

Studio Dragon (253450 KS)

Growth secured for 2020 even without China

BUY (Maintain)

CP (Nov. 7)	KRW78,300
TP (6 months)	KRW100,000
Upside	27.7%

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KOSPI	2,144.29p
KOSDAQ	666.15p
Market cap	KRW2,199.9bn/USD1,929.7mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	7.1mn(25.3%)
52-week high/low	KRW114,100/KRW54,000
60-day avg. trading volume	101,034shrs
60-day avg. turnover	KRW6,955mn
Foreign ownership	2.92%
Major shareholders	
	CJ ENM and 5 others 74.33%
Absolute performance	3M 40.1%
	6M -13.8%
	12M -19.7%
Relative performance	3M 18.7%
to KOSDAQ	6M -2.5%
	12M -17.7%

- ◆ 3Q19 consolidated OP mostly in line at KRW10.9bn (-49.1% YoY)
- ◆ OP to grow 80.4% YoY in 2020 even without China earnings
- ◆ Retain BUY and raise target price by 7.5% to KRW100,000

3Q19 consolidated OP mostly in line at KRW10.9bn (-49.1% YoY)

Studio Dragon posted 3Q19 consolidated operating profit of KRW10.9bn (-49.1% YoY) on sales of KRW131.2bn (+6.1% YoY), mostly in line with expectations (SHIC estimate KRW10bn, market consensus KRW11.9bn). Production revenue increased 24.4% YoY to KRW60.8bn, driven by Hotel del Luna produced for CJ ENM and Netflix original Love Alarm. Even with the comparison base raised by the success of Mr. Sunshine in 3Q18, distribution revenue remained solid, falling by only 5.4% YoY to KRW60bn. The limited decline in the key earnings indicator owes to content sales to over-the-top (OTT) platforms like Netflix.

OP to grow 80.4% YoY in 2020 even without China earnings

We see many positives that would drive earnings in 2020 even without China revenue. First, aggressive investments are expected with sales growth (+18.6% YoY) outpacing production cost growth (+8.5% YoY). Revenue from Netflix should climb 27.4% YoY in 2020 even when excluding original production thanks to the continuing uptrend in distribution revenue. Studio Dragon is also projected to secure original drama production deals in the Americas with major platforms other than Netflix. Once the company seals new deals, it should take another step up from its current status as a key beneficiary of Netflix's content shortages to a major beneficiary of intensifying content competition among global platforms. Excluding China earnings, we forecast sales of KRW553.2bn (+18.6% YoY) and operating profit of KRW72.1bn (+80.4% YoY) for 2020. If China earnings are added, annual operating profit should exceed KRW100bn.

Retain BUY and raise target price by 7.5% to KRW100,000

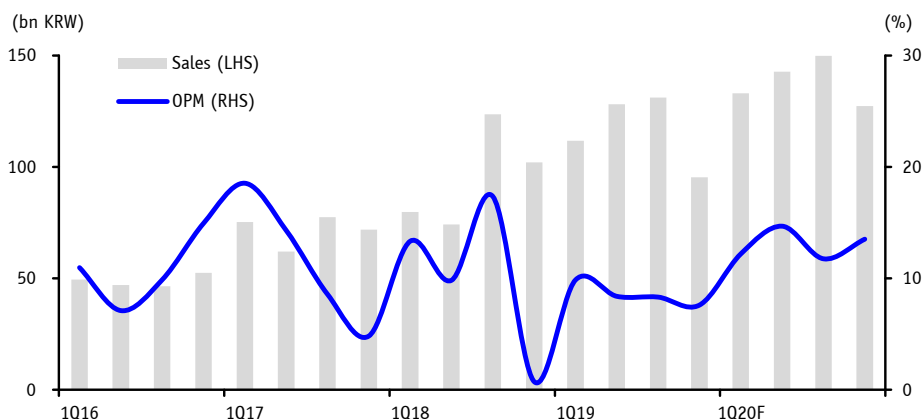
Our target price for Studio Dragon is upgraded by 7.5% from KRW93,000 to KRW100,000. Our revised target is based on 2020F operating profit of KRW72.1bn excluding China earnings (net profit of KRW63.1bn) and a target PER of 45x. We continue to recommend Studio Dragon as our media/advertising sector top pick along with Jcontentree (036420) on forecasts for: 1) revenue growth from overseas OTT platforms including Netflix; 2) over 80% YoY growth in operating profit in 2020; and 3) sharp improvement in profitability once China eases restrictions on Korean media contents.

Year to	Sales	OP	Pre-tax	NP	EPS	Growth	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(%)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2017	286.8	33.0	30.3	23.8	1,050	84.5	13,141	61.9	22.1	4.9	9.5	(49.5)
2018	379.6	39.9	45.6	35.8	1,278	21.7	14,305	72.3	21.2	6.5	9.3	(38.2)
2019F	466.6	40.0	48.4	36.4	1,298	1.5	15,603	60.3	9.2	5.0	8.7	(42.8)
2020F	553.2	72.1	83.1	63.1	2,251	73.4	17,854	34.8	7.9	4.4	13.5	(46.5)
2021F	624.6	83.7	95.7	72.7	2,593	15.2	20,446	30.2	7.3	3.8	13.5	(50.8)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Sales and operating profit margin



Source: Company data, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)

(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19P	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F	2017	2018	2019F	2020F
<Earnings forecasts>																
Total revenue	79.9	74.3	123.7	101.7	111.8	128.2	131.2	95.3	133.1	142.8	149.9	127.4	286.8	379.5	466.6	553.2
Production revenue	40.7	34.1	48.9	54.4	44.1	58.1	52.8	45.7	47.4	61.4	56.0	47.7	131.2	178.1	200.7	212.5
- Global platforms	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	1.5	0.0	1.5	2.3	0.0	0.0	0.8	5.3
Distribution revenue	32.1	28.8	63.4	37.8	56.2	60.3	60.0	41.4	63.9	70.6	72.9	56.2	111.8	162.1	217.9	263.5
Other (PPL) revenue	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.2	11.8	10.8	11.0	8.6	43.7	39.4	39.9	42.2
<Overseas operations>																
Overseas distribution revenue	22.7	16.5	46.2	24.8	42.6	42.2	43.9	29.3	49.2	50.8	52.9	41.6	67.2	110.2	158.0	194.4
Share in distribution revenue (%)	70.8	57.2	72.9	65.7	75.9	70.0	73.1	70.8	77.0	72.0	72.6	74.0	60.1	68.0	72.5	73.8
Japan	3.5	4.5	3.4	4.2	10.3	5.9	3.2	5.6	11.3	7.1	3.9	6.8	18.7	15.6	25.0	29.1
Asia including China	8.9	10.5	10.4	13.9	21.3	12.7	19.3	17.6	24.8	17.2	21.3	20.1	39.9	43.8	71.3	83.5
China	0.0	0.0	0.0	1.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.8	0.0
Americas	0.2	0.3	0.3	1.1	0.4	0.5	5.2	2.5	2.4	2.4	4.5	4.5	8.2	1.9	8.6	13.8
Others	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.4	0.4	0.4	0.5
COGS	66.2	63.7	98.9	95.2	96.8	112.8	115.9	83.5	112.4	116.5	127.2	105.2	239.8	324.0	409.1	461.1
SG&A	3.0	3.3	3.3	6.0	4.0	4.6	4.4	4.6	4.5	5.4	5.1	5.0	14.1	15.7	17.5	20.0
OP	10.7	7.3	21.5	0.4	11.0	10.8	10.9	7.3	16.2	21.0	17.6	17.2	33.0	39.9	40.0	72.1
Pre-tax profit	10.8	11.0	22.0	1.7	13.2	11.9	13.1	10.2	18.3	23.1	20.8	20.9	30.3	45.6	48.4	83.1
NP	7.9	8.9	17.3	1.7	9.2	7.3	11.5	8.3	13.9	17.5	15.8	15.9	23.8	35.8	36.4	63.1
<% YoY growth>																
Sales	6.0	19.6	59.6	41.5	40.0	72.6	6.1	(6.6)	19.0	11.4	14.3	33.6	46.7	32.3	22.8	18.6
OP	(23.7)	(17.8)	223.0	(87.3)	3.5	47.4	(49.1)	861.8	47.2	94.9	61.5	137.6	55.4	20.9	(0.6)	80.4
NP	(41.3)	216.8	206.3	(12.5)	17.2	(17.3)	(33.5)	304.2	51.3	138.9	37.2	90.4	83.3	50.2	0.8	73.4
<Margin, %>																
OPM	13.3	9.8	17.4	0.4	9.9	8.4	8.3	7.6	12.2	14.7	11.8	13.5	11.5	10.5	8.6	13.0
NPM	9.8	11.9	14.0	1.7	8.2	5.7	8.8	8.7	10.5	12.3	10.6	12.4	8.3	9.4	7.8	11.4

Source: Company data, Shinhan Investment Corp.

Note: Distribution rights revenue from Netflix included in overseas distribution revenue; China revenue assumed to be zero for 2020

PER valuation: Target price of KRW100,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2019F NP	36.4	2020F NP	63.1	2021F NP	72.7
EPS (KRW)	1,298	EPS (KRW)	2,251	EPS (KRW)	2,593
Target price (KRW)	59,000	Target price (KRW)	100,000	Target price (KRW)	117,000
Target PER (x)	45	Target PER (x)	45	Target PER (x)	45
		Current price	78,300		
		Current PER	34.8		

Source: Shinhan Investment Corp.

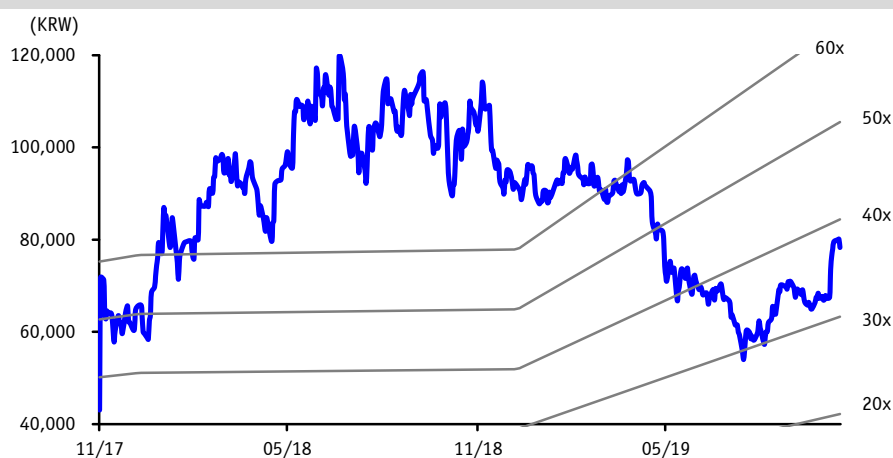
Note: Target PER based on a 20% discount to past 2-year average PER (low) in view of uncertainty in China earnings and decline in profitability from increasing production costs. Studio Dragon continues to see steady distribution revenue growth from Netflix and should be able to deliver sharp profit growth once China eases restrictions on Korean media contents.

PER trend

(x)	2017	2018	Past 2-year average
PER (high)	77.4	96.6	87.0
PER (low)	52.7	45.4	49.0
PER (average)	60.3	75.9	68.1

Source: Shinhan Investment Corp.

12-month forward PER band



Source: Bloomberg, Shinhan Investment Corp.

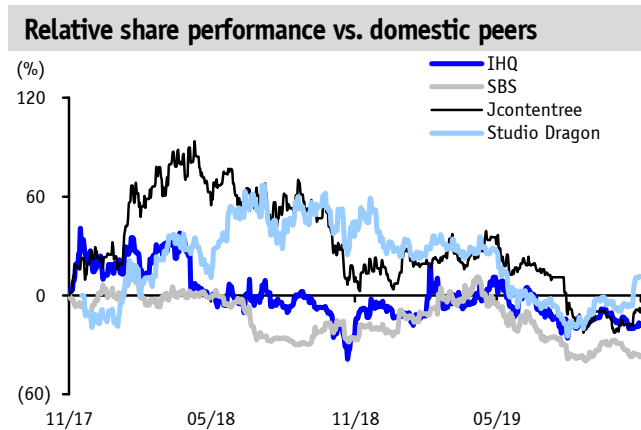
3Q19 preliminary results

(bn KRW)	3Q19P	2Q19	% QoQ	3Q18	% YoY	SHIC	Consensus
Sales	131.2	128.2	2.3	123.7	6.1	135.0	127.9
OP	10.9	10.8	0.9	21.5	(49.1)	10.0	11.9
NP	11.5	7.3	57.5	17.3	(33.5)	10.6	9.4
OPM (%)	8.3	8.4		17.4		7.4	9.3
NPM (%)	8.8	5.7		14.0		7.9	7.3

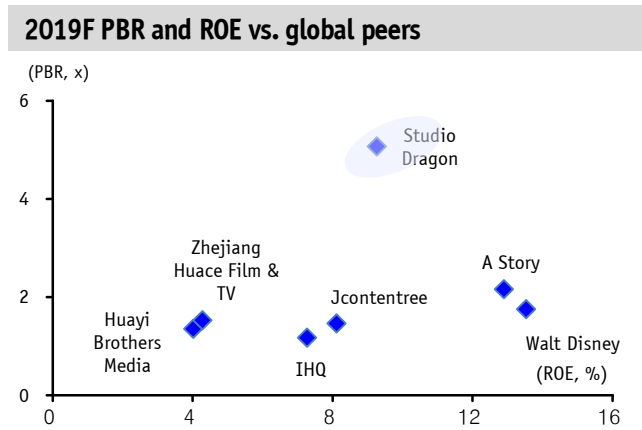
Source: Company data, FnGuide, Shinhan Investment Corp.

Peer group valuation								
Ticker		253450 KS	036420 KS	003560 KS	160550 KS	DIS US	300027 CH	300133 CH
Company		Studio Dragon	Jcontentree	IHQ	NEW	Walt Disney	Huayi Brothers Media	Zhejiang Huace Film & TV
Market cap (bn KRW)		1,972.3	541.0	111.8	105.5	293,309.5	13.1	12.9
Sales	2018	379.6	511.3	161.2	161.2	65,093.4	644.7	959.5
(bn KRW)	2019F	502.3	568.6	170.7	170.7	82,860.3	704.1	879.3
	2020F	603.6	637.4	186.9	186.9	97,160.9	815.0	1,023.3
OP	2018	40.2	34.7	(10.6)	(10.6)	16,249.8	63.4	80.8
(bn KRW)	2019F	48.8	60.7	1.8	1.8	16,063.8	95.2	65.7
	2020F	74.0	69.3	8.7	8.7	18,322.9	124.0	104.6
OPM	2018	10.6	6.8	(6.6)	(6.6)	25.0	9.8	8.4
(%)	2019F	9.7	10.7	1.1	1.1	19.4	13.5	7.5
	2020F	12.3	10.9	4.7	4.7	18.9	15.2	10.2
NP	2018	36.2	23.1	(9.5)	(9.5)	11,477.9	(6.6)	39.0
(bn KRW)	2019F	40.7	29.8	4.0	4.0	11,372.2	64.4	56.8
	2020F	60.2	34.9	7.2	7.2	11,359.8	93.7	83.0
Sales growth	2018	32.4	21.6	70.5	70.5	3.2	(1.9)	9.7
(% YoY)	2019F	32.3	11.2	5.9	5.9	27.3	9.2	(8.4)
	2020F	20.2	12.1	9.5	9.5	17.3	15.7	16.4
EPS growth	2018	19.7	170.9	39.5	39.5	16.7	(110.4)	(59.4)
(% YoY)	2019F	12.5	7.5	(146.9)	(146.9)	(11.6)	(1,499.3)	80.7
	2020F	48.5	14.6	58.0	58.0	2.0	27.5	36.9
PER	2018	72.3	29.3	N/A	N/A	16.8	N/A	70.2
(x)	2019F	48.4	18.3	24.7	23.3	24.1	23.8	28.9
	2020F	32.6	16.0	15.6	14.8	23.6	18.6	21.1
PBR	2018	6.5	1.9	1.0	1.0	3.6	1.5	2.1
(x)	2019F	4.5	1.5	0.9	0.9	2.7	1.4	1.8
	2020F	4.0	1.4	0.9	0.8	2.4	1.4	1.7
EV/EBITDA	2018	21.1	9.7	N/A	N/A	11.1	37.1	30.4
(x)	2019F	12.5	8.0	22.0	20.3	18.1	21.0	28.5
	2020F	10.7	7.5	11.7	10.8	16.0	16.3	21.0
ROE	2018	9.4	9.3	(7.7)	(7.7)	23.3	(0.4)	3.4
(%)	2019F	9.6	8.8	4.7	4.7	14.2	4.8	4.6
	2020F	12.9	9.6	5.6	5.6	11.8	5.9	5.9

Source: Bloomberg, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	459.5	512.4	579.1	655.2	739.5
Current assets	289.8	247.2	300.5	375.2	451.6
Cash and equivalents	51.3	153.0	187.1	232.1	290.8
Accounts receivable	54.9	68.8	86.0	111.8	126.2
Inventories	1.3	0.6	0.7	0.8	1.0
Non-current assets	169.6	265.2	278.7	280.0	287.8
Tangible assets	1.1	1.0	0.8	0.8	0.6
Intangible assets	127.5	198.5	211.4	212.0	219.4
Investment assets	3.8	3.7	4.5	5.2	5.9
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	91.0	111.1	141.4	154.4	165.9
Current liabilities	90.7	108.2	138.4	151.2	162.6
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	6.1	19.6	20.5	21.5	22.5
Current portion of long-term debt	10.0	0.0	0.0	0.0	0.0
Non-current liabilities	0.3	2.9	3.0	3.2	3.4
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	2.1	2.1	2.1	2.1
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	368.4	401.3	437.7	500.8	573.6
Capital stock	14.0	14.0	14.0	14.0	14.0
Capital surplus	319.6	320.1	320.1	320.1	320.1
Other capital	2.7	0.3	0.3	0.3	0.3
Accumulated other comprehensive income	0.0	(0.8)	(0.8)	(0.8)	(0.8)
Retained earnings	32.1	67.6	104.1	167.2	239.9
Controlling interest equity	368.4	401.3	437.7	500.8	573.6
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	10.1	2.1	2.1	2.1	2.1
*Net debt (cash)	(182.5)	(153.4)	(187.5)	(232.7)	(291.5)

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	(7.2)	(29.1)	219.5	215.5	236.7
Net profit	23.8	35.8	36.4	63.1	72.7
Depreciation expense	0.3	0.3	0.4	0.3	0.3
Amortization expense	41.0	75.0	177.7	175.7	177.8
FX translation loss (gain)	0.8	(0.5)	0.0	0.0	0.0
Asset disposal loss (gain)	(0.0)	0.0	0.0	0.0	0.0
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(72.9)	(139.4)	8.6	(19.3)	(8.7)
(Payment of income tax)	(10.4)	(9.7)	(12.0)	(19.9)	(23.0)
Others	10.2	9.4	8.4	15.6	17.6
Cash flow from investments	(141.0)	140.6	(188.1)	(173.1)	(180.6)
Increase in tangible assets	(0.1)	(0.2)	(0.3)	(0.4)	(0.1)
Decrease in tangible assets	0.1	0.0	0.1	0.1	0.1
Change in intangible assets	(0.2)	(0.1)	(190.6)	(176.3)	(185.2)
Change in investment assets	0.0	0.0	(0.8)	(0.8)	(0.6)
Others	(140.8)	140.9	3.5	4.3	5.2
Free cash flow	44.0	143.7	218.9	213.6	235.3
Cash flow from financing	188.1	(9.7)	(0.0)	(0.0)	(0.0)
Change in borrowings	(18.1)	(10.0)	0.0	0.0	0.0
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Others	206.2	0.3	0.0	0.0	0.0
Other cash flow	0.0	0.0	2.6	2.6	2.6
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.1)	(0.1)	0.0	0.0	0.0
Change in total cash	39.8	101.7	34.0	45.0	58.7
Beginning cash	11.5	51.3	153.0	187.1	232.1
Ending cash	51.3	153.0	187.1	232.1	290.8

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	286.8	379.6	466.6	553.2	624.6
Growth (%)	85.7	32.4	22.9	18.6	12.9
COGS	239.7	324.0	409.1	461.1	518.4
Gross profit	47.1	55.6	57.5	92.1	106.2
GPM (%)	16.4	14.6	12.3	16.6	17.0
SG&A	14.2	15.7	17.5	20.0	22.5
Operating profit	33.0	39.9	40.0	72.1	83.7
Growth (%)	98.3	21.0	0.2	80.4	16.1
OPM (%)	11.5	10.5	8.6	13.0	13.4
Non-operating profit	(2.7)	5.7	8.4	11.0	12.0
Financial profit	(2.5)	6.1	8.6	9.4	10.5
Other non-operating profit	(0.2)	(0.3)	(0.2)	1.6	1.5
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	30.3	45.6	48.4	83.1	95.7
Income tax	6.4	9.8	12.0	19.9	23.0
Continuing operations	23.8	35.8	36.4	63.1	72.7
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	23.8	35.8	36.4	63.1	72.7
Growth (%)	192.9	50.3	1.6	73.4	15.2
NPM (%)	8.3	9.4	7.8	11.4	11.6
Controlling interest	23.8	35.8	36.4	63.1	72.7
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	23.8	34.7	36.4	63.1	72.7
Controlling interest	23.8	34.7	36.4	63.1	72.7
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	74.3	115.2	218.0	248.1	261.7
Growth (%)	91.4	55.1	89.3	13.8	5.5
EBITDA margin (%)	25.9	30.3	46.7	44.9	41.9

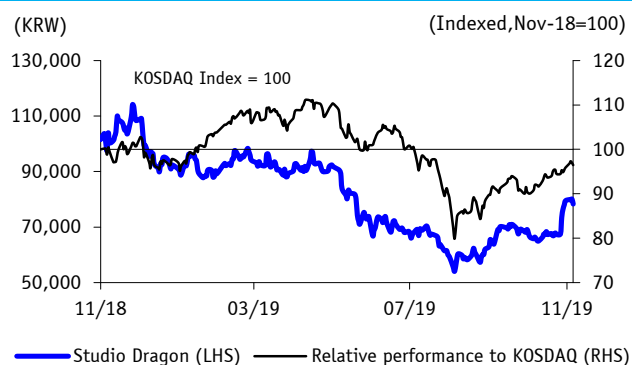
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	1,050	1,278	1,298	2,251	2,593
EPS of controlling interest (KRW)	1,050	1,278	1,298	2,251	2,593
BPS (KRW)	13,141	14,305	15,603	17,854	20,446
BPS of controlling interest (KRW)	13,141	14,305	15,603	17,854	20,446
DPS (KRW)	0	0	0	0	0
PER (x)	61.9	72.3	60.3	34.8	30.2
PER of controlling interest (x)	61.9	72.3	60.3	34.8	30.2
PBR (x)	4.9	6.5	5.0	4.4	3.8
PBR of controlling interest (x)	4.9	6.5	5.0	4.4	3.8
EV/EBITDA (x)	22.1	21.2	9.2	7.9	7.3
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	25.9	30.3	46.7	44.9	41.9
OPM (%)	11.5	10.5	8.6	13.0	13.4
NPM (%)	8.3	9.4	7.8	11.4	11.6
ROA (%)	6.8	7.4	6.7	10.2	10.4
ROE (%)	9.5	9.3	8.7	13.5	13.5
ROIC (%)	18.0	14.8	16.7	29.0	31.1
Stability					
Debt to equity ratio (%)	24.7	27.7	32.3	30.8	28.9
Net debt ratio (%)	(49.5)	(38.2)	(42.8)	(46.5)	(50.8)
Cash ratio (%)	56.6	141.4	135.2	153.5	178.9
Interest coverage ratio (x)	19.0	343.0	978.4	1,764.9	2,048.8
Activity (%)					
Working capital turnover (times)	57.1	(183.6)	(17.8)	(23.7)	(52.7)
Inventory turnover (days)	0.8	0.9	0.5	0.5	0.5
Receivable turnover (days)	58.5	59.5	60.5	65.2	69.5

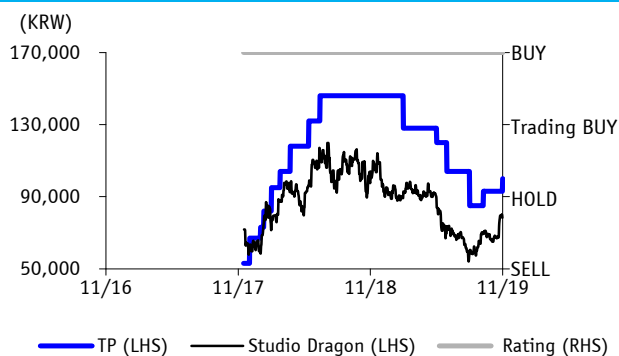
Source: Company data, Shinhan Investment Corp.

Studio Dragon (253450 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2017.11.23	BUY	53,000	20.8	35.5
2017.12.10	BUY	67,000	(6.9)	(1.8)
2018.01.09	BUY	73,000	(6.2)	1.9
2018.01.18	BUY	82,000	(2.2)	6.1
2018.02.08	BUY	95,000	(15.1)	(6.7)
2018.03.04	BUY	104,000	(9.9)	(5.3)
2018.04.01	BUY	118,000	(23.0)	(16.4)
2018.05.22	BUY	132,000	(19.3)	(11.3)
2018.06.22	BUY	146,000	(28.3)	(17.9)
2018.12.23		6M later	(37.5)	(34.0)
2019.02.07	BUY	128,000	(27.6)	(23.2)
2019.05.10	BUY	120,000	(36.9)	(30.6)
2019.06.07	BUY	104,000	(35.8)	(29.0)
2019.08.09	BUY	85,000	(26.9)	(17.4)
2019.09.16	BUY	93,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 6 November 2019)

BUY (BUY)	95.63%	Trading BUY (HOLD)	1.46%	HOLD (HOLD)	2.91%	SELL (SELL)	0%
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Rating Distribution - SHIC Investment Banking Clients (as of 6 November 2019)

BUY (BUY)	100%	Trading BUY (HOLD)	0%	HOLD (HOLD)	0%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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