

Uncertainties remain high

Endomines' H1 2023 revenue aligned with our estimates, yet profitability fell short of expectations. Due to estimate changes, continued uncertainty regarding the US asset portfolio and stretched balance sheet, we downgrade our rating to HOLD (BUY) and adjust TP to EUR 4.7 (5.6).

Production developed as estimated

Revenue in H1 2023 amounted to EUR 10.7m, up by 91.1% y/y. The reason for strong growth was previously announced increase in gold production. The production increased from 3,478 oz in H1 2022 to 6,753 oz, up by 94.1% y/y. The company's EBITDA reached positive territory at EUR 0.4m, (-3.5m H1 2022) yet was lower than we anticipated (Evli est. EUR 1.6m). The reason for lower-than-expected profitability was higher overhead costs and lower than anticipated profitability for Pampalo mine. With the modest profitability, the company's cash flow from operating activities was EUR -2.3m and cash in hand stood at EUR 1.2m. Despite the convertible loan financing that was agreed upon in June, the current cash position is arguably low.

H2 volume estimates stable, profitability lowered

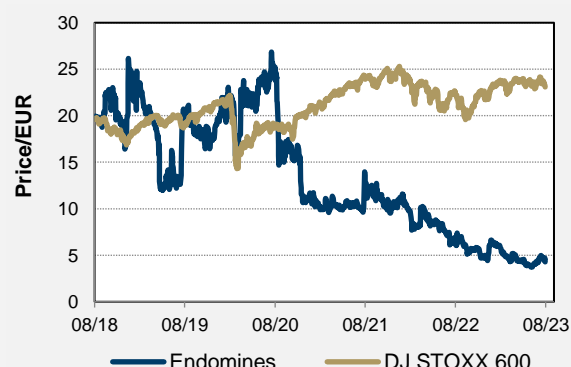
Endomines updated its FY 2023 outlook, anticipating Pampalo production to hit the higher end of the growth range (+35-55% y/y). We maintain our production estimates for H2, already projecting a 54% growth in produced ounces for FY 2023. Profitability wise, the main changes relate to Pampalo as the cash cost for H1 2023 was at a higher level than we had anticipated. With the revised estimates, we expect EBITDA of EUR 5.0m for Pampalo for FY 2023 (prev. EUR 7.2m). In aggregate, we now expect group EBITDA of EUR 0.9m (prev. EUR 3.5m). Alongside the updated production guidance, the company reaffirmed its goal to finalize partnership discussions concerning its US assets by the end of 2023. Endomines conducted preliminary negotiations with potential partners during H1 2023 yet there was no concrete evidence yet regarding potential deals.

Current valuation appears fair considering the risks

Given the uncertainties, we maintain our valuation on the lower end of our SOTP-based valuation range. Driven by the beforementioned estimate revisions, continued uncertainty regarding the US asset portfolio and stretched balance sheet, we lower our rating to HOLD (BUY) and adjust TP to EUR 4.7 (5.6).

Rating

■ HOLD



Share price, EUR (Last trading day's closing price) 4.30

Target price, EUR 4.7

Latest change in recommendation 17-Aug-23

Latest report on company 21-Jun-23

Research paid by issuer: YES

No. of shares outstanding, '000's 9,598

No. of shares fully diluted, '000's 9,598

Market cap, EURm 41

Free float, % 86.3

Exchange rate EUR 1.000

Reuters code ENDOM.HE

Bloomberg code ENDOM FH

Average daily volume, EURm 0.2

Next interim report

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■ BUY ■ HOLD ■ SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2021	0.5	-25.1	-5,102.0%	-16.6	-4.73	-2.1	144.2	-2.8	-29.4	0.00
2022	13.5	-15.5	-114.8%	-8.0	-1.92	-2.6	4.0	-3.5	-17.1	0.00
2023E	20.8	-3.8	-18.2%	-5.6	-0.60	-7.1	2.6	-14.2	-13.6	0.00
2024E	23.3	0.7	2.9%	0.4	-0.11	-39.2	2.3	78.9	1.1	0.00
2025E	23.3	1.3	5.7%	0.8	-0.03	-123.8	2.3	39.3	2.0	0.00
Market cap, EURm			41	Gearing 2023E, %			41.3	CAGR EPS 2022-25, %		-73.7
Net debt 2023E, EURm			12	Price/book 2023E			1.4	CAGR sales 2022-25, %		19.9
Enterprise value, EURm			54	Dividend yield 2023E, %			0.0	ROE 2023E, %		-17.5
Total assets 2023E, EURm			54	Tax rate 2023E, %			0.0	ROCE 2023E, %		-8.3
Goodwill 2023E, EURm			0	Equity ratio 2023E, %			55.3	PEG, P/E 23/CAGR		0.1

All the important disclosures can be found on the last pages of this report.

Table 1: Sum of the parts valuation, figures in EUR m

	Evli est.	Gold spot	Estimate basis
US assets	40	44	In-situ & purchase price analysis
Pampalo	18	21	DCF LOM 4 years (incl. Pampalo UG & OP + Hosko) + LOM increase option value
Karelian gold line	8	11	Real option value for currently known Karelian gold line satellite deposits
Overhead	(9)	(9)	Discounted overhead costs
Net cash	(12)	(12)	H1/2023
Total	46	56	
Per share	4.7	5.8	

Long-term gold price (USD/Oz)	1 750		Evli
Spot price (USD/oz)		1 900	
Shares (m)	9.6	9.6	

Source: Evli Research

Table 2: Estimate summary

Endomines (EURm)	H1/'22	H2/'22	2022	H1/'23E	H2/'23E	2023E	2024E	2025E
Gold production (Oz)	3 478	5 123	8 601	6 753	6 481	13 234	15 480	15 731
Net sales	5.6	7.9	13.5	10.7	10.1	20.8	23.3	23.3
<i>sales growth %</i>	<i>>100%</i>	<i>61%</i>	<i>>100%</i>	<i>91%</i>	<i>27%</i>	<i>54%</i>	<i>12%</i>	<i>-0%</i>
Pampalo EBITDA	0.2	0.4	0.6	2.4	2.6	5.0	6.3	6.0
Group EBITDA	-3.5	-3.0	-6.4	0.4	0.5	0.9	3.8	4.5
<i>EBITDA margin</i>	<i><-100%</i>	<i><-100%</i>	<i>-47%</i>	<i>4%</i>	<i>5%</i>	<i>4%</i>	<i>16%</i>	<i>19%</i>
EBIT	-10.1	-5.4	-15.5	-2.3	-1.5	-3.8	0.7	1.3
<i>EBIT margin</i>	<i><-100%</i>	<i><-100%</i>	<i>-115%</i>	<i>-21%</i>	<i>-15%</i>	<i>-18%</i>	<i>3%</i>	<i>6%</i>
Assumptions	H1/'22	H2/'22	2022	H1/'23E	H2/'23E	2023E	2024E	2025E
Gold price USD/Oz	1874	1722	1798	1934	1916	1925	1873	1842
Gold price EUR/Oz	1712	1649	1681	1774	1726	1750	1672	1645
EUR/USD	1.10	1.05	1.07	1.09	1.11	1.10	1.12	1.12

Source: Endomines, Evli Research

INTERIM FIGURES

EVLI ESTIMATES, EURm	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023Q1E	2023Q2E	2023Q3E	2023Q4E	2023E	2024E	2025E
Net sales	0.0	5.6	-5.6	13.5	13.5	0.0	10.7	0.0	10.1	20.8	23.3	23.3
EBITDA	0.0	-3.6	3.6	-6.4	-6.4	0.0	0.4	0.0	0.5	0.9	3.8	4.5
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>-64.4</i>	<i>-64.4</i>	<i>-47.4</i>	<i>-47.4</i>	<i>0.0</i>	<i>3.7</i>	<i>0.0</i>	<i>5.1</i>	<i>4.4</i>	<i>16.2</i>	<i>19.2</i>
EBIT	0.0	-10.2	10.2	-15.5	-15.5	0.0	-2.3	0.0	-1.5	-3.8	0.7	1.3
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>-181.3</i>	<i>-181.3</i>	<i>-114.8</i>	<i>-114.8</i>	<i>0.0</i>	<i>-21.5</i>	<i>0.0</i>	<i>-14.8</i>	<i>-18.2</i>	<i>2.9</i>	<i>5.7</i>
Net financial items	0.0	5.1	-5.1	-2.4	-2.4	0.0	-1.0	0.0	-1.0	-2.0	-1.7	-1.7
Pre-tax profit	0.0	-5.1	5.1	-17.9	-17.9	0.0	-3.3	0.0	-2.5	-5.8	-1.1	-0.3
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Tax rate (%)</i>	<i>0.0</i>	<i>0.3</i>	<i>0.4</i>	<i>-0.1</i>	<i>-0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Net profit	0.0	-5.1	5.1	-17.9	-17.9	0.0	-3.3	0.0	-2.5	-5.8	-1.1	-0.3
EPS	0.00	-0.54	0.54	-1.91	-1.92	0.00	-0.34	0.00	-0.26	-0.60	-0.11	-0.03
EPS adjusted (diluted no. of shares)	0.00	-0.54	0.54	-1.91	-1.92	0.00	-0.34	0.00	-0.26	-0.60	-0.11	-0.03
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES, EURm												
Endomines	0.0	5.6	-5.6	13.5	13.5	0.0	10.7	0.0	10.1	20.8	23.3	23.3
Total	0.0	5.6	-5.6	13.5	13.5	0.0	10.7	0.0	10.1	20.8	23.3	23.3
SALES GROWTH, Y/Y %												
Endomines	<i>0.0</i>	<i>57,045.8</i>	<i>57,043.8</i>	<i>2,643.3</i>	<i>2,643.4</i>	<i>0.0</i>	<i>89.7</i>	<i>-100.0</i>	<i>-25.4</i>	<i>53.8</i>	<i>12.2</i>	<i>-0.1</i>
Total	<i>0.0</i>	<i>57,036.7</i>	<i>57,016.5</i>	<i>2,642.8</i>	<i>2,643.4</i>	<i>0.0</i>	<i>89.7</i>	<i>-100.0</i>	<i>-25.4</i>	<i>53.8</i>	<i>12.2</i>	<i>-0.1</i>
EBIT, EURm												
Endomines	0.0	-10.2	10.2	-15.5	-15.5	0.0	-2.3	0.0	-1.5	-3.8	0.7	1.3
Total	0.0	-10.2	10.2	-15.5	-15.5	0.0	-2.3	0.0	-1.5	-3.8	0.7	1.3
EBIT margin, %												
Endomines	<i>0.0</i>	<i>-181.2</i>	<i>-181.2</i>	<i>-114.8</i>	<i>-114.8</i>	<i>0.0</i>	<i>-21.5</i>	<i>0.0</i>	<i>-14.8</i>	<i>-18.2</i>	<i>2.9</i>	<i>5.7</i>
Total	<i>0.0</i>	<i>-181.3</i>	<i>-181.3</i>	<i>-114.8</i>	<i>-114.8</i>	<i>0.0</i>	<i>-21.5</i>	<i>0.0</i>	<i>-14.8</i>	<i>-18.2</i>	<i>2.9</i>	<i>5.7</i>

INCOME STATEMENT, EURm	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sales	10.1	0.5	1.3	0.5	13.5	20.8	23.3	23.3
<i>Sales growth (%)</i>	<i>-20.5</i>	<i>-94.6</i>	<i>134.3</i>	<i>-61.4</i>	<i>2,643.4</i>	<i>53.8</i>	<i>12.2</i>	<i>-0.1</i>
EBITDA	-0.5	-4.6	-10.5	-11.6	-6.4	0.9	3.8	4.5
<i>EBITDA margin (%)</i>	<i>-5.3</i>	<i>-841.1</i>	<i>-824.5</i>	<i>-2,362.0</i>	<i>-47.4</i>	<i>4.4</i>	<i>16.2</i>	<i>19.2</i>
Depreciation	-4.2	-0.3	-7.5	-13.5	-9.1	-4.7	-3.1	-3.1
EBITA	-4.7	-4.9	-18.0	-25.1	-15.5	-3.8	0.7	1.3
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-4.7	-4.9	-18.0	-25.1	-15.5	-3.8	0.7	1.3
<i>EBIT margin (%)</i>	<i>-46.6</i>	<i>-903.4</i>	<i>-1,410.0</i>	<i>-5,102.0</i>	<i>-114.8</i>	<i>-18.2</i>	<i>2.9</i>	<i>5.7</i>
Reported EBIT	-4.7	-4.9	-18.0	-25.1	-15.5	-3.8	0.7	1.3
<i>EBIT margin (reported) (%)</i>	<i>-46.6</i>	<i>-903.4</i>	<i>-1,410.0</i>	<i>-5,102.0</i>	<i>-114.8</i>	<i>-18.2</i>	<i>2.9</i>	<i>5.7</i>
Net financials	1.1	-0.7	-1.2	-1.6	-2.4	-2.0	-1.7	-1.7
Pre-tax profit	-3.6	-5.6	-19.2	-26.7	-17.9	-5.8	-1.1	-0.3
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-3.6	-5.6	-19.2	-26.7	-17.9	-5.8	-1.1	-0.3
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	47	55	57	51	49	49	48	47
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	1	0	1	1	1
Receivables	0	0	0	2	2	3	3	3
Liquid funds	2	2	1	1	4	2	2	2
Total assets	49	56	58	55	55	54	55	53
Liabilities								
Shareholder's equity	25	32	33	30	36	30	29	29
Minority interest	0	0	0	0	0	0	0	0
Convertibles	17	17	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	4	4	15	16	11	15	14	13
Non-interest bearing current liabilities	0	0	0	0	0	0	0	0
Other interest-free debt	4	3	10	9	9	10	11	11
Total liabilities	49	56	58	55	55	54	55	53
CASH FLOW, EURm								
+ EBITDA	-1	-5	-11	-12	-6	1	4	4
- Net financial items	1	-1	-1	-2	-2	-2	-2	-2
- Taxes	0	0	0	0	0	0	0	0
- Increase in Net Working Capital	1	-1	0	0	3	0	1	0
+/- Other	-2	-2	4	1	1	0	0	0
= Cash flow from operations	-1	-7	-7	-12	-4	-1	3	3
- Capex	-10	-8	-3	-5	-4	-5	-3	-2
- Acquisitions	-6	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-16	-15	-10	-17	-8	-6	0	1
+/- New issues/buybacks	24	13	20	24	24	0	0	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Other	-7	2	-11	-7	-13	4	0	-1
Change in cash	0	0	0	0	3	-2	0	0

KEY FIGURES	2019	2020	2021	2022	2023E	2024E	2025E
M-cap	42	35	57	47	41	41	41
Net debt (excl. convertibles)	3	14	14	7	12	12	11
Enterprise value	62	49	71	54	54	53	52
Sales	1	1	0	14	21	23	23
EBITDA	-5	-11	-12	-6	1	4	4
EBIT	-5	-18	-25	-15	-4	1	1
Pre-tax	-6	-19	-27	-18	-6	-1	0
Earnings	-6	-19	-27	-18	-6	-1	0
Equity book value (excl. minorities)	32	33	30	36	30	29	29
Valuation multiples							
EV/sales	113.7	38.5	144.2	4.0	2.6	2.3	2.3
EV/EBITDA	-13.5	-4.7	-6.1	-8.4	58.8	14.1	11.7
EV/EBITA	-12.6	-2.7	-2.8	-3.5	-14.2	78.9	39.3
EV/EBIT	-12.6	-2.7	-2.8	-3.5	-14.2	78.9	39.3
EV/OCF	-8.3	-6.7	-6.1	-13.1	-49.8	17.8	18.6
EV/FCFF	-4.3	-5.7	-4.7	-9.6	-14.8	24.5	21.1
P/FCFE	-0.1	-0.1	-0.1	-5.9	-7.3	92.2	50.6
P/E	-7.5	-1.8	-2.1	-2.6	-7.1	-39.2	-123.8
P/B	1.3	1.1	1.9	1.3	1.4	1.4	1.4
Target EV/EBITDA	0.0	0.0	0.0	0.0	63.0	15.1	12.6
Target EV/EBIT	0.0	0.0	0.0	0.0	-15.2	84.6	42.2
Target EV/FCF	0.0	0.0	0.0	0.0	-10.2	127.6	69.0
Target P/B	0.0	0.0	0.0	0.0	1.5	1.6	1.6
Target P/E	0.0	0.0	0.0	0.0	-7.8	-42.8	-135.3
Per share measures							
Number of shares	1,999	3,283	5,645	9,370	9,598	9,598	9,598
Number of shares (diluted)	1,999	3,283	5,645	9,370	9,598	9,598	9,598
EPS	-2.82	-5.84	-4.73	-1.92	-0.60	-0.11	-0.03
Operating cash flow per share	-3.73	-2.23	-2.07	-0.44	-0.11	0.31	0.29
Free cash flow per share	-7.53	-3.01	-2.95	-0.85	-0.59	0.05	0.08
Book value per share	16.03	10.03	5.34	3.83	3.14	3.03	2.99
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield, %	-35.6	-28.2	-29.4	-17.1	-13.6	1.1	2.0
Efficiency measures							
ROE	-19.9	-59.0	-84.6	-54.3	-17.5	-3.6	-1.2
ROCE	-10.0	-35.5	-53.4	-33.6	-8.3	1.5	3.1
Financial ratios							
Inventories as % of sales	0.6	19.2	162.0	3.0	3.0	3.0	3.0
Receivables as % of sales	23.2	25.9	360.9	14.8	14.8	14.8	14.8
Non-interest bearing liabilities as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NWC/sales, %	-315.3	-466.5	-1,062.8	-30.4	-19.8	-21.7	-21.7
Operative CAPEX/sales, %	1,422.9	198.5	1,001.1	28.9	21.9	10.9	8.6
CAPEX/sales (incl. acquisitions), %	1,422.9	198.5	1,001.1	28.9	21.9	10.9	8.6
FCFF/EBITDA	3.1	0.8	1.3	0.9	-4.0	0.6	0.6
Net debt/EBITDA, book-weighted	-0.6	-1.3	-1.2	-1.1	13.6	3.2	2.5
Debt/equity, market-weighted	0.1	0.4	0.3	0.2	0.4	0.3	0.3
Equity ratio, book-weighted	86.7	56.5	54.8	65.4	55.3	53.3	53.8
Gearing, %	6.0	43.1	47.9	18.9	41.3	41.2	38.9

COMPANY DESCRIPTION: Endomines engages in exploration, mining, and extraction of gold deposits. Its sites are found in Eastern Finland along the Karelian Gold line and in Idaho, USA. The company was founded in 2005 and is headquartered in Stockholm, Sweden. Endomines focuses its operations to assets in stable jurisdictions that can be brought to production rapidly and with limited investment.

INVESTMENT CASE: Endomines new strategy focuses on development of the company's Finnish assets, the US assets are developed through partnership models. The company has proceeded well with reinitiating production at the Pampalo site, Endomines produced 8 601 ounces of gold during 2022. The company's focus in the near term is on Pampalo underground and East open pit production and on gold exploration activities in Karelian gold line.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Joensuun Kauppa ja Kone	1,763,013	7.581	18.4%
Clearstream Banking S.A.	783,264	3.368	8.2%
Mariatorp Oy	771,875	3.319	8.0%
Wipunen Varainhallinta Oy	771,875	3.319	8.0%
Skandinaviska Enskilda Banken	520,063	2.236	5.4%
K22 Finance Oy	346,029	1.488	3.6%
Taloustieto Incrementum Oy	317,159	1.364	3.3%
Transatlantic Mining Corporation	207,541	0.892	2.2%
Vakuutusosakeyhtiö Henki-Fennia	196,657	0.846	2.0%
Eyemaker's Finland Oy	180,552	0.776	1.9%
Ten largest	5,858,028	25.190	61%
Residual	3,740,149	16.083	39%
Total	9,598,177	41.272	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Kari Vyhtinen

CFO: Minni Lempinen

IR:

Ahventie 4 A, FI-02170 Espoo

Tel:

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

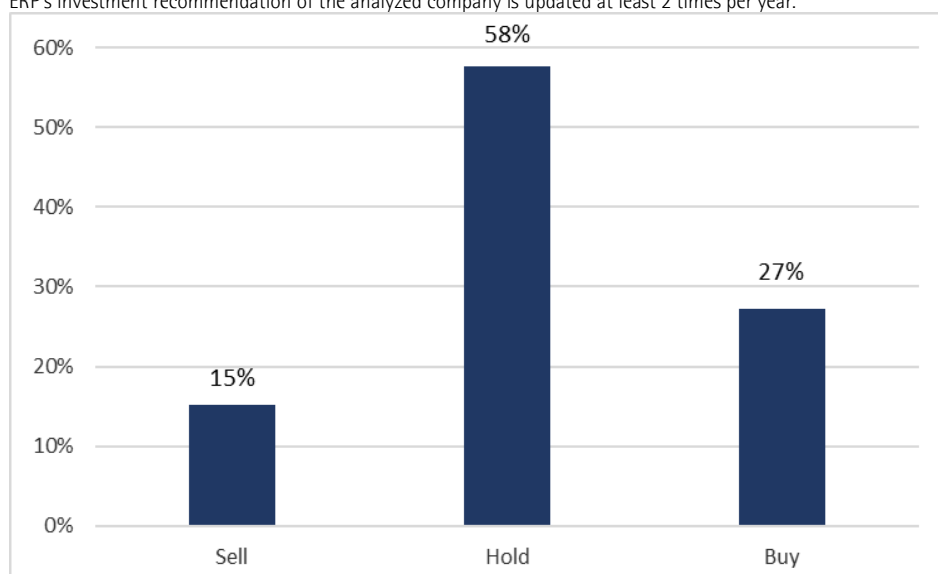
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Jortikka

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