

UPDATE

EQUITY RESEARCH

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# Fos

Euronext Growth Milan | ICT | Italy

Production 04/04/2023, h. 6:30 pm

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Rating

**BUY**

unchanged

Target Price

**€ 6,00**

prev. €6,00



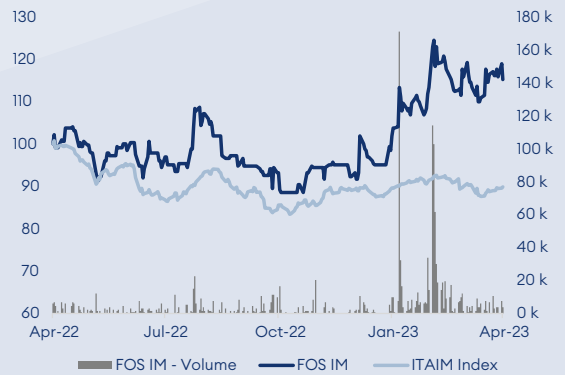
Risk

Medium

Upside potential

**61,2%**

## Stocks performance relative to FTSE Italia Growth



### Stock Data

Price	€ 3,72
Target price	€ 6,00
Upside/(Downside) potential	61,2%
Ticker	FOS IM
Market Cap (€/mln)	€ 25,44
EV (€/mln)	€ 25,40
Free Float	38,10%
Share Outstanding	6.839.384
52-week high	€ 4,14
52-week low	€ 2,85
Average daily volumes (3 months)	14.000

Key Financials (€/mln)	FY22A	FY23E	FY24E	FY25E
Revenues	18,4	25,0	28,0	31,5
VoP	21,6	28,5	31,8	35,5
EBITDA	3,9	5,3	6,3	7,5
EBIT	2,2	2,8	3,8	4,9
Net Profit	1,3	1,8	2,3	3,1
EPS (€)	0,20	0,26	0,34	0,45
EBITDA margin	17,9%	18,6%	19,8%	21,1%
EBIT margin	10,1%	9,8%	11,8%	13,8%

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Stock performance	1M	3M	6M	1Y
Absolute	-3,38%	13,07%	23,59%	15,17%
to FTSE Italia Growth	-2,53%	12,78%	18,59%	25,32%
to Euronext STAR Milan	-0,53%	9,59%	10,45%	25,95%
to FTSE All-Share	-0,09%	4,53%	-0,36%	8,74%
to EUROSTOXX	-3,41%	4,48%	-0,26%	5,95%
to MSCI World Index	-4,79%	6,24%	11,97%	24,18%

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	6,6 x	4,8 x	4,0 x	3,4 x
EV/EBIT	11,7 x	9,1 x	6,8 x	5,2 x
P/E	19,0 x	14,5 x	11,1 x	8,2 x

## FY22A Results

The Value of Production in 2022 was equal to € 21.56 million, up compared to the FY21A figure of € 17.60 million (+22.5%), and to the estimate of our previous report of € 21.00 million. EBITDA, equal to € 3.86 million, increased compared to the € 3.14 million of the previous year (+22.9%), and was substantially in line with our expectation of € 3.90 million. The EBITDA Margin came in at 17.9%, compared to 17.9% of the previous year, and to our estimate of 18.6%. EBIT amounted to € 2.17 million (€ 1.61 million in FY21A), confirming our estimate of € 2.15 million. Lastly, Net Income stood at € 1.34 million, slightly down on the estimated € 1.50 million, but still considerably up on the previous year (+24.8%).

## Estimates Update

In light of the results published in the Annual Report for FY22A, we have adjusted our estimates for both the current year and the coming years. In particular, we estimate an FY23E Value of Production equal to € 28.50 million, and an EBITDA equal to € 5.30 million, corresponding to a margin of 18.6%. In the following years, we expect the Value of Production to rise to € 35.50 million (CAGR 22Y-25E: 18.1%) in FY25E, with EBITDA equal to € 7.50 million (corresponding to a margin of 21.1%), up from € 3.86 million in FY22A (corresponding to an EBITDA Margin of 17.9%).

## Valuation Update

We conducted our valuation of the equity value of FOS on the basis of the DCF method and multiples of a sample of comparable companies. The DCF method (including, for prudential purposes, a specific risk of 2.5% in the calculation of the WACC) returned an equity value of € 42.9 million. Using market multiples, the equity value of FOS is € 39.1 million (including a 25% discount). The result is an average equity value of approximately € 41.0 million. The target price is € 6.00, BUY rating, and MEDIUM risk.

# Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	14,84	18,40	25,00	28,00	31,50
Other Revenues	2,76	3,17	3,50	3,80	4,00
<b>Value of Production</b>	<b>17,60</b>	<b>21,56</b>	<b>28,50</b>	<b>31,80</b>	<b>35,50</b>
COGS	1,12	2,16	2,90	3,10	3,50
Use of Asset owned by Others	0,17	0,36	0,40	0,50	0,60
Services	4,90	5,86	8,00	8,80	9,50
Employees	8,12	9,20	11,70	12,80	14,00
Other Operating Expenses	0,14	0,13	0,20	0,30	0,40
<b>EBITDA</b>	<b>3,14</b>	<b>3,86</b>	<b>5,30</b>	<b>6,30</b>	<b>7,50</b>
<i>EBITDA Margin</i>	<i>17,9%</i>	<i>17,9%</i>	<i>18,6%</i>	<i>19,8%</i>	<i>21,1%</i>
D&A	1,54	1,69	2,50	2,55	2,60
<b>EBIT</b>	<b>1,61</b>	<b>2,17</b>	<b>2,80</b>	<b>3,75</b>	<b>4,90</b>
<i>EBIT Margin</i>	<i>9,1%</i>	<i>10,1%</i>	<i>9,8%</i>	<i>11,8%</i>	<i>13,8%</i>
Financial Management	(0,14)	(0,15)	(0,15)	(0,15)	(0,20)
<b>EBT</b>	<b>1,47</b>	<b>2,02</b>	<b>2,65</b>	<b>3,60</b>	<b>4,70</b>
Taxes	0,40	0,69	0,90	1,30	1,60
<b>Net Income</b>	<b>1,07</b>	<b>1,34</b>	<b>1,75</b>	<b>2,30</b>	<b>3,10</b>

CONSOLIDATED BALANCE SHEET (€/mln)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Fixed Asset</b>	<b>6,25</b>	<b>10,12</b>	<b>9,70</b>	<b>9,30</b>	<b>8,80</b>
Account receivable	6,97	10,36	13,90	15,80	18,20
Inventories	0,38	0,98	1,00	1,10	1,20
Account payable	2,86	4,71	5,80	6,20	6,70
<b>Operating Working Capital</b>	<b>4,49</b>	<b>6,63</b>	<b>9,10</b>	<b>10,70</b>	<b>12,70</b>
Other Receivable	2,79	3,51	3,90	4,60	5,00
Other Payable	4,32	5,76	6,60	6,80	7,00
<b>Net Working Capital</b>	<b>2,96</b>	<b>4,37</b>	<b>6,40</b>	<b>8,50</b>	<b>10,70</b>
Severance Indemnities & Provision	1,49	2,10	2,20	2,30	2,40
<b>NET INVESTED CAPITAL</b>	<b>7,71</b>	<b>12,40</b>	<b>13,90</b>	<b>15,50</b>	<b>17,10</b>
Share Capital	1,59	1,71	1,71	1,71	1,71
Reserves and Retained Profits	6,76	9,39	10,73	12,48	14,78
Net Profit	1,07	1,34	1,75	2,30	3,10
<b>Equity</b>	<b>9,42</b>	<b>12,44</b>	<b>14,19</b>	<b>16,49</b>	<b>19,59</b>
Cash and Cash Equivalent	8,16	9,67	9,79	10,19	11,09
Short-Term Financial debt	1,38	2,68	3,00	3,50	4,00
ML Term Financial Debt	5,05	6,96	6,50	5,70	4,60
<b>Net Financial Position</b>	<b>(1,73)</b>	<b>(0,04)</b>	<b>(0,29)</b>	<b>(0,99)</b>	<b>(2,49)</b>
<b>TOTAL SOURCES</b>	<b>7,71</b>	<b>12,40</b>	<b>13,90</b>	<b>15,50</b>	<b>17,10</b>

CONSOLIDATED CASH FLOW (€/mln)	FY22A	FY23E	FY24E	FY25E
EBIT	2,17	2,80	3,75	4,90
Taxes	0,69	0,90	1,30	1,60
<b>NOPAT</b>	<b>1,48</b>	<b>1,90</b>	<b>2,45</b>	<b>3,30</b>
D&A	1,69	2,50	2,55	2,60
Change in receivable	(3,39)	(3,54)	(1,90)	(2,40)
Change in inventories	(0,60)	(0,02)	(0,10)	(0,10)
Change in payable	1,84	1,09	0,40	0,50
Other Changes	0,72	0,45	(0,50)	(0,20)
Change in NWC	(1,42)	(2,03)	(2,10)	(2,20)
Change in Provision	0,61	0,10	0,10	0,10
<b>OPERATING CASH FLOW</b>	<b>2,36</b>	<b>2,48</b>	<b>3,00</b>	<b>3,80</b>
Capex	(5,56)	(2,08)	(2,15)	(2,10)
<b>FREE CASH FLOW</b>	<b>(3,20)</b>	<b>0,40</b>	<b>0,85</b>	<b>1,70</b>
Financial Management	(0,15)	(0,15)	(0,15)	(0,20)
Change in Payable to Banks	3,21	(0,13)	(0,30)	(0,60)
Change in Equity	1,68	0,00	0,00	0,00
<b>FREE CASH FLOW TO EQUITY</b>	<b>1,53</b>	<b>0,11</b>	<b>0,40</b>	<b>0,90</b>

Source: Fos and Integræ SIM estimates

## Company Overview

FOS is an Italian tech company operating across the digital and engineering market, with a strong drive for the technological transfer of innovations to the market, and the role of systems integrator in the digital and innovative transformation of its clients.

In the Digital market, it operates as a system integrator in the two macro areas: 1) Software & Applications - the design, development and management of software and applications; and 2) Infrastructures - the design and management of telecommunications infrastructures.

In the Engineering market, it operates as a system integrator in the two macro areas: 1) Integrated Electronic Systems - the design, development and management of integrated electronic systems; and 2) Research & Innovation - the design and management of research and innovation projects.

FOS's mission is to help customers build strong, successful, durable businesses by integrating digital services and products into their value chain based on sustainability and continuous innovation.

## FY22A Results

TABLE 2 – ACTUAL VS ESTIMATES FY22A

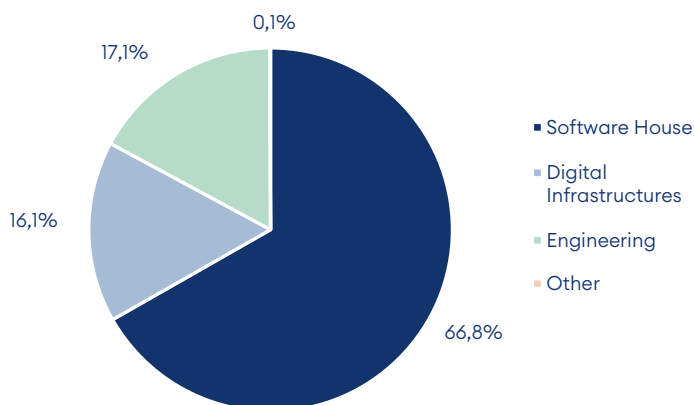
€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY22A	21,56	3,86	17,9%	2,17	1,34	(0,04)
FY22E	21,00	3,90	18,6%	2,15	1,50	1,00
Change	2,7%	-1,0%	-0,7%	1,0%	-10,9%	N.A

Source: Integrae SIM

Commenting on the annual results in a press release, the Group stated: “We are very satisfied with the result for the year. We have continued with a significant growth in revenues, while maintaining the company’s solid financial and equity foundations. The market appreciates our offerings of digital services and innovative engineering, which allow us to keep pace with a constantly changing technology market. 2023 got off to a very good start, although the unforeseeable circumstances of the conflict in Ukraine persist. We believe we can continue with the organic development of the company, focused on new technological services and products in Cybersecurity, Digital Mobility, and Agriculture 4.0. We are also continuing with the development of external lines, encouraged by the excellent performance of InRebus in Digital Learning, and the integration of data center services through NAeS Solutions, which strengthens our presence in the Lombardy Region.”

The Value of Production at the end of 2022 came in at € 21.56 million, up compared to the FY21A figure, equal to € 17.60 million (+22.5%) and the estimate of our previous report equal to € 21.00 million. This result is due not only to a strengthening of positioning and expansion of the client base in all revenue lines, but also to an expansion of the Company’s Software as a Service (SaaS) and IT Outsourcing offerings, excellent performance in the resale of storage and backup solutions, growth in revenues from the Digital Learning line, the award of sizable R&D tenders, and, lastly, the contribution from the new Data Center revenue line.

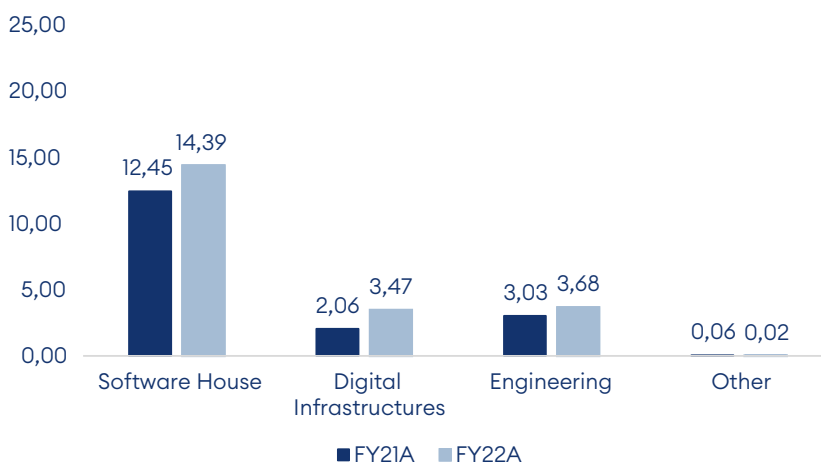
CHART 1 – REVENUES BREAKDOWN BY SEGMENT



Source: Fos

The Company's Value of Production in FY22A can be broken down in terms of the following contributions: 66.8% Software House; 16.1% Digital Infrastructures; 17.1% Engineering; and 0.1% other activities.

CHART 2 – REVENUES BREAKDOWN BY BU FY21A VS FY22A



Source: Fos

We note that all business areas showed an increase in the Value of Production compared to the previous year. The most significant increase was seen in the Digital Infrastructures area, scoring a growth of 68.6%, up from € 2.06 million to € 3.47 million, followed by the Engineering (+21.3%) and Software House (+15.6%) areas.

The Software House area reported revenues of € 14.39 million, aggregating results from the Information Technology, Automation & Solutions, and Digital Learning lines. The Group proved to be particularly resilient in 2022 in this area, and able to respond to a market characterized by a strong change in the mobility of technical personnel. The growth in revenues is related to the uniform development of client consultancy, design and delivery to targets, service management activities, software outsourcing, proprietary platforms, and the supply of system integration solutions for third-party products.

The Digital Infrastructures area reported revenues of € 3.47 million, aggregating results from the Communications Technology business lines and the new Data Center line. In 2022, the Group continued to implement its training plan to build on skills in the electronics field for Telecommunications. Diagnostic, intervention and testing services for telecommunications center electronic devices were improved through continuing investments in Italian and foreign commercial activities, with a view to boosting sales, and in industrial equipment, with a view to expanding on technological capabilities.

The Engineering business area reported revenues of € 3.68 million. The growth of these revenues is attributable to a consolidation of its expertise in the field of hardware and embedded

software design, and to continuous services delivered through innovative solutions in industrial, biomedical and automotive fields. Furthermore, in 2022, the technology transfer work of the Company's prototype and patent portfolio began to produce results that will have a significant impact over the following years. In particular, in the agritech field, the Microcosmo product was CE certified, leading to the launch of a series marketing activities at the end of the year in the education sector, in relation to the Edugreen and Scuola 4.0 (School 4.0) tenders. Moreover, in the green furniture field, the high-tech biofilter named Aura was launched, with marketing launched at the beginning of 2023, again in the education sector.

EBITDA, equal to € 3.86 million, recorded an increase compared to the € 3.14 million of the previous year (+22.9%), and was substantially in line with our expectation of € 3.90 million. The main factors of this result are the Company's geographical positioning, client loyalty, ability to integrate its offerings, and focus on margins. These factors, together with the launch of the new Data Center business line (included in the Digital Infrastructures area), following the acquisition of NAeS Solutions, have allowed the Company to make its offerings stand out on the market, and to continually update and ensure the profitability of its commercial services. The EBITDA Margin came in at 17.9%, compared to 17.9% of the previous year, and to our estimate of 18.6%.

EBIT, after depreciation and amortization of € 1.69 million, amounted to € 2.17 million (€ 1.61 million in FY21A), confirming our estimate of € 2.15 million. Contributing to this result, albeit modestly, was the suspension of depreciation related to an R&D project, which will be marketed in 2023, bringing a benefit to the income statement of approximately € 0.06 million.

Lastly, Net Income stood at € 1.34 million, slightly down on the estimated € 1.50 million, but still considerably up on the previous year (+24.8%).

The NFP went from a cash positive value of € 1.73 million in FY21A to € 0.04 million in FY22A. This change is mainly due to the impact of the 100.0% acquisition of the share capital of the company NAeS Solutions (for € 4.20 million, of which € 2.30 million paid in cash), to the buy-back which led to the recognition of a negative reserve for treasury shares in the portfolio of approximately € 0.30 million, and, finally, to the outlay for the transfer to the new headquarters, for € 0.20 million. Finally, the NFP for FY22A benefited from the conversion of 476,822 warrants, corresponding to € 1.40 million.

## FY23E – FY25E Estimates

TABLE 3 – ESTIMATES UPDATES FY23E-25E

€/mln	FY23E	FY24E	FY25E
<b>VoP</b>			
New	28,50	31,80	35,50
Old	27,00	30,00	N/A
Change	5,6%	6,0%	N/A
<b>EBITDA</b>			
New	5,30	6,30	7,50
Old	5,30	6,30	N/A
Change	0,0%	0,0%	N/A
<b>EBITDA %</b>			
New	18,6%	19,8%	21,1%
Old	19,6%	21,0%	N/A
Change	-1,0%	-1,2%	N/A
<b>EBIT</b>			
New	2,80	3,75	4,90
Old	3,40	4,35	N/A
Change	-17,6%	-13,8%	N/A
<b>Net Income</b>			
New	1,75	2,30	3,10
Old	2,40	3,05	N/A
Change	-27,1%	-24,6%	N/A
<b>NFP</b>			
New	(0,29)	(0,99)	(2,49)
Old	0,50	(0,80)	N/A
Change	N/A	N/A	N/A

Source: Integrae SIM

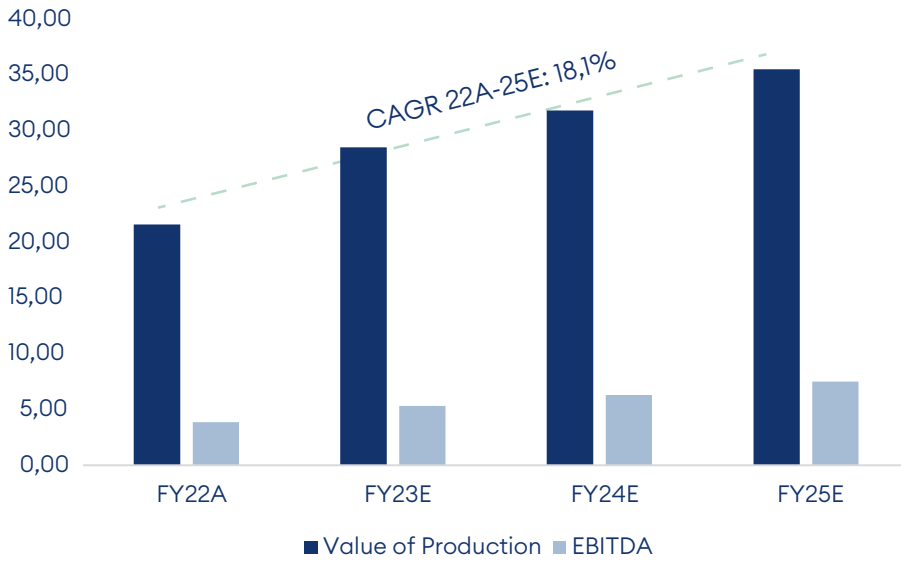
In light of the results published in the Annual Report for FY22A, we have adjusted our estimates for both the current year and the coming years.

In particular, we estimate an FY23E Value of Production equal to € 28.50 million, and an EBITDA equal to € 5.30 million, corresponding to a margin of 18.6%. In the following years, we expect the Value of Production to rise to € 35.50 million (CAGR 22Y-25E: 18.1%) in FY25E, with EBITDA equal to € 7.50 million (corresponding to a margin of 21.1%), up from € 3.86 million in FY22A (corresponding to an EBITDA Margin of 17.9%).

On the balance sheet, we estimate a cash positive NFP of € 2.49 million in FY25E.

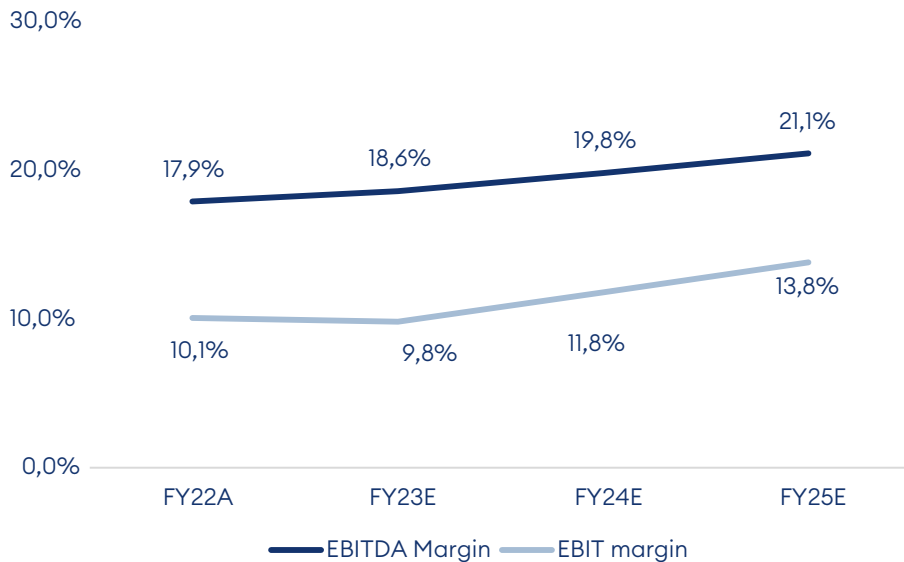


CHART 3 – VOP AND EBITDA FY22A-25E



Source: Integrae SIM

CHART 4 – MARGIN FY22A-25E



Source: Integrae SIM

CHART 5 – CAPEX FY22A-25E

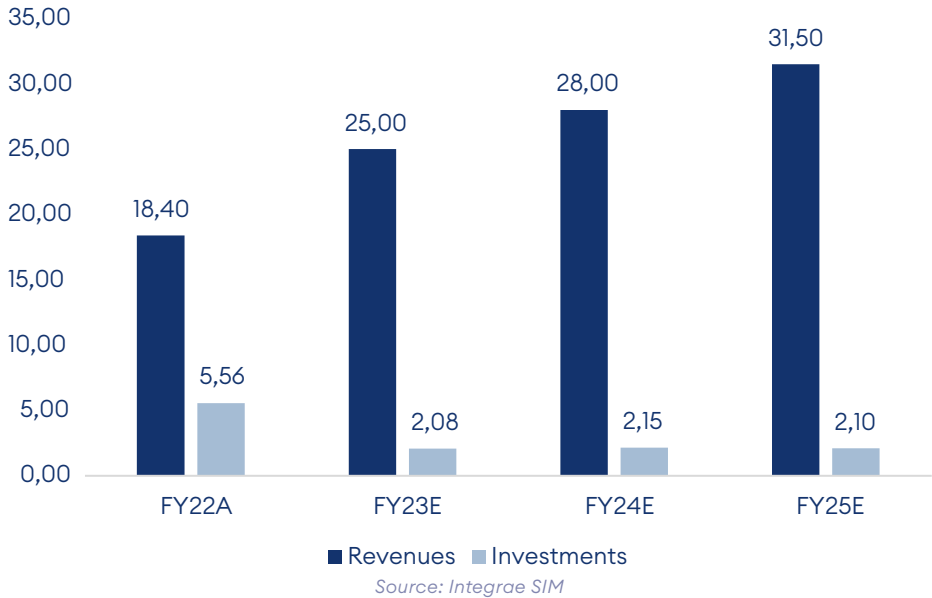
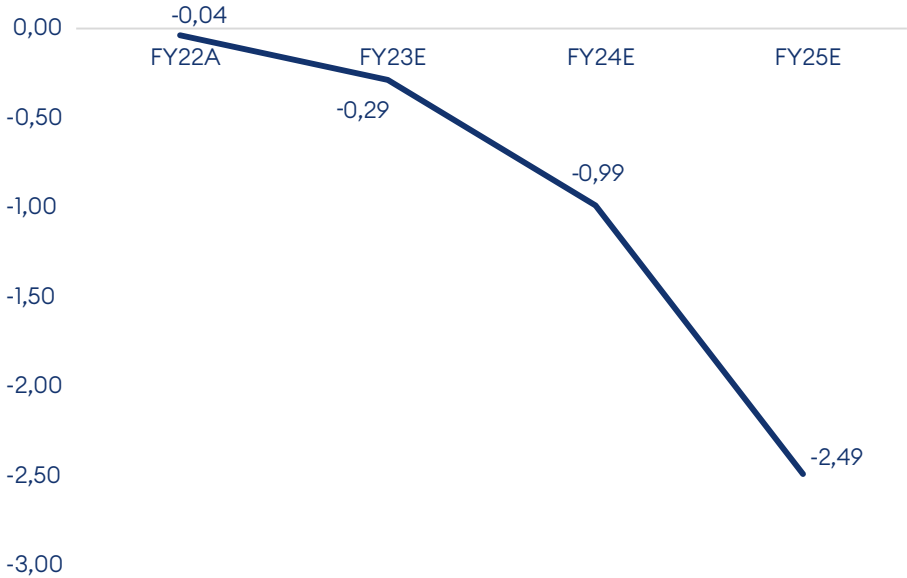


CHART 6 – NFP FY22A-25E



Source: Integrae SIM

# Valuation

We conducted our valuation of the equity value of FOS on the basis of the DCF method and multiples of a sample of comparable companies.

## DCF Method

TABLE 4 – WACC

WACC			8,48%
D/E 81,82%	Risk Free Rate 3,51%	$\beta$ Adjusted 0,91	$\alpha$ (specific risk) 2,50%
$K_d$ 1,00%	Market Premium 9,73%	$\beta$ Relevered 1,44	$K_e$ 14,82%

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. The result is therefore a WACC of 8.48%.

TABLE 5 – DCF VALUATION

DCF	% of EV
FCFO actualized	5,8 13%
TV actualized DCF	37,1 87%
<b>Enterprise Value</b>	<b>42,9</b> <b>100%</b>
NFP (FY22A)	0,0
<b>Equity Value</b>	<b>42,9</b>

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an **equity value of € 42.9 million**.

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		7,0%	7,5%	8,0%	8,5%	9,0%	9,5%	10,0%
	2,5%	71,3	63,7	57,4	52,3	47,9	44,1	40,9
	2,0%	64,7	58,4	53,1	48,7	44,9	41,6	38,7
	1,5%	59,4	54,0	49,5	45,6	42,2	39,3	36,7
	1,0%	54,9	50,3	46,4	42,9	40,0	37,3	35,0
	0,5%	51,1	47,1	43,6	40,6	37,9	35,6	33,4
	0,0%	47,9	44,4	41,3	38,6	36,1	34,0	32,1
	-0,5%	45,1	42,0	39,2	36,7	34,5	32,6	30,8

Source: Integrae SIM

## Market multiples

Our panels are made up of companies operating in the same sector as FOS, but many with larger capitalizations. These companies are the same used to calculate Beta for the DCF method. The panels consist of:

TABLE 7.1 – MARKET MULTIPLES IT

Company Name	EV/EBITDA			EV/EBIT		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Bouvet ASA	11,6 x	10,8 x	10,6 x	13,8 x	12,7 x	12,5 x
Net One Systems Co., Ltd.	10,3 x	9,4 x	8,1 x	11,3 x	10,2 x	9,4 x
CGI, Inc.	10,6 x	10,1 x	9,9 x	13,0 x	12,2 x	11,6 x
Reply S.p.A.	12,6 x	11,4 x	10,3 x	15,2 x	13,7 x	12,1 x
Eurotech S.p.A.	8,7 x	5,0 x	3,8 x	15,4 x	7,2 x	5,3 x
<b>Peer median</b>	<b>10,6 x</b>	<b>10,1 x</b>	<b>9,9 x</b>	<b>13,8 x</b>	<b>12,2 x</b>	<b>11,6 x</b>

Source: Infiniti

TABLE 7.1 – MARKET MULTIPLES TLC

Company Name	EV/EBITDA			EV/EBIT		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Cisco Systems Inc.	9,0 x	8,7 x	8,8 x	9,8 x	9,2 x	9,0 x
Juniper Networks Inc.	8,8 x	8,1 x	8,0 x	10,6 x	9,7 x	9,3 x
F5 Networks Inc.	9,1 x	8,0 x	7,4 x	10,1 x	8,9 x	7,9 x
Accton Technology Corp.	11,9 x	10,0 x	8,4 x	12,6 x	10,9 x	9,3 x
Viavi Solutions Inc.	10,9 x	10,8 x	N/A	12,4 x	10,4 x	N/A
HMS Networks AB	24,2 x	22,3 x	21,2 x	27,8 x	26,1 x	24,9 x
Spirent Communications plc	13,2 x	12,3 x	11,6 x	14,9 x	13,9 x	13,1 x
<b>Peer Median</b>	<b>9,1 x</b>	<b>8,7 x</b>	<b>8,2 x</b>	<b>10,6 x</b>	<b>9,7 x</b>	<b>9,1 x</b>

Source: Infiniti

TABLE 8 – MARKET MULTIPLES VALUATION

€/mln	FY23E	FY24E	FY25E
<b>Enterprise Value (EV)</b>			
EV/EBITDA	52,3	59,0	67,8
EV/EBIT	34,1	41,0	50,8
<b>Equity Value</b>			
EV/EBITDA	52,6	60,0	70,3
EV/EBIT	34,4	42,0	53,3
<b>Equity Value post 25% discount</b>			
EV/EBITDA	39,4	45,0	52,7
EV/EBIT	25,8	31,5	40,0
<b>Average</b>	<b>32,6</b>	<b>38,3</b>	<b>46,4</b>

Source: Integrae SIM

Using EV/EBITDA and EV/EBIT market multiples, the equity value of FOS is approximately € 52.1 million. To this value, we have applied a 25% discount. Therefore, the result is an **equity value of € 39.1 million.**

## Equity Value

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	41,0
Equity Value DCF (€/mln)	42,9
Equity Value multiples (€/mln)	39,1
<b>Target Price (€)</b>	<b>6,00</b>

Source: Integrae SIM

The result gives an average equity value of approximately € 41.0 million. **The target price is therefore € 6.00 (prev. € 6.00). We confirm a BUY rating, and MEDIUM risk.**

TABLE 10 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	10,6 x	7,7 x	6,5 x	5,5 x
EV/EBIT	18,9 x	14,6 x	10,9 x	8,4 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	6,6 x	4,8 x	4,0 x	3,4 x
EV/EBIT	11,7 x	9,1 x	6,8 x	5,2 x

Source: Integrae SIM

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21/06/2022	3,13	Buy	6,50	Medium	Breaking News
27/07/2022	3,24	Buy	6,50	Medium	Breaking News
06/10/2022	2,88	Buy	6,00	Medium	Update
09/02/2023	3,82	Buy	6,00	Medium	Breaking News
13/03/2023	3,60	Buy	6,00	Medium	Breaking News

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#### Equity Total Return (ETR) for different risk categories

Rating	Low Risk	Medium Risk	High Risk
BUY	ETR $\geq$ 7.5%	ETR $\geq$ 10%	ETR $\geq$ 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR $\leq$ -5%	ETR $\leq$ -5%	ETR $\leq$ 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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