Leong Hup International (LHIB MK)

Don’t count your chickens before they hatch

Maintain HOLD with lower TP of MYR0.74

LHIB’s overall poultry and feedmill demand have remained stable but given the resurgence of new COVID-19 cases within LHIB’s regional operations (Malaysia & Indonesia), we believe that subdued poultry ASPs may spill over to FY21 and drag potential uplift in group earnings in the immediate term. Our FY20-FY21 earnings estimates are lowered by 5%-15% but we leave our FY22 earnings estimates unchanged for now. Our TP is reduced to MYR0.74 (-15%; based on 17x FY21 PER). Maintain HOLD.

Relatively stable poultry demand...

Following our call with management, we understand that poultry industry volume has declined by 10%-15% since the global pandemic began. That said, LHIB is currently operating at full production capacity as it was able to fill in the supply gap left by smaller independent farmers that exited the business. We believe that 3Q20 poultry demand has also gradually improved in Malaysia since the conditional-MCO was announced on 4 May and business activity resumed.

...But volatile poultry ASPs expected to continue

We expect 3Q20 broiler and day-old chick (DOC) ASPs in Malaysia to improve slightly by c.4% QoQ and c.10% QoQ respectively, in tandem with easing social distancing regulations. However, with the resurgence of Malaysia’s COVID-19 cases in October, we caution that poultry ASPs could soften in 4Q20 as lockdowns are imposed in affected districts. Separately, Indonesia’s poultry ASPs are also expected to remain weak in 3Q20 (broiler ASPs: c.-37% QoQ; DOC ASPs: c.-15% QoQ) and is likely to continue into 4Q20 if COVID-19 is not contained and consumer sentiment does not improve.

Lower FY20-FY21 earnings estimates by 5%-15%

Our FY20/FY21 earnings estimates are lowered by 5%/15% upon adjusting for weaker broiler and DOC ASPs for both Malaysia and Indonesia in light of slower-than-expected ASPs recovery post-MCO and risks of further ASP weakness from new COVID-19 cases. However, feedmill demand is expected to be stable going forward which will partially mitigate earnings downside from volatile poultry ASPs.

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THIS REPORT HAS BEEN PREPARED BY MAYBANK INVESTMENT BANK BERHAD
SEE PAGE 6 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS
Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.
### FYE 31 Dec FY18A FY19A FY20E FY21E FY22E

#### Key Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>FY18A</th>
<th>FY19A</th>
<th>FY20E</th>
<th>FY21E</th>
<th>FY22E</th>
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<tbody>
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<td>P/E (reported) (x)</td>
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<td>1.3</td>
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<td>P/NTA (x)</td>
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<td>Net dividend yield (%)</td>
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<td>0.5</td>
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<td>nm</td>
<td>3.0</td>
<td>nm</td>
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<td>EV/EBITDA (x)</td>
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<td>8.4</td>
<td>9.6</td>
<td>7.4</td>
<td>6.6</td>
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<tr>
<td>EV/EBIT (x)</td>
<td>10.9</td>
<td>12.9</td>
<td>17.1</td>
<td>11.4</td>
<td>9.8</td>
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#### INCOME STATEMENT (MYR m)

<table>
<thead>
<tr>
<th>Description</th>
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<th>FY20E</th>
<th>FY21E</th>
<th>FY22E</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,746.6</td>
<td>6,054.8</td>
<td>6,364.3</td>
<td>6,934.7</td>
<td>7,432.3</td>
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<tr>
<td>Gross profit</td>
<td>1,005.8</td>
<td>940.2</td>
<td>879.2</td>
<td>1,068.2</td>
<td>1,196.3</td>
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<tr>
<td>EBITDA</td>
<td>654.6</td>
<td>650.5</td>
<td>537.4</td>
<td>711.9</td>
<td>821.9</td>
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<tr>
<td>Depreciation</td>
<td>(189.9)</td>
<td>(204.6)</td>
<td>(227.8)</td>
<td>(244.0)</td>
<td>(258.7)</td>
</tr>
<tr>
<td>Amortisation</td>
<td>(7.2)</td>
<td>(20.9)</td>
<td>(7.2)</td>
<td>(7.2)</td>
<td>(7.2)</td>
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<tr>
<td>EBIT</td>
<td>457.5</td>
<td>425.0</td>
<td>302.3</td>
<td>460.7</td>
<td>555.9</td>
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<td>Net interest income /exp</td>
<td>(109.5)</td>
<td>(136.6)</td>
<td>(148.2)</td>
<td>(164.2)</td>
<td>(180.3)</td>
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<td>Associates &amp; JV</td>
<td>0.6</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Pretax profit</td>
<td>348.6</td>
<td>288.8</td>
<td>154.6</td>
<td>296.8</td>
<td>376.0</td>
</tr>
<tr>
<td>Income tax</td>
<td>(101.8)</td>
<td>(75.8)</td>
<td>(40.6)</td>
<td>(77.9)</td>
<td>(98.7)</td>
</tr>
<tr>
<td>Minorities</td>
<td>(60.6)</td>
<td>(62.4)</td>
<td>(20.0)</td>
<td>(60.2)</td>
<td>(62.4)</td>
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<tr>
<td>Reported net profit</td>
<td>186.2</td>
<td>150.6</td>
<td>94.0</td>
<td>158.8</td>
<td>215.0</td>
</tr>
<tr>
<td>Core net profit</td>
<td>224.9</td>
<td>150.6</td>
<td>94.0</td>
<td>158.8</td>
<td>215.0</td>
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#### BALANCE SHEET (MYR m)

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<thead>
<tr>
<th>Description</th>
<th>FY18A</th>
<th>FY19A</th>
<th>FY20E</th>
<th>FY21E</th>
<th>FY22E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short Term Investments</td>
<td>458.9</td>
<td>764.8</td>
<td>810.8</td>
<td>1,103.4</td>
<td>1,258.9</td>
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<tr>
<td>Accounts receivable</td>
<td>649.2</td>
<td>496.1</td>
<td>707.8</td>
<td>604.0</td>
<td>801.9</td>
</tr>
<tr>
<td>Inventory</td>
<td>575.6</td>
<td>679.6</td>
<td>666.5</td>
<td>773.2</td>
<td>757.2</td>
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<tr>
<td>Reinsurance assets</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Property, Plant &amp; Equip (net)</td>
<td>2,216.8</td>
<td>2,396.5</td>
<td>2,592.9</td>
<td>2,749.1</td>
<td>2,890.7</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>97.3</td>
<td>97.5</td>
<td>97.2</td>
<td>96.9</td>
<td>96.6</td>
</tr>
<tr>
<td>Investment in Associates &amp; JVs</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Other assets</td>
<td>834.5</td>
<td>973.1</td>
<td>1,014.0</td>
<td>1,078.7</td>
<td>1,136.7</td>
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<tr>
<td>Total assets</td>
<td>4,834.0</td>
<td>5,409.1</td>
<td>5,890.8</td>
<td>6,406.9</td>
<td>6,943.6</td>
</tr>
<tr>
<td>ST interest bearing debt</td>
<td>1,326.6</td>
<td>1,522.7</td>
<td>1,622.8</td>
<td>1,790.4</td>
<td>1,958.0</td>
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<tr>
<td>Accounts payable</td>
<td>248.9</td>
<td>273.5</td>
<td>286.7</td>
<td>312.5</td>
<td>324.5</td>
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<tr>
<td>Insurance contract liabilities</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>LT interest bearing debt</td>
<td>1,044.3</td>
<td>977.7</td>
<td>1,221.3</td>
<td>1,336.5</td>
<td>1,451.7</td>
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<tr>
<td>Other liabilities</td>
<td>449.0</td>
<td>455.0</td>
<td>473.0</td>
<td>510.0</td>
<td>539.0</td>
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<tr>
<td>Total Liabilities</td>
<td>3,068.6</td>
<td>3,228.6</td>
<td>3,604.1</td>
<td>3,949.0</td>
<td>4,272.8</td>
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<tr>
<td>Shareholders Equity</td>
<td>1,301.8</td>
<td>1,641.2</td>
<td>1,727.3</td>
<td>1,838.4</td>
<td>1,988.9</td>
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<tr>
<td>Minority Interest</td>
<td>463.6</td>
<td>539.3</td>
<td>559.3</td>
<td>619.5</td>
<td>681.9</td>
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<tr>
<td>Total shareholder equity</td>
<td>1,765.4</td>
<td>2,180.5</td>
<td>2,286.6</td>
<td>2,457.9</td>
<td>2,670.8</td>
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<tr>
<td>Total liabilities and equity</td>
<td>4,834.0</td>
<td>5,409.1</td>
<td>5,890.8</td>
<td>6,406.9</td>
<td>6,943.6</td>
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#### CASH FLOW (MYR m)

<table>
<thead>
<tr>
<th>Description</th>
<th>FY18A</th>
<th>FY19A</th>
<th>FY20E</th>
<th>FY21E</th>
<th>FY22E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pretax profit</td>
<td>348.6</td>
<td>288.8</td>
<td>154.6</td>
<td>296.8</td>
<td>376.0</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>197.1</td>
<td>225.5</td>
<td>235.0</td>
<td>251.2</td>
<td>265.9</td>
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<tr>
<td>Cash taxes paid</td>
<td>(75.7)</td>
<td>(57.0)</td>
<td>(40.6)</td>
<td>(77.9)</td>
<td>(98.7)</td>
</tr>
<tr>
<td>Other operating cash flow</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Cash flow from operations</td>
<td>349.2</td>
<td>656.9</td>
<td>153.8</td>
<td>477.1</td>
<td>356.9</td>
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<tr>
<td>Capex</td>
<td>(393.4)</td>
<td>(385.4)</td>
<td>(400.0)</td>
<td>(400.0)</td>
<td>(400.0)</td>
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<tr>
<td>Free cash flow</td>
<td>(44.2)</td>
<td>271.5</td>
<td>(246.2)</td>
<td>77.1</td>
<td>(43.1)</td>
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<tr>
<td>Dividends paid</td>
<td>(66.3)</td>
<td>(84.5)</td>
<td>(13.3)</td>
<td>(47.6)</td>
<td>(64.5)</td>
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<td>Equity raised / (purchased)</td>
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<td>269.6</td>
<td>5.4</td>
<td>0.0</td>
<td>0.0</td>
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<td>Change in Debt</td>
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<td>(187.8)</td>
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<td>282.8</td>
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<td>Other invest/financing cash flow</td>
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<td>12.4</td>
<td>(19.4)</td>
<td>(19.4)</td>
<td>(19.4)</td>
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<tr>
<td>Effect of exch rate changes</td>
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<td>(0.7)</td>
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<tr>
<td>Net cash flow</td>
<td>(37.0)</td>
<td>280.4</td>
<td>70.2</td>
<td>292.9</td>
<td>155.8</td>
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Leong Hup International

<table>
<thead>
<tr>
<th>FYE 31 Dec</th>
<th>FY18A</th>
<th>FY19A</th>
<th>FY20E</th>
<th>FY21E</th>
<th>FY22E</th>
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<td><strong>Key Ratios</strong></td>
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<td><strong>Growth ratios (%)</strong></td>
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<tr>
<td>Revenue growth</td>
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<td>5.4</td>
<td>5.1</td>
<td>9.0</td>
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<td>EBITDA growth</td>
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<td>(28.9)</td>
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<td>92.0</td>
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<td>(19.1)</td>
<td>(37.6)</td>
<td>68.9</td>
<td>35.4</td>
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<td>Core net profit growth</td>
<td>16.8</td>
<td>(33.0)</td>
<td>(37.6)</td>
<td>68.9</td>
<td>35.4</td>
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<td><strong>Profitability ratios (%)</strong></td>
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<td>EBITDA margin</td>
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<td>10.7</td>
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<td>10.3</td>
<td>11.1</td>
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<tr>
<td>EBIT margin</td>
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<td>7.0</td>
<td>4.8</td>
<td>6.6</td>
<td>7.5</td>
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<td>Pretax profit margin</td>
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<td>4.3</td>
<td>5.1</td>
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<td><strong>DuPont analysis</strong></td>
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<tr>
<td>Net profit margin (%)</td>
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<td>1.5</td>
<td>2.3</td>
<td>2.9</td>
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<tr>
<td>Revenue/Assets (x)</td>
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<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
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<tr>
<td>Assets/Equity (x)</td>
<td>3.7</td>
<td>3.3</td>
<td>3.4</td>
<td>3.5</td>
<td>3.5</td>
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<tr>
<td>ROAE (%)</td>
<td>15.0</td>
<td>10.2</td>
<td>5.6</td>
<td>8.9</td>
<td>11.2</td>
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<tr>
<td>ROAA (%)</td>
<td>4.8</td>
<td>2.9</td>
<td>1.7</td>
<td>2.6</td>
<td>3.2</td>
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<tr>
<td>Cash conversion cycle</td>
<td>60.8</td>
<td>59.8</td>
<td>59.8</td>
<td>59.8</td>
<td>59.8</td>
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<tr>
<td>Days receivable outstanding</td>
<td>38.0</td>
<td>34.0</td>
<td>34.0</td>
<td>34.0</td>
<td>34.0</td>
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<tr>
<td>Days inventory outstanding</td>
<td>41.5</td>
<td>44.2</td>
<td>44.2</td>
<td>44.2</td>
<td>44.2</td>
</tr>
<tr>
<td>Days payables outstanding</td>
<td>18.6</td>
<td>18.4</td>
<td>18.4</td>
<td>18.4</td>
<td>18.4</td>
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<tr>
<td>Dividend cover (x)</td>
<td>nm</td>
<td>2.6</td>
<td>7.0</td>
<td>3.3</td>
<td>3.3</td>
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<tr>
<td>Current ratio (x)</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
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<tr>
<td><strong>Leverage &amp; Expense Analysis</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset/Liability (x)</td>
<td>1.6</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Net gearing (%) (incl perps)</td>
<td>108.3</td>
<td>79.6</td>
<td>88.9</td>
<td>82.3</td>
<td>80.5</td>
</tr>
<tr>
<td>Net gearing (%) (excl. perps)</td>
<td>108.3</td>
<td>79.6</td>
<td>88.9</td>
<td>82.3</td>
<td>80.5</td>
</tr>
<tr>
<td>Net interest cover (x)</td>
<td>4.2</td>
<td>3.1</td>
<td>2.0</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Debt/EBITDA (x)</td>
<td>3.6</td>
<td>3.8</td>
<td>5.3</td>
<td>4.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Capex/revenue (%)</td>
<td>6.8</td>
<td>6.4</td>
<td>6.3</td>
<td>5.8</td>
<td>5.4</td>
</tr>
<tr>
<td>Net debt/ (net cash)</td>
<td>1,912.1</td>
<td>1,735.5</td>
<td>2,033.2</td>
<td>2,023.4</td>
<td>2,150.7</td>
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Source: Company; Maybank
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