

Incap

Company report

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Joonas Korkiakoski
+358 40 1828 660
joonas.korkiakoski@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report "Tiitterää tekemistä " published on 2/25/20222 at 8:00 am

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Peppy progress

Incap published its Q4 report yesterday. The last quarter was excellent just like the entire year. The company's current performance is admirable and longer-term value creation conditions are excellent to say the least both organically and inorganically. Considering the improved return/risk ratio of a high-quality company, we raise our recommendation to Accumulate (previous Reduce). We revise our target price to EUR 72 (previous EUR 70).

Successful operations

In Q4, Incap's revenue grew by 63% to EUR 51.4 million, which was in line with our estimate. We believe strong revenue growth reflects the wide-ranging demand development in the customer portfolio (incl. new customers that reached serial production in the past year), but especially the heftily increased order volumes of large customers. Just like in previous quarters volume growth was naturally also supported by the strengthened capacity of Indian production facilities and continued good delivery capacity despite circumstances. In Q4, Incap's adjusted EBIT was EUR 8.6 and the EBIT margin was an excellent 16.8% relative to the general industry level. We believe, the strong earnings growth was driven by the combined effects of significantly increased order volumes, improved production mix, good efficiency levels and purchasing synergies nicely generated from the AWS transaction. All in all, the company had an excellent close to the year and we feel that it was yet another great indication of both the quality of its operations and the high operational performance it provides.

No major changes

For the new year, Incap's guidance is higher revenue and adjusted EBIT than in 2021, assuming that no significant negative changes occur in the COVID pandemic situation, geopolitics, exchange rates or availability of components. Incap entered 2022 from a record high position and, to our understanding with a longer order book than a year ago and based on more detailed management comments component worries have not caused insurmountable problems for the company. Incap's current performance level is convincing and, with the increased size class, we expect relative competitiveness should also be better than before. Considering these factors and the pretty much unchanged overall picture, we have only made minor adjustments to our estimates. This year, we expect the company's revenue to increase by 22% to EUR 207 million due to growing delivery flows to largest customers, successful new customer acquisition and the benefits of stronger production capacity. We expect adjusted EBIT to be EUR 33 million supported by rather brisk volume growth and healthy efficiency levels.

Expected return works

Incap's P/E ratios for 2022 and 2023 based on our estimates are 15x and 14x, while the corresponding EV/EBIT ratios are 12x and 10x. Absolute multiples are not impossibly high and mostly within the neutral range we have determined for the company. The multiples are however above historical levels, but we consider this justified considering the convincing earnings and value creation record of recent years. We feel that annual expected return consisting of expected earnings growth, price ratios that can be classified as neutral and the leeway provided by a strong balance sheet is higher than the ROE requirement.

Recommendation

Accumulate

(previous Reduce)

EUR 72.00

(previous EUR 70.00)

Share price:

67.10



Key figures

	2021	2022e	2023e	2024e
Revenue	169,8	207,1	231,9	250,5
growth-%	59 %	22 %	12 %	8 %
EBIT adj.	26,8	32,7	36,8	39,9
EBIT-% adj.	15,8 %	15,8 %	15,9 %	15,9 %
Net Income	21,1	25,9	28,9	31,5
EPS (adj.)	3,71	4,42	4,98	5,41
P/E (adj.)	21,2	15,2	13,5	12,4
P/B	7,3	4,7	3,6	2,9
Dividend yield-%	1,0 %	1,3 %	1,5 %	1,6 %
EV/EBIT (adj.)	17,2	11,6	9,8	8,5
EV/EBITDA	15,8	10,5	9,0	7,8
EV/S	2,7	1,8	1,6	1,3

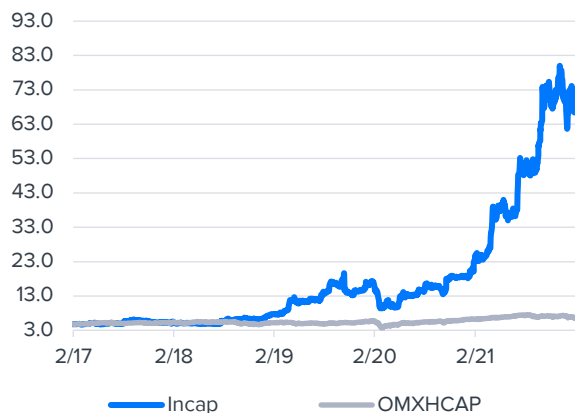
Source: Inderes

Guidance

(New guidance)

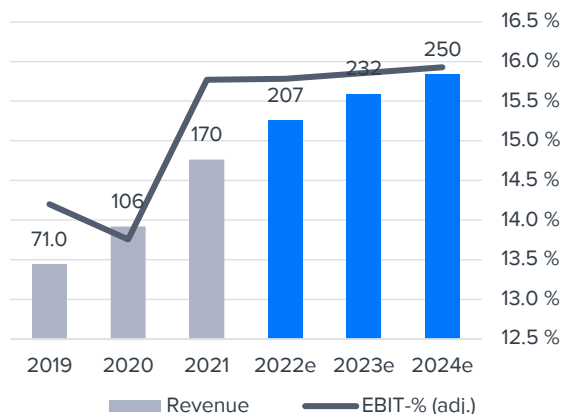
Incap estimates that its revenue, operating profit (EBIT) and adjusted operating profit (EBIT) for 2022 will be higher than in 2021.

Share price



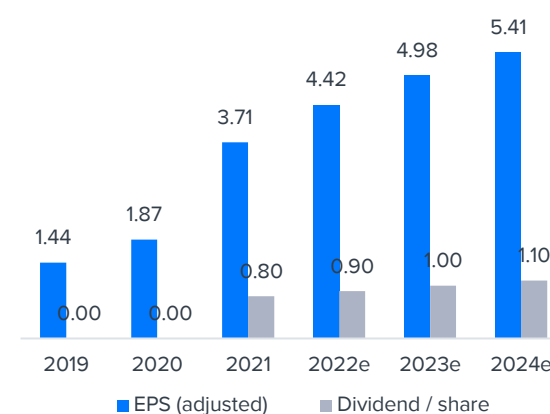
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth in the electronics market, supported by global megatrends and increased outsourcing rate
- Light organization and cost structure enable a high profitability level
- Quick decision-making supports new customer procurement
- Accelerating growth with acquisitions



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Cyclical nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Disruptions in the supply chain (incl. geopolitical situation)

Valuation	2022e	2023e	2024e
Share price	67,10	67,10	67,10
Number of shares, million	5,85	5,85	5,85
Market cap	392	392	392
EV	378	360	337
P/E (adj.)	15,2	13,5	12,4
P/E	15,2	13,6	12,5
P/FCF	18,6	16,6	13,4
P/B	4,7	3,6	2,9
P/S	1,9	1,7	1,6
EV/Sales	1,8	1,6	1,3
EV/EBITDA	10,5	9,0	7,8
EV/EBIT (adj.)	11,6	9,8	8,5
Payout ratio (%)	20,4 %	20,2 %	20,4 %
Dividend yield-%	1,3 %	1,5 %	1,6 %

Source: Inderes

Estimates

Estimates MEUR / EUR	Q4'20	Q4'21	Q4'21e	Q4'21e	Consensus		Difference (%)	2021
	Comparator	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Toteutunut
Revenue	31,5	51,4	51,3				0 %	170
EBIT (adj.)	5,5	8,6	8,7				-1 %	26,6
EBIT	5,1	8,4	8,5				-1 %	26,0
EPS (reported)	0,71	1,18	1,14				3 %	3,60
DPS	0,00	0,80	0,80				0 %	0,80
Revenue growth-%	94,5 %	62,9 %	62,8 %				0,2 pp	59,4 %
EBIT-% (adj.)	17,6 %	16,8 %	16,9 %				-0,2 pp	15,7 %

Source: Inderes

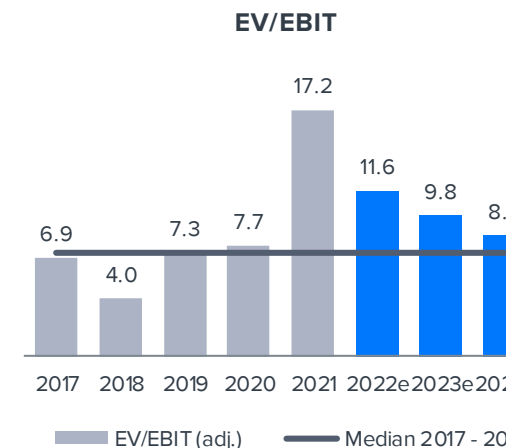
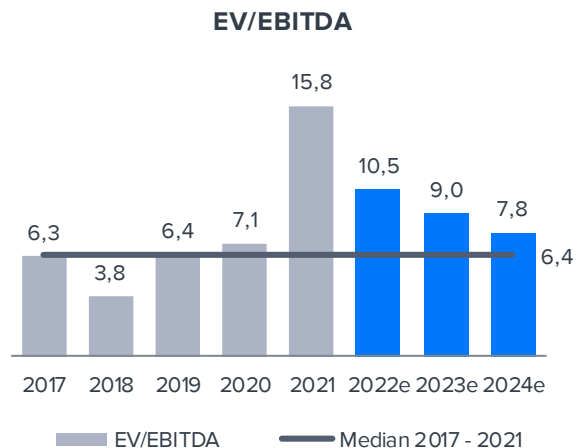
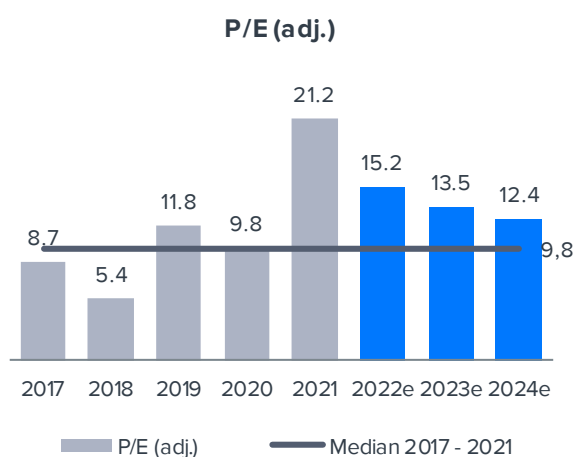
Estimate revisions MEUR / EUR	2021	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	169	170	1 %	206	207	1 %	231	232	1 %
EBITDA	28,4	29,3	3 %	34,8	36,2	4 %	38,9	40,1	3 %
EBIT	25,2	26,0	3 %	31,6	32,7	3 %	35,7	36,5	2 %
PTP	24,6	25,7	5 %	31,2	32,3	4 %	35,4	36,1	2 %
EPS (raportoitu)	3,42	3,60	5 %	4,27	4,42	4 %	4,84	4,94	2 %
DPS	0,80	0,80	0 %	0,90	0,90	0 %	1,00	1,00	0 %

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	6,19	7,26	16,9	18,5	78,5	67,10	67,10	67,10	67,10
Number of shares, millions	4,37	4,37	4,37	5,82	5,85	5,85	5,85	5,85	5,85
Market cap	27	32	74	107	459	392	392	392	392
EV	31	35	73	113	461	378	360	337	313
P/E (adj.)	8,7	5,4	11,8	9,8	21,2	15,2	13,5	12,4	11,6
P/E	8,7	5,4	11,8	11,6	21,8	15,2	13,6	12,5	11,6
P/FCF	11,7	13,7	11,4	neg.	>100	18,6	16,6	13,4	12,7
P/B	2,6	2,0	3,4	2,8	7,3	4,7	3,6	2,9	2,4
P/S	0,6	0,5	1,0	1,0	2,7	1,9	1,7	1,6	1,5
EV/Sales	0,6	0,6	1,0	1,1	2,7	1,8	1,6	1,3	1,2
EV/EBITDA	6,3	3,8	6,4	7,1	15,8	10,5	9,0	7,8	6,8
EV/EBIT (adj.)	6,9	4,0	7,3	7,7	17,2	11,6	9,8	8,5	7,4
Payout ratio (%)	0,0 %	0,0 %	0,0 %	0,0 %	22,2 %	20,4 %	20,2 %	20,4 %	20,8 %
Dividend yield-%	0,0 %	0,0 %	0,0 %	0,0 %	1,0 %	1,3 %	1,5 %	1,6 %	1,8 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Cicor Technologies Ltd	48,60	153	170	14,1	10,7	6,3	5,4	0,6	0,6	22,8	17,6	2,6	2,6	1,5
Integrated Micro-Electronics Inc	8,18	314	509	30,5	12,5	8,2	5,8	0,4	0,4	20,0	13,3			0,8
Data Modul AG	52,50	207	202	6,5	5,3	5,8	4,9	0,6	0,6	10,8	9,7		1,7	1,7
Hanza Holding AB	35,80	121	178	12,6	9,0	5,0	4,3	0,4	0,4	12,5	11,0	2,1	2,1	1,1
Kitron ASA	19,64	393	450	14,3	11,0	10,7	8,6	1,0	0,8	14,0	11,4	3,6	4,7	2,7
Lacroix Group SA	39,50	196	266	10,3	9,0	6,1	5,3	0,4	0,4	11,2	9,8	2,6	2,8	1,2
Jabil Inc	55,87	7257	8717	7,5	6,8	4,4	4,1	0,3	0,3	8,6	8,0	0,6	0,6	3,5
Scanfil Oyj	6,66	450	509	10,1	8,5	7,6	6,5	0,6	0,6	12,8	11,4	3,0	3,1	1,9
Fabrinet	97,07	3224	2793	16,3	14,8	14,0	12,7	1,6	1,5	16,4	15,4			2,8
Hana Microelectronics PCL	59,25	1307	1074	17,2	14,9	11,7	10,5	1,9	1,7	15,0	13,6	4,0	4,2	1,9
SVI PCL	8,85	527	582	0,0	0,0	0,0	0,0	0,0	0,0	14,3	12,2	2,3	2,7	3,0
TT electronics PLC	209,00	455	585	11,6	9,4	8,4	7,0	1,0	0,9	12,1	10,1	3,1	3,6	1,3
Nolato AB	84,85	2031	1883	17,8	15,6	13,2	11,7	2,0	1,8	20,6	18,2	2,4	2,8	4,4
Celestica Inc	14,72	1295	1649	6,2	5,2	4,5	3,8	0,3	0,2	7,4	6,6			0,9
Incap (Inderes)	67,10	392	378	11,6	9,8	10,5	9,0	1,8	1,6	15,2	13,5	1,3	1,5	4,7
Average				12,5	9,5	7,6	6,5	0,8	0,7	14,2	12,0	2,6	2,8	2,0
Median				12,1	9,2	6,9	5,8	0,6	0,6	13,4	11,4	2,6	2,8	1,8
Diff-% to median				-4 %	6 %	51 %	54 %	200 %	170 %	13 %	18 %	-48 %	-47 %	165 %

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

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	106	37,7	33,6	47,0	51,5	170	46,0	44,0	56,4	60,7	207	232	250	265
Incap	106	37,7	33,6	47,0	51,5	170	46,0	44,0	56,4	60,7	207	232	250	265
EBITDA	15,9	6,3	5,1	8,6	9,3	29,3	7,8	7,6	10,0	10,8	36,2	40,1	43,3	46,0
Depreciation	-3,3	-0,8	-0,8	-0,8	-0,9	-3,3	-0,9	-0,9	-0,9	-0,9	-3,5	-3,6	-3,6	-3,6
EBIT (excl. NRI)	14,6	5,7	4,5	7,9	8,6	26,8	6,9	6,7	9,1	9,9	32,7	36,8	39,9	42,5
EBIT	12,6	5,5	4,3	7,8	8,4	26,0	6,9	6,7	9,1	9,9	32,7	36,5	39,7	42,4
Net financial items	-1,1	-0,1	-0,2	-0,2	0,2	-0,3	-0,1	-0,1	-0,1	-0,1	-0,4	-0,4	-0,4	-0,3
PTP	11,5	5,4	4,1	7,7	8,6	25,7	6,8	6,6	9,0	9,8	32,3	36,1	39,3	42,1
Taxes	-2,3	-0,8	-0,9	-1,3	-1,7	-4,7	-1,4	-1,3	-1,8	-2,0	-6,5	-7,2	-7,9	-8,4
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	9,2	4,6	3,2	6,4	6,9	21,1	5,5	5,3	7,2	7,8	25,9	28,9	31,5	33,7
EPS (adj.)	1,87	0,82	0,57	1,10	1,22	3,71	0,93	0,91	1,24	1,34	4,42	4,98	5,41	5,78
EPS (rep.)	1,59	0,79	0,55	1,09	1,19	3,60	0,93	0,91	1,24	1,34	4,42	4,94	5,38	5,76

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	49,9 %	55,1 %	49,0 %	67,3 %	63,2 %	59,4 %	22,0 %	31,0 %	20,0 %	17,8 %	22,0 %	12,0 %	8,0 %	6,0 %
Adjusted EBIT growth-%	45,2 %	112,2 %	56,3 %	123,3 %	56,0 %	82,8 %	20,8 %	50,8 %	15,0 %	14,5 %	22,0 %	12,5 %	8,5 %	6,6 %
EBITDA-%	15,0 %	16,6 %	15,1 %	18,4 %	18,1 %	17,2 %	17,0 %	17,3 %	17,7 %	17,8 %	17,5 %	17,3 %	17,3 %	17,3 %
Adjusted EBIT-%	13,8 %	15,2 %	13,3 %	16,9 %	16,8 %	15,8 %	15,1 %	15,3 %	16,2 %	16,3 %	15,8 %	15,9 %	15,9 %	16,0 %
Net earnings-%	8,7 %	12,2 %	9,5 %	13,5 %	13,4 %	12,4 %	11,9 %	12,1 %	12,8 %	12,9 %	12,5 %	12,5 %	12,6 %	12,7 %

Lähde: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	19,4	27,1	28,3	28,7	28,7
Goodwill	7,1	7,5	7,5	7,5	7,5
Intangible assets	0,0	4,5	4,3	4,1	3,9
Tangible assets	11,4	13,9	15,3	15,9	16,1
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	0,0	0,0	0,0	0,0	0,0
Other non-current assets	0,2	0,4	0,4	0,4	0,4
Deferred tax assets	0,7	0,9	0,9	0,9	0,9
Current assets	52,3	102,4	98,0	122,5	146,1
Inventories	24,2	59,5	37,3	40,6	42,6
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	24,2	33,7	38,3	44,1	47,6
Cash and equivalents	3,9	9,2	22,4	37,9	55,7
Balance sheet total	76,4	129,5	126,4	151,4	175

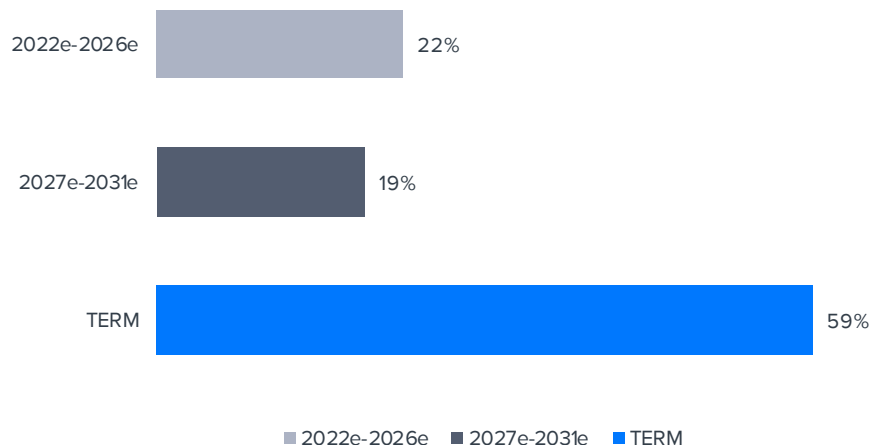
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	38,5	62,9	84,0	108	133
Share capital	1,0	1,0	1,0	1,0	1,0
Retained earnings	20,7	41,9	63,0	86,7	112
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	-4,6	-2,2	-2,2	-2,2	-2,2
Other equity	21,4	22,2	22,1	22,1	22,1
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	8,6	6,5	6,2	4,7	1,1
Deferred tax liabilities	0,9	0,9	0,9	0,9	0,9
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	6,1	4,0	5,3	3,8	0,2
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	1,6	1,6	0,0	0,0	0,0
Current liabilities	29,2	60,1	36,2	39,1	40,4
Short term debt	3,7	7,3	3,1	2,0	0,3
Payables	25,6	52,9	33,1	37,1	40,1
Other current liabilities	0,0	0,0	0,0	0,0	0,0
Balance sheet total	76,4	129,5	126,4	151,4	174,7

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	26,0	32,7	36,5	39,7	42,4	40,8	42,4	43,9	44,5	45,8	46,8	
+ Depreciation	3,3	3,5	3,6	3,6	3,6	3,0	3,0	3,1	3,1	3,1	3,2	
- Paid taxes	-4,8	-6,5	-7,2	-7,9	-8,4	-8,6	-8,9	-9,2	-9,3	-9,6	-9,8	
- Tax, financial expenses	0,0	-0,1	-0,1	-0,1	-0,1	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	-17,4	-2,2	-5,1	-2,6	-3,0	-3,2	-2,3	-2,0	-1,8	-1,9	-1,4	
Operating cash flow	7,0	27,5	27,6	32,8	34,5	32,0	34,3	35,7	36,4	37,5	38,7	
+ Change in other long-term liabilities	0,0	-1,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-6,2	-4,7	-4,0	-3,6	-3,6	-3,3	-3,3	-3,3	-3,3	-3,3	-3,3	
Free operating cash flow	0,8	21,1	23,6	29,2	30,9	28,7	31,0	32,4	33,1	34,1	35,4	
+/- Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	0,8	21,1	23,6	29,2	30,9	28,7	31,0	32,4	33,1	34,1	35,4	610
Discounted FCFF		19,8	20,5	23,4	22,9	19,6	19,6	19,0	17,9	17,1	16,4	282
Sum of FCFF present value		478	458	438	415	392	372	353	334	316	299	282
Enterprise value DCF		478										
- Interesting bearing debt		-11,3										
+ Cash and cash equivalents		9,2										
-Minorities		0,0										
-Dividend/capital return		0,0										
Equity value DCF		476										
Equity value DCF per share		81,4										

Cash flow distribution



Wacc	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E))	20,0 %
Cost of debt	5,0 %
Equity Beta	1,25
Market risk premium	4,75 %
Liquidity premium	1,30 %
Risk free interest rate	2,0 %
Cost of equity	9,2 %
Weighted average cost of capital (WACC)	8,1 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	71,0	106,5	169,8	207,1	231,9	EPS (reported)	1,44	1,59	3,60	4,42	4,94
EBITDA	11,5	15,9	29,3	36,2	40,0	EPS (adj.)	1,44	1,87	3,71	4,42	4,98
EBIT	10,1	12,6	26,0	32,7	36,5	OCF / share	1,74	0,61	1,19	4,69	4,73
PTP	9,7	11,5	25,7	32,3	36,1	FCF / share	1,48	-2,21	0,13	3,61	4,04
Net Income	6,3	9,2	21,1	25,9	28,9	Book value / share	5,01	6,62	10,75	14,36	18,40
Extraordinary items	0,0	-2,1	-0,8	0,0	-0,3	Dividend / share	0,00	0,00	0,80	0,90	1,00
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	36,5	76,4	129,5	126,4	151,4	Revenue growth-%	20 %	50 %	59 %	22 %	12 %
Equity capital	21,9	38,5	62,9	84,0	107,6	EBITDA growth-%	25 %	39 %	84 %	24 %	11 %
Goodwill	0,9	7,1	7,5	7,5	7,5	EBIT (adj.) growth-%	17 %	45 %	83 %	22 %	13 %
Net debt	-0,5	5,9	2,0	-14,0	-32,1	EPS (adj.) growth-%	7 %	30 %	98 %	19 %	13 %
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	16 %	15 %	17 %	17 %	17 %
EBITDA	11,5	15,9	29,3	36,2	40,0	EBIT (adj.)-%	14 %	14 %	16 %	16 %	16 %
Change in working capital	-1,3	-10,0	-17,4	-2,2	-5,1	EBIT-%	14 %	12 %	15 %	16 %	16 %
Operating cash flow	7,6	3,6	7,0	27,5	27,6	ROE-%	33 %	31 %	42 %	35 %	30 %
CAPEX	-1,1	-18,1	-6,2	-4,7	-4,0	ROI-%	41 %	33 %	42 %	39 %	35 %
Free cash flow	6,5	-12,9	0,8	21,1	23,6	Equity ratio	60 %	50 %	52 %	66 %	71 %
						Gearing	-2 %	15 %	3 %	-17 %	-30 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1,0	1,1	2,7	1,8	1,6						
EV/EBITDA (adj.)	6,4	7,1	15,8	10,5	9,0						
EV/EBIT (adj.)	7,3	7,7	17,2	11,6	9,8						
P/E (adj.)	11,8	9,8	21,2	15,2	13,5						
P/B	3,4	2,8	7,3	4,7	3,6						
Dividend-%	0,0 %	0,0 %	1,0 %	1,3 %	1,5 %						

Source: Inderes

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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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Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report. Based on a notification received on April, 78 2021 Inderes' analyst Joonas Korkiakoski has a holding of over EUR 50,000 in the target company Incap Oyj.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
7.11.2019	Reduce	18,50 €	18,85 €
24.1.2020	Accumulate	21,00 €	18,95 €
27.2.2020	Accumulate	20,00 €	17,45 €
24.3.2020	Accumulate	12,50 €	11,00 €
25.3.2020	Accumulate	12,50 €	11,65 €
21.4.2020	Reduce	12,00 €	12,45 €
12.5.2020	Accumulate	13,00 €	12,00 €
25.5.2020	Accumulate	14,00 €	12,85 €
27.8.2020	Accumulate	20,00 €	18,55 €
17.9.2020	Accumulate	20,00 €	18,00 €
27.10.2020	Accumulate	17,50 €	15,10 €
12.11.2020	Accumulate	19,00 €	17,00 €
26.11.2020	Accumulate	20,00 €	18,00 €
25.2.2021	Accumulate	27,00 €	24,40 €
28.4.2021	Accumulate	38,00 €	35,25 €
29.7.2021	Accumulate	46,00 €	42,90 €
16.9.2021	Accumulate	55,00 €	50,60 €
28.10.2021	Reduce	70,00 €	73,90 €
25.2.2022	Accumulate	72,00 €	67,10 €



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Itämerentori 2

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