

29 January 2020

Energy & Petrochemicals | Downstream Products

IRPC (IRPC TB)

Sell (Maintained)

A Cautious Outlook Remains

Target Price (Return): THB2.40 (-16%)
 Price: THB2.84
 Market Cap: USD1,878m
 Avg Daily Turnover (THB/USD): 418m/13.8m

- **Maintain SELL with a new THB2.40 TP from THB2.90, 16% upside**, based on 0.55x 2020F P/BV. For 4Q19F we expect a net loss of THB1bn, with a recurring net loss of THB2bn. We remain cautious on IRPC's outlook. Unit costs remain high while margins are still weak. It is highly likely that the company could post another net loss in 1Q20F under current market spreads.
- **A 4Q19F net loss of THB1bn is expected**, with a recurring net loss of THB2bn. We expect market GIM at USD7.10/bbl, with stock gain of USD1.00/bbl – this brings accounting GIM to USD8.10/bbl, ie slightly higher than 3Q19's USD7.70/bbl. Total crude run is expected at 193.5kbpd, with utilisation rate at 90%. We note that the crude premium – including freight – was higher for 4Q19F, at USD6.50/bbl.
- **2019F net loss of THB1.6bn is expected**, with a recurring net loss of THB2.5bn. Accounting GIM is expected at USD8.91/bbl, with a net stock gain and market GIM of USD0.09/bbl and USD8.75/bbl.
- **While the IMO 2020 regulation came into effect on 1 Jan**, spreads remain subdued. This is mostly the result of high inventory and weak demand due to the mild winter in the Western Hemisphere and a weaker global economy. Coronavirus fears should further suppress demand and spreads of refined products, in our view. Refinery spreads remain under pressure for 1Q20F, with travel fears due to the coronavirus – this could have a negative impact on product demand and spreads. However, we believe spreads and demand will return from 2Q20F onwards.
- **2020F earnings slashed**. 2020 is starting out rather weak. With current spreads – and little chance of a strong rebound – we believe IRPC could possibly report a net loss of THB2bn, with market GIM at c.USD7.00/bbl and costs at USD11.00/bbl. The company may not be able to run at full capacity in 1Q20, assuming its utilisation rate at 85% for 1Q20. We are imputing a 100% run rate for the rest of the year, with an optimistic USD11.00/bbl GIM for the rest of the year. With these assumptions, we revise our 2020F earnings down to THB1.5bn. 2019F earnings are also revised down to reflect the latest quarterly estimates.
- **We maintain our call with a new TP**, which is based on 0.55x 2020F P/BV. We remain cautious on IRPC's outlook. Unit costs remain high, while margins are still weak. The company could highly likely post another net loss in 1Q20 under current market spreads. We optimistically forecast an improved earnings outlook from 2Q20 onwards. We also do not expect any strong rebounds in spreads or earnings – at least for another three months.

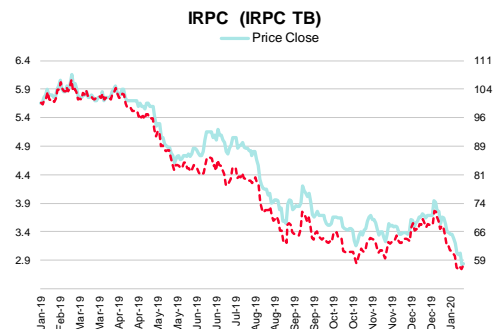
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.8)	(22.8)	(10.1)	(41.1)	(52.3)
Relative	(18.6)	(18.7)	(4.9)	(29.2)	(45.4)
52-wk Price low/high (THB)	2.82 – 6.15				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (THBm)	214,101	280,551	242,393	282,627	257,481
Reported net profit (THBm)	11,360	7,769	(1,642)	1,595	6,820
Recurring net profit (THBm)	6,914	7,929	(2,584)	1,595	6,820
Recurring net profit growth (%)	(30.9)	14.7	(132.6)	0.0	327.7
Recurring EPS (THB)	0.34	0.39	(0.13)	0.08	0.33
DPS (THB)	0.29	0.19	(0.04)	0.04	0.17
P/B (x)	0.66	0.66	0.67	0.67	0.64
Dividend Yield (%)	10.2	6.7	(1.4)	1.4	5.9
Return on average equity (%)	13.5	8.9	(1.9)	1.8	7.7

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Thailand	Recurring EPS (THB)	0.34	0.39	(0.13)	0.08	0.33
Energy & Petrochemicals	EPS (THB)	0.56	0.38	(0.08)	0.08	0.33
IRPC	DPS (THB)	0.29	0.19	(0.04)	0.04	0.17
IRPC TB	BVPS (THB)	4.28	4.27	4.23	4.27	4.44
Sell	Weighted avg adjusted shares (m)	20,435	20,435	20,435	20,435	20,435
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
For Thai refineries/petrochemical counters, we use P/BV as a valuation basis. This is due to the high volatility in earnings as a result of stock gains/losses. We believe DCF valuation is not appropriate as share prices and earnings are highly seasonal.	P/B (x)	0.66	0.66	0.67	0.67	0.64
	FCF Yield (%)	10.8	17.4	16.8	12.7	18.1
	EV/EBIT (x)	7.7	12.0	na	27.7	9.0
Key drivers	Income statement (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Crude oil prices, as it is the main feedstock;	Total turnover	214,101	280,551	242,393	282,627	257,481
ii. GRM, seasonally dependent on the demand and supply of the refined product;	Gross profit	21,155	15,914	3,574	7,294	15,480
iii. Stock gains/losses as a result of crude oil price volatility;	EBITDA	21,320	17,178	3,716	12,727	16,699
iv. THB/USD rate, where product and feedstock costs are priced in USD.	Depreciation and amortisation	(7,062)	(8,237)	(6,938)	(9,489)	(7,534)
	Operating profit	14,258	8,941	(3,221)	3,237	9,166
	Net interest	(2,067)	(1,961)	(1,898)	(1,818)	(1,525)
	Income from associates & JVs	388	679	402	402	402
	Pre-tax profit	13,541	8,915	(2,112)	1,822	8,043
	Taxation	(2,181)	(1,147)	470	(227)	(1,222)
	Recurring net profit	6,914	7,929	(2,584)	1,595	6,820
Key risks	Cash flow (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Crude oil price volatility;	Change in working capital	1,532	491	6,517	(396)	(2,491)
ii. Fluctuating THB/USD rate;	Cash flow from operations	19,566	15,817	11,341	10,285	11,461
iii. Product supply and demand.	Capex	(13,297)	(5,735)	(1,578)	(2,935)	(966)
	Cash flow from investing activities	(10,786)	(8,543)	3,444	(4,312)	(3,085)
	Proceeds from issue of shares	(0)	0	(0)	0	0
	Dividends paid	(4,860)	(5,677)	(3,867)	836	(797)
	Cash flow from financing activities	(8,678)	(7,081)	(15,877)	(6,164)	(7,797)
	Cash at beginning of period	2,042	2,145	2,338	1,386	1,194
	Net change in cash	102	193	(1,092)	(191)	578
	Ending balance cash	2,145	2,338	1,316	1,194	1,773
Company Profile	Balance sheet (THBm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
IRPC is an integrated refinery and petrochemicals company with a total refining capacity of 215kbpd. Its products are refined oil lube base, asphalt, plastics, and other petrochemical products.	Total cash and equivalents	2,145	2,338	1,386	1,194	1,773
	Tangible fixed assets	129,006	126,511	121,152	114,598	108,030
	Total investments	7,636	8,441	8,441	8,441	8,441
	Total other assets	320	865	879	1,024	933
	Total assets	184,544	182,446	169,639	164,040	160,073
	Short-term debt	13,618	13,804	8,000	2,000	0
	Total long-term debt	45,152	43,561	37,356	36,356	31,356
	Other liabilities	2,378	2,609	2,609	2,609	2,609
	Total liabilities	96,894	95,066	83,065	76,668	69,291
	Shareholders' equity	87,513	87,286	86,450	87,248	90,658
	Minority interests	137	94	124	124	124
	Total equity	87,650	87,380	86,574	87,371	90,782
	Net debt	56,625	55,028	43,971	37,162	29,583
	Total liabilities & equity	184,544	182,446	169,639	164,040	160,073
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	15.7	31.0	(13.6)	16.6	(8.9)
	Recurrent EPS growth (%)	(30.9)	14.7	(132.6)	0.0	327.7
	Gross margin (%)	9.9	5.7	1.5	2.6	6.0
	Operating EBITDA margin (%)	10.0	6.1	1.5	4.5	6.5
	Net profit margin (%)	5.3	2.8	(0.7)	0.6	2.6
	Dividend payout ratio (%)	50.0	49.8	0.0	0.0	0.0
	Capex/sales (%)	6.2	2.0	0.7	1.0	0.4
	Interest cover (x)	6.90	4.56	(1.70)	1.74	5.84

Source: Company data, RHB

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Figure 1: 4Q19F net loss of THB-1.0bn expected

(THBm)	4Q18	3Q19	4Q19F	% QoQ	% YoY	2018	2019F	% YoY
Turnover	69,736	60,127	58,836	(2.1)	(15.6)	280,551	242,393	(13.6)
Gross profit	(35)	263	428	62.8	N/A	15,914	3,574	(77.5)
Gross profit margin	0%	0%	1%			6%	1%	
EBIT	(1,671)	(1,252)	(862)	(31.2)	(48.4)	10,197	(686)	(106.7)
EBIT margin	-2%	-2%	-1%			4%	0%	
Pretax profit	(2,158)	(1,751)	(1,238)	(29.3)	(42.7)	8,236	(2,514)	(130.5)
Pretax margin	-3%	-3%	-2%			3%	-1%	
Taxation	434	330	136	(58.8)	(68.7)	(1,147)	470	(141.0)
Tax rate	-20%	-19%	-11%			-14%	-19%	
Net profit	(1,627)	(1,321)	(1,010)	(23.5)	(37.9)	7,735	(1,671)	(121.6)
Net margin	-2%	-2%	-2%			3%	-1%	
Recurring income	2,760	(248)	(2,023)	716.6	(173.3)	7,929	(2,584)	(132.6)
EPS (THB)	(0.08)	(0.06)	(0.05)	(23.5)	(37.9)	0.38	(0.08)	(121.6)

Source: Company data, RHB

Figure 2: Major operating variables

	4Q18	3Q19	4Q19F	% QoQ	% YoY	Comment (QoQ)
Dubai (USD/bbl)	67.42	61.20	62.10	1%	(8%)	Stable, with concerns on global economic slowdown and oil market oversupply.
Market GIM (USD/bbl)						
Refinery	5.90	3.40	2.00	(41%)	(66%)	Softer refined product spreads.
Petrochemicals	7.10	5.50	4.00	(27%)	(44%)	Weaker petrochemical prices and spreads.
Power	1.10	1.20	1.10	(8%)	0%	Stable contributions
Total Market GIM	14.10	10.10	7.10	(30%)	(50%)	Overall weaker commodity prices and spreads.
Stock g/l+LCM	(7.40)	(2.10)	1.00	(148%)	(114%)	Gains on slightly higher crude oil prices.
Oil hedging	(0.10)	(0.30)	-	N/A	N/A	
Accounting GIM	6.60	7.70	8.10	5%	23%	Improved on stock gains.
Crude run (kbpd)	208	193	194	0%	(7%)	Runs at optimised levels, with given product spreads.
Utilisation rate (%)	97%	90%	90%	0%	(7%)	

Source: Company data, RHB

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Figure 3: Earnings and TP revision

	2019F	2020F	2021F
Net profit (THBm, revised)	(1,671)	1,595	6,820
Net profit (THBm, old)	1,261	5,492	6,802
change	(233%)	(71%)	0%
EPS (THB, FD-revised)	(0.08)	0.08	0.33
EPS (THB, FD-old)	0.06	0.27	0.33
% change	(2.33)	(0.71)	0.00
TP (revised)	2.4		
TP price (old)	2.9		
Change	(17.2%)		
Bloomberg consensus			
Net profit (THB bn)	(1,121.0)	5,884.0	5,387.0
TP (THB/share)	4.09		

Source: RHB

Figure 4: Valuation comparison

	P/E 2020F	P/BV 2020F	EV/EBITDA 2020F	DCF method
Regional peer multiples	9.9	0.9	6.4	
DCF valuation, WACC used				8.2%
THB/share (EPS/BVS)	0.1	4.3		
Fair multiple used	20.0	0.55	6.0	
Implied valuation per share	1.5	2.4	3.7	3.8

Source: RHB

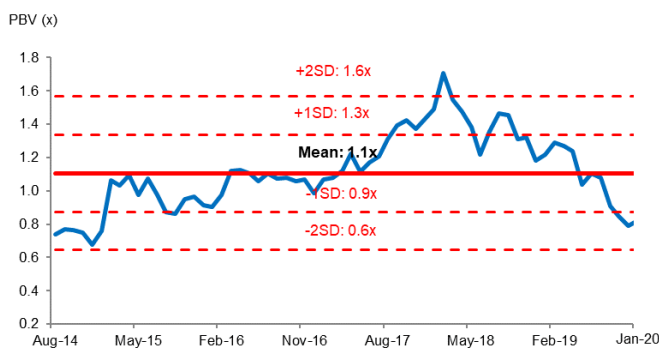
Figure 5: Regional peer comparison

Company	Market cap (USDm)	P/E (x)		P/BV (x)		EV/EBITDA (x)		Div yield (%)		ROE (%)		ROA (%)	
		2019	2020F	2019	2020F	2019	2020F	2019	2020F	2019	2020F	2019	2020F
IRPC	1,882	81.1	11.3	0.7	0.6	10.9	7.3	3.0	5.1	0.7	5.2	0.4	3.1
Bangchak Corp	1,112	13.6	9.2	0.8	0.7	9.3	7.9	3.8	5.3	5.7	8.1	2.5	3.7
Esso Thailand	718	N/A	5.5	0.9	0.8	18.0	6.1	4.4	8.1	3.2	14.1	2.4	6.6
Indorama Ventures	5,052	14.5	8.9	1.1	1.0	9.1	6.8	3.3	4.2	7.2	10.7	2.9	4.4
PTT	40,522	11.6	10.9	1.4	1.3	6.2	5.8	4.2	4.4	11.0	10.9	4.9	5.2
PTT Global Chemical Star Petroleum Refining	7,020	15.9	11.5	0.7	0.7	9.1	7.2	3.4	4.8	4.7	6.3	3.1	4.5
Thai Oil	1,125	N/A	8.4	1.0	0.9	49.3	4.5	1.8	6.6	-2.1	10.3	-1.8	7.3
Reliance Industries	3,390	15.9	8.8	0.8	0.8	7.3	5.0	3.4	5.2	5.5	9.3	2.5	4.4
China Petroleum & Chemical Corp	130,959	22.9	19.8	2.7	2.1	13.0	12.2	0.5	0.5	12.7	11.2	5.3	5.1
PetroChina	82,479	8.2	7.6	0.6	0.6	4.6	4.5	8.2	8.5	7.9	8.1	3.8	3.8
Indian Oil Corp	141,858	11.8	10.5	0.5	0.5	4.8	4.6	4.7	4.9	4.0	4.5	2.2	2.6
Average	15,580	7.1	7.6	0.9	0.9	5.8	6.0	6.5	5.9	13.4	12.2	7.5	4.6
Average		13.5	9.9	1.0	0.9	12.4	6.4	4.0	5.3	6.7	9.6	3.2	4.8

Note: Data as at 28 Jan 2020

Source: Bloomberg, RHB

Figure 6: IRPC's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 7: Thai Oil & Gas Index's forward P/BV and SD levels



Source: Bloomberg, RHB

Figure 8: IRPC's implied P/BV at different SD levels

	-2SD P/BV	-1SD P/BV	Mean	+1SD P/BV	+2SD P/BV
P/BV multiple (x)	0.6	0.9	1.1	1.3	1.6
Implied valuation (THB/share)	2.6	3.8	4.7	5.5	6.8

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-13	Sell	2.90	3.56
2019-11-05	Sell	2.90	3.46
2019-10-21	Sell	2.90	3.42
2019-08-16	Sell	3.40	3.92
2019-08-06	Sell	4.10	4.32
2019-07-25	Sell	4.10	4.86
2019-05-10	Sell	4.90	5.30
2019-05-07	Sell	4.90	5.40
2019-04-10	Neutral	6.40	5.90
2019-02-27	Neutral	6.40	6.00

Source: RHB, Bloomberg

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

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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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