

Pihlajalinna

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Ulkoistusten rooli jatkaa pientymistään” published on 05/09/2021 at 3:13 pm

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Role of outsourcing continues shrinking

Pihlajalinna's Q1 result was strong and slightly above our estimates. The positive earnings development was again based on clearly improved profitability in the private clinic network. We raised our estimates in line with the earnings overshoot of Q1. We still find the company's return/risk ratio good despite the elevated political risks. We raise our target price to EUR 12.5 (previously EUR 11.5) and reiterate our Accumulate recommendation.

EBIT from outsourcing fell to zero but other service sales was excellent

Pihlajalinna's Q1 revenue grew by 5% to EUR 140 million and was in line with our estimates. Revenue from corporate customers grew by 12% to EUR 35.4 million, revenue from private customers decreased by 10% to EUR 21.1 million, and public sector revenue grew by 8% to EUR 102 million. Growing COVID-19 testing volumes increased corporate customer sales by EUR 2.8 million and public sector service sales by EUR 4.7 million. Visits to fitness centers, clinics and dental care services were still clearly lower than in the comparison period. Adjusted EBIT rose by 60% to EUR 6.7 million (estimate 5.5 million). Operating profit from outsourcing was EUR 0.0 million (Q1'20: 1.1 million) but service sales from the rest of the organization, i.e., mainly from the private side network grew to EUR 6.7 million (Q1'20: 3.1 million). Next to COVID-19 testing operations, efficiency improvement programs, increased occupational healthcare customer volumes, and tighter insurance company partnerships have improved the profitability of the segment clearly.

We raised our estimates mostly in line with the earnings overshoot of Q1

Pihlajalinna repeated its guidance as expected: "2021 revenue will grow clearly (2020: EUR 509 million) and adjusted EBIT improves clearly (2020: 21.1 million)." We expect 2021 revenue to grow by 8% to EUR 549 million and EBIT to rise to EUR 26.4 million. 2022 revenue will grow by 4% in our estimates to EUR 569 million and operating profit rises to EUR 27.7 million while costs scale slightly. Moving forward, growth is supported by, e.g., Työterveys Virta Oy's acquisition and other service sales to the public sector growing. We also expect positive development in corporate customers to continue. We expect the utilization rates of fitness centers and private clinics to recover as vaccination coverage increases. Growing treatment queues in the public sector also supports recovery of utilization rates. COVID-19 testing operations ending generates considerable headwind for our estimates. Our profitability estimates for outsourcing are cautious due to the increase in cost levels and disputes with clients on who will pay for the services and we do not expect profitability to reach historic levels.

We feel the return/risk ratio of the share is still good

Pihlajalinna's 2021e P/E ratio (adjusted) 16x and EV/EBITDA 7x, and the 2022e P/E ratio (adjusted) 15x and EV/EBITDA 7x are very low when compared to historic levels (P/E 27x and EV/EBITDA 11x). Compared to the peer group, the company is priced at a 30% discount. Our long-term estimates still involve a lot of uncertainty related to the continuance of current complete outsourcing arrangements after 2025. We find it likely that service production will continue at least to some extent. We do not expect forward-looking valuation multiples to rise much from the current level until we gain more visibility into the effects of the social and healthcare services reform. Materialization of the around 8% earnings growth we estimate for 2021-2024 is the key driver for the share that is complemented with a 2% dividend yield. The clear level increase in the "other than outsourcing activities" segment (2024e 60% share of EBIT) has dispersed customer risks, which, in our opinion, has supported the return/risk ratio of the share clearly.

Recommendation

Accumulate

(previous Accumulate)

EUR 12.50

(previous EUR 11.50)

Share price:

11.76



Key indicators

	2020	2021e	2022e	2023e
Revenue	509	549	569	585
growth %	-2%	8%	4%	3%
EBIT adjusted	21.1	26.4	27.7	29.4
EBIT % adjusted	4.1%	4.8%	4.9%	5.0%
Net profit	8.8	16.4	17.3	18.6
EPS (adjusted)	0.52	0.72	0.76	0.82

P/E (adjusted)	18.1	16.2	15.4	14.3
P/B	1.9	2.2	2.0	1.8
Dividend yield %	2.1%	2.0%	2.1%	2.2%
EV/EBIT (adjusted)	19.8	16.9	15.4	13.8
EV/EBITDA	7.9	7.3	6.8	6.4
EV/Sales	0.8	0.8	0.7	0.7

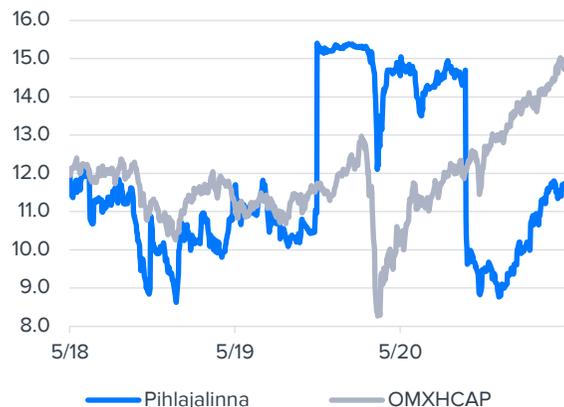
Source: Inderes

Guidance

(Unchanged)

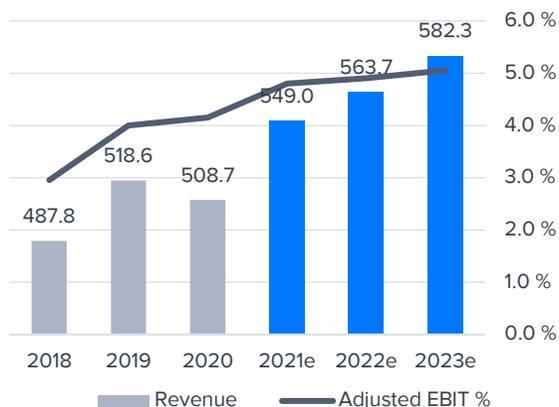
Pihlajalinna's guidance is that in 2021 revenue is expected to increase clearly and adjusted EBIT is expected to improve clearly compared to 2020.

Share price



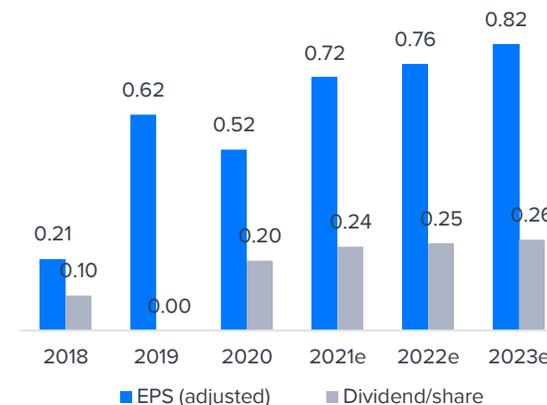
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Long-term earnings growth outlook through growth in aging population and demand for healthcare services
- Extensive service offering and network bring a competitive advantage compared to small players
- Public sector's need for help in controlling social and healthcare service costs
- Significant profitability improvement potential from the current weak level

Risk factors

- Negative effects of COVID on operations
- Unpredictability of political decisions concerning social and healthcare services
- Excess growth-orientation may surpass profitability
- Network expansion still ongoing
- Aggressive expansion of competitors and fight for market shares
- Possible legislation that tightens the requirements on social and healthcare service companies

Valuation

- Valuation is modest both in absolute terms and compared to historical levels
- If the estimated earnings improvement materializes, valuation multiples continue falling
- With the current valuation level, the share is clearly below its peer group
- Return/risk ratio is still good in our opinion considering the current social and healthcare services reform

Estimates

Estimates MEUR / EUR	Q1'20	Q1'21	Q1'21e	Q1'21e	Consensus		Difference (%)
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes
Revenue	133	140	140	138	137 - 140		0%
EBIT (adj.)	4.2	6.7	5.5	5.7	5.0 - 7.0		21%
PTP	2.0	5.6	4.5	4.7	4.0 - 6.0		24%
EPS (reported)	0.06	0.20	0.16	0.16	0.14 - 0.21		25%
Revenue growth-%	0.4 %	5.2 %	5.1 %	3.8 %	3.0 % - 5.3 %		0.1 pp
EBIT-% (adj.)	3.2 %	4.8 %	4.0 %	4.1 %	3.6 % - 5.0 %		0.8 pp

Source: Inderes & Infront (consensus)

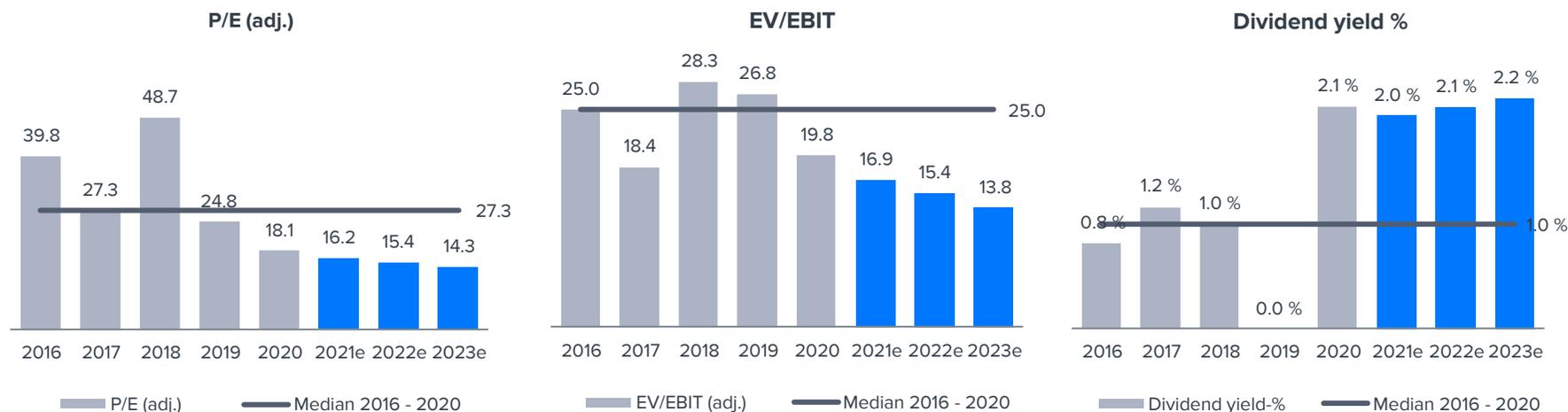
Estimate revisions MEUR / EUR	2021e			2022e			2023e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	551	549	0%	571	569	0%	588	585	0%
EBIT (exc. NRIs)	24.8	26.4	6%	27.4	27.7	1%	29.3	29.4	0%
EBIT	24.8	26.4	6%	27.4	27.7	1%	29.3	29.4	0%
PTP	20.8	22.5	8%	23.5	23.7	1%	25.3	25.4	1%
EPS (excl. NRIs)	0.68	0.72	7%	0.74	0.76	3%	0.81	0.82	2%
DPS	0.22	0.24	9%	0.24	0.25	4%	0.26	0.26	0%

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	18.4	13.7	10.0	15.3	9.38	11.8	11.8	11.8	11.8
Number of shares, millions	20.6	20.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6
Market cap	380	282	226	346	212	266	266	266	266
EV	417	369	408	557	417	446	425	406	385
P/E (adj.)	39.8	27.3	48.7	24.8	18.1	16.2	15.4	14.3	13.1
P/E	47.2	29.9	65.7	>100	24.0	16.2	15.4	14.3	13.1
P/FCF	61.0	neg.	neg.	>100	69.4	7.4	9.0	9.0	8.8
P/B	3.9	2.8	1.9	3.4	1.9	2.2	2.0	1.8	1.7
P/S	1.0	0.7	0.5	0.7	0.4	0.5	0.5	0.5	0.4
EV/Sales	1.0	0.9	0.8	1.1	0.8	0.8	0.7	0.7	0.6
EV/EBITDA	14.9	11.1	9.1	11.6	7.9	7.3	6.8	6.4	6.0
EV/EBIT (adj.)	25.0	18.4	28.3	26.8	19.8	16.9	15.4	13.8	12.3
Payout ratio (%)	38.4 %	34.9 %	65.7 %	0.0 %	51.2 %	33.1 %	32.7 %	31.7 %	37.0 %
Dividend yield-%	0.8 %	1.2 %	1.0 %	0.0 %	2.1 %	2.0 %	2.1 %	2.2 %	2.8 %

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-%		P/B 2021e
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Terveystalo Oyj	11.96	1531	2016	19.9	18.2	10.8	10.1	1.9	1.8	21.2	19.1	2.3	2.7	2.5
Mediclinic International PLC	302.40	2595	5468	23.5	15.9	11.6	9.1	1.6	1.5	25.7	13.8	0.2	1.7	0.7
Fresenius SE & Co KGaA	41.69	23075	56346	12.9	11.3	8.0	7.4	1.5	1.4	12.8	11.2	2.1	2.3	1.2
Netcare Ltd	1449.50	1233	1892	13.4	9.8	9.0	7.2	1.5	1.4	17.5	11.1	3.5	5.9	1.9
Ramsay Health Care Ltd	62.96	9292	14447	19.9	17.0	11.3	10.2	1.7	1.6	30.5	23.9	1.8	2.2	3.5
Orpea SA	105.10	6747	15598	28.7	26.0	14.7	13.5	3.7	3.4	28.6	24.0	1.3	1.4	2.0
Korian SA	32.12	3374	10015	26.5	22.6	11.0	9.9	2.4	2.2	26.0	19.6	1.8	2.0	1.1
LNA Sante SA	48.20	472	1270	19.1	16.9	9.2	8.4	1.9	1.8	17.2	14.1	1.0	1.1	2.4
Life Healthcare Group Holdings Ltd	1918.50	1581	2487	14.2	10.8	8.2	6.8	1.6	1.5	18.3	12.8	1.6	5.5	1.5
GHP Specialty Care AB	28.15	193	194	19.5	17.3	9.6	8.6	1.3	1.2	30.8	27.9	1.8	1.8	3.8
Attendo AB (publ)	42.66	672	1885	21.4	17.3	8.2	7.3	1.5	1.4	22.2	14.8	0.8	1.2	1.4
Rhoen Klinikum AG	15.98	1046	965	57.2	37.7	11.5	10.6	0.7	0.7	89.7	58.1		0.5	0.9
Spire Healthcare Group PLC	202.50	936	2159	18.8	16.3	9.7	8.9	1.8	1.7	64.6	34.7	0.7	1.7	1.2
Ambea AB (publ)	68.00	646	1520	20.2	17.4	8.9	8.2	1.3	1.3	13.3	11.0	1.8	2.3	1.4
Pihlajalinna (Inderes)	11.76	266	446	16.9	15.4	7.3	6.8	0.8	0.8	16.2	15.4	2.0	2.1	2.2
Average				22.5	18.2	10.1	9.0	1.7	1.6	29.9	21.2	1.6	2.3	1.8
Median				19.9	17.1	9.7	8.7	1.6	1.5	24.0	16.9	1.8	1.9	1.5
Diff-% to median				-15%	-10%	-25%	-22%	-49%	-50%	-32%	-9%	15%	14%	50%

Source: Thomson Reuters / Inderes

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

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	519	133	115	124	137	509	140	137	132	141	549	569	585	603
EBITDA	47.9	12.1	8.5	16.7	15.2	52.5	15.2	14.9	16.4	14.6	61.2	62.6	63.0	63.9
Depreciation	-37.7	-8.8	-8.4	-8.7	-8.4	-34.3	-8.7	-8.7	-8.7	-8.7	-34.8	-35.0	-33.5	-32.5
EBIT (excl. NRI)	20.8	4.2	0.6	8.7	7.6	21.1	6.5	6.2	7.7	5.9	26.4	27.7	29.4	31.4
EBIT	10.2	3.3	0.1	8.0	6.8	18.2	6.5	6.2	7.7	5.9	26.4	27.7	29.4	31.4
Group	10.2	3.3	0.1	8.0	6.8	18.2	6.5	6.2	7.7	5.9	26.4	27.7	29.4	31.4
Net financial items	-3.9	-1.4	-1.0	-1.1	-1.0	-4.4	-0.9	-1.0	-1.0	-1.0	-3.9	-4.0	-4.0	-3.7
PTP	6.3	2.0	-0.9	7.0	5.8	13.8	5.6	5.2	6.7	4.9	22.5	23.7	25.4	27.7
Taxes	-1.8	-0.6	0.1	-1.5	-2.7	-4.8	-1.1	-1.0	-1.3	-1.0	-4.5	-4.7	-5.1	-5.5
Minority interest	-1.1	-0.1	0.3	-0.8	0.5	-0.2	0.1	-0.7	-0.5	-0.5	-1.6	-1.7	-1.8	-1.9
Net earnings	3.4	1.2	-0.6	4.6	3.6	8.8	4.6	3.5	4.9	3.4	16.4	17.3	18.6	20.3
EPS (adj.)	0.62	0.09	0.00	0.23	0.19	0.52	0.20	0.15	0.22	0.15	0.72	0.76	0.82	0.90
EPS (rep.)	0.15	0.06	-0.03	0.20	0.16	0.39	0.20	0.15	0.22	0.15	0.72	0.76	0.82	0.90
Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	6.3 %	0.4 %	-11.6 %	1.0 %	2.6 %	-1.9 %	5.1 %	19.6 %	6.2 %	2.5 %	7.9 %	3.6 %	2.9 %	3.1 %
Adjusted EBIT growth-%	44.0 %	8 %	-72.3 %	-5.6 %	36.7 %	1.7 %	53.4 %	993.8 %	-11.0 %	-22.4 %	25.0 %	4.9 %	6.4 %	6.5 %
EBITDA-%	9.2 %	9.1 %	7.4 %	13.5 %	11.1 %	10.3 %	10.9 %	10.9 %	12.5 %	10.4 %	11.1 %	11.0 %	10.8 %	10.6 %
Adjusted EBIT-%	4.0 %	3.2 %	0.5 %	7.0 %	5.5 %	4.1 %	4.7 %	4.5 %	5.9 %	4.2 %	4.8 %	4.9 %	5.0 %	5.2 %
Net earnings-%	0.7 %	0.9 %	-0.5 %	3.7 %	2.6 %	1.7 %	3.3 %	2.5 %	3.7 %	2.4 %	3.0 %	3.0 %	3.2 %	3.4 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	362	348	360	355	351
Goodwill	174	174	174	174	174
Intangible assets	19.1	16.3	20.5	17.3	15.3
Tangible assets	161	147	154	153	151
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.1	0.1	0.1	0.1	0.1
Other non-current assets	2.0	5.5	5.5	5.5	5.5
Deferred tax assets	6.0	5.4	5.4	5.4	5.4
Current assets	76.3	94.4	69.3	71.8	73.8
Inventories	2.3	3.4	3.7	3.8	3.9
Other current assets	0.9	1.9	1.9	1.9	1.9
Receivables	46.1	75.8	49.4	51.2	52.7
Cash and equivalents	27.0	13.3	14.4	14.9	15.3
Balance sheet total	438	442	429	426	425

Source: Inderes

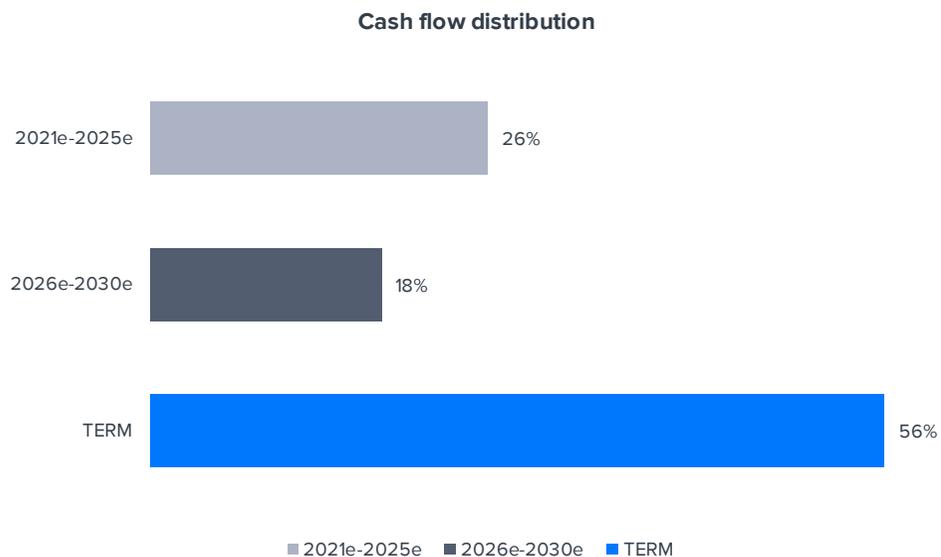
Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	106	115	127	139	151
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-15.4	-6.9	5.0	16.8	29.7
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	116	116	116	116	116
Minorities	5.0	5.2	5.2	5.2	5.2
Non-current liabilities	208	195	153	137	123
Deferred tax liabilities	5.7	5.8	5.8	5.8	5.8
Provisions	0.2	0.1	0.1	0.1	0.1
Long term debt	200	188	146	130	116
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.3	1.2	1.2	1.2	1.2
Current liabilities	125	132	150	150	151
Short term debt	20.8	20.1	37.1	33.3	29.7
Payables	102	109	110	114	118
Other current liabilities	2.0	2.6	2.6	2.6	2.6
Balance sheet total	438	442	429	426	425

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	18.2	26.4	27.7	29.4	31.4	31.1	32.0	33.0	34.0	35.0	35.7	
+ Depreciation	34.3	34.8	35.0	33.5	32.5	31.9	31.4	31.0	30.8	30.6	30.5	
- Paid taxes	-4.1	-4.5	-4.7	-5.1	-5.5	-5.6	-5.8	-6.1	-6.4	-6.7	-6.9	
- Tax, financial expenses	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.5	-0.4	-0.3	-0.2	
+ 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	-23.8	26.5	2.6	2.3	2.5	2.5	2.6	2.7	2.8	2.9	1.6	
Operating cash flow	23.7	82.4	59.7	59.4	60.1	59.3	59.6	60.1	60.8	61.5	60.6	
+ Change in other long-term liabilities	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-20.5	-46.6	-30.0	-30.0	-30.0	-30.0	-30.0	-30.0	-30.0	-30.0	-29.4	
Free operating cash flow	3.1	35.8	29.7	29.4	30.1	29.3	29.6	30.1	30.8	31.5	31.1	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	3.1	35.8	29.7	29.4	30.1	29.3	29.6	30.1	30.8	31.5	31.1	567
Discounted FCFF		34.2	26.3	24.2	23.1	20.8	19.6	18.5	17.6	16.7	15.4	280
Sum of FCFF present value		497	462	436	412	389	368	348	330	312	295	280
Enterprise value DCF		497										
- Interesting bearing debt		-208.1										
+ Cash and cash equivalents		13.3										
-Minorities		-11.4										
-Dividend/capital return		-4.5										
Equity value DCF		286										
Equity value DCF per share		12.6										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	37.0 %
Cost of debt	4.0 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	2.00%
Risk free interest rate	2.0 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	7.6 %

Source: Inderes



Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	487.8	518.6	508.7	549.0	568.8	EPS (reported)	0.15	0.15	0.39	0.72	0.76
EBITDA	44.8	47.9	52.5	61.2	62.6	EPS (adj.)	0.21	0.62	0.52	0.72	0.76
EBIT	13.2	10.2	18.2	26.4	27.7	OCF / share	2.17	1.85	1.05	3.64	2.64
PTP	9.5	6.3	13.8	22.5	23.7	FCF / share	-4.93	0.08	0.14	1.58	1.31
Net Income	3.4	3.4	8.8	16.4	17.3	Book value / share	5.36	4.47	4.85	5.37	5.90
Extraordinary items	-1.2	-10.6	-2.9	0.0	0.0	Dividend / share	0.10	0.00	0.20	0.24	0.25
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	436.8	438.4	442.1	428.9	426.3	Revenue growth-%	15%	6%	-2%	8%	4%
Equity capital	130.4	106.1	114.9	126.7	138.6	EBITDA growth-%	34%	7%	10%	17%	2%
Goodwill	169.9	173.6	173.6	173.6	173.6	EBIT (adj.) growth-%	-28%	44%	2%	25%	5%
Net debt	164.4	194.1	194.8	168.3	148.8	EPS (adj.) growth-%	-59%	201%	-16%	40%	5%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	9.2 %	9.2 %	10.3 %	11.1 %	11.0 %
EBITDA	44.8	47.9	52.5	61.2	62.6	EBIT (adj.)-%	3.0 %	4.0 %	4.1 %	4.8 %	4.9 %
Change in working capital	9.2	-0.8	-23.8	26.5	2.6	EBIT-%	2.7 %	2.0 %	3.6 %	4.8 %	4.9 %
Operating cash flow	49.1	41.8	23.7	82.4	59.7	ROE-%	3.1 %	3.0 %	8.4 %	14.2 %	13.6 %
CAPEX	-160.0	-39.8	-20.5	-46.6	-30.0	ROI-%	4.9 %	3.1 %	5.6 %	8.3 %	9.1 %
Free cash flow	-111.6	1.8	3.1	35.8	29.7	Equity ratio	29.9 %	24.2 %	26.0 %	29.6 %	32.5 %
						Gearing	126.0 %	182.9 %	169.6 %	132.8 %	107.4 %
Largest shareholders						Valuation multiples	2018	2019	2020	2021e	2022e
Lähtapiola Insurance			23.8 %			EV/S	0.8	1.1	0.8	0.8	0.7
Mikko Wirén			10.2 %			EV/EBITDA (adj.)	9.1	11.6	7.9	7.3	6.8
Fennia Group			10.0 %			EV/EBIT (adj.)	28.3	26.8	19.8	16.9	15.4
Elo Mutual Pension Insurance Company			5.6 %			P/E (adj.)	48.7	24.8	18.1	16.2	15.4
Fondita Fonder			4.1 %			P/E	1.9	3.4	1.9	2.2	2.0
Leena Niemistö			3.1 %			Dividend-%	1.0 %	0.0 %	2.1 %	2.0 %	2.1 %

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
07-05-18	Accumulate	13.50 €	11.94 €
21-06-18	Reduce	11.00 €	11.10 €
01-07-18	Accumulate	12.00 €	11.28 €
20-08-18	Reduce	11.00 €	11.50 €
05-11-18	Reduce	11.00 €	10.88 €
18-02-19	Reduce	10.50 €	10.20 €
08-04-19	Accumulate	10.50 €	9.80 €
06-05-19	Accumulate	12.00 €	11.36 €
18-08-19	Accumulate	11.00 €	10.32 €
05-11-19	Reduce	16.00 €	15.40 €
16-02-20	Reduce	16.00 €	15.28 €
30-03-20	Buy	16.00 €	13.14 €
08-04-20	Accumulate	16.00 €	14.65 €
12-05-20	Accumulate	16.00 €	14.80 €
18-08-20	Accumulate	16.00 €	14.90 €
30-09-20	Reduce	11.00 €	10.80 €
05-11-20	Accumulate	10.50 €	9.48 €
22-02-21	Accumulate	11.50 €	10.70 €
10-05-21	Accumulate	12.50 €	11.76 €



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