

## Alibaba Group

## Continue to execute strategic changes in Taobao Tmall; AIDC investment to step up

Reiterate Rating: BUY | PO: 106.00 USD | Price: 74.41 USD

## Expect NT volatility in Taobao Tmall earnings growth

We estimate BABA 3QFY24 total revs of RMB261b, up 5% YoY, decelerating from last quarter's 9% YoY primarily due to the near-term Taobao Tmall (TT) revs turbulence as co. shifts its focus to users, engagement, and orders, rather than revs and profit, during the strategic transition period. We now forecast domestic marketplaces' customer mgmt revs (CMR) +1% YoY to RMB92b, driven by low-single-digit % gross merchandise value (GMV) growth (from negative YoY last quarter) and slightly lower monetization rate, due to GMV mix shifting towards Taobao. We view a narrower gap between TT's GMV growth and industry growth as positive initial feedback on TT's re-gaining growth strategy, despite at a cost of NT CMR growth. We forecast continued solid momentum in Alibaba international digital commerce (AIDC) (+45% YoY) and Cainiao logistics (+20% YoY), driven by fast cross-border commerce expansion. Cloud revs are estimated to grow 3% YoY to RMB27b as a result of transition to refocus on public and AI cloud. On the margin side, we expect strong seasonality and improved margins in most non-core segments to be offset by stepped-up investment for AIDC and over RMB1b one-off losses. Hence, we forecast adj. EBITA of RMB53b (20.2% margin), +1% YoY. We cut FY24-26e revs by 2-4% and adj. net income by 3-12% to reflect continued softness in domestic consumer demand and investments for TT's longer term growth, AIDC's global expansion and cloud's AI potential. We lower our PO to US\$106/HK\$103 (from US\$113/HK\$110) on est. changes. Retain Buy on attractive valuation at 7x FY25e adj. EPADS and largely solved regulatory overhang.

## Mgmt changes; restructure AIDC; liquidate non-core assets

In the past couple weeks, co. announced a series of internal changes, including 1) Eddie Wu to take over as CEO of Taobao Tmall Group (TT); 2) Appointment of six young figures (under 40) to lead key operations of TT; and 3) Lazada to restructure and lay off nearly 20% headcount while AE to push semi-consignment Choice model. We view changes above as solid execution of co.'s core strategies and believe recent selloffs of XPeng and Gogox stakes suggest strong commitment of co. to deliver enhanced investor return.

Estimates (Mar) (CNY)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	54,986	72,783	122,789	128,820	145,055
EPS	20.19	27.58	47.99	51.34	58.97
EPS Change (YoY)	-63.2%	36.6%	74.0%	7.0%	14.9%
Dividend / Share	0	7.30	14.59	14.59	14.59
Free Cash Flow / Share	33.19	63.07	49.88	57.49	51.91
Common EPS (CNY)	2.52	3.45	6.00	6.42	7.37
Common Dividend / Share (CNY)	0	0.912	1.82	1.82	1.82
<b>Valuation (Mar)</b>					
P/E	23.38x	18.54x	11.12x	10.39x	9.05x
Dividend Yield	0%	1.43%	2.73%	2.73%	2.73%
EV / EBITDA*	9.68x	9.03x	7.92x	8.08x	7.25x
Free Cash Flow Yield*	6.60%	12.21%	9.34%	10.54%	9.33%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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**Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 10 January 2024 11:13PM EST

11 January 2024

## Equity

## Key Changes

(CNY)	Previous	Current
Price Obj.	US\$113.00	US\$106.00
2024E EPS	47.36	47.99
2025E EPS	53.54	51.34
2026E EPS	64.51	58.97

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## Stock Data

Price (ADR / Common)	74.41 USD / 69.30 HKD
Price Objective	106.00 USD / 103.00 HKD
Date Established	10-Jan-2024 / 10-Jan-2024
Investment Opinion	C-1-9 / B-1-9
52-Week Range	70.08 USD-121.30 USD
Market Value (mn)	189,256 USD
Shares Outstanding (mn)	2,543.4 / 20,347.4
Average Daily Value (mn)	1,576 USD
Free Float	26.0%
BofA Ticker / Exchange	BABA / NYS
BofA Ticker / Exchange	BABAF / HKG
Bloomberg / Reuters	BABA US / BABA.N
ROE (2024E)	10.7%
Net Dbt to Eqty (Mar-2023A)	-2.8%

# iQprofile<sup>SM</sup> Alibaba Group

## Key Income Statement Data (Mar)

(CNY Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	853,062	868,687	938,257	1,012,734	1,107,666
Gross Profit	313,612	318,992	351,085	377,952	410,310
Sell General & Admin Expense	(151,721)	(145,679)	(146,364)	(170,752)	(182,322)
Operating Profit	69,638	100,351	138,072	131,568	147,409
Net Interest & Other Income	(10,088)	(11,166)	(872)	1,546	1,546
Associates	NA	NA	NA	NA	NA
Pretax Income	59,550	89,185	137,200	133,114	148,954
Tax (expense) / Benefit	(26,815)	(15,549)	(20,465)	(22,407)	(23,537)
Net Income (Adjusted)	54,986	72,783	122,789	128,820	145,055
Average Fully Diluted Shares Outstanding	2,723	2,639	2,559	2,509	2,460

## Key Cash Flow Statement Data

Net Income	54,986	72,783	122,789	128,820	145,055
Depreciation & Amortization	73,951	53,596	37,530	40,509	44,307
Change in Working Capital	(18,150)	13,482	(11,034)	(1,485)	(22,781)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	31,972	59,891	24,183	35,790	37,412
Cash Flow from Operations	142,759	199,752	173,468	203,633	203,992
Capital Expenditure	(53,324)	(34,352)	(46,913)	(60,764)	(77,537)
(Acquisition) / Disposal of Investments	(144,812)	(101,438)	0	0	0
Other Cash Inflow / (Outflow)	(2,704)	1,315	0	0	0
Cash Flow from Investing	(200,840)	(134,475)	(46,913)	(60,764)	(77,537)
Shares Issue / (Repurchase)	(78,107)	(77,246)	(47,348)	(26,249)	(25,728)
Cost of Dividends Paid	NA	NA	NA	NA	NA
Cash Flow from Financing	(64,449)	(65,619)	(97,856)	(38,812)	(17,102)
Free Cash Flow	89,435	165,400	126,555	142,869	126,456
Net Debt	(48,554)	(31,732)	(60,431)	(164,488)	(273,841)
Change in Net Debt	133,663	8,154	(28,699)	(104,057)	(109,354)

## Key Balance Sheet Data

Property, Plant & Equipment	171,806	176,031	185,414	205,668	238,898
Other Non-Current Assets	885,212	879,047	871,420	864,966	858,512
Trade Receivables	45,001	41,176	51,903	59,082	80,514
Cash & Equivalents	189,898	193,086	221,785	325,842	435,195
Other Current Assets	403,636	463,704	471,691	485,679	500,691
Total Assets	1,695,553	1,753,044	1,802,212	1,941,237	2,113,810
Long-Term Debt	132,503	149,088	149,088	149,088	149,088
Other Non-Current Liabilities	97,073	95,684	95,684	95,684	95,684
Short-Term Debt	8,841	12,266	12,266	12,266	12,266
Other Current Liabilities	374,943	373,085	380,765	400,447	414,110
Total Liabilities	613,360	630,123	637,803	657,485	671,148
Total Equity	1,082,193	1,122,921	1,164,410	1,283,752	1,442,663
Total Equity & Liabilities	1,695,553	1,753,044	1,802,212	1,941,237	2,113,810

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	4.2%	8.1%	8.7%	7.4%	7.7%
Return On Equity	5.1%	6.6%	10.7%	10.5%	10.6%
Operating Margin	8.2%	11.6%	14.7%	13.0%	13.3%
EBITDA Margin	16.8%	17.7%	18.7%	17.0%	17.3%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	2.6x	2.7x	1.4x	1.6x	1.4x
Asset Replacement Ratio	0.7x	0.6x	1.3x	1.5x	1.8x
Tax Rate (Reported)	45.0%	17.4%	14.9%	16.8%	15.8%
Net Debt-to-Equity Ratio	-4.5%	-2.8%	-5.2%	-12.8%	-19.0%
Interest Cover	1.3x	2.1x	10.8x	20.4x	22.8x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Internet/e-Commerce

## Company Description

Alibaba Group runs leading online marketplaces (Taobao, TMall, Ele.Me) and B2B sties in China, and Lazada in SEA. It collects revenues mainly from commissions, marketing services, subscription fees, cloud computing and software, and logistics platform services. It also owns media and store chains, and partners with logistics and payment companies to offer delivery, warehousing, payment & financing services for its users and merchants. It has a stake and cooperation agreement with Ant Technology.

## Investment Rationale

We expect Alibaba to remain the leading eCommerce and Cloud platforms. Its leadership position enables it to benefit from industry growth and economies of scale. Alibaba has industry-leading investment in R&D to facilitate cross-selling and targeting. Hence there should be room for customer management growth. It also runs industry leading B2B and cloud services, and has initiatives targeting large addressable markets such as overseas eCommerce, new retail, O2O and an affiliate, Ant Technology.

## Stock Data

Shares / Common	0.13
Price to Book Value	1.2x

## Key Changes

(CNY)	Previous	Current
Price Obj.	HK\$110.00	HK\$103.00
2024E EPS	5.92	6.00
2025E EPS	6.69	6.42
2026E EPS	8.06	7.37



## Price objective basis & risk

### Alibaba Group (BABA / BABAF)

We use a multi-year DCF to capture the long-term growth profile of the company's business portfolio, capex and investment. Our SOTP PO is US\$106 (HK\$103/HK share):

- 1) US\$81 from our DCF valuation of the Alibaba operations (already reflecting cash outflow for new initiatives, net cash & liquid assets of US\$19, discount rate of 9%),
- 2) US\$8 from its LT investments consisting of listed entities on market value and unlisted entities incl. equities and debt investments on value reported on balance sheet (US\$7),
- 3) US\$10 from Ali's stake in Ant Group, with an updated valuation of US\$78.5b in recently announced share buyback.

Downside risks: 1) macro consumption, 2) value-destructive investments, 3) costs from overseas expansion, 4) regulation regarding data, security, anti-trust, ANT, trade, VAT, listing, restriction by US and audit inspection by PCAOB, 4) reputational risks about regulation and quality, 5) data security reviews, 6) industry competition incl. from short video, 7) industry deceleration off a large base, 8) operation complexity, 9) overhang of stakes of pre-IPO strategic investors, 10) macro and state-level shocks like epidemics, econ system changes, sanctions or military conflicts. Upside risks: 1) higher than expected valuation of Ant, 2) private market valuation of its new initiatives

## Analyst Certification

I, Joyce Ju, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CARAU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVL	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Huntsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNMF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang

## APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKL PF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA
	YY	YY	YY US	Lei Zhang
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

## NEUTRAL

	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPEXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCHF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang

## UNDERPERFORM

	Altium Limited	ALMFF	ALU AU	Ware Kuo
	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart Intermesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar



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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kakao Games	XKKGF	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Netmarble	XLGHF	251270 KS	Susie Lee
	PearlAbyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHf	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTDF	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTSf	300496 CH	Daley Li, CFA
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo
<b>RWW</b>	Dada Nexus	DADA	DADA US	Lei Zhang

**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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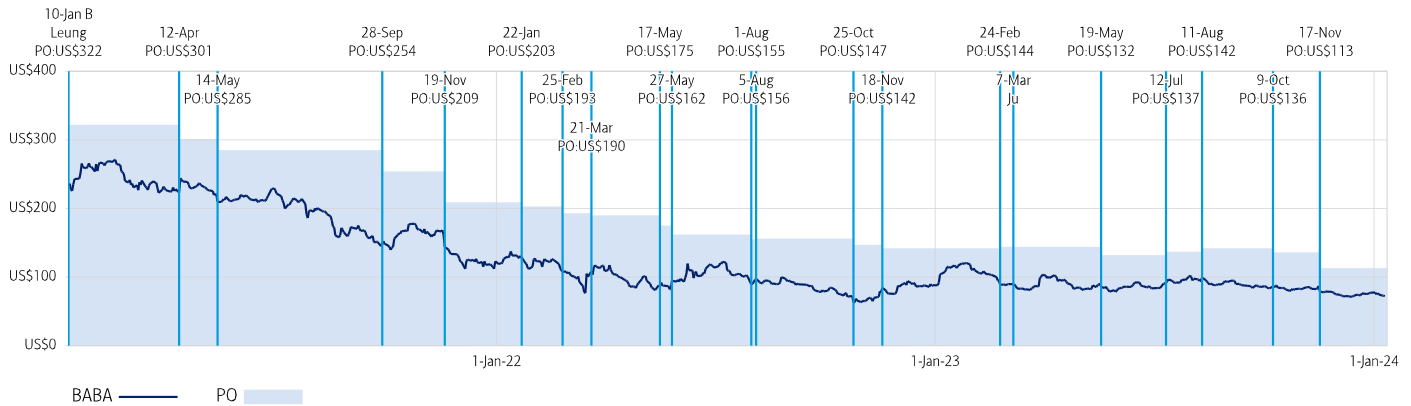
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## Important Disclosures

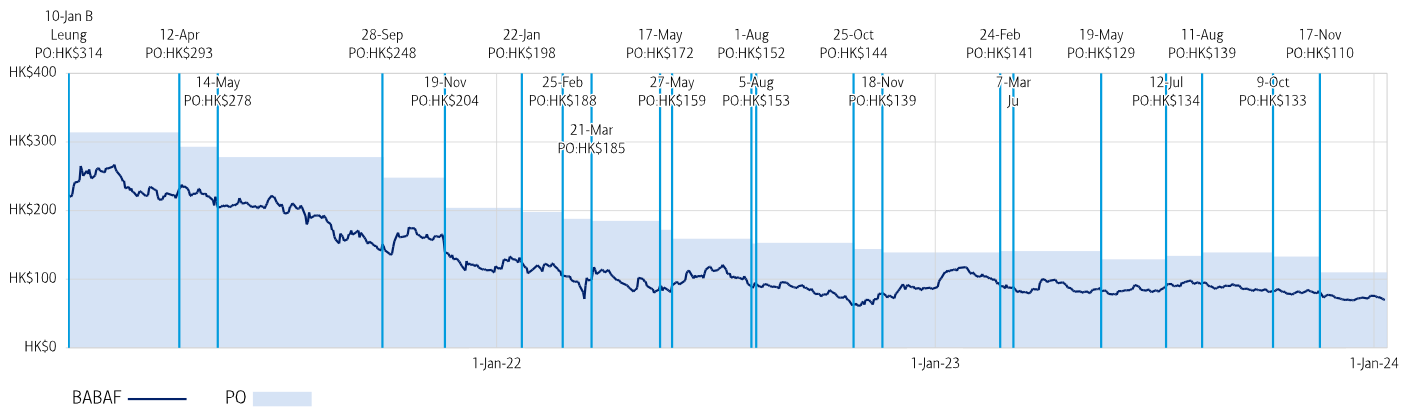
### Alibaba (BABA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Alibaba (BABA) Price Chart



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### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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