

Neste

Company report

04/24/2023



Petri Gostowski
+358 40 821 5982
petri.gostowski@inderes.fi

This report is a summary translation of the report “Uusiutuvien tuotteiden volyymikasvu on käsillä” published on 04/24/2023 at 08:50 am.

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Volume growth in Renewable Products is at hand

Neste will publish its Q1 report next Friday at around 09.00 am. We have lowered our short-term estimates in both Renewables and Oil Products, but the estimate changes that were limited to the current year weren't major on an annual basis. Reflecting our estimate changes, we lower our target price to EUR 48.0 (was EUR 50.0) but raise our recommendation to Accumulate (was Reduce). In our view, the expected return driven by long-term earnings growth rises to an attractive level at the current valuation.

Volumes of Renewable Products lag normal pace in Q1, margins strong

We have made changes to our short-term estimates for H1'23, resulting in a 4% reduction in our comparable EBITDA estimate for the current year. We forecast that Neste's Q1 adjusted EBITDA lands at EUR 858 million on sales of EUR 6,476 million (was 961 MEUR), which is above the consensus earnings forecast. In Q1, the performance of Renewable Products is held back by lost volumes following the fire at the Rotterdam refinery, which has not yet been supported in Q1 by new capacity in Singapore or California. As a result, we expect sales volumes of Renewable Products to remain at 698,000 tons (vs. Q1'22: 747,000 tons). However, the loss in volumes was offset by a relatively strong sales margin, which we expect to reach \$900/ton in Q1 (Q1'22: \$806/ton). We also lowered our estimate for the refining margin in Oil Products slightly, but compared to historical levels we expect the margin to be high, reflecting the relatively high product margins in the first half of the year.

Comments on the production ramp-up are of interest

In the context of the result, we pay particular attention to comments on the near-term volume and margin outlook. The relatively good demand outlook for Renewable Products is unchanged and in Q2 both the expansion investment in Singapore and the capacity of the joint venture in California are in the ramp-up phase. It will take 1-2 quarters to reach full flight level, so we look forward to the company's comments on gradually increasing sales volumes. In the short term, we estimate that the sales margin of California's production, especially without a pre-treatment plant, will be lower than the rest of the renewable production, which increases the uncertainty about the short-term sales margin. On the other hand, the recent fall in raw material prices should strengthen the margin and profit levels of Renewable Products in the short term. Product margins in Oil Products also remain at relatively high levels in absolute terms, which supports the segment's earnings potential. Against this background, we believe that Neste's near-term earnings outlook has remained good.

Expected return lands on the attractive side

We believe that the absolute valuation multiples for the stock in the coming years are quite reasonable (2023-2024e adj. P/E 16-15x and EV/EBIT 14-12x). However, due to the very different long-term growth prospects of the businesses, we look at valuation mainly through a sum-of-the-parts calculation. Examined this way, Renewable Products is valued at a 18x EV/EBIT ratio with our 2023 estimates. However, with the rapid earnings growth we forecast over the longer term, the high valuation will fall to a much more moderate level. Thus, we believe that the long-term expected return on Renewable Products of a clear double-digit annual earnings growth and a slight downside in valuation multiples is above the required return.

Recommendation

Accumulate

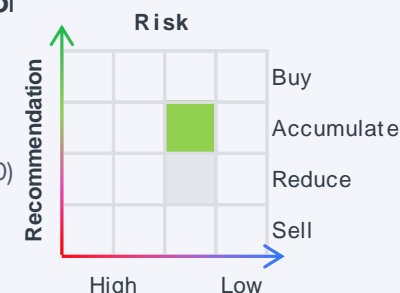
(previous Reduce)

EUR 48.00

(previous EUR 50.00)

Share price:

43.77



Key figures

	2022	2023e	2024e	2025e
Revenue	25707	26345	24158	23883
growth-%	70%	2%	-8%	-1%
EBIT adj.	2898	2620	2843	2894
EBIT-% adj.	11.3 %	9.9 %	11.8 %	12.1 %
Net Income	1887	2130	2276	2350
EPS (adj.)	3.02	2.77	2.96	3.06
P/E (adj.)	14.3	15.8	14.8	14.3
P/B	4.0	3.6	3.2	2.9
Dividend yield-%	3.5 %	3.2 %	3.4 %	3.5 %
EV/EBIT (adj.)	11.9	13.5	12.1	11.5
EV/EBITDA	11.3	10.7	9.5	9.0
EV/S	1.3	1.3	1.4	1.4

Source: Inderes

Guidance

(Unchanged)

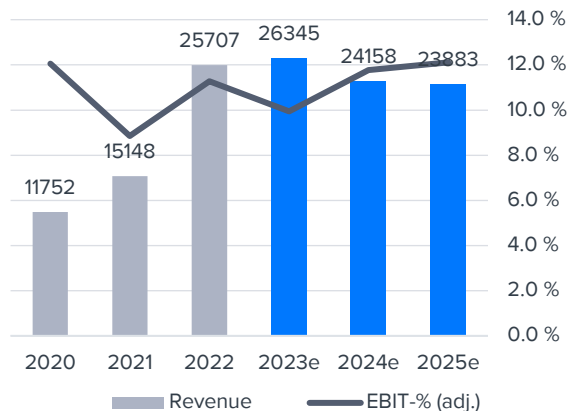
Renewable Products' sales volumes are expected to be lower than in Q4'22 and the sales margin is expected to be 825-925 USD/ton. Oil Products' sales volumes are expected to be at Q4'22 level and the total refining margin is expected to remain stable but decrease slightly compared to Q4.

Share price



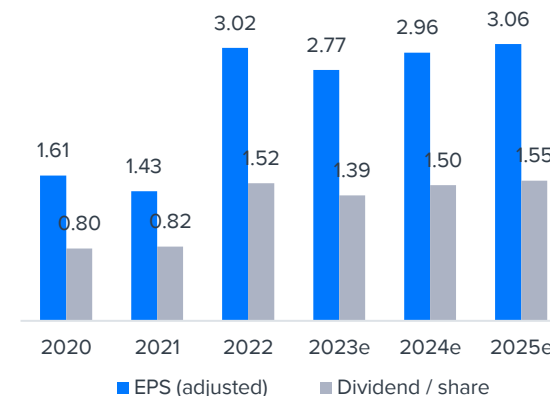
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong market position in all businesses
- Value creation potential of growth investments in Renewable Products' production capacity
- New product applications of Renewable Products in air traffic and chemicals
- Good long-term growth outlook on the market for Renewable Products



Risk factors

- Tightening competition for Renewable Products
- Long-term sales margin level for Renewable Products
- Weak long-term demand picture for oil-based fuels
- Regulatory risks (+/-)

Valuation	2023e	2024e	2025e
Share price	43.77	43.77	43.77
Number of shares, millions	768.1	768.1	768.1
Market cap	33619	33619	33619
EV	35294	34374	33263
P/E (adj.)	15.8	14.8	14.3
P/E	15.8	14.8	14.3
P/B	3.6	3.2	2.9
P/S	1.3	1.4	1.4
EV/Sales	1.3	1.4	1.4
EV/EBITDA	10.7	9.5	9.0
EV/EBIT (adj.)	13.5	12.1	11.5
Payout ratio (%)	50.0 %	50.6 %	50.7 %
Dividend yield-%	3.2 %	3.4 %	3.5 %

Source: Inderes

We slightly cut our near-term estimates

Estimates	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus		2023e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	5523		6476	5864	4167	- 8833	26345
EBITDA (adj.)	578		858	783	673	- 961	3302
EBIT	762		798	-	-	- -	2620
PTP	735		773	-	-	- -	2505
EPS (adj.)	0.39		0.86	0.68	0.55	- 0.86	2.77
Revenue growth-%	76.3 %		17.3 %	6.2 %	-24.5 %	- 59.9 %	2.5 %
EBITDA-% (adj.)	10.5 %		13.2 %	13.3 %	16.2 %	- 10.9 %	12.5 %

Source: Inderes & Vara Research (consensus, 14 estimates)

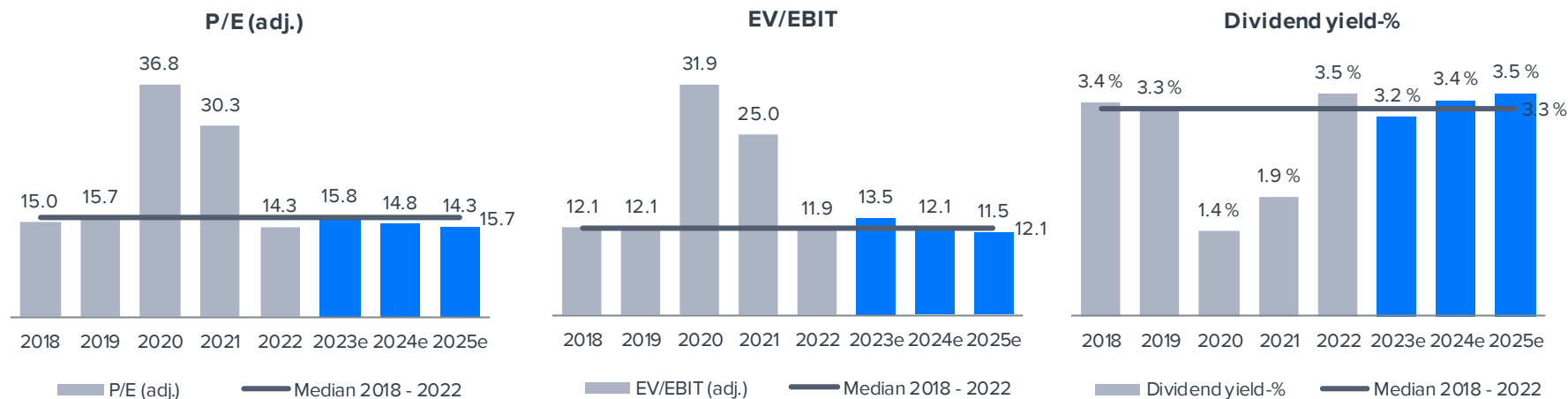
Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	26624	26345	-1%	24158	24158	0%	23883	23883	0%
EBITDA	3430	3302	-4%	3612	3612	0%	3709	3709	0%
EBIT (exc. NRIs)	2748	2620	-5%	2843	2843	0%	2894	2894	0%
EBIT	2748	2620	-5%	2843	2843	0%	2894	2894	0%
PTP	2633	2505	-5%	2748	2745	0%	2835	2834	0%
EPS (excl. NRIs)	2.91	2.77	-5%	2.97	2.96	0%	3.06	3.06	0%
DPS	1.46	1.39	-5%	1.50	1.50	0%	1.55	1.55	0%

Source: Inderes

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	22.5	31.0	59.16	43.36	43.02	43.77	43.77	43.77	43.77
Number of shares, millions	767	768	768	768	768	768	768	768	768
Market cap	17233	23814	45425	33299	33043	33619	33619	33619	33619
EV	17244	23651	45212	33494	34407	35294	34374	33263	31751
P/E (adj.)	15.0	15.7	36.8	30.3	14.3	15.8	14.8	14.3	12.5
P/E	22.1	13.3	63.8	18.8	17.5	15.8	14.8	14.3	12.5
P/B	3.7	4.0	7.7	4.8	4.0	3.6	3.2	2.9	2.6
P/S	1.2	1.5	3.9	2.2	1.3	1.3	1.4	1.4	1.3
EV/Sales	1.2	1.5	3.8	2.2	1.3	1.3	1.4	1.4	1.2
EV/EBITDA	10.5	8.7	30.0	12.8	11.3	10.7	9.5	9.0	7.8
EV/EBIT (adj.)	12.1	12.1	31.9	25.0	11.9	13.5	12.1	11.5	9.7
Payout ratio (%)	75%	44%	86%	36%	62%	50%	51%	51%	50%
Dividend yield-%	3.4 %	3.3 %	1.4 %	1.9 %	3.5 %	3.2 %	3.4 %	3.5 %	4.0 %

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
Total SA	143389	160289	4.3	5.0	3.4	3.7	0.7	0.7	5.9	6.6	5.2	5.3	1.3
ENI SPA	48515	51372	3.5	3.9	2.3	2.5	0.5	0.5	5.2	5.7	6.8	6.9	0.8
Koc Holding AS	9441	17266	3.4	3.1	2.9	2.5	0.4	0.3	4.1	3.4	3.7	3.9	1.1
TURKIYE PETROL RAFINERILERI AS	6685	5752	3.3	4.7	3.0	4.1	0.3	0.2	5.1	7.8	15.9	10.5	2.0
MOL PLC	5830	7675	3.6	4.3	2.3	2.4	0.3	0.4	3.6	3.8	8.7	8.6	0.5
EQUINOR ASA	82339	67716	1.6	1.7	1.3	1.5	0.6	0.7	6.2	6.5	10.2	6.8	1.6
VALERO ENERGY CORP	41196	49152	4.5	6.8	3.7	5.3	0.4	0.4	5	7.9	3.4	3.5	1.6
SARAS SPA	1170	830	1.9	5.8	1.4	2.4	0.1	0.1	4.0	10.7	11.0	5.9	0.9
HELLENIC PETROLEUM SA	2317	4530	5.6	10.1	3.9	5.7	0.4	0.4	4.6	7.3	10.3	6.5	0.8
POLSKI KONCERN NAFTOWY ORLEN SA	15481	14658	2.0	2.6	1.4	1.7	0.2	0.2	3.5	4.3	6.4	6.7	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	2470	4320	5.0	8.2	3.8	5.4	0.3	0.3	4.0	5.6	7.1	6.6	1.1
Neste (Inderes)	33619	35294	13.5	12.1	10.7	9.5	1.3	1.4	15.8	14.8	3.2	3.4	3.6
Average			3.5	5.1	2.7	3.4	0.4	0.4	4.7	6.3	8.1	6.5	1.1
Median			3.5	4.7	2.9	2.5	0.4	0.4	4.6	6.5	7.1	6.6	1.1
Diff-% to median			284%	156%	269%	284%	283%	285%	244%	129%	-55%	-48%	242%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	15148	5523	7039	6583	6562	25707	6276	6418	6849	6802	26345	24158	23883	25785
Oil Products	7810	3019	4043	3877	3657	14596	3600	3424	3000	3113	13136	9720	9720	9720
Renewable Products	5895	2176	2729	2403	2597	9905	2166	2584	3339	3279	11368	12540	12540	14362
Marketing & Services	3803	1229	1481	1604	1562	5876	1450	1350	1450	1350	5600	4250	3995	4000
Other	170	35	38	37	37	147	60	60	60	60	240	248	253	253
Eliminations	-2530	-937	-1251	-1338	-1290	-4816	-1000	-1000	-1000	-1000	-4000	-2600	-2625	-2550
EBITDA	2607	915	927	456	749	3047	858	821	821	802	3302	3612	3709	4095
Depreciation	-584	-153	-158	-167	-161	-638	-163	-173	-173	-173	-682	-769	-814	-825
EBIT (excl. NRI)	1342	424	927	813	734	2898	695	648	648	629	2620	2843	2894	3270
EBIT	2023	762	769	289	589	2409	695	648	648	629	2620	2843	2894	3270
Oil Products	71	64	456	475	377	1372	272	186	133	111	702	399	378	417
Renewable Products	1238	358	472	303	347	1480	408	445	494	511	1858	2379	2448	2787
Marketing & Services	74	25	18	41	13	97	25	28	30	18	101	101	99	95
Other	-35	-13	-22	-7	-8	-50	-10	-10	-10	-10	-40	-35	-30	-30
Eliminations	-6	0	-6	1	4	-1	0	0	0	0	0	0	0	0
Changes in fair value	681	328	-148	-524	-145	-489	0	0	0	0	0	0	0	0
Net financial items	-61	-27	-20	-59	-26	-131	-25	-30	-30	-30	-115	-98	-61	-39
PTP	1962	735	750	231	563	2278	670	618	618	599	2505	2745	2834	3230
Taxes	-188	-96	-151	-92	-49	-388	-101	-93	-93	-90	-376	-467	-482	-549
Minority interest	-2	-1	1	-3	0	-3	0	0	0	0	0	-2	-2	-2
Net earnings	1771	638	599	136	514	1887	570	526	525	510	2130	2276	2350	2679
EPS (adj.)	1.43	0.39	0.97	0.79	0.86	3.02	0.74	0.68	0.68	0.66	2.77	2.96	3.06	3.49
EPS (rep.)	2.31	0.83	0.78	0.18	0.67	2.46	0.74	0.68	0.68	0.66	2.77	2.96	3.06	3.49

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	28.9 %	76.3 %	132.9 %	63.5 %	32.1 %	69.7 %	13.6 %	-8.8 %	4.0 %	3.6 %	2.5 %	-8.3 %	-1.1 %	8.0 %
Adjusted EBIT growth-%	-5.2 %	40.6 %	285.0 %	121.2 %	69.8 %	115.9 %	63.9 %	-30.1 %	-20.3 %	-14.2 %	-9.6 %	8.5 %	1.8 %	13.0 %
EBITDA-%	17.2 %	16.6 %	13.2 %	6.9 %	11.4 %	11.9 %	13.7 %	12.8 %	12.0 %	11.8 %	12.5 %	15.0 %	15.5 %	15.9 %
Adjusted EBIT-%	8.9 %	7.7 %	13.2 %	12.3 %	11.2 %	11.3 %	11.1 %	10.1 %	9.5 %	9.3 %	9.9 %	11.8 %	12.1 %	12.7 %
Net earnings-%	11.7 %	11.6 %	8.5 %	2.1 %	7.8 %	7.3 %	9.1 %	8.2 %	7.7 %	7.5 %	8.1 %	9.4 %	9.8 %	10.4 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	5893	7414	8542	9008	9129
Goodwill	0	0	0	0	0
Intangible assets	516	570	580	590	600
Tangible assets	5152	6570	7688	8144	8255
Associated companies	60	63	63	63	63
Other investments	59	49	49	49	49
Other non-current assets	63	103	103	103	103
Deferred tax assets	45	59	59	59	59
Current assets	6524	7503	7519	7001	7741
Inventories	2618	3648	3820	3575	3535
Other current assets	648	406	406	406	406
Receivables	1677	2178	2239	2053	2030
Cash and equivalents	1581	1271	1054	966	1770
Balance sheet total	12417	14917	16061	16009	16870

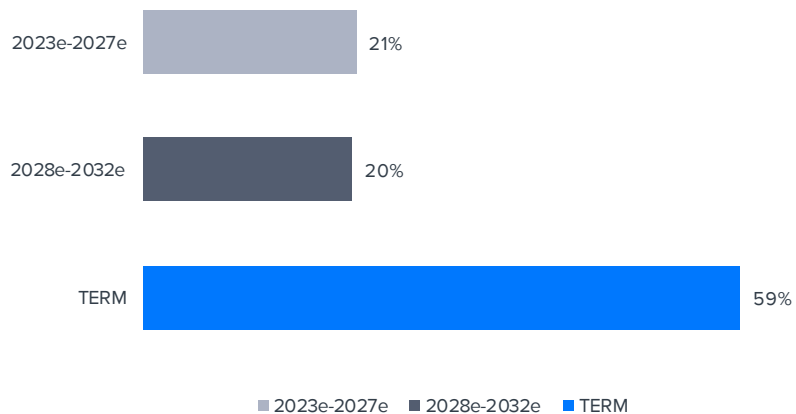
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	6985	8327	9289	10501	11698
Share capital	40	40	40	40	40
Retained earnings	6941	8282	9244	10456	11653
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	0	0	0	0	0
Minorities	4	5	5	5	5
Non-current liabilities	2087	2674	3020	2015	1710
Deferred tax liabilities	309	336	336	336	336
Provisions	210	200	200	200	200
Long term debt	1378	1964	2310	1305	1000
Convertibles	0	0	0	0	0
Other long term liabilities	190	174	174	174	174
Current liabilities	3345	3916	3752	3494	3461
Short term debt	379	651	400	400	400
Payables	2761	3022	3109	2851	2818
Other current liabilities	205	243	243	243	243
Balance sheet total	12417	14917	16061	16009	16870

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	69.7 %	2.5 %	-8.3 %	-1.1 %	8.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	9.4 %	9.9 %	11.8 %	12.1 %	12.7 %	13.0 %	13.5 %	13.5 %	12.5 %	12.5 %	12.5 %	12.5 %
EBIT (operating profit)	2409	2620	2843	2894	3270	3436	3657	3749	3558	3647	3720	
+ Depreciation	638	682	769	814	825	800	778	720	708	661	655	
- Paid taxes	-375	-376	-467	-482	-549	-578	-616	-631	-599	-615	-738	
- Tax, financial expenses	-23	-17	-17	-11	-7	-7	-7	-7	-7	-7	-8	
+ Tax, financial income	0	0	0	0	0	1	1	1	2	2	2	
- Change in working capital	-990	-147	172	32	-219	-74	-76	-78	-80	-82	-67	
Operating cash flow	1660	2763	3301	3248	3321	3578	3737	3753	3581	3606	3564	
+ Change in other long-term liabilities	-26	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-2142	-1810	-1235	-935	-585	-585	-585	-600	-605	-605	-658	
Free operating cash flow	-507.8	953	2066	2313	2736	2993	3152	3153	2976	3001	2906	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-507.8	953	2066	2313	2736	2993	3152	3153	2976	3001	2906	50929
Discounted FCFF		905	1819	1889	2072	2103	2054	1905	1668	1560	1401	24554
Sum of FCFF present value		41930	41025	39206	37317	35245	33142	31088	29183	27515	25955	24554
Enterprise value DCF		41930										
- Interesting bearing debt		-2615										
+ Cash and cash equivalents		1271										
-Minorities		-18										
-Dividend/capital return		-1167										
Equity value DCF		39400										
Equity value DCF per share		51.3										

Cash flow distribution



WACC

Tax-% (WACC)	15.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	3.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	7.8 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	11752	15148	25707	26345	24158	EPS (reported)	0.93	2.31	2.46	2.77	2.96
EBITDA	1508	2607	3047	3302	3612	EPS (adj.)	1.61	1.43	3.02	2.77	2.96
EBIT	828	2023	2409	2620	2843	OCF / share	2.42	2.40	2.16	3.60	4.30
PTP	787	1962	2278	2505	2745	FCF / share	1.11	0.46	-0.66	1.24	2.69
Net Income	712	1771	1887	2130	2276	Book value / share	7.72	9.09	10.83	12.09	13.66
Extraordinary items	-588	681	-489	0	0	Dividend / share	0.80	0.82	1.52	1.39	1.50
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	9815	12417	14917	16061	16009	Revenue growth-%	-26%	29%	70%	2%	-8%
Equity capital	5929	6985	8327	9289	10501	EBITDA growth-%	-45%	73%	17%	8%	9%
Goodwill	0	0	0	0	0	EBIT (adj.) growth-%	-28%	-5%	116%	-10%	9%
Net debt	-244	176	1344	1656	739	EPS (adj.) growth-%	-19%	-11%	110%	-8%	7%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	12.8 %	17.2 %	11.9 %	12.5 %	15.0 %
EBITDA	1508	2607	3047	3302	3612	EBIT (adj.)-%	12.0 %	8.9 %	11.3 %	9.9 %	11.8 %
Change in working capital	453	-650	-990	-147	172	EBIT-%	7.0 %	13.4 %	9.4 %	9.9 %	11.8 %
Operating cash flow	1856	1840	1660	2763	3301	ROE-%	12.0 %	27.5 %	24.7 %	24.2 %	23.0 %
CAPEX	-1144	-1518	-2142	-1810	-1235	ROI-%	11.5 %	25.3 %	24.5 %	22.9 %	23.5 %
Free cash flow	852	356	-508	953	2066	Equity ratio	60.4 %	56.6 %	56.3 %	57.8 %	65.6 %
						Gearing	-4.1 %	2.5 %	16.1 %	17.8 %	7.0 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	3.8	2.2	1.3	1.3	1.4						
EV/EBITDA (adj.)	30.0	12.8	11.3	10.7	9.5						
EV/EBIT (adj.)	31.9	25.0	11.9	13.5	12.1						
P/E (adj.)	36.8	30.3	14.3	15.8	14.8						
P/B	7.7	4.8	4.0	3.6	3.2						
Dividend-%	1.4 %	1.9 %	3.5 %	3.2 %	3.4 %						

Source: Inderes

ESG

Neste's taxonomy percentage reflects the company's net sales in renewable raw materials and investments reflect the company's investments in renewable raw materials. The company estimates that renewable products are broadly covered by the taxonomy, although we may see minor changes as the taxonomy criteria become more precise.

The political dimension of business is important for continuity

We see that the political dimension of Neste's business is quite important for the business continuity because the zero emissions in the energy and fuel sector is one of the key elements in the development of the energy market in Europe and to some extent already globally. The high taxonomy percentage gives credibility to the fact that the fuel produced by Neste contributes to the environmentally beneficial activities that will be supported by policy decisions in the future.

So far, we do not see direct positive short-term economic effects, such as significantly lower financing costs, for taxonomy.

The company sees a positive market situation in renewable fuels

Neste's climate targets have developed positively in recent years and the company has extended its target setting to scope 3 in addition to scope 1 and 2. In our view, this means that the company will continue its efforts to reduce emissions from the use of its products and sees the market situation as very positive for renewable fuels.

No additional costs in sight

Based on current information, we believe that there are clear synergies between increasing the taxonomy percentage, business and meeting climate targets and we do not believe that there will be any unforeseen costs to the company over the next few years.

Taxonomy eligibility	2021	2022
Net sales	-	3
OPEX	-	4
CAPEX	-	10

Taxonomy alignment	2021	2022
Net sales	32%	29%
OPEX	26%	28%
CAPEX	54%	75%

Climate		
Climate target	Yes	Yes
Target according to the Paris Agreement (1.5°C warming scenario)	No	No

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
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
4/30/2021	Reduce	50.00 €	52.04 €
7/28/2021	Reduce	50.00 €	52.18 €
10/28/2021	Reduce	50.00 €	48.94 €
12/27/2021	Accumulate	50.00 €	43.71 €
2/11/2022	Accumulate	44.00 €	38.43 €
3/3/2022	Buy	44.00 €	36.07 €
5/2/2022	Accumulate	44.00 €	41.20 €
6/21/2022	Reduce	44.00 €	43.06 €
7/29/2022	Reduce	46.00 €	48.68 €
10/25/2022	Reduce	48.00 €	47.10 €
10/28/2022	Reduce	48.00 €	45.46 €
2/9/2023	Reduce	50.00 €	47.50 €
4/24/2023	Accumulate	48.00 €	43.77 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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