

Banks

Key data

Price (DKK)	187
Country	Denmark
Bloomberg	SPKSJF DC
Reuters	SPKSJF.CO
Free float	79.0%
Market cap (DKKm)	3,249
No. of shares (m)	17.4
Next event	Q2: 10-Aug

* Price as at 15:30 CET on 4 May 2023.

CEO	Lars Petersson
CFO	Jens Trane

Company description

Sparekassen Sjælland-Fyn A/S provides banking products and services in Denmark. Its products and services include net banking, commercial insurance, mobile banking, rental of commercial lease, financing, insurance and pension.

Ownership structure

Sydbank A/S	5.3%
AP Pension	5.3%
Købstædernes Forsikring	5.2%

Source: Company data (15 August 2021)

Estimate changes

	23E	24E	25E
NII	2.2%	0.0%	0.0%
PPP	-1.3%	-3.0%	-3.0%
EPS (adj.)	-5.3%	-8.7%	-8.6%

Source: Danske Bank Equity Research estimates

Analyst(s)

Asbjørn Nicholas Mørk

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<https://research.danskebank.com>

Important disclosures and certifications are contained from page 11 of this report

Sparekassen Sjælland-Fyn

Benign market trends and a solid strategy is a strong combo

Sparekassen Sjælland-Fyn delivered a strong Q1 report with rising net interest income, solid fee income, good underlying cost control and excellent credit quality. In troubled markets, the 17.7% CET-1 ratio and 304% Liquidity Coverage Ratio add material comfort. The best may still be to come, as rising interest rates continue to support the Towards New Goals strategy. We lower our fair value range to DKK225-255/share.

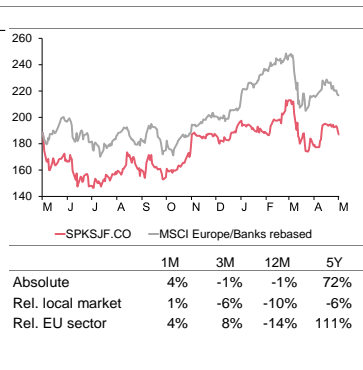
- Rising rates and a strong strategy make a great combo.** Sparekassen Sjælland-Fyn's Q1 23 saw a 30% y/y increase to NII, stable bank lending volumes and solid 5% y/y deposit growth. Total income grew 30% y/y to DKK387m while costs rose 9% adjusted for one-off depreciation. The positive earnings jaws continue as income grows much faster than costs. The rising income base has of course been lifted materially by much higher interest rates. However, looking ahead, the 'Towards New Goals' strategy should add further momentum to the already strong delivery. The ambitious cost/income target of below 50% by 2026 versus 58.9% in Q1 23 leaves additional earnings upside potential, while we estimate 12% post-tax ROE for 2023-25. We estimate 2023E pre-tax profits of DKK631m, at the upper end of the DKK550m-650m guidance range.
- Strong capital and excellent liquidity positions** In March, market focus turned negative as some US and global banks got into trouble. In this context, Sparekassen Sjælland-Fyn's strong 17.7% CET-1 ratio on standard capital models is a comfort. Even more importantly, the bank's material 304% Liquidity Coverage Ratio and 178% deposits/lending ratio leaves it very well positioned with a natural and structural deposit surplus that adds funding stability and generates good NII in the current rate environment.
- Credit quality remains extremely robust.** Despite material inflation and higher energy prices, the bank's credit quality remains very strong. High employment and a diverse lending book of private and SME customers is paying off. A record-high 94% of total lending remains in the FSA's two best rating categories and we see no real risk of materially higher loan loss provisions ahead.
- Valuation.** SPKSJF trades at a 2024E P/E of 7.1x. We estimate a fair value range of DKK225-255/share – previously DKK237-267share – 20-36% above the current share price but down slightly due to lower long-term estimates.

Key financials

Year-end Dec (DKK)	2021	2022	2023E	2024E	2025E
NII (m)	582	660	798	819	837
Lending growth	1.0%	-3.1%	1.7%	3.0%	2.0%
Total revenues (m)	1,263	1,278	1,512	1,555	1,589
Pre-provision profits (PPP) (m)	484	455	640	667	687
PPP growth	31.7%	-6.1%	40.7%	4.3%	3.0%
Loan losses (m)	24.8	16.0	-30.6	-61.5	-63.0
PTP (m)	531	482	631	626	645
EPS (adj.)	22.7	20.1	26.0	26.5	28.4
DPS	6.00	6.00	6.00	6.00	6.00
Dividend yield	3.6%	3.1%	3.2%	3.2%	3.2%
C/I	61.7%	64.4%	57.7%	57.1%	56.7%
PPP/avg. lending	4.03%	3.83%	5.42%	5.53%	5.55%
Loan loss ratio	-0.21%	-0.13%	0.26%	0.51%	0.51%
Equity tier-1 ratio	19.7	21.9	21.8	22.3	22.8
RoNTA	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (adj.) (x)	7.3	9.6	7.2	7.1	6.6
P/NTA	0.86	0.95	0.83	0.76	0.69

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Investment case

In our view, Sparekassen Sjælland-Fyn ticks all the boxes of a potentially attractive investment, diverging from the general earnings pressure that the sector is facing.

The bank has a clear niche strategy from its physical presence, with strong 11% customer inflow in recent years and a better ability than peers in converting customer inflow into both business volumes and AUM growth. Its home market is less competitive and it benefits from Totalcredit's lower mortgage prices. A Bankdata setup makes it a potential takeover target, but with clear financial targets, management is keen to deliver stand-alone.

After the bank successfully delivered on its 'New Ways' strategy, in H1 22 it announced a new strategy for 2022-25 named 'Towards New Goals'. Strong delivery in recent years adds comfort in management, and if Sparekassen Sjælland-Fyn delivers by 2025, we see strong additional upside.

The new targets are:

- Cost/income ratio below 50% by 2026
- ROE after tax of >10% for the period
- DPS equal to 25% of net profits with share buybacks on top
- A solvency capital ratio of at least 20% (23.9% at Q1 23)
- 4-8% annual growth to total business volumes.

Valuation and methodology for deriving 12M target price

We value Sparekassen Sjælland-Fyn using several valuation approaches, including a Gordon Growth model where we value the bank based on its normalised profitability capacity. We continue to apply 8.5-10.5% cost of capital and 55-75bp of normalised loan loss provisions to determine a fair value range.

*Risks***Macroeconomic exposures**

Like its peers, Sparekassen Sjælland-Fyn is exposed to macroeconomic developments, including economic activity and interest rate levels.

Higher costs

Management has a clear ambition of lowering costs in the coming years, while at the same time increasing business volumes and income. The bank has been able to lower full-time employees (FTEs) and hence costs in recent quarters, but general wage inflation and competition for key FTEs could drive costs higher.

A deterioration in credit quality

Sparekassen Sjælland-Fyn has grown lending in recent years. Higher growth and new customer inflow could potentially trigger excessive risk taking and as a result higher loan loss provisions. Considering the lending portfolio churn in the past decade to a more residentially dominated lending book, we are not concerned, however.

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NII outlook building momentum

NII came in at DKK190m in Q1, up 9% versus Q4 22. Higher rates had some impact. In addition, both bank lending and deposits rose slightly, demonstrating the sound and stable business the bank is running.

With materially rising rates, Sparekassen Sjælland-Fyn is now able to restore long-term prudent deposit margins and the structurally high excess deposit base is yielding a good return. We estimate DKK120m of net NII tailwinds for FY23, which together with a higher return on liquidity boosted NII substantially in Q1 23 and should continue to support NII going forward.

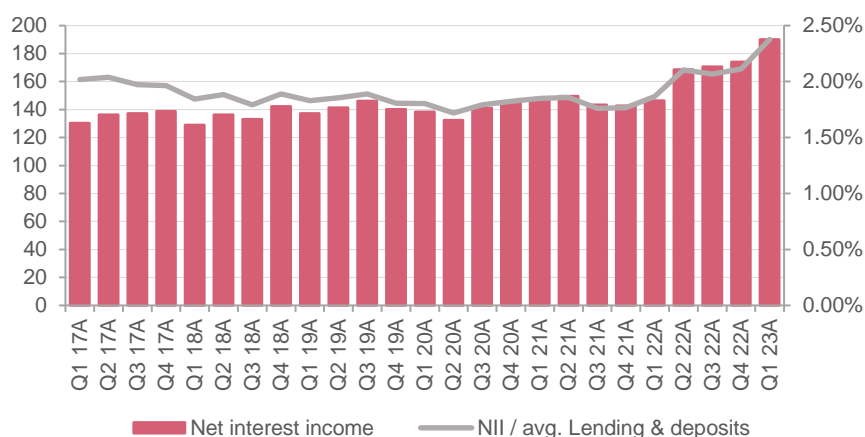
Customer inflow continues, especially among SMEs, which caused 5% growth in DLR loans y/y in Q1, and probably helped fuel deposit volumes too.

Totalkredit lending was flat in Q1, despite the impact of high vertical mortgage refinancing activity, where customers reduce outstanding debt significantly. In this context, the stable Totalkredit volume trends are impressive, in our view.

Total non-balance sheet volumes remained close to record high at DKK60.2bn.

We estimate NII to grow to just below DKK0.8bn in 2023E, a material 36% increase versus the DKK582m level in 2021. With scope for more rate hikes on the horizon, the bank's NII momentum could turn out to be even stronger than we currently expect.

Chart 1. Net interest income and margin development (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Fee income resilient also on an underlying basis

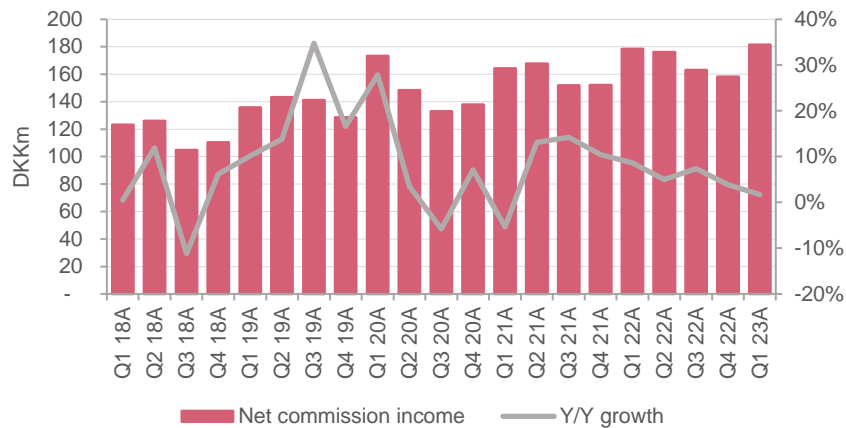
Fee and commission income came in at DKK181m, including dividend income. This was higher than in Q1 22, though fuelled by dividend payments falling in Q1 this year versus Q2 last year. However, even adjusting for this, underlying fee income was DKK166m, down slightly from the very strong Q1 22 but flat versus Q1 21.

Activity was lower in Q1 23; trading and custody fees were 20% lower, while remortgaging and lending fees fell 31% y/y. Asset management also fell 7% due to lower AUM.

With 83% of total fee income being driven by volumes rather than activity, fee income should continue to be resilient, even in a potential recession.

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Chart 1. Net fee and commission income, quarterly



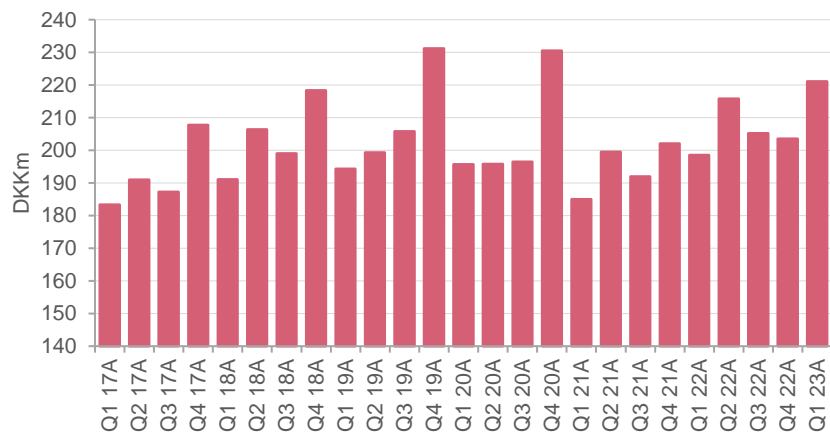
Source: Company data, Danske Bank Equity Research

Costs delivery continues in a year with many headwinds

Total costs were DKK221m in Q1 23, up 11% y/y. Costs were impacted by union agreed wage hikes as well as more FTEs as the bank is chasing its new “Towards new Goals” strategy. In addition, depreciation rose as the bank took at extra DKK4.7m value adjustment on domicile properties after an FSA inspection and hence this should not be extrapolated.

In our view, it is important that Sparekassen Sjælland-Fyn clearly delivered on the cost plans in the former New Ways strategy, and we expect this cost focus to continue. We note that management still targets a cost/income ratio of 50% by end-2025 for the fiscal year 2026.

Chart 3. Cost development, quarterly

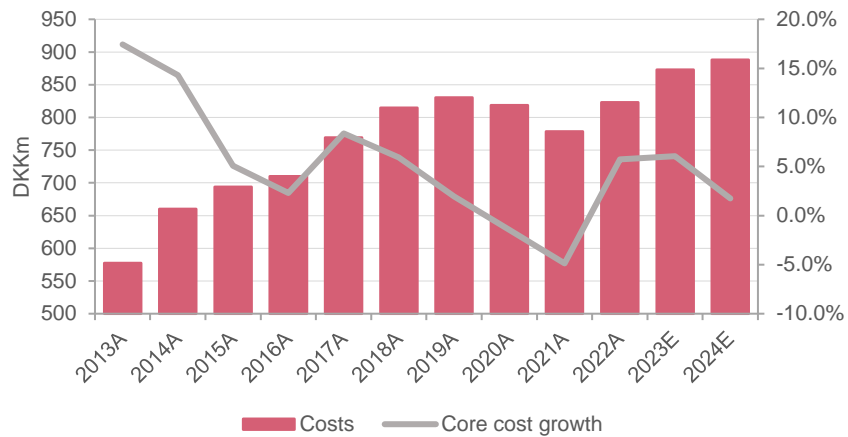


Source: Company data, Danske Bank Equity Research

Given inflation and rising credit demand, we argue that rising costs are expected. We prefer banks to invest in income growth when prudent, and in this case, we see good arguments for investing further. After all, few banks have done as much as Sparekassen Sjælland-Fyn in recent years when it comes to managing income and costs simultaneously.

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Chart 4. Cost development, annually



Source: Company data, Danske Bank Equity Research estimates

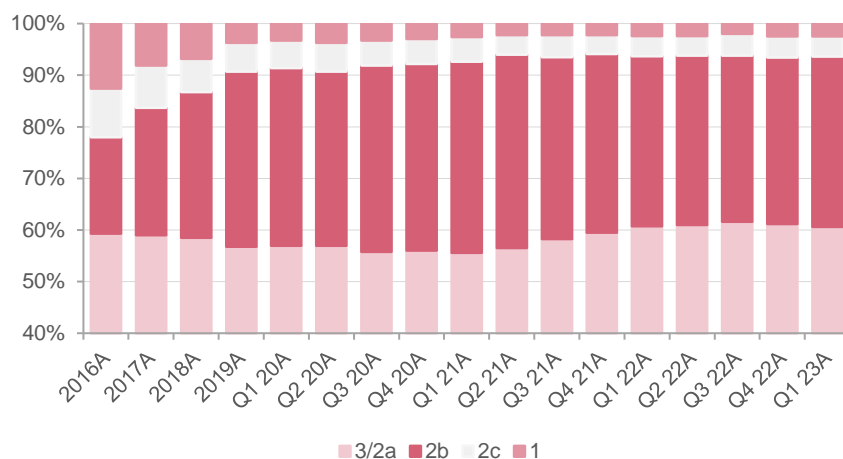
Credit quality looks too strong to cause any issues

Sparekassen Sjælland-Fyn booked DKK2m (4bps) of loan loss reversals in Q1 23. Realised losses were low and credit quality continues to look strong.

Management assessed provisions rose to DKK227m in order to maintain a prudent buffer towards potential future risks from inflation and rising general living costs for the bank's customers.

Measured on the FSA's rating scale, category '3' and '2a' make up 61% of the total lending book, which is very close to the highest ever recorded, which was in Q3 22. We note that employment remains high in the bank's home markets and the economic activity continues to be supportive.

Chart 5. Lending book composition by Danish FSA criteria



Source: Company data, Danske Bank Equity Research

Capital position very strong. Liquidity position excellent.

The CET-1 stood at 17.7% at Q1 23, while the solvency capital ratio was a full 23.9%, well above the target of >20% solvency.

With such a strong capital position and a very solid credit book, we consider it only prudent that management is now looking also at capital distribution.

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Sparekassen Sjælland-Fyn maintained the annual DPS level of DKK6/share for FY2022 while share buybacks are likely on top for 2023. We estimate DKK50m of annual buybacks for 2023, growing to DKK150m in the coming years. This brings the total payout ratio to 50-60%.

The bank's relatively conservative approach to capital distribution should be seen in the context of the soft capital position the bank was in after the financial crisis. Looking at macro uncertainty for 2023, we see the bank as very well positioned.

Given the market turmoil in March, especially in the US banking system, we note that Sparekassen Sjælland-Fyn has an excellent liquidity position and that the LCR was 304%.

2023 guidance solid

Sparekassen Sjælland-Fyn on 13 April raised its guidance to pre-tax profits of DKK550m-650m (from DKK500-600m) for 2023. The bank is normally conservative when guiding and we see potential upside to the latest guidance if rates continue to rise and credit quality remains robust, as we expect.

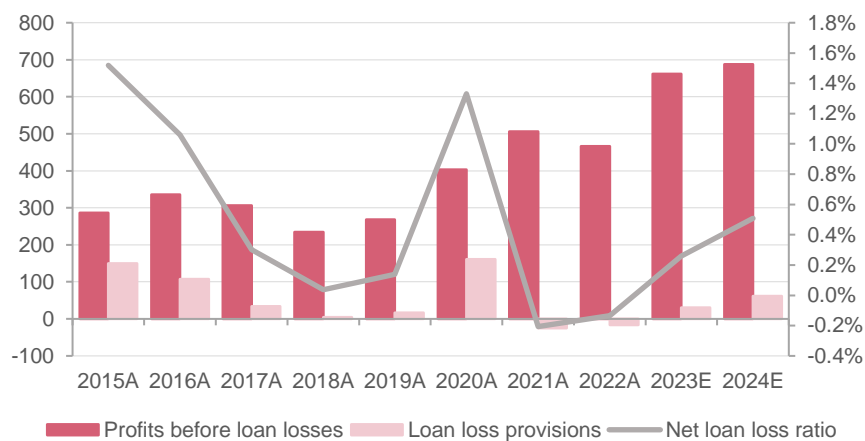
We estimate 2023E pre-tax profits at DKK631m.

Rising core earnings remains key – rising rates add further support

In our view, the Sparekassen Sjælland-Fyn investment case revolves around a low valuation combined with substantial improvements to core earnings and profits in the coming years. Very few banks have been able to deliver similar improvements to core operations, and the combined improvement since 2018 is impressive.

With the new strategy for 2025-26, we expect the bank to continue to demonstrate positive jaws on income versus costs going forward. In our view, it is key that management has set its own independent strategy for profitability improvements and does not simply rely on rising rates. That said, we see rising rates adding income tailwind to the underlying management improvements. The combination of the two is important, and as a result we estimate post-tax ROE of 12% on average for 2023-25E.

Chart 6. Core earnings development (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Fair value range slightly lower

Our capital- and risk-adjusted Gordon Growth model returns a fair value range of DKK225-255/share with a mid-range at DKK239. This is 20-36% above current share price. In the range,

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we continue to apply a cost of capital range of 10.5-11.5% and 70-90bp of normalised loan losses.

Figure 1. Sparekassen Sjælland-Fyn Gordon's Growth valuation range

		Normalised loan loss ratio						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
Cost of Equity	9.5%	290	285	279	274	268	262	257
	10.0%	277	272	266	261	256	250	245
	10.5%	265	260	255	250	245	239	234
	11.0%	254	249	244	239	234	230	225
	11.5%	244	239	234	230	225	221	216
	12.0%	235	230	226	221	217	212	208
	12.5%	226	222	218	213	209	205	200

		Upside/downside vs. current share price						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
Cost of Equity	9.5%	55%	52%	49%	46%	43%	40%	37%
	10.0%	48%	45%	42%	40%	37%	34%	31%
	10.5%	42%	39%	36%	33%	31%	28%	25%
	11.0%	36%	33%	31%	28%	25%	23%	20%
	11.5%	30%	28%	25%	23%	20%	18%	15%
	12.0%	25%	23%	21%	18%	16%	14%	11%
	12.5%	21%	19%	16%	14%	12%	9%	7%

Source: Danske Bank Equity Research estimates. Prices as at 15:00 CET on 4 May 2023.

Table 1. Sparekassen Sjælland-Fyn, annual data

DKKm	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Net interest income	541	565	557	582	660	798	819	837
Net commission income	464	549	592	636	676	657	677	692
NII and net fee income	1,005	1,113	1,149	1,218	1,335	1,454	1,496	1,529
Core capital gains	21	-44	16	30	-73	39	39	40
Other income	16	27	21	16	16	19	20	20
Total core income	1,042	1,097	1,186	1,263	1,278	1,512	1,555	1,589
Core banking costs	-815	-830	-818	-779	-823	-873	-888	-901
Profits, associated companies	8	2	35	22	11	22	20	20
Profits before loan losses	235	268	403	506	466	662	687	707
Loan loss provisions	-4	-17	-161	25	16	-31	-62	-63
Core earnings after loan losses	230	251	242	531	482	631	626	645
Net Extraordinary	0	0	0	0	0	0	0	0
Pretax profits	230	251	242	531	482	631	626	645
Tax	-22	-25	-13	-87	-110	-135	-125	-142
Net profits before AT-1 costs	208	227	229	444	372	496	501	503
Minority interests / AT-1	-60	-24	-24	-25	-26	-27	-24	-24
Net profits	148	202	204	419	346	469	477	479
Normalised profits	107	208	167	395	350	445	439	453
EPS, net profits	10.4	116	118	24.1	19.9	27.4	28.8	30.0
EPS, adj.	7.5	12.0	9.6	22.7	20.1	26.0	26.5	28.4
BV/Share	165	164	172	196	208	230	253	277
NTA/share	148	159	167	191	203	225	248	272
No. of shares, year-end	17.4	17.4	17.4	17.4	17.4	17.1	16.6	15.9
No. of shares, average	14.2	17.4	17.4	17.4	17.4	17.1	16.6	15.9
Tier-1ratio	15.1%	16.2%	18.4%	19.7%	21.9%	21.8%	22.3%	22.8%
CET-1ratio	13.0%	14.0%	16.1%	17.5%	18.9%	18.9%	19.4%	20.0%
RoNAV	6.4%	7.6%	7.2%	13.5%	10.1%	12.7%	12.0%	11.4%
Return on Equity	6.0%	7.3%	7.0%	13.1%	9.8%	12.4%	11.7%	11.1%
Return on Equity, before tax	8.5%	8.8%	8.1%	15.6%	13.3%	16.0%	14.9%	14.6%
Cost/Income ratio	78%	76%	69%	62%	64%	58%	57%	57%
Lending	12,174	12,217	11,951	12,067	11,690	11,893	12,253	12,500
Deposits from customers	18,223	18,700	20,001	19,766	20,673	21,127	21,553	21,987
NII / avg. Lending & deposits	184%	184%	177%	182%	2.05%	2.44%	2.45%	2.45%
Loan loss ratio, lending +guarantees	0.03%	0.09%	0.84%	-0.13%	-0.09%	0.18%	0.35%	0.35%
REA	17,639	17,343	16,799	17,017	16,443	17,021	17,537	18,069
Buyback announcement, next year	0	0	0	0	50	125	150	150
Dividend per share	2.5	3.0	0.0	6.0	6.0	6.0	6.0	6.0
Total cash distribution (div +buybacks com)	43	52	0	104	104	153	224	246
Total pay-out-ratio (incl. buyback)	29%	26%	0%	25%	45%	49%	52%	51%

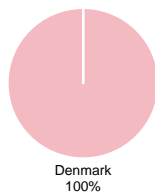
Note: per share data in DKK

Source: Company data, Danske Bank Equity Research estimates

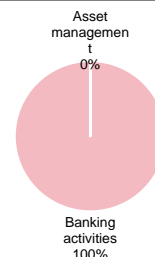
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Company summary

Income breakdown by geographical area



Income breakdown by segment



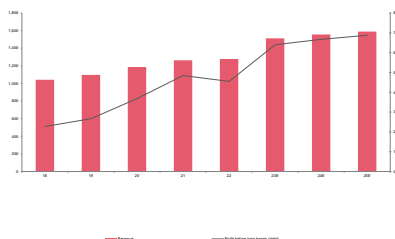
Company information

Sparekassen Sjælland-Fyn
 Isefjord Allé 5, 3200 Holbæk
 Denmark
 www.spks.dk

Main shareholders

Name	Votes (%)	Capital (%)
Sydbank A/S	0.1%	5.3%
AP Pension	0.1%	5.3%
Købstædemes Forsikring	0.1%	5.2%

Revenue and profit before loan losses (DKKm)



Loan loss ratio and profit before loan losses (DKKm)



Source: FactSet, Company data, Danske Bank Equity Research estimates

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Summary tables

INCOME STATEMENT

Year end Dec, DKKm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Net interest income	602	551	542	541	565	557	582	660	798	819
Commissions	418	421	457	464	549	592	636	676	657	677
Total revenues	977	1,043	1,073	1,042	1,097	1,186	1,263	1,278	1,512	1,555
Costs	-694	-710	-769	-815	-830	-818	-779	-823	-873	-888
Pre-provision profits (PPP)	283	333	304	227	267	368	484	455	640	667
Loan losses	-150	-107	-33.4	-4.4	-16.9	-161	24.8	16.0	-30.6	-61.5
Pre-tax profit	136	228	273	230	251	242	531	482	631	626
Net profit	83.9	159	201	148	202	204	419	346	469	477
Net profit (adj.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

DKKk	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Lending	9,763	10,474	11,681	12,174	12,217	11,951	12,067	11,690	11,893	12,253
Other interest bearing assets	6,866	7,209	7,127	8,442	9,573	11,444	11,517	13,784	14,604	14,898
Goodwill	162	150	138	125	91.3	91.3	91.2	91.2	91.2	91.2
Total assets	18,730	19,859	21,487	23,857	25,359	27,266	28,001	29,631	30,903	31,633
Deposits from public	14,633	15,647	16,589	18,223	18,700	20,001	19,766	20,673	21,127	21,553
Wholesale funding	0.0	0.0	0.0	0.0	0.0	199	378	378	384	392
Subordinated debt	465	466	403	454	673	570	670	571	580	592
Equity	1,939	2,058	2,228	2,697	2,851	2,996	3,410	3,621	3,942	4,191
NTA	1,778	1,908	2,090	2,572	2,760	2,905	3,318	3,530	3,851	4,099

PER SHARE DATA

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
No. of shares, fully diluted YE (m)	12.9	12.9	13.2	17.4	17.4	17.4	17.4	17.4	17.1	16.6
No. of shares, fully diluted avg. (m)	12.9	12.9	13.0	14.2	17.4	17.4	17.4	17.4	17.1	16.6
EPS (reported) (DKK)	6.48	12.3	15.4	10.4	11.6	11.8	24.1	19.9	27.4	28.8
EPS (adj.) (DKK)	4.34	10.5	13.2	7.51	12.0	9.58	22.7	20.1	26.0	26.5
DPS (DKK)	3.00	3.10	0.00	2.50	3.00	0.00	6.00	6.00	6.00	6.00
Book value per share (DKK)	150	159	169	155	164	172	196	208	230	253

MARGINS AND GROWTH

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
C/I, adjusted	68.1%	71.7%	78.2%	75.7%	69.0%	61.7%	64.4%	57.7%	57.1%	56.7%
NII/avg. lending	5.4%	4.9%	4.5%	4.6%	4.6%	4.8%	5.6%	6.8%	6.8%	6.8%
Loan loss ratio	1.06%	0.30%	0.04%	0.14%	1.33%	-0.21%	-0.13%	0.26%	0.51%	0.51%
NII growth	-8.5%	-1.6%	-0.3%	4.4%	-1.4%	4.4%	13.4%	20.9%	2.6%	2.2%
Revenue growth	6.7%	2.9%	-2.9%	5.3%	8.1%	6.5%	1.2%	18.4%	2.8%	2.2%
Cost growth	-2.3%	-8.4%	-5.9%	-1.9%	1.5%	4.9%	-5.7%	-6.0%	-1.8%	-1.5%
PPP growth	17.5%	-8.8%	-25.3%	17.3%	38.0%	31.7%	-6.1%	40.7%	4.3%	3.0%
RWA growth	7.7%	7.0%	3.9%	-1.7%	-3.1%	1.3%	-3.4%	3.5%	3.0%	3.0%

PROFITABILITY

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
RoE, reported profits	4.7%	8.0%	9.4%	6.0%	7.3%	7.0%	13.1%	9.8%	12.5%	11.9%
RoNTA, adj. profits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tier-1	10.0%	9.9%	10.7%	13.0%	14.0%	16.1%	17.5%	18.9%	18.9%	19.4%
Equity tier-1	13.0%	12.9%	14.0%	15.1%	16.2%	18.4%	19.7%	21.9%	21.8%	22.3%
RWA	14,721	15,858	16,973	17,639	17,343	16,799	17,017	16,443	17,021	17,537

VALUATION

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Share price (DKK)	97.3	106	114	80.4	89.6	90.0	165	194	187	187
Market cap (DKKk)	1,260	1,376	1,497	1,397	1,557	1,564	2,867	3,362	3,202	3,096
P/E (reported) (x)	15.0	8.6	7.4	7.7	7.7	7.7	6.8	9.7	6.8	6.5
P/E (adj.) (x)	22.4	10.1	8.6	10.7	7.5	9.4	7.3	9.6	7.2	7.1
P/BV (x)	0.65	0.67	0.67	0.52	0.55	0.52	0.84	0.93	0.81	0.74
P/NTA (x)	0.71	0.72	0.72	0.54	0.56	0.54	0.86	0.95	0.83	0.76
Dividend yield	3.1%	2.9%		3.1%	3.3%		3.6%	3.1%	3.2%	3.2%
Total yield (incl. buybacks)	3.1%	2.9%		3.1%	3.3%		3.6%	3.1%	4.8%	7.2%

Source: Company data, Danske Bank Equity Research estimates

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