



Rating
Hold

Asia
China

Energy
Oil & Gas

Company
Sinopec

Reuters 0386.HK	Bloomberg 386 HK	Exchange HKG	Ticker 0386
ADR Ticker SNP	ISIN US16941R1086		

Date
23 March 2015

Results

Price at 23 Mar 2015 (HKD)	6.07
Price target - 12mth (HKD)	6.06
52-week range (HKD)	8.18 - 5.93
HANG SENG INDEX	24,375

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Key changes

Price target	6.31 to 6.06	↓	-4.0%
Net profit (FYE)	47,376.3 to 46,673.1	↓	-1.5%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.9	-2.7	-8.4
HANG SENG INDEX	-1.9	4.5	13.7

Source: Deutsche Bank

Ho hum

2014 Results - a bit soft

Sinopec (SNP) reported full year 2014 earnings of Rmb 46.4bn (0.39/ shr) vs. our Rmb 53.2bn (0.46/ shr). Revenues were Rmb 2.82 tr vs. our Rmb 2.87 tr. Operating income came in at Rmb 73.5bn vs. our Rmb 81.7bn. We had expected Mr. Fu to trim the dividend, but au contraire; declared full year DPS was Rmb 0.20 vs our Rmb 0.14. Op expenses came in ~ 1.5% below our estimates - there is some cost cutting going on at SNP. We maintain our Hold rating given the lack of any visible catalysts over the coming months.

What surprised?

The biggest surprise was that there were no surprises, which is very unlike Chairman Fu. The dividend boost was nice but we suspect short lived. Capex guidance 2015 is for a 12% cut, in line with global peers. We were surprised by 2015 production guidance for natural gas (+24%) and for oil (-3.6%). We expect both to moderate in coming years. Impairment charges totaled Rmb 3.5bn with Rmb 2.4bn from E&P reserve write-downs. Not much was said about the Marketing division - non-oil revenues grew from 0.004% of consolidated sales (2013) to 0.006% of consolidated sales in 2014e.

Investment thesis

We are waiting for Chairman Fu to put in play his next share price catalyst - but nothing yet. E&P asset injections are difficult at US\$ 60-70/ Brent. As for a spin out of the Marketing division, it will take time to show improvements. The coming 2H15 turn around in refining should not be a surprise to anyone.

Valuation and risks

We value Sinopec from a DCF model. Our WACC is 7.4%, which consists of a CoE of 9.5% an after tax CoD of 2.9% and a 32.2% Debt-to-Capital ratio. We use a Deutsche Bank standard China Rfr of 3.9% and ErP of 5.6%. We use a TG rate of 1.5%, which we view as a reasonable LT BOE growth rate for SNP. Risks include: 1) higher-/lower-than-anticipated oil prices; and 2) higher-/lower-than-anticipated global GDP growth.

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	2,880,311.4	2,870,716.8	2,371,749.9	2,538,410.1	2,671,640.1
EBITDA (CNYm)	178,050.4	171,246.0	180,951.6	189,167.4	195,513.5
DB Net Profit (CNY)	66,132.4	52,160.8	46,673.1	48,398.9	48,779.9
DB EPS FD(CNY)	0.57	0.45	0.40	0.42	0.42
OLD DB EPS FD(CNY)	0.57	0.46	0.41	0.42	-
PER (x)	8.6	12.1	12.0	11.6	11.5
EV/EBITDA (x)	5.0	5.8	5.3	5.1	4.9
DPS (net) (CNY)	0.21	0.20	0.18	0.15	0.15
Yield (net) (%)	4.2	3.3	3.0	3.0	3.0

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples & yld calculations use avg historical prices for past years & spot prices for current & future years.

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Model updated: 23 March 2015

Running the numbers

Asia

China

Oil & Gas

Sinopec

Reuters: 0386.HK

Bloomberg: 386 HK

Hold

Price (23 Mar 15) HKD 6.07

Target Price HKD 6.06

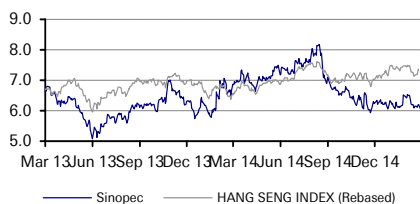
52 Week range HKD 5.93 - 8.18

Market Cap (m) HKDm 701,934
USDm 90,482

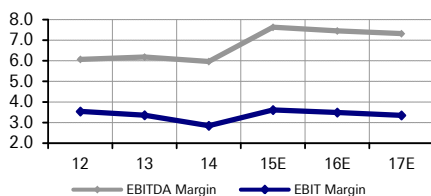
Company Profile

China Petroleum and Chemical Corporation (Sinopec) explores for and produces crude oil and natural gas in China. The Company also owns refineries that make petroleum and petrochemical products such as gasoline, diesel, jet fuel, kerosene, ethylene, synthetic fibers, synthetic rubber, synthetic resins, and chemical fertilizers. In addition, Sinopec trades petrochemical products.

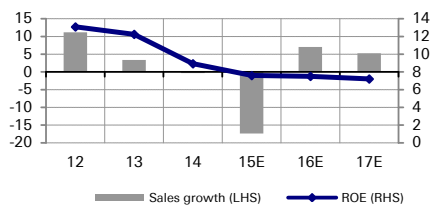
Price Performance



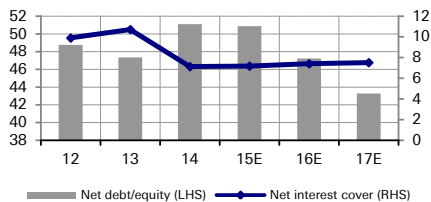
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	0.55	0.57	0.45	0.40	0.42	0.42
Reported EPS (CNY)	0.55	0.57	0.45	0.40	0.42	0.42
DPS (CNY)	0.23	0.21	0.20	0.18	0.15	0.15
BVPS (CNY)	4.4	4.9	5.2	5.4	5.7	6.0
Weighted average shares (m)	115,640	115,640	115,640	115,640	115,640	115,640
Average market cap (CNYm)	542,688	571,380	629,484	560,769	560,769	560,769
Enterprise value (CNYm)	816,231	886,388	988,319	950,082	956,678	958,260

Valuation Metrics

	2012	2013	2014	2015E	2016E	2017E
P/E (DB) (x)	8.5	8.6	12.1	12.0	11.6	11.5
P/E (Reported) (x)	8.5	8.6	12.1	12.0	11.6	11.5
P/BV (x)	1.20	1.02	0.96	0.89	0.85	0.81
FCF Yield (%)	nm	nm	nm	nm	3.7	4.8
Dividend Yield (%)	4.8	4.2	3.3	3.0	3.0	3.0
EV/Sales (x)	0.3	0.3	0.3	0.4	0.4	0.4
EV/EBITDA (x)	4.8	5.0	5.8	5.3	5.1	4.9
EV/EBIT (x)	8.3	9.2	12.1	11.1	10.8	10.7

Income Statement (CNYm)

	2012	2013	2014	2015E	2016E	2017E
Sales revenue	2,786,045	2,880,311	2,870,717	2,371,750	2,538,410	2,671,640
Gross profit	484,846	508,453	518,041	510,764	531,550	550,628
EBITDA	169,118	178,050	171,246	180,952	189,167	195,513
Depreciation	70,456	81,265	89,510	95,269	100,563	105,947
Amortisation	0	0	0	0	0	0
EBIT	98,662	96,785	81,736	85,683	88,604	89,567
Net interest income/(expense)	-9,963	-9,034	-11,466	-11,934	-11,959	-11,916
Associates/affiliates	1,626	2,359	2,359	2,359	2,359	2,359
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	317	4,942	4,942	4,942	4,942	4,942
Profit before tax	90,642	95,052	77,571	81,050	83,947	84,952
Income tax expense	23,846	24,763	20,633	21,540	22,291	22,548
Minorities	2,917	4,157	4,778	12,836	13,257	13,623
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	63,879	66,132	52,161	46,673	48,399	48,780
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	63,879	66,132	52,161	46,673	48,399	48,780

Cash Flow (CNYm)

	2012	2013	2014	2015E	2016E	2017E
Cash flow from operations	75,470	109,354	141,664	139,498	163,033	168,803
Net Capex	-158,677	-170,000	-161,500	-142,120	-142,120	-142,120
Free cash flow	-83,207	-60,646	-19,836	-2,622	20,913	26,683
Equity raised/(bought back)	118	29,745	0	0	0	0
Dividends paid	-32,071	-27,829	-21,572	-17,378	-16,612	-17,001
Net inc/(dec) in borrowings	7,659	-16,526	50,000	30,000	0	0
Other investing/financing cash flows	91,129	79,845	0	0	0	0
Net cash flow	-16,372	4,590	8,592	10,000	4,302	9,683
Change in working capital	-60,935	-31,167	-2,425	-12,921	3,173	2,812

Balance Sheet (CNYm)

	2012	2013	2014	2015E	2016E	2017E
Cash and other liquid assets	10,864	15,101	23,693	33,692	37,994	47,677
Tangible fixed assets	769,004	830,225	902,215	949,066	990,623	1,026,796
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	30,813	32,174	34,533	36,892	39,251	41,610
Other assets	456,007	505,416	503,373	433,523	455,078	472,097
Total assets	1,266,688	1,382,916	1,463,814	1,453,174	1,522,945	1,588,180
Interest bearing debt	278,098	309,460	359,460	389,460	389,460	389,460
Other liabilities	440,559	451,830	447,362	364,590	389,318	409,150
Total liabilities	718,657	761,290	806,822	754,050	778,778	798,610
Shareholders' equity	510,909	568,803	599,392	628,687	660,475	692,256
Minorities	37,122	52,823	57,601	70,437	83,694	97,317
Total shareholders' equity	548,031	621,626	656,992	699,124	744,169	789,573
Net debt	267,234	294,359	335,767	355,768	351,466	341,783

Key Company Metrics

	2012	2013	2014	2015E	2016E	2017E
Sales growth (%)	11.2	3.4	-0.3	-17.4	7.0	5.2
DB EPS growth (%)	-12.3	3.5	-21.1	-10.5	3.7	0.8
EBITDA Margin (%)	6.1	6.2	6.0	7.6	7.5	7.3
EBIT Margin (%)	3.5	3.4	2.8	3.6	3.5	3.4
Payout ratio (%)	41.0	36.0	35.0	35.0	35.0	35.0
ROE (%)	13.1	12.2	8.9	7.6	7.5	7.2
Capex/sales (%)	5.7	5.9	5.6	6.0	5.6	5.3
Capex/depreciation (x)	2.3	2.1	1.8	1.5	1.4	1.3
Net debt/equity (%)	48.8	47.4	51.1	50.9	47.2	43.3
Net interest cover (x)	9.9	10.7	7.1	7.2	7.4	7.5

Source: Company data, Deutsche Bank estimates

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Results by segment

No surprises

By business segment for 2014, Sinopec reported:

- Operating income of Rmb 47bn vs. our Rmb 49.3bn at the E&P division;
- Operating loss of Rmb -1.9bn vs. our estimated profit of Rmb 5.6bn at the Refining division; the difference is inventory losses generated from the q/q decline in the oil price;
- Operating loss of Rmb -2.18bn vs. our estimated Rmb -4.2bn loss at the Chemical division; and
- Operating income of Rmb 29.4bn vs. our Rmb 34.4 bn at the Marketing division; China's economy has slowed; demand for oil products is slack.

The only surprise came from "Corporate overhead" which for the first time since 2003 was a positive number (Rmb 1.16bn) after 10-years of losses of between Rmb 1.0 to Rmb 3.0bn annually. It's a rounding error no matter how you look at it.

Our 2015 estimates by division can be seen in Figure 2, below.

Valuation and risks

We value Sinopec from a DCF model (Figure 1). Our WACC is 7.4% which consists of a cost of equity (CoE) of 9.5% an after tax cost of debt (CoD) of 2.9% and a 32.2% Debt-to-Capital ratio We use a Deutsche Bank standard China risk free rate (Rfr) of 3.9% and equity risk premium (ErP) of 5.6%. We use a terminal growth (TG) rate of 1.5% for Sinopec, which we view as a reasonable assumption for the company's LT BOE production growth. We have lowered our TG rate with this report from 2% pa to 1.5% pa given SNP's guidance of lower oil production (-3.2%) for 2015e and we suspect subsequent years. Guidance for natural gas growth in 2015e was boosted from 10-15% to 24%, although we feel both gas and oil production growth will normalize to an all in BOE growth rate of 1.5% pa over the medium term.

Looking at more traditional valuations (Figure 3), we show SNP trading quite cheap relative to global peers, a bit rich relative to Asian peers and expensive relative to SNP's historical 5-year mean PE valuation of 9.7x. We show SNP trading at 12x our 2015e earnings vs. 21.7x for a subset of global peers and 11.6x for a subset of Asian peers. We show SNP trading at a 44% discount to global peers and a 3.5% premium to Asian peers. In good times, China SOE oil and gas companies trade up to parity with global peers; in disappointing times, the SOE discount to global peers settles at + / - 30%. We believe SNP is trading at reasonable levels against its Asian peers.

SNP's downstream business segments, particularly Marketing and Refining are providing support to an otherwise dismal E&P business. In our Sinopec vs. Global Peers report dated 06-January 2015, we pointed out that SNP's downstream businesses contributed (45%) to its 2013 consolidated operating income, which was more than double its peer contribution (21.6%). Downstream earnings at SNP should hold up relatively well in today's low oil price environment.



The principal risks to Sinopec include: 1) materially higher-/lower-than-anticipated oil prices; 2) materially higher-/lower-than-anticipated global GDP growth (2015-16e) that would have an adverse/positive impact Sinopec's Chemical division estimates; and 3) any radical change to the current oil & gas operating tax and / or China corporate income tax structure.

Figure 1: Sinopec – DCF model

RMB (Avg) = US\$1	6.20	6.25	6.25	6.25	6.25	6.25	6.25	
HK\$ (Avg) = US\$1	7.79	7.79	7.79	7.79	7.79	7.79	7.79	
Sinopec								
DCF - RMB mm	2015F	2016F	2017F	2018F	2019F	2020F	Terminal 2021F	
Operating Income	87,141	88,689	87,684	100,527	104,326	104,973	104,673	
Depreciation	94,049	100,088	105,378	110,977	116,842	122,842	128,249	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Income Tax	-21,785	-22,172	-21,921	-25,132	-26,081	-26,243	-26,168	
(Capex)	-136,048	-136,048	-142,850	-147,850	-147,850	-147,850	-147,850	
(Decrease) / Increase WC	-14,243	5,531	4,526	5,775	3,543	3,977	0	
Free CF	9,113	36,088	32,816	44,297	50,779	57,698	58,903	
Fiscal Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free CF (ex Tax)	9,113	36,088	32,816	44,297	50,779	57,698	58,903	
Terminal Growth							1.5%	
							Terminal As % PV	
6.0%	8,597	32,118	27,553	35,087	37,945	40,675	870,534	
7.4%	8,486	31,294	26,500	33,310	35,559	37,625	607,695	
8.0%	8,438	30,939	26,051	32,559	34,560	36,359	528,761	
9.0%	8,361	30,374	25,340	31,381	33,003	34,403	429,628	
10.0%	8,285	29,825	24,655	30,255	31,530	32,569	355,608	
11.0%	8,210	29,290	23,995	29,180	30,135	30,848	298,645	
12.0%	8,137	28,769	23,358	28,151	28,814	29,232	253,760	
13.0%	8,065	28,262	22,743	27,168	27,561	27,713	217,717	
14.0%	7,994	27,768	22,150	26,227	26,373	26,286	188,319	
15.0%	7,924	27,288	21,577	25,327	25,246	24,944	164,029	
16.0%	7,856	26,819	21,024	24,465	24,177	23,682	143,736	
	Total PV	Net Debt	Minorities	Associates	Net Pres. Value	Shrs Outst	NPV / Shr	WACC
3-Yr Beta x HSI	100.0%	1,052,509	193,551	63,990	32,119	827,087	115,640	7.15
Rf Rate China Local	3.9%	780,470	193,551	63,990	32,119	555,048	115,640	4.80
Equity. Premium	5.6%	697,668	193,551	63,990	32,119	472,246	115,640	4.08
Cost Equity	9.5%	592,490	193,551	63,990	32,119	367,069	115,640	3.17
Cost Debt	3.9%	512,727	193,551	63,990	32,119	287,305	115,640	2.48
Debt Risk Premium	0.0%	450,302	193,551	63,990	32,119	224,880	115,640	1.94
After Tax Cost Debt	2.9%	400,221	193,551	63,990	32,119	174,799	115,640	1.51
Debt / Capital	32.2%	359,229	193,551	63,990	32,119	133,808	115,640	1.16
Avg. Cost Capital	7.4%	325,119	193,551	63,990	32,119	99,697	115,640	0.86
		296,336	193,551	63,990	32,119	70,914	115,640	0.61
		271,758	193,551	63,990	32,119	46,336	115,640	0.40
RMB	2015F	2016F	2017F	2018F	2019F	2020F	2021F	
Total PV	780,470	8,486	31,294	26,500	33,310	35,559	37,625	607,695
Net Debt	193,551							
Net Minorities	63,990							
Associates	32,119							
NPV Equity	555,048							
Shrs Outst	115,640							
NPV / Share	4.80							
WACC	7.4%							
	Price ADR\$	80.26	Price HK\$	6.07				
	Price A-Shr	6.43	DCF HK\$	6.03				
	Prem A to H	5.9%	Upside	-0.7%				

Source: Deutsche Bank

Figure 2: DB estimates for SNP operating earnings by business division

SINOPEC	2013					2014e					2015e				
	1Q	2Q	3Q	4Qe	2013	1Q	2Q	3Q	4Qe	2014e	1Qe	2Qe	3Qe	4Qe	2015e
E&P 1H / 2H	16,230	14,719	15,376	8,468	54,793	13,206	15,057	13,485	5,309	47,057	2,800	3,000	4,000	8,828	18,628
		30,949		23,844			28,263		18,794			5,800		12,828	
REFINING 1H / 2H	2,204	(1,991)	6,169	2,217	8,599	3,739	6,016	1,347	(13,056)	(1,954)	(3,000)	8,000	12,000	15,703	32,703
		213		8,386			9,755		(11,709)			5,000		27,703	
CHEMICALS 1H / 2H	0.167	(409)	266	1,011	868	(1,342)	(2,626)	452	1,335	(2,181)	243	485	849	849	2,425
		(409)		1,277			(3,968)		1,787			728		1,697.7	
MARKETING 1H / 2H	9,126	7,726	9,888	8,403	35,143	8,832	9,962	7,645	3,010	29,449	8,107	8,107	8,107	8,107	32,430
		16,852		18,291			18,794		10,655			16,215		16,215	
OTHERS - (Corp Overhead)	(853)	(853)	(853)	(853)	(3,412)	382	(958)	1,167	525	1,116	279	279	279	279	1,116
- Qtly EBIT	26,707	19,192	30,846	19,246	95,991	24,817	27,451	24,096	(2,877)	73,487	8,429	19,872	25,235	33,767	87,303
DB Brent forecasts(US\$ / bbl)	112.6	103.4	109.8	109.4	108.8	107.9	109.8	102.3	76.1	99.0	57.5	57.5	60.0	62.5	59.4

Source: Company specific data; Deutsche Bank



Figure 3: Sinopec – traditional valuations vs. global peers

Priced on 23-Mar-15								P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE %		Net Debt / Equity
Company	Ticker	Fx	Price	Rating	Price Target	% to TP	Mkt. Cap US\$bn	14F	15F	14F	15F	14F	15F	14F	15F	2015F
Integrated Global :																
ExxonMobil	XOM.N	USD	84.5	Hold	91	7.6	359.3	11.9	24.5	7.0	10.0	2.1	2.0	18.7	8.2	15.3
Occidental Petroleum	OXY.N	USD	72.7	Hold	81	11.4	56.8	12.4	47.8	4.3	9.7	1.2	1.2	1.3	2.6	8.2
Chevron	CVX.N	USD	107.0	Buy	120	12.1	202.4	11.6	29.9	5.4	8.5	1.3	1.3	12.7	4.4	17.2
Royal Dutch Shell plc	RDSa.L	GBP	2,064	Hold	2,425	17.5	202.2	10.5	15.7	4.4	3.8	1.2	1.1	8.5	7.1	21.4
BP	BP.L	GBP	451.0	Buy	470	4.2	122.3	11.9	20.2	3.9	3.4	1.1	1.1	6.7	6.7	20.7
ENI	ENI.MI	EUR	16.3	Hold	16	(1.5)	64.4	17.4	25.9	4.2	4.5	0.9	1.0	4.0	3.8	37.1
Total SA	TOTF.PA	EUR	47.6	Buy	48	0.8	122.7	11.3	15.0	7.7	5.6	1.4	1.5	4.5	12.0	38.2
Repsol	REP.MC	EUR	17.4	Hold	20	15.1	26.2	14.5	21.6	12.4	8.3	0.8	0.9	3.7	4.0	17.0
Statoil	STL.OL	NOK	143.9	Hold	135	(6.2)	57.9	14.9	18.3	2.6	3.1	1.1	1.2	6.0	6.6	47.9
ONGC	ONGC.BO	INR	314.5	Buy	412	31.0	57.2	9.5	9.2	4.8	4.0	1.4	1.3	13.7	14.9	(3.3)
PTT	PTT.BK	THB	326.0	Hold	350	7.4	28.6	18.8	10.6	5.5	4.6	1.3	1.3	7.1	12.3	28.2
PetroChina	0857.HK	HKD	8.3	Hold	8.39	1.1	330.1	10.7	15.1	5.0	5.6	1.0	1.0	9.7	6.6	36.2
Sinopec	0386.HK	HKD	6.1	Hold	6.31	4.0	118.9	12.1	12.0	5.8	5.3	0.93	0.89	8.9	7.6	50.6
Mean								13.2	21.7	5.6	6.0	1.2	1.3	7.9	7.5	22.5
Median								11.9	20.2	4.8	4.6	1.2	1.2	6.7	6.7	20.7
Europe Mean								13.4	19.5	5.9	4.8	1.1	1.1	5.6	6.7	30.4
N. America Mean								12.0	34.0	5.5	9.4	1.5	1.5	10.9	5.1	13.6
Asia Mean								14.2	9.9	5.1	4.3	1.4	1.3	10.4	13.6	12.5

Source: Bloomberg Finance Lp, Deutsche Bank





Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Sinopec	0386.HK	6.08 (HKD) 23 Mar 15	6,9,17,SD11

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: Sinopec (0386.HK)
(as of 3/23/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	25/03/2013:	Buy, Target Price Change HKD10.05	8.	10/03/2014:	Buy, Target Price Change HKD8.04
2.	12/06/2013:	Buy, Target Price Change HKD7.50	9.	03/04/2014:	Downgrade to Hold, Target Price Change HKD7.65
3.	25/06/2013:	Buy, Target Price Change HKD6.91	10.	17/04/2014:	Hold, Target Price Change HKD7.66
4.	26/08/2013:	Buy, Target Price Change HKD6.75	11.	13/11/2014:	Hold, Target Price Change HKD6.84
5.	02/10/2013:	Buy, Target Price Change HKD6.91	12.	14/12/2014:	Hold, Target Price Change HKD6.25
6.	30/10/2013:	Buy, Target Price Change HKD7.23	13.	06/02/2015:	Hold, Target Price Change HKD6.31
7.	10/12/2013:	Buy, Target Price Change HKD8.12			

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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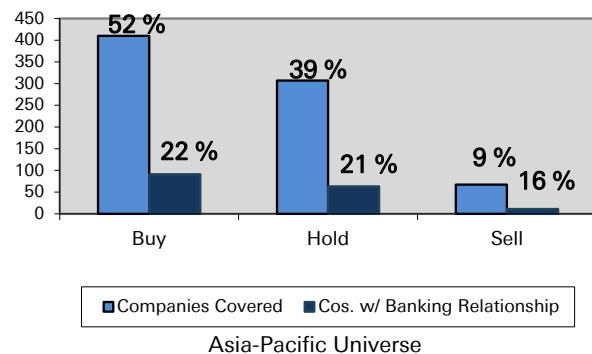
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Equity rating dispersion and banking relationships





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