

# Xiaomi (1810 HK)

## Corp Day Takeaways: smartphone destocking to continue into 4Q22E

We spoke to Xiaomi's mgmt. in our Corporate Day on 29 Nov, and investors are interested in 1) smartphone industry destocking progress, 2) business update in overseas markets, 3) AIoT strategy and product roadmap, 4) overseas internet business and 5) R&D investment in EV and new initiatives. Overall, we expect Xiaomi's global share gain in smartphone to resume in 2023E despite soft market outlook. Trading at 16.7x FY23E P/E, the stock offers an attractive risk-reward. Maintain BUY with TP of HK\$12.28 based on 20x FY23E P/E.

- China smartphone inventory returned to healthy level while overseas destocking continues.** Thanks to 618 and Double 11 festival sales, Xiaomi's inventory level in China returned to healthy level in 3Q22, while destocking process will continue in overseas markets during 4Q festival season (e.g. Black Friday, Xmas). Looking into 2023, mgmt. expected muted smartphone outlook given macro uncertainties, inflation in overseas markets, and recent COVID-19 impact on China offline sales channels.
- Near-term headwinds for AIoT business but positive outlook in the long run.** AIoT business softened in 3Q22 mainly due to rising inflation in EU which impacted key products such as scooters, while China sales remained resilient driven by smart TV, white goods and Pads products. Overall, we are confident in Xiaomi's AIoT sales recovery in China and expansion in overseas product portfolio in 2023E.
- Commitment in R&D investment and positive progress on EV business.** Mgmt. reiterated Xiaomi's commitment to invest RMB100bn in R&D in next 5 years, as announced previously. Company expected R&D expense on smart EV to ramp up sequentially in 4Q22E and FY23E, focusing on R&D headcounts and CAPEX into plants/facilities.
- Attractive risk/reward; Maintain BUY.** While 4Q22 demand will remain sluggish, we believe most negatives have been priced in and sequential macro recovery will be the positive catalyst in 4Q22E. Current valuation at 16.7x FY23E P/E is close to 1-sd below 3-yr avg. P/E at 15.9x. Maintain BUY with TP of HK\$12.28, based on 20.0x FY23E P/E. Catalysts include smart EV progress, product launch and market share gain.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	245,866	328,309	286,870	308,047	346,419
YoY growth (%)	19.4	33.5	(12.6)	7.4	12.5
Adjusted net profit (RMB mn)	13,006.4	22,039.5	8,878.4	13,734.1	15,554.5
EPS (Adjusted) (RMB)	0.54	0.88	0.36	0.55	0.62
Consensus EPS (RMB)	na	na	0.37	0.55	0.67
P/E (x)	17.4	26.8	25.8	16.7	14.7
P/B (x)	2.9	3.8	1.7	1.5	1.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.8	14.8	0.5	8.5	8.9
Net gearing (%)	60.4	96.0	70.3	79.3	54.1

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$12.28**

(Previous TP) **HK\$12.28**

**Up/Downside** **23.2%**

**Current Price** **HK\$9.97**

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### Stock Data

Mkt Cap (HK\$ mn)	202,809.7
Avg 3 mths t/o (HK\$ mn)	9.7
52w High/Low (HK\$)	19.66/8.45
Total Issued Shares (mn)	20342.0

Source: FactSet

### Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

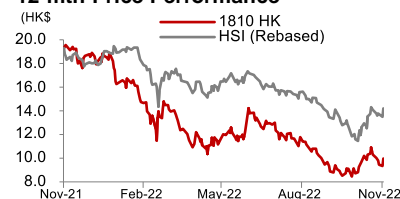
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	14.3%	-6.7%
3-mth	-12.5%	-3.8%
6-mth	-14.1%	-0.3%

Source: FactSet

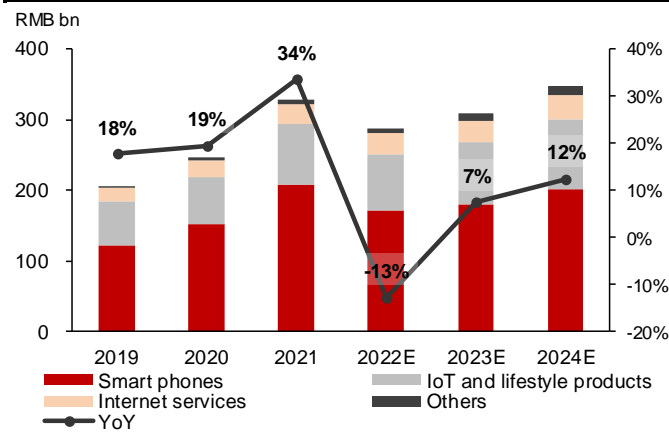
### 12-month Price Performance



Source: FactSet

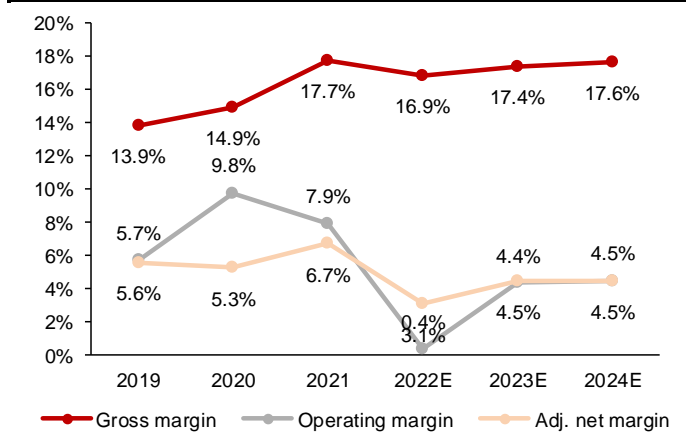
## Focus Charts

Figure 1: Xiaomi revenue trend



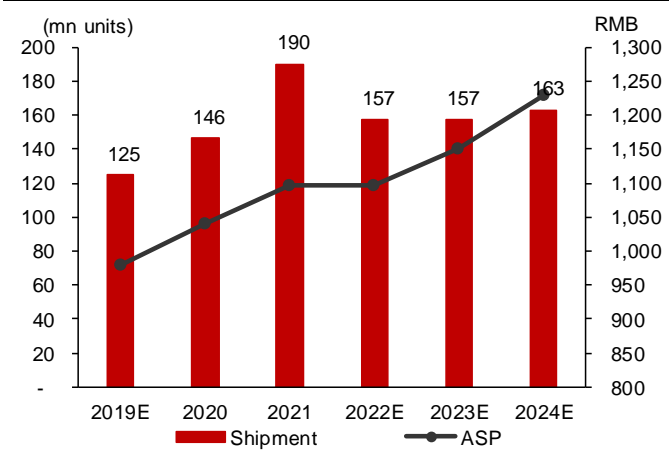
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



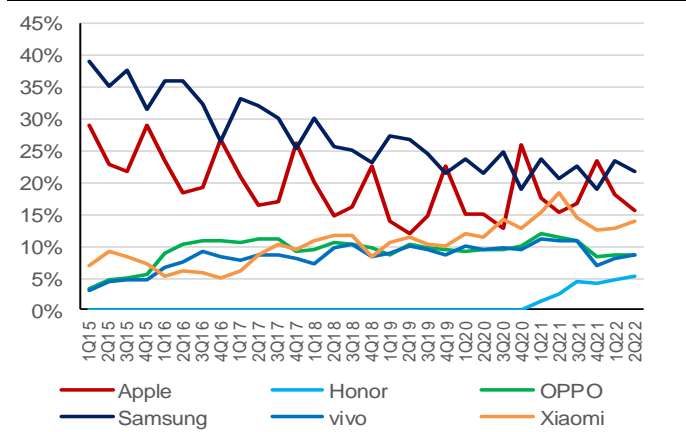
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

Figure 4: Global smartphone market share



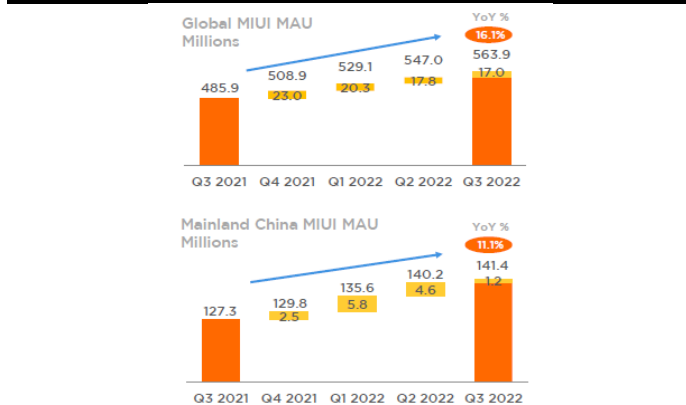
Source: IDC, CMBIGM estimates

Figure 5: Xiaomi's leadership in major markets



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

Figure 7: P&amp;L forecast

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>328,309</b>	<b>73,352</b>	<b>70,171</b>	<b>70,474</b>	<b>72,874</b>	<b>286,870</b>	<b>308,047</b>	<b>346,419</b>
...YoY	34%	-5%	-20%	-10%	-15%	-13%	7%	12%
Cost of sales	(270,048)	(60,642)	(58,403)	(58,752)	(60,706)	(238,503)	(254,397)	(285,330)
<b>Gross profit</b>	<b>58,261</b>	<b>12,710</b>	<b>11,768</b>	<b>11,722</b>	<b>12,168</b>	<b>48,367</b>	<b>53,650</b>	<b>61,089</b>
GPM (%)	17.7%	17.3%	16.8%	16.6%	16.7%	16.9%	17.4%	17.6%
...YoY	59%	-10%	-22%	-18%	-17%	-17%	11%	14%
SG&A	(25,720)	(6,501)	(6,648)	(6,138)	(7,725)	(27,011)	(25,568)	(28,753)
...% of rev	-7.8%	-8.9%	-9.5%	-8.7%	-10.6%	-9.4%	-8.3%	-8.3%
R&D	(13,167)	(3,495)	(3,763)	(4,070)	(2,915)	(14,243)	(14,478)	(16,628)
...% of rev	-4.0%	-4.8%	-5.4%	-5.8%	-4.0%	-5.0%	-4.7%	-4.8%
<b>Operating profit</b>	<b>26,029</b>	<b>(911)</b>	<b>1,733</b>	<b>(1,361)</b>	<b>1,567</b>	<b>1,028</b>	<b>13,431</b>	<b>15,536</b>
OPM (%)	7.9%	-1.2%	2.5%	-1.9%	2.2%	0.4%	4.4%	4.5%
...YoY	8%	-111%	-84%	-150%	-65%	-96%	1207%	16%
<b>Adj. net profit</b>	<b>22,039</b>	<b>2,859</b>	<b>2,081</b>	<b>2,117</b>	<b>1,930</b>	<b>8,878</b>	<b>13,734</b>	<b>15,554</b>
NPM (%)	6.7%	3.9%	3.0%	3.0%	2.6%	3.1%	4.5%	4.5%
...YoY	69%	-53%	-67%	-59%	-57%	-60%	55%	13%

Source: Company data, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
<b>Smart phones</b>	<b>208,869</b>	<b>45,763</b>	<b>42,268</b>	<b>42,514</b>	<b>41,936</b>	<b>172,481</b>	<b>180,967</b>	<b>200,766</b>
...YoY	37%	-11%	-28%	-11%	-17%	-17%	5%	11%
Shipment (000')	190,300	38,500	39,100	40,200	39,562	157,362	157,362	163,224
...YoY	30%	-22%	-26%	-8%	-10%	-17%	0%	4%
ASP (RMB)	1,098	1,189	1,082	1,058	1,060	1,096	1,150	1,230
...YoY	5.6%	14.0%	-3.1%	-3.0%	-7.3%	-0.1%	4.9%	7.0%
<b>IoT and lifestyle products</b>	<b>84,980</b>	<b>19,477</b>	<b>19,812</b>	<b>19,059</b>	<b>20,992</b>	<b>79,339</b>	<b>87,273</b>	<b>100,079</b>
...YoY	26%	7%	-4%	-9%	-16%	-7%	10%	15%
Smart TVs and laptops	27,993	6,200	5,300	5,800	8,604	25,904	28,494	32,484
...YoY	25%	11%	-12%	-2%	-18%	-7%	10%	14%
Other IoTs	56,987	13,277	14,512	13,259	12,388	53,435	58,779	67,596
...YoY	27%	5%	-2%	-12%	-15%	-6%	10%	15%
<b>Internet services</b>	<b>28,212</b>	<b>7,112</b>	<b>6,971</b>	<b>7,067</b>	<b>7,032</b>	<b>28,182</b>	<b>30,879</b>	<b>33,967</b>
...YoY	19%	8%	-1%	-4%	-3%	0%	10%	10%
Advertising services	18,100	4,525	4,539	4,671	4,756	18,491	20,340	22,374
...YoY	42%	16%	1%	-3%	-3%	2%	10%	10%
Internet VAS	10,112	2,588	2,432	2,396	2,276	9,692	10,540	11,594
...YoY	-9%	-3%	-4%	-6%	-4%	-4%	9%	10%
Gaming	3,923	1,157	942	1,018	927	4,044	4,327	4,760
...YoY	-7%	3%	5%	2%	3%	3%	7%	10%
Other (Youpin fintech, etc.)	6,189	1,431	1,490	1,378	1,349	5,648	6,212	6,833
...YoY	-10%	-8%	-8%	-11%	-8%	-9%	10%	10%
<b>Others</b>	<b>6,248</b>	<b>999</b>	<b>1,120</b>	<b>1,835</b>	<b>2,914</b>	<b>6,868</b>	<b>8,928</b>	<b>11,606</b>
...YoY	149%	73%	20%	-7%	5%	10%	30%	30%
<b>Total</b>	<b>328,309</b>	<b>73,352</b>	<b>70,171</b>	<b>70,474</b>	<b>72,874</b>	<b>286,870</b>	<b>308,047</b>	<b>346,419</b>
...YoY	34%	-5%	-20%	-10%	-15%	-13%	7%	12%
<b>Gross Margin</b>								
Smart phones	11.9%	9.9%	8.7%	8.9%	9.2%	9.2%	9.5%	9.8%
IoT and lifestyle products	13.1%	15.6%	14.3%	13.5%	13.8%	14.3%	14.3%	14.5%
Internet services	74.1%	70.8%	73.0%	72.1%	72.0%	72.0%	71.0%	71.0%
Others	22.6%	12.0%	16.7%	15.0%	12.0%	13.5%	23.0%	24.0%
<b>Total</b>	<b>17.7%</b>	<b>17.3%</b>	<b>16.8%</b>	<b>16.6%</b>	<b>16.7%</b>	<b>16.9%</b>	<b>17.4%</b>	<b>17.6%</b>

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with TP of HK\$12.28 (25% upside)

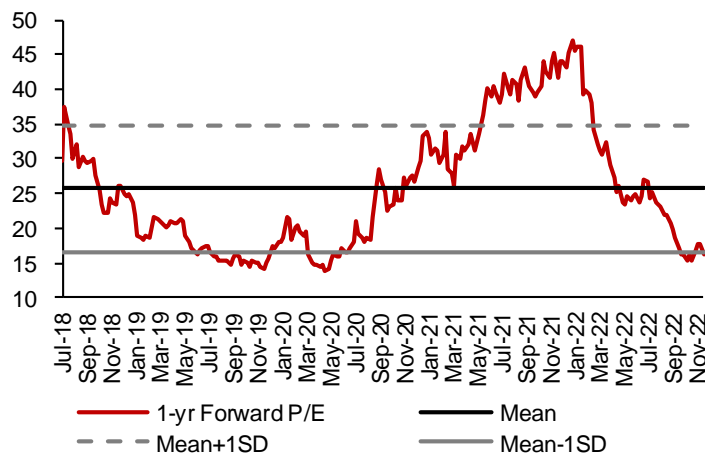
Our TP of HK\$12.28 is based on 20x FY23E P/E. Current valuation at 16.7x FY23E P/E is close to 1-sd below 3-yr average at 15.9x, and we view risk-reward as attractive. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

Figure 9: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>HK-listed</b>												
Xiaomi	1810 HK	Buy	31,777	9.97	12.3	23%	15.8	16.7	1.7	1.5	0.5	8.5
Sunny Optical	2382 HK	Hold	12,645	90.1	102.3	14%	32.3	21.9	3.8	3.3	11.8	15.3
AAC Tech	2018 HK	Hold	2,758	17.9	15.4	-14%	24.3	15.0	0.9	0.8	3.5	5.6
BYDE	285 HK	Hold	7,082	24.6	20.4	-17%	30.2	17.9	1.9	1.8	6.4	9.9
FIT Hon Teng	6088 HK	Buy	1,426	1.5	1.8	20%	7.5	6.7	0.5	0.5	6.9	7.4
Tongda	698 HK	Buy	162	0.1	0.2	69%	4.3	3.3	0.1	0.1	2.3	3.0
Q tech	1478 HK	Buy	594	3.9	5.6	43%	15.3	7.5	0.8	0.8	5.5	10.3
TK Group	2283 HK	Buy	175	1.6	3.4	106%	4.0	3.2	0.7	0.7	18.6	20.7
<b>Average</b>							<b>19.8</b>	<b>12.6</b>	<b>1.4</b>	<b>1.3</b>	<b>6.1</b>	<b>8.9</b>
<b>Smartphone</b>												
Apple	AAPL US	NR	2,258,635	142.0	NA	NA	23.2	22.7	40.6	36.9	160.8	161.3
Lenovo	992 HK	NR	9,999	6.4	NA	NA	5.2	5.4	2.0	1.5	44.4	33.1
Samsung	005930 KS	NR	272,560	60,600.0	NA	NA	10.6	14.5	1.2	1.2	12.0	8.2
LG Elec	066570 KS	NR	11,565	93,800.0	NA	NA	9.0	8.6	0.8	0.8	9.7	9.3
<b>Average</b>							<b>12.0</b>	<b>12.8</b>	<b>11.2</b>	<b>10.1</b>	<b>56.7</b>	<b>53.0</b>
<b>IoT</b>												
Skyworth	751 HK	NR	943	2.9	NA	NA	-	-	-	-	-	-
Hisense	600060 CH	NR	2,511	13.8	NA	NA	11.0	9.6	1.0	0.9	9.6	10.0
Midea	000333 CH	NR	47,314	48.4	NA	NA	11.1	10.0	2.4	2.1	21.4	20.8
Gree	000651 CH	NR	25,540	32.5	NA	NA	7.1	6.5	1.6	1.4	22.7	22.1
<b>Average</b>							<b>9.7</b>	<b>8.7</b>	<b>1.7</b>	<b>1.5</b>	<b>17.9</b>	<b>17.6</b>

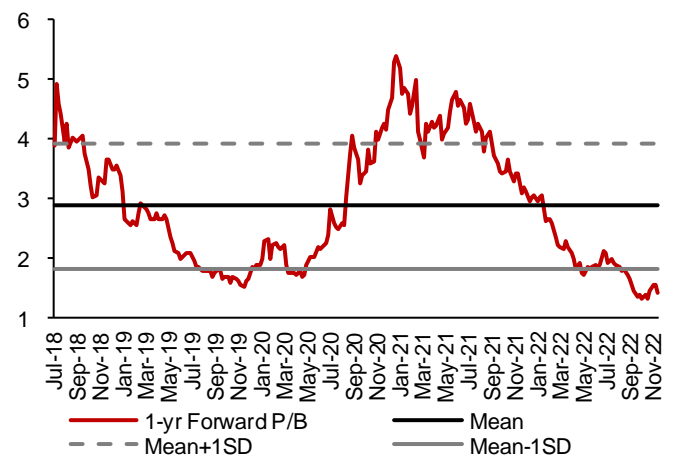
Source: Bloomberg, CMBIGM

Figure 10: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 11: 12M forward P/B band



Source: Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>205,839</b>	<b>245,866</b>	<b>328,309</b>	<b>286,870</b>	<b>308,047</b>	<b>346,419</b>
Cost of goods sold	(177,285)	(209,114)	(270,048)	(238,503)	(254,397)	(285,330)
<b>Gross profit</b>	<b>28,554</b>	<b>36,752</b>	<b>58,261</b>	<b>48,367</b>	<b>53,650</b>	<b>61,089</b>
Selling expense	(10,378)	(14,539)	(20,981)	(22,030)	(20,639)	(23,210)
Admin expense	(3,104)	(3,746)	(4,739)	(4,981)	(4,929)	(5,543)
R&D expense	(7,493)	(9,256)	(13,167)	(14,243)	(14,478)	(16,628)
Other income	1,266	643	827	752	752	752
Gain/loss on financial assets at FVTPL	3,813	13,173	8,132	(4,914)	1,000	1,000
Investment gain/loss	(672)	1,381	275	(669)	(669)	(669)
<b>EBIT</b>	<b>11,760</b>	<b>24,035</b>	<b>26,029</b>	<b>1,028</b>	<b>13,431</b>	<b>15,536</b>
<b>Net Interest income/(expense)</b>	<b>402</b>	<b>(1,641)</b>	<b>(1,612)</b>	<b>699</b>	<b>699</b>	<b>699</b>
Foreign exchange gain/loss	(226)	(372)	(2,580)	(1,255)	(1,255)	(1,255)
Others	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>12,163</b>	<b>21,633</b>	<b>24,417</b>	<b>1,726</b>	<b>14,130</b>	<b>16,234</b>
Income tax	(2,060)	(1,321)	(5,134)	(985)	(1,908)	(2,192)
Minority interest	59	(43)	(56)	14	(36)	(41)
<b>Net profit</b>	<b>10,103</b>	<b>20,313</b>	<b>19,283</b>	<b>742</b>	<b>12,222</b>	<b>14,043</b>
<b>Adjusted net profit</b>	<b>11,532</b>	<b>13,006</b>	<b>22,039</b>	<b>8,878</b>	<b>13,734</b>	<b>15,554</b>
Net dividends	0	0	0	0	0	0
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>137,539</b>	<b>176,283</b>	<b>185,851</b>	<b>157,681</b>	<b>200,671</b>	<b>193,773</b>
Cash & equivalents	25,920	54,752	23,512	32,701	44,409	56,886
Account receivables	19,672	19,080	23,095	11,029	23,832	14,099
Inventories	32,585	41,671	52,398	27,103	45,582	35,941
Prepayment	19,837	16,182	19,852	19,852	19,852	19,852
ST bank deposits	21,523	17,599	31,041	31,041	31,041	31,041
Financial assets at FVTPL	16,463	22,376	30,910	30,910	30,910	30,910
Other current assets	1,538	4,623	5,045	5,045	5,045	5,045
<b>Non-current assets</b>	<b>46,090</b>	<b>77,397</b>	<b>107,040</b>	<b>111,381</b>	<b>114,465</b>	<b>117,595</b>
PP&E	6,992	6,306	6,965	11,305	14,390	17,519
Deferred income tax	1,283	2,011	1,662	1,662	1,662	1,662
Investment in JVs & assos	9,301	12,782	10,231	10,231	10,231	10,231
Intangibles	1,672	4,266	5,579	5,579	5,579	5,579
Financial assets at FVTPL	20,679	35,215	50,114	50,114	50,114	50,114
Other non-current assets	6,163	16,817	32,490	32,490	32,490	32,490
<b>Total assets</b>	<b>183,629</b>	<b>253,680</b>	<b>292,892</b>	<b>269,062</b>	<b>315,136</b>	<b>311,368</b>
<b>Current liabilities</b>	<b>92,181</b>	<b>107,927</b>	<b>115,727</b>	<b>90,119</b>	<b>123,970</b>	<b>106,159</b>
Short-term borrowings	12,837	6,962	5,527	5,527	5,527	5,527
Account payables	59,528	72,199	74,643	49,034	82,885	65,074
Tax payable	479	674	2,335	2,335	2,335	2,335
Other current liabilities	19,337	28,092	33,222	33,222	33,222	33,222
<b>Non-current liabilities</b>	<b>9,791</b>	<b>21,739</b>	<b>39,732</b>	<b>39,732</b>	<b>39,732</b>	<b>39,732</b>
Long-term borrowings	4,787	10,635	20,720	20,720	20,720	20,720
Deferred income	580	301	1,203	1,203	1,203	1,203
Other non-current liabilities	4,424	10,804	17,809	17,809	17,809	17,809
<b>Total liabilities</b>	<b>101,972</b>	<b>129,666</b>	<b>155,459</b>	<b>129,850</b>	<b>163,702</b>	<b>145,891</b>
Share capital	388	409	407	407	407	407
Other reserves	81,330	123,691	137,212	137,940	150,198	164,282
<b>Total shareholders equity</b>	<b>81,658</b>	<b>124,014</b>	<b>137,432</b>	<b>138,174</b>	<b>150,397</b>	<b>164,439</b>
Minority interest	327	322	220	233	198	157
<b>Total equity and liabilities</b>	<b>183,629</b>	<b>253,680</b>	<b>292,892</b>	<b>268,025</b>	<b>314,098</b>	<b>310,330</b>
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>12,163</b>	<b>21,633</b>	<b>24,417</b>	<b>1,726</b>	<b>14,130</b>	<b>16,234</b>
Depreciation & amortization	1,381	1,708	3,062	2,434	3,077	3,799
Tax paid	(2,242)	(1,126)	(2,442)	(985)	(1,908)	(2,192)
Change in working capital	9,553	4,320	(15,725)	11,751	2,569	1,563
Others	2,956	(4,658)	474	0	0	0
<b>Net cash from operations</b>	<b>23,810</b>	<b>21,879</b>	<b>9,785</b>	<b>14,927</b>	<b>17,868</b>	<b>19,406</b>

<b>Investing</b>						
Capital expenditure	(3,405)	(3,026)	(7,169)	(5,737)	(6,161)	(6,928)
Acquisition of subsidiaries/ investments	0	39	(1,086)	0	0	0
Net proceeds from disposal of short-term investments	124,633	190,494	166,947	0	0	0
Others	(152,798)	(205,186)	(203,699)	0	0	0
<b>Net cash from investing</b>	<b>(31,570)</b>	<b>(17,679)</b>	<b>(45,008)</b>	<b>(5,737)</b>	<b>(6,161)</b>	<b>(6,928)</b>
<b>Financing</b>						
Net borrowings	6,619	(2,004)	9,227	0	0	0
Proceeds from share issues	0	19,908	0	0	0	0
Share repurchases	(2,932)	(455)	(7,007)	0	0	0
Others	(566)	8,767	2,278	0	0	0
<b>Net cash from financing</b>	<b>3,121</b>	<b>26,216</b>	<b>4,499</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	30,230	25,920	54,752	23,512	32,701	44,409
Exchange difference	(1,583)	(517)	0	0	0	0
<b>Cash at the end of the year</b>	<b>25,920</b>	<b>54,752</b>	<b>23,512</b>	<b>32,701</b>	<b>44,409</b>	<b>56,886</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	17.7%	19.4%	33.5%	(12.6%)	7.4%	12.5%
Gross profit	28.7%	28.7%	58.5%	(17.0%)	10.9%	13.9%
EBIT	882.9%	104.4%	8.3%	(96.1%)	1,206.7%	15.7%
Net profit	(25.0%)	101.1%	(5.1%)	(96.2%)	1,547.9%	14.9%
Adj. net profit	31.9%	12.8%	69.5%	(59.7%)	54.7%	13.3%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	13.9%	14.9%	17.7%	16.9%	17.4%	17.6%
Adj. net profit margin	5.6%	5.3%	6.7%	3.1%	4.5%	4.5%
Return on equity (ROE)	13.2%	19.8%	14.8%	0.5%	8.5%	8.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.9	0.6	1.0	0.7	0.8	0.5
Current ratio (x)	1.5	1.6	1.6	1.7	1.6	1.8
Receivable turnover days	11.1	12.7	15.6	12.0	12.0	12.0
Inventory turnover days	63.9	64.8	63.6	45.4	45.4	45.4
Payable turnover days	108.9	115.0	99.2	94.6	94.6	94.6
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	20.8	17.4	26.8	25.8	16.7	14.7
P/E (diluted)	18.1	27.3	23.5	25.8	16.7	14.7
P/B	2.6	2.9	3.8	1.7	1.5	1.4
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates

Note: The calculation of net cash includes financial assets.



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