

BUY

TP: Rs 601 | ▲ 24%

ICICI PRUDENTIAL LIFE | Insurance

18 January 2023

VNB strong but premium growth disappoints

- 9MFY23 VNB grew 23% YoY to Rs 17.1bn with margin profile strong at 32%
- Q3 gross premium increased just 5% YoY to Rs 98bn (8% below est.), with NBP growth muted at 3% and loss of market share
- FY24/FY25 gross premium estimates cut 7%/11% on weak Q3, leading to lower TP of Rs 601 from Rs 645; retain BUY

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Strong VNB growth and margins; persistency ratios improve: IPRU's VNB grew 20% YoY to Rs 6.2bn in Q3FY23 (+23% to Rs 17.1bn in 9MFY23). The 9MFY23 VNB margin at 32% (vs. 28% in FY22) stems from a focus on higher margin products. We raise our VNB margin estimates for FY23/FY24/FY25 to 31%/29%/29% vs. 30%/28%/28% earlier. Persistency improved across cohorts with the 13th month ratio improving from 84.8% at end-8MFY22 to 86.1% at end-8MFY23 and 61st cohort rising from 52.7% to 64.2%.

APE falls short but protection growth strong: APE declined 6% YoY to Rs 18bn in Q3, falling short of our estimates, but grew 4% YoY to Rs 53bn in 9MFY23. Protection APE (19% share) rose 11% in Q3 and 23% YoY in 9M. Savings APE declined 9% YoY to Rs 14.8bn (flat in 9M) due to deceleration in linked products. Annuity remained a silver line, rising 33% YoY to Rs 1bn (+56% in 9M). Non-linked products rose 10% YoY (+18% in 9M).

Premium growth disappoints: NBP grew 3% YoY to Rs 40bn, coming in 12% below our estimate, with NBP market share down from 13% at end-FY22 to 11.1% at end-Q3FY23. Gross premium increased by a meagre 5% YoY to Rs 98bn, 8% short of our forecast, leading us to pare FY25 gross premium 11% to Rs 440bn. VNB is now expected to log a 9% CAGR over FY22-FY25 vs. 15% earlier owing to a cut in our APE estimates. IPRU's total cost ratio, though stable QoQ at 14.7%, increased 120bps YoY and missed our estimates by 90bps as the company invested in distribution capacity.

Group channel scores high in distribution mix: Bancassurance share in APE dipped from 40% in Q3FY22 to 28% in Q3FY23 (ICICIBC saw a 50% decline), while the group channel posted robust growth with its share rising to 18% from 13%.

Maintain BUY: The stock currently trades at 1.5x FY25E P/EV. Given high persistency and strong VNB growth, partly offset by a decline in market share, we value the company at 1.8x FY25E P/EV – (average of -1SD and -2SD). On rollover, we have a revised TP of Rs 601 (vs. Rs 645), which offers 24% upside – retain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IPRU IN/Rs 485
Market cap	US\$ 8.5bn
Free float	5%
3M ADV	US\$ 10.9mn
52wk high/low	Rs 649/Rs 430
Promoter/FPI/DII	73%/17%/5%

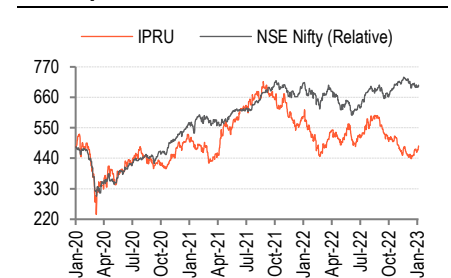
Source: NSE | Price as of 17 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	1,55,022	1,65,184	1,81,702
APE (Rs mn)	77,330	79,556	87,482
VNB (Rs mn)	21,652	24,662	25,370
Embedded Value (Rs mn)	3,16,250	3,63,747	4,15,514
VNB margin (%)	28.0	31.0	29.0
EVPS (Rs)	220.2	253.2	289.3
EPS (Rs)	5.3	6.1	7.8
Consensus EPS (Rs)	5.3	7.0	8.6
P/EV (x)	2.2	1.9	1.7

Source: Company, Bloomberg, BOBCAPS Research

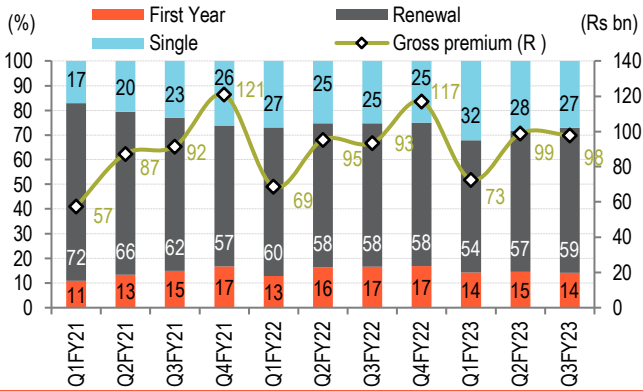
Stock performance



Source: NSE

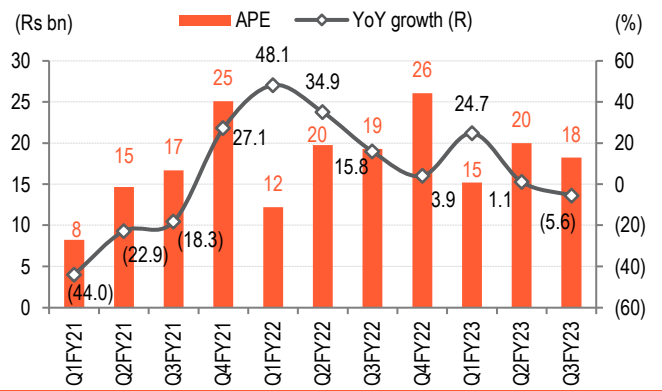


Fig 1 – Gross premium grew 5% YoY



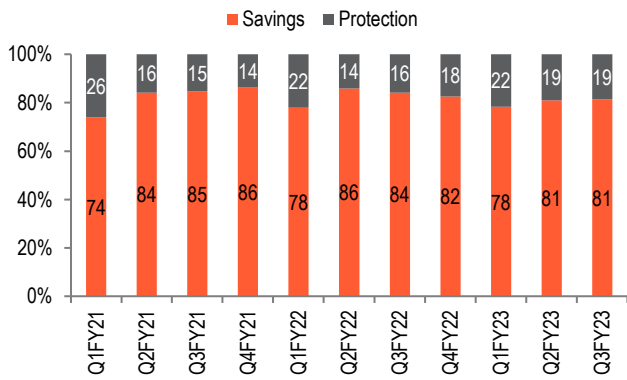
Source: Company, BOBCAPS Research

Fig 2 – APE declined 6% YoY



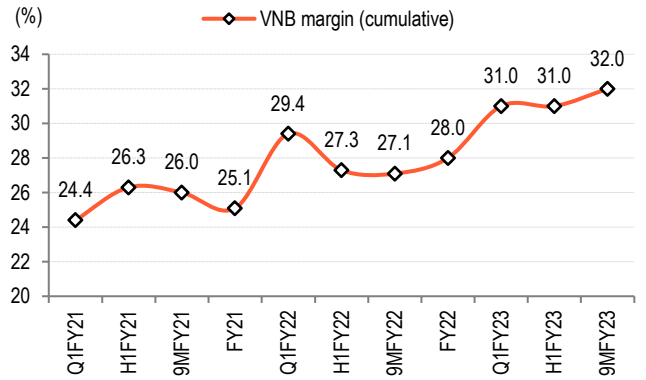
Source: Company, BOBCAPS Research

Fig 3 – Product mix – Protection continues to gain traction



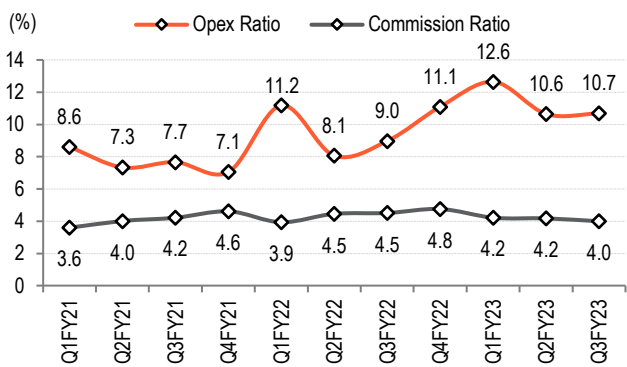
Source: Company, BOBCAPS Research | Note: The data is based on APE

Fig 4 – VNB margin expanding



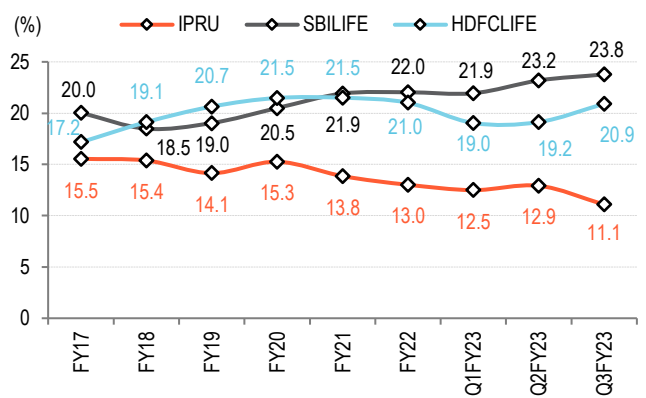
Source: Company, BOBCAPS Research

Fig 5 – Opex ratio stable



Source: Company, BOBCAPS Research

Fig 6 – Market share (NBP basis) declined this quarter



Source: Company, BOBCAPS Research

Fig 7 – Distribution mix APE – Group and partnership gaining traction YoY

Channel	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Mix (Rs bn)													
Bancassurance	10.9	8.8	3.3	6.4	7.0	10.7	4.7	7.9	7.6	9.9	5.3	6.0	5.0
Agency	4.5	4.3	2.0	3.3	4.2	5.9	2.7	4.8	5.0	5.8	3.4	5.2	5.2
Direct	2.4	2.6	1.0	1.8	2.2	3.1	1.6	2.6	2.6	3.3	1.7	2.5	2.6
Partnership distribution	1.5	1.6	0.7	1.3	1.3	2.6	1.0	1.7	1.6	2.8	1.7	2.4	2.1
Group	1.1	2.5	1.2	1.9	2.0	2.8	2.1	2.8	2.5	4.4	3.2	4.0	3.3
Total	20.4	19.7	8.2	14.6	16.7	25.1	12.2	19.8	19.3	26.1	15.2	20.0	18.2
Mix (%)													
Bancassurance	53.6	44.3	39.6	43.9	41.9	42.5	38.6	39.9	39.5	38.0	34.7	29.8	27.5
Agency	21.9	21.7	24.6	22.7	25.1	23.3	22.5	24.3	25.8	22.0	22.4	26.0	28.4
Direct	11.7	13.0	12.3	12.2	13.3	12.4	13.1	12.9	13.2	12.5	10.8	12.5	14.4
Partnership distribution	7.2	8.2	8.6	8.6	7.7	10.4	8.4	8.7	8.5	10.7	11.1	11.8	11.7
Group	5.6	12.8	14.9	12.7	12.1	11.3	17.4	14.2	13.0	16.8	20.9	19.9	18.0

Source: Company, BOBCAPS Research | Note : Of the above bancassurance of Rs 5.0bn in Q3FY23, Rs 2.3bn (+2.2% YoY) was bancassurance (ex-ICICI Bank) and Rs 2.7bn was ICICI Bank (-50% YoY)

Fig 8 – Persistency improving across cohorts

(%)	8MFY23	8MFY22	FY22
13 th month	86.1	84.8	84.6
25 th month	77.1	75.7	77.3
37 th month	70.0	66.6	66.9
49 th month	66.0	59.4	63.4
61 st month	64.2	52.7	54.7

Source: Company, BOBCAPS Research | Note: Regular and Limited pay premium

Earnings call highlights

Bancassurance

- In Q3FY23, IPRU entered into a partnership with UCO Bank to sell its life insurance products through the bank's 3,000 branches. UCO also sells LIC and SBI Life products. In all, IPRU has added four banks this quarter, with others being smaller players, including co-operative banks.
- IPRU maintains that it cannot influence partner preferences for selling a particular product. As a practice, ICICI Bank (ICICIBC) has not been selling any non-linked products on the savings side over the last two years. APE from the bank declined 36% YoY to Rs 9.1bn in 9MFY23 with its share contracting to 16.9% from 24.9% at end-FY22. ICICIBC's distribution channels sell products in the following order of priority: (1) Protection, (2) Annuity, (3) ULIP.

Algorithms are run to generate prequalified offers for bank customers which can be tapped by the company to sell insurance products. On a conservative basis, the company expects other channels to grow significantly and ICICIBC to have a smaller share in the distribution mix over the next one year, which indicates the shift will not significantly impact the business.

- The company has a total of 34 bank partners, including foreign, private and small finance banks which mitigate the risk factors.
- Although bank-based deposit rates have risen, IPRU does not see any short-term impact on business given the current low levels of penetration that respective banks have on life insurance customers.

Other distribution channels

- The agency channel contributes 30% to retail business. IPRU has added ~25,000 agents over 9MFY23. Over the last four years, the company has seen a change in product mix, which was earlier ULIP dominated. Thus, it spent the first 12 months on skill building and product diversification. Year two and three were hit by Covid. Over the last 12 months, the company has added a sizeable number of agents who it believes would take 18-24 months to start delivering optimal results.
- About 300 partners have been added in the overall partnership distribution base.

VNB

- Per management, VNB must always be looked at from a nine-month perspective because of changes in parameters such as yield curve and product mix. However, the company accepted that VNB growth should not be dependent on margins. For higher topline growth, IPRU maintains that (1) it has a well-diversified product mix and a developed channel mix, and (2) new opportunities are on the anvil such as the potential opening up of the health insurance segment to life insurers.
- Over the last 15 quarters, the company has reported a healthy compounding of VNB and near doubling of VNB margins. Management is confident of robust topline growth from FY24 onwards which should drive VNB growth at 15-20% p.a.

Protection products

- Sequential growth in the protection business has largely come from Return of Premium (ROP) products. The company expects this segment to pick up and contribute more over time.
- Protection products have grown at a stronger pace than savings products, and management expects this trend to continue over the medium term. The company is focused on protection and sees no further supply-side challenges or demand-side issues.
- Group protection products saw an increase in premium in Jun'21 during the second wave of the pandemic. For renewals due in May/Jun'22, the premium rates were lowered and no material reduction in rates is expected for May/Jun'23.

Others

- Investment income declined because of unit-linked business which is mark-to-market.
- Costs will continue to remain high in the short term as IPRU invests to further strengthen its distribution channels.
- The solvency ratio remains strong at 212.2% as of Dec'22. Going forward, the company has access to subordinated debt and enhanced limits. Moreover, with the headroom for tier-2 capital and a potential transition to risk-based capital over the next 2-3 years, the company does not expect to raise equity to fund growth.
- AUM crossed Rs 2.5tn in Q3FY23.
- The CEO's tenure will end in Jun'23, following which the board and shareholders will decide on the future course of action. In general, the ICICI Group policy is that with the exception of the bank, the CEO has to retire at the age of 58 years.

Fig 9 – Policyholders’ account

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Gross premium income	97,805	93,442	4.7	98,956	(1.2)
First Year Premium	13,781	15,475	(10.9)	14,444	(4.6)
Renewal Premium	57,533	54,449	5.7	56,426	2.0
Single Premium	26,491	23,518	12.6	28,086	(5.7)
Reinsurance	3,160	2,702	16.9	3,139	0.7
Net premium income	94,645	90,740	4.3	95,817	(1.2)
Income from investments (Net)	77,218	7,370	947.8	1,28,189	(39.8)
Other income	366	291	25.7	380	(3.9)
Contribution of funds from Shareholders' A/c	3,122	253	1,133.1	4,657	(33.0)
Total	1,75,351	98,653	77.7	2,29,044	(23.4)
Commission on					
First Year Premium	2,201	2,601	(15.4)	2,357	(6.6)
Renewal Premium	1,086	1,051	3.3	1,075	1.0
Single Premium	411	394	4.4	385	6.8
Rewards	215	163	32.6	314	(31.3)
Net Commission	3,914	4,208	(7.0)	4,131	(5.3)
Operating Expenses related to insurance business	10,445	8,378	24.7	10,535	(0.9)
Benefits Paid (Net)	87,091	76,646	13.6	80,219	8.6
Change in actuarial liability	66,239	3,059	2,065.7	1,26,860	(47.8)
Surplus/Deficit	5,247	4,089	28.3	5,234	0.3

Source: Company, BOBCAPS Research

Fig 10 – Shareholders’ account

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Transfer from Policyholders' Account	4,119	3,627	13.6	4,861	(15.3)
Total income under Shareholders' Account					
Investment Income	2,389	1,180	102.5	2,033	17.5
Other income	3	5	(35.8)	3	17.2
Expenses other than those related to insurance business	261	245	6.5	245	6.4
Transfer of funds to Policyholders' Account	3,122	253	1,133.1	4,657	(33.0)
Provisions for doubtful debts (including write off)	879	1,208	(27.2)	0	NA
Profit before tax	2,249	3,106	(27.6)	1,995	12.8
Provisions for tax	43	0	NA	0	NA
Profit after tax and before extraordinary items	2,206	3,106	(29.0)	1,995	10.6

Source: Company, BOBCAPS Research

Fig 11 – Balance sheet

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Sources of funds					
Share Capital	14,386	14,373	0.1	14,386	0.0
Share application money received pending allotment of shares	0	0	NA	0	NA
Reserves and Surplus	81,354	73,981	10.0	79,141	2.8
Credit / (Debit) Fair Value Change Account	5,180	2,509	106.5	2,769	87.1
Total Equity	1,00,919	90,862	11.1	96,295	4.8
Policyholders' Funds:					
Policyholders' Funds:	22,89,378	21,41,611	6.9	22,16,208	3.3
Borrowing	12,000	12,000	-	12,000	-
Policy Liabilities	22,56,532	21,10,249	6.9	21,87,634	3.1
- Insurance Reserves	8,48,181	6,97,703	21.6	8,07,849	5.0
- Provision for Linked Liabilities	14,08,350	14,12,546	(0.3)	13,79,785	2.1
Add: Fair value change	32,846	31,361	4.7	28,574	15.0
FFA	16,322	13,073	24.9	15,194	7.4
FFA - provision of lapsed policies	94,053	1,09,772	(14.3)	96,712	(2.7)
Total Sources of funds	25,12,672	23,67,318	6.1	24,36,408	3.1
Application Of Funds					
Investments					
Investments	9,87,482	8,33,608	18.5	9,37,587	5.3
- Shareholders'	1,03,138	93,499	10.3	95,865	7.6
- Policyholders'	8,84,344	7,40,110	19.5	8,41,721	5.1
Assets held to cover Linked Liabilities	15,02,403	15,22,318	(1.3)	14,76,497	1.8
Loans	11,930	8,601	38.7	10,945	9.0
Fixed Assets	5,363	4,728	13.4	5,238	2.4
Net Current Assets	5,494	(1,937)	(383.7)	6,142	(10.5)
Total application of funds	25,12,672	23,67,318	6.1	24,36,408	3.1

Source: Company, BOBCAPS Research

Fig 12 – Key ratios and growth metrics

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
NBP	40,272	38,993	3.3	42,530	(5.3)
APE	18,210	19,290	(5.6)	19,990	(8.9)
VNB	6,180	5,150	20.0	6,210	(0.5)
Opex ratio (%)	10.7	9.0	171bps	10.6	3bps
Commission ratio (%)	4.0	4.5	(50bps)	4.2	(17bps)
Expense ratio (%)	14.7	13.5	121bps	14.8	(14bps)
VNB margin (%) – Cumulative	32.0	27.1	490bps	31.0	100bps
Solvency ratio (%)	212.2	202.2	1,000bps	199.9	1,230bps
Persistency ratio (Regular Premium / Limited Premium Payment under Individual category)					
13th month (%) – Cumulative	86.1	84.8	130bps	85.9	20bps
61st month (%) - Cumulative	64.2	52.7	1,150bps	61.2	300bps

Source: Company, BOBCAPS Research

Valuation methodology

IPRU is trading at a P/EV of 1.5x FY25E (below -1SD). Given the weak Q3FY23 print, we cut our FY23/FY24/FY25 gross premium estimates by 3%/7%/11%. VNB is now expected to log a 9% CAGR over FY22-FY25 vs. 15% earlier owing to reduced APE estimates. Estimate revision coupled with rollover of valuations to FY25 leads to a revised TP of Rs 601 (vs. Rs 645 earlier), set at an unchanged 1.8x P/EV (average of -1SD and -2SD).

While the company has lost NBP market share, we see key positives in terms of robust VNB growth (23% YoY to Rs 17.1bn in 9MFY23 with a 32% margin), improved persistency across cohorts which should support profitability, and a diversified and profitable product mix. Retain BUY.

Fig 13 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Gross Premium	389	412	440	400	443	496	(2.9)	(6.9)	(11.2)
Net Premium	375	399	428	388	429	480	(3.3)	(6.9)	(10.9)
VNB	25	25	28	26	28	33	(4.9)	(9.7)	(14.3)
APE	80	87	96	86	100	116	(8.0)	(12.8)	(17.3)
Embedded Value (EV)	364	416	474	365	420	483	(0.4)	(1.0)	(1.9)
VNB Margin (%)	31	29	29	30	28	28	100bps	100bps	100bps

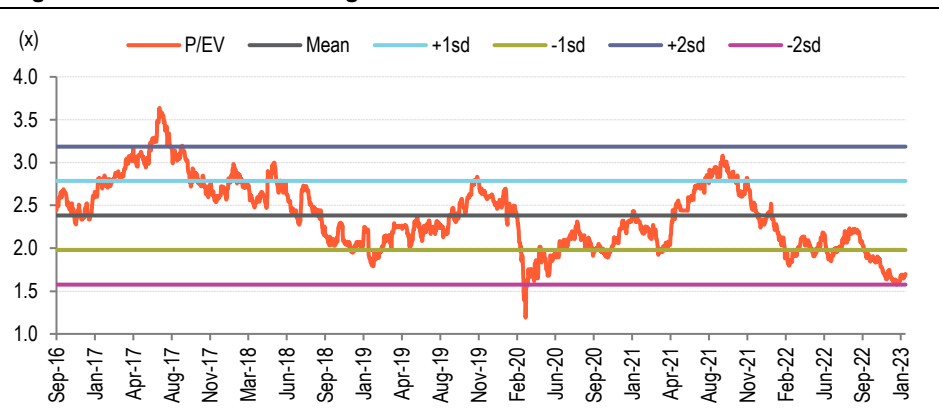
Source: BOBCAPS Research

Fig 14 – Valuation summary

Synopsis of valuation	
Embedded Value (FY25E) (Rs bn)	474
PV of Future business (Rs bn)	393
Total value (Rs bn)	866
Current P/EV (FY25E)	1.5
Implied P/EV (FY25E)	1.8
Implied Target Price (Rs)	601
Current Price (Rs)	485
Upside (%)	23.9

Source: BOBCAPS Research

Fig 15 – 1Y fwd P/EV – Trading below -1SD



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Changes in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, currently ULIP proceeds are taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in the income tax rate of insurance companies can adversely impact profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are aiming for a balanced product mix, many of them have sizeable business coming from ULIPs. For IPRU, the sensitivity of a decline in equity on EV is comparatively higher as compared to private peers.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company’s investment portfolios. Shareholders’ equity & earnings and policyholders’ funds may be affected by fair value re-valuation of bonds held in the investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss and monetary requirements, among others, which lowers persistency ratios.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	15.8	609	691	BUY
ICICI Prudential Life	IPRU IN	8.5	485	601	BUY
SBI Life	SBILIFE IN	15.9	1,298	1,512	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Jan 2023

Glossary

APE	Average Premium Equivalent	NBP	New Business Premium
EV	Embedded Value	ULIP	Unit Linked Insurance Plan
IRDA	Insurance Regulatory and Development Authority	VNB	Value of New Business

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Gross premium income	3,57,328	3,74,580	3,88,554	4,11,831	4,40,371
First year premium	51,872	59,655	60,739	66,784	73,462
Renewal premium	2,25,068	2,19,557	2,23,370	2,30,128	2,40,499
Single premium	80,389	95,367	1,04,445	1,14,919	1,26,410
Net written premium	3,49,734	3,63,213	3,75,431	3,99,380	4,27,684
Income from investments	4,74,376	2,49,695	1,79,606	1,88,579	2,00,940
Other Income	16,682	22,737	24,601	27,221	30,138
Total income	8,40,791	6,35,645	5,79,638	6,15,181	6,58,761
Commissions	15,002	16,729	17,581	18,917	20,258
Operating expenses	27,121	37,011	40,063	40,135	43,261
Benefits and bonuses paid	2,26,409	2,93,588	2,90,479	2,92,647	2,93,951
Change in liabilities (net)	5,43,241	2,57,837	1,97,020	2,25,764	2,59,463
Others	0	0	0	0	0
Total expenses	8,11,773	6,05,166	5,45,142	5,77,463	6,16,932
Surplus before tax	29,019	30,479	34,495	37,717	41,829
Provision for tax	7,965	8,576	7,334	7,362	7,790
Surplus after tax	21,054	21,904	27,161	30,356	34,040
Trf to shareholders' a/c	19,849	21,602	24,204	28,059	31,759
Balance being FFA	1,205	302	2,957	2,297	2,281

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Trf from policyholders' a/c	19,849	21,602	24,204	28,059	31,759
Income from investments	7,687	10,114	9,829	11,110	11,950
Contr. to policyholders' fund	15,748	21,611	23,212	25,533	28,086
Others	(609)	(1,002)	(592)	(604)	(617)
PBT	11,179	9,103	10,229	13,031	15,006
Provision for taxation	1,213	364	975	1,255	1,453
PAT	9,966	8,739	9,254	11,776	13,553
Dividend+Interim div.+DDT	2,872	793	2,884	2,884	2,884

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity	91,194	91,631	96,179	1,04,593	1,14,783
Policyholders' funds	19,10,481	21,71,190	23,39,255	25,65,019	28,24,482
FFA	13,532	13,833	17,292	20,750	21,787
Others	1,57,074	1,67,748	2,20,423	2,64,496	3,09,105
Total liabilities	21,72,281	24,44,402	26,73,149	29,54,858	32,70,157
Shareholders' funds	1,00,902	98,535	1,08,388	1,13,808	1,25,188
Policyholders' funds	6,35,726	7,73,880	8,73,744	9,60,372	10,37,722
Assets to cover linked liab.	13,85,491	15,08,663	15,84,096	16,63,301	17,46,466
Others	50,162	63,324	1,06,920	2,17,377	3,60,780
Total assets	21,72,281	24,44,402	26,73,149	29,54,858	32,70,157

Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
AUM (Rs mn)	21,42,180	24,04,920	25,89,616	27,64,339	29,33,460
NBP (Rs mn)	1,32,261	1,55,022	1,65,184	1,81,702	1,99,873
APE (Rs mn)	64,620	77,330	79,556	87,482	96,231
VNB (Rs mn)	16,220	21,652	24,662	25,370	27,907
VNB margin (%)	25.1	28.0	31.0	29.0	29.0
Embedded value (Rs mn)	2,91,051	3,16,250	3,63,747	4,15,514	4,73,700
ROEV (%)	15.2	11.0	15.9	15.0	14.7
ROE (%)	11.8	8.2	9.3	11.3	11.9
Opex ratio (%)	7.5	9.8	10.2	9.7	9.7
Cost ratio (%)	11.7	14.3	14.8	14.3	14.3
Solvency ratio (%)	216.8	204.5	222.6	238.9	259.1
EPS (Rs)	6.7	5.3	6.1	7.8	9.1
BVPS (Rs)	63.5	63.8	67.0	72.8	79.9
EVPS (Rs)	202.7	220.2	253.2	289.3	329.8

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

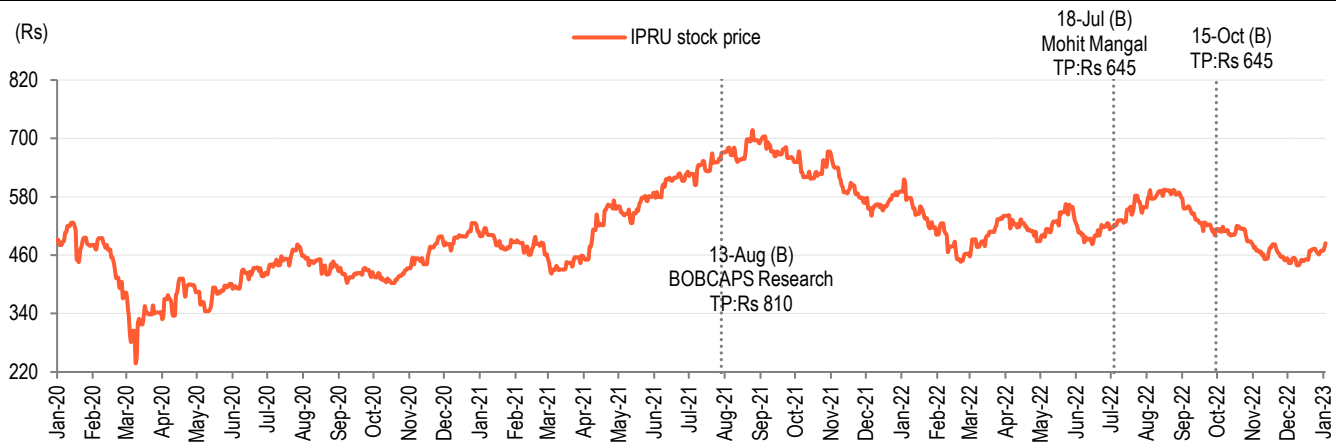
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ICICI PRUDENTIAL LIFE (IPRU IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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