

31 October 2024

Industrials | Heavy Equipments

## United Tractors (UNTR IJ)

**Buy** (Maintained)

### Enduring Strength; Still BUY

Target Price (Return): IDR35,000 (32.5%)  
Price (Market Cap): IDR26,425 (USD6,276m)  
ESG score: 2.8 (out of 4)  
Avg Daily Turnover (IDR/USD) 110,943m/7.12m

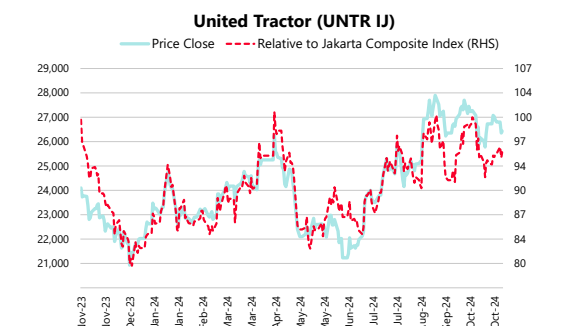
- **Still BUY, new IDR35,000 TP (DCF) from 32,000, 33% upside.** We revised up FY24F-25F net earnings by 11% and 10% as United Tractors demonstrated remarkable resilience throughout the year, reporting exceptional 3Q24 net profit of IDR6trn (+22% QoQ, 47% YoY). This took cumulative bottomline to IDR16trn (+2% YoY), outperforming both our and Street's expectations. Several factors contributed to this, including stable performances in mining contracting, heavy equipment sales meeting targets (supported by management's strategy to sell high-margin units), and gold price surges.
- **9M24 topline was quite sturdy** at IDR99.6trn (+2% YoY), in line with estimates, with operational margins hovering at normal levels (21% vs the 5-year average of c.19%). This was partly driven by steady contributions from sustained heavy equipment (HE) sales. The expected lower number of units sold was offset by a higher ASPs, which stemmed from an improved sales mix that boosted segmental margins, with 3Q24's PBT margin of 20% vs 3Q23's 14%. Other factors: i) Stable mining contracting activity (overburden or OB removal contracts surged in tandem with the hike in delivered coal while the stripping ratio or SR still hovered at c.8x) and ii) better contributions from the minerals business (hikes in both gold prices and improved volumes, and additional contributions from nickel ore sales). Overall margins remained healthy, as UNTR chalked up a 9M24 NPM of 16% (similar to 9M23's and the 5-year average of c.14%).
- **More optimism ahead.** While we anticipate some downside risks to our outlook – including an expected normalisation of HE sales and potential for continued declines in coal prices – positive dynamics from mining activities (stemming from increase in the national coal production target) should support strong demand for mining contracting services. Additionally, management expects a resurgence in HE demand – driven by expectations of the next capex cycle from coal companies, which is set to begin in 2026. Positive developments are also evident in the improved gold production numbers.
- **The major ESG risk** is the potential decline in coal demand as renewable energy plants gradually phase out thermal-powered ones. Our new TP includes a 4% ESG discount, given that UNTR's 2.8 ESG score is two notches below the 3.0 country median. Our DCF valuation indicates an equity value that aligns with a forward P/E target of c.7x (compared to the current level of 5.2x), which is close to its 5-year average.
- **Key risks to our call:** i) softening HE sales, ii) an unprecedented downturn in coal prices, and iii) the probability of lower coal demand from renewable energy plants phasing out thermal-powered ones.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.8	(2.7)	5.7	6.4	8.3
Relative	12.7	(3.3)	1.2	1.8	(4.1)
52-wk Price low/high (IDR)	20,925 – 27,900				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	123,608	128,585	134,555	134,576	137,514
Recurring net profit (IDRb)	21,005	20,612	19,291	19,099	19,666
Recurring net profit growth (%)	104.3	(1.9)	(6.4)	(1.0)	3.0
Recurring P/E (x)	4.69	4.78	5.11	5.16	5.01
P/B (x)	1.2	1.3	1.2	1.0	0.9
P/CF (x)	1.48	1.68	1.56	1.55	1.45
Dividend Yield (%)	26.1	8.4	7.8	7.8	7.8
EV/EBITDA (x)	1.63	2.23	2.31	2.19	1.98
Return on average equity (%)	29.2	26.7	24.1	20.9	19.1
Net debt to equity (%)	net cash	0.3	2.5	net cash	net cash

Source: Company data, RHB

#### Overall ESG Score: 2.8 (out of 4)

##### E: GOOD

UNTR applies international standard ISO 14001: 2015 for environmental management systems that are certified by an independent certification agency. It also applies the Astra Green Company practices of its parent company as a reference when implementing environmental impact management initiatives.

##### S: GOOD

UNTR is actively engaged in CSR activities. In 2020, it received a Padmamitra Award in the Disaster Fields category from the Ministry of Social Affairs and National Social Welfare CSR Forum.

##### G: GOOD

UNTR regularly conducts shareholder meetings and ensures equal distribution of public information to all stakeholders. It has received numerous awards on governance practices, one of them being Indonesia 2020 Best Rating on Governance Disclosures of Trading Sector, issued by Investor Magazine.

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## Financial Exhibits

<b>Asia</b> Indonesia Industrials <b>United Tractors</b> UNTRI.J Buy	<b>Financial summary (IDR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring EPS	5,631.19	5,525.74	5,171.58	5,120.14	5,272.27
	DPS	6,885.95	2,207.82	2,062.28	2,066.85	2,053.07
	BVPS	21,455.75	19,995.32	22,959.09	26,016.95	29,222.37
	Return on average equity (%)	29.2	26.7	24.1	20.9	19.1
<b>Valuation basis</b> DCF, with a medium-term forecast horizon of four years, combined with forward P/E.	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	4.69	4.78	5.11	5.16	5.01
	P/B (x)	1.2	1.3	1.2	1.0	0.9
	FCF Yield (%)	59.3	41.1	34.1	43.2	44.2
	Dividend Yield (%)	26.1	8.4	7.8	7.8	7.8
<b>Key drivers</b> i. Increase in coal sales volumes; ii. Increase in coal prices; iii. Increase in coal-mining activities; iv. Surge in gold prices.	EV/EBITDA (x)	1.63	2.23	2.31	2.19	1.98
	EV/EBIT (x)	2.11	2.93	3.25	3.22	2.98
<b>Key risks</b> i. Softening HE sales; ii. An unprecedented downturn in coal prices; iii. The probability of lower coal demand from renewable energy plants phasing out thermal-powered ones.	<b>Income statement (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	123,608	128,585	134,555	134,576	137,514
	Gross profit	34,759	35,788	34,093	33,700	34,310
	EBITDA	37,573	38,966	38,700	39,477	42,789
	Depreciation and amortisation	(8,440)	(9,241)	(11,200)	(12,641)	(14,392)
<b>Company Profile</b> United Tractors distributes and leases construction machinery from brands like Komatsu, Nissan Diesel, Scania, Bomag, Valmet and Tadano. The company also provides mining contracting services, and trades and assembles heavy equipment.	Operating profit	29,133	29,725	27,500	26,836	28,397
	Net interest	238	(752)	(2,359)	(3,360)	(4,161)
	Pre-tax profit	29,446	28,720	25,559	24,287	24,943
	Taxation	(6,452)	(6,590)	(5,865)	(4,785)	(4,864)
	Reported net profit	21,005	20,612	19,291	19,099	19,666
	Recurring net profit	21,005	20,612	19,291	19,099	19,666
	<b>Cash flow (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	2,400	840	(3,137)	62	(55)
	Cash flow from operations	66,651	58,810	63,100	63,599	68,125
	Capex	(8,165)	(18,343)	(29,515)	(21,037)	(24,598)
	Cash flow from investing activities	(10,401)	(33,440)	(29,515)	(21,037)	(24,598)
	Dividends paid	(6,365)	(25,001)	(8,235)	(7,693)	(7,710)
	Cash flow from financing activities	(1,817)	(30,754)	8,230	2,707	690
	Cash at beginning of period	33,322	38,282	18,597	33,073	46,948
	Net change in cash	54,432	(5,384)	41,815	45,269	44,218
	Ending balance cash	38,282	18,597	33,073	46,948	57,457
	<b>Balance sheet (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	38,282	18,597	33,073	46,948	57,457
	Tangible fixed assets	35,583	53,847	65,257	73,654	83,859
	Total investments	6,779	16,657	16,657	16,657	16,657
	Total assets	135,813	149,363	182,304	204,650	226,185
	Short-term debt	1,987	1,287	1,187	1,087	987
	Total long-term debt	1,015	17,580	34,146	44,646	53,146
	Total liabilities	50,964	71,091	91,475	102,011	111,176
	Total equity	84,849	78,272	90,829	102,639	115,008
	Total liabilities & equity	135,813	149,363	182,304	204,650	226,185
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	55.6	4.0	4.6	0.0	2.2
	Recurrent EPS growth (%)	104.3	(1.9)	(6.4)	(1.0)	3.0
	Gross margin (%)	28.1	27.8	25.3	25.0	25.0
	Operating EBITDA margin (%)	30.4	30.3	28.8	29.3	31.1
	Net profit margin (%)	17.0	16.0	14.3	14.2	14.3
	Dividend payout ratio (%)	122.3	40.0	39.9	40.4	38.9
	Capex/sales (%)	6.6	14.3	21.9	15.6	17.9
	Interest cover (x)	38.3	15.8	7.8	5.9	5.3

Source: Company data, RHB

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Figure 1: RHB vs Street estimates

(IDRbn)	RHB (new)			RHB (old)			Change			Street			2023F
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F	
Revenue	134,555	134,576	137,514	124,934	126,668	127,370	7.7%	6.2%	8.0%	124,819	123,929	126,031	7.8%
Gross profit	34,093	33,700	34,310	31,523	31,488	31,540	8.2%	7.0%	8.8%	31,744	31,143	30,753	7.4%
Operating profit	27,500	26,836	28,397	25,401	25,028	26,063	8.3%	7.2%	9.0%	25,343	24,420	24,253	8.5%
Net profit	19,291	19,099	19,666	17,452	17,411	17,818	10.5%	9.7%	10.4%	18,157	17,883	18,003	6.2%
Margin													
Gross	25.3%	25.0%	25.0%	23.9%	23.8%	23.8%				25.4%	25.1%	24.4%	
EBIT	20.4%	19.9%	20.7%	19.2%	18.0%	18.0%				20.3%	19.7%	19.2%	
NPM	14.3%	14.2%	14.3%	14.4%	13.7%	13.7%				14.5%	14.4%	14.3%	

Source: Company data, RHB

Figure 2: Changes in key assumptions

	RHB (new)			RHB (old)			Change		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Komatsu heavy equipment sales (units)	4,500	4,275	4,574	4,500	4,275	4,574	0.0%	0.0%	0.0%
OB removal volume (m bcm)	1,264	1,224	1,285	1,167	1,212	1,272	8.3%	1.0%	1.0%
Coal production volume (m tonnes)	142	138	145	133	138	145	7.2%	0.0%	0.0%
Coal mining - sales volume (m tonnes)	14.0	14.3	14.6	14.0	14.3	14.6	0.0%	0.0%	0.0%
Coal ASP target (USD/tonne)	128.3	123.5	104.5	128.3	123.5	104.5	0.0%	0.0%	0.0%
Gold volume (k oz)	235	223	221	235	223	221	0.0%	0.0%	0.0%
Gold ASP (USD/oz)	2,331	2,378	2,425	2,331	2,378	2,425	0.0%	0.0%	0.0%

Source: Company data, RHB

Figure 3: TP calculation

DCF calculation (IDRbn)	2024F	2025F	2026F	2027F	2028F
EBIT	27,500	26,836	28,397	27,121	29,029
EBIT (1-t)	20,350	19,859	21,014	20,069	21,481
Depreciation & amortisation	11,200	12,641	14,392	16,094	17,833
Changes in working capital	4,867	62	(55)	288	(240)
Capex	(29,515)	(21,037)	(24,598)	(26,009)	(27,965)
<b>Free cash flow</b>	<b>6,902</b>	<b>11,524</b>	<b>10,753</b>	<b>10,442</b>	<b>11,109</b>
Discounted FCF	6,902	10,552	9,015	8,016	7,809
<b>Terminal Value</b>					<b>138,924</b>
Terminal growth	3%				
WACC	9%				
Total discounted firm value	139,949				
Debt	35,333				
Cash	33,073				
Minority interest	5,189				
Equity value	132,501				
Issued shares (bn)	3.7				
Equity value per share	35,600				
Discount ESG	-4%				
<b>TP</b>	<b>35,000</b>				

Source: Company data, RHB

- ◆ The profit projection implies a hefty correction in coal prices (full-year average estimates are as follows – FY23: USD180 per tonne, FY24: USD135 per tonne), and a conservative target for HE sales (but stable) in the years ahead. Nevertheless, this scenario still provides decent upside for UNTR's FV from its stable cash flow – although this excludes other potential businesses (upcoming nickel smelters)
- ◆ We have a medium-term view for our DCF scenario due to fluctuations in commodity prices. The terminal growth represents the projected pace of national coal output going forward (coal is still the main upside for UNTR's mining contracting business)

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Figure 4: UNTR's 9M24 results highlights

(IDRbn)	3Q23	2Q24	3Q24	QoQ	YoY	9M23	9M24	YoY	% 9M24 RHB	% 9M24 consensus
Net revenue	28,919	32,104	35,030	9.1%	21.1%	97,598	99,558	2.0%	74%	80%
Gross profit	6,982	8,684	8,847	1.9%	26.7%	25,674	25,716	0.2%	75%	81%
EBIT	5,521	7,118	7,146	0.4%	29.4%	21,201	20,856	-1.6%	76%	82%
<b>Net profit</b>	<b>4,132</b>	<b>4,985</b>	<b>6,059</b>	<b>21.6%</b>	<b>46.6%</b>	<b>15,349</b>	<b>15,592</b>	<b>1.6%</b>	<b>81%</b>	<b>86%</b>
Margins:										
Gross	24.1%	27.0%	25.3%			26.3%	25.8%			
EBIT	19.1%	22.2%	20.4%			21.7%	20.9%			
Net	14.3%	15.5%	17.3%			15.7%	15.7%			
<b>Revenue breakdown</b>										
Cons. machinery	8,408	7,257	10,854	49.6%	29.1%	28,681	26,459	-7.7%		
Mining contracting	14,845	14,585	15,693	7.6%	5.7%	39,147	43,623	11.4%		
Coal mining	3,853	7,123	5,146	-27.8%	33.6%	23,957	20,608	-14.0%		
Gold mining	1,094	2,547	2,364	-7.2%	116.1%	4,286	6,738	57.2%		
Energy	2	18	13	-28.1%	547.4%	10	48	379.5%		
Construction	719	574	973	69.5%	35.3%	1,517	2,082	37.2%		
<b>Revenue contribution</b>										
Cons. machinery	29.1%	22.6%	31.0%			29.4%	26.6%			
Mining contracting	51.3%	45.4%	44.8%			40.1%	43.8%			
Coal mining	13.3%	22.2%	14.7%			24.5%	20.7%			
Gold mining	3.8%	7.9%	6.7%			4.4%	6.8%			
Energy	0.0%	0.1%	0.0%			0.01%	0.05%			
Construction	2.5%	1.8%	2.8%			1.6%	2.1%			
<b>Profit before tax*</b>										
Construction machinery	1,173	947	2,148	126.9%	83.2%	4,422	3,948	-10.7%		
Mining contracting	4,369	3,681	4,311	17.1%	-1.3%	9,481	10,788	13.8%		
Coal mining	(155)	1,285	1,292	0.5%	-932.3%	6,607	4,150	-37.2%		
Gold mining	272	541	1,023	89.2%	276.1%	1,200	2,015	68.0%		
Energy	204	76	(62)	N.M	N.M	399	196	-50.7%		
Construction	(98)	(96)	(149)	N.M	N.M	(158)	(289)	N.M		
<b>PBT contribution (%):*</b>										
Construction machinery	20.3%	14.7%	25.1%			20.1%	19.0%			
Mining contracting	75.8%	57.2%	50.3%			43.2%	51.8%			
Coal mining	-2.7%	20.0%	15.1%			30.1%	19.9%			
Gold mining	4.7%	8.4%	11.9%			5.5%	9.7%			
Energy	3.5%	1.2%	-0.7%			1.8%	0.9%			
Construction	-1.7%	-1.5%	-1.7%			-0.7%	-1.4%			

Note: \*Gross figure excluding eliminations

Source: Company data, RHB

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Figure 5: UNTR's 9M24 segmental performance

	3Q23	2Q24	3Q24	QoQ	YoY	9M23	9M24	YoY
<b>Construction machinery</b>								
Komatsu (IDRbn)	3,853	3,048	6,001	96.9%	55.7%	14,926	13,394	-10.3%
Parts and services (IDRbn)	2,922	2,718	3,013	10.9%	3.1%	8,876	8,380	-5.6%
Others (IDRbn)	1,633	1,490	1,842	23.6%	12.8%	4,879	4,686	-4.0%
<b>Total (IDRbn)</b>	<b>8,408</b>	<b>7,256</b>	<b>10,856</b>	<b>49.6%</b>	<b>29.1%</b>	<b>28,681</b>	<b>26,460</b>	<b>-7.7%</b>
Revenue breakdown:								
Komatsu	45.8%	42.0%	55.3%			52.0%	50.6%	
Parts and services	34.8%	37.5%	27.8%			30.9%	31.7%	
Others	19.4%	20.5%	17.0%			17.0%	17.7%	
Komatsu sales volume (units)								
ASP (IDRbn/units)	3.2	3.0	5.1	71.2%	61.9%	3.4	4.0	17.9%
Industry sales volume (units)								
Market share	28.7%	27.0%	25.3%			31.0%	27.0%	
<b>Mining contracting</b>								
OB removal volume (m bcm)	332	304	331	9.0%	-0.2%	853	921	8.0%
Coal production (m tonnes)	37	38	42	11.4%	13.6%	96	112	16.4%
Stripping ratio (x)	9.0	8.1	7.9	-2.2%	-12.1%	8.9	8.3	-7.2%
<b>Coal mining</b>								
Coal sales volume	2.12	3.57	2.62	-26.5%	23.8%	8.5	10.2	18.8%
ASP (IDRk/tonne)	1,819	1,997	1,963	-1.7%	7.9%	2,802	2,029	-27.6%
ASP (USD/tonne)	120.28	123.51	123.77	0.2%	2.9%	185.9	127.9	-31.2%
Newcastle price (USD/tonne)	146.76	136.31	140.19	2.8%	-4.5%	187.7	135.6	-27.7%
<b>Gold mining</b>								
Gold sales volume (k oz)	37.0	60.0	56.0	-6.7%	51.4%	147	165	12.2%
ASP (USD/oz)	1,927	2,383	2,474	3.8%	28.4%	1,934	2,574	33.1%

Source: Company data, RHB

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Figure 6: UNTR's operational statistics for September

	Sep-23	Aug-24	Sep-24	% MoM	% YoY	9M23	9M24	% YoY	% FY24F
<b>UNTR's HE sales (Komatsu):</b>									
Mining	240	305	278	-9%	16%	2,722	2,165	-20%	
Forestry	41	22	19	-15%	-55%	583	301	-48%	
Construction	87	78	48	-38%	-45%	677	453	-33%	
Agro	46	30	26	-15%	-43%	382	402	5%	
<b>Total</b>	<b>414</b>	<b>435</b>	<b>371</b>	<b>-15%</b>	<b>-10%</b>	<b>4,365</b>	<b>3,321</b>	<b>-24%</b>	<b>74%</b>
<b>Contribution per sector</b>									
Mining	58%	70%	75%			62%	65%		
Forestry	10%	5%	5%			13%	9%		
Construction	21%	18%	13%			16%	14%		
Agro	11%	7%	7%			9%	12%		
Industry sales volume	1,335	1,554	1,764	14%	32%	14,081	12,300	-13%	
<b>UNTR's market share</b>	<b>31%</b>	<b>28%</b>	<b>21%</b>			<b>31%</b>	<b>27%</b>		
<b>Mining contracting (Pama Persada):</b>									
<b>OB removal (m bcm)</b>	<b>106.0</b>	<b>110.7</b>	<b>110.8</b>	<b>0%</b>	<b>5%</b>	<b>845.6</b>	<b>920.9</b>	<b>9%</b>	<b>73%</b>
<b>Coal production (m tonnes)</b>	<b>11.4</b>	<b>13.9</b>	<b>13.7</b>	<b>-1%</b>	<b>20%</b>	<b>95.3</b>	<b>111.5</b>	<b>17%</b>	<b>80%</b>
Stripping ratio (x)	9.3	8.0	8.1	2%	-13%	8.9	8.3	-7%	
<b>Coal mining:</b>									
<b>Coal sales (m tonnes)</b>	<b>0.566</b>	<b>0.701</b>	<b>0.970</b>	<b>38%</b>	<b>71%</b>	<b>8.5</b>	<b>10.2</b>	<b>19%</b>	<b>73%</b>
Newcastle coal prices (USD/tonne)	159.5	145.8	140.4	-4%	-12%	187.7	134.6	-28%	
<b>Gold mining:</b>									
<b>Gold sales ('000oz)</b>	<b>10</b>	<b>18</b>	<b>20</b>	<b>11%</b>	<b>100%</b>	<b>147.0</b>	<b>165.0</b>	<b>12%</b>	<b>70%</b>

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

Despite fluctuations in recorded emissions in the past years (due to higher mining services activity and coal production), management remains positive about achieving a 30% greenhouse gas (GHG) reduction by 2030.

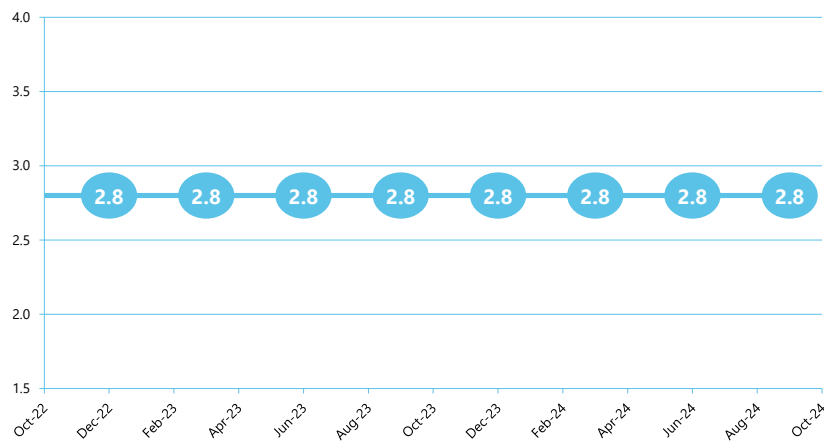
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	2,451,872	2,940,924	na
Scope 2	245,529	278,615	na
Scope 3	na	na	na
Total emissions	2,697,401	3,219,538	na

Source: Company data, RHB

## Latest ESG-Related Developments

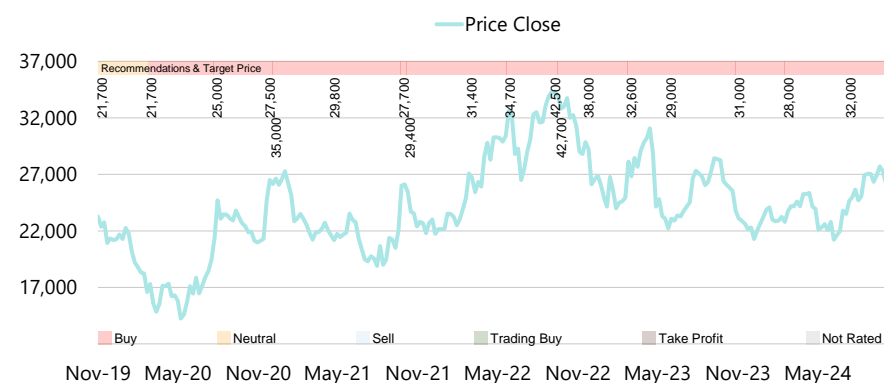
- In 2022, UNTR – via Energia Prima Nusantara (EPN) – secured commitment to install rooftop solar photovoltaic cells. EPN is also developing a mini-hydropower plant in Lampung Province.
- As part of its move to increase its supply of renewable energy in Indonesia, EPN acquired a 31.49% share of Arkora Hydro (ARKO IJ, NR) which indirectly added to UNTR's renewable energy business portfolio, with two operating hydropower plants at Cikopo and Tomasa.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-04	Buy	32,000	27,650
2024-02-28	Buy	28,000	23,850
2024-02-22	Buy	28,000	23,125
2023-11-16	Buy	31,000	23,450
2023-11-01	Buy	31,000	24,100
2023-05-30	Buy	29,000	22,500
2023-02-28	Buy	32,600	27,900
2022-11-23	Buy	38,000	29,625
2022-09-22	Buy	42,700	35,100
2022-09-08	Buy	42,500	34,400
2022-05-27	Buy	34,700	30,400
2022-03-01	Buy	31,400	24,850
2021-10-12	Buy	29,400	26,275
2021-09-27	Buy	27,700	22,875
2021-04-22	Buy	29,800	21,550

Source: RHB, Bloomberg



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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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