

Anta Sports (2020 HK)

Nothing new from the short seller

SUMMARY. BUY and raised TP to HK\$ 55.53, based on 25x FY20E P/E (fine-tuned from 24x as we foresee a faster FY19E growth). We believe short seller had nothing new to offer and the Company had explained the matter well once again. With better-than-expected FILA growth momentum and Anta e-commerce coming back in 2Q19E, we remained positive on Anta's 1H19E result.

- **FILA China sales accounting well explained by management.** We believe short seller Blue Orca's major arguments are nothing new vs others in the past (e.g. last year's GMT) and the assumptions are incorrect. Anta's management provided solid and professional responses on FILA China:
 - #1: Reported sales in FY18 higher than FILA Korea's wholesale sales,
 - #2: Reported sales in FY17 higher than SAIC's record,
 - #3: Sales per store higher than FILA Taiwan/ Korea and Nike/ Adidas China
 - #4: Frequency change of CFOs and INEDs.
- **Chip Wilson (founder of Lululemon and now retired) invested in Anta with a premium.** He subscribed to 15.842mn new shares (0.59% of enlarged shares capital), at HK\$49.11 (~5% premium to last closing price) for HK\$ 778mn. According to Anta, he wanted to invest more in Amer Sports but could not. Following months of co-working with the team, he decided to buy into Anta to strengthen the relationship. Also, Anta does not want to dispose old shares and the whole process taken around one month.
- **2Q19E retail trend on track, Anta e-commerce normalized while FILA's momentum sustained.** We expect Anta/ FILA retail sales growth in 2Q19E to be mid-teens/ 50% (vs low-teens/ 70% in 1Q19). Anta's management stressed that Anta's E-commerce growth could resume with better margins in 2Q19E after contract renegotiation with VIPS while FILA China sales growth in 1H19E could still be supported by rapid store openings in 2H18.
- **Maintain BUY and raised TP to HK\$ 55.53.** We maintain BUY and raised TP to HK\$ 55.53, based on 25x FY19E P/E (lifted from 24x, thanks to faster EPS growth in FY19E), implying a 1.2x 3 years PEG. The counter is attractive, at 21.6x P/E or 1.0x PEG. We adjusted our FY19E/20E/21E EPS estimates by +2.5%/+0.1%/-0.1%, to factor in 1) stronger-than-expected FILA growth momentum in 1H19E, 2) slower Anta E-commerce sales growth in 1Q19 but better margins and 3) higher finance and M&A related costs due to Amer Sports acquisition.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,692	24,100	30,039	35,946	41,782
YoY growth (%)	25.1	44.4	24.6	19.7	16.2
Net income (RMB mn)	3,088	4,103	5,257	6,263	7,297
EPS (RMB)	1.360	1.733	2.221	2.646	3.083
YoY growth (%)	28.3	27.4	28.1	19.1	16.5
P/E (x)	35.3	27.7	21.6	18.1	15.6
P/B (x)	7.6	6.9	5.7	4.8	4.2
Yield (%)	2.0	1.6	1.9	2.2	4.5
ROE (%)	25.5	26.6	29.0	28.8	28.9
Net gearing (%)	Net cash	Net cash	1.9	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$55.53
(Previous TP	HK\$52.00)
Up/Downside	+15.7%
Current Price	HK\$48.00

China Sportswear Sector

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Stock Data	
Mkt Cap (HK\$ mn)	128,897
Avg 3 mths t/o (HK\$ mn)	339.30
52w High/Low (HK\$)	59.4/29.05
Total Issued Shares (mn)	2,701.2

Source: Bloomberg

Shareholding Structure	
Mr. Ding Shizhong (CEO), Mr.	62.06%
Ding Shijia (V-Chairman), Mr.	
Lai Shixian (CFO) & Family	
Free Float	37.94%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.6%	-4.9%
3-mth	2.5%	9.7%
6-mth	35.0%	33.0%
12-mth	2.6%	16.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

1. Anta Sports (2020 HK) - A conservative but reasonable guidance for FY19E - 27 Feb 2019
2. China Sportswear and Apparel sector - Premium, digital driven growth: top domestic brands be the winners - 23 Jan 2019

Management conference call transcript

Responses to the short sell PPT

Mgmt: We believe Blue Orca had made some very fundamental mistakes about the operation of our company, and we would like to clarify 4 points.

1) On the FILA China revenue, reported by FILA Korea.

Blue Orca claimed that the gap between our FILA China revenue (RMB 8.4bn, 35% of the RMB 24 bn in FY18) and China wholesales reported by FILA Korea (RMB 4.6bn) was all inflated sales.

Mgmt: Anta / FILA Korea owns 85%/ 15% of Full prospect, a company that has the trademark right of FILA China (including HK and Macau), this company focuses on wholesale. But other than this one, there is another, which focuses on retail operation, 100% owned by Anta.

We believe the assumptions it made are wrong, says:

- 1) FILA E-commerce sales is a direct retail business, which is not under Full prospect,
- 2) Wholesale discount is not at 50% off, in fact, it is very similar to Anta's (~60% off)
- 3) FILA's sell thru rate is much better than the 70% that they assumed (CMBI est. ~78%), thanks to our first-class execution skills acquired through years of operation (since 2013).

The only one they are reasonable is the retail sales discounts, at 20% off.

If you use the right assumptions, you will get the appropriate number (RMB 8.4bn in FY18) for FILA China.

2) On the FILA China revenue, reported by SAIC (State Administration for Industry and Commerce/ 国家工商总局)

Blue Orca claimed that the gap between our FILA China revenue (RMB 4.5bn, 25% of RMB 16.9bn in FY17) and numbers reported by SAIC (RMB 2.59bn in FY17) was also inflated sales.

Mgmt: We believe they are wrong these two items are not measuring the same thing. We have to adjust the following items:

- 1) FILA E-commerce sales and overseas sales (HK and Macau) were not included in this SAIC number, so after deduction, RMB 4.2bn would become RMB 3.0bn plus,
- 2) also, SAIC's numbers calculation is based on the VAT invoice, so there exist a 1-2 months delay,
- 3) SAIC's numbers also didn't capture the rental expenses (rental take rates) to the landlord, as those will be deducted first under the turnover rent structure.

Therefore, after all these adjustments, it should result in a similar number of RMB 2.59bn in FY17.

3) On the FILA store productivity, which is much higher than FILA Taiwan/ Korea and Nike/ Adidas

Blue Orca claimed FILA China's sale per store was inflated, as it is 30%/130% higher than that of FILA Korea/ Taiwan. It also claimed that a higher than Nike/ Adidas sales per store for FILA China is not reasonable.

Mgmt: We believe it has limited knowledge on our business, and think we are only a wholesaler/ distributor of FILA Korea, which is entirely not true.

We have the trademark right in China (also HK and Macau), therefore having an entirely different product portfolio with much more premium brand/ price positioning (than FILA Korea/ Taiwan). This would result in higher ASP and higher sales per store. Anta also have been focusing on the premium segment (higher than Nike/ Adidas's ASP) and Tier 1 & 2 cities (about 80-90% stores are in T1&2, vs only 40-50% for Nike/Adidas). Moreover, Nike/Adidas does have many stores which is relatively old and therefore it is understandable that average sales per store may not be particularly good.

Therefore it is normal for FILA China to have a higher ASP, higher sales per store and higher sales per sq.m as well (than Nike/Adidas China).

4) On the change of INEDs (Independent non-executive directors) and CFOs

Blue Orca claimed that Anta had 3 different CFOs in less than 3 years.

Mgmt: We believe Blue Orca had cherry picked information which is favourable to its argument since we only have 3 CFOs in over the last 13 years. Our first CFO, Paul was with the company for a long period and had departed due to family reason, our second CFO had left due to his career reason, our third and current CFO is Mr. Lai, who had been with the Company since its IPO.

In addition, the two INEDs who had recently left have been with Anta for long (10+ years). Noted that they were not voluntarily resigned, it was our decisions to have replacements for them. Some overseas investors believe they might have lost their independence follow years of relationship and suggested us to have a change. One of the new INED was the ex-Chairman of KPMG and INED of China mobile. Another new INED is an expert in logistics, he would also provide us useful and valuable advises.

About the 1H19 reporting date.

Mgmt: *1H19 result will be in late-Aug, vs the early-Aug in the past, because:*

- 1) this is the first time Amer Sports result would be included,
- 2) Even on late-Aug, Amer Sports will not be delisted yet, in order to be comply, Finland EY will still be the auditor of Amer Sports (Amer Sports cannot change their Auditor until they are delisted), this interim report will be a product of 3 parties (Finland EY, Hong Kong KPMG and China KPMG), we would like to provide more time and buffer for them to prepare well the interim report.

Q&A

Q1 which subsidiary(s) did Anta book the FILA China sales (RMB 8.4bn) in, what are the names of it?

Mgmt: We / FILA Korea have 85% / 15% of Full prospects, which is a Wholesale company. It owns 3 / 1 subsidiaries outside/ inside China. Revenue of this company would probably at RMB 4.6 bn in FY18. But apart from this, we have another Company, which focus on the retail operation and we owned 100% of its shares. The FILA wholesale company (Anta owned 85%) will sell products to the FILA retail company (100% Anta owned). And there should be a lot of subsidiaries under the FILA retail company because we will open 1 subsidiary for each single store in China.

Q2 We have used the TianYanCha.com to check the companies under Full Prospect and see there are around 300 stores in China, and you are right, addresses of many subsidiaries are inside the shopping mall, why is that the case?

Mgmt: Theoretically speaking, we will have 1 subsidiary for 1 single retail store. We have many retail companies, which could be in Ningbo, Shanghai, etc, perhaps you have not checked all. We did actually disclose the names of our FILA China's subsidiaries in our annual report (page 6 and page 146 and 147, in the FY18 annual report).

There are 3 overseas companies:

- #1: Motive Force E-commerce, which is in Hong Kong,
- #2: FILA marketing, which is in Hong Kong, under that, we have FILA Macau, also a retail company in Macau,
- #3: Movie Force E-commerce, which is in Singapore.

And there are companies in China:

- #1: FILA style, which is owned 100% by us, and the business focus is retailing of Sporting goods

Of course, it also included the Full Prospectus Sports Limited, which is clearly stated as an investment company and we owned 85%, as well as FILA PRC and Xiamen FILA Sports, which are focusing on trading of sporting goods and we also owned 85%.

Q3 Can you talk about why Chip Wilson want to invest in Anta? Was it a coincident, or it was a response to the Short Sell PPT? and why did he not buying it in the secondary market and why not buying old shares from Mr. Ding?

Mgmt: His investment into the Company is not a response to the Short Sell report. Even if we want to, it would impossible to have done that in such a short time (from lunch time y'day to this morning).

The processing time for this matter was around 1 month. We have worked together on Amer Sports and he wanted to buy more into it, but couldn't (his stake was at 21%), so he had talked about investing in Anta instead. We told him that perhaps he can buy it in the secondary market, as we have no intention to sell more old shares. But he thinks it would be too clumsy as the daily turnover is not enough, so we agreed to sell new shares to him.

We actually planned to release this statement in the afternoon today, but due to the SS PPT y'day, we have speeded it up a little bit, so now releasing it in the morning today.

Q4 Can you talk about the recent retail operation performance in Apr and May 2019?

Mgmt: The performance of Anta and FILA was rather inline with our expectation so far. April, to be honest, the retail environmental (industry as well in that case) was not that good. But, May, was rather good. FILA sales was particularly good, its momentum is still encouraging, our previous guidance is very comfortable because many of stores were being opened in 2H18, hence growth should not be slowed down sharply in 1H19.

We will closely monitor the retail environment and apply appropriate strategies accordingly.

Q5 Will Chip Wilson have a broad seat in the Company?

Mgmt: No, he will not have a broad seat in Anta Sports.

and therefore, he will not be involved in the developments of Anta and FILA?

Mgmt: Since we are always working together on Amer, we talked a lot, Anta and FILA are certainly one of the topics, including, how anta become more international etc.

Therefore, if he does have some ownership in Anta, then he would be more active and provides better advises as well.

We reckoned that he is a very talented person, has great passion on brand management. He also likes the Anta brand a lot. We will meet very often in the future. But of course, he would be more into the Amer Sports in this stage.

Q6 Will Anta revise up FILA's stores opening guidance (300 stores For FILA Classic, FILA Fusion and FILA kids in 2019) as the momentum is now, still, very strong?

Mgmt: We will revise our guidance after the 2Q19 is finalized but the current performance is good.

We have to be careful with our store expansion plan as we would like to assure our premium positioning of our brand, our products and our stores.

Q7 If the store growth of FILA continue to slow down in the future? will the focus of our growth strategy for FILA shift to E-commerce?

Mgmt: Online sales for FILA was relatively less, as % of total retail sales (~10%, CMBI est. in FY18) vs Anta (~ 19% (CMBI est. in FY18). It was because we used it mainly for a channel to destock our off-season inventory. We will surely focus more or being more proactive on FILA's E-commerce sales in the future.

On Anta brand E-commerce sales.

Mgmt: On Anta slowdown of online growth in 1Q19 (only mid-teens), comparing to 4Q18 (over 25%), was mainly due to our renegotiation of terms and contract with VIP shops. We believe the impact has ended now and our E-commerce sales growth in 2Q19E should return to normal. Also, perhaps you may refer to the news talking about our performance in 2Q19E with VIP shops lately. On some days, Anta brand sales on VIPS platform had surged by 148% YoY. (<https://news.futunn.com/stock/7199182?src=3>).

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	30,039	35,946	41,782	29,644	35,520	41,693	1.3%	1.2%	0.2%
Gross profit	16,005	19,317	22,623	15,765	19,054	22,534	1.5%	1.4%	0.4%
EBIT	7,484	9,063	10,444	7,021	8,510	9,924	6.6%	6.5%	5.2%
Reported Net profit	5,257	6,263	7,297	5,127	6,259	7,301	2.5%	0.1%	-0.1%
Diluted EPS (RMB)	1.955	2.329	2.713	1.906	2.327	2.714	2.5%	0.1%	-0.1%
Gross margin	53.3%	53.7%	54.1%	53.2%	53.6%	54.0%	0.1ppt	0.1ppt	0.1ppt
EBIT margin	24.9%	25.2%	25.0%	23.7%	24.0%	23.8%	1.2ppt	1.3ppt	1.2ppt
Net profit att. margin	17.5%	17.4%	17.5%	17.3%	17.6%	17.5%	0.2ppt	-0.2ppt	0ppt

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	30,039	35,946	41,782	29,719	35,494	41,659	1.1%	1.3%	0.3%
Gross profit	16,005	19,317	22,623	15,828	19,154	22,777	1.1%	0.8%	-0.7%
EBIT	7,484	9,063	10,444	7,044	8,480	9,875	6.3%	6.9%	5.8%
Net profit att.	5,257	6,263	7,297	5,145	6,246	7,379	2.2%	0.3%	-1.1%
Diluted EPS (RMB)	1.955	2.329	2.713	1.924	2.323	2.736	1.6%	0.2%	-0.8%
Gross margin	53.3%	53.7%	54.1%	51.2%	52.2%	52.5%	2.1ppt	1.5ppt	1.6ppt
EBIT margin	24.9%	25.2%	25.0%	12.2%	13.4%	13.5%	12.7ppt	11.8ppt	11.5ppt
Net profit att. margin	17.5%	17.4%	17.5%	8.3%	9.2%	9.4%	9.2ppt	8.2ppt	8.1ppt

Source: Company data, CMBIS estimates

Assumption

Figure 3: Anta's key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (Rmb mn)					
Shoes	7,049	8,631	10,444	12,376	14,356
Apparels	9,116	14,709	18,760	22,618	26,416
Accessories	528	759	835	952	1,009
Total	16,692	24,100	30,039	35,946	41,782
Sales by segment growth (%)					
Shoes	17.5%	22.5%	21.0%	18.5%	16.0%
Apparels	32.4%	61.4%	27.5%	20.6%	16.8%
Accessories	14.9%	43.9%	10.0%	14.0%	6.0%
Total	25.1%	44.4%	24.6%	19.7%	16.2%
Sales by brand growth (%)					
Anta	4.0%	13.8%	7.5%	2.0%	2.0%
Anta Kids	25.0%	29.0%	30.0%	25.0%	20.0%
FILA	55.0%	100.0%	35.0%	25.0%	20.0%
Descente & Others	100.1%	260.9%	50.0%	35.0%	25.0%
E-commerce	70.0%	45.0%	35.0%	35.0%	25.0%
Total	25.1%	44.4%	24.6%	19.7%	16.2%
Sales network					
Anta	7,258	7,271	7,311	7,371	7,451
Anta Kids	2,209	2,786	2,936	3,136	3,316
FILA	1,086	1,652	1,952	2,202	2,432
Descente & Others	529	479	564	724	919
Total	11,082	12,188	12,763	13,433	14,118
GP margins	49.4%	52.6%	53.3%	53.7%	54.1%
Opex breakdown					
A&P Expenses / sales	10.6%	12.1%	12.3%	12.0%	11.9%
Labour costs / sales	12.0%	10.9%	10.8%	10.9%	11.0%
R &D expenses / sales	5.7%	5.2%	5.2%	5.3%	5.5%
Rental expenses/ sales	5.4%	7.2%	8.4%	8.8%	9.2%
Selling & distribution costs / sales	22.8%	27.1%	26.1%	26.2%	26.6%
Admin expenses / sales	5.4%	5.1%	5.0%	5.2%	5.3%
OP margin	23.9%	23.7%	25.0%	25.1%	24.9%
Effective tax rate	26.7%	26.6%	26.5%	26.0%	26.0%
NP att. margin	18.5%	17.0%	17.5%	17.4%	17.5%
NP att. growth (%)	29.4%	32.9%	28.1%	19.1%	16.5%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (Rmb mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (Rmb mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,692	24,100	30,039	35,946	41,782	EBIT	4,156	5,592	7,484	9,063	10,444
Footwear	7,049	8,631	10,44	12,37	14,35	D & A	234	278	351	446	521
Apparel	9,116	14,70	18,76	22,61	26,41	Change in working capital	1	866	(449)	(446)	(437)
Accessories	528	759	835	952	1,009	Income tax paid	(1,013)	(1,288)	(1,958)	(2,273)	(2,648)
Cost of goods sold	(8,451)	(11,413)	(14,034)	(16,629)	(19,158)	Others	(196)	(1,008)	203	191	252
Gross profit	8,241	12,687	16,005	19,317	22,623	Net cash from operating	3,181	4,440	5,630	6,980	8,131
Other income	625	652	823	1,021	1,136	Capex & investments	(675)	(1,319)	(14,111)	(1,006)	(752)
Operating expenses	(4,710)	(7,748)	(9,344)	(11,275)	(13,316)	Associated companies	-	-	-	-	-
D & A	(146)	(175)	(219)	(274)	(315)	Interest received	-	-	-	-	-
Staff costs	(942)	(1,238)	(1,598)	(1,914)	(2,258)	Others	(903)	118	-	-	-
S & D costs (ex-staff,	(3,122)	(5,639)	(6,658)	(8,036)	(9,525)	Net cash from investing	(1,579)	(1,201)	(14,111)	(1,006)	(752)
Admin exp. (ex-staff,	(281)	(440)	(549)	(669)	(774)	Equity raised	3,435	4	-	-	-
Other operating	(219)	(256)	(319)	(382)	(444)	Net change in bank loans	148	1,165	6,500	-	-
EBIT	4,156	5,592	7,484	9,063	10,444	Dividend paid	(1,937)	(2,425)	(2,008)	(2,359)	(4,175)
Finance costs, net	155	175	(95)	(319)	(257)	Others	(1,649)	119	(298)	(509)	(509)
JVs & associates	-	-	-	-	-	Net cash from financing	(2)	(1,136)	4,194	(2,868)	(4,685)
Exceptional	-	-	-	-	-	Net change in cash	1,601	2,102	(4,287)	3,106	2,694
Pre-tax profit	4,311	5,767	7,389	8,744	10,186	Beginning cash balance	5,830	6,968	9,284	4,997	8,102
Income tax	(1,152)	(1,533)	(1,958)	(2,273)	(2,648)	Exchange difference	(463)	214	-	-	-
Less: Minority interests	71	131	174	207	241	Cash at the end of the year	6,968	9,284	4,997	8,102	10,797
Net profit	3,088	4,103	5,257	6,263	7,297						

Balance sheet

YE Dec 31 (Rmb mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	3,632	5,090	18,851	19,411	19,643	Sales mix (%)					
Fixed asset	1,203	1,787	2,586	3,183	3,446	Footwear	42.2	35.8	34.8	34.4	34.4
Intangible assets &	1,136	1,170	1,132	1,095	1,064	Apparel	54.6	61.0	62.5	62.9	63.2
Prepaid lease payments	105	367	13,367	13,367	13,367	Accessories	3.2	3.2	2.8	2.6	2.4
Interest in joint ventures	-	-	-	-	-	Total	100.0	100.0	100.0	100.0	100.0
Other non-current assets	1,188	1,766	1,766	1,766	1,766	P&L ratios (%)					
Current assets	15,442	19,284	16,805	21,705	26,163	Gross margin	49.4	52.6	53.3	53.7	54.1
Cash and cash equivalents	6,968	9,284	4,997	8,102	10,797	Operating margin	24.9	23.2	24.9	25.2	25.0
Inventories	2,155	2,892	3,557	4,215	4,856	Pre-tax margin	25.8	23.9	24.6	24.3	24.4
Trade and other	3,733	4,638	5,781	6,918	8,041	Net margin	18.5	17.0	17.5	17.4	17.5
Prepayments	-	-	-	-	-	Effective tax rate	26.7	26.6	26.5	26.0	26.0
Other current assets	2,586	2,470	2,470	2,470	2,470						
Current liabilities	4,498	7,548	15,406	16,755	18,082	Balance sheet ratios					
Bank loans	148	1,244	7,744	7,744	7,744	Current ratio (x)	3.4	2.6	1.1	1.3	1.4
Trade payables	1,447	1,792	2,204	2,611	3,009	Quick ratio (x)	3.0	2.2	0.9	1.0	1.2
Accruals & other payables	2,531	3,841	4,788	5,729	6,659	Cash ratio (x)	155	123	32	48	60
Tax payables	353	650	650	650	650	Inventory turnover days	93	93	93	93	93
others	19	21	21	21	21	Trade receivables days	82	70	70	70	70
Non-current liabilities	215	306	306	306	306	Trade payables days	62	57	57	57	57
Bank loans	-	70	70	70	70	Total debt / total equity	1	8	40	33	29
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	Net cash	Net cash	2	Net cash	Net cash
Deferred tax	215	236	236	236	236	Returns (%)					
Others	-	-	-	-	-	ROE	21.5	24.8	26.6	26.5	27.2
Minority Interest	-	-	174	381	622	ROA	16.2	16.8	14.7	15.2	15.9
Total net assets	14,361	16,520	19,769	23,674	26,795	Per share					
Shareholders' equity	14,361	16,520	19,769	23,674	26,795	EPS (Rmb)	1.15	1.53	1.95	2.33	2.71
						DPS (Rmb)	0.81	0.69	0.78	0.93	1.90
						BVPS (Rmb)	5.35	6.15	7.36	8.82	9.98

Source: Company data, CMBIS estimates

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