

Wärtsilä

Company report

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Keep your eyes on the horizon

Wärtsilä's Q4'23 pre-silent period conference call offered no significant news, but the business has progressed as expected, and especially our confidence in the good development of the service business strengthened. We raised our profitability forecasts moderately and there is still a reasonable upside in the stock. We reiterate our Accumulate recommendation and raise our target price to EUR 13.50 (was EUR 12.50).

The conference call shifted the view from neutral to positive

The Q4'23 market sentiment was quite positive and both order intake and revenue were close to Wärtsilä's expectations. However, Wärtsilä reminded that the order backlog at the end of Q3'23 focused on 2024 and beyond, which affects Q4'23's revenue. In the service business, Wärtsilä's progress toward higher value-added services (e.g. contracts with a performance guarantee) has progressed well. Concerning 2024, Wärtsilä only said, "we are facing something big, but the implementation rate is uncertain." Key demand drivers, such as zero emissions and the trend toward value added services, remain unchanged.

Recovery in ship orders will support the Marine businesses in the future

According to Clarkson, shipyards' orders for 2023 fell short of 2022 actualized orders in segments important to Wärtsilä. However, in the future, these segments are expected to grow clearly. According to Wärtsilä, the global capacity of shipyards hit bottom already in 2022 and many shipyards are now planning expansions. However, these usually take a couple of years.

Good activity in Energy

In Energy, the order intake for motor power plants was higher in H2'23 than in H1'23 (our forecast 310 MEUR vs. 285 MEUR). Market activity in energy storage has been good, although price competition remains tight. The future outlook for storage is also good, and Wärtsilä says it "will take its share of the market".

Structural arrangements remain unchanged

The structural arrangements for the ramp-down of the Trieste plant have proven more difficult and longer-lasting than expected. The decision to exit gas solutions will not change, even though the business has recently received many new orders. As regards the possible divestment of storage, Wärtsilä pointed out that the supply contracts for motor power plants and storage are strategically separate. Often the customer starts by acquiring storage and only later a regulation power plant.

2023 forecast cut slightly, but increase in 2024-2025 expectations

We have slightly cut our 2023 earnings forecast with the revenue forecast, but raised our earnings forecasts for 2023-2024. The latter is based on the increased share of high value-added services.

Valuation still holds up in comparison

With the indicators we use, the expected risk-adjusted return on the share is still attractive and valuation multiples are below the median of the peers. Despite the slightly tightened valuation, Wärtsilä's long-term attractive growth opportunities mean the stock remains an attractive investment object.

Recommendation

Accumulate

(previous Accumulate)

EUR 13.50

(previous EUR 12.50)

Share price:

12.96



Key figures

	2022	2023e	2024e	2025e
Revenue	5843	6160	7394	7646
growth-%	22%	5%	20%	3%
EBIT adj.	324	505	690	763
EBIT-% adj.	5.5 %	8.2 %	9.3 %	10.0 %
Net Income	-67	281	453	507
EPS (adj.)	0.47	0.54	0.79	0.89

P/E (adj.)	16.7	24.1	16.3	14.6
P/B	2.2	3.4	3.1	2.8
Dividend yield-%	3.3 %	3.1 %	3.9 %	5.4 %
EV/EBIT (adj.)	15.9	16.2	12.0	10.6
EV/EBITDA	15.5	12.9	9.4	8.4
EV/S	0.9	1.3	1.1	1.1

Source: Inderes

Guidance

(Unchanged)

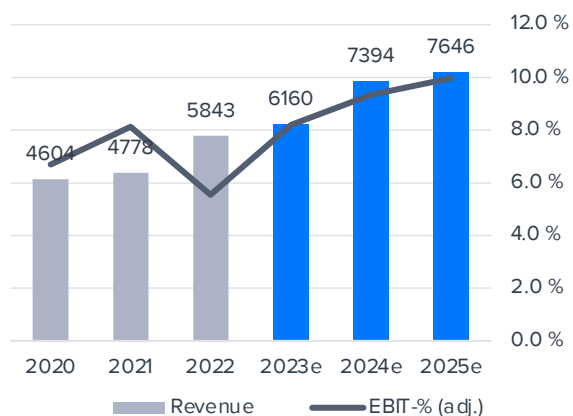
Wärtsilä expects the demand environment for the Marine business (Marine Power + Marine Systems) to be similar in Q4'23-Q3'24 to that of the comparison period. For the Energy business, the demand environment is expected to be better to that of the comparison period.

Share price



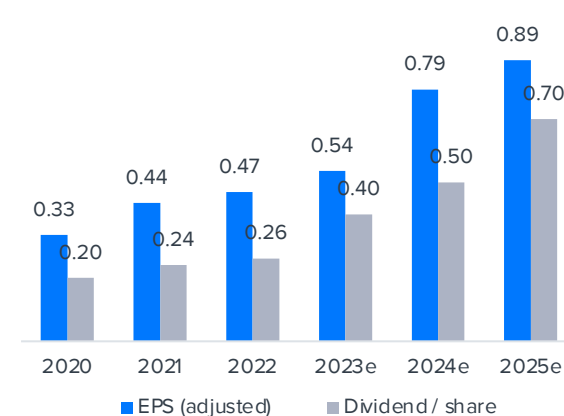
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong position in the selected segments
- Extensive installed equipment portfolio and significant share of services business
- Progress in high value-added services
- Profitability of energy storage solutions turns positive



Risk factors

- Cyclicity of shipbuilding
- Uncertainty about the winning renewable energy production forms
- Energy's deliveries focusing on storage solutions depress margins
- The strategic position of energy storage solutions is uncertain

Valuation	2023e	2024e	2025e
Share price	13.0	13.0	13.0
Number of shares, millions	589.0	589.0	589.0
Market cap	7634	7634	7634
EV	8197	8273	8085
P/E (adj.)	24.1	16.3	14.6
P/E	27.2	16.9	15.1
P/B	3.4	3.1	2.8
P/S	1.2	1.0	1.0
EV/Sales	1.3	1.1	1.1
EV/EBITDA	12.9	9.4	8.4
EV/EBIT (adj.)	16.2	12.0	10.6
Payout ratio (%)	83.9 %	65.1 %	81.4 %
Dividend yield-%	3.1 %	3.9 %	5.4 %

Source: Inderes

2024-2025 forecasts fine-tuned upward

Estimate revisions 2023e-2025e:

- We cut our 2023 revenue and earnings forecasts by 2% after Wärtsilä reminded us of the distribution of the order book over time
- For 2024-2025, our earnings estimates increased by 2-3%. This is based on a more positive view of the share of high value added services, such as contracts with a performance guarantee, in the revenue of services and the entire Group. These services already accounted for 26% of Wärtsilä's total service business in Q3'23 and grew by 21% y/y while the total service business grew by 13% y/y

Operational result drivers 2023e-2025e:

- The green transition of marine engines and Wärtsilä's large market share in these technologies
- Strong growth in the motor power plant market in regulating power use
- Energy's supply contracts focusing on clean equipment deliveries (80% of the order book on 12/31/2023 vs. 40% on 12/31/2022), which are both more profitable and lower risk than turnkey deliveries
- Improved profitability of the storage business
- Increase in the share of high value added contract services with strong margins

Estimate revisions MEUR / EUR	2023e			2024e			2025e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	6281	6160	-2%	7405	7394	0%	7601	7646	1%
EBIT (exc. NRIs)	514	505	-2%	676	690	2%	740	763	3%
EBIT	463	454	-2%	656	670	2%	720	743	3%
PTP	424	415	-2%	624	638	2%	691	714	3%
EPS (excl. NRIs)	0.55	0.54	-2%	0.78	0.79	2%	0.86	0.89	3%
DPS	0.40	0.40	0%	0.50	0.50	0%	0.70	0.70	0%

Source: Inderes

Valuation still holds up in comparison

The price jumped but not too much

With the indicators we use, the expected risk-adjusted return on the share is still attractive and valuation multiples are below the median of the peers. The valuation has, however, tightened and a more significant short-term upside would require positive surprises from the Q4 report, the order front or the ongoing structural arrangements. At the moment, we do not bank on these and feel the long-term growth potential of Wärtsilä is still enough to maintain the stock as an interesting investment object. We reiterate our Accumulate recommendation and after raising our forecasts a bit we raise the target price to EUR 13.50 (was EUR 12.50).

Risk-adjusted expected return is okay

The total expected return on the share (the upside in the price determined by earnings growth and the change in valuation multiples plus the dividend yield) is +11...+14 % based on P/E and EV/EBIT calculations, above the required return of around 9%. Thus the share's risk-adjusted expected return is still attractive.

Multiples below peers

The share's 2024 P/E and EV/EBIT ratios (16x and 12x) are -19...-23% below the median of the peers. Overall, peer pricing is still quite favorable.

DCF potential is moderate, but so are the estimates

Our DCF model indicates an upside potential of around +11% for the share. In addition, the company's cash flow profile in the model is backloaded (terminal period = 64% of value). However, this is offset by our conservative expectation for the terminal EBIT margin (8.5%), which can be compared to Wärtsilä's own strategic EBIT margin target of 12%.

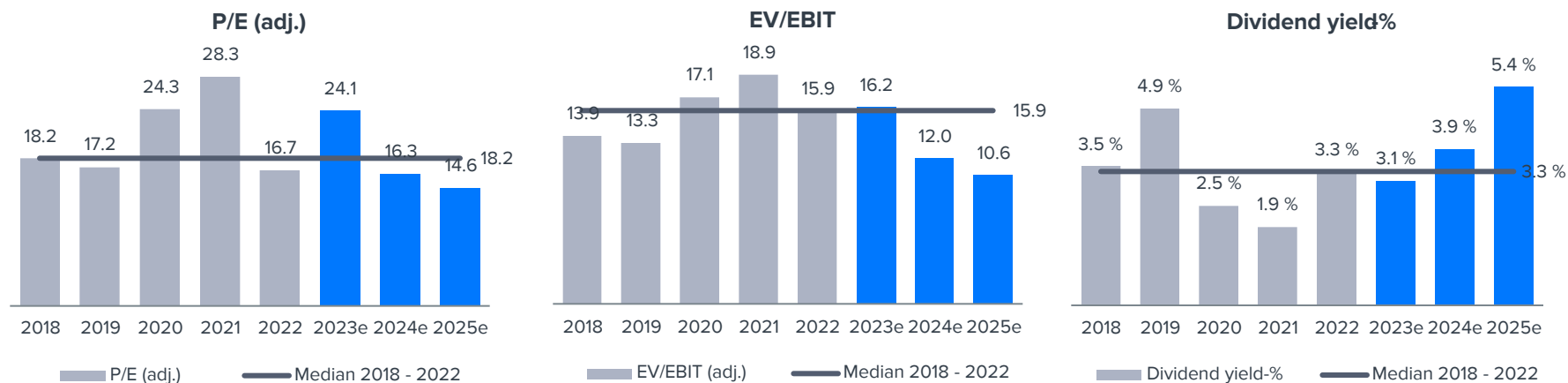
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Payout ratio (%)	83.9 %	65.1 %	81.4 %
Dividend yield-%	3.1 %	3.9 %	5.4 %

Source: Inderes

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	13.9	9.85	8.15	12.4	7.87	13.0	13.0	13.0	13.0
Number of shares, millions	591.7	591.7	591.7	590.0	590.0	589.0	589.0	589.0	589.0
Market cap	8225	5828	4823	7293	4643	7634	7634	7634	7634
EV	8608	6601	5255	7326	5158	8197	8273	8085	8004
P/E (adj.)	18.2	17.2	24.3	28.3	16.7	24.1	16.3	14.6	13.5
P/E	21.3	27.0	36.0	37.8	neg.	27.2	16.9	15.1	13.8
P/B	3.4	2.4	2.2	3.2	2.2	3.4	3.1	2.8	2.7
P/S	1.6	1.1	1.0	1.5	0.8	1.2	1.0	1.0	1.0
EV/Sales	1.7	1.3	1.1	1.5	0.9	1.3	1.1	1.1	1.0
EV/EBITDA	12.5	11.0	12.1	14.4	15.5	12.9	9.4	8.4	7.9
EV/EBIT (adj.)	13.9	13.3	17.1	18.9	15.9	16.2	12.0	10.6	9.7
Payout ratio (%)	73.5 %	131.5 %	88.3 %	73.4 %	neg.	83.9 %	65.1 %	81.4 %	74.7 %
Dividend yield-%	3.5 %	4.9 %	2.5 %	1.9 %	3.3 %	3.1 %	3.9 %	5.4 %	5.4 %

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
Metso Corp	7365	8152	9.9	10.2	8.3	8.5	1.5	1.5	12.8	12.7	3.9	4.1	2.8
Kone Oyj	23982	23081	18.8	16.9	15.4	14.2	2.1	2.1	24.5	22.1	4.0	4.2	8.2
Konecranes Abp	3108	3609	8.6	8.6	6.9	6.8	0.9	0.9	11.2	11.1	3.5	3.8	2.0
Siemens Energy AG	9024	8782		279.9		5.8	0.3	0.3					0.8
Abb Ltd	73116	75719	16.2	15.6	13.8	13.4	2.6	2.5	21.4	20.8	2.3	2.4	5.8
Alfa Laval AB	14247	15392	17.9	15.4	14.4	12.7	2.7	2.5	22.5	19.6	1.8	2.1	4.1
Alstom SA	4214	6850	10.8	9.2	6.2	5.0	0.4	0.4	8.3	8.5	2.7	3.0	0.5
Caterpillar Inc	132714	160768	13.0	13.2	11.6	12.0	2.6	2.6	13.8	13.8	1.8	1.9	7.4
General Electric Co	123813	124401	24.0	16.5	17.1	13.0	2.1	1.9	46.5	26.8	0.3	0.3	4.6
Rolls-Royce Holdings PLC	28735	31928	19.8	16.3	11.9	10.4	1.9	1.7	30.8	23.6		0.9	
Woodward Inc	7300	7835	24.6	19.8	18.0	15.4	2.9	2.7	31.7	26.4	0.6	0.7	3.8
Wartsila (Inderes)	7634	8197	16.2	12.0	12.9	9.4	1.3	1.1	24.1	16.3	3.1	3.9	3.4
Average			16.4	38.3	12.4	10.6	1.8	1.7	22.3	18.5	2.3	2.3	4.0
Median			17.0	15.6	12.9	12.0	2.1	1.9	21.9	20.2	2.3	2.2	3.9
Diff-% to median			-5%	-23%	0%	-22%	-36%	-42%	10%	-19%	37%	72%	-14%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e
Revenue	4778	5843	1465	1454	1452	1789	6160	1565	1816	1702	2311	7394	7646	8027
Marine Power	1863	2078	604	636	612	681	2533	723	746	673	911	3053	3117	3206
Marine Systems	654	680	138	106	135	166	545	159	175	158	194	686	715	740
Energy	1861	2721	645	633	613	839	2730	588	795	772	1093	3249	3428	3715
Portfolio Business	121	364	78	79	93	103	353	95	99	98	113	406	386	366
EBITDA	476	236	130	141	151	214	636	184	218	197	280	878	957	1019
Depreciation	-162	-263	-38	-76	-34	-34	-182	-52	-52	-52	-52	-208	-215	-217
EBIT (excl. NRI)	388	324	88	107	125	185	505	137	170	150	233	690	763	822
EBIT	314	-27	92	65	117	180	454	132	165	145	228	670	743	802
Marine Power	180	-109	55	78	50	78	261	64	65	60	120	309	326	342
Marine Systems	47	53	8	-9	12	13	24	12	17	13	13	55	61	64
Energy	134	82	34	41	51	81	207	51	79	68	100	298	346	386
Portfolio Business	-9	-52	-5	-45	5	8	-37	5	5	3	-5	8	10	10
Net financial items	-18	-7	-8	-13	-9	-9	-39	-8	-8	-8	-8	-32	-28	-25
PTP	296	-34	84	52	108	171	415	124	157	137	220	638	714	777
Taxes	-103	-27	-23	-24	-25	-51	-123	-32	-41	-36	-57	-166	-186	-202
Minority interest	0	-6	-6	-2	-1	-3	-12	-3	-5	-5	-6	-19	-22	-24
Net earnings	193	-67	55	26	82	118	281	88	111	96	156	453	507	552
EPS (adj.)	0.44	0.47	0.09	0.09	0.15	0.21	0.54	0.16	0.20	0.17	0.27	0.79	0.89	0.96
EPS (rep.)	0.33	-0.11	0.09	0.04	0.14	0.20	0.48	0.15	0.19	0.16	0.27	0.77	0.86	0.94

Key figures	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e
Revenue growth-%	3.8 %	22.3 %	19.0 %	3.3 %	1.3 %	1.0 %	5.4 %	6.8 %	24.9 %	17.2 %	29.2 %	20.0 %	3.4 %	5.0 %
Adjusted EBIT growth-%	26.0 %	-16.5 %	33.3 %	23.0 %	58.2 %	101.5 %	56.0 %	55.4 %	59.3 %	20.1 %	25.7 %	36.6 %	10.5 %	7.8 %
EBITDA-%	10.0 %	4.0 %	8.9 %	9.7 %	10.4 %	12.0 %	10.3 %	11.7 %	12.0 %	11.6 %	12.1 %	11.9 %	12.5 %	12.7 %
Adjusted EBIT-%	8.1 %	5.5 %	6.0 %	7.4 %	8.6 %	10.4 %	8.2 %	8.7 %	9.4 %	8.8 %	10.1 %	9.3 %	10.0 %	10.2 %
Net earnings-%	4.0 %	-1.1 %	3.8 %	1.8 %	5.6 %	6.6 %	4.6 %	5.7 %	6.1 %	5.7 %	6.8 %	6.1 %	6.6 %	6.9 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2539	2557	2555	2689	2681
Goodwill	1374	1288	1288	1288	1288
Intangible assets	401	392	388	426	413
Tangible assets	504	562	564	659	664
Associated companies	27	29	31	31	31
Other investments	18	19	19	19	19
Other non-current assets	48	72	64	64	64
Deferred tax assets	167	195	202	202	202
Current assets	3984	4049	4071	4880	5046
Inventories	1185	1361	1417	1701	1759
Other current assets	2	54	5	0	0
Receivables	1833	2173	2187	2625	2714
Cash and equivalents	964	461	462	555	573
Balance sheet total	6523	6606	6626	7569	7727

Source: Inderes

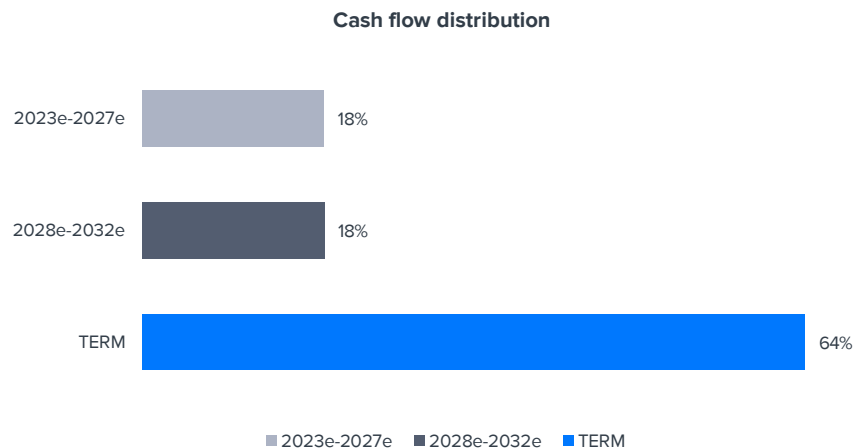
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	2323	2146	2257	2474	2686
Share capital	336	336	336	336	336
Retained earnings	2094	1889	2006	2223	2435
Hybrid bonds	0	0	0	0	0
Revaluation reserve	61	61	61	61	61
Other equity	-176	-152	-152	-152	-152
Minorities	8	12	6	6	6
Non-current liabilities	1394	1355	1396	1533	1399
Deferred tax liabilities	65.0	65.0	42.0	42.0	42.0
Provisions	314	396	396	396	396
Interest bearing debt	851	740	804	941	807
Convertibles	0	0	0	0	0
Other long term liabilities	164	154	154	154	154
Current liabilities	2806	3105	2973	3562	3642
Interest bearing debt	121	209	201	235	201
Payables	2685	2874	2772	3327	3441
Other current liabilities	0	22	0	0	0
Balance sheet total	6523	6606	6626	7569	7727

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	22.3 %	5.4 %	20.0 %	3.4 %	5.0 %	4.6 %	4.2 %	3.7 %	3.3 %	2.9 %	2.5 %	2.5 %
EBIT-%	-0.5 %	7.4 %	9.1 %	9.7 %	10.0 %	9.7 %	9.3 %	8.9 %	8.5 %	8.5 %	8.2 %	8.2 %
EBIT (operating profit)	-27.0	454	670	743	802	814	813	807	797	820	811	
+ Depreciation	263	182	208	215	217	215	207	211	214	217	223	
- Paid taxes	-55	-153	-166	-186	-202	-206	-205	-203	-199	-204	-201	
- Tax, financial expenses	-10	-14	-11	-10	-9	-9	-10	-11	-12	-13	-14	
+ Tax, financial income	8	3	2	3	3	3	4	4	4	4	4	
- Change in working capital	-357	-145	-162	-34	-51	-50	-47	-44	-41	-37	-33	
Operating cash flow	-178	328	542	730	759	768	762	764	762	787	791	
+ Change in other long-term liabilities	72	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-251	-171	-342	-207	-225	-226	-226	-225	-229	-250	-253	
Free operating cash flow	-357	156	201	524	535	542	536	539	533	537	538	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-357	156	201	524	535	542	536	539	533	537	538	11290
Discounted FCFF		156	187	454	432	408	376	352	324	304	284	5950
Sum of FCFF present value		9226	9070	8883	8428	7996	7589	7213	6861	6537	6234	5950
Enterprise value DCF		9226										
- Interest bearing debt		-949										
+ Cash and cash equivalents		461										
-Minorities		-20										
-Dividend/capital return		-153										
Equity value DCF		8564										
Equity value DCF per share		14.5										

WACC	
Tax-% (WACC)	26.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	3.0 %
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)	7.4 %

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	4604.0	4778.0	5843.0	6160.1	7394.3	EPS (reported)	0.23	0.33	-0.11	0.48	0.77
EBITDA	408.0	476.0	236.0	636.3	878.5	EPS (adj.)	0.33	0.44	0.47	0.54	0.79
EBIT	234.0	314.0	-27.0	454.3	670.2	OCF / share	1.30	1.35	-0.30	0.56	0.92
PTP	191.0	296.0	-34.0	415.3	638.2	FCF / share	1.18	0.80	-0.60	0.27	0.34
Net Income	134.0	193.0	-67.0	280.8	452.6	Book value / share	3.68	3.92	3.62	3.82	4.19
Extraordinary items	-74.0	-74.0	-351.0	-51.0	-20.0	Dividend / share	0.20	0.24	0.26	0.40	0.50
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	6232.0	6523.0	6606.0	6626.0	7569.1	Revenue growth-%	-11%	4%	22%	5%	20%
Equity capital	2187.0	2323.0	2146.0	2257.0	2474.1	EBITDA growth-%	-25%	17%	-50%	170%	38%
Goodwill	1325.0	1374.0	1288.0	1288.0	1288.0	EBIT (adj.) growth-%	-38%	26%	-16%	56%	37%
Net debt	408.0	8.0	488.0	542.9	621.1	EPS (adj.) growth-%	-42%	30%	8%	14%	48%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	8.9 %	10.0 %	4.0 %	10.3 %	11.9 %
EBITDA	408.0	476.0	236.0	636.3	878.5	EBIT (adj.)-%	6.7 %	8.1 %	5.5 %	8.2 %	9.3 %
Change in working capital	469.0	424.0	-357.0	-144.6	-161.6	EBIT-%	5.1 %	6.6 %	-0.5 %	7.4 %	9.1 %
Operating cash flow	770.9	795.7	-177.8	327.7	542.2	ROE-%	5.9 %	8.6 %	-3.0 %	12.8 %	19.2 %
CAPEX	-73.0	-286.0	-251.0	-171.4	-341.7	ROI-%	6.7 %	9.5 %	0.1 %	14.5 %	19.7 %
Free cash flow	695.9	472.7	-356.8	156.3	200.5	Equity ratio	37.8 %	38.6 %	35.8 %	37.7 %	36.4 %
						Gearing	18.7 %	0.3 %	22.7 %	24.1 %	25.1 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.1	1.5	0.9	1.3	1.1						
EV/EBITDA (adj.)	12.1	14.4	15.5	12.9	9.4						
EV/EBIT (adj.)	17.1	18.9	15.9	16.2	12.0						
P/E (adj.)	24.3	28.3	16.7	24.1	16.3						
P/B	2.2	3.2	2.2	3.4	3.1						
Dividend-%	2.5 %	1.9 %	3.3 %	3.1 %	3.9 %						

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	Share price
10/28/2019	Reduce	9.00 €	9.27 €
11/27/2019	Accumulate	10.00 €	9.08 €
1/20/2020	Accumulate	12.00 €	10.83 €
1/31/2020	Accumulate	12.50 €	11.45 €
3/26/2020	Accumulate	7.50 €	6.78 €
4/22/2020	Accumulate	7.00 €	6.36 €
7/20/2020	Accumulate	8.00 €	7.51 €
10/26/2020	Accumulate	8.00 €	7.44 €
1/21/2021	Reduce	9.40 €	9.01 €
1/29/2021	Reduce	8.70 €	8.11 €
4/23/2021	Reduce	10.00 €	10.31 €
7/21/2021	Reduce	12.00 €	12.35 €
10/27/2021	Accumulate	12.60 €	11.88 €
11/19/2021	Accumulate	14.00 €	13.16 €
1/31/2022	Accumulate	13.00 €	10.84 €
3/30/2022	Accumulate	11.50 €	9.11 €
4/21/2022	Accumulate	10.60 €	8.41 €
4/29/2022	Accumulate	9.50 €	7.75 €
7/22/2022	Accumulate	9.50 €	8.58 €
10/3/2022	Buy	8.00 €	6.58 €
10/26/2022	Buy	8.00 €	6.76 €
11/15/2022	Accumulate	9.00 €	8.25 €
1/4/2023	Accumulate	9.00 €	8.01 €
2/1/2023	Accumulate	9.50 €	8.71 €
4/26/2023	Accumulate	11.00 €	10.10 €
7/24/2023	Accumulate	12.50 €	11.38 €
11/1/2023	Accumulate	12.50 €	11.24 €
1/5/2024	Accumulate	13.50 €	12.96 €



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