

UNBK IN
UNION BANK OF INDIA
INDIA / BANKS**↔ BUY**
UNCHANGEDTARGET INR310.00
PRIOR TP INR344.00
CLOSE INR212.15
UP/DOWNSIDE +46.1%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (INR)	310.00	309.77	0.1
EPS 2012 (INR)	44.81	46.94	(4.5)
EPS 2013 (INR)	57.42	56.15	2.3
	Positive	Neutral	Negative
Market Recs	34	12	6

INDUSTRY OUTLOOK ↔

Asset quality deteriorates

↕ CHANGE

Slippages higher than expected, but likely to decline going forward

Slippages at INR18.7b (5.8% annualised) were higher than our estimates. We expect normal slippages to continue but decrease on an absolute level as system migration is completed. Core performance remains healthy. We revise EPS estimates down by 14% and 11% for FY12 and FY13, mainly to factor in higher provisions due to high slippages.



CATALYST

No near-term trigger, strong recoveries in 2HFY12 key to earnings

The stock is unlikely to get re-rated in the near term, however higher recoveries and up gradations in 2HFY12 will hold the key to the stock's performance going forward. Lot of steps (recovery camps, focused recovery teams etc.) have been initiated, which we expect to yield results in the form of higher recoveries and upgradations in 2HFY12.

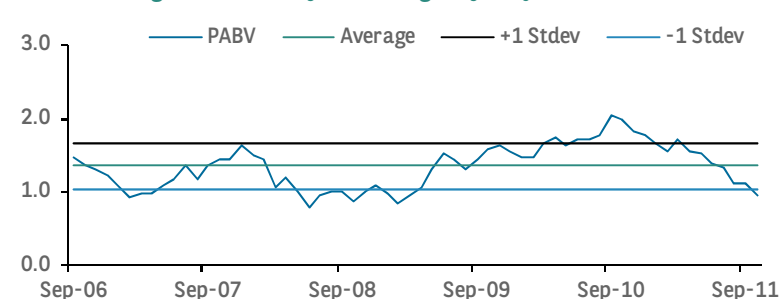
↗ VALUATION

Earnings cut, but prospective dividend yield attractive at 5%

The stock is trading at 0.8x FY13E ABV with a dividend yield of 5%. We expected 2QFY12 to remain weak due to asset quality concerns and we recommended investors to BUY post quarterly earnings. We maintain our BUY rating with a 12-month revised TP of INR310 (down 10% from INR344 earlier). Downside risk to our TP remains from higher slippages.

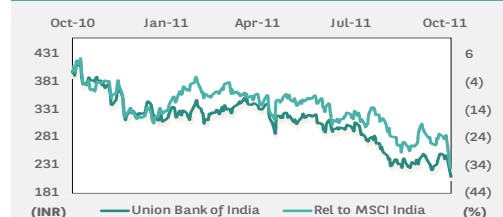
KEY CHART

Trading 1SD below 5-year average 1-year forward P/ABV



KEY STOCK DATA

YE Mar (INR m)	2012E	2013E	2014E
Operating Profit	35,070	44,939	61,180
Rec. net profit	23,497	30,109	40,990
Recurring EPS (INR)	44.81	57.42	78.18
Prior rec. EPS (INR)	52.29	64.16	83.96
Chg. In EPS est. (%)	(14.3)	(10.5)	(6.9)
EPS growth (%)	12.9	28.1	36.1
Recurring P/E (x)	4.7	3.7	2.7
Dividend yield (%)	4.7	5.0	5.4
Price/book (x)	0.8	0.7	0.5
ROE (%)	17.2	19.0	21.8
ROA (%)	0.92	1.01	1.13



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(12.6)	(31.3)	(48.7)
Relative to country (%)	(17.3)	(21.8)	(30.7)
Next results	January 2012		
Mkt cap (USD m)	2,232		
3m avg daily turnover (USD m)	5.1		
Free float (%)	43		
Major shareholder	Govt of India (57%)		
12m high/low (INR)	417.90/212.15		
3m historic vol. (%)	41.0		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	524		

Sources: Bloomberg consensus; BNP Paribas estimates



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+91 22 3370 4354BNP Paribas Securities Asia research is available on Thomson One, Bloomberg, TheMarkets.com, Factset and on <http://eqresearch.bnpparibas.com/index>. Please contact your salesperson for authorisation. Please see the important notice on the back page.**BNP PARIBAS** | The bank for a changing world



RISK EXPERTS

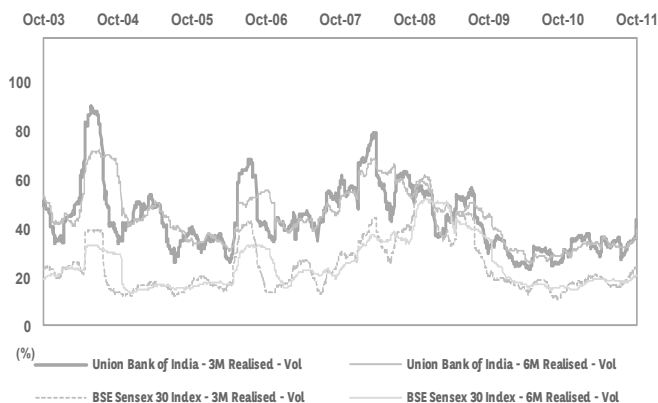
Key Earnings Drivers & Sensitivity

- The key macro factors that can impact UBI's earnings are credit growth, prevailing interest rate environment and deterioration/improvement in asset quality
- In our bear case we have assumed slippages in FY12E and FY13E to be 25bp above our base case scenario and in our bull case we have assumed slippages in FY12E and FY13E to be 20bp below the base case scenario

Year-end 31 Mar	----- 2012E -----			----- 2013E -----		
	Bear	Base	Bull	Bear	Base	Bull
Advance growth (%)	15.5	15.8	18.6	17.5	17.9	20.6
NIM (%)	2.70	2.84	2.91	2.51	2.78	2.92
Slippages (%)	2.75	2.50	2.25	2.00	1.60	1.50
EPS (INR)	38.8	44.8	48.9	43.8	57.4	63.6
ABV (INR)	220.7	228.9	235.2	245.0	270.1	282.5
ROE (%)	15.0	17.2	15.9	15.2	19.0	18.0

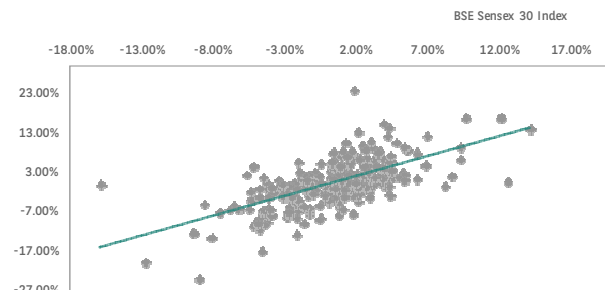
Source: BNP Paribas estimates

Union Bank of India and SENSEX Index (3M and 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

Regression - Union Bank of India to SENSEX Index



Union Bank of India

Union Bank of India = -98 + 0.0199 * SENSEX Index
R Square = 0.4242

Regression based on 261 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square
Sources: Bloomberg; BNP Paribas

India sector correlation matrix at 25 July 2011

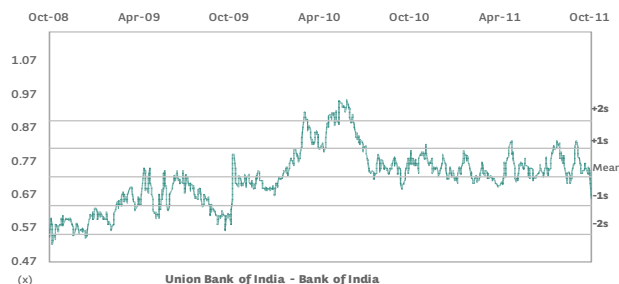
	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecom	Utilities	Property
Autos	1.00	0.67	0.64	0.66	0.50	0.43	0.36	0.58	0.62
Banks		1.00	0.71	0.70	0.58	0.46	0.36	0.63	0.66
Engineering & Construction			1.00	0.71	0.58	0.46	0.41	0.65	0.68
Metals & Mining				1.00	0.66	0.50	0.40	0.69	0.72
Oil & Gas					1.00	0.40	0.30	0.57	0.57
IT Services						1.00	0.27	0.45	0.38
Telecom							1.00	0.43	0.43
Utilities								1.00	0.63
Property									1.00

Source: BNPP Paribas Sector Strategy

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process

Long/Short Chart



Sources: Bloomberg; BNP Paribas

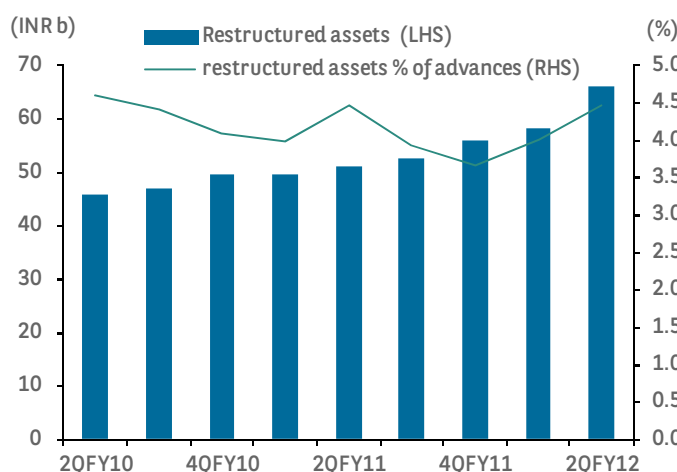
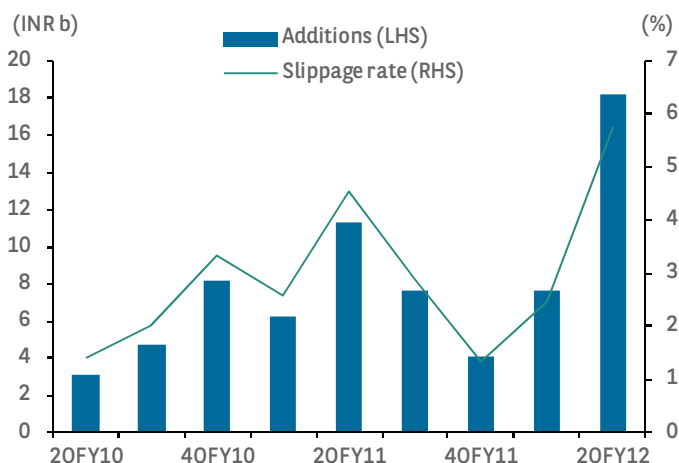
Sources: Bloomberg, BNPP Paribas

Net profit surprises on the downside as asset quality deteriorates

Union Bank of India (UNBK) reported 2QFY12 NII at INR16.6b (up 8.2% y-y), in line with consensus, led by NIM expansion (10bp q-q), to 3.21%, and advances up 16.5% y-y. Net profit at INR3.5b (up 16.6%) surprised negatively as slippages rose to 5.76% (2.46% in 1QFY12). GNPA rose to 3.5% (2.6% in 1QFY12). In absolute terms slippages were INR18.7b in 2QFY12 (INR7.1b in 1QFY12) of which INR11b-13b were on account of 100% migration of small-ticket accounts to CBS-based NPA recognition (INR6b-7b on account of agriculture accounts, INR3b-4b on account of loans dispensed under a special scheme, INR2b from some other priority sector accounts). INR7.6b assets were restructured during the quarter (broad based across sectors). Restructured assets rose to 4.5% (4.0% in 1QFY12).

EXHIBIT 1: Slippages spike on 100% migration to system-based NPA recognition

EXHIBIT 2: Restructured assets have started rising over last three quarters



Sources: Union Bank of India; BNP Paribas

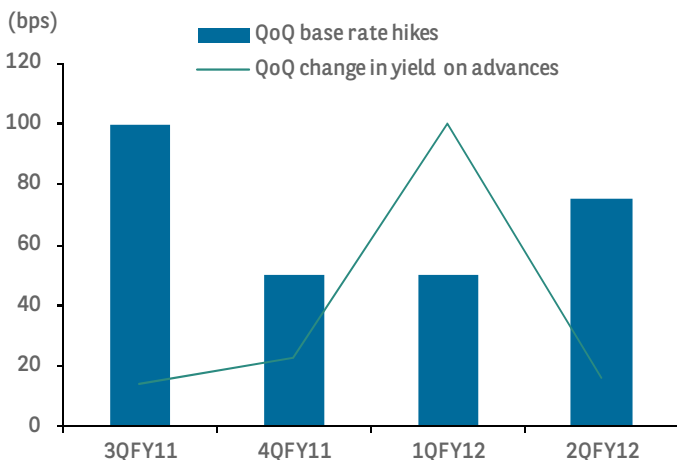
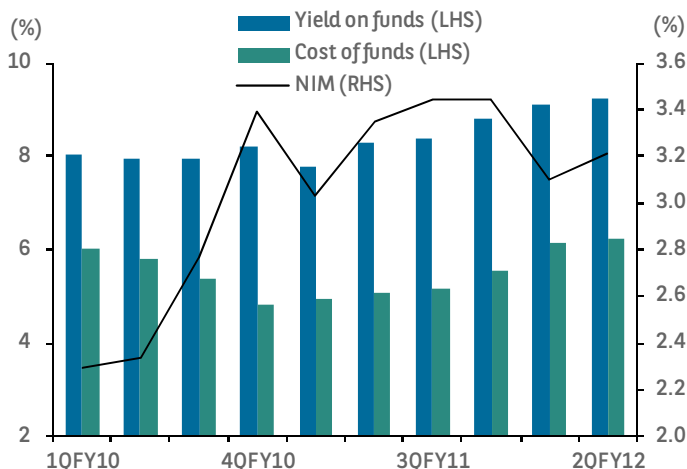
Sources: Union Bank of India; BNP Paribas

NIM expansion supports core profitability, though yields not reflective of base rate hikes due to interest reversal on NPLs recognised through CBS

NIM improved 10bp q-q on the back of improved yields on advances (as the bank hiked its base rate by 75bp in 2QFY12 and 50bp in 1QFY12). However, NIM expansion could have been higher had the bank not been required to reverse the interest recognised on small-ticket agri loans, which turned NPA on moving to system based NPA recognition.

EXHIBIT 3: NIM expands sequentially led by base rate hikes aggregating to 125bp over last two quarters ...

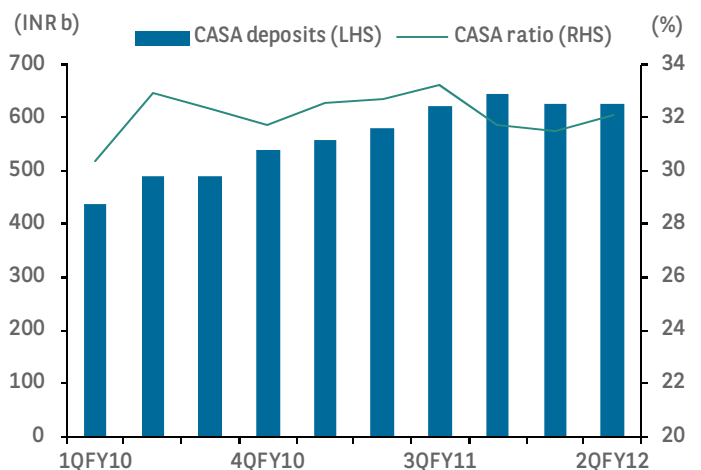
EXHIBIT 4: ... However NIM expansion limited as pass-through of base rate into yields impacted due to interest reversal on slippages in small-ticket agriculture accounts



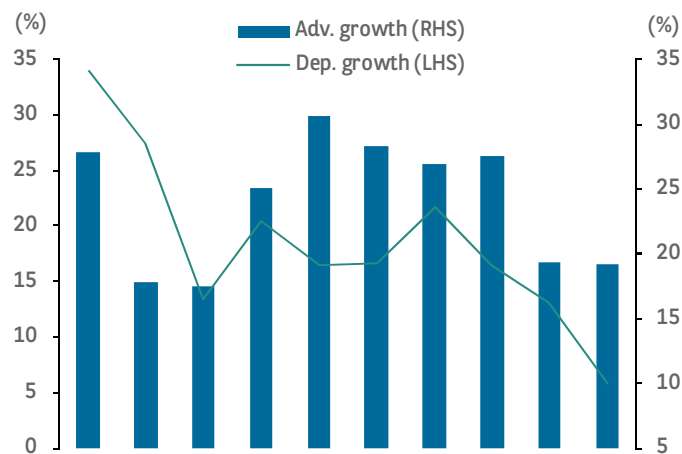
Sources: Union Bank of India; BNP Paribas

Sources: Union Bank of India; BNP Paribas

During the quarter the bank shed some term deposits, which helped the bank contain the rise in cost of funds as well as sequentially improve the proportion of low-cost CASA deposits. The Bank has been able to maintain a fairly stable CASA ratio through the rising interest rate cycle.

EXHIBIT 5: CASA deposits have been fairly stable in the rising interest rate scenario

Sources: Union Bank of India; BNP Paribas

EXHIBIT 6: Advance and deposit growth have moderated

Sources: Union Bank of India; BNP Paribas

Revising estimates downward, building in higher slippages and provisioning cost

We have revised our estimates for FY12E and FY13E, building in higher slippages and loan-loss provisions. We also factor in slower loan growth as the bank will look towards consolidating its balance sheet in the current high rate environment, especially given that it is facing pressure on asset quality. Based on this, our EPS estimates are revised downward by 14% and 11% for FY12E and FY13E and our ABVPS estimates are revised downward by 7% and 6% for FY12E and FY13E

Based on the revised estimates, we revise our target price down to INR310 from INR344 previously.

EXHIBIT 7: Revising estimates for FY12E and FY13E

Year-end 31 Mar	---- New estimates ----		---- Old estimates ----		----- Change -----	
	2012E	2013E	2012E	2013E	2012E	2013E
	(INR m)	(INR m)	(INR m)	(INR m)	(%)	(%)
NII	70,242	80,801	72,138	83,170	(3)	(3)
Other income	22,067	24,673	23,202	25,091	(5)	(2)
Net total income	92,309	105,473	95,340	108,261	(3)	(3)
Operating expense	39,186	46,406	41,721	47,469	(6)	(2)
PPOP	53,122	59,068	53,620	60,792	(1)	(3)
Provision & contingencies	18,052	14,128	14,739	12,879	22	10
Loan loss provisions	16,664	12,797	13,080	11,431	27	12
Pre-tax profit	35,070	44,939	38,881	47,913	(10)	(6)
Tax	11,573	14,830	11,464	14,174	1	5
After-tax profit	23,497	30,109	29,075	33,739	(19)	(11)
GNPA (%)	2.8	2.7	2.3	2.5	22	10
NNPA (%)	1.2	1.3	0.8	1.1	46	14
Slippage rate (%)	2.5	1.6	1.7	1.6	47	0
NIM (%)	2.76	2.71	2.78	2.70	(1)	1
Advance growth (%)	15.8	17.9	19.0	18.6	(17)	(4)
Deposit growth (%)	15.0	18.0	19.0	18.0	(21)	0
EPS (INR)	44.8	57.4	52.3	64.3	(14)	(11)
ABVPS (INR)	228.9	270.1	244.9	287.5	(7)	(6)

Source: BNP Paribas estimates

EXHIBIT 8: Quarterly results review

Year-end 31 Mar	2QFY12	2QFY11	Growth	1QFY12	Growth	2012E	2011	Growth
	(INR m)	(INR m)	(y-y %)	(INR m)	(q-q %)	(INR m)	(INR m)	(y-y %)
Interest income	51,104	39,522	29.3	49,157	4.0	213,398	164,526	29.7
Interest on advances	38,586	27,758	39.0	37,542	2.8	161,839	120,312	34.5
Income on Investments	11,409	9,851	15.8	10,634	7.3	47,284	40,027	18.1
Bal with RBI & others	1,109	1,913	(42.0)	982	13.0	4,276	4,187	2.1
Interest expense	34,492	24,164	42.7	33,255	3.7	143,157	102,364	39.9
Net Interest income	16,612	15,358	8.2	15,902	4.5	70,242	62,162	13.0
Non-Interest income	5,009	5,096	(1.7)	4,840	3.5	22,067	20,388	8.2
Treasury income	1,610	1,790	(10.1)	1,730	(6.9)	5,500	4,644	18.4
Fee income	2,980	2,860	4.2	2,100	41.9	3,909	3,649	7.1
Net total income	21,622	20,455	5.7	20,742	4.2	92,309	82,550	11.8
Operating expenses	9,571	9,149	4.6	9,084	5.4	39,186	39,500	(0.8)
Employee	5,914	5,919	(0.1)	5,918	(0.1)	24,501	25,997	(5.8)
Other operating expenses	3,657	3,229	13.3	3,166	15.5	14,685	13,503	8.8
Operating profit	12,051	11,306	6.6	11,658	3.4	53,122	43,050	23.4
Core operating profits	10,441	9,516	9.7	9,928	5.2	47,622	38,406	24.0
Provisions	6,228	5,989	4.0	4,284	45.4	18,052	13,496	33.8
Loan loss provisions	4,950	6,290	(21.3)	3,650	35.6	16,664	11,877	40.3
Pre-tax profit	5,823	5,317	9.5	7,374	(21.0)	35,070	29,554	18.7
Tax	2,297	2,284	0.6	2,730	(15.8)	11,573	8,735	32.5
Effective tax rate (%)	39.5	42.9		37.0		33.0	29.6	
After-tax profit	3,525	3,034	16.2	4,644	(24.1)	23,497	20,820	12.9
Asset quality								
Gross NPA's	51,364	35,243	45.7	37,451	37.2	50,531	36,228	39.5
% gross NPAs	3.49	2.79		2.57		2.84	2.37	
Net NPA's	29,569	14,620	102.2	18,933	56.2	21,645	18,034	20.0
% net NPAs	2.04	1.18		1.32		1.24	1.19	
Provision coverage (%)	42.4	58.5		49.4		57.2	50.2	
Capital adequacy (%)								
CAR	12.5	12.5		12.9		12.4	13.0	
Tier 1	8.5	7.9		8.8		8.6	8.7	
Balance sheet items								
Deposits	1,955,720	1,777,800	10.0	1,991,780	(1.8)	2,328,305	2,024,613	15.0
CASA	627,540	581,110	8.0	627,680	(0.0)	745,058	643,072	15.9
CASA (%)	32.1	32.7		31.5		32.0	31.8	
Advances	1,472,840	1,264,260	16.5	1,455,670	1.2	1,747,740	1,509,861	15.8
Investments	619,910	592,940	4.5	601,240	3.1	710,133	583,991	21.6
Total assets	2,368,981	2,059,315	15.0	2,333,141	1.5	2,731,109	2,359,844	15.7

Sources: Union Bank of India; BNP Paribas estimates

Financial statements

Union Bank of India

Profit and Loss (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Interest income	133,027	164,526	213,398	240,078	279,132
Interest expense	(91,103)	(102,364)	(143,157)	(159,277)	(175,673)
Net interest income	41,924	62,162	70,242	80,801	103,458
Net fees & commission	3,518	3,649	3,909	4,379	5,087
Foreign exchange trading income	3,227	4,290	2,758	2,856	4,046
Securities trading income	5,728	4,644	5,500	7,000	4,000
Dividend income	0	0	0	0	0
Other income	7,275	7,805	9,900	10,438	10,531
Non interest income	19,747	20,388	22,067	24,673	23,664
Total income	61,672	82,550	92,309	105,473	127,123
Staff costs	(13,545)	(25,997)	(24,501)	(29,544)	(33,157)
Other operating costs	(11,533)	(13,503)	(14,685)	(16,862)	(20,197)
Operating costs	(25,078)	(39,500)	(39,186)	(46,406)	(53,354)
Pre provision operating profit	36,593	43,050	53,122	59,068	73,768
Provisions for bad and doubtful debts	(6,989)	(11,877)	(16,664)	(12,797)	(10,449)
Other provisions	(1,275)	(1,619)	(1,388)	(1,331)	(2,140)
Operating profit	28,329	29,554	35,070	44,939	61,180
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	28,329	29,554	35,070	44,939	61,180
Tax	(7,580)	(8,735)	(11,573)	(14,830)	(20,189)
Profit after tax	20,749	20,820	23,497	30,109	40,990
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	20,749	20,820	23,497	30,109	40,990
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	20,749	20,820	23,497	30,109	40,990
Per share (INR)					
Recurring EPS *	41.08	39.71	44.81	57.42	78.18
Reported EPS	41.08	39.71	44.81	57.42	78.18
DPS	6.38	9.29	9.99	10.69	11.40
Growth					
Net interest income (%)	9.9	48.3	13.0	15.0	28.0
Non interest income (%)	33.2	3.2	8.2	11.8	(4.1)
Pre provision operating profit (%)	18.7	17.6	23.4	11.2	24.9
Operating profit (%)	20.2	4.3	18.7	28.1	36.1
Reported net profit (%)	20.2	0.3	12.9	28.1	36.1
Recurring EPS (%)	20.2	(3.3)	12.9	28.1	36.1
Reported EPS (%)	20.2	(3.3)	12.9	28.1	36.1
Income breakdown					
Net interest income (%)	68.0	75.3	76.1	76.6	81.4
Net fees & commission (%)	5.7	4.4	4.2	4.2	4.0
Foreign exchange trading income (%)	5.2	5.2	3.0	2.7	3.2
Securities trading income (%)	9.3	5.6	6.0	6.6	3.1
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	11.8	9.5	10.7	9.9	8.3
Operating performance					
Gross interest yield (%)	7.71	7.85	8.62	8.27	7.91
Cost of funds (%)	5.58	5.18	6.16	5.86	5.33
Net interest spread (%)	2.13	2.67	2.46	2.41	2.58
Net interest margin (%)	2.43	2.97	2.84	2.78	2.93
Cost/income (%)	40.7	47.8	42.5	44.0	42.0
Cost/assets (%)	1.41	1.83	1.54	1.56	1.48
Effective tax rate (%)	26.8	29.6	33.0	33.0	33.0
Dividend payout on recurring profit (%)	15.5	23.4	22.3	18.6	14.6
ROE (%)	21.7	18.0	17.2	19.0	21.8
ROE - COE (%)	6.6	2.9	2.1	3.9	6.7
ROA (%)	1.17	0.97	0.92	1.01	1.13
RORWA (%)	1.83	1.59	1.55	1.68	1.88

Revised EPS estimate
downward 14% and 11%
respectively in FY12E and
FY13E

*Pre exceptional, pre-goodwill and fully diluted

Sources: Union Bank of India; BNP Paribas estimates

Union Bank of India

Balance Sheet (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Gross customer loans	1,210,209	1,528,055	1,776,626	2,090,524	2,596,748
Total provisions	(17,056)	(18,194)	(28,886)	(30,656)	(32,386)
Interest in suspense	0	0	0	0	0
Net customer loans	1,193,153	1,509,861	1,747,740	2,059,868	2,564,363
Bank loans	33,085	24,880	40,967	48,416	59,961
Government securities	426,575	464,061	572,531	671,024	814,340
Trading securities	0	0	0	0	0
Investment securities	117,461	119,931	137,602	180,670	241,760
Cash & equivalents	124,682	176,105	160,309	187,887	228,015
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	23,054	22,928	23,569	24,249	24,970
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other assets	33,609	42,080	48,392	55,651	63,998
Total assets	1,951,618	2,359,844	2,731,109	3,227,765	3,997,408
Customer deposits	1,700,397	2,024,613	2,328,305	2,747,400	3,406,775
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	92,153	133,160	163,867	193,666	239,844
Non interest bearing liabilities	54,830	74,427	93,033	116,292	145,365
Hybrid Capital	0	0	0	0	0
Total liabilities	1,847,381	2,232,199	2,585,205	3,057,357	3,791,984
Share capital	5,051	6,353	6,353	6,353	6,353
Reserves	99,187	121,292	139,551	164,055	199,070
Total equity	104,238	127,645	145,905	170,408	205,423
Minority interests	0	0	0	0	0
Total liabilities & equity	1,951,618	2,359,844	2,731,109	3,227,765	3,997,408
Supplementary items					
Risk weighted assets (RWA)	1,225,980	1,400,950	1,635,542	1,946,510	2,424,314
Average interest earning assets	1,725,058	2,094,896	2,476,992	2,903,507	3,528,152
Average interest bearing liabilities	1,633,664	1,975,162	2,324,972	2,716,618	3,293,843
Tier 1 capital	96,970	121,780	139,848	164,351	199,366
Total capital	153,360	181,460	203,406	229,342	266,629
Gross non performing loans (NPL)	26,709	36,228	50,531	56,810	64,834
Per share (INR)					
Book value per share	206	243	278	325	392
Tangible book value per share	206	243	278	325	392
Growth					
Gross customer loans (%)	23.3	26.3	16.3	17.7	24.2
Average interest earning assets (%)	26.0	21.4	18.2	17.2	21.5
Total assets (%)	21.2	20.9	15.7	18.2	23.8
Risk weighted assets (%)	18.0	14.3	16.7	19.0	24.5
Customer deposits (%)	22.6	19.1	15.0	18.0	24.0
Leverage & capital measures					
Customer loans/deposits (%)	70.2	74.6	75.1	75.0	75.3
Equity/assets (%)	5.3	5.4	5.3	5.3	5.1
Tangible equity/assets (%)	5.3	5.4	5.3	5.3	5.1
RWA/assets (%)	62.8	59.4	59.9	60.3	60.6
Tier 1 CAR (%)	7.9	8.7	8.6	8.4	8.2
Total CAR (%)	12.5	13.0	12.4	11.8	11.0
Asset quality					
Change in NPL (%)	38.9	35.6	39.5	12.4	14.1
NPL/gross loans (%)	2.2	2.4	2.8	2.7	2.5
Total provisions/gross loans (%)	1.4	1.2	1.6	1.5	1.2
Total provisions/NPL (%)	63.9	50.2	57.2	54.0	50.0
Valuation					
Recurring P/E (x) *	5.2	5.3	4.7	3.7	2.7
Recurring P/E @ target price (x) *	7.5	7.8	6.9	5.4	4.0
Reported P/E (x)	5.2	5.3	4.7	3.7	2.7
Dividend yield (%)	3.0	4.4	4.7	5.0	5.4
Price/book (x)	1.0	0.9	0.8	0.7	0.5
Price/tangible book (x)	1.0	0.9	0.8	0.7	0.5
Price/tangible book @ target price (x)	1.5	1.3	1.1	1.0	0.8

ABVPS - FY10: INR168.5, FY11: INR194.2, FY12E: INR228.9, FY13E: INR270.1, FY14E: INR328.73. ABVPS is calculated by subtracting revaluation reserve and standard PCR at 75% for all banks. Hence, if PCR is below (or above) 75% we reduce (or add back) the difference from (to) total shareholder equity

Building in lower growth in advances as the bank will be required to do some consolidation due to pressure on asset quality

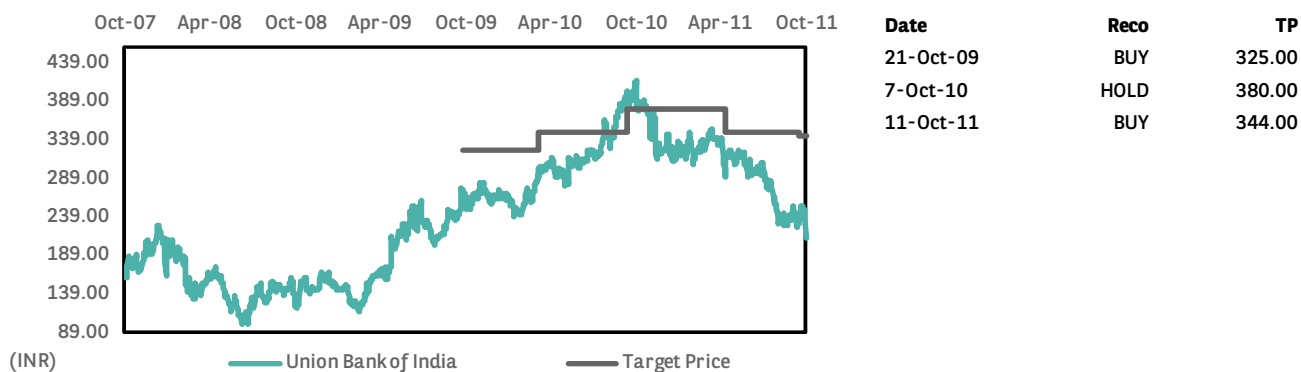
Building in higher growth in NPL during FY12E as delinquencies have surprised negatively

* Pre exceptional, pre-goodwill and fully diluted

Sources: Union Bank of India; BNP Paribas estimates

History of change in investment rating and/or target price

Union Bank of India (UNBK IN)



Abhijit Majumder started covering this stock from 12-Oct-2011

Price and TP are in local currency

Valuation and risks: Key downside risk to our single-stage GGM-based TP is a potential higher-than-expected slippage in the SME and infrastructure segment

Source: Bloomberg, BNP Paribas

Disclaimers and Disclosures

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-	-

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BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.*

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