

## Company Note

## MID CORPORATE

# SICIT Group

## Resilience in 1H20

The business' resilience and the measures taken in this extraordinary period led to satisfactory results (revenues +9.4%, adj. EBITDA +9.5%), driven by biostimulants and only marginally impacted by the pandemic. The group also confirmed its intention to accelerate the growth process both in the short and medium-term, thanks to the planned investments.

### 1H20 Results

The key points of the results were: 1) consolidated revenues reached EUR 35.5M (+9.4% vs. EUR 32.5M in 1H19A). Growth was driven by the biostimulants business, increasing by 19.4% yoy (EUR 21.7M vs. EUR 18.2M in 1H19), while the retardant business and the animal fat business slightly contracted; 2) adjusted EBITDA of EUR 13.2M (+9.5% vs. EUR 12.1M in 1H19), with a stable margin of 37.2% on revenues; 3) adjusted consolidated net profit around EUR 8.2M (EUR 7.2M in 1H19, +14.5%); 4) net cash of EUR 19.8M vs. EUR 29.3M at YE19.

### Outlook/Estimates

Management is confident about Sicit's growth and the achievement of budget targets for 2020. Regarding macro-trends, positive signals come from agriculture, while plaster retardant could suffer from the pandemic (particularly in the US) and the fat market is volatile at the moment. Given 1H20 results, the outlook for the three business lines, and the confirmed capex plan, we leave our estimates unchanged. We highlight that any unpredictable further developments related to the Covid-19 health emergency could undermine the feasibility of these estimates.

### Valuation

As usual, we evaluate Sicit with a DCF model, due to the absence of listed companies with a similar size, background and/or geographical presence in the group's reference industry. After the update of our model, **we confirm our target price of EUR 12.0/share**. Given the current upside vs. market price of about 11.6%, we reiterate our **ADD recommendation on the stock**.

24 September 2020: 12:56 CET  
Date and time of production

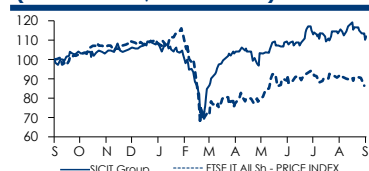
## ADD

Target Price: EUR 12.0

Italy/Agrochemicals  
Update

### MTA-STAR

Price Performance  
(RIC: SICT.MI, BB: SICT IM)



### SICIT Group - Key Data

Price date (market close)	23/09/2020
Target price (EUR)	12.0
Target upside (%)	11.63
Market price (EUR)	10.75
Market cap (EUR M)	211.19
52Wk range (EUR)	11.5/6.8

Price performance %	1M	3M	12M
Absolute	-1.4	2.4	11.9
Rel. to FTSE IT All Sh	2.2	6.6	28.4

Y/E Dec (EUR M)	FY19A	FY20E	FY21E
Revenues	56.7	61.8	66.2
Adj. EBITDA	20.3	24.2	26.8
Adj. EBIT	15.8	19.1	21.5
Adj. Net income	12.1	14.1	15.8
Adj. EPS (EUR)	0.61	0.72	0.80
Net debt/-cash	-29.3	-28.1	-28.3
Adj P/E (x)	16.6	15.0	13.4
EV/EBITDA (x)	8.4	7.6	6.8
EV/EBIT (x)	35.5	9.6	8.5
Div ord yield (%)	8.9	3.3	3.7

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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## 2Q/1H20 Events and Results

The business' resilience and the measures taken in this extraordinary period led to satisfactory results, only marginally impacted by the pandemic. During the Covid-19 lockdown, in fact, Sicit Group continued to operate.

### Covid-19 impact

Raw material supplies:

- Between end-March and beginning-May, most tanning companies in the Vicenza area (the Group's main suppliers of raw materials) were shut down and initially the collection of leather processing residues was discontinued;
- From mid-April, concurrently with the gradual resumption of leather processing, the collection of raw materials has gradually resumed, albeit with volumes below those prior to the Covid-19 emergency;
- The company looked for new suppliers, including foreign ones;
- They used alternative types of input raw materials at the Chiampo plant, despite being economically less advantageous.

Production:

- Production sites never shut down as they were considered a strategic chemical industry;
- The temporary interruptions in the supply of raw materials resulted in the temporary suspension of the production of basic semi-finished products (protein hydrolysates);
- Sicit Group continued to produce finished goods (biostimulants and retardants) using stocks of semi-finished products, thus ensuring full operativity and supply capacity to its customers;
- The company increased its production of protein hydrolysate from animal hair at the Arzignano plant, vs. what was originally planned.

Revenues:

- There were no cancellations of orders by customers, requests to shift deliveries or delivery difficulties that had a negative impact on revenue in 1H20;
- In 2Q20, the temporary closure of some gypsum factories affected revenue from retardants for plaster;
- The drop in volumes collected from tanneries had a negative effect on both revenue from raw material collection services and fat production volumes and related revenue;
- Sicit requested a price increase from customers, to mitigate the potential margin impact from Covid-19 and the increasing cost of raw materials.

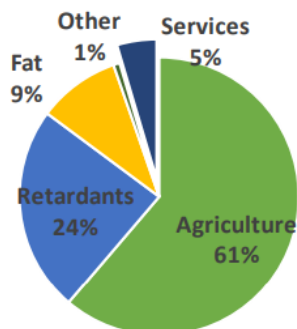
The key points of results were:

### Key results

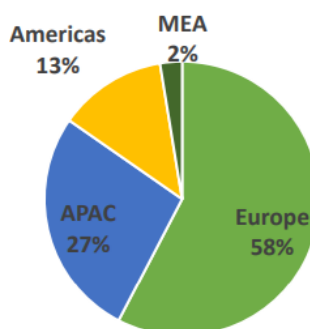
**Consolidated revenues reached EUR 35.5M** (+9.4% vs. EUR 32.5M in 1H19A). Growth was driven by the biostimulants business, increasing by 19.4% yoy (EUR 21.7M vs. EUR 18.2M in 1H19), while the retardant business and the animal fat business slightly contracted (-2.1% and -1% yoy respectively). With reference to geographies, all areas grew, except for the Middle East and Africa (-2.9% yoy), that represents 2.6% of Sicit's revenues;

## Sicit - 1H20 revenues breakdown

Breakdown by sector



Breakdown by region



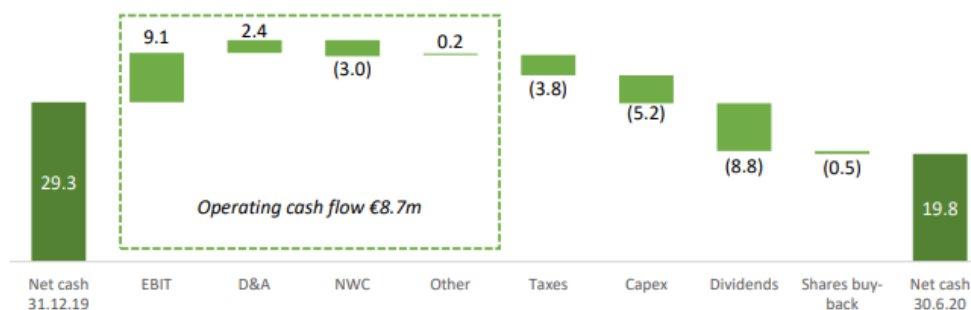
Source: Company data

**Adjusted EBITDA of EUR 13.2M** (+9.5% vs. EUR 12.1M in 1H19), with a stable margin of 37.2% on revenues. The increase in absolute value was mainly due to the growth in revenues (+9.4%), partially offset by higher fixed costs linked to the translisting to the STAR segment and the adjustment of the post-listing governance structure, as well as higher production costs (labour and amortisations) to ensure continuity of operations during the lockdown. The Group did not make use of lay-off aids and all employees remained fully operational;

**Adjusted consolidated net profit of around EUR 8.2M** (EUR 7.2M in 1H19, +14.5%), with a growth substantially in line with EBITDA;

**Consolidated net cash available of EUR 19.8M** vs. EUR 29.3M at YE19 after the distribution of dividends for EUR 8.8M and the purchase of treasury shares for EUR 0.5M. Operating working capital, increased mainly due to sales seasonality (vs. 31 December 19) and higher sales (vs. 1H19). Inventory reduction was partially influenced by the temporary shutdown of semi-finished products operations in 2Q20. Capex (EUR 5.2M) to: 1) support future expansion; 2) improve sourcing and operation flexibility; 3) improve the quality of finished products; and 4) improve research.

## Net financial position – EUR M



Source: Company data

## Sicit – 2Q/1H20 results

	1Q19A	1Q20A	yoy %	2Q19A	2Q20A	yoy %	1H19A	1H20A	yoy %
Revenues	15.7	19.7	25.6	16.8	15.8	-5.7	32.5	35.5	9.4
o/w Biostimulant	9.3	12.1	29.9	8.9	9.7	8.4	18.2	21.7	19.4
o/w Plaster retardant	3.6	4.3	19.6	5.1	4.2	-17.5	8.7	8.5	-2.1
o/w Animal fat	1.7	2.1	27.3	1.7	1.3	-27.8	3.4	3.4	-1.0
o/w Others	1.1	1.2	6.2	1.0	0.7	-32.9	2.2	1.9	-12.6
Adj. EBITDA	5.4	8.0	47.2	6.7	5.3	-21.0	12.1	13.2	9.5
Adj. EBITDA margin %	34.4	40.4		39.8	33.3		37.2	37.2	
EBIT	NA	NA	NA	NA	NA	NA	-1.8	9.1	NM
EBIT margin %	NA	NA	NA	NA	NA	NA	-5.6	25.5	
Pre-tax profit	NA	NA	NA	NA	NA	NA	1.8	4.9	172.4
Net income	NA	NA	NA	NA	NA	NA	-1.3	3.8	NM
Adj. net income	NA	NA	NA	NA	NA	NA	7.2	8.2	14.5
Net debt/-cash	NA	-29.6	NM	NA	-19.9	NA	-33.0	-19.8	

NA: not available; NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## In June:

- Through the payment of a substitute tax of approximately EUR 3.7M, Sicit has activated the recoverability of goodwill and other intangible assets following the allocation of the merger deficit resulting from the preparation of the financial statements as at 31 December 2019, prepared in accordance with Italian accounting standards (OIC). This will result in tax benefits, in terms of lower income taxes (net of the substitute tax paid) of around EUR 2.8M over 5 years (equal to about EUR 560k per year);
- The company announced the completion of production of animal hair protein hydrolysate at the Arzignano plant. The production capacity of the new plant is approximately 40-60 tons/day of processed hair, for a total of over 10,000 tons/year, as originally planned. Overall, the process innovation will increase the production capacity of animal by-products protein hydrolysate by 33% (bringing the production of the Arzignano plant to approximately 16,000 tons/year, compared to 12,000 tons/year in 2019);
- SICIT Group's shares and warrants were admitted to the STAR segment of Borsa Italiana (since 15 June).

## Ongoing investments and outlook

Management is confident about Sicit's growth and the achievement of budget targets for 2020, despite being aware of the volatility and uncertainties related to the pandemic. Regarding macro-trends, positive signals come from agriculture, while plaster retardant could suffer from the pandemic (particularly in the US) and the fat market is volatile at the moment.

The group also confirms it intends to accelerate the growth process by strengthening the sales structure focusing on foreign markets in the short term, and, in the medium term: i) improving the production capacity, both in quantitative and qualitative terms, at the Arzignano and Chiampo sites; and ii) opening a production site in China, to be closer to its international customers. Given the slowdown in the planning of the new production plant due to the public health crisis, the planning and construction of the plant could be further delayed, in the case of a worsening of the emergency, but is expected by end-2021.

In order to pursue this development policy, the group does not exclude potential external acquisitions or partnerships with other industrial groups.

### Short term outlook

### Ongoing capex plan

## Estimates

Given 1H20 results, the outlook with reference to the three business lines, and the confirmed capex plan, we leave our estimates unchanged.

We highlight that any unpredictable further developments related to the Covid-19 health emergency could undermine the feasibility of these estimates.

### Sicit - Estimates 2020E-23E

EUR M	FY20E	FY21E	FY22E	FY23E
Revenues	61.8	66.2	76.3	83.3
Adj. EBITDA	24.2	26.8	31.2	34.9
Adj. EBITDA margin %	39.2	40.5	40.8	41.9
Adj. EBIT	19.1	21.5	25.0	28.1
Adj. EBIT margin %	31.0	32.5	32.7	33.8
Adj. Net Income	14.1	15.8	18.3	20.7
Net debt/-cash	-28.2	-28.4	-29.2	-32.6

E: estimates; Source: Intesa Sanpaolo Research

## Sicit – Revenues breakdown &amp; Main assumptions

EUR M	2019A	2020E	2021E	2022E	2023E
<b>Biostimulant</b>	<b>31.0</b>	<b>35.0</b>	<b>37.8</b>	<b>40.9</b>	<b>44.2</b>
Volumes (t)	20.108	22.119	23.446	24.853	26.344
EUR/t	1.542	1.581	1.612	1.644	1.677
Revenues YoY (%)	2.7	12.8	8.1	8.1	8.1
<b>Plaster retarders</b>	<b>15.3</b>	<b>14.5</b>	<b>15.0</b>	<b>15.7</b>	<b>16.4</b>
Volumes (t)	5.587	5.252	5.409	5.626	5.851
EUR/t	2.744	2.758	2.771	2.785	2.799
Revenues YoY (%)	-0.5	-5.5	3.5	4.5	4.5
<b>Fat</b>	<b>6.5</b>	<b>8.1</b>	<b>8.9</b>	<b>8.9</b>	<b>9.0</b>
Volumes (t)	15.231	15.383	15.537	15.693	15.849
EUR/t	0.428	0.526	0.570	0.570	0.570
Revenues YoY (%)	-2.0	24.2	9.4	1.0	1.0
<b>Other Revenue</b>	<b>3.9</b>	<b>4.2</b>	<b>4.5</b>	<b>4.8</b>	<b>5.2</b>
<b>Granules</b>				<b>6.0</b>	<b>8.5</b>
<b>Total Revenues</b>	<b>56.7</b>	<b>61.8</b>	<b>66.2</b>	<b>76.3</b>	<b>83.3</b>

A: actual; E: estimates; Source: Intesa Sanpaolo Research

## Valuation

As usual, we evaluate SICIT with a DCF model, due to the absence of listed companies with a similar size, background and/or geographical presence in the group's reference industry. Following the roll-out to 2023E of our financial model, we confirm our target price of **EUR 12.0/share**. Given the current upside vs. market price of about 11.6%, **we reiterate our ADD recommendation** on the stock.

**ADD rating; TP at EUR 12.0/sh.**

### DCF Model

The main assumptions in our DCF model are as follows:

- Explicit estimates until 2023E;
- Terminal value growth is set at 1%, while to calculate the LT, we applied the revenues and EBIT margin we forecast for FY23E.

For the WACC calculation, we used a risk-free rate at 1.5%, a risk premium at 7.5% and a Beta of 0.9x (Source: Intesa Sanpaolo Research elaboration on Factset data). In line with the current debt structure, we used a 0% 'target' gearing ratio. As a result, we derived a WACC of 8.25%.

### Sicit - WACC calculation

%	
Gross debt rate	2.6
Tax rate	26.5
Net debt rate	1.9
Gearing	0.0
Beta* relevered (x)	0.9
Risk-free rate	1.5
Equity risk premium	7.5
<b>WACC</b>	<b>8.25</b>

Source: FactSet and Intesa Sanpaolo Research estimates

### Sicit – DCF Calculation

EUR M	2020E	2021E	2022E	2023E	LT
Adj. EBIT	19.1	21.5	25	28.1	28.1
Tax	-5.1	-5.7	-6.6	-7.5	-7.2
NOPAT	14.1	15.8	18.3	20.7	21
No-cash items	5.1	5.3	6.2	6.8	
WC	-1.2	-1	-2.5	-1.7	
Capex	-12	-12	-12	-12	
FCF	5.9	8.1	10	13.7	21
Discounted FCF	5.9	7.5	8.6	10.8	15.3
WACC (%)	8.25				
TV growth (%)	1				
Sum	32.8				
TV	210.5				
EV	243.3				
Cash @ 2019A	-29.3				
Equity	272.5				
Fully diluted shares	22.7				
<b>TP/share (EUR)</b>	<b>12</b>				

Source: Intesa Sanpaolo Research estimates



## SICIT Group – Key Data

Rating ADD	Target price (EUR/sh) Ord 12.0	Mkt price (EUR/sh) Ord 10.75	Sector Agrochemicals		
<b>Values per share (EUR)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
No. ordinary shares (M)	19.65	19.65	19.65	19.65	19.65
Total no. of shares (M)	19.65	19.65	19.65	19.65	19.65
Market cap (EUR M)	201.17	199.56	202.35	202.35	202.35
Adj. EPS	0.68	0.61	0.72	0.80	0.93
CFPS	0.92	0.44	0.97	1.1	1.3
BVPS	3.6	4.5	4.9	5.3	5.8
Dividend ord	0.34	0.90	0.36	0.40	0.47
<b>Income statement (EUR M)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Revenues	55.12	56.66	61.78	66.18	76.33
Adj. EBITDA	22.66	20.30	24.19	26.84	31.17
Adj. EBIT	18.00	15.79	19.12	21.49	24.96
Adj. Pre-tax income	18.23	15.79	19.12	21.49	24.96
Net income	13.36	4.20	14.06	15.80	18.35
Adj. net income	13.36	12.06	14.06	15.80	18.35
<b>Cash flow (EUR M)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Net income before minorities	13.4	12.1	14.1	15.8	18.3
Depreciation and provisions	4.7	4.6	5.1	5.3	6.2
Others/Uses of funds	0	0	0	0	0
Change in working capital	-0.5	-2.1	-1.2	-1.1	-2.5
Operating cash flow	17.5	14.6	17.9	20.1	22.0
Capital expenditure	11.7	9.4	12.0	12.0	12.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	5.9	5.2	5.9	8.1	10.0
Dividends	-6.7	-17.7	-7.0	-7.9	-9.2
Equity changes & Other non-operating items	-0.1	27.4	0	0	0
Net cash flow	-0.9	14.9	-1.1	0.2	0.8
<b>Balance sheet (EUR M)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Net capital employed	55.4	59.6	67.8	75.5	83.8
of which associates	0	0	0	0	0
Net debt/-cash	-14.5	-29.3	-28.2	-28.4	-29.2
Minorities	0	0	0	0	0
Net equity	69.9	88.9	95.9	103.8	113.0
Minorities value	0	0	0	0	0
Enterprise value	186.7	170.3	174.2	174.0	173.1
<b>Stock market ratios (x)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Adj. P/E	15.1	16.6	15.0	13.4	11.0
P/CFPS	11.2	22.9	11.0	10.0	8.6
P/BVPS	2.9	2.2	2.2	2.0	1.9
Payout (%)	50	147	50	50	50
Dividend yield (% ord)	3.3	8.9	3.3	3.7	4.3
FCF yield (%)	2.9	2.5	2.8	3.8	4.7
EV/sales	3.4	3.0	3.0	2.8	2.4
EV/EBITDA	8.2	8.4	7.6	6.8	5.8
EV/EBIT	10.4	35.5	9.6	8.5	7.3
EV/CE	3.4	2.9	2.7	2.4	2.2
D/EBITDA	Neg.	Neg.	Neg.	Neg.	Neg.
D/EBIT	Neg.	Neg.	Neg.	Neg.	Neg.
<b>Profitability &amp; financial ratios (%)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
EBITDA margin	41.1	35.8	39.2	40.5	40.8
EBIT margin	32.6	8.5	31.0	32.5	32.7
Tax rate	26.7	51.4	26.5	26.5	26.5
Net income margin	24.2	7.4	22.8	23.9	24.0
ROCE	32.5	8.0	28.2	28.5	29.8
ROE	20.4	5.3	15.2	15.8	16.9
Interest cover	-75.6	-1.2	NM	NM	NM
Debt/equity ratio	Neg.	Neg.	Neg.	Neg.	Neg.
<b>Growth (%)</b>		<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Sales		2.8	9.0	7.1	15.3
EBITDA		-10.4	19.2	10.9	16.1
Adj. EBIT		-42.2	NM	12.4	16.1
Pre-tax income		-42.2	88.0	12.4	16.1
Net income		-68.6	NM	12.4	16.1
Adj. net income		-9.8	16.6	12.4	16.1

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Company Snapshot

### Company Description

Founded in Chiampo (Vicenza, Italy), the group, through a hydrolysis process of waste from the tanning industry, manufactures and sells value-added products for agriculture (biostimulants) and the industrial market (plaster retardants). The group was the first company to introduce special fertilisers based on amino acids & peptides in the global market in the 1960s and nowadays is a leader in the segment, operating in more than 90 countries. In the collection of raw materials, we highlight that SICIT carries out a paid service for the collection of waste from the tanneries of the Vicenza district.

### Key Risks

#### Company specific risks:

- Dependence to raw material availability from the Arzignano district;
- Limited product diversification in biostimulants;
- Potential dilution and overhang risk due to the conversion of special shares and warrants.

#### Sector generic risks:

- Unfavourable weather conditions;
- Increasing competition from companies which produce biostimulants from other sources, which could jeopardise the company's market share;
- Animal illnesses may affect operations and cause a slowdown in demand of biostimulants from animals.

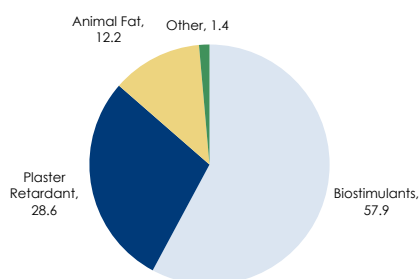
### Key data

Mkt price (EUR)	10.75	Free float (%)	50.7
No. of shares	19.65	Major shr	Intesa Holding SpA
52Wk range (EUR)	11.5/6.8	(%)	45.8
Reuters	SICT.MI	Bloomberg	SICT IM
<b>Performance (%)</b>	<b>Absolute</b>	<b>Rel. FTSE IT All Sh</b>	
-1M	-1.4	-1M	2.2
-3M	2.4	-3M	6.6
-12M	11.9	-12M	28.4

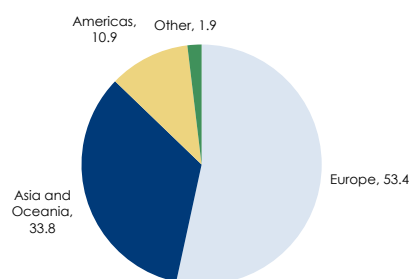
### Estimates vs. consensus

EUR M (Y/E Dec)	2019A	2020E	2020C	2021E	2021C	2022E	2022C
Sales	56.66	61.78	NM	66.18	NM	76.33	NM
EBITDA	20.30	24.19	NM	26.84	NM	31.17	NM
EBIT	4.80	19.12	NM	21.49	NM	24.96	NM
Pre-tax income	8.65	19.12	NM	21.49	NM	24.96	NM
Net income	4.20	14.06	NM	15.80	NM	18.35	NM
EPS	0.61	0.72	NM	0.80	NM	0.93	NM

### FY19A Sales breakdown by product (%)



### Biostimulants sales breakdown by geography (%)



NM: not meaningful; Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 23/09/2020)

## Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

**Notes**

## Disclaimer

### Analyst certification

The financial analysts who prepared this report, and whose names and roles appear within the document, certify that:

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### Equity rating key: (long-term horizon: 12M)

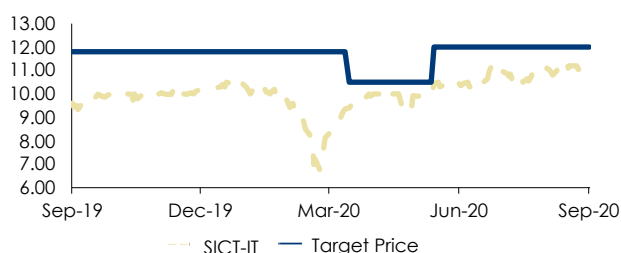
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Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

**Historical recommendations and target price trends (long-term horizon: 12M)**

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasampaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->

**Target price and market price trend (-1Y)****Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
05-Jun-20	ADD	12.0	10.5
06-Apr-20	ADD	10.5	9.4

**Equity rating allocations (long-term horizon: 12M)****Intesa Sanpaolo Research Rating Distribution (at July 2020)**

Number of companies considered: 106	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	50	24	26	0	0
of which Intesa Sanpaolo's Clients (%) (*)	85	72	54	0	0

(\*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

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**Equity rating key (short-term horizon: 3M)**

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

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