

Suominen

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Osake oikein arvostettu" published on 12/13/2022 at 6:38 pm

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The share is correctly valued

Suominen's share has risen by over 20% since the Q3 report, and we believe that the share is now correctly priced (2023 P/E 13x and 2024 11x) and is already reflecting clearly better performance than this year for the company, which we believe is normal for Suominen. Therefore, the expected return will be low and we lower our recommendation to Reduce (previously Accumulate) and reiterate our EUR 3 target price.

The share corrected the undervaluation, outlook for 2023 still positive

We raised Suominen's recommendation to Accumulate after the Q3 result. The share has risen by more than 20% since then and the valuation is now neutral, while it seemed cheap before. The company's earnings outlook remains positive moving into 2023, although this year's comparison level is very weak. There are several positive signs for the company next year: raw material prices are stabilizing/turning downwards, customers' inventory situation is improving in the US, which should support Suominen's volume development, and the gas situation in Europe seems to be under control at least at the moment. As costs stabilize, Suominen's price increases should support the gross margin development and lead to the margin turning upward in Q4. We have only made minor adjustments to our estimates, mainly due to changes in exchange rates. The operating income level of EUR 20-25 million in the coming years reflects the company's historical level, which we also consider to its normal earnings level.

Changes in management can cause a leadership vacuum in early 2023

At the end of November, Suominen appointed Tommi Björnman as the new President & CEO, who will start in May 2023 at the latest. Former President & CEO Petri Helsky left his position immediately and Klaus Korhonen SVP, HR & Legal, was appointed as interim President & CEO. Suominen's CFO Toni Tamminen resigned earlier in the fall and is about to leave the company in early 2023. It is therefore possible that the company will be without a permanent CEO and CFO in late winter. This hardly has an impact on the company's operational activities, but it is unlikely that any significant new decisions will be made in such a situation. Instead, the new CEO could be expected to take some action to improve Suominen's performance once he has familiarized himself with the company.

Valuation neutral with 2023-24 estimates that we feel reflect the company's normal level

Due to poor performance, the valuation multiples for 2022 cannot be calculated or are high. With 2023-24 figures, which we consider the normal earnings level for the company, the valuation is neutral after the share price rise. P/E ratios are 13x and 11x and EV/EBIT ratios are 11x and 9x. We believe that the earnings trend has turned for the better after a very weak early 2022 and this close to the end of the year, we should be looking at next year's estimates when considering the valuation. We see P/E ratios of around 10-12x as acceptable for Suominen in the current interest rate environment. As a result, the share price already reflects the clear earnings improvement we expect next year. The P/B ratio for Suominen is 1.0-1.1x in 2023-24. With our estimates, the company will achieve around 9-10% return on capital in the next few years, i.e., roughly the level of our required return, which means that the P/B at 1x is in our opinion the correct risk/return ratio. The company's position in the value chain with pressure from raw material producers and large customers is challenging. Considering the limited competitive advantages, we do not believe that Suominen is able to achieve a return on capital that is substantially above the required return in the long term.

Recommendation

Reduce

(previous Accumulate)

EUR 3.00

(previous EUR 3.00)

Share price:

3.10



Key figures

	2021	2022e	2023e	2024e
Revenue	443	498	523	518
growth-%	-3%	12%	5%	-1%
EBIT adj.	26.9	-2.2	20.5	24.5
EBIT-% adj.	6.1 %	-0.4 %	3.9 %	4.7 %
Net Income	20.7	-4.2	13.5	16.5
EPS (adj.)	0.31	-0.07	0.23	0.29

P/E (adj.)	16.7	neg.	13.2	10.8
P/B	1.8	1.2	1.1	1.0
Dividend yield-%	3.9 %	0.0 %	3.2 %	4.8 %
EV/EBIT (adj.)	12.8	neg.	10.9	8.5
EV/EBITDA	7.3	14.2	5.3	4.5
EV/S	0.8	0.5	0.4	0.4

Source: Inderes

Guidance

(Unchanged)

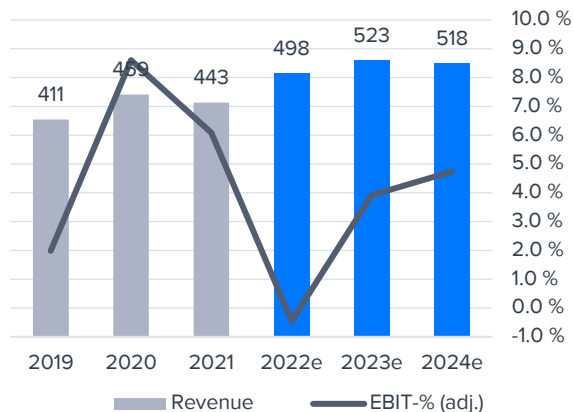
Suominen expects that its comparable EBITDA in 2022 will decrease clearly from 2021. In 2021, Suominen's EBITDA was EUR 47 million.

Share price



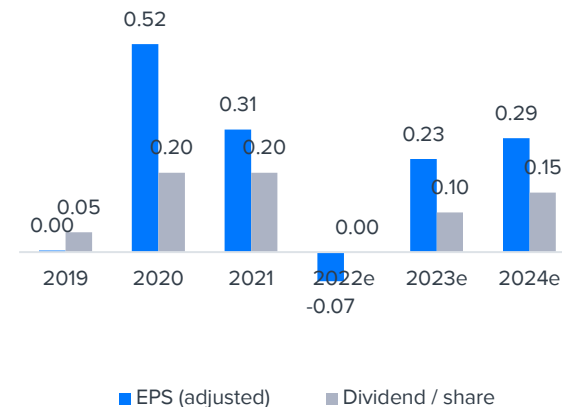
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Earnings normalizing as cost inflation stabilizes
- Steady end demand for products
- Suominen's expertise and products in sustainable non-wovens



Risk factors

- Tight competition in the industry
- Low pricing power
- Changes in raw material prices cause earnings fluctuation

Valuation	2022e	2023e	2024e
Share price	3.10	3.10	3.10
Number of shares, millions	57.5	57.5	57.5
Market cap	178	178	178
EV	242	223	208
P/E (adj.)	neg.	13.2	10.8
P/E	neg.	13.2	10.8
P/FCF	neg.	8.5	7.8
P/B	1.2	1.1	1.0
P/S	0.4	0.3	0.3
EV/Sales	0.5	0.4	0.4
EV/EBITDA	14.2	5.3	4.5
EV/EBIT (adj.)	neg.	10.9	8.5
Payout ratio (%)	0%	43%	52%
Dividend yield-%	0.0%	3.2%	4.8%

Source: Inderes

Only small revisions to estimates

Estimate revisions 2022e-2024e

- We updated our estimates for 2023-24, mainly due to currency changes, which resulted in 1-3% changes

Operational earnings drivers 2022-2024e:

- By far the most important earnings driver in 2023 is the leveling off of cost pressures and increased margins through price increases from the extremely low 2022 level
- We also expect volumes to increase slightly next year, as high customer inventories, which have plagued Suominen in the US, will normalize
- Management of fixed costs has traditionally been good at Suominen and we believe that this will continue, which will support the improved gross margin being reflected in net sales

Estimate revisions MEUR / EUR	2022e			2023e			2024e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	498	498	0%	528	523	-1%	522	518	-1%
EBITDA	17.0	17.0	0%	42.2	41.7	-1%	46.4	45.9	-1%
EBIT (exc. NRIs)	-2.2	-2.2	0%	21.0	20.5	-2%	25.1	24.5	-2%
EBIT	-2.2	-2.2	0%	21.0	20.5	-2%	25.1	24.5	-2%
PTP	-3.1	-3.1	0%	18.5	18.0	-3%	22.6	22.0	-2%
EPS (excl. NRIs)	-0.07	-0.07	0%	0.24	0.23	-3%	0.29	0.29	-2%
DPS	0.00	0.00		0.10	0.10	0%	0.15	0.15	0%

Source: Inderes

Valuation neutral, expected return weak

We lower our recommendation to Reduce

With support from earnings and balance sheet multiples and the DCF model, we maintain the target price at EUR 3. As the share price has risen slightly above this, we lower the recommendation to Reduce (previous Accumulate).

Valuation is neutral with 2023-24 figures

Due to poor performance, the valuation multiples for 2022 cannot be calculated or are high. With 2023-24 figures, which we consider the normal earnings level for the company, the valuation is neutral due to the share price rise. P/E ratios are 13x and 11x, EV/EBITDA around 5x and EV/EBIT 11x and 9x. In the current interest rate environment we consider a P/E of around 10x-12x acceptable for Suominen, so Suominen's 2024 valuation is within the acceptable range, 2023 even slightly above it even though it includes an expectation of a significant earnings improvement from 2022.

Dividend yield does not support the share with our expectations in the near future as we expect the company not to pay dividends for the weak 2022. However, the dividend distribution ratio of about 50% of the normal earnings level will raise the dividend yield to about 5%, which we expect to realize for 2024.

The P/B ratio for Suominen is 1.0-1.1x in 2023-24. With our estimates, the company will achieve around 9-10% return on capital in the next few years, i.e., roughly the level of our required return, which means that the P/B at about 1x is in our opinion the correct risk/return ratio.

The value of the DCF model is around EUR 3.5

The value of the DCF model is unchanged at around EUR 3.5. This is somewhat above our target price, but as the company's earnings level is still rather weak and historically rather volatile, we look more at the multiples of the coming years than the long-term DCF value.

Longer-term return potential is moderate

In the longer term, we believe that Suominen's return on capital will be roughly at the level of the required return, as in the coming years. We believe that the company will be able to achieve small earnings growth, but in the absence of clear competitive advantages, with strong competition in the sector and volatile raw material prices swaying profitability, we do not believe in significant and sustainable earnings growth nor return on capital that exceeds the required return in the long-term. We expect that the company can pay good 5% dividend yield in the longer term compared to the current share price, which also supports the longer-term expected return of the share. However, the expected return is 5-10% which is below our required return.

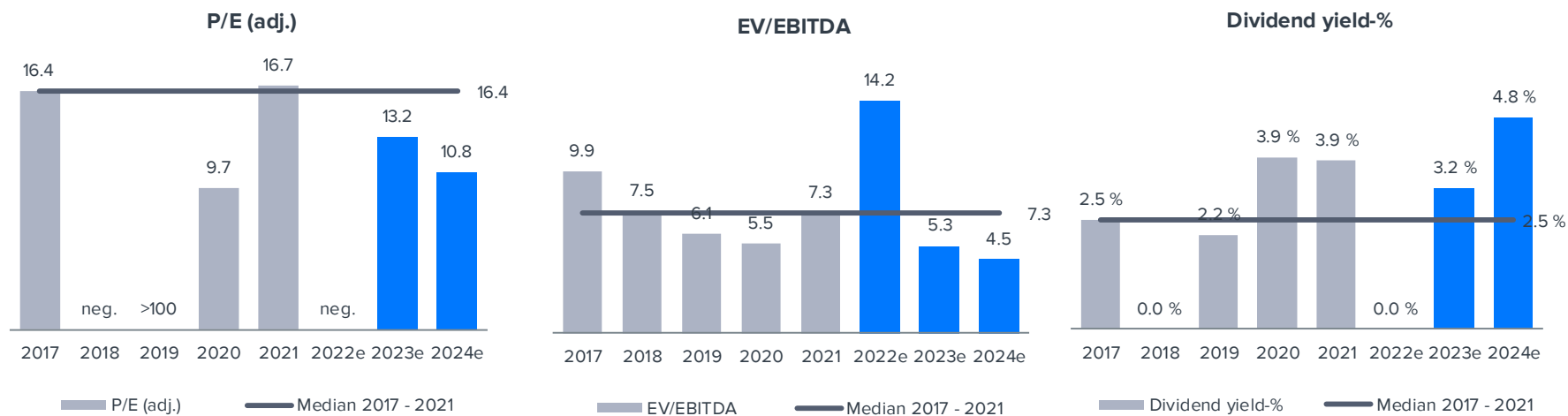
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Market cap	178	178	178
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P/E (adj.)	neg.	13.2	10.8
P/E	neg.	13.2	10.8
P/FCF	neg.	8.5	7.8
P/B	1.2	1.1	1.0
P/S	0.4	0.3	0.3
EV/Sales	0.5	0.4	0.4
EV/EBITDA	14.2	5.3	4.5
EV/EBIT (adj.)	neg.	10.9	8.5
Payout ratio (%)	0%	43%	52%
Dividend yield-%	0.0 %	3.2 %	4.8 %

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	4.42	2.05	2.31	5.08	5.18	3.10	3.10	3.10	3.10
Number of shares, millions	53.6	57.5	57.5	57.5	57.5	57.5	57.5	57.5	57.5
Market cap	258	118	133	292	298	178	178	178	178
EV	341	192	204	334	345	242	223	208	196
P/E (adj.)	16.4	neg.	>100	9.7	16.7	neg.	13.2	10.8	10.8
P/E	16.4	neg.	>100	9.7	14.4	neg.	13.2	10.8	10.8
P/FCF	43.5	5.5	6.3	5.8	neg.	neg.	8.5	7.8	7.9
P/B	1.9	0.9	1.0	2.0	1.8	1.2	1.1	1.0	1.0
P/S	0.6	0.3	0.3	0.6	0.7	0.4	0.3	0.3	0.3
EV/Sales	0.8	0.4	0.5	0.7	0.8	0.5	0.4	0.4	0.4
EV/EBITDA	9.9	7.5	6.1	5.5	7.3	14.2	5.3	4.5	4.2
EV/EBIT (adj.)	22.7	41.7	25.1	8.5	12.8	neg.	10.9	8.5	8.0
Payout ratio (%)	44.3 %	0.0 %	1282.8 %	38.2 %	55.4 %	0.0 %	42.6 %	52.2 %	52.3 %
Dividend yield-%	2.5 %	0.0 %	2.2 %	3.9 %	3.9 %	0.0 %	3.2 %	4.8 %	4.8 %

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	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Huhtamäki	3588	5219	13.1	13.1	8.5	8.4	1.2	1.1	13.4	13.4	3.2	3.4	2.0
Duni	373	537	15.0	11.6	8.5	7.5	0.8	0.8	12.2	9.7	5.8	6.1	1.5
Sealed Air	7185	10407	11.2	10.9	9.0	8.6	1.9	1.9	12.7	12.6	1.5	1.5	19.1
Riverstone	640	367	4.1	5.1	3.6	4.3	1.3	1.4	9.7	11.1	32.7	20.0	1.5
Berry Plastics	7192	14648	11.0	11.2	7.2	7.3	1.0	1.1	8.3	8.1		0.3	2.4
Glatfelter	154	840	22.7	15.0	8.4	7.0	0.6	0.6		10.7			
Suominen (Inderes)	178	242	-108.4	10.9	14.2	5.3	0.5	0.4	-42.4	13.2	0.0	3.2	1.2
Average			12.8	11.1	7.5	7.2	1.1	1.2	11.3	10.9	10.8	6.3	5.3
Median			12.1	11.4	8.5	7.4	1.1	1.1	12.2	10.9	4.5	3.4	2.0
Diff-% to median			-995%	-4%	68%	-28%	-56%	-62%	-448%	22%	-100%	-5%	-41%

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	459	115	114	98.7	116	443	110	118	132	138	498	523	518	523
EBITDA	60.9	18.5	15.3	4.2	9.0	47.0	3.3	1.9	5.1	6.7	17.0	41.7	45.9	46.8
Depreciation	-21.4	-4.9	-5.0	-5.1	-5.1	-20.1	-4.6	-4.8	-4.9	-5.0	-19.2	-21.2	-21.4	-22.3
EBIT (excl. NRI)	39.5	13.6	10.3	-0.8	3.9	26.9	-1.3	-2.9	0.2	1.7	-2.2	20.5	24.5	24.5
EBIT	39.5	13.6	10.3	-0.8	3.9	26.9	-1.3	-2.9	0.2	1.7	-2.2	20.5	24.5	24.5
Net financial items	-5.6	3.3	-1.6	-1.0	-1.1	-0.4	-0.9	0.7	-0.1	-0.6	-0.9	-2.5	-2.5	-2.5
PTP	33.9	16.9	8.7	-1.8	2.8	26.6	-2.2	-2.2	0.1	1.1	-3.1	18.0	22.0	22.0
Taxes	-3.8	-3.1	-2.6	0.1	-0.3	-5.8	-0.1	-0.1	-0.5	-0.3	-1.1	-4.5	-5.5	-5.5
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	30.1	13.8	6.1	-1.7	2.5	20.7	-2.3	-2.3	-0.4	0.9	-4.2	13.5	16.5	16.5
EPS (adj.)	0.52	0.19	0.11	-0.03	0.04	0.31	-0.04	-0.04	-0.01	0.01	-0.07	0.23	0.29	0.29
EPS (rep.)	0.52	0.24	0.11	-0.03	0.04	0.36	-0.04	-0.04	-0.01	0.01	-0.07	0.23	0.29	0.29

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	11.5 %	4.6 %	-6.9 %	-14.5 %	4.1 %	-3.4 %	-4.4 %	3.8 %	33.7 %	19.1 %	12.3 %	5.0 %	-1.0 %	1.0 %
Adjusted EBIT growth-%	385.8 %	138.5 %	-16.5 %	-106.5 %	-54.6 %	-31.8 %	-109.3 %	-128.1 %	-124.0 %	-55.2 %	-108.3 %	-1016.8 %	19.8 %	-0.2 %
EBITDA-%	13.3 %	16.0 %	13.5 %	4.3 %	7.8 %	10.6 %	3.0 %	1.6 %	3.9 %	4.9 %	3.4 %	8.0 %	8.9 %	9.0 %
Adjusted EBIT-%	8.6 %	11.8 %	9.1 %	-0.9 %	3.4 %	6.1 %	-1.1 %	-2.5 %	0.2 %	1.3 %	-0.4 %	3.9 %	4.7 %	4.7 %
Net earnings-%	6.6 %	11.9 %	5.4 %	-1.7 %	2.2 %	4.7 %	-2.1 %	-2.0 %	-0.3 %	0.6 %	-0.8 %	2.6 %	3.2 %	3.2 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	164	162	156	150	149
Goodwill	15.5	15.5	15.5	15.5	15.5
Intangible assets	16.7	13.2	13.3	13.4	13.5
Tangible assets	122	131	125	119	117
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.8	0.5	0.5	0.5	0.5
Other non-current assets	4.0	0.0	0.0	0.0	0.0
Deferred tax assets	4.0	1.7	1.7	1.7	1.7
Current assets	154	225	155	165	170
Inventories	35.4	49.8	62.2	62.7	59.5
Other current assets	9.4	8.0	8.0	8.0	8.0
Receivables	51.1	65.5	69.7	68.0	67.3
Cash and equivalents	57.9	101	14.9	26.1	35.4
Balance sheet total	317	387	311	315	319

Source: Inderes

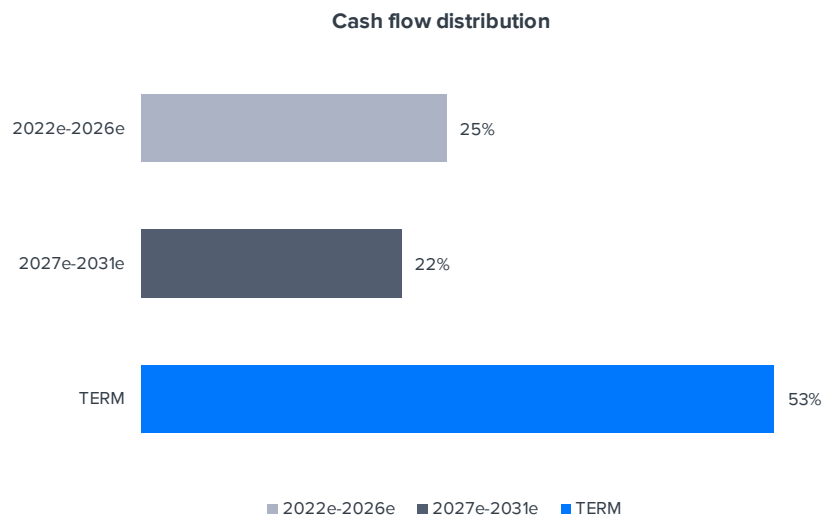
Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	146	163	148	161	172
Share capital	11.9	11.9	11.9	11.9	11.9
Retained earnings	42.0	56.5	40.9	54.3	65.1
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	92.1	94.8	94.8	94.8	94.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	114	78.8	89.7	82.0	76.5
Deferred tax liabilities	13.3	13.9	13.9	13.9	13.9
Provisions	1.8	1.9	1.9	1.9	1.9
Long term debt	97.8	62.3	73.2	65.5	60.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.8	0.7	0.7	0.7	0.7
Current liabilities	57.8	145	73.6	71.6	70.4
Short term debt	2.5	86.8	5.7	5.6	5.0
Payables	54.6	57.2	67.2	65.3	64.7
Other current liabilities	0.7	0.7	0.7	0.7	0.7
Balance sheet total	317	387	311	315	319

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	-3.4 %	12.3 %	5.0 %	-1.0 %	1.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	6.1 %	-0.4 %	3.9 %	4.7 %	4.7 %	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %
EBIT (operating profit)	26.9	-2.2	20.5	24.5	24.5	26.9	27.7	28.6	29.4	30.3	30.9	
+ Depreciation	20.1	19.2	21.2	21.4	22.3	21.3	20.5	20.4	20.3	20.3	19.6	
- Paid taxes	-2.8	-1.1	-4.5	-5.5	-5.5	-6.4	-6.3	-6.5	-6.7	-6.9	-7.1	
- Tax, financial expenses	-0.1	0.3	-0.6	-0.6	-0.6	-0.3	-0.7	-0.7	-0.7	-0.7	-0.7	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-24.7	-6.6	-0.6	3.2	2.0	-1.8	-1.9	-1.9	-2.0	-2.0	-1.4	
Operating cash flow	19.4	9.6	36.0	43.0	42.7	39.7	39.4	39.9	40.4	41.0	41.4	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-21.0	-13.1	-15.1	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1	-17.9	-22.2	
Free operating cash flow	-1.6	-3.5	20.9	22.9	22.6	19.6	19.3	19.8	20.3	23.0	19.2	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-1.6	-3.5	20.9	22.9	22.6	19.6	19.3	19.8	20.3	23.0	19.2	293
Discounted FCFF		-3.5	19.1	19.3	17.5	13.9	12.7	11.9	11.3	11.7	9.0	138
Sum of FCFF present value		261	264	245	226	208	194	181	170	158	147	138
Enterprise value DCF		261										
- Interesting bearing debt		-149.1										
+ Cash and cash equivalents		101										
-Minorities		0.0										
-Dividend/capital return		-11.5										
Equity value DCF		201										
Equity value DCF per share		3.50										

Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	4.0 %
Equity Beta	1.35
Market risk premium	4.75%
Liquidity premium	1.25%
Risk free interest rate	2.5 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	8.7 %

Source: Inderes



Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	411.4	458.9	443.2	497.9	522.7	EPS (reported)	0.00	0.52	0.36	-0.07	0.23
EBITDA	33.7	60.9	47.0	17.0	41.7	EPS (adj.)	0.00	0.52	0.31	-0.07	0.23
EBIT	8.1	39.5	26.9	-2.2	20.5	OCF / share	0.58	0.96	0.34	0.17	0.63
PTP	2.1	33.9	26.6	-3.1	18.0	FCF / share	0.37	0.88	-0.03	-0.06	0.36
Net Income	0.2	30.1	20.7	-4.2	13.5	Book value / share	2.31	2.54	2.84	2.57	2.80
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.05	0.20	0.20	0.00	0.10
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	310.1	317.4	386.7	310.8	314.6	Revenue growth-%	-5%	12%	-3%	12%	5%
Equity capital	132.5	145.9	163.2	147.5	161.0	EBITDA growth-%	31%	81%	-23%	-64%	145%
Goodwill	15.5	15.5	15.5	15.5	15.5	EBIT (adj.) growth-%	77%	386%	-32%	-108%	-1017%
Net debt	71.4	42.4	47.8	63.9	44.9	EPS (adj.) growth-%	-113%	13345%	-41%	-124%	-421%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	8.2 %	13.3 %	10.6 %	3.4 %	8.0 %
EBITDA	33.7	60.9	47.0	17.0	41.7	EBIT (adj.)-%	2.0 %	8.6 %	6.1 %	-0.4 %	3.9 %
Change in working capital	2.3	0.3	-24.7	-6.6	-0.6	EBIT-%	2.0 %	8.6 %	6.1 %	-0.4 %	3.9 %
Operating cash flow	33.5	55.4	19.4	9.6	36.0	ROE-%	0.2 %	21.6 %	13.4 %	-2.7 %	8.7 %
CAPEX	-29.8	-5.0	-21.0	-13.1	-15.1	ROI-%	3.4 %	16.2 %	9.7 %	-0.8 %	8.9 %
Free cash flow	21.2	50.5	-1.6	-3.5	20.9	Equity ratio	42.7 %	46.0 %	42.2 %	47.5 %	51.2 %
						Gearing	53.9 %	29.1 %	29.3 %	43.3 %	27.9 %

Source: Inderes

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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 price	Share price
30-01-20	Reduce	2.35 €	2.48 €
24-04-20	Accumulate	3.25 €	3.02 €
13-05-20	Accumulate	3.40 €	3.17 €
18-06-20	Accumulate	4.00 €	3.69 €
13-08-20	Accumulate	5.40 €	5.00 €
28-10-20	Accumulate	5.40 €	5.06 €
05-02-21	Accumulate	6.00 €	5.74 €
29-04-21	Accumulate	6.25 €	5.87 €
24-06-21	Accumulate	6.25 €	5.45 €
16-08-21	Accumulate	5.60 €	5.27 €
29-10-21	Accumulate	5.25 €	4.72 €
04-02-22	Reduce	4.50 €	4.33 €
05-05-22	Reduce	3.30 €	3.12 €
15-07-22	Reduce	3.30 €	3.12 €
10-08-22	Reduce	3.30 €	3.18 €
	Analyst change		
27-10-22	Accumulate	3.00 €	2.48 €
14-12-22	Reduce	3.00 €	3.10 €



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