

Singapore Telecommunications (ST SP)

NDR takeaways: multiple catalysts and dividend clarity

Reiterate Buy

We hosted Singtel's management on a non-deal roadshow (NDR) in Bangkok. Following are our key take-aways.

Potential for Singapore mobile consolidation?

Management noted that Singapore has 4 facility based mobile operators and 11 MVNOs, which is highly crowded for a city state of 5m. It said there remains potential for mobile consolidation and, based on the experience of regional markets, consolidation could help to alleviate competition and improve ARPU. That said, Singtel is unlikely to drive consolidation given its dominant market share of 46%. Management sees the upcoming 700MHz spectrum payments (auctioned in 2017) as a potential trigger point for consolidation as payment required from Starhub and M1 are ~SGD190-280m each, which is a material outgo relative to their cash flows while 5G spectrum is already built-out (there is limited need for more spectrum in our view).

Optus trinity: Firm revenues, opex & capex reduction

Management noted that the competitive environment in Australia remains conducive to its operations. Optus increased post-paid pricing by 5-18% in May 2024 which was well received by customers and we thus expect a decent revenue lift. Of its SGD200m/pa in projected opex savings target for FY25-26, a significant part comes from Optus, helped by enterprise services rationalisation (focused more on SMEs and mid-market segments) as well as its TPG network partnership. Optus' capex likely peaked in FY24 (capex-to-sales ratio of 20%) and is expected to normalise to mid-teens in the medium term. Management expects that with the above tailwinds it can reach a similar RoIC to that of its Australian competitors (Telstra RoIC is at 8% vs. Optus FY24 at ~1%).

Dividend clarity: Enough dry powder

Management noted that it has ~SGD2bn from previous capital recycling initiatives which can help it to pay SGD3cents/yr in value realisation dividends (VRD) over FY25-28. A partial capital recycling (out of the SGD6bn targeted) can comfortably allow it to pay at the higher end at SGD6 cents/yr in VRD. This is on top of regular dividends at 70-90% of underlying net profits. Continued on page 6.

FYE Mar (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	14,624	14,128	14,470	14,717	14,939
EBITDA	3,686	3,597	3,781	3,965	4,126
Core net profit	2,054	2,261	2,600	3,199	3,722
Core EPS (cts)	12.4	13.7	15.7	19.4	22.5
Core EPS growth (%)	6.8	10.0	15.0	23.0	16.4
Net DPS (cts)	14.9	15.0	16.4	17.9	19.2
Core P/E (x)	19.8	18.5	17.5	14.3	12.2
P/BV (x)	1.6	1.7	1.8	1.8	1.8
Net dividend yield (%)	6.1	5.9	5.9	6.5	7.0
ROAE (%)	8.5	3.2	10.9	13.3	15.2
ROAA (%)	4.3	4.9	5.6	6.9	7.9
EV/EBITDA (x)	13.7	13.7	14.8	14.2	13.7
Net gearing (%) (incl perps)	22.9	14.6	26.8	28.7	28.6
Consensus net profit	-	-	2,513	2,955	3,371
MIBG vs. Consensus (%)	-	-	3.4	8.2	10.4

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BUY

Share Price	SGD 2.76
12m Price Target	SGD 3.40 (+28%)
Previous Price Target	SGD 3.40

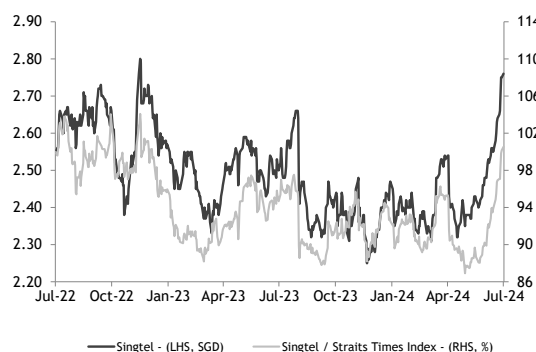
Statistics

52w high/low (SGD)	2.76/2.25
3m avg turnover (USDm)	63.4
Free float (%)	42.1
Issued shares (m)	61,515
Market capitalisation	SGD169.8B
	USD125.3B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	52.0%
Central Provident Fund	4.7%
The Vanguard Group, Inc.	1.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	9	10
Relative to index (%)	11	5	6

Source: FactSet

Abbreviations

MVNO: Mobile virtual network operator

VRD: Value realization dividends

Other companies mentioned in this report

TPG Telecom (TPG ASX, CP AUD4.50, not rated)

Bharti Airtel (BHARTI IN, CP INR1444.05, Not rated)

AIS (ADVANC TH, CP THB210, BUY, TP THB257)

Intouch (INTUCH TB, CP THB71.50, BUY, TP THB82.4)

Telstra (TLS AU, CP AUD3.62, Not Rated)

Netlink (NETLINK SP, CP: SGD0.83, BUY, TP: SGD0.97)

Singpost (SPOST SP, CP: SGD0.42, not rated)

NCS - National Computer System (owned by Singtel)

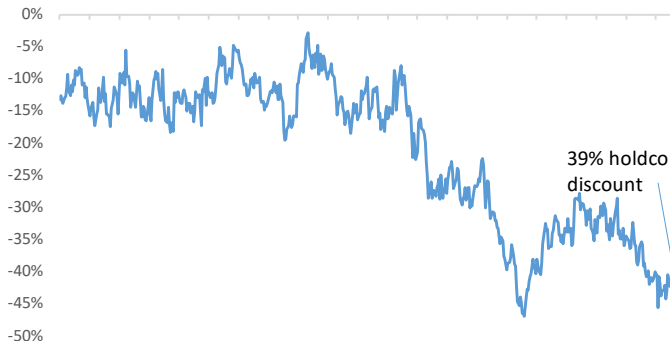
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Tear Sheet Insert

Value Proposition

- Telco conglomerate with exposure to quality telco operators in ASEAN, India and Australia.
- Potential for cost and capex optimization with peaking 5G rollout.
- Attractive dividend yield backed by healthy balance sheet and favourable capital management/asset optimization initiatives.
- Holdco discount of 39% unfair amid positive tailwinds.

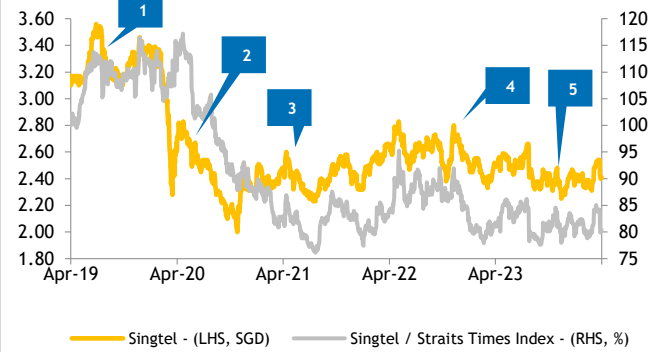
Holdco discount near 40% mark



Source: Company, Bloomberg, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Proposal for fourth mobile licence. Bharti's profits started to taper off.
2. Cut in final dividends to SGD5.45 cents vs. expectations of SGD10.70 cents
3. Australia wireless pricing went through industry-wide deflation.
4. Optus cyberattack.
5. Optus network outage.

Financial Metrics

- We forecast FY25-27 earnings to increase at a 16% CAGR, mainly helped by associates.
- We expect consolidated EBITDA to post a 4% CAGR over FY24-27E, helped by moderate top-line growth and cost cuts.
- We expect net debt to EBITDA, including associates, to remain healthy at <2x in FY24-26E; providing support to its DPS commitment.

Singtel SoTP

Valuation	Stake (%)	Valuation method	Valuation (SGD m)	Per share (SGD)
SingTel Singapore Business	100.0	Singtel DCF (8.3% WACC, 0.5% TG, 0.95 beta)	12,706	0.77
Optus	100.0	Optus DCF (8.1% WACC, 0.5% TG, 0.95 beta)	8,300	0.50
Associates				
Telkomsel (Indonesia)	30.1	65% of listed Telkom at MIBG TP	8,201	0.50
Bharti Airtel (India)	29.0	Market Cap	37,025	2.24
AIS (Thailand)	23.3	DCF (7.0% WACC, 2% LTG, 1.0 beta)	6,159	0.37
Globe (Philippines)	46.9	DCF (5.7% WACC, 1% LTG, 0.7 beta)	4,535	0.27
Intouch (Thailand)	21.1	Based on AIS TP	1,718	0.10
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	1,015	0.06
SingPost (Singapore)	21.7	Market Cap	205	0.01
Associates Sub Total			58,858	3.56
Holdco discount		25% discount		-1.21
(Less) Consol Net Debt			-3,644	-0.22
Total Equity Value				3.40

Source: Company, Bloomberg, Maybank IBG Research

Swing Factors

Upside

- Potential rejig in Optus leading to RoIC and FCF improvement.
- Stronger-than-expected ARPU growth due to easing in price competition in markets where Singtel is present.
- Better-than-expected execution in meeting targeted cost savings.

Downside

- Delays in Optus rejig and potential fines levied on Optus due to network outage.
- Intensifying price competition in Singtel exposed markets.
- FX headwinds impacting Optus and associates.

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Risk Rating & Score ¹	18.5
Score Momentum ²	-0.0
Last Updated	16 Dec 2021
Controversy Score ³ (Updated: 16 Dec 2021)	0 - No reports

Business Model & Industry Issues

- Singtel is most exposed to cybersecurity and personal data leakage risks given its nature of business. There have been major data breaches at Optus due to IT, process and human errors over the years, and Singtel was penalised for an immaterial sum.
- Going forward, Singtel will continue to educate its staff and improve practices and processes to minimise data breaches.
- As Singtel is in the business of connectivity, it is supporting digital inclusion through connecting communities and supporting the disadvantaged.
- Notably in FY20, the telco supported migrant workers with free remittance services and their WiFi and mobile data needs. It also provided refurbished laptops and data SIMs to disadvantaged students for their home-based learning. In Australia, Optus scaled up “Donate Your Data” to support disadvantaged students by offering them free mobile data access for online learning.
- Singtel displays no exceptional risks for a telco operator for ESG and is in line with peers in tackling ESG issues.

Material E issues

- In FY23, completed a comprehensive review of SBTi target for revalidation with the support of all business units and brought forward net-zero goal to 2045 from 2050.
- In FY23, reduced scope 1 and 2 absolute emissions by 11.31%. Achieved improvement of GHG emissions intensity of 0.030tCO₂ e/TB from 0.035tCO₂ e/TB.
- Completed four solar energy generation projects amounting to 1.38MWp and expected to generate 1,700MWh annually.
- Completed a comprehensive review of the SBTi target for revalidation with the support of all business units and brought forward net-zero goal to 2045.

Material S issues

- In Sep 2022, Optus suffered a cyber-attack that resulted in the exposure of some customers’ personal information.
- In Nov 2023, Optus suffered a network outage leading to a government-ordered investigation.
- 31% of female employees in middle and top management.
- Recognised by the 2023 Bloomberg Gender Equality Index for the fifth consecutive year.
- Total training investment of SGD57.9m over FY21-23 and pledged SGD32.1m over FY24-25 to boost the digital skills of its workforce through company-wide initiatives over three years.
- Zero fatality rate across Singtel and Optus in FY23.

Key G metrics and issues

- The Board consists of 14 directors, of which chairman (non-executive) and CEO are non-independent, the remaining are non-executive & independent directors. 43% are female directors.
- The nomination, audit, investment and remuneration committees are chaired by independent directors.
- Key management compensation accounted for 0.6% of total employee compensation and 0.8% of group net profit in FY23.
- There have been no corruption cases reported for the past three years.
- Cyber security and data leakage risks. Conducts its businesses in strict adherence to data protection laws - the Personal Data Protection Act in Singapore and the Privacy Act and Telecommunications Act in Australia. There have been minor lapses due to IT, process and human errors. Singtel will continue to educate its staff and improve practices and processes to minimise data breaches.

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).

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Quantitative Parameters (Score: 88)						
	Particulars	Unit	2020	2021	2022	Starhub (STH SP, FY22)
E	Scope 1 GHG emissions	m tCO2e	5.73	5.77	5.67	1.96
	Scope 2 GHG emissions	m tCO2e	1.29	1.33	1.33	0.47
	Total	m tCO2e	7.02	7.10	7.00	2.43
	Scope 3 GHG emissions	m tCO2e	N/A	3.06	3.27	N/A
	Total	m tCO2e	7.02	10.16	10.27	N/A
	GHG intensity (Scope 1 and 2)	tCO2e/t	0.68	0.66	0.67	0.63
	Energy intensity	GJ/ton	15.37	15.73	15.76	11.43
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Wastewater discharge (chemical O ₂ demand)	tonnes	153.7	177.8	171.4	22.7
	Hazardous waste 3R rate	%	70%	85%	75%	98%
	Air emissions intensity	ton/kT	2.83	2.21	2.42	N/A
NPE (New Plastic Economy) investments	MYR m	8	3	3	N/A	
S	% of women in workforce	%	35.4%	54.8%	54.4%	42%
	% of women in management roles	%	20%	28%	32%	20%
	Lost time injury frequency rate	number	0.4	0.4	0.3	3
G	Group CEO salary as % of net profit	%	0.43%	0.43%	0.18%	0.18%
	Top 10 employees salary as % of profit	%	1.11%	2.97%	0.71%	1.2%
	Independent director on board	%	70%	83%	85%	54%
	Women directors on board	%	40%	25%	31%	23%

Qualitative Parameters (Score: 83)	
a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes, the group has established a Board Sustainability Committee chaired by the CEO. This is supported by the Group Sustainability Council comprising of pillar heads. There are KPIs, business objectives, governance enablers and risks for each of the segments.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, Singtel has developed full Scope 3 indirect GHG emissions inventory and baseline for operations in Singapore and Australia</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Singtel has various carbon-mitigation initiatives, such as replacing chillers, replacing UPS and converting to energy efficient mobile base stations in Singapore.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 80)			
Particulars	Target	Achieved	
Singtel Group Scope 1 and 2 to reduce by 25% by 2025	25%	3.3%	
Scope 3 target to reduce 30% by 2030	30%	Not disc.	
Obtained a CDP rating of A-	A-	A-	
Zero fatality and well-being score above 80%	80%	82%	
One million digitally enabled persons and SMEs by 2025	1,000,000	740,000	
Impact			
NA			
Overall Score: 85			
As per our ESG matrix SingTel (ST SP) has an overall score of 85			

ESG score	Weights	Scores	Final Score
Quantitative	50%	88	44
Qualitative	25%	83	21
Target	25%	80	20
Total			85

As per our ESG assessment, Singtel displays a very high degree of transparency in its ESG disclosures. It is the only one amongst its peers that has a high level of ESG quantitative targets. While we note some work is being carried out to reduce Scope 3 financed emissions, we believe further actions are required to meet the 2030 target. Its overall ESG score is 85, which makes its ESG rating above average in our view (average ESG rating = 50).

Dividend clarity: Enough dry powder

Management noted that it is always on the lookout to optimise its portfolio. It can shave off SGD13bn by trimming its stakes in associates and still maintaining the requisite influence. Potential areas of capital recycling include further Bharti stake divestments wherein management noted that there is a 4.5ppt stake differential between Singtel's stake in Bharti (29%) vs. the Mittal family (at ~25%) and as such there remains room for it to eventually converge. Other areas of potential capital recycling include non-core Netlink, Singpost stake divestment, further real estate unlocking (similar to Comcenter redevelopment) and potential Optus stake divestment.

AIS

On the question of potential Intouch restructuring (eliminating Intouch as a holdco and Singtel/Gulf directly owning AIS), management noted that it remains open to such optimisation but there are no such initiatives imminently.

Data centers

Data centers remain a key growth focus. While there are large new builds announced in the region, management noted that they are based on the plot of land being acquired. Actual capacity builds based on securing of power and water remain a key constraint. Singtel sees itself as a better placed data center operator on the back of its proven track record of running data centers in Singapore + key customer relationships, strong partners in key markets it is expanding into and its and its partner's dense connectivity (fiber) infrastructure.

From its existing capacity of 62MW, management sees the capacity to hit 200MW in the medium term (including the builds in partnerships) and thus sees a potential hockey stick growth trajectory as the new builds are ramped-up.

NCS

Management noted NCS is pivoting from i) system integration services to more digital and cloud services, ii) from government and Singapore-led revenues to more regional diversification. Regional diversification allows it to better calibrate between offshore and onshore resourcing, allowing for better cost optimization. As such, management thinks double-digit NCS EBIT growth is sustainable. With there is more scaling up to do, we don't expect an NCS IPO in the near term.

Reiterate Buy

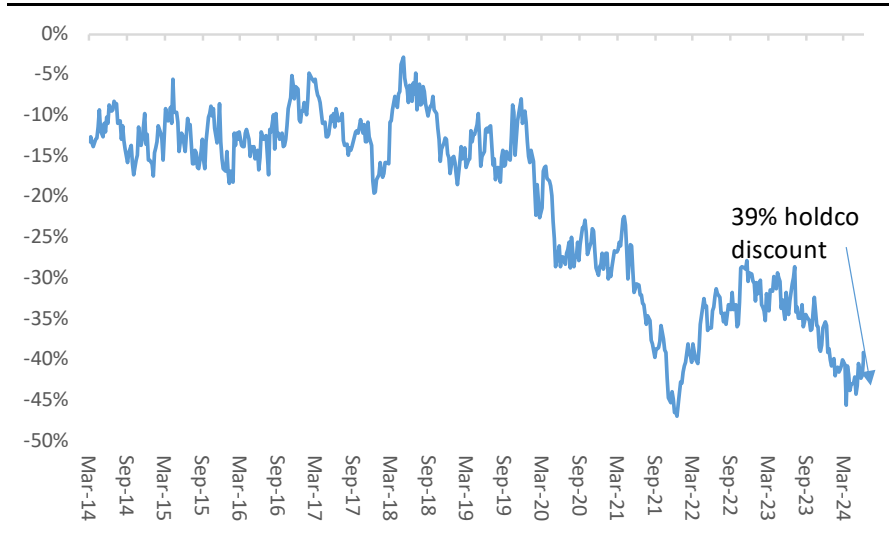
We see an all-round operational turnaround and multiple catalysts on the horizon. Singtel's holdco discount remains at 39%. Singtel's 29%-owned associate, Bharti Airtel, on Friday raised India mobile prices by 10-21% which in our view remains another upside catalyst (refer to: <https://mkefactsettd.maybank-ke.com/PDFS/389923.pdf>). MIBG's estimates for FY26-27 are 8-12% ahead of the street. Reiterate BUY.

Fig 1: Singtel SoTP

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Associates Sub Total			58,858	3.56
Holdco discount		25% discount		-1.21
(Less) Consol Net Debt			-3,644	-0.22
Total Equity Value				3.40

Source: Maybank IBG Research, Bloomberg

Fig 2: Singtel Holdco discount



Source: Maybank IBG Research, Bloomberg

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	19.2	50.6	17.5	14.3	12.2
Core P/E (x)	19.8	18.5	17.5	14.3	12.2
P/BV (x)	1.6	1.7	1.8	1.8	1.8
P/NTA (x)	2.7	2.5	3.0	2.8	2.6
Net dividend yield (%)	6.1	5.9	5.9	6.5	7.0
FCF yield (%)	6.9	2.8	5.8	9.2	11.6
EV/EBITDA (x)	13.7	13.7	14.8	14.2	13.7
EV/EBIT (x)	45.5	42.8	44.3	40.4	36.8

INCOME STATEMENT (SGD m)

Revenue	14,624.0	14,128.0	14,470.0	14,717.1	14,938.9
EBITDA	3,685.9	3,597.0	3,781.0	3,964.6	4,126.5
Depreciation	(2,262.0)	(2,163.0)	(2,077.2)	(2,110.6)	(2,133.0)
Amortisation	(312.0)	(281.0)	(440.7)	(457.5)	(457.5)
EBIT	1,111.9	1,153.0	1,263.1	1,396.4	1,535.9
Net interest income / (exp)	(359.0)	(303.0)	(338.3)	(391.6)	(400.4)
Associates & JV	2,287.0	2,338.0	2,862.4	3,678.5	4,325.1
Exceptionals	171.5	(1,466.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,211.4	1,722.0	3,787.2	4,683.4	5,460.6
Income tax	(978.0)	(918.5)	(1,176.9)	(1,471.6)	(1,723.5)
Minorities	(8.0)	(9.0)	(10.7)	(13.2)	(15.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,225.4	794.5	2,599.7	3,198.6	3,721.7
Core net profit	2,053.9	2,260.5	2,599.7	3,198.6	3,721.7

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,667.9	4,605.0	1,581.3	1,486.8	1,817.2
Accounts receivable	5,012.8	5,006.0	4,982.5	4,920.4	4,845.2
Inventory	346.2	301.0	308.3	313.6	318.3
Property, Plant & Equip (net)	10,384.6	10,047.0	11,207.8	11,713.8	11,895.4
Intangible assets	10,989.5	8,227.0	9,483.0	9,025.5	8,567.9
Investment in Associates & JVs	11,788.1	12,758.0	13,379.7	14,389.7	15,604.4
Other assets	6,340.9	5,254.0	5,101.1	4,981.5	4,891.6
Total assets	46,530.0	46,198.0	46,043.7	46,831.2	47,940.0
ST interest bearing debt	471.1	24.0	24.0	24.0	24.0
Accounts payable	5,309.9	5,406.0	5,487.1	5,519.7	5,550.5
LT interest bearing debt	7,142.4	8,225.0	8,225.0	8,725.0	9,225.0
Other liabilities	7,592.0	7,578.0	7,414.0	7,287.0	7,190.0
Total Liabilities	20,515.7	21,233.0	21,150.3	21,555.5	21,989.4
Shareholders Equity	26,005.3	24,928.0	24,845.7	25,214.8	25,874.3
Minority Interest	9.0	37.0	47.7	60.9	76.3
Total shareholder equity	26,014.3	24,965.0	24,893.4	25,275.7	25,950.6
Total liabilities and equity	46,530.0	46,198.0	46,043.7	46,831.2	47,940.0

CASH FLOW (SGD m)

Pretax profit	3,211.4	1,722.0	3,787.2	4,683.4	5,460.6
Depreciation & amortisation	2,574.0	2,444.0	2,517.9	2,568.1	2,590.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5,785.4	4,166.0	6,305.2	7,251.5	8,051.1
Capex	(2,162.0)	(2,150.0)	(2,784.1)	(2,189.0)	(1,907.5)
Free cash flow	2,799.4	1,182.0	2,628.3	4,193.5	5,282.4
Dividends paid	(1,965.0)	(2,146.0)	(2,682.0)	(2,829.5)	(3,062.2)
Equity raised / (purchased)	(37.0)	(33.0)	0.0	0.0	0.0
Change in Debt	(208.0)	1,080.0	0.0	500.0	500.0
Other invest/financing cash flow	(871.0)	1,503.0	(2,489.0)	(819.1)	(807.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	542.4	2,420.0	(1,649.9)	1,913.9	2,773.9

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(4.7)	(3.4)	2.4	1.7	1.5
EBITDA growth	(2.2)	(2.4)	5.1	4.9	4.1
EBIT growth	6.4	3.7	9.6	10.6	10.0
Pretax growth	11.0	(46.4)	119.9	23.7	16.6
Reported net profit growth	14.2	(64.3)	227.2	23.0	16.4
Core net profit growth	6.8	10.1	15.0	23.0	16.4
Profitability ratios (%)					
EBITDA margin	25.2	25.5	26.1	26.9	27.6
EBIT margin	7.6	8.2	8.7	9.5	10.3
Pretax profit margin	22.0	12.2	26.2	31.8	36.6
Payout ratio	110.5	nm	104.1	92.3	85.2
DuPont analysis					
Net profit margin (%)	15.2	5.6	18.0	21.7	24.9
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.8	1.9	1.9	1.9	1.9
ROAE (%)	8.5	3.2	10.9	13.3	15.2
ROAA (%)	4.3	4.9	5.6	6.9	7.9
Liquidity & Efficiency					
Cash conversion cycle	(43.1)	(44.5)	(48.9)	(52.7)	(56.1)
Days receivable outstanding	126.3	127.6	124.3	121.1	117.7
Days inventory outstanding	10.1	11.1	10.3	10.4	10.5
Days payables outstanding	179.5	183.2	183.4	184.3	184.3
Dividend cover (x)	0.9	0.3	1.0	1.1	1.2
Current ratio (x)	1.0	1.4	0.9	0.9	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.2	2.2	2.2	2.2
Net gearing (%) (incl perps)	22.9	14.6	26.8	28.7	28.6
Net gearing (%) (excl. perps)	22.9	14.6	26.8	28.7	28.6
Net interest cover (x)	3.1	3.8	3.7	3.6	3.8
Debt/EBITDA (x)	2.1	2.3	2.2	2.2	2.2
Capex/revenue (%)	14.8	15.2	19.2	14.9	12.8
Net debt/ (net cash)	5,945.6	3,644.0	6,667.7	7,262.2	7,431.8

Source: Company; Maybank IBG Research

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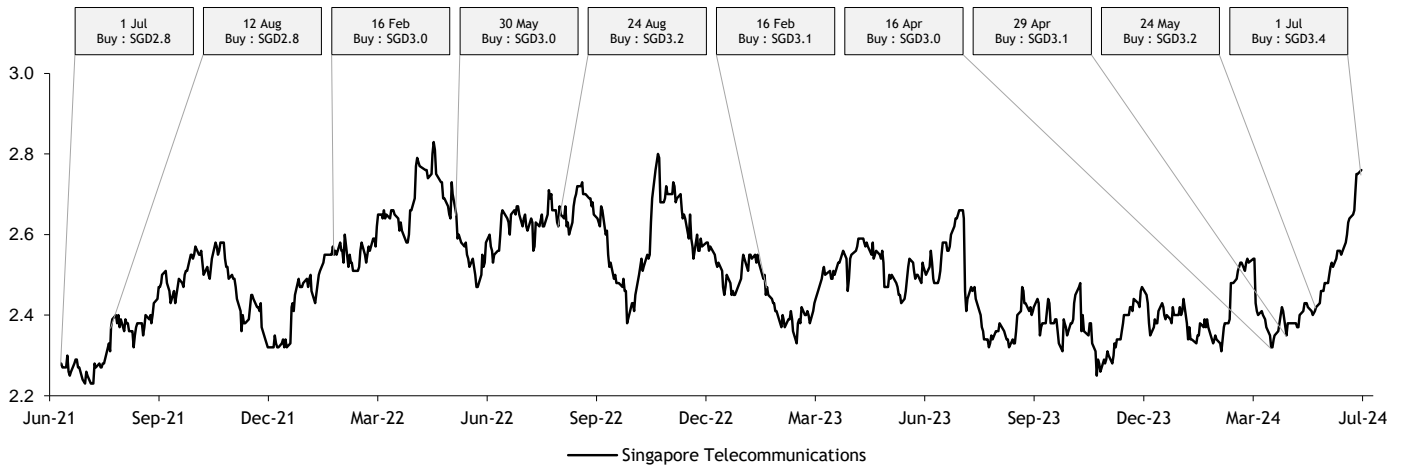
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