

# Bajaj Finance | BUY

## Calibrating growth and risk

Bajaj Finance's 3QFY24 PAT at INR 36.4bn, grew +22% YoY, a tad below our estimates of INR37.7bn. Revenue momentum remained strong (despite regulatory embargo on certain products post Nov'23) with NII at INR 76.7bn, +29% YoY and overall Net revenues grew +25% YoY to INR 93bn. Credit costs inched up from low levels seen in 1HFY24 led by issues in Rural B2C and marginal dip in collection efficiencies in Urban B2C products - mgmt has guided to credit costs of 175-185bps for FY24e (which still remains around pre-Covid levels). Management has indicated that while overall credit environment remains benign, certain segments impacted credit costs and they remain cautious given BAF's focus on risk. As a proactive measure, BAF has slowed down growth in these products. Overall AUM growth remained strong (+7.1% QoQ, +35% YoY) and broad based with both B2B, B2C, Commercial and Housing segments growing at brisk rates of 51% YoY, 28% YoY, 39% YoY, 31% YoY respectively. Efficiency metrics remained strong - cost/income ratio at 33.9% (vs 34 % QoQ) and cost/AUM at 4.2% (vs 4.3% QoQ). Digital usage/penetration metrics were impacted by regulatory embargo in 3QFY24 - BAF has indicated it remains well-placed to comply with regulatory directions. BAF has appointed Mr. Anup Saha as Deputy Managing Director and elevated 3 other senior management personnel to COO positions. We believe that despite minor inch up in credit costs in 3QFY24, BAF remains the best play on diversified consumption opportunity with strong risk mechanisms, high growth and superior return ratios. We see BAF, being a strong incumbent with long-standing credible track record in consumer lending, only emerging stronger as the concerns around unsecured loans settle over the next 2-3 quarters. BAF's current valuations at 23x FY25e/18x FY26e EPS are attractive given its strong RoA/RoE profile and ability to growth across cycles. In our view, easing of regulatory restrictions should act as a trigger for the stock. Maintain BUY with unchanged TP of INR10,000 (valuing at 25x FY26E P/E).

- Broad-based growth trends:** In 3Q24, AUM growth remained strong at +35% YoY/+7.1% QoQ and majorly driven by rural B2B (+32% YoY, 11.4% QoQ), consumer B2B auto finance (+65%YoY, +17%QoQ), securities lending (+45% YoY, +13% QoQ), SME business (+34%YoY, +7% QoQ) and Consumer B2B sales finance (+47%, +6.6% QoQ). Growth from other segments was also strong with Mortgages (+31% YoY, +6% QoQ), Consumer B2C (+32% YoY, +6.1% QoQ) and commercial lending at (+39% YoY, 5.7% QoQ). We estimate 29% AUM CAGR over FY23-26E with continued momentum across existing product categories and opportunity in newer segments like non- Bajaj auto two wheeler, LAP, new car financing and MFI. BAF witnessed strong traction in customer addition, as the customer franchise climbed to 80.4mn (+22% YoY/ +5% QoQ) and cross-sell franchise at 49.3m (+28% YoY/ +6% QoQ), as of 3QFY24. New loans booked stood at 9.9m (+26% YoY) and new to Bajaj (NTB) customers grew by 3.8mn (+22% YoY/ +8% QoQ). Notably, 9MFY24 new customer addition already reached to 11.3mn exceeding last year's 9MFY23 additions by 2.82mn and well within mgmt guidance to cross 13-14mn in FY24.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	10,000
Upside/(Downside)	39.1%
Previous Price Target	10,000
Change	0.0%

### Key Data – BAF IN

Current Market Price	INR7,192
Market cap (bn)	INR4,444.6/US\$53.5
Free Float	42%
Shares in issue (mn)	535.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR8,578.7/US\$103.2
52-week range	8,192/5,486
Sensex/Nifty	71,942/21,738
INR/US\$	83.1

### Price Performance

%	1M	6M	12M
Absolute	-1.9	-2.6	24.8
Relative*	-2.7	-9.7	4.5

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Profit	70,282	1,15,077	1,44,441	1,94,403	2,46,077	
Net Profit (YoY) (%)	59.0%	63.7%	25.5%	34.6%	26.6%	
Assets (YoY) (%)	23.9%	29.5%	31.9%	28.6%	26.1%	
ROA (%)	3.7%	4.7%	4.5%	4.7%	4.7%	
ROE (%)	17.4%	23.5%	22.2%	23.1%	23.8%	
EPS	116.5	190.4	234.3	314.5	398.1	
EPS (YoY) (%)	58.6%	63.4%	23.1%	34.2%	26.6%	
<b>P/E (x)</b>	<b>61.7</b>	<b>37.8</b>	<b>30.7</b>	<b>22.9</b>	<b>18.1</b>	
BV	725	900	1,229	1,503	1,841	
BV (YoY) (%)	18.1%	24.1%	36.6%	22.3%	22.5%	
<b>P/BV (x)</b>	<b>9.93</b>	<b>8.00</b>	<b>5.85</b>	<b>4.79</b>	<b>3.91</b>	

Source: Company data, JM Financial. Note: Valuations as of 29/Jan/2024

- **Asset quality - more of "belt tightening" than real "concerns":** GS3 moved up +4bps QoQ at 0.95% and NS3 up +6bps QoQ at 0.37% largely from urban sales finance (0.71% GS3 vs 0.59% QoQ), Urban B2C (1.3% GS3 vs 1.19% QoQ), rural sales finance (0.69% GS3 vs 0.6% QoQ) and rural B2C (1.31% GS3 vs 1.26% QoQ). PCR declined -435bps QoQ at 61.7% though the mgmt continues to carry additional management overlay of 1.79% as at Q3FY24. Credit cost during the quarter inched up to 1.64% vs 1.54% QoQ while mgmt remains confident to maintain credit costs of 175-185bps for FY24E.
- **NIMs taper off, do not see downside from current levels:** NIMs declined -26bps QoQ as reported cost of funds moved up +9bps QoQ and yields (calc.) declined -9bps QoQ leading to NII growth of INR 77bn (+29% YoY, 6.4% QoQ). Management guided for the NIMs to remain stable from here on. Other income remained stable at INR 16.4bn on account of lower fee income while marginal improvement in efficiency ratios (cost/income ratio at 33.9% vs 34 % QoQ and cost/AUM at 4.2% vs 4.3% QoQ) led to a PPOP of INR 61.4bn (+27% YoY, +5.3% QoQ). Slightly elevated credit costs (1.64% of total AUM) led to a PAT of INR 36.4bn (+22% YoY, +2.4% QoQ). We build in earnings CAGR of 29% over FY23-26E.
- **Valuations and view:** We believe that BAF remains the best play on diversified consumption opportunity with strong risk mechanisms, high growth and superior return ratios. BAF holds a long-standing credible track record in consumer lending and we believe that the concerns around unsecured loans would settle over the next 2-3 quarters as it emerges as a stronger player going ahead. BAF's current valuations at 23x FY25e/18x FY26e EPS are attractive given its strong RoA/RoE profile and ability to growth across cycles. In our view, easing of regulatory restrictions should act as a trigger for the stock. Maintain BUY with unchanged TP of INR10,000 (valuing at 25x FY26E P/E).

**Exhibit 1. Trend in cross sell customer franchise and per customer metrics**

(mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	9MFY23	9MFY24
New loans booked	10.1	15.3	23.5	27.4	16.8	24.6	29.6	22.1	28.3
New customer addition	4.1	6.1	8.3	8.1	6.0	9.0	11.6	8.5	11.3
Existing customer mix	59.8%	60.3%	64.8%	70.4%	64.6%	63.5%	60.9%	61.4%	60.1%
Total franchise*	20.1	26.2	34.5	42.6	48.57	57.6	69.1	62.9	76.6
Cross sell franchise*	11.0	15.4	20.7	24.1	26.9	32.8	40.6	36.4	46.7
Co-branded credit cards sold	0.03	0.39	0.81	1.12	0.70	1.36	1.92	1.42	1.5
Other financial products sold to existing customers	0.06	0.08	0.19	0.27	0.67	2.23	2.36	1.64	1.92
AUM per cross sell franchise (INR)	54,722	53,417	56,066	60,983	56,879	58,617	60,991	59,835	63,102
PAT per cross sell franchise (INR)	1,670	1,618	1,933	2,182	1,644	2,145	2,837	2164*	2156*

Source: Company, JM Financial, Note - \* Not annualised, All figures till FY2018 are as per Previous GAPP and from Mar '19 onwards numbers are as per Ind AS

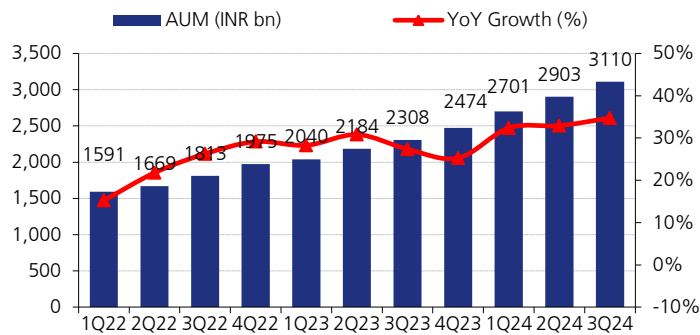
## BAF – 3QFY24 trends

## Exhibit 2. 3QFY24 Performance Highlights

Earnings Table (INR mn)	3Q'23	2Q'24	3Q'24 YoY (%)	QoQ(%)	
Interest Income (a)	92,734	117,321	125,233	35.0%	6.7%
Interest Expenses (b)	33,505	45,371	48,680	45.3%	7.3%
<b>Net Interest Income (ex fee income)</b>	<b>59,229</b>	<b>71,951</b>	<b>76,553</b>	<b>29.2%</b>	<b>6.4%</b>
Total Non-interest Income	15,126	16,496	16,427	8.6%	-0.4%
<b>Total Income</b>	<b>74,355</b>	<b>88,447</b>	<b>92,980</b>	<b>25.0%</b>	<b>5.1%</b>
Employees Cost	12,888	15,875	16,618	28.9%	4.7%
Marketing & Other commissions	4,617	4,730	4,706	1.9%	-0.5%
Other Expenditure	8,321	9,495	10,234	23.0%	7.8%
<b>Total Operating Expenses</b>	<b>25,826</b>	<b>30,100</b>	<b>31,557</b>	<b>22.2%</b>	<b>4.8%</b>
<b>Operating Profit (PPP)</b>	<b>48,529</b>	<b>58,347</b>	<b>61,422</b>	<b>26.6%</b>	<b>5.3%</b>
Provisions & Write Offs	8,413	10,771	12,484	48.4%	15.9%
<b>PBT</b>	<b>40,116</b>	<b>47,576</b>	<b>48,939</b>	<b>22.0%</b>	<b>2.9%</b>
Tax	10,387	12,070	12,566	21.0%	4.1%
<b>Reported Profit</b>	<b>29,729</b>	<b>35,505</b>	<b>36,390</b>	<b>22.4%</b>	<b>2.5%</b>
AUM (INR mn)	2,308,420	2,902,640	3,109,680	34.7%	7.1%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	34.7%	34.0%	33.9%	-0.8%	-0.1%
Effective Tax Rate (%)	25.9%	25.4%	25.7%	-0.2%	0.3%
<b>Credit Quality</b>					
Gross NPAs (90 days overdue) (INR Mn.)	26,100	26,450	29,630	13.5%	12.0%
Net NPAs (90 days overdue) (INR Mn.)	9,340	8,980	11,350	21.5%	26.4%
Gross NPA (90 days overdue) (%)	1.14%	0.91%	0.95%	-0.19%	0.04%
Net NPA (90 days overdue) (%)	0.41%	0.31%	0.37%	-0.04%	0.06%
Coverage Ratio (90 days overdue) (%)	64.2%	66.0%	61.7%	-2.5%	-4.4%
<b>Capital Adequacy (%)</b>					
Tier I (%)	23.3%	21.9%	22.8%	-0.5%	0.9%
CAR (%)	25.1%	23.2%	23.9%	-1.3%	0.7%
<b>Du-pont Analysis (%)</b>					
NII / Avg. Assets (%)	9.8%	9.2%	9.2%	-0.6%	-0.1%
Non-Interest Inc. / Assets (%)	2.5%	2.1%	2.0%	-0.5%	-0.1%
Op. Cost / Assets (%)	4.3%	3.9%	3.8%	-0.5%	-0.1%
PPP / Assets (%)	8.0%	7.5%	7.4%	-0.6%	-0.1%
Provisions / Assets (%)	1.4%	1.4%	1.5%	0.1%	0.1%
Reported ROA (%)	4.9%	4.6%	4.4%	-0.5%	-0.2%

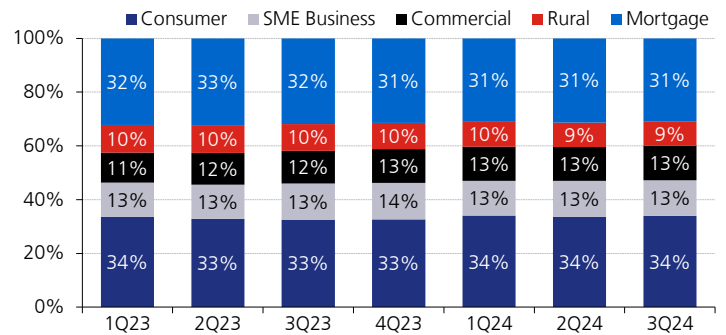
Source: Company, JM Financial

**Exhibit 3. BAF: Trend in AUM growth**



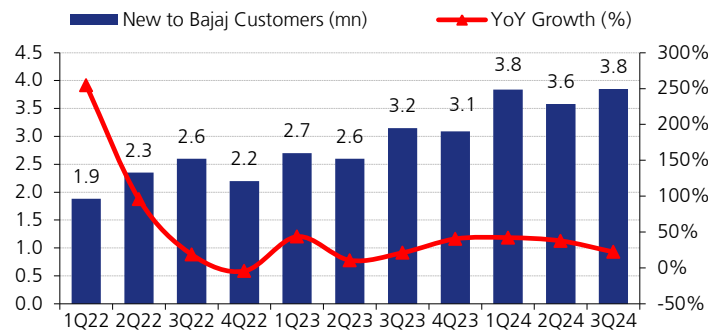
Source: Company, JM Financial

**Exhibit 4. BAF: Trend in AUM composition**



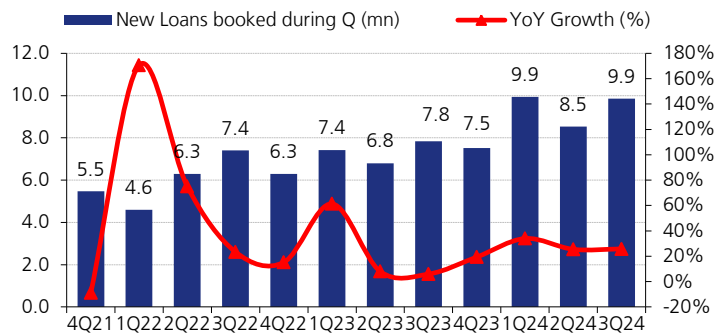
Source: Company, JM Financial

**Exhibit 5. New to Bajaj customers**



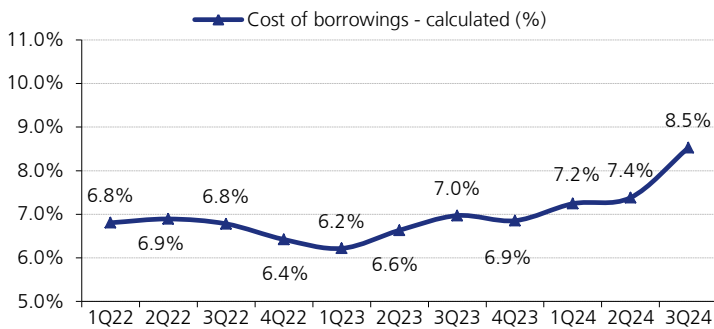
Source: Company, JM Financial

**Exhibit 6. New loans booked**



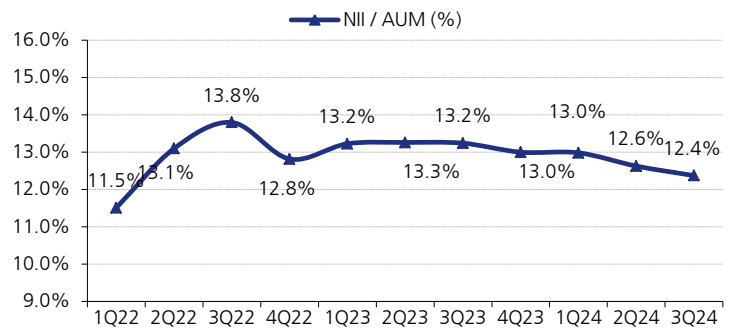
Source: Company, JM Financial

**Exhibit 7. BAF: Cost of borrowings**



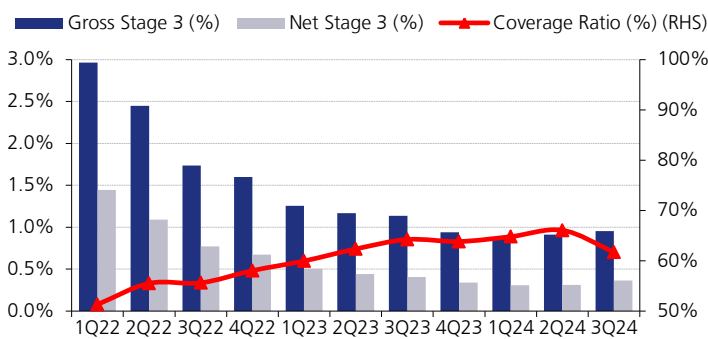
Source: Company, JM Financial

**Exhibit 8. BAF: Trend in margins (NII/AUM)**



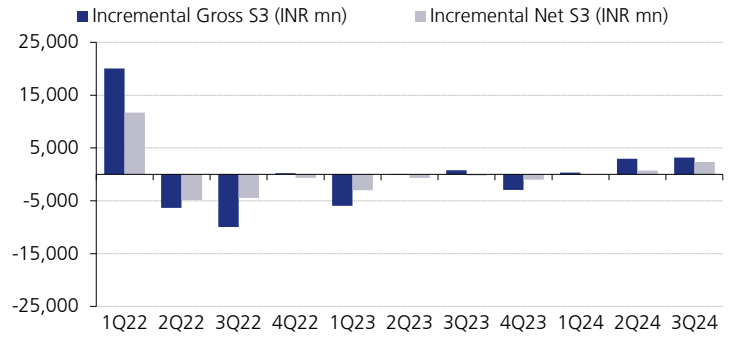
Source: Company, JM Financial

**Exhibit 9. BAF: Trend in asset quality (%)**



Source: Company, JM Financial

**Exhibit 10. BAF: Trend in asset quality (%)**



Source: Company, JM Financial

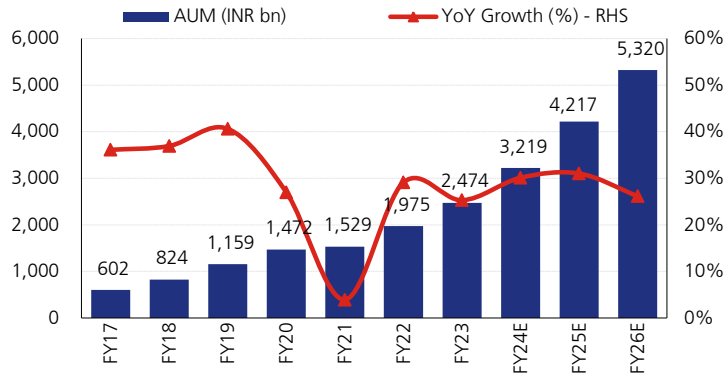
## Exhibit 11. Segment wise asset quality trends

Segments	GNPL (%)				NNPL (%)				Coverage ratio (%)			
	4Q23	1Q24	2Q24	3Q24	4Q23	1Q24	2Q24	3Q24	4Q23	1Q24	2Q24	3Q24
Consumer Business	1.5%	1.3%	1.4%	1.5%	0.6%	0.5%	0.5%	0.6%	61.5%	63.1%	65.7%	61.5%
SME Business	1.3%	1.2%	1.3%	1.3%	0.3%	0.3%	0.3%	0.4%	74.9%	75.3%	74.3%	68.6%
Commercial Business	0.3%	0.2%	0.3%	0.2%	0.1%	0.1%	0.2%	0.1%	51.1%	50.0%	48.2%	45.3%
Rural Business	0.9%	0.8%	1.1%	1.2%	0.2%	0.2%	0.3%	0.4%	71.9%	71.3%	72.2%	64.7%
Mortgage	0.6%	0.6%	0.5%	0.5%	0.3%	0.3%	0.2%	0.3%	57.4%	58.2%	56.5%	54.8%
<b>Total</b>	0.9%	0.9%	0.9%	1.0%	0.3%	0.3%	0.3%	0.4%	63.9%	64.9%	66.2%	61.8%

Source: Company, JM Financial

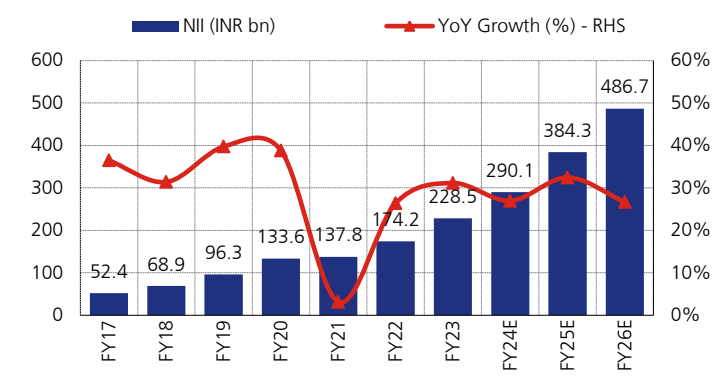
## BAF – Annual trends

Exhibit 12. BAF: Trend in loans (INR bn)



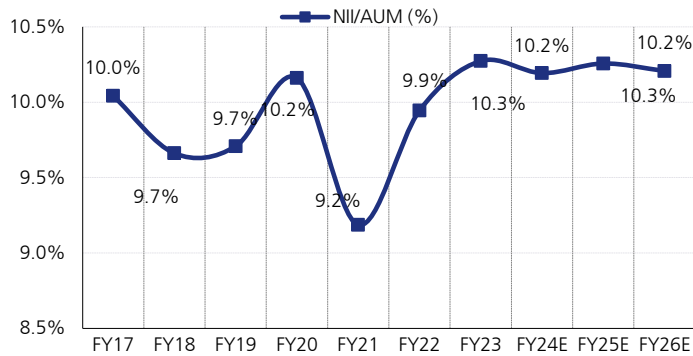
Source: Company, JM Financial

Exhibit 13. BAF: Trend in NII



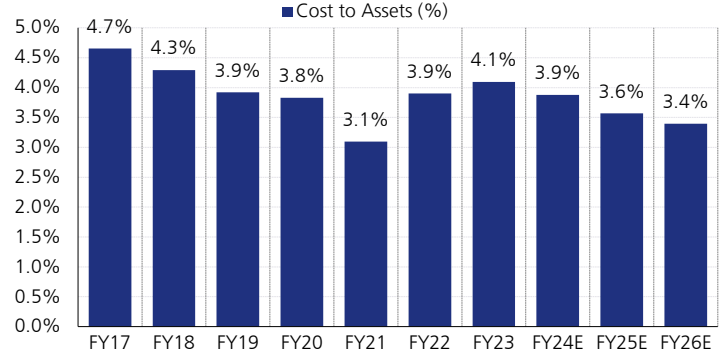
Source: Company, JM Financial

Exhibit 14. BAF: Trend in margins (NII/AUM)



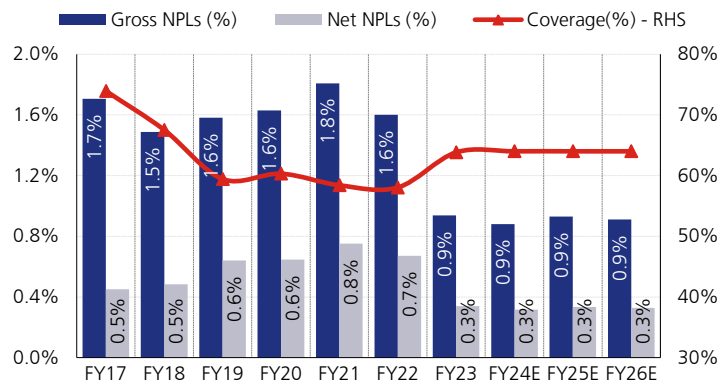
Source: Company, JM Financial

Exhibit 15. BAF: Trend in cost-to-assets (%)



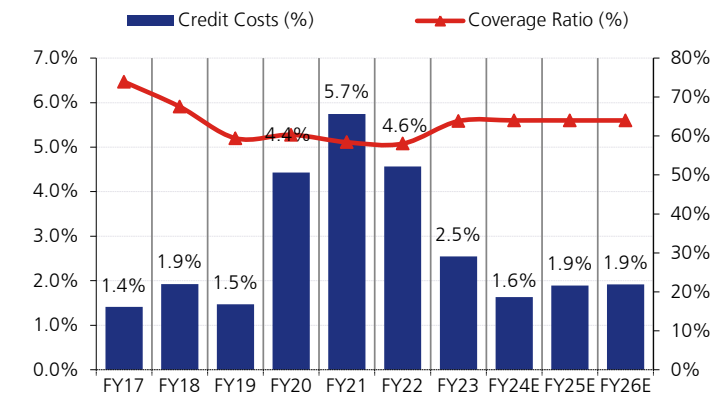
Source: Company, JM Financial

Exhibit 16. Trend in asset quality



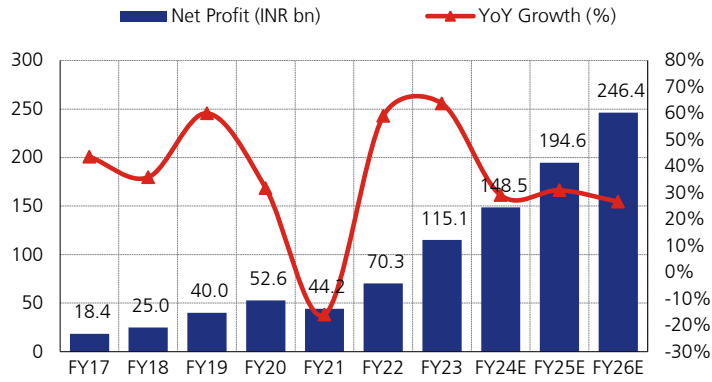
Source: Company, JM Financial

Exhibit 17. BAF: Trend in credit costs (LLP as % of avg. loans)



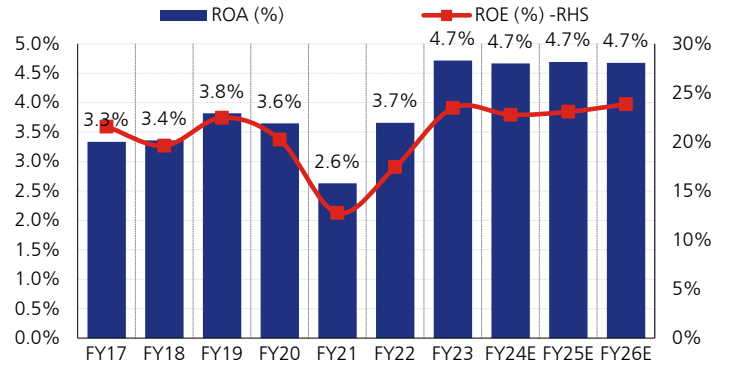
Source: Company, JM Financial

Exhibit 18. BAF: Trend in earnings growth



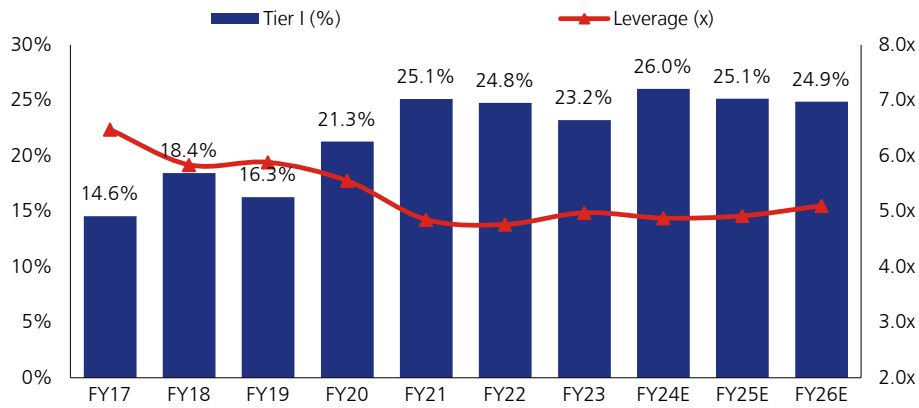
Source: Company, JM Financial

Exhibit 19. BAF: Trend in return ratios



Source: Company, JM Financial

Exhibit 20. BAF: Trend in tier-I and leverage ratio (%)



Source: Company, JM Financial



## Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	1,74,226	2,28,489	2,96,141	3,84,065	4,86,271
Non Interest Income	43,708	58,572	67,925	84,856	97,919
<b>Total Income</b>	<b>2,17,934</b>	<b>2,87,061</b>	<b>3,64,066</b>	<b>4,68,920</b>	<b>5,84,190</b>
Operating Expenses	74,863	99,886	1,23,684	1,47,903	1,78,850
<b>Pre-provisioning Profits</b>	<b>1,43,072</b>	<b>1,87,175</b>	<b>2,40,381</b>	<b>3,21,017</b>	<b>4,05,340</b>
Loan-Loss Provisions	-48	-2,388	45,190	58,311	76,492
Others Provisions	48,073	33,793	0	0	0
<b>Total Provisions</b>	<b>48,034</b>	<b>31,897</b>	<b>45,190</b>	<b>58,311</b>	<b>76,492</b>
<b>PBT</b>	<b>95,038</b>	<b>1,55,279</b>	<b>1,95,191</b>	<b>2,62,707</b>	<b>3,28,848</b>
Tax	24,756	40,202	50,750	68,304	82,771
<b>PAT (Pre-Extra ordinaries)</b>	<b>70,282</b>	<b>1,15,077</b>	<b>1,44,441</b>	<b>1,94,403</b>	<b>2,46,077</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>70,282</b>	<b>1,15,077</b>	<b>1,44,441</b>	<b>1,94,403</b>	<b>2,46,077</b>
Dividend	12,109	18,163	21,666	29,160	36,912
<b>Retained Profits</b>	<b>58,174</b>	<b>96,914</b>	<b>1,22,775</b>	<b>1,65,242</b>	<b>2,09,166</b>

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	1,207	1,209	1,233	1,236	1,236
Reserves & Surplus	4,35,920	5,42,511	7,56,262	9,27,501	11,36,667
Stock option outstanding	0	0	0	0	0
Borrowed Funds	16,52,319	21,66,905	28,16,976	36,67,703	46,57,983
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	35,613	41,662	54,939	70,647	89,082
<b>Total Liabilities</b>	<b>21,25,059</b>	<b>27,52,287</b>	<b>36,29,411</b>	<b>46,67,087</b>	<b>58,84,968</b>
Net Advances	19,14,230	24,22,689	31,88,132	41,02,415	51,75,959
Investments	1,22,455	2,27,518	3,18,813	4,10,242	5,17,596
Cash & Bank Balances	36,803	43,045	55,792	71,792	90,579
Loans and Advances	12,659	12,997	22,317	28,717	36,232
Other Current Assets	11,896	12,791	4,549	4,725	4,384
Fixed Assets	17,504	23,875	29,264	35,640	43,124
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	9,511	9,371	10,543	13,557	17,094
<b>Total Assets</b>	<b>21,25,059</b>	<b>27,52,287</b>	<b>36,29,411</b>	<b>46,67,087</b>	<b>58,84,968</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Borrowed funds	25.5%	31.1%	30.0%	30.2%	27.0%
Advances	30.5%	26.6%	31.6%	28.7%	26.2%
Total Assets	23.9%	29.5%	31.9%	28.6%	26.1%
NII	26.4%	31.1%	29.6%	29.7%	26.6%
Non-interest Income	29.3%	34.0%	16.0%	24.9%	15.4%
Operating Expenses	43.9%	33.4%	23.8%	19.6%	20.9%
Operating Profits	19.6%	30.8%	28.4%	33.5%	26.3%
Core Operating profit	23.0%	31.5%	28.9%	33.7%	26.3%
Provisions	-19.5%	-33.6%	41.7%	29.0%	31.2%
Reported PAT	59.0%	63.7%	25.5%	34.6%	26.6%
<b>Yields / Margins (%)</b>					
Interest Spread	7.83%	8.18%	7.87%	7.80%	7.82%
NIM	9.24%	9.54%	9.41%	9.37%	9.32%
<b>Profitability (%)</b>					
ROA	3.66%	4.72%	4.53%	4.69%	4.66%
ROE	17.4%	23.5%	22.2%	23.1%	23.8%
Cost to Income	34.4%	34.8%	34.0%	31.5%	30.6%
<b>Asset quality (%)</b>					
Gross NPA	1.62%	0.95%	0.89%	0.95%	0.93%
LLP	4.57%	2.54%	1.89%	1.89%	1.92%
<b>Capital Adequacy (%)</b>					
Tier I	24.75%	23.20%	25.75%	25.10%	24.82%
CAR	27.22%	24.97%	27.36%	26.60%	26.25%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	9.07%	9.37%	9.28%	9.26%	9.22%
Other Income / Assets	2.28%	2.40%	2.13%	2.05%	1.86%
Total Income / Assets	11.35%	11.77%	11.41%	11.30%	11.07%
Cost / Assets	3.90%	4.10%	3.88%	3.57%	3.39%
PPP / Assets	7.45%	7.68%	7.53%	7.74%	7.68%
Provisions / Assets	2.50%	1.31%	1.42%	1.41%	1.45%
PBT / Assets	4.95%	6.37%	6.12%	6.33%	6.23%
Tax rate	26.0%	25.9%	26.0%	26.0%	25.2%
ROA	3.66%	4.72%	4.53%	4.69%	4.66%
Leverage	4.9	5.1	4.8	5.0	5.2
ROE	17.4%	23.5%	22.2%	23.1%	23.8%

Source: Company, JM Financial

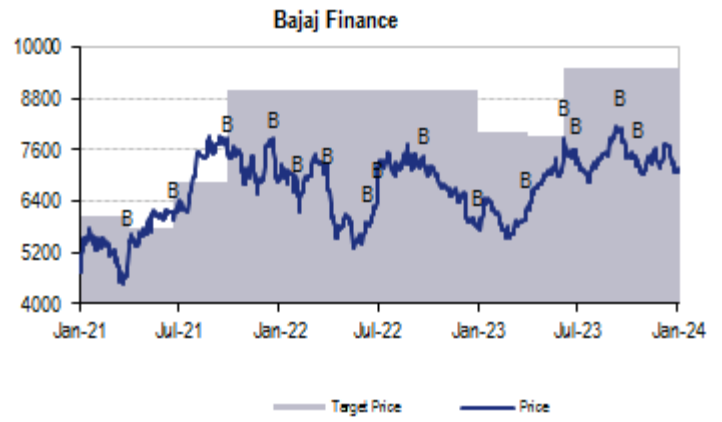
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	603.3	604.5	616.6	618.1	618.1
EPS (INR)	116.5	190.4	234.3	314.5	398.1
EPS (YoY) (%)	58.6%	63.4%	23.1%	34.2%	26.6%
P/E (x)	61.7	37.8	30.7	22.9	18.1
BV (INR)	725	900	1,229	1,503	1,841
BV (YoY) (%)	18.1%	24.1%	36.6%	22.3%	22.5%
P/BV (x)	9.93	8.00	5.85	4.79	3.91
DPS (INR)	20.1	30.0	35.1	47.2	59.7
Div. yield (%)	0.3%	0.4%	0.5%	0.7%	0.8%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
7-Apr-20	Buy	3,200	
20-May-20	Buy	3,100	-3.1
21-Jul-20	Buy	4,000	29.0
21-Oct-20	Buy	4,650	16.3
20-Jan-21	Buy	6,050	30.1
28-Apr-21	Buy	5,750	-5.0
21-Jul-21	Buy	6,850	19.1
27-Oct-21	Buy	9,000	31.4
19-Jan-22	Buy	9,000	0.0
4-Mar-22	Buy	9,000	0.0
27-Apr-22	Buy	9,000	0.0
11-Jul-22	Buy	9,000	0.0
27-Jul-22	Buy	9,000	0.0
21-Oct-22	Buy	9,000	0.0
27-Jan-23	Buy	8,000	-11.1
27-Apr-23	Buy	7,925	-0.9
5-Jul-23	Buy	9,500	19.9
26-Jul-23	Buy	9,500	0.0
17-Oct-23	Buy	9,500	0.0
16-Nov-23	Buy	9,500	0.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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