

PSI AG

Germany / Software
 Primary exchange: Frankfurt
 Bloomberg: PSAN GR
 ISIN: DE000A0Z1JH9

9M 2020 results

RATING	ADD
PRICE TARGET	€ 26.00
Return Potential	9.2%
Risk Rating	Medium

SALES AND EBIT BOTH UP EX PROVISIONING AND CURRENCY EFFECTS

Nine months results were close to our expectations. Sales were 1% lower at €158.1m (FBe: €156.9m; 9M/19: €159.7m) while EBIT declined 15.3% to €8.9m (FBe: €8.6m; 9M/19: €10.5m). The order intake was 2.2% lower at €178m (9M/19: €182m). In the annual report in mid-March, i.e. at the outset of the SARS-CoV-2 pandemic, PSI guided for a slight decline in 2020 sales and a 20% reduction in EBIT compared with 2019. EBIT for the first nine months was weakened by the impact of negative currency effects (mainly the weakness of the US Dollar against the Euro) as well as provisioning for personnel matters and payment risks. Without these effects both sales and EBIT would have been above the prior year figures. The reported decline in 9M/20 EBIT was well under 20%. But in view of the renewed lockdown in Germany, management has decided not to alter the guidance from March even though “the current course of business indicates a better development.” Despite the second lockdown in Germany, we think it unlikely that currency/provisioning effects will be as burdensome in Q4/20 as during the first three quarters of the year and now forecast a 10% decline in full-year 2020 EBIT to €15.4m (previously: 20% to €13.7m). We have raised our price target from €21.20 to €26.00 to reflect both the upward revision to our 2020 forecasts and higher sales growth projections for subsequent years in view of this summer's announcement by the German government of €40bn in climate-related spending and other recently announced international green recovery packages. Due to the strong appreciation in the share price over recent months the recommendation goes from Buy to Add.

Shift in product mix away from oil & gas squeezed Energy Management margins Sales at the Energy Management segment (energy grids, energy trading, public transport) climbed 4.9% to €85.0m (9M/19: €81.0m) while EBIT came in at €4.0m (9M/19: €4.4m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	186.10	199.16	225.18	223.61	249.22	270.51
Y-o-y growth	5.2%	7.0%	13.1%	-0.7%	11.5%	8.5%
EBIT (€m)	13.37	15.45	17.20	15.37	21.21	26.15
EBIT margin	7.2%	7.8%	7.6%	6.9%	8.5%	9.7%
Net income (€m)	9.50	10.59	14.26	10.44	15.06	19.08
EPS (diluted) (€)	0.61	0.68	0.91	0.67	0.96	1.22
DPS (€)	0.23	0.25	0.05	0.25	0.35	0.45
FCF (€m)	-2.92	11.57	3.75	13.25	23.80	16.12
Net gearing	18.7%	9.8%	42.0%	30.4%	16.4%	12.4%
Liquid assets (€m)	38.13	44.58	38.66	45.58	60.48	65.70

RISKS

Risks include a renewed downturn in the prices of oil, gas and steel.

COMPANY PROFILE

PSI makes software control systems, primarily for energy, utility companies and metals producers. Customers also include manufacturers and the operators of transportation networks. The company's control system products are widespread in its core German market.

MARKET DATA

As of 30 Oct 2020

Closing Price	€ 23.80
Shares outstanding	15.70m
Market Capitalisation	€ 373.60m
52-week Range	€ 12.00 / 27.10
Avg. Volume (12 Months)	8,296

Multiples	2019	2020E	2021E
P/E	26.1	35.6	24.7
EV/Sales	1.8	1.8	1.6
EV/EBIT	23.7	26.6	19.3
Div. Yield	0.2%	1.1%	1.5%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2020

Liquid Assets	€ 41.38m
Current Assets	€ 144.24m
Intangible Assets	€ 62.77m
Total Assets	€ 253.38m
Current Liabilities	€ 72.78m
Shareholders' Equity	€ 98.40m

SHAREHOLDERS

InvAG für langfristige Investoren TGV	20.7%
Innogy SE	17.8%
Management and employees	15.0%
Harvinder Singh	8.1%
Free float and other	38.4%

Figure 1: 9M/20 results versus our forecasts

€ 000s	9M 20A	9M 20E	Δ 9M 20A vs. 9M 20E	9M 19A	Δ 9M 20A vs. 9M 19A
External sales	158,139	156,853	0.8%	159,718	-1.0%
<i>by division:</i>					
Energy Management	85,033	82,537	3.0%	81,024	4.9%
Production Management	73,106	74,316	-1.6%	78,694	-7.1%
EBIT	8,874	8,613	3.0%	10,479	-15.3%
margin	5.6%	5.7%		6.6%	
<i>by division:</i>					
Energy Management	3,975	3,902	1.9%	4,428	-10.2%
margin	4.6%	4.6%		5.3%	
Production Management	6,211	5,915	5.0%	7,036	-11.7%
margin	7.5%	7.6%		8.2%	
Reconciliation	-1,312	-1,204		-985	
EPS (€)	0.38	0.37	2.7%	0.46	-17.4%

Source: PSI AG; First Berlin Equity Research estimates

Sales at the electrical networks and public transport businesses moved ahead but both sales and the order intake at the oil & gas business suffered from reduced demand from energy exporting countries such as Russia, the Gulf States and Malaysia due to low commodity prices. The reported segment EBIT margin narrowed to 4.7% (9M/19: 5.4%). Overseas oil & gas business generates above average margins and so the decline in revenue from this source squeezed margins. However, we believe the segment margin would have been ahead had it not been for provisioning for pandemic-related payment risks.

New business at PSImetals pushed Product Management order intake higher Sales at the Production Management segment (metals production, industry, logistics) declined 7.1% to €73.1m (9M/19: €78.7m) while EBIT fell 11.7% to €6.2m (9M/19: €7.0m). Here too risk provisioning burdened the result. Sales and EBIT at PSImetals fell during the first nine months but substantial new orders from North America, China and Russia pushed the order intake ahead both at this business and at the segment as a whole. The automotive and industry business recorded a lower order intake but sales declined only gently and are now beginning to pick up. This business was supported by new orders from electric vehicle producers, automotive parts suppliers and caravan manufacturers. Logistics business sales fell overall as business with industrial customers shrank but sales in Poland and Russia were boosted by booming local e-commerce markets.

Operating cashflow up over 280% due to reduced working capital requirement

Cashflow from operations before investment in working capital fell 7.0% to €17.2m during 9M/20 (9M/19: €18.5m). In 9M/20 flat sales meant that working capital consumed only €3.0m whereas in 9M/19 it consumed €14.8m. In consequence net operating cash flow jumped to €14.2m (9M/19: €3.7m). Cashflow from investing activities amounted to €-3.1m (9M/19: €-7.2m). The 9M/19 number included the acquisition of the BTC Smart-Grid division for €3.5m. PSI acquired Prognos Energy GmbH in Q2/20 but the purchase price was very low at €11,000 because the company had financial problems. Dividend payments fell to €0.8m (9M/19: €3.8m) in connection with the reduction in the 2019 dividend to €0.05 (2018: €0.25). Principal repayments of leasing liabilities consumed €4.2m (9M/19: €3.1m). The 9M/20 cash position was €41.4m (FY/19: €38.7m). Net debt including pension liabilities and leasing liabilities was €34.8m at 9M/20 equivalent to net gearing of 35.4% (9M/19: net debt including pension liabilities and leasing liabilities of €42.0m equivalent to net gearing of 46.5%).

Management is examining further takeover targets in core grid management business.

In June PSI acquired the Potsdam-based Prognos Energy, a provider of software for high resolution forecasting of energy feed-in from wind energy and photovoltaic. The acquisition of the Swiss-based NEPLAN AG followed in October. NEPLAN's software is used for the planning, analysis, simulation, technical and commercial optimisation of electrical grid expansion and also for the cross-linked areas of gas, water and district heating. NEPLAN's software is deployed by over 500 customers in 110 countries. In 2019 the company generated sales of €3.8m. The acquisition will help PSI meet expected increasing demand for electrical grid expansion planning solutions due to the growth of renewable energy, electro-mobility and sector coupling. PSI stated in the nine months report that the company is considering further acquisitions in electrical grid management. The Prognos and NEPLAN acquisitions both augmented the functionality of PSI's existing product offering. But future acquisitions may follow the pattern of the late 2018 acquisition of the network software control business of BTC Business Technology Consulting. Here the priority was to acquire trained personnel to help PSI meet increasing demand for electrical network control solutions.

Price target raised from €21.20 to €26.00; recommendation goes from Buy to Add We have raised our price target from €21.20 to €26.00 to reflect the upward revision to our 2020 forecasts, this summer's announcement by the German government of a stimulus package including €40bn in climate-related spending and other recently announced international green investment packages. The German investment programme includes €7bn for new hydrogen projects, €2bn for green automotive innovations, €2.5bn for EV charging infrastructure and €2.5bn for public transport improvements. On the strength of these announcements we now expect a five year organic sales CAGR for PSI's Energy Management segment of 8.8% (previously: 6.2%). Our 2021 Energy Management segment EBIT margin forecast falls because we now model a longer period of weak investment from overseas oil & gas customers.

Figure 2: Changes to our forecasts

€m	2020E			2021E			2022E		
	New	Old	Δ %	New	Old	Δ %	New	Old	Δ %
External sales	223.6	213.1	4.9%	249.2	246.5	1.1%	270.5	261.5	3.4%
by division:									
Energy Man.	121.5	121.5	0.0%	134.9	132.4	1.9%	147.0	141.7	3.7%
Production Man.	102.1	91.6	11.5%	114.4	114.1	0.2%	123.5	119.8	3.1%
Total EBIT	15.4	13.7	12.2%	21.2	22.8	-7.0%	26.1	25.5	2.5%
margin (%)	6.9%	6.4%	-	8.5%	9.3%	-	9.7%	9.8%	-
by division:									
Energy Man.	6.8	7.5	-9.7%	10.4	12.0	-13.7%	14.3	13.8	3.6%
margin (%)	5.4%	6.0%	-	7.5%	8.8%	-	9.5%	9.5%	-
Production Man.	10.6	7.5	41.5%	13.6	13.0	4.7%	15.3	14.0	9.1%
margin (%)	9.2%	7.5%	-	10.6%	10.4%	-	11.0%	10.7%	-
Reconciliation	-2.0	-1.3	-	-2.8	-2.1	-	-3.4	-2.4	-
EPS (€)	0.67	0.59	13.3%	0.96	1.04	-7.3%	1.22	1.19	2.6%

Source: PSI AG; First Berlin Equity Research estimates



VALUATION MODEL

€000s	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	223,607	249,224	270,511	289,682	308,929	329,519	346,736	363,315
NOPLAT	10,762	15,376	19,403	21,321	22,716	24,206	25,467	26,681
+ Depreciation and amortisation	9,713	11,324	12,291	13,162	14,036	14,972	15,754	16,508
= net operating cash flow	20,474	26,700	31,694	34,483	36,752	39,178	41,222	43,188
- total investments (Capex and WC)	-6,601	-2,265	-14,919	-15,096	-11,939	-12,749	-12,397	-12,656
Capital expenditure	-3,994	-8,721	-9,335	-9,662	-9,598	-10,245	-10,304	-10,640
working capital	-2,606	6,456	-5,584	-5,435	-2,340	-2,504	-2,094	-2,016
= Free cash flow (FCF)	13,874	24,435	16,775	19,387	24,813	26,430	28,824	30,532
PV of FCF's	13,715	22,440	14,311	15,365	18,268	18,076	18,314	18,021

€000s	
PVs of FCFs explicit period (2020-35)*	266,205
PVs of FCFs in terminal period	176,757
Enterprise Value (EV)	442,962
Net cash/(net debt)	-34,786
Shareholder value	408,176

Value per share (€)	26.00
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WACC	7.65%
Cost of equity	9.5%
Pre-tax cost of debt	3.0%
Normal tax rate	30.0%
After-tax cost of debt	2.1%
Share of equity	75.0%
Share of debt	25.0%
Terminal growth	2.0%

Sensitivity analysis

		Terminal growth rate (%)						Fair value per share
WACC	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
	4.65%	43.27	46.29	50.28	55.77	63.83	76.77	101.02
	5.65%	34.36	35.97	37.98	40.53	43.89	48.53	55.33
	6.65%	28.32	29.26	30.38	31.75	33.44	35.59	38.43
	7.65%	23.96	24.54	25.21	26.00	26.95	28.10	29.53
	8.65%	20.65	21.03	21.45	21.94	22.51	23.18	23.98
	9.65%	18.06	18.31	18.59	18.91	19.27	19.68	20.16
	10.65%	15.98	16.15	16.34	16.55	16.79	17.06	17.36
	11.65%	14.27	14.39	14.52	14.67	14.83	15.01	15.21

*for layout purposes the model shows numbers only to 2027 but runs until 2035

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in €'000	2017	2018	2019	2020E	2021E	2022E
Revenues	186,096	199,156	225,180	223,607	249,224	270,511
Cost of materials	-27,228	-28,919	-32,259	-32,423	-35,390	-38,413
Gross profit	158,868	170,237	192,921	191,184	213,834	232,098
Total personnel costs	-112,343	-121,279	-137,795	-140,872	-152,027	-165,012
Net other operating costs	-28,809	-28,897	-27,089	-25,225	-29,276	-28,646
Depreciation & amortisation	-4,351	-4,611	-10,832	-9,713	-11,324	-12,291
EBIT	13,365	15,450	17,205	15,374	21,208	26,150
Net interest	-983	-1,061	-1,053	-894	-880	-885
Associates	142	134	288	302	318	333
Pretax profit	12,524	14,523	16,440	14,783	20,646	25,598
Income taxes	-3,027	-3,938	-2,178	-4,344	-5,590	-6,518
Net income / loss	9,497	10,585	14,262	10,439	15,055	19,080
EPS (€)	0.61	0.68	0.91	0.67	0.96	1.22
EBITDA	17,716	20,061	28,037	25,087	32,532	38,440
Ratios						
Gross margin	85.4%	85.5%	85.7%	85.5%	85.8%	85.8%
EBIT margin	7.2%	7.8%	7.6%	6.9%	8.5%	9.7%
EBITDA margin	9.5%	10.1%	12.5%	11.2%	13.1%	14.2%
Net income margin	5.1%	5.3%	6.3%	4.7%	6.0%	7.1%
Tax rate	24.2%	27.1%	13.2%	29.4%	27.1%	25.5%
Expenses as % of output						
Personnel	-60.4%	-60.9%	-61.2%	-63.0%	-61.0%	-61.0%
Net other operating income/expenses	-15.5%	-14.5%	-12.0%	-11.3%	-11.7%	-10.6%
Depreciation & amortisation	-2.3%	-2.3%	-4.8%	-4.3%	-4.5%	-4.5%
Y-o-y growth						
Total revenues	5.2%	7.0%	13.1%	-0.7%	11.5%	8.5%
EBIT	12.9%	15.6%	11.4%	-10.6%	37.9%	23.3%
Net income / loss	11.1%	11.5%	34.7%	-26.8%	44.2%	26.7%



BALANCE SHEET

All figures in €'000	2017	2018	2019	2020E	2021E	2022E
Assets						
Current assets, total	116,463	127,787	136,310	147,795	164,442	179,886
Cash and cash equivalents	38,132	44,579	38,656	45,578	60,484	65,696
Trade accounts and notes receivables	31,611	34,407	38,455	29,069	39,876	44,634
Inventories	7,823	8,712	10,612	10,538	11,745	12,748
Receivables relating to long term contracts	33,118	34,367	40,725	53,666	44,860	48,692
Other current assets	5,779	5,722	7,862	8,944	7,477	8,115
Non-current assets, total	77,547	80,884	112,527	111,056	116,950	123,034
Property, plant and equipment	12,531	13,592	37,039	37,086	40,063	43,485
Goodwill	48,289	49,417	54,892	54,892	54,892	54,892
Other intangible assets	8,200	9,468	9,531	8,497	9,969	11,361
Associates	150	440	440	742	1,060	1,393
Deferred tax assets	8,377	7,967	10,625	9,839	10,966	11,902
Other non-current assets	0	0	0	0	0	0
Total assets	194,010	208,671	248,837	258,851	281,392	302,920
Shareholders' equity & debt						
Current liabilities, total	59,679	65,960	70,710	71,554	79,752	84,399
Interest bearing debt	2,622	1,795	1,112	0	0	0
Trade accounts payable	14,564	16,440	17,454	15,652	17,446	19,477
Liabilities relating to long term contracts	13,287	16,531	17,212	13,416	17,446	18,936
Provisions	0	0	0	0	0	0
Other current liabilities	29,206	31,194	34,932	42,485	44,860	45,987
Non-current liabilities, total	54,034	56,081	83,588	81,923	84,507	87,280
Interest bearing debt	0	0	0	0	0	0
Leasing liabilities	0	0	22,523	22,552	24,362	26,443
Pension provisions	50,540	51,284	54,737	55,011	55,286	55,562
Deferred tax liabilities	3,494	4,797	6,328	4,360	4,860	5,275
Consolidated equity	80,297	86,630	94,539	105,374	117,133	131,241
Shareholders' equity	80,297	86,630	94,539	105,374	117,133	131,241
Minorities	0	0	0	0	0	0
Total consolidated equity and debt	194,010	208,671	248,837	258,851	281,392	302,920
Ratios						
Current ratio (x)	1.95	1.94	1.93	2.07	2.06	2.13
Quick ratio (x)	1.82	1.81	1.78	1.92	1.91	1.98
Equity ratio	41.4%	41.5%	38.0%	40.7%	41.6%	43.3%
Net gearing	18.7%	9.8%	42.0%	30.4%	16.4%	12.4%
Equity per share	5.12	5.52	6.02	6.71	7.46	8.36
Interest coverage ratio (x)	13.60	14.56	16.34	17.20	24.10	29.56
Capital employed (CE)	89,815	95,229	103,431	113,269	113,371	116,521
Return on capital employed (ROCE)	10.4%	11.4%	11.6%	9.5%	13.6%	16.7%



CASH FLOW STATEMENT

All figures in €'000	2017	2018	2019	2020E	2021E	2022E
Pretax result	12,524	14,523	16,440	14,783	20,646	25,598
Depreciation and amortisation	4,351	4,611	10,832	9,713	11,324	12,291
Other	-1,098	-94	-1,030	-4,647	-5,908	-6,852
Operating cash flow	15,777	19,040	26,242	19,849	26,062	31,038
Investment in working capital	-14,609	-51	-13,764	-2,606	6,456	-5,584
Net operating cash flow	1,168	18,989	12,478	17,242	32,518	25,453
Cashflow from investing	-4,089	-7,424	-8,729	-3,994	-8,721	-9,335
Free cash flow	-2,921	11,565	3,749	13,248	23,797	16,118
Dividend paid	-3,439	-3,596	-3,919	-785	-3,924	-5,494
Share buy back	-297	-422	-275	0	0	0
New share capital	0	0	0	0	0	0
Debt financing	2,622	-827	-683	0	0	0
Lease liabilities	0	0	-4,759	-4,703	-5,242	-5,689
Other	0	0	-544	0	0	0
Cash flow from financing	-1,114	-4,845	-10,180	-5,488	-9,166	-11,183
Other	-841	-273	508	-838	275	276
Change in cash	-4,876	6,447	-5,923	6,922	14,906	5,211
Cash, start of the year	43,008	38,132	44,579	38,656	45,578	60,484
Cash, end of the year	38,132	44,579	38,656	45,578	60,484	65,696
Free cash flow per share in €	-0.19	0.74	0.24	0.85	1.52	1.03
Y-o-y growth						
Operating cash flow	5%	21%	38%	-24%	31%	19%
Net operating cash flow	-91%	1526%	-34%	38%	89%	-22%
Free cash flow	n.m.	n.m.	-68%	253%	80%	-32%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Simon Scholes, Analyst

All publications of the last 12 months were authored by Simon Scholes.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	15 July 2003	€4.96	Market Perform	€5.00
2...66	↓	↓	↓	↓
67	2 April 2019	€17.00	Add	€19.00
68	2 May 2019	€18.45	Add	€19.00
69	6 November 2019	€19.10	Add	€22.40
70	6 April 2020	€16.50	Buy	€21.20
71	Today	€23.80	Add	€26.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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