

# Bank of Baroda | BUY

## Higher slippages overshadow earnings beat

Bank of Baroda (BOB) reported a beat on PAT which stood at INR 42.5bn (+28.4% YoY, +4.5% QoQ, +4.8% vs JMFe) primarily led by healthy loan growth (+19.3% YoY, +3.6% QoQ) and higher other income aided by fee income. While credit costs remained low at 84bps (vs 83bps QoQ), slippages increased to INR 47.5bn with gross slippage ratio at 2.09% (+82 bps QoQ) and net slippages at 1.12% (+74bps QoQ). This was attributed to slippages in two large accounts; one in aviation amounting (outstanding INR 17.73bn) and another in real estate. While slippages remained high and are to be closely monitored in the coming quarters, mgmt. expects recoveries to see a continued momentum. Mgmt. anticipates recoveries of ~ INR 20bn expected in 2H24. GNPLs/NNPLs improved to 3.32%/0.76% (-20bps/-2bps QoQ) with PCR at 77.6% (+88bps QoQ). Loan growth was healthy (+19.3% YoY, 3.6% QoQ) largely driven by retail and international book (+5.2% and +6.4% QoQ). Mgmt. expects loan growth at 14-16% in FY24 within which retail loan is expected to grow around 20-22%. Deposits growth outpaced loans at +14.6% YoY/+4.1% QoQ driven by TD growth at 5.8% QoQ. Mgmt. highlighted about various initiatives on CASA front to support increase in low deposits in coming quarters. BOB has also worked on increasing fee income contribution by focussing on engagement with large and mid-corporates by adding RM's which has garnered fruits this quarter. Margins declined 20bps to 3.07% on account of increase in COB (+24bps). Mgmt. remains confident on NIMs to remain stable between 3.10-3.2% for FY24 even though rising COB puts pressure on NIMs in coming quarters. While, higher slippages were a dampener on earnings in 2Q24 we do not expect meaningful deterioration in asset quality in coming quarters. We build loan growth of 15% over FY24-25E and avg. RoA/ RoE of 1.0%/15.9% over FY24-25E. BOB currently trades at 0.9x BVPS and we maintain BUY with a TP of INR 235, valuing BOB at 1.0x FY25 BVPS.

- **Healthy loan growth; margins decline 20bps QoQ:** BOB reported a healthy loan growth of +3.6% QoQ, +19.3% YoY aided by robust growth in retail and international book (+5.2% and +6.4% QoQ). Within retail loans, growth was led by higher growth in personal loans (+16.2% QoQ), non-agri gold (+14.6% QoQ), education loan (+7.8% QoQ) and auto loan growth (+6.5% QoQ). Mgmt. expects retail to drive credit growth with some moderation expected in personal loans. Mgmt. maintains its estimates for loan growth at 14-16% led by retail loans with it expected to grow at 20-22%. Mgmt. remains confident of BoB's overall loan growth to be 1-2% higher than industry; we build loan growth of 15% over FY24-25E. Deposits growth outpaced loans at +14.6% YoY/+4.1% QoQ with domestic CASA at 39.9% (-45bps QoQ). Operating profit stood at INR 80.1bn (+2.5% YoY, +33% QoQ, +5.4% JMFe) driven by healthy loan growth, NIMs at 3.07% (-20bps QoQ), robust other income and higher opex at INR 69.8bn (+7.5% QoQ).
- **Elevated slippages due to two large accounts:** Slippages increased to INR 47.5bn with gross slippage ratio at 2.09% (+82 bps QoQ) and net slippages at 1.12% (+74bps QoQ). This was attributed to slippages in two large accounts; one in aviation amounting (outstanding INR 17.73bn) and another in real estate. BOB executed an ARC sale



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	235
Upside/(Downside)	15.3%
Previous Price Target	235
Change	0.0%

### Key Data – BOB IN

Current Market Price	INR204
Market cap (bn)	INR1,034.3/US\$12.4
Free Float	32%
Shares in issue (mn)	5,177.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR3,981.7/US\$47.8
52-week range	220/147
Sensex/Nifty	64,364/19,231
INR/US\$	83.3

### Price Performance

%	1M	6M	12M
Absolute	-5.9	9.1	38.4
Relative*	-3.5	3.4	31.0

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Profit	8,290	72,723	141,096	160,591	174,950
Net Profit (YoY) (%)	51.8%	777.3%	94.0%	13.8%	8.9%
Assets (YoY) (%)	-0.1%	10.5%	14.3%	14.3%	14.6%
ROA (%)	0.1%	0.6%	1.0%	1.0%	1.0%
ROE (%)	1.2%	9.7%	16.5%	16.3%	15.5%
EPS	1.6	14.0	27.3	31.0	33.8
EPS (YoY) (%)	35.6%	777.3%	94.0%	13.8%	8.9%
<b>PE (x)</b>	<b>124.9</b>	<b>14.2</b>	<b>7.3</b>	<b>6.4</b>	<b>5.9</b>
BV	139	152	178	203	234
BV (YoY) (%)	-2.4%	9.7%	17.2%	13.9%	15.0%
<b>P/BV (x)</b>	<b>1.44</b>	<b>1.31</b>	<b>1.12</b>	<b>0.98</b>	<b>0.86</b>

Source: Company data, JM Financial. Note: Valuations as of 04/Nov/2023

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amounting to INR 1.59bn (against an outstanding book of INR 4.15bn). Despite credit cost were lower at 84bps (vs 83bps QoQ). Additionally BOB also made additional provisions of INR 8.12bn against stressed standard. Mgmt. anticipates continued momentum in recoveries of ~INR 20bn expected in 2H24. GNPLs/NNPLs improved to 3.32%/0.76% (-20bps/-2bps QoQ) with PCR at 77.6% (+88bps QoQ). We build in avg. credit costs of 1% over FY24-25E.

- **Valuation and view:** We maintain our earnings estimate driven by continued loan growth momentum, healthy operational performance and low credit costs. While, higher slippages were a dampener on earnings in 2Q24 we do not expect meaningful deterioration in asset quality in coming quarters. We build loan growth of 15% over FY24-25E and avg. RoA/RoE of 1.0%/15.9% over FY24-25E. BOB currently trades at 0.9x BVPS and we maintain BUY with a TP of INR 235, valuing BOB at 1.0x FY25 BVPS.

## BOB – 2QFY24 trends

## Exhibit 1. BOB 2QFY24 : Results summary

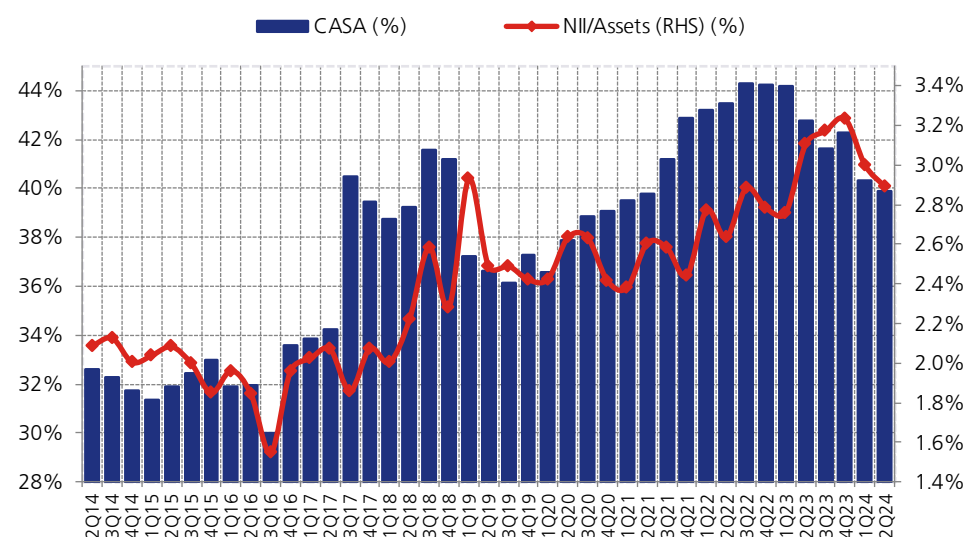
Earnings Table (Rs mn)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ-2 (%)
<b>NII</b>	<b>1,01,745</b>	<b>1,09,967</b>	<b>1,08,307</b>	6.4	-1.5
Trading Profits	-2,390	9,560	4,780	-300.0	-50.0
FX Revenues	1,680	5,230	6,470	285.1	23.7
Recoveries	6,030	6,630	12,310	104.1	85.7
Fee & Other Income	12,938	11,803	18,152	40.3	53.8
<b>Non-Interest income</b>	<b>18,258</b>	<b>33,223</b>	<b>41,712</b>	128.5	25.6
<b>Total Income</b>	<b>1,20,003</b>	<b>1,43,189</b>	<b>1,50,019</b>	<b>25.0</b>	<b>4.8</b>
Employee Cost	31,834	37,544	37,064	16.4	-1.3
Other Operating Expenses	27,859	27,402	32,758	17.6	19.5
Total Operating Expenses	59,693	64,946	69,821	17.0	7.5
<b>Operating Profit</b>	<b>60,310</b>	<b>78,243</b>	<b>80,197</b>	<b>33.0</b>	<b>2.5</b>
Loan Loss Provisions	16,540	16,930	22,850	38.1	35.0
Standard Asset Provisions	1,040	1,440	-3,600	-446.2	-350.0
Provisions on Investments	-1,260	-110	920	-173.0	-936.4
Other Provisions	-45	1,208	1,436	-3262.3	18.9
<b>Total Provisions</b>	<b>16,275</b>	<b>19,468</b>	<b>21,606</b>	<b>32.8</b>	<b>11.0</b>
PBT	44,035	58,775	58,592	33.1	-0.3
Tax	10,901	18,075	16,063	47.4	-11.1
<b>Reported Profit</b>	<b>33,134</b>	<b>40,701</b>	<b>42,529</b>	<b>28.4</b>	<b>4.5</b>
<b>Balance sheet (Rs. bn.)</b>					
Deposits	10,902	11,999	12,496	14.6	4.1
Net Advances	8,366	9,635	9,980	19.3	3.6
<b>Total Assets</b>	<b>13,364</b>	<b>14,734</b>	<b>15,235</b>	14.0	3.4
Low-cost Deposits (%)	42.8	40.3	39.9	-2.9	-0.5
Loan-Deposit ratio (%)	76.7	80.3	79.9	3.1	-0.4
<b>Key Ratios</b>					
<b>Credit Quality</b>					
Gross NPAs (Rs. mn.)	463.7	348.3	339.7	-26.8	-2.5
Net NPAs (Rs. mn.)	96.7	74.8	76.0	-21.5	1.5
Gross NPA (%)	5.31	3.52	3.32	-2.0	-0.2
Net NPA (%)	1.16	0.78	0.76	-0.4	0.0
Loan Loss Provisions (%)	0.92	0.83	0.84	-0.08	0.01
Coverage Ratio (%)	79.1	78.5	77.6	-1.5	-0.9
Cost / Income ratio (%)	49.7	45.4	46.5	-3.2	1.2
<b>Capital Adequacy</b>					
CET 1 (%)	11.0	11.9	11.6	0.6	-0.4
Tier I (%)	12.8	13.6	13.2	0.4	-0.5
CAR (%)	15.3	15.8	15.3	0.0	-0.5
<b>Du-pont Analysis</b>					
NII / Assets (%)	3.1	3.0	2.9	-0.2	-0.1
Non-Interest Inc. / Assets (%)	0.6	0.9	1.1	0.6	0.2
Operating Cost / Assets (%)	1.8	1.8	1.9	0.0	0.1
Operating Profits / Assets (%)	1.8	2.1	2.1	0.3	0.0
Provisions / Assets (%)	0.5	0.5	0.6	0.1	0.0
<b>ROA (%)</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>0.1</b>	<b>0.0</b>

Source: Company, JM Financial

**Exhibit 2. BOB 2QFY24: Deposits mix**

Deposits Composition (INR bn)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ (%)
Saving Deposits - Domestic	3,453	3,606	3639	5.4	0.9
Current Deposits - Domestic	649	630	644	-0.7	2.3
CASA Deposits - Domestic	4,102	4,236	4,283	4.4	1.1
Time Deposits - Domestic	5,488	6,267	6,458	17.7	3.0
Total Domestic Deposits	9,590	10,503	10,741	12.0	2.3
<b>Total Deposits</b>	<b>10,902</b>	<b>11,999</b>	<b>12,496</b>	<b>14.6</b>	<b>4.1</b>
<b>Mix (%)</b>					
Saving Deposits - Domestic	36.0	34.3	33.9	(2.1)	(0.5)
Current Deposits - Domestic	6.8	6.0	6.0	(0.8)	-
<b>CASA (% domestic)</b>	<b>42.8</b>	<b>40.3</b>	<b>39.9</b>	<b>(2.9)</b>	<b>(0.5)</b>
Time Deposits - Domestic	57.2	59.7	60.1	2.9	0.5
<b>Domestic Deposits (% of total)</b>	<b>88.0</b>	<b>87.5</b>	<b>86.0</b>	<b>(2.0)</b>	<b>(1.6)</b>
Overseas Deposits (% of total)	12.0	12.5	14.0	2.0	1.6

Source: Company, JM Financial

**Exhibit 3. BOB 2QFY24: Trends in CASA and NII (%)**

Source: Company, JM Financial; numbers from 1QFY19 are for the merged entity (merged with Dena + Vijaya)

**Exhibit 4. BOB 2QFY24: Loan mix**

Loan Book Composition (INR bn)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ (%)
Retail credit	1,585	1,841	1,937	22.2	5.2
SME credit	1,013	1,092	1,135	12.1	3.9
Agriculture credit	1,150	1,276	1,307	13.7	2.4
Wholesale credit & Others	3,420	3,917	3,968	16.0	1.3
<b>Domestic Advances</b>	<b>7,167</b>	<b>8,126</b>	<b>8,347</b>	<b>16.5</b>	<b>2.7</b>
Overseas Advances	1,568	1,784	1,898	21.1	6.4
<b>Total Advances</b>	<b>8,735</b>	<b>9,910</b>	<b>10,245</b>	<b>17.3</b>	<b>3.4</b>
<b>Mix (%)</b>					
Retail credit	22.1	22.7	23.2	1.1	0.5
SME credit	14.1	13.4	13.6	-0.5	0.2
Agriculture credit	16.0	15.7	15.7	-0.4	0.0
Wholesale credit	47.7	48.2	47.5	-0.2	-0.7
<b>Total Domestic Advances</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		
Domestic Advances	82.1	82.0	81.5	-0.6	-0.5
Overseas Advances	17.9	18.0	18.5	0.6	0.5

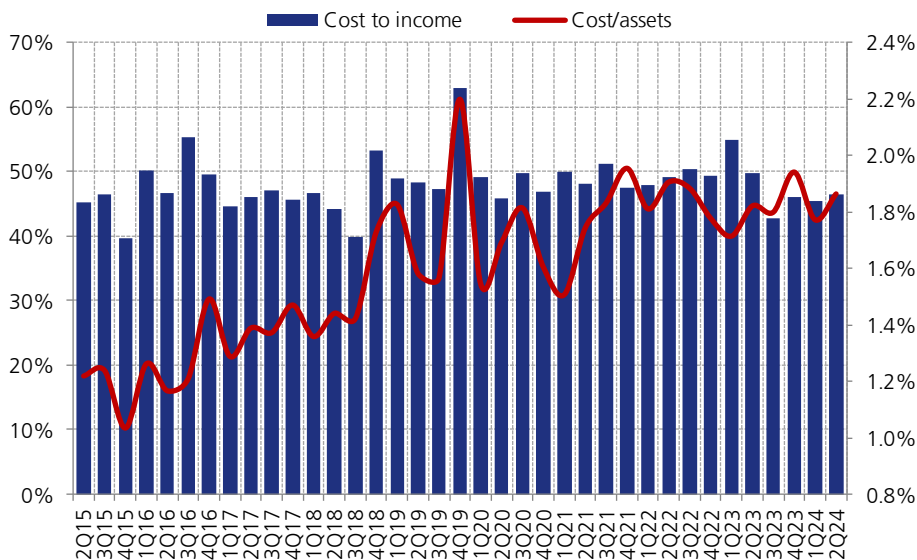
Source: Company, JM Financial

**Exhibit 5. BOB 2QFY24: Fee income split**

Fee Income Composition (INR mn)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ (%)
Fees and commissions	11,510	11,800	8,920	-22.5%	-24.4%
Forex and derivatives	1,680	5,230	6,470	285.1%	23.7%
Trading gains/losses	-2,390	9,560	4,780	-300.0%	-50.0%
Miscellaneous income	6,038	6,633	19,352	220.5%	191.8%
<b>Total</b>	<b>16,838</b>	<b>33,223</b>	<b>39,522</b>	<b>134.7%</b>	<b>19.0%</b>
<b>Fee Income Mix (%)</b>					
Fees and commissions	68.4	35.5	22.6	(45.8)	(12.9)
Forex and derivatives	10.0	15.7	16.4	6.4	0.6
Trading gains/losses	-14.2	28.8	12.1	26.3	(16.7)
Miscellaneous income	35.9	20.0	49.0	13.1	29.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	-	-

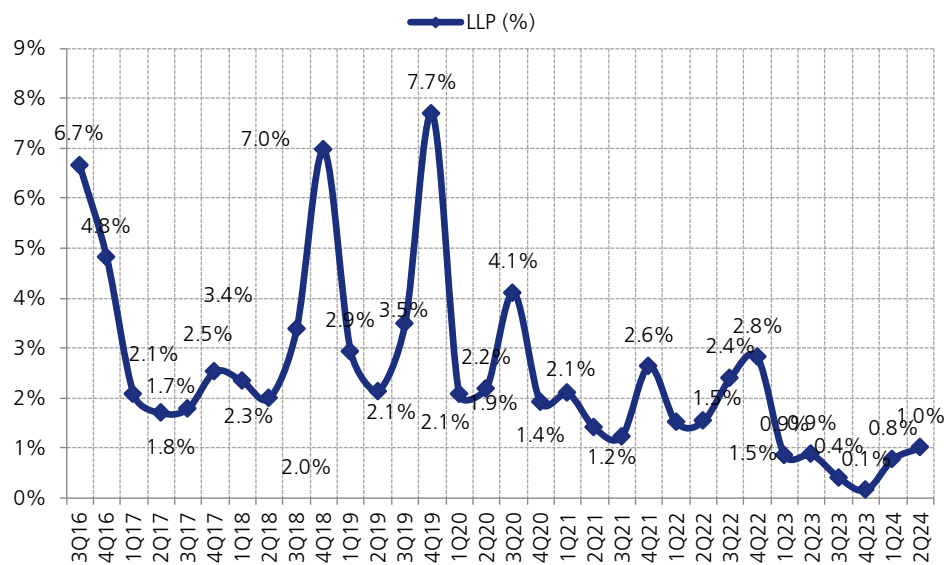
Source: Company, JM Financial

**Exhibit 6. BOB 2QFY24: Cost ratios**



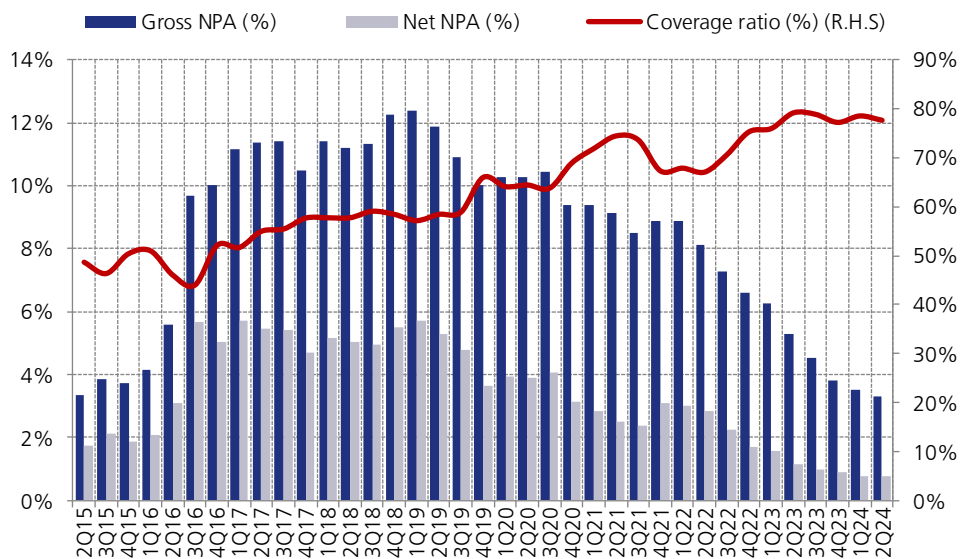
Source: Company, JM Financial; numbers from 1QFY19 are for the merged entity (merged with Dena + Vijaya)

**Exhibit 7. BOB 2QFY24: Specific credit cost (%)**



Source: Company, JM Financial; numbers from 1QFY19 are for the merged entity (merged with Dena + Vijaya)

**Exhibit 8. BOB 2QFY24: Asset quality indicators**



Source: Company, JM Financial; numbers from 1QFY19 are for the merged entity (merged with Dena + Vijaya)

**Valuation and 12M TP**

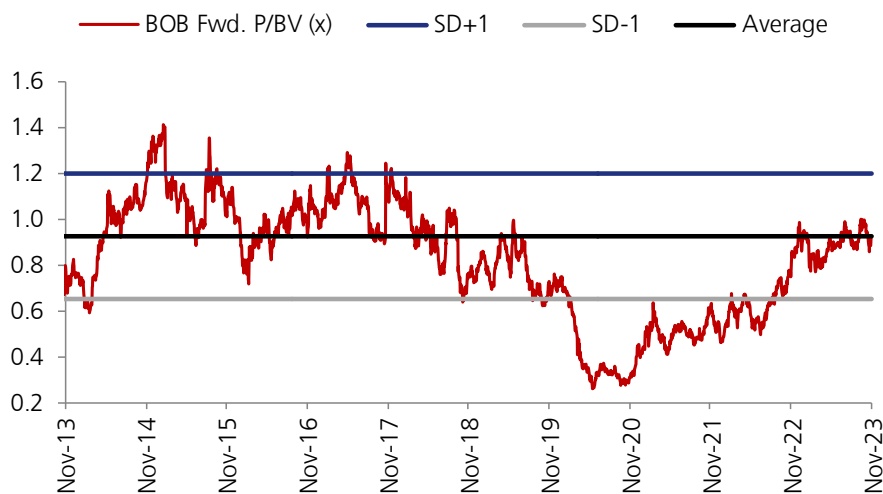
We value the Bank of Baroda using two-stage Gordon growth model. Our calculations are as follows:

**Exhibit 9. BOB: Valuation summary**

Initial no of years	10
Growth rate for the first 10 years (%)	13%
Pay out ratio for the first 10 years (%)	10%
Perpetual growth rate (%)	6%
Perpetual payout ratio (%)	60%
K1	0.93
K2	6.47
Fully adjusted FY25E BVPS (Rs)	<b>227</b>
Target P/BV (x)	1.03x
<b>Fair value (rounded off)</b>	<b>235</b>

Source: Company, JM Financial

**Exhibit 10. BOB: One-year forward P/BV (x)**



Source: Company, JM Financial

## Financial Tables (Standalone)

Profit & Loss						(INR bn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Interest Income	288	326	414	484	557	
Profit on Investments	39	18	1	5	3	
Exchange Income	10	12	6	8	9	
Fee & Other Income	79	86	93	86	96	
<b>Non-Interest Income</b>	<b>129</b>	<b>115</b>	<b>100</b>	<b>99</b>	<b>108</b>	
<b>Total Income</b>	<b>417</b>	<b>441</b>	<b>514</b>	<b>583</b>	<b>664</b>	
Operating Expenses	205	217	245	270	306	
<b>Pre-provisioning Profits</b>	<b>212</b>	<b>224</b>	<b>269</b>	<b>313</b>	<b>358</b>	
Loan-Loss Provisions	143	121	50	96	122	
Provisions on Investments	9	6	17	1	1	
Others Provisions	5	3	5	1	1	
<b>Total Provisions</b>	<b>156</b>	<b>130</b>	<b>71</b>	<b>97</b>	<b>123</b>	
<b>PBT</b>	<b>56</b>	<b>94</b>	<b>197</b>	<b>216</b>	<b>235</b>	
Tax	47	21	56	55	60	
<b>PAT (Pre-Extraordinaries)</b>	<b>8</b>	<b>73</b>	<b>141</b>	<b>161</b>	<b>175</b>	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
<b>Reported Profits</b>	<b>8</b>	<b>73</b>	<b>141</b>	<b>161</b>	<b>175</b>	
Dividend paid	0	15	28	32	17	
<b>Retained Profits</b>	<b>8</b>	<b>58</b>	<b>113</b>	<b>128</b>	<b>157</b>	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Growth (YoY) (%)</b>					
Deposits	2.2	8.2	15.1	15.0	15.0
Advances	2.3	10.0	21.1	15.0	14.5
Total Assets	-0.1	10.5	14.3	14.3	14.6
NII	4.9	13.2	26.8	17.1	15.0
Non-Interest Income	25.4	-11.2	-12.7	-1.7	9.4
Operating Expenses	8.9	5.7	12.9	10.1	13.6
Operating Profits	12.2	5.6	20.0	16.4	14.4
Core Operating Profits	6.9	19.5	30.0	14.9	15.3
Provisions	-24.4	-16.9	-45.1	36.3	26.7
Reported PAT	51.8	777.3	94.0	13.8	8.9
<b>Yields / Margins (%)</b>					
Interest Spread (%)	2.5	2.7	2.9	2.8	2.7
NIM (%)	2.6	2.8	3.2	3.2	3.2
<b>Profitability (%)</b>					
Non-IR to Income (%)	31.0	26.0	19.5	16.9	16.2
Cost to Income (%)	49.2	49.2	47.7	46.3	46.1
ROA (%)	0.1	0.6	1.0	1.0	1.0
ROE (%)	1.2	9.7	16.5	16.3	15.5
<b>Assets Quality (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Slippages (%)	3.0	2.1	1.5	1.9	1.9
Gross NPAs (%)	8.9	6.6	3.8	3.4	3.2
Net NPAs (%)	3.1	1.7	0.9	0.9	0.8
Provision Coverage (%)	67.3	75.3	77.2	75.0	77.0
Specific LLP (%)	1.7	2.0	0.5	0.8	0.9
Net NPAs / Networth (%)	30.3	17.0	9.1	9.1	7.7
<b>Capital Adequacy (%)</b>					
CET1 (%)	11.2	12.1	12.9	12.7	0.0
Tier I (%)	12.7	13.2	14.0	13.6	13.4
CAR (%)	15.0	15.7	16.2	15.5	15.0

Source: Company, JM Financial

Balance Sheet						(INR bn)
Y/E March	FY21	FY22	FY23	FY24E	FY25E	
Equity Capital	10	10	10	10	10	
Reserves & Surplus	708	778	913	1,042	1,199	
Deposits	9,670	10,459	12,037	13,842	15,919	
Borrowings	668	1,039	1,019	997	976	
Other Liabilities	445	423	547	709	919	
<b>Total Liabilities</b>	<b>11,502</b>	<b>12,709</b>	<b>14,527</b>	<b>16,601</b>	<b>19,023</b>	
Investments	2,612	3,158	3,625	3,724	4,261	
Net Advances	7,063	7,772	9,410	10,821	12,391	
Cash & Equivalents	1,204	1,227	957	1,952	2,191	
Fixed Assets	28	28	28	31	33	
Other Assets	594	525	507	73	147	
<b>Total Assets</b>	<b>11,502</b>	<b>12,709</b>	<b>14,527</b>	<b>16,601</b>	<b>19,023</b>	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
NII / Assets	2.5	2.7	3.0	3.1	3.1
Other Income / Assets	1.1	0.9	0.7	0.6	0.6
Total Income / Assets	3.6	3.6	3.8	3.7	3.7
Cost / Assets	1.8	1.8	1.8	1.7	1.7
PBP / Assets	1.8	1.8	2.0	2.0	2.0
Provisions / Assets	1.4	1.1	0.5	0.6	0.7
PBT / Assets	0.5	0.8	1.4	1.4	1.3
Tax rate	85.1	22.5	28.5	25.5	25.5
ROA	0.1	0.6	1.0	1.0	1.0
RoRWAs	0.1	1.2	2.1	2.1	2.0
Leverage	16.7	16.1	15.9	15.8	15.8
ROE	1.2	9.7	16.5	16.3	15.5

Source: Company, JM Financial

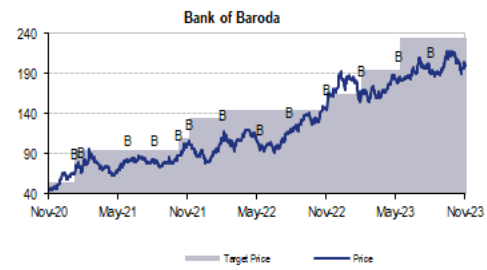
Valuations					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shares in Issue	5.2	5.2	5.2	5.2	5.2
EPS (INR)	1.6	14.0	27.3	31.0	33.8
EPS (YoY) (%)	35.6%	777.3%	94.0%	13.8%	8.9%
PER (x)	124.9	14.2	7.3	6.4	5.9
BV (INR)	139	152	178	203	234
BV (YoY) (%)	-2.4%	9.7%	17.2%	13.9%	15.0%
ABV (INR)	135	153	167	195	227
ABV (YoY) (%)	-1.7%	12.7%	9.5%	16.8%	16.4%
P/BV (x)	1.44	1.31	1.12	0.98	0.86
P/ABV (x)	1.48	1.31	1.20	1.02	0.88
DPS (INR)	0.0	2.8	5.5	6.2	3.4
Div. yield (%)	0.0%	1.4%	2.7%	3.1%	1.7%

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Jan-20	Hold	100	
27-Jan-20	Hold	95	-5.0
11-Mar-20	Hold	85	-10.5
13-Apr-20	Hold	50	-41.2
24-Jun-20	Hold	55	10.0
11-Aug-20	Hold	55	0.0
29-Oct-20	Hold	55	0.0
11-Jan-21	Buy	95	72.7
28-Jan-21	Buy	95	0.0
31-May-21	Buy	95	0.0
9-Aug-21	Buy	95	0.0
11-Oct-21	Buy	110	15.8
10-Nov-21	Buy	135	22.7
7-Feb-22	Buy	145	7.4
15-May-22	Buy	145	0.0
1-Aug-22	Buy	145	0.0
6-Nov-22	Buy	165	13.8
6-Feb-23	Buy	195	18.2
16-May-23	Buy	235	20.5
6-Aug-23	Buy	235	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.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
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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