

13 July 2020

Consumer Cyclical | Retailing

CP ALL (CPALL TB)

Buy (Maintained)

Seeks Improving Earnings Over 2H20; Still BUY

Target Price (Return): THB79.00 (20.1%)
 Price: THB65.75
 Market Cap: USD18,878m
 Avg Daily Turnover (THB/USD) 1,952m/61.4m

- **Keep BUY with new THB79.00 TP from THB84.00, 20% upside and 2% yield.** CP ALL's 2Q20F performance may be this year's bottom. As the strongest Thai staple retailer, we see an opportunity to accumulate this stock based on an expected gradual earnings improvement over 2H20, before turning to pre-pandemic levels in FY21 in a V-shape recovery.
- **2Q20F preview: The weakest quarter.** We expect a 2Q20F core profit of THB3.74bn (-22% YoY, -33% QoQ). Its stores stayed open during COVID-19, but convenience stores (CVS) were affected by the 2.5-month night curfew (c.7-9% of group sales), while Siam Makro (Makro) was impacted by the prohibition of non-food merchandise (c.3% of group sales) for 1.5 months. Both were also unable to sell alcoholic beverages throughout April, which is typically the Thai festive month. Hence, we expect SSSG of -17% and -6% YoY for CVS and Makro. Operating margins may shrink 0.3ppts YoY and 1.2ppts QoQ on product sales mix changes, low operating leverage, and store management from COVID-19's spread. 1H20F core profit should fall 12% YoY, accounting for 45% of FY20 forecasts.
- **Expect a V-shape recovery.** We are optimistic on CPALL – expecting a smaller negative SSSG momentum for the CVS segment and turning positive for Makro throughout 2H20. This is based on the re-opening of workplaces, schools, and improving local tourism. Social distancing measures may be offset by an increase in customers' spending per ticket. Hence, 2Q20 may be its worst performance. CPALL may also continue opening new CVS (700 pa, as usual; c.45% of these opened in 1H) and four more Makro cash & carry stores in 2020. These factors should likely support full-year earnings returning to pre-pandemic levels in 2021. We only see COVID-19's after-effects on the economy as CPALL's current challenge.
- **We revise down FY20F-22F earnings** by 14%, 11%, and 10% on COVID-19's impacts. Sales were cut 6%, while GPM was trimmed by 0.1-0.4ppts. Hence, we expect core profit to shrink 10% this year before turning to a 19% growth in FY21. Our earnings estimate for this year will be based on the group's flattish total sales: -5% SSSG for 7-Eleven CVS, Makro's flattish SSSG, and average GPM dropping 0.3ppts YoY.
- **Maintain BUY, CPALL remains our Thai retailer Top Pick.** Our DCF-derived TP for over the next 12 months is revised down to THB79.00, which implies 34x FY20F P/E and 28x FY21F P/E, equivalent to +1.5SD and the mean (0.0SD). 7-Eleven's performance may be softer than Makro's, but we believe it will see the least impact to bottomline from COVID-19 vis-à-vis its Thai retail peers. Key risks to our call include a slower-than-expected consumption recovery, as well as rising opex from hygiene issues to its massive store network, promotional campaigns to boost revenue, and further business expansion.

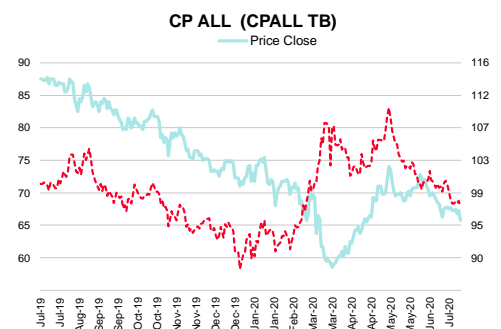
Analyst

Vatcharut Vacharawongsith
 +66 2088 9736
vatcharut.va@rhbgroupp.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.0)	(8.7)	2.3	(11.5)	(25.1)
Relative	5.5	(3.9)	(7.7)	3.1	(2.7)
52-wk Price low/high (THB)	58.50 – 87.75				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	508,212	550,901	553,127	605,615	652,439
Recurring net profit (THBm)	21,203	23,049	20,762	24,815	28,553
Recurring net profit growth (%)	6.5	8.7	(9.9)	19.5	15.1
Recurring P/E (x)	27.86	25.63	28.45	23.80	20.69
P/B (x)	8.8	7.6	6.6	5.7	4.9
P/CF (x)	11.54	15.57	15.36	14.14	12.57
Dividend Yield (%)	1.8	1.9	1.8	2.1	2.4
EV/EBITDA (x)	16.91	16.10	16.15	14.19	12.69
Return on average equity (%)	33.2	29.9	24.8	25.5	25.4
Net debt to equity (%)	118.3	105.7	87.5	70.1	54.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	2.36	2.57	2.31	2.76	3.18
Consumer Cyclical	DPS	1.20	1.25	1.16	1.38	1.59
CP ALL	BVPS	7.49	8.62	10.02	11.62	13.42
CPALL TB	Return on average equity (%)	33.2	29.9	24.8	25.5	25.4
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	27.86	25.63	28.45	23.80	20.69
DCF-based.	P/B (x)	8.8	7.6	6.6	5.7	4.9
	FCF Yield (%)	6.2	3.9	3.5	3.7	4.2
Key drivers	Dividend Yield (%)	1.8	1.9	1.8	2.1	2.4
i. Opening of new stores in Thailand and overseas;	EV/EBITDA (x)	16.91	16.10	16.15	14.19	12.69
ii. Launch of new and exclusive products;	EV/EBIT (x)	22.37	21.50	22.20	19.35	17.29
iii. Rising sales contributions from high GPM ready-to-eat and private label products						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	508,212	550,901	553,127	605,615	652,439
i. Slowdown in domestic consumption;	Gross profit	113,581	124,838	123,842	137,311	149,316
ii. Intense competition in the hypermarkets segment, which may squeeze the profit margins of cash-and-carry retail stores;	EBITDA	42,792	44,705	44,042	49,336	54,188
iii. Increasing leverage.	Depreciation and amortisation	(10,444)	(11,220)	(12,012)	(13,154)	(14,408)
	Operating profit	32,347	33,485	32,030	36,182	39,781
	Net interest	(7,196)	(6,721)	(7,014)	(6,283)	(5,378)
Company Profile	Pre-tax profit	24,878	26,058	25,016	29,899	34,403
CPALL is the sole operator of 7-Eleven stores in Thailand with a 53% market share. The group has more than 11,712 stores across the country as at 2019 and plans to expand to 13,000 stores by 2021. In 2013, CPALL acquired the country's biggest cash-and-carry retailer, Makro. As of 2019, Makro operates 134 stores throughout Thailand and seven stores overseas, including outlets in Cambodia, India, and China.	Taxation	(3,969)	(4,070)	(4,003)	(4,784)	(5,504)
	Reported net profit	20,656	21,638	20,762	24,815	28,553
	Recurring net profit	21,203	23,049	20,762	24,815	28,553
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(4,991)	(5,788)	9,537	1,163	219
	Cash flow from operations	51,175	37,939	38,445	41,776	46,987
	Capex	(14,327)	(15,121)	(17,976)	(20,019)	(21,974)
	Cash flow from investing activities	(15,707)	(15,519)	(20,952)	(23,143)	(25,255)
	Dividends paid	(9,881)	(10,780)	(11,229)	(10,381)	(12,407)
	Cash flow from financing activities	(30,324)	(26,583)	(21,827)	(25,363)	(26,432)
	Cash at beginning of period	28,879	34,023	29,861	25,526	18,796
	Net change in cash	5,144	(4,163)	(4,334)	(6,731)	(4,700)
	Ending balance cash	34,023	29,861	25,526	18,796	14,096
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	35,490	30,519	26,185	19,454	14,754
	Tangible fixed assets	111,287	116,082	122,047	128,912	136,478
	Total assets	373,742	375,617	380,636	387,871	396,934
	Short-term debt	26,671	15,855	34,687	29,000	28,559
	Total long-term debt	126,893	129,193	97,304	85,304	68,745
	Total liabilities	273,923	267,250	259,708	252,509	245,427
	Total equity	99,819	108,368	120,928	135,362	151,507
	Total liabilities & equity	373,742	375,617	380,636	387,871	396,934
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	7.9	8.4	0.4	9.5	7.7
	Recurrent EPS growth (%)	6.5	8.7	(9.9)	19.5	15.1
	Gross margin (%)	22.3	22.7	22.4	22.7	22.9
	Operating EBITDA margin (%)	8.4	8.1	8.0	8.1	8.3
	Net profit margin (%)	4.1	3.9	3.8	4.1	4.4
	Dividend payout ratio (%)	47.8	49.8	0.0	0.0	0.0
	Capex/sales (%)	2.8	2.7	3.2	3.3	3.4
	Interest cover (x)	4.50	4.98	4.57	5.76	7.40

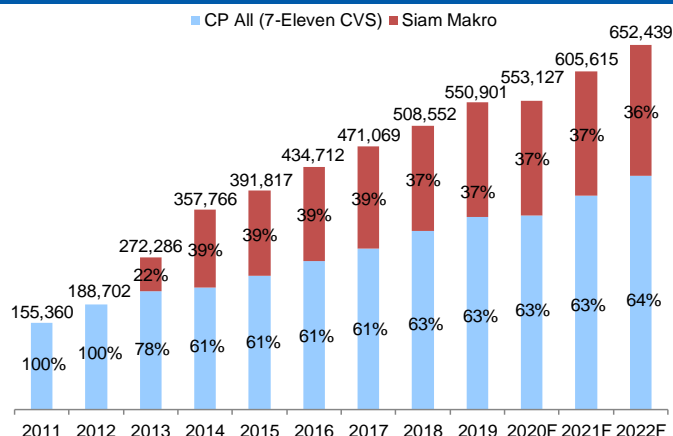
Source: Company data, RHB

Figure 1: CPALL's P/E and SD levels



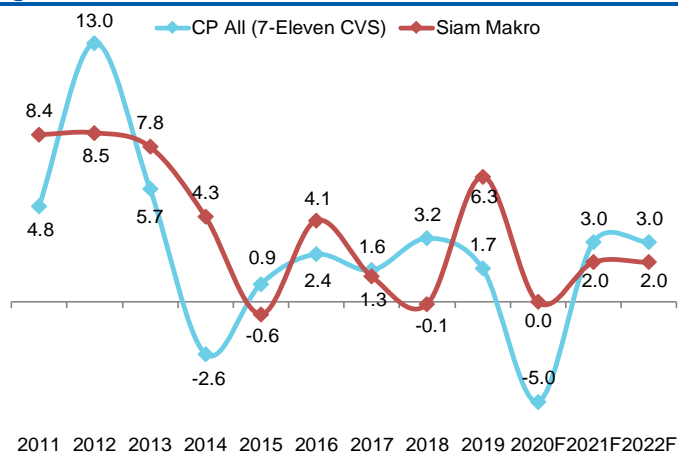
Source: RHB

Figure 2: CPALL's sales revenue profile



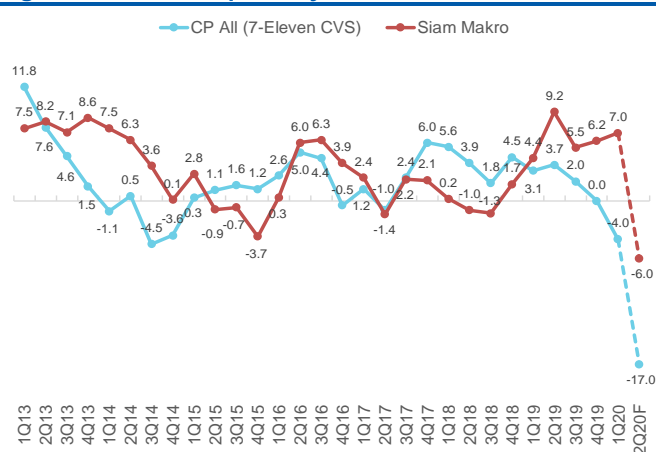
Source: Company data, RHB

Figure 3: CPALL's annualised SSSG



Source: Company data, RHB

Figure 4: CPALL's quarterly SSSG



Source: Company data, RHB

Figure 5: CPALL's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	32,030	36,182	39,781	44,978	50,889	57,612	64,463	71,854	79,824	88,419
EBIT (1-t)	26,905	30,393	33,416	37,781	42,747	48,394	54,149	60,357	67,052	74,272
Depreciation & amortisation	12,012	13,154	14,408	15,783	17,327	19,060	20,966	23,063	25,374	27,918
Change in net working capital	9,537	1,163	219	401	(66)	229	(115)	613	294	328
Capex	(17,976)	(20,019)	(21,974)	(24,079)	(27,596)	(30,390)	(33,429)	(36,772)	(40,617)	(44,557)
Net free cash flow to firm	30,477	24,690	26,069	29,886	32,411	37,293	41,571	47,261	52,104	57,961
Terminal value										1,206,821
PV	29,328	22,002	21,511	22,837	22,934	24,437	25,225	26,556	27,111	609,423
Terminal growth										3.0%
WACC										8.0%
Total discounted firm value										831,365
Less: Net debt										106,465
Less: Minority interest										14,629
Equity value										710,271
Number of shares (m)										8,983
Equity value per share (THB)										79.00

Source: RHB

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Figure 6: CPALL's 2Q20 and 1H20 performance preview

FYE Dec (THBm)	2Q19	1Q20	2Q20F	YoY % chg	QoQ % chg	1H19	1H20F	YoY % chg	Remarks
Turnover	138,396	140,971	127,324	-8.0	-9.7	272,713	268,295	-1.6	Sales were affected by the impact of The COVID-19 pandemic and ongoing consumption slowdown.
Other income	4,856	4,843	4,198	-13.5	-13.3	9,319	9,041	-3.0	
Gross profit	31,215	31,182	27,757	-11.1	-11.0	61,288	58,938	-3.8	A lower sales mix of high-margin non-food products and low operating leverage, which undermined EBIT.
EBIT	7,296	8,760	6,411	-12.1	-26.8	16,126	15,171	-5.9	
EBIT margin (%)	5.3	6.2	5.0			5.9	5.7		
EBITDA	10,026	13,741	9,774	-2.5	-28.9	21,527	23,514	9.2	
EBITDA margin (%)	7.2	9.7	7.7			7.9	8.8		Rising interest expenses following the new accounting standard on financial leases, ie Thai Financial Reporting Standards 16.
Interest expense	(1,684)	(1,881)	(1,824)	8.3	-3.0	(3,433)	(3,704)	7.9	
Pretax profit	5,612	6,880	4,587	-18.3	-33.3	12,693	11,467	-9.7	Weak sales and profit margins caused by the effects of COVID-19. 2Q19: One-time booking of THB647m (net after tax) in provisions for employee retirement.
Tax	(762)	(1,132)	(748)	-1.9	-34.0	(1,994)	(1,880)	-5.7	
Core profit	4,795	5,589	3,738	-22.0	-33.1	10,566	9,327	-11.7	
Net profit	4,045	5,645	3,738	-7.6	-33.8	9,814	9,383	-4.4	Changes in product sales mix due to the lowered sales of high-margin beverages, ready-to-eat-foods, and non-food merchandise. Low operating leverage and store management from the spread of COVID-19.
Gross margin (%)	22.6	22.1	21.8			22.5	22.0		
SG&A/sales (%)	20.8	19.4	23.2			20.0	19.7		
Core profit margin (%)	3.5	4.0	2.9			3.9	3.5		
Net profit margin (%)	2.9	4.0	2.9			3.6	3.5		
Key indicators									
Number of stores									
- 7-Eleven convenience stores	11,528	11,983	12,053	4.6	0.6	11,528	12,053	4.6	Opened its first 8,000sq m cash-and-carry store in Myanmar in April.
- Siam Makro stores	129	134	137	6.2	2.2	129	137	6.2	
SSSG (%)									
- 7-Eleven convenience stores	3.7	-4.0	-17.0			3.4	-10.5		Worst SSSG in April due to the night curfew, ban on alcoholic beverage sales, weak store traffic due to the effects of social distancing measures, and poor tourism activities. These numbers gradually improved from May onwards – in tandem with the easing of COVID-19 restrictions. Despite the stockpiling of necessities, SSSG was severely affected in April due to the prohibition of alcoholic beverages and non-food products. Sales generated from hotel operator customers were weak throughout the quarter.
- Siam Makro stores	9.2	7.0	-6.0			6.7	0.5		
Net D/E (x)	11,528	11,983	12,053	4.6	0.6	11,528	12,053	4.6	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-10	Buy	84.0	66.5
2019-11-13	Buy	95.0	79.0
2019-02-27	Buy	90.0	78.5
2019-02-22	Buy	88.0	78.8

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.

12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

**RHB Securities Singapore
Pte Ltd.**

10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้รับการรับรอง CAC

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