

# R22

**BUY**

(Previous: BUY @ 61,3 PLN)

## Profitroom will release value

TP: PLN 88,6

Upside: +29%

Consistently implemented M&A strategy, foreign expansion, strong results driven, among others, by ARPU growth and product development as well as high cash generation capacity - this is how we think the last quarters in R22 can be summed up in a nutshell. The MailerLite acquisition, fully consolidated from 3Q22, improved the results in the CPaaS segment by leaps and bounds, while the Hosting segment successfully realizes growth thanks to increases in service price lists, which is supported by the current inflationary environment and lower price positioning relative to the competition. We believe that while the growth profile in the two main business legs of R22 is priced in by the market, an additional and not yet discounted upside is the associated company Profitroom.

R22 currently controls 33.3% of Profitroom (as of January 2020) and has an option to buy another 17% in 2024. We believe that the high dynamics of organic growth (bookings +68% YoY, revenues +43% YoY) in 2022), exposure to the growing tourism market and revenue generation in the SaaS model may create an attractive equity story in the context of R22's decision on the future of the company, which may be made in the second half of 2023. In our opinion, R22 may consider several scenarios regarding a block of Profitroom shares. We believe that both (1) option execution scenarios, i.e. share buyback and consolidation of Profitroom's results in 2024, have a similar probability (which we have not included in our forecasts for now); (2) a scenario of resale of a block of shares to an industry investor or private equity fund. We believe that each of these scenarios may have its advantages, which will ultimately translate into the release of value for R22 shareholders. If the options are exercised, it can be assumed that the company will increase the results of the SaaS segment several times. On the other hand, in the case of resale of the R22 shareholding, it may strongly leverage the balance sheet, which in turn will rebuild the acquisition capacity where the company has a good, proven track-record. We believe that both scenarios are quite realistic and investors can discount the decision regarding the future of Profitroom ahead of time. In addition, the results this year in the two main segments promise to be record-breaking (EBITDA dynamics in 2023: +46% YoY in CPaaS and +26% in Hosting), which is also a strong investment argument in plus.

Taking into account the new approach to estimating the value of Profitroom, we reiterate our BUY investment recommendation with a target price of PLN 88.5 (+26% upside).

**Estimates.** We are raising our forecasts for 2023-25 by 4% at the revenue level and 5% at the EBITDA level. Our forecasts exceed the cumulative ESOP targets for the CPaaS and Hosting segments by 4% and 2% respectively in 2023-24.

**Valuation.** Our target price for R22 shares is based 100% on the DCF Sum-of-the-Parts method, where we value each segment of the company independently. For the first time in the valuation, we also carry out a stand-alone valuation of Profitroom using the comparative method (previously we based it on a balance sheet valuation). Our methodology returns the value of 1 R22 share at PLN 88.5 (BUY, +26% upside).

**Risk factors.** Described on page 7.

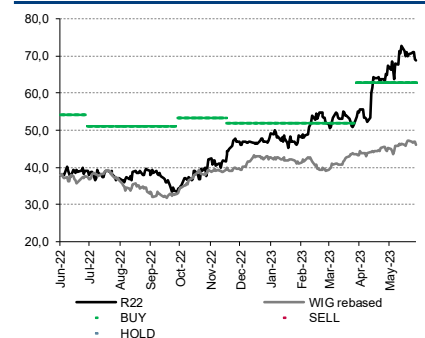
PLN m	2020	2021	2022	2023E	2024E	2025E
Revenue	223	297	392	488	571	650
EBITDA adj.	61	77	104	139	164	188
EBIT	45	49	74	111	137	153
Net profit	20	25	24	44	58	69
EPS (PLN)	1,5	1,8	1,7	3,1	4,1	4,9
P/E (x)	47,7	38,4	40,6	22,4	16,9	14,2
EV/EBITDA adj. (x)*	30,8	23,0	19,2	13,9	11,3	9,5
P/BV (x)	14,4	5,4	4,5	4,0	3,4	2,9
DY (%)	0,6%	0,8%	1,0%	1,4%	1,2%	2,1%

Source: company data, Trigon DM; Net Debt adjusted by market value of minorities (Vercom)

### FACT SHEET

Ticker	R22		
Sector	TMT		
Price (PLN)	68,80		
52wk Range (PLN)	28,4 / 62,5		
Number of share (m)	14,2		
Market Cap (mPLN)	976		
Free-float	25%		
Avg Vol 3M (mPLN)	0,28		
Price performance	1M	3M	1Y
	7,1%	1,8%	76,1%

### RELATIVE SHARE PRICE PERFORMANCE



Recommendation history	Date	Price
Buy	24.04.2023	63,1
Buy	13.12.2022	52,2
Buy	24.10.2022	53,4
Buy	25.07.2022	51,3
Buy	22.04.2022	54,3
Buy	09.12.2021	65,6
Buy	20.07.2021	65,6

### SHAREHOLDERS

	Share %
Jacek Duch	30,3%
Jakub Dwernicki	18,5%
Robert Dwernicki	8,9%
AEGON OFE	6,8%
Allianz OFE	5,7%
Allianz TFI	5,1%
Others	24,8%

### IMPORTANT DATES

Semi-annual report	05.09.2023
Quarterly report 3Q	14.11.2023

### ANALYST

Kacper Kopron

## R22

Bloomberg ticker

R22 PW

**Recommendation**

**Buy**

**Target Price (PLN)**

**88,6**

**Current Price (PLN)**

**68,8**

**Upside**

**29%**

Previous Recommendation

Buy

Previous Target Price (PLN)

Number of shares (m)

14,1

Market Cap (mPLN)

976

EV (m PLN)

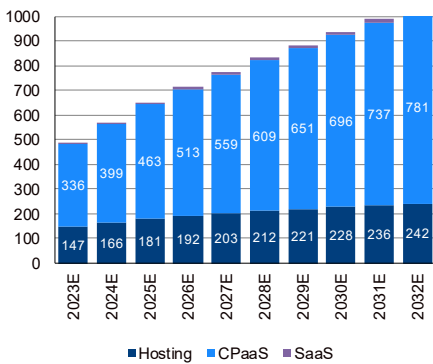
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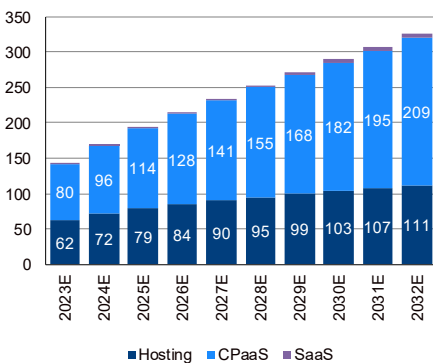
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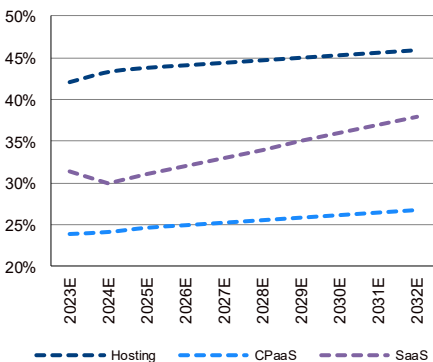
### Revenue by segment (PLN m)



### EBITDA by segment (PLN m)



### EBITDA margin by segment (%)



MARKET RATIOS	2021	2022	2023E	2024E	2025E
P/E (x)	38,4	40,6	22,4	16,9	14,2
P/E adj. (x)	38,4	40,6	22,4	16,9	14,2
P/BV (x)	5,4	4,5	4,0	3,4	2,9
EV/EBITDA * (x)	25,3	19,7	14,0	11,4	9,5
EV/EBITDA adj. * (x)	23,0	19,2	13,9	11,3	9,5
EV/Sales (x)	6,0	5,1	4,0	3,3	2,7
FCF Yield (%)	-1,0%	-8,2%	5,3%	6,5%	8,0%
DY (%)	0,8%	1,0%	1,4%	1,8%	2,1%

RATIOS	2021	2022	2023E	2024E	2025E
EPS (PLN)	1,8	1,7	3,1	4,1	4,9
EPS adj. (PLN)	1,8	1,7	3,1	4,1	4,9
DPS (PLN)	0,6	0,7	0,9	1,2	1,4
BVPS (PLN)	12,9	15,5	17,5	20,4	23,8
Number of shares (m)	14,1	14,1	14,1	14,1	14,1
Market Cap (mPLN)	976	976	976	976	976
EV (mPLN)	1 772	1 990	1 933	1 859	1 777

P&L (mPLN)	2021	2022	2023E	2024E	2025E
<b>Sales</b>	<b>297</b>	<b>392</b>	<b>488</b>	<b>571</b>	<b>650</b>
Cash sales	248	318	377	434	497
Gross profit from sales	49	74	111	137	153
EBITDA	70	101	138	163	188
<b>EBITDA adj.</b>	<b>77</b>	<b>104</b>	<b>139</b>	<b>164</b>	<b>188</b>
D&A	21	27	31	32	35
<b>EBIT</b>	<b>49</b>	<b>74</b>	<b>111</b>	<b>137</b>	<b>153</b>
Gross profit	41	52	91	123	146
Minority interest	8	16	30	41	49
Net profit	25	24	44	58	69
<b>Net profit adj.</b>	<b>25</b>	<b>24</b>	<b>44</b>	<b>58</b>	<b>69</b>

CASH FLOW STATEMENT (mPLN)	2021	2022	2023E	2024E	2025E
<b>Cash flow from operations</b>	<b>69</b>	<b>97</b>	<b>130</b>	<b>152</b>	<b>165</b>
<b>Cash flow from investing</b>	<b>-85</b>	<b>-260</b>	<b>-24</b>	<b>-27</b>	<b>-31</b>
CAPEX	-87	-260	-24	-27	-31
<b>Cash flow from financing</b>	<b>125</b>	<b>86</b>	<b>-84</b>	<b>-104</b>	<b>-98</b>
Dividend	-8	-10	-13	-17	-20
FCF	-18	-162	103	121	141
Net cash flow	109	-76	22	21	37

BALANCE SHEET (mPLN)	2021	2022	2023E	2024E	2025E
<b>ASSETS</b>	<b>579</b>	<b>866</b>	<b>888</b>	<b>913</b>	<b>959</b>
PPE	19	18	20	20	19
Goodwill	205	518	511	511	511
Intangible assets	89	126	119	114	110
Cash and equivalents	130	54	76	97	133
<b>EQUITY AND LIABILITIES</b>	<b>579</b>	<b>866</b>	<b>888</b>	<b>913</b>	<b>959</b>
Equity	182	219	247	287	335
Minority shareholders capital	96	179	193	219	248
Interest-bearing liabilities	171	299	262	208	203
Net debt adjusted *	796	1 014	958	883	802
Change in working capital	0	9	-5	-4	-3

OPERATING INDICATORS	2021	2022	2023E	2024E	2025E
Sales growth (%)	33%	32%	24%	17%	14%
EPS adj. growth (%)	24%	-6%	82%	33%	19%
Gross profit margin (%)	16,4%	19,0%	22,8%	24,1%	23,5%
EBITDA adj. margin (%)	25,9%	26,5%	28,4%	28,7%	28,9%
Operating profit margin (%)	16,4%	19,0%	22,8%	24,1%	23,5%
Net profit adj. margin (%)	8,6%	6,1%	8,9%	10,1%	10,6%
ROE (%)	20,3%	12,0%	18,7%	21,7%	22,1%
ROA (%)	5,3%	3,3%	5,0%	6,4%	7,3%
CAPEX/Sales (%)	29,3%	66,2%	5,0%	4,8%	4,7%
CAPEX/D&A (x)	4,1	9,8	0,8	0,9	0,9
Net debt/EBITDA **(x)	1,4	4,0	2,4	1,4	0,6

Cash conversion cycle (days)	-4	-10	-11	-9	-8
Inventory turnover (days)	0	0	0	0	0
Receivables turnover (days)	38	31	29	32	33
Liabilities turnover (days)	42	41	40	41	41

Source: Company, Trigon DM

Source: Company, Trigon DM \* Net Debt adjusted by the value of minority interest of Vercom ; \*\* calculated as nominal ND (without minorities) to proportional EBITDA attributable to majority interest

## Valuation

**Valuation.** Our R22 share price target is based 100% on the DCF Sum-of-the-Parts approach. In our method, we value each of the Group's three segments independently. In addition, the valuation includes the valuation of associates. For the Profitroom company, we take into account the value based on the comparative valuation, and for the other companies, the carrying amount. Our methodology returns the value of 1 R22 share at PLN 88.5 (BUY, +26% upside).

### Main assumptions of WACC:

- Risk-free rate of 6.0%;
- Market premium 6.0% (TDM methodology 6.0% for sWIG80 companies);
- Unleveraged beta of 1.0x;
- Residual growth rate of 3%;
- Cost of debt after tax 7.7%

### **R22: WACC**

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
D/(E+D)	18%	15%	11%	5%	4%	2%	1%	1%	1%	1%
10Y bond yield	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Levered beta	1,2	1,1	1,1	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Market premium	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Cost of debt after tax	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%
Cost of Equity	13,1%	12,8%	12,6%	12,3%	12,2%	12,1%	12,1%	12,1%	12,1%	12,1%
<b>WACC</b>	<b>12,1%</b>	<b>12,1%</b>	<b>12,1%</b>	<b>12,0%</b>	<b>12,0%</b>	<b>12,0%</b>	<b>12,0%</b>	<b>12,0%</b>	<b>12,0%</b>	<b>12,0%</b>

Source: Trigon DM estimates

### The main assumptions of the DCF SOTP valuation:

- R22's share of 99.4% in the Hosting segment, 50.26% in the CPaaS segment and 45.58% in the SaaS segment;
- Tax rate: 20% in the Hosting segment, 16% in the CPaaS segment (part of the IP BOX relief) and 19% in the SaaS segment;
- Residual growth rate: 2% in the Hosting segment, 3% in the CPaaS segment and 3% in the SaaS segment;
- CAPEX/revenue ratio: 7% in the Hosting segment, 3.5% in the CPaaS segment and 23% in the SaaS segment;
- The valuation includes the value of associates (Profitroom valued using the comparative method; other carrying amount);
- The valuation includes a 3.6% holding discount resulting from EBITDA, which is not assigned to any of the segments (corporate level);

### Hosting - DCF valuation

DCF PLN m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
EBIT	46,8	55,0	61,2	65,6	70,2	73,7	77,4	80,3	83,5	86,0	
Tax Rate	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	
NOPLAT	37,4	44,0	49,0	52,4	56,1	58,9	61,9	64,3	66,8	68,8	
Amortization	15,2	16,9	17,9	18,9	19,9	20,9	21,9	22,9	23,9	24,9	
CAPEX	-10,3	-11,6	-12,7	-13,4	-14,2	-14,8	-15,5	-16,0	-16,5	-16,9	
Working Capital, net	6,1	5,0	5,6	4,3	3,7	3,3	2,3	1,4	1,7	1,5	
FCF	48,4	54,3	59,8	62,2	65,5	68,3	70,7	72,6	75,9	78,3	78,3
WACC (%)	12,1%	12,1%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%
Present value of FCF	45,7	45,7	45,0	41,8	39,2	36,5	33,7	30,9	28,9	26,6	
Total DCFC	371										
g	2,0%										
TV	242										
PV + RV	613										

Source: Trigon DM

### CPaaS - DCF valuation

DCF PLN m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
EBIT	64,9	81,5	98,0	111,1	123,1	136,6	148,2	161,0	172,9	185,7	
Tax Rate	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	
NOPLAT	54,5	68,4	82,4	93,3	103,4	114,7	124,5	135,2	145,2	156,0	
Amortization	15,3	14,9	15,9	16,9	17,9	18,9	19,9	20,9	21,9	22,9	
CAPEX*	-11,7	-14,0	-16,2	-18,0	-19,6	-21,3	-22,8	-24,4	-25,8	-27,3	
Working Capital, net	-2,9	-2,3	-0,5	-0,2	-0,4	-0,4	-0,4	-0,5	-0,5	-0,5	
FCF	55,1	67,0	81,6	92,0	101,3	111,8	121,2	131,3	140,9	145,1	
WACC (%)	12,1%	12,1%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	
Present value of FCF	52,0	56,4	61,3	61,7	60,7	59,8	57,9	56,0	53,6	49,3	
Total DCFC	568										
g	3,0%										
TV	503										
PV + RV	1 071										

Source: Trigon DM

### SaaS - DCF valuation

DCF PLN m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
EBIT	0,8	0,9	1,0	1,1	1,2	1,5	1,8	2,2	2,6	3,0	
Tax Rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPLAT	0,7	0,8	0,8	0,9	1,0	1,2	1,5	1,8	2,1	2,4	
Amortization	0,8	0,8	1,1	1,4	1,7	2,0	2,3	2,6	2,9	3,2	
CAPEX	-1,5	-1,7	-1,9	-2,1	-2,3	-2,5	-2,8	-3,1	-3,3	-3,4	
Working Capital, net	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCF	-0,1	-0,1	0,0	0,2	0,4	0,6	0,9	1,3	1,7	2,0	2,0
WACC (%)	12,1%	12,1%	12,1%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%
Present value of FCF	-0,1	-0,1	0,0	0,1	0,2	0,3	0,5	0,6	0,7	0,7	
Total DCFC	3										
g	3,0%										
TV	7										
PV + RV	10										

Source: Trigon DM

## R22 - SOTP valuation

<b>SOTP VALUATION</b>	<b>Hosting</b>	<b>CPaaS</b>	<b>SaaS</b>
PV + RV	613	1071	10
Net Debt	74	112	1
Investments in associates		13	
Appchance		3	
User.com		10	
<b>Enterprise value (PLN m)</b>	<b>540</b>	<b>972</b>	<b>9</b>
R22 share (%)	99,40%	50,26%	45,58%
<b>Enterprise value attributable to R22 (PLN m)</b>	<b>537</b>	<b>489</b>	<b>4</b>
<b>Enterprise value attributable to R22 per share (PLN)</b>	<b>37,8</b>	<b>34,5</b>	<b>0,3</b>
Corporate Net Debt after exclusions (PLN m)		105	
Investments in associates (PLN m)		157	
Profitroom*		135	
Sellintegro		20	
Ofree		2	
<i>Holding discount (unallocated EBITDA)</i>		<b>3,7%</b>	
<b>Equity value (PLN m)</b>		<b>1046</b>	
Value per share (01.01.2023) (PLN)		73,8	
Value per share (today) (PLN)		78,4	
<b>12M TP</b>		<b>88,6</b>	
Upside		<b>29%</b>	

\* comparative valuation

Source: Trigon DM estimates

## Comparative valuation assumptions:

- Analogous to the DCF SOTP method, valuation Assumptions for comparative valuation: Similarly to the DCF SOTP method, comparative valuation is carried out for each business segment of the company independently with a separate comparative group;
- The valuation is based on the EV/EBITDA ratio;
- Results and value of affiliated companies (including Profitroom) are not included
- The comparative valuation gives us a price per R22 share of **PLN 61.9 per share**

## R22: comparative group

Company Name	EV/EBITDA		
	2023E	2024E	2025E
<b>Hosting</b>			
GODADDY	13,1	11,6	10,0
UNITED INTERNET	4,0	3,7	3,5
IOMART GROUP	6,0	5,8	5,5
VERISIGN	21,1	19,7	18,0
<b>Median</b>	<b>9,6</b>	<b>8,7</b>	<b>7,8</b>
<b>CPaaS</b>			
LINK MOBILITY GROUP HOLDING	9,0	7,8	7,3
KALEYRA	8,9	7,8	7,7
SINCH	9,0	7,6	6,7
PERFICIENT	13,8	12,5	11,3
TWILIO	15,5	13,6	10,6
BANDWIDTH	14,6	8,7	7,1
<b>Median</b>	<b>11,4</b>	<b>8,3</b>	<b>7,5</b>
<b>SaaS</b>			
ADOBE	18,4	16,9	14,7
SALESFORCE.COM	19,0	15,9	13,5
INTUIT	23,0	20,2	17,3
SERVICENOW	34,1	27,0	21,5
ZOOM VIDEO COMMUNICATIONS	9,7	8,9	8,3
LIVECHAT SOFTWARE	15,4	13,4	12,2
<b>Median</b>	<b>18,7</b>	<b>16,4</b>	<b>14,1</b>

Source: Bloomberg, Trigon DM

## R22 - comparative valuation

Comparative valuation	2023E	2024E	2025E
<b>EV (PLN m)</b>	<b>1540</b>	<b>1448</b>	<b>1495</b>
Hosting	594	624	616
CPaaS	916	795	849
SaaS	30	29	29
<b>Net Debt (PLN m)</b>			
Hosting	55	33	10
CPaaS	72	32	-8
SaaS	0	-2	-4
corporate area	109	98	82
<b>Equity value (PLN m)</b>			
Hosting	539	591	607
CPaaS	844	763	857
SaaS	30	31	33
corporate area	-109	-98	-82
<b>R22 share (PLN m)</b>			
Hosting	536	588	603
CPaaS	424	384	431
SaaS	14	14	15
corporate area	-109	-98	-82
<b>R22 - value per share (PLN)</b>			
Hosting	38,0	41,7	42,8
CPaaS	30,1	27,2	30,6
SaaS	1,0	1,0	1,1
corporate area	-7,7	-6,9	-5,8
Discount - EBITDA not attributable		3,7%	
<b>Average valuation per share (PLN)</b>		<b>61,9</b>	

Source: Bloomberg, Trigon DM estimates

## Risk factors

- **Execution of M&A transactions.** The company has been pursuing an active M&A strategy for several years. Potentially unsuccessful acquisitions may be associated with various risk factors that may adversely affect the company's financial results and development strategy. One of the key reasons why acquisitions may fail is the lack of synergy. If companies are unable to integrate their processes, organizational cultures, technologies or marketing activities, they will not be able to achieve the expected benefits such as cost reduction, increased efficiency or access to new markets. In addition, in the case of M&A transactions, the risk that R22 will take over the entity at too high a cost cannot be ruled out. If the value of the target company has been overestimated, it may lead to overpaying for the acquisition and difficulties in achieving the expected returns on investment. Acquisitions may also involve operational problems (e.g. lack of appropriate organization management systems) or integration problems (e.g. organizational conflicts, reduced efficiency);
- **Debt.** Throughout its history, the company was usually financed with debt. Historically, the DN/EBITDA ratio excluding minority interests ranged from 2x - 3x, and taking into account the current value of Vercom minority capitals listed on the stock exchange, it is approx. net debt value). A company's level of debt can be particularly risky if market financial conditions deteriorate. An increase in interest rates may lead to an increase in debt servicing costs, which in turn may adversely affect the company's financial results. The high level of the DN/EBITDA ratio also means limited financial flexibility. With high indebtedness, the company may have difficulties in implementing strategic investments, launching new products or adapting to changing market conditions;
- **Risk of economic slowdown in the CEE region.** The company is a beneficiary of trends related to economic growth in the CEE region, such as an increase in the number of Internet users or an increase in the number of medium and small enterprises. The risk of an economic slowdown in the region may have negative consequences for R22, which is exposed to the trends of digitization of economies due to restrictions on spending by consumers and companies on digital services. The economic slowdown may lead to a reduction in investments or lower demand for digital services such as hosting or CPaaS services, which may have a negative impact on the company's financial results.

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##### Definitions

capitalisation – market price multiplied by the number of a company's shares

free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company

min/max 52 wks – minimum/maximum share price within the last 52 weeks

average turnover – average volume of share trading within the last month

EBIT – operating profit

EBITDA – operating profit increased by depreciation and amortisation

adjusted profit – net profit adjusted for one-off items

CF – cash flow

capex – sum of investment expenditures on fixed assets

OCF – cash generated through the operational activities of the company



FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets

ROE – rate of return on equity

NWC – net working capital

Cash conversion cycle – period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue

EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue

EBIT margin – a ratio of operating profit to net revenue

net margin – a ratio of net profit to net revenue

EPS – earnings per share

DPS – dividends per share

P/E – a ratio of market price to earnings per share

P/BV – a ratio of market price to book value per share

EV/EBITDA – a company's EV to EBITDA ratio

EV – sum of a company's current capitalisation and net debt

DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate

WACC - weighted average cost of capital

ISSUER – RZ2 S.A.

#### Recommendations of the Brokerage House

BUY – we expect that the rate of return on an investment will be at least 10%

NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%

SELL – we expect that an investment will make a loss greater than 0%

Recommendation prepared by: Kacper Kopron

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As basis valuation methodology and the adopted assumptions used to assess the financial instrument or issuer or to determine the target price of the financial instrument was adopted DCF valuation

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