

China Financials Weekly

+VE impact from LPR cut and lower mortgage floor

Although weak macro data evidenced that the pandemic had serious negative impacts on the economy, we maintain the view that the market is overreacted. Currently, big four banks are trading at an implied NPL ratio of 8%. Maintain OUTPERFORM on banking sector, top pick is PSBC (1658 HK, BUY) with a target price of HK\$8.40. For the insurance sector, the Omicron outbreak temporarily delayed the recovery progress of life insurance business and caused some slowdown in P&C growth in April, but we believe pressure should ease in June as the lockdown in Shanghai ends. On the bright note, insurers' investment will benefit from the recent A share market rally and policy support on the property sector, in our view. We maintain PICC P&C (2328 HK) as our top pick for insurance space, and we also like Ping An (2318 HK) for its proactive agency reform and sequential improvements in monthly life momentum.

■ On 20 May 22, PBOC lowered 5-yr LPR rate from 4.6% to 4.45%, while 1-yr LPR remained unchanged at 3.7%. The 5-yr LPR mainly affects infrastructure loans and home mortgage loans, yet ordinary loans will not be affected. Since 85-90% of total existing mortgage will be repriced in January every year, the materialized impacts of interest income from existing mortgage will begin since Jan 2023. For newly issued mortgage (including all of the newly issued mortgage), new LPR will be implemented immediately. Meanwhile, mortgage interest rate floor adjustment (cut 20 bps on 15 May) will be in effect immediately, but mortgage interest rate floor adjustment is only applicable for first home mortgage (首套房按揭貸款). In our view, China is aiming to stimulate the economy through real estate and infrastructure markets, as indicated by the reduction in 5-year LPR.

■ **Scenario analysis shows that China's banking system is still stable in current weak economy.** The following are the consequences under three different scenarios:

Worst case: Assuming an NPL ratio at 4.04% (all SML default), the industry would lose money with provision coverage ratio down 47 ppt from 197% to 150%, and CET-1 would drop 1.61 ppt to 9.17%, which would still meet the regulatory requirements.

Base case: Given a NPL ratio of 2.16% (reflecting the biggest YoY NPL jumps in history), the provision coverage ratio would drop 39.47 ppt from 197% to 157.4%, still higher than the 150% standard line and aligning with the regulator's guidelines for an orderly and reasonable decline in provisions. The result would not exert any impact on annual profits or core tier-1 capital.

Best case: With a NPL ratio at 1.85% (same with the ratio during the China-US trade conflicts in 2018), provision coverage ratio would decrease by 13.09 ppt from 197% to 184%, much higher than the standard line of 150%, in line with regulator's guidelines for an orderly and reasonable decline in provisioning, resulting in unaffected full-year profit and core tier-1 capital.

Based on above analysis, we believe that under the current economic conditions, profit growth and CET-1 of the banking industry would not be materially affected; however, the NPL ratio may increase given higher default rates.

OUTPERFORM
(Maintain)

China Financials Sector

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Stocks Covered:

Ticker	Rating	Target Price	Upside
2318 HK	Buy	81.40	71%
601318CH	Buy	67.56	54%
2628 HK	Buy	18.18	58%
601628CH	Sell	18.10	-27%
2601 HK	Buy	30.49	75%
601601CH	Buy	30.37	44%
1336 HK	Buy	32.35	66%
601336CH	Sell	26.85	-5%
966 HK	Buy	11.48	36%
1339 HK	Buy	3.58	46%
601319CH	Sell	3.72	-20%
2328 HK	Buy	11.64	49%
6060 HK	Buy	33.20	22%
1658 HK	Buy	8.40	42%
939 HK	Buy	8.10	45%
600000CH	Hold	9.00	13%
601229CH	Buy	8.68	35%
3618 HK	Hold	3.05	0%
601577CH	Hold	8.30	10%
601658CH	Buy	7.07	35%
601939CH	Buy	7.50	26%
601077CH	Hold	3.60	-6%

Source: Company data, CMBIGM estimates

Recent Reports:

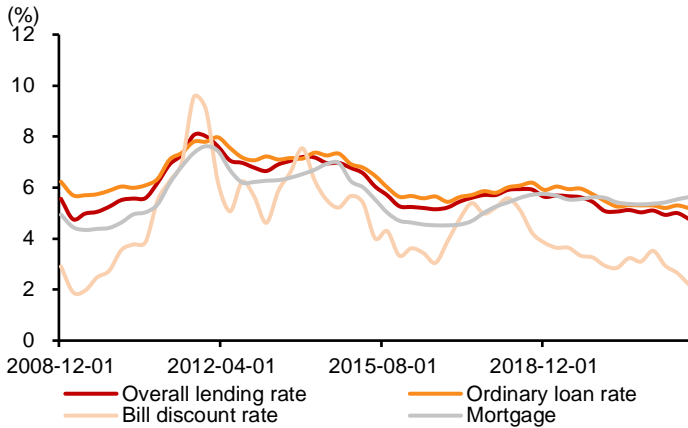
- China Banking Sector – Implications of Jan LPR drop ([link](#))
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve ([link](#))
- China Banking – Looking for the safe harbour ([link](#))
- China Financials Weekly – Manageable Impacts from Russia-Ukraine Crisis ([link](#))
- China Banking Sector – Scenario analysis on banks' balance sheet ([link](#))

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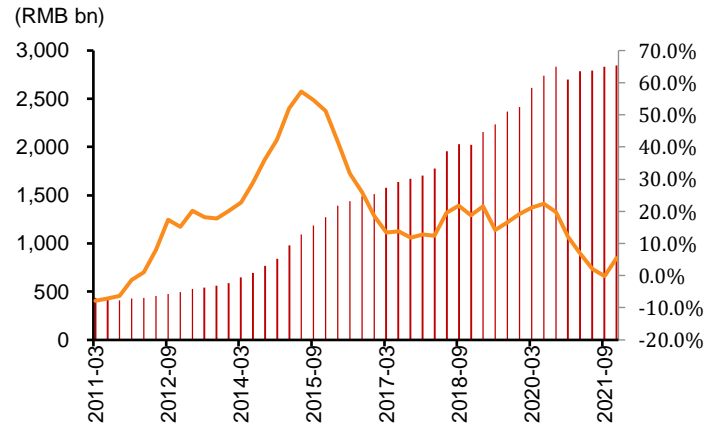
Banking Focus Charts

Figure 1: Market lending rate



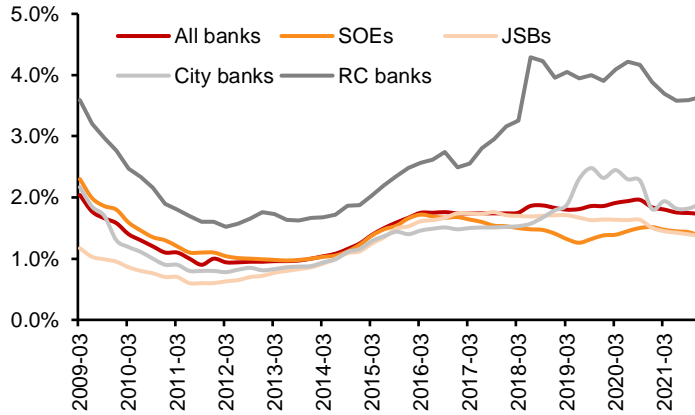
Source: Company data, CMBIGM estimates

Figure 2: Sector NPL balance and growth



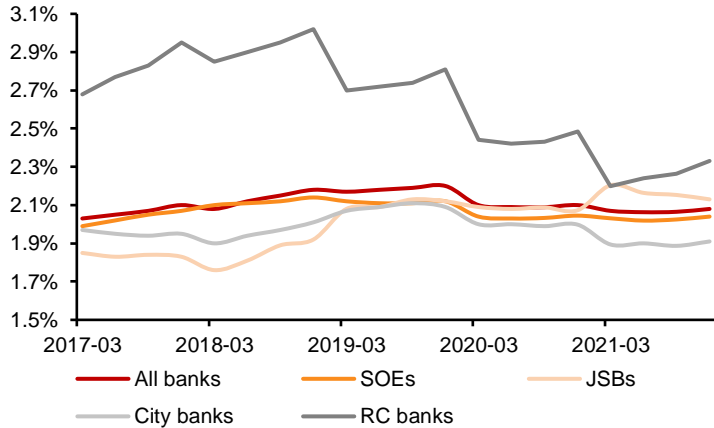
Source: Company data, CMBIGM estimates

Figure 3: Sub-sector NPL ratio



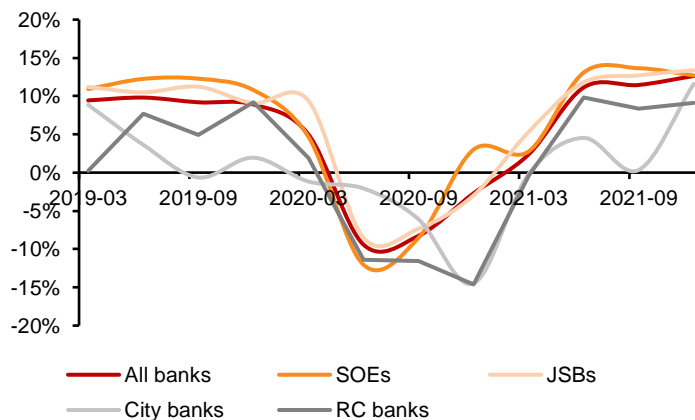
Source: Company data, CMBIGM estimates

Figure 4: Sub-sector NIM



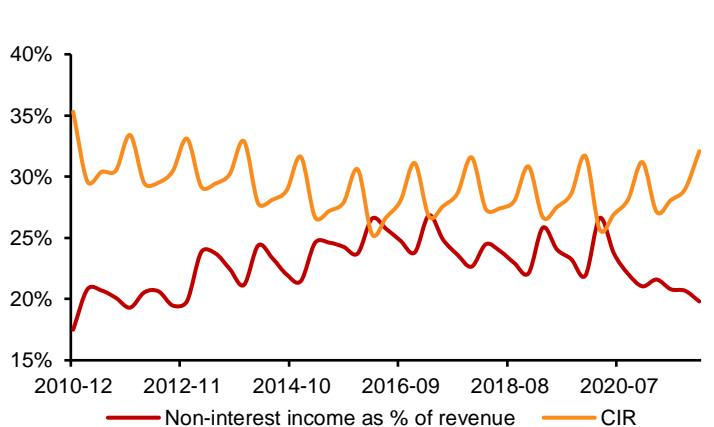
Source: Company data, CMBIGM estimates

Figure 5: Sub-sector earnings growth



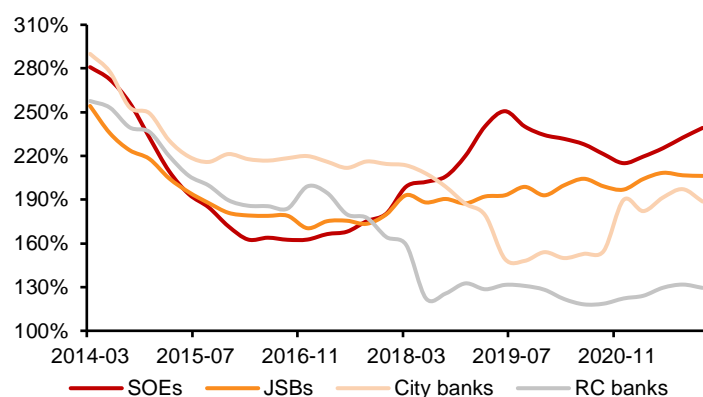
Source: Company data, CMBIGM estimates

Figure 6: CIR and non-interest income as % of revenue



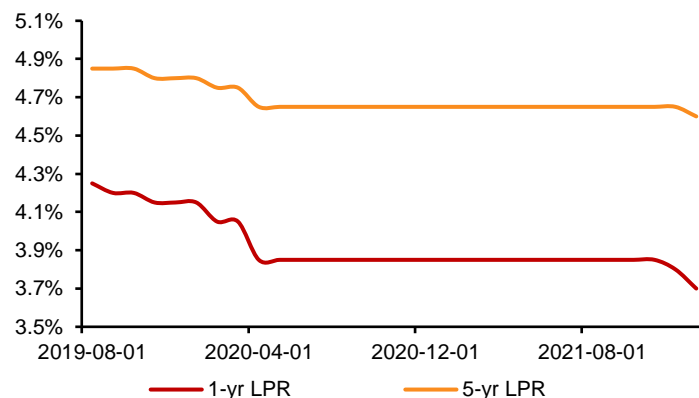
Source: Company data, CMBIGM estimates

Figure 7: Sub sector provision coverage ratio changes



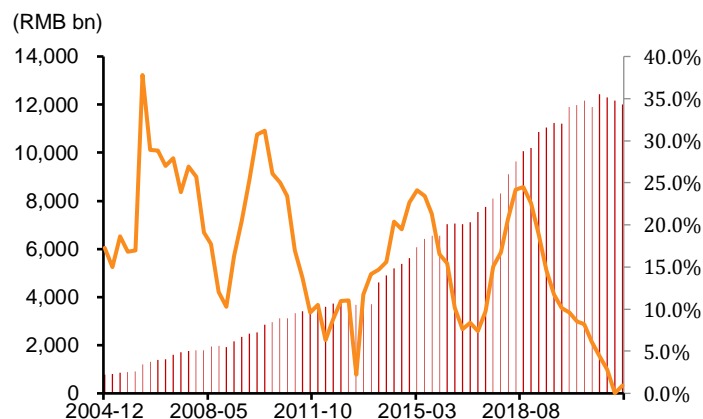
Source: Company data, CMBIGM estimates

Figure 8: Loan Prime Rate (LPR) changes



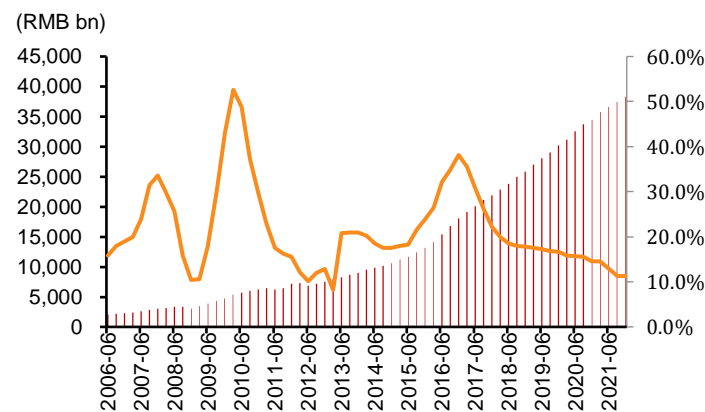
Source: Company data, CMBIGM estimates

Figure 9: Development loan balance and growth



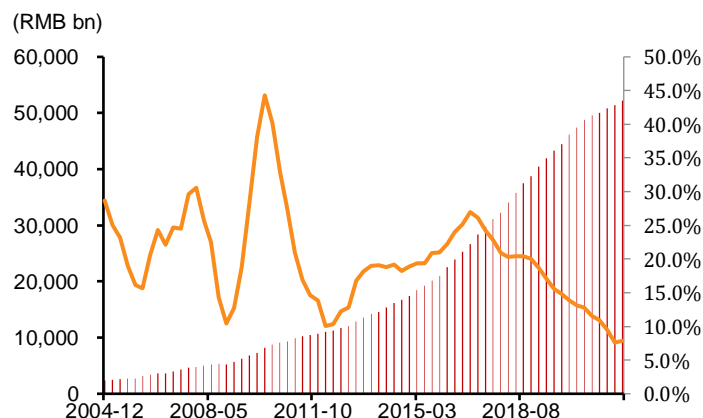
Source: Company data, CMBIGM estimates

Figure 10: Mortgage balance and growth



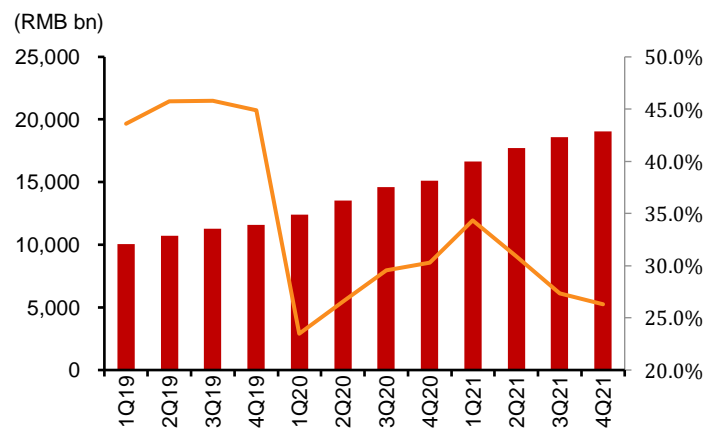
Source: Company data, CMBIGM estimates

Figure 11: All property loan changes



Source: Company data, CMBIGM estimates

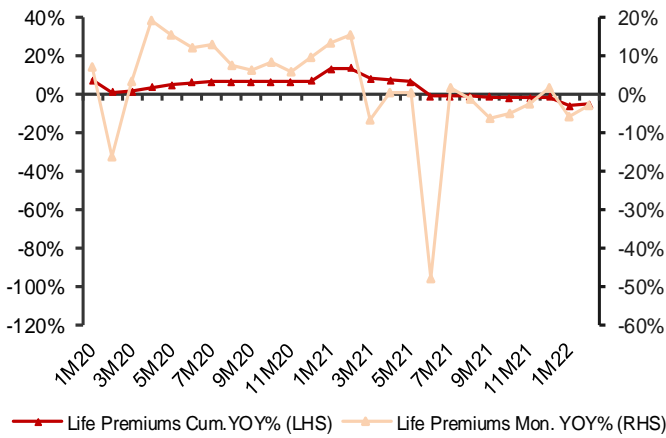
Figure 12: Sector SME loan balance changes



Source: Company data, CMBIGM estimates

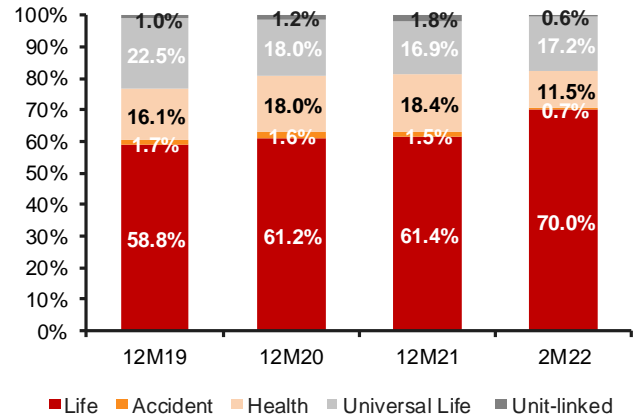
Insurance Focus Charts

Figure 1: Life premiums accumulative & monthly YoY%



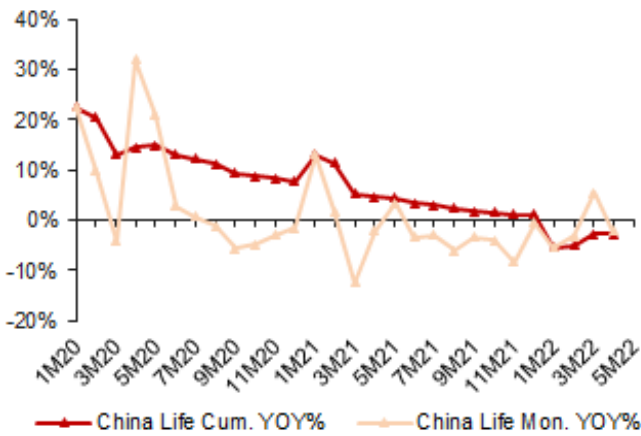
Source: Company data, CMBIGM

Figure 2: Life premiums mix % (FY19-FY21, 2M22)



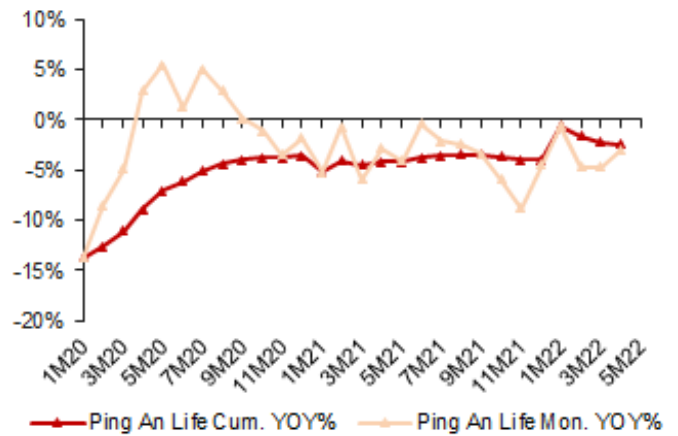
Source: Company data, CMBIGM

Figure 3: China Life (2628 HK) premiums cum.& mon. YoY%



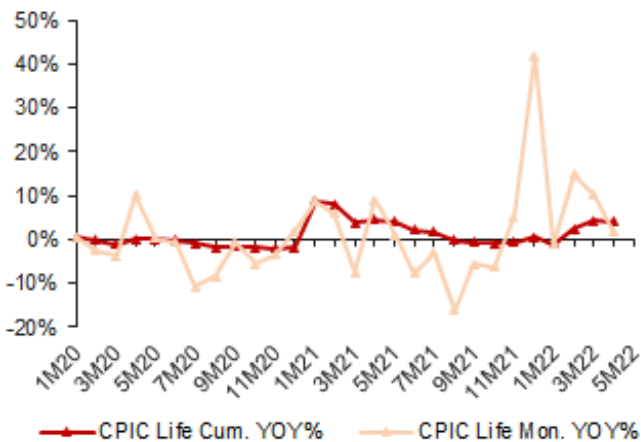
Source: Company data, CMBIGM

Figure 4: Ping An (2318 HK) life premiums cum.& mon. YoY%



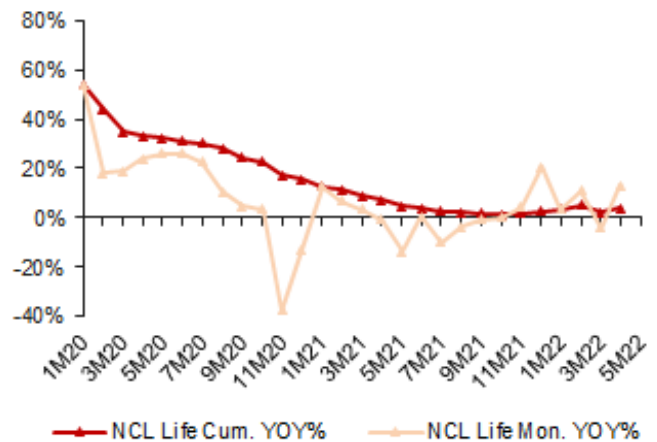
Source: Company data, CMBIGM

Figure 5: CPIC (2601 HK) life premiums cum.& mon. YOY%



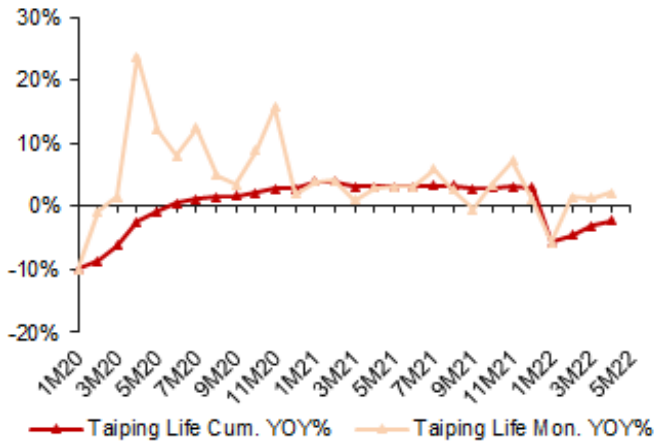
Source: Company data, CMBIGM

Figure 6: NCL (1336 HK) Life Premiums Cum.& Mon YOY%

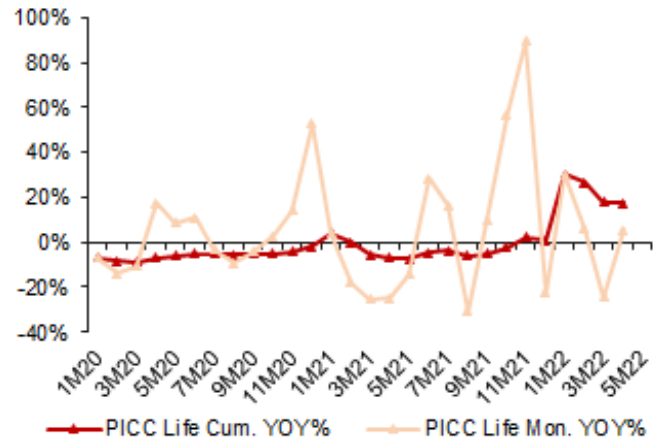


Source: Company data, CMBIGM

Figure 7: Taiping (966 HK) life premiums cum. & mon. YoY% **Figure 8: PICC Life (1339 HK) premiums cum. & mon. YoY%**

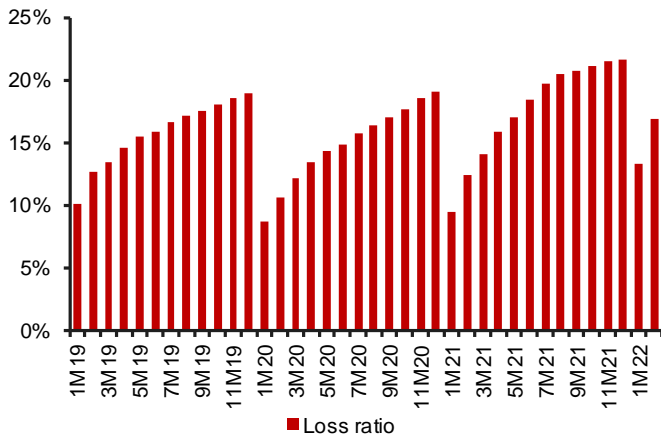


Source: Company data, CMBIGM



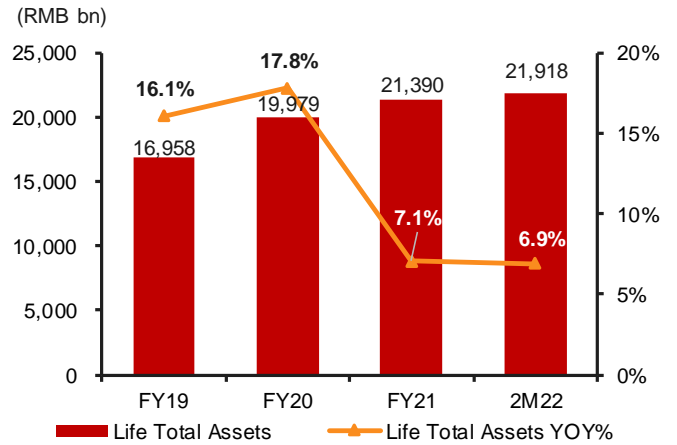
Source: Company data, CMBIGM

Figure 9: Life Insurance industry loss ratio (1M19 – 2M22)



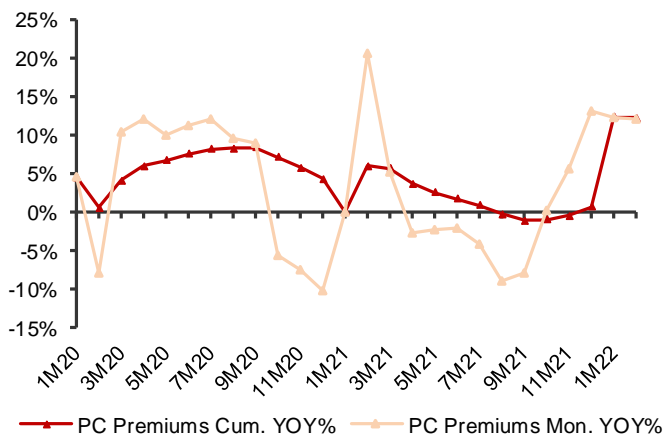
Source: Company data, CMBIGM

Figure 10: Life industry total assets & YoY% (incl. 2M22)



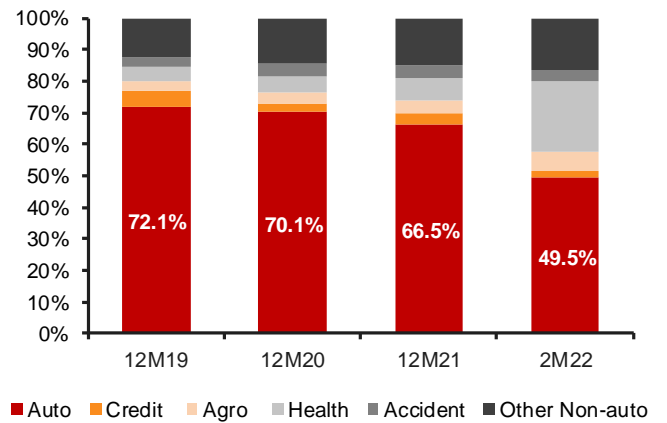
Source: Company data, CMBIGM

Figure 11: P&C premiums accumulative & monthly YoY%



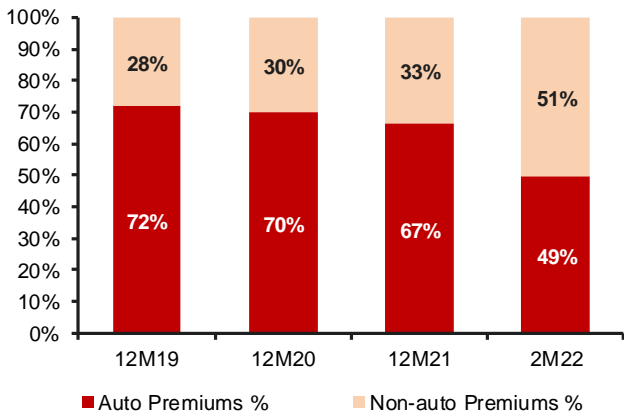
Source: Company data, CMBIGM

Figure 12: P&C insurance premiums mix (%) (FY19-2M22)

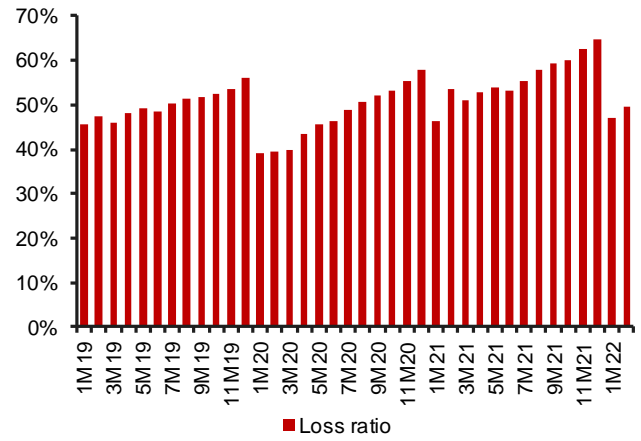


Source: Company data, CMBIGM

Figure 13: P&C auto vs non-auto premiums mix (incl.2M22) **Figure 14: P&C industry loss ratio (1M19-2M22)**

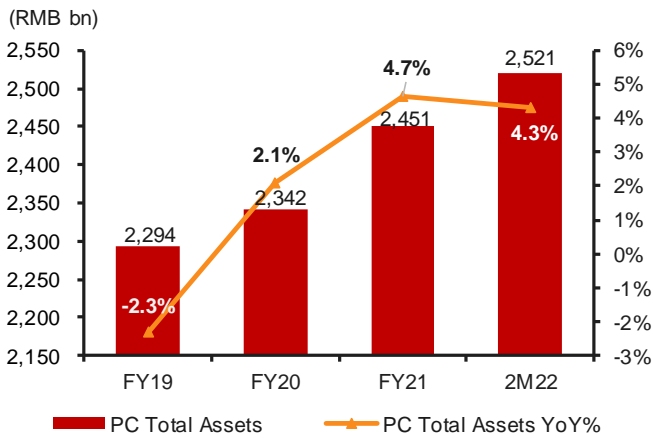


Source: Company data, CMBIGM



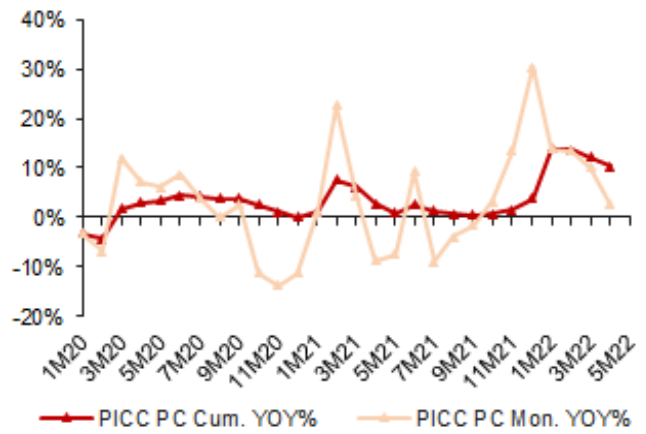
Source: Company data, CMBIGM

Figure 15: P&C industry total assets & YoY% (incl.2M22)



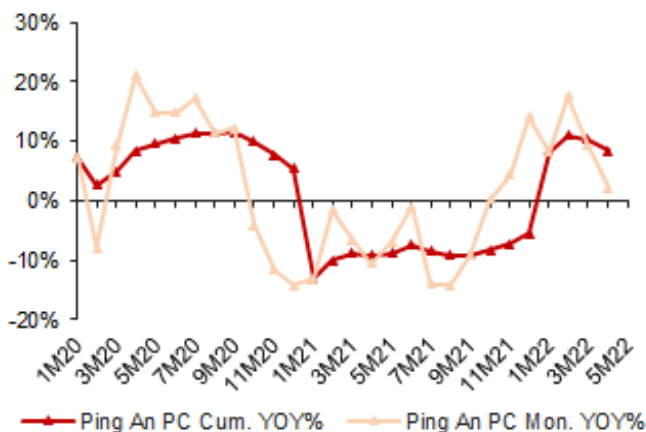
Source: Company data, CMBIGM

Figure 16: PICC PC(2328 HK) premiums cum.& mon. YOY%



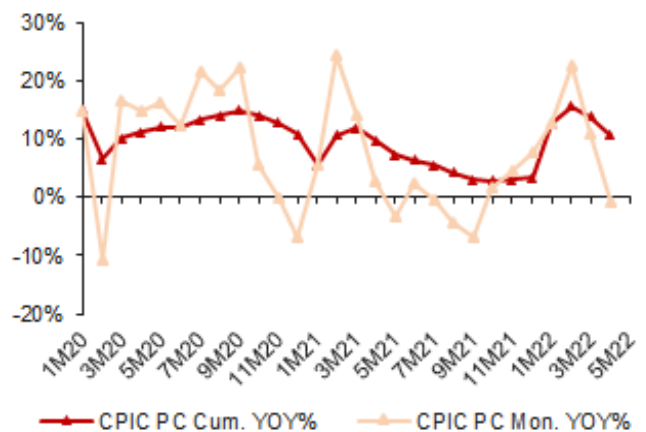
Source: Company data, CMBIGM

Fig 17: Ping An (2318 HK) PC premiums cum.& mon. YoY%



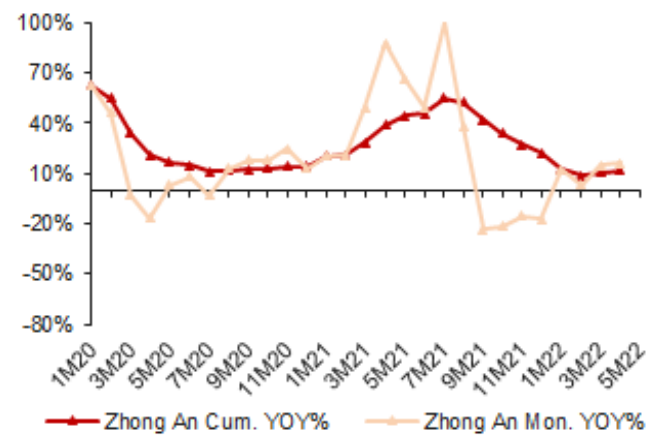
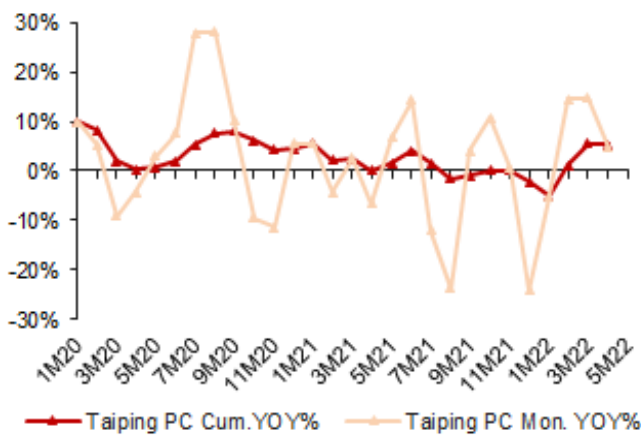
Source: Company data, CMBIGM

Figure 18: CPIC (2601 HK) PC premiums cum.& mon. YoY%



Source: Company data, CMBIGM

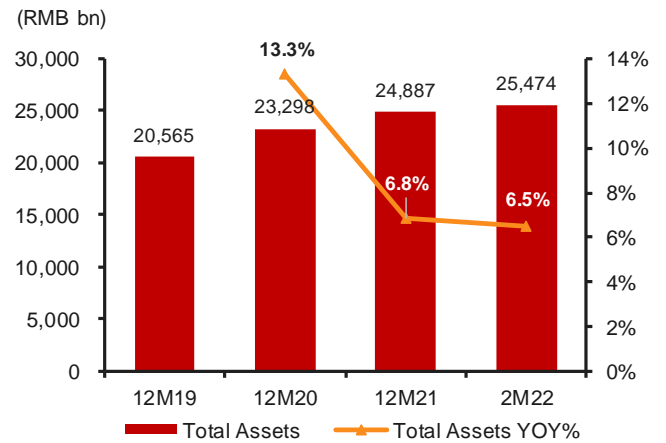
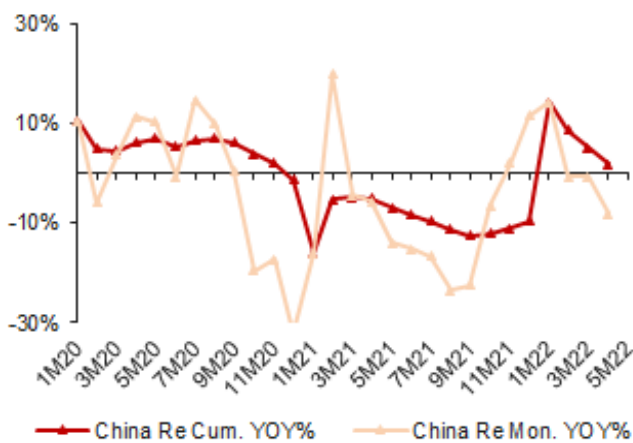
Figure 19: Taiping (966 HK) PC premiums cum.& mon.YoY% **Figure 20: Zhong An (6060 HK) premiums cum. & mon. YoY%**



Source: Company data, CMBIGM

Source: Company data, CMBIGM

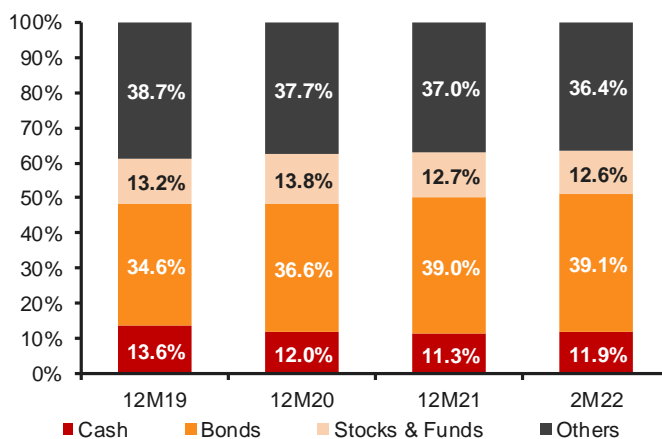
Figure 21: China Re (1508 HK) PC Premiums cum.&mon YOY% **Figure 22: Industry – total assets & YoY% (FY19-2M22)**



Source: Company data, CMBIGM

Source: Company data, CMBIGM

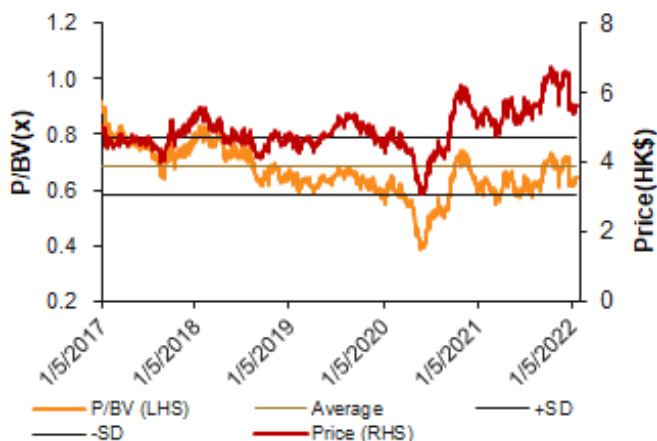
Figure 23: Industry – investment assets mix% (FY19-2M22)



Source: Company data, CMBIGM

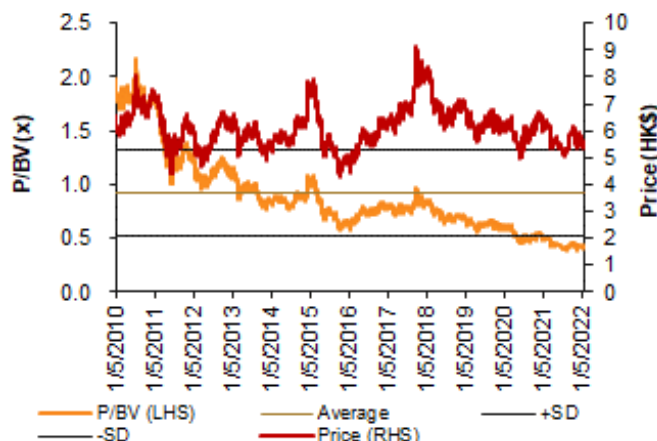
Trading Bands of PBV by banks

Fig.1: Postal Savings-H (1658 HK) 12-month forward P/B



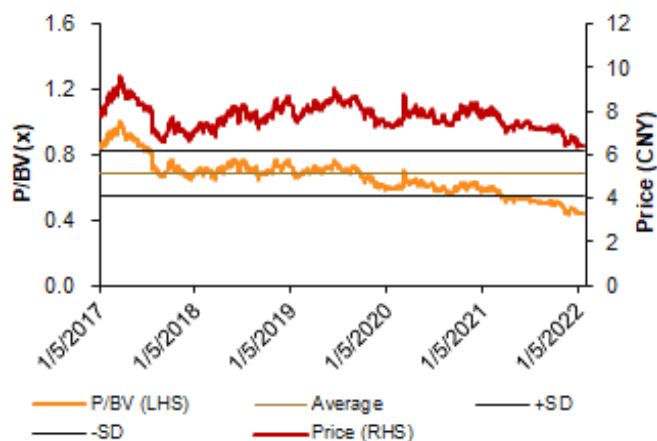
Source: Company data, CMBIGM

Fig.2: CCB-H (0939 HK) 12-month forward P/B



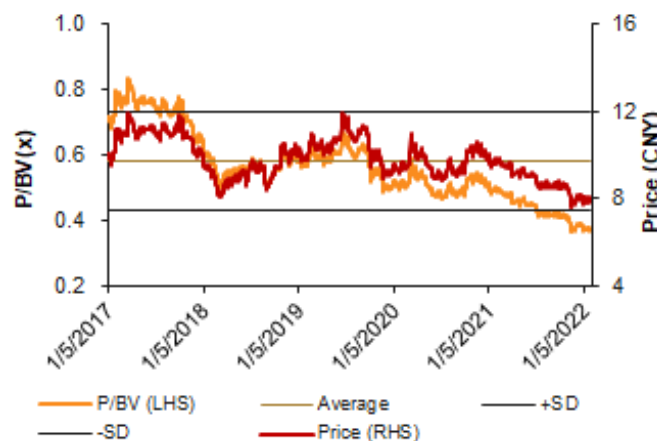
Source: Company data, CMBIGM

Fig.3: Bank of Shanghai (601229 CH) 12-month forward P/B



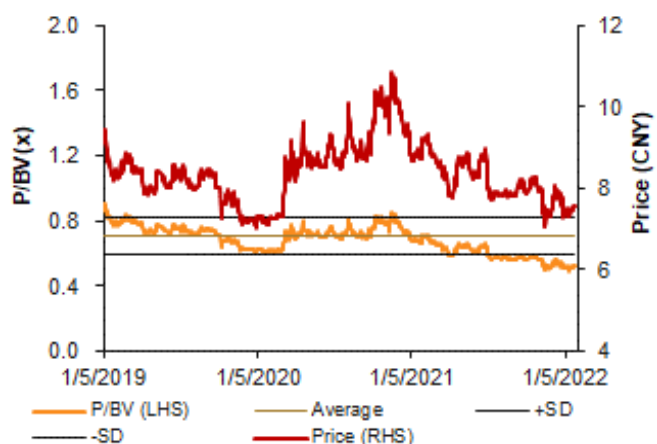
Source: Company data, CMBIGM

Fig.4: SPDB-CH (600000 CH) 12-month forward P/B



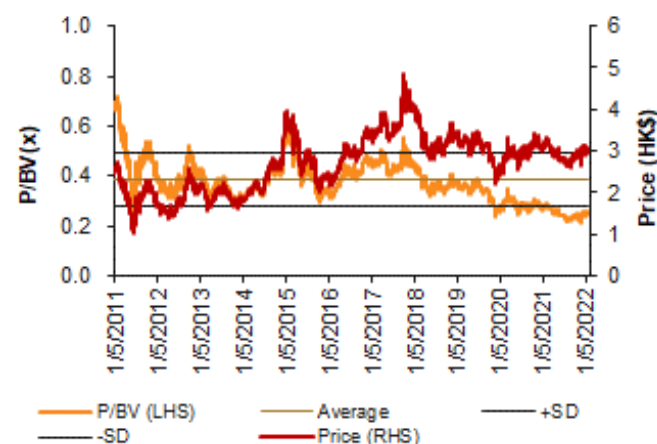
Source: Company data, CMBIGM

Fig.5: Bank of Changsha (601577 CH) 12-month forward P/B



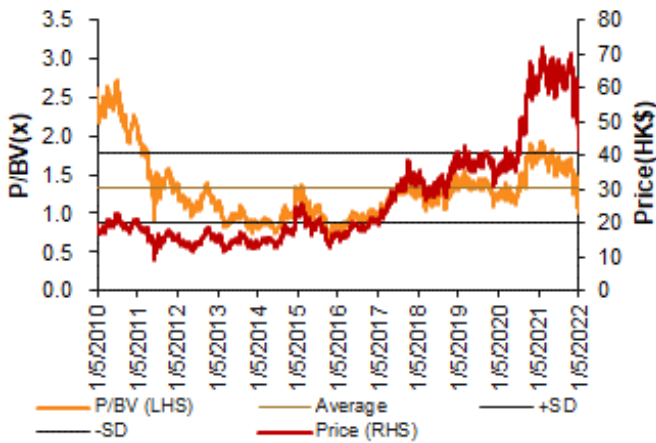
Source: Company data, CMBIGM

Fig.6: CQRC-H (3618 HK) 12-month forward P/B



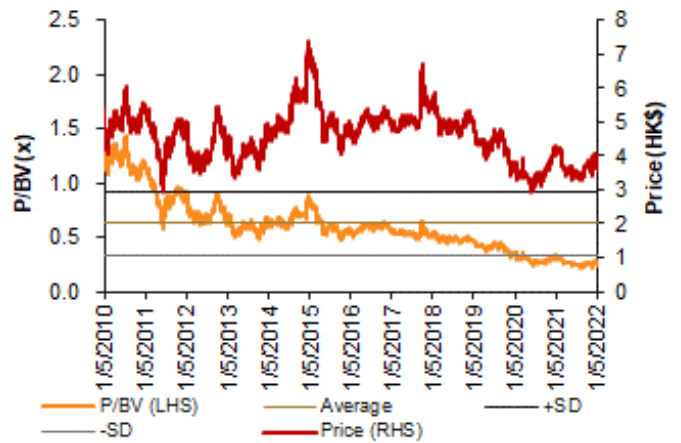
Source: Company data, CMBIGM

Fig.7: CM BANK-H (3968 HK) 12-month forward P/B



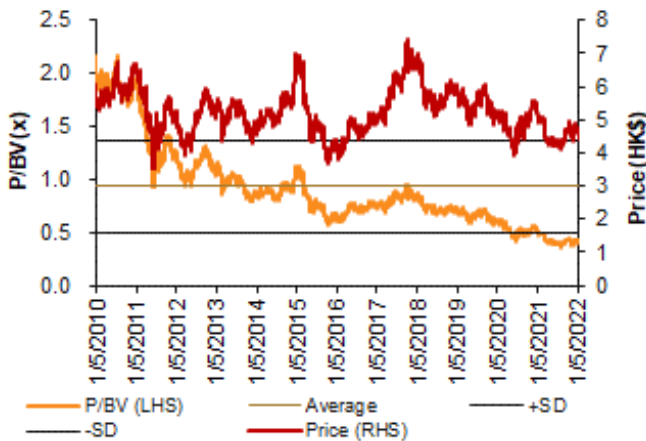
Source: Company data, CMBIGM

Fig.8: CITIC BANK-H (0998 HK) 12-month forward P/B



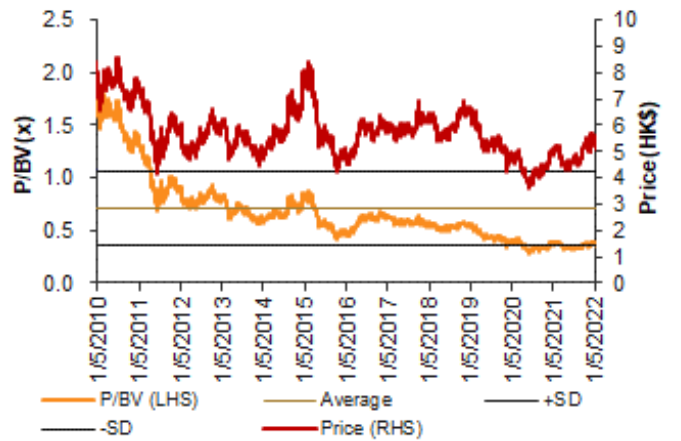
Source: Company data, CMBIGM

Fig.9: ICBC-H (1398 HK) 12-month forward P/B



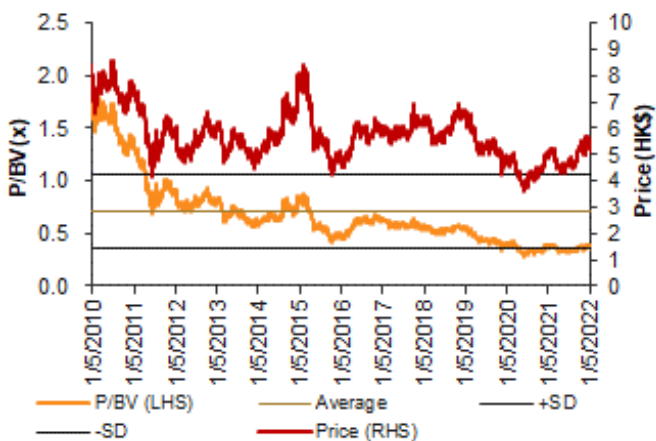
Source: Company data, CMBIGM

Fig.10: BANKCOMM-H (3328 HK) 12-month forward P/B



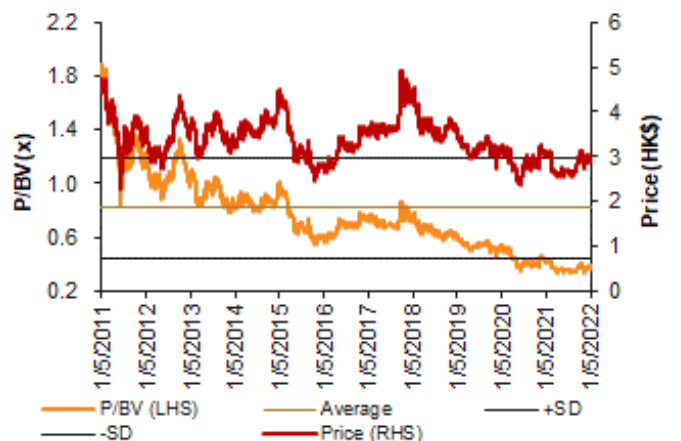
Source: Company data, CMBIGM

Fig.11: CEB BANK-H (6818 HK) 12-month forward P/B



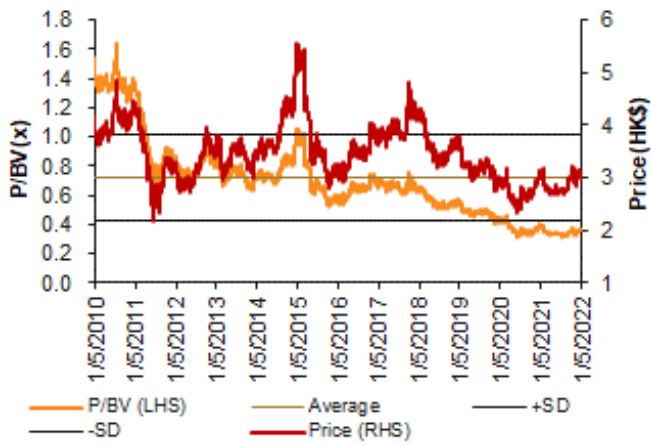
Source: Company data, CMBIGM

Fig.12: ABC-H (1288 HK) 12-month forward P/B



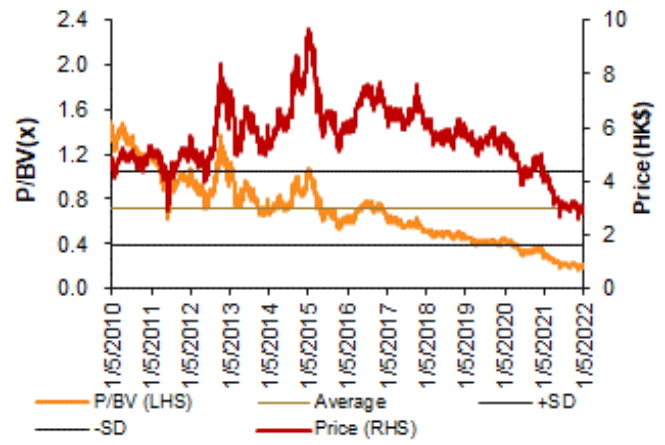
Source: Company data, CMBIGM

Fig.13: Bank of China-H (3988 HK) 12-month forward P/B



Source: Company data, CMBIGM

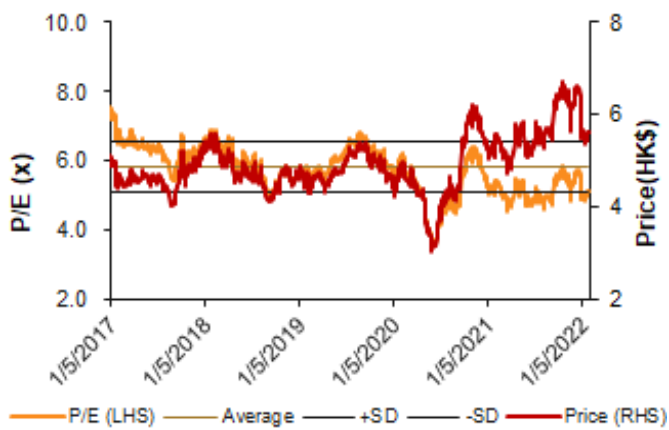
Fig.14: China Minsheng-H (1988 HK) 12-month forward P/B



Source: Company data, CMBIGM

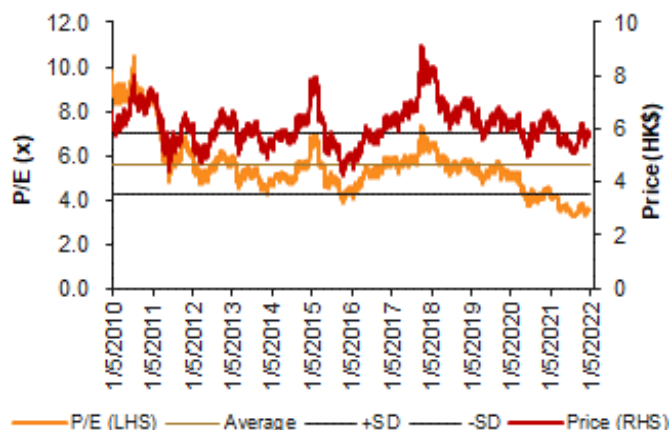
Trading Bands of PER by banks

Fig.1: Postal Savings-H (1658 HK) 12-month forward P/E



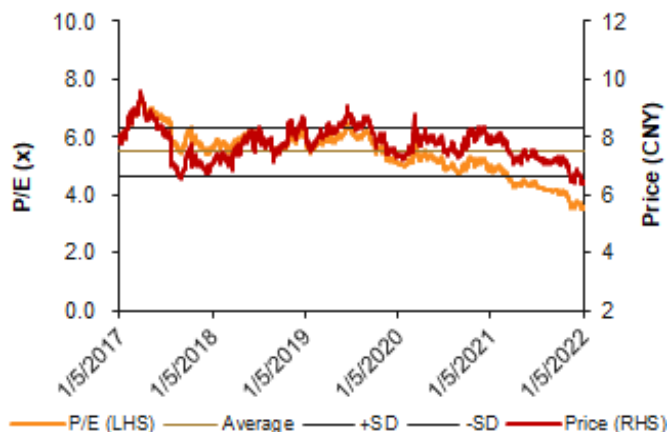
Source: Company data, CMBIGM

Fig.2: CCB-H (0939 HK) 12-month forward P/E



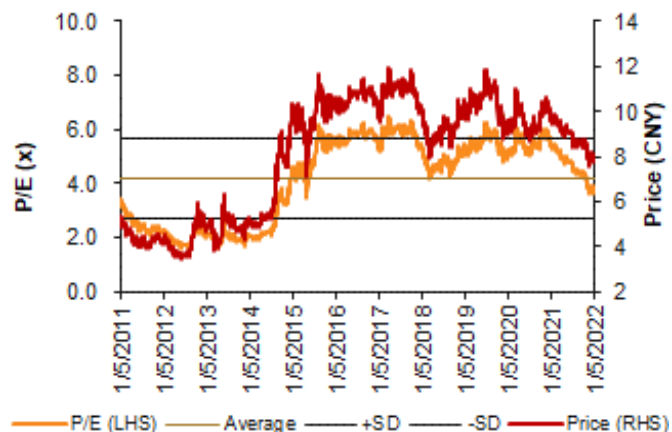
Source: Company data, CMBIGM

Fig.3: Bank of Shanghai (601229 CH) 12-month forward P/E



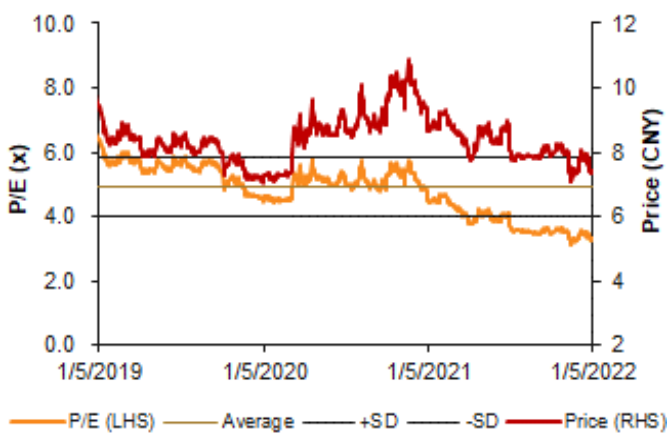
Source: Company data, CMBIGM

Fig.4: SPDB-CH (600000 CH) 12-month forward P/E



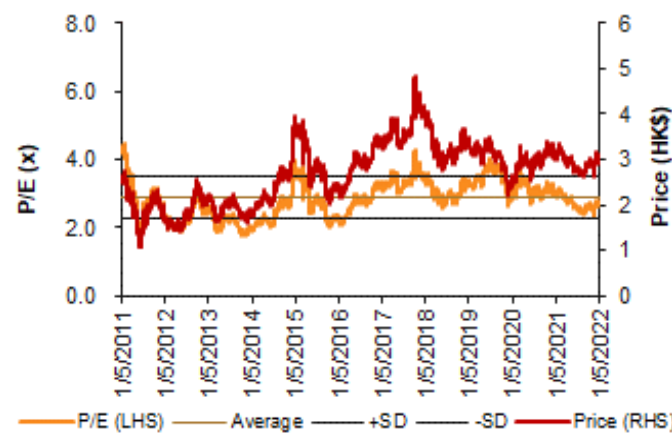
Source: Company data, CMBIGM

Fig.5: Bank of Changsha (601577 CH) 12-month forward P/E



Source: Company data, CMBIGM

Fig.6: CQRC-H (3618 HK) 12-month forward P/E



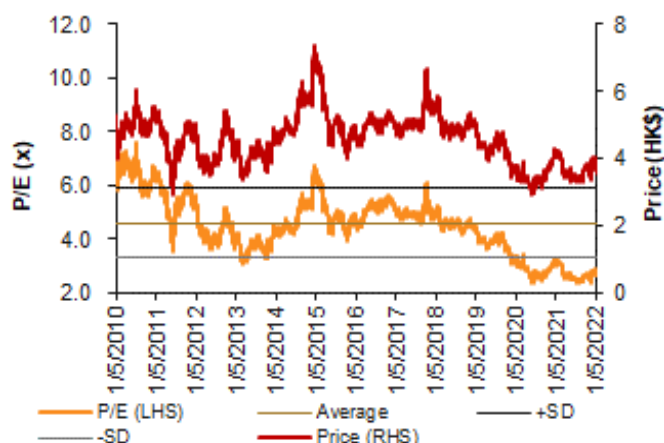
Source: Company data, CMBIGM

Fig.7: CM BANK-H (3968 HK) 12-month forward P/E



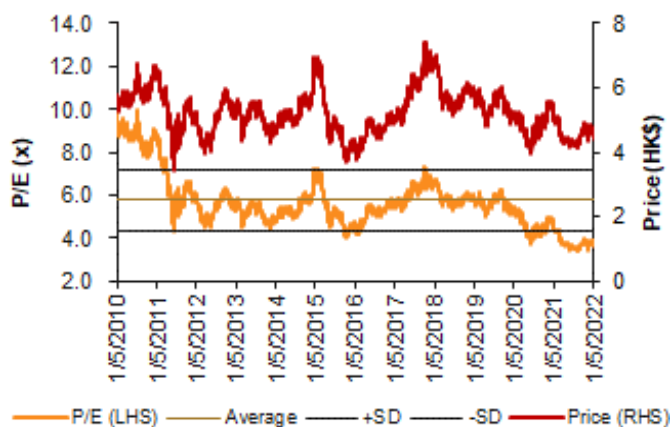
Source: Company data, CMBIGM

Fig.8: CITIC BANK-H (0998 HK) 12-month forward P/E



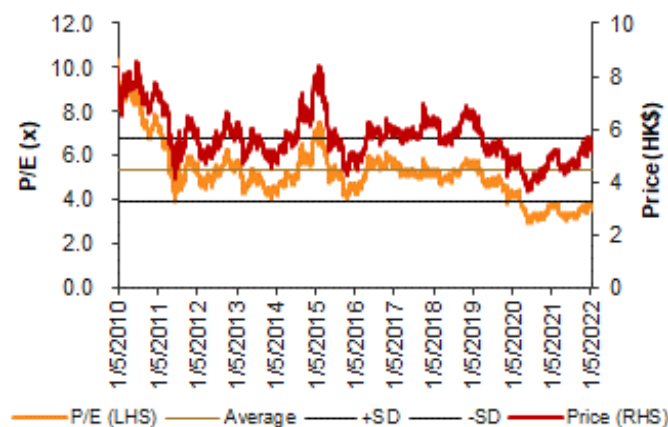
Source: Company data, CMBIGM

Fig.9: ICBC-H (1398 HK) 12-month forward P/E



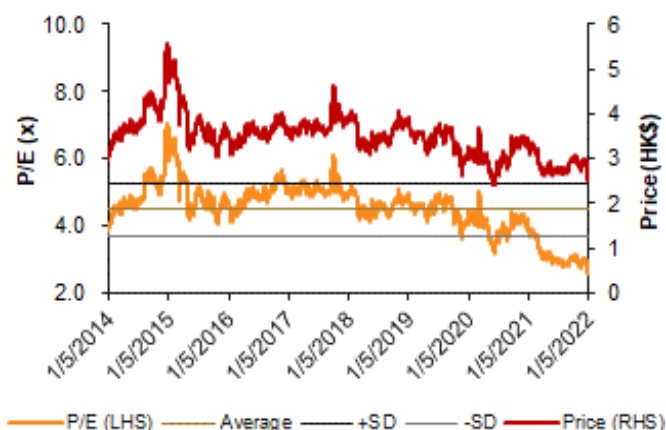
Source: Company data, CMBIGM

Fig.10: BANKCOMM-H (3328 HK) 12-month forward P/E



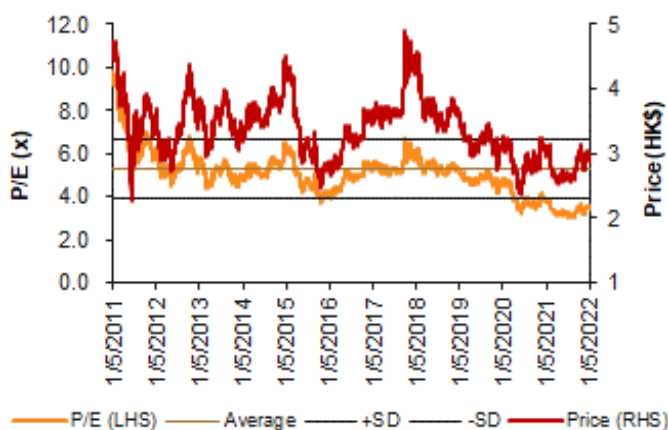
Source: Company data, CMBIGM

Fig.11: CEB BANK-H (6818 HK) 12-month forward P/E



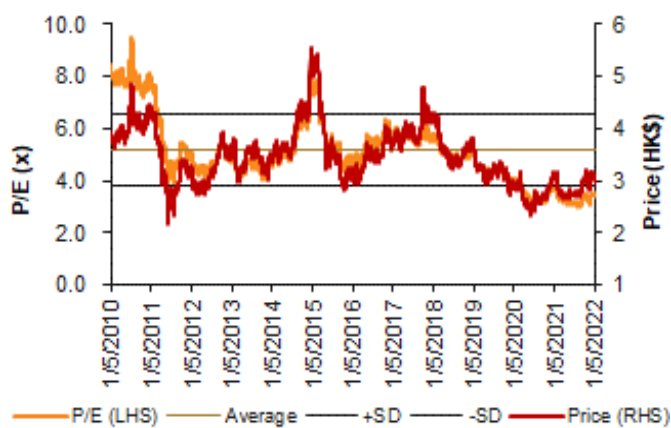
Source: Company data, CMBIGM

Fig.12: ABC-H (1288 HK) 12-month forward P/E



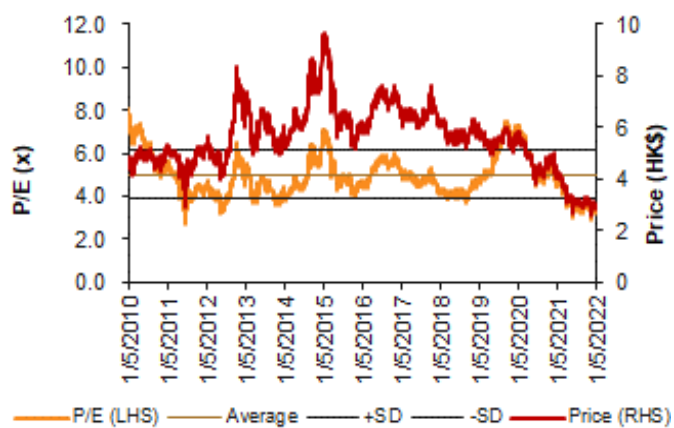
Source: Company data, CMBIGM

Fig.13: Bank of China-H (3988 HK) 12-month forward P/E



Source: Company data, CMBIGM

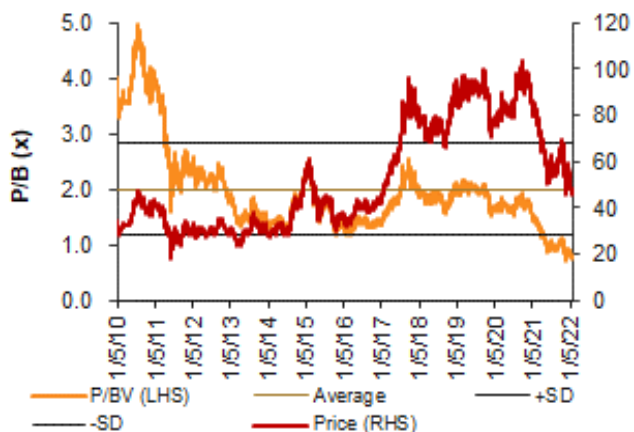
Fig.14: China Minsheng-H (1988 HK) 12-month forward P/E



Source: Company data, CMBIGM

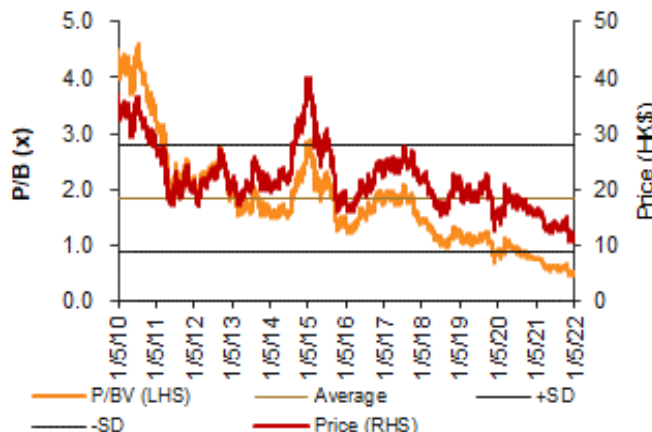
Trading Bands of PBV by insurers

Fig.1: Ping An-H (2318 HK) 12-month forward P/B



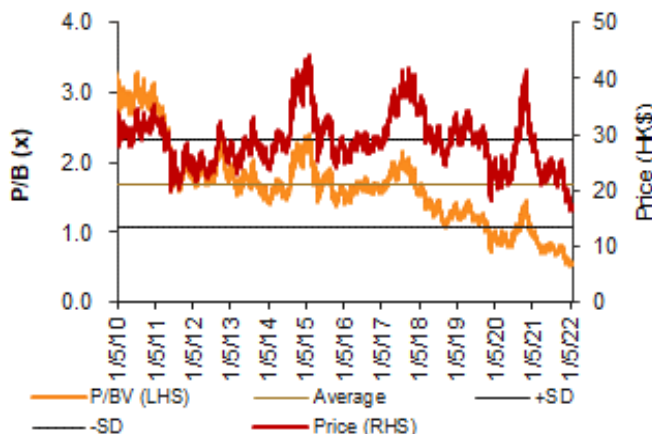
Source: Company data, CMBIGM

Fig.2: China Life-H (2628 HK) 12-month forward P/B



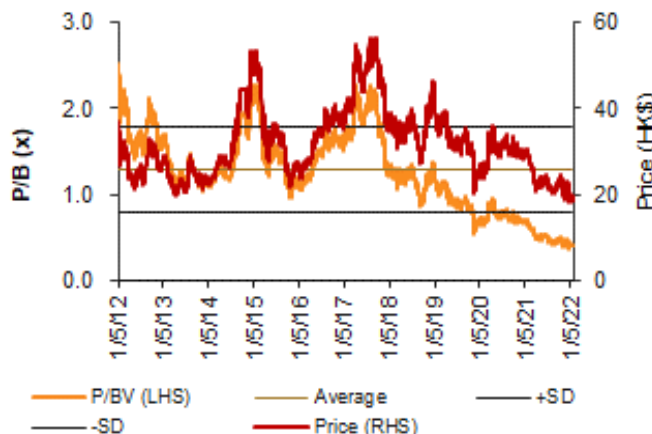
Source: Company data, CMBIGM

Fig.3: CPIC-H (2601 HK) 12-month forward P/B



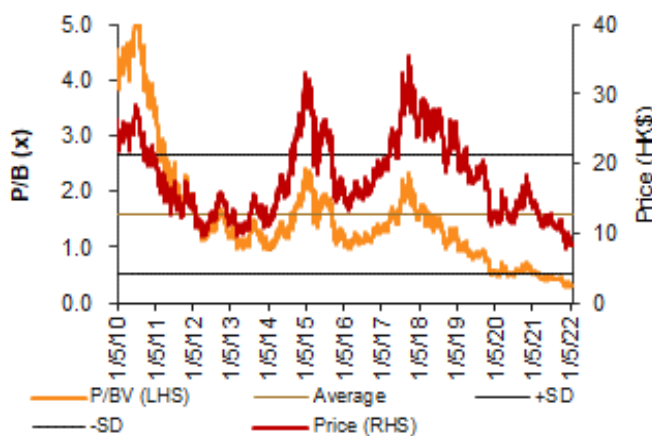
Source: Company data, CMBIGM

Fig.4: New China Life-H (1336 CH) 12-month forward P/B



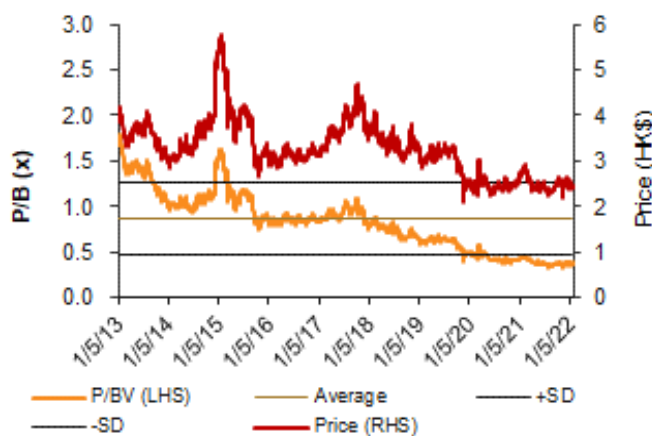
Source: Company data, CMBIGM

Fig.5: China Taiping-H (966 HK) 12-month forward P/B



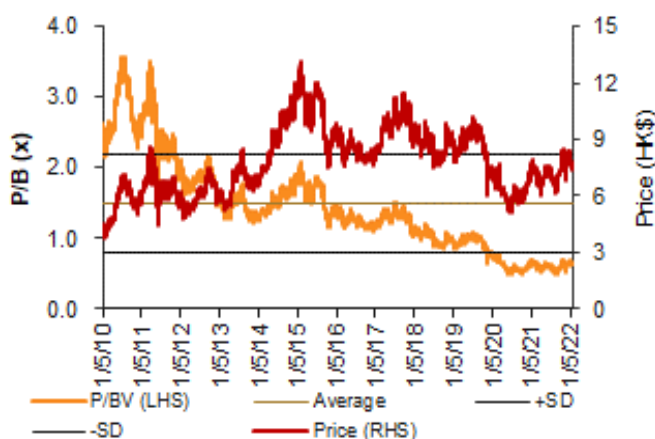
Source: Company data, CMBIGM

Fig.6: PICC Group-H (1339 HK) 12-month forward P/B



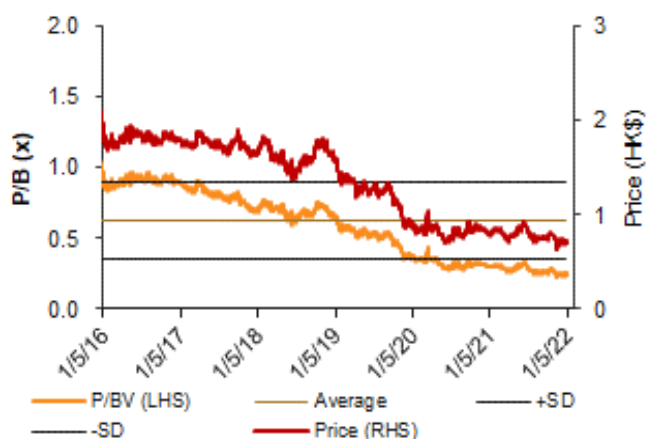
Source: Company data, CMBIGM

Fig.7: PICC P&C-H (2328 HK) 12-month forward P/B



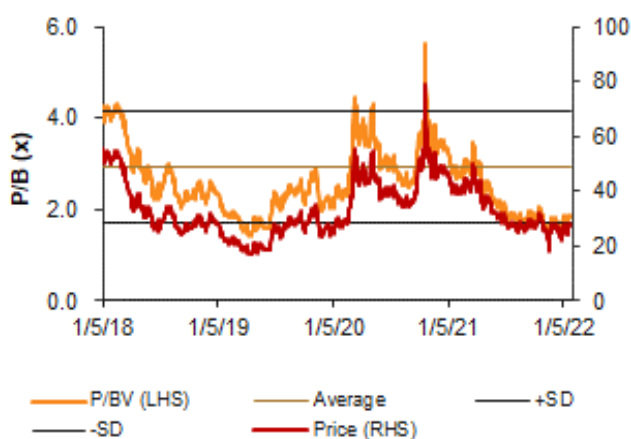
Source: Company data, CMBIGM

Fig.8: China Re-H (1508 HK) 12-month forward P/B



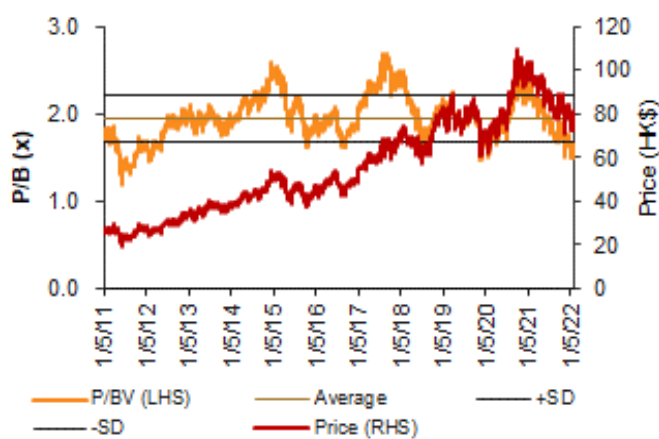
Source: Company data, CMBIGM

Fig.9: Zhong An-H (6060 HK) 12-month forward P/B



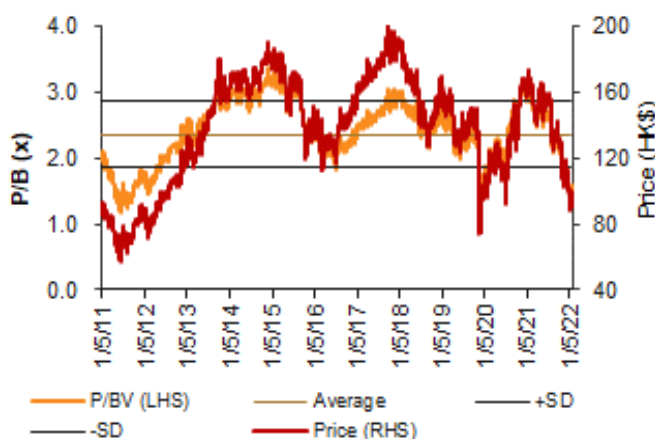
Source: Company data, CMBIGM

Fig.10: AIA-H (1299 HK) 12-month forward P/B



Source: Company data, CMBIGM

Fig.11: Prudential-H (2378 HK) 12-month forward P/B



Source: Company data, CMBIGM

Trading Bands of PER by insurers

Fig.1: Ping An-H (2318 HK) 12-month forward P/E



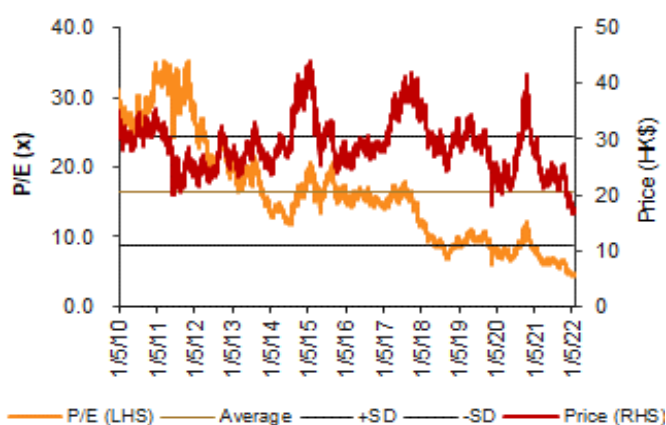
Source: Company data, CMBIGM

Fig.2: China Life-H (2628 HK) 12-month forward P/E



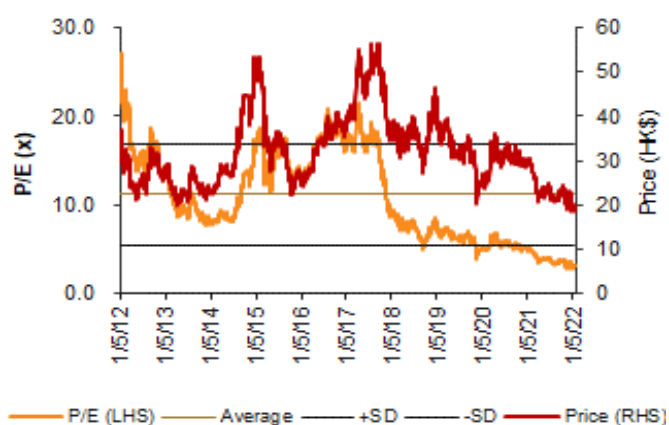
Source: Company data, CMBIGM

Fig.3: CPIC-H (2601 HK) 12-month forward P/E



Source: Company data, CMBIGM

Fig.4: New China Life-H (1336 CH) 12-month forward P/E



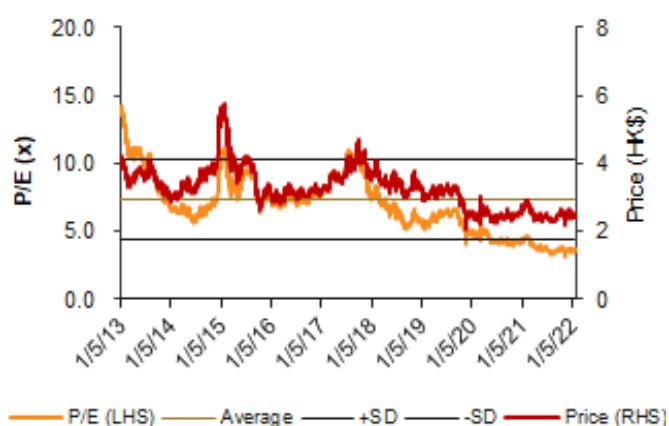
Source: Company data, CMBIGM

Fig.5: China Taiping-H (966 HK) 12-month forward P/E



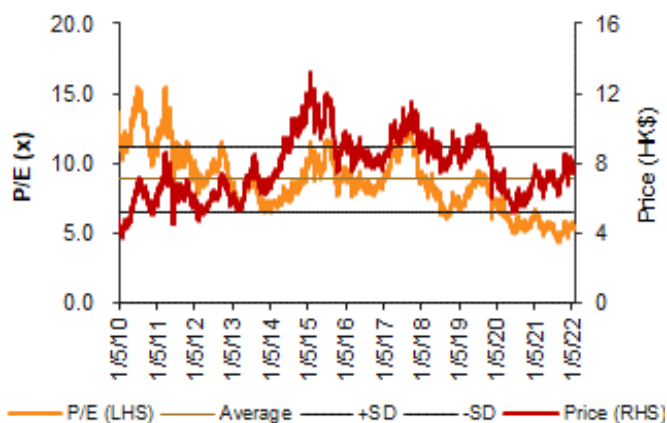
Source: Company data, CMBIGM

Fig.6: PICC Group-H (1339 HK) 12-month forward P/E



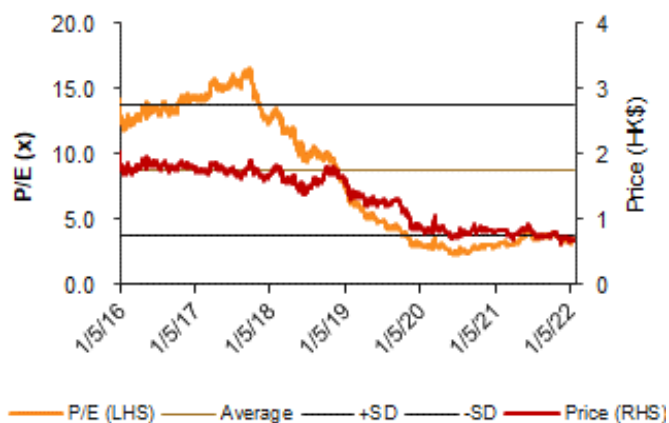
Source: Company data, CMBIGM

Fig.7: PICC P&C-H (2328 HK) 12-month forward P/E



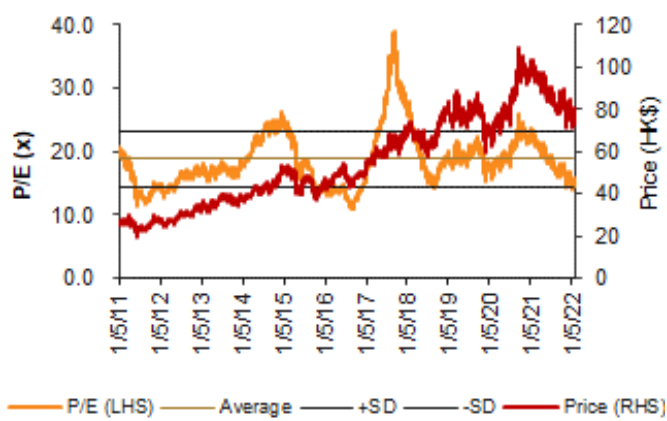
Source: Company data, CMBIGM

Fig.8: China Re-H (1508 HK) 12-month forward P/E



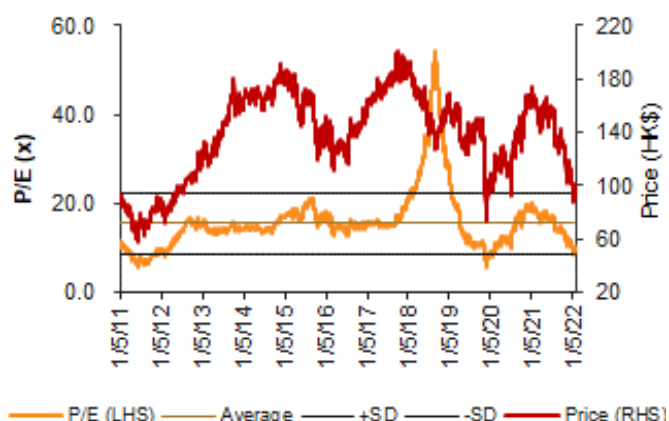
Source: Company data, CMBIGM

Fig.9: AIA-H (1299 HK) 12-month forward P/E



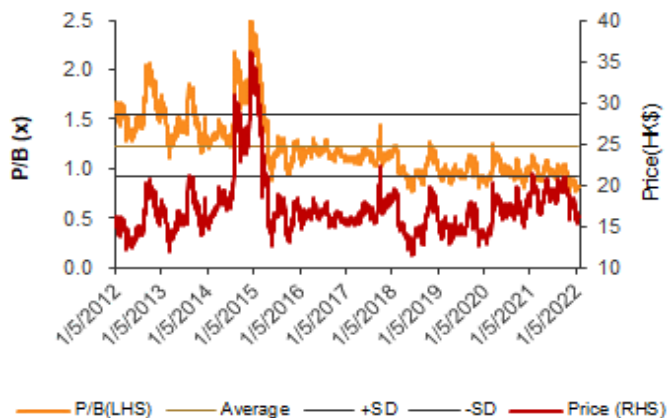
Source: Company data, CMBIGM

Fig.10: Prudential-H (2378 HK) 12-month forward P/E



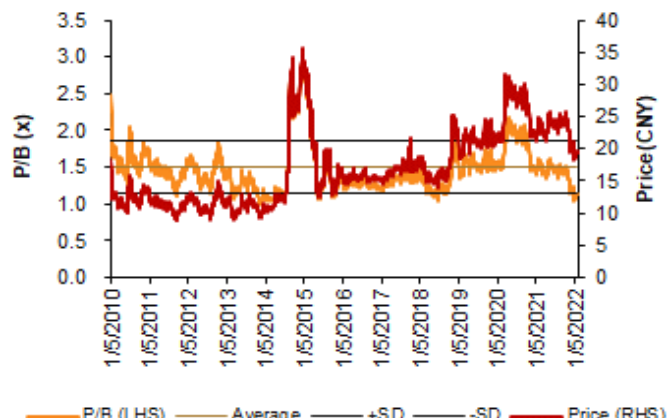
Trading Bands of PBV by brokers

Fig.1: CITIC SEC-H (6030 HK) 12-month forward P/B



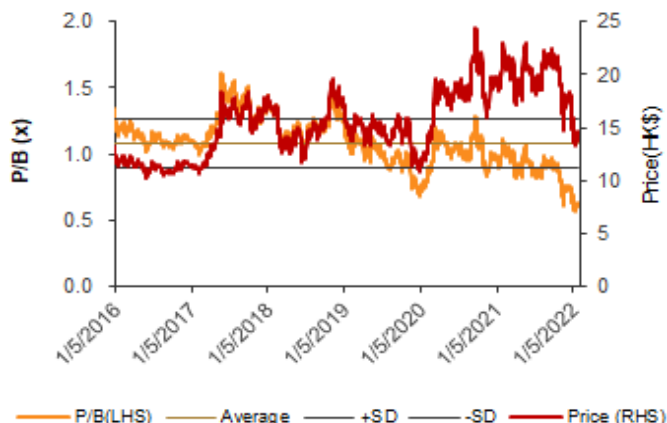
Source: Company data, CMBIGM

Fig.2: CITIC-CH (60030 CH) 12-month forward P/B



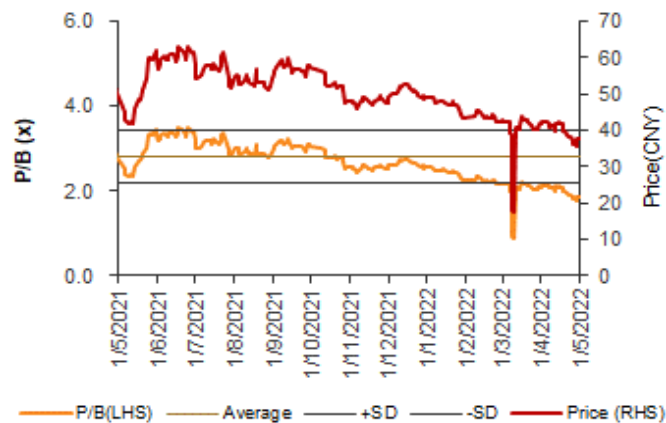
Source: Company data, CMBIGM

Fig.3: CICC-H (3908 HK) 12-month forward P/B



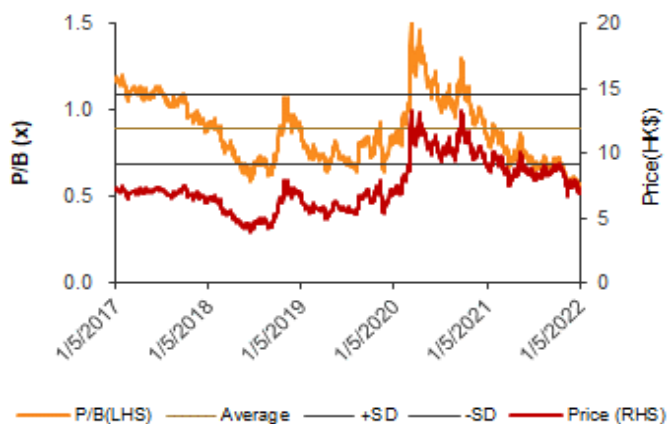
Source: Company data, CMBIGM

Fig.4: CICC-CH (601995 CH) 12-month forward P/B



Source: Company data, CMBIGM

Fig.5: CSC-H (6066 HK) 12-month forward P/B



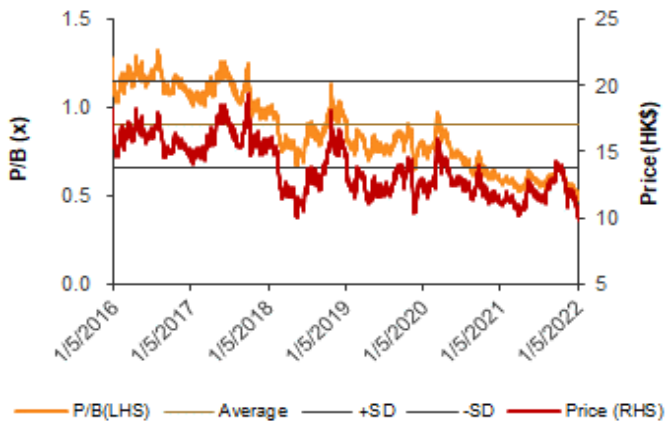
Source: Company data, CMBIGM

Fig.6: CSC-CH (601066 HK) 12-month forward P/B



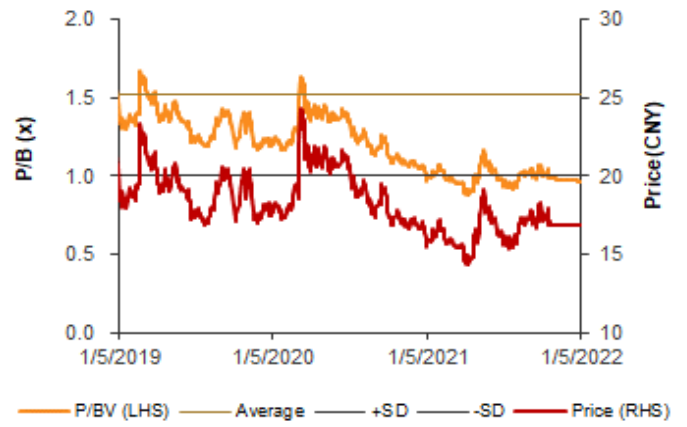
Source: Company data, CMBIGM

Fig.7: HUATAI SEC-H (6886 HK) 12-month forward P/B



Source: Company data, CMBIGM

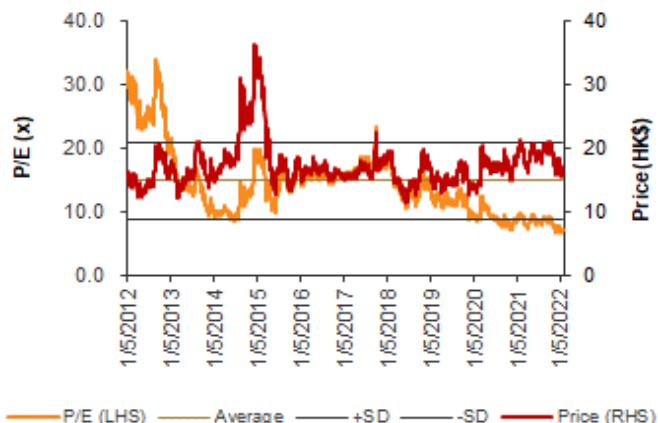
Fig.8: HUATAI SEC-CH (601688 CH) 12-month forward P/B



Source: Company data, CMBIGM

Trading Bands of PER by brokers

Fig.1: CITIC SEC-H (6030 HK) 12-month forward P/E



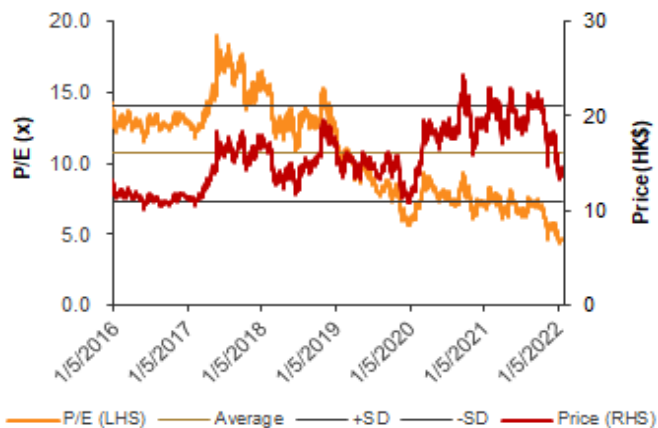
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Fig.2: CITIC-CH (600030 CH) 12-month forward P/E



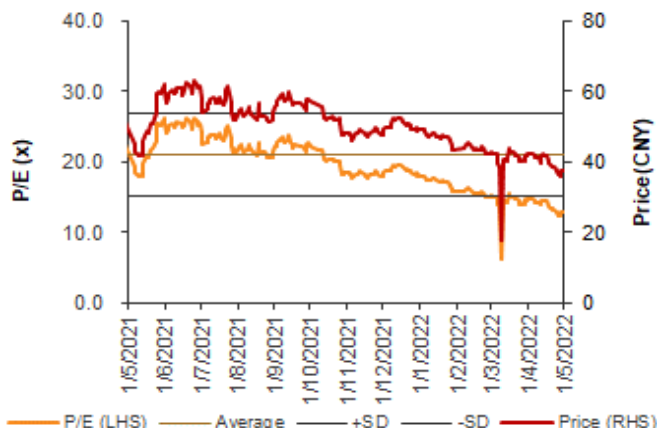
Source: Company data, CMBIGM

Fig.3: CICC-H (3908 HK) 12-month forward P/E



Source: Company data, CMBIGM

Fig.4: CICC-CH (601995 CH) 12-month forward P/E



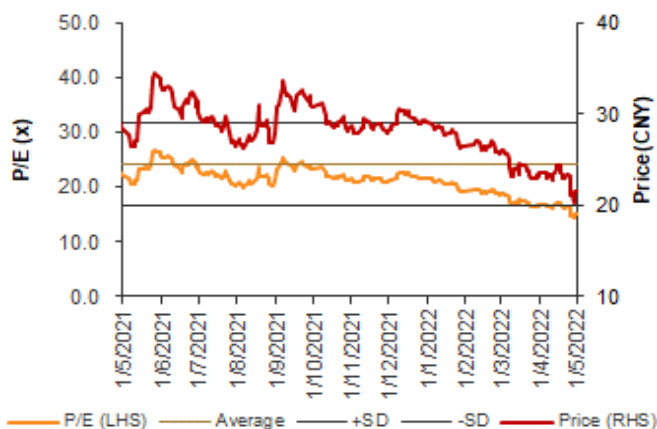
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Fig.5: CSC-H (6066 HK) 12-month forward P/E



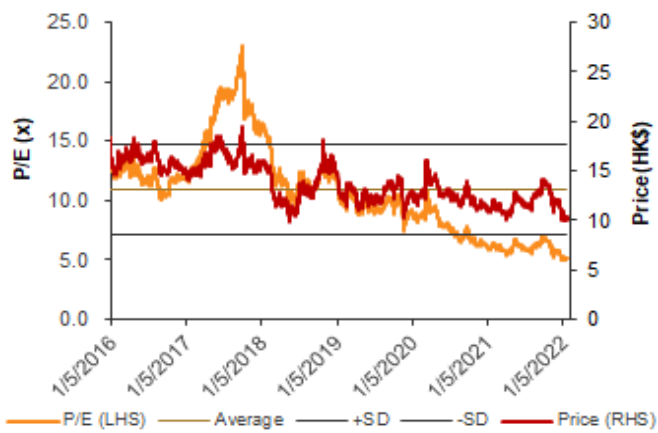
Source: Company data, CMBIGM

Fig.6: CSC-CH (601066 CH) 12-month forward P/E



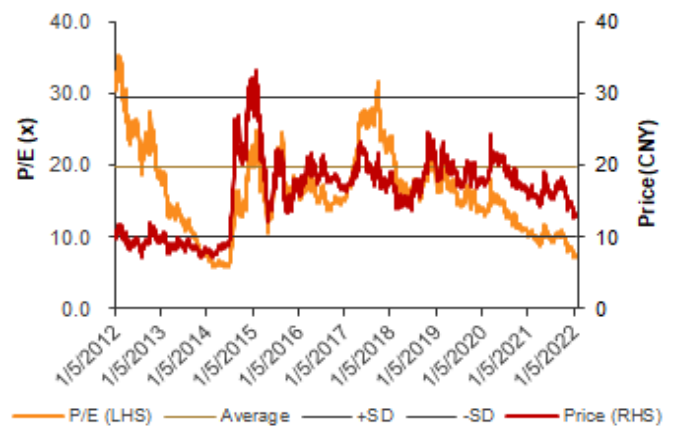
Source: Company data, CMBIGM

Fig.7: HUATAI SEC-H (6886 HK) 12-month forward P/E



Source: Company data, CMBIGM

Fig.8: HUATAI SEC-CH (601688 CH) 12-month forward P/E



Source: Company data, CMBIGM

Valuation

Banking Industry

Ticker	Name	Mkt Cap (LC)	Price (LC)	Rating	TP (LC)	Upside	P/E (x)		P/B (x)		Dividend yields	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
1658 HK	PSBC-H	567.7	5.93	Buy	8.40	42%	6.9	6.3	0.8	0.7	4.7%	5.2%
939 HK	CCB-H	1,411.0	5.59	Buy	8.10	45%	4.4	3.9	0.5	0.5	7.0%	7.8%
600000.CH	SPDB-A	233.4	7.95	Hold	9.00	13%	4.5	4.1	0.4	0.4	5.5%	6.0%
601229.CH	BOSH-A	91.1	6.41	Buy	8.68	35%	3.8	3.4	0.4	0.4	7.3%	8.2%
3618 HK	CQRCB-H	47.6	3.06	Hold	3.05	0%	3.5	3.2	0.3	0.3	8.8%	9.5%
601577.CH	BOCS-A	30.4	7.55	Hold	8.30	10%	4.4	3.8	0.6	0.5	5.7%	6.6%
601658.SH	PSBC-A	477.7	5.22	Buy	7.07	35%	6.0	5.5	0.7	0.6	5.4%	5.9%
601939.SH	CCB-A	1,209.0	5.97	Buy	7.50	26%	4.7	4.2	0.6	0.5	6.5%	7.3%
601077.SH	CQRCB-A	40.6	3.85	Hold	3.60	-6%	4.4	4.0	0.4	0.4	7.0%	7.6%

Source: CMBIGM estimates, Company data, Wind

Insurance Industry

Ticker	Company	Price	Rating	PO	Upside	P/BV		Dividend yields		P/E	
						FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
2318 HK	Ping An	47.60	Buy	81.40	71%	0.8 x	0.7 x	6.5%	7.3%	6.2 x	5.5 x
2628 HK	China Life	11.54	Buy	18.18	58%	0.5 x	0.5 x	7.6%	8.2%	4.7 x	4.3 x
2601 HK	CPIC	17.40	Buy	30.49	75%	0.6 x	0.5 x	10.2%	11.6%	4.8 x	4.2 x
1336 HK	NCL	19.52	Buy	32.35	66%	0.4 x	0.4 x	10.0%	11.3%	3.0 x	2.7 x
966 HK	Taiping	8.47	Buy	11.48	36%	0.3 x	0.3 x	8.6%	9.7%	3.5 x	3.1 x
1339 HK	PICC Group	2.46	Buy	3.58	46%	0.4 x	0.4 x	9.7%	11.1%	3.6 x	3.1 x
2328 HK	PICC P&C	7.83	Buy	11.64	49%	0.7 x	0.6 x	7.3%	8.7%	5.7 x	4.8 x
6060 HK	Zhong An	27.20	Buy	33.20	22%	1.7 x	1.5 x	0.0%	0.0%	34.2 x	22.3 x
601318	Ping An	43.89	Buy	67.56	54%	0.9 x	0.8 x	5.8%	6.5%	6.9 x	6.1 x
601628	China Life	24.81	Sell	18.10	-27%	1.3 x	1.2 x	2.9%	3.2%	12.1 x	11.3 x
601601	CPIC	21.04	Buy	30.37	44%	0.8 x	0.7 x	7.0%	8.0%	6.9 x	6.1 x
601336	NCL	28.22	Sell	26.85	-5%	0.7 x	0.6 x	5.7%	6.5%	5.3 x	4.7 x
601319	PICC Group	4.65	Sell	3.72	-20%	0.9 x	0.8 x	4.3%	4.9%	8.1 x	7.1 x

Ticker	Company	P/EV (Group)		New Business Multiplier		ROE		ROEV	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
2318 HK	Ping An	0.5 x	0.4 x	(22.6) x	(24.7) x	13.6%	14.1%	8.9%	10.3%
2628 HK	China Life	0.2 x	0.2 x	(22.0) x	(23.5) x	11.5%	11.3%	8.4%	8.4%
2601 HK	CPIC	0.3 x	0.2 x	(29.1) x	(28.4) x	12.1%	12.6%	7.4%	7.5%
1336 HK	NCL	0.2 x	0.2 x	(34.6) x	(34.7) x	13.7%	14.0%	5.8%	5.5%
966 HK	Taiping	0.1 x	0.1 x	(23.8) x	(24.2) x	8.4%	8.7%	6.5%	6.4%
1339 HK	PICC Group	0.3 x	0.3 x	(70.4) x	(75.4) x	11.2%	11.8%	7.3%	7.7%
601318	Ping An	0.5 x	0.5 x	(20.4) x	(22.7) x	13.6%	14.1%	8.9%	10.3%
601628	China Life	0.6 x	0.5 x	(12.6) x	(14.4) x	11.5%	11.3%	8.4%	8.4%
601601	CPIC	0.4 x	0.4 x	(24.3) x	(24.1) x	12.1%	12.6%	7.4%	7.5%
601336	NCL	0.3 x	0.3 x	(28.8) x	(29.3) x	13.7%	14.0%	5.8%	5.5%
601319	PICC Group	0.7 x	0.6 x	(32.8) x	(39.3) x	11.2%	11.8%	7.3%	7.7%

Ticker	Company	P&C premium growth		Combined ratio		Expense ratio		Loss ratio	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
2318 HK	Ping An	10.0%	10.0%	98.0%	98.0%	36.5%	36.5%	61.5%	61.5%
2601 HK	CPIC	9.6%	9.6%	99.7%	99.7%	27.0%	27.0%	72.7%	72.7%
966 HK	Taiping	5.0%	5.0%	103.0%	101.0%	45.0%	45.0%	56.0%	55.0%
2328 HK	PICC P&C	10.0%	10.0%	99.0%	98.6%	25.0%	25.0%	74.0%	73.6%
6060 HK	Zhong An	0.2%	0.2%	98.5%	97.7%	49.8%	49.0%	48.7%	48.7%

Source: CMBIGM estimates, Company data, Bloomberg

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