

Singapore

ADD (no change)

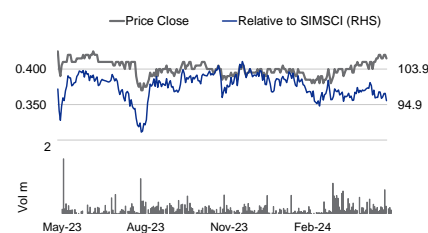
Consensus ratings*: Buy 3 Hold 0 Sell 0

| | |
|-------------------------|------------|
| Current price: | S\$0.41 |
| Target price: | S\$0.47 |
| Previous target: | S\$0.47 |
| Up/downside: | 13.3% |
| CGSI / Consensus: | 0.0% |
| Reuters: | CHSN.SI |
| Bloomberg: | CSSC SP |
| Market cap: | US\$294.5m |
| | S\$397.3m |
| Average daily turnover: | US\$0.04m |
| | S\$0.06m |
| Current shares o/s: | 963.2m |
| Free float: | 35.0% |

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | 2.5 | 7.8 | -1.2 |
| Relative (%) | -2.6 | -3.3 | -2.5 |

| Major shareholders | % held |
|----------------------------|--------|
| Success More Group Limited | 63.3 |

China Sunshine Chemical Holdings

Healthy spreads and volume growth

- 1Q24 net profit (+27% yoy) was driven by GPM expansion (+1% pt yoy) and healthy sales volume growth (+8% yoy). We deem the results in-line.
- Latest pricing trends indicate that 2Q24F profit spreads could narrow qoq. Competitive pressures remain intense, likely weighing on GPM expansion.
- Reiterate Add with an unchanged TP of S\$0.47, still based on 0.6x CY24F P/BV (1 s.d. below 5-year historical mean).

1Q24 results in-line; healthy GPM and volume growth

Sunsine's 1Q24 net profit of Rmb85m (-25% qoq, +27% yoy) formed 23% of our FY24F forecast. We deem the results in-line with our expectations, given that 1Q is typically a weak quarter due to the Chinese New Year holidays. GPM remained healthy at 23.4% (+1.0% pt yoy), a tad above management's FY24F guidance of 20-23%. Sales volume growth was strong (-2% qoq, +8% yoy), which we believe was attributed to improved tyre manufacturer utilisation and ramp-up in newer production lines.

Profit spreads could narrow slightly in 2Q24F, volumes still strong

Latest data from Sci99 (chemical data provider) indicates that rubber accelerator ASPs at end-Mar 24 were up c.3% vs. end-Dec 23 prices, while average aniline prices in Apr 24 were 12% higher vs. average 1Q24 prices. Given that Sunsine typically locks in rubber accelerator prices with major customers at the start of 2Q24F and taking spot prices for aniline, we expect 2Q24F profit spreads to narrow slightly qoq. However, we expect volume growth to stay healthy in FY24F, backed by improved domestic tyre manufacturer utilisation rates and continued recovery in replacement tyre demand.

Competitive pressures could cap GPM upside for FY24F

Management expects competitive pressures to stay intense due to incoming new industry supply of rubber accelerators, which we believe could come online in 2H24F, resulting in heightened price competition. Sunsine intends to continue with its flexible pricing strategy to proactively defend and grow its market share. Sunsine's dominant market leadership and strong balance sheet should allow it to compete effectively in the coming quarters, in our view. We maintain our FY24F GPM assumption at c.22% (-0.6% pts yoy).

Reiterate Add with an unchanged TP of S\$0.47

While net profit growth could be choppy in FY24F, we still like Sunsine for its increasing focus on lifting shareholders' returns, decent yield of c.6%, and undemanding valuation of 1.0x CY24F ex-cash P/E. Our TP is unchanged at S\$0.47, still based on 0.6x CY24F P/BV (1 s.d. below 5-year mean). Re-rating catalysts: favourable government stimulus in China, improved domestic competitive dynamics. Downside risks: prolonged competition putting pressure on ASPs and spikes in input costs that Sunsine is unable to pass on.

Analyst(s)



Kenneth TAN
T (65) 6210 8678
E kenneth.tan@cgsi.com
ONG Khang Chuen, CFA
T (65) 6210 8685
E khangchuen.ong@cgsi.com

| Financial Summary | Dec-22A | Dec-23A | Dec-24F | Dec-25F | Dec-26F |
|-------------------------|---------|---------|---------|---------|---------|
| Revenue (Rmbm) | 3,825 | 3,490 | 3,682 | 3,822 | 3,946 |
| Operating EBITDA (Rmbm) | 816.1 | 520.2 | 521.3 | 552.6 | 580.2 |
| Net Profit (Rmbm) | 642.4 | 372.4 | 376.2 | 397.9 | 417.3 |
| Core EPS (Rmb) | 0.63 | 0.40 | 0.39 | 0.41 | 0.43 |
| Core EPS Growth | 19.9% | (36.5%) | (1.6%) | 5.8% | 4.9% |
| FD Core P/E (x) | 3.54 | 5.60 | 5.67 | 5.36 | 5.11 |
| DPS (Rmb) | 0.15 | 0.13 | 0.13 | 0.13 | 0.13 |
| Dividend Yield | 6.77% | 5.94% | 5.94% | 5.94% | 5.94% |
| EV/EBITDA (x) | 0.96 | 0.86 | 0.45 | (0.24) | (0.79) |
| P/FCFE (x) | 32.31 | 4.70 | 6.33 | 4.31 | 4.74 |
| Net Gearing | (37.0%) | (43.0%) | (45.5%) | (51.0%) | (54.7%) |
| P/BV (x) | 0.58 | 0.54 | 0.51 | 0.48 | 0.45 |
| ROE | 17.7% | 10.0% | 9.3% | 9.2% | 9.1% |
| EPS/Consensus EPS (x) | | | 1.00 | 1.01 | 1.01 |

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Healthy spreads and volume growth

Abbreviation list

Accelerator CZ: N-cyclohexylbenzothiazole-2-sulphenamide

Accelerator DM: Dibenzothiazole disulfide

Accelerator M: 2-Mercaptobenzothiazole

Accelerator NS: N-tert-butylbenzothiazole-2-sulphenamide

Figure 1: Apr 24 rubber accelerator prices and aniline prices are up 1% and 12% respectively compared to 1Q24 average prices

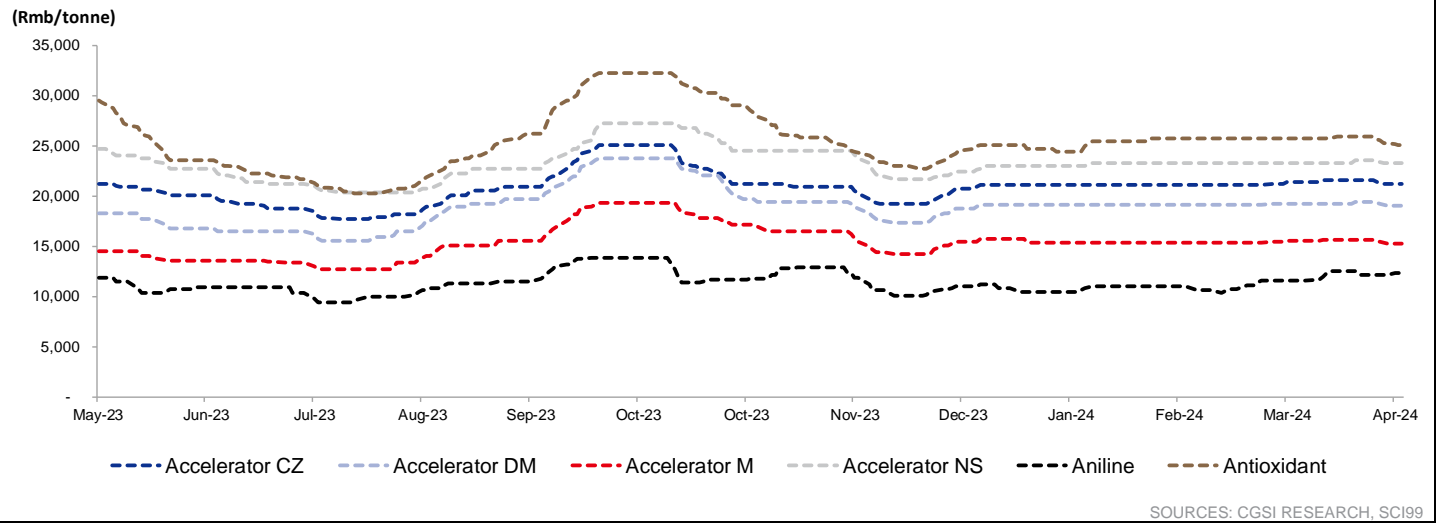


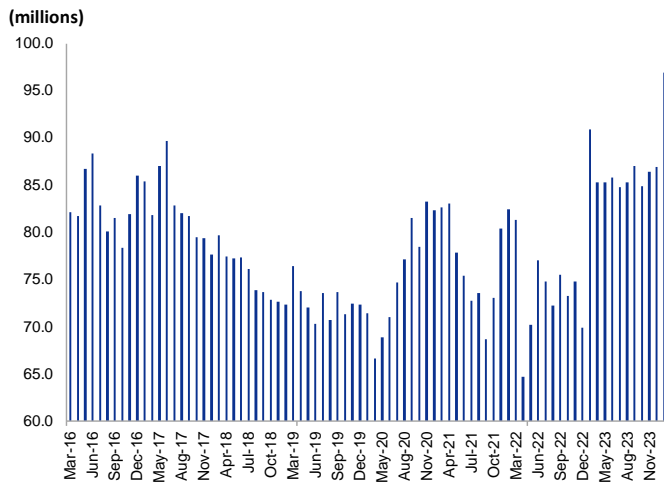
Figure 2: Results comparison

| FYE Dec (Rmb m) | 1Q24 | 1Q23 | yoy % chg | 4Q23(*) | qoq % chg | Prev FY24F | Comments |
|---------------------|--------------|--------------|-------------|--------------|---------------|--------------|--|
| Revenue | 851.0 | 863.0 | (1.4) | 886.3 | (4.0) | 3,681.9 | In line, 1Q24 formed 23% of our FY24F. Higher sales volumes (+8% yoy) dragged by lower ASPs (-8% yoy) |
| Cost of sales | (651.9) | (669.7) | (2.7) | (656.9) | (0.8) | (2,859.8) | |
| Gross profit | 199.1 | 193.3 | 3.0 | 229.4 | (13.2) | 822.1 | In line, 1Q24 formed 24% of our FY24F |
| GPM (%) | 23.4% | 22.4% | na | 25.9% | na | 22.3% | Qoq decline was expected due to lower ASPs |
| Net profit | 85.0 | 67.0 | 26.9 | 112.8 | (24.6) | 376.2 | In line, 1Q24 formed 23% of our FY24F. 1Q is typically seasonally weaker due to Chinese New Year holidays |
| NPM (%) | 10.0% | 7.8% | na | 12.7% | na | 10.2% | |

*4Q23 gross profit is estimated, as Sunshine did not publicly disclose

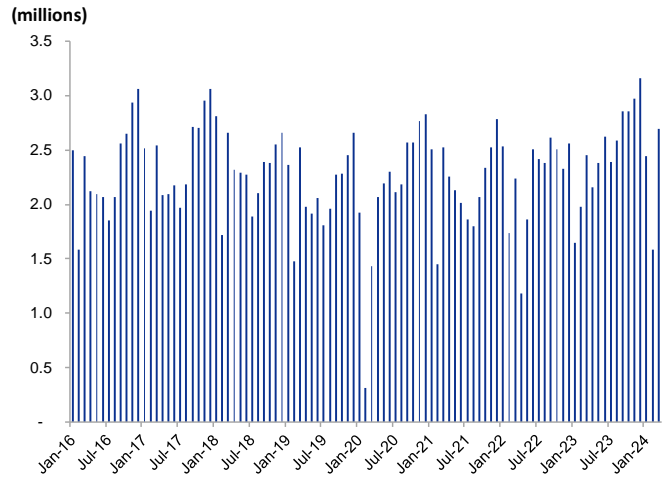
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 3: Rubber tyre production volumes in China



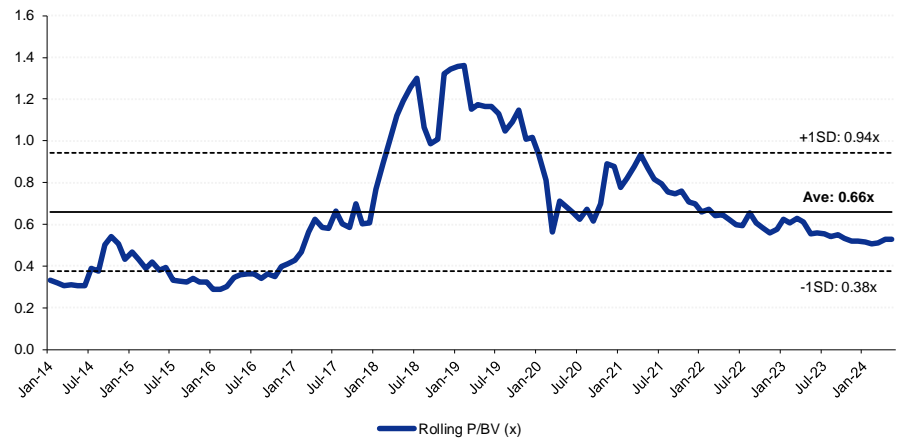
SOURCES: CGSI RESEARCH, NATIONAL BUREAU OF STATISTICS

Figure 4: Monthly automobile sales in China



SOURCES: CGSI RESEARCH, CHINA ASSOCIATION OF AUTOMOBILE MANUFACTURERS

Figure 5: China Sunshine Chemical Holdings P/BV (x)



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 6: Peer comparison

| Company | Bloomberg Ticker | Price Recom. | Price | | Market Cap (US\$ m) | P/E (x) | | 3-year EPS CAGR (%) | Recurring ROE (%) | | EV/EBITDA (x) | | Dividend Yield (%) |
|---|------------------|--------------|------------|------------|---------------------|-------------|-------------|---------------------|-------------------|--------------|---------------|------------|--------------------|
| | | | (lcl curr) | (lcl curr) | | CY24F | CY25F | | CY24F | CY24F | CY24F | CY25F | |
| China Sunshine Chemical Holdings | CSSC SP | Add | 0.42 | 0.47 | 294 | 5.7 | 5.4 | 2.4% | 0.51 | 9.3% | 0.4 | -0.2 | 5.9% |
| Rubber chemical peers | | | | | | | | | | | | | |
| Shandong Yanggu Huatai | 300121 CH | NR | 8.81 | na | 511 | 7.5 | 6.0 | na | 1.03 | 14.0% | na | na | 4.3% |
| Eastman Chemical Co | EMN US | NR | 97.50 | na | 11,618 | 12.6 | 10.8 | 10.0% | 2.03 | 15.6% | 9.0 | 8.2 | 3.3% |
| LANXESS AG | LXS GY | NR | 27.51 | na | 2,585 | na | 15.9 | -20.0% | 0.57 | -2.9% | 8.7 | 6.5 | 0.6% |
| Simple average (rubber chemical peers) | | | | | | 10.1 | 10.9 | -5.0% | 1.21 | 8.9% | 8.9 | 7.4 | 2.8% |
| Tyre manufacturers | | | | | | | | | | | | | |
| Anhui Zhongding | 000887 CH | NR | 13.88 | na | 2,547 | 13.4 | 11.1 | 21.7% | 1.39 | 10.3% | 7.9 | 6.8 | 1.8% |
| Shandong Linglong Tyre Co Ltd | 601966 CH | NR | 22.81 | na | 4,636 | 15.1 | 12.1 | 25.7% | 1.48 | 9.8% | 9.9 | 8.0 | 2.0% |
| Bridgestone Corp | 5108 JP | NR | 6,935 | na | 31,823 | 12.6 | 11.6 | 10.3% | 1.33 | 11.0% | 5.9 | 5.6 | 3.2% |
| Yokohama Rubber | 5101 JP | NR | 4,058 | na | 4,388 | 8.4 | 8.0 | 8.7% | 0.80 | 10.2% | 6.0 | 5.9 | 2.4% |
| Cie Generale des Etab. | ML FP | NR | 36.83 | na | 28,385 | 11.0 | 10.2 | 11.4% | 1.37 | 11.8% | 5.3 | 5.1 | 4.3% |
| Goodyear Tire & Rubber Co/The | GT US | NR | 12.24 | na | 3,526 | 9.9 | 6.4 | na | 0.71 | 7.1% | 4.9 | 4.3 | 0.0% |
| Apollo Tyres Ltd | APTY IN | NR | 482.7 | na | 3,604 | 15.7 | 13.0 | -29.9% | 1.95 | 13.6% | 6.9 | 7.2 | 1.6% |
| Cheng Shin Rubber Ind | 2105 TT | NR | 48.25 | na | 4,896 | 18.5 | 16.2 | na | 1.78 | 9.8% | 7.7 | 7.4 | 5.0% |
| Hankook Tire & Technology | 161390 KS | Add | 43,750 | 69,000 | 3,988 | 5.0 | 4.4 | na | 0.52 | 11.0% | 1.9 | 1.4 | 2.3% |
| Kumho Tire Co Inc | 073240 KS | NR | 8,190 | na | 1,716 | 9.5 | 9.7 | 18.1% | 1.55 | 18.1% | 5.9 | 5.8 | 0.0% |
| Nexen Tire Corp | 002350 KS | NR | 8,470 | na | 609 | 5.0 | 4.7 | 21.9% | 0.48 | 9.7% | 4.7 | 4.5 | 1.4% |
| Simple average (tyre manufacturers) | | | | | | 11.3 | 9.8 | 11.0% | 1.21 | 11.1% | 6.1 | 5.7 | 2.2% |

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
Note: All forecasts for Not rated companies are based on Bloomberg consensus estimates
Data as of 7 May 2024



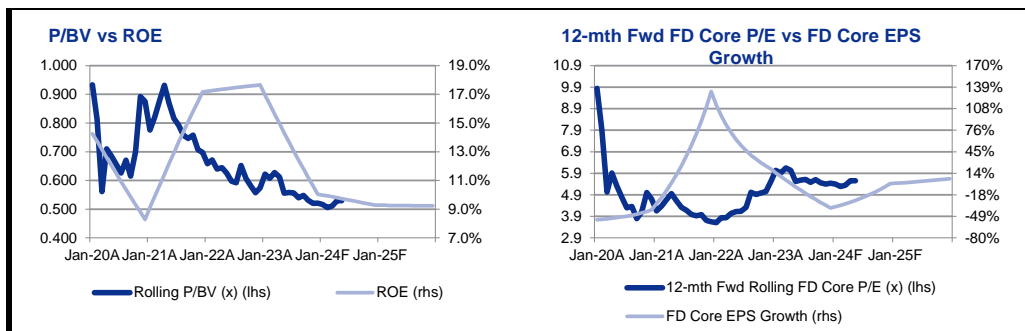
ESG in a nutshell

We find Sunsine’s commitment to environmental protection commendable. The company has been constantly improving its operational efficiencies and environmental protection efforts to stay ahead of government regulations; the company believes this is key to business continuity, given that environmental protection is fast gaining traction in China among policymakers and the public. Its environmental management team comprises more than 123 employees, all well equipped with relevant environmental protection knowledge and experience, including five postgraduate staff specialised in environmental protection.

| | |
|--|--|
| <p>Keep your eye on</p> <p>Over the past 5 years, Sunsine’s gaseous emissions and wastewater discharge have met local emission standards. The group has also recorded zero environmental incidents.</p> | <p>Implications</p> <p>Environmental protection is fast gaining traction in China among policymakers and the public; this has significant implications, especially to the chemicals industry. We believe it is important that Sunsine is fully compliant with national environmental regulations to ensure smooth operations.</p> |
| <p>ESG highlights</p> <p>In FY20, Sunsine added a 20,000-tonne p.a. N-tert-butylbenzothiazole sulphonamide (TBBS) production line in Shanxian. This new TBBS line is the first-ever continuous, fully automated and “green” production line in China’s rubber chemicals industry which, the company claims, has “zero discharge” of wastewater. To reduce its environmental risks and waste treatment cost, Sunsine also acquired Heze Yongshun Environmental Protection Technology Co Ltd, a hazardous waste disposal enterprise, in Jul 2020.</p> | <p>Implications</p> <p>We believe this shows constant R&D efforts by Sunsine to further improve its operational efficiencies and environmental protection efforts to stay ahead of government regulations. Improved cost efficiencies should help Sunsine enjoy cost advantages over peers as well, in our view.</p> |
| <p>Trends</p> <p>Sunsine continuously works on reducing its energy consumption through the use of energy-saving equipment, and adoption of more efficient production methods. In FY23, energy consumption per unit of electricity/steam fell 4%/1% yoy on the back of technological upgrades and replacement of old energy-intensive equipment.</p> | <p>Implications</p> <p>Energy efficiency is part and parcel of environmental protection management. It is crucial for Sunsine to continually invest in this area so that the company is always ahead of government regulations and can ensure business continuity, in our view.</p> |

SOURCES: CGSI RESEARCH

BY THE NUMBERS



Profit & Loss

| (Rmbm) | Dec-22A | Dec-23A | Dec-24F | Dec-25F | Dec-26F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 3,825 | 3,490 | 3,682 | 3,822 | 3,946 |
| Gross Profit | 1,164 | 799 | 822 | 868 | 907 |
| Operating EBITDA | 816 | 520 | 521 | 553 | 580 |
| Depreciation And Amortisation | (163) | (151) | (148) | (151) | (154) |
| Operating EBIT | 653 | 370 | 373 | 401 | 426 |
| Financial Income/(Expense) | 16 | 36 | 38 | 36 | 35 |
| Pretax Income/(Loss) from Assoc. | 0 | 0 | 0 | 0 | 0 |
| Non-Operating Income/(Expense) | 65 | 48 | 45 | 45 | 45 |
| Profit Before Tax (pre-EI) | 734 | 453 | 456 | 482 | 506 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 734 | 453 | 456 | 482 | 506 |
| Taxation | (91) | (81) | (80) | (84) | (89) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 642 | 372 | 376 | 398 | 417 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 642 | 372 | 376 | 398 | 417 |
| Recurring Net Profit | 606 | 382 | 376 | 398 | 417 |
| Fully Diluted Recurring Net Profit | 606 | 382 | 376 | 398 | 417 |

Cash Flow

| (Rmbm) | Dec-22A | Dec-23A | Dec-24F | Dec-25F | Dec-26F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 816.1 | 520.2 | 521.3 | 552.6 | 580.2 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (574.9) | 157.2 | (37.3) | 95.7 | 29.0 |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 20.6 | 49.2 | 45.0 | 45.0 | 45.0 |
| Net Interest (Paid)/Received | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax Paid | (54.3) | (133.3) | (79.8) | (84.4) | (88.5) |
| Cashflow From Operations | 207.5 | 593.3 | 449.2 | 608.8 | 565.6 |
| Capex | (157.3) | (173.9) | (150.0) | (150.0) | (150.0) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing Cashflow | 16.3 | 36.4 | 38.0 | 36.0 | 35.0 |
| Cash Flow From Investing | (141.0) | (137.5) | (112.0) | (114.0) | (115.0) |
| Debt Raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds From Issue Of Shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares Repurchased | (10.6) | (13.7) | 0.0 | 0.0 | 0.0 |
| Dividends Paid | (118.6) | (126.3) | (126.7) | (126.7) | (126.7) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 7.7 | (1.0) | 0.0 | 0.0 | 0.0 |
| Cash Flow From Financing | (121.5) | (141.0) | (126.7) | (126.7) | (126.7) |
| Total Cash Generated | (55.0) | 314.8 | 210.4 | 368.1 | 323.9 |
| Free Cashflow To Equity | 66.5 | 455.8 | 337.2 | 494.8 | 450.6 |
| Free Cashflow To Firm | 66.5 | 455.8 | 337.2 | 494.8 | 450.6 |

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (Rmbm) | Dec-22A | Dec-23A | Dec-24F | Dec-25F | Dec-26F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Cash And Equivalents | 1,365 | 1,688 | 1,898 | 2,266 | 2,590 |
| Total Debtors | 1,382 | 1,265 | 1,311 | 1,257 | 1,243 |
| Inventories | 403 | 341 | 376 | 372 | 375 |
| Total Other Current Assets | 0 | 20 | 20 | 20 | 20 |
| Total Current Assets | 3,150 | 3,315 | 3,606 | 3,916 | 4,228 |
| Fixed Assets | 862 | 864 | 865 | 864 | 860 |
| Total Investments | 0 | 0 | 0 | 0 | 0 |
| Intangible Assets | 213 | 207 | 207 | 207 | 207 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 1,075 | 1,071 | 1,073 | 1,071 | 1,067 |
| Short-term Debt | 0 | 0 | 0 | 0 | 0 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 386 | 364 | 408 | 445 | 463 |
| Other Current Liabilities | 147 | 95 | 95 | 95 | 95 |
| Total Current Liabilities | 533 | 459 | 503 | 540 | 558 |
| Total Long-term Debt | 0 | 0 | 0 | 0 | 0 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 533 | 459 | 503 | 540 | 558 |
| Shareholders' Equity | 3,692 | 3,927 | 4,176 | 4,447 | 4,738 |
| Minority Interests | | | | | |
| Total Equity | 3,692 | 3,927 | 4,176 | 4,447 | 4,738 |

Key Ratios

| | Dec-22A | Dec-23A | Dec-24F | Dec-25F | Dec-26F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 2.68% | (8.75%) | 5.49% | 3.81% | 3.23% |
| Operating EBITDA Growth | 10.8% | (36.3%) | 0.2% | 6.0% | 5.0% |
| Operating EBITDA Margin | 21.3% | 14.9% | 14.2% | 14.5% | 14.7% |
| Net Cash Per Share (Rmb) | 1.41 | 1.75 | 1.97 | 2.35 | 2.69 |
| BVPS (Rmb) | 3.81 | 4.08 | 4.34 | 4.62 | 4.92 |
| Gross Interest Cover | N/A | N/A | N/A | N/A | N/A |
| Effective Tax Rate | 12.4% | 17.8% | 17.5% | 17.5% | 17.5% |
| Net Dividend Payout Ratio | 4.53% | 6.47% | 6.40% | 6.05% | 5.77% |
| Accounts Receivables Days | 118.7 | 138.4 | 128.1 | 122.6 | 115.6 |
| Inventory Days | 52.13 | 50.45 | 45.91 | 46.23 | 44.87 |
| Accounts Payables Days | 70.19 | 50.85 | 49.42 | 52.70 | 54.54 |
| ROIC (%) | 31.8% | 13.0% | 13.7% | 14.5% | 16.1% |
| ROCE (%) | 19.5% | 10.6% | 10.1% | 10.1% | 10.0% |
| Return On Average Assets | 15.4% | 8.0% | 7.6% | 7.6% | 7.6% |

Key Drivers

| | Dec-22A | Dec-23A | Dec-24F | Dec-25F | Dec-26F |
|--|----------|----------|----------|----------|----------|
| Accelerator sales volume (thousand tonnes) | 89.4 | 99.8 | 102.5 | 105.0 | 107.0 |
| Insoluble sulphur sales volume (thousand tonnes) | 37.6 | 40.7 | 43.0 | 46.0 | 48.0 |
| Antioxidants sales volume (thousand tonnes) | 58.1 | 65.1 | 68.0 | 70.0 | 72.0 |
| Accelerator ASP (rmb/tonne) | 22,847.0 | 19,648.5 | 20,238.0 | 20,440.4 | 20,644.8 |
| Insoluble sulphur ASP (rmb/tonne) | 7,917.8 | 6,535.5 | 6,568.2 | 6,601.0 | 6,634.0 |
| Antioxidants ASP (rmb/tonne) | 24,203.4 | 18,315.0 | 18,406.6 | 18,498.6 | 18,591.1 |

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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| | | | | | |
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| Description: | Excellent | Very Good | Good | N/A | N/A |

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| Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2024 | | |
|---|-------------------------|--------------------------------|
| 634 companies under coverage for quarter ended on 31 March 2024 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 65.5% | 1.3% |
| Hold | 24.1% | 0.2% |
| Reduce | 10.4% | 0.3% |

Spitzer Chart for stock being researched (2 year data)

China Sunshine Chemical Holdings (CSSC SP)



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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