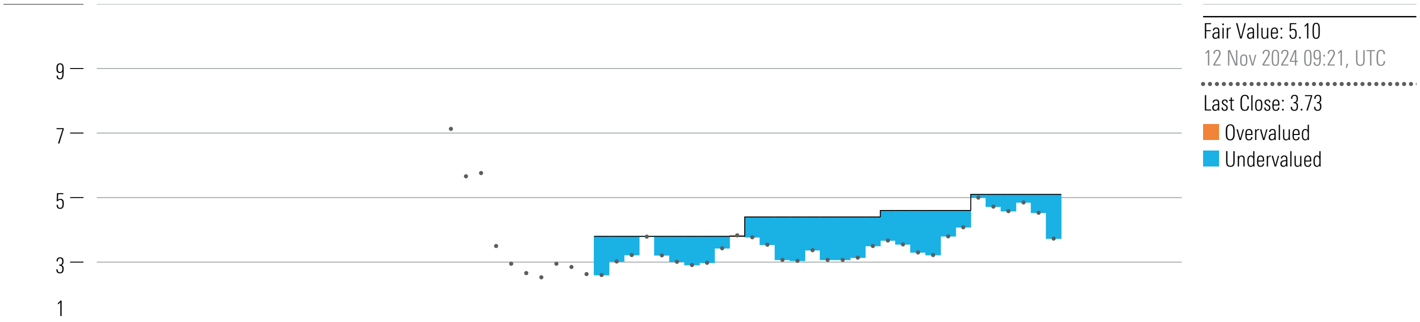
Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

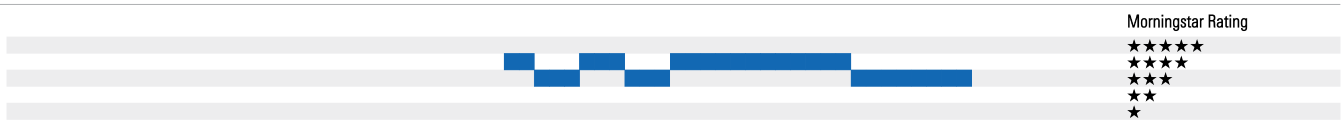
Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
3.73 USD 8 Apr 2025	5.10 USD 12 Nov 2024 09:21, UTC	0.73	17.36 USD Bil 9 Apr 2025	None	Large Growth	Very High	Standard	2 Apr 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	—	—	0.85	0.77	0.93	0.73	Price/Fair Value
	—	—	-54.84	4.66	40.06	-20.97	Total Return %



Total Return % as of 08 Apr 2025. Last Close as of 08 Apr 2025. Fair Value as of 12 Nov 2024 09:21, UTC.

Contents

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Grab Positioned for Revenue Reacceleration in 2025, Driven by Financial Services and Deliveries

Business Strategy & Outlook Kai Wang, CFA, Senior Equity Analyst, 10 Nov 2023

Grab is still in its growth phase as it continues to acquire more users in Southeast Asia of its mobility and delivery services, its core businesses. We expect Grab's overall gross merchandise value, or GMV, to grow 41% year on year in 2023, and anticipate robust growth for 3-5 years as its core businesses have a dominant market position and a broad network of drivers and customers. However, profitability is a concern as we expect mobility to be the only profitable segment in 2023. The delivery service generates negative margins and Grab is incurring heavy losses from developing its financial services business that includes fintech payments and loans. Grab has also seen its advertising business grow into another revenue stream, which we believe will be a long-term catalyst.

Mobility, or ride-sharing, is Grab's most profitable segment, now generating 11.5% adjusted EBITDA margin—close to Grab's long-term forecast of 12% for the segment (not factoring in corporate operating expenses). Thus, we think the segment's margin upside may be limited. Despite this, overall operating margins should increase, given the operating leverage and continued growth brought by its network of consumers and drivers, dominant position, and lack of major threats.

The delivery service's adjusted EBITDA margin was negative 1% in the second quarter of 2022, and Grab guided to long-term margins of 3% as the service continues to scale. However, unlike mobility, there are

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Sector	Industry
Technology	Software - Application

Business Description

Founded in 2012, Grab provides ride-sharing services, food and grocery delivery, and financial services (payments, consumer loans, and enterprise offerings) in eight Southeast-Asian countries through its mobile platform. The company partners with merchants and riders, connecting them with consumers while charging commission to both sides. Grab has a leading market share in and derives 89% of its revenue from its core businesses, ride-sharing and food delivery. Singapore and Malaysia contributed 58% of revenue as of end-2021. Grab's main competitors in Southeast Asia are Foodpanda and Gojek, the ride-sharing arm of GoTo. Its financial services business is still in its nascent stage and provides minimal revenue currently. The company now also generates advertising revenue.

several competitors in this commoditized business with low switching costs, which is likely to limit the division's margin potential.

Grab guided to breakeven by 2025 and for its financial services business to be adjusted EBITDA positive in 2026. We believe that for Grab to fulfil its super-app aims, its financial services will have to expand from current levels—we estimate its fintech payment has less than 2% market share in Southeast Asia. This is likely to require heavy sales and marketing costs to raise its profile, given the saturation of digital banking and financial technology in the region. There is thus uncertainty as to whether Grab can break even for its financial services business by its target date.

Bulls Say Kai Wang, CFA, Senior Equity Analyst, 12 Nov 2024

- Grab operates mostly in emerging markets, which should see above-average GMV growth in the short to mid term relative to developed peers.
- Seventy percent of Southeast Asia's population is either underbanked or unbanked, which facilitates growth for Grab's financial services business.
- The mobility business has no major competitors, which could facilitate continued robust GMV growth.

Bears Say Kai Wang, CFA, Senior Equity Analyst, 12 Nov 2024

- The delivery business competes with several other peers with low profitability in the industry.
- We think there are legitimate questions about the roadmap to profitability of the financial services business and its weak market positioning.
- Possibility of bigger conglomerate with massive war chest as market entrant if capital allocation is not an issue to new competitor.

Economic Moat Kai Wang, CFA, Senior Equity Analyst, 10 Nov 2023

We assign a no-moat rating to Grab as the company is still incurring heavy losses—and is still in the growth stages of ramping its business where there is still uncertainty about its long-term profitability, despite having leading market share in ride-sharing and food delivery in several Southeast Asian countries. We think that its core businesses—ride-sharing and food delivery—both demonstrate a positive network effect, and have accumulated large amounts of consumer data at this current stage but are vulnerable to minimal switching costs. This is especially for its food delivery business, given significant competition with Delivery Hero-owned Foodpanda, GoFood, and ShopeeFood in Southeast Asia. For the overall company, current heavy operating losses outweigh its developing network effect and factors into our moat rating despite pockets of positive return on investment, or ROI. We believe Grab's current strategy is to cultivate switching costs for its business so that it can develop a moat around its platform, and in order to do so, it wants to combine everyday consumer services into one comprehensive super-app—that includes its ride-sharing, food and grocery delivery, hospitality booking, and also its nascent financial services business that provides digital payments and bank loans. By incorporating different services, Grab hopes to capture a cross-selling flywheel effect on its platform

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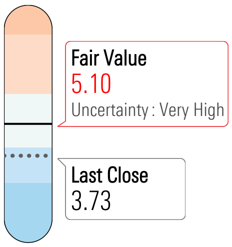
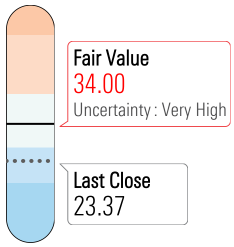
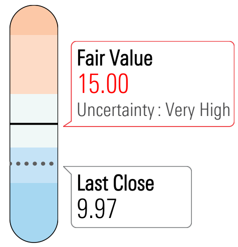
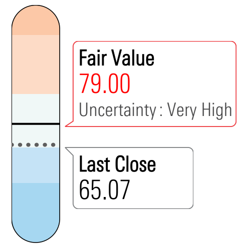
Competitors

	Grab Holdings Ltd Class A GRAB	Delivery Hero SE DHER	Lyft Inc Class A LYFT	Uber Technologies Inc UBER
				
Economic Moat	None	Narrow	None	Narrow
Currency	USD	EUR	USD	USD
Fair Value	5.10 12 Nov 2024 09:21, UTC	34.00 5 Feb 2024 17:44, UTC	15.00 12 Feb 2025 06:20, UTC	79.00 24 Dec 2024 17:34, UTC
1-Star Price	8.93	59.50	26.25	138.25
5-Star Price	2.55	17.00	7.50	39.50
Assessment	Fairly Valued 9 Apr 2025	Undervalued 9 Apr 2025	Undervalued 9 Apr 2025	Fairly Valued 9 Apr 2025
Morningstar Rating	★★★9 Apr 2025 21:50, UTC	★★★★9 Apr 2025 00:34, UTC	★★★★9 Apr 2025 21:45, UTC	★★★9 Apr 2025 21:45, UTC
Analyst	Kai Wang, Senior Equity Analyst	Verushka Shetty, Equity Analyst	Mark Giarelli, Analyst	Mark Giarelli, Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.73	0.69	0.75	0.92
Price/Sales	5.33	0.58	0.71	3.18
Price/Book	2.53	5.27	5.43	6.36
Price/Earning	1,203.61	—	10.53	15.80
Dividend Yield	0.00%	0.00%	0.00%	0.00%
Market Cap	17.36 Bil	6.68 Bil	4.73 Bil	151.99 Bil
52-Week Range	2.98—5.72	17.35—42.05	8.93—19.55	54.84—87.00
Investment Style	Large Growth	Mid Value	Small Blend	Large Growth

where users will subsequently increase the time spent on its app, which ultimately transforms the platform into a ubiquitous ecosystem that plays an important part of daily life for Southeast Asian individuals.

However, we view Grab as a platform providing two separate services that share operating expenses, rather than the all-encompassing ecosystem in its long-term vision. The platform app is still a work in progress that satisfies consumer demand for the services rendered, but not ubiquitous like its counterpart WeChat in China—the latter provides search, payment, purchasing, and social media functions. We are encouraged by Grab's dominant market share in several of its core countries but believe there is too much uncertainty to determine whether it can be successful in its endeavors as the platform will take time to build out. Outside of its operations in Singapore, Grab operates in emerging markets where consumers are likely to be price-sensitive, given lower disposable income. We think that commoditized services such as ride-sharing and food delivery are susceptible to low-cost strategies

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where competitors can offer incentives or vouchers that expose low customer switching costs and lack of brand loyalty. In addition, its financial services business is in its nascent stage, incurring the most operating loss out of its segments as Grab hopes to incorporate this element into its super-app similar to WeChat Pay. It is too early to determine whether its fintech venture can be successful, as the competitive landscape is likely to be challenging and already saturated, unlike the near duopoly of Alipay and WeChat Pay in China. However, we view Grab's ride-sharing business to have at least a narrow moat given its network effect and consumer data from years of operations similar to its American counterparts, Uber or Lyft, which also have narrow moats.

We believe that even if Grab is unable to transform itself into the super-app that it has set in its long-term vision, the platform could at least position itself as Uber, which has a first mover advantage, substantial network effect, and intangible assets from years of data collection from its users. Following Grab's acquisition of Uber's Southeast-Asian operations in 2018, the company has a dominant market share in Singapore, Malaysia, Thailand, and the Philippines for ride-sharing. There are some local alternatives for ride-sharing in each country, but there are none that are as pervasive across Southeast Asia that is close to the size of Grab's ride-sharing operations currently. Outside of Indonesia where the closest competitor is Gojek, which is the ride-sharing arm of multinational GoTo—there is no other multinational operation for ride-sharing such as Grab. To illustrate Grab's market share, Gojek entered Singapore in 2018, and still lags Grab and local-based ComfortDelGro in terms of ride numbers. While users have no switching costs and are likely to prefer the cheapest option, the lack of existing established competitors that have large war chests should mean that new entrants will need some time and capital to set up initial outlay costs. This may be more difficult in the current inflationary environment.

Grab's ride-sharing adjusted EBITDA margin hovers around 12%, which the company indicated is its long-term target and similar to Uber. This leads us to believe that operations are scalable given Uber's ROI increases along with the number of rides. Uber increased its EBITDA margin due to its operating leverage brought forth by the network effect, especially during the pandemic as the delivery side grew significantly. Uber's sales and marketing expenses as a percentage of revenue declined during the recovery last year. Given a leading market share in its core countries like Uber and an expanding network effect unimpeded by a lack of major competition, we believe that Grab can also follow a similar pattern, leading to favorable future ROI.

As for food delivery, Grab leverages its drivers to perform 3P delivery functions which should provide cost synergies favorable to long-term ROI. According to management, over 60% of drivers who work in ride-sharing also perform food delivery tasks, which highlights some of the cost overlaps between the two businesses. However, lack of profitability and volume of high-margin marketplace orders leads us to a no-moat rating for this segment for now. Current adjusted EBITDA margin remains negative (negative 1%), and the competitive landscape for this business is more crowded than that of ride-sharing.

Foodpanda, Deliveroo, ShopeeFood, and emerging peers such as LINE Man or Lalafood hold significant market share in Southeast Asia. This means food delivery should be more susceptible to incentive wars and low switching costs, as other peers are already established in the market. There are signs that Grab's food delivery requires the constant use of vouchers to maintain its market share, as there is a strong correlation between the deceleration of consumer incentives and the GMV growth of Grab's food delivery business. This is different from the relationship between ride-sharing and incentives used. According to third-party think tank Snapcart, promotions and cheap delivery fees are two of the top three factors in choosing which platform to use. We view food delivery as a commoditized service, as customers are likely to be more price-sensitive and prefer cheaper options given competitors are substitutes.

Grab does not have as great of a market share or first-mover advantage for delivery like it does with ride-sharing. In addition, margin uplift is limited, as management indicated its long-term forecast for adjusted EBITDA is about 3%-4%. We believe the low ceiling outlook is likely due to a need to protect its market share using incentives to ward off competition and keep customers on the platform. This is given the strong correlation between voucher use and GMV growth, which illustrates the lack of loyalty and low switching costs. Given the current negative margins, lack of switching costs, and greater competition, we don't believe the business garners a narrow moat rating unless Grab can show that the business can scale significantly and gain market share without the use of incentives.

The third major Grab business, financial services—which includes fintech payments, insurance products, and business loans—has a no-moat rating. The financial services business currently is in its early stages and incurs major heavy losses, and we estimate that Grab's fintech payments business occupies less than 2% market share in Southeast Asia. We consider the industry in Southeast Asia saturated with plenty of competitors, as the payments business competes both with localized competitors for each country, as well as with global peers such as PayPal, Stripe, and Apple Pay. In order to reach a dominant share or become ubiquitous, Grab would likely have to increasing spending on sales and marketing for customer acquisition. Greater user adoption is not necessarily guaranteed, as there are virtually zero switching costs to use another payment service.

Grab's digital lending business in Southeast Asia serves the 480 million unbanked or underbanked population, but despite a relatively unsaturated market, it also has heavy competition and must compete not only with other e-commerce platforms (SeaMoney, GoTo) and digital-only banks such as Timo in Vietnam or Eon in the Philippines but also physical banks that have set up virtual operations such as OCBC and DBS in Singapore. Grab has a digital bank license in Singapore and Malaysia, and has a minority stake in Bank FAMA in Indonesia. In Singapore, it partners with Singtel to form GXS Bank for its digital bank operations.

None of Grab's businesses outside of ride-sharing warrant a moat given the heavy competition, lack of switching costs, and negative returns for the moment. We are uncertain whether Grab can form a super-app in the long term, and at the moment there are limited data points that measure its adoption other than for ride-sharing or food delivery. However, we believe that at worst, its ride-sharing business on a stand-alone basis has a narrow moat, given its differentiating network effect and intangible data. Ultimately, if Grab can create an ecosystem that establishes a moat and switching costs, we believe the company is positioned for robust growth, given its leading market share and eventual ubiquity of its application, if we use WeChat as an example.

Fair Value and Profit Drivers Kai Wang, CFA, Senior Equity Analyst, 12 Nov 2024

Our fair value estimate for Grab is $5.10, and valuation will largely depend on revenue and margins for the mobility and delivery businesses in the short to mid term. However, Grab is seeing the emergence of its advertising business as another key driver for valuation in the long term. The main drivers will be revenue, EBITDA margin, GMV growth, and the ability to raise take rates (the commission rate that Grab charges based on the overall ticket value) in these businesses. For 2024, we forecast overall revenue to grow 17% year on year, illustrating continued robust growth in Grab's core businesses . For the next 3-5 years, we expect Grab's GMV to grow significantly but begin to decelerate from 2023 levels as Grab becomes more saturated among users in Southeast Asia. As for margins, current adjusted EBITDA for mobility is close to 12%, which is already at the long-term levels that management is forecasting. The company indicated that it has the ability to increase its margin by raising the take rate or decreasing incentive levels for consumers, but it believes that demand could potentially decline if it was to do that.

For the delivery business, second-quarter 2022 adjusted EBITDA margin is negative 1%, and the company indicated that its long-term forecast is 4%-5%. We believe Grab can eventually reach the top end of that guidance given that competitors such as Uber and DoorDash have been able to charge net take rates up to 16% and 12%, respectively; Grab's second-quarter 2022 rate is about 5% overall. We believe Grab should be able to increase its net take rate in the long term by increasing its commission levels or giving away less incentives.

In the financial services business, revenue and profitability would rely on Grab raising its profile in Southeast Asia, leading to additional users adopting its platform and using its insurance products or loans. We forecast modest growth and 5% adjusted long-term EBITDA margins in the financial services division.

Management indicated the segment should break even by 2026. Inclusive of all the segments and corporate costs of approximately $200 million per quarter, the company expects to break even in 2025. We forecast for Grab to reach its goal for now but acknowledge that there could be downside risks to our estimates given the uncertainty.

We see a wide range of outcomes for the shares, including a best-case scenario in which Grab can

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transform its app into the ubiquitous super-app that it had envisioned. The current app includes ride-sharing, delivery, and financial services—which the company hopes to leverage into an app that is pervasive in everyday life for individuals in Southeast Asia. However, given the wide range of outcomes we see for the business, this segment could be economically unviable and contribute minimally to our fair value estimate in a bear-case scenario. If this was to happen, Grab would abandon its efforts in its financial services business, which would leave only its core businesses standing.

In a best-case scenario, we expect its financial services business to take off as well, where its fintech payment services would be pervasive throughout Southeast Asia. The flywheel effect from its services could cause its users to spend more time on the platform, where it starts to become the everyday super-app that the company visualizes. Grab could potentially generate incremental ad revenues similar to WeChat where the app is ubiquitous in everyday Chinese life, offering everything from payments, purchasing, a mini-browser, social media, and more. Our bull-case scenario assumes the success of its financial services business but does not yet assume that Grab can become the WeChat-like behemoth for Southeast Asia.

Risk and Uncertainty Kai Wang, CFA, Senior Equity Analyst, 16 May 2024

Our Morningstar Uncertainty Rating of Grab is Very High.

The source of uncertainty mainly comes from Grab's financial services. We believe that its mobility and delivery businesses will remain as core businesses, as both have an established network of drivers and consumers that takes time to replicate, and are entrenched in their market positions. As for its financial services, we are uncertain whether this is an economically viable business given its low market share and continued heavy losses. We acknowledge the possibility for Grab's financial services business to become immaterial or loss-making in the long term. Despite company guidance for the segment to become adjusted EBITDA positive by 2026, we believe that it could face challenges trying to raise its profile and gaining market share in a saturated market. Between 2022 and 2025, we forecast the segment to lose over $1.5 billion. Given the current inflationary environment, continued heavy losses could force Grab to cease operations should it remain unviable in its outlook.

Despite the upside of its best-case scenario, we do not believe Grab warrants an Extreme rating given our view of a considerable floor for Grab with respect to its operations. At worst, if Grab's goal of becoming Southeast Asia's preferred super-app fails, we believe that it can still offer ride-sharing and delivery as stand-alone utility services where Grab still has a leading position and focus on expanding its business from there. We believe Grab has generated an extensive network effect in its mobility business that it can continue to grow in the region. Its delivery service, despite greater competition and parity, still has a leading market share in Southeast Asia where it can still delivery marginally positive, albeit low, adjusted EBITDA margins.

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Capital Allocation Kai Wang, CFA, Senior Equity Analyst, 16 May 2024

We view Grab's capital allocation as Standard.

We may consider lowering the rating to Poor if Grab's financial services business continues to incur heavy losses without a roadmap to profitability, as the company has spent heavily to build out the business. However, the business has improved in 2023. During the last three years, the financial services business incurred a $1.1 billion loss in the segment alone, and we expect losses to continue until at least 2026. We anticipate greater resources to shift to the business given its small market share, and expect increasing sales and marketing expenses in order to raise its profile.

On the bright side, Grab previously acquired Uber's Southeast Asian business in exchange for 27.5% equity stake in Grab. As a result of the stock-only deal, this preserved cash on its balance sheet and the deal has been prudent, in our view. Due to the acquisition, Grab has a dominant market share in ride-sharing throughout Southeast Asia and the transaction is working out well, as it was able to increase its network effect and intangible assets. As a result, Grab has a solid grip on dominant market share in the region for its mobility business. Should Grab's margins decline in the mobility business, then our rating would possibly deteriorate.

Analyst Notes Archive

Grab Earnings: Margins Expanding Slower Than Expected, but Should Meet Long-Term Goal Kai Wang, CFA,Senior Equity Analyst,20 Feb 2025

Grab's fourth-quarter 2024 revenue increased 17% year on year to $764 million while operating profit was positive for the second consecutive quarter. Why it matters: Although EBITDA margins improved by 130 basis points year on year to 1.9%, it was flat sequentially and Grab provided conservative EBITDA growth guidance of 41%-50% year on year. Shares fell 10% after the market closed on disappointing profit guidance. Segment EBITDA margin for delivery and mobility declined by 10 basis points and 40 basis points, respectively, due to inflation and costs associated with new product launches, such as nonfood deliveries. However, Grab reiterated expectations of steady-state EBITDA margins of 4% and 9% in the long term. Gross merchandise volume grew 20% year on year, reflecting continued robust growth. The bottom line: We maintain our fair value estimate of $5.10 per share for Grab. We believe that further declines could be an attractive entry point for the stock. We lowered near-term margin estimates slightly by 30-40 basis points, but fair value remains dictated by our long-term margin expectations for delivery and mobility, which remain unchanged at slightly above 4% and 10%, respectively. Coming up: Grab also provided 2025 revenue guidance for the first time, expecting an increase of 20.5% at the midpoint. The revenue increase represents a reacceleration of revenue growth for 2025. With only a minor deceleration in GMV growth, the revenue increase will be largely driven by commission rate increases of 20 basis points, according to our estimate. Key stats: Grab's financial services business, GrabFin, is expected to be a more material part of its company in the long term. Its loan book increased by 64% year on year to $536 million in fourth-quarter 2024. EBITDA loss was $27 million this quarter, but Grab expects the segment to break even by end-2026. We forecast 20% loan portfolio growth in 2025 and narrowing of its EBITDA loss margin of 30%.

Grab Earnings: Raising Fair Value by 11% As Revenue Reacceleration Expected in 2025 Kai Wang, CFA,Senior Equity Analyst,12 Nov 2024

We raise our fair value estimate for Grab by 11% to $5.10 per share from $4.60, after it posted third-quarter revenue of $716 million, an 18% year-on-year increase. The firm also generated positive adjusted operating income for the first time in its history of $16 million, and more importantly, it raised its outlook for the rest of 2024 and expects further revenue reacceleration in 2025. Grab expects reacceleration to be driven by robust growth of its lending portfolio, increasing frequency in transactions of its Grab Saver business, and growth of its nonfood deliveries. In addition, mobility services remain in demand as the company is seeing greater demand from some of its lower-tier customers.Grab raised its revenue midpoint guidance to $2.77 billion for 2024, which represents a 17.5% increase year on year, up from 15.5%. It also revised its EBITDA midpoint to $310.5 million in 2024, a $50.5 million increase. While we expect revenue reacceleration into 2025, our valuation is tempered slightly as the company indicated that EBITDA margin may expand more gradually than initially expected, due to inflation costs.Our fair value increase is driven by an upward revision of 2%-5% for gross merchandise value assumptions and a 5%-10% increase in Grab’s loan book in 2025-27. Although we believe Grab should see continued long-term growth—given that delivery and mobility services in Southeast Asia are still in their growth phase—we think shares may be close to fully valued for now, even with our reacceleration forecasts. However, we would recommend initiating into a long position should shares pull back or if there are better-than-expected operating margins and other reacceleration catalysts that would represent incremental positives. Shares surged 38% in the last three months, in part driven by market talk of Uber increasing its stake in Grab. Management addressed it as untrue, so we wouldn't be surprised if shares pulled back slightly, given Grab’s rebuttal.

Grab Earnings: Revenue Miss Due to Currency Translation, Not Operational Issues; Concerns Overblown Kai Wang, CFA,Senior Equity Analyst,16 Aug 2024

We maintain our fair value estimate for Grab at $4.60 per share despite reporting second-quarter 2024 revenue of $664 million that fell short of our estimate by 1.5%. The stock dropped sharply given the slight miss, but we believe this was a vast overreaction and concerns are overblown. The revenue miss was due to foreign exchange translation resulting from weakened Asian currencies against the US dollar and not because of any structural changes or operational issues. Without the translation and on a constant-currency basis, revenue rose 23% year on year, which would've beaten the consensus estimate by 4%. We believe that the weakening currency is temporary, and investors are overlooking that gross transaction value, or GTV, would have increased 18% year on year under constant currency. Given the robust growth, we do not believe there are any operational issues with Grab and the firm should continue to expand scale as it added 2.4 million users to its platform sequentially and 6 million year on year to 40.9 million total users. The user growth reflects continued momentum for the platform.Grab also lowered corporate costs by 14% year on year to $84 million and continues to progress toward breakeven by narrowing its adjusted operating loss to $37 million this quarter from $100 million a year ago. We believe investors are overly fixated on the slight revenue miss and also overlook that Grab should be operating profit positive in 2025, which would likely rerate the stock toward higher multiples as well. We maintain our long-term view that Grab has other catalysts for greater monetization and profit, including raising its take rate of 16%, which is lower than global peers' 25%-30%, as well as partnerships with social media giants in Southeast Asia. Given the pullback in shares, we believe now is an attractive entry point with 47% upside to gain exposure to a dominant market-share, highly scalable company. Grab remains our top pick for the Asia internet space.

Grab: Chope Acquisition Will Provide Another Touchpoint and More User Activity on the Platform Kai Wang, CFA,Senior Equity Analyst,23 Jul 2024

Grab acquired restaurant reservation app Chope yesterday in a private deal for an undisclosed sum. According to Chope, it has 1.7 million users and operates in Singapore, Thailand, and Indonesia, which overlaps with Grab's markets. We believe this deal gives Grab another touchpoint on the platform for users and likely provides a greater flywheel effect where the platform becomes more ubiquitous for Southeast-Asian consumers. While it may not directly benefit revenue for its ride-hailing or delivery services, it could provide a boost in advertising revenue from large food and beverage brands on the platform as Grab continues to accelerate the monetization of its advertising business.The deal also allows Grab to increase its popularity in Southeast Asia and encourages greater activity that can potentially promote user growth for its ride-hailing or delivery side of the app. We think this conforms to its strategy of intending to be an everyday app for Southeast-Asian consumers. The platform is starting to look like a one-stop shop for daily services that encompass ride-hailing, delivery, financial loans and insurance, and now restaurant booking. If Grab is able to integrate the restaurant booking function seamlessly, we believe this will make it more challenging for other competitors in the region to emulate the platform, which should further entrench Grab's competitive positioning.We continue to have a favorable outlook for no-moat Grab's long-term fundamentals and reiterate our fair value estimate of $4.60 per share, which represents a 36% upside from the July 22 close. We believe its dominant positioning, potential for margin expansion and take-rate uplift, and growth catalysts make the stock a top pick in Southeast Asia, in our view.

Grab Earnings: Raising Fair Value by 5% On Better Profitability, Guidance Raise; Shares Undervalued

Kai Wang, CFA,Senior Equity Analyst,16 May 2024

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 11 of 24

Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
3.73 USD 8 Apr 2025	5.10 USD 12 Nov 2024 09:21, UTC	0.73	17.36 USD Bil 9 Apr 2025	None	Large Growth	Very High	Standard	2 Apr 2025 05:00, UTC

We are raising our fair value estimate for no-moat Grab to $4.60 per share from $4.40 after it posted revenue of $653 million, a 24% increase year on year, which was 7% better than our estimate. More importantly, the company raised guidance for its 2024 adjusted EBITDA upper range to $270 million from $200 million, driven by a reduction in operating costs. Grab elected to keep its revenue guidance the same at $2.70 billion-$2.75 billion, or 14%-17% growth year on year, as it believes that it can improve profitability without materially increasing monetization rates—which, in our view, is an impetus for long-term organic growth. In the first quarter of 2024, recurring operating margin improved to negative 8% from negative 37% a year ago, while sales and marketing expenses were flat year on year and represented only 11% of sales, down from 13%. Coupled with strong on-demand gross transaction volume, or GTV, growth of 18% year on year, we believe this reflects a long-term path for margin expansion without heavy incentives, and our fair value change reflects the incremental 40-50 basis points of EBITDA margin each year from 30-40 basis points previously.Grab expects that adjusted EBITDA margin for its delivery unit can increase beyond 4% from the current 1% in three years and plans to lower costs by improving marketplace efficiency through batching, or delivering multiple orders, as well as setting up food lockers in commercial areas to improve unit economics. Grab also indicated that its adjusted EBITDA margin for its mobility business should be stable at 9% in the next three years. However, we believe Grab can surpass both targets, given that leading platforms in other markets in the US and China charge take rates that are at least 400 basis points higher for both businesses. The company said it has no imminent plans to increase its take rate, but we believe Grab can pull this lever to increase margins beyond its stated three-year target.

Grab Earnings: Guidance Shows Both Revenue Growth and Profitability Improvement in 2024 Kai Wang, CFA,Senior Equity Analyst,22 Feb 2024

We maintain our fair value estimate of $4.40 for Grab after the company reported fourth-quarter revenue of $653 million that was in line with our estimate. The company provided upper-range revenue guidance of $2.75 billion for 2024, which represents a 17% year-on-year growth but a deceleration from 65% in the year before. The company also guided to $180 million-$200 million adjusted EBITDA in 2024, which will be an improvement from a $22 million loss in 2023. Profitability will be driven by EBITDA margin expansion of 100-200 basis points in the delivery business in the medium term due to operating leverage and lower incentives. We believe Grab’s 2024 guidance represents a milestone where it can both increase revenue and see greater visibility for profitability at the same time, a benchmark that has eluded other Southeast Asia internet giants such as Sea and GoTo.Despite the encouraging guidance, Grab shares traded down 3% premarket likely due to concerns over the deceleration in revenue growth. However, we believe the concerns are overblown given our view that price-to-sales can be an incorrect metric to measure the long-term profitability of a company and do not consider it if the revenue is incentive-driven. Comparatively, the other Southeast Asia platforms have struggled to keep their lofty valuations due to one-time revenue growth and profitability concerns driven by heavy cash burn from

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 12 of 24

Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
3.73 USD 8 Apr 2025	5.10 USD 12 Nov 2024 09:21, UTC	0.73	17.36 USD Bil 9 Apr 2025	None	Large Growth	Very High	Standard	2 Apr 2025 05:00, UTC

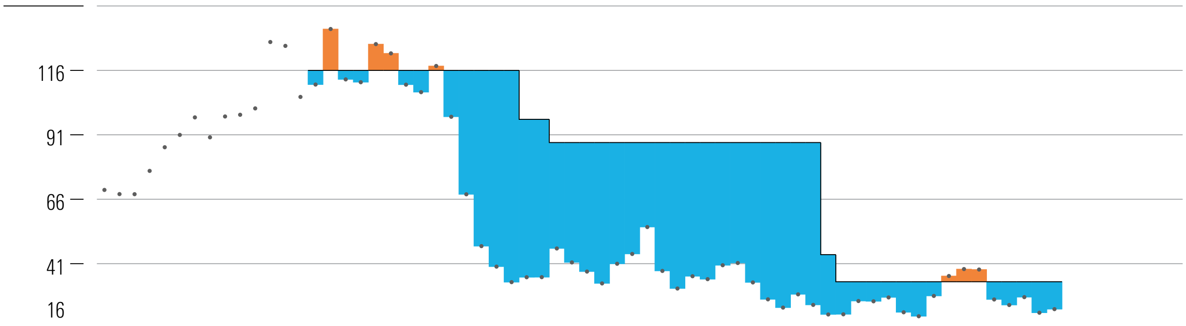
incentives. Grab still has about a 60%-70% market share of gross transaction volume, or GTV, for on-demand services in Southeast Asia, which is about 3 times that its closest peer, GoTo. We believe its dominant position in its core businesses will provide stability as smaller entrants will be challenged to muscle out Grab, and the 34% upside to our fair value from the current price presents an attractive risk/reward. Grab also announced its first share repurchase up to $500 million and the repayment of its Term Loan B, which should also suggest better profitability ahead.

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 13 of 24

Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Competitors Price vs. Fair Value

Delivery Hero SE DHER



Fair Value: 34.00
5 Feb 2024 17:44, UTC

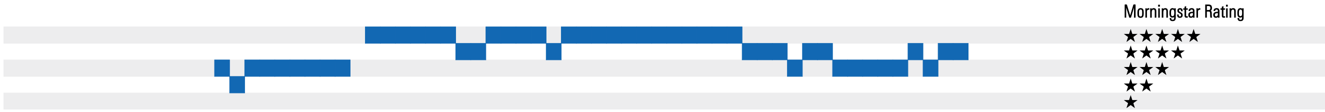
Last Close: 23.37

Overvalued

Undervalued

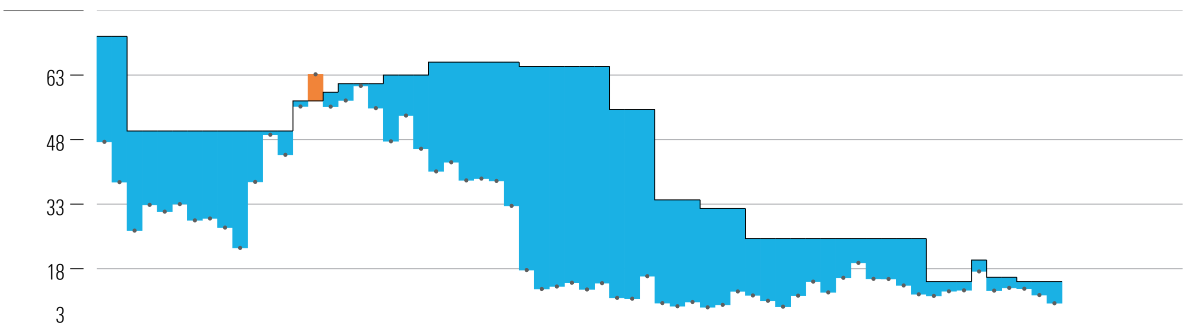
	2020	2021	2022	2023	2024	YTD
Price/Fair Value	—	0.84	0.51	0.28	0.80	0.69
Total Return %	79.99	-22.83	-54.31	-44.15	8.44	-13.83

Morningstar Rating



Total Return % as of 08 Apr 2025. Last Close as of 08 Apr 2025. Fair Value as of 5 Feb 2024 17:44, UTC.

Lyft Inc Class A LYFT



Fair Value: 15.00
12 Feb 2025 06:20, UTC

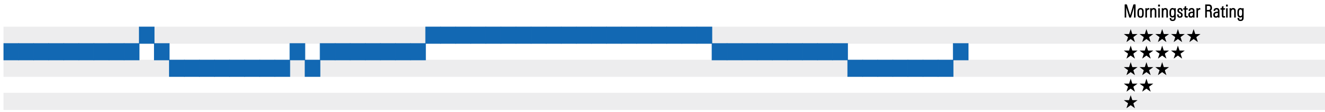
Last Close: 9.97

Overvalued

Undervalued

	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.98	0.65	0.20	0.60	0.81	0.75
Total Return %	14.20	-13.03	-74.21	36.03	-13.94	-22.71

Morningstar Rating



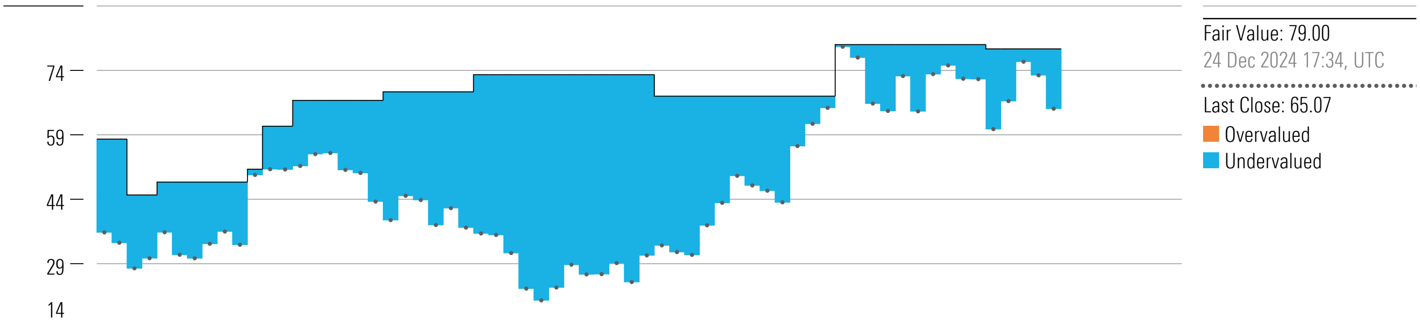
Total Return % as of 08 Apr 2025. Last Close as of 08 Apr 2025. Fair Value as of 12 Feb 2025 06:20, UTC.

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

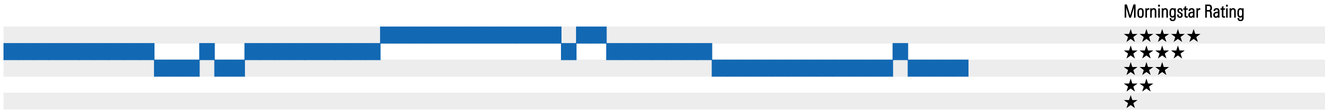
Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Competitors Price vs. Fair Value

Uber Technologies Inc UBER



	2020	2021	2022	2023	2024	YTD	
	0.84	0.61	0.34	0.91	0.76	0.92	Price/Fair Value
	71.49	-17.78	-41.02	148.97	-2.03	7.87	Total Return %



Total Return % as of 08 Apr 2025. Last Close as of 08 Apr 2025. Fair Value as of 24 Dec 2024 17:34, UTC.

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 15 of 24

Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
3.73 USD 8 Apr 2025	5.10 USD 12 Nov 2024 09:21, UTC	0.73	17.36 USD Bil 9 Apr 2025	None	Large Growth	Very High	Standard	2 Apr 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 20 Feb 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue (USD Mil)	1,433	2,360	2,797	3,386	4,068	4,768	5,512	6,292
Operating Income (USD Mil)	-1,314	-406	-72	79	339	625	955	1,330
EBITDA (USD Mil)	-1,406	-422	-25	256	516	790	1,111	1,480
Adjusted EBITDA (USD Mil)	-994	-118	253	470	804	1,083	1,410	1,785
Net Income (USD Mil)	-1,740	-462	-157	185	445	657	956	1,300
Adjusted Net Income (USD Mil)	-1,740	-462	-157	185	445	657	956	1,300
Free Cash Flow To The Firm (USD Mil)	-2,198	1,505	-357	-94	120	336	495	676
Weighted Average Diluted Shares Outstanding (Mil)	3,838	3,916	4,205	4,205	4,205	4,205	4,205	4,205
Earnings Per Share (Diluted) (USD)	-0.45	-0.12	0.00	0.04	0.11	0.16	0.23	0.31
Adjusted Earnings Per Share (Diluted) (USD)	-0.45	-0.12	0.00	0.04	0.11	0.16	0.23	0.31
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Margins & Returns as of 20 Feb 2025		Actual			Forecast					
	3 Year Avg	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year Avg**
Operating Margin %	-46.3	-91.7	-17.2	-2.6	2.3	8.3	13.1	17.3	21.1	12.5
EBITDA Margin %	—	-98.1	-17.9	-0.9	7.6	12.7	16.6	20.2	23.5	—
Adjusted EBITDA Margin %	—	-69.4	-5.0	9.0	13.9	19.8	22.7	25.6	28.4	22.1
Net Margin %	-48.9	-121.4	-19.6	-5.6	5.5	11.0	13.8	17.3	20.7	13.7
Adjusted Net Margin %	-48.9	-121.4	-19.6	-5.6	5.5	11.0	13.8	17.3	20.7	13.6
Free Cash Flow To The Firm Margin %	-34.1	-153.4	63.8	-12.8	-2.8	2.9	7.0	9.0	10.7	5.4

Growth & Ratios as of 20 Feb 2025		Actual			Forecast					
	3 Year CAGR	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**5 Year CAGR**
Revenue Growth %	60.6	112.3	64.7	18.5	21.1	20.2	17.2	15.6	14.1	17.6
Operating Income Growth %	—	-14.5	-69.1	-82.3	-209.7	329.5	84.2	52.8	39.3	—
EBITDA Growth %	-58.2	-10.5	-70.0	-94.1	-1122.6	102.0	52.9	40.7	33.2	-178.8
Adjusted EBITDA Growth %	-159.3	-18.1	-88.1	-314.4	85.7	71.2	34.7	30.2	26.5	47.8
Earnings Per Share Growth %	—	-93.0	-74.0	-100.0	—	140.6	47.6	45.4	36.1	—
Adjusted Earnings Per Share Growth %	—	-93.0	-74.0	-100.0	—	140.6	47.6	45.4	36.1	—

Valuation as of 20 Feb 2025	Actual			Forecast				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Price/Earning	-7.2	-28.1	—	106.5	38.7	26.6	18.5	13.7
Price/Sales	8.7	5.6	6.9	5.1	4.3	3.6	3.1	2.8
Price/Book	1.9	2.0	3.1	2.7	2.6	2.3	2.1	1.8
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	-8.0	-77.7	54.9	25.7	15.0	11.2	8.6	6.8
EV/EBIT	-6.1	-22.6	-192.9	153.1	35.6	19.4	12.7	9.1
Dividend Yield %	—	—	—	—	—	—	—	—
Dividend Payout %	0.0	0.0	—	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 20 Feb 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
ROA %	-19.0	-5.3	-1.7	2.0	4.5	6.2	8.2	10.1
ROE %	-26.1	-7.1	-2.5	2.8	6.3	8.6	11.1	13.1
ROIC %	-37.2	4.3	-17.4	-32.2	26.1	-388.8	-182.1	-179.7

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 16 of 24

Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
3.73 USD 8 Apr 2025	5.10 USD 12 Nov 2024 09:21, UTC	0.73	17.36 USD Bil 9 Apr 2025	None	Large Growth	Very High	Standard	2 Apr 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Debt/Capital %	9.9	5.7	—	1.5	1.4	1.3	1.1	1.0
Assets/Equity	1.4	1.4	1.5	1.4	1.4	1.4	1.3	1.3
Net Debt/EBITDA	2.6	10.1	—	-21.0	-11.2	-8.2	-6.7	-5.9
Total Debt/EBITDA	-1.4	-6.7	—	0.8	0.5	0.3	0.3	0.2
EBITDA/ Net Interest Expense	-5.6	1.2	-3.1	-3.1	-5.3	-8.6	-9.0	-8.9

Forecast Revisions as of 20 Feb 2025	2025		2026		2027	
Prior data as of 12 Nov 2024	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	5.10	5.10	—	—	—	—
Revenue (USD Mil)	3,386	2,785	4,068	3,420	4,768	4,086
Operating Income (USD Mil)	79	-42	339	210	625	562
EBITDA (USD Mil)	470	279	804	652	1,083	1,002
Net Income (USD Mil)	185	-71	445	282	657	592
Earnings Per Share (Diluted) (USD)	0.04	-0.02	0.11	0.07	0.16	0.14
Adjusted Earnings Per Share (Diluted) (USD)	0.04	-0.02	0.11	0.07	0.16	0.14
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00

Key Valuation Drivers as of 20 Feb 2025	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	8.0
Weighted Average Cost of Capital %	10.2
Long-Run Tax Rate %	20.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	20.0
Perpetuity Year	11

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 20 Feb 2025	USD Mil
Present Value Stage I	4,637
Present Value Stage II	808
Present Value Stage III	10,485
Total Firm Value	**15,930**
Cash and Equivalents	5,629
Debt	364
Other Adjustments	0
Equity Value	**21,195**
Projected Diluted Shares	4,205
Fair Value per Share (USD)	**5.10**

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

Grab Holdings Ltd Class A GRAB ★★★ 9 Apr 2025 21:50, UTC

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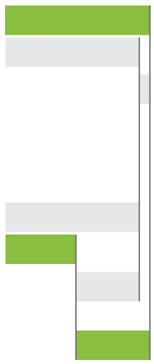
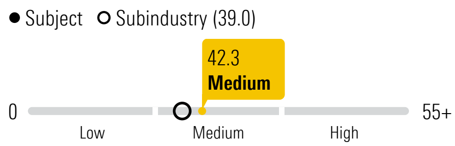
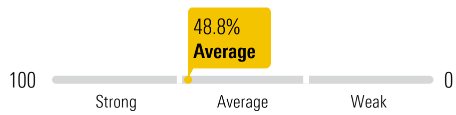
ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	42.3
– Manageable Risk	39.2
Unmanageable Risk[2]	**3.1**
Management	
Manageable Risk	39.2
– Managed Risk[3]	19.1
Management Gap[4]	**20.1**
Overall Unmanaged Risk	**23.2**



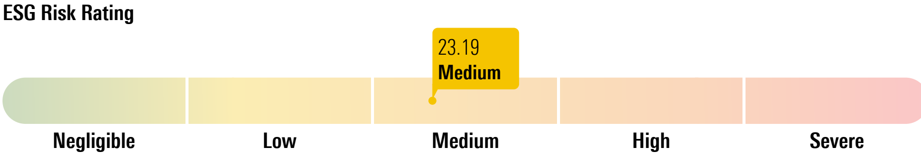




- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 48.8% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Apr 02, 2025. Highest Controversy Level is as of Apr 08, 2025. Sustainalytics Subindustry: Internet Software and Services. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 02 Apr 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure			Management			ESG Risk Rating		
Grab Holdings Ltd	42.3 | Medium	0	55+	48.8 | Average	100	0	23.2 | Medium	0	40+
Delivery Hero SE	43.1 | Medium	0	55+	50.7 | Strong	100	0	22.9 | Medium	0	40+
Lyft Inc	37.5 | Medium	0	55+	46.9 | Average	100	0	21.1 | Medium	0	40+
Uber Technologies Inc	42.8 | Medium	0	55+	53.1 | Strong	100	0	21.8 | Medium	0	40+
—	— | —	0	55+	— | —	100	0	— | —	0	40+

Morningstar Equity Analyst Report | Report as of 9 Apr 2025 22:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

Appendix
Historical Morningstar Rating

Grab Holdings Ltd Class A GRAB 9 Apr 2025 21:50, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	—	★★★	★★★	★★★	★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★★	★★★★	—	—	—	—	—	—	—	—	—
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
—	—	—	—	—	—	—	—	—	—	—	—
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
—	—	—	—	—	—	—	—	—	—	—	—

Delivery Hero SE DHER 9 Apr 2025 00:34, UTC

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Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

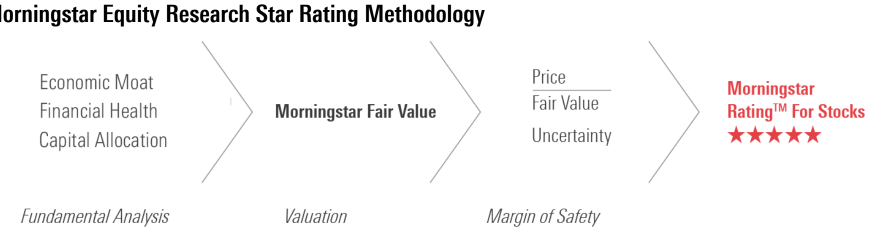
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

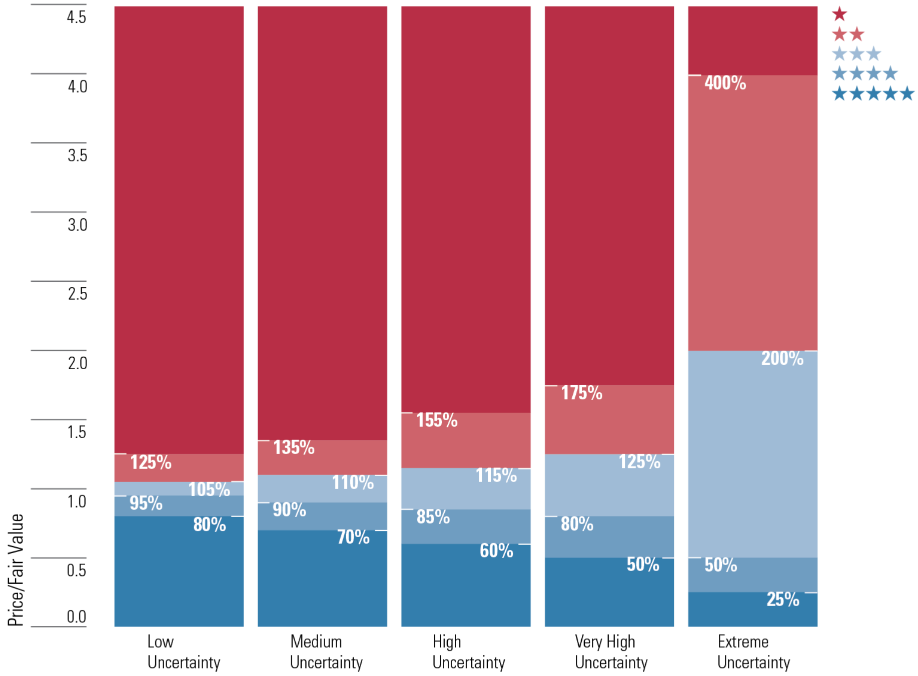
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

Research Methodology for Valuing Companies

ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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