## Singapore Telecommunications (ST SP)

# Gaining traction in 5G deployment

## Regional 5G standalone (SA) roll-out on track

Despite setbacks, sales of Singtel's 5G-equipped phones are as strong as pre-pandemic levels. Regionally, Telkomsel and Airtel have launched commercial 5G services and this should further spark the development of new 5G applications for consumers and enterprises in emerging markets. We expect an increasingly competitive landscape as incumbents focus on monetising 5G services and increasing capex for 5G implementation. Amid tough and volatile times, we contend that Singtel remains a safe-haven with attractive upside potential and a 5% dividend yield. Reiterate BUY with a SOTP-based TP of SGD2.98.

## Encouraging take-rate for 5G bundle services

With more than 1,000 5G SA sites across Singapore, Singtel is poised to meet the media authority's (IMDA) target of 50% population coverage by end-22. Increasing 5G adoption via bundled packages has led to ARPU uplift (+0.3% YoY) and helped address dilution from 4G SIM-only plans. In Singapore's recent budget SGD200m was earmarked to build digital capabilities for business in coming years. We believe Singtel is well-placed to capitalise on this through its lucrative enterprise business by offering assistance in the development of solutions for a wide range of uses. This initiative, however, will take time to bear fruit.

## Strong competition in Australia

Telstra's recent partnership with TPG Telecom to increase 5G sites in Australia could potentially reduce the cost of network ownership by up to 30%. In fact, capex for Singtel's 5G network has been increasing (+10% YoY) since it gained the 3.5GHz spectrum in mid-2020. Moving forward, we expect a greater capex burden for Singtel thus reducing free cash flow visibility. We predict constant DPU at 40-50% of net profit (Yield at 4.2%-5.5%) from FY22E to FY25E. Optus has allowed Telstra to regain dominance in the Australia Telco space and would need a game-changer in this competitive market.

## Roadmap ahead

Research by Cisco predicts Singtel's annual 5G revenue could rise to SGD710m (12% of current annual enterprise revenue) by 2025. We anticipate key strategic plans for Singtel will include accelerating IOT (Internet of Things) connection via strategic partnerships, leveraging its infrastructure assets (data centres, towers and JVs) to unlock value and drive secular growth by allowing enterprises and startups to incorporate distinctive use cases in their Multi-access Edge Computing (MEC) structures.

FYE Mar (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	16,541	15,644	16,249	17,399	17,302
EBITDA	4,047	3,833	3,934	4,032	4,563
Core net profit	1,074	1,734	2,257	2,651	3,070
Core FDEPS (cts)	6.6	10.6	13.8	16.2	18.8
Core FDEPS growth(%)	(65.3)	61.4	30.2	17.5	15.8
Net DPS (cts)	17.5	3.2	11.7	13.8	16.0
Core FD P/E (x)	38.6	23.0	18.3	15.6	13.5
P/BV (x)	1.5	1.5	1.5	1.5	1.5
Net dividend yield (%)	6.9	1.3	4.6	5.5	6.3
ROAE (%)	3.8	6.5	8.2	9.1	10.2
ROAA (%)	2.2	3.6	4.6	5.3	6.0
EV/EBITDA (x)	13.5	13.6	13.4	12.7	10.9
Net gearing (%) (incl perps)	49.1	45.7	39.5	33.8	28.2
Consensus net profit	-	-	2,228	2,659	3,056
MKE vs. Consensus (%)	-	-	1.3	(0.3)	0.5

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## BUY

Share Price	SGD 2.53
12m Price Target	SGD 2.98 (+18%)
Previous Price Target	SGD 2.98

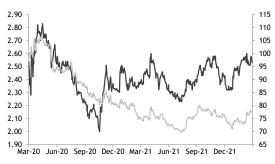
#### **Company Description**

Singtel is the largest integrated telecommunications service provider in Singapore and has significant share in Australia, India and ASEAN

#### Statistics

52w high/low (SGD)	2.60/2.23
3m avg turnover (USDm)	54.8
Free float (%)	41.8
Issued shares (m)	16,515
Market capitalisation	SGD41.8B
	USD30.6B
Major shareholders:	
Temasek Holdings	52.2%
Central Provident Fund	4.9%
Capital Research	1.2%

#### Price Performance



 —— Singtel / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(2)	5	6
Relative to index (%)	4	1	2
Source: FactSet			

Other companies mentioned in this report: Telstra Corporation Ltd (TLS ASX, CP AUD3.92, NR) TPG Telecom Ltd (TPG ASX, CP AUD5.64, NR) BHARTI AIRTEL LIMITED (BHARTIARTL NSE, CP INR701, BUY, TP INR890)

ADVANCED INFO SERVICE (ADVANC BKK, CP THB232, BUY, TP THB235)

TELKOMSEL INDONESIA (PERSERO) TBK PT (TLKM IDX, CP IDR4620, NR)

GLOBE TELCOM, INC (GTMEF PHST, CP P2240, BUY, TP P3080)



## **Value Proposition**

- Telco conglomerate whose companies have significant, if not leading, shares in their markets.
- High-growth phase for wireless segment has passed. Competition is generally on the rise in this segment in most markets.
- Enterprise and 5G to provide next legs of growth, while cash is harvested from wireless leadership to support investments and capex.
- Healthy balance sheet backs DPS payout ratio of 60-80%. Proceeds from sale of non-core assets are partly committed to exceptional payouts.

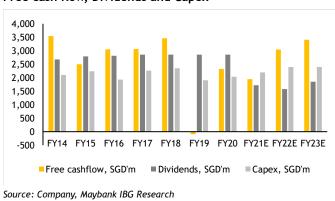
#### Singtel SOTP Valuation

Valuation	Stake	Valuation method	Valuation	Exch rate	Valuation	Pershare	% of
valuation	(%)	valuation method	(LC)	(SGD/LC)	(SGD m)	(SGD)	total
Sing Tel Core Business	####	SingtelDCF (6.9% WACC, 0% TG, 0.90 beta) Optus DCF (6.0% WACC, 0% TG, 0.71 beta)	21,034	1.00	21,034	1.29	
(Less) Consol Net Debt					-11,312	-0.69	
Sub Total					9,722	0.60	20%
	Stake	Valuation method	Valuation	Exch rate	Valuation	Pershare	% of
	(%)	valuation method	(LC)	(\$\$/LC)	(SGD m)	(SGD)	total
Associates							
Telkomsel (Indonesia)	35.0	70% of Market Caplisted Telkom	107,031,776	10,798	9,912	0.61	15%
Bharti Airtel (India)	31.7	DCF (9.4% WACC, 3% TG,1.0 beta), mcap of africa and tower businesses	1,538,551	54.00	28,492	1.75	44%
AIS (Thailand)	23.3	DCF (7.0% WACC, 2% LTG, 1.0 beta)	151,703	22.98	6,602	0.40	10%
Globe (Philippines)	46.9	DCF (5.7% WACC, 1% LTG, 0.7 beta)	132,239	35.80	3,694	0.23	6%
Intouch (Thailand)	21.1	SOTP (ALS TP and mkt cap of THCOM TB)	42,414	22.98	1,846	0.11	3%
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	1,073	1.00	1,073	0.07	2%
SingPost (Singapore)	21.7	Market Cap	361	1.00	361	0.02	1%
Sub Total					51,618	3.18	
		25% discount				(0.80)	
Associates' value						2.39	80%
Total Equity Value						2.98	100%

Source: FactSet, Maybank IBG Research

## **Financial Metrics**

- We forecast EBITDA to grow at 5.9% CAGR over FY21-23E due to earnings recovery following Covid-19.
- Pretax associate income could contribute to bottom line by growing 27% over the same period, led by Bharti's swing to net profit from net loss.
- We expect net debt to EBITDA, including associate dividends, to remain healthy at 1.6x-2.2x in FY21-23E; providing support to its fixed DPS commitment.



#### Free cash flow, Dividends and Capex

## **Price Drivers**

#### Historical share price trend



#### Source: Company, Maybank IBG Research

- 1. Proposal for fourth mobile licence. Bharti's profits started to taper off.
- 2. Proposal to increase effective stake in Bharti to 39.5%. Share price continues to be pressured by competitive environment.
- 3. Australia wireless pricing went through industry-wide reflation.
- 4. Earnings marred by weakness in ARPU on the back of lower usage of roaming and data given travel restrictions and work-from-home arrangements.
- 5. Ongoing global economic disruption brought about by COVID-19 and structural challenges brought about by intense market competition.

## **Swing Factors**

## Upside

- Strong growth in enterprise and Digital Life to positive operating leverage.
- Stronger-than-expected ARPU due to easing in price competition in countries it operates in.
- Faster-than-expected monetisation of 5G development.

## Downside

- Further wireless margin compression triggered by competition in Singapore and / or Australia.
- Worse-than-expected cannibalisation of wireless voice, SMS and roaming by data.
- Failure to monetise 5G development.

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Risk Rating & Score <sup>1</sup>	18.5
Score Momentum <sup>2</sup>	-0.0
Last Updated	16 Dec 2021
Controversy Score <sup>3</sup> (Updated: 16 Dec 2021)	0 - No reports

## **Business Model & Industry Issues**

- Singtel is most exposed to cybersecurity and personal data leakage risks given its nature of business. There have been minor lapses due to IT, process and human errors over the years, and Singtel was penalised for an immaterial sum.
- Going forward, Singtel will continue to educate its staff and improve practices and processes to minimise data breaches.
- As Singtel is in the business of connectivity, it is supporting digital inclusion through connecting communities and supporting the disadvantaged.
- Notably in FY20, the telco supported migrant workers with free remittance services and their WiFi and mobile data needs. It
  also provided refurbished laptops and data SIMs to disadvantaged students for their home-based learning. In Australia, Optus
  scaled up "Donate Your Data" to support disadvantaged students by offering them free mobile data access for online learning.
- Singtel displays no exceptional risks for a telco operator for ESG and is in line with peers in tackling ESG issues.

## Material E issues

- Achieved carbon emissions intensity reduction of 70% in 2020, well exceeding our 2030 target of 50%.
- Over 84% of waste generated disposed via reuse, recycling or incineration with energy recovered.
- Only Southeast Asian company among a pioneer group of 28 global companies in July 2019 that committed to keeping the global temperature increase within 1.5°C and net zero emissions by 2050.

## **Material S issues**

- 28% of female employees in middle and top management.
- Singtel was included in the 2020 Bloomberg Gender-Equality Index and the Refinitiv Global Diversity & Inclusion Index 2019 and named as one of the top 10 employers for Gender Diversity at The Leonie Awards 2019.
- Total training investment of SGD21.9m and pledged SGD45m to boost the digital skills of its workforce through companywide initiatives over three years.
- Zero fatality rate across Singtel and Optus in FY20.
- To promote digital inclusion, Optus has launched "Donate Your Data" in Australia to help disadvantaged young people bridge the digital divide.
- Singtel also supported 1,000 vulnerable seniors under CareLine 24-hour telephone befriending service with free mobile phone services to promote digital inclusion and wellbeing.

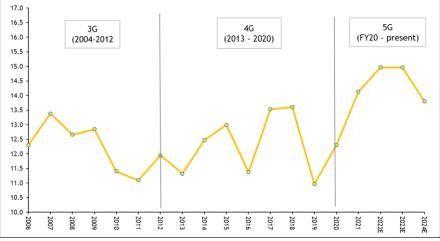
## Key G metrics and issues

- Board consists of 10 directors, of which one is executive officer (MD/CEO), the remaining are non-executive & independent directors (including Chairman). 30% are female directors.
- The nomination, audit, investment and remuneration committees are chaired by independent directors.
- Key management/directors' compensation accounted for 9.4%/1.3% of total employee compensation in 2019.
- There have been no corruption cases reported for the past three years.
- Cyber security and data leakage risks. Conducts its businesses in strict adherence to data protection laws - the Personal Data Protection Act in Singapore and the Privacy Act and Telecommunications Act in Australia.
- There have been minor lapses due to IT, process and human errors. Singtel will continue to educate its staff and improve practices and processes to minimise data breaches.

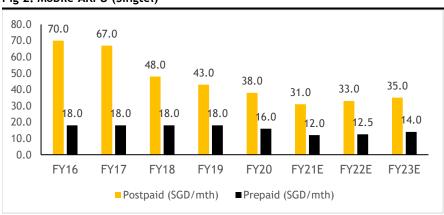
<u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>Ascore Momentum</u> - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. <u>Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## 1. Focus charts

Fig 1: Capex as a % of revenue trend

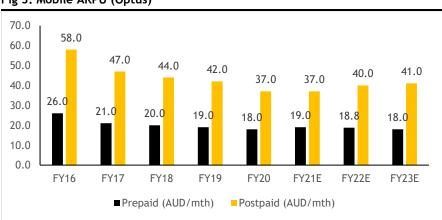


Source: Company Data, Maybank IBG Research



#### Fig 2: Mobile ARPU (Singtel)

Source: Company Data, Maybank IBG Research



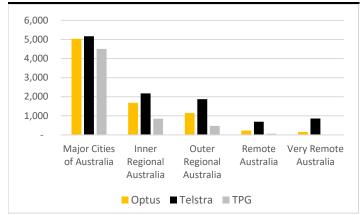
### Fig 3: Mobile ARPU (Optus)

Source: Company Data, Maybank IBG Research

Outer Regional

Australia

Fig 4: Total number of sites by Australia telcos in 2021



2,000 \_\_\_\_\_\_ 1,500 \_\_\_\_\_\_ 1,000 \_\_\_\_\_

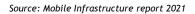
Inner Regional

Australia

Optus ■ Telstra ■ TPG

Fig 5: Number of 5G sites by Australia telcos in 2021

Source: Mobile Infrastructure report 2021



Major Cities of

Australia

2,500

500

## 2. Notable developments in the region

#### Singtel to redevelop its Comcentre HQ at a cost of SGD2bn

This move is part of Singtel's strategic reset plan to divest latent businesses and drive growth. As part of its capital recycling strategy, Singtel plans to divest Comcentre in a joint venture (JV) with the appointed developer. We project the planned divestment to add about 2% to Singtel's future earnings while making the company's assets leaner. Assuming Singtel holds 51% of the JV and a monthly rental rate of SGD12-15 per sqft for 3 years and a cap rate of 4%, the telco would generate additional EBITDA of SGD48-60m. We anticipate more divestments based on a recent note by Singtel on SGX that the company has appointed an investment bank for its diversification of Amobee and the possibility of it selling its North American business Trustwave.

Singtel's subsidiary NCS SGD325m buyout of Dialog - Australia largest privately owned-IT services company. Accelerating the plan to be a pan-Asian B2B digital service provider, the acquisition will bolster the presence of Singtel's IT service arm in Australia by: (1) increasing the number of highly-skilled IT specialists, (2) providing greater market access to a widerange of tier-1 clients from a multitude of sectors. (3) leveraging complementary capabilities and expertise to create a stronger end-to-end suite of technology and digital services for NCS' clients in Australia and across the region. Amid the pandemic, Dialog generated earnings of AUD12m (-2% of Singtel's FY21 net income). This is positive as we would expect a bump in profits as NCS will supplement Dialog by providing stronger suite for Enterprise clients in Australia given NCS' capabilities in AI, cloud

#### Fig 6: Developments in regional associates

Country	Company	Market position (market share)	Stake (%)	Outlook/ Thesis	MKE rating	YoY%
India	Bharti Airtel	#2 in India (29%)	31.9	<ul> <li>Airtel and TCS joined forces to test 5G based use cases from a wide variety of manufacturing suite solutions. They are leveraging on ultra-reliable low latency, enhaced bandwidth and high device density characteristics of 5G networks to enable autonomous actions.</li> <li>Airtel hiked prepaid tariffs recently by 20-25% and has been opportunistic in raising funds when required to drive growth. This is expected to contribute stronger revenue and higher ARPU.</li> <li>The enterprise and bome broadband businesses are gaining market share and Bharti is investing in data centers to offer end-to-end services to enterprises.</li> <li>Airtel accepts a 4-year moratorium on payments of AGR and spectrum dues. This will help to conserve cashflow and help future capex use.</li> </ul>	BUY	15.24
Thailand	Advanced Info Service	#1 in Thailand (43.65%)	23.3	<ul> <li>ADVANC highlighted growth in mobile revenue and subscribers in Q4 2021 as it focused on expanding its 5G network, ending the year with 76% population coverage across 77 cities and 2.2m subscribers.</li> <li>Projected healthy growth in IT services of 6% YoY in 2022. This is positive for ADVANC as it is targeted for growth by the EB division.</li> <li>The operator noted ARPU uplift for 5G users of 10- 15% despite Covid-19 (coronavirus) restrictions weakening consumer purchasing power.</li> </ul>	BUY	4.88
Indonesia	Telkomsel	#1 in Indonesia (58.9%)	35	<ul> <li>Since launching its 1st 5G service in Indonesia, Telkomsel has continued to roll out different trials and use cases according to client and industry needs.</li> <li>Mobile competition remains intense but is not worsening. Competition shifted towards delivering quality products and services rather than offering low priced packages.</li> <li>Telkomsel is expected to benefit from its dominant position, especially in the ex-Java region, and a favorable regulatory environment</li> </ul>	NR	-4.4
Philippines	Globe	#1 in Philippines (47.0%)	46.9	<ul> <li>Globe's expansion of its 5G roaming services to three countries (Netherlands, Bahrain, New Zealand) forms part of its continuing efforts to explore more partnerships. We would expect capex to increase for this recent expansion and GLO to compete more aggressively in the fixed-line space</li> <li>Globe formed a new data center JV with ST Telemedia Global Data Centers (the region's fastest growing DC solutuion provider) to accelerate DC growth and its market postion in the Philippines</li> </ul>	BUY	-3.7

Source: Comapny data, Maybank IBG Research

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24
Key Metrics					
P/E (reported) (x)	48.8	22.7	18.3	15.6	13.
Core P/E (x)	38.6	23.0	18.3	15.6	13.
Core FD P/E (x)	38.6	23.0	18.3	15.6	13.
P/BV (x)	1.5	1.5	1.5	1.5	1.
P/NTA (x)	3.2	3.0	3.0	2.9	2.
Net dividend yield (%)	6.9	1.3	4.6	5.5	6.
FCF yield (%)	0.8	11.1	5.8	7.8	9.
EV/EBITDA (x)	13.5	13.6	13.4	12.7	10.
EV/EBIT (x)	27.9	45.3	42.1	39.4	27.2
INCOME STATEMENT (SGD m)					
Revenue	16,541.0	15,643.7	16,249.0	17,399.0	17,302.3
EBITDA	4,047.3	3,832.7	3,934.2	4,032.3	4,563.
Depreciation	(2,580.0)	(2,685.0)	(2,685.0)	(2,731.0)	(2,730.0
Amortisation	0.0	0.0	0.0	0.0	(2,750.0
BIT	1,960.3	1,147.7	1,249.2	1,301.3	1,833.
			(375.8)	(375.7)	-
Net interest income /(exp) Associates & JV	(282.0) 1 742 7	(395.0) 1 798 0	, ,	(375.7) 2,969.9	(375.6
	1,742.7	1,798.0	2,444.2 0.0	,	3,052.
Exceptionals	(1,381.4)	0.0		0.0	
Other pretax income	0.0	0.0 2 550 7	0.0	0.0	0. 4 509
Pretax profit	2,039.6	2,550.7	3,317.6	3,895.5	4,509.
ncome tax	(988.0)	(811.0)	(1,054.8)	(1,238.6)	(1,433.9
Minorities	22.4	(6.2)	(6.2)	(6.2)	(6.2
Discontinued operations	0.0	0.0	0.0	0.0	0.
Reported net profit	1,074.0	1,733.5	2,256.6	2,650.7	3,069.
Core net profit	1,074.0	1,733.5	2,256.6	2,650.7	3,069.
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	999.6	754.7	1,547.3	2,873.4	4,237.
Accounts receivable	5,559.4	5,443.7	5,654.3	6,054.5	6,020.
nventory	279.6	271.6	325.0	348.0	346.
Reinsurance assets	0.0	0.0	0.0	0.0	0.
Property, Plant & Equip (net)	10,363.8	11,534.1	11,249.1	10,918.1	10,588.
ntangible assets	13,735.9	13,129.1	13,129.1	13,129.1	13,129.
nvestment in Associates & JVs	16,287.3	15,790.3	15,790.3	15,790.3	15,790.
Other assets	1,729.3	1,074.9	1,603.9	1,603.9	1,603.
Total assets	48,954.9	47,998.4	49,299.0	50,717.3	51,716.
ST interest bearing debt	3,970.5	2,033.9	2,033.9	2,033.9	2,033.
Accounts payable	6,373.8	6,784.8	7,347.1	7,867.0	7,823.
nsurance contract liabilities	0.0	0.0	0.0	0.0	0.
T interest bearing debt	10,202.1	10,825.6	10,825.6	10,817.0	10,817.
Other liabilities	2,382.0	1,843.0	445.0	445.0	445.
Total Liabilities	22,928.7	21,487.0	20,651.2	21,162.6	21,119.
Shareholders Equity	26,789.2	26,485.8	28,622.2	29,529.1	30,571.
Minority Interest	24.8	25.6	25.6	25.6	25.
Total shareholder equity	26,814.0	26,511.4	28,647.8	29,554.7	30,597.0
Total liabilities and equity	48,954.9	47,998.4	49,299.0	50,717.3	51,716.
	,	,	,	,	,
CASH FLOW (SGD m)	2 020 4		1 14 <b>7</b> /		4 500
Pretax profit	2,039.6	2,550.7	3,317.6	3,895.5	4,509.
Depreciation & amortisation	2,580.0	2,685.0	2,685.0	2,731.0	2,730.
Adj net interest (income)/exp	(2,031.9)	(1,695.0)	(1,424.8)	(1,275.7)	(1,426.8
Change in working capital	78.8	878.1	(230.7)	96.8	(8.1
Cash taxes paid	0.0	0.0	0.0	0.0	0.
Other operating cash flow	0.4	0.0	0.4	0.4	0.
Cash flow from operations	2,666.5	4,031.2	4,347.0	5,447.6	5,804.
Capex	(2,036.6)	(2,200.0)	(2,400.0)	(2,400.0)	(2,400.0
Free cash flow	10,957.6	2,328.2	1,947.0	3,047.6	3,404.
Dividends paid	(2,856.7)	(1,722.2)	(1,579.6)	(1,855.5)	(2,148.8
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.
Change in Debt	0.0	0.0	0.0	0.0	0.
Other invest/financing cash flow	13,763.4	(353.9)	(1,340.7)	467.3	493.
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.
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FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(4.8)	(5.4)	3.9	7.1	(0.6)
EBITDA growth	(17.8)	(5.3)	2.6	2.5	13.2
EBIT growth	(20.6)	(41.5)	8.8	4.2	40.9
Pretax growth	(48.0)	25.1	30.1	17.4	15.8
Reported net profit growth	(65.3)	61.4	30.2	17.5	15.8
Core net profit growth	(65.3)	61.4	30.2	17.5	15.8
Profitability ratios (%)					
EBITDA margin	24.5	24.5	24.2	23.2	26.4
EBIT margin	11.9	7.3	7.7	7.5	10.6
Pretax profit margin	12.3	16.3	20.4	22.4	26.1
Payout ratio	nm	30.3	84.6	85.2	84.9
DuPont analysis					
Net profit margin (%)	6.5	11.1	13.9	15.2	17.7
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.8	1.8	1.7	1.7	1.7
ROAE (%)	3.8	6.5	8.2	9.1	10.2
ROAA (%)	2.2	3.6	4.6	5.3	6.0
Liquidity & Efficiency					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	125.7	126.6	122.9	121.1	125.6
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	0.4	3.3	1.2	1.2	1.2
Current ratio (x)	0.7	0.7	0.8	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.2	2.4	2.4	2.4
Net gearing (%) (incl perps)	49.1	45.7	39.5	33.8	28.2
Net gearing (%) (excl. perps)	49.1	45.7	39.5	33.8	28.2
Net interest cover (x)	7.0	2.9	3.3	3.5	4.9
Debt/EBITDA (x)	3.5	3.4	3.3	3.2	2.8
Capex/revenue (%)	12.3	14.1	14.8	13.8	13.9
Net debt/ (net cash)	13,173.0	12,104.8	11,312.2	9,977.5	8,613.3

Source: Company; Maybank IBG Research

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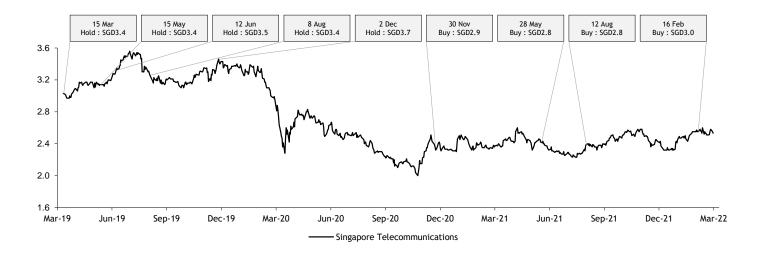
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