

Koskisen

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Riskin kantaminen alkaa maistua" published on 8/11/2023 at 7:33 am EEST

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Risk-taking becomes interesting

We repeat our target price of EUR 6.75 for Koskisen but raise our recommendation to Accumulate (previously Reduce). We have not made changes to our cautious estimates, but based on the Q2 reports of Koskisen's peers we feel the surprise element for the near term is turning to the positive. Even though the accepted valuation level of the share is low in the prevailing conditions, we feel that based on Koskisen's very moderate EV and balance sheet based current valuation, the share's risk/return ratio encourages to bear the risk.

News flow has remained very mixed but the overall picture does not seem to have weakened during Q2

The news flow from Koskisen's relevant wood product sectors has been very mixed lately. Demand for sawn timber is low due to the weak construction cycle and seasonal demand improvement characteristic of the sector has not been seen in Q2. Sawn timber prices seem to have stabilized at the level achieved in winter and relative to the current cost level, at a low level. We do not see a clear downside in prices, as the weakest players are already cash-flow negative at current prices and we do not believe that there is a bigger inventory problem in the sector either. Koskisen's Sawn Timber unit has fared better than its peers and our expectations in Q4 and Q1, which has slightly increased our confidence in the unit's ability to navigate the difficult current market. However, in birch plywood, the market situation has remained tense due to the war-based supply disruption (i.e. end of Russian imports). The prices of birch plywood seem to have continued to rise slightly during Q2, although the softening of the economy and challenges in the availability of birch logs may have limited deliveries. Among Koskisen's peers, UPM plywood and Metsä Wood have reported strong Q2 numbers, probably driven by the birch plywood segment. Thus, we believe that the Panel industry has good preconditions to continue generating strong results for the time being.

We have made no estimate changes, but risks are turning positive despite uncertainties

Already in connection with the IPO last year, Koskisen's guidance was that it expects its 2023 revenue will not exceed the 2022 level (2022 revenue 318 MEUR), and its adjusted EBITDA margin is 12-14%. In Q1, the company was well ahead of its guidance and we have kept our estimates unchanged. Thus, our full-year profitability estimate is around the top of the company's guidance range. However, in the longer term, we are still skeptical about maintaining existing margin levels in the Panel industry. In the Sawn Timber industry, the bottom of the market may already be at hand, but concrete signs of recovery in the market are not yet visible. On the other hand, thanks to the significant investment in the Järvelä unit completed in July the efficiency of Sawn Timber industry should start improving next year at the latest. We expect Koskisen's operating result to continue to fall clearly from its peaks in 2022 toward the middle of the decade (the quality of the result will improve), but overall our moderate estimates are well below the company's target level of over 15% (2023e-2026e: EBITDA-%: 10-14%).

At the current low valuation, the risk/return ratio becomes interesting

Koskisen's 2023 and 2024 EV/EBITDA ratios that consider the strong balance sheet are 3-4x and the P/B ratio (2023e) is 1x. We expect dividend income for the next few years to be 4-5%. The multiples are close to the middle of the multiple ranges (EV/EBITDA 3.5x -6.5x and P/B 0.7x-1.3x) we accept that consider the company's estimated return on capital and risk profile. Even with conservative long-term parameters, the DCF value is also quite well above the current share price level. Thus, we believe that the low valuation already forms an attractive risk/return ratio (incl. upside if expectations are exceeded and support levels against disappointment).

Recommendation

Accumulate

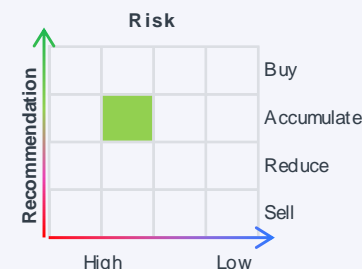
(previous Reduce)

EUR 6.75

(previous EUR 6.75)

Share price:

EUR 6.19



Key figures

	2022	2023e	2024e	2025e
Revenue	317.7	296.2	301.0	312.0
growth-%	2%	-7%	2%	4%
EBIT adj.	58.5	32.6	21.6	18.2
EBIT-% adj.	18.4 %	11.0 %	7.2 %	5.8 %
Net Income	39.8	24.7	15.2	13.0
EPS (adj.)	1.74	1.07	0.66	0.56

P/E (adj.)	3.6	5.8	9.4	11.0
P/B	1.1	0.9	0.9	0.9
Dividend yield-%	6.9 %	5.2 %	4.0 %	3.2 %
EV/EBIT (adj.)	2.0	3.7	5.7	6.3
EV/EBITDA	1.8	2.9	3.6	3.8
EV/S	0.4	0.4	0.4	0.4

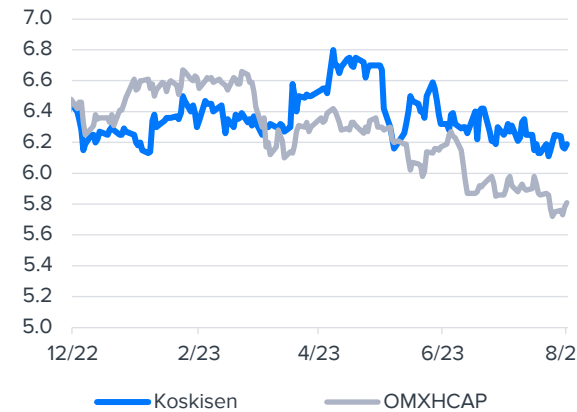
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Guidance

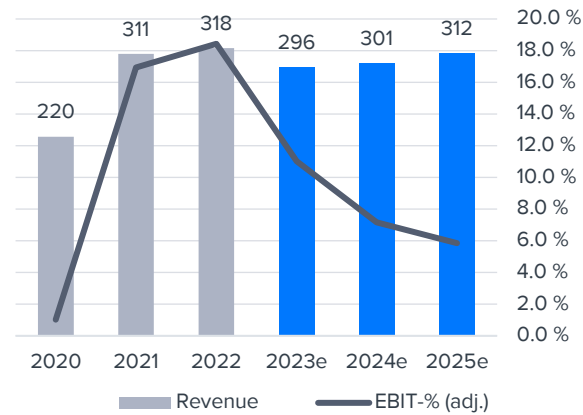
(Unchanged)

Koskisen expects that its revenue in 2023 will not exceed the 2022 level and its adjusted EBITDA will be 12-14%.

Share price



Revenue and EBIT-%



EPS and dividend



Value drivers

- Healthy long-term demand trends
- Increasing exports
- Improvement potential in the normalized profitability level
- Business generates value (ROIC>WACC) in a favorable cycle



Risk factors

- Cyclical demand
- Tight competition situation in the sawmill industry
- Differentiation with products is difficult in the industries and Koskisen does not have considerable economies of scale
- Success in exports

Valuation	2023e	2024e	2025e
Share price	6.19	6.19	6.19
Number of shares, millions	23.0	23.0	23.0
Market cap	142	142	142
EV	121	122	114
P/E (adj.)	5.8	9.4	11.0
P/E	5.8	9.4	11.0
P/FCF	25.9	18.5	9.2
P/B	0.9	0.9	0.9
P/S	0.5	0.5	0.5
EV/Sales	0.4	0.4	0.4
EV/EBITDA	2.9	3.6	3.8
EV/EBIT (adj.)	3.7	5.7	6.3
Payout ratio (%)	29.9 %	37.9 %	35.5 %
Dividend yield-%	5.2 %	4.0 %	3.2 %

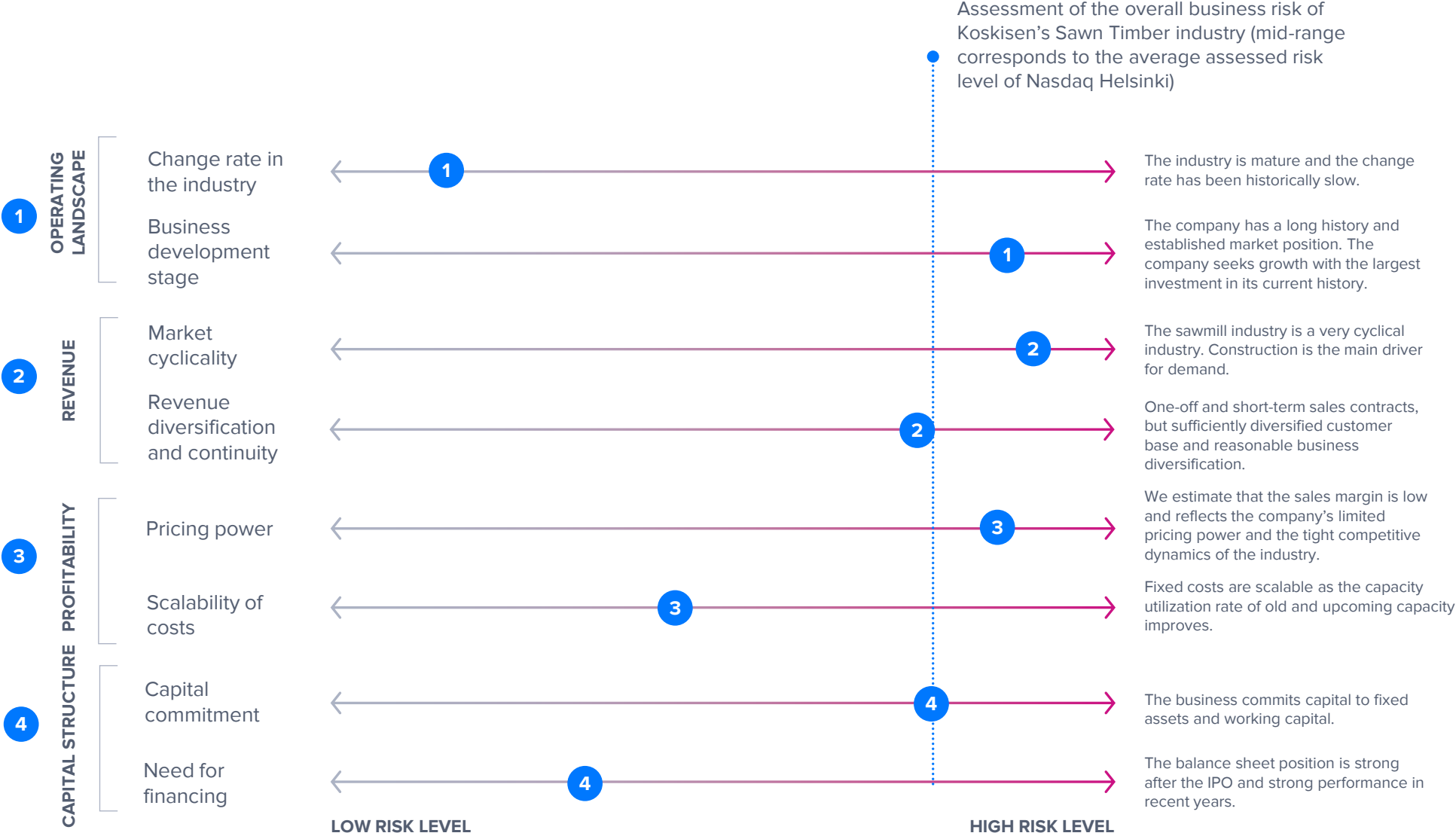
Source: Inderes

We keep our estimates unchanged

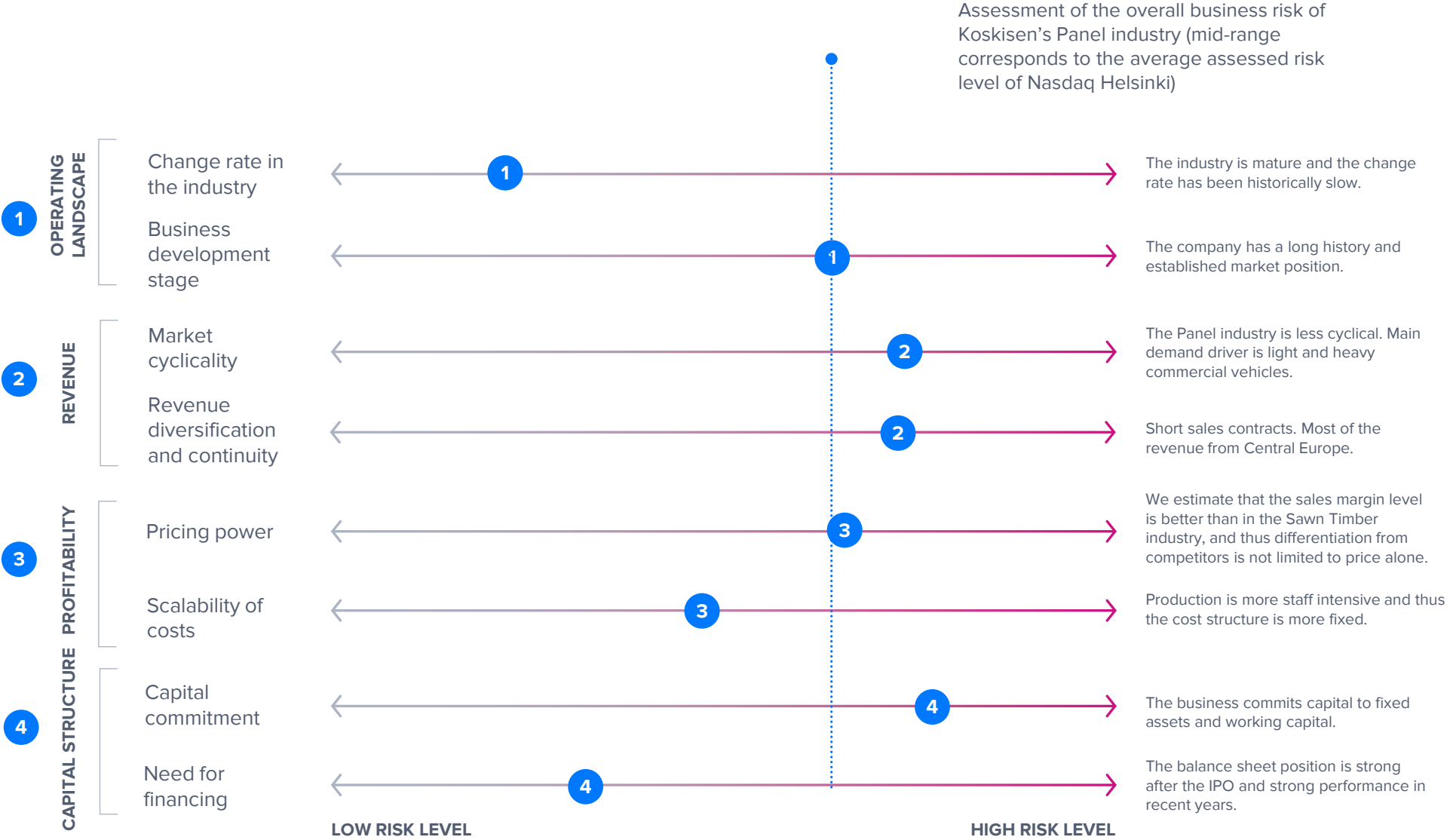
Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	296	296	0%	301	301	0%	312	312	0%
EBITDA	42.1	42.1	0%	33.5	33.6	0%	30.2	30.2	0%
EBIT (exc. NRIs)	32.6	32.6	0%	21.5	21.6	0%	18.2	18.2	0%
EBIT	32.6	32.6	0%	21.5	21.6	0%	18.2	18.2	0%
PTP	30.1	30.1	0%	19.0	19.0	0%	16.2	16.2	0%
EPS (excl. NRIs)	1.07	1.07	0%	0.66	0.66	0%	0.56	0.56	0%
DPS	0.32	0.32	0%	0.25	0.25	0%	0.20	0.20	0%

Source: Inderes

Risk profile of Koskisen' Sawn Timber industry



Risk profile of the Koskisen's Panel industry



Risk/return ratio is already tempting

Main focus on earnings multiples

We focus on earnings-based multiples in Koskisen's valuation. When examining earnings-based multiples, we favor the P/E ratio, as well as EV/EBITDA and EV/EBIT ratios that consider Koskisen's strong balance sheet. We feel acceptable EV/EBITDA ratios for Koskisen are roughly 3.5-6.5x, considering the growth and profitability levels of the business and the risk profile. The acceptable P/E based valuation range is 10x-14x in our opinion. On an annual basis, the multiples may occasionally stretch to a wide range, especially due to the strong cyclicity of the Sawn Timber industry.

Valuation level is low, although acceptable valuation multiples are also moderate

With our 2023 and 2024 estimates Koskisen's P/E ratios are 6x and 10x and corresponding EV/EBITDA ratios are 3x-4x. Therefore, the share is priced at the bottom end of the acceptable valuation ranges. Thus, we are considering the valuation cautiously attractive especially as the estimate risks are beginning to turn somewhat positive. In the current downward earnings trend, the acceptable valuation is certainly not particularly high, especially in the prevailing interest rate environment, and the quality of the result (i.e. Group result relies on the probably exceptionally high margins of the Panel industry) does not support high multiples either.

Balance sheet-based P/B 1.0x is also reasonable, considering that equity only faces fixed assets and working capital items on the asset side. Therefore, we estimate that the balance sheet value of equity already provides certain support for the share, even though balance sheet valuations below the balance

sheet value of equity are no exception in the industry. The presence of the estimated support levels improves the share's risk/return picture.

Considering this overall picture, we estimate that the expected return consisting of decreased earnings, increase in the acceptable valuation and around 5% dividend yield is already slightly better than the required return for the 12 months. The expected return would turn clearly more positive if Koskisen was able to maintain its profitability closer to the targeted 15% EBITDA than the around 10% level we estimate also in the next few years.

In relative terms, pricing does not seem completely wrong

In relative terms, with 2023 and 2024 estimates Koskisen is priced at a discount relative to the loosely connected peer group. However, the valuation difference narrows when we look at next year and, on a balance sheet basis, pricing is neutral. Thus, we consider the relative valuation of the share reasonable and, as a whole, the peer group is in our opinion priced at a low level.

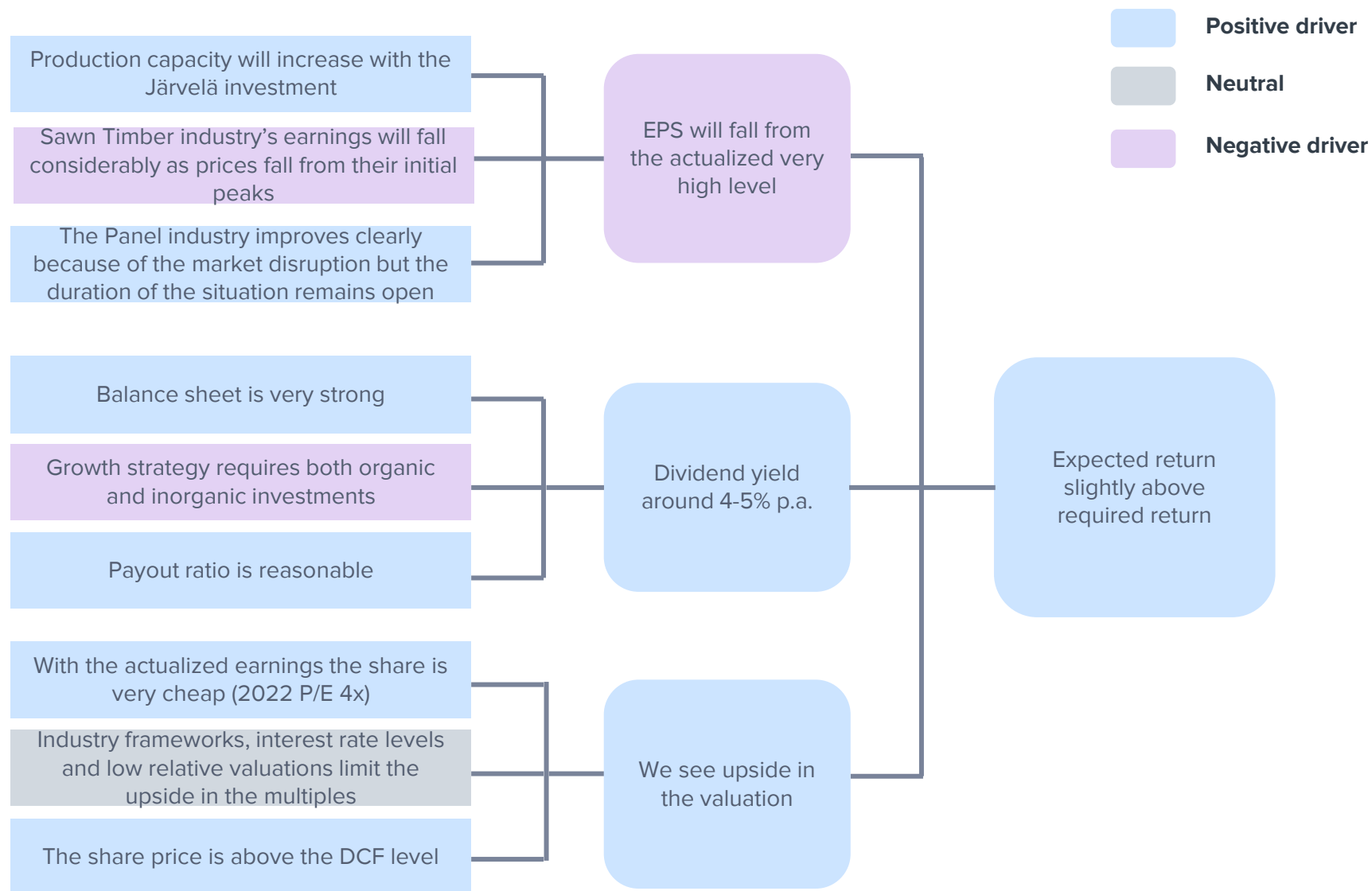
The DCF also gives a cautiously positive signal

We also give weight to the cash flow-based model (DCF) in our valuation despite it being sensitive to the variables of the terminal period. According to our DCF model, the share value is around EUR 7, which supports our view that the share is priced at a slightly attractive level, which is also indicated by the other methods we use. Our model is also conservative, especially in terms of long-term profitability and required returns compared to the company's current level, although we believe that this is still justified considering the longer-term history of the industries.

Valuation	2023e	2024e	2025e
Share price	6.19	6.19	6.19
Number of shares, millions	23.0	23.0	23.0
Market cap	142	142	142
EV	121	122	114
P/E (adj.)	5.8	9.4	11.0
P/E	5.8	9.4	11.0
P/FCF	25.9	18.5	9.2
P/B	0.9	0.9	0.9
P/S	0.5	0.5	0.5
EV/Sales	0.4	0.4	0.4
EV/EBITDA	2.9	3.6	3.8
EV/EBIT (adj.)	3.7	5.7	6.3
Payout ratio (%)	29.9 %	37.9 %	35.5 %
Dividend yield-%	5.2 %	4.0 %	3.2 %

Source: Inderes

EPS drivers 2022-2025e



Valuation table

Valuation	2022	2023e	2024e	2025e	2026e
Share price	6.28	6.19	6.19	6.19	6.19
Number of shares, millions	23.0	23.0	23.0	23.0	23.0
Market cap	145	142	142	142	142
EV	116	121	122	114	102
P/E (adj.)	3.6	5.8	9.4	11.0	9.8
P/E	3.6	5.8	9.4	11.0	9.8
P/FCF	2.6	25.9	18.5	9.2	8.1
P/B	1.1	0.9	0.9	0.9	0.8
P/S	0.5	0.5	0.5	0.5	0.5
EV/Sales	0.4	0.4	0.4	0.4	0.3
EV/EBITDA	1.8	2.9	3.6	3.8	3.2
EV/EBIT (adj.)	2.0	3.7	5.7	6.3	5.2
Payout ratio (%)	25.1 %	29.9 %	37.9 %	35.5 %	39.6 %
Dividend yield-%	6.9 %	5.2 %	4.0 %	3.2 %	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
Bergs Timber AB	83	112	20.2	5.1	7.1	3.6	0.4	0.4	16.8	4.3	2.2	6.3	0.5
Interfor Corp	751	1328	56.4	7.5	8.6	4.2	0.6	0.5		7.7			0.6
Boise Cascade	3937	3386	6.1	6.5	5.1	5.3	0.6	0.5	9.4	10.0	2.4	0.6	1.9
West Fraser Timber	5929	5517		10.1	10.5	5.9	0.9	0.9		14.4	1.5	1.6	0.9
Canfor	1611	1664		10.5	15.9	3.7	0.5	0.4		15.6			0.6
Stora Enso	8732	11828	32.6	14.2	11.8	7.8	1.2	1.2	42.3	16.1	3.5	4.0	0.7
Steico	470	647	22.0	19.1	11.4	10.3	1.7	1.6	25.2	19.3	1.3	1.4	1.6
Koskisen (Inderes)	142	121	3.7	5.7	2.9	3.6	0.4	0.4	5.8	9.4	5.2	4.0	0.9
Average			27.4	10.4	10.0	5.8	0.8	0.8	23.4	12.5	2.2	2.8	1.0
Median			22.0	10.1	10.5	5.3	0.6	0.5	21.0	14.4	2.2	1.6	0.7
Diff-% to median			-83%	-44%	-73%	-32%	-32%	-25%	-72%	-35%	140%	148%	32%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	311	318	73.2	75.6	73.4	74.0	296	301	312	307
Sawn Timber industry	188	166	32.1	32.9	33.0	33.0	131	150	165	167
Panel industry	123	152	41.1	42.7	40.4	41.0	165	151	147	140
EBITDA	62.2	66.3	12.6	9.9	9.1	10.5	42.1	33.6	30.2	31.6
Depreciation	-9.5	-8.1	-2.0	-2.0	-2.5	-3.0	-9.5	-12.0	-12.0	-12.0
EBIT (excl. NRI)	52.7	58.5	10.7	7.9	6.6	7.5	32.6	21.6	18.2	19.6
EBIT	52.7	58.2	10.7	7.9	6.6	7.5	32.6	21.6	18.2	19.6
Sawn Timber industry (EBITDA)	50.7	41.6	1.6	0.7	0.0	1.5	3.8	10.1	12.3	15.1
Panel industry (EBITDA)	14.1	29.3	9.8	9.3	9.2	9.1	37.4	23.8	18.6	17.0
Other	-2.4	-4.3	1.2	-0.1	-0.1	-0.1	0.9	-0.3	-0.7	-0.5
Depreciation	-9.5	-8.1	-2.0	-2.0	-2.5	-3.0	-9.5	-12.0	-12.0	-12.0
Adjustment items	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-4.8	-0.4	-0.4	-0.6	-0.8	-0.8	-2.5	-2.6	-2.0	-1.4
PTP	47.9	57.8	10.3	7.3	5.9	6.7	30.1	19.0	16.2	18.2
Taxes	-9.4	-11.8	-1.5	-1.5	-1.2	-1.3	-5.5	-3.8	-3.2	-3.6
Minority interest	-9.3	-6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	29.2	39.8	8.8	5.8	4.7	5.4	24.7	15.2	13.0	14.5
EPS (adj.)	2.32	1.74	0.38	0.25	0.20	0.23	1.07	0.66	0.56	0.63
EPS (rep.)	2.32	1.73	0.38	0.25	0.20	0.23	1.07	0.66	0.56	0.63

Key figures	2021	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	41.5 %	2.1 %	0.0 %	0.0 %	0.0 %	-76.7 %	-6.8 %	1.6 %	3.7 %	-1.6 %
EBITDA-%	20.0 %	20.9 %	17.2 %	13.1 %	12.4 %	14.1 %	14.2 %	11.2 %	9.7 %	10.3 %
Adjusted EBIT-%	16.9 %	18.4 %	14.5 %	10.4 %	9.0 %	10.1 %	11.0 %	7.2 %	5.8 %	6.4 %
Net earnings-%	9.4 %	12.5 %	12.0 %	7.7 %	6.4 %	7.3 %	8.3 %	5.0 %	4.2 %	4.7 %

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	86.8	105	118	118	116
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.6	0.9	1.3	1.7	2.1
Tangible assets	83.0	99.0	112	111	109
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	3.0	4.5	4.5	4.5	4.5
Other non-current assets	0.2	0.1	0.2	0.2	0.2
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Current assets	114	154	132	135	134
Inventories	38.1	34.2	32.6	36.1	37.4
Other current assets	5.4	9.9	9.9	9.9	9.9
Receivables	29.5	25.5	23.7	30.1	31.2
Cash and equivalents	40.5	84.4	65.9	58.7	55.8
Balance sheet total	200	259	250	253	251

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	58.8	136	150	158	166
Share capital	1.5	1.5	1.5	1.5	1.5
Retained earnings	34.5	60.6	75.3	83.1	90.3
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	-0.4	73.7	73.7	73.7	73.7
Minorities	23.2	0.0	0.0	0.0	0.0
Non-current liabilities	75.7	56.3	46.9	41.9	31.9
Deferred tax liabilities	1.7	3.7	3.7	3.7	3.7
Provisions	0.1	0.1	0.1	0.1	0.1
Long term debt	68.4	49.4	40.0	35.0	25.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	5.4	3.0	3.0	3.0	3.0
Current liabilities	65.8	66.5	52.3	52.5	53.3
Short term debt	6.2	6.5	4.0	3.5	2.5
Payables	50.7	59.1	47.4	48.2	49.9
Other current liabilities	8.9	0.9	0.9	0.9	0.9
Balance sheet total	200	259	250	253	251

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	2.1 %	-6.8 %	1.6 %	3.7 %	-1.6 %	3.0 %	3.0 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	18.3 %	11.0 %	7.2 %	5.8 %	6.4 %	6.0 %	6.0 %	5.5 %	5.0 %	5.0 %	5.0 %	5.0 %
EBIT (operating profit)	58.2	32.6	21.6	18.2	19.6	19.0	19.5	18.4	17.1	17.5	17.9	
+ Depreciation	8.1	9.5	12.0	12.0	12.0	12.2	11.6	11.4	11.4	11.3	11.4	
- Paid taxes	-18.3	-5.4	-3.8	-3.2	-3.6	-3.5	-3.6	-3.4	-3.1	-3.2	-3.3	
- Tax, financial expenses	-0.1	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	
+ 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	12.3	-8.3	-9.2	-0.7	0.3	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	
Operating cash flow	47.6	28.0	20.1	25.9	28.0	26.9	26.6	25.6	24.5	24.8	25.3	
+ Change in other long-term liabilities	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-22.0	-22.5	-12.4	-10.4	-10.4	-10.4	-10.4	-11.4	-11.4	-12.4	-11.7	
Free operating cash flow	29.1	5.5	7.7	15.5	17.6	16.5	16.2	14.2	13.1	12.4	13.6	
+/- Other	26.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	55.9	5.5	7.7	15.5	17.6	16.5	16.2	14.2	13.1	12.4	13.6	167
Discounted FCFF		5.3	6.7	12.3	12.6	10.7	9.6	7.6	6.4	5.5	5.4	66.8
Sum of FCFF present value		149	144	137	125	112	101	91.6	84.0	77.7	72.2	66.8
Enterprise value DCF		149										
- Interest bearing debt		-56.0										
+ Cash and cash equivalents		84.4										
-Minorities		0.0										
-Dividend/capital return		-10.0										
Equity value DCF		167										
Equity value DCF per share		7.3										
Cash flow distribution												
	2023e-2027e											32%
	2028e-2032e											23%
	TERM											45%
■ 2023e-2027e ■ 2028e-2032e ■ TERM												
WACC												
Tax-% (WACC)		20.0 %										
Target debt ratio (D/(D+E))		17.5 %										
Cost of debt		5.0 %										
Equity Beta		1.60										
Market risk premium		4.75%										
Liquidity premium		1.50%										
Risk free interest rate		2.5 %										
Cost of equity		11.6 %										
Weighted average cost of capital (WACC)		10.3 %										

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	220.0	311.3	317.7	296.2	301.0	EPS (reported)	-0.26	2.32	1.73	1.07	0.66
EBITDA	11.3	62.2	66.3	42.1	33.6	EPS (adj.)	-0.26	2.32	1.74	1.07	0.66
EBIT	2.2	52.7	58.2	32.6	21.6	OCF / share	0.81	4.18	2.07	1.22	0.87
PTP	-4.4	47.9	57.8	30.1	19.0	FCF / share	0.51	2.62	2.43	0.24	0.34
Net Income	-3.3	29.2	39.8	24.7	15.2	Book value / share	0.52	2.83	5.90	6.54	6.88
Extraordinary items	0.0	0.0	-0.3	0.0	0.0	Dividend / share	0.00	0.00	0.43	0.32	0.25
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	151.8	200.3	258.6	249.6	252.7	Revenue growth-%	0%	42%	2%	-7%	2%
Equity capital	20.4	58.8	135.8	150.5	158.3	EBITDA growth-%		449%	7%	-37%	-20%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%		2259%	11%	-44%	-34%
Net debt	71.4	34.1	-28.5	-21.9	-20.2	EPS (adj.) growth-%		-991%	-25%	-38%	-39%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	5.2 %	20.0 %	20.9 %	14.2 %	11.2 %
EBITDA	11.3	62.2	66.3	42.1	33.6	EBIT (adj.)-%	1.0 %	16.9 %	18.4 %	11.0 %	7.2 %
Change in working capital	-1.9	-6.1	12.3	-8.3	-9.2	EBIT-%	1.0 %	16.9 %	18.3 %	11.0 %	7.2 %
Operating cash flow	10.2	52.7	47.6	28.0	20.1	ROE-%	0.0 %	138.8 %	46.4 %	17.2 %	9.8 %
CAPEX	-3.7	-9.7	-22.0	-22.5	-12.4	ROI-%	0.0 %	45.2 %	35.8 %	16.9 %	11.0 %
Free cash flow	6.5	33.0	55.9	5.5	7.7	Equity ratio	13.4 %	29.4 %	52.5 %	60.3 %	62.6 %
						Gearing	350.4 %	57.9 %	-21.0 %	-14.6 %	-12.7 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S			0.4	0.4	0.4						
EV/EBITDA (adj.)			1.8	2.9	3.6						
EV/EBIT (adj.)			2.0	3.7	5.7						
P/E (adj.)	0.0	0.0	3.6	5.8	9.4						
P/B	0.0	0.0	1.1	0.9	0.9						
Dividend-%			6.9 %	5.2 %	4.0 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2/24/2023	Reduce	6.00 €	6.35 €
3/17/2023	Reduce	6.00 €	6.29 €
----- Analyst changed -----			
5/25/2023	Reduce	6.75 €	6.40 €
8/11/2023	Accumulate	6.75 €	6.19 €



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