

Home Product Center (HMPRO TB)

ESG champion

High scores in all areas

HMPRO has achieved an ESG score of 88 on Maybank's rating system, well above the average of 50. This demonstrates its strength in environmental, social and governance metrics through quantitative and qualitative data. It also has clear ESG goals in many areas while continuously emphasising ESG through sustainability practices covering its entire supply chain. Plus, its earnings growth outlook remains healthy. BUY, with a TP of THB16.80.

Setting clear and concrete ESG goals

HMPRO has set a goal of net-zero emissions by 2050. Its 2030 goals include reducing GHG emissions per store by 50% from the base year (Scope 1 and Scope 2), using 100% renewable energy in branches with company-owned buildings and zero waste management. It also aims to increase the proportion of sales of products that are environmentally friendly (ECO Product) to 50% within the year 2025.

Good ESG scores for both quantity and quality

In quantitative terms, HMPRO scored quite well. Data from 2019-21 show greenhouse gas emissions covering Scopes 1, 2 and 3, are declining; consumption of water and electricity decreased; and waste recycling and reuse of plastics increased. Use of renewable energy increased vs total energy consumption. The proportion of female executives and employees also increased. However, the Lost Time Injury Frequency Rate (LTIFR) rose and the board's compensation to net profit ratio increased. In qualitative terms, the company has a sustainable development policy. There is also a Sustainable Development Committee as well as disclosure of ESG information, according to TCFD international standards.

ESG score of 88 vs the average of 50

Maybank's ESG rating system uses quantitative and qualitative data as well as ESG targets in its assessment. HMPRO scores 88 out of 100, vs the average of 50. The company is also a member of the UN Global Compact and has been accepted by the DJSI, FTSE4Good and Bloomberg Gender Equality Index (GEI) while receiving an AA rating from MSCI ESG.

FYE Dec (THB m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	58,347	60,568	66,468	70,733	74,498
EBITDA	9,831	10,258	11,384	12,141	12,813
Core net profit	5,155	5,441	6,377	6,888	7,349
Core EPS (THB)	0.39	0.41	0.48	0.52	0.56
Core EPS growth (%)	(16.5)	5.5	17.2	8.0	6.7
Net DPS (THB)	0.30	0.32	0.36	0.40	0.42
Core P/E (x)	35.0	35.1	31.6	29.2	27.4
P/BV (x)	8.4	8.3	8.1	7.5	7.0
Net dividend yield (%)	2.2	2.2	2.4	2.6	2.7
ROAE (%)	24.1	24.5	26.7	26.8	26.6
ROAA (%)	9.5	9.5	10.7	11.2	11.6
EV/EBITDA (x)	19.8	19.9	18.9	17.6	16.6
Net gearing (%) (incl perps)	68.3	60.8	54.5	48.6	41.4
Consensus net profit	-	-	6,290	7,008	7,707
MKE vs. Consensus (%)	-	-	1.4	(1.7)	(4.6)

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BUY

Share Price	THB 15.30
12m Price Target	THB 16.80 (+10%)
Previous Price Target	THB 16.80

Company Description

HMPRO operates home improvement retail outlets in Thailand and Malaysia under the HomePro and MegaHome brands.

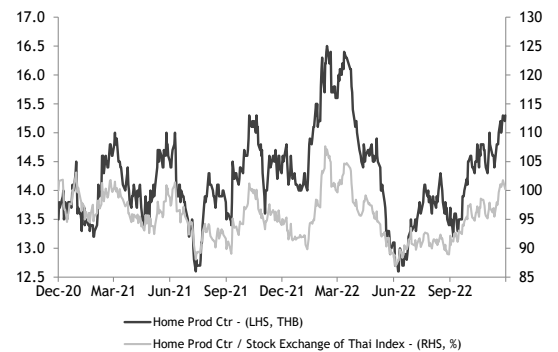
Statistics

52w high/low (THB)	16.50/12.60
3m avg turnover (USDm)	10.1
Free float (%)	40.9
Issued shares (m)	13,151
Market capitalisation	THB201.2B USD5.8B

Major shareholders:

Land & Houses Public Co., Ltd.	30.2%
Quality Houses Public Co., Ltd	19.9%
Thai NVDR	8.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	13	7
Relative to index (%)	5	11	7

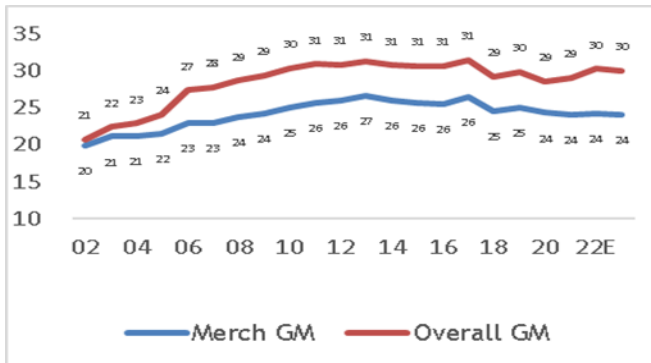
Source: FactSet

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Tear Sheet Insert

Value Proposition

- Thailand's largest home improvement (HI) retailer, with 93 HomePro and 14 Mega Home outlets in Thailand and seven HomePro stores in Malaysia. Market share in Thailand is 16% for the entire HI market, based on our estimates.
- Scale and large distribution footprint are entry barriers. Horizontal (more outlets) and vertical (private labels) expansion is difficult to rival.
- The HomePro store network in Malaysia is growing and could break-even this year when purchasing power returns.
- Resilient margins drive positive FCF. Cash piling to cushion operations from Covid-19 resulted in 2020 DPR dipping to 76% and returning to 81% in 2021. We see DPR above 80% as sustainable.

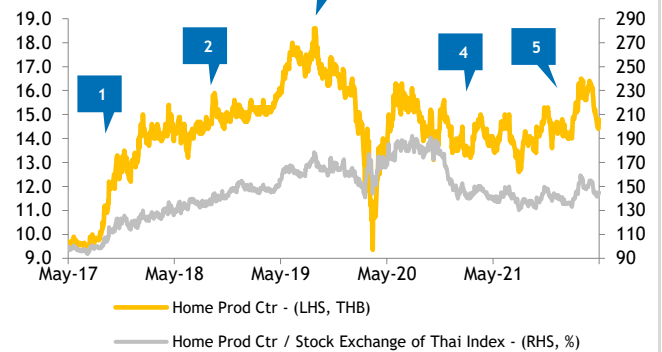
Resilient GM, 30bps add-on aimed for 2022, upside risk



Source: Company, MST

Price Drivers

Historical share price trend



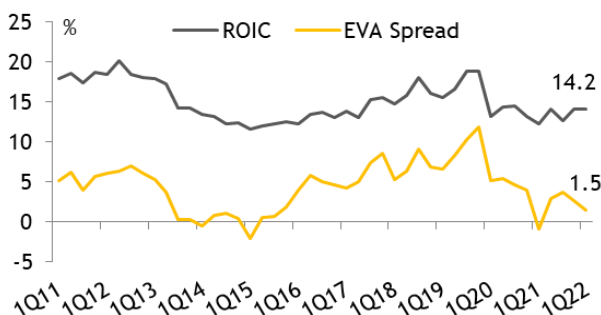
Source: Company, MST

- Weak consumer sentiment and poor general income outlook especially after suspension of populist policies pursued by the military government.
- Profitability improved from strong cost-cutting measures and resumption of cash dividend payments.
- Re-rating driven by strong profit growth and return of SSSG to positive territory.
- Covid-19 and related measures hit earnings.
- Share price rebound reflecting optimism on recovery and then collapsed on inflationary concern affecting final demand.

Financial Metrics

- SSSG is one CF driver; it was negative from the middle of FY16 to middle of FY17. We assume an annual rate of 3-4% going forward except in 2020 when it dipped 8.5% YoY.
- Sustained margin improvement is another CF driver. This was largely driven by higher participation of private label and sales improvement at Mega Home stores. Improved performance of MY stores will lift margins as well.
- After increasing retail space by 2.5x in 2010-16, additions have become modest (2 stores in 2021) helping improve cashflows. The medium term target of store network is 150 by 2025 from 107 at the end of 2021. Expansion is fundable by internal cashflow.
- EVA was negative in 2010-13 due to fast expansion. It turned positive starting mid 2015 but again negative in 2Q21 due to lockdown measures. It is again positive and expected to remain so.

EVA trending down on higher funding cost



Source: Bloomberg

Swing Factors

Upside

- Return of SSSG is constructive to margin improvement.
- Higher cash dividends will be viewed positively.
- Operations in Malaysia hitting break even.
- Mega Home expanding into the CLMV market.

Downside

- Wrong merchandising mix negatively affects SSSG and margins.
- Rising competition affects its SSSG as well as margins.
- Too rapid expansion in the new markets could dilute performance ratios.

Risk Rating & Score ¹	15.2 (10/39 - Low Risk)
Score Momentum ²	-0.5
Last Updated	11 Feb 2022
Controversy Score ³ (Updated: 11 Feb 2022)	No evidence of controversies

Business Model & Industry Issues

- Home improvement retailers receive a leg up on ESG from manufacturers/suppliers already buying into the sustainability agenda and continuously bringing innovations for greener, efficient and consumer friendly home gadgets and equipment. HMPRO's function in this supply chain is to encourage consumers to shift to these better choices and it executes this function well. By 2019, 35% of its sales mix was eco-products and the goal is to hit 50% by 2025.
- HMPRO's ESG initiatives generate a positive contribution to profits via cost reduction in many areas, higher efficiency and store service levels, higher rebate income, as well as foster strong relationships with society via vocational training, hiring elderly and those handicapped.
- All these should circle back to enhance the franchise value and encourage patronage constructive to its target of having 150 branches by 2025 from 107 (2019) though the rollout might be delayed due to mobility restrictions relating to Covid-19 and uncertainty over the short to medium-term outlook due to the economic fallout from the Covid-19 measures.

Material E issues

- Reducing energy consumption is an area where more savings can still be made. Solar roofing is one approach. YE21, 48 of its 100 large stores have solar roofs producing c.42.3m kWh/yr equivalent to 23,166t CO₂/year. 2030 goal is to cover the 100 large stores.
- 43.2% of its sales mix (2021) is eco products; 2025 target is 50%. Eco products must qualify any number of the following attributes: water saving, energy saving, greenhouse gas reduction, chemical safety & deforestation reduction. The most interesting example of eco product is the KECH plate that absorbs and drains oil from food thus reducing the oil consumed.
- Starting July 2019 HMPRO banned the use of single-use plastics and reported a reduction of 18.8m bags reducing CO₂ by c.675 tonnes or ≈75k trees planted in 2020. The goal is to reduce this more by collaborating with suppliers and distributors while serving over 4.5m members and walk-in customers and growing its existing c. 40k-80k SKUs. Customer satisfaction (CS) was 80.7% in 2021 and the goal is to hit 85% in 2025. Achieving high CS translates into higher sales and other income (4% of 2021 sales) via supplier rebates.
- HMPRO is the 1st home improvement retailer to receive carbon footprint from Thailand's Greenhouse Gas Mgt Org (TGO) and compensation for carbon emission as it approaches carbon neutral, GHG reduction/store was 39% and the 2030 target reduction is 50%.

Material S issues

- Private label or direct sourcing is a key merchandising strategy to grow sales by tapping certain niches and boosts margins. This also allows HMPRO to directly engage with c.1300 (2021) manufacturers and distributors, and influence their operational procedures to advance the sustainability agenda. The bi-annual HomePro Expo showcases new products and innovation from its suppliers.
- Along with automation and digitalisation, HMPRO also provides upskilling and training for its staff ranging from 49-77 hours trained/person/year and this has been one of the reasons for the better profit, from THB0.38m/person in 2016 to THB0.49m/person in 2020. The ROI for the training was 433%.
- HMPRO has signed a bilateral programme with OVEC for eight years now. In 2020, 412 vocational certificates and 32 bachelor scholarships were awarded worth THB12.4m. Some 146 graduates from the programme were admitted as HomePro's associates (technical services). Eight years in the programme cost HMPRO THB62m and the accumulated graduates that have become HomePro associates totalled 2,235; 52% of which are females.
- Thailand has an aging society. Three years ago, HMPRO began hiring elderly and by 2020 had 50 elders. About the same time it began hiring disabled persons. Nearly 2% of its sales (2020) are products catering to the needs of the elderly and disabled.

Key G metrics and issues

- The 11-member board of directors (BOD) only has one woman; it has four independent members. But the 18-member top management team has 12 women. The BOD's total 2021 compensation was THB41m, c.0.7% of reported net profit. Top management compensation for 2021 was c.TH149m, equivalent to 2.7% of reported net profit.
- HMPRO has an Employee Joint Investment Programme (EJIP) that begun in 2013. Series 1 covers the 1 July 2013 - 30 June 2018. Eligible employees start from Division Manager or higher and this is on a voluntary basis. EJIP series 2 covers the period from 1 July 2018-30 June 2030; 5% is deducted from the monthly salary of the participating employee and HMPRO will match this 100%. There is a silent period of three years. Sale of shares can begin after Year 3 at a specific ratio.
- EY has been its auditor for seven years and the current contract is for another three years. Because of Covid-19, online sales made up as much as 9% of sales in 2Q20 (5% YE20), and this is an ongoing trend. Cyber security will increasingly become an issue in 2021 and HMPRO is looking at ways to mitigate the risks. The plan is to roll out information security management in accordance with international standards such as ISO/IEC 27001 (Information Security), which is a standard guideline of the Information Security Management System.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 75)						
	Particulars	Unit	2019	2020	2021	GLOBAL TB (2021)
E	Scope 1 GHG emissions	tCO2e	46	18	17	11,187
	Scope 2 GHG emissions	tCO2e	84,684	62,997	64,491	58,137
	Total	tCO2e	84,730	63,015	64,508	69,324
	Scope 3 GHG emissions	tCO2e	28,261	26,746	26,400	NA
	Total	tCO2e	112,991	89,761	90,908	NA
	Total CO2 emission intensity	tCO2e/rev THB m	1.26	1.02	1.01	2.03
	Electricity Consumption per Area	kWh/sq m	256	227	213	48
	Water consumption per store	cu. m/store	11,531	8,573	9,657	5,243
	RE as % of total energy consumed	%	15.3%	22.7%	24.2%	54%
	% Recycling of waste	%	87.2%	80.6%	86.5%	NA
% of recyclable plastic packaging used	%	6.3%	6.3%	7.5%	NA	
S	% of women in workforce	%	51.5%	48.7%	50.2%	43.1%
	% of women in management roles	%	66.7%	56.9%	58.3%	25.0%
	Employee turnover rate	%	20.0%	19.6%	17.4%	19.5%
	Lost time injury frequency rate	Index	0.41	0.64	0.67	3.94
G	MD/CEO salary as % of net profit	%	2.1%	2.6%	2.7%	3.0%
	Directors remuneration as % of net profit	%	0.7%	0.9%	0.7%	0.6%
	Independent directors on board	%	36%	36%	36%	40%
	Women directors on board	%	9.1%	9.1%	9.1%	10%

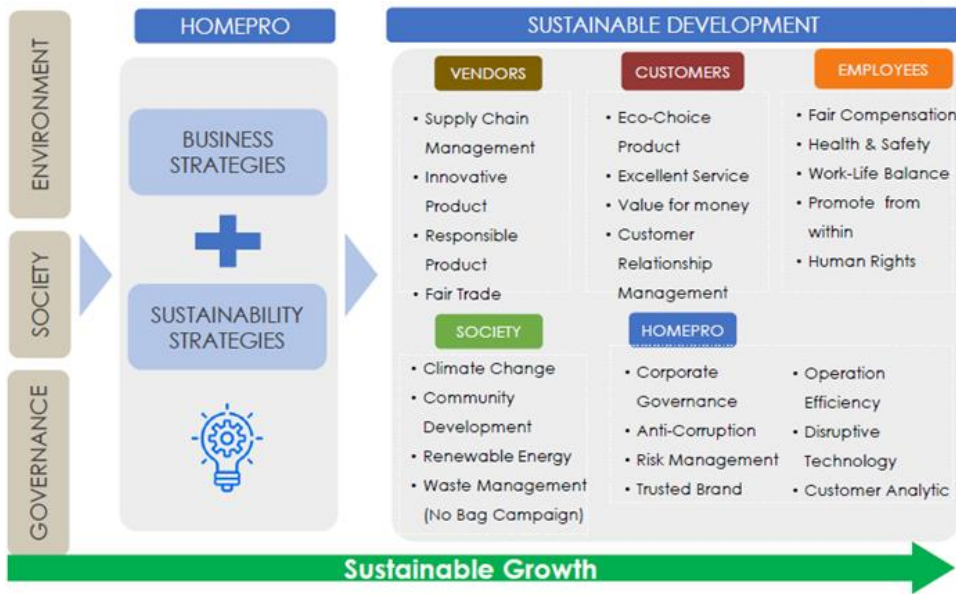
Qualitative Parameters (Score: 100)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes, HMPRO has Sustainable Development Policy and the company has a standalone Sustainable Development Committee</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes, The remuneration of the managing director and executives (including senior management) is linked to environmental, social, and governance operational performances such as increased Eco Product sales mix, renewable energy consumption, and the number of Tao Kae Noi technicians.</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Yes</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, scope 3 emissions include come from third party trucks which consume diesel fuel and LPG gas used for canteen.</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>(1) Increase the proportion of Solar Renewable Energy usage for all stores of the Company and develop the efficiency of electricity generation. (2) Efficiency enhancement of energy management system by installing Building Control Monitoring System for Energy (BCMS) inside the Company's buildings to monitor and improve efficiency of energy usage (3) Encourage third party to use EV trucks for delivery transportation.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes, the company plans to offset 10% of carbon emission through carbon removal activities i.e. no deforestation reforestation (forest preservation), and carbon removal technologies.</i>

Target (Score: 100)		
Particulars	Target	Achieved
50% of ECO Product sales mix by 2025	50%	46%
100% Responsible plastic consumption by 2025	100%	64%
1,800 Technician teams by 2025	1,800	2,172
88% Employee engagement by 2025	88%	87%
85% Customer experience by 2025	85%	84%
100% of Renewable energy by 2030 for stores in owned buildings	100%	25%
100% Zero waste by 2030	100%	84%
50% GHG reduction per store by 2030	50%	39%
Net zero by 2050	by 2050	NA
50% of ECO Product sales mix by 2025	50%	46%
Impact		
NA		
Overall Score: 88		
As per our ESG matrix, Home Product Center (HMPRO TB) has an overall score of 88.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	75	38
Qualitative	25%	100	25
Target	25%	100	25
Total			88

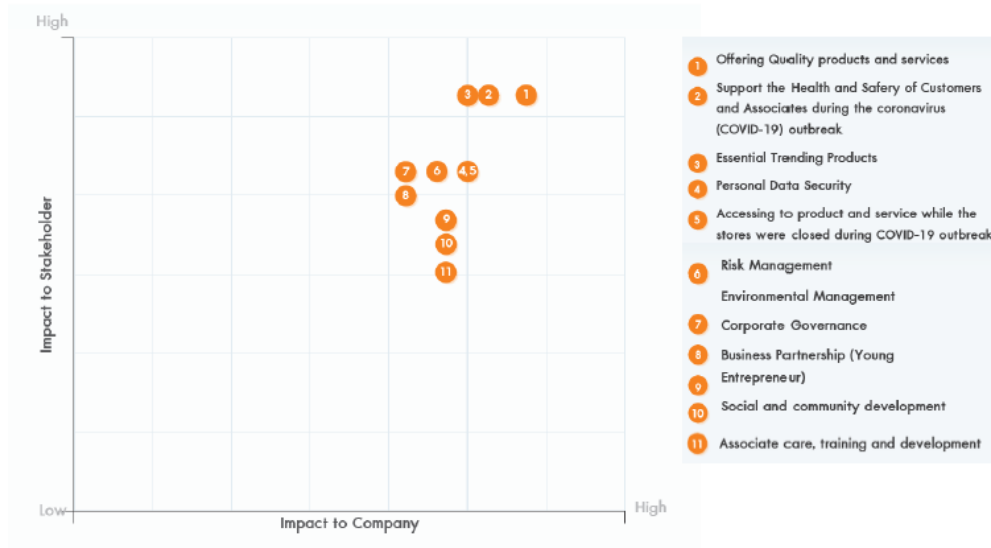
As per our ESG assessment, HMPRO has an established framework, internal policies, and tangible mid/long-term targets but needs to improve LTIFR. HMPRO's overall ESG score is 88, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Figure 1: What does ‘Sustainability’ mean to HomePro ?



Source: Company reports

Figure 2: Materiality Matrix



Source: Company reports

Figure 3: Reduce carbon emissions by installing solar panels in stores



Year	No. of stores generated electricity	Electricity Production (kWh/year)	CO2 Reduction (tCO2 e/year)
2016	12	1,237,806	701
2017	12	13,675,324	7,760
2018	30	31,464,766	17,910
2019	30	32,376,668	18,429
2020	48	37,659,040	21,435
2021	48	42,359,424	23,166

Source: Company reports

Figure 4: How to achieve Zero waste in FY2030



Source: Company reports

Appendix 1

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number.

The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters. The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	36.8	34.1	31.6	29.2	27.4
Core P/E (x)	35.0	35.1	31.6	29.2	27.4
P/BV (x)	8.4	8.3	8.1	7.5	7.0
P/NTA (x)	8.4	8.3	8.1	7.5	7.0
Net dividend yield (%)	2.2	2.2	2.4	2.6	2.7
FCF yield (%)	0.3	3.1	1.9	2.7	2.9
EV/EBITDA (x)	19.8	19.9	18.9	17.6	16.6
EV/EBIT (x)	29.3	29.0	26.3	24.3	22.7
INCOME STATEMENT (THB m)					
Revenue	58,346.8	60,567.9	66,468.3	70,733.2	74,497.9
EBITDA	9,830.6	10,258.0	11,383.7	12,140.6	12,812.7
EBIT	6,648.8	7,050.1	8,180.3	8,815.4	9,376.6
Net interest income / (exp)	(458.8)	(415.6)	(403.9)	(415.6)	(414.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	6,190.1	6,634.5	7,776.4	8,399.8	8,962.5
Income tax	(1,035.4)	(1,194.0)	(1,399.7)	(1,512.0)	(1,613.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	5,154.7	5,440.5	6,376.6	6,887.8	7,349.2
Core net profit	5,154.7	5,440.5	6,376.6	6,887.8	7,349.2
BALANCE SHEET (THB m)					
Cash & Short Term Investments	3,282.7	4,546.0	3,914.3	4,230.1	4,072.2
Accounts receivable	1,769.4	1,674.9	1,894.4	1,865.1	2,012.8
Inventory	10,344.6	12,572.2	12,872.0	12,315.2	13,362.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	38,733.2	37,918.1	40,214.6	41,889.4	42,953.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,960.9	1,875.2	1,887.6	1,896.6	1,904.5
Total assets	56,090.8	58,586.3	60,783.0	62,196.5	64,305.1
ST interest bearing debt	5,573.2	4,661.6	4,400.4	4,340.2	4,020.9
Accounts payable	13,050.3	13,972.6	15,033.8	14,757.6	16,055.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	12,428.9	13,808.8	13,035.2	12,856.8	11,911.0
Other liabilities	3,473.0	3,253.0	3,518.0	3,555.0	3,674.0
Total Liabilities	34,525.5	35,695.9	35,986.9	35,510.0	35,661.2
Shareholders Equity	21,565.2	22,890.4	24,796.0	26,686.5	28,643.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	21,565.3	22,890.4	24,796.0	26,686.5	28,643.9
Total liabilities and equity	56,090.8	58,586.3	60,783.0	62,196.5	64,305.1
CASH FLOW (THB m)					
Pretax profit	6,190.1	6,634.5	7,776.4	8,399.8	8,962.5
Depreciation & amortisation	3,181.7	3,207.9	3,203.4	3,325.2	3,436.1
Adj net interest (income)/exp	458.8	415.6	403.9	415.6	414.1
Change in working capital	(663.8)	(1,016.3)	739.0	366.4	199.8
Cash taxes paid	(1,035.4)	(1,194.0)	(1,399.7)	(1,512.0)	(1,613.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	7,636.5	8,479.8	9,283.5	10,479.6	10,413.1
Capex	(7,085.1)	(2,611.6)	(5,500.0)	(5,000.0)	(4,500.0)
Free cash flow	551.5	5,868.2	3,783.5	5,479.6	5,913.1
Dividends paid	(4,075.9)	(4,208.0)	(4,471.0)	(4,997.4)	(5,391.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	4,613.9	468.3	(1,034.8)	(238.7)	(1,265.0)
Other invest/financing cash flow	(666.7)	(865.2)	1,090.7	72.2	585.8
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	422.7	1,263.3	(631.6)	315.8	(157.9)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.5)	3.8	9.7	6.4	5.3
EBITDA growth	(10.6)	4.3	11.0	6.6	5.5
EBIT growth	(17.0)	6.0	16.0	7.8	6.4
Pretax growth	(18.6)	7.2	17.2	8.0	6.7
Reported net profit growth	(16.5)	5.5	17.2	8.0	6.7
Core net profit growth	(16.5)	5.5	17.2	8.0	6.7
Profitability ratios (%)					
EBITDA margin	16.8	16.9	17.1	17.2	17.2
EBIT margin	11.4	11.6	12.3	12.5	12.6
Pretax profit margin	10.6	11.0	11.7	11.9	12.0
Payout ratio	76.5	77.4	74.2	76.4	75.2
DuPont analysis					
Net profit margin (%)	8.8	9.0	9.6	9.7	9.9
Revenue/Assets (x)	1.0	1.0	1.1	1.1	1.2
Assets/Equity (x)	2.6	2.6	2.5	2.3	2.2
ROAE (%)	24.1	24.5	26.7	26.8	26.6
ROAA (%)	9.5	9.5	10.7	11.2	11.6
Liquidity & Efficiency					
Cash conversion cycle	(14.5)	(6.0)	(3.3)	(6.1)	(7.3)
Days receivable outstanding	11.4	10.2	9.7	9.6	9.4
Days inventory outstanding	84.7	90.6	92.3	85.9	83.3
Days payables outstanding	110.6	106.8	105.2	101.7	99.9
Dividend cover (x)	1.3	1.3	1.3	1.3	1.3
Current ratio (x)	0.8	0.9	0.9	0.9	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.7	1.8	1.8
Net gearing (%) (incl perps)	68.3	60.8	54.5	48.6	41.4
Net gearing (%) (excl. perps)	68.3	60.8	54.5	48.6	41.4
Net interest cover (x)	14.5	17.0	20.3	21.2	22.6
Debt/EBITDA (x)	1.8	1.8	1.5	1.4	1.2
Capex/revenue (%)	12.1	4.3	8.3	7.1	6.0
Net debt/ (net cash)	14,719.4	13,924.5	13,521.3	12,966.8	11,859.7

Source: Company; Maybank IBG Research

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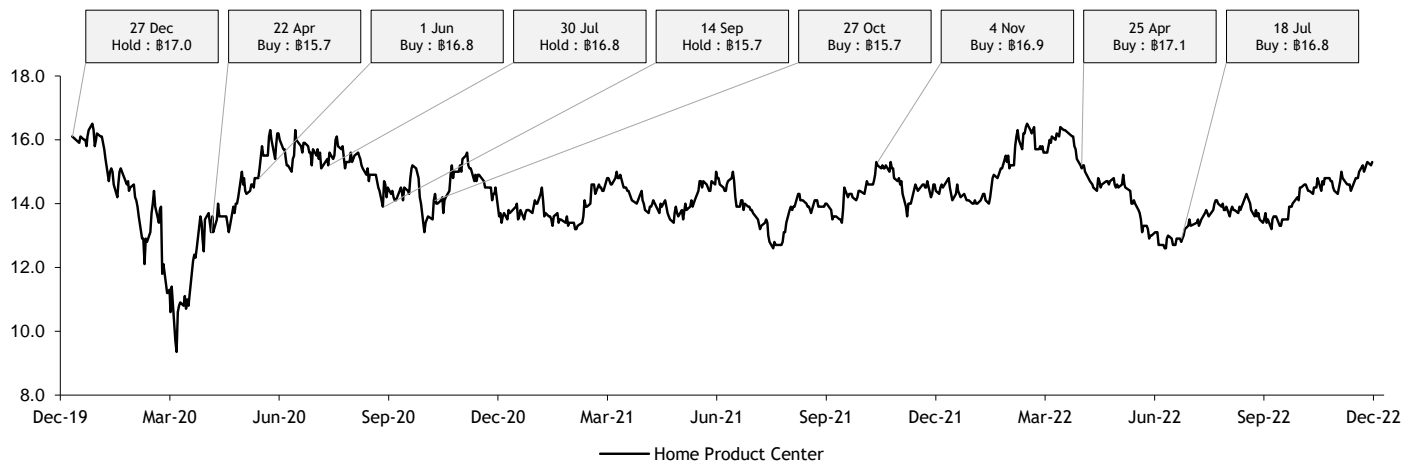
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