

Scanfil

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Hintataso maistuu taas" published on 9/14/2023 at 9:03 am EEST

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Price level is attractive again

We reiterate our EUR 10.00 target price for Scanfil and raise our recommendation to Accumulate (was Reduce). Scanfil's share price has fallen by 20% since the earnings release at the beginning of August without any major company-specific news. However, industrial data from Europe and globally has been subdued. Thus, the downward risks have also increased slightly for Scanfil (we have not made any forecast changes), but with the drop in valuation due to the clear share price decline (2023: P/E 12x), we feel the expected return has improved and risen above the required return. In our view, Scanfil also offers a strong investment story of profitable growth in the longer term.

We feel the share's risk/return ratio has improved with the share price drop of the past few weeks

Scanfil's share price has decreased by 20% from the closing price of the Q2 result date. No significant company-specific news has been published, but insiders have sold some shares recently (still considerable insider holding). However, in light of recent macro statistics, industry in Europe and globally has continued sputtering. We believe that this has slightly increased the downward risks associated with Scanfil's forecasts for the near future, but it has not been a major surprise after the spring and summer, and the weakness in industrial macro-data has not resulted in a need to change Scanfil's estimates thus far. Thus, we feel the risk/return ratio of the share has improved recently, as the share price decline has depressed the valuation multiples that were slightly elevated during the spring and summer.

The company will take an earnings leap this year, but we are moderate concerning the improvement in the coming years

Scanfil will take a big earnings leap (2023e: adj. EBIT growth of 46%) and our estimates are at the top of the guidance range for both for turnover and EBIT. With regard to 2024 earnings growth, we are cautious due to the bar that has been significantly raised in the 2023 level correction, as well as the recent news flow, which has been somewhat weakish for the technology industry (Scanfil's customer base) and the industrial macro indicators in Europe. We feel Scanfil's key risks are related to demand that is dependent on the global economy, especially beyond the current year, while internally, the company has managed to return to strong operating performance after the component availability problems that plagued 2021 and 2022. The demand risk still works both ways, because as economic growth recovers and/or the rapid green transition continues there could still be upside in our estimates in coming years.

Long-term investment story is strong, and short-term valuation enables additional purchases

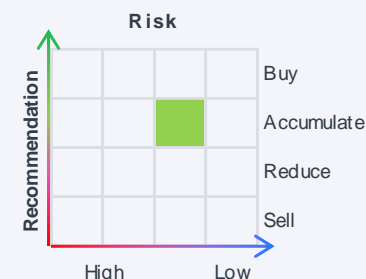
Scanfil's P/E ratios for 2023 and 2024 based on our estimates are around 11x, while the corresponding EV/EBIT ratios are around 9x. The valuation is below the company's moderate 5-year medians and relatively neutral compared to the peer group. Thus, we feel the share valuation has fallen to an attractive level following the recent share price drop considering the company's recent strong performance, strong trends that support the business (incl. electrification and the green transition), customer risks that have stabilized in the medium term, the better long-term track record than for the peer group, and higher interest rate expectations than in the comparison period. The expected return, consisting of small earnings growth, a dividend yield of 3% and a slight upside in multiples (Q2 LTM P/E 12x), already exceeds our required return on a 12-month horizon. The DCF value that is around our target price also indicates that the share price is cheap. Thus, we find that the short-term valuation again supports buying Scanfil's shares that offer a story of strong profitable growth in the longer term.

Recommendation

Accumulate
(previous Reduce)

EUR 10.00
(previous EUR 10.00)

Share price:
EUR 8.51



Key figures

	2022	2023e	2024e	2025e
Revenue	844	937	935	960
growth-%	21%	11%	0%	3%
EBIT adj.	45.4	66.1	66.0	67.5
EBIT-% adj.	5.4 %	7.1 %	7.1 %	7.0 %
Net Income	35.0	51.1	50.1	52.0
EPS (adj.)	0.54	0.78	0.77	0.80

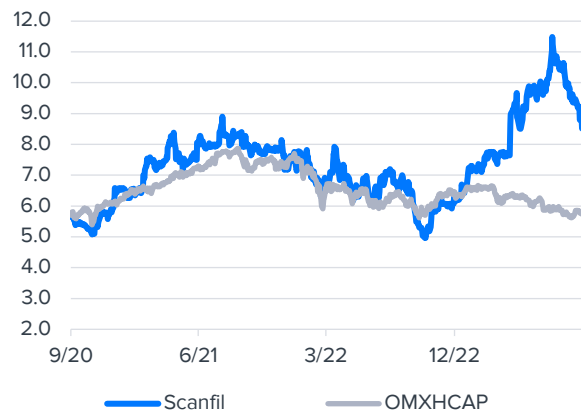
P/E (adj.)	12.1	10.9	11.1	10.7
P/B	1.9	2.1	1.9	1.7
Dividend yield-%	3.2 %	2.7 %	2.9 %	3.2 %
EV/EBIT (adj.)	11.2	9.3	8.6	7.8
EV/EBITDA	8.1	7.2	6.5	5.9
EV/S	0.6	0.7	0.6	0.6

Source: Inderes

Guidance (Unchanged)

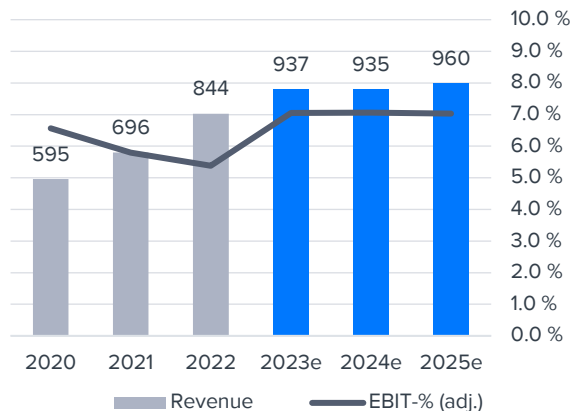
Scanfil estimates that in 2023, its turnover is around EUR 900-950 million and adjusted operating profit EUR 61-68 million

Share price



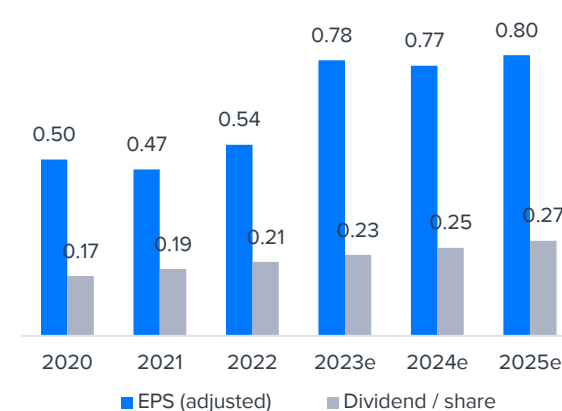
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth with the market and key customers
- Benefiting from the green trend
- Accelerating growth through M&A
- Strong financial track record
- Increase in acceptable valuation



Risk factors

- Demand comes partly from somewhat cyclical sectors
- Tightening competition and changes in the competitive field
- Limited pricing power
- Inflation

Valuation	2023e	2024e	2025e
Share price	8.51	8.51	8.51
Number of shares, millions	65.3	65.3	65.3
Market cap	555	555	555
EV	616	566	530
P/E (adj.)	10.9	11.1	10.7
P/E	10.9	11.1	10.7
P/FCF	14.1	8.4	10.4
P/B	2.1	1.9	1.7
P/S	0.6	0.6	0.6
EV/Sales	0.7	0.6	0.6
EV/EBITDA	7.2	6.5	5.9
EV/EBIT (adj.)	9.3	8.6	7.8
Payout ratio (%)	29.4 %	32.6 %	33.9 %
Dividend yield-%	2.7 %	2.9 %	3.2 %

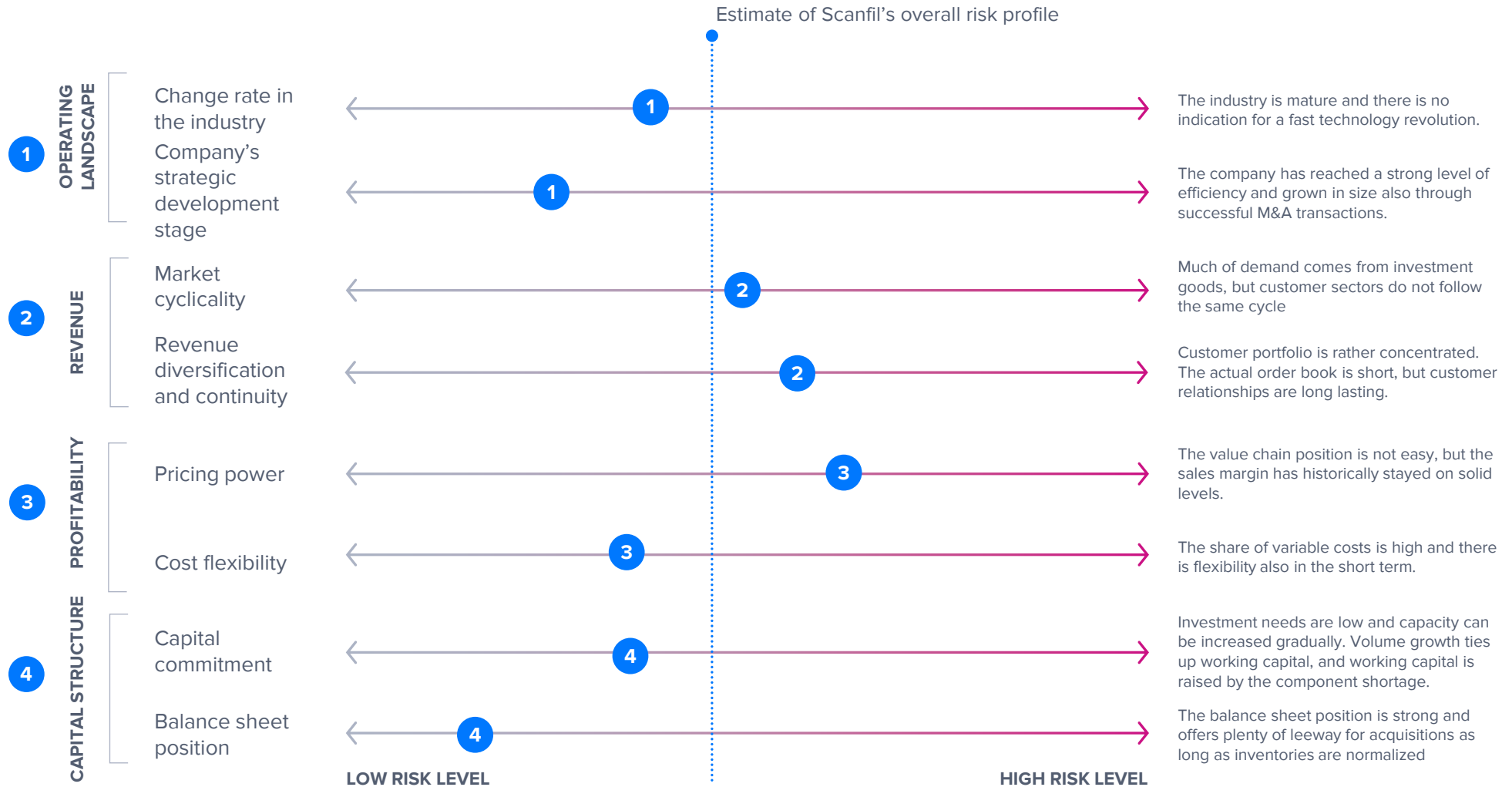
Source: Inderes

Estimates remain unchanged

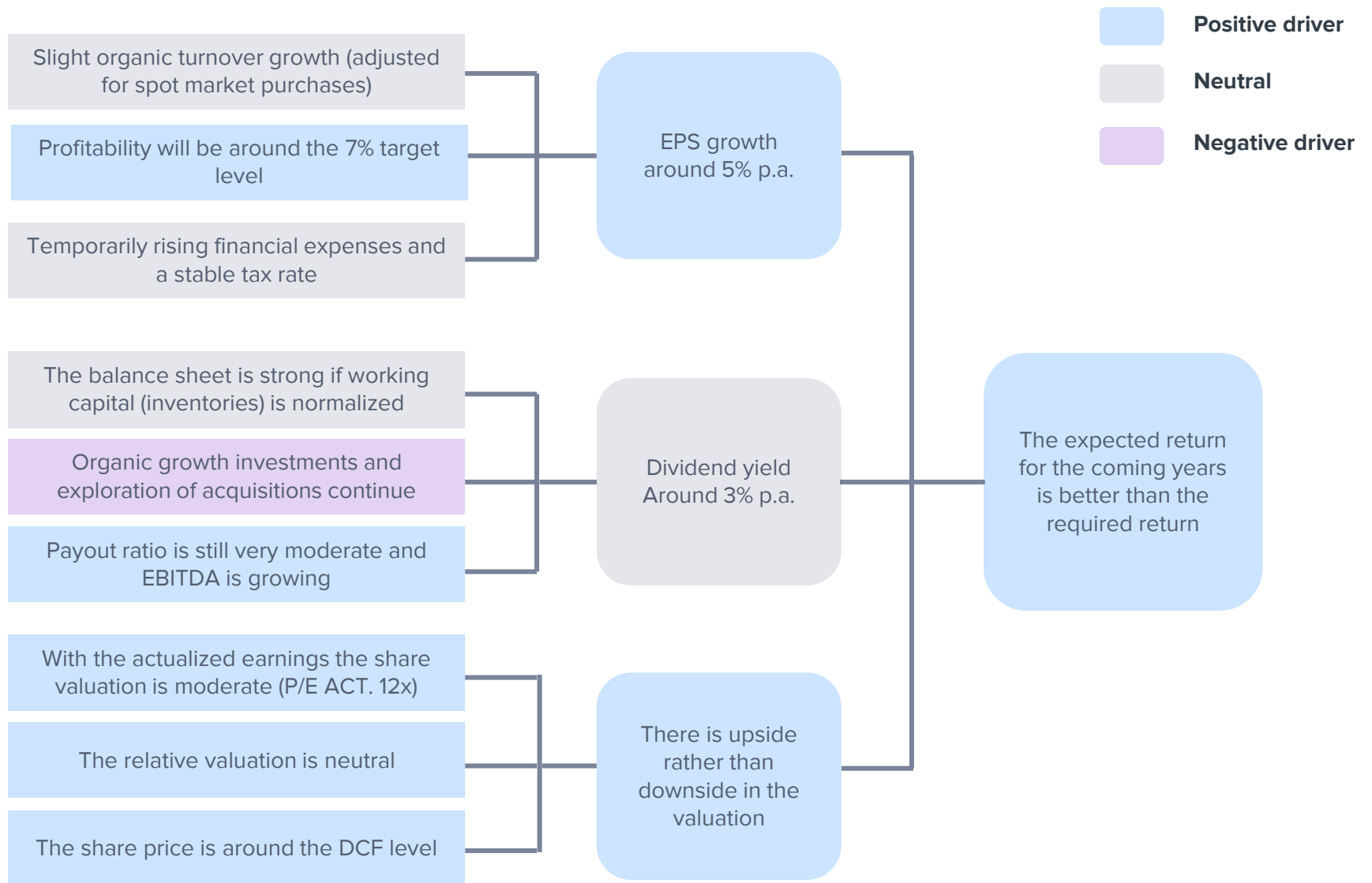
Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	937	937	0%	935	935	0%	960	960	0%
EBIT (exc. NRIs)	66.1	66.1	0%	66.0	66.0	0%	67.5	67.5	0%
EBIT	66.1	66.1	0%	66.0	66.0	0%	67.5	67.5	0%
PTP	64.8	64.8	0%	64.2	64.2	0%	66.7	66.7	0%
EPS (excl. NRIs)	0.78	0.78	0%	0.77	0.77	0%	0.80	0.80	0%
DPS	0.23	0.23	0%	0.25	0.25	0%	0.27	0.27	0%

Source: Inderes

Risk profile of the business model



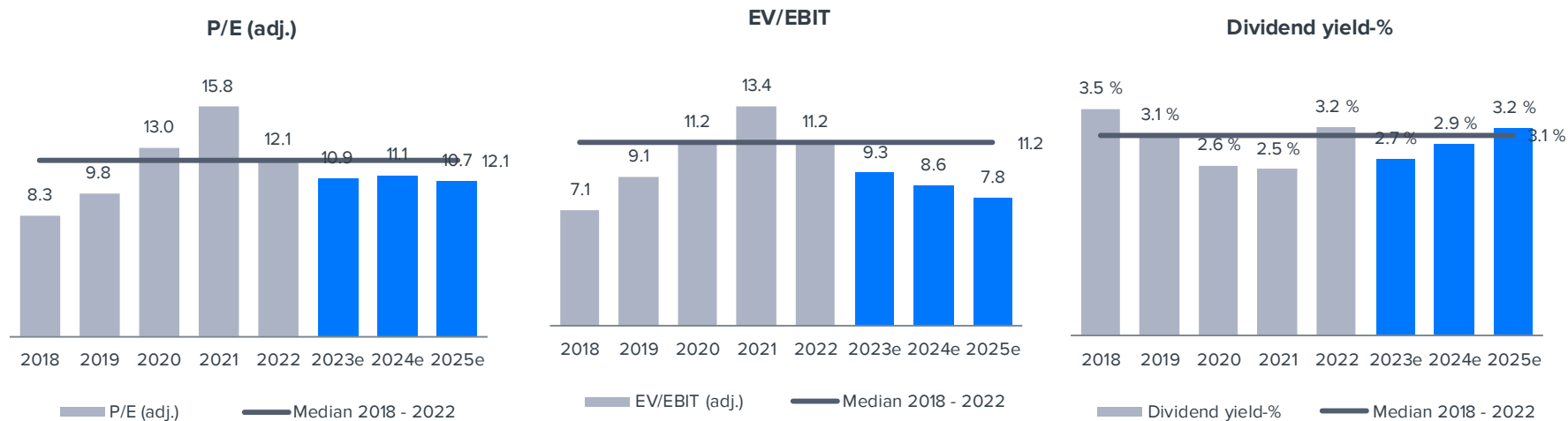
TSR drivers Q2'23 LTM-2025e



Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	3.75	4.89	6.52	7.46	6.58	8.51	8.51	8.51	8.51
Number of shares, millions	64.0	64.4	64.5	64.5	64.5	65.3	65.3	65.3	65.3
Market cap	240	313	420	481	424	555	555	555	555
EV	268	359	439	541	510	616	566	530	489
P/E (adj.)	8.3	9.8	13.0	15.8	12.1	10.9	11.1	10.7	10.2
P/E	8.3	11.2	11.4	16.2	12.1	10.9	11.1	10.7	10.2
P/FCF	10.5	77.0	8.3	neg.	neg.	14.1	8.4	10.4	9.4
P/B	1.7	1.9	2.3	2.3	1.9	2.1	1.9	1.7	1.5
P/S	0.4	0.5	2.3	0.7	0.5	0.6	0.6	0.6	0.6
EV/Sales	0.5	0.6	0.7	0.8	0.6	0.7	0.6	0.6	0.5
EV/EBITDA	5.7	6.8	7.2	9.8	8.1	7.2	6.5	5.9	5.3
EV/EBIT (adj.)	7.1	9.1	11.2	13.4	11.2	9.3	8.6	7.8	7.0
Payout ratio (%)	28.8 %	34.2 %	29.7 %	41.1 %	38.7 %	29.4 %	32.6 %	33.9 %	40.0 %
Dividend yield-%	3.5 %	3.1 %	2.6 %	2.5 %	3.2 %	2.7 %	2.9 %	3.2 %	3.9 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Incap	268	267	8.4	7.0	7.3	6.1	1.1	0.9	11.5	9.7		0.6	2.4
Kitron	627	772	10.9	10.1	8.8	8.2	1.0	0.9	11.3	11.0	2.9	3.5	3.9
Hanza	225	272	9.6	8.5	6.9	6.0	0.8	0.7	11.8	10.4	1.9	2.2	2.3
Pegatron	5956	6899	12.3	10.2	7.1	6.1	0.2	0.2	13.0	11.4	5.2	5.8	1.2
Celestica	2691	3216	8.1	7.6	6.2	5.9	0.4	0.4	10.7	9.6			2.0
Flextronics	10964	12156	9.4	8.2	7.1	6.3	0.4	0.4	11.4	10.8			2.7
Foxconn	43430	40898	8.6	7.4	5.6	4.9	0.2	0.2	12.1	9.7	4.9	5.1	1.0
Jabil	13097	14760	9.3	8.8	6.0	5.7	0.5	0.4	12.6	11.6	0.3	0.3	4.7
Hana Microelectronics	1296	1214	20.6	16.9	11.5	10.0	1.6	1.5	21.5	17.6	2.1	2.8	2.1
TT Electronics	349	504	8.4	7.7	6.2	5.7	0.7	0.7	9.0	8.0	3.9	4.3	1.0
Fabrinet	5026	4518	16.9	16.4	14.7	13.9	1.8	1.7	19.6	18.7			3.7
Universal Scientific	4239	4161	13.2	11.2	8.6	7.4	0.5	0.5	14.2	11.6	2.5	2.4	1.9
Venture Corporation	2607	2010	8.2	7.7	7.5	7.0	0.9	0.8	12.4	11.6	5.7	5.8	1.3
Plexus	2340	2562	13.3	11.7	9.8	8.9	0.7	0.6	16.5	15.4			2.3
Katek	207	248	22.0	8.5	6.8	4.5	0.3	0.3	46.9	12.1			1.3
Lacroix	190	359	12.6	10.3	7.0	6.2	0.5	0.5	11.2	8.7	2.7	3.5	1.1
Scanfil (Inderes)	555	616	9.3	8.6	7.2	6.5	0.7	0.6	10.9	11.1	2.7	2.9	2.1
Average			12.0	9.9	7.9	7.0	0.7	0.7	15.3	11.7	3.2	3.3	2.2
Median			10.3	8.6	7.1	6.1	0.6	0.5	12.2	11.2	2.8	3.5	2.0
Diff-% to median			-9%	-1%	1%	7%	13%	12%	-11%	-1%	-2%	-15%	5%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	696	197	213	212	222	844	225	243	229	240	937	935	960	995
Group	696	197	213	212	222	844	225	243	229	240	937	935	960	995
EBITDA	55.0	14.3	14.4	16.1	18.1	62.9	19.8	22.2	21.5	22.0	85.5	86.5	89.1	92.4
Depreciation	-15.4	-4.0	-4.2	-4.6	-4.7	-17.5	-4.7	-4.7	-5.0	-5.0	-19.4	-20.5	-21.6	-22.4
EBIT (excl. NRI)	40.3	10.3	10.2	11.5	13.4	45.4	15.1	17.5	16.5	17.0	66.1	66.0	67.5	70.0
EBIT	39.6	10.3	10.2	11.5	13.4	45.4	15.1	17.5	16.5	17.0	66.1	66.0	67.5	70.0
Group	40.3	10.3	10.2	11.5	13.4	45.4	15.1	17.5	16.5	17.0	66.1	66.0	67.5	70.0
Net financial items	-1.9	-1.0	-0.3	-1.7	-0.7	-3.7	-0.6	0.9	-0.8	-0.8	-1.3	-1.8	-0.8	-0.2
PTP	37.7	9.3	9.8	9.8	12.7	41.7	14.5	18.4	15.7	16.2	64.8	64.2	66.7	69.8
Taxes	-7.9	-1.3	-2.7	-0.4	-2.3	-6.7	-2.8	-3.9	-3.5	-3.6	-13.7	-14.1	-14.7	-15.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	29.8	8.0	7.1	9.4	10.4	35.0	11.7	14.5	12.2	12.6	51.1	50.1	52.0	54.4
EPS (adj.)	0.47	0.12	0.11	0.15	0.16	0.54	0.18	0.22	0.19	0.19	0.78	0.77	0.80	0.83
EPS (rep.)	0.46	0.12	0.11	0.15	0.16	0.54	0.18	0.22	0.19	0.19	0.78	0.77	0.80	0.83
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	16.9 %	20.4 %	23.1 %	26.3 %	16.0 %	21.3 %	14.2 %	14.3 %	8.1 %	7.9 %	11.0 %	-0.2 %	2.7 %	3.6 %
Adjusted EBIT growth-%	3.1 %	3.0 %	-3.6 %	21.7 %	30.5 %	12.7 %	46.6 %	71.6 %	43.5 %	26.9 %	45.6 %	-0.2 %	2.3 %	3.7 %
EBITDA-%	7.9 %	7.3 %	6.8 %	7.6 %	8.1 %	7.5 %	8.8 %	9.1 %	9.4 %	9.2 %	9.1 %	9.3 %	9.3 %	9.3 %
Adjusted EBIT-%	5.8 %	5.2 %	4.8 %	5.4 %	6.0 %	5.4 %	6.7 %	7.2 %	7.2 %	7.1 %	7.1 %	7.1 %	7.0 %	7.0 %
Net earnings-%	4.3 %	4.1 %	3.4 %	4.4 %	4.7 %	4.2 %	5.2 %	6.0 %	5.3 %	5.3 %	5.5 %	5.4 %	5.4 %	5.5 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	102	107	114	119	122
Goodwill	8.2	7.7	7.7	7.7	7.7
Intangible assets	12.9	10.8	10.9	11.0	11.1
Tangible assets	72.0	79.7	87.3	91.8	95.2
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.5	0.5	0.5	0.5	0.5
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	8.5	7.8	7.8	7.8	7.8
Current assets	372	419	444	415	434
Inventories	193	229	220	192	192
Other current assets	3.9	4.1	3.9	3.9	3.9
Receivables	149	165	187	182	182
Cash and equivalents	25.3	20.8	32.8	37.4	55.6
Balance sheet total	474	526	559	534	556

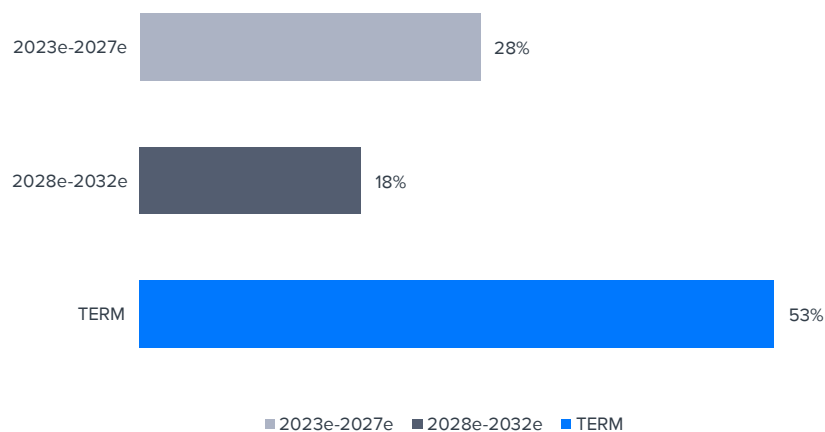
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	207	227	264	299	335
Share capital	2.0	2.0	2.0	2.0	2.0
Retained earnings	172	195	233	268	303
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	33.4	29.5	29.5	29.5	29.5
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	68.0	61.8	70.3	42.0	30.4
Deferred tax liabilities	5.3	4.6	4.6	4.6	4.6
Provisions	0.7	0.8	0.8	0.8	0.8
Long term debt	62.0	56.4	64.9	36.6	25.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	198	237	224	193	191
Short term debt	23.2	49.9	28.5	11.8	5.0
Payables	172	184	192	178	182
Other current liabilities	3.0	3.5	3.5	3.5	3.5
Balance sheet total	474	526	559	534	556

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	21.3 %	11.0 %	-0.2 %	2.7 %	3.6 %	5.0 %	5.0 %	5.0 %	4.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	5.4 %	7.1 %	7.1 %	7.0 %	7.0 %	6.8 %	6.7 %	6.6 %	6.5 %	6.4 %	6.4 %	6.4 %
EBIT (operating profit)	45.4	66.1	66.0	67.5	70.0	71.0	73.5	76.0	77.9	79.0	80.5	
+ Depreciation	17.5	19.4	20.5	21.6	22.4	22.1	21.8	21.6	21.5	21.4	21.5	
- Paid taxes	-6.7	-13.7	-14.1	-14.7	-15.4	-15.7	-16.3	-16.9	-17.4	-17.8	-18.2	
- Tax, financial expenses	-0.6	-0.3	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	
+ Tax, financial income	0.0	0.0	0.1	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.8	
- Change in working capital	-39.9	-4.9	19.2	4.3	3.0	-9.5	-9.9	-10.4	-8.8	-6.8	-4.7	
Operating cash flow	15.7	66.6	91.2	78.6	79.9	68.0	69.2	70.5	73.5	76.1	79.6	
+ Change in other long-term liabilities	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-22.6	-27.1	-25.1	-25.1	-21.1	-21.1	-21.1	-21.1	-21.1	-22.1	-22.1	
Free operating cash flow	-6.7	39.5	66.1	53.5	58.8	46.9	48.1	49.4	52.4	54.0	57.5	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-6.7	39.5	66.1	53.5	58.8	46.9	48.1	49.4	52.4	54.0	57.5	884
Discounted FCFF		38.5	59.3	44.2	44.7	32.8	31.0	29.3	28.6	27.2	26.6	409
Sum of FCFF present value		771	733	673	629	585	552	521	491	463	436	409
Enterprise value DCF		771										
- Interest bearing debt		-106.3										
+ Cash and cash equivalents		20.8										
-Minorities		0.0										
-Dividend/capital return		-13.5										
Equity value DCF		672										
Equity value DCF per share		10.3										

Cash flow distribution



WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	4.5 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	9.2 %
Weighted average cost of capital (WACC)	8.6 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	595	696	844	937	935	EPS (reported)	0.57	0.46	0.54	0.78	0.77
EBITDA	60.5	55.0	62.9	85.5	86.5	EPS (adj.)	0.50	0.47	0.54	0.78	0.77
EBIT	44.4	39.6	45.4	66.1	66.0	OCF / share	0.89	-0.21	0.24	1.02	1.40
PTP	41.8	37.7	41.7	64.8	64.2	FCF / share	0.79	-0.54	-0.10	0.60	1.01
Net Income	36.9	29.8	35.0	51.1	50.1	Book value / share	2.84	3.22	3.51	4.05	4.58
Extraordinary items	5.3	-0.7	0.0	0.0	0.0	Dividend / share	0.17	0.19	0.21	0.23	0.25
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	339	474	526	559	534	Revenue growth-%	3%	17%	21%	11%	0%
Equity capital	183	207	227	264	299	EBITDA growth-%	14%	-9%	14%	36%	1%
Goodwill	8.3	8.2	7.7	7.7	7.7	EBIT (adj.) growth-%	-1%	3%	13%	46%	0%
Net debt	18.3	59.9	85.5	60.6	10.9	EPS (adj.) growth-%	1%	-6%	15%	44%	-2%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	10.2 %	7.9 %	7.5 %	9.1 %	9.3 %
EBITDA	60.5	55.0	62.9	85.5	86.5	EBIT (adj.)-%	6.6 %	5.8 %	5.4 %	7.1 %	7.1 %
Change in working capital	4.5	-58.1	-39.9	-4.9	19.2	EBIT-%	7.5 %	5.7 %	5.4 %	7.1 %	7.1 %
Operating cash flow	57.3	-13.4	15.7	66.6	91.2	ROE-%	21.1 %	15.3 %	16.1 %	20.8 %	17.8 %
CAPEX	-6.7	-21.4	-22.6	-27.1	-25.1	ROI-%	19.3 %	15.2 %	14.5 %	19.2 %	18.9 %
Free cash flow	50.8	-34.8	-6.7	39.5	66.1	Equity ratio	53.9 %	43.8 %	43.1 %	47.3 %	56.0 %
						Gearing	10.0 %	28.9 %	37.7 %	22.9 %	3.7 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	0.7	0.8	0.6	0.7	0.6						
EV/EBITDA (adj.)	7.2	9.8	8.1	7.2	6.5						
EV/EBIT (adj.)	11.2	13.4	11.2	9.3	8.6						
P/E (adj.)	13.0	15.8	12.1	10.9	11.1						
P/B	2.3	2.3	1.9	2.1	1.9						
Dividend-%	2.6 %	2.5 %	3.2 %	2.7 %	2.9 %						

Source: Inderes

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Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/26/2019	Accumulate	4.50 €	4.20 €
8/12/2019	Accumulate	4.50 €	4.04 €
10/28/2019	Accumulate	4.75 €	4.35 €
1/17/2020	Accumulate	5.25 €	4.94 €
2/20/2020	Accumulate	5.60 €	5.20 €
3/23/2020	Accumulate	4.25 €	3.73 €
4/25/2020	Accumulate	5.00 €	4.48 €
8/5/2020	Accumulate	5.50 €	5.18 €
8/10/2020	Accumulate	6.00 €	5.56 €
10/28/2020	Buy	6.00 €	5.14 €
12/15/2020	Accumulate	6.30 €	5.96 €
3/19/2021	Accumulate	7.30 €	6.90 €
4/9/2021	Accumulate	8.00 €	7.56 €
4/26/2021	Accumulate	8.60 €	8.08 €
6/14/2021	Accumulate	8.60 €	8.06 €
8/8/2021	Accumulate	8.75 €	8.30 €
10/14/2021	Accumulate	8.75 €	7.94 €
10/27/2021	Accumulate	8.75 €	7.78 €
12/13/2021	Reduce	8.30 €	7.96 €
2/16/2022	Accumulate	8.00 €	7.08 €
2/23/2022	Accumulate	8.00 €	6.84 €
4/19/2022	Accumulate	8.00 €	7.04 €
6/1/2022	Accumulate	7.60 €	6.66 €
7/14/2022	Accumulate	7.60 €	6.98 €
8/8/2022	Accumulate	7.60 €	6.76 €
10/27/2022	Buy	7.25 €	5.84 €
2/22/2023	Accumulate	8.25 €	7.74 €
2/23/2023	Reduce	9.00 €	9.13 €
4/26/2023	Reduce	9.00 €	9.67 €
7/6/2023	Reduce	9.50 €	10.38 €
7/31/2023	Reduce	10.00 €	10.56 €
8/7/2023	Reduce	10.00 €	10.64 €
9/14/2023	Accumulate	10.00 €	8.51 €



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