

25 November 2022

Industrials | Industrial Services

## Sime Darby (SIME MK)

### Buy (Maintained)

### A Soft Patch; Stay BUY

- **Stay BUY, new MYR2.80 TP (SOP) from MYR2.75, 22% upside and 5% FY23F (Jun) yield.** 1QFY23 net profit slightly missed due to softer-than-expected auto margins. We expect Sime Darby to recover in the coming quarters with new model launches in the pipeline across all markets. The local motor wing also continues to see customers placing orders across its brands. Sime Darby's Australasia industrial segment remains robust while the Chinese industrial wing may benefit from Beijing's efforts to boost the property sector, although we are of the view that recovery will be slow.
- **Earnings fell short.** 1QFY23's core profit of MYR207m fell short at 16% of our full-year estimate on softer-than-expected EBIT margins. No DPS was declared, as expected.
- **Soft EBIT margins that should normalise in the coming quarters.** China's motor segment faced soft margins due to discounts to clear inventory. But, with Sime Darby's exciting line-up of new BMW models for Malaysia and China, we expect its auto margins to recover in subsequent quarters. While industrial margins remained relatively more robust, the group's China business remains weak amidst continued challenges in the property sector.
- **Motor outlook.** Sime Darby's first BYD showroom in Malaysia will be ready by Jan 2023. We estimate that it can lift local motors volumes by a low-teens percentage. After Chinese motors volumes rose 36% QoQ, we expect the coming quarters to also see similarly strong volumes from the gradual and eventual easing of restrictions in China. The group continues to grow its EV fleet globally and aims to sell 4,500 battery EVs or BEVs by 2023, ie c.5% of CY23F unit sales.
- **Industrial outlook.** Beijing is implementing measures to lift its ailing property sector, which could eventually drive recovery in construction machinery demand and benefit Sime Darby. Nevertheless, we are assuming a slow recovery in this segment and are conservative with our FY23 estimates. In Australasia, demand for its mining equipment, spare parts, and after-sales services should remain strong, supported by sustained and elevated metallurgical (MET) coal price, which, at USD280/tonne, is well above miners' breakeven costs of USD80/tonne.
- **We trim our FY23F-25F earnings** by 9-3% after we trim margins assumptions and lift interest expenses amidst a higher interest rate environment. Keep BUY but lift our TP to MYR2.80 as we roll forward our valuation to CY23F. Our TP includes a 0% ESG premium/discount.
- **Still BUY** for the: i) Motor wing's premium marques and growing EV offerings that should fare relatively better in an economic slowdown scenario), ii) industrial unit's continued resilience from elevated MET coal prices, and iii) potential special DPS from non-core asset sales. Key risks: Extended downturn in China, softer-than-expected car sales, and worse-than-expected industrial margins.

| Forecasts and Valuation         | Jun-21   | Jun-22 | Jun-23F | Jun-24F  | Jun-25F  |
|---------------------------------|----------|--------|---------|----------|----------|
| Total turnover (MYRm)           | 44,302   | 42,502 | 46,207  | 47,846   | 49,103   |
| Recurring net profit (MYRm)     | 1,248    | 1,195  | 1,209   | 1,331    | 1,429    |
| Recurring net profit growth (%) | 20.0     | (4.2)  | 1.1     | 10.1     | 7.4      |
| Recurring P/E (x)               | 12.55    | 13.11  | 12.96   | 11.76    | 10.96    |
| P/B (x)                         | 1.0      | 1.0    | 1.0     | 0.9      | 0.9      |
| P/CF (x)                        | 5.63     | 19.34  | 8.40    | 6.40     | 6.00     |
| Dividend Yield (%)              | 6.5      | 5.0    | 5.2     | 5.4      | 5.7      |
| EV/EBITDA (x)                   | 4.34     | 5.65   | 5.01    | 4.40     | 3.83     |
| Return on average equity (%)    | 9.9      | 7.4    | 7.5     | 8.0      | 8.3      |
| Net debt to equity (%)          | net cash | 7.4    | 4.5     | net cash | net cash |

Source: Company data, RHB

|                              |                     |
|------------------------------|---------------------|
| Target Price (Return):       | MYR2.80 (21.7%)     |
| Price (Market Cap):          | MYR2.30 (USD3,484m) |
| ESG score:                   | 3.00 (out of 4)     |
| Avg Daily Turnover (MYR/USD) | 13.2m/2.88m         |

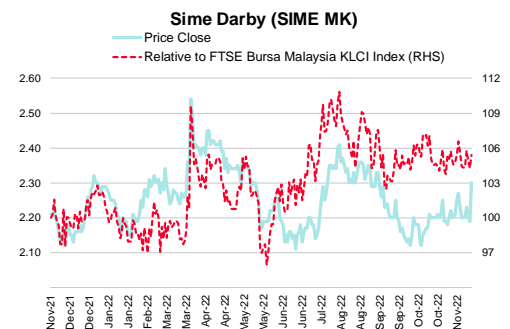
#### Analyst

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#### Share Performance (%)

|                            | YTD   | 1m  | 3m    | 6m          | 12m |
|----------------------------|-------|-----|-------|-------------|-----|
| Absolute                   | (0.9) | 4.5 | (0.4) | 2.2         | 4.1 |
| Relative                   | 3.3   | 0.7 | (2.8) | 4.1         | 5.4 |
| 52-wk Price low/high (MYR) |       |     |       | 2.11 – 2.54 |     |



Source: Bloomberg

#### Overall ESG Score: 3.00 (out of 4)

##### E: GOOD

Sime Darby is committed to its sustainability goals, with specific targets detailed across operating segments in its annual report. Proactive steps are underway to reduce its carbon footprint, and reduce dependency on non-renewable energy sources. However, environmental statistics are lacking. It remains on track to achieve its target to reduce its carbon and energy footprint by 5% in 2023 from the 2018 baseline

##### S: GOOD

Aside from its up-to-date health and safety policies, Sime Darby recently introduced a next-generation safety culture programme called Safe Engage Lead and Focus (SELF), which will be rolled out to all operations in stages. It makes social investments through philanthropic foundation Yayasan Sime Darby, offering scholarships to outstanding individuals, and funding impactful conservation, outreach and development programmes. No major issues between the company and its employees.

##### G: EXCELLENT

50% of Sime Darby's board members are independent, following the best practices of the Malaysian Code on Corporate Governance 2017. We notice that Sime Darby has been very forthcoming with regards to sharing information with the market.

## Financial Exhibits

|   |                                     |               |               |                |                |                |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Asia</b>   | <b>Financial summary (MYR)</b>      | <b>Jun-21</b> | <b>Jun-22</b> | <b>Jun-23F</b> | <b>Jun-24F</b> | <b>Jun-25F</b> |
| Malaysia  | Recurring EPS                       | 0.18          | 0.18          | 0.18           | 0.20           | 0.21           |
| Industrials   | DPS                                 | 0.15          | 0.12          | 0.12           | 0.13           | 0.13           |
| <b>Sime Darby</b>   | BVPS                                | 2.33          | 2.35          | 2.41           | 2.48           | 2.56           |
| SIME MK   | Return on average equity (%)        | 9.9           | 7.4           | 7.5            | 8.0            | 8.3            |
| Buy   |                                     |               |               |                |                |                |
| <b>Valuation basis</b>  | <b>Valuation metrics</b>            | <b>Jun-21</b> | <b>Jun-22</b> | <b>Jun-23F</b> | <b>Jun-24F</b> | <b>Jun-25F</b> |
| Sum-of-Parts  | Recurring P/E (x)                   | 12.55         | 13.11         | 12.96          | 11.76          | 10.96          |
|   | P/B (x)                             | 1.0           | 1.0           | 1.0            | 0.9            | 0.9            |
|   | FCF Yield (%)                       | 14.5          | 1.1           | 8.6            | 12.4           | 13.4           |
|   | Dividend Yield (%)                  | 6.5           | 5.0           | 5.2            | 5.4            | 5.7            |
| <b>Key drivers</b>  | EV/EBITDA (x)                       | 4.34          | 5.65          | 5.01           | 4.40           | 3.83           |
| i. Strength in regional consumer discretionary spending;  | EV/EBIT (x)                         | 6.55          | 9.24          | 8.53           | 7.35           | 6.30           |
| ii. Intensity of macroeconomic activity supporting demand for heavy equipment.  |                                     |               |               |                |                |                |
| <b>Key risks</b>  | <b>Income statement (MYRm)</b>      | <b>Jun-21</b> | <b>Jun-22</b> | <b>Jun-23F</b> | <b>Jun-24F</b> | <b>Jun-25F</b> |
| i. Weaker-than-expected Australasia margins;  | Total turnover                      | 44,302        | 42,502        | 46,207         | 47,846         | 49,103         |
| ii. Softer-than-expected car sales across its markets;  | Gross profit                        | 6,823         | 6,545         | 7,116          | 7,368          | 7,562          |
| iii. Longer-than-expected downturn in China.  | EBITDA                              | 3,264         | 2,863         | 3,136          | 3,335          | 3,510          |
|   | Depreciation and amortisation       | (1,101)       | (1,113)       | (1,294)        | (1,340)        | (1,375)        |
|   | Operating profit                    | 2,163         | 1,750         | 1,842          | 1,995          | 2,135          |
|   | Net interest                        | (86)          | (109)         | (176)          | (156)          | (136)          |
|   | Pre-tax profit                      | 2,159         | 1,732         | 1,786          | 1,967          | 2,135          |
|   | Taxation                            | (573)         | (474)         | (500)          | (551)          | (598)          |
|   | Reported net profit                 | 1,530         | 1,187         | 1,209          | 1,331          | 1,429          |
|   | Recurring net profit                | 1,248         | 1,195         | 1,209          | 1,331          | 1,429          |
| <b>Company Profile</b>  | <b>Cash flow (MYRm)</b>             | <b>Jun-21</b> | <b>Jun-22</b> | <b>Jun-23F</b> | <b>Jun-24F</b> | <b>Jun-25F</b> |
| Sime Darby is a multinational conglomerate involved in four core sectors (automotive, industrial, logistics and healthcare). It was formed as a result of the demerger of SD Plantation and SD Properties. Its key earnings drivers are its motor and industrial divisions. | Change in working capital           | 107           | 1,090         | (694)          | (250)          | (192)          |
|   | Cash flow from operations           | 2,784         | 810           | 1,865          | 2,449          | 2,613          |
|   | Capex                               | (510)         | (639)         | (510)          | (510)          | (510)          |
|   | Cash flow from investing activities | 83            | (464)         | (467)          | (382)          | (374)          |
|   | Dividends paid                      | (998)         | (783)         | (817)          | (851)          | (885)          |
|   | Cash flow from financing activities | (1,650)       | (686)         | (993)          | (1,007)        | (1,021)        |
|   | Cash at beginning of period         | 1,694         | 2,473         | 1,772          | 2,077          | 3,036          |
|   | Net change in cash                  | 1,217         | (340)         | 405            | 1,060          | 1,217          |
|   | Ending balance cash                 | 2,911         | 2,163         | 2,177          | 3,136          | 4,254          |
|   | <b>Balance sheet (MYRm)</b>         | <b>Jun-21</b> | <b>Jun-22</b> | <b>Jun-23F</b> | <b>Jun-24F</b> | <b>Jun-25F</b> |
|   | Total cash and equivalents          | 2,473         | 1,772         | 2,077          | 3,036          | 4,154          |
|   | Tangible fixed assets               | 6,225         | 5,740         | 4,956          | 4,127          | 3,262          |
|   | Total investments                   | 1,236         | 1,063         | 1,063          | 1,063          | 1,063          |
|   | Total assets                        | 28,487        | 30,229        | 30,983         | 31,589         | 32,207         |
|   | Short-term debt                     | 1,454         | 2,607         | 2,507          | 2,407          | 2,307          |
|   | Total long-term debt                | 373           | 376           | 328            | 328            | 328            |
|   | Total liabilities                   | 12,227        | 13,858        | 14,221         | 14,346         | 14,420         |
|   | Total equity                        | 16,260        | 16,371        | 16,763         | 17,243         | 17,787         |
|   | Total liabilities & equity          | 28,487        | 30,229        | 30,983         | 31,589         | 32,207         |
|   | <b>Key metrics</b>                  | <b>Jun-21</b> | <b>Jun-22</b> | <b>Jun-23F</b> | <b>Jun-24F</b> | <b>Jun-25F</b> |
|   | Revenue growth (%)                  | 19.9          | (4.1)         | 8.7            | 3.5            | 2.6            |
|   | Recurrent EPS growth (%)            | 20.0          | (4.2)         | 1.1            | 10.1           | 7.4            |
|   | Gross margin (%)                    | 15.4          | 15.4          | 15.4           | 15.4           | 15.4           |
|   | Operating EBITDA margin (%)         | 7.4           | 6.7           | 6.8            | 7.0            | 7.1            |
|   | Net profit margin (%)               | 3.5           | 2.8           | 2.6            | 2.8            | 2.9            |
|   | Dividend payout ratio (%)           | 66.8          | 66.0          | 67.6           | 63.9           | 61.9           |
|   | Capex/sales (%)                     | 1.2           | 1.5           | 1.1            | 1.1            | 1.0            |
|   | Interest cover (x)                  | 17.9          | 11.8          | 8.4            | 10.0           | 11.9           |

Source: Company data, RHB

## Results At a Glance

Figure 1: Results review

| FYE June<br>(MYRm)            | 1QFY22        | 4QFY22        | 1QFY23        | QoQ<br>(%)    | YoY<br>(%)    | Comments   |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|--|
| <b>Revenue</b>                | <b>10,635</b> | <b>10,851</b> | <b>12,182</b> | <b>12.3</b>   | <b>14.5</b>   | Refer to Figure 2 for revenue breakdown.   |
| <b>EBIT</b>                   | <b>368</b>    | <b>534</b>    | <b>353</b>    | <b>(33.9)</b> | <b>(4.1)</b>  | QoQ, softer motor and industrial margins weighed and EBIT softened.<br>YoY, softer motor margins (namely from China and Malaysia) dragged. |
| Net Interest                  | (22)          | (35)          | (46)          | 31.4          | 109.1         |  |
| Associates & JV               | 23            | 20            | 33            | 65.0          | 43.5          |  |
| <b>Pre-tax profit</b>         | <b>369</b>    | <b>519</b>    | <b>340</b>    | <b>(34.5)</b> | <b>(7.9)</b>  |  |
| Tax                           | (106)         | (138)         | (97)          | (29.7)        | (8.5)         |  |
| Minority Interest             | (31)          | (5)           | (20)          | 300.0         | (35.5)        |  |
| <b>Reported PATAMI</b>        | <b>232</b>    | <b>376</b>    | <b>223</b>    | <b>(40.7)</b> | <b>(3.9)</b>  |  |
| <b>Recurring PATAMI</b>       | <b>236</b>    | <b>379</b>    | <b>207</b>    | <b>(45.4)</b> | <b>(12.3)</b> | Below our expectations, mainly due to softer-than-expected margins.  |
| <i>EBIT Margin (%)</i>        | 3.5           | 4.9           | 2.9           |               |               |  |
| <i>PBT Margin (%)</i>         | 3.5           | 4.8           | 2.8           |               |               |  |
| <i>Effective tax rate (%)</i> | (28.7)        | (26.6)        | (28.5)        |               |               |  |
| <i>Core Net Margin (%)</i>    | 2.2           | 3.5           | 1.7           |               |               |  |

Source: Company data, RHB

25 November 2022

Industrials | Industrial Services

Figure 2: Revenue – segmental review

| FYE June<br>(MYRm)            | 1QFY22        | 4QFY22        | 1QFY23        | QoQ<br>(%)  | YoY<br>(%)  | Comments   |
|-------------------------------|---------------|---------------|---------------|-------------|-------------|--|
| <b>Motor</b>                  | <b>6,862</b>  | <b>6,745</b>  | <b>7,955</b>  | <b>17.9</b> | <b>15.9</b> | QoQ, revenue rose in tandem with an 18% increase in units sold.<br>YoY, revenue rose 16% from a 14% increase in volume and higher average selling prices (ASP).<br>QoQ, units sold fell 12%, which means higher ASPs are cushioning the lower volumes.<br>YoY, units sold rose 62%, driving a 63% increase in revenue. |
| Malaysia                      | 845           | 1,388         | 1,378         | (0.7)       | 63.1        | QoQ, units sold rose 21%, but with higher ASPs, revenue rose 49%.  |
| South-East Asia (ex-Malaysia) | 1,255         | 872           | 1,300         | 49.1        | 3.6         | YoY, units sold fell 6%, but higher ASPs lifted revenues.  |
| China/Hong Kong               | 3,675         | 3,142         | 3,884         | 23.6        | 5.7         | QoQ, units sold rose 36%, but due to discounts, revenue rose by 24%.   |
| Australasia/New Zealand       | 1,087         | 1,343         | 1,393         | 3.7         | 28.2        | YoY, units sold rose 6%, driving a proportionate increase in revenue.<br>QoQ, units sold dipped 2%, but higher ASP lifted revenue by 4%<br>YoY, unit sold rose 31%, lifting revenue by 28%.  |
| <b>Industrial</b>             | <b>3,759</b>  | <b>4,092</b>  | <b>4,212</b>  | <b>2.9</b>  | <b>12.1</b> |  |
| Malaysia                      | 228           | 237           | 234           | (1.3)       | 2.6         | YoY, lacklustre sales due to the absence of major infrastructure projects.   |
| South-East Asia (ex-Malaysia) | 191           | 151           | 230           | 52.3        | 20.4        | YoY, higher revenue from power systems operations.   |
| China/Hong Kong               | 791           | 699           | 714           | 2.1         | (9.7)       | YoY, worsening conditions in China's property market weighed.  |
| Australasia/New Zealand       | 2,549         | 3,005         | 3,034         | 1.0         | 19.0        | QoQ, performance remains stable.<br>YoY, the growing mining equipment business lifted the revenue.   |
| <b>Logistics</b>              | <b>38</b>     | <b>57</b>     | <b>0</b>      | <b>N.M.</b> | <b>N.M.</b> |  |
| Ports                         | 38            | 57            | 0             | N.M.        | N.M.        | On 8 Nov 2022, SIME completed the sale of Weifang Ports in China, marking its full exit from the logistics business.   |
| <b>Others</b>                 | <b>14</b>     | <b>14</b>     | <b>15</b>     | <b>7.1</b>  | <b>7.1</b>  |  |
| <b>Total*</b>                 | <b>10,673</b> | <b>10,908</b> | <b>12,182</b> | <b>11.7</b> | <b>14.1</b> |  |

Note: \*Includes logistics revenue, which is not reflected in Figure 1

Source: Company data, RHB

Figure 3: PBIT – segmental review

| FYE June<br>(MYRm)            | 1QFY22     | 4QFY22     | 1QFY23     | QoQ<br>(%)     | YoY<br>(%)    | Comments   |
|-------------------------------|------------|------------|------------|----------------|---------------|--|
| <b>RECURRING PBIT</b>         |            |            |            |                |               | Note: due to year-end adjustments and non-recurring costs/reversals, QoQ comparisons are not as meaningful as YoY comparisons. |
| <b>Motor</b>                  | <b>227</b> | <b>272</b> | <b>176</b> | <b>(35.3)</b>  | <b>(22.5)</b> |  |
| Malaysia                      | 41         | 126        | 55         | (56.3)         | 34.1          | YoY, rose by less than revenue, as 1QFY22 saw the reversal of impairment of MYR17m, artificially lifting 1QFY22 margins.       |
| South-East Asia (ex-Malaysia) | 17         | 19         | 17         | (10.5)         | 0.0           |  |
| China/ Hong Kong              | 133        | 54         | 48         | (11.1)         | (63.9)        | YoY, significant decline in margins due to heavy discounts to sell existing inventory, for new model launches.                 |
| Australasia/New Zealand       | 36         | 73         | 56         | (23.3)         | 55.6          |  |
| <b>Industrial</b>             | <b>160</b> | <b>280</b> | <b>216</b> | <b>(22.9)</b>  | <b>35.0</b>   |  |
| Malaysia                      | 4          | (22)       | (1)        | (95.5)         | (125.0)       | Weighed by the lack of major infrastructure projects.  |
| South-East Asia (ex-Malaysia) | 10         | 14         | 12         | (14.3)         | 20.0          |  |
| China/Hong Kong               | 16         | 23         | 19         | (17.4)         | 18.8          | YoY, higher margins from cost control initiatives.   |
| Australasia/New Zealand       | 130        | 265        | 186        | (29.8)         | 43.1          | Strong YoY growth due to contribution of Salmon Earthmoving (profit contribution of MYR17m).                                   |
| <b>Logistics</b>              | <b>3</b>   | <b>11</b>  | <b>0</b>   | <b>N.M.</b>    | <b>N.M.</b>   |  |
| Ports                         | 3          | 23         | 0          | N.M.           | N.M.          | On 8 Nov 2022, SIME completed the sale of Weifang Ports in China, marking its full exit from the logistics business.           |
| FX                            | 0          | (12)       | 0          | N.M.           | N.M.          |  |
| <b>Others</b>                 | <b>17</b>  | <b>1</b>   | <b>12</b>  | <b>1,100.0</b> | <b>(29.4)</b> |  |
| Elimination                   | (13)       | (5)        | (18)       | 260.0          | 38.5          |  |
| <b>Total</b>                  | <b>394</b> | <b>559</b> | <b>386</b> | <b>(30.9)</b>  | <b>(2.0)</b>  |  |

Source: Company data, RHB

Figure 4: SOP valuation

| Segment                                | Valuation method        | Value (MYRm)  | Per share (MYR) |
|--|-------------------------|---------------|-----------------|
| <b>Motor</b>                           |                         |               |                 |
| CY23F NP (MYRm)                        | 12x P/E                 | 8,272         | 1.21            |
| <b>Industrials</b>                     |                         |               |                 |
| CY23F NP (MYRm)                        | 13x P/E                 | 7,825         | 1.15            |
| <b>MVV land</b>                        |                         |               |                 |
| Proceeds from sale in FY23             |                         | 905           | 0.13            |
| RNAV of unsold land (assuming MYR8psf) | Discount to RNAV of 50% | 936           | 0.14            |
| <b>Logistics</b>                       |                         |               |                 |
| Proceeds from sale of Weifang ports    |                         | 1,623         | 0.24            |
| <b>Healthcare</b>                      |                         |               |                 |
| CY23F NP (MYRm); 50% stake             | 40x P/E                 | 1,600         | 0.23            |
|  |                         | <b>21,161</b> | <b>3.11</b>     |
| Holding company discount               | 10%                     | (2,116)       |                 |
| <b>SOP valuation</b>                   |                         | <b>19,045</b> |                 |
| Number of shares                       |                         | 6,810         |                 |
| <b>Intrinsic value per share</b>       |                         |               | <b>2.80</b>     |
| ESG premium/ (discount)                |                         |               | 0%              |
| <b>TP per share (rounded)</b>          |                         |               | <b>2.80</b>     |

Note: \*MYR 1,623m is approximately equivalent to the total proceeds of CNY2,463m  
Source: Company data, RHB

Figure 5: Sime Darby's motor product map

## Motors Outlook



Exciting new models coming out in the next 12 months



**BMW i7 (First All Electric 7 Series)**  
Malaysia/ China - 2023



**BMW XM**  
Malaysia - 2023



**BMW M2 Coupe**  
Malaysia/ China - 2023



**BMW i5**  
Malaysia/ China - 2022/ 2023<sub>14</sub>

Source: Company



## Recommendation Chart

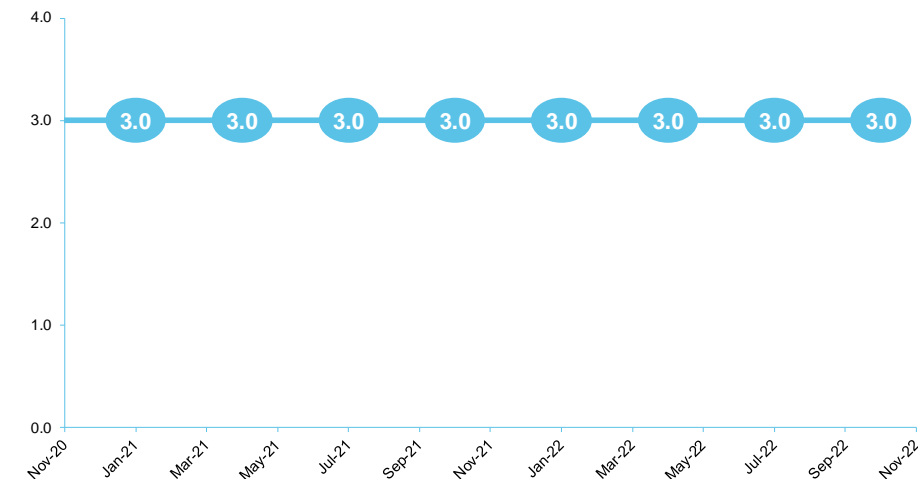


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2022-09-26 | Buy            | 2.75         | 2.17  |
| 2022-09-11 | Buy            | 2.55         | 2.23  |
| 2022-08-18 | Buy            | 2.75         | 2.35  |
| 2022-07-05 | Buy            | 2.60         | 2.17  |
| 2022-06-17 | Buy            | 2.60         | 2.13  |
| 2022-05-25 | Buy            | 2.60         | 2.17  |
| 2022-04-18 | Neutral        | 2.40         | 2.41  |
| 2022-03-24 | Neutral        | 2.40         | 2.34  |
| 2022-02-17 | Neutral        | 2.30         | 2.31  |
| 2021-11-30 | Neutral        | 2.30         | 2.19  |
| 2021-08-26 | Buy            | 2.70         | 2.39  |
| 2021-05-27 | Buy            | 2.70         | 2.31  |
| 2021-02-26 | Buy            | 2.88         | 2.27  |
| 2020-11-27 | Buy            | 2.80         | 2.33  |
| 2020-10-07 | Buy            | 2.75         | 2.39  |

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
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