

Zhongji Innolight (A)

Lift PO to CNY1,650: full-stack optic supplier riding on stronger cycle

Reiterate Rating: BUY | PO: 1,650 CNY | Price: 1,180 CNY

Raise earnings estimates and PO to CNY1,650

We raise our 2026-28E earnings by 16-70% to reflect strong 1.6T demand into 2027 and rising contribution from new solutions. We expect 1.6T/NPO to contribute ~68%/~14% of Innolight's revenue in 2027. We lift our PO to CNY1,650 (25x 2027E P/E) from CNY1,100 (30x 2H26-1H27E P/E). We lowered our P/E target multiple to reflect the market's forward looking on earnings amid extended lead-time as well as lingering debates around CPO. We see market tend to value more on further earnings upside for transceiver makers and more discussions around new techs could warrant further share price upside. Reiterate Buy.

Pluggables demand trending stronger

We expect 1.6T demand to trend even stronger into 2027 and last into 2028, proved by upstream suppliers' extended backlog: (1) Tower Semi's US\$1.3bn contracts for 2027 and larger commitment for 2028; (2) Lumentum's capacity fully booked through 2028; and (3) higher supply/demand gap to over 30%. We also see stronger Google TPU volume as another driver to 1.6T volume, and we expect global 1.6T shipment to reach 20mn/56mn units in 2026/27, while we expect Innolight to maintain over 40% share into 2027.

New solutions: NPO visibility improving, CL emerging

NPO demand is becoming increasingly visible in 2027, and we expect more than one CSP to deploy NPO in its scale-up systems. Based on our analysis, each 5mn-unit NPO order could generate CNY10bn+ in earnings for Innolight. We are also seeing growing market discussions around a 2.4T Coherent-Lite (CL) solution, which could potentially be deployed by Google. This suggests that high-value Coherent solutions are moving from scale-across to scale-up architectures. We note that the Coherent optics market remains largely dominated by US vendors, while Innolight is one of the few China suppliers. We believe Innolight could be a key beneficiary of Google's potential Coherent-Lite adoption into 2027-28, backed by its deep relationship with Google.

Estimates (Dec) (CNY)	2024A	2025A	2026E	2027E	2028E
Net Income (Adjusted - mn)	5,171	10,797	39,220	73,330	103,513
EPS	4.60	9.72	35.30	66.00	93.16
EPS Change (YoY)	137.9%	111.2%	263.2%	87.0%	41.2%
Consensus EPS (Visible Alpha)			27.00	42.06	53.60
Dividend / Share	0.50	1.00	3.53	6.60	9.32
Free Cash Flow / Share	0.27	7.32	4.68	45.43	81.16
Valuation (Dec)					
P/E	256.5x	121.4x	33.4x	17.9x	12.7x
Dividend Yield	0%	0.1%	0.3%	0.6%	0.8%
EV / EBITDA*	198.7x	89.1x	25.4x	14.1x	10.1x
Free Cash Flow Yield*	0%	0.6%	0.4%	3.8%	6.9%

* For full definitions of *IQmethod*SM measures, see page 8.

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

10 June 2026

Equity

Key Changes

(CNY)	Previous	Current
Price Obj.	1,100.00	1,650.00
2026E EPS	30.39	35.30
2027E EPS	45.68	66.00
2028E EPS	54.64	93.16
2026E EBITDA (m)	43,807.9	51,070.1
2027E EBITDA (m)	64,283.2	92,178.4
2028E EBITDA (m)	76,300.2	128,639.9

Katherine Zhu >>
Research Analyst
Merrill Lynch (Hong Kong)
kexin.zhu@bofa.com

Robert Cheng >>
Research Analyst
Merrill Lynch (Taiwan)
robert.cheng@bofa.com

Doris Kao >>
Research Analyst
Merrill Lynch (Taiwan)
doris.kao@bofa.com

Stock Data

Price	1,180 CNY
Price Objective	1,650 CNY
Date Established	10-Jun-2026
Investment Opinion	C-1-7
52-Week Range	105.11 CNY-1,320 CNY
Mkt Val / Shares Out (mn)	193,247 USD / 1,111.1
Market Value (mn)	1,311,122 CNY
Average Daily Value (mn)	4,924 USD
Free Float	72.5%
BofA Ticker / Exchange	XZICF / SHZ
Bloomberg / Reuters	300308 CH / 300308.SZ
ROE (2026E)	76.8%
Net Dbt to Eqty (Dec-2025A)	-29.7%

NPO: near-packaged optics

SiPh: silicon photonics

TPU: tensor processing unit

CSP Common Security Platform

iQprofileSM Zhongji Innolight (A)

Key Income Statement Data (Dec)

(CNY Millions)

	2024A	2025A	2026E	2027E	2028E
Sales	23,862	38,240	120,868	211,691	294,761
Gross Profit	8,067	16,074	57,480	102,882	143,872
Sell General & Admin Expense	(879)	(987)	(3,090)	(5,213)	(7,417)
Operating Profit	5,897	13,394	50,107	90,939	127,184
Net Interest & Other Income	156	205	(238)	122	122
Associates	NA	NA	NA	NA	NA
Pretax Income	6,052	13,600	49,869	91,061	127,306
Tax (expense) / Benefit	(681)	(2,020)	(8,067)	(14,730)	(20,593)
Net Income (Adjusted)	5,171	10,797	39,220	73,330	103,513
Average Fully Diluted Shares Outstanding	1,124	1,111	1,111	1,111	1,111

Key Cash Flow Statement Data

Net Income	5,171	10,797	39,220	73,330	103,513
Depreciation & Amortization	643	1,195	963	1,240	1,456
Change in Working Capital	(3,178)	(3,016)	(31,436)	(21,097)	(12,286)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	528	1,919	458	0	0
Cash Flow from Operations	3,165	10,896	9,205	53,473	92,683
Capital Expenditure	(2,866)	(2,760)	(4,000)	(3,000)	(2,500)
(Acquisition) / Disposal of Investments	(85)	96	(27)	0	0
Other Cash Inflow / (Outflow)	9	45	9	0	0
Cash Flow from Investing	(2,942)	(2,619)	(4,019)	(3,000)	(2,500)
Shares Issue / (Repurchase)	246	205	34	0	0
Cost of Dividends Paid	(399)	(1,083)	(1,121)	(3,922)	(7,333)
Cash Flow from Financing	1,492	(2,144)	(1,104)	(3,922)	(7,333)
Free Cash Flow	298	8,136	5,205	50,473	90,183
Net Debt	(2,377)	(9,391)	(13,204)	(59,755)	(142,605)
Change in Net Debt	(69)	(7,070)	(3,858)	(46,551)	(82,850)

Key Balance Sheet Data

Property, Plant & Equipment	5,820	7,081	9,558	11,491	12,708
Other Non-Current Assets	4,851	7,124	8,418	8,245	8,072
Trade Receivables	4,671	6,350	27,669	41,440	49,693
Cash & Equivalents	5,054	10,987	14,863	61,414	144,264
Other Current Assets	8,471	13,748	35,091	50,965	59,702
Total Assets	28,866	45,289	95,599	173,555	274,439
Long-Term Debt	606	510	531	531	531
Other Non-Current Liabilities	1,470	1,599	1,632	1,632	1,632
Short-Term Debt	2,070	1,086	1,128	1,128	1,128
Other Current Liabilities	4,427	10,473	21,819	30,366	35,071
Total Liabilities	8,573	13,668	25,110	33,657	38,362
Total Equity	20,293	31,621	70,489	139,897	236,077
Total Equity & Liabilities	28,866	45,289	95,599	173,555	274,439

iQmethodSM - Bus Performance*

Return On Capital Employed	26.2%	39.2%	77.8%	70.5%	55.8%
Return On Equity	29.5%	41.6%	76.8%	69.7%	55.1%
Operating Margin	24.7%	35.0%	41.5%	43.0%	43.1%
EBITDA Margin	27.4%	38.2%	42.3%	43.5%	43.6%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.6x	1.0x	0.2x	0.7x	0.9x
Asset Replacement Ratio	5.3x	2.6x	5.1x	2.8x	1.9x
Tax Rate (Reported)	11.2%	14.9%	16.2%	16.2%	16.2%
Net Debt-to-Equity Ratio	-11.7%	-29.7%	-18.7%	-42.7%	-60.4%
Interest Cover	NM	NM	NM	NM	NM

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

IT Hardware

Company Description

Zhongji Innolight, a China-based high-speed optical transceiver solution provider, was founded in 2008 and listed in 2017 (via a reverse takeover). Innolight is now tied as the largest optical transceiver provider globally. It has a complete product portfolio for datacenter, 5G, networking and fiber to the home. Its key customers are mainly US hyperscalers and GPU providers.

Investment Rationale

We have a Buy rating on Zhongji Innolight. Innolight, the global number-1 optical transceiver supplier, is a key beneficiary of the AI uptrend, led by (1) rapidly rising volume/content at transceivers and (2) its strong project line-up.

Stock Data

Price to Book Value

18.6x

Earnings upgrade, PO to CNY1,650

We raise our 2026-28E earnings by 16-70% to reflect the strong 1.6T demand into 2027 and rising contribution from new solutions. We expect 1.6T/NPO to contribute ~68%/~14% of Innolight's revenue in 2027. We lift our PO to CNY1,650 (25x 2027E P/E) from CNY1,100 (30x 2H26-1H27E P/E). We lowered our P/E target multiple to reflect market's forward looking on earnings amid extended lead-time as well as lingering debates around CPO. We note Innolight has traded above 27x (+1SD) previously but given more crowded market and lingering concern on Nvidia's CPO adoption, we view market tend to focus more on what can drive further earnings upside. Thus, surprise on earnings and more discussions around new techs should warrant further share price upside.

Exhibit 1: We lift 2026-28E earnings estimates by 16-70%

Earnings estimate changes, 2026-27

(CNY mn)	2026E			2027E			2028E		
	New	Old	Diff (%)	New	Old	Diff (%)	New	Old	Diff (%)
Sales	120,868	104,797	15.3	211,691	147,766	43.3	294,761	175,598	67.9
Gross Profit	57,480	49,365	16.4	102,882	71,764	43.4	143,872	85,170	68.9
Gross margin	47.6%	47.1%	0.5	48.6%	48.6%	0.0	48.8%	48.5%	0.3
Operating income	50,107	42,845	16.9	90,939	63,200	43.9	127,184	75,073	69.4
Operating margin	41.5%	40.9%	0.6	43.0%	42.8%	0.2	43.1%	42.8%	0.4
Pretax income	49,869	42,767	16.6	91,061	63,412	43.6	127,306	75,285	69.1
Pretax margin	41.3%	40.8%	0.4	43.0%	42.9%	0.1	43.2%	42.9%	0.3
Net income	39,220	33,766	16.2	73,330	50,754	44.5	103,513	60,707	70.5
Net margin	32.4%	32.2%	0.2	34.6%	34.3%	0.3	35.1%	34.6%	0.5
EPS (CNY)	35.30	30.39	16.2	66.00	45.68	44.5	93.16	54.64	70.5

Source: BofA Global Research estimates

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Exhibit 2: Our 2026-28E earnings are 42-68% above consensus

BofAe vs consensus, 2026-28

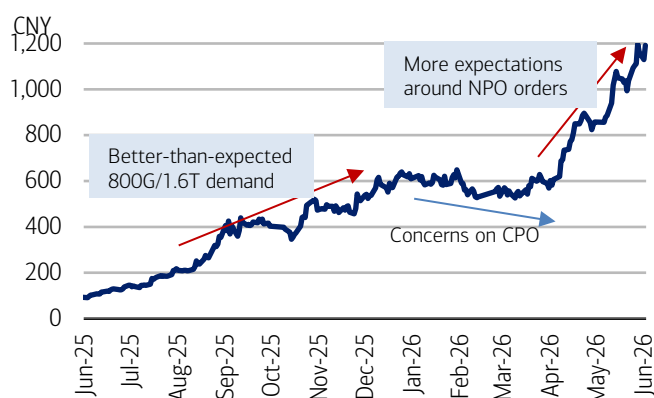
(CNY mn)	2026E			2027E			2028E		
	BofAe	Consensus	Diff (%)	BofAe	Consensus	Diff (%)	BofAe	Consensus	Diff (%)
Sales	120,868	87,664	37.9	211,691	133,310	58.8	294,761	201,734	46.1
Gross Profit	57,480	38,515	49.2	102,882	59,341	73.4	143,872	94,492	52.3
Gross margin	47.6%	43.9%	3.6ppt	48.6%	44.5%	4.1ppt	48.8%	46.8%	2.0ppt
Operating income	50,107	33,244	50.7	90,939	51,668	76.0	127,184	81,323	56.4
Operating margin	41.5%	37.9%	3.5ppt	43.0%	38.8%	4.2ppt	43.1%	40.3%	2.8ppt
Pretax income	49,869	33,305	49.7	91,061	51,811	75.8	127,306	81,757	55.7
Pretax margin	41.3%	38.0%	3.3ppt	43.0%	38.9%	4.2ppt	43.2%	40.5%	2.7ppt
Net income	39,220	27,676	41.7	73,330	43,739	67.7	103,513	67,866	52.5
Net margin	32.4%	31.6%	0.9ppt	34.6%	32.8%	1.8ppt	35.1%	33.6%	1.5ppt
EPS (CNY)	35.30	24.91	41.7	66.00	39.37	67.7	93.16	61.08	52.5

Source: BofA Global Research estimates, Bloomberg consensus

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Exhibit 3: Apr-May rally led by more discussions on 2027 demand and NPO orders

Share price trend since June 2025

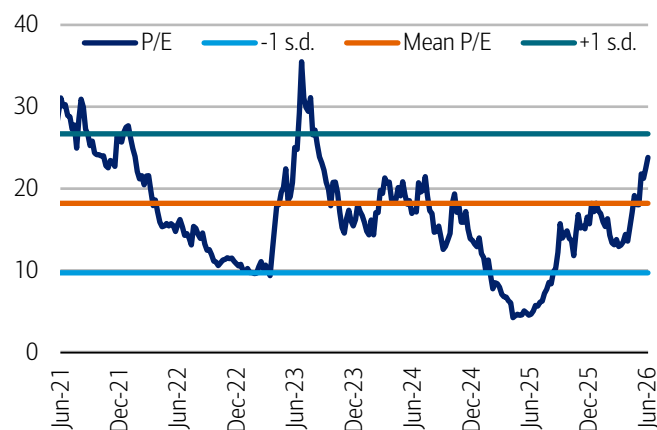


Source: Bloomberg, BofA Global Research

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Exhibit 4: The stock trades at 24x 1-year forward P/E, below +1SD

Innolight's 1-year forward P/E since 2021



Source: BofA Global Research

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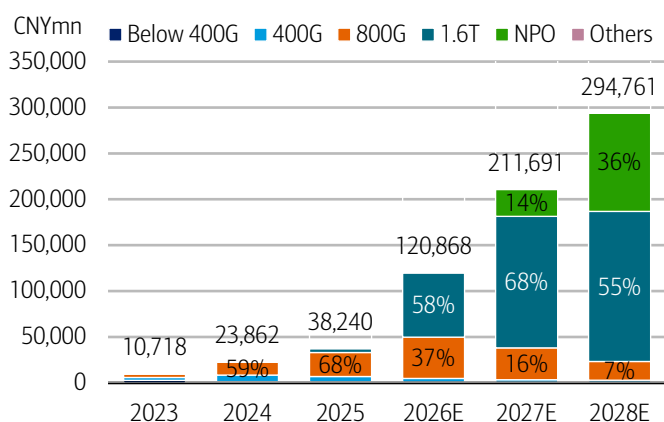
Pluggables trending stronger, NPO taking off

We expect 1.6T demand to trend even stronger into 2027 and last into 2028, as indicated by upstream suppliers' extended backlog. We expect global 1.6T shipments to reach 20mn/56mn units in 2026/27, while we expect Innolight to maintain over 40% share into 2027.

Besides pluggables, NPO demand is becoming increasingly visible into 2027, and we expect more than one CSP to deploy NPO in its scale-up systems. Based on our analysis, each 5mn-unit NPO order could generate CNY10bn+ in earnings for Innolight, assuming USD1,000 ASP and similar 30% net margin. We are also seeing increasing market discussion around a 2.4T Coherent-Lite solution, could potentially be deployed by Google. This suggests that high-value Coherent solutions are expanding from scale-across to scale-up architectures. We note that the Coherent optics market is largely dominated by US vendors, while Innolight is one of the few China suppliers. We believe Innolight could be a potential beneficiary of Google's Coherent-Lite take-off into 2027-28, backed by its deep relationship with Google.

Exhibit 5: 1.6T/NPO to contribute 68%/14% of the topline in 2027E

Revenue trend by key products, 2023-28E

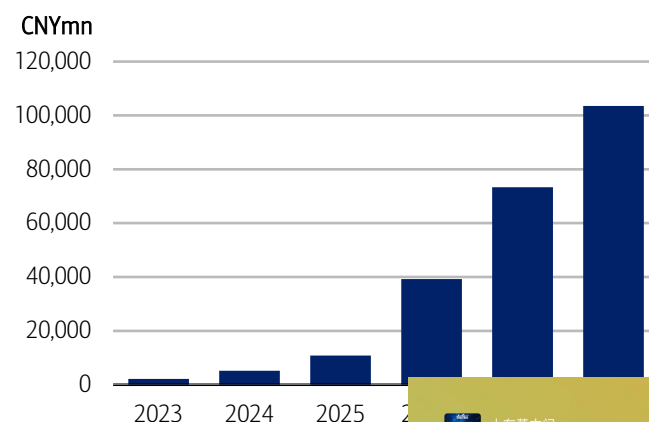


Source: Company data, BofA Global Research estimates

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Exhibit 6: We expect earnings to nearly double in 2027E

Net income trend, 2023-28E

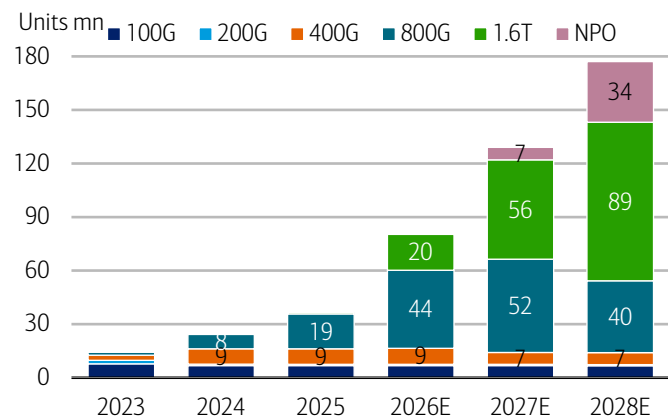


Source: Company data, BofA Global Research estimates



Exhibit 7: We expect 1.6T shipment to remain strong into 2027-28E with NPO to take off from 2027E

Global optical transceiver and NPO shipment forecasts, 2023-28E

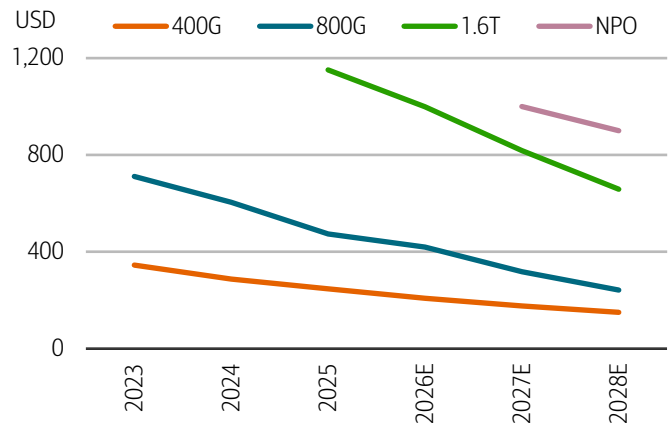


Source: BofA Global Research estimates

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Exhibit 8: ASP erosion turned narrower in 2026E on supply shortage

Global optical transceiver and NPO ASP forecasts, 2023-28E



Source: BofA Global Research estimates

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Exhibit 9: We model 62% earnings CAGR over 2026-28

Innolight's quarterly income statement, 2025-28E

CNY mn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Sales	6,674	8,115	10,216	13,235	19,496	23,725	33,352	44,295	40,849	43,578	60,924	66,340	38,240	120,868	211,691	294,761
Gross profit	2,449	3,367	4,371	5,887	8,980	11,022	15,992	21,487	19,802	21,105	29,585	32,390	16,074	57,480	102,882	143,872
Operating profit	1,950	2,844	3,719	4,882	7,753	9,542	14,035	18,777	17,398	18,438	26,406	28,697	13,394	50,107	90,939	127,184
Pretax profit	1,990	2,891	3,959	4,759	7,536	9,485	14,078	18,770	17,441	18,481	26,449	28,690	13,600	49,869	91,061	127,306
Net income	1,583	2,412	3,137	3,665	5,735	7,351	11,101	15,034	13,920	14,791	21,371	23,249	10,797	39,220	73,330	103,513
EPS (CNY)	1.43	2.17	2.82	3.30	5.16	6.62	9.99	13.53	12.53	13.31	19.23	20.92	9.73	35.3	66.0	93.2
Margins																
Gross margin	36.7%	41.5%	42.8%	44.5%	46.1%	46.5%	47.9%	48.5%	48.5%	48.4%	48.6%	48.8%	42.0%	47.6%	48.6%	48.8%
OP margin	29.2%	35.0%	36.4%	36.9%	39.8%	40.2%	42.1%	42.4%	42.6%	42.3%	43.3%	43.3%	35.0%	41.5%	43.0%	43.1%
Pretax margin	29.8%	35.6%	38.8%	36.0%	38.7%	40.0%	42.2%	42.4%	42.7%	42.4%	43.4%	43.2%	35.6%	41.3%	43.0%	43.2%
Net margin	23.7%	29.7%	30.7%	27.7%	29.4%	31.0%	33.3%	33.9%	34.1%	33.9%	35.1%	35.0%	28.2%	32.4%	34.6%	35.1%
QoQ																
Sales	2%	22%	26%	30%	47%	22%	41%	33%	-8%	7%	40%	9%				
Gross profit	7%	37%	30%	35%	53%	23%	45%	34%	-8%	7%	40%	9%				
OP profit	29%	46%	31%	31%	59%	23%	47%	34%	-7%	6%	43%	9%				
Pretax profit	21%	45%	37%	20%	58%	26%	48%	33%	-7%	6%	43%	8%				
Net income	12%	52%	30%	17%	56%	98%	51%	35%	-7%	6%	44%	9%				
YoY																
Sales	38%	36%	57%	102%	192%	192%	226%	235%	110%	84%	83%	50%	60%	216%	75%	39%
Gross profit	54%	69%	100%	156%	267%	227%	266%	265%	121%	91%	85%	51%	99%	258%	79%	40%
OP profit	74%	88%	112%	223%	298%	236%	277%	285%	124%	93%	88%	53%	127%	274%	81%	40%
Pretax profit	69%	86%	135%	190%	279%	228%	256%	294%	131%	95%	88%	53%	125%	267%	83%	40%
Net income	57%	79%	125%	158%	262%	205%	254%	310%	143%	101%	93%	55%	109%	263%	87%	41%

Source: Company data, BofA Global Research estimates

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Price objective basis & risk

Zhongji Innolight (XZICF)

We set our PO at CNY1,650 (25x 2027E P/E). 25x is slightly below +1SD of Innolight's trading average since 2021 (27x). We think 25x is justified by strong orders, Innolight's leading position in the spec upgrade cycle, as well as its solid expected sales/earnings expansion in the next 2-3 years.

Downside risks: (1) slower demand at AI, leading to slower 400G/800G/1.6T and NPO adoption by key customers, (2) faster-than-expected ASP erosion at high-end products, leading to weaker margin, (3) peers' faster entry into high-end market, causing market share and ASP pressure, and (4) faster adoption of CPO.

Upside risks: (1) stronger demand at AI, leading to faster 400G/800G/1.6T and NPO adoption by key customers, (2) better ASP profile at high-end products, leading to stronger margin, (3) less competition in the high-end market, and (4) slower adoption of CPO.

Analyst Certification

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APR - Technology Hardware Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	AAC Technologies	AACAF	2018 HK	Katherine Zhu
	Asia Vital Components	AVMPF	3017 TT	Doris Kao
	BizLink	BIZLF	3665 TT	Doris Kao
	BOE Technology Group Co., Ltd	XCJQF	000725 CH	Brad Lin
	Chenbro	CEOMF	8210 TT	Doris Kao

APR - Technology Hardware Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Lens Tech	XLTGF	300433 CH	Katherine Zhu
	LG Display	LPHLF	034220 KS	Simon Woo, CFA
	LG Display-ADR	LPL	LPL US	Simon Woo, CFA
	Lianchuang Electronic	XWOF	002036 CH	Katherine Zhu
	Pegatron	PGTRF	4938 TT	Robert Cheng
	Sanan Opto	XEQYF	600703 CH	Katherine Zhu
	Seoul Semiconductor	SLSOF	046890 KS	Simon Woo, CFA
	Shengyi	DGUNF	600183 CH	Mike Yang
	Sunway Communications	XWSVF	300136 CH	Katherine Zhu
	Tianma	XVZLF	000050 CH	Brad Lin
	Transsion	XCINF	688036 CH	Robert Cheng

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

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

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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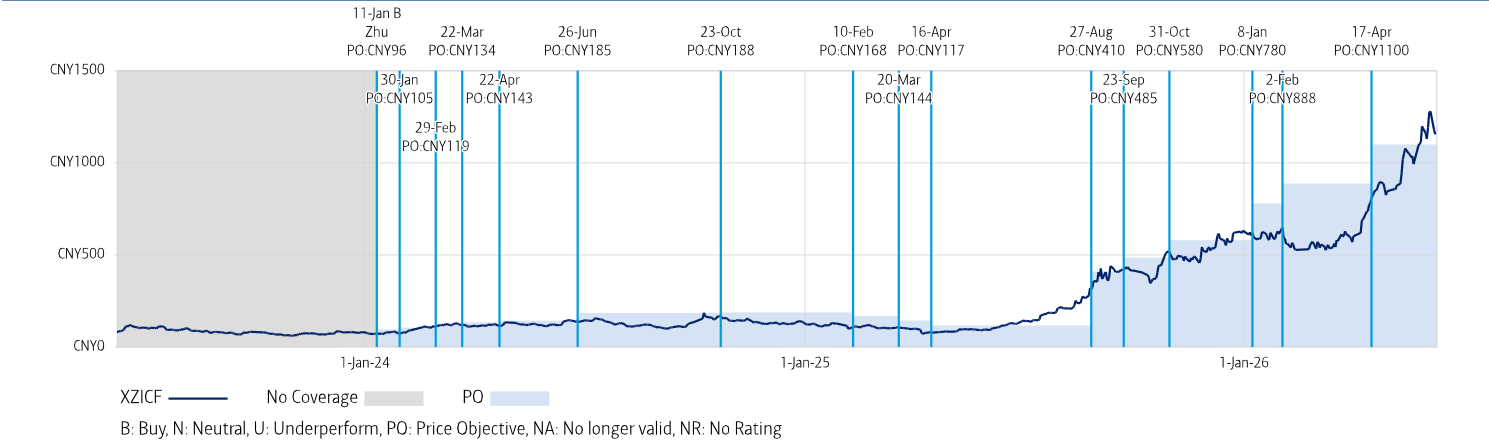
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Zhongji Innolight (XZICF) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Mar 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	58.50%	Buy	123	52.56%
Hold	90	22.50%	Hold	43	47.78%
Sell	76	19.00%	Sell	23	30.26%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	821	22.97%	Hold	509	62.00%
Sell	760	21.26%	Sell	400	52.63%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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