

DB CORP

Newsprint softening and elections to augur well

India Equity Research | Media

DB Corp's (DBCL) Q4FY19 revenue, EBITDA and PAT came line with estimates. Key positives: (i) print ad revenue grew ~8% YoY spurred by government & education advertising; (ii) tighter cost control led to EBITDA margin expanding ~20bps YoY; and (iii) radio ad revenue grew ~8% YoY. Key negatives were the ~300bps YoY gross margin contraction, elevated newsprint prices and weak 1.7% YoY circulation growth. Going ahead, we anticipate print players to benefit from elections, rate hike for government advertising and softer newsprint prices. However, migration of tender ads and overall rising competition from the digital segment will partially offset the benefits. Maintain 'HOLD' with TP of INR207.

Modest growth in ad revenue; circulation remains weak

DBCL's print segment grew 8.2% YoY (~7% base) with overall ad revenue growing ~8% YoY driven by government and education advertising. However, circulation revenue growth remained weak at ~2% YoY on account of flat cover price. Growth in radio business also remained modest—up ~8% YoY. The digital segment disappointed with revenue being the lowest in the past 12 quarters. EBITDA margin expanded riding lower employee and other expenses (YoY) in Q4FY19. High newsprint cost (up ~14% YoY) continued to impact profitability of print players in Q4FY19 as well.

Q4FY19 conference call: Key takeaways

i) Circulation growth was lower due to absence of cover price hike; ii) increase in debtors due to billing differences; outstanding amount increased due to delay in government billing recovery; (iii) 5.62mn copies in circulation; blended cover price INR4.16 per copy and realised price at INR2.69 per copy; (iv) 25% radio advertising revenue was from government advertising; (v) government advertising was ~ 15-16% of the overall revenue.

Outlook and valuation: Value trap; maintain 'HOLD'

We expect newsprint costs to soften in Q1FY19 owing to reduction in domestic newsprint prices and further benefit to follow in subsequent quarters. We also envisage print companies to benefit from elections and increase in ad rates for government advertising. However, pick up in digital advertising and pressure on ad volumes continue to be an overhang for the sector. At CMP, the stock trades at 10.2x/9.3x FY20/21E EPS. We maintain 'HOLD/SU' with TP of INR207.

Financials

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Revenue	5,885	5,603	5.0	6,597	(10.8)	24,627	26,553	28,480
EBITDA	1,042	979	6.4	1,398	(25.5)	5,043	5,742	6,240
Adjusted Profit	545	571	(4.6)	757	(28.1)	2,739	3,125	3,426
Adj. Diluted EPS	3.1	3.1	0.3	4.3	(28.1)	14.9	17.9	19.6
Diluted P/E (x)						10.7	10.2	9.3
EV/EBITDA (x)						17.8	16.1	15.6

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: DBCL.BO, B: DBCL.IN)

CMP	: INR 182
Target Price	: INR 207
52-week range (INR)	: 287 / 153
Share in issue (mn)	: 174.9
M cap (INR bn/USD mn)	: 32 / 455
Avg. Daily Vol.BSE/NSE('000)	: 125.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	71.6	71.6	71.6
MF's, FI's & BK's	1.9	1.9	1.7
FII's	18.6	18.6	17.9
Others	7.8	7.8	8.8
* Promoters pledged shares (% of share in issue)			28.6

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	(4.3)	(2.6)	4.8
3 months	6.0	3.1	4.3
12 months	(32.7)	5.2	63.1

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Table 1: Trends at a glance

(INR mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Print ad revenues	3,097	3,903	3,503	3,775	3,369	4,110	3,641	4,208	3,645
Circulation revenues	1,217	1,220	1,248	1,262	1,252	1,345	1,318	1,301	1,273
Mature edition revenues	4,581	5,386	5,072	5,303	4,995	5,674	5,091	5,680	5,083
Emerging editions revenues	169	194	197	234	260	280	289	332	340
Radio ad revenues	330	312	349	336	362	317	377	465	390
Digital revenues	142	121	123	154	131	126	119	141	99
EBITDA	1,122	1,864	1,399	1,396	979	1,680	923	1,398	1,042
Growth rate (%)									
Print ad growth	(2.7)	4.5	6.1	(5.8)	8.8	5.3	3.9	11.5	8.2
Circulation revenue growth	7.1	3.7	5.9	1.5	2.9	10.2	5.6	3.1	1.7
Mature edition revenues	4.9	3.9	7.2	(5.3)	9.0	5.3	0.4	7.1	1.8
Emerging editions revenues	(64.6)	25.2	22.4	25.8	53.8	44.3	46.7	41.9	30.8
Radio ad revenues	10.7	11.0	16.7	(7.4)	9.7	1.6	8.0	38.4	7.7
Digital revenues	19.2	(1.6)	(12.1)	(4.9)	(7.6)	4.1	(3.0)	(8.5)	(24.4)
EBITDA	(3.2)	2.9	(7.1)	(29.6)	(12.8)	(9.8)	(34.0)	0.1	6.4
% of revenue									
Raw material cost	31.1	28.7	31.6	31.7	34.5	34.5	40.0	38.1	37.6
EBITDA margins	21.7	31.4	24.7	23.5	17.5	26.6	15.9	21.2	17.7
PAT margins	12.4	18.5	13.9	13.2	10.2	15.4	7.9	11.5	9.3

Source: Company, Edelweiss research

Chart 1: Print ad revenue saw good growth

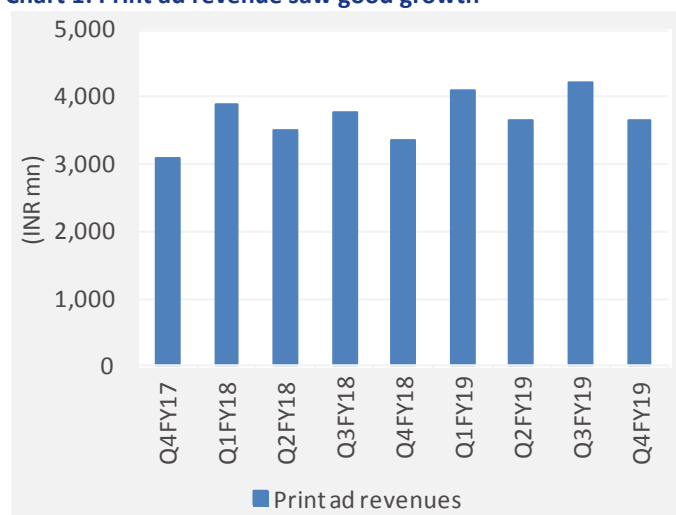
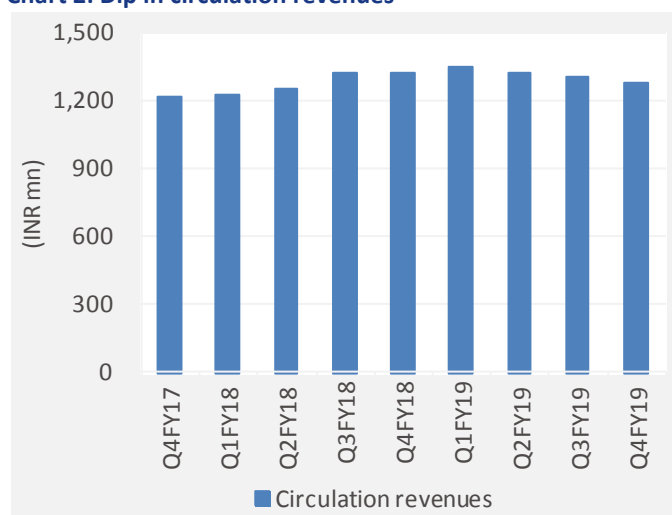


Chart 2: Dip in circulation revenues



Source: Edelweiss research

Chart 3: Strong growth evident in radio ad revenues

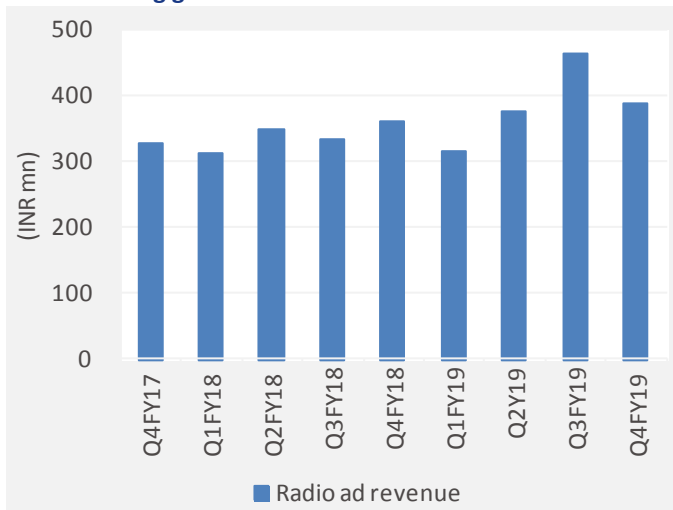


Chart 4: YoY growth in digital remains elusive

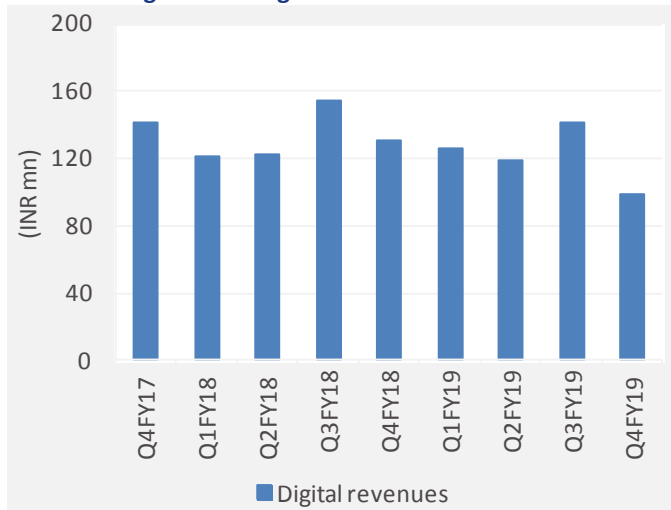


Chart 5: Newsprint costs remain elevated

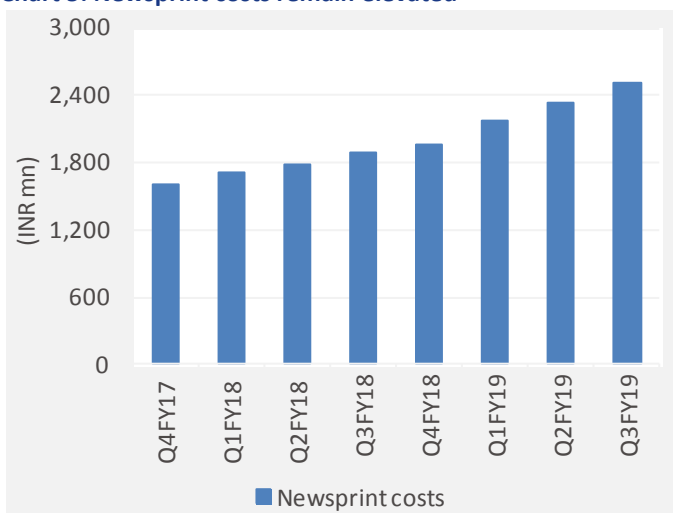
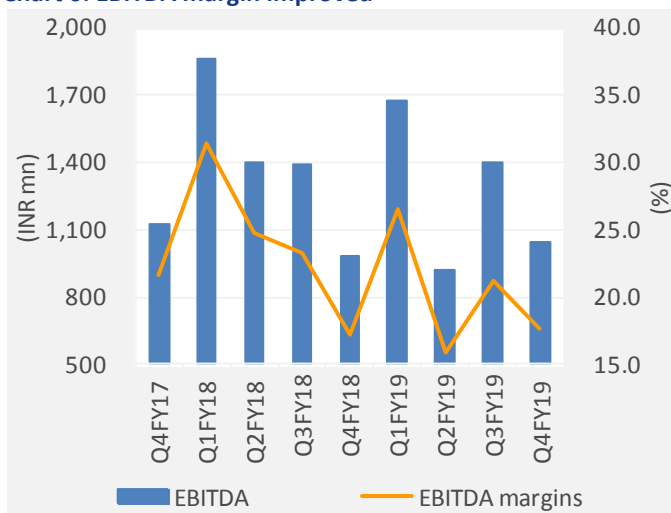


Chart 6: EBITDA margin improved



Source: Company, Edelweiss research

Q4FY19 conference call: Key highlights

Circulation revenue

- Circulation Revenue has increased 2% YoY to Rs.1273 million from Rs. 1252 million in the corresponding period last fiscal
- Circulation growth was lower this quarter as no increase in cover price was taken
- Going ahead, expect circulation growth should be 2-3% mainly driven by volumes

Print ad revenue

- Ad growth in Q4FY19 due to government advertising growing by 26% YoY (largely due to DAVP); education and real estate advertising also contributed well

Newsprint

- Newsprint price (blended price – imported and Indian) in Q4FY19– INR44.50k per kg; In Q3FY19 the price stood at – INR45.30k per kg; in Q1FY20 the price was INR40k per kg; believe softening to transpire in the subsequent quarter
- 5.62 mn copies in circulation; blended cover price INR4.16 per copy and the realized priced is INR2.69 copy
- No change to the newsprint mix as compared to the last year

Digital

- Digital business revenue stands at Rs. 99 million versus Rs. 131 million reported during corresponding period last year.

Radio

- Radio business revenue grew by 8% YOY to Rs. 390million from Rs. 361 million reported during corresponding period last year.
- Radio business EBIDTA grew by 13% YOY to Rs. 132 million (margin 34%)from Rs. 116millio (margin 32%)
- 25% radio advertising revenue was from government advertising
- Phase 3 stations bottom line is now positive, on the back of strong inventory management, programme profile ,strong cost efficiencies and growing popularity.

Other takeaways

- Board has considered and approved the second interim dividend of 80% i.e. Rs. 8 per share on the face value of Rs.10 per share
- Increase in debtors – due to billing differences; outstanding amount has increased due to government billing recovery taking time
- Inventory currently is a mix of the high cost and low cost inventory
- Not taking any decision on cover price increase
- Revenue from Bihar has gone up by ~50% in the last one year

- Mills started in the US has reduced the supply gap for newsprint; demand reduction in US and China was also a factor
- Government was around 15-16% of the overall revenue (ex- of government the growth was 3-4%)
- Mature edition EBITDA margin lower due to the newsprint costs; markets for mature edition
- Don't expect the rates for Bihar market to go down further

Outlook and valuation: Value trap; maintain 'HOLD'

We expect newsprint costs to soften in Q1FY19 owing to reduction in domestic newsprint prices and further benefit to follow in subsequent quarters. We also envisage print companies to benefit from elections and increase in ad rates for government advertising. However, pick up in digital advertising and pressure on ad volumes continue to be an overhang for the sector. At CMP, the stock trades at 10.2x/9.3x FY20/21E EPS. We maintain **'HOLD/SU'** with TP of INR207.

Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	5,885	5,603	5.0	6,597	(10.8)	24,627	26,553	28,480
Raw material consumption	2,212	1,935	14.3	2,513	(12.0)	9,236	9,251	9,793
Employee expenses	1,078	1,095	(1.5)	1,114	(3.2)	4,351	4,699	5,028
Other expenses	1,553	1,594	(2.5)	1,573	(1.2)	5,997	6,862	7,420
Total expenditure	4,844	4,624	4.8	5,199	(6.8)	19,584	20,812	22,240
EBITDA	1,042	979	6.4	1,398	(25.5)	5,043	5,742	6,240
Depreciation	243	243	0.2	249	(2.2)	986	1,055	1,096
EBIT	798	737	8.4	1,149	(30.5)	4,057	4,686	5,143
Interest	18	20	(8.3)	19	(4.8)	85	75	75
Other income	25	72	(64.9)	19	30.8	166	272	285
Add: Prior period items								
Add: Exceptional items								
Profit before tax	805	789	2.1	1,149	(29.9)	4,138	4,883	5,353
Provision for taxes	261	218	19.8	392	(33.5)	1,399	1,758	1,927
Minority interest								
Associate profit share								
Reported net profit	545	571	(4.6)	757	(28.1)	2,739	3,125	3,426
Adjusted Profit	545	571	(4.6)	757	(28.1)	2,739	3,125	3,426
Diluted shares (mn)	175	184		175		184	175	175
Adjusted Diluted EPS	3.1	3.1	0.3	4.3	(28.1)	14.9	17.9	19.6
Diluted P/E (x)	-	-		-		10.7	10.2	9.3
EV/EBITDA (x)	-	-		-		5.7	5.1	4.2
ROAE (%)	-	-		-		17.8	16.1	15.6
Raw material	37.6	34.5		38.1		37.5	34.8	34.4
Employee cost	18.3	19.5		16.9		17.7	17.7	17.7
Other expenditure	26.4	28.5		23.8		24.4	25.8	26.1
EBITDA	17.7	17.5		21.2		20.5	21.6	21.9
Adjusted net profit	9.3	10.2		11.5		11.1	11.8	12.0

Company Description

DBCL is a leading media conglomerate with strong focus on the fast growing tier II and III cities. It publishes 7 newspapers with Dainik Bhaskar 40 editions, Divya Bhaskar 7 editions, & Dainik Divya Marathi 7 editions, ~208 sub editions in 4 languages (Hindi, Gujarati, Marathi and English), 3 magazines, 30 radio stations and 4 online properties. Apart from print segment, the company is also present in radio and digital segments. In radio, it operates through its brand 'MY FM 94.3'. DBCL also has presence in the online news portal - dainikbhaskar.com, divyabhaskar.com and dailybhaskar.com are the company's online news portal.

Investment Theme

While DBCL remains one of the best plays in the Indian print space, it is ramping up in the digital domain too. The company is growing its footprint in Maharashtra, Bihar and Jharkhand with an eye on higher circulation revenues, even as its dominance in Madhya Pradesh, Chhattisgarh and Rajasthan will bolster ad revenues. Further, circulation revenue is clocking 15% YoY growth in last 2-3 years ahead of the industry growth. DBCL leverages its extensive network of sub-editions to tap the local ads. Since the company's ad revenues are heavily dependent on interest rate-sensitive sectors like BFSI, auto, real estate and consumer durables, any interest rate cut by the RBI will aid ad growth.

Key Risks

Elevated newsprint costs could impact profitability

Advertisers migrating towards digital or other media platforms

Increasing competition may impact circulation growth and ability to take price hike

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Print industry ad growth (%)	9.0	9.0	8.0	6.0
Print industry circulation growth (%)	6.0	6.0	6.0	5.0
Company				
Int rate on debt (%)	6.6	7.0	7.0	7.0
Sales assumptions				
Print ad revenue growth (%)	2.9	7.2	8.0	8.0
Radio ad revenue growth (%)	6.4	14.2	10.0	10.0
Digital ad growth (%)	(6.2)	(8.3)	5.0	5.0
Total ad growth (%)	2.8	7.4	8.2	8.1
Net realisation increase (%)	2.7	2.7	-	2.0
No. of copies sold growth (%)	3.8	6.3	-	2.0
Print circulation revenue growth (%)	5.6	3.6	4.7	4.0
Cost assumptions				
Pagination growth (%)	(0.9)	(1.3)	(2.3)	2.8
Newsprint usage growth (%)	7.0	0.5	(2.3)	2.5
Increase in newsprint costs (%)	10.6	26.4	0.2	5.9
Personnel cost(% of rev)	18.8	17.6	17.7	17.7
Financial assumptions				
Tax rate (%)	34.5	33.8	36.0	36.0
Debtor days	77	64	64	64
Inventory days	90	90	90	90
Payable days	97	68	68	68
Cash conversion cycle	70	86	86	86
Dep. (% gross block)	5.7	6.0	6.0	6.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	23,112	24,627	26,553	28,480
Direct costs	7,307	9,236	9,251	9,793
Employee costs	4,364	4,351	4,699	5,028
Total SG&A expenses	5,915	5,997	6,862	7,420
Total operating expenses	17,586	19,584	20,812	22,240
EBITDA	5,526	5,043	5,742	6,240
Depreciation	924	986	1,055	1,096
EBIT	4,602	4,057	4,686	5,143
Less: Interest Expense	67	85	75	75
Add: Other income	237.54	165.72	272.3	284.8
Profit Before Tax	4,773	4,138	4,883	5,353
Less: Provision for Tax	1,645	1,399	1,758	1,927
Reported Profit	3,128	2,739	3,125	3,426
Adjusted Profit	3,128	2,739	3,125	3,426
Shares o /s (mn)	184	175	175	175
Diluted shares o/s (mn)	184	175	175	175
Adjusted Diluted EPS	17.0	15.7	17.9	19.6
Dividend per share (DPS)	1.7	1.9	3.4	3.7
Dividend Payout Ratio(%)	12.0	15.4	24.1	24.1

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
S G & A expenses	25.6	24.4	25.8	26.1
Direct Cost	31.6	37.5	34.8	34.4
EBITDA margins	23.9	20.5	21.6	21.9
Net Profit margins	13.5	11.1	11.8	12.0

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	2.4	6.6	7.8	7.3
EBITDA	(14.0)	(8.7)	13.8	8.7
Adjusted Profit	(16.5)	(12.4)	14.1	9.6
EPS	(16.7)	(7.9)	14.1	9.6

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	1,840	1,749	1,749	1,749	
Reserves & Surplus	17,451	16,520	18,893	21,494	
Shareholders' funds	19,291	18,269	20,642	23,243	
Long term borrowings	528	570	570	570	
Short term borrowings	449	508	508	508	
Total Borrowings	976	1,079	1,079	1,079	
Long Term Liabilities	92	69	69	69	
Def. Tax Liability (net)	804	721	721	721	
Sources of funds	21,163	20,138	22,511	25,112	
Gross Block	14,246	15,146	15,846	16,396	
Net Block	8,940	8,864	8,888	8,455	
Capital work in progress	213	12	12	12	
Intangible Assets	1,077	1,000	1,031	1,068	
Total Fixed Assets	10,229	9,875	9,931	9,534	
Non current investments	717	740	740	740	
Cash and Equivalents	3,219	1,329	3,924	6,488	
Inventories	1,599	2,496	2,562	2,742	
Sundry Debtors	5,534	6,369	5,087	4,941	
Loans & Advances	334	310	310	310	
Other Current Assets	2,922	2,823	2,823	2,823	
Current Assets (ex cash)	10,389	11,998	10,782	10,816	
Trade payable	2,591	2,957	2,020	1,620	
Other Current Liab	800	847	847	847	
Total Current Liab	3,391	3,804	2,866	2,466	
Net Curr Assets-ex cash	6,998	8,194	7,916	8,350	
Uses of funds	21,163	20,138	22,511	25,112	
BVPS (INR)	104.8	104.4	118.0	132.9	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	3,128	2,739	3,125	3,426	
Add: Depreciation	924	986	1,055	1,096	
Interest (Net of Tax)	44	56	48	48	
Others	164	(137)	(245)	(258)	
Less: Changes in WC	732	2,054	1,004	288	
Operating cash flow	3,527	1,590	2,980	4,025	
Less: Capex	1,613	699	850	700	
Free Cash Flow	1,914	892	2,130	3,325	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		3,527	1,590	2,980	4,025
Financing cash flow		(418)	(495)	(828)	(900)
Investing cash flow		(1,984)	(557)	(578)	(415)
Net cash Flow		1,124	539	1,574	2,710
Capex		(1,613)	(699)	(850)	(700)
Dividend paid		(376)	(421)	(752)	(825)

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)		17.8	14.6	16.1	15.6
ROACE (%)		26.0	21.3	24.1	23.6
Inventory Days		90	90	90	90
Debtors Days		77	64	64	64
Payable Days		97	68	68	68
Cash Conversion Cycle		70	86	86	86
Current Ratio		4.0	3.5	5.1	7.0
Gross Debt/EBITDA		0.2	0.2	0.2	0.2
Gross Debt/Equity		0.1	0.1	0.1	-
Adjusted Debt/Equity		0.1	0.1	0.1	-
Interest Coverage Ratio		68.7	47.7	62.1	68.1

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover		1.2	1.2	1.2	1.2
Fixed Asset Turnover		2.4	2.5	2.7	2.9
Equity Turnover		1.3	1.3	1.4	1.3

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		17.0	15.7	17.9	19.6
Y-o-Y growth (%)		(16.7)	(7.9)	14.1	9.6
Adjusted Cash EPS (INR)		22.0	21.3	23.9	25.9
EV / Sales (x)		1.4	1.3	1.1	0.9
EV / EBITDA (x)		(0.4)	-	(0.5)	(0.9)

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
DB Corp	455	-	-	(0.5)	(0.9)	16.1	15.6
Jagran Prakashan	444	10.1	9.3	5.0	4.3	12.7	13.3
Median	-	5.1	4.7	2.2	1.7	14.4	14.4
AVERAGE	-	5.1	4.7	2.2	1.7	14.4	14.4

Source: Edelweiss research

Additional Data

Directors Data

Mr. Pawan Agarwal	Deputy Managing Director	Mr. Harish Bijoor	Non-Executive Independent Directors
Mr. Sudhir Agarwal	Managing Director	Mr. Girish Agarwal	Non-Executive Director
Mr. Piyush Pandey	Non-Executive Independent Directors	Mr. Ashwani Kumar Singhal	Non-Executive Independent Directors
Ms. Anupriya Acharya	Non Executive Independent Director		

Auditors - S. R. Batliboi & Associates LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Db consolidated priv	54.72	Nalanda india equity	9.94
Agarwal pawan	4.51	Agarwal girish	4.51
Agarwal sudhir	4.51	Icici prudential lif	3.23
Bhaskar publications	1.73	Somerset emerg mkt c	1.24
Fil limited	1.12	Icici prudential ass	1.12

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
DB Corp	HOLD	SU	M	DEN Networks	HOLD	SU	H
Dish TV India	HOLD	SU	M	Hathway Cable & Datacom	HOLD	SP	M
Jagran Prakashan	HOLD	SU	M	PVR	BUY	SO	M
Sun TV Network	BUY	SO	H	Zee Entertainment Enterprises	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Media

DB Corp, DEN Networks, Dish TV India, Hathway Cable & Datacom, Jagran Prakashan, PVR, Sun TV Network, Zee Entertainment Enterprises

Recent Research

Date	Company	Title	Price (INR)	Recos
13-May-19	PVR	Blockbuster end to FY19; Result Update	1724	Buy
09-May-19	Media	WatchDog: Tectonics changing in the broadcasting space ; Sector Update		
18-Apr-19	Den Network	Cable business lacklustre; Result Update	68	Hold

Distribution of Ratings / Market Cap

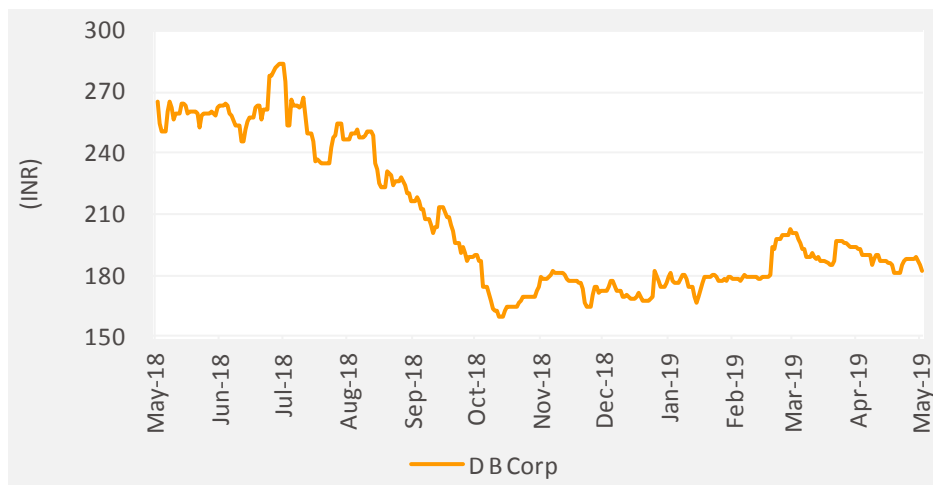
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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