

Digia

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Koodi on laadukasta ja tuottaa jatkuvaa tulosta” published on 2/09/2022 at 8:26 am

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High quality code that produces continuous results

We reiterate our Accumulate recommendation and EUR 8.10 target price for Digia. In Q4, net sales and especially earnings exceeded expectations. As usual, the guidance was a little cautious. Digia continues to invest in the first half of the year, but in the second half we expect investments to ease up and support profitability. In recent years, the company has proven to be a high-quality earnings grower with a healthy balance sheet, and we expect this to continue in coming years. We maintain our estimates almost unchanged and the share's expected return still speaks for a positive view on the share.

Q4 net sales grew strongly also organically

Digia's Q4 net sales increased by 18% from the comparison period to EUR 44.8 million and was above our estimate. Net sales growth was driven by the Climber and Solasys acquisitions. We estimate that net sales also grew strongly organically (8%) driven by subcontracting. Nearly all business units grew. Growth was still limited by own experts (close on 20 people) being utilized in developing an internal business platform the effect of which we estimate to be 2% points.

Q4 result exceeded expectations clearly

EBITA for Q4 was EUR 5.0 million or 11.1% of net sales (Q4'20: 12%) and clearly above our estimate. As expected, profitability was depressed by investments in Digia's own business platform (Digia Business Engine) and the cost structure normalizing as the COVID situation alleviated. Considering investments, cost pressure and the competed expert market, Q4 profitability can be considered good. The new own business platform will be gradually launched during H1'22 and this should support profitability from H2'22 onwards. There were no surprises in other result rows. EPS was EUR 0.13 in Q4 and EUR 0.44 in 2021. As expected, the Board of Directors proposed that the company distribute EUR 0.17 per share as dividend for 2021. The dividend corresponds to 40% of the result and a dividend yield of 2.4%.

As usual, guidance was a little "cautious"

We feel that as usual Digia's guidance is "cautious" in estimating that net sales will grow year-on-year and the EBITA margin will be over 10% of net sales. We only made minor adjustments to our estimates based on the Q4 report. We expect Digia's net sales to grow by 5% in 2022, supported by acquisitions. We also expect EBITA% to decrease to 11%, depressed by investments in line with the strategy and the cost structure normalizing in 2022 (2021 EBITA: 11.4%), but to be above the guidance. In the following years, we cautiously expect net sales to drive an average earnings growth of 6% in 2023-24. We expect the company to also continue growing inorganically in coming years.

Valuation is still attractive

Digia has strengthened its profile as a high-quality earnings growth company, which supports the share valuation. The risk level of the share decreases as focus has shifted from projects toward service and maintenance business and the good development over the past 3 years. With our estimates the adjusted P/E and EV/EBIT ratios for 2022e are 14x and 11x or 2% above Finnish peers, which is a moderate valuation in absolute terms. In relative terms, the valuation is neutral. In general, the valuation level of the IT service sector has been under pressure in the early part of the year and considering the continued strong demand outlook we find the valuation level of the sector to be attractive in the big picture. The expected return, consisting of earnings growth (5%), dividend yield (3%) and a moderate upside in multiples, supports a positive view of the share.

Recommendation

Accumulate

(previous Accumulate)

EUR 8.10

(previous EUR 8.10)

Share price:

7.45



Key figures

	2021	2022e	2023e	2024e
Revenue	156	164	172	179
growth-%	12%	5%	5%	4%
EBIT adj.	17.7	18.0	19.3	20.3
EBIT-% adj.	11.4 %	11.0 %	11.2 %	11.4 %
Net Income	11.8	12.1	13.2	14.1
EPS (adj.)	0.55	0.55	0.59	0.62

P/E (adj.)	12.7	13.5	12.6	11.9
P/B	2.8	2.6	2.4	2.2
Dividend yield-%	2.4 %	2.7 %	3.1 %	3.4 %
EV/EBIT (adj.)	11.2	11.4	10.0	9.0
EV/EBITDA	9.0	9.3	8.2	7.5
EV/S	1.3	1.3	1.1	1.0

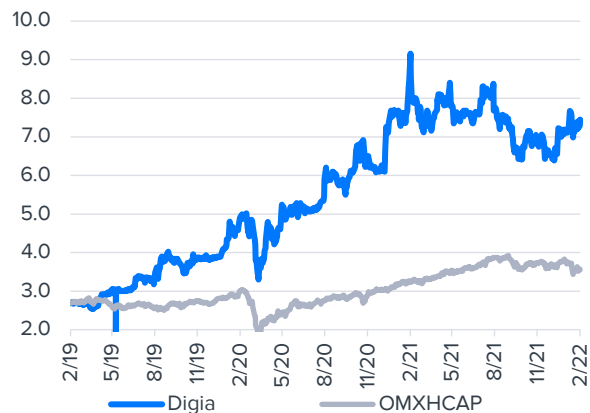
Source: Inderes

Guidance

(New guidance)

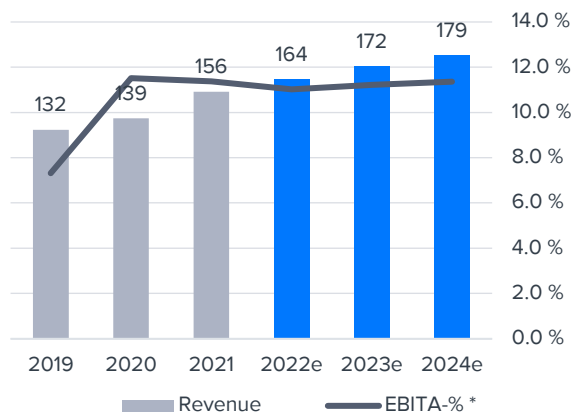
Digia's guidance is that net sales will grow year-on-year and its EBITA margin will be over 10 per cent of net sales.

Share price



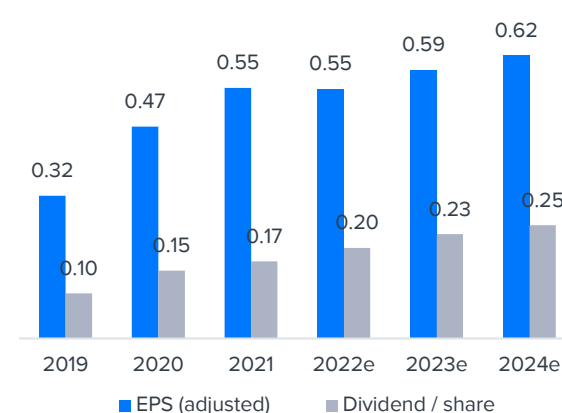
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- A strongly growing market in the long term
- Market trends are favorable for Digia's offering
- Still improvement potential in profitability
- Increasing continuous services and scalable business
- Acquisitions



Risk factors

- Competitiveness in competition for experts, wage inflation and turnover
- Integration of acquisitions
- Productivity of investments
- Project risks and customers' bargaining power in large projects
- Marginalized position between large and small players

Valuation	2022e	2023e	2024e
Share price	7.45	7.45	7.45
Number of shares, millions	26.7	26.7	26.7
Market cap	199	199	199
EV	205	193	183
P/E (adj.)	13.5	12.6	11.9
P/E	16.4	15.0	14.1
P/FCF	21.1	11.1	12.7
P/B	2.6	2.4	2.2
P/S	1.2	1.2	1.1
EV/Sales	1.3	1.1	1.0
EV/EBITDA	9.3	8.2	7.5
EV/EBIT (adj.)	11.4	10.0	9.0
Payout ratio (%)	44.1%	46.4%	47.4%
Dividend yield-%	2.7%	3.1%	3.4%

Source: Inderes

Estimates

Estimates	Q4'20	Q4'21	Q4'21e	Q4'21e	Consensus		Difference (%)	2021
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Toteutunut
Revenue	37.9	44.8	41.4				8%	156
EBITA	4.6	5.0	4.1				20%	17.7
EBIT	4.1	4.2	3.4				22%	14.7
PTP	3.8	4.3	3.3				29%	14.6
EPS (oik.)	0.13	0.15	0.12				20%	0.55
EPS (reported)	0.13	0.13	0.10				30%	0.45
DPS	0.15	0.17	0.17				0%	0.17
Revenue growth-%	0.4 %	18.2 %	9.2 %				9 pp	12.1 %
EBITA-% (oik.)	12.1 %	11.1 %	10.0 %				1 pp	11.3 %

Source: Inderes

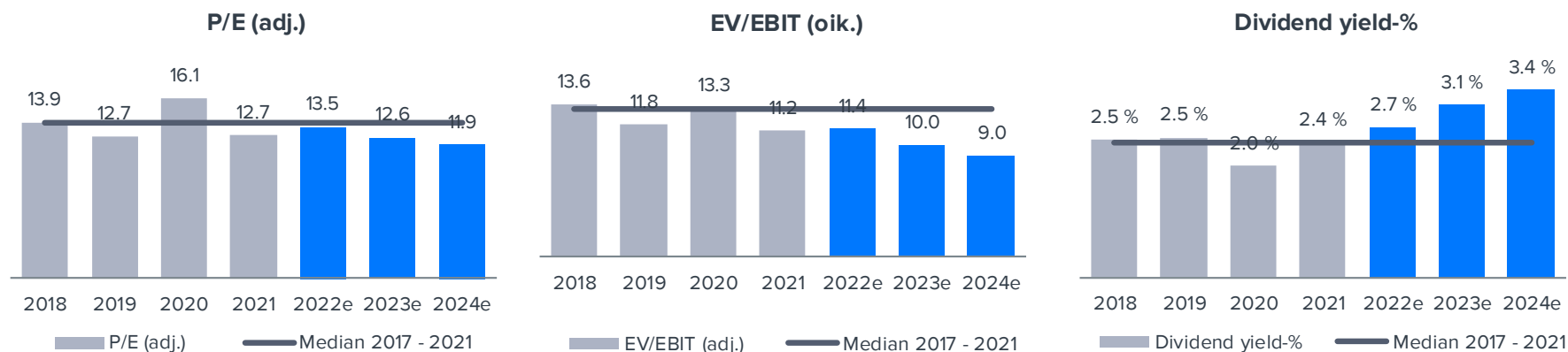
Estimate revisions	2021	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	153	156	2%	161	164	2%	169	172	2%
EBITDA	21.3	22.2	4%	22.6	22.0	-2%	23.7	23.4	-1%
EBIT (exc. NRIs)	16.9	17.7	5%	18.0	18.0	0%	19.1	19.3	1%
EBIT	13.9	14.7	6%	15.8	15.4	-2%	16.9	16.7	-1%
PTP	13.6	14.6	7%	15.5	15.1	-2%	16.7	16.5	-1%
EPS (excl. NRIs)	0.52	0.55	6%	0.54	0.55	1%	0.58	0.59	2%
DPS	0.17	0.17	0%	0.20	0.20	0%	0.23	0.23	0%

Source: Inderes

Valuation table

Valuation	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	2.85	3.99	7.52	7.04	7.45	7.45	7.45	7.45
Number of shares, millions	26.8	26.8	26.8	26.7	26.7	26.7	26.7	26.7
Market cap	76	107	202	188	199	199	199	199
EV	99	130	212	199	205	193	183	172
P/E (adj.)	13.9	12.7	16.1	12.7	13.5	12.6	11.9	11.4
P/E	16.3	15.1	19.0	16.0	16.4	15.0	14.1	13.4
P/FCF	neg.	48.1	12.9	42.9	21.1	11.1	12.7	11.5
P/B	1.6	2.0	3.3	2.8	2.6	2.4	2.2	2.0
P/S	0.7	0.8	1.5	1.2	1.2	1.2	1.1	1.1
EV/Sales	0.9	1.0	1.5	1.3	1.3	1.1	1.0	0.9
EV/EBITDA	10.9	8.6	10.5	9.0	9.3	8.2	7.5	6.8
EV/EBIT (adj.)	13.6	11.8	13.3	11.2	11.4	10.0	9.0	8.1
Payout ratio (%)	39.9 %	37.8 %	37.8 %	38.6 %	44.1 %	46.4 %	47.4 %	50.0 %
Dividend yield-%	2.5 %	2.5 %	2.0 %	2.4 %	2.7 %	3.1 %	3.4 %	3.7 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
				2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
Bilot*	5.68	32	23	11.3	7.9	10.4	7.4	0.8	0.7	16.0	12.4	1.8	2.3
Gofore*	24.00	368	368	23.6	20.4	17.8	16.5	2.9	2.6	28.6	25.7	1.5	1.7
Loihde*	16.85	101	58	10.5	8.2	7.5	6.2	0.5	0.4	20.6	18.0	1.7	1.8
Innofactor*	1.35	50	60	8.0	6.9	5.6	4.8	0.7	0.6	10.2	9.7	5.2	5.2
Nixu*	6.62	49	52	29.0	13.5	15.0	9.5	0.9	0.8	43.5	17.6		
Siili*	13.28	93	96	10.2	8.7	8.4	7.3	1.0	0.9	11.9	10.4	3.0	3.8
Solteq*	4.17	81	108	10.6	7.8	6.9	5.3	1.3	1.1	13.8	9.8	3.6	4.3
TietoEVRY*	25.90	3067	3846	10.9	9.8	7.1	6.5	1.3	1.2	10.0	9.3	5.4	5.8
Vincit*	6.78	86	83	9.0	7.3	8.4	6.9	1.0	0.9	13.3	11.1	3.2	3.5
Netum*	4.21	49		10.5	8.9	10.4	8.6	1.7	1.5	14.3	12.9	1.9	2.1
Bouvet	68.4	722	713	21.0	18.4	17.4	15.5	2.6	2.3	27.7	24.1	3.4	4.1
ENEA	215.0	447	503	16.5	15.3	11.2	10.4	4.5	4.4	19.7	18.5		
KnowIT	333.5	890	895	20.1	16.9	12.5	11.2	1.6	1.5	22.7	20.0	2.1	2.3
Netcompany	420.00	2822	3193	22.7	18.7	18.9	16.3	4.2	3.7	25.8	20.9	0.8	1.2
Digia (Inderes)	7.45	199	205	11.4	10.0	9.3	8.2	1.3	1.1	13.5	12.6	2.7	3.1
Average				15.3	12.1	11.3	9.5	1.8	1.6	19.9	15.7	2.8	3.2
Median all				11.1	9.4	10.4	8.0	1.3	1.1	17.8	15.3	2.6	2.9
<i>Diff.-% cf. median all</i>				2%	7%	-11%	3%	-1%	-1%	-24%	-18%	4%	6%
Median Finnish				10.6	8.5	8.4	7.1	1.0	0.9	14.1	11.8	3.0	3.5
<i>Diff.-% cf. median Finnish</i>				8%	18%	11%	16%	22%	24%	-4%	7%	-11%	-12%

Source: Thomson Reuters / 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	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	132	139	39.4	38.6	33.2	44.7	156	41.7	40.4	34.8	47.0	164	172	179	186
EBITDA	15.1	20.2	6.4	4.6	5.1	6.0	22.2	5.2	5.2	5.0	6.6	22.0	23.4	24.4	25.3
Depreciation	-5.5	-6.1	-2.0	-1.9	-1.8	-1.8	-7.5	-1.5	-1.7	-1.7	-1.7	-6.6	-6.7	-6.7	-6.7
EBITA	9.6	16.0	5.2	3.5	4.1	5.0	17.7	4.2	4.2	4.0	5.6	18.0	19.3	20.3	21.2
EBIT (excl. NRI)	11.0	16.0	4.8	3.5	4.5	4.9	17.7	4.2	4.2	4.0	5.6	18.0	19.3	20.3	21.2
EBIT	9.6	14.1	4.5	2.7	3.3	4.2	14.7	3.7	3.5	3.3	4.9	15.4	16.7	17.7	18.6
Net financial items	-0.5	-0.6	-0.1	-0.2	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	0.0
PTP	9.1	13.5	4.4	2.5	3.4	4.3	14.6	3.6	3.4	3.3	4.9	15.1	16.5	17.6	18.6
Taxes	-2.0	-2.8	-0.8	-0.5	-0.7	-0.8	-2.8	-0.7	-0.7	-0.7	-1.0	-3.0	-3.3	-3.5	-3.7
Net earnings	7.1	10.6	3.6	2.0	2.8	3.5	11.8	2.9	2.7	2.6	3.9	12.1	13.2	14.1	14.9
EPS (adj.)	0.32	0.47	0.14	0.10	0.15	0.16	0.55	0.13	0.13	0.12	0.17	0.55	0.59	0.62	0.65
EPS (rep.)	0.26	0.40	0.13	0.07	0.10	0.13	0.44	0.11	0.10	0.10	0.15	0.45	0.50	0.53	0.56

Key figures	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	17.6 %	5.5 %	7.8 %	9.7 %	12.9 %	18.1 %	12.1 %	5.7 %	4.7 %	4.7 %	5.1 %	5.1 %	5.0 %	4.0 %	4.0 %
EBITDA growth		65.9 %	189%	64%	136%	208%	10%	-19%	19%	-1%	13%	2.1 %	6.9 %	5.3 %	4.4 %
EBITA-%	7.3 %	11.5 %	13.1%	9.1%	12.3 %	11.1 %	11.4 %	10.1 %	10.3 %	11.6 %	12.0 %	11.0 %	11.2 %	11.4 %	11.4 %
EBIT-%	7.3 %	10.1 %	11.3%	7.0%	9.9 %	9.4 %	9.4 %	8.9 %	8.6 %	9.6 %	10.5 %	9.4 %	9.7 %	9.9 %	10.0 %
Net earnings-%	5.4 %	7.6 %	9.0 %	5.2 %	8.3 %	7.7 %	7.5 %	6.9 %	6.7 %	7.5 %	8.3 %	7.4 %	7.7 %	7.9 %	8.0 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	72.7	81.2	80.8	81.0	81.2
Goodwill	61.5	71.9	71.9	71.9	71.9
Intangible assets	0.0	0.0	0.3	0.5	0.7
Tangible assets	10.3	7.7	7.7	7.7	7.7
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.5	0.5	0.6	0.6	0.6
Other non-current assets	0.0	0.5	0.0	0.0	0.0
Deferred tax assets	0.5	0.6	0.3	0.3	0.3
Current assets	42.0	50.9	49.2	48.2	51.7
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	25.6	32.8	32.8	34.4	35.8
Cash and equivalents	16.4	18.1	16.4	13.8	15.9
Balance sheet total	121	143	138	135	136

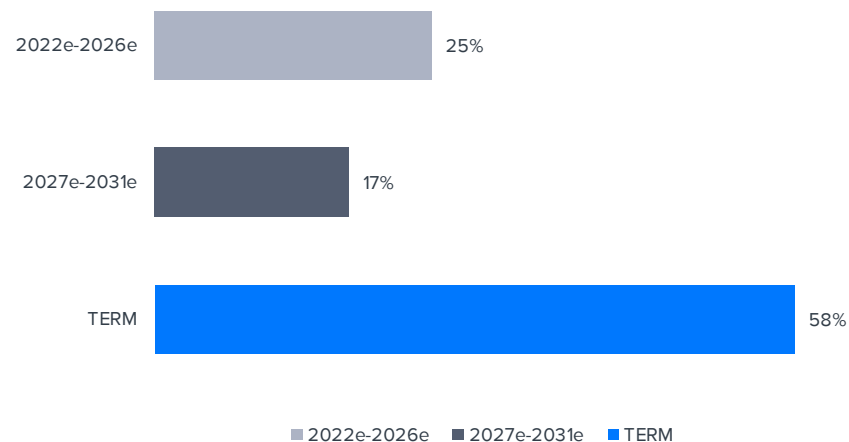
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	60.7	68.1	75.6	83.5	91.5
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	11.7	19.2	26.8	34.7	42.6
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	46.9	46.7	46.7	46.7	46.7
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	18.4	24.6	19.3	11.7	5.2
Deferred tax liabilities	1.1	1.9	0.2	0.2	0.2
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	15.3	20.4	16.8	5.5	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2.0	2.3	2.3	6.0	5.0
Current liabilities	41.9	50.4	43.3	39.7	39.4
Short term debt	11.7	8.5	5.6	1.8	0.0
Payables	30.3	42.0	37.7	37.8	39.4
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	121	143	138	135	136

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	14.7	15.4	16.7	17.7	18.6	19.4	20.1	18.8	18.5	19.2	19.7	
+ Depreciation	7.5	6.6	6.7	6.7	6.7	4.4	4.3	4.2	4.2	4.3	4.3	
- Paid taxes	-2.2	-4.4	-3.3	-3.5	-3.7	-3.9	-4.0	-3.8	-3.7	-3.8	-3.9	
- Tax, financial expenses	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ 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	4.5	-4.3	-1.5	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	
Operating cash flow	24.5	13.4	18.6	21.0	21.7	20.0	20.5	19.4	19.2	19.9	20.2	
+ Change in other long-term liabilities	0.3	0.0	3.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-20.4	-3.9	-4.3	-4.3	-4.4	-4.4	-4.4	-4.5	-4.5	-4.6	-4.7	
Free operating cash flow	4.4	9.4	18.0	15.7	17.4	15.6	16.1	14.9	14.7	15.3	15.5	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	4.4	9.4	18.0	15.7	17.4	15.6	16.1	14.9	14.7	15.3	15.5	297
Discounted FCFF		8.8	15.6	12.6	12.9	10.8	10.3	8.9	8.1	7.8	7.3	141
Sum of FCFF present value		244	235	219	207	194	183	173	164	156	148	141
Enterprise value DCF		244										
- Interesting bearing debt		-28.8										
+ Cash and cash equivalents		18.1										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		233										
Equity value DCF per share		8.7										

Cash flow distribution



Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	6.0 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.0 %
Cost of equity	8.6 %
Weighted average cost of capital (WACC)	7.9 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	131.8	139.0	155.9	163.8	172.0	EPS (reported)	0.26	0.40	0.44	0.45	0.50
EBITDA	15.1	20.2	22.2	22.0	23.4	EPS (adj.)	0.32	0.47	0.55	0.55	0.59
EBIT	9.6	14.1	14.7	15.4	16.7	OCF / share	0.54	0.89	0.92	0.50	0.70
PTP	9.1	13.5	14.6	15.1	16.5	FCF / share	0.08	0.58	0.16	0.35	0.67
Net Income	7.1	10.6	11.8	12.1	13.2	Book value / share	1.98	2.26	2.55	2.83	3.13
Extraordinary items	-1.4	-1.9	-3.0	-2.6	-2.6	Dividend / share	0.10	0.15	0.17	0.20	0.23
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	114.1	121.1	143.0	138.3	134.9	Revenue growth-%	18%	5%	12%	5%	5%
Equity capital	53.2	60.7	68.1	75.6	83.5	EBITDA growth-%	67%	33%	10%	-1%	6%
Goodwill	57.8	61.5	71.9	71.9	71.9	EBIT (adj.) growth-%	49%	66%	11%	2%	7%
Net debt	22.6	10.5	10.7	6.0	-6.5	EPS (adj.) growth-%	54%	48%	18%	0%	8%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	11.5 %	14.5 %	14.2 %	13.5 %	13.6 %
EBITDA	15.1	20.2	22.2	22.0	23.4	EBIT (adj.)-%	7.3 %	11.5 %	11.4 %	11.0 %	11.2 %
Change in working capital	1.2	6.7	4.5	-4.3	-1.5	EBIT-%	7.3 %	10.1 %	9.4 %	9.4 %	9.7 %
Operating cash flow	14.4	23.8	24.5	13.4	18.6	ROE-%	14.0 %	18.7 %	18.3 %	16.9 %	16.6 %
CAPEX	-11.6	-9.9	-20.4	-3.9	-4.3	ROI-%	12.6 %	16.7 %	15.9 %	15.9 %	17.7 %
Free cash flow	2.2	15.7	4.4	9.4	18.0	Equity ratio	46.6 %	50.2 %	47.6 %	54.7 %	61.9 %
						Gearing	42.5 %	17.3 %	15.7 %	8.0 %	-7.8 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.0	1.5	1.3	1.3	1.1						
EV/EBITDA (adj.)	8.6	10.5	9.0	9.3	8.2						
EV/EBIT (adj.)	11.8	13.3	11.2	11.4	10.0						
P/E (adj.)	12.7	16.1	12.7	13.5	12.6						
P/E	2.0	3.3	2.8	2.6	2.4						
Dividend-%	2.5 %	2.0 %	2.4 %	2.7 %	3.1 %						

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 price	Share price
02-03-18	Accumulate	2.40 €	2.17 €
30-04-18	Accumulate	2.85 €	2.51 €
13-08-18	Buy	3.40 €	2.90 €
31-10-18	Accumulate	3.20 €	2.84 €
11-02-19	Accumulate	3.10 €	2.69 €
10-04-19	Buy	3.10 €	2.66 €
06-05-19	Buy	3.50 €	2.95 €
12-08-19	Buy	4.00 €	3.48 €
09-09-19	Reduce	4.00 €	4.02 €
29-10-19	Accumulate	4.00 €	3.72 €
01-11-19	Accumulate	4.00 €	3.82 €
10-02-20	Accumulate	5.20 €	4.90 €
08-05-20	Accumulate	5.70 €	5.24 €
15-06-20	Accumulate	5.70 €	4.99 €
12-08-20	Accumulate	6.40 €	6.00 €
02-11-20	Reduce	6.90 €	6.84 €
16-12-20	Accumulate	7.20 €	6.34 €
10-02-21	Reduce	8.40 €	8.56 €
16-03-21	Accumulate	8.40 €	7.28 €
05-05-21	Reduce	8.60 €	8.40 €
08-07-21	Accumulate	8.60 €	7.61 €
09-08-21	Accumulate	8.40 €	7.68 €
02-09-21	Accumulate	8.40 €	7.53 €
19-10-21	Accumulate	8.10 €	7.02 €
01-11-21	Accumulate	8.10 €	6.90 €
09-02-22	Accumulate	8.10 €	7.45 €



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