

MONTHLY SET STRATEGY:

Thai Stock Market Outlook & Stock Picks for Dec 2014

Possible close above 1600 at year-end

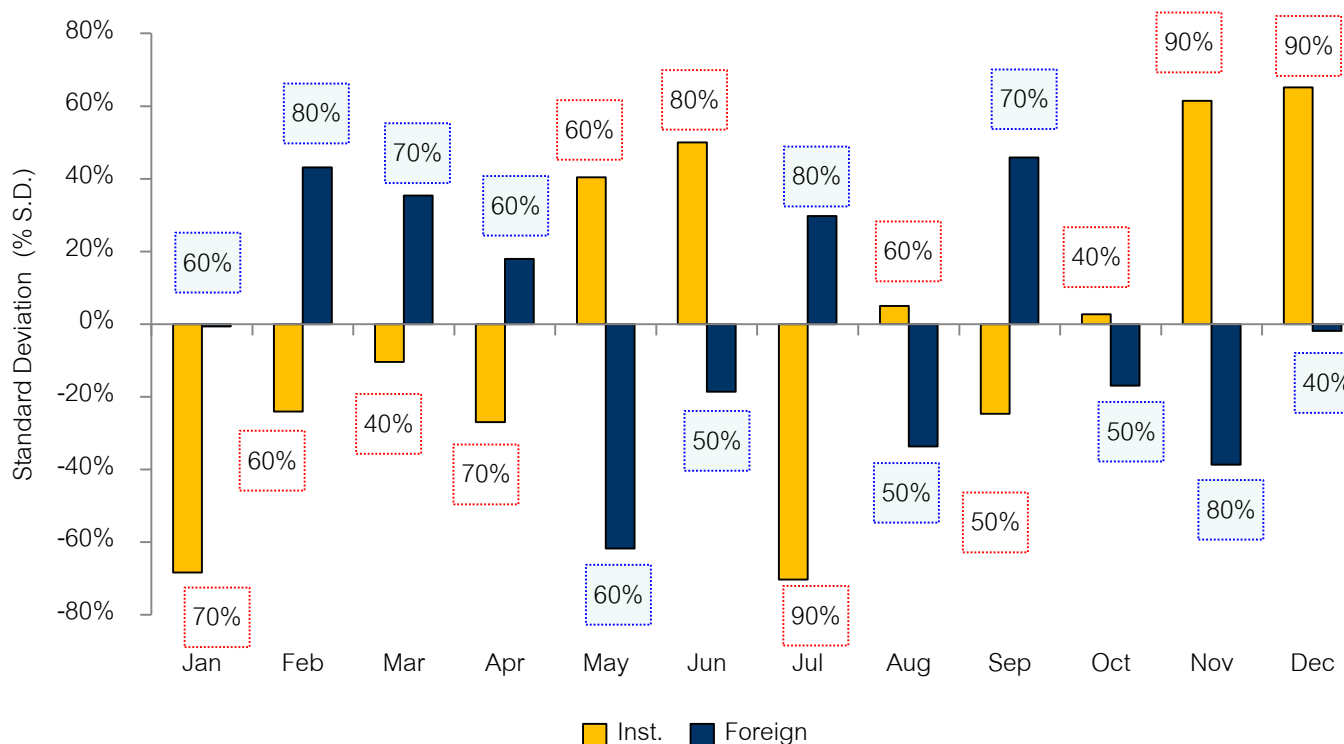
Strategy Team

Dec 12, 2014

Summary

- Much of the boost for the Thai stock market in the month of Dec would largely come from internal factors. Statistics shows that the role of foreign investors will normally diminish by year-end while institutions will instead play a bigger role on the Thai stock market.
- Internal factors are likely to hold more influence than external factors in setting the tone for the Thai stock market in the month of Dec. The following would be key factors to watch:
 - A new round of government stimulus measures: Nano-finance service, corporate and personal income tax cuts, negative income tax, SME venture capital fund, National Savings Fund (NSF), etc.
 - The bidding results for the green-line mass transit project
 - Year-end LTF purchases to take advantage of tax benefits and end-of-quarter ritual of institutional window-dressing: Normally the fourth quarter has the highest chance for the year of window dressing coming into play. Data dating back 17 years from 1997-2013 showed that the SET index in the month of Dec had the best run in the fourth week of Dec with an average market gain of around 1.47%.
- Thai stocks could be in for choppy range-bound trading in the month of Dec. There is scope for sporadic bouts of pullbacks from the start to the middle of the month before the market reverses course to the upside before the end of the month driven by institutional buying. Our bullish view also remains intact that there is potential for the SET index to finish the year slightly above the key 1600-point level in 2014. Resistance for the SET index is pegged at 1600-1620 points and support at 1540-1520 points in the month of Dec.
- For short-term strategy, the 'sell the rips and buy the dips' seems to be the best approach for the month of Dec. It is best to gradually book partial profits on year-end rally as carry-over of all stocks in the portfolio into next year may be at risk of a possible institutional selloff at the start of next year fueled by LTF redemptions after the end of five-year lock-up period. An industry study on the investment behavior of LTF holders shows more than 50% of LTF units purchased on average would be redeemed after the end of the five-year lock-up period. The total value of LTFs bought in 2011 and to be free from the lock-up in 2015 adjusted by market return topped Bt30bn. For medium to long term investment horizon, any market weakness could present an opportunity to accumulate positions with government policy and weak baht plays to be interesting investment themes to play in 2015.
- Our top picks for the month of Dec include AUCT, KCE, PSL and PTT.

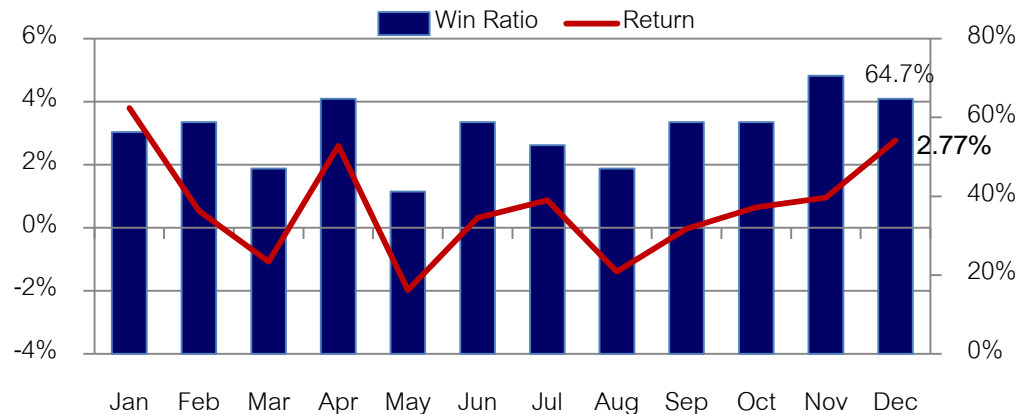
Comparison of monthly net foreign and institutional trading to full-year average



Sources: SETSMART, PSR

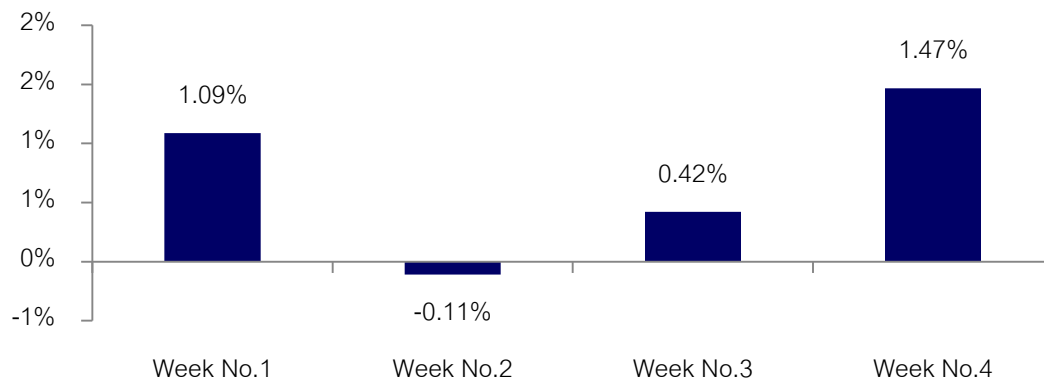
- Statistics dating back 10 years suggest more than 90% odds that net institutional purchases in the month of Dec will dwarf the full-year average while at the start of the year institutions normally stay on the net selling side especially in the first four months of the year from Jan-Apr and net institutional sales outpace the full-year average. On the contrary, foreign investors are typically on the selling side by year-end and return to net buying position at the start of the year.

Monthly average return during 1997-2013



Sources: SETSMART, Bloomberg, PSR

Weekly average return in Dec



Sources: SETSMART, Bloomberg, PSR

- End-of-quarter ritual of institutional window dressing is typically most active in the fourth quarter.
- Statistics dating back 17 years from 1997-2013 suggests 65% odds of a Santa Claus rally in the Thai bourse in the month of Dec with an average market gain of around 2.77%.
- The SET index normally has the best run in the final week of Dec with an average market gain of around 1.47%.

Investment theme and stock picks for Dec 2014

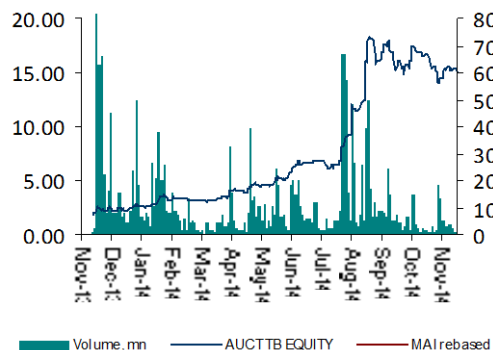
AUCT – Growth stock, high ROE

Investment rating: BUY FY15 target price: Bt21.80/share



Company Data

| | |
|----------------------------------|--------------|
| Raw Beta (Past 2yrs weekly data) | 1.57 |
| Market Cap. (USDmn / Btmn) | 250 / 8250 |
| Ent. Value (USDmn / Btmn) | 234 / 7742 |
| 3M Average Daily T/O (mn) | 6.3 |
| Closing Px in 52 week range | 1.96 – 20.20 |



| | | |
|---------------------------------|----------------|------------|
| Major Shareholders as of | 25/8/14 | (%) |
| 1. Mr. Thepthai Sila | | 16.6 |
| 2. Mr. Pakpoom Sila | | 10.7 |
| 3. Mr. Varunyoo Sila | | 10.6 |

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N/R

Valuation Method
P/E'15 (39.4X)

- **Thailand's leader in auto auctions:** Thanks to its leadership position, AUCT has been designated by the Revenue Department, the Office of the Narcotics Control Board (ONCB) and other financial institutions to hold car auctions.
- **Strong earnings growth profile:** The number of cars going under the hammer increased in 9MFY14 in the face of slowing economic conditions. We estimate AUCT will achieve FY14 profit growth of as much as 182.6% y-y to Bt196.58mn on expectations that revenue will swell 49.7% y-y. Management also expects a steady rise in the number of cars to place under the auction in FY15, which would be a boon for AUCT. In addition, AUCT also plans to extend its branch count and turn its warehouse into an auction venue, which would in turn help boost the number of auction rounds. We also expect AUCT to deliver sequential profit growth of 54.6% y-y in FY15.
- **Growth stock play with high ROE:** AUCT is a growth stock play with high ROE. Our forecast suggests FY15-FY16 earnings will grow at a CAGR of 46.5%. We call AUCT shares a 'BUY' with a FY15 target price of Bt21.80/share based on a justified P/E multiple of 39.4x, equivalent to FY15 PEG multiple of 0.7x.

Key Financial Summary

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|-------------------|-------|-------|------|-------|-------|
| Revenue (Btmn) | 237 | 346 | 467 | 699 | 941 |
| NPAT (Btmn) | 24 | 34 | 70 | 197 | 304 |
| NPAT, adj. (Btmn) | 24 | 34 | 70 | 197 | 304 |
| EPS (Bt) | 0.05 | 0.08 | 0.23 | 0.36 | 0.55 |
| EPS, a dj. (Bt) | 0.05 | 0.08 | 0.23 | 0.36 | 0.55 |
| P/E (X), a dj. | 312.0 | 195.0 | 67.8 | 43.3 | 28.4 |
| BVPS (Bt) | 0.31 | 0.30 | 0.70 | 0.82 | 1.13 |
| P/B (X) | 50.3 | 52.0 | 22.3 | 19.0 | 13.8 |
| DPS (Bt) | 0.09 | 0.08 | 0.12 | 0.25 | 0.39 |
| Div. Yield (%) | 0.6% | 0.5% | 0.8% | 1.6% | 2.5% |

Source: Bloomberg, PSR est.

**Multiples and yields are based on latest closing price

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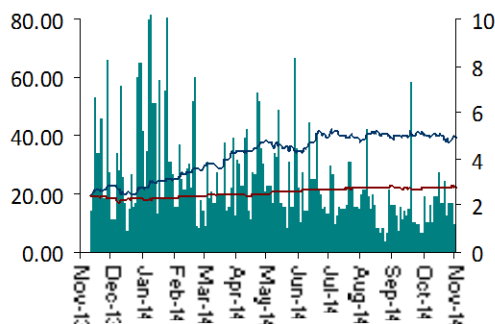
KCE – Cheapest valuation in the sector

Investment rating: BUY FY15 target price: Bt47.50/share



Company Data

| | |
|----------------------------------|---------------|
| Raw Beta (Past 2yrs weekly data) | 0.81 |
| Market Cap. (USDmn / Btmn) | 666 / 22020 |
| Ent. Value (USDmn / Btmn) | 795 / 26206 |
| 3MAverage Daily T/O (mn) | 1.6 |
| Closing Px in 52 weekrange | 19.90 - 43.25 |



Volume, mn — KCE TB EQUITY — SET rebased

| Major Shareholders as of | 21/8/14 | (%) |
|--------------------------|---------|------|
| 1. Mr. Buncha Ongkosit | | 10.3 |
| 2. Mr. Pithan Ongkosit | | 6.4 |
| 3. Mr. Attasit Ongkosit | | 6.2 |

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(Very Good)

Valuation Method

P/E'15 (13x)

- **Potential best-in-class earnings growth in FY14:** Our forecast suggests KCE will deliver FY14 net profit growth of up to 67% y-y to Bt1,962mn boosted by (i) a 17% y-y rise in sales to US\$335mn on the back of production for new clients, (ii) flat scrap rate and (iii) margin expansion on higher capacity utilization rates.
- **New facility bites into margin during initial stages of operations:** The new facility which is slated to begin production in early FY15 is likely to be in the red in the initial stages of operations as capacity utilization rate will be below breakeven levels. Despite short-term pains, the new facility should be a boon for KCE in the long run.
- **Cheapest valuation in the sector:** Currently KCE is trading at the lowest P/E multiple in the sector of a mere 10x.

[Read more....](#)

Key Financial Summary

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|-------------------|-------|-----------|-------|--------|--------|
| Revenue (Btmn) | 7,201 | 6,478 | 9,294 | 11,486 | 13,796 |
| NPAT (Btmn) | 132 | 643 | 1,174 | 1,962 | 2,144 |
| NPAT, adj. (Btmn) | 124 | (13) | 1,052 | 1,748 | 2,049 |
| EPS (Bt) | 0.28 | 1.40 | 2.53 | 3.47 | 3.84 |
| EPS, adj. (Bt) | 0.26 | (0.03) | 2.27 | 3.10 | 3.67 |
| P/E (X),adj. | n.m. | (1,444.6) | 17.3 | 12.7 | 10.7 |
| BVPS (Bt) | 5.31 | 6.52 | 8.55 | 9.85 | 12.60 |
| P/B (X) | 7.4 | 6.0 | 4.6 | 4.0 | 3.1 |
| DPS (Bt) | 0.20 | 0.55 | 0.75 | 1.00 | 1.10 |
| Div. Yield (%) | 0.5% | 1.4% | 1.9% | 2.5% | 2.8% |

Source: Bloomberg, PSR est.

**Multiples and yields are based on latest closing price

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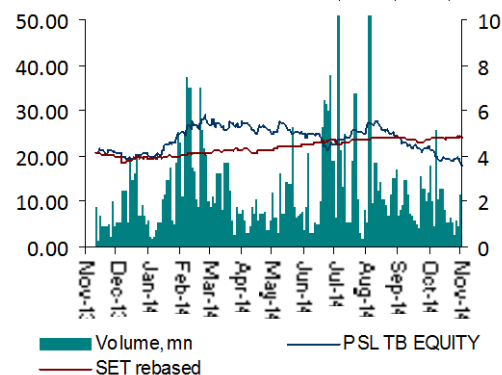
PSL – Biggest beneficiary of recovery in dry bulk shipping

Investment rating: BUY FY15 target price: Bt26.50/share



Company Data

| | |
|----------------------------------|---------------|
| Raw Beta (Past 2yrs weekly data) | 1.39 |
| Market Cap. (USDmn / Btmn) | 525 / 17360 |
| Ent. Value (USDmn / Btmn) | 777 / 25542 |
| 3M Average Daily T/O (mn) | 1.8 |
| Closing Px in 52 week range | 16.70 / 29.75 |



| | |
|---|------------|
| Major Shareholders as of 18/8/14 | (%) |
| 1. Globlex Corporation Co.,Ltd. | 25.7 |
| 2. Ms. Nishita Shah | 9.5 |
| 3. Mr. Munir Moinuddin Hashim | 8.9 |

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(Excellent)

Valuation Method

P/B'15 (1.75x)

- **Supply and demand back into equilibrium:** Data points to a return to demand-and-supply equilibrium in the offing for the dry bulk shipping market. Demand is expected to outstrip supply in FY15-FY16. Management has a bullish view on the prospects of a recovery in freight rates but volatility is also set to rise.
- **Biggest fleet in the dry bulk shipping industry:** PSL operates the biggest fleet of 45 vessels in the dry bulk shipping industry. As part of its fleet modernization and rejuvenation plan, PSL plans to sell 21 aging vessels from its fleet and take delivery of 24 newbuild vessels in FY15-FY16.
- **Biggest beneficiary of recovery in dry bulk shipping:** Thanks to its largest fleet size and bigger size of vessels, PSL would likely stand to reap the most benefits from the recovery of the dry bulk shipping market. We call PSL shares a 'BUY' with a FY15 target price of Bt26.50/share based on a P/B multiple of 1.75x.

[Read more....](#)

Key Financial Summary

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|--------------------|-------|---------|--------|---------|-------|
| Revenue (Btmn) | 3,084 | 3,499 | 3,869 | 4,569 | 6,143 |
| NPAT (Btmn) | 719 | 141 | 528 | (90) | 773 |
| NPAT, a dj. (Btmn) | 403 | (159) | (421) | (157) | 773 |
| EPS (Bt) | 0.69 | 0.14 | 0.51 | -0.09 | 0.74 |
| EPS, a dj. (Bt) | 0.39 | (0.15) | (0.40) | (0.15) | 0.74 |
| P/E (X), a dj. | 43.1 | (112.0) | (42.0) | (112.0) | 22.7 |
| BVPS (Bt) | 14.77 | 13.93 | 15.04 | 14.74 | 15.17 |
| P/B (X) | 1.1 | 1.2 | 1.1 | 1.1 | 1.1 |
| DPS (Bt) | 0.55 | 0.40 | 0.40 | 0.30 | 0.40 |
| Div. Yield (%) | 3.3% | 2.4% | 2.4% | 1.8% | 2.4% |

Source: Bloomberg, PSR est.

**Multiples and yields are based on latest closing price

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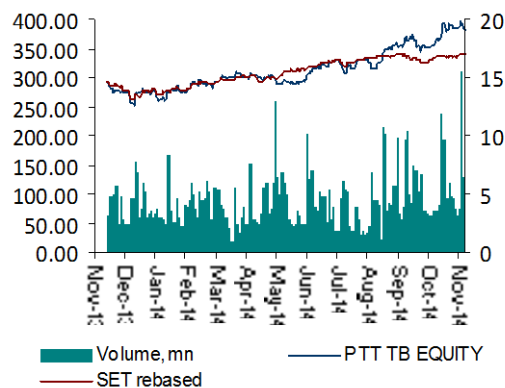
PTT – Sequential improvement on the cards in FY15

Investment rating: BUY FY15 target price: Bt398/share



Company Data

| | |
|----------------------------------|-----------------|
| Raw Beta (Past 2yrs weekly data) | 0.51 |
| Market Cap. (USDmn / Btmn) | 30696 / 1011130 |
| Ent. Value (USDmn / Btmn) | 44211 / 1449532 |
| 3MAverage Daily T/O (mn) | 5.2 |
| Closing Px in 52 week range | 259.00 398.00 |



| | | |
|---------------------------------|----------------|------------|
| Major Shareholders as of | 18/9/14 | (%) |
| 1. FINANCE MINISTRY | | 51.1 |
| 2. VAYUPAK FUND | | 14.9 |
| 3. THAI NVDR CO LTD | | 5.2 |

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(Excellent)

Valuation Method

P/E'15 (10x)

- **Earnings poised for sequential improvement in FY15:** Despite concerns about crude oil price slide on fears of new supply coming into the market especially in America, the impact could likely be offset by (i) capacity additions at PTTEP through the production startup of the Algeria field and full-year contribution from the Zawtika field and (ii) narrowing losses from NGV sales after the NEPC's decision to raise NGV prices by Bt1/kg in Oct 2014 and another Bt1/kg in Dec 2014, taking retail NGV prices to Bt12.50/kg. Every Bt1 rise in NGV prices would narrow PTT's losses on NGV sales by between Bt2.7bn-Bt2.6bn or Bt0.96 a share.
- **Hopes pinned on energy price reform especially LPG to reflect actual costs:** Every Bt1/kg rise in LPG prices would reduce losses on LPG sales by Bt1.5bn or Bt5.25 a share. In addition, clarity is also expected to emerge in FY15 on the listing plan for its subsidiaries GPSC and SPRC and the divestment of BCP.

[Read more....](#)

Key Financial Summary

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|-------------------|--------|--------|--------|--------|--------|
| Revenue (Btbn) | 2,428 | 2,794 | 2,843 | 2,968 | 3,016 |
| NPAT (Btbn) | 105 | 105 | 95 | 101 | 114 |
| NPAT, adj. (Btbn) | 105 | 105 | 95 | 101 | 114 |
| EPS (Bt) | 37.24 | 36.64 | 33.14 | 35.49 | 39.76 |
| EPS, adj. (Bt) | 37.24 | 36.64 | 33.14 | 35.49 | 39.76 |
| P/E (X),adj. | 9.5 | 9.7 | 10.7 | 10.0 | 8.9 |
| BVPS (Bt) | 185.43 | 212.09 | 232.23 | 253.72 | 280.68 |
| P/B (X) | 1.9 | 1.7 | 1.5 | 1.4 | 1.3 |
| DPS (Bt) | 13.00 | 13.00 | 11.60 | 12.50 | 14.00 |
| Div. Yield (%) | 3.7% | 3.7% | 3.3% | 3.5% | 4.0% |

Source: Bloomberg, PSR est.

**Multiples and yields are based on latest closing price

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Sector update

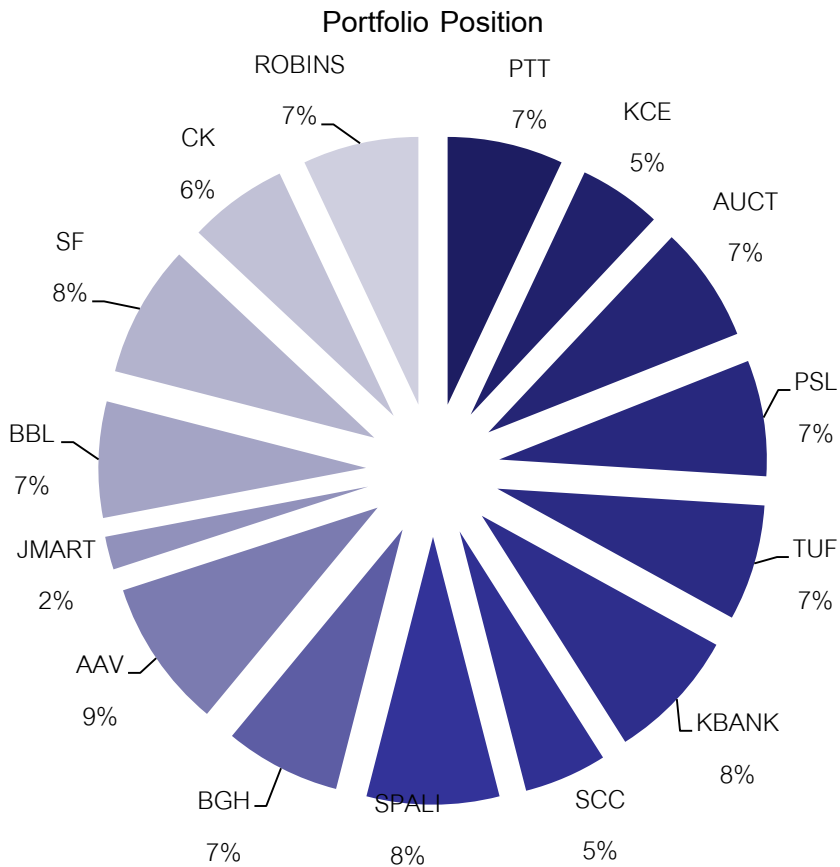
Sector Update

| Sector | Investment weighting | | Analyst view |
|--------|----------------------|--------|---|
| | Dec | Change | |
| FOOD | NT | --- | Dwindling sales volume by year-end would push 4QFY14 results lower than 3QFY14 but the whole of FY14 may continue to be a good year for the sector on strong ASPs. |
| BANK | OW | --- | The pace of lending is likely to accelerate in 4QFY14 as the fourth quarter is traditionally the peak spending season but 4QFY14 earnings may see a q-q dip as expenses are normally high in the fourth quarter. In y-y terms, 4QFY14 earnings should however be better than 4QFY13 on the back of burgeoning revenues and normalization of loan-loss provisions at KTB. |
| FIN | NT | ▼ | Even though market turnover remains heavy for the meantime, much of the good news appears to have already been priced in. |
| AUTO | OW | ▲ | Vehicle output is set to pick up gradually driven by the annual Thailand International Motor Expo to be held by year-end. |
| PETRO | NT | --- | The outlook for olefins spreads continues to be strong on the back of a demand-and-supply equilibrium while the prospects remain weak for aromatics margins in the face of supply glut. |
| CONMAT | NT | --- | Growth in cement demand is likely to decelerate to 0%-1% in FY14 on expectations that 2HFY14 will be softer than 1HFY14 as construction activity in both public and private sectors remains subdued. The government's Bt2.4trn infrastructure projects would be the catalyst to bring cement demand back to positive growth of 5%-7% in FY15. |
| CONS | OW | ▲ | The bidding results for the green-line mass transit project from Mo Chit to Ku Khot are expected to be announced this month while the pipeline of government infrastructure projects would be the catalyst to increase bidding activity throughout FY15. |
| PROP | NT | --- | Total presales lost little steam in early 4QFY14 as a result of vacation effects but most homebuilders remain hopeful that total presales will meet full-year target while presales at some developers may miss the target as a result of sluggish condo bookings. In view of backlog, we see scope for growth momentum to be sustained well into FY15 at a number of developers on the prospect of a more favorable selling environment in FY15. |

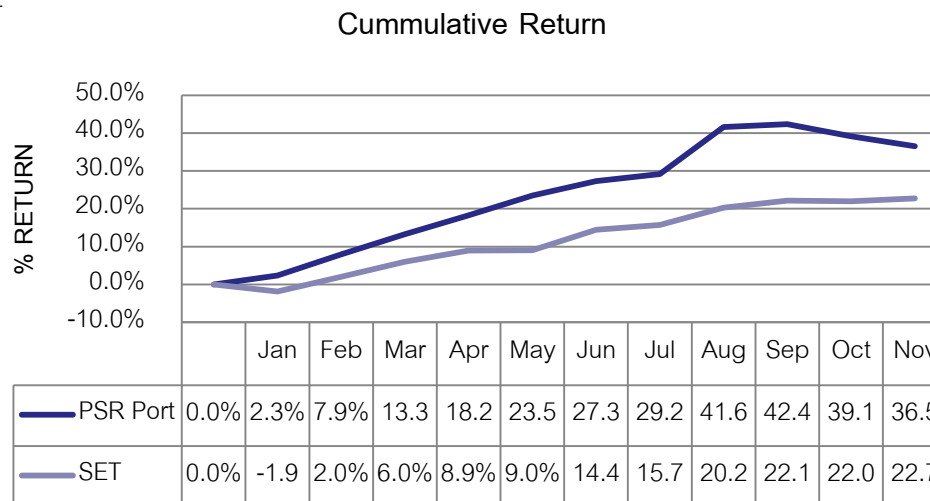
| Sector | Investment weighting | | Analyst view |
|---------|----------------------|--------|--|
| | Dec | Change | |
| ENERG | UW | --- | Oil prices remain in a downward trend after OPEC decided not to cut oil output. |
| TRANS | NT | --- | The outlook remains rosy for dry bulk shipping business as demand and supply return to equilibrium but volatility in BDI is however set to escalate especially for large vessel size while freight rates for TTA and PSL may be less volatile. The air transport sector should benefit from high tourism season, which would boost passenger traffic and lessen pricing competition, a factor that could bring earnings back to the black. |
| COMM | OW | --- | Peak spending season by year-end and rising tourist numbers would be key drivers for the retail sector in Dec. |
| HEALTH | NT | --- | Foreign patient volume is expected to remain on the rise despite the end of third-quarter high season. |
| MEDIA | NT | --- | 4QFY14 ad spending is likely to be higher than 3QFY14 but lower than 4QFY13. As 4Q expenses are also normally higher than other quarters of the year, most companies in the MEDIA space are therefore expected to see 4QFY14 earnings drop in both y-y and q-q terms. |
| TOURISM | NT | --- | The peak tourism season by year-end would be a catalyst for higher hotel occupancy and room rates. |
| ICT | OW | ▲ | The fourth quarter is traditionally the high season for mobile use in Thailand with promotional campaigns to be launched to spur sales of mobile handsets and demand for voice and non-voice services. Sales of iPhone 6 and Galaxy Note 4 would also be another driver of demand. |
| ETRON | NT | --- | Due to low seasonality, 4QFY14 is expected to be softer than 3QFY14. |

PSR long-term portfolio

Current portfolio status



| Stocks to be added to portfolio in Dec 2014 | FV (Bt) |
|---|---------|
| PTT | 398.00 |
| KCE | 47.50 |
| AUCT | 21.80 |
| PSL | 26.50 |



Rebalancing of portfolio holdings for Dec 2014: Additions

Additions

| Additions | Inclusion date | % Weight | FY 15FV (Bt) | P/E | P/BV (x) | Dividend Yield |
|-----------|----------------|----------|--------------|-------|----------|----------------|
| PTT | Dec | 7.00% | 398.00 | 9.63 | 1.36 | 3.66% |
| KCE | Dec | 5.00% | 47.50 | 10.27 | 3.09 | 2.82% |
| AUCT | Dec | 7.00% | 21.80 | 28.23 | 13.84 | 2.48% |
| PSL | Dec | 7.00% | 26.50 | 24.59 | 1.20 | 2.20% |

Rebalancing of portfolio holdings for Dec 2014: Hold

Hold

| Hold | Inclusion date | % weight | FY 15FV (Bt) | P/E | P/BV (X) | Dividend yield |
|--------|----------------|----------|--------------|-------|----------|----------------|
| TUF | Nov | 7.00% | 85.75 | 16.18 | 2.13 | 3.45% |
| KBANK | Aug | 8.00% | 255.00 | 12.19 | 1.98 | 1.72% |
| SCC | Mar | 5.00% | 500.00 | 15.58 | 2.29 | 2.57% |
| SPALI | Jun | 8.00% | 29.14 | 9.26 | 2.42 | 4.32% |
| BGH | Jul | 7.00% | 20.70 | 33.64 | 5.75 | 1.51% |
| AAV | Sep | 9.00% | 4.90 | 17.33 | 0.81 | 0.00% |
| JMART | Sep | 2.00% | 14.90 | 14.62 | 2.87 | 4.82% |
| BBL | Sep | 7.00% | 233.00 | 9.59 | 1.09 | 3.96% |
| SF | Sep | 8.00% | 10.70 | 12.18 | 1.25 | 0.27% |
| CK | Nov | 6.00% | 29.05 | 37.98 | 2.50 | 1.05% |
| ROBINS | Oct | 7.00% | 63.00 | 22.07 | 3.67 | 2.16% |

Rebalancing of portfolio holdings for Dec 2014: Deletions

Deletions

| Deletions | Return (gain/loss) | FY15 FV (Bt) | P/E | P/BV (X) | Dividend Yield |
|-----------|--------------------|--------------|-------|----------|----------------|
| TTA | 18.39% | 25.00 | 14.11 | 0.79 | 2.14% |
| MC | -17.50% | 20.80 | 13.48 | 3.08 | 5.23% |
| IRPC | -2.34% | 3.48 | 37.27 | 0.96 | 0.67% |
| SVI | -23.07% | 3.62 | 8.26 | 2.15 | 0.00% |

Key factors to watch in the month of Dec 2014

Economic calendar for Dec 2014

| Dec 1 | Dec 2 | Dec 3 | Dec 4 | Dec 5 |
|---------------------------------------|---------|--|--|--|
| US: Markit US manufacturing PMI | | US: ADP employment change, nonfarm productivity, Markit US composite PMI | US: Initial jobless claims, continuing claims | US: Change in nonfarm payrolls, unemployment rate, underemployment rate, trade balance |
| CH: Manufacturing PMI | | CH: Non-manufacturing PMI | | |
| EU: Markit Eurozone manufacturing PMI | EU: PPI | EU: Markit Eurozone composite PMI, retail sales, GDP | EU: Markit Eurozone retail PMI, ECB main refinancing rate decision | |
| TH: CPI | | | TH: Consumer confidence | |
| Dec 8 | Dec 9 | Dec 10 | Dec 11 | Dec 12 |
| CH: Trade balance, exports | | CH: PPI, CPI, new Yuan loans | US: Advance retail sales, initial jobless claims | US: PPI final demand |
| | | | | CH: Retail sales YTD, industrial production YTD |
| | | | | EU: Industrial production, employment |

Source: Bloomberg

Economic calendar for Dec 2014

| Dec 15 | Dec 16 | Dec 17 | Dec 18 | Dec 19 |
|--|--|---|--|--------|
| US: Industrial production | US: Housing starts CH:HSBC China manufacturing PMI EU:Trade balance, Markit Eurozone manufacturing PMI | US:CPI EU:CPI TH:BoT benchmark interest rate decision | US:Fed summary of economic projections, initial jobless claims, FOMC rate decision | |
| Dec 22 | Dec 23 | Dec 24 | Dec 25 | Dec 26 |
| US:Existing home sales EU:Consumer confidence | US:GDP, personal consumption, core PCE , new home sales,PCE deflator | US: Initial jobless claims, continuing claims TH:Customs exports | | |

Source: Bloomberg

Economic calendar for Dec 2014

| Dec 29 | Dec 30 | De 31 | | |
|--------|---|------------------------|--|--|
| | US: Consumer confidence index TH: Exports, trade balance | US: Pending home sales | | |

Source: Bloomberg

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