

## Intercontinental Hotels Group plc

## Back to America in 2024

Reiterate Rating: BUY | PO: 7,800 GBp | Price: 7,186 GBp

## Mix shift benefits in 2024; PO to GBp7,800 (\$99)

A favourable mix shift to US domestic travel, alongside further growth in China, should benefit RevPar in FY24. Meanwhile, pressures on NUG should ease as interest rates could be cut and the pipeline remains healthy. We increase our target EV/EBITDA multiple to reflect this to 15.5x (from 14.5x), which in turn pushes our PO up to GBp7,800 (ADR \$99) from GBp7,300 (ADR \$91). IHG shares trade on 14.3x 2024E EV/EBITDA, an 11% discount to US peers (wider than history at 4%) – we think this is unjustified, given IHG's high returns (>30% ROIC), earnings growth (15% 2023-27E) and cash return potential. Reiterate Buy.

## RevPar to slow, but keep growing

Our overall 2024 RevPAR estimate increases to +4%, driving our EBIT estimate 1% higher to \$1,136m, which puts us 6% above consensus. Americas represents c55% of the IHG system and we estimate the region's RevPar will grow +3% in FY24E. IHG's exposure to lower-end chain scales (Holiday Inn is c60% of rooms) should provide support in the event of a macro downturn, in our view. Further RevPar growth should come from a continued travel recovery in China, as increasing airlift supports Tier 1 cities. IHG China divisional RevPar was +0.8% vs 2019 in 9M23. We expect these trends to continue, with IHG Greater China RevPar growth +c10% vs 2019 in FY24E.

## System growth pressures to ease

We expect the 2024 net system size to grow +4.1%, as the macro environment stabilises and interest rates potentially come down. Conversions represented a third of both openings and signings in 3Q23 and should continue to support the pipeline in 2024, namely through the new conversion brand Gamer. We lower our 2023E net system growth estimate to 3.7%.

## Recurring buybacks in addition to dividend

IHG remains committed to cash returns in the form of annual share buybacks in addition to the dividend. We forecast \$750m share buybacks per annum (4% of market cap), with potential cash return of 26% in 2023-25E cumulative (dividends and buybacks).

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	1.46	2.81	3.80	4.42	5.02
EPS Change (YoY)	366.8%	92.1%	35.3%	16.3%	13.7%
Dividend / Share	0	1.38	1.65	1.92	2.19
ADR EPS (Adjusted Diluted - US\$)	1.46	2.81	3.80	4.42	5.02
ADR Dividend / Share (US\$)	0	1.38	1.65	1.92	2.19
<b>Valuation (Dec)</b>					
P/E	66.6x	30.8x	24.1x	20.7x	18.2x
Dividend Yield	0%	1.51%	1.81%	2.10%	2.39%
EV / EBITDA*	27.7x	19.5x	16.1x	14.5x	13.3x
Free Cash Flow Yield*	3.21%	2.93%	3.26%	4.28%	4.91%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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**Refer to important disclosures on page 9 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 11 January 2024 12:30AM EST

11 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	7,300.00p	7,800.00p
2024E EPS	4.50	4.42
2025E EPS	5.18	5.02

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## Stock Data

Price (Common / ADR)	7,186 GBp / 92.40 USD
Price Objective	7,800 GBp / 99.00 USD
Date Established	11-Jan-2024 / 11-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	5,086 GBp-7,190 GBp
Market Value (mn)	11,875 GBp
Shares Outstanding (mn)	165.2 / 165.2
Average Daily Value (mn)	28.70 USD
Free Float	95.6%
BofA Ticker / Exchange	ICHGF / LSE
BofA Ticker / Exchange	IHG / NYS
Bloomberg / Reuters	IHG LN / IHG.L
ROE (2023E)	NM
Net Dbt to Eqty (Dec-2022A)	NM
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

RevPAR: Revenue per Available Room

NUG = net unit growth

[Travel & Leisure: Year Ahead 2024: Back to Normality](#)

# iQprofile<sup>SM</sup> Intercontinental Hotels Group plc

## Key Income Statement Data (Dec)

### (US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
Sales	1,390	1,843	2,157	2,304	2,437
EBITDA Adjusted	632	896	1,088	1,212	1,316
Depreciation & Amortization	(98.0)	(68.0)	(71.1)	(76.0)	(80.4)
EBIT Adjusted	534	828	1,017	1,136	1,236
Net Interest & Other Income	(173)	(288)	(119)	(180)	(179)
Tax Expense / Benefit	(96.0)	(164)	(209)	(222)	(245)
Net Income (Adjusted)	269	511	651	708	764
Average Fully Diluted Shares Outstanding	184	182	171	160	152

## Key Cash Flow Statement Data

Net Income (Reported)	266	375	690	734	811
Depreciation & Amortization	98.0	68.0	71.1	76.0	80.4
Change in Working Capital	110	101	(52.8)	16.9	18.9
Deferred Taxation Charge	0	0	0	0	0
Other CFO	162	102	47.6	56.0	35.9
<b>Cash Flow from Operations</b>	<b>636</b>	<b>646</b>	<b>755</b>	<b>883</b>	<b>946</b>
Capital Expenditure	(99.0)	(161)	(248)	(259)	(267)
(Acquisition) / Disposal of Investments	0	16.0	0	0	0
Other CFI	0	0	0	0	0
<b>Cash Flow from Investing</b>	<b>(99.0)</b>	<b>(145)</b>	<b>(248)</b>	<b>(259)</b>	<b>(267)</b>
Share Issue / (Repurchase)	0	(483)	(788)	(750)	(750)
Cost of Dividends Paid	0	(233)	(252)	(283)	(308)
Increase (decrease) debt	(953)	(441)	0	400	400
Other CFF	1,064	686	(4.53)	(408)	(409)
<b>Cash Flow from Financing</b>	<b>111</b>	<b>(471)</b>	<b>(1,044)</b>	<b>(1,041)</b>	<b>(1,067)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>648</b>	<b>30.0</b>	<b>(537)</b>	<b>(417)</b>	<b>(388)</b>
FX and other changes to cash	(873)	(504)	0	400	400
Change in Cash	(225)	(474)	(537)	(17.2)	12.4
Change in Net Debt	(728)	33.0	537	417	388
Net Debt (Reported)	1,814	1,847	2,384	2,801	3,189
Net Debt (Adjusted)	1,881	1,851	2,388	2,805	3,193

## Key Balance Sheet Data

Property, Plant & Equipment	137	157	249	347	449
Goodwill	341	335	335	335	335
Other Intangibles	854	809	809	809	809
Other Non-Current Assets	1,318	1,237	1,237	1,237	1,237
Trade Receivables	574	646	756	808	854
Cash & Equivalents	1,450	976	439	422	434
Other Current Assets	42.0	56.0	56.7	57.0	57.3
Total Assets	4,716	4,216	3,882	4,015	4,175
Long-Term Debt	2,937	2,742	2,742	3,142	3,542
Other Non-Current Liabilities	1,629	1,538	1,585	1,609	1,633
Short-Term Debt	327	81.0	81.0	81.0	81.0
Other Current Liabilities	1,297	1,463	1,521	1,590	1,655
Total Liabilities	6,190	5,824	5,929	6,422	6,911
Total Equity	(1,474)	(1,608)	(2,047)	(2,407)	(2,736)
Total Equity & Liabilities	4,716	4,216	3,882	4,015	4,175

## Business Performance\*

Return On Capital Employed	10.6%	19.2%	31.4%	36.9%	38.8%
Return On Equity	NM	NM	NM	NM	NM
Operating Margin	38.4%	44.9%	47.1%	49.3%	50.7%
Free Cash Flow (MM)	537	485	507	624	679

## Quality of Earnings\*

Cash Realization Ratio	2.36x	1.26x	1.16x	1.25x	1.24x
Asset Replacement Ratio	1.01x	2.37x	3.49x	3.41x	3.32x
Tax Rate	26.6%	30.4%	23.2%	23.2%	23.2%
Net Debt/Equity	NM	NM	NM	NM	NM
Interest Cover	3.63x	7.02x	8.49x	6.77x	6.44x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Hotels

## Company Description

IHG is one the largest hotel companies and operates more than 929k rooms. The group has a pure asset light model and generates over 97% of profits from fee business. Americas represent 55%+ of group's system size, EMEA about 26% with the remaining in Greater China. The group has a pipeline skewed to Americas and China (c73% of total pipeline).

## Investment Rationale

We think IHG's geographically diversified asset-light model (99% of the rooms are either franchised or managed) is resilient and drives visible profits and cash flow streams. Fee growth is driven by net system growth, a mix shift to the higher fee luxury segment and margin expansion. Conversions should support continued net system growth. IHG has strong cash return to shareholders with its progressive dividend and potential for recurring share buybacks.

## Stock Data

Shares / ADR	1.00
Price to Book Value	-7.6x

## Half-yearly Earnings Estimates

	2022	2023
H1	1.18A	2.05A
H2	1.60A	1.75E

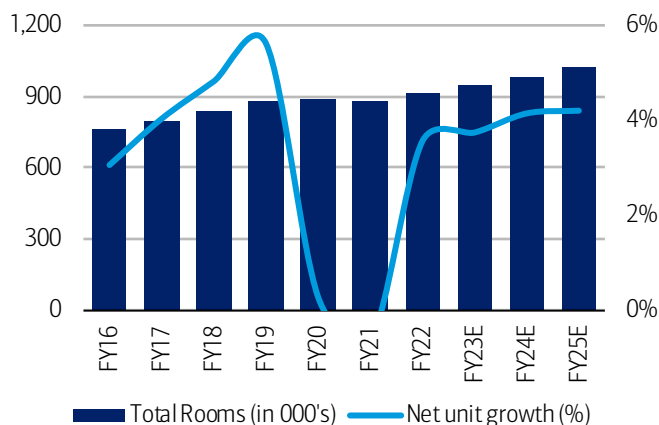
## Key Changes

(US\$)	Previous	Current
Price Obj.	91.00	99.00
2024E EPS	4.50	4.42
2025E EPS	5.18	5.02

# Changes to estimates

## Exhibit 1: IHG system rooms and net unit growth (%)

We see 4.1% net system growth in FY24E

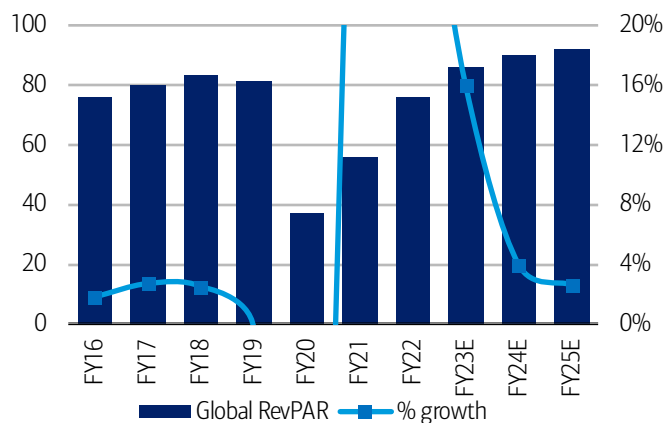


Source: BoFA Global Research estimates, company report

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## Exhibit 2: IHG RevPAR and growth rate (%)

We forecast RevPAR growth of 4% in 2024E

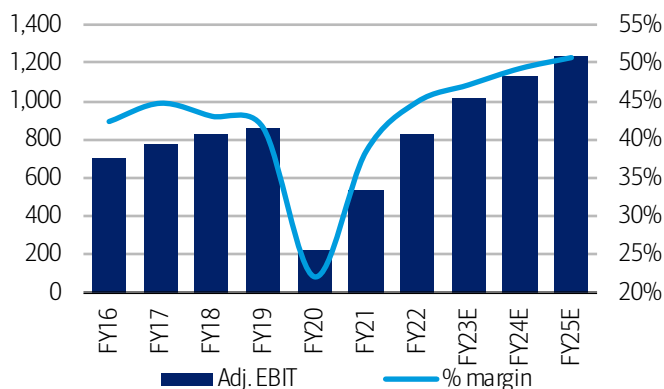


Source: BoFA Global Research estimates, company report

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## Exhibit 3: IHG adjusted EBIT and margin

We forecast 12% EBIT growth in 2023E

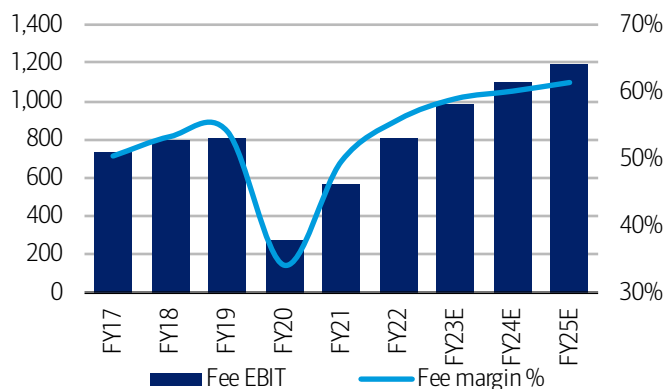


Source: BoFA Global Research estimates, company report

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## Exhibit 4: IHG Fee EBIT and margin

We forecast 60% Fee margin in 2024E, above 54% in 2019

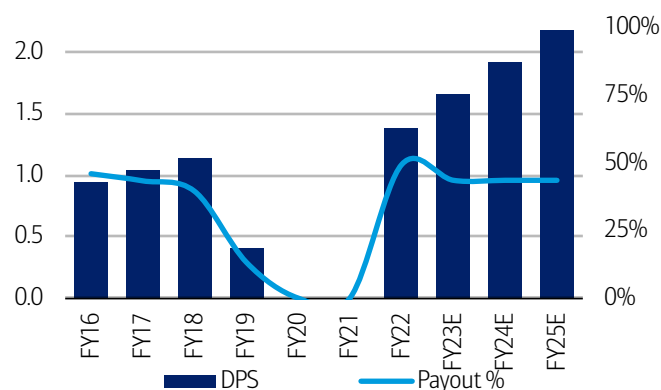


Source: BoFA Global Research estimates, company report

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## Exhibit 5: IHG dividend per share and payout ratio

We forecast DPS to increase to GBP1.92 in 2024E

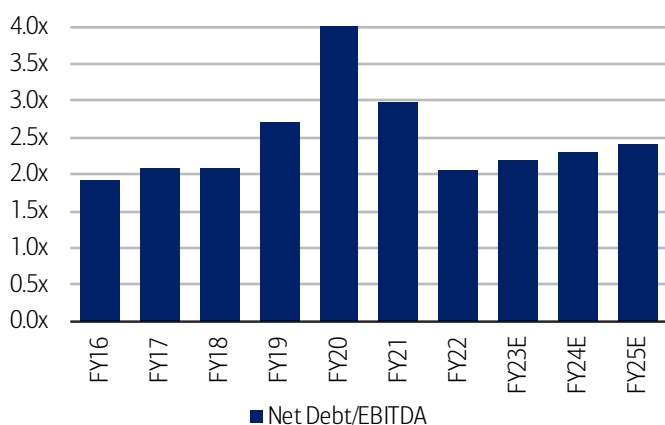


Source: BoFA Global Research estimates, company report

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## Exhibit 6: IHG ND/EBITDA

Leverage to remain below the 2.5-3x target



Source: BoFA Global Research estimates, company report

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**Exhibit 7: Changes to estimates**

Our 2024E adj EBIT increases 1%

	New			Old			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	2,157	2,304	2,437	2,157	2,298	2,430	0.0	0.3	0.3
EBITDA	1,088	1,212	1,316	1,088	1,200	1,305	0.0	0.9	0.9
% margin	50.4	52.6	54.0						
Adj EBIT	1,017	1,136	1,236	1,017	1,125	1,225	-0.1	1.0	0.9
% margin	47.1	49.3	50.7						
Adj Net Income	651	708	764	651	717	776	-0.1	-1.3	-1.6
% margin	30.2	30.7	31.4						
Adj. EPS	3.82	4.45	5.06	3.82	4.53	5.21	0.0	-1.8	-2.9
DPS	1.65	1.92	2.19	1.65	1.96	2.25	0.0	-1.8	-2.9
FCF	507	624	679	499	622	680	1.7	0.2	-0.1

Source: BofA Global Research estimates

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**Exhibit 8: BofA estimates vs. consensus**

Our 2024E EBIT is 6% above company-compiled consensus

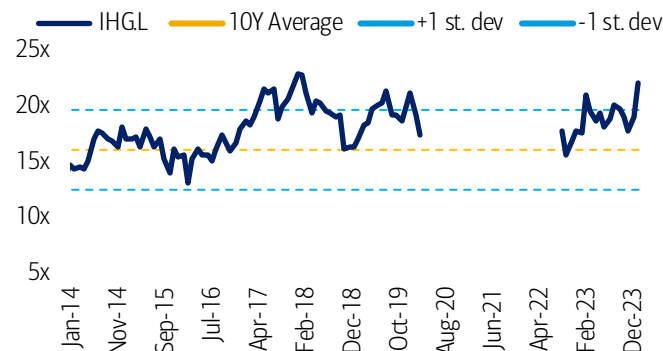
	BofA Est.		Consensus		% Difference	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
RevPAR YoY (%)	16.0	4.0	15.7	2.5	0.3	1.5
Net System Size Growth (%)	3.7	4.1	3.9	4.0	-0.2	0.1
<b>Reportable Segments data</b>						
Revenue (\$m)	2,157	2,304	2,162	2,282	-0.2	1.0
Operating Profit (\$m)	1,017	1,136	1,011	1,076	0.6	5.5
Adjusted EPS (cents)	382	445	372	415	2.7	7.2
Ordinary DPS (cents)	165	192	164	182	0.7	5.6
Adjusted EBITDA	1088	1212	1078	1138	0.9	6.5
Adjusted Interest (\$m)	-138	-179	-122	-134	12.7	33.3
Effective Tax Rate (%)	26	26	27	27	-1.0	-1.0
Basic Weighted Average no. of Shares (m)	170	159	181	163	-6.1	-2.3
Net Debt	-2388	-2805	-1851	-2594	29.0	8.1

Source: BofA Global Research estimates, company report

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**Exhibit 9: IHG P/E multiple**

IHG is trading above its historical P/E multiple

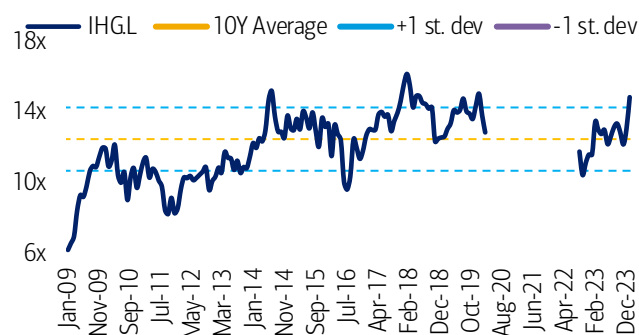


Source: BofA Global Research estimates, Refinitiv Eikon

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**Exhibit 10: IHG EV/EBITDA multiple**

IHG is trading above its historical average EV/EBITDA multiple



Source: BofA Global Research, Refinitiv Eikon

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**Exhibit 11: IHG key valuation metrics**

IHG is trading on 14.3x 2024E EV/EBITDA on our estimates

Year End 31st December (\$m)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>EV</b>							
Average / current share price (GBPp)	4,901	4,137	4,876	4,802	7,088	7,088	7,088
Share Price (USDc)	6,371	5,311	6,708	5,954	9,039	9,039	9,039
Shares outstanding	184	182	184	182	171	160	152
Equity value	11,723	9,666	12,343	10,837	15,482	14,485	13,743
Net debt	2,665	2,529	1,881	1,851	2,388	2,805	3,193
Pensions	96	103	92	66	66	66	66
Minorities	8	8	7	7	7	7	7
Associates	110	81	77	36	36	36	36
<b>EV</b>	<b>14,382</b>	<b>12,225</b>	<b>14,246</b>	<b>12,725</b>	<b>17,907</b>	<b>17,327</b>	<b>16,973</b>
<b>Analytics</b>							
EV/Revenue	6.9x	12.3x	10.2x	6.9x	8.3x	7.5x	7.0x
EV/EBITDA	14.7x	37.2x	22.5x	14.2x	16.5x	14.3x	12.9x
EV/EBIT	16.6x	55.8x	26.7x	15.4x	17.6x	15.3x	13.7x
PE	21.1x	169.6x	45.9x	21.2x	23.8x	20.5x	18.0x
Dividend yield	0.6%	0.0%	0.0%	2.3%	1.8%	2.1%	2.4%
FCF yield	3.3%	-0.1%	4.4%	4.5%	3.3%	4.3%	4.9%
ND/EBITDA	2.7x	7.7x	3.0x	2.1x	2.2x	2.3x	2.4x
ROIC (pre-tax)	30%	8%	22%	36%	45%	47%	50%
ROIC (after tax)	23%	5%	15%	26%	33%	35%	37%

Source: BofA Global Research estimates, company report

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**Exhibit 12: Deriving our IHG PO**

We see 12% total return with our PO of GBP7800

<b>EBITDA multiple</b>	<b>15.5</b>
FY24E EBITDA	1,212
<b>EV</b>	<b>18,779</b>
Net debt	2,805
Minorities	0
Pensions	66
<b>Equity value</b>	<b>15,908</b>
Shares outstanding	160
<b>Equity value / share (USD)</b>	<b>9,927</b>
GBP/USD	1.28
<b>Equity value / share (GBP)</b>	<b>7800p</b>
upside / downside	10%
2023E dividend	2%
<b>Total return</b>	<b>12%</b>

Source: BofA Global Research estimates

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## Price objective basis & risk

### Intercontinental Hotels Group plc (ICHGF / IHG)

We apply a 15.5x EV/EBITDA multiple to our 2024E estimates to derive our PO of GBP7,800/(ADR\$99). Our target multiple is a discount to US-listed peers average of 16x and near the top end of IHG's long-term range of 10-16x and reflects IHG's asset-light profile, global footprint and margin opportunities.

Downside risks to our PO are 1) greater-than-expected economic weakness which may reduce lodging demand, 2) slower margin progression, 3) greater-than-expected delays in new hotel openings, 4) lower-than-expected cash return to shareholders.

## Analyst Certification

I, Muneeba Kayani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### EMEA - Transports & Hotels Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accor	ACRFF	AC FP	Muneeba Kayani
	DHL Group	DPSTF	DHL GY	Muneeba Kayani
	DHL Group	DHLGY	DHLGY US	Muneeba Kayani
	DSV	DSDVF	DSV DC	Muneeba Kayani
	DSV	DSDVY	DSDVY US	Muneeba Kayani
	easyJet	EJTTF	EZJ LN	Muneeba Kayani
	IAG	XACDF	IAG LN	Muneeba Kayani
	IAG	BABWF	IAG SM	Muneeba Kayani
	IAG	ICAGY	ICAGY US	Muneeba Kayani
	Intercontinental Hotels Group plc	ICHGF	IHG LN	Muneeba Kayani
	Intercontinental Hotels Group plc	IHG	IHG US	Muneeba Kayani
	International Distributions Services PLC	ROYMF	IDS LN	Muneeba Kayani
	Mobico Group Plc	NXPGE	MCG LN	Muneeba Kayani
	Ryanair	RYAAY	RYAAY US	Muneeba Kayani
	Ryanair	RYAOF	RYA ID	Muneeba Kayani
	TUI AG	TUIFD	TUI LN	Muneeba Kayani
<b>NEUTRAL</b>				
	APM Maersk	AMKBF	MAERSKB DC	Muneeba Kayani
	APM Maersk	AMKBY	AMKBY US	Muneeba Kayani
	bpost	BPOSF	BPOST BB	Muneeba Kayani
	InPost	INPOF	INPST NA	Muneeba Kayani
	Kuehne + Nagel	KHNGF	KNIN SW	Muneeba Kayani
	Kuehne + Nagel	KHNGY	KHNGY US	Muneeba Kayani
	Whitbread	WTBCF	WTB LN	Muneeba Kayani
	Wizz Air	WZZAF	WIZZ LN	Muneeba Kayani
<b>UNDERPERFORM</b>				
	Air France-KLM	AFRAF	AF FP	Muneeba Kayani
	Air France-KLM	AFLYY	AFLYY US	Muneeba Kayani
	Austrian Post	OERCF	POST AV	Muneeba Kayani
	Lufthansa	DLAKY	DLAKY US	Muneeba Kayani
	Lufthansa	DLAKF	LHA GY	Muneeba Kayani
	PostNL	TNTFF	PNL NA	Muneeba Kayani
	ZIM	ZIM	ZIM US	Muneeba Kayani

## **iQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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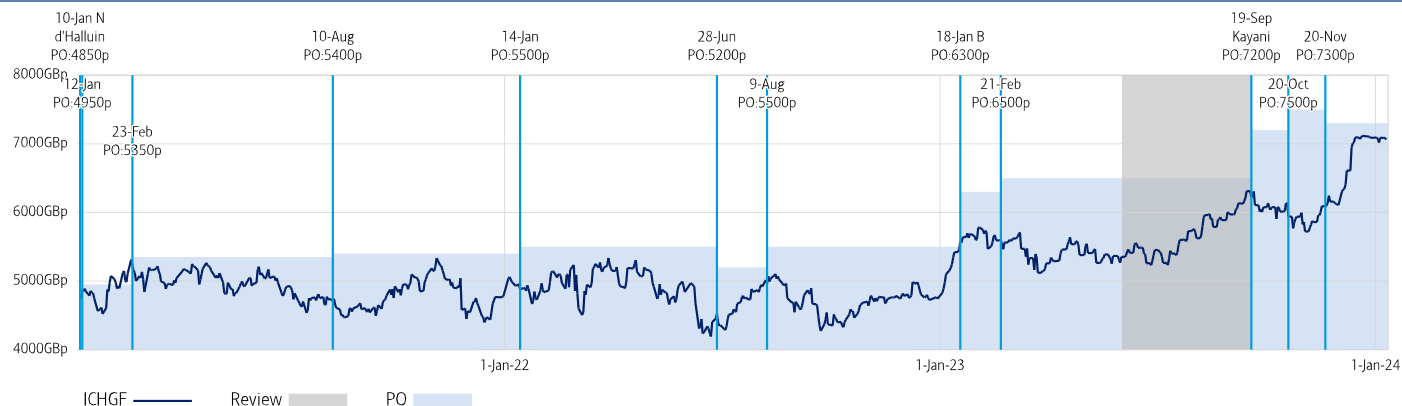
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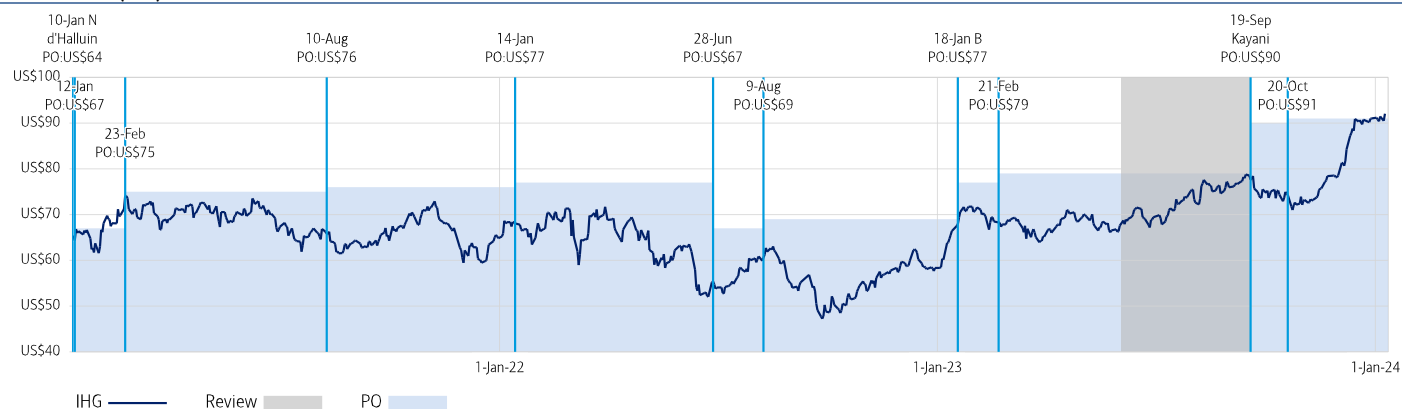
### Intercont'l Hotels (ICHGF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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### Equity Investment Rating Distribution: Leisure - Hotel/Lodging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	16	61.54%	Buy	12	75.00%
Hold	3	11.54%	Hold	2	66.67%
Sell	7	26.92%	Sell	5	71.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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