

Ambuja Cements

Estimate change



TP change

Rating change


CMP: INR338
TP: INR370 (+9%)
Neutral

Rising cost a challenge; new capex plans announced

Higher energy costs impacted performance in 4QCY21

Bloomberg	ACEM IN
Equity Shares (m)	1,986
M.Cap.(INRb)/(USD\$b)	671.7 / 9
52-Week Range (INR)	443 / 261
1, 6, 12 Rel. Per (%)	-6/-21/7
12M Avg Val (INR M)	1672
Free float (%)	36.9

Financial Snapshot (INR b)

Y/E Dec	2021	2022E	2023E
Sales	139.6	158.0	162.8
EBITDA	32.1	29.6	36.9
Adj. PAT	21.3	21.7	24.8
EBITDA Margin (%)	23.0	18.8	22.7
Adj. EPS (INR)	10.7	10.9	12.5
EPS Gr. (%)	18.9	1.9	14.4
BV/Sh. (INR)	111.8	116.3	121.8

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	22.3	19.8	20.8
RoCE (%)	22.9	20.4	21.3
Payout (%)	60.1	59.5	56.0

Valuations

P/E (x)	23.9	23.5	20.5
P/BV (x)	2.3	2.2	2.1
EV/EBITDA(x)	14.2	15.3	12.0
EV/ton (USD)	198.8	197.3	185.1
Div. Yield (%)	1.9	1.9	2.1
FCF Yield (%)	2.0	3.4	2.7

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	63.1	63.1	63.1
DII	15.3	13.6	11.8
FII	14.8	16.7	18.3
Others	6.7	6.6	6.8

FII Includes depository receipts

- ACEM's 4QCY21 result was significantly below our estimates due to higher variable costs (up 28% YoY and 25% QoQ). EBITDA stood at INR5.7b (est. INR6.7b). EBITDA/t came in at INR793 (est. INR1,043). Adjusted profit stood at INR3b (est. INR4.1b).

- As expected, increased opex (up 14% YoY) dented profitability. EBITDA fell 26% YoY, while adjusted profit (adjusted for an additional charge on restructuring cost) fell 40% YoY.

- We reduce our CY22E/CY23E EBITDA estimate by 15%/5%, considering a steep increase in energy costs. Our profit estimate for CY22E is being cut by a mere 6% (despite higher reduction in EBITDA), considering the higher dividend income from ACC. We reduce our CY23E profit estimate by 5%.

- The company has announced plans for increasing grinding capacities by 7mtpa in East India. Valuations at 15.3x/12x CY22/23E EV/EBITDA will restrict upside in the near term. We maintain our **Neutral** rating on ACEM.

EBITDA/t at a 11-quarter low, OPM down 6.6pp YoY

- Standalone revenue/EBITDA/adjusted PAT stood at INR37.4b/INR5.7b/INR3b (+6%/-26%/-40% YoY and +8%/-15%/-27% v/s our estimate).

- Sales volume rose 2% YoY to 7.2mt (est. 6.44mt). Realization grew 5% YoY (flat QoQ) to INR5,217/t (3% below our estimate).

- Opex/t rose 14% YoY and 8% QoQ led by increase in variable costs and other expense (up 17% YoY on higher branding, maintenance, and packaging costs). Employee cost declined by 4% YoY, leading to a 5% YoY drop in employee expense/t.

- EBITDA/t stood at INR793 (a 11 quarter low) v/s INR1,089/INR1,134 in 4QCY20/3QCY21. OPM fell 6.6pp YoY to 15.2%. Depreciation expense grew 35% YoY on commissioning of new capacity. Other income fell 16% YoY.

- In CY21, sales volume/realization increased by 19%/3% YoY, leading to a 23% YoY growth in revenue to INR139.6b. Opex/t rose 3% YoY. EBITDA increased by 21% YoY to INR32.1b. OPM stood at 23% v/s 23.3% in CY20; while EBITDA/t stood at INR1,187 v/s INR1,167. Adjusted PAT grew 19% YoY. The company announced a dividend of INR6.3/share.

- CFO/FCF stood at INR24.7b/INR13.2b v/s INR26.1b/INR16.3b in CY20. Capex in CY21 stood at INR11.6b v/s INR9.9b in CY20. Inventory days rose to 38 days v/s 24 days in CY20, primarily due to coal inventory.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- Grinding capacity expansion of 7mtpa has been planned in East India considering the long-term growth potential of the region. Capacity utilization in the eastern region is expected to touch 85% by CY25, with an increase in the capacity share of top players (90% by CY25 v/s 82% now).
- There was a 40km reduction in the direct lead distance, decrease in secondary lead, and higher direct dispatches in 4QCY21. Sales volume under the master supply agreement (MSA) with ACC rose 73% YoY in 4QCY21.
- Cost savings of INR300/t have been achieved under the 'I Can' project in the last two years. Green power fulfills 4% of its Power requirements at present and will rise to 25-28%. Alternate fuel usage (AFR) stands at 5% and will increase to 15%/25% in the near/medium term.

Earnings under pressure on rising costs; maintain Neutral

- Change in the management's strategy is visible as ACEM announced further expansion plans in the eastern region. Clinker capacity will be raised by 3.2mtpa at Bhatapara (Chhattisgarh) and grinding capacity will be increased by 7mtpa (Sankrail and Farakka in West Bengal and Barh in Bihar). Capex for these expansions stand at INR35b.
- The stock trades at 15.3x/12x CY22/CY23E EV/EBITDA (v/s its 10-year average one-year forward EV/EBITDA of 12.3x). There remain near-term uncertainties in its earnings outlook as the industry has not been able to raise prices for offsetting higher energy costs. We maintain our **Neutral** rating and value the stock at 13x CY23E EV/EBITDA to arrive at our TP of INR370.

Standalone quarterly performance**(INR m)**

Y/E December	CY20				CY21				CY20	CY21	CY21E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales Volume (mt)	5.77	4.19	5.67	7.05	7.24	6.42	6.20	7.16	22.67	27.02	6.44	11
YoY Change (%)	(10)	(29)	8	8	25	53	9	2	(6)	19	(9)	
Cement Realization (INR/t)	4,783	5,119	4,942	4,919	4,943	5,206	5,150	5,138	4,929	5,105	5,284	(3)
YoY Change (%)	7	3	2	6	3	2	4	4	4	4	7	
QoQ Change (%)	3	7	(3)	(0)	0	5	(1)	(0)			3	
Net Sales	28,275	21,768	28,525	35,151	36,214	33,712	32,373	37,351	1,13,719	1,39,650	34,445	8
YoY Change (%)	(3)	(27)	9	12	28	55	13	6	(3)	23	(2)	
EBITDA	6,033	5,952	6,803	7,678	9,768	9,597	7,032	5,679	26,466	32,075	6,715	(15)
Margin (%)	21.3	27.3	23.9	21.8	27.0	28.5	21.7	15.2	23.3	23.0	19.5	(429)
Depreciation	1,379	1,289	1,287	1,257	1,254	1,304	1,257	1,698	5,212	5,512	1,514	12
Interest	231	183	185	233	204	239	215	252	831	909	192	32
Other Income	881	1,922	523	394	552	1,610	362	332	3,720	2,856	640	(48)
PBT before EO Item	5,304	6,402	5,855	6,583	8,861	9,665	5,922	4,061	24,144	28,509	5,649	(28)
Extraordinary Inc./ (Exp.)	0	0	0	0	0	0	0	-657	0	-657	0	
PBT after EO Exp./ (Inc.)	5,304	6,402	5,855	6,583	8,861	9,665	5,922	3,404	24,144	27,853	5,649	(40)
Tax	1,313	1,868	1,450	1,612	2,215	2,434	1,510	888	6,243	7,047	1,546	
Rate (%)	24.8	29.2	24.8	24.5	25.0	25.2	25.5	26.1	25.9	25.3	27.4	
Reported Profit	3,991	4,534	4,405	4,971	6,646	7,231	4,412	2,517	17,901	20,805	4,104	(39)
Adj. PAT	3,991	4,534	4,405	4,971	6,646	7,231	4,412	2,990	17,901	21,278	4,104	(27)
YoY Change (%)	(3)	1	71	52	67	59	0	(40)	24	19	(17)	

Per tonne analysis (INR/t)	CY20				CY21				CY20	CY21	CY21E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Volume (mt)	5.77	4.19	5.67	7.05	7.24	6.42	6.20	7.16	22.67	27.02	6.44	11
YoY Change (%)	(10)	(29)	8	8	25	53	9	2	(6)	19	(9)	
Blended Realization	4,900	5,195	5,031	4,986	5,002	5,251	5,221	5,217	5,016	5,168	5,351	(3)
YoY Change (%)	7.0	2.4	0.8	4.0	2.1	1.1	3.8	4.6	3.4	3.0	7.3	
Raw Material	436	553	449	636	475	274	435	518	523	429	634	(18)
Staff Cost	298	357	286	262	234	252	273	248	295	251	273	(9)
Power & fuel	974	988	1,014	994	1,015	1,228	1,244	1,573	993	1,266	1,224	29
Freight	1,286	1,201	1,306	1,233	1,216	1,228	1,283	1,179	1,259	1,224	1,304	(10)
Other expenditure	860	676	776	771	713	775	853	905	787	811	874	4
Total cost	3,855	3,775	3,831	3,897	3,653	3,756	4,087	4,424	3,858	3,981	4,308	3
EBITDA	1,046	1,421	1,200	1,089	1,349	1,495	1,134	793	1,158	1,187	1,043	(24)
YoY Change (%)	44	19	43	30	29	5	(5)	(27)	30	2	(4)	

Source: Company, MOFSL



Highlights from the management commentary

View on demand and expansion in East India

- The management is optimistic on a demand recovery, led by the need for housing and better infrastructure as India's population is expected to increase (1.5b by CY30 from 1.37b at present). The rising number of people in urban areas will also help drive demand for Cement.
- The management believes that Cement demand in East India (market size: 90mtpa, 26% of domestic consumption) will grow at 8-9% CAGR as the region has very low per capita consumption. Capacity utilization in the region is expected to be 85% by CY25. This region is well consolidated and top players account for 82% of installed capacities, which should increase to 90% by CY25. Capacity expansion in this region will arrest the market share decline for ACC and ACEM in the medium term.

Operational highlights

- The management's focus is on blended Cement production and not on OPC. Production of blended Cement is currently at 89% and is expected to remain at similar levels going forward.
- **Sales volume break-up in CY21** | North West: 20%, South West: 24%, North: 35%, and East: 21%.
- The sale of high margin premium products stood at 15% of volumes in CY21 v/s 8% two years back.
- Other expense was higher due to increase in brand promotion expenses and rise in packaging and maintenance costs.
- There has been a significant improvement in Logistics cost, a 40km reduction in direct lead distance, decrease in secondary lead, and higher direct dispatches in 4QCY21.

Capex

- Bhatapara's clinker capacity will be 10,000tpd, along with a Waste Heat Recovery System (WHRS) of 17MW, apart from the one being commissioned for its existing plant. Barh (Bihar) grinding unit will have a capacity of 3mtpa and will produce 100% fly ash-based Cement (NTPC mega Power plant is near this plant).

- Capacity of Sankarail and Farakka grinding units will be raised by 1.6mtpa each (but equipment guarantee will be much higher). Clinker will be supplied from Bhatapara to all these grinding units. Capex for these expansions will be INR35b.
- The delivered cost of Bhatapara to markets in East India is lower than that of the Jamul plant. The company requires long term mining deposits that are available at Bhatapara. In terms of cost structure, Bhatapara is superior compared to most other plants of ACEM.
- Clinker capacity expansion of 1.5mtpa, at its existing grinding unit at Ropar (Punjab), will be completed in CY23. The management is also considering debottlenecking initiatives across various plants.

Cost savings and ESG initiatives

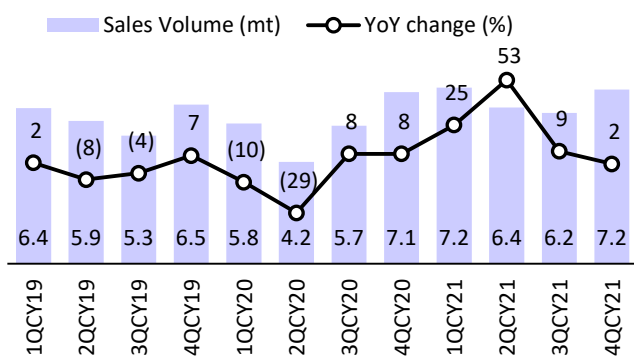
- Sales volume under the MSA with ACC rose 73% YoY in 4QCY21. The management is exploring other areas where cost savings can be achieved (e.g. standard equipment for future expansions).
- Cost savings of INR300/t have been achieved under its 'I Can' project in the last two years.
- A WHRS of 54MW is under implementation at Darlaghat, Bhatapara, and Marwar plants. The management is considering setting up WHRS units at Ambujanagar and Maratha plants.
- Green power fulfills 4% of its power requirements at present, but will rise to 25-28%. AFR is currently at 5% and will rise to 15%/25% in the near/medium term. Bhatapara will consume 25% of AFR and has the potential to rise to 50% of AFR.
- ACEM has one of the lowest clinker factors in the industry. It is also 8x water positive, which is the highest in the industry. It aims to become 10x water positive over the next few years.
- The management targets to reduce its carbon footprint over the next seven-to-eight years (CO2 emission target of 453kg/t of cement v/s 529kg in CY21).

Exhibit 1: Revisions in our estimates

	Revised		Earlier		Change (%)	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Assumptions – standalone						
Sales volume (mt)	29.2	30.6	27.6	29.0	6	6
Realization (INR/t)	5,355	5,255	5,369	5,369	(0)	(2)
Energy cost (INR/t)	1,583	1,187	1,336	1,176	18	1
EBITDA/t (INR)	1,016	1,205	1,262	1,344	(20)	(10)
Standalone (INR m)						
Net Sales	1,56,259	1,61,008	1,48,260	1,55,673	5	3
EBITDA	29,644	36,914	34,847	38,953	(15)	(5)
PAT	21,692	24,824	23,116	26,155	(6)	(5)
EPS (INR)	10.9	12.5	11.6	13.2	(6)	(5)

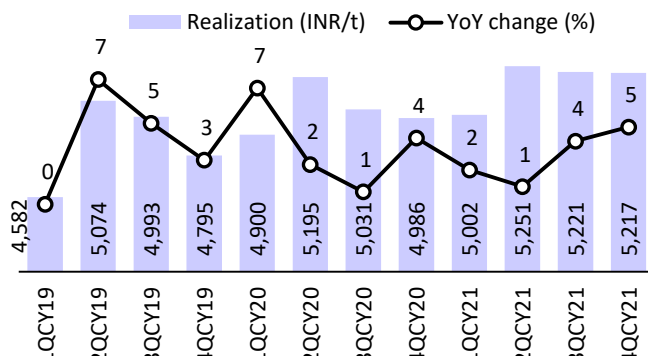
Story in charts

Exhibit 2: Sales volume (including clinker) up 2% YoY



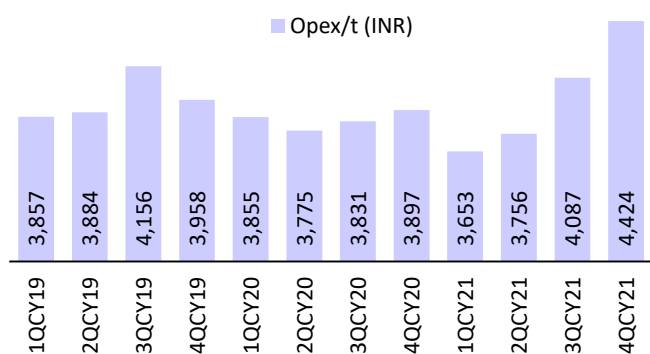
Source: Company, MOFSL

Exhibit 3: Blended realization up 5% YoY, flat QoQ



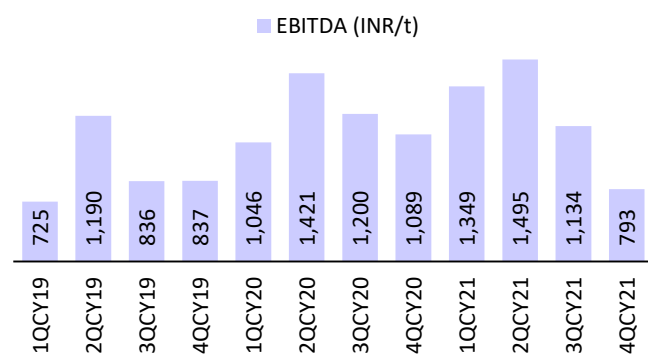
Source: Company, MOFSL

Exhibit 4: Opex/t up 14% YoY on 28% higher variable cost



Source: Company, MOFSL

Exhibit 5: EBITDA/t falls 27% YoY and 30% QoQ



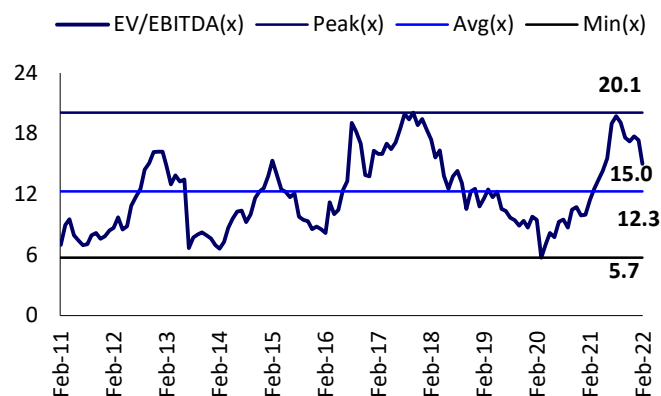
Source: Company, MOFSL

Exhibit 6: Key performance indicators – per ton analysis

INR/t	4QCY21	4QCY20	YoY (%)	3QCY21	QoQ (%)
Blended Realization	5,217	4,986	5	5,221	(0)
Raw Material	518	636	(19)	435	19
Staff Cost	248	262	(5)	273	(9)
Power and Fuel	1,573	994	58	1,244	26
Freight	1,179	1,233	(4)	1,283	(8)
Other exp.	905	916	(1)	853	6
Total Cost	4,424	3,897	14	4,087	8
EBITDA	793	1,089	(27)	1,134	(30)

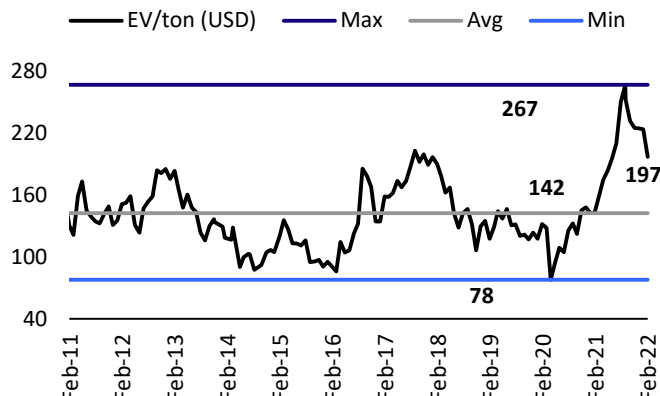
Source: Company, MOFSL

Exhibit 7: One-year forward EV/EBITDA chart



Source: Company, MOFSL

Exhibit 8: One-year forward EV/t chart



Source: Company, MOFSL

Standalone financials and valuations

Income Statement								(INR m)
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Net Sales	91,966	1,04,571	1,13,568	1,16,679	1,13,719	1,39,650	1,57,970	1,62,786
Change (%)	-2.8	13.7	8.6	2.7	-2.5	22.8	13.1	3.0
Total Expenditure	75,043	85,170	94,653	95,190	87,253	1,07,575	1,28,325	1,25,873
As a percentage of								
Sales	81.6	81.4	83.3	81.6	76.7	77.0	81.2	77.3
EBITDA	16,924	19,401	18,915	21,489	26,466	32,075	29,644	36,914
Change (%)	10.5	14.6	-2.5	13.6	23.2	21.2	-7.6	24.5
Margin (%)	18.4	18.6	16.7	18.4	23.3	23.0	18.8	22.7
Depreciation	8,489	5,729	5,481	5,438	5,212	5,512	6,152	6,452
EBIT	8,435	13,672	13,434	16,050	21,254	26,562	23,493	30,461
Interest	742	1,072	823	835	831	909	932	912
Other Income – Rec.	5,102	3,591	3,391	4,265	3,720	2,856	6,596	3,816
PBT before EO Exp.	12,795	16,191	16,002	19,480	24,144	28,509	29,157	33,365
EO Exp./(Inc.)	0	0	-2,779	0	0	657	0	0
PBT after EO Exp.	12,795	16,191	18,781	19,480	24,144	27,853	29,157	33,365
Current Tax	4,392	4,107	4,780	5,730	6,520	6,908	7,464	8,541
Deferred Tax	-920	-411	-869	-1,535	-278	139	0	0
Tax Rate (%)	27.1	22.8	20.8	21.5	25.9	25.3	25.6	25.6
Reported PAT	9,322	12,496	14,870	15,285	17,901	20,805	21,692	24,824
PAT Adj. for EO Items	9,322	12,496	12,091	14,415	17,901	21,278	21,692	24,824
Change (%)	8.0	34.0	-3.2	19.2	24.2	18.9	1.9	14.4
Margin (%)	10.1	11.9	10.6	12.4	15.7	15.2	13.7	15.2

Balance Sheet								(INR m)
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Equity Share Capital	3,971	3,971	3,971	3,971	3,971	3,971	3,971	3,971
Total Reserves	1,89,597	1,95,761	2,06,154	2,18,081	1,99,187	2,18,101	2,26,887	2,37,812
Net Worth	1,93,569	1,99,732	2,10,125	2,22,052	2,03,159	2,22,073	2,30,858	2,41,783
Def. Liabilities	4,973	4,583	3,722	2,161	1,860	2,018	2,018	2,018
Total Loans	157	241	397	353	436	435	435	435
Capital Employed	1,98,699	2,04,557	2,14,244	2,24,565	2,05,454	2,24,526	2,33,311	2,44,236
Gross Block	65,532	69,035	73,721	80,435	86,295	1,08,950	1,25,530	1,32,530
Less: Accum. Depn.	6,116	11,816	17,085	22,310	26,980	32,493	38,644	45,097
Net Fixed Assets	59,416	57,220	56,636	58,125	59,315	76,457	86,885	87,433
Capital WIP	6,501	8,625	9,996	14,562	21,300	12,076	5,562	8,562
Investments in subsidiaries	1,18,151	1,18,151	1,18,138	1,17,890	1,17,877	1,17,877	1,17,877	1,17,877
Investments – Trade	10,951	15,128	2,305	6,537	788	92	92	92
Curr. Assets	38,509	47,144	64,792	72,793	55,534	75,233	82,613	89,734
Inventory	9,375	10,525	12,778	9,541	7,466	14,636	10,275	11,469
Debtors	3,958	3,080	4,703	5,132	1,915	2,932	3,321	3,422
Cash and Bank Bal.	15,602	20,189	31,045	40,638	28,500	41,631	51,732	56,308
Others	9,574	13,351	16,267	17,483	17,652	16,035	17,285	18,535
Curr. Liability and Prov.	34,829	41,712	37,623	45,342	49,360	57,209	59,718	59,463
Creditors	33,516	40,488	36,327	43,985	48,765	56,469	58,384	58,129
Provisions	1,314	1,223	1,296	1,357	595	740	1,334	1,334
Net Current Assets	3,680	5,433	27,169	27,451	6,174	18,024	22,894	30,271
Appl. of Funds	1,98,699	2,04,557	2,14,244	2,24,565	2,05,454	2,24,526	2,33,311	2,44,236

Source: Company, MOFSL

Standalone financials and valuations

Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Basic (INR)								
EPS	4.7	6.3	6.1	7.3	9.0	10.7	10.9	12.5
Cash EPS	9.0	9.2	8.8	10.0	11.6	13.5	14.0	15.8
BV/Share	97.5	100.6	105.8	111.8	102.3	111.8	116.3	121.8
DPS	2.8	3.6	1.5	1.5	18.5	6.3	6.5	7.0
Payout (%)	68.5	64.9	22.3	19.5	205.2	60.1	59.5	56.0
Valuation (x)								
P/E			42.1	35.3	28.4	23.9	23.5	20.5
Cash P/E			29.0	25.6	22.0	19.0	18.3	16.3
P/BV			2.4	2.3	2.5	2.3	2.2	2.1
EV/Sales			4.1	3.8	4.0	3.3	2.9	2.7
EV/EBITDA			24.6	20.8	17.3	14.2	15.3	12.0
EV/t (Cap) - USD			216	207	212	199	197	185
Dividend Yield (%)			0	0	5	2	1.9	2.1
Return Ratios (%)								
RoE	30.9	15.9	13.9	14.7	18.7	22.3	19.8	20.8
RoCE	11.0	16.8	15.2	16.1	19.3	22.9	20.4	21.3
RoIC	9.4	18.2	18.9	23.6	35.3	43.7	31.5	37.9
Working Capital Ratios								
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.6	0.6	0.7	0.7
Debtor (Days)	15.7	10.7	15.1	16.1	6.1	7.7	7.7	7.7
Inventory (Days)	37	37	41	30	24	38	24	26
Work Cap (Days)	14.6	19.0	87.3	85.9	19.8	47.1	52.9	67.9
Leverage Ratio (x)								
Current Ratio	1.1	1.1	1.7	1.6	1.1	1.3	1.4	1.5
Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
(INR m)								
OP/(Loss) before Tax	12,795	16,191	15,061	19,480	24,144	27,853	29,157	33,365
Depreciation	8,489	5,729	5,481	5,438	5,212	5,512	6,152	6,452
Interest and Finance Charges	-1,247	-58	-709	-1,515		0	0	0
Direct Taxes Paid	-3,187	-3,101	-6,251	-808	-4,648	-3,629	-7,464	-8,541
(Inc.)/Dec. in WC	325	2,136	-6,166	3,877	3,676	-4,615	5,231	-2,801
CF from Operations	17,173	20,898	7,416	26,472	28,383	25,121	33,075	28,475
Others	-3,015	-2,356	-2,406	-3,147	-2,321	-459	0	0
CF from Operations incl. EO	14,158	18,541	5,009	23,325	26,062	24,663	33,075	28,475
(Inc.)/Dec. in FA	-3,832	-5,427	-5,936	-11,114	-9,756	-11,425	-10,067	-10,000
Free Cash Flow	10,327	13,115	-927	12,211	16,307	13,238	23,008	18,475
(Pur.)/Sale of Investments	-30,859	3,468	3,393	3,734	3,342	2,607	0	0
Others	14,253	-4,509	13,174	-2,484				
CF from Investments	-20,438	-6,468	10,631	-9,864	-6,414	-8,818	-10,067	-10,000
Issue of Shares	868	0	0	0	0	0	0	0
Inc.)/(Dec.) in Debt	-957	-793	216	0	-237	-275	0	0
Interest Paid	-360	-1,143	-513	-558	-633	-908	0	0
Dividend Paid	-5,516	-5,550	-4,498	-3,320	-36,646	-2,021	-12,907	-13,900
Others	-868	0	12	11	-88	35	0	0
CF from Fin. Activity	-6,833	-7,487	-4,784	-3,868	-37,604	-3,168	-12,907	-13,900
Inc./Dec. in Cash	-13,112	4,587	10,856	9,593	-17,956	12,677	10,102	4,576
Opening Balance	28,714	15,602	20,189	31,045	40,638	28,500	41,631	51,732
Closing Balance	15,603	20,189	31,045	40,638	22,681	41,177	51,732	56,308

Source: Company, MOFSL

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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