

Great Eagle

Deep discount to continue before harvesting stage

Great Eagle (GE) reported in-line FY14 results, with core profit up 14% Y/Y to HK\$1,919mn. However, the earnings outlook for this year is turning bearish due to a drop in dividend income from Champion REIT, the impact of currency depreciation on overseas hotels and lower income from US investment properties. The stock is trading at a deep 56% discount to NAV, but we see limited upside from here given the earnings outlook.

- FY14 results better than consensus estimates:** GE reported FY14 core profit of HK\$1,919mn, up 14% Y/Y, broadly in line with our estimate of HK\$1,869mn while beating the consensus estimate by 11%. Earnings growth mainly came from an increase in overseas hotel income, and realized gains from securities investment amounted to HK\$134mn. Final DPS was raised 9% to HK\$0.47. Full year DPS was HK\$0.74, higher than HK\$0.66 last year.
- Currency risks at overseas hotels portfolio:** Other than the hotels in the US, other overseas hotels are subject to currency risks as there is no foreign currency hedging. For FY14, Europe (London) and Australasia (Australia and New Zealand) each accounted for 24% of hotel EBITDA. Given that currencies in countries where Great Eagle has exposure have depreciated against the US\$ this year, and that the Washington hotel will be closed for renovation, we expect the contribution from overseas hotels to be under pressure in 2015. We adjust down our FY15 and FY16 earnings estimates by 15% and 12% respectively.
- Unclear strategy on potential acquisitions:** At the head office level, Great Eagle has been sitting in a net cash position since the spin-off of HK hotels to Langham Hospitality. The type of acquisitions after spin-off, including HK residential development project, China hotel and US hotel, is lacking a focus, in our view. The delay of Dalian project completion to 2016 implies that it will take longer than expected to monetize the project. Presale of Pak Shek Kok project in HK acquired in 2014 is expected to be in 2017/2018. We could turn more positive on the name when the assets acquired in the past few years start to generate a meaningful return.

Great Eagle Holdings Limited (Reuters: 0041.HK, Bloomberg: 41 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	4,993	4,702	4,877	4,404	4,499
Net Profit (HK\$ mn)	1,802	1,680	1,919	1,718	1,850
Core Profit (HK\$ mn)	1,802	1,680	1,919	1,718	1,850
EPS (HK\$)	2.86	2.63	2.93	2.62	2.82
Core EPS (HK\$)	2.86	2.63	2.93	2.62	2.82
Core EPS growth (%)	6.1%	(7.8%)	11.2%	(10.5%)	7.7%
DPS (HK\$)	0.66	2.16	0.74	0.74	0.74
ROE	4.7%	3.6%	3.8%	3.5%	4.1%
P/E (Core)	9.4	10.2	9.2	10.3	9.6
P/BV (x)	0.4	0.3	0.3	0.4	0.4
BVPS (HK\$)	67.74	78.14	78.94	69.54	68.77
RNAV/Share	-	-	-	60.73	-
Dividend Yield	2.4%	8.0%	2.7%	2.7%	2.7%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Neutral

0041.HK, 41 HK

Price: HK\$26.95

Price Target: HK\$28.80

Hong Kong

Property

Amy Luk, CFA ^{AC}

(852) 2800 8524

amy.kp.luk@jpmorgan.com

Bloomberg JPMA LUK <GO>

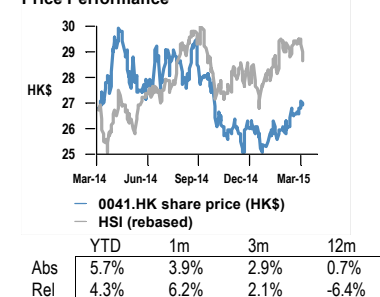
Leo Ng

(852) 2800-8522

leo.ng@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



Company Data

Shares O/S (mn)	639
Market Cap (HK\$ mn)	17,228
Market Cap (\$ mn)	2,221
Price (HK\$)	26.95
Date Of Price	05 Mar 15
Free Float(%)	39.3%
3M - Avg daily vol (mn)	0.38
3M - Avg daily val (HK\$ mn)	9.95
3M - Avg daily val (\$ mn)	1.3
HSI	24,193.04
Exchange Rate	7.76
Price Target End Date	31-Dec-15
Price Target (HK\$)	28.80

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price: <ul style="list-style-type: none"> Earnings increase from new hotels and office properties acquired NAV accretive acquisitions 	Upside risks to our view: <ul style="list-style-type: none"> Potential acquisitions that create significant NAV enhancement Stronger-than-expected RevPAR growth 	Downside risks to our view: <ul style="list-style-type: none"> Lower-than-expected occupancy and F&B revenue in hotels Lower-than-expected income from Champion REIT and Langham Hospitality Slower than expected rental and room rate growth
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Key financial metrics	FY13A	FY14A	FY15E	FY16E
Revenues (HK\$)	4,702	4,877	4,404	4,499
Revenue growth (%)	-6%	4%	-10%	2%
EBITDA (HK\$)	2,273	2,180	2,041	2,115
EBITDA margin (%)	48%	45%	46%	47%
Tax rate (%)	9%	6%	7%	6%
Net profit (HK\$)	1,680	1,919	1,718	1,850
EPS (HK\$)	2.63	2.93	2.62	2.82
EPS growth (%)	-8%	11%	-10%	8%
DPS (HK\$)	2.16	0.74	0.74	0.74
BVPS (HK\$)	78.14	78.94	69.54	68.77
Operating cash flow (HK\$ mn)	2,612	(687)	(922)	(824)
Free cash flow (HK\$ mn)	(3,944)	(3,304)	(1,128)	(990)
Interest cover (X)	NM	NM	NM	59.2
Net margin (%)	36%	39%	39%	41%
Sales/assets (X)	0.05	0.05	0.04	0.05
Debt/equity (%)	39.3%	40.2%	44.2%	44.5%
Net debt/equity (%)	23.4%	25.5%	35.4%	38.0%
ROE (%)	3.6%	3.8%	3.5%	4.1%

Key model assumptions	FY15E
Overseas hotel EBIT yield	6.0% - 6.8%
Overseas hotel avg room rate chg	-5.0% - 2.0%
HK office rental chg	3%
HK office cap rate	5.25%
HK residential cap rate	3.0% - 3.8%

Source: Company, J.P. Morgan estimates.

Sensitivity analysis	NAV FY15E	EPS FY15E
Sensitivity to		
50 bp chg in overseas hotel EBIT yield	1.6%	n/a
5% chg in HK office rent	0.3%	0.2%
50 bps chg in HK office cap rate	0.6%	n/a

Source: J.P. Morgan estimates.

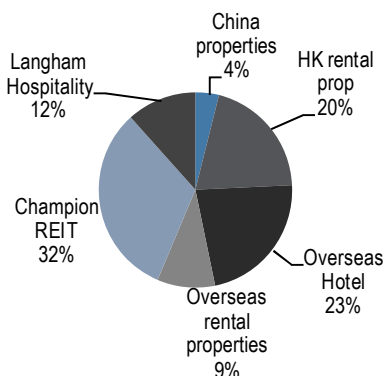
Comparative metrics	CMP (LC)	Mkt cap (HK\$ B)	P/E (x)		NAV discount	P/BV (x)		YTD Stock perf.
			FY14E	FY15E	Dec-15	FY14E	FY15E	
Hang Lung Group	35.35	47.90	8.3	13.4	-33%	0.63	0.61	0%
Hang Lung Properties	22.00	98.68	9.8	16.3	-37%	0.74	0.73	1%
Great Eagle	26.95	17.67	9.2	10.3	-56%	0.34	0.39	7%
Hong Kong Land Holdings (US\$)	7.60	17.88	20.1	18.9	-31%	0.66	0.65	12%
Hopewell Holdings	28.65	24.96	20.3	18.7	-46%	0.57	0.57	1%
Hysan Development	36.80	39.15	17.7	17.1	-40%	0.60	0.59	6%
Kerry Properties	25.80	37.28	9.2	9.9	-64%	0.47	0.46	-8%
SHKP	119.80	340.68	15.1	15.0	-35%	0.79	0.76	1%
Swire Properties	25.25	147.71	21.4	21.0	-31%	0.70	0.69	10%
Wharf Holdings	54.90	166.40	14.3	13.7	-42%	0.59	0.58	-2%
Link REIT*	48.45	111.04	28.9	27.9	-2%	1.16	1.00	0%
Champion REIT*	3.74	21.49	19.6	21.4	-11%	0.43	0.46	4%
Fortune REIT*	8.59	16.12	25.5	23.0	-12%	0.72	0.68	11%

Source: Bloomberg, Company and J.P. Morgan estimates. Prices are as of 5 March 2015.

Valuation and price target basis

Our Dec-15 PT is based on a 53% discount to our Dec-15 NAV estimate, 0.5 standard deviation below the long-term average discount.

NAV breakdown (Dec-15E)



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS	FY15E	FY16E
JPM old	3.09	3.21
JPM new	2.62	2.82
% chg	-15%	-12%
Consensus	2.72	2.88

Source: Bloomberg, J.P. Morgan.

Table 1: Great Eagle – FY14 final results summary

HK\$MM, December year-end

	FY13	1H14	2H14	FY14	Y/Y (%)	H/H% Chg	J.P. Morgan comments
Rental Income - Hong Kong	213	96	122	217	1.9	27.2	Lower contribution from Great Eagle Centre as less office space was leased to third parties
Rental Income - US	121	109	91	200	64.7	-16.9	Growth mainly driven by acquisition of 123 Mission Street in San Francisco
Rental income	334	205	212	417	24.7	3.7	
Hotel operation	3,481	1,596	1,765	3,361	-3.4	10.6	HK hotel income contributed at Langham Hospitality level after spin-off
Income from Champion REIT	316	521	(211)	310	-1.9	-140.5	
Income from Langham Hospitality	189	148	158	306	NM	NM	
Other income	381	213	269	483	26.5	26.4	
Turnover	4,702	2,683	2,194	4,877	3.7	-18.2	
Rental income - HK prop	158	77	85	162	2.7	11.2	
Rental income - US prop	52	58	43	101	95.1	-25.1	
Hotel operation - HK	255	0	0	0	NM	NM	Spin off completed in late May 2013
Hotel operation - Overseas	313	140	241	381	21.5	72.3	Reduced loss at Langham Chicago
Hotel management fee	105	63	71	134	27.7	12.4	
Hotel operation	673	203	312	515	-23.5	53.7	
Other income less expenses	145	142	54	196	35.4	-62.4	
Champion REIT manager fee	231	110	106	216	-6.6	-4.5	
Dividend income/Agency fee from Champion REIT	802	411	401	811	1.2	-2.4	
Income from Langham Hospitality	189	148	158	306	NM	NM	
Administrative expenses	(380)	(217)	(140)	(356)	-6.3	-35.6	Professional fees incurred for project feasibility studies; one-off write-off relating to fitting and fixture at The Langham Sydney and provision on exchange loss arising from RMB depreciation
EBIT	1,869	932	1,018	1,950	4.3	9.2	Contributed by gain in securities investment of HK\$134 mn
Interest income	132	171	120	291	120.3	-30.1	Returns from RMB bank deposits and other interest enhancing investments
Interest expenses	(126)	(81)	(85)	(166)	32.3	4.1	Debt for Langham Xintiandi consolidated
Net interest expenses	6	90	35	125	1,827.2	-61.0	
Operating profit	1,876	1,022	1,053	2,075	10.6	3.1	
Exceptional items	0	0	0	0	NM	NM	
Associates	(26)	(9)	(18)	(27)	5.0	NM	
Pretax profit	1,850	1,013	1,035	2,049	10.7	2.1	
Taxation	(169)	(47)	(80)	(127)	-24.8	71.4	Lower taxes as losses incurred at The Langham Chicago lowered taxes for the US operations
Minority Interests	(2)	(1)	(1)	(2)	NM	NM	
Net profit	1,680	965	954	1,919	14.2	-1.2	
Core net profit	1,680	965	954	1,919	14.2	-1.2	
Core EPS (HK\$)	2.63	1.47	1.54	3.01	14.2	4.5	
DPS (HK\$)	2.16	0.27	0.47	0.74	NM	NM	Excluding special dividend of HK\$1.5 in FY13, FY14 DPS grew 12% Y/Y
Rental margin - HK	74%	80%	70%	75%			
Rental margin - Overseas	42%	53%	48%	50%			
Hotel EBITDA - HK	39%	NA	NA	NA			
Hotel EBITDA - Overseas	12%	9%	14%	12%			
Effective tax rate (%)	20%	9%	15%	12%			
Payout ratio (%)	82%	18%	31%	25%			

Source: Company data, J.P. Morgan estimates.

Table 2: Hotel portfolio - operational data

Owned Hotels	Average Room Rate (local currency)			RevPar (local currency)			Occupancy (%)	
	YTD Dec 14	YTD Dec 13	Y/Y change	YTD Dec 14	YTD Dec 13	Y/Y change	YTD Dec 14	YTD Dec 13
London	266	278	-4%	216	224	-4%	81.1%	80.7%
Boston	256	242	6%	210	182	15%	82.0%	75.1%
Melbourne	285	277	3%	246	238	3%	86.1%	85.7%
Sydney	303	291	4%	250	241	4%	82.3%	82.9%
Auckland	173	177	-2%	143	135	6%	82.6%	76.3%
Huntington Pasadena	251	228	10%	194	170	14%	77.0%	74.8%
Eaton Chelsea Toronto	130	124	5%	93	85	9%	71.4%	68.7%
Chicago	326	291	12%	196	136	NA	60.0%	46.8%
Langham Place, Fifth Avenue	538	627	-14%	400	511	NA	74.5%	81.4%
Washington hotel	182	NA	NA	92	NA	NA	50.4%	NA
Xintiandi	1,669	1,696	-2%	1,156	997	16%	69.3%	58.8%

Source: Company data, J.P. Morgan estimates.

Table 3: HK hotel portfolio held by Langham Hospitality - operational data

	Average Room Rate (HK\$)			RevPar (HK\$)			Occupancy	
	YTD Dec 14	YTD Dec 13	Y/Y change	YTD Dec 14	YTD Dec 13	Y/Y change	YTD Dec 14	YTD Dec 13
The Langham, Hong Kong	2,295	2,266	1%	2,040	2,013	1%	88.9%	88.9%
Langham Place	1,871	1,883	-1%	1,706	1,707	0%	91.2%	90.7%
Eaton Hong Kong	1,213	1,208	0%	1,166	1,149	1%	96.1%	95.1%

Source: Company data, J.P. Morgan estimates.

Earnings and NAV estimate changes

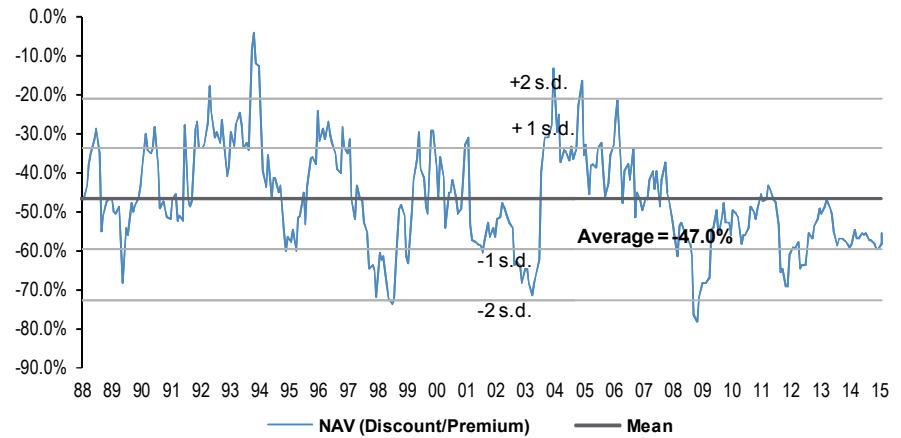
We adjust down our FY15-16 earnings estimates by 15% and 12%, respectively, in light of change in dividend income from Champion REIT and Langham Hospitality, slowdown in sales and development progress of the Dalian project as well as change in hotel income according to our latest room rate and occupancy assumptions.

Table 4: Summary of changes in earnings estimates

	2015E	2016E
Core profit (HK\$m) (old)	2,029	2,104
Core profit (HK\$m) (new)	1,718	1,850
% change	-15%	-12%
Core EPS (HK\$) (old)	3.09	3.21
Core EPS (HK\$) (new)	2.62	2.82
% change	-15%	-12%
DPS (HK\$) (old)	0.72	0.72
DPS (HK\$) (new)	0.74	0.74
% change	3%	3%
Dec-15		
NAV per share (HK\$) (old)	61.6	
NAV per share (HK\$) (new)	60.7	
% change	-1%	

Source: J.P. Morgan estimates.

Figure 1: Great Eagle - discount to current NAV



Source: Bloomberg, company, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Great Eagle (Neutral; Price Target: HK\$28.80)

Investment Thesis

Excluding the debt at Champion and Langham level, GE is in a net cash position. While the newly acquired assets should gradually enhance earnings in the longer term, we think it's too early to accumulate the stock while the company is still in the investment stage. Also, usually there are initial costs associated with the newly acquired and opened hotels.

Valuation

Our Dec-15 price target of HK\$28.80 is based on a 53% discount to our Dec-15 NAV estimate, 0.5 standard deviation below the long-term average discount.

	Dec-15		% of
	HK\$MM	HK\$/sh	GAV
Hong Kong Investment Properties			
Office	2,910	4.4	8%
Retail	872	1.3	2%
Residential (Include Eaton House)	3,582	5.5	10%
Car Park	137	0.2	0%
Total Hong Kong properties	7,501	11.4	20%
China properties	1,509	2.3	4%
US office	2,071	3.2	6%
US real estate fund	788	1.2	2%
Overseas hotel properties			
The Langham, London	1,739	2.7	5%
The Langham, Melbourne	994	1.5	3%
The Langham, Auckland	587	0.9	2%
The Langham, Boston	925	1.4	3%
The Langham, Huntington Hotel & Spa, Pasadena	816	1.2	2%
Eaton Chelsea, Toronto	234	0.4	1%
The Langham, Chicago	459	0.7	1%
The Langham, Sydney	223	0.3	1%
Langham Place, New York	635	1.0	2%
Overseas Hotel	8,374	12.8	23%
Total overseas properties	11,232	17.1	30%
Total properties	20,242	30.9	55%
Listed investments			
Champion REIT (58.3%)	12,429	19.0	34%
Langham Hospitality (57.7%)	4,246	6.5	12%
Total listed companies	16,675	25.4	45%
Gross asset value	36,918	56.3	100%
Net debt/cash (Ex-Champion and Langham)	2,902	4.4	
Total NAV	39,820	60.7	

Source: J.P. Morgan estimates

Risks to Rating and Price Target

Upside risks to our rating and price target include potential acquisitions that create significant NAV enhancement. Downside risks include lower-than-expected occupancy and F&B revenue in hotels, as well as lower-than-expected income from Champion REIT and Langham Hospitality.

Great Eagle: Summary of Financials

Income Statement					Cash flow statement				
HK\$ in millions, year end Dec	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY14	FY15E	FY16E	FY17E
Revenues	4,877	4,404	4,499		- EBIT	1,950	1,811	1,886	-
% change Y/Y	3.7%	(9.7%)	2.2%		- Depr. & amortization	229	229	229	-
EBIT	1,950	1,811	1,886		- Change in working capital	(2,147)	(2,187)	(2,071)	-
% change Y/Y	4.3%	(7.1%)	4.1%		- Others	(688)	(682)	(832)	-
EBIT Margin	40.0%	41.1%	41.9%		- Cash flow from operations	(687)	(922)	(824)	-
Net Interest	125	6	(36)		-				
Earnings before tax	2,049	1,850	1,975		- Capex	(2,500)	(200)	(200)	-
% change Y/Y	10.7%	(9.7%)	6.8%		- Disposal/(purchase)	0	0	0	-
Tax	(127)	(132)	(124)		- Net Interest	125	6	(36)	-
as % of EBT	6.2%	7.1%	6.3%		- Free cash flow	(3,304)	(1,128)	(990)	-
Net income (reported)	1,919	1,718	1,850		-				
% change Y/Y	14.2%	(10.5%)	7.7%		- Equity raised/(repaid)	0	0	0	-
Core net profit	1,919	1,718	1,850		- Debt raised/(repaid)	0	0	0	-
% change Y/Y	14.2%	(10.5%)	7.7%		- Other	0	0	0	-
Shares outstanding	656	656	656		- Dividends paid	(485)	(485)	(485)	-
EPS (reported) (HK\$)	2.93	2.62	2.82		- Beginning cash	10,712	7,081	5,519	-
% change Y/Y	11.2%	(10.5%)	7.7%		- Ending cash	7,081	5,519	4,060	-
Core EPS (HK\$)	2.93	2.62	2.82		- DPS (HK\$)	0.74	0.74	0.74	-
% change Y/Y	11.2%	(10.5%)	7.7%		-				
Balance sheet					Ratio Analysis				
HK\$ in millions, year end Dec	FY14	FY15E	FY16E	FY17E	% , year end Dec	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	10,198	5,519	4,060		- EBIT margin	40.0%	41.1%	41.9%	-
Accounts receivable	770	820	870		- Net margin	39.3%	39.0%	41.1%	-
Inventories	155	140	126		- SG&A/Sales	-	-	-	-
Others	2,433	0	0		-				
Current assets	13,806	6,728	5,305		-				
LT investments	2,453	2,466	2,480		- Sales per share growth	1.0%	(9.7%)	2.2%	-
Net fixed assets	85,686	86,585	87,491		- Sales growth	3.7%	(9.7%)	2.2%	-
Total Assets	101,945	95,780	95,276		- Net profit growth	14.2%	(10.5%)	7.7%	-
Liabilities					- EPS growth	11.2%	(10.5%)	7.7%	-
ST loans	3,231	3,231	3,231		- Interest coverage (x)	NM	NM	59.2	-
Payables	3,472	3,472	3,472		- Net debt to total capital	20.3%	26.2%	27.6%	-
Others	0	0	0		- Net debt to equity	25.5%	35.4%	38.0%	-
Total current liabilities	6,703	6,703	6,703		- Sales/assets	0.0	0.0	0.0	-
Long-term debt	24,682	24,682	24,682		- Assets/equity	2.0	2.0	2.1	2.1
Other liabilities	1,183	1,183	1,183		- ROE	3.8%	3.5%	4.1%	-
Total Liabilities	32,568	32,568	32,568		- ROCE	2.3%	2.2%	2.4%	-
Shareholder's equity	51,770	45,604	45,100		-				
BVPS	78.94	69.54	68.77		-				

Source: Company reports and J.P. Morgan estimates.

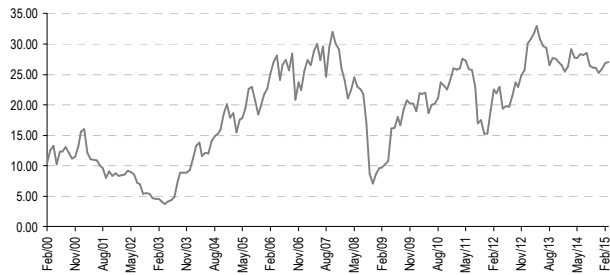
JPM Q-Profile

Great Eagle Holdings Limited (HONG KONG / Financials)

As Of: 04-Mar-2015

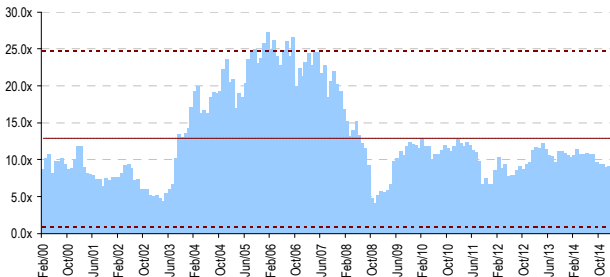
Local Share Price

Current: 27.05



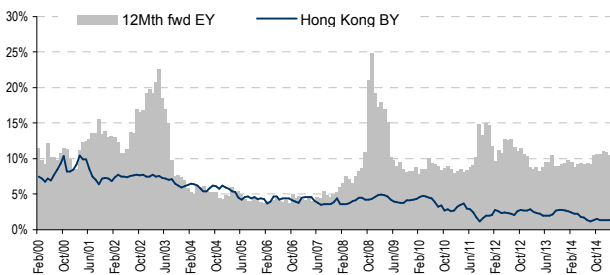
PE (1Yr Forward)

Current: 9.7x



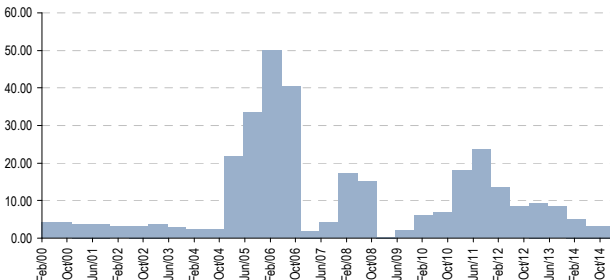
Earnings Yield (& Local Bond Yield)

Current: 10%



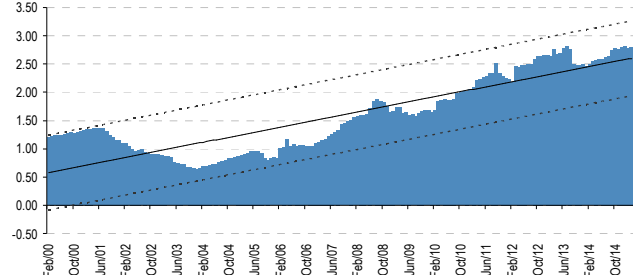
ROE (Trailing)

Current: 3.22



12 Mth Forward EPS

Current: 2.80



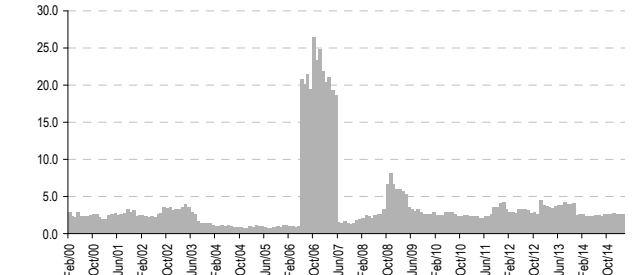
P/E Relative to Hong Kong Index

Current: 0.62



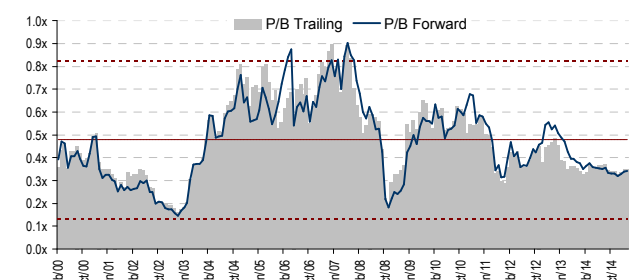
Dividend Yield (Trailing)

Current: 2.71



Price/Book (Value)

Current: 0.4x



Summary

Great Eagle Holdings Limited
HONG KONG
Financials

TICKER 41 HK

As Of: 4-Mar-15
Local Price: 27.05
EPS: 2.80

	Latest	Min	Max	Median	Average	2 S.D. +	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	9.67x	4.03	27.27	10.99	12.86	24.77	0.94	-58%	182%	14%	33%
P/BV (Trailing)	0.35	0.16	0.90	0.45	0.48	0.82	0.13	-55%	155%	28%	36%
Dividend Yield (Trailing)	2.71x	0.73	26.46	2.65	3.84	13.61	-5.93	-73%	877%	-2%	42%
ROE (Trailing)	3.22	0.33	50.00	4.28	10.63	34.68	-13.42	-90%	1452%	33%	230%

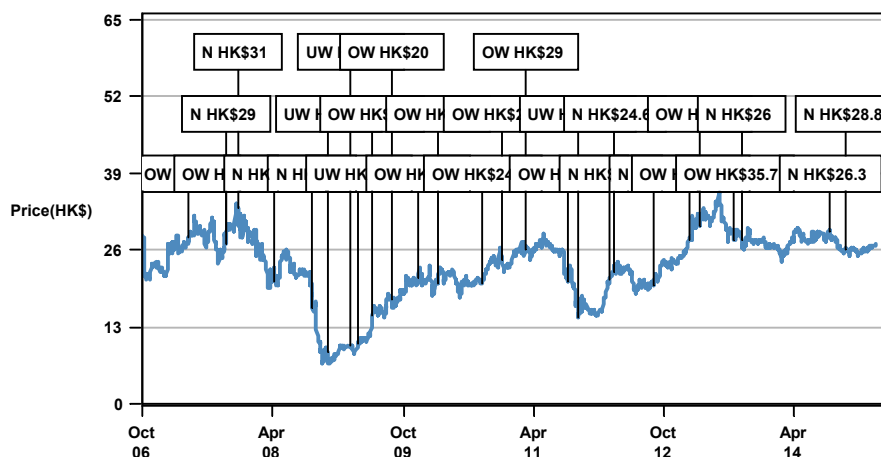
Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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Great Eagle (0041.HK, 41 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 11, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
11-Apr-07	OW	27.95	32.00
18-Sep-07	OW	27.10	29.00
19-Sep-07	N	28.95	29.00
07-Nov-07	N	33.15	31.00
02-Apr-08	N	20.80	26.50
17-Sep-08	N	16.22	22.00
17-Nov-08	UW	8.78	7.80
16-Feb-09	UW	9.68	8.60
24-Mar-09	UW	10.02	9.30
26-May-09	OW	14.98	17.00
12-Aug-09	OW	17.50	20.00
02-Dec-09	OW	21.25	25.00
25-Feb-10	OW	20.20	24.00
23-Aug-10	OW	20.45	24.90
21-Nov-10	OW	24.40	27.80
24-Feb-11	OW	25.95	29.00
21-Aug-11	OW	20.60	25.30
07-Oct-11	UW	14.72	13.50
16-Feb-12	N	21.10	20.60
28-Feb-12	N	22.30	24.60
21-Aug-12	N	20.10	25.00
17-Jan-13	OW	27.70	32.80
28-Feb-13	OW	30.05	35.00
22-Jul-13	OW	27.65	35.70
20-Aug-13	N	27.60	26.00
22-Aug-14	N	29.25	26.30
30-Oct-14	N	25.95	28.80

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IB clients*	75%	67%	52%

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