	562	657	27.0%
<i>GPM</i>	52.7%	55.7%	58.2%	54.5%	56.3%	
<i>NPM</i>	37.9%	40.2%	41.5%	38.3%	40.2%	
New assumptions						
Revenue	782	860	964	1,260	1,459	17.8%
<i>IP land sales</i>	547	621	706	975	1,144	21.5%
<i>RBF & dormitory leasing</i>	127	127	139	160	184	8.8%
<i>Others</i>	108	113	119	125	131	7.7%
Gross profit	412	446	519	628	738	20.3%
NPAT-MI	296	322	364	432	502	20.4%
<i>GPM</i>	52.7%	51.8%	53.8%	49.8%	50.6%	
<i>NPM</i>	37.9%	37.4%	37.7%	34.3%	34.4%	
New/old forecasts						
Revenue		-8.0%	-14.0%	-14.0%	-10.7%	
Gross profit		-14.4%	-20.5%	-21.4%	-19.8%	
NPAT-MI		-14.4%	-21.8%	-23.1%	-23.7%	

Source: LHG, VCSC. Note: (^) CAGR in 2020-2025F.

Figure 4: VCSC's changes in key assumption for IP land sales

Units: VND bn	2021	2022F	2023F	2024F	2025F	CAGR [^]
Old assumptions						
Total IP land sales (ha)	11.8	13.0	15.0	22.0	23.0	18.2%
Average IP land sales price/ASP (USD/sqm/term)	200	223	238	221	236	4.2%
New assumptions						
Total IP land sales (ha)	11.8	12.0	13.0	20.0	22.0	16.9%
Average IP land sales price/ASP (USD/sqm/term)	200	223	234	210	224	2.9%
In which IP land sales (ha) from						
- LH3.1 IP	11.8	12.0	13.0	8.0	7.0	-12.2%
- LH3.2 IP	0.0	0.0	0.0	7.0	10.0	N.M.
ASP	200	220	227	234	241	4.8%
- An Dinh IP	0.0	0.0	0.0	5.0	5.0	N.M.
ASP	84.0	88.2	92.6	97.2	100.2	4.6%
New/old total IP land sales (%)		-7.7%	-13.3%	-9.1%	-4.3%	
New/old ASP (%)		0.0%	-1.4%	-5.0%	-5.0%	

Source: LHG, VCSC. Note: (^) CAGR in 2021-2025F.

Valuation

We value LHG using a revalued net asset value (RNAV) approach — which we believe is the most suitable methodology for IP developers — in order to capture the company’s land bank value and long-term growth potential. We value LHG’s IP projects and RBF & dormitory leasing projects using the DCF method with a WACC of 12.0% (details in **Figure 6**).

We continue to apply a 20% valuation discount for LHG to reflect the risk of increasing payable responsibility to its major shareholder - Tan Thuan Industrial Development Ltd. Co. (IPC). This payable responsibility is related to previous land clearance for LHG’s LH1 & LH2 IP projects as IPC compensated land owners with resettlement area. LHG is responsible for reimbursing IPC with the value of the resettlement area in addition to the cost of capital and fixed profit of 10%. In 2018-2020, IPC issued several documents to announce the estimated amounts of LHG’s payables, which ranged from VND62bn-328bn (USD2.7mn-14mn).

LHG is still working with IPC to determine the value of the payable amount. The information that was obtained is insufficient to determine the value; therefore, LHG has not recorded the payable balance nor made payments to IPC. LHG’s auditors also included an “emphasized matter” for this issue.

We note that we have not factored the LH3 urban and resettlement area project (total site area of 19 ha) into our valuation and forecasts as we expect the development timeline of this project to be prolonged due to land clearance and legal obstacles. As such, land sales for this project could be beyond 2025F.

Figure 5: Valuation summary

VND bn	Valuation method	Value
LH3.1 IP	DCF	1,334
LH3.2 IP	DCF	454
An Dinh IP	DCF	246
RBF & dormitory leasing	DCF	620
Development NPV		2,654
Others *		254
Cash & cash equivalents		1,134
Gross debt		-175
NAV		3,868
Valuation discount		20.0%
Discounted NAV		3,095
Current outstanding shares (millions)		50.0
Target price/TP (VND/share)		61,900
Upside to TP (%)		72.7%
Dividend yield (%)		5.3%
Projected TSR (%)		78.0%
2022F P/B at TP		1.9x
2023F P/B at TP		1.6x
2022F P/E at TP		10.8x
2023F P/E at TP		9.5x

Source: LHG, VCSC. * Others include equity value of affiliates and other long-term investments at cost.

Figure 6: WACC assumptions

Cost of capital	Previous	Current
Beta	1.0	1.0
Risk Free Rate %	5.5%	5.5%
Equity Risk Premium %	7.0%	7.0%
Cost of Equity %	12.5%	12.5%
Cost of Debt %	9.0%	9.0%
% Debt	10.0%	10.0%
% Equity	90.0%	90.0%
Corporate Tax Rate %	20.0%	20.0%
WACC %	12.0%	12.0%

Source: VCSC

Figure 7: Our main assumptions for the LH3.1, LH3.2 and An Dinh IPs

VND bn	LH3.1	LH3.2	An Dinh
Total site area (ha)	124 ha	90 ha	200 ha
Total leasable area (ha)	91 ha	62 ha	149 ha
Total major investment costs *	2,110	2,070	1,750
Cash outflows assumption			
Total cash outflows from 2022F *	912	2,070	1,750
SG&A and CIT expenses from 2022F	620	665	250
<i>Period</i>	<i>2022-2029F</i>	<i>2022-2029F</i>	<i>2022-2035F</i>
Cash inflows assumption			
Remaining leasable area as of end 2021	61 ha	62 ha	149 ha
Total cash inflows from 2022F - year fully occupied	3,589	4,023	4,860
<i>Period</i>	<i>2022-2027F</i>	<i>2022-2031F</i>	<i>2022-2033F</i>
NPV	1,334	454	246

Source: VCSC. * Not including SG&A and CIT expenses.

Figure 8: DCF valuation for RBF & dormitory leasing

FCFF (Five-Year) - VND bn	Value
PV of Free Cash Flows 2022F - 2026F	138
PV of Terminal Value (2.0% g)	482
Equity value (PV of Free Cash Flows and Terminal Value)	620

Source: VCSC

Figure 9: Cash flow summary for RBF & dormitory leasing

VND bn	2022F	2023F	2024F	2025F	2026F
EBIT *	56	63	77	90	109
- Tax	-11	-13	-15	-18	-22
+ Dep.	46	50	55	61	71
- Capex	-80	-80	-80	-80	-80
Free Cash Flow	10	21	37	53	78
PV of FCF	10	18	28	36	47
Cumulative PV of FCF	10	27	55	91	138

Source: VCSC. * Our EBIT forecast only includes RBF & dormitory leasing contribution; we simply assume no material change in working capital for RBF & dormitory projects as leasing payments are made periodically.

Figure 10: WACC sensitivity analysis on our updated valuation per share (VND/share)

	WACC				
	11.0%	11.5%	12.0%	12.5%	13.0%
TP	65,600	63,700	61,900	60,200	58,600

Source: VCSC

Comparable Peers

We select IP developers that are concentrated on developing projects in southern Vietnam for comparison as LHG has high exposure to southern IP development.

In terms of comparing LHG to its peers in the IP sector, we believe the most widely used method to look at an IP developer is RNAV. However, we do not have sufficient information to conduct RNAV for all of LHG's peers.

As IP developers adopt different accounting methodologies for IP land sales recognition, we perform an adjustment for their book value as we believe adjusted P/B is more comparable among listed IP developers.

As LHG purely uses a one-off IP land sales recognition method while its peers use an allocation recognition method and/or mixed methods, we adjust the P/B ratios of LHG's peers to be more comparable to LHG's P/B ratio.

Currently, LHG is trading at a P/B of 1.2x, which is a 45% discount vs its one-year average of peer median adjusted P/B of 2.2x. As a result, we believe LHG's valuation looks attractive as its key LH3.1 project has been cleared and largely compensated for while also completing a high proportion of the Government's land rental fees.

Figure 11: LHG's peers

Company name * (USD mn)	Mkt cap	TTM Net Sales	Y-o-Y %	TTM NPAT	Y-o-Y %	Net debt/Equity	ROE (%)	TTM P/E	LQ P/B	Adjusted P/B
IDICO	674	216	-8%	29	-26%	17%	17%	23.8x	3.8x	2.2x
Saigon VRG Investment	430	243	10%	36	-19%	-121%	32%	12.0x	3.4x	1.6x
Phuoc Hoa Rubber	367	89	20%	30	-28%	-52%	21%	12.4x	2.6x	2.4x
Nam Tan Uyen IP	178	12	3%	13	1%	-180%	45%	14.0x	6.5x	1.6x
Sonadezi Chau Duc	224	36	66%	14	51%	132%	23%	18.8x	3.7x	3.4x
Binh Long Rubber IP	29	3	-31%	2	-34%	-220%	16%	16.2x	2.8x	1.6x
Median	295	62	6%	21	-22%	-86%	22%	15.1x	3.5x	1.9x
Average	317	100	10%	21	-9%	-71%	26%	16.2x	3.8x	2.2x
LHG	77	34	44%	14	86%	-67%	21%	5.8x	1.2x	1.2x

Source: Bloomberg, VCSC. * All Vietnamese companies; data for peers acquired on May 26, 2022.

Figure 12: LHG, peer median and one-year average of peer median adjusted P/B ratios (x)



Source: Bloomberg, VCSC

Recommendation History

Figure 13: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Revenue	782	860	964	1,260
COGS	-370	-415	-446	-632
Gross Profit	412	446	519	628
Sales & Marketing exp.	-10	-13	-15	-17
General & Admin exp.	-50	-64	-72	-83
Operating Profit	352	368	432	527
Financial Income	33	40	25	18
Financial Expenses	-16	-14	-10	-14
- o/w Interest Expense	-16	-13	-10	-13
Associates	4	6	6	7
Net Other Income/(Loss)	2	2	2	2
Profit Before Tax	375	402	455	540
Income Tax	-79	-80	-91	-108
NPAT Before MI	296	322	364	432
Minority Interest	0	0	0	0
NPAT Less MI, Reported	296	322	364	432
EBITDA	403	423	494	596
EPS Reported, VND	5,302	5,760	6,515	7,729
DPS Reported, VND	1,900	2,000	2,000	2,000
DPS/EPS (%)	36%	35%	31%	26%

(*) adjusted for bonus and welfare fund

RATIOS	2021	2022F	2023F	2024F
Growth YoY				
Revenue	21.5%	10.1%	12.1%	30.6%
Op. Profit (EBIT)	61.6%	4.8%	17.3%	21.9%
PBT	49.2%	8.6%	13.1%	18.6%
EPS Fully Diluted	49.2%	8.6%	13.1%	18.6%

Profitability

Gross Profit Margin	52.7%	51.8%	53.8%	49.8%
Op. Profit, (EBIT) Margin	45.0%	42.8%	44.8%	41.8%
EBITDA Margin	51.6%	49.2%	51.2%	47.3%
NPAT-MI Margin	37.9%	37.4%	37.7%	34.3%
ROE	21.6%	20.7%	20.6%	21.3%
ROA	10.9%	11.0%	11.7%	12.6%

Efficiency

Days Inventory On Hand	654	564	778	859
Days Accts, Receivable	142	137	132	127
Days Accts, Payable	57	47	55	48
Cash Conversion Days	739	654	855	938

Liquidity

Current Ratio x	2.5	2.6	2.7	3.1
Quick Ratio x	1.7	1.8	1.2	1.1
Cash Ratio x	0.1	0.2	0.1	0.1
Debt / Assets %	6.6%	4.6%	3.1%	5.8%
Debt / Capital %	11.3%	7.8%	5.1%	8.8%
Net Debt / Equity %	-60.9%	-60.6%	-30.4%	-12.3%
Interest Coverage x	22.3	27.8	43.0	39.4

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & Equivalents	92	158	87	72
ST Investment	986	986	586	406
Accounts Receivables	303	322	348	437
Inventories	627	655	1,243	1,734
Other Current assets	7	7	7	7
Total Current Assets	2,014	2,128	2,271	2,656
Fixed Assets, Gross	138	168	198	228
- Depreciation	-69	-78	-90	-104
Fixed Assets, Net	70	90	108	125
Construction in progress	202	202	202	202
LT assets, other	50	50	50	50
Total LT Assets	832	887	934	975
Total Assets	2,846	3,015	3,205	3,631

Accounts Payable	42	64	69	98
ST Debt	46	40	40	40
Other ST Liabilities	657	657	657	657
Total Current Liabilities	818	833	838	867
LT Debt	140	100	60	170
Other LT liabilities	425	425	425	425
Total Liabilities	1,383	1,359	1,323	1,462

Preferred Equity	0	0	0	0
Paid in capital	500	500	500	500
Share premium	72	72	72	72
Retained earnings	793	986	1,212	1,498
Other equity	97	97	97	97
Minority interest	1	1	1	1
Total equity	1,463	1,656	1,882	2,168
Liabilities & equity	2,846	3,015	3,205	3,631

Shares outstanding (mn)	50.0	50.0	50.0	50.0
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CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Beginning Cash Balance	261	92	158	87
Net income	296	322	364	432
Dep. & Amortization	52	55	62	69
Δ in Working Capital	123	-25	-609	-551
Other Adjustments (a)	0	-34	-38	-45
Cash from Operations	471	318	-221	-95
Capital Expenditures, Net	-10	-110	-110	-110
Investments, Net	-529	0	400	180
Cash from Investments	-521	-110	290	70
Dividends Paid	-95	-95	-100	-100
Δ in Share Capital	0	0	0	0
Δ in ST Debt	4	-6	0	0
Δ in LT Debt	-27	-40	-40	110
Other financing C/F	0	0	0	0
Cash from Financing	-118	-141	-140	10
Net Change in Cash	-169	66	-71	-15
Ending Cash Balance	92	158	87	72

Source: Company financial statements, VCSC forecasts. Note: (a) Mainly includes adjustments for bonus & welfare funds.

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
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
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