

Company Note

Seri Industrial

Cash-in from Warrants and New Projects Start-Up

Following the last period of conversion of the Warrant Uno SERI 2017 – 2022, we updated our valuation. The company is set to benefit from EUR 25M fresh cash and the full start-up of commercial activities of Teverola 1. We see the stock as still undervalued, not incorporating the impact from the planned new activities (Teverola 2).

Teverola 1 project full start-up and fresh cash from warrants

The Teverola 1 project is now fully operative, as per the last business update provided by the company in December. The battery assembly activities at the plant are underway with the first purchase orders expected to be processed and delivered starting from January 2023. Following the last period of conversion of the Warrant Uno SERI 2017-22, the company benefitted from a total cash-in from warrant conversions of EUR 25.5M in FY22.

Estimates and valuation

We recall that the company released a strong 9M22 sales result. We updated our FY22E top-line estimates to reflect no contribution from Teverola 1 and the fine-tuning of plastics and lead-acid division sales. Thanks to the cash-in from warrants (EUR 25.5M), we now see net debt in FY22E at EUR 80.2M (from EUR 103M). We leave our FY23E estimates broadly unchanged, awaiting the 2022 results release.

Valuation

We update our DCF (1-year roll-over and risk-free rate at 3.5% from 3% previously) and peers' valuations. **We set a new target price of EUR 11.6/sh** (from EUR 10.9/sh), with an upside potential of 87%. The company is trading at a 33.4% discount on 2022-24E average EV/EBITDA vs. its peers.

18 January 2023: 13:01 CET
Date and time of production

BUY

Target Price: EUR 11.6
(from EUR 10.9)

Italy/Industrials
Update

MTA

Price Performance
(RIC: SERK.MI, BB: SERI IM)



Seri Industrial - Key Data

Price date (market close)	16/01/2023
Target price (EUR)	11.6
Target upside (%)	87.40
Market price (EUR)	6.19
Market cap (EUR M)	334.13
52Wk range (EUR)	9.20/5.01

Price performance %	1M	3M	12M
Absolute	19.7	17.2	-31.5
Rel. to FTSE IT All Sh	9.8	-4.9	-26.6

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	177.1	200.0	343.1
EBITDA	20.11	20.57	51.59
EBIT	-0.88	-1.93	28.46
Net income	-1.53	-5.05	18.45
EPS (EUR)	0.01	-0.07	0.35
Net debt/-cash	98.02	80.20	102.8
Adj P/E (x)	NM	Neg.	17.6
EV/EBITDA (x)	22.6	20.2	8.5
EV/EBIT (x)	NM	NM	15.4
Div ord yield (%)	0	0	0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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Update on New Projects and Warrants Conversion

Update on new projects

The Teverola 1 plant (with a production capacity of 330MWh/year of cells, modules, and battery packs) is now fully operative, as per the last business update provided by the company in December. In more detail, the production of lithium batteries at the Teverola 1 plant started in November. The Teverola 1 plant is currently operating with 3 work shifts to produce anode and cathode and the cell formation and with 2 work shifts for the cell and module assembly with the full employment of the workforce. The company stated that the production will be further increased in the coming weeks with additional hirings.

The battery assembly activities at the plant are underway; the first purchase orders are expected to be processed and delivered starting from January 2023. Certification and homologations activities for the manufactured cells have been successfully completed.

As regards Teverola 2 (the Gigafactory, with an expected production capacity, at full speed, of 8/8.5GWh/year of lithium cells, modules and batteries, financed by the Ministry of Economic Development), investment activities have started, albeit marginally, with the works to upgrade the existing industrial building. The finalisation of agreements with suppliers of the plant and machinery is ongoing.

As for P2P (the joint venture between Unilever and Seri Plast), Invitalia has announced the start of preliminary activities to request subsidies as part of the investment programme for the reconversion of Unilever's Pozzilli site and the construction of a plant to produce plastic compounds (recycled from end-of-life packaging). The investment is expected to start up in 1H23, as the dismantling and clean-up of the plant owned by Unilever is ongoing.

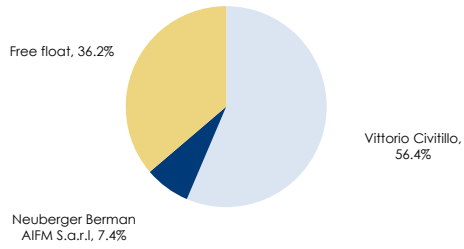
Warrants conversion completion

In the last period of conversion (last 10 trading days of December 2022) 45,717,748 warrants were converted (59% of the outstanding warrants, in our calculations) and 4,571,748 new shares were issued, for a EUR 22.9M cash-in. The total cash-in of warrant conversions was EUR 25.5M in FY22. The share capital is now EUR 106.5M (vs. EUR 97.3M before the last period of conversion) and the new number of shares is 53.9M (vs. 49.4M before the last period of conversion).

New shareholders structure

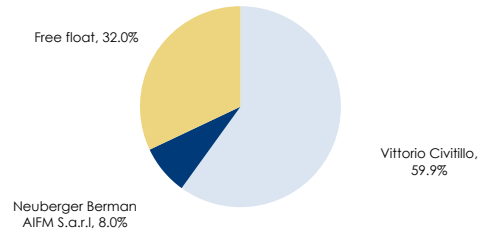
After the warrants' conversion, the main shareholder, the Civitillo family, has diluted its stake in Seri Industrial to 56.4% from 59.9% previously. The family had exercised 8,420,480 warrants and subscribed to 842,048 newly-issued shares for a total cash-in for Seri Industrial of EUR 4.2M. We view this as a testament to the family's strong commitment to support Seri's business. The free float has increased to 36.2% from 32%.

Current shareholder structure (post warrant conversion)



Source: Company data

Old shareholder structure (pre warrant conversion)



Source: Company data

Earnings Outlook

Estimates revisions

We recall that the company released a strong 9M22 sales result (+20% yoy). SERI Plast sales (plastic materials, 56% of FY22E revenues) grew by 18% yoy, with a positive performance across all the business lines (compound, pipes and fittings, boxes and lids). Lead-acid batteries sales (41% of FY22E revenues) grew by 23%.

We update our FY22E top-line estimates to reflect no contribution from Teverola 1. Assuming a similar volumes increase to that of 9M22 and lowering raw material costs (i.e. plastics and lead), we see plastics and lead-acid division sales still registering double digit growth yoy, at EUR 193M (from EUR 208M), albeit at a slightly lower growth rate vs. 9M22.

Thanks to the cash-in from warrants (EUR 25.5M), we now see net debt in FY22E at EUR 80.2M (from EUR 103M).

We leave our FY23E estimates broadly unchanged, while awaiting the full 2022 results release.

Seri industrial – Estimates revision (2022E-24E)

EUR M	2022E			2023E			2024E		
	Old	New	New/Old %	Old	New	New/Old %	Old	New	New/Old %
Sales	208.0	193.0	-7.2	332.1	335.4	1.0	1,017.3	1,023.2	0.6
Value of production	228.0	200.0	-12.3	354.1	343.1	-3.1	1,041.5	1,042.6	0.1
Adj. EBITDA	23.6	20.6	-12.8	51.6	51.6	0.0	171.1	171.3	0.1
% margin	11.3	10.7		15.5	15.4		16.8	16.7	
Adj. EBIT	1.1	-1.9	NM	28.5	28.5	0.0	141.8	142.0	0.2
% margin	0.5	-1.0		8.6	8.5		13.9	13.9	
Net result	-2.8	-5.1	NM	18.5	18.4	0.0	99.0	99.2	0.2
EPS (EUR)	-0.06	-0.09	NM	0.37	0.34	-8.5	2.00	1.84	-8.3
Adj. EPS (EUR)	-0.03	-0.07	NM	0.33	0.35	6.4	1.74	1.85	6.1
Net Debt/(Cash)	103.0	80.2	-22.1	121.9	102.8	-15.7	188.1	169.6	-9.8

NM: not meaningful; E: estimates; Source: Intesa Sanpaolo Research

Valuation

Our updated valuation includes:

- **Our explicit estimates fine-tuning;**
- **The cash-in from the warrants (EUR 25.5M)**, which reduces our net debt assumption in FY22 from EUR 103M to EUR 80.2M;
- **The DCF 1-year roll-over and higher risk-free rate** now at 3.5% (vs. 3% previously), which impacts the DCF valuation of both Seri "as is activities" and Teverola 2 stand-alone;
- **The new number of shares** at 54M (vs. the 57.2M we were considering previously under the assumption of full warrant conversion, boosting our EPS estimate by 6%);
- We highlight that we prudentially still do not consider the JV with Unilever (P2P) in our valuation.

On the basis of our DCF and peers' valuations, we set **a new target price of EUR 11.6/sh** (from EUR 10.9/sh) and **confirm our BUY rating**.

Seri Industrial – Summary valuation

	Net valuation EUR M	Per share EUR	As at 04/10/2022 EUR M	% change
DCF ("as is activities")	384	7.1	307.9	24.6
Peers	363	6.7	317.8	14.1
Average	373	6.9	313	19.3
Teverola 2 at 50%	361	6.7	384	-5.8
Total	734	13.6	696	5.4
Cash-in from warrants	0	0.0	39	-100.0
Total fair value	734	13.6	736	-0.2
Discount 15%	-110	-2.0	-110	-0.2
Fair value after discount	624	11.6	625	-0.2
N.° of shares (M)	54.0		57.2	-5.6
Target price (EUR/sh)	11.6		10.9	5.8
Current price (EUR)	6.19		5.86	5.5
Upside (%)	87.1		86.0	

Source: Intesa Sanpaolo Research

DCF valuation

Our WACC now stands at 7.6% (from 7.3% previously) adopting a Beta of 1 and a sustainable D/E assumption of 30%. We assume an EBIT margin at 13.1% at terminal value and a 2.0% terminal growth rate.

Risk-free rate up to 3.5%

Seri Industrial – WACC “as is activities”

WACC assumptions	%
Risk free rate	3.50
Equity Risk Premium	6.5
Beta (x)	1.00
Cost of equity	10.0
Net Cost of debt	2.0
Leverage	30.0
WACC	7.6

Source: Intesa Sanpaolo Research

For the “Teverola 2” standalone valuation, the WACC moves to 11.2% (from 10.8%) (please see our report of 4 October for full details).

Seri Industrial – DCF valuation

DCF valuation EUR M	
PV of future cash flows	127
PV of Terminal value	337
Enterprise value	464
Net debt YE22E	80
Equity value	384
No of out. shares (M)	54
Equity value (EUR/sh)	7.1

Source: Intesa Sanpaolo Research

Our DCF valuation implies 7.8x EV/EBITDA at terminal value.

Peers valuation

Our peers' sample has shown a positive performance YTD (+10%) but has underperformed Seri Industrial, which was up 17%. We highlight that the company is trading at a 33.4% discount on 2022-24E on peers' average EV/EBITDA.

Seri trades at a sharp discount vs. its peers

Seri Industrial – Peer group multiples

x	Market Cap	EV/EBITDA			EV/EBIT			P/E		
	EUR M	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
CATL	149,748	26.0	17.5	13.4	34.3	22.7	17.2	39.5	26.8	20.4
EnerSys	3,077	12.2	10.3	9.1	17.1	13.3		17.2	13.4	11.0
Ganfeng Lithium Group	19,588	6.2	5.9	6.2	6.1	5.8	5.9	6.0	5.9	6.1
GEM Co., Ltd. Class A	5,435	14.8	9.8	8.2	24.0	15.7	11.4	25.5	17.2	12.8
SolarEdge Technologies, I	16,265	38.4	23.6	18.3	51.9	29.5	21.4	70.5	38.7	29.0
Varta AG	1,104	26.9	14.1	10.0						
Umicore	8,562	8.2	8.9	8.7	11.1	13.0	13.2	14.6	17.1	17.2
Average		19.0	12.9	10.6	24.1	16.7	13.8	28.9	19.8	16.1
SERI Industrial*	334	20.2	8.5	2.9	NM	15.4	3.6	NM	17.6	3.4
Premium/(Disc.) %		6.5	-33.9	-72.7		-7.6	-73.9		-11.3	-78.9

Priced at market close on 16/01/2023; NM: not meaningful; Source: FactSet and *Intesa Sanpaolo Research

We highlight that we do not consider 2022 EV/EBIT and P/E in our valuation given that Seri Industrial would have an EBIT broadly at breakeven and a negative net result based on our estimates.

Seri Industrial – Peer based valuation

EUR M	2022	2023	2024
EV/EBITDA – peers (x)	19.0	12.9	10.6
Adj. EBITDA (ex Tev2 and Unilever JV)	20.8	51.6	56.5
Implied EV	394.5	662.9	596.7
Debt/(Cash)	80.2	102.8	169.6
Pension liabilities + factoring	10.6	11.2	20.4
A - Equity value	303.7	549.0	406.7
EV/EBIT – peers (x)	24.1	16.7	13.8
Adj. EBIT (ex Tev2 and Unilever JV)		28.5	33.7
Implied EV		474.5	464.7
Debt/(Cash)		102.8	169.6
Pension liabilities + factoring		11.2	20.4
B - Equity value		360.6	274.7
P/E – Peers (x)	28.9	19.8	16.1
Adj. Net Profit		18.9	23.9
C - Equity Value		376.0	385.3
Average of A, B and C	303.7	428.5	355.6
SERI Industrial - Fair value	303.7	428.5	355.6
N.º of shares (M)	54.0	54.0	54.0
Fair value (EUR)	5.6	7.9	6.6

E: estimates; Source: Company data and Intesa Sanpaolo Research

ESG Matrix

Seri Industrial - ESG Matrix

Main KPIs		2019	2020	2021	Target	Trend
E	Emissions					
	CO2 (scope 1) tons	2,259	1,844	3,961	//	-
	CO2 (scope 2 market-based) tons	21,557	19,614	23,682	//	-
	CO2 (scope 2 location-based) tons	16,814	14,952	17,137	//	-
	Circular Economy					
	% of plastic material recycled (Seri Plast)	18.0	17.0	42.0	//	+
	% of plastic material reused (lead)	22.0	12.0	71.0	//	+
	Total recovered waste/total waste	90.6	92.6	89.3	//	=
	Total hazardous waste/total waste	65.3	66.8	57.7	//	+
	Renewables Ratio					
% electricity from renewable	2.0	2.1	1.7	//	-	
Water withdrawals (m3)	74,145	58,055	82,512	//	-	
Energy Consumption (MWh)	56,183	51,682	61,632	//	+	
S	Women in leadership roles* (%)	0.0	0.0	0.0	//	=
	Training hrs per capita (No.)	3.8	0.7	2.3	//	+
	Turnover ratio (%)	6.7	12.3	11.7	//	+
	Lost time injury frequency index (1)	12.9	20.3	17.3	//	+
	Ethical code	Yes	Yes	Yes	//	=
	Notes (Social):	* from May-22 independent director' rate and women in the BoD have increased to 40%. (1) number of lost time injuries/hours worked x 1,000,000				
G	Independent directors' rate (%)	42.9	42.9	42.9	//	=
	Women in BoD (%)	28.6	28.6	40.0	//	=
	Anti-corruption**	No	No	No	//	
	Management Remuneration Policy linked to ESG goals***	No	No	No	//	
	ESG Report	Yes	Yes	Yes	//	
	Remun. Of BOD members (% of EBITDA)	7.1	42.4	7.1	//	-
	Shareholders'/Consulting Agreement	No	No	No	//	
	Loyalty Shares	Yes	Yes	Yes	//	
Notes (Governance):	**The company manages anticorruption through its ethical code. ***Stock option plan linked to ESG goals					

Note: the indicators +/- refer to how the company, in ISP view, is progressing towards its targets and/or vs. its historic trend; //: no explicit targets; Source: Company data and Intesa Sanpaolo Research elaboration

Seri Industrial – Key Data

Rating	Target price (EUR/sh)		Mkt price (EUR/sh)		Sector	
BUY	Ord 11.6		Ord 6.19		Industrials	
Values per share (EUR)	2019A	2020A	2021A	2022E	2023E	2024E
No. ordinary shares (M)	47.30	47.29	48.90	53.98	53.98	53.98
Total no. of shares (M)	47.30	47.29	48.90	53.98	53.98	53.98
Market cap (EUR M)	83.24	140.80	354.38	334.13	334.13	334.13
Adj. EPS	0.11	-0.14	0.01	-0.07	0.35	1.85
BVPS	2.5	2.4	2.3	2.0	2.3	4.2
Dividend ord	0	0	0	0	0	0
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Revenues	156.5	134.0	177.1	200.0	343.1	1,042.6
EBITDA	19.38	3.12	20.11	20.57	51.59	171.3
EBIT	6.71	-10.65	-0.88	-1.93	28.46	142.0
Pre-tax income	3.32	-14.10	-4.70	-6.92	25.62	139.7
Net income	1.54	-4.07	-1.53	-5.05	18.45	99.19
Adj. net income	5.02	-6.65	0.46	-3.85	18.95	99.69
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net income before minorities	1.8	-4.3	-1.5	-5.1	18.4	99.2
Depreciation and provisions	12.7	13.8	21.0	22.5	23.1	29.3
Others/Uses of funds	-3.0	-5.8	0.7	-1.0	-1.2	-1.4
Change in working capital	9.4	-7.7	-0.6	-11.1	-33.3	-164.1
Operating cash flow	20.3	-3.6	19.4	5.4	7.0	-37.0
Capital expenditure	-58.5	-23.4	-25.2	-11.8	-28.4	-28.6
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0	0
Free cash flow	-38.2	-27.0	-5.7	-6.5	-21.3	-65.6
Dividends	0	0	0	0	0	0
Equity changes & Non-op items	10.8	0	3.7	24.3	-1.2	-1.2
Net cash flow	-27.4	-27.0	-2.0	17.8	-22.6	-66.8
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net capital employed	189.2	209.9	210.5	187.6	228.6	394.7
of which associates	0	0	0	0	0	0
Net debt/-cash	69.0	96.0	98.0	80.2	102.8	169.6
Minorities	1.8	0.4	0.4	0.4	0.4	0.4
Net equity	118.4	113.6	120.6	126.9	145.3	244.5
Minorities value	0	0	0	0	0	0
Enterprise value	153.5	237.2	453.7	415.6	438.0	504.3
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E	2024E
Adj. P/E	16.6	Neg.	NM	Neg.	17.6	3.4
P/CFPS	4.0	Neg.	26.2	68.3	33.9	Neg.
P/BVPS	0.69	1.2	3.2	3.1	2.7	1.5
Payout (%)	0	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0	0
FCF yield (%)	11.7	-5.3	3.7	0.2	-0.4	-18.7
EV/sales	0.98	1.8	2.6	2.1	1.3	0.48
EV/EBITDA	7.9	76.1	22.6	20.2	8.5	2.9
EV/EBIT	22.9	Neg.	NM	NM	15.4	3.6
EV/CE	0.81	1.1	2.2	2.2	1.9	1.3
D/EBITDA	3.6	30.8	4.9	3.9	2.0	0.99
D/EBIT	10.3	Neg.	Neg.	Neg.	3.6	1.2
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E	2024E
EBITDA margin	12.4	2.3	11.4	10.3	15.0	16.4
EBIT margin	4.3	-7.9	-0.5	-1.0	8.3	13.6
Tax rate	44.1	69.6	68.3	27.0	28.0	29.0
Net income margin	1.0	-3.0	-0.9	-2.5	5.4	9.5
ROCE	3.5	-5.1	-0.4	-1.0	12.4	36.0
ROE	1.3	-3.5	-1.3	-4.1	13.6	50.9
Interest cover	-2.0	2.8	0.2	0.4	-10.0	-60.7
Debt/equity ratio	57.4	84.2	81.0	63.0	70.5	69.2
Growth (%)		2020A	2021A	2022E	2023E	2024E
Sales		-14.4	32.2	12.9	71.5	NM
EBITDA		-83.9	NM	2.3	NM	NM
EBIT		NM	91.7	NM	NM	NM
Pre-tax income		NM	66.7	-47.3	NM	NM
Net income		NM	62.4	NM	NM	NM

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

Company Snapshot

Company Description

Seri Industrial is a listed company on the MTA of Borsa Italiana. The mission of Seri Industrial is to accelerate the energetic transition to sustainability and decarbonization, controlling the entire supply chain of electric accumulators and plastic components. The Group operates through two operating companies: (i) Seri Plast, operating in the production and recycling of plastic material for the battery, automotive and hydro-thermosanitary market; (ii) FIB, active, through the brand FAAM, in the design, production and recycling of lead-acid and Li-Ion batteries for industrial, storage, military and special applications, as well as in the design and construction of plants for the recycling of batteries. The activities shape a fully integrated cycle and recovery of raw materials, representing a unique example of Circular Economy.

Key data

Mkt price (EUR)	6.19	Free float (%)	36.2
No. of shares	53.98	Major shr	Civitillo V.
52Wk range (EUR)	9.20/5.01	(%)	56.4
Reuters	SERK.MI	Bloomberg	SERI IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	19.7	-1M	9.8
-3M	17.2	-3M	-4.9
-12M	-31.5	-12M	-26.6

Key Risks

Company specific risks:

- Execution risks at Teverola 2 plant;
- Technology evolution risks in batteries;
- Supply shortage and higher raw material prices;

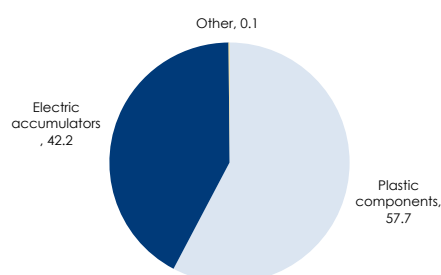
Sector generic risks:

- Overcapacity: a significant amount of capacity is coming on stream in the near future
- Trade barriers may emerge as countries tend to protect the local industry
- Geopolitical risks may impair operations (rare earth minings, raw material supply, etc)

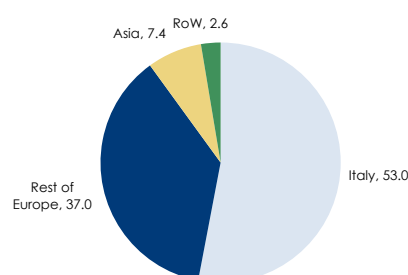
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2022C	2023E	2023C	2024E	2024C
Sales	177.1	200.0	NM	343.1	NM	1,042.6	NM
EBITDA	20.11	20.57	NM	51.59	NM	171.3	NM
EBIT	-0.88	-1.93	NM	28.46	NM	142.0	NM
Pre-tax income	-4.70	-6.92	NM	25.62	NM	139.7	NM
Net income	-1.53	-5.05	NM	18.45	NM	99.19	NM
EPS (EUR)	0.01	-0.07	NM	0.35	NM	1.85	NM

Sales breakdown by division (%)



Sales breakdown by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 16/01/2023)

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 eligible for listing have revenues below 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 around EUR 1Bn.

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)

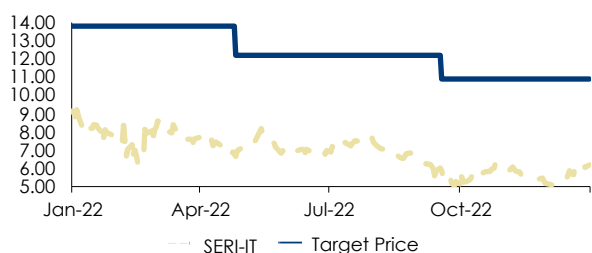
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ADD	If the target price is 10%-20% higher than the market price
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price 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)

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
04-Oct-22	BUY	10.9	5.9
12-May-22	BUY	12.2	6.7

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at January 2023)**

Number of companies considered: 129	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	66	16	18	0	0
of which Intesa Sanpaolo's Clients (%)**	79	29	52	0	0

* Last rating refers to rating as at end of the previous quarter; ** 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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