

IGD

Sensitivity to Interest Rates Keeps Us Prudent

We appreciated IGD's 1H23 operating resilience, which should continue in 2H23, and led management to slightly revise upwards its FFO guidance for FY23. However, we reiterate our neutral view on the stock, in light of future interest rates, the inflation trend and portfolio value evolution.

1H23 impacted by -3.6% fair value change, but resilience at operating level

1H23 results came in broadly in line with our estimates at the revenues' and EBITDA level (+9.2% yoy and +3.8% yoy, respectively), while net income was affected by the -3.6% fair value change (EUR -80.3M impairment), which impacted Italian malls, in particular. Adj. FFO was EUR 30.9M, -9% vs. 1H22 but in line with our forecasts, mainly due to higher financial expenses. Net debt at end-June 2023 was EUR 982M, and LTV at 47.7% (vs. 45.7% at YE22).

We revise our FY23E-25E estimates to factor in the fair value changes and lower DPS

Following the 1H23A results' release and management's indications, we updated our estimates to incorporate a further -2% fair value change for the FY23E, while leaving our other assumptions unchanged. We recall that we already embed an increasing cost of financing to incorporate the interest rates' dynamic and the expected new debt issuance for IGD's refinancing needs. Our FY23E FFO stands at EUR 49M, some -7.5/-9% below the company's guidance. We estimate LTV ratios to remain broadly in line with 1H23 results, at around 47.6%, gradually reducing to 45.4% in FY25E, incorporating a cut in our 2023E-24E DPS expectations from EUR 0.3 to EUR 0.15 in 2023E and EUR 0.20 2024E. We do not factor in any asset disposals that could be carried out in future, as planned by the company.

Valuation

Following our estimates' revision, we lower our target price to **EUR 2.6** (from EUR 3.0), while we confirm our **HOLD recommendation on IGD**, in view of the limited upside.

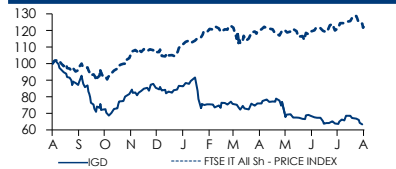
10 August 2023: 11:15 CET
Date and time of production

HOLD

Target Price: **EUR 2.6**
(from EUR 3.0)

Italy/Real Estate
Company Results

EXM-STAR
Price Performance
(RIC: IGD.MI, BB: IGD IM)



IGD - Key Data

Price date (market close)	09/08/2023
Target price (€)	2.6
Target upside (%)	9.24
Market price (€)	2.38
Market cap (EUR M)	262.62
52Wk range (€)	3.84/2.38

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	152.0	153.7	152.6
EBITDA	103.2	104.1	108.2
EBIT	7.69	-17.40	87.68
Net income	-22.34	-67.30	26.98
EPRA EPS (EUR)	0.58	0.44	0.38
Net debt/-cash	976.9	955.7	928.2
Adj P/E (x)	6.3	5.4	6.3
EV/EBITDA (x)	13.4	11.7	11.0
EV/EBIT (x)	NM	Neg.	13.6
Div ord yield (%)	8.2	6.3	8.4

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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1H23 Results

1H23 results were broadly in line with our estimates at the revenues' and EBITDA level, while net income was affected by the -3.6% fair value change, which particularly impacted Italian malls:

- **Total revenues at EUR 79.8M, +9.2% yoy. Net rental income at EUR 59.1M, +3.4% (+7.8% on a lfl basis)** also thanks to indexation, partially offset by higher temporary reduction on rents at malls (EUR 1M, o/w 0.6M in 2Q23, based on our calculations);
- **Consolidated EBITDA at EUR 53.8M** (+3.8% yoy) with a margin of 67.4%;
- **Net result was a EUR 47.1M loss** incorporating EUR 81.2M fair value changes and EUR 19.2M financial charges (the latter in line with our estimates), vs. EUR 26.5M net income reported in 1H22;
- **FFO adjusted was EUR 30.9M**, -9% vs. 1H22, mainly due to higher financial expenses (avg. cost of debt was 3.18% vs. 2.26% in FY22);
- **Net debt as at end-June 2023 was EUR 982M, and LTV 47.7%** (vs. 45.7% at YE22);

IGD – 2Q/1H23 results

EUR M	2Q22A	1H22A	FY22A	2Q23A	2Q23E	2Q23C	A/E %	A/C %	yoy %	1H23A
Gross rental income	35.1	69	137.3	35.4	34.7	-	2.1	-	0.9	70.1
Services	1.9	3.7	7.2	1.6	1.6	-	0.1	-	-16.9	3.8
Trading	0.4	0.4	7.5	1.4	2.5	-	-43.8	-	NM	5.6
Total revenues	37.4	73.1	152	38.7	38.8	-	-0.2	-	3.5	79.8
Operating cost	-8.6	-15.3	-36.5	-4.9	-10.0	-	-50.7	-	-42.7	-16.2
Non-operating cost	-3.2	-6.2	-12.3	-6.5	-3.1	-	NM	-	NM	-9.7
EBITDA total	25.6	51.8	103.2	27.1	25.6	-	5.5	-	3.8	53.8
EBITDA margin %	68.4	70.6	67.9	1.9	66.1	-	-	-	-	67.4
D&A, FV chg and provisions	-6.8	-10.6	-95.5	-78.9	-26.5	-	NM	-	NM	-81.2
EBIT	18.8	41	7.7	-51.9	-0.9	-	NM	-	NM	-27.5
NCF	-6.7	-14.3	-30.5	-10.0	-10.0	-	0.0	-	49.3	-19.2
Extraord. items / Equity contrib.	0	0.4	0.4	0.0	0.0	-	-	-	-	0.0
EBT	12.1	27.1	-22.4	-61.9	-10.9	-	NM	-	NM	-46.7
Taxes	-0.1	-0.7	0	0.1	-0.3	-	NM	-	NM	-0.3
Minorities	0	0	0	0.0	0.0	-	-	-	-	-
Net income	12	26.5	-22.4	-61.9	-11.2	-	NM	-	NM	-47.1
FFO adj.	17.3	34	67.2	15.1	14.9	-	1.3	-	-12.7	30.9
Net debt	1001.6	1001.6	976.9	982.0	982.0	-	0.0	-	-2.0	982.0
NAV/NRV per share	10.73	10.73	10.28	9.54	-	-	-	-	-11.1	9.54
LTV %	45.5	45.5	45.7	47.7	45.3	-	-	-	-	47.7

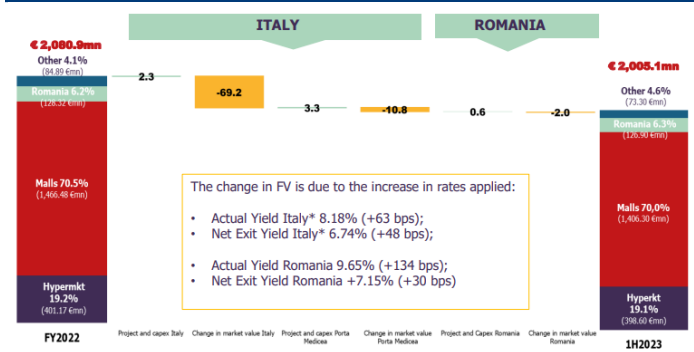
NM: not meaningful; A: actual; E: estimates C: FactSet consensus; Source: Company data and Intesa Sanpaolo Research

Portfolio Valuation and Debt Structure Update

As of 30 June 2023, IGD's portfolio was down by -3.6% vs. the YE22A level, at EUR 2.005Bn, reflecting a -4.11% devaluation of the Italian malls' portfolio, negative fair value changes (-0.63%) in hypermarkets in Italy and -1.14% fair value devaluation of the Romanian assets.

The EPRA NRV was down by EUR 0.74/share vs. 2022A figures, to EUR 9.54/share, with the main change represented by the fair value devaluation of real estate assets, which more than offset the positive FFO reported in the year.

IGD – Portfolio evolution (EUR M)



Source: Company data

IGD – EPRA NRV variation (EUR/share)

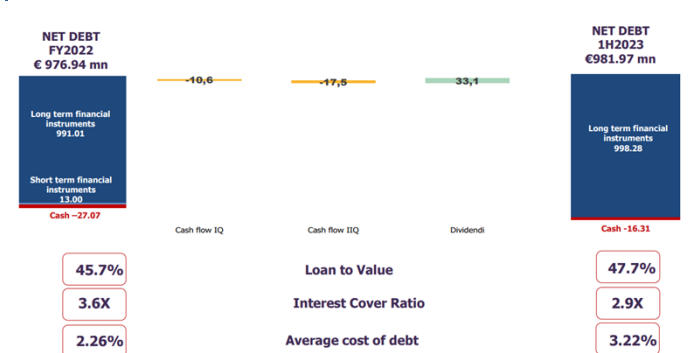


Source: Company data

Net debt was broadly stable at EUR 982M, with the LTV ratio deteriorating by 200bps vs. YE22 to 47.7% (from 45.7%), as a consequence of the lower value of the portfolio.

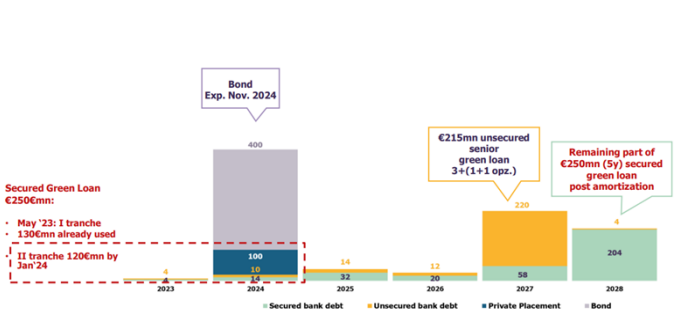
Looking at the debt and maturities' profile, in May IGD obtained a EUR 250M secured green loan, o/w EUR 130M were already used, while the remaining EUR 120M tranche can be drawn by January 2024. The cost of debt was 3.22% vs. 2.26% at FY22A (we believe the green loan transaction would have been agreed at market conditions, as broadly indicated by management during the May results' conference call, implying an around 3.5% spread leading to 6.5-7% rate), and is expected to grow going forward, following the preventive refinancing of 2024 maturities (EUR 400M bond at 2.125% maturing in November 2024), in the current interest rates backdrop.

IGD – Net debt and ratios yearly dynamic (EUR M)



Source: Company data

IGD – Debt structure and maturities (EUR M)



Source: Company data

Outlook and Estimates Revision

The main take-aways from the conference call were the following:

- **Still growing tenants' business.** Tenants' sales were +8.5% on average (50% inflation effect, 50% volumes), and footfall +6.6% in 1H23 vs. 1H22 (albeit still lower vs. the pre-pandemic levels), supporting rents' sustainability in our view;
- **Stable portfolio again as a best-case scenario at YE23E, in our view.** The impairment mainly impacted Italian malls (-4.11%, they account for 70% on IGD freehold portfolio), while Italian hypermarkets and the Romanian assets were broadly stable. According to management, in a scenario with softer rates and a more dynamic real estate market, a stabilisation at YE23 could be reasonable assumption, valuation-wise;
- **Still working on the refinancing of EUR 400M bond.** Regarding the financial structure, the company reiterated its target to maintain a rigorous financial discipline consistent with an investment-grade profile. Management is working to refinance the EUR 400M bond maturing in November 2024 (ideally with a 12-months advance vs. maturity) and is also considering some disposals.

The company slightly raised its FFO guidance for FY23, to EUR 54/55M (+1.9%, +3.8% vs. previously), still incorporating an increase in net financial charges for 2H23. We confirm our estimate pointing to EUR 49.0M.

IGD – P&L estimates 2022A-25E (New vs. Old)

EUR M	2022A	2023E	2024E	2025E	2023E
		New	New	New	old
Rental from domestic malls	99.7	101.5	105.1	107.2	101.5
Rental from hyper/supermarket	26.4	27.1	27.6	27.9	27.1
Rental revenues from Romania	9.4	9.7	9.9	10.1	9.7
City centre & other	1.8	1.8	1.9	1.9	1.8
Total gross rental incomes	137.3	140.1	144.5	147.1	140.1
Service revenues	7.2	7.0	7.1	7.2	7.0
Non-operating income (trading)	7.5	6.7	1.0	0.0	6.7
Total revenues	152.0	153.7	152.6	154.3	153.7
Cost of sold	-7.8	-6.5	-0.9	0.0	-6.5
Personnel	-7.2	-7.5	-7.6	-7.8	-7.5
Direct cost	-28.7	-30.4	-30.5	-30.1	-30.4
G&A expenses	-5.1	-5.3	-5.4	-5.5	-5.3
Total costs	-48.8	-49.7	-44.5	-43.3	-49.7
EBITDA	103.2	104.1	108.2	111.0	104.1
EBITDA margin (%)	67.9	67.7	70.9	71.9	67.7
Provisions	-0.1	-0.1	-0.1	-0.1	-0.1
D&A	-1.6	-1.0	-1.0	-1.0	-1.0
Write downs, FV & Cash Capex	-93.8	-120.3	-19.3	-16.1	-27.6
EBIT	7.7	-17.4	87.7	93.7	75.3
NFC	-30.5	-50.1	-61.1	-60.7	-50.1
Other operations/equity stakes)	0.4	0.7	1.0	1.0	0.7
EBT	-22.3	-66.8	27.5	34.0	25.9
Taxes	0.0	-0.5	-0.6	-0.7	-0.5
Net income	-22.3	-67.3	27.0	33.3	25.4
Minorities	0.0	0.0	0.0	0.0	0.0
Group net income	-22.3	-67.3	27.0	33.3	25.4
Group adj. Net income	64.2	48.4	41.7	44.8	48.4

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

IGD – Key-indicators 2022A-25E (New vs. Old)

EUR M - EUR/share - %	2022A	2023E	2024E	2025E	2023E	2024E
		New	New	New	old	old
EPS adj.	0.581	0.448	0.378	0.406	0.438	0.406
DPS	0.300	0.150	0.200	0.300	0.300	0.300
FFO recurring	49.7	49.0	42.1	45.2	49.0	45.2
FFO recurring per share	0.451	0.444	0.381	0.410	0.444	0.409
FFO recurring change yoy (%)	-25.7	-26.8	-14.2	7.5	-26.7	7.4
FFO adjusted	50.0	49.3	42.4	45.5	49.3	45.5
FFO adjusted per share	0.453	0.447	0.384	0.412	0.4	0.4
FFO adjusted change yoy (%)	-25.6	-26.6	-14.1	7.4	-26.6	7.3
EPRA NAV	1081.8	1040.5	1045.9	1059.0	1133.1	1124.0
EPRA NAV per share	9.80	9.43	9.48	9.60	10.27	10.19
Net debt	881	956	928	907	968	958
LTV (%)	44.4	47.6	46.3	45.4	45.6	45.3

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Valuation

We value IGD on our usual valuation approach, as the average equity value derived from DCF, DDM and multiples-based methodologies. Our model returns a lower **target price of EUR 2.6** (from EUR 3.0), following our downwards estimates' revision and a slight multiples' de-rating.

**HOLD rating confirmed;
new TP EUR 2.6 (from EUR 3.0)**

Given the limited upside on current prices, **we reiterate our HOLD rating** on the stock.

IGD – Target price calculation

EUR/Share	TP	Prem./Disc. To NAV 2023E %
IGD DCF model	3.2	-66
IGD DDM model	0.8	-92
IGD average peers' multiple	3.9	-58
Average TP	2.6	-72
Mkt price discount to NAV		-75
2023E EPRA NAV/share		9.43

IGD – WACC calculation (%)

Risk free rate	4.00
Equity Risk Premium	6.50
Beta (x)*	1.00
Cost of Equity	10.5
Net cost of debt	3.50
D/D+E	46.5
E/D+E	53.5
WACC	7.24

Source: Intesa Sanpaolo Research estimates

Note: *Bloomberg; Source: Intesa Sanpaolo Research estimates

DCF methodology

IGD - DCF valuation (2023E-25E)

EUR M	2023E	2024E	2025E	Beyond
EBIT	-17.4	87.7	93.7	
Taxes	-0.5	-0.6	-0.7	
NOPAT	-17.9	87.1	93.0	93.0
D&A and other non-cash items	121.5	20.5	17.3	23.5
Total capex	-23.0	-20.0	-11.5	-22.4
Working capital	0.0	15.4	5.2	5.2
Operating FCF	80.6	103.0	104.0	99.4
NPV FCF	75.1	89.6	84.3	
SUM DCF (2023E-25E)	249			
TV	1,372			
NPV TV	1,112			
SUM TV+DCF	1,361			
Net debt 2022A/Sever. & other funds	-1,006			
Equity Value	355			
Equity Value (EUR/share)	3.2			

Source: Intesa Sanpaolo Research estimates

DDM methodology**IGD - DDM valuation (2023E-25E)**

EUR M	2022E	2023E	2024E	2025E	Beyond
FCFE	38.6	33.1	16.6	22.1	33.1
COE (%)	10.5				
NPV FCFE		30.0	13.6	16.4	
SUM FCFE 2022E-25E	60				
Terminal Value (net of funds)	36				
NPV Terminal value	27				
Total FCFE	87				
FCFE per share (EUR)	0.8				

Source: Intesa Sanpaolo Research estimates

Multiples' approach**IGD – Peers P/NAV multiples (2022-24)**

(x)	2022	2023	2024
IGD	0.23	0.25	0.24
Eurocommercial Properties NV	0.58	0.66	0.66
Unibail-Rodamco-Westfield SE Stapled	0.42	0.44	0.49
Klepierre SA	0.81	0.81	0.83
Mercialys SA	0.44	0.47	0.49
Wereldhave N.V.	0.73	0.74	0.74
MERLIN Properties SOCIMI, S.A.	0.54	0.62	0.63
Covivio SA	0.41	0.48	0.50
Gecina SA	0.57	0.63	0.65
Icade SA	0.41	0.47	0.51
Average	0.51	0.56	0.57

Priced at market close on 09/08/2023; Source: FactSet

IGD – Peers' multiples valuation

Multiple P/NAV	P/NAV 2023 (x)	2023E EPRA NAV (EUR M)	NAV/sh.
Peers' avg. P/NAV 2023 (FactSet) & ISP 2023E NAV	0.56	1,040	5.2
Holding cost/Discount per share			-1.3
Implied TP (EUR)			3.9

Source: Intesa Sanpaolo Research estimates

Valuation and Key Risks

Valuation basis

Our EUR 2.6/sh. TP is obtained based on the average equity value derived from DCF, DDM (with a 10.5% cost of equity and a 7.24% WACC) and multiples-based methodologies based on P/NAV.

Key Risks

Company specific risks:

- The company's high domestic exposure, with a strong correlation to Italian country risk;
- The exposure to the retail business potentially affecting rents in a slow down of GDP
- Refinancing needs and relatively high-LTV level;

Sector generic risks:

- Rising Interest rates' dynamic
- Vacancies
- Tenants' credit risk

Company Snapshot

Company Description

Immobiliare Grande Distribuzione SIIQ S.p.A. is one of the main players in Italy's retail real estate market: it develops and manages shopping centers throughout the country and has a significant presence in Romanian retail distribution. Listed on the Star Segment of the Italian Stock Exchange, IGD was the first SIIQ (Società di Investimento Immobiliare Quotata or real estate investment trust) in Italy. IGD has a real estate portfolio valued at circa €2,140.5 million at 31 December 2021, comprised of, in Italy, 19 hypermarkets and supermarkets, 27 shopping malls and retail parks, 1 plot of land for development, 1 property held for trading and 6 other real estate properties. Following the acquisition of the company Winmark Magazine SA in 2008 14 shopping centers and an office building, found in 13 different Romanian cities, were added to the portfolio. An extensive domestic presence, a solid financial structure, the ability to plan, monitor and manage all phases of a center's life cycle, leadership in the retail real estate sector: these qualities summarize IGD's strong points.

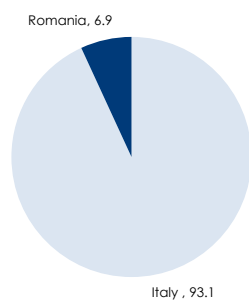
Key data

Mkt price (€)	2.38	Free float (%)	49.1
No. of shares	110.3	Major shr	Coop Alleanza 3.0
52Wk range (€)	3.84/2.38	(%)	40.9
Reuters	IGD.MI	Bloomberg	IGD IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-1.0	-1M	-2.6
-3M	-6.7	-3M	-9.1
-12M	-36.8	-12M	-48.7

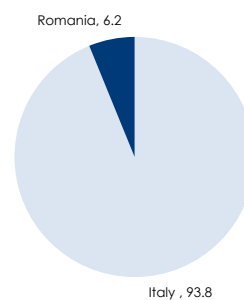
Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	152.0	153.7	153.5	152.6	154.0	154.3	158.0
EBITDA	103.2	104.1	103.0	108.2	105.0	111.0	106.0
EBIT	7.69	-17.40	103.5	87.68	108.0	93.70	110.0
Pre-tax income	-22.34	-66.80	54.00	27.53	46.00	34.00	49.00
EPRA Earnings	64.16	48.38	55.00	41.67	53.54	44.82	58.00
EPRA EPS (€)	0.58	0.44	0.50	0.38	0.43	0.41	0.44

Sales breakdown by asset (%)



GAV breakdown by asset (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 09/08/2023)

IGD – Key Data

Rating HOLD	Target price (€/sh) Ord 2.6		Mkt price (€/sh) Ord 2.38			Sector Real Estate
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E	2025E
No. ordinary shares (M)	110.3	110.3	110.3	110.3	110.3	110.3
Market cap (EUR M)	424.60	429.30	404.64	262.62	262.62	262.62
Adj. EPS	0.574	0.571	0.581	0.438	0.378	0.406
CFPS	-2.04	0.33	-1.07	-1.71	0.06	0.15
BVPS	10.23	10.70	10.16	9.29	9.52	9.83
NAVPS	10.10	10.62	10.17	9.26	9.35	9.45
Dividend ord	0	0.350	0.300	0.150	0.200	0.300
Average Price	3.8	3.9	3.7	2.4	2.4	2.4
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Revenues	152.7	152.0	152.0	153.7	152.6	154.3
EBITDA	98.70	106.8	103.2	104.1	108.2	111.0
EBIT	-52.32	89.88	7.69	-17.40	87.68	93.70
Pre-tax income	-88.59	55.78	-22.34	-66.80	27.53	34.00
Net income	-74.26	52.78	-22.34	-67.30	26.98	33.32
EPRA earnings	63.33	63.02	64.16	48.38	41.67	44.82
Cash flow (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net income before minorities	-74.3	52.8	-22.3	-67.3	27.0	33.3
Depreciation and provisions	151.0	16.9	95.5	121.5	20.5	17.3
Others/Uses of funds	0.1	-0.5	0.1	-0.1	-0.1	-0.1
Change in working capital	-12.0	5.3	12.4	0	15.4	5.2
Operating cash flow	50.5	77.5	85.6	54.6	63.3	56.3
Capital expenditure	-18.3	-35.0	-35.0	-23.0	-20.0	-11.5
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	115.0	0	0	0	0
Free cash flow	32.2	157.5	50.6	31.6	43.3	44.8
Dividends	-25.2	0	-38.6	-33.1	-16.6	-22.1
Equity changes & other non op item	6.6	-11.6	-92.7	-6.1	-6.5	-6.7
Net cash flow	7.2	168.4	10.1	21.3	27.5	20.9
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Total fixed assets	2,308.4	2,186.4	2,117.5	2,009.2	2,003.8	1,998.2
Net working capital	30.4	25.1	12.8	12.8	-2.6	-7.8
Other items	-54.4	-44.3	-31.7	-40.8	-39.2	-37.0
Net capital employed	2,284.4	2,167.2	2,098.5	1,981.2	1,962.0	1,953.4
Net debt/-cash	1,155.5	987.0	976.9	955.7	928.2	907.2
Minorities	0	0	0	0	0	0
Net equity	1,128.9	1,180.2	1,121.6	1,025.5	1,050.3	1,084.7
Stock market ratios (x)	2020A	2021A	2022A	2023E	2024E	2025E
Adj. P/E	6.7	6.8	6.3	5.4	6.3	5.9
P/CFPS	-1.9	12.0	-3.4	-1.4	40.4	16.4
P/BVPS	0.38	0.36	0.36	0.26	0.25	0.24
P/NAVPS	0.24	0.22	0.23	0.26	0.25	0.25
Payout (%)	0	73	-148	-25	82	99
Dividend yield (% ord)	0	9.0	8.2	6.3	8.4	12.6
FCF yield (%)	7.6	36.7	12.5	12.0	16.5	17.1
LTV (%)	49.9	44.8	45.7	47.6	46.3	45.4
D/EBIT	Neg.	11.0	127.0	Neg.	10.6	9.7
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E	2025E
EBITDA margin	64.6	70.3	67.9	67.7	70.9	71.9
EBIT margin	-34.3	59.1	5.1	-11.3	57.4	60.7
Tax rate	NM	NM	NM	0.7	NM	NM
Net income margin	-48.6	34.7	-14.7	-43.8	17.7	21.6
ROCE	-2.3	4.1	0.4	-0.9	4.5	4.8
ROE	-6.3	4.6	-1.9	-6.3	2.6	3.1
Interest cover	1.4	-2.6	-0.3	0.4	-1.5	-1.6
Debt/equity ratio	102.4	83.6	87.1	93.2	88.4	83.6
Growth (%)		2021A	2022A	2023E	2024E	2025E
Sales		-0.4	-0.0	1.2	-0.7	1.1
EBITDA		8.2	-3.4	0.9	3.9	2.6
EBIT		NM	-91.4	NM	NM	6.9
Pre-tax income		NM	NM	NM	NM	23.5
EPRA earnings		63.0	64.2	48.4	41.7	44.8
NAV data	2020A	2021A	2022A	2023E	2024E	2025E
Properties and other assets MV	2,308.4	2,186.4	2,117.5	2,009.2	2,003.8	1,998.2
NAV	1,114.5	1,171.8	1,121.8	1,021.4	1,031.8	1,043.1

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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Equity Research Publications in Last 12M

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Equity rating key: (long-term horizon: 12M)

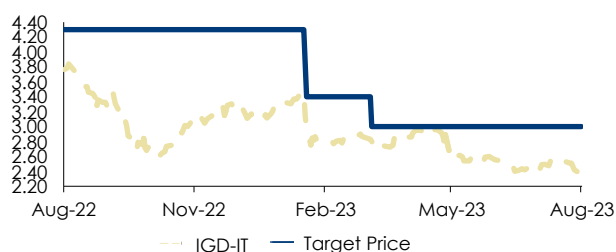
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Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
14-Mar-23	HOLD	3.0	2.8
27-Jan-23	HOLD	3.4	3.0

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