

# Sitowise

## Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Odotamme kestäväen kannattavuustason olevan nykyistä parempi” published on 11/29/2022 at 7:41 am

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# We expect the sustainable profitability level to be better than currently

We reiterate our target for Sitowise (EUR 5.50) but lower our recommendation to Accumulate (previously Buy) due to the share price rise. Sitowise will achieve strong growth this year, but overall cost increases and front-loaded growth investments will push the earnings level clearly below the company's historical and potential levels. Organic growth generated by the strong order book and acquisitions will continue to support growth until next year, although a market slowdown due to a fall in construction investments is expected. We also expect the increased resources caused by growth to produce better next year, which, together with declining subcontracting costs, will generate earnings growth next year. Despite the drop in the recommendation, we see that Sitowise's growth, earnings potential and quality still leaves a clear upside in the valuation.

## Strong growth has taken its toll

Sitowise, a provider of infrastructure planning and expert services and digital solutions for the built environment, has grown strongly in recent years, but profitability has fallen from its peak levels as expected. Supported by inorganic growth, annual net sales growth in 2018-2021 has been around 13%, while this year by Q3 growth has amounted to 14%. The EBITA margin was 12.9% in 2020, as COVID savings and a strong market pushed profitability to an exceptionally high level (4-year average: 11.8%). This year, however, we believe that profitability will fall to a lowish level (2022e adj. EBITA-%: 10.0%), when growth investments and general cost increases burden the earnings level. In line with our expectations and our estimates for the coming years, sustainable profitability levels are between the company's peak years and the current level.

## No changes in estimates

We made no changes to our estimates for the next few years in this update. This year we expect strong growth (+13%), but adjusted EBITA is expected to decrease to EUR 20.1 million (2021: 21.1 MEUR). Growth in 2023 is supported by a strong order book (Q3 +14% y-o-y) and inorganic growth (estimate 9 MEUR), although uncertainty about construction investments is likely to slow down the market for technical engineering. Our estimates indicate that growth will continue at around 5% in the coming years and we expect the market to pick up in 2024. In our estimates, profitability improves (23-24e EBITA % average: 11.1%) especially as billable utilization improves with better resource productivity and decreased subcontracting. The market pick-up, easing of inflationary pressures and the growing share of Digital Solutions (scalability, better margins) will further boost profitability toward targets (at least 12%). There is a risk of a clear decline in demand and thus billable utilization, and of inflationary pressures continuing longer than expected.

## Expected return is still attractive

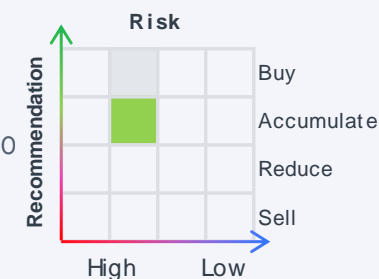
Sitowise's valuation is already moderate compared to 2022 (adj. EV/EBITDA: 10x adj. P/E: 14x) and continues to fall in 2023 (adj. EV/EBITDA: 8x adj. P/E: 12x). Compared to the lower end of our acceptable valuation range (EV/EBITDA: 10-12x, P/E: 16-20x) the share already has an upside (+10%) with 2022 performance. Compared to the peer group, the company is some 20% below its peers in the next few years, when based on historical performance we believe a premium (+10%) should be accepted for Sitowise. In addition to the upside in the valuation, the 3% dividend yield supports the expected return. The value of our DCF calculation (EUR 5.7) is also higher than the current share price, which supports our recommendation.

## Recommendation

**Accumulate**  
(previous Buy)

**EUR 5.50**  
(previous EUR 5.50)

**Share price:**  
4.75



## Key figures

	2021	2022e	2023e	2024e
<b>Revenue</b>	179.3	201.8	214.7	225.2
<b>growth-%</b>	12 %	13 %	6 %	5 %
<b>EBIT adj.</b>	21.1	20.1	23.2	25.6
<b>EBIT-% adj.</b>	11.8 %	10.0 %	10.8 %	11.3 %
<b>Net Income</b>	7.8	8.2	14.0	15.8
<b>EPS (adj.)</b>	0.29	0.35	0.39	0.45

<b>P/E (adj.)</b>	27.4	13.7	12.0	10.6
<b>P/B</b>	2.5	1.4	1.3	1.2
<b>Dividend yield-%</b>	1.2 %	2.5 %	2.9 %	3.4 %
<b>EV/EBIT (adj.)</b>	18.2	14.1	11.4	9.5
<b>EV/EBITDA</b>	13.3	10.4	7.6	6.7
<b>EV/S</b>	1.9	1.2	1.1	1.0

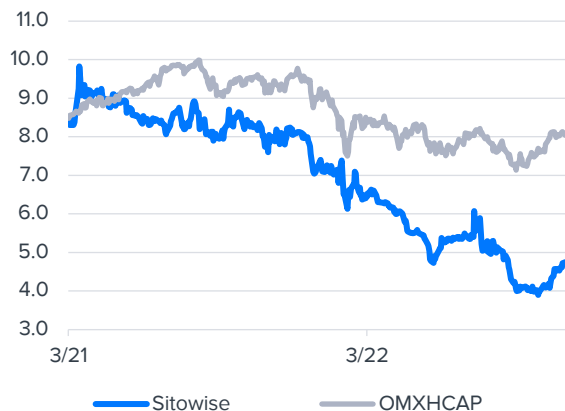
Source: Inderes

## Guidance

(Unchanged)

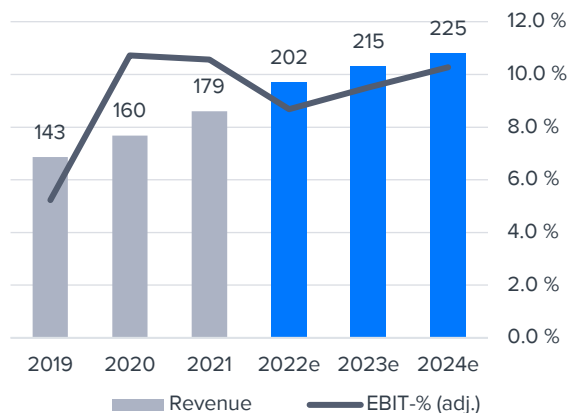
Sitowise expects that the net sales in euros will increase compared to 2021, and that the adjusted EBITA in euros will be at the same level or slightly below the adjusted EBITA in 2021.

### Share price



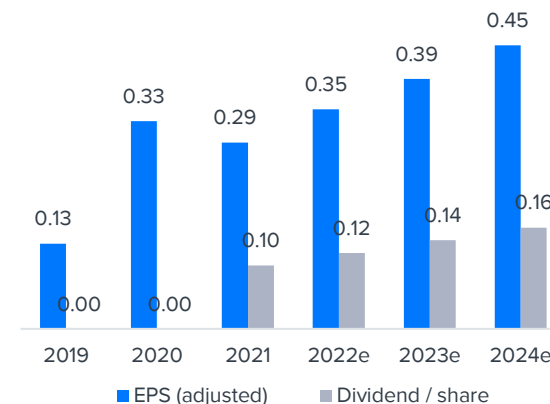
Source: Millstream Market Data AB

### Revenue and EBIT %



Source: Inderes

### EPS and dividend



Source: Inderes



### Value drivers

- Faster organic growth than market growth and acquisitions
- Maintaining high profitability
- Expansion into Nordic countries
- Extending the offering
- Strong cash flow and low investment need
- Efficient and fragmented business model, as well as digitalization expertise create competitive advantage
- Increasing share of consulting and planning in construction value chain supported by megatrends
- Opportunities created by sustainable development regulation



### Risk factors

- Cyclicity of the underlying construction market
- Sustainably maintaining high profitability levels
- Weakening of the market after good years
- Challenges created by Nordic expansion and a new market
- Failure in acquisitions
- Dependency on personnel and adequacy of incentives for key personnel

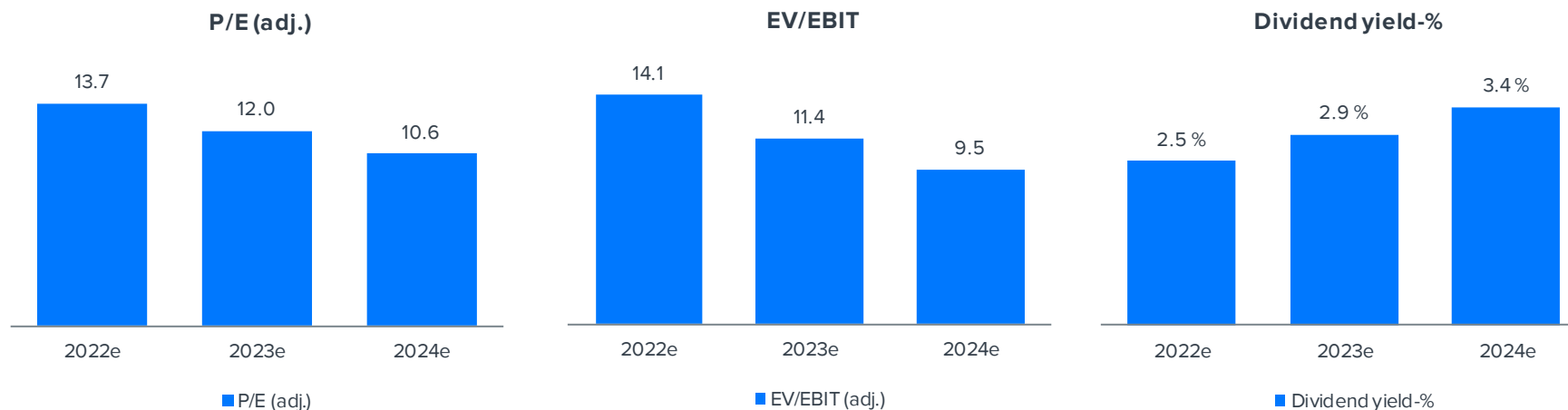
Valuation	2022e	2023e	2024e
Share price	4.75	4.75	4.75
Number of shares, million:	35.4	35.4	35.4
Market cap	168	168	168
EV	247	233	220
P/E (adj.)	13.7	12.0	10.6
P/B	1.4	1.3	1.2
EV/Sales	1.2	1.1	1.0
EV/EBITDA	10.4	7.6	6.7
EV/EBIT (adj.)	14.1	11.4	9.5
Payout ratio (%)	52.0 %	35.5 %	35.7 %
Dividend yield-%	2.5 %	2.9 %	3.4 %

Source: Inderes

# Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price					8.05	4.75	4.75	4.75	4.75
Number of shares, millions					35.4	35.4	35.4	35.4	35.4
Market cap					285	168	168	168	168
EV					345	247	233	220	207
P/E (adj.)					27.4	13.7	12.0	10.6	9.3
P/B					2.5	1.4	1.3	1.2	1.1
EV/Sales					1.9	1.2	1.1	1.0	0.9
EV/EBITDA					13.3	10.4	7.6	6.7	5.9
EV/EBIT (adj.)					18.2	14.1	11.4	9.5	8.0
Payout ratio (%)					45.2 %	52.0 %	35.5 %	35.7 %	40.0 %
Dividend yield-%					1.2 %	2.5 %	2.9 %	3.4 %	4.3 %

Source: Inderes



# Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Sweco AB	3387	3823	19.3	19.7	14.2	13.9	22.9	22.8	2.5	2.5	3.9
Afry AB											
Reijlers AB	244	284	13.1	12.8	7.9	7.8	14.5	14.4	3.0	3.2	2.0
WSP Global Inc	14761	17540	26.1	21.7	16.1	13.6	30.1	25.8	0.9	0.9	3.4
Solwers Oyj		72	16.0	14.0	10.0	9.0					
Etteplan Oyj	368	442	15.5	14.7	9.0	8.8	20.1	16.4	2.4	3.0	3.5
Arcadis NV	3424	3695	13.2	11.1	9.5	8.3	17.3	15.4	2.4	2.8	3.1
<b>Sitowise (Inderes)</b>	<b>168</b>	<b>247</b>	<b>14.1</b>	<b>11.4</b>	<b>10.4</b>	<b>7.6</b>	<b>13.7</b>	<b>12.0</b>	<b>2.5</b>	<b>2.9</b>	<b>1.4</b>
<b>Average</b>			<b>17.2</b>	<b>15.7</b>	<b>11.1</b>	<b>10.2</b>	<b>21.0</b>	<b>19.0</b>	<b>2.2</b>	<b>2.5</b>	<b>3.2</b>
<b>Median</b>			<b>15.7</b>	<b>14.4</b>	<b>9.8</b>	<b>8.9</b>	<b>20.1</b>	<b>16.4</b>	<b>2.4</b>	<b>2.8</b>	<b>3.4</b>
<b>Diff-% to median</b>			<b>-10%</b>	<b>-21%</b>	<b>7%</b>	<b>-15%</b>	<b>-32%</b>	<b>-27%</b>	<b>4%</b>	<b>7%</b>	<b>-58%</b>

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

# Income statement

Income statement	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	143.0	160.1	42.80	46.51	39.57	50.46	179.3	49.20	51.72	45.92	54.94	201.8	214.7	225.2	236.5
EBITDA	19.3	26.3	5.9	6.5	6.5	6.9	25.8	5.4	5.2	6.5	6.6	23.7	30.6	33.0	35.3
Depreciation	-8.7	-8.0	-2.3	-2.3	-2.5	-2.4	-9.4	-2.5	-2.5	-2.7	-2.6	-10.3	-10.2	-9.9	-9.4
EBITA (oik.)	15.5	20.6	4.7	5.9	4.9	5.6	21.1	5.2	4.9	4.9	5.1	20.1	23.2	25.6	28.3
EBITA	13.8	12.3	4.1	4.7	4.6	5.2	18.6	3.5	3.3	4.5	4.7	16.0	23.2	25.6	28.3
EBIT	10.6	18.3	3.7	4.2	4.0	4.6	16.4	2.9	2.7	3.7	4.0	13.4	20.4	23.1	25.9
Net financial items	-2.3	-2.4	-4.7	0.1	-0.7	-0.8	-6.1	-1.4	-0.3	-0.4	-0.6	-2.7	-2.9	-3.2	-3.2
PTP	8.4	15.9	-1.1	4.3	3.3	3.7	10.3	1.5	2.4	3.3	3.4	10.7	17.5	19.9	22.7
Taxes	-0.5	-3.2	0.3	-0.9	-0.7	-1.0	-2.4	-0.4	-0.8	-0.5	-0.7	-2.4	-3.5	-4.0	-4.5
Minority interest	0.0	-0.1	0.0	-0.1	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Net earnings	7.9	12.6	-0.8	3.3	2.5	2.7	7.8	1.1	1.5	2.8	2.7	8.2	14.0	15.8	18.1
EPS (adj.)	0.13	0.33	-0.01	0.14	0.08	0.09	0.29	0.08	0.09	0.09	0.09	0.35	0.39	0.45	0.51
EPS (rep.)	0.22	0.36	-0.02	0.09	0.07	0.08	0.22	0.03	0.04	0.08	0.08	0.23	0.39	0.45	0.51

Key figures	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	13.8 %	11.9 %	6.9 %	7.6 %	14.9 %	19.0 %	12.0 %	15.0 %	11.2 %	16.0 %	8.9 %	12.5 %	6.4 %	4.9 %	5.0 %
Adjusted EBITA growth %		33.3 %	-8.9 %	-17.2 %	11.1 %	44.0 %	2.4 %	10.4 %	-17.3 %	0.0 %	-8.3 %	-4.7 %	15.4 %	10.0 %	10.9 %
Adjusted EBITA-%	10.8 %	12.9 %	11.0 %	12.7 %	12.4 %	11.1 %	11.8 %	10.6 %	9.5 %	10.7 %	9.3 %	10.0 %	10.8 %	11.3 %	12.0 %

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	202	202	0%	215	215	0%	225	225	0%
EBITA (oik.)	20.1	20.1	0%	23.2	23.2	0%	25.9	25.6	-1%
EBITA	16.0	16.0	0%	23.2	23.2	0%	25.9	25.6	-1%
PTP	10.7	10.7	0%	17.5	17.5	0%	20.2	19.9	-2%
EPS (excl. NRIs)	0.35	0.35	0%	0.39	0.39	0%	0.45	0.45	-2%
DPS	0.12	0.12	0%	0.14	0.14	0%	0.16	0.16	0%

# Balance sheet

Assets	2020	2021	2022e	2023e	2024e
<b>Non-current assets</b>	<b>160</b>	<b>177</b>	<b>198</b>	<b>196</b>	<b>194</b>
Goodwill	118	135	155	155	155
Intangible assets	5.7	7.5	8.9	6.1	3.6
Tangible assets	34.2	31.4	31.8	32.4	32.9
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	1.7	1.9	1.9	1.9	1.9
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.3	1.1	1.1	1.1	1.1
<b>Current assets</b>	<b>61.6</b>	<b>72.7</b>	<b>76.0</b>	<b>88.6</b>	<b>104</b>
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	46.1	53.3	59.5	63.3	66.4
Cash and equivalents	15.5	19.4	16.5	25.3	37.9
<b>Balance sheet total</b>	<b>222</b>	<b>250</b>	<b>274</b>	<b>285</b>	<b>298</b>

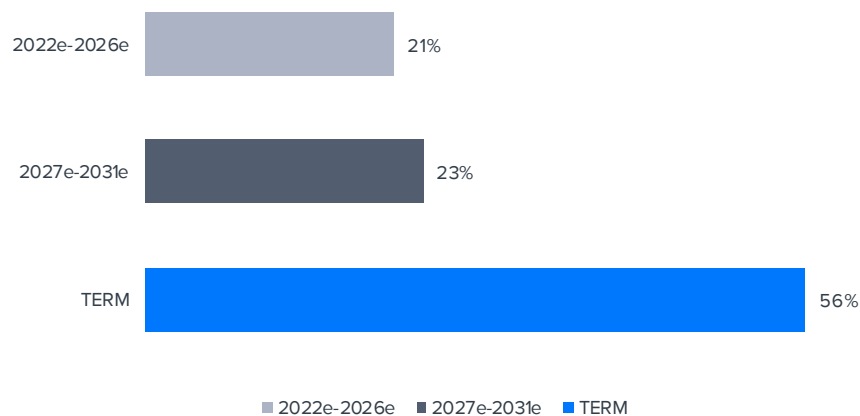
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
<b>Equity</b>	<b>66.9</b>	<b>115</b>	<b>119</b>	<b>129</b>	<b>140</b>
Share capital	0.0	0.1	0.1	0.1	0.1
Retained earnings	11.4	18.8	23.5	33.2	44.1
Hybrid bonds	14.1	0.0	0.0	0.0	0.0
Revaluation reserve	0.2	0.3	0.3	0.3	0.3
Other equity	41.0	95.5	95.5	95.5	95.5
Minorities	0.1	0.2	0.2	0.2	0.2
<b>Non-current liabilities</b>	<b>94.5</b>	<b>72.6</b>	<b>86.6</b>	<b>81.6</b>	<b>81.6</b>
Deferred tax liabilities	2.0	1.6	1.6	1.6	1.6
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	92.6	71.0	85.0	80.0	80.0
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
<b>Current liabilities</b>	<b>60.1</b>	<b>62.3</b>	<b>68.2</b>	<b>73.8</b>	<b>76.8</b>
Short term debt	9.4	7.6	10.0	10.0	10.0
Payables	47.3	51.0	54.5	60.1	63.1
Other current liabilities	3.4	3.7	3.7	3.7	3.7
<b>Balance sheet total</b>	<b>222</b>	<b>250</b>	<b>274</b>	<b>285</b>	<b>298</b>

# DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	12.0 %	12.5 %	6.4 %	4.9 %	5.0 %	4.0 %	3.0 %	4.0 %	2.5 %	2.0 %	1.0 %	1.0 %
EBIT-%	9.1 %	6.6 %	9.5 %	10.3 %	11.0 %	11.0 %	10.5 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %
<b>EBIT (operating profit)</b>	<b>16.4</b>	<b>13.4</b>	<b>20.4</b>	<b>23.1</b>	<b>25.9</b>	<b>27.1</b>	<b>26.6</b>	<b>26.3</b>	<b>27.0</b>	<b>27.7</b>	<b>27.9</b>	
+ Depreciation	9.4	10.3	10.2	9.9	9.4	8.8	8.5	8.3	8.2	8.1	8.0	
- Paid taxes	-3.6	-2.4	-3.5	-4.0	-4.5	-4.8	-4.7	-4.6	-4.8	-4.9	-5.0	
- Tax, financial expenses	-1.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	
+ 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	-3.2	-2.8	1.8	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	
<b>Operating cash flow</b>	<b>17.7</b>	<b>17.9</b>	<b>28.4</b>	<b>28.2</b>	<b>29.9</b>	<b>30.3</b>	<b>29.6</b>	<b>29.2</b>	<b>29.7</b>	<b>30.1</b>	<b>30.4</b>	
+ 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	-25.8	-31.4	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.1	
<b>Free operating cash flow</b>	<b>-8.2</b>	<b>-13.5</b>	<b>20.4</b>	<b>20.2</b>	<b>21.9</b>	<b>22.3</b>	<b>21.6</b>	<b>21.2</b>	<b>21.7</b>	<b>22.1</b>	<b>22.2</b>	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-8.2	-13.5	20.4	20.2	21.9	22.3	21.6	21.2	21.7	22.1	22.2	305
<b>Discounted FCFF</b>		<b>-13.4</b>	<b>18.7</b>	<b>17.1</b>	<b>17.1</b>	<b>16.1</b>	<b>14.4</b>	<b>13.0</b>	<b>12.3</b>	<b>11.6</b>	<b>10.7</b>	<b>147</b>
Sum of FCFF present value		265	278	259	242	225	209	195	182	169	158	147
<b>Enterprise value DCF</b>		<b>265</b>										
- Interesting bearing debt		-78.6										
+ Cash and cash equivalents		19.4										
-Minorities		-0.3										
-Dividend/capital return		-3.5										
<b>Equity value DCF</b>		<b>202</b>										
<b>Equity value DCF per share</b>		<b>5.7</b>										

Cash flow distribution



Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	3.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	1.20%
Risk free interest rate	2.5 %
<b>Cost of equity</b>	<b>10.4 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>8.4 %</b>

Source: Inderes



# Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	143.0	160.1	179.3	<b>201.8</b>	<b>214.7</b>	EPS (reported)	0.22	0.36	0.22	<b>0.23</b>	<b>0.39</b>
EBITDA	19.3	26.3	25.8	<b>23.7</b>	<b>30.6</b>	EPS (adj.)	0.13	0.33	0.29	<b>0.35</b>	<b>0.39</b>
EBIT	10.6	18.3	16.4	<b>13.4</b>	<b>20.4</b>	OCF / share	0.62	0.79	0.50	<b>0.51</b>	<b>0.80</b>
PTP	8.4	15.9	10.3	<b>10.7</b>	<b>17.5</b>	FCF / share	-0.65	-0.15	-0.23	<b>-0.38</b>	<b>0.58</b>
Net Income	7.1	12.7	7.8	<b>8.2</b>	<b>14.0</b>	Book value / share	1.62	1.90	3.24	<b>3.37</b>	<b>3.65</b>
Extraordinary items	3.2	1.1	-2.6	<b>-4.1</b>	<b>0.0</b>	Dividend / share	0.00	0.00	0.10	<b>0.12</b>	<b>0.14</b>
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	188.4	221.5	249.8	<b>274.2</b>	<b>284.6</b>	Revenue growth-%	14%	12%	12%	<b>13%</b>	<b>6%</b>
Equity capital	57.4	66.9	114.9	<b>119.5</b>	<b>129.2</b>	EBITDA growth-%	-1%	36%	-2%	<b>-8%</b>	<b>29%</b>
Goodwill	101.7	118.1	135.2	<b>154.6</b>	<b>154.6</b>	EBIT (adj.) growth-%	-41%	130%	10%	<b>-8%</b>	<b>17%</b>
Net debt	74.8	86.5	59.3	<b>78.5</b>	<b>64.7</b>	EPS (adj.) growth-%	-47%	144%	-10%	<b>18%</b>	<b>14%</b>
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	13.5 %	16.4 %	14.4 %	<b>11.8 %</b>	<b>14.3 %</b>
EBITDA	19.3	26.3	25.8	<b>23.7</b>	<b>30.6</b>	EBIT (adj.)-%	5.2 %	10.7 %	10.6 %	<b>8.7 %</b>	<b>9.5 %</b>
Change in working capital	3.1	2.1	-3.2	<b>-2.8</b>	<b>1.8</b>	EBIT-%	7.4 %	11.4 %	9.1 %	<b>6.6 %</b>	<b>9.5 %</b>
Operating cash flow	21.7	27.9	17.7	<b>17.9</b>	<b>28.4</b>	ROE-%	15.4 %	20.4 %	8.6 %	<b>7.0 %</b>	<b>11.2 %</b>
CAPEX	-43.8	-33.1	-25.8	<b>-31.4</b>	<b>-8.0</b>	ROI-%	8.5 %	11.7 %	9.0 %	<b>6.6 %</b>	<b>9.4 %</b>
Free cash flow	-22.9	-5.1	-8.2	<b>-13.5</b>	<b>20.4</b>	Equity ratio	30.4 %	30.2 %	46.0 %	<b>43.6 %</b>	<b>45.4 %</b>
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	130.4 %	129.3 %	51.6 %	<b>65.7 %</b>	<b>50.1 %</b>
EV/S	0.5	0.5	1.9	<b>1.2</b>	<b>1.1</b>						
EV/EBITDA (adj.)	3.9	3.3	13.3	<b>10.4</b>	<b>7.6</b>						
EV/EBIT (adj.)	10.0	5.0	18.2	<b>14.1</b>	<b>11.4</b>						
P/E (adj.)	0.0	0.0	27.4	<b>13.7</b>	<b>12.0</b>						
P/B	0.0	0.0	2.5	<b>1.4</b>	<b>1.3</b>						
Dividend-%			1.2 %	<b>2.5 %</b>	<b>2.9 %</b>						

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
29-03-21	Reduce	8.60 €	8.50 €
20-05-21	Accumulate	9.30 €	8.78 €
26-08-21	Accumulate	9.30 €	8.27 €
11-11-21	Accumulate	9.30 €	8.33 €
#####	Accumulate	7.60 €	6.50 €
#####	Accumulate	7.20 €	6.05 €
19-05-22	Buy	7.20 €	5.74 €
18-08-22	Accumulate	6.50 €	5.50 €
27-10-22	Buy	5.50 €	3.90 €
02-11-22	Buy	5.50 €	4.15 €
29-11-22	Accumulate	5.50 €	4.75 €



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