

# Kirloskar Oil Engines | BUY

## Current weakness transitory; growth drivers intact

Kirloskar Oil Engines' (KOEL) 2QFY24 PAT declined 19%YoY to INR 586mn and was below our estimate of INR 840mn led by weak power genset sales and lower margins. 1QFY24 had seen robust pre-buying activity in power gensets and hence 2Q was expected to be softer (Power gensets 1HFY24 Rev growth healthy at 23% YoY). EBITDA came in at INR986mn; down 15% YoY and EBITDA margin stood at 9% (JMFe: 11%, -210bps YoY) on account of poor absorption of overheads and provision of INR 100mn towards doubtful receivables. Management expects pickup in demand from 2H as demand for CPCB4+ compliant gensets should progressively pick-up. Further, with entry into HHP market (1500-3000KVA) with Optiprime range also increases the addressable market. Push on exports continues with an OEM supply chain partner being appointed for GCC countries. We expect revenue/EPS CAGR of 17%/23% over FY23-26E and maintain Buy with revised price target of INR 630.

- Pre-buying in 1Q negatively impacted revenue growth:** Standalone net sales grew by a modest 5% YoY to INR 10.6bn due to 8%YoY decline in power gen sales at INR 3.6bn – impacted by pre-buying in 1Q (1HFY24 growth at 23%YoY). Aftermarket segment grew 23% YoY to INR1.8bn, industrial segment grew 5%YoY to INR 2.4bn and exports grew 11% YoY to INR1.3bn. Overall B2B segment grew 19% YoY to INR9.0bn. B2C segment grew 19% YoY to INR1.4bn led by water management (+21%) and farm mechanisation (+13%). LGM reported revenue of INR 5.5bn in 1HFY24 (down c14% YoY).
- Poor fixed cost coverage and provisions lead to lower margins:** On a standalone basis, EBITDA was down by 15% YoY/36% QoQ, as EBITDA margin came in at 9.3% (-210bps YoY; JMFe: 11.4%). The margin contraction was driven by poor fixed cost coverage on account of lower sales volume even as RM costs remained almost flat YoY at 66.9% of sales (down 160bp QoQ). EBITDA margin was also impacted by provision of INR 105mn for doubtful receivables (100bp impact). B2B segment reported EBIT margin of 8.2% vs 10.4% in PY, while B2C segment reported EBIT of 2.4% vs -0.5% in 2QFY23. Hence, adj standalone net profit was down by 19% YoY to INR586mn.
- New launches to target HHP market:** KOEL reiterated its growth strategy of growing revenue by 2x to INR 65bn in 3 years (starting FY23). This would be supported by entry to HHP market which previously remained untapped for the company and would aid in gaining market share with expansion in margins. The company has introduced gensets in the range of 1500-3000 KVA with name of OptiPrime which is patented technology which would aid company to cater to niche segments like Datacentre, construction etc.
- Maintain BUY with revised TP of INR630:** We estimate revenue/EPS CAGR of at 17%/23% CAGR over FY23-26 led by sustained growth in power gen and industrial segments and push towards exports. KOEL's balance sheet remains strong with high RoIC of 45%+. We arrive at an SOTP based price target of INR 630 valuing the standalone business at 16x Sept'25E EPS (16x FY25E EPS earlier) and cash and investments (including Arka Fincap stake) at 1x BV. Maintain Buy.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	630
Upside/(Downside)	24.5%
Previous Price Target	580
Change	8.6%

### Key Data – KOEL IN

Current Market Price	INR506
Market cap (bn)	INR73.3/US\$0.9
Free Float	59%
Shares in issue (mn)	144.6
Diluted share (mn)	144.6
3-mon avg daily val (mn)	INR377.5/US\$4.5
52-week range	578/261
Sensex/Nifty	64,364/19,231
INR/US\$	83.3

### Price Performance

%	1M	6M	12M
Absolute	-4.8	28.3	82.7
Relative*	-2.4	21.7	73.0

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	32,996	41,161	48,042	56,161	65,691
Sales Growth (%)	22.5	24.7	16.7	16.9	17.0
EBITDA	2,687	4,550	5,429	6,735	8,029
EBITDA Margin (%)	8.1	11.1	11.3	12.0	12.2
Adjusted Net Profit	1,553	2,983	3,534	4,511	5,532
Diluted EPS (INR)	10.7	20.6	24.4	31.2	38.3
Diluted EPS Growth (%)	-7.2	92.1	18.5	27.6	22.6
ROIC (%)	29.4	45.3	46.9	56.1	64.8
ROE (%)	7.5	13.3	14.5	16.8	18.6
P/E (x)	18.5	11.7	20.7	16.2	13.2
P/B (x)	1.3	1.5	2.9	2.6	2.3
EV/EBITDA (x)	8.8	7.2	13.3	10.4	8.3
Dividend Yield (%)	1.1	1.0	1.9	2.5	3.0

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

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.

**Exhibit 1. SOTP Valuation**

Business	Valuation basis	Multiple	Value (INRmn)	Per share (INR)
Standalone business	16x Sept'25E Core EPS	16.0	74,439	515
La-Gajjar Machineries	10x FY25E EPS	10.0	798	6
ARKA Fincap	P/B	1.0	10,474	72
Cash and liquid investments	P/B of 1x	1.0	5,441	38
			<b>91,152</b>	<b>630</b>

Source: Company, JM Financial

**Exhibit 2. Quarterly Performance-Standalone**

Y/E March (INR mn)	2Q FY23	2Q FY24	YoY (%)	1Q FY24	QoQ (%)	2Q FY24E	Var (%)	1H FY23	1H FY24	YoY (%)
<b>Net Sales</b>	<b>10,104</b>	<b>10,590</b>	<b>4.8</b>	<b>12,647</b>	<b>-16.3</b>	<b>11,149</b>	<b>-5.0</b>	<b>19,634</b>	<b>23,237</b>	<b>18.3</b>
Expenditure	8,951	9,603	7.3	11,117	-13.6	9,883	-2.8	17,447	20,707	18.7
<b>EBITDA</b>	<b>1,153</b>	<b>986</b>	<b>-14.5</b>	<b>1,530</b>	<b>-35.5</b>	<b>1,266</b>	<b>-22.1</b>	<b>2,187</b>	<b>2,530</b>	<b>15.7</b>
<b>EBITDA (%)</b>	<b>11.4</b>	<b>9.3</b>	<b>-210bps</b>	<b>12.1</b>	<b>-280bps</b>	<b>11.4</b>	<b>-200bps</b>	<b>11.1</b>	<b>10.9</b>	<b>-30bps</b>
Other income	48	64	33.5	84	-24.3	86	-25.9	101	133	31.6
Depreciation	213	243	14.2	213	14.3	215	13.2	419	456	9.1
EBIT	988	807	-18.3	1,401	-42.4	1,137	-29.0	1,870	2,207	18.0
Interest	10	16	55.3	14	18.5	12	33.3	21	30	38.5
PDB before Eol	977	791	-19.1	1,388	-43.0	1,125	-29.7	1,849	2,177	17.8
Eol	0	0		0		0		0	0	
PBT after Eol	977	791	-19.1	1,388	-43.0	1,125	-29.7	1,849	2,177	17.8
Tax	252	205	-18.6	355	-42.2	287	-28.6	477	560	17.4
Tax rate (%)	25.7	25.9		25.5		25.5		25.8	25.7	
<b>Adj PAT</b>	<b>726</b>	<b>586</b>	<b>-19.3</b>	<b>1,033</b>	<b>-43.3</b>	<b>838</b>	<b>-30.1</b>	<b>1,372</b>	<b>1,617</b>	<b>17.9</b>
<b>Adj EPS (INR)</b>	<b>5.0</b>	<b>4.1</b>	<b>-19.3</b>	<b>7.1</b>	<b>-43.3</b>	<b>5.8</b>	<b>-30.1</b>	<b>9.5</b>	<b>11.2</b>	<b>17.9</b>

Source: Company, JM Financial

**Exhibit 3. Cost break-up-Standalone**

Y/E March (INR mn)	2Q FY23	2Q FY24	YoY (%)	1Q FY24	QoQ (%)	2Q FY24E	Var (%)	1H FY23	1H FY24	YoY (%)
COGS	6,740	7,081	5.1	8,653	-18.2	7,559	-6.3	13,352	15,735	17.8
as a % of sales	66.7	66.9	20bps	68.4	-160bps	67.8	-90bps	68.0	67.7	-30bps
Staff Cost	567	744	31.3	658	13.1	624	19.1	1,122	1,402	24.9
as a % of sales	5.6	7.0	140bps	5.2	180bps	5.6	140bps	5.7	6.0	30bps
Other Expenditure	1,644	1,778	8.2	1,806	-1.5	1,700	4.6	2,974	3,571	20.1
as a % of sales	16.3	16.8	50bps	14.3	250bps	15.2	150bps	15.1	15.4	20bps

Source: Company, JM Financial

## Exhibit 4. Segmental performance-Standalone

Y/E March - INR mn	2Q FY23	2Q FY24	YoY (%)	1Q FY24	QoQ (%)	1H FY23	1H FY24	YoY (%)
<b>Revenue</b>								
<b>B2B</b>	<b>8,780</b>	<b>9,040</b>	<b>3.0</b>	<b>10,960</b>	<b>-17.5</b>	<b>16,830</b>	<b>20,000</b>	<b>18.8</b>
% of net sales	87%	85%		87%		86%	86%	
Powergen	3,930	3,600	-8.4	6,030	-40.3	7,820	9,630	23.1
% of net sales	39%	34%		48%		40%	41%	
Industrial	2,230	2,350	5.4	2,320	1.3	4,210	4,670	10.9
% of net sales	22%	22%				21%	20%	
Aftermarket	1,500	1,840	22.7	1,750	5.1	3,000	3,590	19.7
% of net sales	15%	17%		14%		15%	15%	
International	1,120	1,250	11.6	860	45.3	1,800	2,110	17.2
% of net sales	11%	12%		7%		9%	9%	
<b>B2C</b>	<b>1,200</b>	<b>1,430</b>	<b>19.2</b>	<b>1,600</b>	<b>-10.6</b>	<b>2,590</b>	<b>3,030</b>	<b>17.0</b>
% of net sales	12%	14%		13%		13%	13%	
Water management	960	1,160	20.8	1,340	-13.4	2,100	2,500	19.0
% of net sales	10%	11%		11%		11%	11%	
Farm mechanisation	240	270	12.5	260	3.8	490	530	8.2
% of net sales	2%	3%		2%		2%	2%	
Others	124	120	-3.5	87	37.6	214	207	-3.5
% of net sales	1%	1%		1%		1%	1%	
<b>Total Sales</b>	<b>10,104</b>	<b>10,590</b>	<b>4.8</b>	<b>12,647</b>	<b>-16.3</b>	<b>19,634</b>	<b>23,237</b>	<b>18.3</b>

Source: Company, JM Financial

## Exhibit 5. Segmental performance-consolidated

Y/E March - INR mn	2Q FY23	2Q FY24	YoY (%)	1Q FY24	QoQ (%)	1H FY23	1H FY24	YoY (%)
<b>Revenue</b>								
<b>B2B</b>	<b>8,928</b>	<b>9,176</b>	<b>2.8</b>	<b>11,056</b>	<b>-17.0</b>	<b>17,092</b>	<b>20,232</b>	<b>18.4</b>
% of net sales	73%	70%		72%		71%	71%	
<b>B2C</b>	<b>2,521</b>	<b>2,604</b>	<b>3.3</b>	<b>3,095</b>	<b>-15.9</b>	<b>5,493</b>	<b>5,699</b>	<b>3.8</b>
% of net sales	21%	20%		20%		23%	20%	
<b>Others</b>	<b>833</b>	<b>1,268</b>	<b>52.3</b>	<b>1,282</b>	<b>-1.1</b>	<b>1,610</b>	<b>2,551</b>	<b>58.4</b>
% of net sales	7%	10%		8%		7%	9%	
<b>Total Sales</b>	<b>12,281</b>	<b>13,048</b>	<b>6.2</b>	<b>15,434</b>	<b>-15.5</b>	<b>24,195</b>	<b>28,482</b>	<b>17.7</b>
<b>PBIT</b>								
<b>B2B</b>	<b>930</b>	<b>755</b>	<b>-18.8</b>	<b>1,324</b>	<b>-42.9</b>	<b>1,689</b>	<b>2,079</b>	<b>23.1</b>
EBIT Margin (%)	10.4%	8.2%		12.0%		9.9%	10.3%	
<b>B2C</b>	<b>-12</b>	<b>63</b>	<b>-610.5</b>	<b>174</b>	<b>-63.6</b>	<b>139</b>	<b>237</b>	<b>70.2</b>
EBIT Margin (%)	-0.5%	2.4%		5.6%		2.5%	4.2%	
<b>Others</b>	<b>223</b>	<b>251</b>	<b>12.3</b>	<b>215</b>	<b>16.6</b>	<b>429</b>	<b>465</b>	<b>8.5</b>
EBIT Margin (%)	26.8%	19.8%		16.8%		26.6%	18.2%	
<b>Total Sales</b>	<b>27</b>	<b>14</b>	<b>-46.3</b>	<b>16</b>	<b>-11.7</b>	<b>51</b>	<b>31</b>	<b>-39.9</b>

Source: Company, JM Financial

## Key conference call takeaways

- **Standing firm on 2X3Y:** Management reiterated their growth strategy of growing revenue by 2x in next 3 years. Management highlighted that company foresees strong demand momentum given **a)** strong growth in exports as new emission norms are at par with developed markets and will give access to new markets, **b)** content addition through CPCB-4+ norms like after treatment systems to increases costs by 25-50% and pricing decisions will be taken appropriately and **c)** focus on aftermarket sales to drive higher growth in the segment, which was muted since a long period of time.
- **Outlook for the 2H** seems to be healthy with pickup in demand from segments like infrastructure, agriculture and continuation of healthy demand from exports market. However expect ease in supply chain challenges from next year.
- **Adding new territories in exports market:** Management highlighted that exports are witnessing a healthy demand improvement. In 2Q24, company added new GCC territory where they intend to increase offering and grow exports as a % of revenue.
- **Levers of margins:** a) expanding HHP market with optiprime range b) growing aftermarket segment and c) expanding reach in exports.
- **Launched Optiprime to target upto 3000KVA market:** KOEL introduced 1500-3000 kVA segment specifically to target high growth market like Data centre, construction etc. This would lead to gain in market share and improve margins.
- **Working capital:** Higher working capital was on account of inventory procurement to meet the supply chain challenges on account of higher demand as both the norms were in play CBCB II & IV.
- **NBFC business:** Total loan book of INR 40.3bn with 32% in Wholesale, 23% in Real estate, 8% in warehousing, etc and 37% in SME/MSME . Gross NPA of 0.19% and Net NPA of 0.05%
- Focus on aftermarket sales to drive higher growth in the segment, which was muted since a long period of time.
- KOEL has introduced new products on the alternative fuel solutions front where they are anticipating increase in demand with stricter norms.

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	32,996	41,161	48,042	56,161	65,691	
Sales Growth	22.5%	24.7%	16.7%	16.9%	17.0%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>32,996</b>	<b>41,161</b>	<b>48,042</b>	<b>56,161</b>	<b>65,691</b>	
Cost of Goods Sold/Op. Exp	22,912	27,897	32,429	37,740	44,144	
Personnel Cost	2,070	2,365	2,930	3,261	3,664	
Other Expenses	5,327	6,349	7,254	8,424	9,854	
<b>EBITDA</b>	<b>2,687</b>	<b>4,550</b>	<b>5,429</b>	<b>6,735</b>	<b>8,029</b>	
EBITDA Margin	8.1%	11.1%	11.3%	12.0%	12.2%	
EBITDA Growth	-1.9%	69.3%	19.3%	24.1%	19.2%	
Deprn. & Amort.	772	848	967	1,024	1,081	
EBIT	1,915	3,703	4,462	5,712	6,948	
Other Income	248	273	341	423	568	
Finance Cost	62	54	60	80	90	
PBT before Excep. & Forex	2,100	3,922	4,744	6,055	7,426	
Excep. & Forex Inc./Loss(-)	527	-281	0	0	0	
PBT	2,627	3,641	4,744	6,055	7,426	
Taxes	547	939	1,210	1,544	1,894	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,080	2,703	3,534	4,511	5,532	
<b>Adjusted Net Profit</b>	<b>1,553</b>	<b>2,983</b>	<b>3,534</b>	<b>4,511</b>	<b>5,532</b>	
Net Margin	4.7%	7.2%	7.4%	8.0%	8.4%	
Diluted Share Cap. (mn)	144.6	144.6	144.6	144.6	144.6	
<b>Diluted EPS (INR)</b>	<b>10.7</b>	<b>20.6</b>	<b>24.4</b>	<b>31.2</b>	<b>38.3</b>	
Diluted EPS Growth	-7.2%	92.1%	18.5%	27.6%	22.6%	
Total Dividend + Tax	795	723	1,414	1,804	2,213	
Dividend Per Share (INR)	5.5	5.0	9.8	12.5	15.3	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	21,391	23,315	25,436	28,142	31,462	
Share Capital	289	289	289	289	289	
Reserves & Surplus	21,102	23,026	25,147	27,853	31,173	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	968	751	1,551	1,051	551	
Def. Tax Liab. / Assets (-)	146	61	61	61	61	
<b>Total - Equity &amp; Liab.</b>	<b>22,505</b>	<b>24,128</b>	<b>27,048</b>	<b>29,255</b>	<b>32,074</b>	
Net Fixed Assets	4,896	4,915	4,948	4,924	4,844	
Gross Fixed Assets	15,934	16,463	17,463	18,463	19,463	
Intangible Assets	0	0	0	0	0	
Less: Deprn. & Amort.	11,244	11,706	12,673	13,697	14,778	
Capital WIP	206	158	158	158	158	
Investments	16,722	16,925	16,925	16,925	16,925	
Current Assets	8,504	11,554	16,758	20,945	26,143	
Inventories	3,031	4,685	5,265	6,155	7,199	
Sundry Debtors	3,945	4,672	5,923	6,924	8,099	
Cash & Bank Balances	314	338	2,674	4,482	6,886	
Loans & Advances	373	296	1,579	1,846	2,160	
Other Current Assets	840	1,563	1,316	1,539	1,800	
Current Liab. & Prov.	7,617	9,267	11,583	13,540	15,838	
Current Liabilities	5,098	6,326	7,897	9,232	10,798	
Provisions & Others	2,519	2,941	3,685	4,308	5,039	
Net Current Assets	887	2,287	5,175	7,405	10,306	
<b>Total - Assets</b>	<b>22,504</b>	<b>24,128</b>	<b>27,048</b>	<b>29,255</b>	<b>32,074</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,627	3,641	4,744	6,055	7,426	
Deprn. & Amort.	772	848	967	1,024	1,081	
Net Interest Exp. / Inc. (-)	-59	35	0	0	0	
Inc (-) / Dec in WCap.	-157	-1,025	-552	-423	-496	
Others	-673	61	0	0	0	
Taxes Paid	-567	-960	-1,210	-1,544	-1,894	
<b>Operating Cash Flow</b>	<b>1,944</b>	<b>2,600</b>	<b>3,949</b>	<b>5,112</b>	<b>6,117</b>	
Capex	-812	-1,213	-1,000	-1,000	-1,000	
Free Cash Flow	1,132	1,387	2,949	4,112	5,117	
Inc (-) / Dec in Investments	-8,182	-343	0	0	0	
Others	0	0	0	0	0	
<b>Investing Cash Flow</b>	<b>-8,994</b>	<b>-1,556</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-578	-723	-1,414	-1,804	-2,213	
Inc / Dec (-) in Loans	7,723	-218	800	-500	-500	
Others	-75	-79	0	0	0	
<b>Financing Cash Flow</b>	<b>7,070</b>	<b>-1,021</b>	<b>-614</b>	<b>-2,304</b>	<b>-2,713</b>	
<b>Inc / Dec (-) in Cash</b>	<b>19</b>	<b>24</b>	<b>2,336</b>	<b>1,808</b>	<b>2,404</b>	
Opening Cash Balance	294	314	338	2,674	4,482	
Closing Cash Balance	313	338	2,674	4,482	6,886	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		4.7%	7.2%	7.4%	8.0%	8.4%
Asset Turnover (x)		1.5	1.8	1.9	2.0	2.1
Leverage Factor (x)		1.0	1.0	1.0	1.1	1.0
RoE		7.5%	13.3%	14.5%	16.8%	18.6%

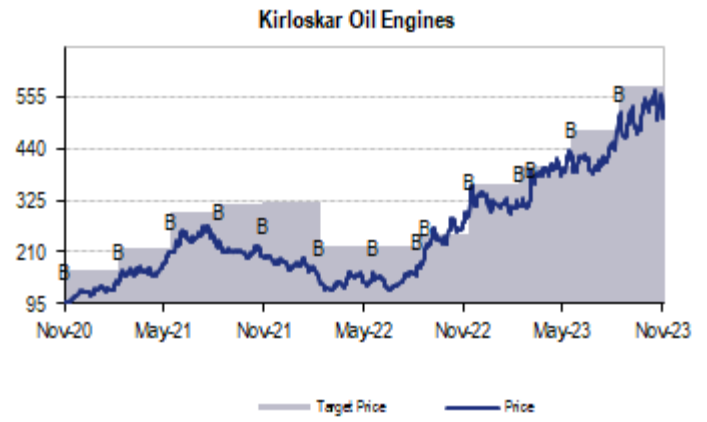
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		147.9	161.2	175.9	194.6	217.6
ROIC		29.4%	45.3%	46.9%	56.1%	64.8%
ROE		7.5%	13.3%	14.5%	16.8%	18.6%
Net Debt/Equity (x)		0.0	0.0	0.0	-0.1	-0.2
P/E (x)		18.5	11.7	20.7	16.2	13.2
P/B (x)		1.3	1.5	2.9	2.6	2.3
EV/EBITDA (x)		8.8	7.2	13.3	10.4	8.3
EV/Sales (x)		2.2	1.8	1.5	1.2	1.0
Debtor days		44	41	45	45	45
Inventory days		34	42	40	40	40
Creditor days		61	63	68	68	68

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
3-Feb-20	Buy	210	
9-Apr-20	Buy	130	-38.1
1-Jul-20	Buy	135	3.8
6-Aug-20	Buy	150	11.1
4-Nov-20	Buy	170	13.3
11-Feb-21	Buy	220	29.4
15-May-21	Buy	300	36.4
13-Aug-21	Buy	315	5.0
31-Oct-21	Buy	320	1.6
12-Feb-22	Buy	225	-29.7
22-May-22	Buy	225	0.0
11-Aug-22	Buy	250	11.1
24-Aug-22	Buy	250	0.0
14-Nov-22	Buy	360	44.0
13-Feb-23	Buy	400	11.1
6-Mar-23	Buy	400	0.0
19-May-23	Buy	480	20.0
16-Aug-23	Buy	580	20.8

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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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