

**BUY**

TP: Rs 350 | ▲ 63%

**HINDUSTAN  
PETROLEUM CORP**

| Oil &amp; Gas

| 17 June 2020

## Marketing advantage in challenging times

HPCL's Q4FY20 PAT was battered by Rs 41bn in inventory losses. GRMs outperformed at US\$ 9.5/bbl (ex-inventory loss of US\$ 10.7/bbl), while marketing EBITDA at Rs 23.9bn (indicative, ex-inventory) was in line. Both business segments are close to 85% of normal operating levels in June. Q1FY21 could also see a reversal of most inventory losses. We maintain GRM and marketing margin estimates for HPCL as operating performance remains healthy. Our Mar'21 TP moves to Rs 350 (from Rs 340).

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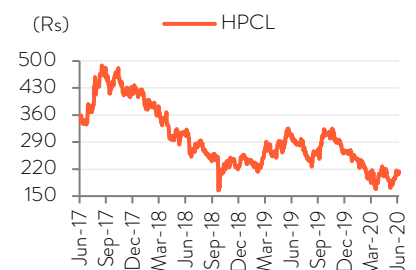
**Resilient GRMs and marketing margins:** Like BPCL, HPCL too has been able to gain from discounts in Middle East crude that translated into higher normalised GRMs (beating the Singapore benchmark). This GRM advantage could sustain in Q1FY21. While HPCL seemingly lost market share across most petroleum products, it gained share in LPG and industrial products. Marketing margins at ~Rs 2,500/MT (ex-inventory) were in line (Rs 1,800/MT for FY20). Resumption of daily price hikes on petrol/diesel in Jun'20 has enabled the company to pass on most of the recent excise and state VAT increases.

Ticker/Price	HPCL IN/Rs 214
Market cap	US\$ 4.3bn
Shares o/s	1,524mn
3M ADV	US\$ 18.9mn
52wk high/low	Rs 329/Rs 150
Promoter/FPI/DII	51%/19%/30%

Source: NSE

**Sharp recovery in operating parameters:** Refinery utilisation levels have sprung back to near-normalcy in Jun'20 (~90% levels), while marketing volumes too are averaging at ~80%. As oil prices stabilise at US\$ 35-40/bbl, marketing margins could remain resilient as daily price changes in petrol/diesel have resumed. Over FY20, marketing EBITDA at Rs 50bn has saved the day for HPCL as its refining segment reported a loss (of Rs 18bn. High marketing segment exposure is a key advantage for OMCs, making overall earnings more robust.

## STOCK PERFORMANCE



**Maintain BUY:** At 4.1x FY22E EBITDA, valuations seem to be pricing in the worst case of low GRMs and benign marketing margins.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	2,186,469	2,742,552	2,679,238	1,879,500	2,449,272
EBITDA (Rs mn)	98,502	103,490	44,947	111,025	128,480
Adj. net profit (Rs mn)	72,183	66,900	36,417	68,645	79,839
Adj. EPS (Rs)	47.4	43.9	23.9	45.0	52.4
Adj. EPS growth (%)	(12.4)	(7.3)	(45.6)	88.5	16.3
Adj. ROAE (%)	31.0	23.9	13.1	25.3	25.7
Adj. P/E (x)	4.5	4.9	9.0	4.8	4.1
EV/EBITDA (x)	4.5	4.0	9.4	4.6	4.1

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Net sales</b>	<b>658,685</b>	<b>676,286</b>	<b>(2.6)</b>	<b>704,479</b>	<b>(6.5)</b>	<b>2,675,998</b>	<b>2,739,809</b>	<b>(2.3)</b>
Purchases	475,398	462,742	2.7	477,808	(0.5)	1,872,163	1,804,740	3.7
% of sales	72.2	68.4	-	67.8	-	70.0	65.9	-
Other expenditure	193,217	164,977	17.1	211,019	(8.4)	764,172	832,814	(8.2)
% of sales	29.3	24.4	-	30.0	-	28.6	30.4	-
<b>EBITDA</b>	<b>(9,930)</b>	<b>48,567</b>	<b>-</b>	<b>15,653</b>	<b>-</b>	<b>39,662</b>	<b>102,255</b>	<b>(61.2)</b>
<b>EBITDA margin (%)</b>	<b>(1.5)</b>	<b>7.2</b>	<b>-</b>	<b>2.2</b>	<b>-</b>	<b>1.5</b>	<b>3.7</b>	<b>-</b>
Depreciation and amortisation	8,114	8,285	(2.1)	8,659	(6.3)	33,044	30,126	9.7
Interest	3,374	1,872	80.3	2,524	33.7	10,817	7,259	49.0
Other income	7,105	8,320	(14.6)	7,038	0.9	29,954	28,517	5.0
<b>PBT</b>	<b>(14,313)</b>	<b>46,731</b>	<b>-</b>	<b>11,508</b>	<b>-</b>	<b>25,755</b>	<b>93,387</b>	<b>(72.4)</b>
Exceptional item	10,029	-	-	-	-	10,029	-	-
Provision for tax	(14,581)	17,032	-	4,036	-	(617)	33,100	(101.9)
<b>PAT (reported)</b>	<b>268</b>	<b>29,699</b>	<b>(99.1)</b>	<b>7,472</b>	<b>(96.4)</b>	<b>26,373</b>	<b>60,287</b>	<b>(56.3)</b>
Other comprehensive income	(3,643)	438	-	203	-	(4,507)	(643)	-
<b>Total income</b>	<b>(3,375)</b>	<b>30,137</b>	<b>-</b>	<b>7,675</b>	<b>(144.0)</b>	<b>21,866</b>	<b>59,644</b>	<b>(63.3)</b>
<b>NPM (%)</b>	<b>0.0</b>	<b>4.4</b>	<b>-</b>	<b>1.1</b>	<b>-</b>	<b>1.0</b>	<b>2.2</b>	<b>-</b>
<b>EPS (reported) (Rs)</b>	<b>0.2</b>	<b>19.5</b>	<b>(99.1)</b>	<b>4.9</b>	<b>(96.4)</b>	<b>17.3</b>	<b>39.6</b>	<b>(56.3)</b>
<b>Reported GRMs (US\$/bbl)</b>	<b>(1.2)</b>	<b>4.5</b>	<b>-</b>	<b>1.8</b>	<b>-</b>	<b>1.0</b>	<b>5.0</b>	<b>(79.6)</b>
<b>Refining throughput (mmt)</b>	<b>4.5</b>	<b>4.6</b>	<b>(1.3)</b>	<b>4.2</b>	<b>9.1</b>	<b>17.2</b>	<b>18.4</b>	<b>(6.8)</b>
<b>Market sales (mmt)</b>	<b>9.6</b>	<b>10.1</b>	<b>(5.3)</b>	<b>10.6</b>	<b>(9.5)</b>	<b>39.6</b>	<b>38.7</b>	<b>2.4</b>
<b>Pipeline throughput (mmt)</b>	<b>5.7</b>	<b>5.6</b>	<b>2.0</b>	<b>5.1</b>	<b>12.4</b>	<b>21.2</b>	<b>21.5</b>	<b>(1.5)</b>

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENT-WISE PERFORMANCE (INDICATIVE SEGMENTAL BREAKUP)**

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Crude throughput (mmt)</b>	<b>4.54</b>	<b>4.60</b>	<b>(1.3)</b>	<b>4.16</b>	<b>9.1</b>	<b>17.18</b>	<b>18.44</b>	<b>(6.8)</b>
<b>GRM (US\$/bbl)</b>	<b>(1.23)</b>	<b>4.53</b>	<b>-</b>	<b>1.79</b>	<b>(168.7)</b>	<b>1.02</b>	<b>5.01</b>	<b>(79.6)</b>
<b>Normalised GRMs (US\$/bbl)</b>	<b>9.49</b>	<b>2.12</b>	<b>347.4</b>	<b>1.45</b>	<b>555.2</b>	<b>4.30</b>	<b>4.21</b>	<b>2.0</b>
<b>Refining EBITDA (Rs mn)</b>	<b>(8,746)</b>	<b>6,500</b>	<b>-</b>	<b>(1,410)</b>	<b>520.3</b>	<b>(18,000)</b>	<b>37,130</b>	<b>-</b>
<b>Refining EBITDA (US\$/bbl)</b>	<b>(3.6)</b>	<b>2.7</b>	<b>-</b>	<b>(0.6)</b>	<b>458.9</b>	<b>(2.0)</b>	<b>4.0</b>	<b>-</b>
Inventory gains/ (loss) (Rs mn)	(25,840)	5,720	-	740	(3,591.9)	(29,600)	7,410	-
Inventory gains/ (loss) (US\$/bbl)	(10.72)	2.41	-	0.34	(3,246.6)	(3.28)	0.80	-
Exchange fluctuation gain/(loss) (Rs mn)	50	1,000	-	590	91.5	1,300	(1,050)	-
<b>Adjusted Refining EBITDA (Rs mn)</b>	<b>17,044</b>	<b>(220)</b>	<b>(7,847.3)</b>	<b>(2,740)</b>	<b>(722.0)</b>	<b>10,300</b>	<b>30,770</b>	<b>(66.5)</b>
<b>Adjusted Refining EBITDA (US\$/bbl)</b>	<b>7.07</b>	<b>(0.09)</b>	<b>(7,743.7)</b>	<b>(1.26)</b>	<b>(660.5)</b>	<b>1.14</b>	<b>3.31</b>	<b>(65.5)</b>
<b>Market sales:</b>	<b>9.57</b>	<b>10.11</b>	<b>(5.3)</b>	<b>10.58</b>	<b>(9.5)</b>	<b>39.64</b>	<b>38.71</b>	<b>2.4</b>
Domestic sales	9.25	10.03	(7.8)	9.76	(5.2)	37.78	37.93	(0.4)
Exports	0.32	0.08	300.0	0.82	(61.0)	1.86	0.78	138.5
<b>Marketing EBITDA (Rs mn)</b>	<b>(1,184)</b>	<b>52,270</b>	<b>(102.3)</b>	<b>24,470</b>	<b>(104.8)</b>	<b>50,080</b>	<b>50,590</b>	<b>(1.0)</b>
<b>Marketing EBITDA (Rs/MT)</b>	<b>(124)</b>	<b>5,170</b>	<b>(102.4)</b>	<b>2,313</b>	<b>(105.3)</b>	<b>1,315</b>	<b>2,644</b>	<b>(50.3)</b>
Inventory gains/ (loss) (Rs mn)	(15,290)	3,440	-	2,690	-	(12,930)	6,250	-
Inventory gains/ (loss) (Rs/MT)	(1,598)	340	-	254	-	(326)	161	-
Exchange fluctuation gain/(loss) (Rs mn)	(9,800)	1,480	-	230	-	(10,040)	(4,740)	-
<b>Adj. Marketing EBITDA (Rs mn)</b>	<b>23,906</b>	<b>47,350</b>	<b>(49.5)</b>	<b>21,550</b>	<b>10.9</b>	<b>73,050</b>	<b>49,080</b>	<b>48.8</b>
<b>Adj. Marketing EBITDA (Rs/MT)</b>	<b>2,498</b>	<b>4,683</b>	<b>(46.7)</b>	<b>2,037</b>	<b>22.6</b>	<b>1,843</b>	<b>1,268</b>	<b>45.3</b>
Others EBITDA (Rs mn)	na	(1,880)	-	-	-	18,000	5,890	-
<b>Reported EBITDA (Rs mn)</b>	<b>(9,930)</b>	<b>48,567</b>	<b>-</b>	<b>15,653</b>	<b>-</b>	<b>39,662</b>	<b>102,255</b>	<b>(61.2)</b>

Source: Company, BOBCAPS Research

## Earnings call highlights

- Marketing volumes were at 40% and 60% of normal levels during April and May respectively. Recovery in June has been even better at 82% and 88% of normal demand for MS and HSD respectively. ATF remains sluggish at 30% while LPG consumption was at 115% of regular levels. Other fuels such as bitumen and lubricants are at ~80% currently.
- Refinery posted a larger inventory loss as its stock includes crude, intermediate and finished goods, whereas marketing inventory comprises only finished goods.
- The Mumbai and Vizag refineries are currently at 85% and 100% capacity utilisation respectively, and both are producing BS-VI compliant fuels.
- Expansion at Mumbai and Vizag is in advanced stages of completion. There are four parts to the expansion – upgrade to BS-VI, revamp of existing units, setup of new primary units and bottom-up upgrades. The first two have been completed and the balance are pending. Commissioning of both refineries is scheduled before the end of CY21.
- Commissioning of the Barmer refinery (JV) is expected in CY23. As with all its JVs, the debt is not on the company's balance sheet.
- Petchem capacity of 2mmt (out of 9mmt planned) is being set up in Rajasthan. This will include PE, HDPE, LDPE and Butadiene.
- HPCL has 19 geographical areas (GA) in JV partnerships. Its JV with GAIL has Bhagyanagar Gas and Aavantika Gas as partners. Bhagyanagar Gas operates in Hyderabad, Vijayawada and Kakinada. Aavantika Gas operates in Indore, Ujjain, Pithampur and Gwalior.
- Capex planned for FY21 is at Rs 120bn (Rs 50bn for marketing and Rs 70bn for refinery). This capex plan includes all ongoing expansion works at the refineries and also at the Barmer unit.

## Valuation methodology

HPCL's refining and marketing businesses are both close to 85% of normal operating levels in June. Q1FY21 could also see a reversal of most inventory losses. We maintain our GRM and marketing margin estimates as operating performance remains healthy. At 4.1x FY22E EBITDA, valuations seem to be pricing in the worst case of low GRMs and benign marketing margins. We cut FY21/FY22 earnings estimates by ~12% each on lower other income and marginally higher interest costs.

Our Mar'21 SOTP-based target price stands revised to Rs 350 (from Rs 340) based on:

- refining business valued at 6x FY22E EBITDA, and
- marketing business valued at 5x FY22E EBITDA.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	1,861,119	1,879,918	1.0	2,425,194	2,449,691	1.0
EBITDA	113,245	111,025	(2.0)	131,049	128,480	(2.0)
EBITDA margin (%)	2.3	5.9	-	2.5	5.2	-
PAT	77,876	68,645	(11.9)	90,830	79,839	(12.1)
EPS (Rs)	51.1	45.0	(11.9)	59.6	52.4	(12.1)

Source: Company, BOBCAPS Research

**FIG 4 – SOTP VALUATION SUMMARY**

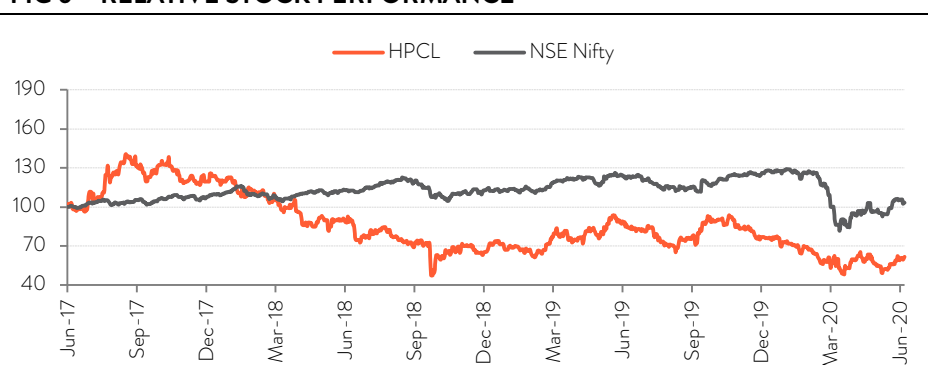
	EV (Rs bn)	Value (Rs/sh)	Comments
Refining Business	114	75	6x FY22E EBITDA
Marketing & others	472	310	5x FY22E EBITDA
Bhatinda refinery	81	53	6x FY22E EBITDA
<b>Total core business</b>	<b>667</b>	<b>438</b>	-
Less: Net debt	141	93	Adjusted for Bhatinda stake
<b>Equity Value of core businesses</b>	<b>526</b>	<b>345</b>	-
MRPL stake	8	5	20% discount to CMP
OIL stake	3	2	20% discount to CMP
<b>HPCL's Equity Value (Rs)</b>	<b>537</b>	<b>350</b>	<b>8.1x FY22E EPS</b>

Source: Company, BOBCAPS Research

**FIG 5 – KEY ASSUMPTIONS**

	FY21E	FY22E
<b>USDINR (Rs)</b>	<b>76.0</b>	<b>78.0</b>
<b>Crude price (US\$/bbl)</b>	<b>35.0</b>	<b>40.0</b>
<b>Mumbai &amp; Vizag refineries</b>		
GRM (US\$/bbl)	4.0	4.5
Crude throughput (mmt)	24.4	28.5
<b>HMEL (Bhatinda)</b>		
GRM (US\$/bbl)	12.0	12.0
Crude throughput (mmt)	12.0	12.0
<b>Product sales (mmt)</b>	<b>42.7</b>	<b>45.2</b>

Source: BOBCAPS Research

**FIG 6 – RELATIVE STOCK PERFORMANCE**

Source: NSE

## Key risks

- **Extended global slowdown:** HPCL's valuations are highly sensitive to GRMs and marketing margins. An extended global economic slowdown due to the current pandemic may alter our valuation outlook and GRM/marketing margins assumptions.
- **Surge in oil prices:** Oil prices (>US\$ 70/bbl levels) could lead to concerns, such as government control on marketing margins for retail sales of petrol/diesel.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>2,186,469</b>	<b>2,742,552</b>	<b>2,679,238</b>	<b>1,879,500</b>	<b>2,449,272</b>
EBITDA	98,502	103,490	44,947	111,025	128,480
Depreciation	(28,344)	(30,853)	(33,699)	(29,734)	(33,217)
EBIT	70,158	72,637	11,248	81,291	95,263
Net interest income/(expenses)	(6,179)	(7,856)	(11,389)	(19,983)	(24,480)
Other income/(expenses)	23,906	26,315	28,494	21,263	26,495
Exceptional items	0	0	10,029	0	0
EBT	87,885	91,095	28,354	82,571	97,277
Income taxes	(28,919)	(33,486)	12,644	(21,948)	(25,672)
Min. int./Inc. from associates	(13,216)	(9,291)	4,582	(8,022)	(8,233)
<b>Reported net profit</b>	<b>72,183</b>	<b>66,900</b>	<b>46,446</b>	<b>68,645</b>	<b>79,839</b>
<b>Adjusted net profit</b>	<b>72,183</b>	<b>66,900</b>	<b>36,417</b>	<b>68,645</b>	<b>79,839</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	158,459	190,534	114,688	108,517	145,792
Other current liabilities	46,701	45,261	35,085	39,555	51,908
Provisions	24,496	23,951	26,852	26,852	26,852
Debt funds	219,520	260,365	393,858	367,720	415,938
Other liabilities	192,218	250,108	288,774	293,302	298,600
Equity capital	15,242	15,242	15,242	15,242	15,242
Reserves & surplus	240,082	288,765	237,824	274,369	316,758
Shareholders' fund	255,324	304,007	253,066	289,611	332,000
<b>Total liabilities and equities</b>	<b>896,718</b>	<b>1,074,226</b>	<b>1,112,322</b>	<b>1,125,557</b>	<b>1,271,090</b>
Cash and cash eq.	13,052	2,185	2,231	34,232	24,432
Accounts receivables	55,870	56,674	39,342	41,204	53,692
Inventories	186,122	204,436	193,260	195,331	262,426
Other current assets	85,762	133,591	128,957	128,957	128,957
Investments	128,820	142,975	143,956	173,956	208,956
Net fixed assets	387,035	439,011	432,712	480,378	524,562
CWIP	39,890	95,187	171,698	71,332	67,900
Intangible assets	167	167	167	167	167
<b>Total assets</b>	<b>896,718</b>	<b>1,074,226</b>	<b>1,112,322</b>	<b>1,125,557</b>	<b>1,271,090</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	99,866	97,549	60,086	98,379	113,055
Changes in working capital	19,558	21,035	(11,314)	(1,105)	(24,657)
Other operating cash flows	(23,906)	(26,315)	(38,523)	(21,263)	(26,495)
<b>Cash flow from operations</b>	<b>95,519</b>	<b>92,269</b>	<b>10,249</b>	<b>76,011</b>	<b>61,904</b>
Capital expenditures	(67,298)	(138,126)	(103,910)	22,966	(73,968)
Change in investments	(12,179)	(13,311)	1,629	(3,000)	(3,000)
Other investing cash flows	24,999	25,471	25,883	(5,737)	(5,505)
<b>Cash flow from investing</b>	<b>(54,478)</b>	<b>(125,966)</b>	<b>(76,398)</b>	<b>14,228</b>	<b>(82,473)</b>
Equities issued/Others	5,079	0	0	0	0
Debt raised/repaid	(1,781)	40,845	133,493	(26,138)	48,219
Dividends paid	(30,317)	(28,355)	(12,483)	(32,100)	(37,450)
Other financing cash flows	(2,336)	10,340	(54,815)	0	0
<b>Cash flow from financing</b>	<b>(29,354)</b>	<b>22,830</b>	<b>66,195</b>	<b>(58,238)</b>	<b>10,769</b>
<b>Changes in cash and cash eq.</b>	<b>11,687</b>	<b>(10,867)</b>	<b>46</b>	<b>32,001</b>	<b>(9,801)</b>
<b>Closing cash and cash eq.</b>	<b>13,051</b>	<b>2,185</b>	<b>2,231</b>	<b>34,232</b>	<b>24,432</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	47.4	43.9	30.5	45.0	52.4
Adjusted EPS	47.4	43.9	23.9	45.0	52.4
Dividend per share	17.0	15.9	7.0	18.0	21.0
Book value per share	167.5	199.5	166.0	190.0	217.8

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	0.2	0.2	0.2	0.3	0.2
EV/EBITDA	4.5	4.0	9.4	4.6	4.1
Adjusted P/E	4.5	4.9	9.0	4.8	4.1
P/BV	1.3	1.1	1.3	1.1	1.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	82.1	73.4	94.9	83.1	82.1
Interest burden (PBT/EBIT)	125.3	125.4	341.2	101.6	102.1
EBIT margin (EBIT/Revenue)	3.2	2.6	0.4	4.3	3.9
Asset turnover (Revenue/Avg TA)	257.2	278.3	245.1	168.0	204.4
Leverage (Avg TA/Avg Equity)	3.6	3.5	3.9	4.1	3.9
Adjusted ROAE	31.0	23.9	13.1	25.3	25.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	16.9	25.4	(2.3)	(29.8)	30.3
EBITDA	(6.1)	5.1	(56.6)	147.0	15.7
Adjusted EPS	(12.4)	(7.3)	(45.6)	88.5	16.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	4.5	3.8	1.7	5.9	5.2
EBIT margin	3.2	2.6	0.4	4.3	3.9
Adjusted profit margin	3.3	2.4	1.4	3.7	3.3
Adjusted ROAE	31.0	23.9	13.1	25.3	25.7
ROCE	10.4	8.8	1.9	9.2	10.0
<b>Working capital days (days)</b>					
Receivables	8	7	7	8	7
Inventory	132	105	122	150	129
Payables	25	24	21	23	20
<b>Ratios (x)</b>					
Gross asset turnover	3.3	3.8	3.4	2.2	2.7
Current ratio	1.0	1.0	1.1	1.0	1.0
Net interest coverage ratio	11.4	9.2	1.0	4.1	3.9
Adjusted debt/equity	0.8	0.8	1.5	1.2	1.2

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

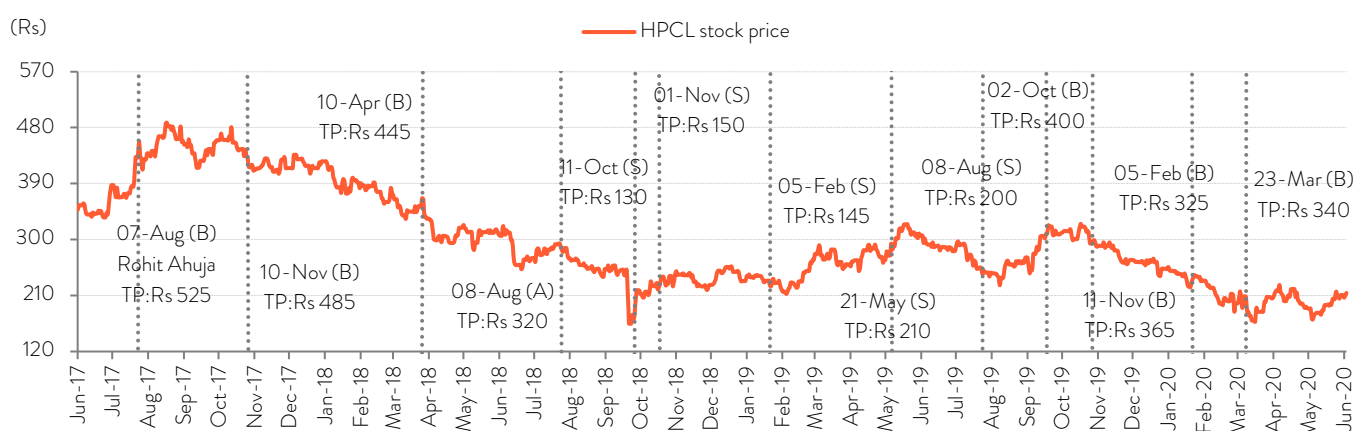
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: HINDUSTAN PETROLEUM CORP (HPCL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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