

Vietnam: Consumers
23 September 2022
PNJ VN
BUY
TP upside +18.9%
Close 23 Sep 2022

Price	VND 113,900
12M Target	VND 135,453
Previous Target	VND 92,085
Change	+47.1%

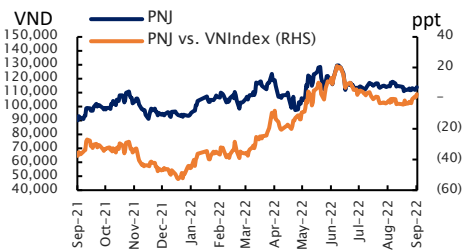
What's new?

- ▶ PNJ posted +99% YoY NPAT growth in 8M22 led by retail segment.
- ▶ Expanding distribution network by adding 35–40 new stores.
- ▶ We revise our 2022E revenue forecast to VND 32.4tn (+35.9% vs. our previous forecast) and PATMI to VND 1.8tn (+1.9%).

Our view

- ▶ PNJ offers excellent exposure to the long term growth of Vietnam's middle class.
- ▶ Reiterate BUY with TP of 135,453, which implies 2023E P/E of 12.8x, PEG of 0.8x.
- ▶ Risks to our view: higher inflation may dampen jewelry consumption.
- ▶ Coverage of the stock has been transferred to Di Luu.

Company profile: PNJ engages in fabrication and trade of gold, silver, and gemstone jewelry. PNJ currently operates two factories with total capacity of 4.1 million items per year. In addition, PNJ operates the largest jewelry retail network in Vietnam at 353 stores currently, and management targets 500 stores by 2025. PNJ accounted for 56.5% market share in the middle- and high-end jewelry segment in 2021.

Share price performance relative to VNI


Market cap	US\$1,182mn
6M avg. daily turnover	US\$4.3mn
Outstanding shares	246mn
Free float	85%
FINI ownership	48.97%
Major shareholders	18.1%
Asset/equity (*)	1.8x
EV/EBITDA	13.8x
2023E P/E	13.7x
Trading platform	HOSE
FOL Room	0.03%

Source: Fiiipro, Bloomberg, Yuanta Vietnam (*)

Financial outlook (VND bn)

Year to Dec (VNDbn)	2021A	2022E	2023E	2024E
Sales	19,613	32,433	37,642	43,887
Op. profit	1,407	2,348	2,933	3,744
Net profit	1,030	1,809	2,186	2,808
EPS (VND)	4,543	7,649	8,890	11,419
EPS chg	-3%	68%	16%	28%
P/E (x)	25.1	14.9	12.8	10.0
Dividend yield	1.8%	1.6%	1.6%	1.6%

Source: Fiiipro, Yuanta Vietnam

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Phu Nhuan Jewelry (PNJ VN)

A Sparkling Gem

PNJ recorded positive results in 8M22 with revenue of VND 23.0tn (+87.6% YoY) and PATMI of VND 1.2tn (+99.4% YoY). The retail business remains the key growth driver, as retail segment sales grew by +96.2% YoY in 8M22 to account for 59.7% of total revenue, +2.5ppt vs 8M21.

Jewelry business is a proxy on middle class growth, which we see as Vietnam's single most compelling underlying investment theme. Persistent wealth creation means that more than one million people enter the middle class each year, which should support jewelry demand.

PNJ plans to open 35–40 new stores in 2022E (+10–12% YoY) to reach 375–380 stores. Management targets 500 stores by 2025, for retail store CAGR of 13.6% in 2022E–25E. PNJ is now expanding its production capacity by 50% to 6.0 million items per year by 2023E.

Model revisit. We increase our revenue forecasts by +35.9% to VND 32.4tn for 2022E (implying growth of +65.4% YoY) and by +38.3% to VND 37.6tn (+16.1% YoY) for 2023E. However, we cut our margin assumptions due to changes in our sales mix assumptions. As a result, we nudge up our PATMI forecasts by +1.9% to VND 1.8tn (+75.3% YoY) for 2022E and by +0.7% to VND 2.2tn (+20.8% YoY) for 2023E.

We reiterate BUY on PNJ with increased target price of VND 135,453, which implies 2023E P/E of 12.8x, in line with the median of regional peers. Our new target price implies +21% 12-month TSR.

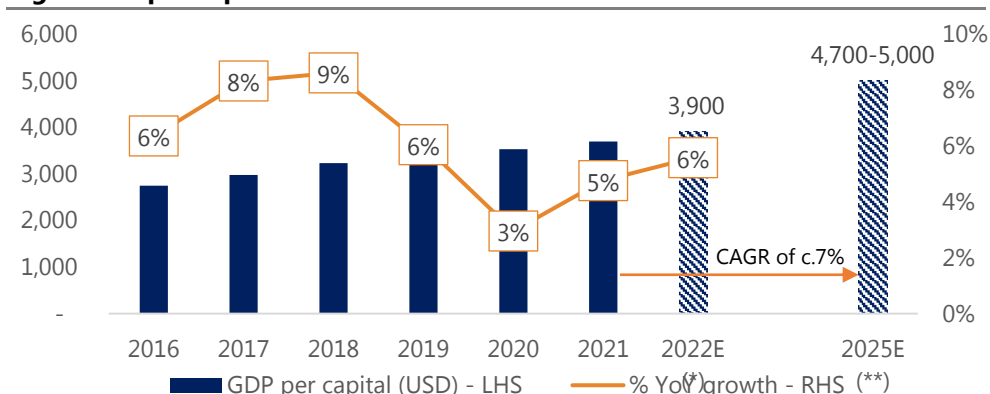
ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Market leader with a bright long-term outlook

Wealth levels are on the rise in Vietnam. Vietnam's GDP per capita has been on a sharp growth trend and should revert now that the two-year COVID period is history. This results from the combination of normalized 6–7% GDP growth and a near-flatlining of the population. The government expects GDP per capita to increase by +6.0–6.5% YoY (which is very likely to be a lowball figure, in our view) and to reach USD 3,900 in 2022E. Additionally, economic planners target reaching GDP per capita of USD 4,700–5,000 by 2025E. The implied increase in living standards should boost demand for discretionary consumption, including jewelry.

Fig.1: GDP per capita in Vietnam



Source: World Bank

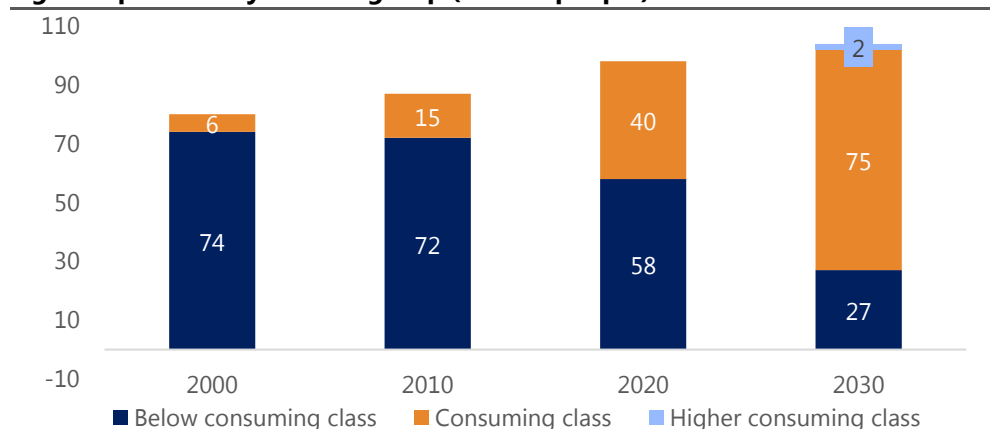
(*) Resolution No.24/NĐ-HĐND on socio-economic development plans in 2022

(**) Resolution No.16/2021/QH15, CAGR is calculated for 2021-2025E period

By the end of 2021, PNJ accounted for 56.5% market share in middle- and high-end jewelry sales nationwide. Despite its high market share, PNJ still has ample room for growth, in our opinion. This argument is supported by the following:

1) **Growing middle class...** According to McKinsey, Vietnam should add 36 million people to the consuming class, defined as individuals who spend more than \$11 per day, in the next decade. The consuming class accounted for 41% of Vietnam's total population in 2020 and it is expected to reach 71% by 2030, with 2% identified as comprising the higher consuming class.

Fig.2: Population by income group (million people)



Source: McKinsey

Note : Below consuming class (PPP < \$11 per day)

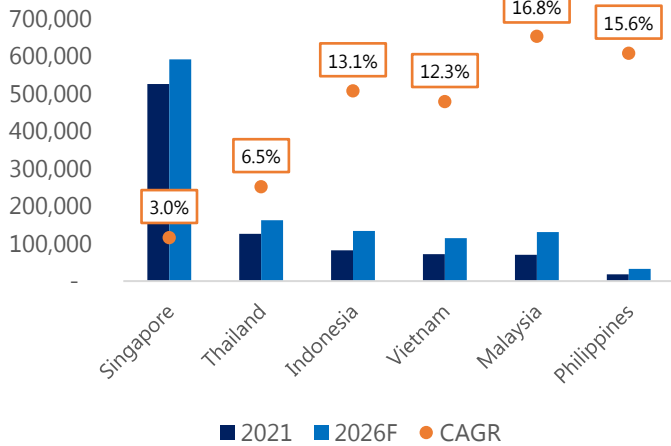
Consuming class (\$11-70 per day)

Higher consuming class (PPP > \$70 per day)

2) ... and growing upper class. According to Knight Frank, Vietnam had 72,135 USD millionaires in 2021, a figure that was actually down by -7.2% vs. 2020 – but this is likely a temporary result of the COVID pandemic. In 2021–2026F, Knight Frank projects this group to return to growth, with 5-year CAGR of 9.7%, which is higher than the regional peer average of 8.9%.

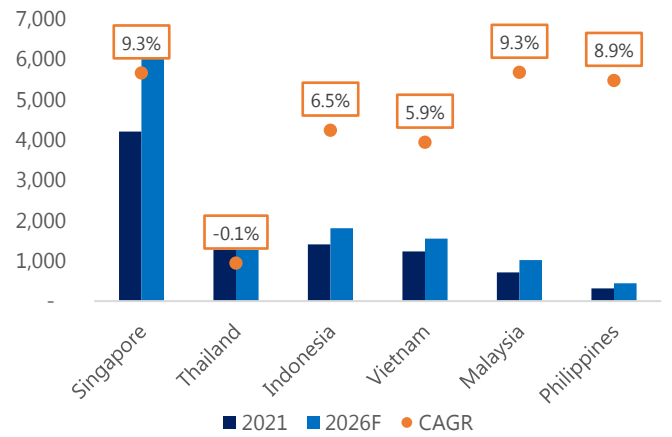
Knight Frank also projects ultra-millionaire population, defined as those with over US\$ 30 million in net worth, to grow at 5-year CAGR of 4.7%. This is lower than that of the regional peer average of 5.3%, but still quite positive (indeed, Thailand’s ultra-millionaire population is expected to slightly decline by 2026F).

Fig.3: Number of USD millionaires in ASEAN-6



Source: Wealth Report 2022, Yuanta Vietnam

Fig. 4: Number of ultra-millionaires in ASEAN-6

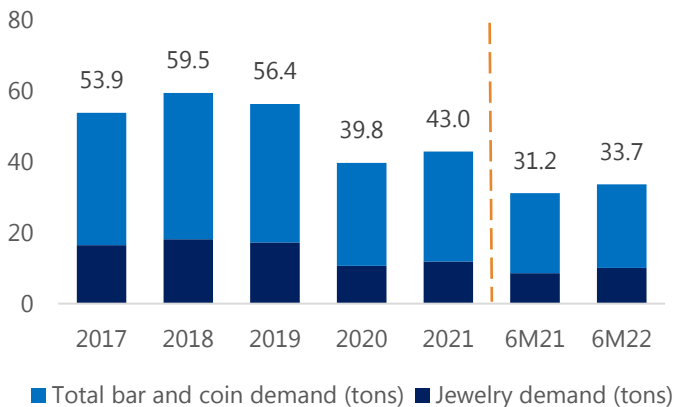


Source: Wealth Report 2022, Yuanta Vietnam

Urbanization is another positive signal of increased wealth, and thus increased jewelry demand. Urbanization leads to higher incomes, which in turn triggers higher living standards overall and increased jewelry consumption specifically. In 2021, Vietnam’s urban population accounted for 37.1% of the total population of 98.5 million people. As of June 2022, Vietnam’s urbanization rate is 41% (+0.6ppt YoY), and the government targets the rate to reach at least 45% by 2025 and 50% by 2030.

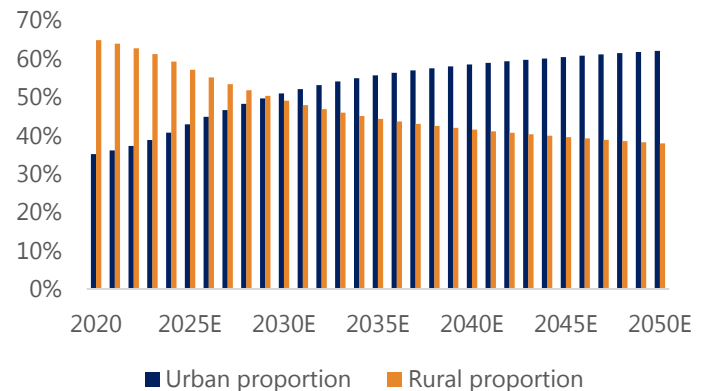
Solid improvement in gold demand in 6M22. According to WGC data, Vietnam’s gold jewelry demand reached 10.1 tons (+10.1% YoY) in 6M22, while gold bar demand reached 23.6 tons (+4.4% YoY) in the same period.

Fig.5: Gold demand is recovering, and especially demand for gold jewelry



Source: WCG, Yuanta Vietnam

Fig.6 : Urbanization process is very likely to continue for the next several decades



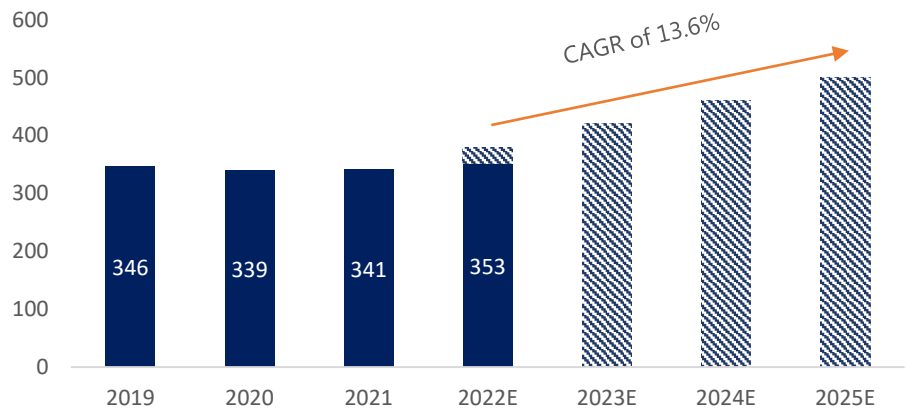
Source: GSO, Yuanta Vietnam

PNJ's retail business remains the key growth driver

The retail segment typically accounts for nearly 60% of PNJ's net revenues. This is fortunate because this business also offers the highest gross margin of PNJ's product mix. We expect this segment to continue to grow as PNJ expands its retail distribution network.

The company plans to open 35–40 new stores in 2022E and says it might open up to 50 stores if conditions are favorable. The company also targets 500 stores by 2025, equivalent to CAGR of 13.6% in 2022E–2025E.

Fig.7 : Retail store expansion plan



Source: Company Data, Yuanta Vietnam
As of August 2022, PNJ currently has 353 stores across 56 of Vietnam's 63 provinces.

The retail footprint expansion is mainly focused on Tier-2 and -3 provinces. PNJ currently operates a nationwide retail network across 56 of Vietnam's 63 provinces. In a recent meeting, management emphasized that the company is "speeding up" its efforts to open outlets in Tier-2 and Tier-3 provinces with rapid urbanization rates.

Fig.8: Nationwide retail network

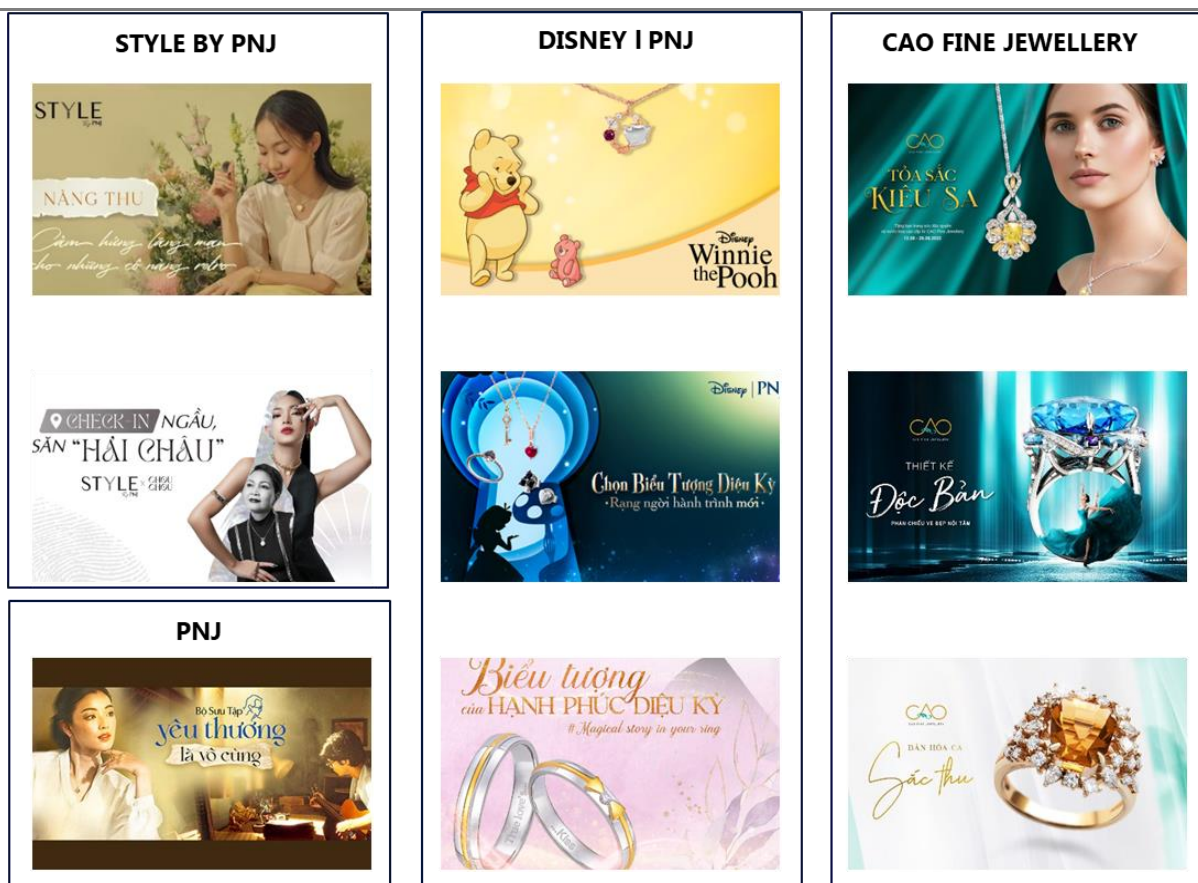


Source: Company data

Expanding production capacity and product offerings

PNJ continues to serve the mass market by launching new, fashionable collections at affordable prices to attract young consumers, and also offers high-end products to attract middle- and upper-tier customers. Although PNJ accounted for a dominant 56.5% market share in the middle- and high-end jewelry segments in 2021, we still expect sales to expand in these segments going forward, as discussed in the first section of this report.

Fig.9: PNJ offers diverse products to attract both the high-end and mass markets by launching various collections



Source: Company Data

The management's short-term strategy is focused on expanding capacity at two existing factories. In the first half of 2022, the company has upgraded the capacity at **Go Vap Plant** to 4.1 million items per year from the initial 4.0 million. PNJ is also operating the **Long Hau Plant**, which is currently being expanded. We expect this plant's additional capacity to add approximately 50% to unit production, and it should be fully operational by 2023E. For its long-term development, PNJ is seeking an opportunity to launch its third factory, but this potential plan is still only under study for its feasibility.

Financing growth. The company issued 15 million shares through a private placement priced at VND 95,000 per share to raise around VND 1.4tn in March of this year. It also issued 3.6 million ESOP shares priced at VND 10,000 per share in August. Going forward, PNJ plans to issue another 82 million bonus shares for existing shareholders in 2022, with an allocation rate of 3:1.

The main purposes for raising new capital and retaining earnings (via the bonus shares) is to fund its retail expansion, including production capacity, product lines, and retail footprint, as well as its digital efforts.

Table. 1: Investment for retail segment expansion

	CAPITAL USAGE PURPOSE	TOTAL INVESTMENT (VND BN)	DISBURSEMENT PLAN
1	Expanding capacity at PNJ Jewelry Production and Trading Company Limited (PNJP) for retail segment	285	4Q22 - 3Q23
2	Improving and innovating production technology, designs, and optimal COGS	70	3Q22-1Q23
3	Develop jewelry market through geographic and product lines expansions	785	2Q22-2Q23
4	Execute digital transformation strategy	285	2Q22-2Q23
	Total Investment (VNDbn)	1,425	

Source: Company Data

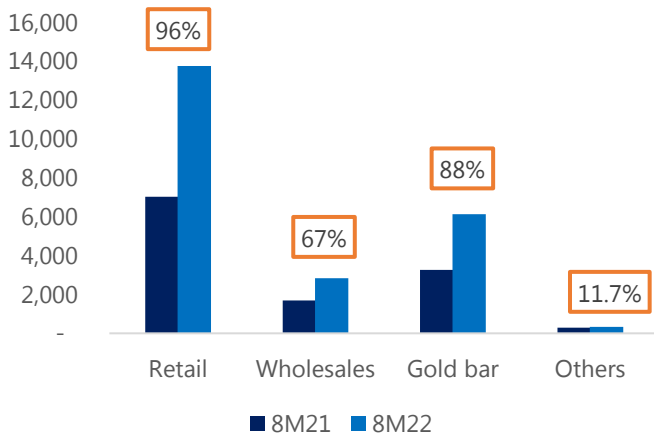
Results Update

PNJ recorded positive results in 8M22, with net revenue of VND23.0tn (+87.6% YoY) and NPAT of VND 1.2tn (+99.4% YoY). Revenue growth was mainly attributable to (1) pent-up demand in the post-COVID era (retail sales rocketed by +96% YoY in 8M22) and (2) flight-to-safety demand for gold due to geopolitical instability (gold bar sales soared by +88% YoY in 8M22).

The company's gross margin decreased by -1.1ppt YoY to 17.4% in 8M22 because of the change in the product mix. Specifically, gold bar revenues accounted for 26.6% of total revenue in 8M22 (+1.0ppt YTD). Gold bar sales are relatively low margin vs. those of jewelry, which accounts for the decline in blended gross margins YTD. However, 8M22 net margin slightly increased by +0.3ppt YoY to reach 5.4% given higher operating cost efficiency.

So far, PNJ has fulfilled 89.2% its 2022E revenue guidance of VND 25.8tn and 94.4% its NPAT guidance of VND 1.3tn.

Fig.10: Revenue growth in 8M22



Source: Company Data

Table.2: PNJ's targets vs. YSVN's forecasts

PNJ's 2022P guidance	NET SALES (VNDbn)	NPAT (VNDbn)
8M22	23,049	1,246
2022E	25,835	1,320
% vs. PNJ's targets	89.2%	94.4%

YSVN's 2022E forecasts	NET SALES (VNDbn)	NPAT (VNDbn)
8M22	23,049	1,246
2022E	32,433	1,810
% vs. YSVN's forecasts	71.1%	68.8%

Source: Company Data, Yuanta Vietnam

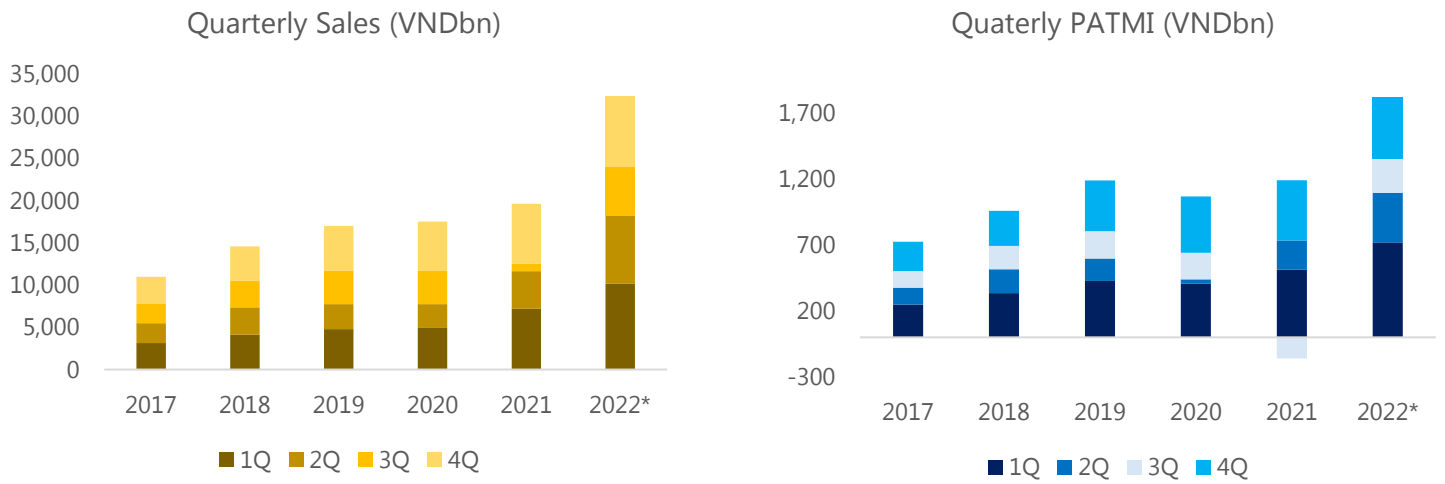
Looking backward... As a reminder, PNJ's financial performance was hit hard by the COVID lockdowns of 3Q21, when its revenue reached only VND 877bn (-80% QoQ / -78% YoY). This was the first quarter since 2017 that PNJ recorded an after-tax loss (of VND 160bn) compared to positive NPAT of VND 223bn in 2Q21 and VND 202bn in 3Q20.

However, the business strongly recovered in 4Q21. Specifically, revenue reached VND 7.1tn (+7.1x QoQ and +21% YoY) and NPAT reached VND 457bn (a reversal of the 3Q21 loss and up +7% YoY) in 4Q21.

Although 2021 revenue increased by +12% YoY to reach VND 19tn, NPAT still slightly declined by -3% YoY to reach VND 1tn.

Based on the extremely low base, 3Q22 results are likely to be impressive. We expect total sales to reach VND 5.8tn (+6.5x YoY) and PATMI to reach VND 271bn (vs. loss VND 160bn in 3Q21). We think our forecasts for 3Q22 are achievable since PNJ has already fulfilled 83% of our 3Q22 sales forecasts and 62% of our PATMI forecast in the first two month of 3Q22.

Fig.11: PNJ's quarterly sales and PATMI



Source: Company Data, Yuanta Vietnam
 (*): 3Q22 and 4Q22 figures are YSVN's forecasts

Model revisit

We now forecast 2022E revenue to grow by +65.4% YoY to reach VND 32.4tn. This is +35.9% higher than our previous forecast. In addition, we now forecast PNJ's 2022E PATMI to grow by +75.3% YoY to reach VND 1.8tn. This is slightly +1.9% higher than our previous forecast. These estimates are based on the key assumptions, as presented below:

- We expect the retail segment to deliver higher growth in 2H22 given (1) rapid YoY growth from the low base of 3Q21 and (2) strong seasonal results in 4Q22. Thus, we expect the retail segment to grow by +70% YoY in 2022E. For 2023E, we expect retail sales to keep growing at a double-digit rate of +18% YoY given the expanded distribution network.
- We expect 2022E gold bar revenue to grow by +68% YoY as inflation concerns trigger demand for the perceived safe-haven status of gold. For 2023E, we expect gold bar revenue to grow by +15% YoY.
- We expect 2022E gross margin to decreased by -0.2ppt YoY to 18.0% given a higher contribution of gold bars (26%, +0.4ppt YoY) to total revenue.
- However, we expect 2022E net margin to improved YoY anyway due to reduced SG&A expenses in 2H22 compared to that of 2H21. This decline in costs is largely due to the high base, as 2H21 was impacted by a variety of COVID-related costs.

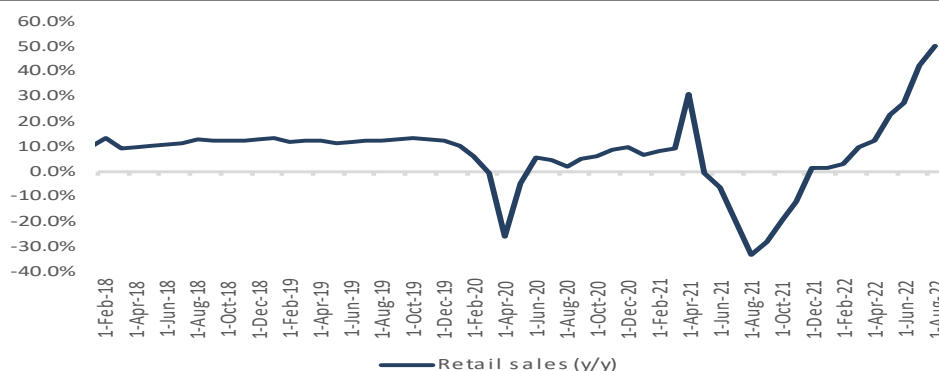
Table.3: Forecast revision

Forecast revision	OLD FORECAST		NEW FORECAST		NEW / OLD changes (%)	
	2022E	2023E	2022E	2023E	2022E	2023E
<i>FY Dec 31 (VNDbn)</i>						
Revenue	23,871	27,227	32,433	37,642	35.9%	38.3%
Gross profit	4,943	5,783	5,850	6,998	18.3%	21.0%
<i>Operating expenses</i>	(2,650)	(2,995)	(3,503)	(4,065)	32.2%	35.7%
Operating profit	2,294	2,788	2,348	2,933	2.4%	5.2%
Pretax profit	2,221	2,715	2,261	2,732	1.8%	0.6%
Net profit	1,776	2,171	1,809	2,186	1.9%	0.7%

Source: Yuanta Vietnam

We think that our 2022E forecast is reasonable given the GSO's disclosure that Vietnam's total retail sales in 8M22 already exceeded the pre-COVID levels to reach VND 3,679tn (+19.3% YoY), and we expect retail sales growth to remain in the double digits for at least the remainder of this year.

Fig.12: Retail sales is growing robustly



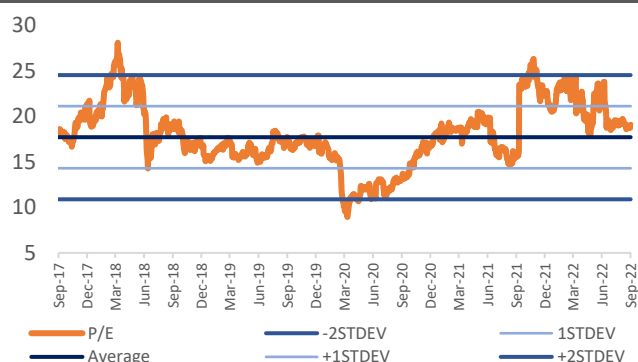
Source: GSO

Valuation and Risks

We reiterate **BUY** on PNJ given its bright long-term outlook. We revise up our price target to a conservative level of VND 135,453 per share (+47.1% vs the previous target price of 92,085) through a weighted valuation approach that applies 50% weightings to our discounted FCFF model and comparable P/E multiples.

PNJ's TTM PE multiple has reverted back to its 5-year average level of 17.7x, as the share price has decreased by -12% from its most recent peak in June. In our view, this correction should be considered as a buying opportunity.

Fig.13: Multiples P/E is now 19.0x



Source: Bloomberg, Yuanta Vietnam

Table.4: Valuation summary

Unit: VND	Target Price	Weight
FCFF	157,465	50%
PER multiple	113,442	50%
Overall	135,453	100%
Previous target	92,085	
% change vs previous TP	47.1%	

Source: Yuanta Vietnam

Our target price implies 12.8x 2023E P/E, which is in line with regional peer median. This appears to be a conservative valuation given that PNJ offers superior expected 2023E ROE of 23% vs. the regional peer median of 21%, based on Bloomberg consensus.

Table.5: Regional peers

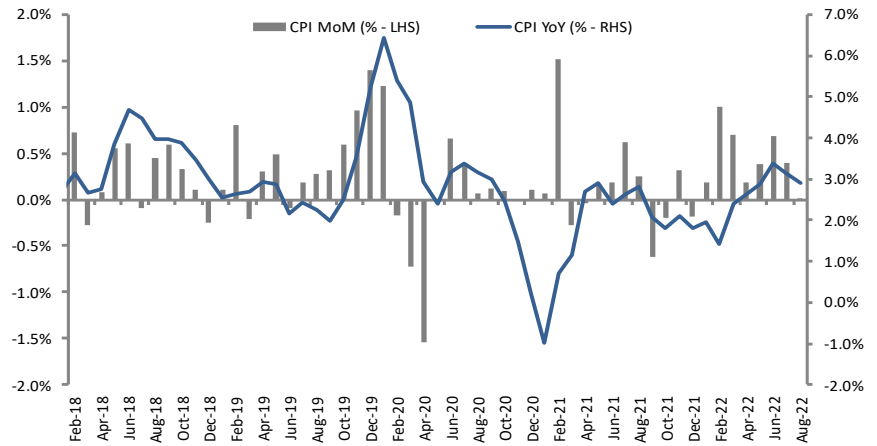
Peers Comparison	Ticker	Country	Market cap (USDmn)	2022E PE	2023E PE	2023E ROA	2023E ROE
TITAN CO LTD	TTAN IN	INDIA	29,656	77	63	29	20
CHOW TAI FOOK JEWELLERY GROU	1929 HK	HONG KONG	19,873	20	17	23	9
RAJESH EXPORTS LTD	RJEX IN	INDIA	2,177	11	7	15	8
CHOW TAI SENG JEWELLERY CO-A	002867 CH	CHINA	1,810	9	8	21	15
LUK FOOK HOLDINGS INTL LTD	590 HK	HONG KONG	1,515	8	7	13	11
ZHEJIANG KANGLONGDA SPECI-A	603665 CH	CHINA	980	34	16	27	7
GUANGDONG CHJ INDUSTRY CO-A	002345 CH	CHINA	581	11	9	11	7
PADINI HOLDINGS BERHAD	PAD MK	MALAYSIA	460	14	13	17	10
PHU NHUAN JEWELRY JSC	PNJ VN	VIETNAM	1,183	16	14	23	16
Median			1,515	14	13	21	10

Source: Bloomberg, Yuanta Vietnam

Risks to our view

- 1) **Higher inflation might hit retail spending and increase demand for safe asset investment.** In other words, increased demand for low-margin gold bars might hinder spending on high-margin jewelry, which is a risk to our forecasts for PNJ.

Fig.14: CPI increased by +2.89% YoY in August



Source: GSO

- 2) **New store rollout could be slower than our expectation.** In 8M22, PNJ delivered a net addition of just eleven stores into its retail network (i.e., it opened 23 new stores and closed 12 stores), to reach 353 stores. Therefore, we are concerned that the company's new opening progress might not proceed as rapidly planned.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
Revenue	17,511	19,613	32,433	37,642	43,887
Retail	10,226	11,513	19,572	23,095	27,714
Wholesales	2,714	2,648	3,972	4,369	4,806
Gold bar	4,185	5,021	8,435	9,700	10,865
Others	385	431	454	478	503
Cost of goods sold	(14,076)	(16,040)	(26,582)	(30,644)	(35,491)
Gross profits	3,435	3,573	5,850	6,998	8,396
Operating expenses	(1,926)	(2,166)	(3,503)	(4,065)	(4,652)
Operating profits	1,508	1,407	2,348	2,933	3,744
Net interest expenses	(154)	(104)	(86)	(200)	(234)
Net investments income/(loss)	-	-	-	-	-
Net other incomes	(3)	(18)	-	-	-
Pretax profits	1,351	1,285	2,261	2,732	3,510
Income taxes	(277)	(254)	(453)	(547)	(702)
Minority interests	-	-	-	-	-
Net profits	1,074	1,030	1,809	2,186	2,808
EBITDA	1,573	1,467	2,479	3,118	3,803
EPS (VND)	4,701	4,543	7,649	8,890	11,419

KEY RATIOS

	2020A	2021A	2022E	2023E	2024E
Growth (% YoY)					
Sales	3.0%	12.0%	65.4%	16.1%	16.6%
Retail			70.0%	18.0%	20.0%
Wholesales			50.0%	10.0%	10.0%
Gold bar			68.0%	15.0%	12.0%
Others			10.0%	10.0%	10.0%
Operating profit	3.0%	12.0%	65.4%	16.1%	16.6%
EBITDA	-7.1%	-6.7%	66.9%	24.9%	27.7%
Net profit	-10.4%	-3.4%	75.3%	20.8%	28.4%
EPS (VND)	-6.6%	-6.7%	69.0%	25.8%	22.0%
Profitability ratio (%)					
Gross margin	19.6%	18.2%	18.0%	18.6%	19.1%
Operating margin	8.6%	7.2%	7.2%	7.8%	8.5%
EBITDA margin	9.0%	7.5%	7.6%	8.3%	8.7%
Net margin	6.1%	5.3%	5.6%	5.8%	6.4%
ROA	20.4%	17.2%	23.2%	26.5%	31.4%
ROE	15.0%	11.2%	13.9%	15.6%	17.5%
Stability					
Net debt/equity (x)	0.3	0.4	0.4	0.6	0.7
Int. coverage (x)	10	13	27	15	16
Int. &ST debt coverage (x)	0.8	0.5	0.5	0.5	0.6
Cash conversion days	166	164	150	150	150
Current ratio (X)	2.2	2.0	1.8	1.6	1.6
Quick ratio (X)	0.2	0.1	0.2	0.1	0.0
Net cash/(debt) (VND mn)	(1,417)	(2,364)	(3,336)	(4,958)	(5,939)
Efficiency					
Days receivable outstanding	2	2	2	2	2
Days inventory outstanding	176	173	160	160	160
Days payable outstanding	12	11	12	12	12

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
Total assets	8,483	10,547	15,221	16,772	18,893
Cash & cash equivalents	422	358	1,165	266	151
ST Investment	0	0	0	0	0
Accounts receivable	99	110	133	155	180
Inventories	6,546	8,687	11,653	13,433	15,558
Other current assets	77	66	109	126	147
Net fixed assets	932	910	1,493	2,021	1,963
Others	408	417	669	771	894
Total liabilities	3,241	4,530	7,416	8,525	9,960
Current liabilities	3,232	4,521	7,415	8,525	9,960
Accounts payable	482	689	1,066	1,238	1,443
ST debts	1,839	2,722	4,501	5,224	6,091
Others	911	1,110	1,848	2,064	2,427
Long-term liabilities	9	9	0	0	0
Long-term debts	0	0	0	0	0
Others	9	9	0	0	0
Shareholder's equity	5,242	6,017	7,806	8,247	8,933
Share capital	2,276	2,276	2,462	2,462	2,462
Treasury stocks	(3)	(5)	(5)	(5)	(5)
Others	1,364	1,792	3,067	3,067	3,067

CASH FLOW (VND bn)

FY (VND'bn)	2020A	2021A	2022E	2023E	2024E
Operating cash flow	1,497	(717)	(133)	1,488	1,858
Net income	1,069	1,033	1,810	2,187	2,809
Dep. & amortization	72	75	130	184	58
Change in working capital	557	(2,157)	(2,612)	(1,631)	(1,945)
Others	(201)	332	539	747	936
Investment cash flow	135	(55)	(910)	(793)	(96)
Net capex	85	(51)	(713)	(713)	(0)
Change in LT investment	-	-	-	-	-
Change in other assets	51	(5)	(197)	(80)	(96)
Cash flow after invt.	-	-	-	-	-
Financing cash flow	(1,085)	702	1,850	(1,594)	(1,877)
Change in share capital	(775)	883	1,779	723	867
Net change in debt	(333)	(181)	(115)	(2,317)	(2,744)
Change in other LT liab.	547	(71)	808	(899)	(115)
Net change in cash flow	547	(71)	808	(899)	(115)
Beginning cash flow	95	422	358	1,165	266
Ending Cash Balance	422	358	1,165	266	151

KEY METRICS

	2020A	2021A	2022E	2023E	2024E
PE (x)	24.2	25.1	14.9	12.8	10.0
Diluted PE (x)	24.2	25.1	14.9	12.8	10.0
PB (x)	3.5	3.1	4.3	4.0	3.7
EBITDA/share	6,914	6,451	10,474	12,675	15,461
DPS	1,561	780	1,873	1,802	1,802
Dividend yield (%)	1.4%	1.8%	1.6%	1.6%	1.6%
EV/EBITDA (x)	12.7	14.3	14.3	12.3	10.3
EV/EBIT (x)	12.9	13.3	15.1	15.1	13.0

Appendix A: Important Disclosures

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