

28 November 2024

Financial Services | Banks

AMMB (AMM MK)

Buy (Maintained)

Another Robust Showing; Stay BUY

Target Price (Return): MYR6.50 (+18%)
 Price (Market Cap): MYR5.49 (USD4,090m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 42.9m/9.94m

- **Maintain BUY, TP rises to MYR6.50 from MYR5.90, 18% upside with c.5% FY26F (Mar) yield.** AMMB's 1HFY25 results were broadly in line, with low credit costs and continued NIM strength being the key highlights, in our view. Management's plan to return more capital to shareholders is also materialising nicely, as its interim DPS was a sharp YoY increase on both an absolute and payout percentage basis.
- **Results review.** 2QFY25 net profit of MYR500.6m (flat QoQ, +7% YoY) brought the 1HFY25 total to MYR1.0bn (+22% YoY), which in turn made up 54% and 53% of our and Street FY25F PATMI. YoY, income growth was largely driven by NII (+8%) after a resounding 14bps rise in NIM, while non-Il slid 7% due to lower treasury & markets income. Opex growth was on par with income growth at 5%, so CIR remained largely flat at 45%. The main profit uplift came from loan loss provisions, which saw a 40% decline. All in, 1HFY25 ROA and ROE stood at 1.1% and 10.2%, compared to 1HFY24's 0.9% and 9.3%. The group declared an interim DPS of 10.3 sen, translating to a payout ratio of 34% (1HFY24: 6 sen, 23% payout ratio), which is in line.
- **Defending NIM position is key.** AMMB's liability management strategies allowed it to bring its cost of funds down by 20bps YTD. As a result, 2QFY25 NIM of 1.96% was up 17bps from the FY24 level. Management notes that further funding optimisation is possible to mitigate margin pressure from the seasonal deposit competition, and it hopes to retain FY25F NIM at the 2Q level. Further out, initiatives to optimise assets (focus on higher-yielding loan segments, eg mid-sized corporates, SMEs, hire purchase) and deposits (more sticky retail CASA) mix could allow for more NIM expansion.
- **Asset quality appears stable** with GIL ratio at 1.67% (-3bps QoQ, +2bps YoY), while new impaired loans in 1HFY25 eased 28% YoY. LLC (including regulatory reserves) of 102%, with MYR519m in overlay balance, is adequate – so AMMB sees its 20bps credit cost charge in 1HFY25 as being sustainable.
- **Other highlights.** Loan growth has been rather sluggish YTD (+3% YoY, +1% QoQ), and management aims to end the year's growth at 3-6%. Key growth drivers will be wholesale and business banking, while the bank is also relooking at the hire purchase space due to its better yields vs residential mortgages. Elsewhere, with the foundation internal ratings-based (F-IRB) approach implemented, AMMB's CET-1 ratio inched up to 15.3%, from 13.2% in the previous quarter. Management sees 14% as an optimal CET-1 level, and estimates a minor 3-4bps negative impact from next year's introduction of Basel III reforms on operational RWA.
- **We lift FY25-27 earnings by 4%, 3% and 3%** as we assume lower credit costs – partially offset by softer loan growth in FY25F. Our TP rises to MYR6.50 (from MYR5.90), and includes an unchanged 4% ESG premium.

Analysts

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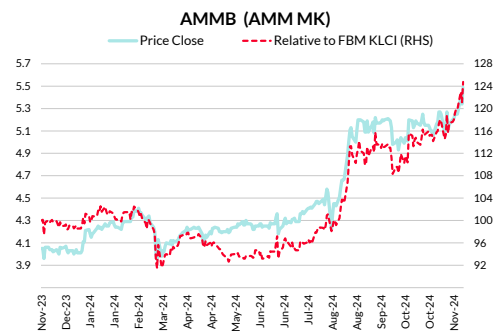


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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|------|-----|------|------|-------|
| Absolute | 36.9 | 6.6 | 7.6 | 28.6 | 35.6 |
| Relative | 26.6 | 7.5 | 10.5 | 29.5 | 24.8 |
| 52-wk Price low/high (MYR) | | | | 3.95 | -5.49 |



Source: Bloomberg

| Forecasts and Valuation | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
|------------------------------|--------|--------|---------|---------|---------|
| Reported net profit (MYRm) | 1,801 | 1,868 | 1,933 | 2,017 | 2,131 |
| Net profit growth (%) | 19.9 | 3.7 | 3.5 | 4.3 | 5.7 |
| Recurring net profit (MYRm) | 1,735 | 1,733 | 1,933 | 2,017 | 2,131 |
| Recurring EPS (MYR) | 0.52 | 0.52 | 0.58 | 0.61 | 0.64 |
| BVPS (MYR) | 5.47 | 5.87 | 6.18 | 6.54 | 6.93 |
| DPS (MYR) | 0.18 | 0.23 | 0.25 | 0.26 | 0.28 |
| Recurring P/E (x) | 10.47 | 10.48 | 9.39 | 9.00 | 8.52 |
| P/B (x) | 1.00 | 0.94 | 0.89 | 0.84 | 0.79 |
| Dividend Yield (%) | 3.3 | 4.1 | 4.5 | 4.8 | 5.0 |
| Return on average equity (%) | 10.3 | 9.9 | 9.7 | 9.6 | 9.5 |

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

AMMB's operational emissions declined 36% in FY24 vs its baseline year of FY19. The group has also identified six high-climate risk sectors to prioritise engagements with, based on its Scope 3 financed emissions data. Its commitment and disclosures on sustainable financing initiatives, however, are sparse.

S: EXCELLENT

AMMB is engaged in numerous programmes to assist MSMEs with capacity building and digitalisation. The bank's employees are decently diverse (62% are women) and well-trained (average of >100 training hours pa).

G: EXCELLENT

AMMB has 86% independence at the Board level, with its sustainability direction overseen by a dedicated Group Sustainability Council. The Group CEO and his direct reportees are also assessed on sustainability-linked performance indicators, among others.

Financial Exhibits

| Asia | Financial summary (MYR) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
|--------------------|--|--------------|--------------|--------------|--------------|--------------|
| Malaysia | EPS | 0.54 | 0.56 | 0.58 | 0.61 | 0.64 |
| Financial Services | Recurring EPS | 0.52 | 0.52 | 0.58 | 0.61 | 0.64 |
| AMMB | DPS | 0.18 | 0.23 | 0.25 | 0.26 | 0.28 |
| AMM MK | BVPS | 5.47 | 5.87 | 6.18 | 6.54 | 6.93 |
| Buy | | | | | | |
| | Valuation metrics | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Recurring P/E (x) | 10.47 | 10.48 | 9.39 | 9.00 | 8.52 |
| | P/B (x) | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| | Dividend Yield (%) | 3.3 | 4.1 | 4.5 | 4.8 | 5.0 |
| | Income statement (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Interest income | 7,424 | 9,051 | 9,144 | 9,665 | 10,222 |
| | Interest expense | (3,926) | (5,747) | (5,591) | (5,859) | (6,202) |
| | Net interest income | 3,498 | 3,304 | 3,553 | 3,807 | 4,020 |
| | Non interest income | 1,040 | 1,116 | 1,401 | 1,450 | 1,523 |
| | Total operating income | 4,538 | 4,420 | 4,954 | 5,257 | 5,544 |
| | Overheads | (1,999) | (2,052) | (2,198) | (2,301) | (2,409) |
| | Pre-provision operating profit | 2,539 | 2,369 | 2,756 | 2,956 | 3,135 |
| | Loan impairment allowances | (344) | (642) | (254) | (347) | (379) |
| | Other impairment allowances | (10) | (207) | (17) | (18) | (18) |
| | Income from associates | 70 | 91 | 43 | 45 | 48 |
| | Other exceptional items | | 135 | | | |
| | Pre-tax profit | 2,255 | 1,745 | 2,527 | 2,637 | 2,786 |
| | Taxation | (513) | 148 | (594) | (620) | (655) |
| | Minority interests | 59 | (25) | - | - | - |
| | Reported net profit | 1,801 | 1,868 | 1,933 | 2,017 | 2,131 |
| | Recurring net profit | 1,735 | 1,733 | 1,933 | 2,017 | 2,131 |
| | Profitability ratios | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Return on average assets (%) | 1.0 | 0.9 | 1.0 | 0.9 | 1.0 |
| | Return on average equity (%) | 10.3 | 9.9 | 9.7 | 9.6 | 9.5 |
| | Return on IEAs (%) | 4.1 | 4.8 | 4.7 | 4.8 | 4.8 |
| | Cost of funds (%) | 2.4 | 3.3 | 3.1 | 3.1 | 3.1 |
| | Net interest spread (%) | 1.7 | 1.5 | 1.6 | 1.6 | 1.6 |
| | Net interest margin (%) | 1.9 | 1.7 | 1.8 | 1.9 | 1.9 |
| | Non-interest income / total income (%) | 22.9 | 25.3 | 28.3 | 27.6 | 27.5 |
| | Cost to income ratio (%) | 44.0 | 46.4 | 44.4 | 43.8 | 43.5 |
| | Credit cost (bps) | 27.5 | 48.6 | 18.6 | 24.2 | 25.0 |
| | Balance sheet (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Total gross loans | 130,227 | 134,130 | 139,237 | 147,513 | 156,281 |
| | Other interest earning assets | 61,471 | 55,222 | 58,085 | 61,097 | 64,266 |
| | Total gross IEAs | 191,698 | 189,353 | 197,322 | 208,610 | 220,547 |
| | Total provisions | (1,984) | (2,028) | (1,986) | (2,012) | (2,071) |
| | Net loans to customers | 128,243 | 132,102 | 137,251 | 145,501 | 154,211 |
| | Total net IEAs | 189,714 | 187,324 | 195,336 | 206,598 | 218,477 |
| | Total non-IEAs | 7,827 | 9,439 | 11,738 | 11,504 | 11,343 |
| | Total assets | 197,541 | 196,764 | 207,074 | 218,102 | 229,820 |
| | Customer deposits | 130,332 | 142,395 | 150,939 | 159,996 | 169,596 |
| | Other interest-bearing liabilities | 45,376 | 30,577 | 31,505 | 32,491 | 33,536 |
| | Total IBLs | 175,707 | 172,972 | 182,445 | 192,487 | 203,132 |
| | Total non-IBLs | 3,698 | 4,350 | 4,132 | 3,926 | 3,729 |
| | Total liabilities | 179,405 | 177,322 | 186,577 | 196,412 | 206,861 |
| | Share capital | 6,376 | 6,376 | 6,376 | 6,376 | 6,376 |
| | Shareholders' equity | 18,135 | 19,441 | 20,496 | 21,689 | 22,957 |
| | Minority interests | 1 | 1 | 1 | 1 | 1 |
| | Asset quality and capital | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Reported NPLs / gross cust loans (%) | 1.5 | 1.7 | 1.7 | 1.6 | 1.6 |
| | Total provisions / reported NPLs (%) | 104.6 | 10.0 | 0.0 | 0.0 | 0.0 |
| | CET-1 ratio (%) | 12.8 | 13.7 | 13.1 | 13.3 | 13.5 |
| | Tier-1 ratio (%) | 12.8 | 13.7 | 13.1 | 13.3 | 13.5 |
| | Total capital ratio (%) | 16.0 | 16.9 | 15.8 | 15.8 | 15.7 |

Source: Company data, RHB

Results At a Glance

Figure 1: AMMB – Summary of 2QFY25 and 1HFY25 results

| FYE Mar (MYRm) | 2Q24 | 1Q25 | 2Q25 | QoQ (%) | YoY (%) | 1H24 | 1H25 | YoY (%) | Comments |
|--|--------------|--------------|--------------|----------|-----------|--------------|--------------|-----------|--|
| Net interest income | 863 | 875 | 1,026 | 17 | 19 | 1,755 | 1,902 | 8 | Largely driven by a 14bps NIM expansion, while loan growth was more muted, at +3% YoY. |
| <i>NIM – reported</i> | 1.82 | 1.89 | 1.96 | | | 1.79 | 1.93 | | |
| Non-interest income | 242 | 271 | 185 | -32 | -24 | 492 | 456 | -7 | Core fees rose 11% YoY in 1HFY25, offsetting the lower treasury and markets income, which was dragged by FX losses of MYR142m in 2QFY25. |
| <i>Non-IT/Total income (%)</i> | 21.9 | 23.6 | 15.3 | | | 21.9 | 19.3 | | |
| Operating Income | 1,106 | 1,146 | 1,212 | 6 | 10 | 2,247 | 2,358 | 5 | |
| Overheads | (493) | (521) | (530) | 2 | 8 | (1,000) | (1,051) | 5 | |
| CIR (%) | 44.6 | 45.4 | 43.7 | | | 44.5 | 44.6 | | Within its guidance of <45%. |
| PIOP | 613 | 626 | 682 | 9 | 11 | 1,246 | 1,307 | 5 | |
| Impairments on financial assets | 43 | 24 | 51 | 111 | 19 | 19 | 75 | 305 | |
| Impairment losses on loans | (56) | (36) | (96) | 163 | 71 | (222) | (132) | -40 | |
| <i>Annualised credit cost (bps)</i> | 17 | 11 | 29 | | | 35 | 20 | | Management aims to keep credit costs below 20bps in FY25. |
| Operating profit | 600 | 613 | 637 | 4 | 6 | 1,043 | 1,250 | 20 | |
| Associates | 18 | 32 | 17 | -48 | -7 | 28 | 49 | 76 | |
| Pretax profit | 618 | 646 | 654 | 1 | 6 | 1,071 | 1,299 | 21 | |
| Tax | (148) | (146) | (153) | | | (248) | (298) | | |
| <i>ETR (%)</i> | 24 | 23 | 23 | | | 23 | 23 | | |
| Minority interest | 0 | 0 | 0 | | | 0 | 0 | | |
| Net profit | 470 | 500 | 501 | 0 | 7 | 822 | 1,001 | 22 | Based on continuing operations. Forms 54% and 53% of our and consensus full-year estimates. |
| Net profit – including discontinued operations | 470 | 500 | 501 | 0 | 7 | 848 | 1,001 | 18 | Includes gains on disposal of a general insurance subsidiary to Liberty Insurance. |
| Other key data and ratios | | | | | | | | | |
| Gross loans | 130,828 | 132,672 | 134,491 | 1 | 3 | | | | YTD loan growth was driven by business banking (+14%), while retail and wholesale banking loans were down 2% and 12%. |
| Customer deposits | 135,324 | 135,479 | 136,314 | 1 | 1 | | | | Of this, fixed deposits slid 2% YoY, while CASA gained 6%. The CASA ratio stood at 34% (Sep 2024: 32%). |
| Gross impaired loans | 2,164 | 2,253 | 2,239 | -1 | 3 | | | | |
| Total assets | 194,465 | 196,180 | 196,946 | 0 | 1 | | | | |
| Shareholders' funds | 18,526 | 20,013 | 19,970 | 0 | 8 | | | | |
| ROAA (%) – calculated | 1.0 | 1.1 | 1.1 | | | 0.9 | 1.1 | | |
| ROAE (%) – calculated | 10.2 | 10.1 | 10.0 | | | 9.3 | 10.2 | | |
| LDR (%) – calculated | 96.7 | 97.9 | 98.7 | | | | | | |
| GIL (%) | 1.65 | 1.70 | 1.67 | | | | | | |
| LLC (%) – calculated | 87.4 | 89.3 | 86.7 | | | | | | |
| CET-1 ratio (%) | 12.7 | 13.2 | 15.3 | | | | | | 2ppt QoQ uplift from the adoption of the F-IRB approach to credit risk |

Note: *Based on reported slides, ^based on internal estimates

Source: Company data, RHB

Management guidance

Figure 2: AMMB – management guidance and financial targets for FY24F

| FYE Dec | FY24 actual | FY25F targets | 1H25 achieved | Comments |
|-----------------------|-------------|---------------|---------------|---|
| Loans growth | 3.0% | 3-6% | +2.8% | 1HFY25 loan growth momentum stalled, partly due to the recalibration of its retail banking underwriting processes and customer-targeting strategies. Moving forward, AMMB sees a healthy pipeline for wholesale and business banking, while it is also looking at penetrating the hire purchase market. |
| Reported CIR | 45.3% | c.44% | 43.6% | Income from associates included in reported figures. 1HFY25 opex of MYR1.05bn is tracking the MYR2.2bn full-year guidance provided in an earlier briefing. |
| Reported credit costs | 52bps | c.20bps | 20bps | |
| Dividend payout | 40% | >40% | 34% | AMMB historically pays out a larger percentage in 4Q. 2QFY25 interim DPS of 10.3 sen reflects a 72% YoY increase. |

Source: Company data, RHB

Earnings forecasts

We lift our FY25F net profit by 4%, and increase the FY26-27F figures by 3%. The changes incorporate:

- More optimistic credit cost assumptions, in line with management's guidance;
- Softer loan growth of 4.5% for FY25F. Our growth assumptions for FY26-27 are maintained, as we expect AMMB's non-retail book – enabled by Malaysia's multi-year thematics and masterplans – to drive growth, in line with its Winning Together strategy;
- A stronger NIM expansion of 4bps (from 3bps) in FY25F, owing to AMMB's continued progress in recalibrating its assets and liabilities mix.

Our DPS forecasts are maintained as AMMB's 1HFY25 interim DPS of 10.3 sen is in line. We expect a 14.2 sen payout in 4Q, which translates to a 50% payout ratio on our 2HFY25F estimates.

Figure 3: AMMB – revisions to earnings forecasts

| FYE Dec | Previous | Previous | Previous | Revised | Revised | New | % Change | % Change | % Change |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY25F | FY26F | FY27F | FY25F | FY26F | FY27F | FY25F | FY26F | FY27F |
| (MYRm) | | | | | | | | | |
| Net interest income | 3,595 | 3,835 | 4,067 | 3,553 | 3,807 | 4,020 | -1.2% | -0.7% | -1.1% |
| Non-interest income | 1,401 | 1,450 | 1,523 | 1,401 | 1,450 | 1,523 | 0.0% | 0.0% | 0.0% |
| Operating expenses | (2,198) | (2,301) | (2,409) | (2,198) | (2,301) | (2,409) | 0.0% | 0.0% | 0.0% |
| PIOP | 2,798 | 2,984 | 3,181 | 2,756 | 2,956 | 3,135 | -1.5% | -0.9% | -1.5% |
| Impairment charges | (417) | (478) | (515) | (271) | (364) | (397) | -35.0% | -23.7% | -22.9% |
| Pretax profit | 2,424 | 2,552 | 2,715 | 2,527 | 2,637 | 2,786 | 4.3% | 3.3% | 2.6% |
| Net profit | 1,854 | 1,952 | 2,077 | 1,933 | 2,017 | 2,131 | 4.3% | 3.3% | 2.6% |
| EPS (MYR) | 0.56 | 0.59 | 0.63 | 0.58 | 0.61 | 0.64 | | | |
| DPS (MYR) | 0.25 | 0.26 | 0.28 | 0.25 | 0.26 | 0.28 | | | |
| Loan growth (%) | 6.0 | 6.0 | 6.0 | 4.5 | 6.0 | 6.0 | | | |
| NIM (%) | 1.93 | 1.96 | 1.96 | 1.92 | 1.96 | 1.96 | | | |
| CIR (%) | 44.0 | 43.5 | 43.1 | 44.4 | 43.8 | 43.5 | | | |
| Credit cost (bps) | 29 | 32 | 32 | 19 | 24 | 25 | | | |

Source: Company data, RHB

Valuation and TP

Our new TP of MYR6.50 (from MYR5.90) is based on a GGM-derived P/BV of 0.96x (from 0.89x). Key changes to our model inputs include:

- i. A higher ROE of 9.8% (from 9.5%), in line with forecast changes;
- ii. A lower cost of equity assumption of 10.0% (from 10.2%) on the continued strong execution of its strategies, particularly with respect to improving capital returns.

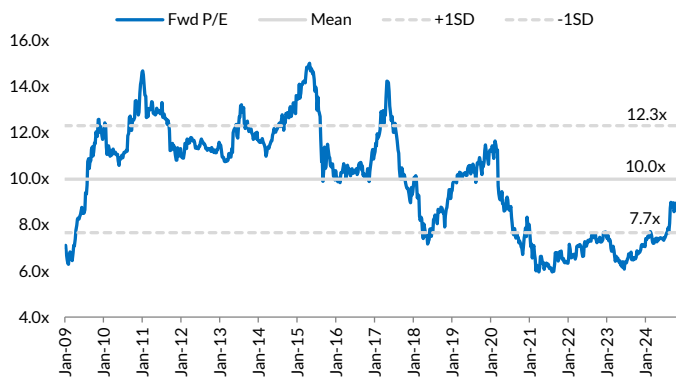
Despite the decent share price run-up YTD (+36%), we still consider AMMB's current P/BV of 0.85x as undemanding, especially when compared to our forecasted 9-10% ROE and management's 11-12% target ROE. Given its focus to grow its non-retail book in the manufacturing, construction and real estate sectors, we think AMMB stands to benefit from Malaysia's multi-year development story. Separately, management's commitment to growing absolute DPS is also materialising nicely – and may continue to drive a further re-rating.

Figure 4: AMMB – GGM valuation with ESG overlay

| | | | |
|--|------|------------------------|----------------|
| Cost of equity (COE) computation: | | Sustainable ROE (%) | 9.8 |
| Risk free rate (%) | 4.0 | COE (%) | 10.0 |
| Equity premium (%) | 5.4 | Long-term growth (g) | 3.5 |
| Beta (x) | 1.1 | Implied P/BV (x) | 0.96 |
| Cost of equity - CAPM (%) | 10.0 | BVPS – CY25F | MYR6.44 |
| | | Intrinsic value | MYR6.20 |
| ESG premium/(discount) (%) | 4.0 | ESG premium/(discount) | MYR0.25 |
| | | TP (rounded) | MYR6.50 |

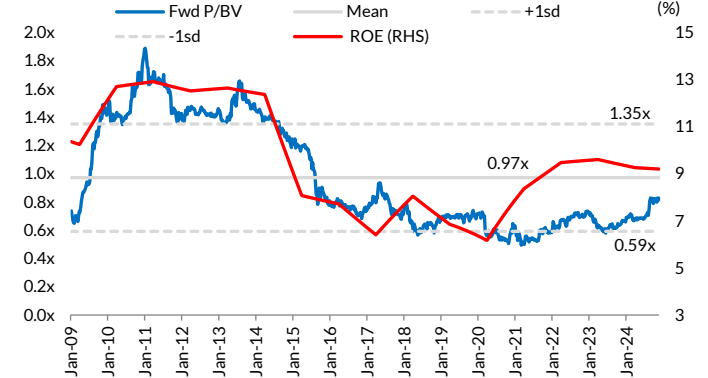
Source: Company data, RHB

Figure 5: AMMB's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: AMMB's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

AMMB's FY24 (Mar) emissions pointed to 36% decline against its FY19 baseline.

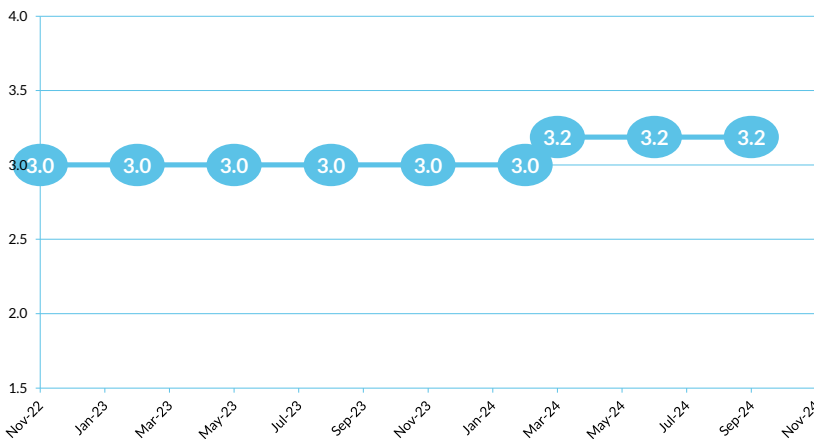
| Emissions (tCO2e) | Mar-22 | Mar-23 | Mar-24 |
|-------------------|--------|--------|--------|
| Scope 1 | 41 | 70 | 65 |
| Scope 2 | 16,013 | 16,806 | 17,368 |
| Scope 3 | 34 | 877 | 1,231 |
| Total emissions | 16,088 | 17,753 | 18,664 |

Source: Company data, RHB

Latest ESG-Related Developments

- Ramping up financing of green property:** AMMB recently announced partnerships with several developers of green-certified development projects - including a MYR450m facility to Eastern & Oriental (EAST MK, BUY, TP: MYR1.38) as well as a MYR130m facility to Avaland (AVALAND MK, NR).
- GVC Programme:** AMMB is the official banker for Kossan Rubber Industries's (KRI MK, BUY, TP: MYR2.60) Greening Value Chain (GVC) programme, which assists SMEs in implementing ESG-related changes to their operations, including helping out in climate reporting.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-08-21 | Buy | 5.90 | 5.11 |
| 2024-06-20 | Buy | 5.50 | 4.18 |
| 2024-05-27 | Buy | 4.90 | 4.27 |
| 2024-03-21 | Buy | 5.00 | 4.12 |
| 2024-02-27 | Buy | 4.80 | 4.30 |
| 2023-11-23 | Buy | 4.70 | 4.00 |
| 2023-08-22 | Buy | 4.20 | 3.73 |
| 2023-05-30 | Buy | 4.50 | 3.57 |
| 2023-02-24 | Buy | 4.60 | 3.91 |
| 2022-12-01 | Buy | 4.80 | 4.20 |
| 2022-08-18 | Buy | 4.60 | 4.07 |
| 2022-06-01 | Buy | 4.40 | 3.72 |
| 2022-02-27 | Buy | 4.00 | 3.43 |
| 2021-11-28 | Buy | 3.90 | 3.15 |
| 2021-08-31 | Buy | 3.50 | 3.03 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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