

SELL (From: HOLD)

Change in Recommendation

TP: Bt 4.90

Downside : 11.7%

(From: Bt 6.40)

8 FEBRUARY 2022

Small Cap Research

VGI Public Co Ltd (VGI TB)

Valuation de-rating

VGI is becoming more of a conglomerate because of its new investments over the past few years and we factor in the risk of a valuation discount. Together with its recent rights issue announcement, we downgrade our call to SELL with a Bt4.9/share TP.

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Downgrading to SELL

We downgrade our rating on VGI to SELL (from Hold) due to 1) 23% EPS dilution from a rights offering of 10 existing shares to 3 new shares at a price of Bt5/share; 2) our concern on out-of-home (OOH) media having lost market share to online media; 3) 32/12% earnings cuts in FY23-24F (VGI's fiscal year ends in March) mainly from lower earnings contributions from Kerry Express (KEX TB, non-rated); and 4) a potential valuation de-rating after becoming a conglomerate. Despite rolling over to a FY23F base year, we now value VGI using a SOTP-derived DCF-based 12-month TP at Bt4.9/share (down from Bt6.4).

Our SOTP TP is Bt4.9

VGI has over the past few years invested in new businesses ranging from advertising and payment to logistics, IT retail, and digital lending. Our TP of Bt4.9 in FY23F implies the following business valuations. We assign a 35x PE for its OOH media business's earnings in FY25F when we project it to recover to the pre-COVID level. We apply a 25x PE to its 46%-owned Fanslink's earnings in FY23F and 34x to 15%-owned Jay Mart's (JMART, non-rated). Both are in the IT retail business but we assign a discount to Fanslink vs. the top player, COM7 (COM7 TB, Bt78.5, BUY), which trades on 34x PE at our analyst Pattadol Bunnak's TP. As we expect KEX to make a loss in the cutthroat express delivery industry, we assign a 1.2x P/BV. We also apply a 15% holding-company discount to VGI's SOTP value. (Exhibit 3).

Becoming a conglomerate

VGI's business empire has expanded far beyond the OOH media market, where it also owns a 19% stake in Plan B Media (PLANB TB, Bt7.65, SELL) and 27% in Master Ad (MACO TB, Bt0.85, non-rated) with a combined market share of over 50%. VGI also owns a 77% stake in Rabbit Cash, running an employee welfare loan and nano-finance business, and an 18% stake in KEX. It then expanded into the IT retail business via Fanslink, an online distributor of Chinese electronics products, and JMART, owning 212 shops selling mobile phones nationwide. Exhibit 3 shows some earnings contributions from these businesses.

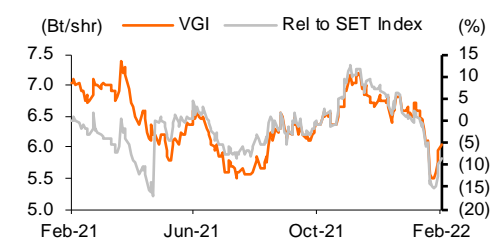
Out-of-home media recovery

Ad spend in the OOH media segment has recovered since 4Q21. VGI's occupancy rate improved from 28% in 3Q21 to its break-even level of 40-45% in 4Q21. However, given our concern over the ongoing COVID-19 outbreak and OOH media losing market share to online media, we project VGI's occupancy rate to slowly recover to 50/78% in FY23-24F, implying its OOH revenue gets back to 64/87% of the pre-COVID FY19 level.

COMPANY VALUATION

Y/E Mar (Bt m)	2021A	2022F	2023F	2024F
Sales	2,480	3,949	6,148	7,236
Net profit	980	(46)	649	1,232
Consensus NP	—	304	895	1,390
Diff frm cons (%)	—	na	(27.4)	(11.4)
Norm profit	184	(138)	649	1,232
Prev. Norm profit	—	449	958	1,392
Chg frm prev (%)	—	na	(32.2)	(11.6)
Norm EPS (Bt)	0.02	(0.01)	0.06	0.1
Norm EPS grw (%)	(85.7)	na	na	89.6
Norm PE (x)	274.1	na	95.7	50.4
EV/EBITDA (x)	126.2	81.9	37.5	29.2
P/BV (x)	3.0	2.1	2.1	2.0
Div yield (%)	0.3	0.0	0.2	1.5
ROE (%)	1.3	na	2.2	4.1
Net D/E (%)	(1.8)	(20.5)	(21.7)	(23.6)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 8-Feb-22 (Bt)	5.55
Market Cap (US\$ m)	1,451.1
Listed Shares (m shares)	8,611.2
Free Float (%)	39.4
Avg Daily Turnover (US\$ m)	6.0
12M Price H/L (Bt)	7.10/5.28
Sector	Media
Major Shareholder	BTS & BTSC 51.6%

Sources: Bloomberg, Company data, Thanachart estimates

Downgrading to SELL

We cut our earnings estimates by 32/12% in FY23-24F

We cut our earnings estimates for VGI Pcl (VGI) to a loss of Bt138m in FY22F (from Bt449m profit) and by 32/12% in FY23-24F (VGI's fiscal year ends in March) after making changes to the following assumptions:

First, given our concerns regarding a slow recovery of out-of-home (OOH) ad spending because of the ongoing COVID-19 outbreak and OOH media having lost market share to online media, we lower our occupancy rate assumptions to 50/78% in FY22-24F (from 40/60/75%). This implies VGI's OOH revenue recovers to 64/87% of the pre-COVID FY19 level in FY23-24F.

Second, despite that, we raise our revenue estimates by 38-64% in FY22-24F to Bt3.9bn-7.2bn (vs. Bt1.5bn in 1HFY22) on the back of the consolidation of its 46%-owned Fanslink (unlisted), an online distributor of Chinese electronics products, in 2QFY22 onward.

Third, however, as Fanslink's gross margin is low, we expect its higher revenue proportion to weigh down VGI's average gross margin to 24-35% in FY22-24F (vs. 23% in 1HFY22).

Finally, we cut equity income to negative Bt46m in FY22F and by 25% in FY23F given the weak performance of its 18%-owned Kerry Express (KEX TB, non-rated).

Ex 1: Key Assumption Changes

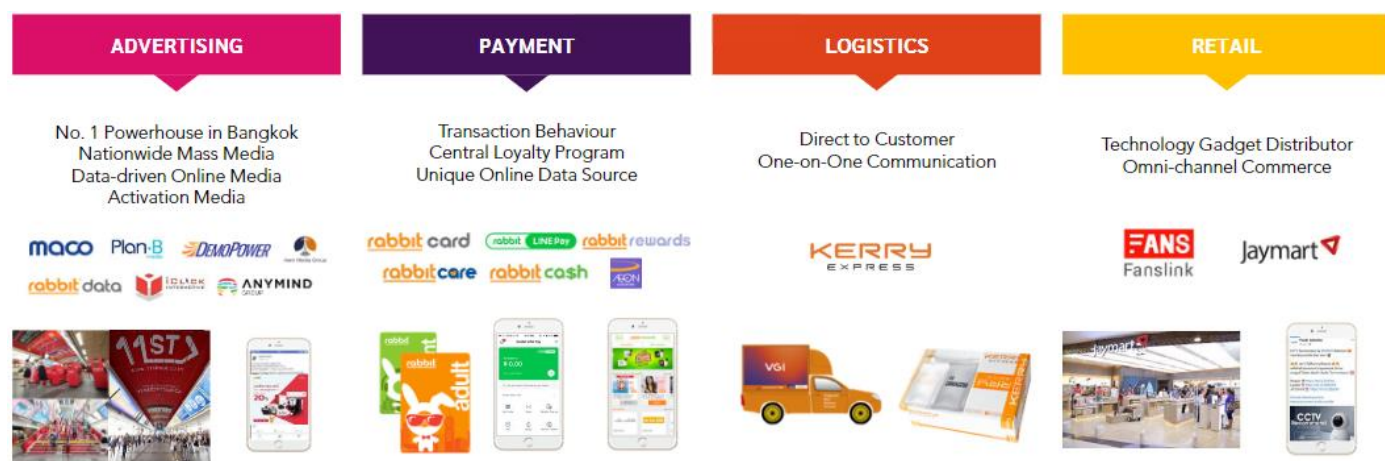
FY ending March	FY20	FY21	FY22F	FY23F	FY24F
Sales (Bt bn)					
New	4.0	2.5	3.9	6.1	7.2
Old			2.9	3.7	4.4
Change (%)			38.4	64.9	63.8
Gross margin (%)					
New	51.3	31.7	23.7	29.2	34.5
Old			39.5	43.7	47.3
Change (pp)			(15.8)	(14.5)	(12.8)
Equity income (loss) (Bt m)					
New	131	10	(45.5)	194.5	357.5
Old			181.5	258.6	321.3
Change (pp)			na	(24.8)	11.3

Sources: Company data, Thanachart estimates

**We also apply a 15% holding-company discount...
...causing our TP to fall to Bt4.9. SELL**

We also apply a 15% holding-company discount to VGI's SOTP value as it has over the past few years expanded far beyond the OOH media market into businesses ranging from advertising, payment and logistics to IT retail, and digital lending. As a result, our SOTP-derived DCF-based 12-month TP 12-month falls to Bt4.9/share from Bt6.4 previously and we downgrade our rating on shares of VGI to SELL from Hold.

Ex 2: VGI's Businesses



Source: Company data

Our SOTP TP is Bt4.9

PE multiples we apply for each of VGI's businesses

Our SOTP-derived DCF-based 12-month TP of Bt4.9/share in FY23F could also imply the following business valuations:

- 1) We assign a 35x PE for the OOH media business's earnings in FY25F when we forecast it to recover to the pre-COVID FY20 level.
- 2) We assign a 25x PE to its 46%-owned Fanslink's earnings contribution to VGI in FY23F and 34x to 15%-owned Jay Mart's (JMART, non-rated). Both are in the IT retail industry and we assign a discount to Fanslink vs. the top player, COM7 Pcl (COM7 TB, Bt78.5, BUY), which is trading on 34x PE at our analyst Pattadol Bunnak's TP.
- 3) As we expect KEX to make a loss in the cutthroat express delivery industry, we assign a 1.2x P/BV.

We also apply a 15% holding-company discount to VGI's SOTP value.

Ex 3: PE Multiples We Apply For Each Of VGI's Businesses

	Earnings contribution to VGI		Per VGI share		Applied PE (x)	Applied P/BV (x)	Target price (Bt/share)
	FY23F (Bt m)	FY25F (Bt m)	FY23F (Bt m)	FY25F (Bt m)			
VGI's OOH business	344	973	0.03	0.09	35 in FY25F		3.0
VGI's Associates							
Fanslink	42	125	0.00	0.00	25 in FY23F		0.1
JMART	291	436	0.03	0.04	34 in FY23F		0.9
KEX	(72)	(36)	(0.01)	(0.00)		1.2x in FY22F	1.2
Total							5.2
15% discount to associates' value							(0.3)
VGI's Target price							4.9

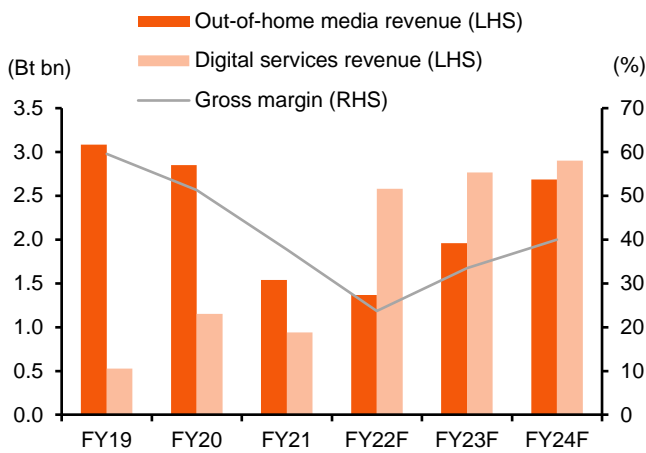
Source: Thanachart estimates

Expecting a loss in 3QFY22F

We expect VGI to make a loss of Bt81m in 3QFY22F

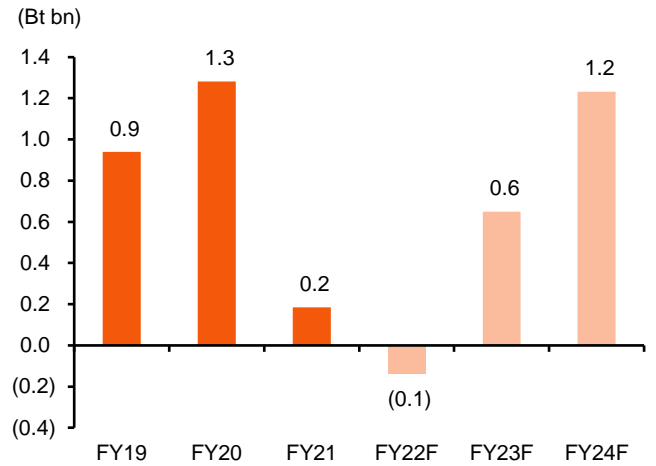
We expect VGI to report a 3QFY22F normalized loss of Bt81m vs. a normalized loss of Bt101m in 2QFY22 and a normalized profit of Bt200m in 3QFY21. Even though its OOH business's occupancy rate has recovered from a low of 28% in 3Q21 to its break-even level of 40-45% in 4Q21, we expect a Bt70m net share of losses from investments (vs. a Bt23m net share of losses in 2QFY22 and a Bt29m net share of profits in 3QFY21) from the weaker performance of Kerry Express due to a price war and fierce competition. Even though VGI will recognize some earnings from Jay Mart after acquiring a 15% stake, the amount will still likely be small as the acquisition was only completed on 7 December 2021.

Ex 4: VGI's Revenue Breakdown Vs. Gross Margin



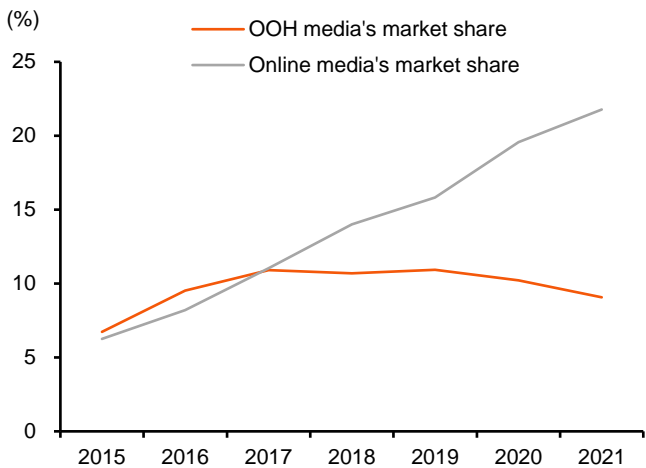
Sources: Company data, Thanachart estimates

Ex 5: VGI's Normalized Earnings



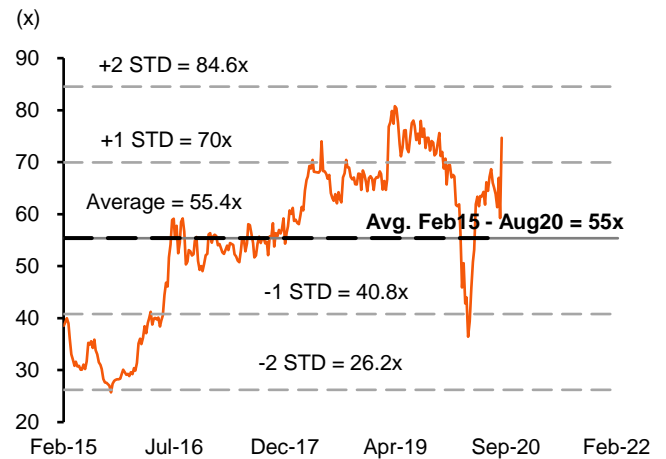
Sources: Company data, Thanachart estimates

Ex 6: OOH Media Losing Market Share



Source: Nielsen

Ex 7: VGI's PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation, Using a Base Year of FY23F

(Bt m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal Value
EBITDA excl. depre from right of use	561	1,483	1,881	2,079	2,190	2,306	2,229	2,320	2,408	2,559	2,711	—
Free cash flow	(6,238)	599	1,015	1,239	1,366	1,472	1,451	1,472	1,532	1,657	1,781	41,079
PV of free cash flow	—	598	881	989	1,011	1,010	924	869	839	809	803	11,491
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	7.4											
Terminal growth (%)	2.0											
Enterprise value - add investments	24,747											
Net debt (FY22F)	(6,096)											
Minority interest	401											
Equity value	30,442											
# of shares (m)	11,194											
Target price/share (Bt)	2.7											

Sum-of-the-parts	% holding	(Bt m)
Enterprise value from media business		24,747
Investment equity value		24,641
KEX	18.1%	10,684
PLANB	18.6%	3,315
MACO	26.6%	856
JMART	15.0%	9,786
Total enterprise value		49,387
(Less) Net debt		(6,096)
(Less) Minority interest		401
Total enterprise value		55,082
# of shares (fully diluted) (m shares)		11,194
Sum-of-the-parts (Bt/share)		4.9

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div. yield	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Entertainment Ne	ENIL IN	India	na	na	na	20.2	1.1	1.0	11.7	6.1	0.8	2.0
Sun TV Network	SUNTV IN	India	10.3	8.2	11.8	10.9	2.6	2.3	7.0	6.1	4.4	5.0
Zee Entertainment	Z IN	India	50.0	27.0	21.7	17.1	2.4	2.2	13.6	11.2	1.2	1.4
Surya Citra Media	SCMA IJ	Indonesia	17.4	11.2	15.6	14.0	4.6	3.5	11.6	10.7	3.6	2.8
Media Nusantara	MNCN IJ	Indonesia	19.4	13.7	5.2	4.6	0.7	0.6	4.0	3.7	2.5	3.6
Beijing Gehua	600037 CH	China	(15.3)	140.0	80.0	33.3	0.9	0.9	5.6	4.2	0.4	1.0
Media Prima Bhd	MPR MK	Malaysia	na	40.3	12.5	8.9	0.8	0.7	2.4	2.3	0.5	1.7
BEC World*	BEC TB	Thailand	na	33.7	38.6	28.9	5.0	4.8	9.1	8.4	2.3	3.1
MAJOR Cineplex*	MAJOR TB	Thailand	na	34.1	23.0	17.2	2.6	2.4	13.1	10.3	2.6	4.7
Plan B Media*	PLANB TB	Thailand	na	na	na	66.7	4.7	4.5	12.7	10.4	0.0	0.7
RS Pcl*	RS TB	Thailand	(72.0)	222.1	124.8	38.7	8.8	8.0	31.7	18.8	0.6	2.1
VGI Pcl**	VGI TB	Thailand	na	na	na	95.7	2.1	2.1	81.9	37.5	0.0	0.2
Workpoint Ent**	WORK TB	Thailand	na	na	na	287.8	2.3	2.3	16.6	13.9	0.0	0.2
Average			1.6	58.9	37.0	49.5	3.0	2.7	17.0	11.0	1.5	2.2

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

** VGI's fiscal year ends in March

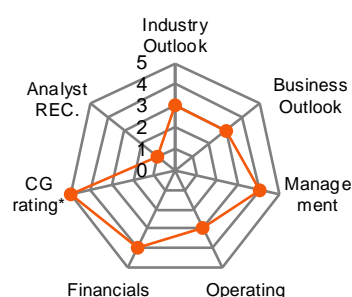
Based on 8-Feb-2022 closing prices

COMPANY DESCRIPTION

VGI Pcl (VGI) is a part of BTS Group Holdings Pcl (BTS). It manages the ad space on the BTS Skytrain network, including stations and trains. In return, VGI pays license fees of 5% of its BTS-related revenues to BTS Group with an incremental increase of 5% every five years until it reaches 20%. With its partners, it dominates market share in the out-of-home media market in Thailand. It has also expanded its businesses into payment, logistics, IT retail, and digital lending.

Source: Thanachart

COMPANY RATING



Rating Scale

Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Low-risk business model as most of its income is from running the media business for its parent BTS.
- Dominating BTS's ad space, VGI has significant economies of scale which makes it highly competitive vs. other out-of-home media types.
- Its cash-generative business allows VGI to maintain a low debt position.

O — Opportunity

- Demand for ad space in the out-of-home media sector is growing strongly as people in Bangkok are spending more and more time away from their homes.
- Expansion of the skytrain network and modern-trade retailers offer VGI future growth opportunities.
- VGI's strong financial status provides it with opportunities for acquisitions and overseas expansion.

W — Weakness

- Given that the majority of its business relies on its parent BTS, there is naturally a risk over transparency.
- The BTS Skytrain is exposed to the risk of political unrest that could result in the halting of skytrain services and therefore have an indirect impact on VGI's media business.

T — Threat

- Ad spending cuts due to the economic and consumption slowdown could pose a threat to VGI's occupancy rate and ad rate hikes over the short term.
- Out-of-home media ad spend is losing market share to online media.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	6.47	4.90	-24%
Net profit 22F (Bt m)	304	(46)	na
Net profit 23F (Bt m)	895	649	-27%
Consensus REC	BUY: 9	HOLD: 5	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for FY22-23F are lower than the Bloomberg consensus numbers, which we attribute to our expectation of a gradual recovery of out-of-home media ad spend while we forecast loss contributions from KEX.
- Accordingly, our TP is also lower than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key upside risk is a faster-than-expected containment of the COVID-19 outbreak than we currently expect, which would drive advertisers' confidence and advertising expenditure.
- Advertising expenditure is dependent on the economic situation. The key upside risk is the economy recovering faster than we currently expect and positively impacting VGI's occupancy rates.

Source: Thanachart

INCOME STATEMENT

We forecast VGI's earnings to take three years to get back to the pre-COVID level

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	4,000	2,480	3,949	6,148	7,236
Cost of sales	1,948	1,544	3,013	4,353	4,737
Gross profit	2,052	936	936	1,796	2,498
% gross margin	51.3%	37.7%	23.7%	29.2%	34.5%
Selling & administration expenses	984	926	1,145	1,414	1,664
Operating profit	1,068	10	(209)	382	834
% operating margin	26.7%	0.4%	-5.3%	6.2%	11.5%
Depreciation & amortization	411	386	770	1,102	1,047
EBITDA	1,479	397	561	1,483	1,881
% EBITDA margin	37.0%	16.0%	14.2%	24.1%	26.0%
Non-operating income	250	171	100	142	200
Non-operating expenses	0	0	0	0	0
Interest expense	(74)	(73)	(54)	(35)	(35)
Pre-tax profit	1,244	108	(163)	489	998
Income tax	214	8	0	98	200
After-tax profit	1,030	100	(163)	391	799
% net margin	25.7%	4.0%	-4.1%	6.4%	11.0%
Shares in affiliates' Earnings	131	10	(46)	195	358
Minority interests	120	73	71	64	75
Extraordinary items	143	796	92	0	0
NET PROFIT	1,424	980	(46)	649	1,232
Normalized profit	1,281	184	(138)	649	1,232
EPS (Bt)	0.2	0.1	(0.0)	0.1	0.1
Normalized EPS (Bt)	0.1	0.0	(0.0)	0.1	0.1

BALANCE SHEET

After increasing capital, we don't expect VGI to face financial difficulties

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	2,607	3,210	9,085	11,106	12,603
Cash & cash equivalent	730	1,461	6,300	6,770	7,500
Account receivables	1,061	794	1,264	1,968	2,316
Inventories	0	0	0	0	0
Others	816	955	1,521	2,368	2,787
Investments & loans	11,851	9,223	9,223	9,223	9,223
Net fixed assets	1,142	1,220	7,200	6,548	5,952
Other assets	1,478	7,755	7,881	7,891	7,901
Total assets	17,077	21,408	33,390	34,769	35,679
LIABILITIES:					
Current liabilities:	2,660	3,183	2,495	3,033	3,152
Account payables	464	399	779	1,125	1,225
Bank overdraft & ST loans	450	0	0	0	0
Current LT debt	239	1,159	204	202	207
Others current liabilities	1,506	1,625	1,512	1,706	1,720
Total LT debt	1,200	0	0	0	0
Others LT liabilities	140	1,161	1,114	1,431	1,592
Total liabilities	3,999	4,345	3,610	4,464	4,744
Minority interest	294	472	401	337	261
Preferreds shares	0	0	0	0	0
Paid-up capital	861	861	1,119	1,119	1,119
Share premium	12,730	12,730	25,387	25,387	25,387
Warrants	0	0	0	0	0
Surplus	(2,847)	32	32	32	32
Retained earnings	2,039	2,969	2,841	3,430	4,135
Shareholders' equity	12,784	16,592	29,379	29,968	30,673
Liabilities & equity	17,077	21,408	33,390	34,769	35,679

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,244	108	(163)	489	998
Tax paid	(312)	110	(3)	96	(185)
Depreciation & amortization	411	386	770	1,102	1,047
Chg In working capital	434	202	(91)	(358)	(249)
Chg In other CA & CL / minorities	(2,750)	(6)	(721)	(652)	(61)
Cash flow from operations	(973)	800	(208)	677	1,550
Capex	429	(465)	(6,750)	(450)	(450)
Right of use	0	(438)	(127)	(10)	(10)
ST loans & investments	83	141	0	0	0
LT loans & investments	153	2,628	0	0	0
Adj for asset revaluation	65	115	0	0	0
Chg In other assets & liabilities	2,195	(4,471)	482	316	161
Cash flow from investments	2,925	(2,489)	(6,394)	(144)	(299)
Debt financing	(1,339)	(730)	(955)	(3)	6
Capital increase	543	0	12,915	0	0
Dividends paid	(850)	(310)	(82)	(60)	(527)
Warrants & other surplus	(2,092)	3,023	0	0	0
Cash flow from financing	(3,738)	1,983	11,879	(63)	(521)
Free cash flow	(543)	335	(6,958)	227	1,100

VALUATION

FY ending Mar	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	39.3	274.1	na	95.7	50.4
Normalized PE - at target price (x)	34.7	242.0	na	84.5	44.5
PE (x)	35.4	51.4	na	95.7	50.4
PE - at target price (x)	31.2	45.4	na	84.5	44.5
EV/EBITDA (x)	34.8	126.2	81.9	37.5	29.2
EV/EBITDA - at target price (x)	30.8	111.3	71.1	32.6	25.3
P/BV (x)	3.9	3.0	2.1	2.1	2.0
P/BV - at target price (x)	3.5	2.7	1.9	1.8	1.8
P/CFO (x)	(51.8)	63.0	(249.7)	91.8	40.1
Price/sales (x)	11.9	19.3	12.1	7.8	6.6
Dividend yield (%)	1.0	0.3	0.0	0.2	1.5
FCF Yield (%)	(1.1)	0.7	(13.4)	0.4	1.8
(Bt)					
Normalized EPS	0.1	0.0	(0.0)	0.1	0.1
EPS	0.2	0.1	(0.0)	0.1	0.1
DPS	0.1	0.0	0.0	0.0	0.1
BV/share	1.4	1.8	2.6	2.7	2.7
CFO/share	(0.1)	0.1	(0.0)	0.1	0.1
FCF/share	(0.1)	0.0	(0.7)	0.0	0.1

Sources: Company data, Thanachart estimates

VGI has always traded at high valuations due to...

...its high profitability and secured media capacity expansion but...

...its PE multiples of 96/50x in FY23-24F look expensive to us

FINANCIAL RATIOS

FY ending Mar	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	10.8	(38.0)	59.3	55.7	17.7
Net profit (%)	29.3	(31.2)	na	na	89.6
EPS (%)	18.3	(31.2)	na	na	89.6
Normalized profit (%)	36.4	(85.7)	na	na	89.6
Normalized EPS (%)	24.8	(85.7)	na	na	89.6
Dividend payout ratio (%)	36.9	17.6	20.0	20.0	75.0
Operating performance					
Gross margin (%)	51.3	37.7	23.7	29.2	34.5
Operating margin (%)	26.7	0.4	(5.3)	6.2	11.5
EBITDA margin (%)	37.0	16.0	14.2	24.1	26.0
Net margin (%)	25.7	4.0	(4.1)	6.4	11.0
D/E (incl. minor) (x)	0.1	0.1	0.0	0.0	0.0
Net D/E (incl. minor) (x)	0.1	(0.0)	(0.2)	(0.2)	(0.2)
Interest coverage - EBIT (x)	14.4	0.1	na	11.0	23.6
Interest coverage - EBITDA (x)	20.0	5.4	10.3	42.8	53.3
ROA - using norm profit (%)	6.4	1.0	na	1.9	3.5
ROE - using norm profit (%)	9.7	1.3	na	2.2	4.1
DuPont					
ROE - using after tax profit (%)	7.8	0.7	na	1.3	2.6
- asset turnover (x)	0.2	0.1	0.1	0.2	0.2
- operating margin (%)	32.9	7.3	na	8.5	14.3
- leverage (x)	1.5	1.3	1.2	1.1	1.2
- interest burden (%)	94.4	59.7	149.9	93.4	96.6
- tax burden (%)	82.8	92.5	na	80.0	80.0
WACC (%)	0.0	0.0	7.4	7.4	7.4
ROIC (%)	6.1	0.1	(1.0)	1.3	2.9
NOPAT (Bt m)	884	10	(167)	305	667
invested capital (Bt m)	13,943	16,289	23,284	23,400	23,381

Sources: Company data, Thanachart estimates

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