

BUY

TP: Rs 2,298 | ▲ 17%

HDFC BANK

| Banking

| 21 July 2025

Asset quality remains pristine; eyes set on growth

- CD ratio continued to moderate with deposit growth being higher than system growth
- Asset quality remains pristine with healthy provision buffer; NIMs declined but largely in line with our estimates
- Maintain BUY. Raise SOTP-based TP to Rs 2,298 (from Rs 2,213), set at 2.5x Jun'27E ABV

CD ratio continues to improve: CD ratio moderated to 95.1% in Q1FY26 (96.5% in Q4FY25) vs a high of 110.5% in Q3FY24. The moderation was driven by slowdown in credit growth to 6.7% YoY vs deposit growth of 16.2% YoY higher than system growth (10.1%). HDFCB plans to reduce its CD ratio to pre-merger level in the 85-90% range in the medium term. Further, credit growth is expected to gradually pick up and report a CAGR of 12.7% in FY25-28E. We expect CD ratio to improve to ~92.7%/90% in FY26/FY27.

Asset quality remains pristine: AQ remains resilient with GNPA ratio of 1.4% (+7bps QoQ). Excluding agri seasonality, GNPA ratio was stable at 1.14% in Q1FY26 vs 1.13% in Q4FY25. Slippage ratio increased marginally to 1.4% (+18bps QoQ). HDFCB made floating provision (FP) of Rs 90bn by using one-off gains from HDBFS partial divestment in the quarter. In addition, the bank created Rs 17bn of contingent provision (CP) and hence, reported a healthy provision buffer (FP+CP) of Rs 366bn or 1.4% of net loans.

NIMs declined but largely in line with estimates: NIMs declined to 3.35% (-12bps YoY; -11bps QoQ) — largely in line with our estimates. As a result, NII at Rs 314.4bn (+5.4% YoY) missed our estimate by only 0.9%. The decline in NIMs was mainly due to faster repricing of loans with yield on loans at 9.18% (-23bps QoQ) and a slow decline in cost of funds to 5.63% (-4bps QoQ). We expect NIMs to improve from Q3FY26, aided by the shift from high-cost borrowings to deposits as maturity kicks in, a lagged deposit repricing and the positive impact of the announced CRR cut. PAT grew to Rs 181.6bn (+12.2% YoY) in Q1FY26.

Maintain BUY: We believe HDFCB has managed to outperform large private sector peers previously by effectively navigating business cycles, delivering stronger profitability and margins, coupled with better asset quality. Return ratios to stay healthy with ROA of 1.7-2.0% and ROE of 13.4-15.7% in FY26-FY28E. Hence, we maintain BUY with revised SOTP-based TP of Rs 2,298 (from Rs 2,213) and roll over valuation to 2.5x Jun'27E ABV.

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Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,957
Market cap	US\$ 173.8bn
Free float	100%
3M ADV	US\$ 225.8mn
52wk high/low	Rs 2,027/Rs 1,588
Promoter/FPI/DII	0%/49%/36%

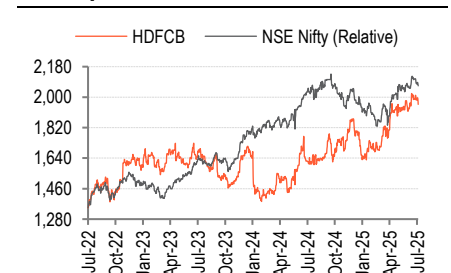
Source: NSE | Price as of 18 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	12,26,701	13,03,000	15,30,799
NII growth (%)	13.0	6.2	17.5
Adj. net profit (Rs mn)	6,73,474	7,06,736	8,58,478
EPS (Rs)	88.3	92.4	112.2
Consensus EPS (Rs)	88.3	96.2	111.6
P/E (x)	22.2	21.2	17.4
P/BV (x)	3.0	2.7	2.4
ROA (%)	1.8	1.7	1.9
ROE (%)	14.3	13.4	14.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

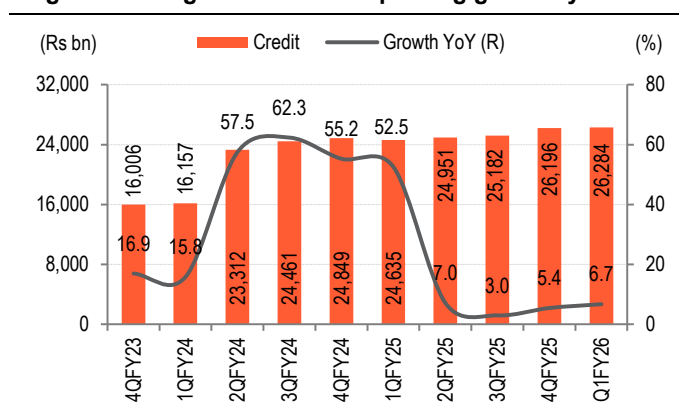
(Rs mn)	1QFY25	2QFY25	3QFY25	4QFY25	Q1FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	5,87,149	5,93,898	5,99,240	6,04,158	6,01,926	2.5	(0.4)
Income on investments	1,25,438	1,26,316	1,37,171	1,44,272	1,50,701	20.1	4.5
Int. on bal. with RBI & inter-bank funds & Others	17,744	19,955	23,658	26,172	22,075	24.4	(15.7)
Interest income	7,30,331	7,40,169	7,60,069	7,74,601	7,74,702	6.1	0.0
Interest expense	4,31,960	4,39,030	4,53,536	4,53,943	4,60,322	6.6	1.4
Net interest income	2,98,371	3,01,139	3,06,533	3,20,658	3,14,380	5.4	(2.0)
Growth YoY (%)	26.4	10.0	7.7	10.3	5.4		
Fee Income	70,500	81,400	81,800	85,300	76,000	7.8	(10.9)
Trading gains/(losses)	14,000	14,600	14,000	14,400	16,000	14.3	11.1
Forex Income	2,200	2,900	700	3,900	1,01,000	4490.9	2489.7
Others	19,981	15,927	18,036	16,679	24,298	21.6	45.7
Non-interest income	1,06,681	1,14,827	1,14,536	1,20,279	2,17,298	103.7	80.7
Growth YoY (%)	15.6	7.2	2.8	(33.8)	103.7		
Total Income	4,05,053	4,15,966	4,21,068	4,40,937	5,31,678	31.3	20.6
Growth YoY (%)	23.4	9.2	6.3	(6.7)	31.3		
Staff expenses	58,489	59,853	59,504	61,159	61,580	5.3	0.7
Other operating expenses	1,07,717	1,09,056	1,11,560	1,14,410	1,12,759	4.7	(1.4)
Operating expenses	1,66,206	1,68,909	1,71,064	1,75,570	1,74,338	4.9	(0.7)
Pre-Provisioning Profit (PPoP)	2,38,846	2,47,057	2,50,004	2,65,367	3,57,340	49.6	34.7
Growth YoY (%)	27.2	8.9	5.7	(9.4)	49.6		
Provisions	26,021	27,005	31,539	31,931	1,44,416	455.0	352.3
Growth YoY (%)	(9.0)	(7.0)	(25.2)	(76.4)	455.0		
PBT	2,12,826	2,20,053	2,18,466	2,33,437	2,12,923	0.0	(8.8)
Tax	51,078	51,843	51,111	57,275	31,371	(38.6)	(45.2)
PAT	1,61,748	1,68,210	1,67,355	1,76,161	1,81,552	12.2	3.1
Growth YoY (%)	35.3	5.3	2.2	6.7	12.2		
Per Share							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	21	22	22	23	24	11.4	3.0
Book Value (Rs)	603	607	632	655	683	13.2	4.2

Source: Company, BOBCAPS Research

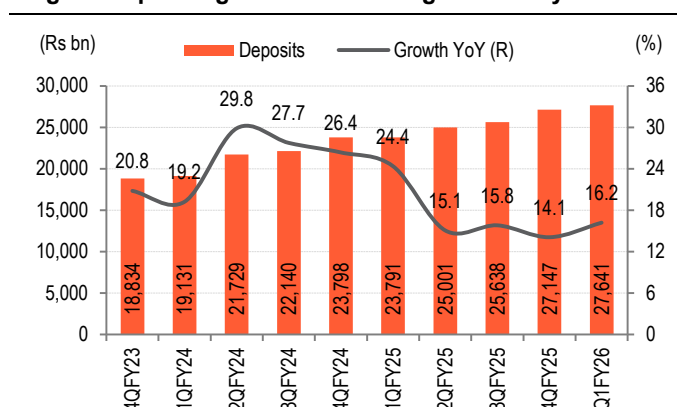
Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	1QFY25	2QFY25	3QFY25	4QFY25	Q1FY26	YoY (%)	QoQ (%)
Deposits	2,37,90,845	2,50,00,882	2,56,37,950	2,71,47,149	2,76,40,890	16.2	1.8
Growth YoY (%)	24.4	15.1	15.8	14.1	16.2		
Advances	2,46,35,208	2,49,51,203	2,51,82,482	2,61,96,086	2,62,84,342	6.7	0.3
Growth YoY (%)	52.5	7.0	3.0	5.4	6.7		
Investment	70,88,167	72,40,151	81,18,535	83,63,597	89,66,635	26.5	7.2
Equity	45,86,823	46,34,708	48,30,209	50,14,246	52,34,069	14.1	4.4
Assets	3,56,72,495	3,68,80,654	3,75,89,645	3,91,01,989	3,95,40,767	10.8	1.1
Growth YoY (%)	42.6	8.0	7.6	8.1	10.8		
Yield (%)							
Yield on Funds	8.64	8.67	8.65	8.55	8.35	(29bps)	(20bps)
Cost of Funds	5.74	5.79	5.83	5.68	5.63	(11bps)	(4bps)
Spread	2.90	2.88	2.82	2.88	2.72	(19bps)	(16bps)
Net Interest Margin (calc.)	3.53	3.53	3.49	3.54	3.39	(14bps)	(15bps)
Ratios (%)							
Other Income / Net Income	26.3	27.6	27.2	27.3	40.9	1,453bps	1,359bps
Cost to Income ratio	41.0	40.6	40.6	39.8	32.8	(824bps)	(703bps)
CASA ratio	36.3	35.3	34.0	34.8	33.9	(240bps)	(90bps)
C/D ratio	103.5	99.8	98.2	96.5	95.1	(846bps)	(140bps)
Investment to Assets	19.9	19.6	21.6	21.4	22.7	281bps	129bps
Assets Quality							
GNPA	3,30,257	3,42,506	3,60,186	3,52,226	3,70,408	12.2	5.2
NNPA	95,084	1,03,085	1,15,875	1,13,204	1,22,760	29.1	8.4
Provision	2,35,173	2,39,421	2,44,310	2,39,022	2,47,648	5.3	3.6
GNPA (%)	1.33	1.36	1.42	1.33	1.40	7bps	7bps
NNPA (%)	0.39	0.41	0.46	0.43	0.47	8bps	4bps
PCR (%)	71.21	69.90	67.83	67.86	66.86	(435bps)	(100bps)
Others (Nos.)							
Branches	8,851	9,092	9,143	9,455	9,499	7.3	0.5
ATMs	21,163	20,993	21,049	21,139	21,251	0.4	0.5
Employees	2,13,069	2,06,758	2,10,219	2,14,521	2,18,822	5,753	4,301

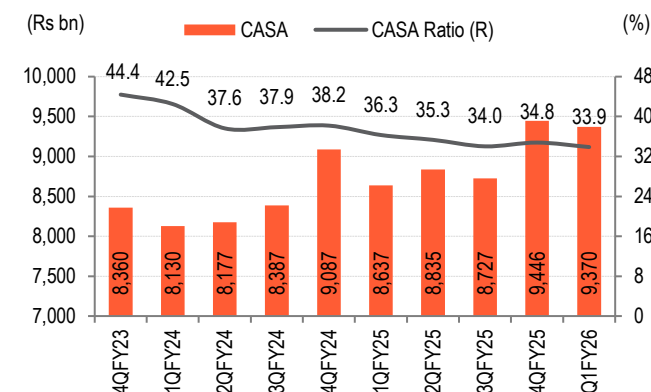
Source: Company, BOBCAPS Research

Fig 3 – Credit growth seems improving gradually

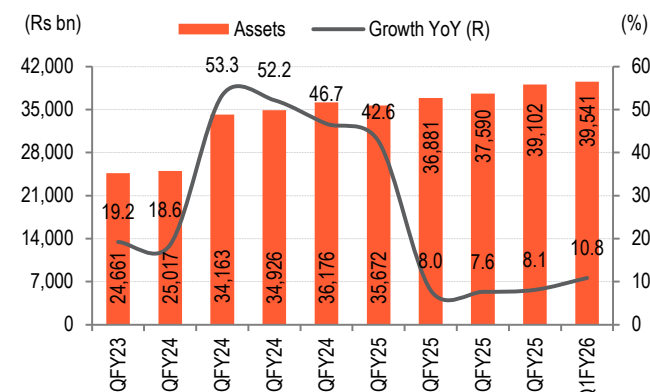
Source: Company, BOBCAPS Research

Fig 4 – Deposits growth remains higher than system

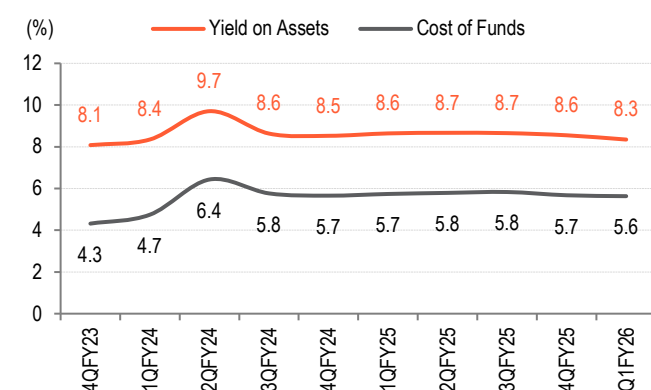
Source: Company, BOBCAPS Research

Fig 5 – CASA at Rs 9.37T; ratio falls to 33.9% from 34.8% last quarter


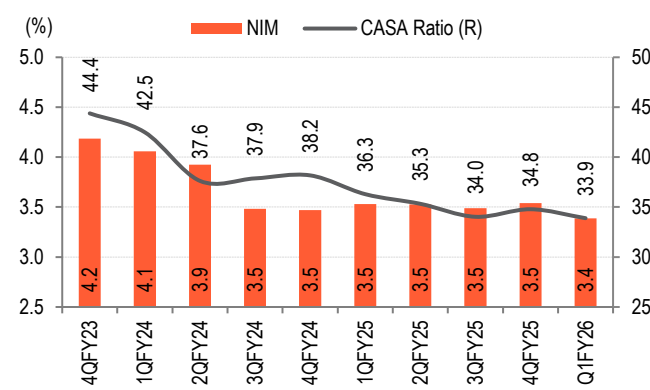
Source: Company, BOBCAPS Research

Fig 6 – Asset growth remained moderate


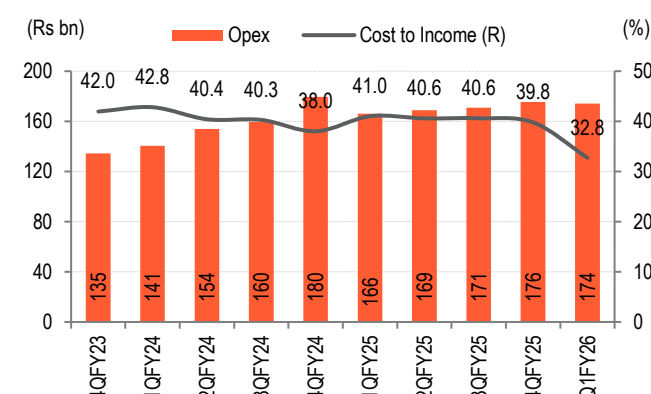
Source: Company, BOBCAPS Research

Fig 7 – Yields declined due to repricing


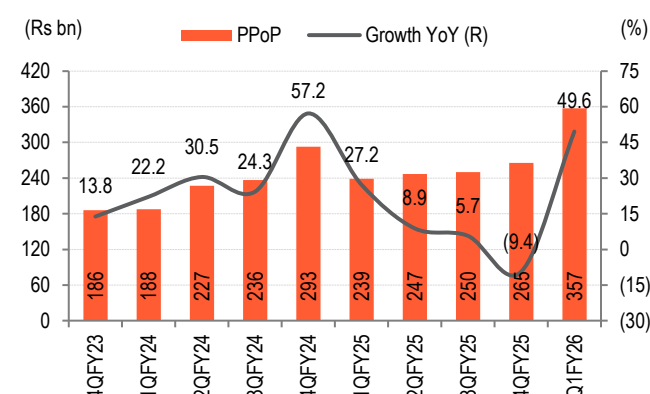
Source: Company, BOBCAPS Research

Fig 8 – Faster loan repricing mainly led to fall in NIMs


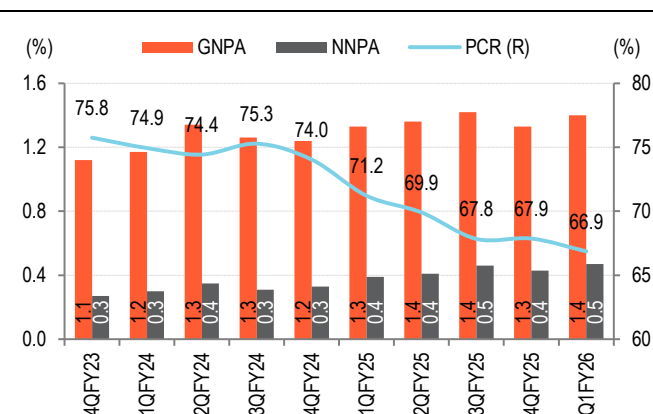
Source: Company, BOBCAPS Research

Fig 9 – Opex moderates to Rs 174bn in Q1FY26


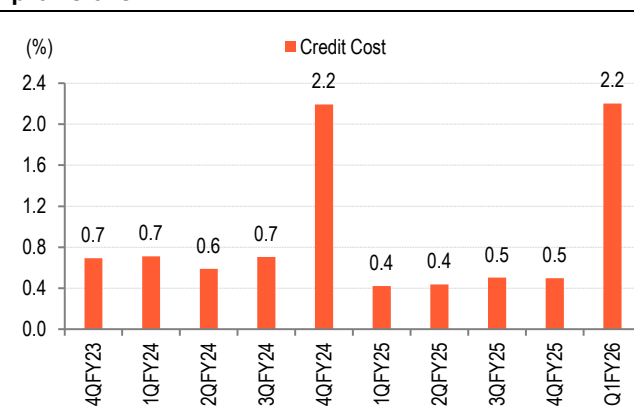
Source: Company, BOBCAPS Research

Fig 10 – PPoP growth increases on higher non-interest income


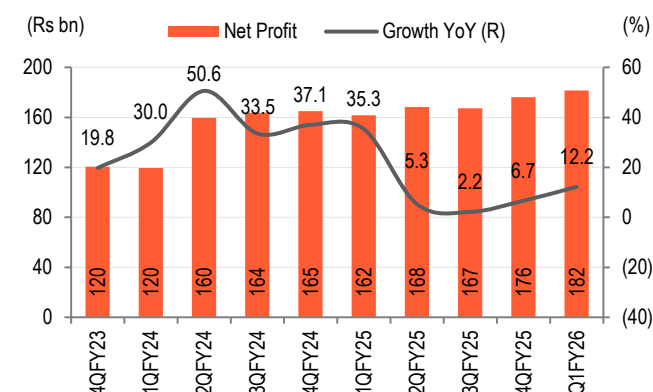
Source: Company, BOBCAPS Research

Fig 11 – Asset quality remains resilient

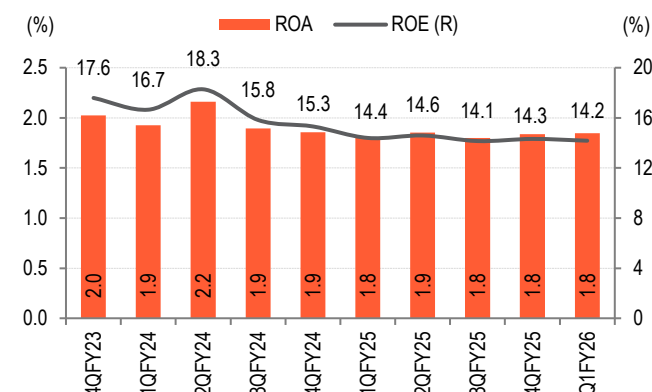
Source: Company, BOBCAPS Research

Fig 12 – Credit cost shoots up on higher contingent provisions

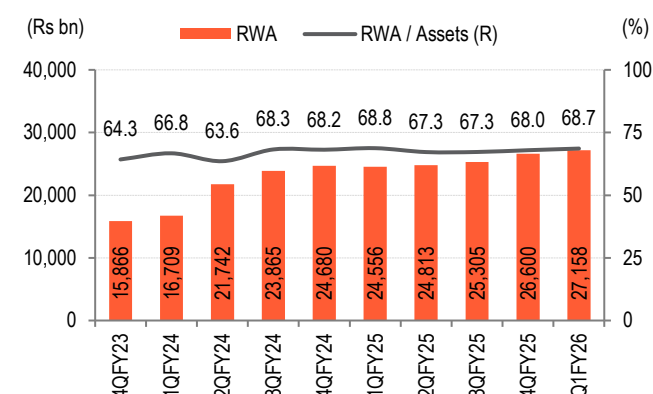
Source: Company, BOBCAPS Research

Fig 13 – Profit supported by higher other income

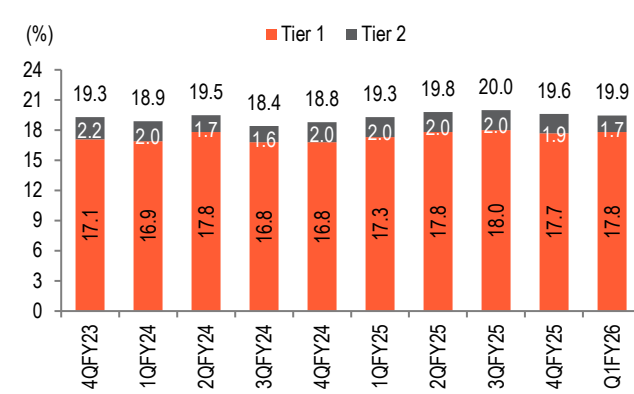
Source: Company, BOBCAPS Research

Fig 14 – Return ratios continue to be healthy

Source: Company, BOBCAPS Research

Fig 15 – RWA/Assets marginally increases

Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

Fig 16 – Well capitalised with CAR of 19.9%

Source: Company, BOBCAPS Research

Earnings call takeaways

Business performance

- Recent trade tariff-related measures resulted in uncertainty in the global macroeconomic outlook. Conversely, India is relatively stable with GDP growth expected to sustain, helped by normal monsoons, tax cuts, lower inflation. As liquidity and growth improve, the bank is well poised to grow in both assets and deposits.
- PAT was up 12% YoY to Rs 181.5bn higher vs our estimate of Rs 171bn, primarily on account of higher other income from the transaction gain of Rs 91bn (pre-tax) on HDBFS partial divestment.
- HDFCB added 44 branches during the quarter to total 9,499.
- Board approved special interim dividend of Rs. 5 per equity share and issue of bonus equity shares in the ratio of 1:1

Loan book

- HDFCB's loans grew 7% YoY and remained flat QoQ. This was led by small and mid-market portfolio (up 17% YoY, 2% QoQ) and retail book (up 8% YoY); while the corporate and wholesale portfolio increased by 2% YoY and declined -1% QoQ.
- We expect the loan book to grow in the 11-14% range in FY26E-FY28E.

Deposits

- During Q1FY26, deposits grew 16% YoY and 2% QoQ with CASA deposits increasing by 8% YoY, whereas term deposits (TD) rose 21% YoY and 3% QoQ. This led to a decline in the CASA ratio to 33.9% vs 34.8% in Q4FY25 and 36.3% in Q1FY25.

Asset quality

- Credit cost stood at 220bps vs 50bps in Q4FY25 and 42bps in Q1FY25. Overall GNPA ratio increased to 1.40% vs 1.33% in Q4FY25 and 1.33% in Q1FY25. Hence, PCR was at 66.9%, including the agri portfolio in Q1FY26 and 71% excluding the same.

Subsidiary performance

HDB Financials

- HDFCB did a partial divestment through an offer for sale in the recent IPO of HDBFS and now holds 74.19% stake.
- Loan book expanded to Rs 1,093bn, marking 14.3% YoY and 2.3% QoQ growth.
- Asset quality marginally deteriorated, with Gross Stage 3 assets at 2.56% vs 2.26% last quarter.
- NIM remained strong at 7.7%, reflecting disciplined pricing.
- Net profit came in at 5.7bn (vs 5.3bn last year), with EPS of Rs 7.1. Return ratios stable: RoA at 1.9% and RoE at 13.2%.

HDFC Life

- HDFC Life sold 249,000 individual policies; covered over 11.6mn lives in Q1.
- Individual WRP market share improved to 17.5% (vs 11.1% in Q4FY25).
- Net premium Income grew 16% YoY to Rs 145bn; AUM rose to Rs 3.6trn, up 15% YoY.
- New business premium at Rs 73bn; value of new business (VNB) at Rs 8.1bn; VNB margin at 25%.
- PAT increased to Rs 5.5bn (+14% YoY); solvency ratio at 192%.
- Embedded value grew to Rs 584bn, reflecting 18% YoY growth.

HDFC AMC

- Quarterly average AUM stood at Rs 8.3 trn, sustaining 11.5% market share.
- 64% of AUM equity-oriented; 60% in actively managed equity funds.
- Unique investors rose to 13.7mn, translating to 25% MF industry penetration.
- Reported total income of Rs 12bn (+27% YoY) and net profit of Rs 7.5bn (+24% YoY).
- EPS came in at Rs 35, showcasing strong operational efficiency.

HDFC ERGO

- Gross Written Premium increased to Rs 36.5 bn (-6% YoY) on back of strong retail demand.
- Market share rose to 4.3% overall and 6.7% in private sector.
- Retail mix is 49%, showing deepening individual insurance penetration.
- PAT increased to Rs 2.1bn vs Rs 1.3bn YoY.
- Solvency Ratio stood at a robust 206%, offering future growth headroom.

HDFC Securities

- HDFC Securities' net revenue came in at Rs 7.3bn (-11% YoY) and net profit at Rs 2.3bn (-21% YoY).
- Serviced 7.1mn clients via 131 branches, with 95% of active clients using digital platforms.
- Despite weaker trading volumes, the company sustained a strong presence with a stable client base. EPS was Rs 130; book value per share at Rs 1,929 as of Jun'25.

Valuation Methodology

We estimate deposits growth to be in the 15.5-16.5% range in FY26-FY28E. Advances growth is likely to improve gradually to be in the 11-14% range during FY26-FY28E. This would result in a lower CD ratio, going forward.

Management has strategically chosen to steer away from aggressive market competition, prioritising profitability and margin sustainability over headline growth. It continues to follow a risk-based pricing approach on the asset side, ensuring yield discipline rather than chasing volume. On the liability side, HDFCB plans to optimise its funding profile by repaying high-cost legacy borrowings and increasingly tapping cost-effective instruments such as infrastructure and affordable housing bonds. These measures will likely ease pressure on funding costs and support margins in the coming quarters.

We believe HDFCB has managed to outperform large private sector peers previously by effectively navigating business cycles, delivering stronger profitability and margins coupled with better asset quality. Hence, we maintain BUY with revised SOTP-based TP of Rs 2,298 (from Rs 2,213) and roll over valuation to 2.5x Jun'27E ABV.

Fig 17 – Key operational assumptions

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	5.4	11.0	13.0	14.0
NII growth	13.0	6.2	17.5	19.4
PPoP growth	6.1	10.6	20.7	20.1
PAT growth	10.7	4.9	21.5	20.6
NIM	3.5	3.4	3.5	3.7
GNPA	1.3	1.3	1.3	1.2
CAR	19.6	19.5	19.3	18.9

Source: Company, BOBCAPS Research

Fig 18 – Valuation assumptions

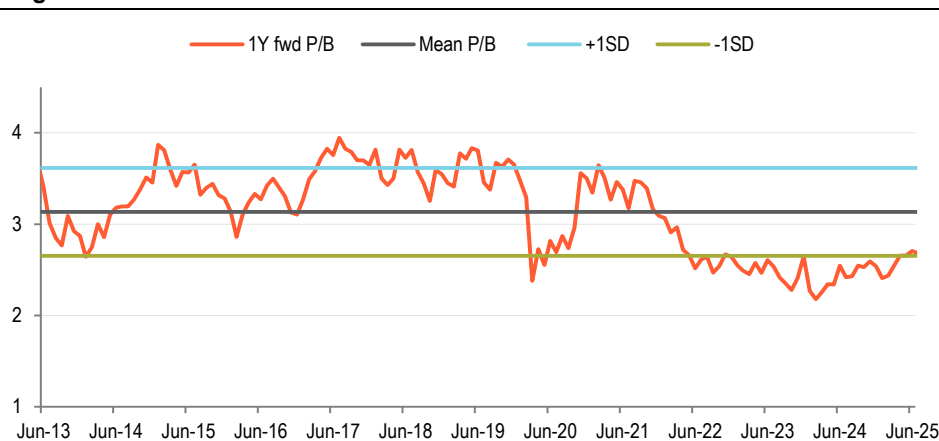
Gordon growth model	Assumptions
Risk-free rate (%)	6.8
Equity risk premium (%)	4.9
Beta	1.0
Cost of equity (%)	11.7
Blended ROE (%)	14.4
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	12.0
Long-term growth (%)	8.5
Long term dividend payout ratio (%)	41.0
Justified P/BV Multiple (x)	2.5

Source: Company, BOBCAPS Research

Fig 19 – Valuation summary

Business	Valuation	Holdings	Rs/Share
HDFC Bank	2.5x Jun'27E ABV	100	2,042
HDFC Life	Mcap	50.3	89
HDFC AMC	Mcap	52.44	70
HDFC Ergo	33x FY27E EPS	50.33	17
HDB Financials	Mcap	74.2	55
HDFC Securities	20x FY27E EPS	94.38	27
Total			2,298

Source: BOBCAPS Research

Fig 20 – PB band chart

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- Unexpected asset quality shocks leading to higher credit cost.
- Higher than estimated cost to income ratio.

Glossary

Glossary of Abbreviations			
AUCA	Advance Under Collection Account	LCR	Liquidity Coverage Ratio
AIF	Alternative Investment Fund	MCLR	Marginal Cost of Funds-based Lending Rate
ARC	Asset Reconstruction Company	MTM	Mark to Market
BRDS	Bills Rediscounting Scheme	NII	Net Interest Income
CASA	Current Account and Savings Account	NIM	Net Interest Margin
CAR	Capital Adequacy Ratio	NNPA	Net Non-Performing Assets
CET1	Common Equity Tier 1	PCR	Provision Coverage Ratio
CD	Credit-Deposit Ratio	PPOP	Pre-Provision Operating Profit
C/I	Cost-Income Ratio	PSU	Public Sector Unit
CRB	Commercial and Rural Banking	RWA	Risk-weighted Assets
EBLR	External Benchmark-based Lending Rate	TD	Term Deposits
ECL	Expected Credit Loss	SLR	Statutory Liquidity Ratio
GNPA	Gross Non-Performing Assets	SMA	Special Mention Account
IBPC	Interbank Participation Certificate	SME	Small and Medium-sized Enterprises

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	10,85,325	12,26,701	13,03,000	15,30,799	18,28,336
NII growth (%)	25.0	13.0	6.2	17.5	19.4
Non-interest income	4,92,410	4,56,323	5,95,874	7,14,733	8,16,601
Total income	15,77,735	16,83,024	18,98,874	22,45,532	26,44,938
Operating expenses	6,33,860	6,81,749	7,91,808	9,09,769	10,40,275
PPOP	9,43,875	10,01,275	11,07,066	13,35,763	16,04,663
PPOP growth (%)	34.1	6.1	10.6	20.7	20.1
Provisions	2,34,922	1,16,494	1,62,232	1,88,064	2,20,875
PBT	7,08,953	8,84,781	9,44,834	11,47,698	13,83,788
Tax	1,00,830	2,11,307	2,38,098	2,89,220	3,48,714
Reported net profit	6,08,123	6,73,474	7,06,736	8,58,478	10,35,073
Adjustments	0	0	0	0	0
Adjusted net profit	6,08,123	6,73,474	7,06,736	8,58,478	10,35,073

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	7,597	7,652	7,652	7,652	7,652
Reserves & surplus	43,94,861	50,06,594	55,43,713	61,96,157	69,82,812
Net worth	44,02,458	50,14,246	55,51,366	62,03,809	69,90,465
Deposits	2,37,97,863	2,71,47,149	3,13,54,957	3,65,28,525	4,23,73,089
Borrowings	66,21,531	54,79,309	44,93,033	39,53,869	44,67,872
Other liab. & provisions	13,54,379	14,61,285	16,88,157	24,49,864	24,00,441
Total liab. & equities	3,61,76,231	3,91,01,989	4,30,87,513	4,91,36,068	5,62,31,867
Cash & bank balance	21,91,474	23,95,707	26,32,595	28,17,165	33,92,769
Investments	70,24,150	83,63,597	92,44,051	1,10,67,906	1,26,61,887
Advances	2,48,48,615	2,61,96,086	2,90,77,656	3,28,57,751	3,74,57,836
Fixed & Other assets	21,11,992	21,46,600	21,33,212	23,93,246	27,19,375
Total assets	3,61,76,231	3,91,01,989	4,30,87,513	4,91,36,068	5,62,31,867
Deposit growth (%)	26.4	14.1	15.5	16.5	16.0
Advances growth (%)	55.2	5.4	11.0	13.0	14.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	92.3	88.3	92.4	112.2	135.3
Dividend per share	19.5	22.0	22.2	26.9	32.5
Book value per share	579.5	655.3	725.5	810.7	913.5

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	21.2	22.2	21.2	17.4	14.5
P/BV	3.4	3.0	2.7	2.4	2.1
Dividend yield (%)	1.0	1.1	1.1	1.4	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	3.6	3.3	3.2	3.3	3.5
Non-interest income	1.6	1.2	1.5	1.6	1.6
Operating expenses	2.1	1.8	1.9	2.0	2.0
Pre-provisioning profit	3.1	2.7	2.7	2.9	3.0
Provisions	0.8	0.3	0.4	0.4	0.4
PBT	2.3	2.4	2.3	2.5	2.6
Tax	0.3	0.6	0.6	0.6	0.7
ROA	2.0	1.8	1.7	1.9	2.0
Leverage (x)	8.4	8.0	7.8	7.8	8.0
ROE	16.9	14.3	13.4	14.6	15.7

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	25.0	13.0	6.2	17.5	19.4
Pre-provisioning profit	34.1	6.1	10.6	20.7	20.1
EPS	16.4	(4.3)	4.6	21.5	20.6
Profitability & Return ratios (%)					
Net interest margin	3.5	3.5	3.4	3.5	3.7
Fees / Avg. assets	0.9	0.8	1.0	1.0	1.0
Cost-Income	40.2	40.5	41.7	40.5	39.3
ROE	16.9	14.3	13.4	14.6	15.7
ROA	2.0	1.8	1.7	1.9	2.0
Asset quality (%)					
GNPA	1.2	1.3	1.3	1.3	1.2
NNPA	0.3	0.4	0.4	0.3	0.3
Slippage ratio	2.5	1.3	1.3	1.4	1.4
Credit cost	1.2	0.5	0.6	0.6	0.6
Provision coverage	74.0	67.9	72.0	73.0	73.0
Ratios (%)					
Credit-Deposit	104.4	96.5	92.7	90.0	88.4
Investment-Deposit	29.5	30.8	29.5	30.3	29.9
CAR	18.8	19.6	19.5	19.3	18.9
Tier-1	16.8	17.7	18.0	17.6	17.3

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

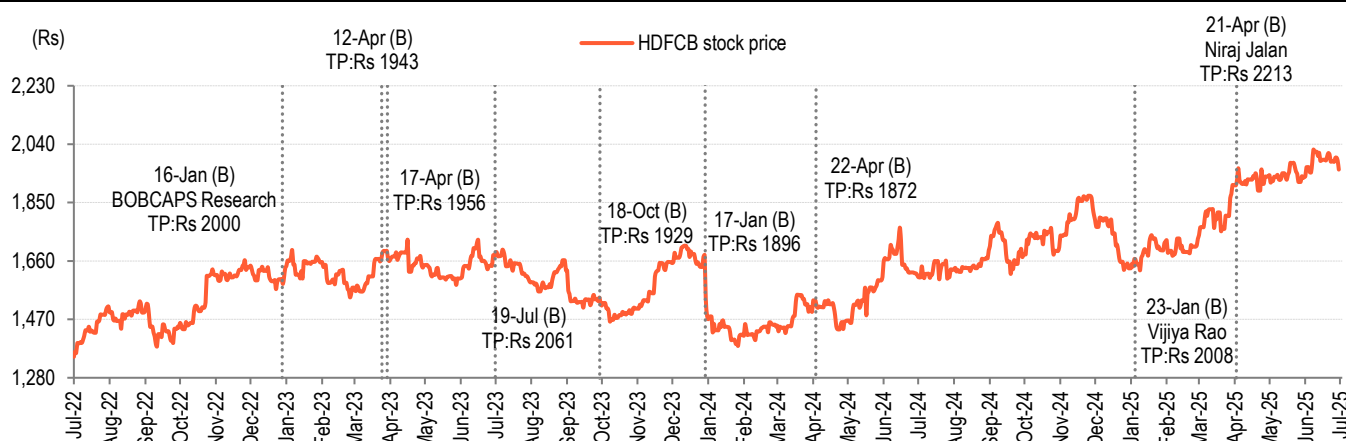
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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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