

Great Wall Motor - H

Tempted to take profits? Wait a sec...

Great Wall Motor's (GWM) FY14 earnings result today is less of an event because the company issued headline numbers in January ([here](#)). The question from most investors is, do we take profits here? It's tempting to do so, as the stock has rallied by 60% since disappointing 3Q14 results last October (vs. MSCI China +12%). But we recommend that investors hold onto the stock for the following five reasons:

- (1) SUVs remain one of the three segments should outgrow the broader PV market (along with premium cars and A-segment compact vehicles). Eighty-six percent of GWM's sales volume this year will come from SUVs, based on our estimates (up from 71% in FY14); only a handful of OEMs globally have similar concentrations, e.g., JLR and Jeep. (2) GWM's SUV models remain very competitive, judging from its **negligible discounts**, a good indicator of the popularity of an underlying model. Its H6 SUV, for instance, is at a mere 0.7% discount to MSRP despite being an old model. The Street's downgrades of GWM in the past on the thesis of rising competition in the SUV space were mostly wrong, as they focused on "supply," but missed the "demand" equation, which can be measured by discounts. (3) GWM announced the **re-launch of its H8** high-end SUV in April, a model delayed twice last year, which caused a share price correction. A successful re-launch will likely be welcomed by investors. (4) **Coupe C**, another SUV expected to launch in 2Q15, will be a "killer" model, hitting 10k units of sales per month after ramp-up, in our view. (5) The stock has exhibited a **high correlation with monthly sales** in the past, a trend we believe is likely to repeat.
- We raise our FY15/16 estimates moderately, by ~5%, to reflect the H8 re-launch and our upbeat view on new models.
- Rating, risks:** We remain OW on GWM H-shares and extend our PT to HK\$60 (Dec-15) from HK\$50 (Jun-15), on a P/E of 13x. Risks include worse-than-expected sales and competition.

Overweight

2333.HK, 2333 HK

Price: HK\$49.30

▲ Price Target: HK\$60.00
Previous: HK\$50.00

China

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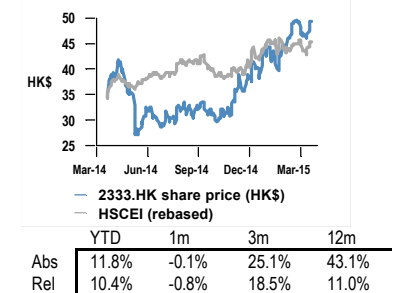
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Price Performance



Great Wall Motor - H (Reuters: 2333.HK, Bloomberg: 2333 HK)

Rmb in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (Rmb mn)	43,160	56,784	62,599	83,885	100,962
EBIT (Rmb mn)	6,833	9,927	9,665	13,838	16,870
Net Profit (Rmb mn)	5,692	8,224	8,042	11,324	13,810
EPS (Rmb)	1.87	2.70	2.64	3.72	4.54
DPS (Rmb)	0.30	0.57	0.82	0.80	1.12
Revenue growth (%)	43.4%	31.6%	10.2%	34.0%	20.4%
EPS growth (%)	53.7%	44.5%	(2.2%)	40.8%	22.0%
ROE	29.8%	33.2%	26.2%	29.6%	28.9%
P/E (x)	21.0	14.6	14.9	10.6	8.7
P/BV (x)	5.6	4.3	3.6	2.8	2.3
Dividend Yield	0.8%	1.4%	2.1%	2.0%	2.8%

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

Company Data

52-week Range (HK\$)	50.70-26.10
Shares O/S (mn)	3,042
Market Cap (Rmb mn)	119,762
Market Cap (\$ mn)	19,329
Price (HK\$)	49.30
Date Of Price	20 Mar 15
Free Float(%)	100.0%
3M - Avg daily vol (mn)	7.78
3M - Avg daily val (\$ mn)	45.0
HSCEI	1,2156.40
Exchange Rate	7.76
Price Target End Date	30-Dec-15
Price Target (HK\$)	60.00

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"> Sales volume of major models, including H6, H5, H2, H1 and future SUV models 	Upside risks to our view: <ul style="list-style-type: none"> Stronger-than-expected sales performance of its SUV models Sustainability of margins in 2015 	Downside risks to our view: <ul style="list-style-type: none"> Competition in SUV business, leading to price competition and margin contraction Further delays of SUV model launches
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Key financial metrics	FY13A	FY14E	FY15E	FY16E
Revenues (LC)	56,784	62,599	83,885	100,962
Revenue growth (%)	32%	10%	34%	20%
EBITDA (LC)	11,089	10,685	14,993	18,014
EBITDA margin (%)	20%	17%	18%	18%
Tax rate (%)	17%	17%	18%	18%
Net profit (LC)	8,224	8,042	11,324	13,810
EPS (LC)	2.7	2.6	3.7	4.5
EPS growth (%)	44%	-2%	41%	22%
DPS (LC)	0.6	0.8	0.8	1.1
BVPS (LC)	9.2	11.0	14.2	17.3
Operating cash flow (LC mn)	9,039	6,115	9,911	10,974
Free cash flow (LC mn)	1,995	(864)	2,932	3,995
Interest cover (X)	683	428	599	720
Net margin (%)	14%	13%	13%	14%
Sales/assets (X)	1.2	1.1	1.3	1.3
Net debt/equity (%)	-24%	-10%	-9%	-9%
ROE (%)	33%	26%	30%	29%

Key model assumptions	FY13A	FY14E	FY15E	FY16E
Auto sales volume growth	21%	-3%	23%	15%
Auto gross margin	29%	26%	28%	28%

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

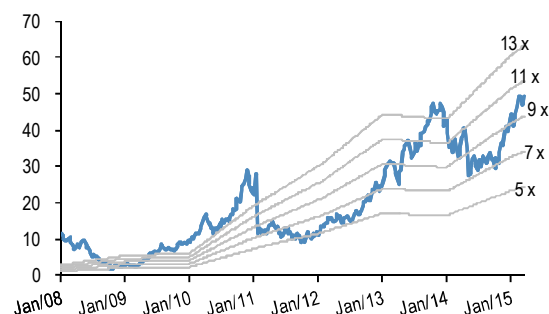
Sensitivity analysis	Impact on EBIT		Impact on EPS	
	14E	15E	14E	15E
Sensitivity to				
1% decrease in sales volume	-2.1%	-1.8%	-1.8%	-1.7%
1% decrease in gross margin	-6.7%	-6.2%	-6.5%	-6.1%

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

Valuation and price target basis

We extend our H-share PT to HK\$60 (Dec-15) on a forward P/E of 13x vs. our previous PTs of HK\$50 (Jun-15) on 11x. Following our earnings upgrade and the company's announcement of an H8 SUV re-launch, as well as its solid model cycle, we believe assigning a 15-20% valuation premium over the sector is reasonable and achievable. GWM's H-share P/E multiple has historically been 9-14x.

Great Wall forward P/E band



Source: Bloomberg, J.P. Morgan estimates.

JPM vs. consensus earnings estimate comparison

Net profit	15E	16E
JPM	11,324	13,810
Consensus	10,903	12,843
Difference %	4%	8%

Source: Bloomberg, J.P. Morgan estimates.

China auto valuation summary

Company	Code	Rec	Price (LC) 20-Mar	Mkt cap (US\$ M)	P/E (x)		P/B (x)		ROE		Div. yield	
					15E	16E	15E	16E	15E	16E	15E	16E
Brilliance	1114 HK	OW	14.74	9,547	9.4	8.2	2.8	2.2	35%	30%	0.7%	0.9%
ZhengTong Auto	1728 HK	OW	3.84	1,094	5.4	4.6	0.7	0.6	14%	14%	3.1%	3.7%
DongFeng Motor	489 HK	OW	12.14	13,480	5.5	5.0	1.1	1.0	19%	20%	2.7%	3.0%
Great Wall Motor	2333 HK	OW	49.30	22,390	10.6	8.7	2.8	2.3	30%	29%	2.0%	2.8%
Geely	175 HK	OW	3.91	4,435	11.2	7.2	1.4	1.2	13%	18%	0.6%	0.9%
GAC	2238 HK	UW	7.19	8,908	9.8	8.4	1.0	0.9	10%	11%	3.4%	4.1%
Mint Group	425 HK	N	14.10	1,998	9.7	8.7	1.3	1.1	14%	14%	3.3%	3.7%
Baoxin Auto	1293 HK	N	4.37	1,440	7.2	6.5	1.3	1.1	19%	18%	3.6%	4.2%
Zhongsheng	881 HK	UW	5.39	1,491	6.8	6.2	0.9	0.8	13%	13%	2.2%	2.7%
Sinotruk	3808 HK	UW	4.62	1,644	15.5	13.1	0.5	0.5	3%	4%	1.4%	1.9%
Nexteer	1316 HK	OW	8.06	2,594	12.6	10.8	3.0	2.5	27%	25%	0.8%	1.3%
Sunfonda	1771 HK	UW	3.10	240	5.7	4.4	0.8	0.6	14%	16%	0.0%	0.0%
Weichai Power (1)	2338 HK	OW	28.60	8,744	9.0	7.9	1.3	1.1	15%	15%	1.6%	1.8%
BYD (2)	1211 HK	OW	38.60	17,833	29.4	15.6	2.4	2.0	10%	16%	0.0%	0.0%
Average (3)					10.6	9.0	1.5	1.2	17%	17%	2.0%	2.4%
Average exclude BYD(3)					9.6	8.3	1.4	1.2	18%	17%	2.2%	2.6%

Source: J.P. Morgan estimates, Bloomberg. Notes: (1) Weichai Power is covered by Karen Li. (2) BYD covered by Alvin Kwock. (3) Average P/E is calculated as aggregated sector market cap divided by FY14/15E aggregated sector earnings; averages of P/B, ROE and dividend yield are simple average of the companies listed above.

Table 1: Great Wall Motor quarterly P&L summary (based on China GAAP)

Rmb in millions, %	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Total sales volume	182,668	185,189	187,330	215,432	187,758	159,643	161,106	222,262
Of which: SUV	89,687	96,922	111,905	121,788	114,004	111,273	121,003	173,152
SUV as % of total volume	49%	52%	60%	57%	61%	70%	75%	78%
Revenue	12,755	13,662	14,358	16,009	14,735	13,792	14,059	20,012
ASP	69,826	73,772	76,646	74,313	78,479	86,394	87,267	90,040
Gross profit	3,586	4,065	4,160	4,435	4,131	4,016	3,892	4,319
Gross margin	28.1%	29.8%	29.0%	27.7%	28.0%	29.1%	27.7%	21.6%
Operating exp	1,317	1,461	1,629	2,171	1,722	1,726	1,863	1,802
Opex as % of revenue	10.3%	10.7%	11.3%	13.6%	11.7%	12.5%	13.3%	9.0%
Operating profit	2,269	2,604	2,531	2,264	2,409	2,290	2,029	2,516
Operating margin	17.8%	19.1%	17.6%	14.1%	16.3%	16.6%	14.4%	12.6%
PBT	2,290	2,641	2,560	2,429	2,437	2,329	2,046	2,828
tax rate	17.1%	16.9%	18.5%	15.5%	17.7%	16.3%	20.3%	13.2%
PAT	1,898	2,194	2,087	2,053	2,005	1,949	1,631	2,456
minority as % of PAT	0.11%	0.14%	0.10%	0.07%	-0.01%	0.01%	-0.03%	0.01%
Net profit	1,896	2,191	2,085	2,052	2,005	1,949	1,632	2,455
Net margin	14.9%	16.0%	14.5%	12.8%	13.6%	14.1%	11.6%	12.3%

Source: Company data.

Table 2: Great Wall Motor FY14 results summary

Rmb in millions, %	FY13	FY14	FY14 vs. FY13	FY14 JPMe	FY14A vs. JPMe
Revenue	56,784	62,599	10%	56,503	11%
Sales growth	31.6%	10.2%	-21.3pts	-0.5%	10.7pts
COGS	(40,538)	(45,252)	12%	(40,926)	11%
Gross profit	16,246	16,358	1%	15,578	5%
Gross margin	28.6%	26.1%	-2.5pts	27.6%	-1.4pts
Pretax profit	9,920	9,640	-3%	9,245	4%
Net profit after minority	8,224	8,042	-2%	7,573	6%
Net margin	14.5%	12.8%	-1.6pts	13.4%	-0.6pts
Net profit growth	44.5%	-2.2%	-46.7pts	-7.9%	-72%
EPS (basic)	2.70	2.64	-2%	2.49	6%

Source: Company data.

Table 3: Great Wall Motor estimate revisions

Rmb in millions, %	2015E			2016E		
	Revised	Previous	% change	Revised	Previous	% change
Net sales	83,885	80,544	4%	100,962	97,679	3%
Sales growth (%)	34%	43%		20%	21%	
COGS	(60,814)	(58,430)	4%	(72,880)	(70,640)	3%
Gross profit	23,072	22,114	4%	28,083	27,039	4%
Gross margin (%)	27.5%	27.5%		27.8%	27.7%	
Operating profit	13,844	13,254	4%	16,876	16,197	4%
Operating margin (%)	16.5%	16.5%		16.7%	16.6%	
Pretax profit	13,826	13,243	4%	16,858	16,195	4%
Net profit	11,324	10,848	4%	13,810	13,266	4%
Net margin (%)	13.5%	13.5%		13.7%	13.6%	
Net profit growth (%)	41%	43%		22%	22%	
EPS	3.72	3.57	4%	4.54	4.36	4%
EPS growth (%)	41%	43%		22%	22%	

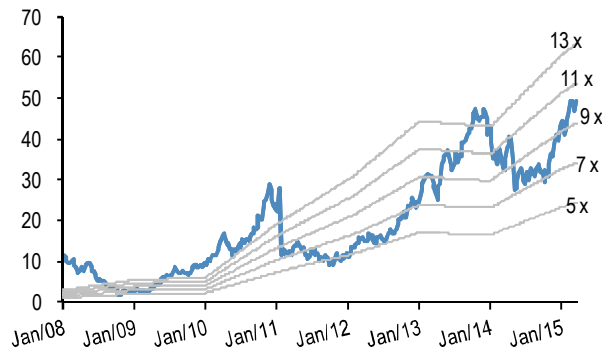
Source: J.P. Morgan estimates.

Table 4: Great Wall Motor SUV series and model launch pipeline

	M2	M4	H1	H2	H5
					
MSRP (Rmb)	67.9-77.9k	63.9-73.9k	68.9-82.9k	98.8-112.8k	92.8-170.8k
Size (L×W×H mm)	4011×1744×1735	3995×1728×1617	3898×1729×1621	4335×1814×1695	4650×1800×1745
Model launch			Launched in Oct 2014	Launched in July 2014	
	H6	H7	H8	H9	Coupe C
					
MSRP (Rmb)	115.8-162.8k	Estimated 160-180k	201.8-236.8	229.8-272.8k	Estimated 130-160k
Size (L×W×H mm)	4640×1825×1690 4649×1852×1710 ⁽¹⁾	4677×1911×1702	4806×1975×1794	4856×1926×1900	4545×1835×1700
Model launch		2H15; hybrid version in 2016	Apr 2015	Launched in Nov 2014	2Q15

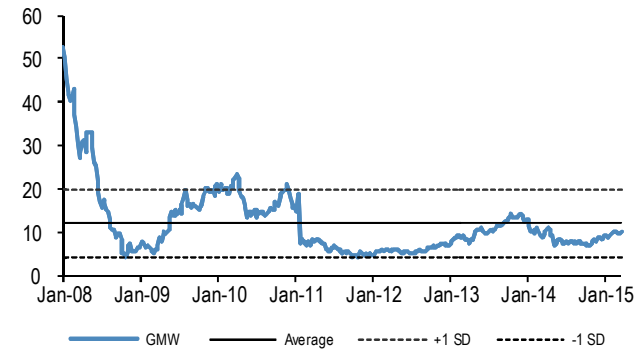
Source: Company data, some photos taken by J.P. Morgan at the 2014 Beijing Auto Show. Notes: (1) Sport version (2) Great Wall did not give guidance on the exact re-launch time of H8. We believe it will be 1H15.

Figure 1: GWM-H forward one-year P/E band



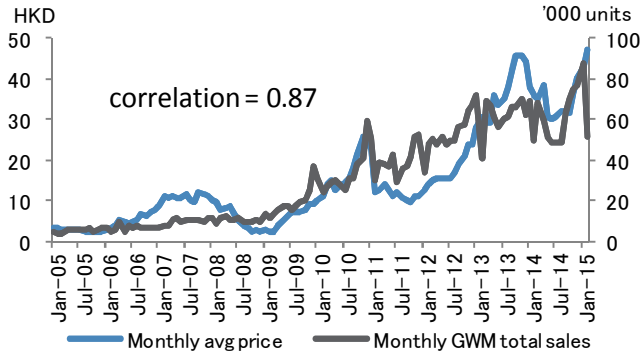
Source: J.P. Morgan, Bloomberg.

Figure 2: GWM-H forward one-year P/E band with +/-1.0 STD



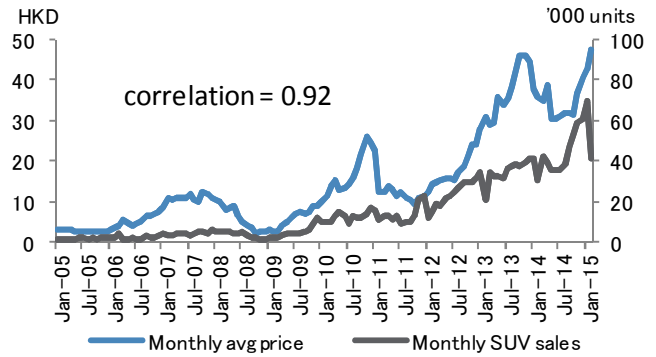
Source: J.P. Morgan, Bloomberg.

Figure 3: GWM-H share price vs. concurrent monthly vehicle sales volume



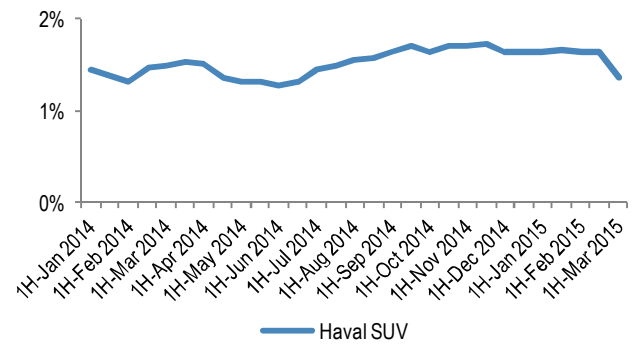
Source: J.P. Morgan, Bloomberg.

Figure 4: GWM-H share price vs. concurrent monthly SUV sales volume



Source: J.P. Morgan, Bloomberg.

Figure 5: Pricing discounts of GWM's Haval SUV



Source: J.P. Morgan, Bloomberg.

Investment Thesis, Valuation and Risks

Great Wall Motor - H (*Overweight; Price Target: HK\$60.00*)

Investment Thesis

We maintain our OW on Great Wall Motor-H. The key reasons behind our bullish investment thesis include: (1) we expect GWM to deliver 25%/15% sales volume growth in FY15/16 despite our view that the overall PV market will likely decelerate; (2) GWM is launching six new models in 2H14-2015. For any OEM globally, it is an aggressive proposition. While new model launches will incur higher marketing expenses and production ramp-up costs, GWM's share price historically exhibits a ~90% correlation with concurrent monthly sales, rather than margins; and (3) consensus expectations on sales or earnings are subject to upside risk, in our view.

Valuation

We extend our PT to HK\$60 (Dec-15) on a 13x forward P/E from a Jun-15 PT of HK\$50 (11x) previously. With the re-launch of the *H8* SUV and the coming "killer" model *Coupe C* in 2Q15, we believe GWM is set to see another round of re-rating and share price rally. GWM's P/E multiple has historically been 9-14x; the stock was re-rated during 2009-10 and 2012-13.

Risks to Rating and Price Target

Downside risks include worse-than-expected competition in the SUV business, leading to price competition and margin contraction, and model launch delays. Key power train technology is another longer-term challenge facing the company.

Great Wall Motor - H: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	43,160	56,784	62,599	83,885	100,962	EBIT	6,833	9,927	9,665	13,838	16,870
% change Y/Y	43.4%	31.6%	10.2%	34.0%	20.4%	Depreciation & amortization	949	1,165	1,040	1,149	1,138
Gross margin	26.9%	28.6%	27.7%	27.5%	27.8%	Change in working capital	(2,209)	5,279	(4,563)	(5,061)	(7,020)
EBIT	6,833	9,927	9,665	13,838	16,870	Others	(1,237)	(7,332)	(28)	(14)	(13)
% change Y/Y	64.8%	44.7%	(2.8%)	43.6%	21.9%	Cash flow from operations	4,337	9,039	6,115	9,911	10,974
EBIT Margin	15.8%	17.5%	15.4%	16.5%	16.7%	Capex	(4,445)	(7,133)	(7,000)	(7,000)	(7,000)
Net Interest	(22)	(16)	(25)	(25)	(25)	Cash flow from investing	(3,936)	(6,696)	(6,979)	(6,993)	(6,993)
Earnings before tax	6,841	9,920	9,640	13,826	16,858	Equity raised/(repaid)	0	0	0	0	0
% change Y/Y	65.6%	45.0%	(2.8%)	43.4%	21.9%	Debt raised/(repaid)	1	182	(182)	100	0
Tax	(1,119)	(1,688)	(1,599)	(2,489)	(3,035)	Other	(69)	(756)	813	0	0
as % of EBT	16.4%	17.0%	16.6%	18.0%	18.0%	Dividends paid	(1,036)	(1,831)	(1,895)	(2,722)	(2,710)
Net income (reported)	5,692	8,224	8,042	11,324	13,810	Cash flow from financing	(1,104)	(2,405)	(1,265)	(2,622)	(2,710)
% change Y/Y	66.1%	44.5%	(2.2%)	40.8%	22.0%	Beginning cash	6,306	5,596	5,523	3,394	3,691
Shares outstanding (MM)	3,042	3,042	3,042	3,042	3,042	Ending cash	6,337	6,991	3,394	3,691	4,962
EPS (reported Rmb)	1.87	2.70	2.64	3.72	4.54						
% change Y/Y	53.7%	44.5%	(2.2%)	40.8%	22.0%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	6,337	6,991	3,394	3,691	4,962	Operating margin	15.8%	17.5%	15.4%	16.5%	16.7%
Accounts receivable	15,482	18,205	24,082	29,971	39,856	Net margin	13.2%	14.5%	12.8%	13.5%	13.7%
Inventories	2,695	2,764	3,470	5,332	6,389	Sales growth	43.4%	31.6%	10.2%	34.0%	20.4%
Others	1,322	3,063	4,366	9,121	8,975	Net profit growth	66.1%	44.5%	(2.2%)	40.8%	22.0%
Current assets	25,848	31,026	35,314	48,119	60,187	EPS growth	53.7%	44.5%	(2.2%)	40.8%	22.0%
LT investments	48	59	79	59	59	Sales/assets	1.1	1.2	1.1	1.3	1.3
Net fixed assets	14,009	18,646	20,006	21,257	22,519	Assets/equity	1.98	1.92	1.85	1.75	1.65
Other LT assets	448	428	3,502	428	428	ROE	29.8%	33.2%	26.2%	29.6%	28.9%
Total Assets	42,569	52,605	61,345	72,309	85,638						
Liabilities											
ST loans	0	182	0	0	0						
Payables	13,039	15,252	17,273	19,962	23,886						
Others	6,280	7,406	8,872	7,466	7,496						
Total current liabilities	19,319	22,839	26,145	27,428	31,381						
Long term debt	0	0	0	0	0						
Other liabilities	1,607	1,757	1,682	1,682	1,682						
Total Liabilities	20,926	24,597	27,827	29,110	33,063						
Shareholders' equity	21,514	27,996	33,452	43,132	52,508						
Minorities	129	12	67	67	67						
BVPS	7.07	9.20	11.00	14.18	17.28						

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

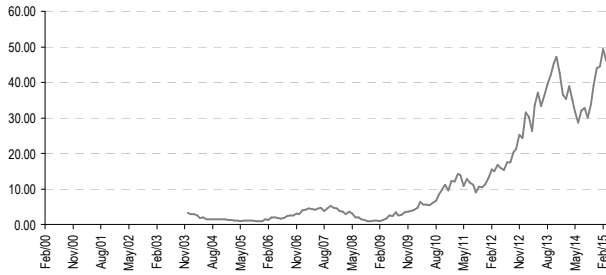
JPM Q-Profile

Great Wall Motor Co., Ltd. Class H (CHINA / Consumer Discretionary)

As Of: 13-Mar-2015

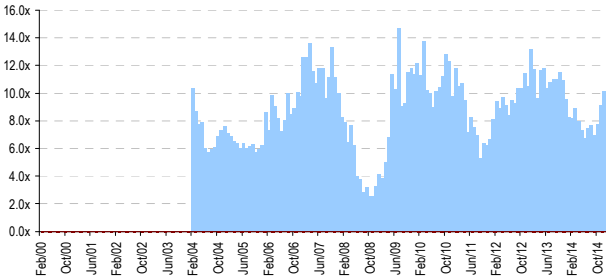
Local Share Price

Current: **46.00**



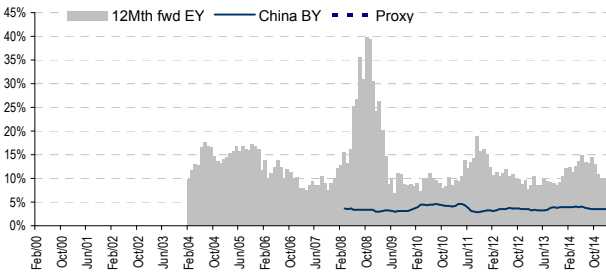
PE (1Yr Forward)

Current: **9.8x**



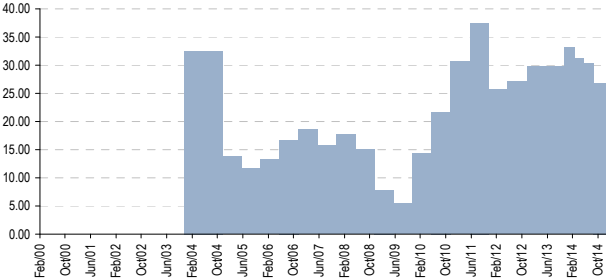
Earnings Yield (& Local Bond Yield)

Current: **10%**



ROE (Trailing)

Current: **26.79**

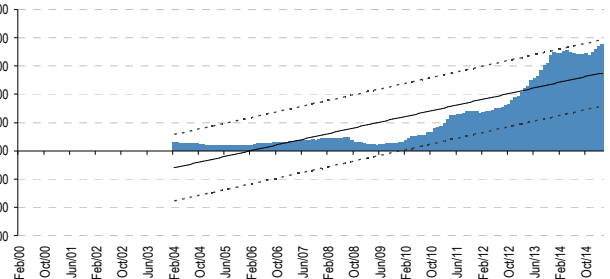


Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

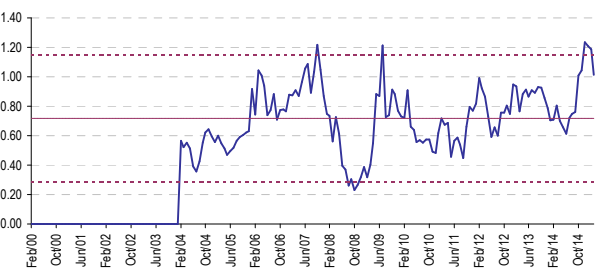
12 Mth Forward EPS

Current: **3.78**



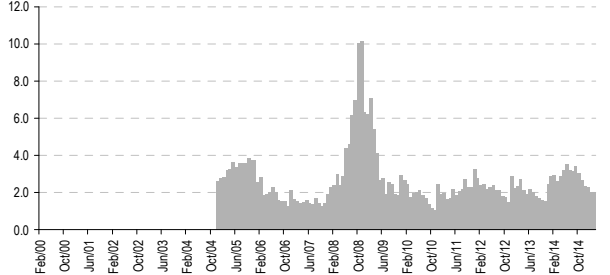
P/E Relative to China Index

Current: **1.01**



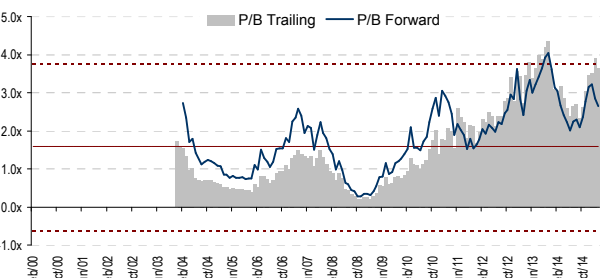
Dividend Yield (Trailing)

Current: **2.05**



Price/Book (Value)

Current: **3.6x**



Summary

Great Wall Motor Co., Ltd. Class H

CHINA

TICKER 2333 HK

Consumer Discretionary

As Of: 13-Mar-15

Local Price:

46.00

EPS:

3.78

	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	9.80x										
P/BV (Trailing)	3.63	0.20	4.36	1.29	1.59	3.78	-0.61	-94%	20%	-65%	-56%
Dividend Yield (Trailing)	2.05x	0.00	10.17	2.27	2.55	5.64	-0.54	-100%	395%	10%	24%
ROE (Trailing)	26.79	5.45	37.52	21.67	21.85	39.71	4.00	-80%	40%	-19%	-18%

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

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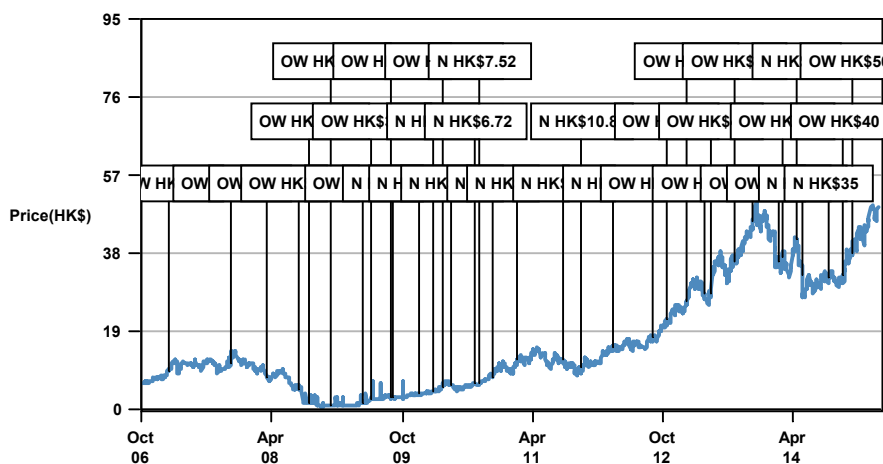
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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
26-Jan-07	OW	9.13	6.20
16-Oct-07	OW	11.40	8.32
12-Mar-08	OW	8.01	6.56
25-Jul-08	OW	5.10	3.76
05-Sep-08	OW	1.38	3.04
02-Dec-08	OW	0.93	1.56
19-Apr-09	OW	1.68	2.12
25-May-09	OW	2.48	3.32
12-Aug-09	OW	3.03	3.52
25-Aug-09	N	2.99	3.52
09-Dec-09	N	3.78	3.64
03-Feb-10	N	4.50	4.40
17-Mar-10	OW	5.49	6.84
21-Apr-10	N	5.97	6.24
30-Jul-10	N	6.27	6.72
21-Aug-10	N	6.32	7.52
15-Oct-10	N	7.94	9.50
28-Jan-11	N	12.12	10.90
02-Aug-11	N	12.14	12.70
18-Oct-11	N	10.22	10.80
29-Feb-12	N	15.06	12.80
14-Aug-12	OW	17.54	20.00
13-Oct-12	OW	21.75	24.00
09-Jan-13	OW	26.30	32.00
21-Mar-13	OW	28.40	37.00
19-Apr-13	OW	28.40	40.00
23-Jul-13	OW	36.15	46.00
14-Oct-13	OW	45.85	65.00
24-Jan-14	OW	36.10	50.00
14-Feb-14	OW	37.25	46.00
15-Apr-14	N	41.55	41.00
10-May-14	N	32.80	25.00
25-Aug-14	N	32.00	35.00
24-Oct-14	OW	32.50	40.00
02-Dec-14	OW	38.10	50.00

Great Wall Motor - H (2333.HK, 2333 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jan 26, 2007.

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IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

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