

# Studio Dragon (253450)

## 1Q23 Review: Increasing Production Scale

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Maintain BUY; Revise down TP to KRW82,000; Growth remains intact; Profitability to improve in earnest from 2024 We maintain BUY and lower our DCF-based TP to KRW82,000 for Studio Dragon as we revise down 2023E OP by 3.2% to reflect a decrease in captive channel slots (315 in 2022 → 303 in 2023E). There are concerns over Studio Dragon's growth outlook, since major client Netflix (accounting for 25% of total revenue in 2022) announced plans for investment on par with that of last year. However, Studio Dragon should sustain growth via: (1) increasing global production; (2) expansion of sales to other OTT companies; and (3) gains in market share among domestic production companies. Revenue should continue to increase (17.4% YoY in 2023E, 19.9% YoY in 2024E), given increasing global pipeline (20+ titles planned; delivery of 2 titles per year, according to forecast), increasing pre-buy contracts with Amazon and Disney (2 titles for Amazon and 4 titles for Disney in 2023E, according to our estimates), and capital power for securing IP (Korea's top production company). Without China's opening, profitability appears unlikely to improve in the near term, but should improve from 2024 as the renegotiation of contracts for original titles is reflected (OPM of 9.8% in 2023E, 11.5% in 2024E).

1Q23P: Growth potential secured via greater proportion of original content

Studio Dragon posted 1Q23 revenue of KRW211.1bn (74.4% YoY) and OP of KRW21.6bn (19.3% YoY), driven by increasing production scale. Given that the number of episodes delivered increased 50% YoY (+20 YoY to 73 for TV, +18 YoY to 39 for OTT), the 74.4% YoY growth in revenue indicates an increase in production scale. OPM, meanwhile, remained at the 10.2% level due to the large proportion of original content and only 25 pre-buy episodes (-1 YoY).

2Q23E: Profitability improvement via greater proportion of pre-buy works

We forecast 2Q23E revenue of KRW152.6bn (-3.1% YoY) and OP of KRW18.5bn (OPM 12.1%). Revenue should slump on a decrease in the number of episodes delivered (-23

## Buy Maintain

Target Price (Lowered)	KRW82,000
Dividend yield*	0.0%
Total return	20.6%
Current price (May 4)	KRW68,000
Consensus target price	KRW101,143
Market capitalization	USD1.5bn
* 12-month forward	

(0/) 184	714	C 1.4	1214
Stock Price Performance	(total return)		
		Nav	er 6.3%
Major shareholders	CJ ENM and	d 3 other	s 54 <b>.</b> 8%
Foreign ownership			8.8%
Avg. 170 val. (SIII, KRWDII)			14.0

Stock Price Performance (total return)											
(%)	1M	3M	6M	12M							
Absolute	-4.0	-16.6	4.6	-20.3							
Relative	-2.6	-24.3	-14.7	-15.7							

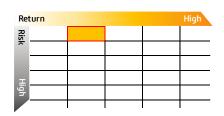
### Earnings Forecast & Valuation

Fiscal year-end	2022A	2023E	2024E	2025E
Revenue (KRWbn)	698	819	983	1,208
OP (KRWbn)	65	80	113	159
NP to control, int. (KRWbn)	51	63	88	139
EPS (KRW)	1,684	2,109	2,913	4,631
EPS growth (%)	29.4	25.2	38.1	59.0
P/E (x)	51.1	32.2	23.3	14.7
EV/EBITDA (x)	12.1	7.3	5.7	4.5
P/B (x)	3.9	2.8	2.5	2.1
ROE (%)	7.5	9.2	11.4	15.8
Div. yield (%)	0.0	0.0	0.0	0.0

Free float

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Risk & Total Return (annualized over three years)

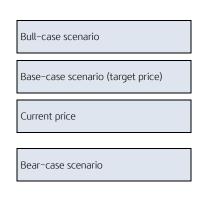


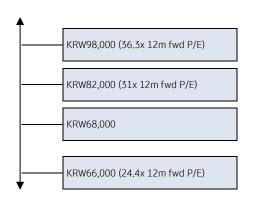
Stock Price & Relative Performance



Source(s): Company data, KB Securities

YoY to 64 for TV, -7 YoY to 13 for OTT). Profitability, however, should improve on an increase in pre-buy episodes (+4 YoY to 38), thanks to an increase in those bound for new OTT clients (i.e., *Family: The Unbreakable Bond, Tale of the Nine Tailed 1938*).





## **Revised Earnings Estimates**

(KRWbn, %)	Previo	ous	Revise	ed	Change		
	2023E	2024E	2023E	2024E	2023E	2024E	
Revenue	866.9	1,045.5	819.5	982.6	-5.5	-6.0	
OP	83.1	116.4	80.4	113.1	-3.2	-2.9	
NP (to control. int.)	69.1	95.3	63.4	87.6	-8.2	-8.1	

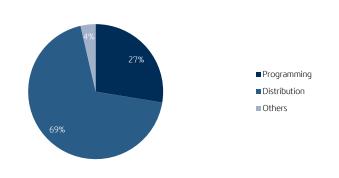
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estim	ates	Consen	sus	Difference		
	2023E	2024E	2023E	2024E	2023E	2024E	
Revenue	819.5	982.6	828.5	951.5	-1.1	3.3	
OP	80.4	113.1	88.3	108.0	-9.0	4.7	
NP (to control, int.)	63.4	87.6	68.6	81.9	-7.6	6.9	

Source(s): Quantiwise, KB Securities estimates

## Revenue Composition (2023E)



## Base-case scenario: Catalysts

- 1) 2023E TV content at 303 episodes
- 2) 2023E OTT-bound original content at 124 episodes

## Bull-case scenario: Upside risks

- 1) 2023E TV content at over 320 episodes
- 2) 2023E OTT-bound original content at over 130 episodes

#### Bear-case scenario: Downside risks

- 1) 2023E TV content at under 280 episodes
- 2) 2023E OTT-bound original content at under 110 episodes

## Valuation & Target Price Calculation

- 1) Valuation method:
  Discounted cash flow model
- 2) Target price calculation: 8.63% WACC, 1% TGR
- 3) Target price range: KRW66,000 - KRW98,000
- 4) Valuation at target price: 31x 12m fwd P/E

## **Earnings Sensitivity Analysis**

(%)	EPS Change						
	2023E	2024E					
+1% in FX rate	+1.1	+1.1					
+1pp in interest rate	-0.6	0.1					

Source(s): Company data, KB Securities estimates

## Peer Group Comparison

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(KRWtn, x, %)	Market	P/E		P/B		EV/EBITDA		ROE		Dividend Yield	
	Сар	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Studio Dragon	2.0	30.0	24.9	2.70	2.43	8.8	8.6	9.3	10.0	0.0	0.0
CJ ENM	1.7	34.7	13.0	0.47	0.46	3.5	3.5	1.3	3.6	2.0	2.2
Netflix	189.1	28.7	22.1	5.95	4.97	20.7	16.7	21.6	22.0	0.0	0.0
Walt Disney	242.1	24.4	18.5	1.84	1.70	15.2	12.7	7.3	9.0	0.6	1.1

Source(s): Bloomberg consensus, KB Securities estimates

Table 1. Earnings Forecast

(KRWbn, %)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E	2021	2022	2023E	2024E
TV content (no. episodes)	53	87	99	76	73	64	83	83	-	315	303	304
OTT content (no. episodes)	21	20	61	25	39	13	36	36	-	127	124	120
Revenue	121.1	157.5	228.9	190.5	211.1	152.6	226.4	229.3	487.1	697.9	819.5	982.6
Programming	35.4	43.8	59.4	54.0	43.2	41.6	56.7	59.5	161.3	192.5	201.1	200.8
Distribution	77.7	103.9	165.8	132.8	165.7	108.6	167.1	167.1	275.5	480.2	608.5	769.7
Others	8.0	9.8	3.8	3.7	2.3	2.4	2.5	2.7	50.3	25.2	10.0	12.1
% YoY	3.4	48.5	97.2	28.8	74.4	-3.1	-1.1	20.4	-7.3	43.3	17.4	19.9
Programming	-19.1	55.4	64.0	1.5	21.9	-4.9	-4.5	10.3	-18.1	19.4	4.4	-0.1
Distribution	23.0	53.8	155.2	66.4	113.1	4.5	0.8	25.8	-1.5	74.3	26.7	26.5
Others	-21.5	-5.1	-74.8	- <i>75.3</i>	-71.0	- <i>75.2</i>	-32.4	-27.3	2.6	-49.9	-60.4	21.6
% QoQ	-18.1	30.0	45.3	-16.8	10.8	-27.7	48.3	1.3				
Programming	-33.4	23.7	<i>35.5</i>	-9.1	-20.0	-3.6	36.2	5.0				
Distribution	-2.6	33.7	59.5	-19.9	24.7	- <i>34.5</i>	54.0	0.0				
Others	-46.6	22.8	-61.4	-2.4	-37.2	5.0	5.0	5.0				
OP	18.1	27.0	18.9	1.2	21.6	18.5	23.6	16.6	52.6	65.2	80.4	113.1
(% YoY)	1.4	95.7	29.9	-81.4	19.3	-31.4	24.7	1310.7	7.0	24.0	23.3	40.6
(% QoQ)	185.4	49.1	-29.9	-93.8	1732.1	-14.3	27.5	-29.5				
OPM (%)	15.0	17.1	8.3	0.6	10.2	12.1	10.4	7.3	10.8	9.3	9.8	11.5
NP to control, int.	15.6	25.6	17.8	-8.5	18.4	15.6	21.7	7.7	39.0	50.6	63.4	87.6
(% YoY)	0.4	170.2	20.5	RR	17.8	-39.1	21.8	ТТВ	31.8	29.5	25.4	38.1
(% QoQ)	TTB	63.8	-30.3	TTR	TTB	-15.3	39.5	-64.5				
NPM (%)	12.9	16.2	7.8	-4.4	8.7	10.2	9.6	3.4	8.0	7.2	7.7	8.9

Source(s): Company data, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

Table 2. Key Valuation Measures

(KRWbn, x, '000 shares, KRW)	2018	2019	2020	2021	2022	2023E	2024E
EV/Sales	5.7x	6.4x	4.6x	5.1x	5.5x	3.8x	2.6x
Revenue	287	380	469	526	487	698	819
% YoY	<i>85.7</i>	32.4	23.5	12.2	(7.3)	43.3	17.4
EV/EBITDA	22.1x	21.1x	14.9x	16.2x	17.6x	12.1x	7.3x
EBITDA	74	115	146	165	152	219	291
% YoY	91.4	55.1	26.4	13.6	(8.3)	44.1	<i>33.4</i>
P/E	61.9x	72.3x	85.9x	88.7x	69.9x	51.1x	32.2x
EPS	1,050	1,278	941	1,044	1,301	1,684	2,109
% YoY	84.5	21.7	(26.3)	10.9	24.6	29.4	<i>25.2</i>
P/B	4.95x	6.46x	5.31x	4.56x	3.99x	3.91x	2.82x
BVPS	13,141	14,305	15,242	20,309	22,785	21,982	24,091
% YoY	112.8	8.9	6.5	33.2	12.2	(3.5)	9.6
Share price	65,000	92,400	80,900	92,600	91,000	86,000	68,000
No. of shares	22,711	28,038	28,068	28,369	30,008	30,020	30,058
Market cap	1,822	2,592	2,273	2,778	2,731	2,585	2,044

Source(s): Company data, KB Securities estimates

**★** KB Securities

Table 3. Valuation: Discounted Cash Flow Model

(KRWbn, %, k shares, KRW)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
NOPLAT	26.6	30.1	22.1	37.2	39.6	57.2	58.1	82.2	120.2	171.5	241.3	335.8	
Operating profit	33.0	39.9	28.7	49.1	52.6	65.2	80.4	113.1	159.5	226.6	317.9	441.2	
Taxes	(6.4)	(9.8)	(6.6)	(11.9)	(13.0)	(8.1)	(22.3)	(30.8)	(39.3)	(55.1)	(76.6)	(105.4)	
D&A	41.3	75.3	116.8	116.2	99.1	153.3	211.1	259.6	298.3	332.2	363.7	394.3	
Depreciation	0.3	0.3	1.8	2.9	3.8	3.3	3.8	3.9	3.9	3.9	4.0	4.0	
Amortization	41.0	75.0	115.0	113.3	95.3	150.0	207.3	255.7	294.4	328.2	359.7	390.3	
(-)Change in working capital	(72.9)	(139.4)	(142.9)	(144.1)	(154.9)	(279.6)	(16.7)	15.3	(30.4)	(40.8)	(51.3)	(64.6)	
Decrease/increase in accounts receivable	(13.7)	(27.2)	(21.8)	(31.4)	2.2	(35.2)	(18.4)	14.0	(34.0)	(46.7)	(58.8)	(74.0)	
Decrease/increase in inventories	(2.1)	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Decrease/increase in account payables	9.0	25.9	8.6	(11.5)	18.7	11.7	1.7	1.3	3.6	5.9	7.4	9.4	
Other	(66.1)	(138.4)	(130.2)	(101.2)	(175.8)	(256.0)	0.0	0.0	0.0	0.0	0.0	0.0	
(-) Tangible capital expenditures	(0.0)	(0.2)	(0.5)	(7.2)	(1.8)	(3.9)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	
(-) Intangible capital expenditures	(0.2)	(0.1)	(0.3)	(1.2)	(8.0)	(2.5)	(282.6)	(339.2)	(362.9)	(388.3)	(415.5)	(444.6)	
(-) Other	(2.1)	5.0	(8.2)	(4.1)	7.9	6.2	5.3	5.3	19.0	23.9	30.1	37.9	
Free cash flow	(7.5)	(29.4)	(13.0)	(3.1)	(11.0)	(69.3)	(28.8)	19.3	40.1	94.5	164.2	254.7	3,373.6
(KRWbn, %, k shares, KRW)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
Operating cash flow	(7.2)	(29.1)	(12.2)	5.2	(8.4)	(62.9)	257.8	362.4	407.0	486.8	583.7	703.3	
(-) Tangible capital expenditures	(0.0)	(0.2)	(0.5)	(7.2)	(1.8)	(3.9)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	
(-) Intangible capital expenditures	(0.2)	(0.1)	(0.3)	(1.2)	(8.0)	(2.5)	(282.6)	(339.2)	(362.9)	(388.3)	(415.5)	(444.6)	
Free cash flow	(7.5)	(29.4)	(13.0)	(3.1)	(11.0)	(69.3)	(28.8)	19.3	40.1	94.5	164.2	254.7	3,373.6
Source(s): Company data, KB Securities estimates													

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Note: Studio Dragon's content investments reflected as intangible capital expenditures (cash flow from investing activities)

Table 4. Valuation: Discounted Cash Flow Model

(KRWbn, %, k shares, KRW)	Valuation
Total PV of 2023–2028 cash flow	398.6
PV of terminal value (1% TGR)	2,139.0
Enterprise value	2,537.6
(-) Net debt	87.8
(-) Non-controlling interests	0.0
(+) Investments in non-consolidated affiliates	12.6
Equity value	2,462.4
(÷) No. of shares	30,058.5
Target price	82,000
Current price	68,000
Upside	20.6

Source(s): KB Securities estimates

Table 5. WACC Calculation

(KRWbn, %)	Revised	Notes
COE (A) = a + b x c	8.91	
Risk-free rate (a)	3.61	Avg. 1y MSB yield (last three months)
Adj. beta (b)	0.98	Adj. beta
Risk premium (c = d - e)	5.41	
Market (d)	8.72	2001-2021 annual avg. WMI500 total return
Risk-free rate (e)	3.32	2001–2021 annual avg. 1y MSB total return
COD (B)	4.27	Avg. yield of Studio Dragon's short-term debt
Fair equity value	2,797	Value of outstanding shares implied by TP
Debt	183	
Weight of equity value (f)	0.94	
Weight of debt (g)	0.06	
WACC (C) = $(A \times f) + (B \times g)$	8.63	

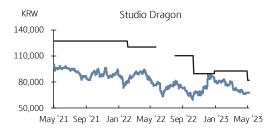
Source(s): KB Securities estimates

Note: Previous data issued as of Oct 17, 2022

Income Statement						Statement of Financial Position					
(KRWbn)	2021A	2022A	2023E	2024E	2025E	(KRWbn)	2021A	2022A	2023E	2024E	2025E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	487	698	819	983	1,208	Total assets	884	1,091	1,156	1,245	1,388
Cost of revenue	407	598	624	705	849	Current assets	233	400	385	385	460
Gross profit	80	100	196	277	359	Cash and cash equivalents	65	124	90	104	145
SG&A expenses	27	35	116	164	200	Current financial assets	5	5	5	5	5
Operating profit	53	65	80	113	159	Trade receivables	124	142	160	146	180
EBITDA	152	219	292	373	458	Inventory	0	0	0	0	0
Non-operating accounts	-1	-7	5	5	19	Other current assets	39	130	130	130	130
Interest income	1	2	0	0	0	Non-current assets	652	691	771	860	928
Interest expenses	1	5	0	0	0	Investment assets	241	150	150	150	150
Profit on equity method	0	0	0	0	0	Property, plant and equipment	8	11	11	11	11
Net other non-operating income	-1	-4	5	5	19	Intangible assets	298	378	453	537	605
Profit before tax	52	59	86	118	178	Other non-current assets	105	152	157	162	162
Income tax expense	13	8	22	31	39	Total liabilities	200	430	432	433	437
Net profit	39	51	63	88	139	Current liabilities	184	416	418	419	423
NP attributable to controlling interests	39	51	63	88	139	Trade payables	17	16	18	19	23
Adj. net profit	39	51	63	88	139	Short-term financial liabilities	0	170	173	173	173
						Other current liabilities	167	230	227	227	227
Operating Statistics & Ratios						Non-current liabilities	17	14	14	14	14
(%)	2021A	2022A	2023E	2024E	2025E	Non-current financial liabilities	7	9	9	9	9
Revenue growth	-7.4	43.3	17.4	19.9	22.9	Other non-current liabilities	9	4	4	4	5
OP growth	7.0	24.0	23.3	40.6	41.1	Total equity	684	661	724	812	951
EBITDA growth	-8.3	44.1	33.4	27.8	22.8	Issued capital	15	15	15	15	15
NP growth of parent	31.8	29.5	25.4	38.1	59.0	Share premium	470	473	473	473	473
GP margin	16.4	14.3	23.9	28.2	29.7	Other equity interest	0	0	0	0	0
OP margin	10.8	9.3	9.8	11.5	13.2	Accumulated other comprehensive income	37	-40	-40	-40	-40
EBITDA margin	31.1	31.3	35.6	37.9	37.9	Retained earnings	162	213	276	364	503
EBT margin	10.7	8.4	10.5	12.1	14.8	Controlling interests	684	661	724	812	951
NP margin of parent	8.0	7.3	7.7	8.9	11.5	Non-controlling interests	0	0	0	0	0
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Statement of Cash Flows	20214	20224	20275	20245	20255	Key Ratios	20214	20224	20275	20245	20255
(KRWbn)	2021A -8	2022A	2023E	2024E	2025E	(x, %, KRW)	2021A	2022A	2023E	2024E	2025E
Cash flow from operating activities		-63	258	362	407	Multiples	60.0	F1 1	72.2	27.7	145
Net profit	39	51	63	88	139	P/E	69.9	51.1	32.2	23.3	14.7
Depreciation & amortization	99	153	211	260	298	P/B	4.0	3.9	2,8	2.5	2.1
Other non-cash adjustments	20	23	22	31 15	39 -30	P/S	5.6	3.7	2.5	2.1	1.7
Investments in working capital	-155	-280	-17			EV/EBITDA	17.6	12.1	7.3	5.7	4.5
Decrease(Increase) in receivables	2	-35	-18	14	-34	EV/EBIT	50.8	40.4	26.5	18.7	13.0
Decrease(Increase) in inventory		0	0	0	0	Dividend yield, ordinary (%)	0.0	0.0	0.0	0.0	0.0
Increase(Decrease) in payables	19	12	2	1	4	EPS DVOC	1,301	1,684	2,109	2,913	4,631
Investments in other working capital	-176	-256	0	0	0 -39	BVPS SPS	22,785	21,982	24,091	27,004	31,634 40,177
Other operating cash flow	-11	-10	-22	-31		DPS (annual, ordinary)	16,233 0	23,250 0	27,263 0	32,690 0	40,177
Cash flow from investing activities	27	-43	-292	-348	-367	•					
Capital expenditure	-2 -1	-4 z	-4	-4 770	-4	Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Investments in intangibles		-3	-283	-339	-363	Operating performance			0.7		45.0
Changes in investment assets	28	-12	0	0	0	ROE	6.0	7.5	9.2	11.4	15.8
Other investment cash flow	1	-25	-5	-5	0	ROA	4.8	5.1	5.7	7.3	10.6
Cash flow from financing activities	-3	165	0	0	1	ROIC	6.1	7.3	7.3	9.2	13.1
Proceeds from (repayment of) debt	-2	168	0	0	0	Financial structure (%)					
Changes in equity	0	3	0	0	0	Total liab./equity	29.3	65.1	59.6	53.3	46.0
Dividends paid	0	0	0	0	0	Net debt/equity	Net Cash	7.7	12.1	9.1	3.5
Other financing cash flow	-1	-5	0	0	1	Current ratio	1.3	1.0	0.9	0.9	1,1
Other cash flow	0	0	0	0	0	Interest coverage (x)	67.6	13,2	0.0	0.0	0.0
Increase/decrease in cash	16	59	-34	14	41	Activity ratios					
Cash and cash equivalents at FYE	65	124	90	104	145	Asset turnover (x)	0.6	0.7	0.7	0.8	0.9
Free cash flow	-11	-69	-29	19	40	Receivables turnover (x)	4.2	5.3	5.4	6.4	7.4
Net cash flow	-30	-114	-37	14	41	Payables turnover (x)	42.6	42,1	48.1	52.9	57.5
Net cash (net debt)	63	-51	-88	-74	-33	Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0

Source(s): Company data, KB Securities estimates

## Rating & Target Price Changes (Share price —, Target price —)



Date	Rating	Analyst	TP C	)ifferential (	(%)
			(KRW)	Avg.	Max/Min
Feb-23-2021	Buy	Danny Lee	127,000	-27.54	
Feb-11-2022	Buy	Danny Lee	120,000	-32.37	-21,17
Aug-08-2022	Buy	Yonghyun Choi	110,000	-35.02	-25,91
Oct-17-2022	Buy	Yonghyun Choi	90,000	-17.07	-1,22
Jan-04-2023	Buy	Yonghyun Choi	93,000	-19.32	-10,32
May-08-2023	Buy	Yonghyun Choi	82,000		

#### Classification of Investment Ratings

Stock	Ratings	(based	on	expected	12m	performance)	١

Buy: +15% or beyond Hold: Between 15% and -15% Sell: -15% or beyond

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three (Buy, Hold, Sell) as of Feb 23, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

Ratings Distribution (as of March 31, 2023)					
Buy	Hold	Sell			
88.1	11.9	-			
Note: Based on recommendations in the last 12 months					

#### Sector Ratings (based on expected 12m performance)

Positive: Neutral: Negative:

To outperform market To perform in line with market To underperform market

Note: Classification revised from Overweight/Neutral/Underweight to Positive/Neutral/Negative as of Jun
28, 2017: Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

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