

Vietnam

**ADD** (no change)

Consensus ratings\*: Buy 7 Hold 0 Sell 1

Current price:	VND23,800
Target price:	VND29,700
Previous target:	VND29,700
Up/downside:	24.8%
CGS-CIMB / Consensus:	-2.2%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$2,827m
	VND65,713,564m
Average daily turnover:	US\$6.01m
	VND140,627m
Current shares o/s:	2,761m
Free float:	59.7%

\*Source: Bloomberg

**Key changes in this note**

➤ No changes



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	-1.7	3.5	4.9
Relative (%)	1.5	11.4	4.9

<b>Major shareholders</b>	% held
Tran Dinh Long	25.4
Dragon Capital	7.7
Vu Thi Hien	7.3

# Hoa Phat Group

## Huge capacity expansion announced

- HPG has just announced a plan to double the current capacity of the Dung Quat Steel Complex (DQSC) to 9m-10m tonnes per annum.
- According to management, the expansion project will likely start construction in FY23 and complete in FY29.
- Although the intention to expand the plant is not new, what surprised us was the huge capex of about US\$2.1bn for this project. Maintain Add.

### HPG seeking shareholders' approval to double DQSC capacity

The expansion of DQSC is expected to add 5m tonnes of steel (+100% versus current capacity of DQSC's two phases). When the DQSC expansion is fully operational, HPG will be able to produce 13.9m tonnes of steel p.a. (including self-consumed HRC), or +184.9% versus 2019's capacity. The DQSC expansion will be built on an area of 166ha (+38% versus the current area of DQSC).

### DQSC expansion is still a long-term story

The expected timeline for the DQSC expansion, according to HPG's management is as follows: a) HPG's BoD approved the plan for the DQSC expansion on 10 Feb 2020. b) When HPG gets shareholders' written approval, likely in Mar 2020, it will submit the required documents to Quang Ngai Province's Department of Planning and Investment (DoPI) to receive land bank. c) Quang Ngai DoPI will submit the project's proposal to the prime minister. It could take some time to get the PM's approval, based on the track record of DQSC phases 1+2 (2-3 years). d) The DQSC expansion project is likely to start construction in 2023. Phase 1 of the DQSC expansion is expected to complete in 36 months after getting construction approval, and phase 2 will become operational 36 months later.

### Project is not a surprise but the huge capex is

HPG had previously talked about its plan for the DQSC expansion in its last investors' meeting. It has also submitted its plan for the DQSC expansion to Quang Ngai Province Government since 2017. Due to the lack of information about timeline and size of expansion plan, we have not reflected this project in our latest model. The surprise from this latest announcement is the size of the investment. The expansion project will need a capex of VND50,000bn from FY23F to FY29F (estimated timeline) which will raise the total investment in DQSC to VND102,000bn (+96.2%).

### We maintain our Add call with TP of VND29,700

Our TP is based on an equal weighting of (1) 12M forward P/E of 8.0x on FY20F EPS; and (2) a DCF valuation over a 10-year projection period. Potential re-rating catalyst is lower-than-expected iron ore price. Risks to our Add call include: (1) slower-than-expected steel demand growth, and (2) lower-than-expected utilisation rate at DQSC.

**Analyst(s)**



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**Financial Summary**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (VNDb)	55.836	63.658	72.825	85.160	95.704
Operating EBITDA (VNDb)	12.524	11.914	17.556	19.872	22.710
Net Profit (VNDb)	8.392	7.326	8.903	10.416	13.216
Core EPS (VND)	3.039	2.653	3.225	3.773	4.787
Core EPS Growth	7,2%	(12,7%)	21,5%	17,0%	26,9%
FD Core P/E (x)	7,83	8,97	7,38	6,31	4,97
DPS (VND)	2	0	500	500	1.000
Dividend Yield	0,01%	0,00%	2,10%	2,10%	4,20%
EV/EBITDA (x)	6,69	8,11	5,51	4,37	3,21
P/FCFE (x)	NA	36,30	52,78	26,10	21,05
Net Gearing	44,5%	64,3%	54,0%	31,2%	8,9%
P/BV (x)	1,62	1,38	1,15	0,98	0,83
ROE	23,1%	16,6%	17,0%	16,8%	18,1%
CGS-CIMB/Consensus EPS (x)			1,04	1,00	

SOURCES: VND RESEARCH, COMPANY REPORTS

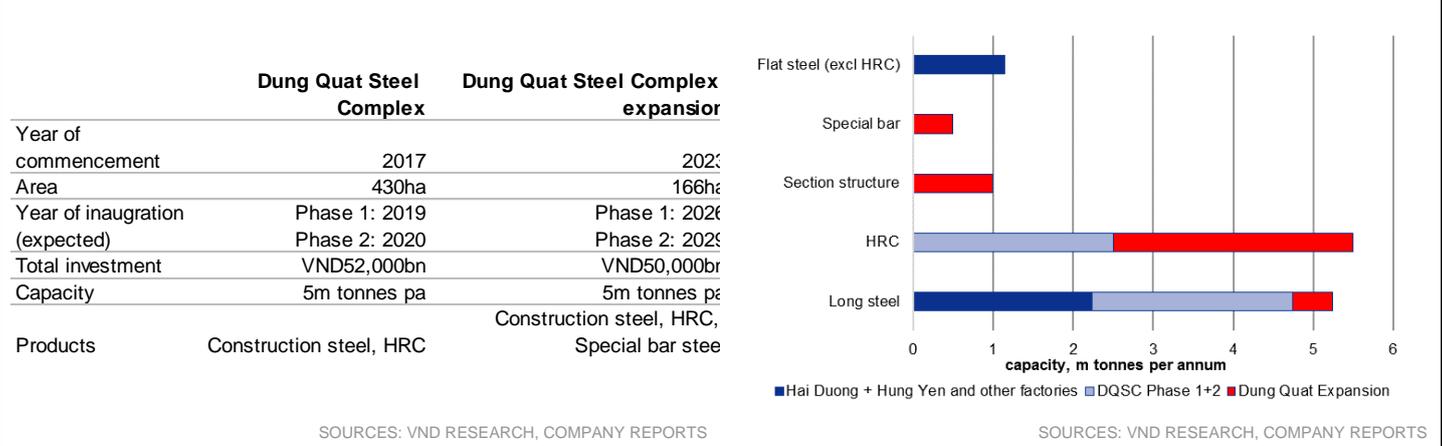
## Huge capacity expansion announced

### DQSC expansion will focus on HRC and new steel products ➤

The DQSC expansion will add capacity of 0.5m tonnes of construction steel (+10.5% versus current capacity), 3m tonnes of hot roll coil (HRC) (+120% versus DQSC phase 2 capacity), 1.5m tonnes new products (section structure steel and special bar steel).

For the DQSC expansion product portfolio, HPG will focus on HRC and new products, the demand of which has not been met by domestic steel producers.

Figure 1: Comparison between DQSC and DQSC Expansion Plan Figure 2: Product portfolio of Hoa Phat by factories



### The capex is huge, but funding will not be a problem for HPG ➤

HPG plans to fund the expansion project with a capital structure of 60% from internal sources (equity) and 40% from debt. As we do not expect the construction to start until 2023, the huge capex will not put any significant pressure on HPG in the medium term.

Based on our forecast, HPG can accumulate VND22,746bn in free cash flow (before cash dividend) by the end of FY23F, equivalent to 73% of the equity required. If the debt is disbursed in line with the implementation schedule, we estimate the debt/equity ratio of HPG in the period of FY23-25F to be 9-16%, which is still a comfortable level, in our view.

Figure 3: Estimated effects of DQSC Expansion to HPG's D/E ratio

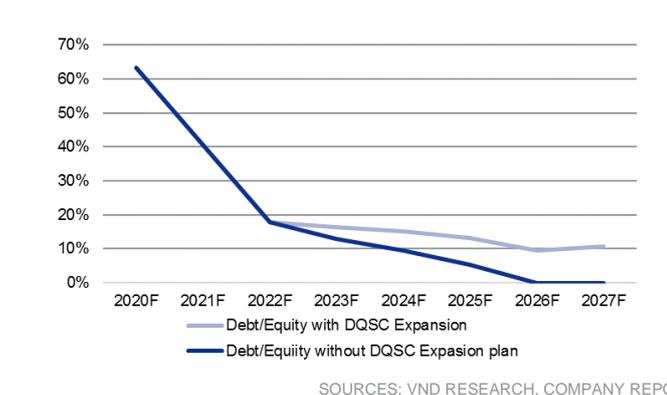


Figure 4: Capex details for DQSC expansion

Item	Value (VNDbn)
<b>Total investment</b>	<b>60,000</b>
Total capex	50,000
Of which	
Machinery	32,000
Construction	15,000
Others	3,000
Working capital	10,000
<b>Equity/Total capex</b>	<b>60%</b>

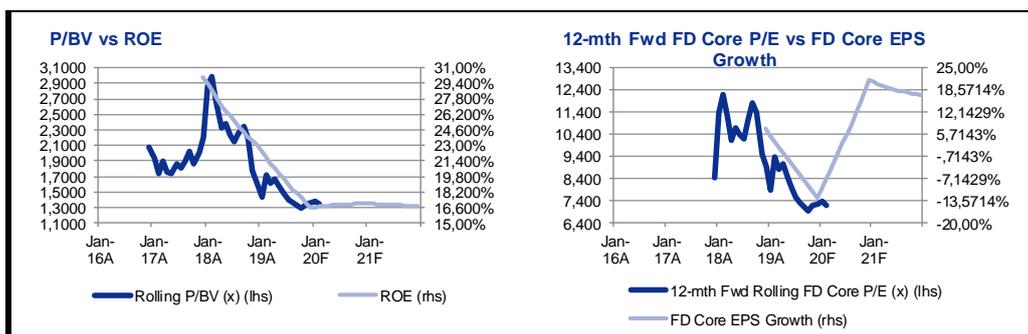
SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 5: Peers Comparison (data as of Feb 11, 2020)**

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)		3-year EPS		P/BV (x)		EV/EBITDA (x)		ROE (%)	
			LC\$	LC\$	US\$ m	CY20F	CY21F	CAGR (%)	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	
<b>Regional listed steel producers</b>															
Sansteel Minguang Co Ltd -A	002110 CH	na	8.34	na	2,930	5.2	4.7	na	1.0	0.9	3.0	2.9	19.7	18.7	
Xinxing Ductile Iron Pipes-A	000778 CH	na	3.58	na	2,048	7.4	7.0	76.7	0.7	0.6	5.3	5.0	8.0	8.0	
Xinyu Iron & Steel Co Ltd-A	600782 CH	na	4.48	na	2,047	4.0	4.0	437.3	0.6	0.6	3.3	2.9	15.8	13.8	
Nanjing Iron & Steel Co-A	600282 CH	na	3.19	na	2,025	4.3	4.2	na	0.8	0.7	4.2	4.1	18.6	17.1	
Liuzhou Iron & Steel Co-A	601003 CH	na	5.1	na	1,873	6.2	5.7	na	1.1	1.0	14.0	63.8	18.8	17.9	
Hangzhou Iron & Steel Co-A	600126 CH	na	4.63	na	2,241	na	na	na	na	na	14.8	14.4	na	na	
SGIS Songshan Co Ltd-A	000717 CH	na	4.17	na	1,446	5.4	5.5	na	1.3	1.0	3.6	3.4	23.1	18.9	
<i>Average</i>					2,141	6.2	5.4		0.8	0.7	6.9	13.7	14.8	13.9	
<i>Median</i>					2,099	4.9	4.7		0.8	0.7	3.9	3.9	17.5	15.7	
<b>Hoa Phat Group</b>	<b>HPG VN</b>	<b>Add</b>	<b>23,800</b>	<b>29,700</b>	<b>2,827</b>	<b>7.4</b>	<b>6.3</b>	<b>7.7</b>	<b>1.2</b>	<b>1.0</b>	<b>5.7</b>	<b>4.6</b>	<b>17.0</b>	<b>16.8</b>	

SOURCES: Bloomberg, VND RESEARCH

## BY THE NUMBERS



### Profit & Loss

(VNDb)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>55.836</b>	<b>63.658</b>	<b>72.825</b>	<b>85.160</b>	<b>95.704</b>
<b>Gross Profit</b>	<b>11.671</b>	<b>11.185</b>	<b>14.316</b>	<b>16.255</b>	<b>19.368</b>
<b>Operating EBITDA</b>	<b>12.524</b>	<b>11.914</b>	<b>17.556</b>	<b>19.872</b>	<b>22.710</b>
Depreciation And Amortisation	-2.206	-2.417	-5.194	-5.965	-5.965
<b>Operating EBIT</b>	<b>10.318</b>	<b>9.498</b>	<b>12.362</b>	<b>13.906</b>	<b>16.745</b>
Financial Income/(Expense)	-245	-465	-1.563	-1.295	-720
Pretax Income/(Loss) from Assoc.	0	-1	0	0	0
Non-Operating Income/(Expense)	-1	66	-22	-10	-45
<b>Profit Before Tax (pre-EI)</b>	<b>10.071</b>	<b>9.097</b>	<b>10.776</b>	<b>12.602</b>	<b>15.980</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>10.071</b>	<b>9.097</b>	<b>10.776</b>	<b>12.602</b>	<b>15.980</b>
Taxation	-1.471	-1.518	-1.616	-1.890	-2.397
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>8.601</b>	<b>7.578</b>	<b>9.160</b>	<b>10.712</b>	<b>13.583</b>
Minority Interests	-28	-71	-28	-28	-28
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	-181	-182	-229	-268	-340
<b>Net Profit</b>	<b>8.392</b>	<b>7.326</b>	<b>8.903</b>	<b>10.416</b>	<b>13.216</b>
Recurring Net Profit	8.392	7.326	8.903	10.416	13.216
<b>Fully Diluted Recurring Net Profit</b>	<b>8.392</b>	<b>7.326</b>	<b>8.903</b>	<b>10.416</b>	<b>13.216</b>

### Cash Flow

(VNDb)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>EBITDA</b>	<b>12.524</b>	<b>11.914</b>	<b>17.556</b>	<b>19.872</b>	<b>22.710</b>
Cash Flow from Inv. & Assoc.	0	-1	0	0	0
Change In Working Capital	-2.766	-8.494	-2.054	-5.302	-1.731
(Incr)/Decr in Total Provisions	-73	0	0	0	0
Other Non-Cash (Income)/Expense	0	0	0	0	0
Other Operating Cashflow	-86	-8	-134	-128	-383
Net Interest (Paid)/Received	-540	-937	-1.782	-1.600	-1.064
Tax Paid	-1.416	-1.518	-1.616	-1.890	-2.397
<b>Cashflow From Operations</b>	<b>7.642</b>	<b>955</b>	<b>11.970</b>	<b>10.951</b>	<b>17.136</b>
Capex	-27.594	-27.594	-1.099	-800	-500
Disposals Of FAs/subsidiaries	65	0	0	0	0
Acq. Of Subsidiaries/investments	6.148	2.350	629	0	0
Other Investing Cashflow	849	41	-41	0	0
<b>Cash Flow From Investing</b>	<b>-20.533</b>	<b>-25.203</b>	<b>-510</b>	<b>-800</b>	<b>-500</b>
Debt Raised/(repaid)	11.137	26.058	-10.214	-7.634	-13.514
Proceeds From Issue Of Shares	11	0	0	0	0
Shares Repurchased					
Dividends Paid	-6	0	-1.381	-1.381	-2.761
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>11.143</b>	<b>26.058</b>	<b>-11.595</b>	<b>-9.014</b>	<b>-16.276</b>
Total Cash Generated	-1.748	1.810	-136	1.137	360
<b>Free Cashflow To Equity</b>	<b>-1.754</b>	<b>1.810</b>	<b>1.245</b>	<b>2.517</b>	<b>3.121</b>
<b>Free Cashflow To Firm</b>	<b>-12.351</b>	<b>-23.311</b>	<b>13.241</b>	<b>11.751</b>	<b>17.699</b>

SOURCES: VND RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(VNDb)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	6.240	5.939	5.175	6.388	7.066
Total Debtors	3.210	3.575	6.173	8.166	7.555
Inventories	14.115	19.412	19.360	22.786	26.247
Total Other Current Assets	1.743	1.546	2.274	2.659	2.988
<b>Total Current Assets</b>	<b>25.309</b>	<b>30.472</b>	<b>32.982</b>	<b>39.999</b>	<b>43.856</b>
Fixed Assets	50.852	68.992	69.684	65.732	61.780
Total Investments	67	26	67	67	67
Intangible Assets	217	269	195	183	172
Total Other Non-Current Assets	1.778	2.032	2.319	2.712	3.048
<b>Total Non-current Assets</b>	<b>52.914</b>	<b>71.319</b>	<b>72.264</b>	<b>68.694</b>	<b>65.066</b>
Short-term Debt	11.495	16.838	19.492	13.349	2.073
Current Portion of Long-Term Debt					
Total Creditors	8.707	6.178	8.071	9.247	10.675
Other Current Liabilities	2.435	3.982	3.175	3.713	4.173
<b>Total Current Liabilities</b>	<b>22.636</b>	<b>26.998</b>	<b>30.738</b>	<b>26.309</b>	<b>16.921</b>
Total Long-term Debt	12.811	19.842	16.574	14.082	11.992
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.153	7.163	728	852	957
<b>Total Non-current Liabilities</b>	<b>14.964</b>	<b>27.005</b>	<b>17.302</b>	<b>14.934</b>	<b>12.949</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>37.600</b>	<b>54.003</b>	<b>48.040</b>	<b>41.243</b>	<b>29.870</b>
Shareholders' Equity	40.496	47.605	57.024	67.240	78.815
Minority Interests	127	183	182	210	237
<b>Total Equity</b>	<b>40.623</b>	<b>47.788</b>	<b>57.206</b>	<b>67.450</b>	<b>79.052</b>

### Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	21,0%	14,0%	14,4%	16,9%	12,4%
Operating EBITDA Growth	9,7%	(4,9%)	47,4%	13,2%	14,3%
Operating EBITDA Margin	22,4%	18,7%	24,1%	23,3%	23,7%
Net Cash Per Share (VND)	-6.543	-11.134	-11.188	-7.621	-2.535
BVPS (VND)	14.667	17.241	20.653	24.353	28.545
Gross Interest Cover	19,11	10,14	6,94	8,69	15,74
Effective Tax Rate	14,6%	16,7%	15,0%	15,0%	15,0%
Net Dividend Payout Ratio	0,1%	NA	13,1%	11,2%	17,7%
Accounts Receivables Days	31,92	19,45	24,50	30,73	29,98
Inventory Days	106,9	116,6	121,3	111,6	117,2
Accounts Payables Days	53,44	51,77	44,56	45,87	47,63
ROIC (%)	27,9%	13,0%	12,3%	13,3%	15,9%
ROCE (%)	19,2%	13,3%	14,2%	15,1%	18,2%
Return On Average Assets	15,4%	10,3%	11,5%	12,6%	14,9%

### Key Drivers

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP (% Change)	9,8%	-6,1%	-3,9%	0,1%	-0,4%
Unit Sales Growth (%)	6,4%	13,0%	27,8%	20,1%	14,5%
Utilisation Rate (%)	84,7%	63,9%	68,9%	77,6%	83,3%

SOURCES: VND RESEARCH, COMPANY REPORTS

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South Korea	CGS-CIMB Securities (Hong Kong) Limited, Korea Branch	Financial Services Commission and Financial Supervisory Service
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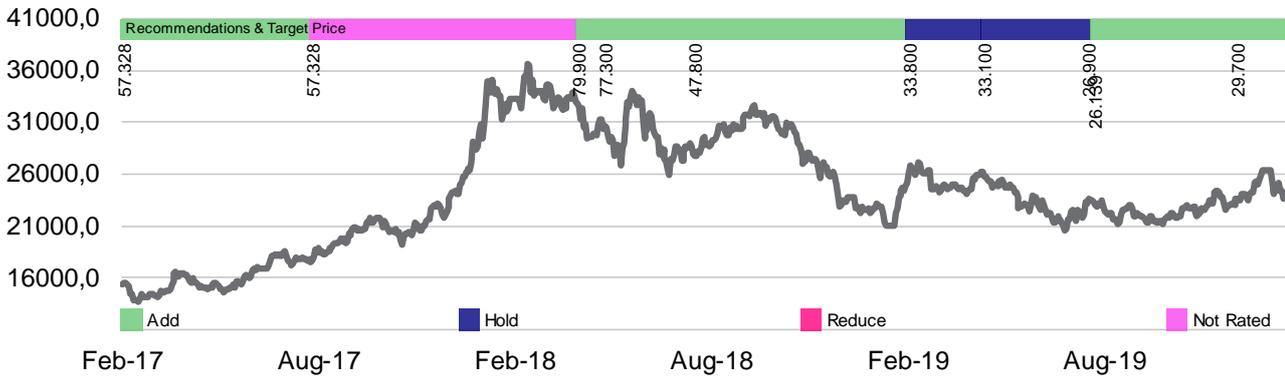
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Add	61,4%	0,0%
Hold	25,2%	0,0%
Reduce	13,4%	0,0%

Spitzer Chart for stock being researched ( 2 year data )

**Hoa Phat Group (HPG VN)**

— Price Close



## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

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4 The Stock Exchange of Thailand: the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI).

### RECOMMENDATION FRAMEWORK

#### Stock Ratings

##### Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

##### Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

##### Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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