

# Gemadept (GMD)

Maintain sustainable growth

August 18, 2022

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**GMD's profit & revenue rose 87% and 30% respectively**

Gemadept (GMD) recorded NPAT of VND334 billion (+87%YoY) on revenue of VND978 billion (+30% YoY) in 2Q22. Of that, logistics revenue reached VND178 billion (+87% YoY), and revenue from port operation reached VND800 billion (+22% YoY).

**Hai Phong port cluster has a capacity of 560,000 TEUs**

Hai Phong port cluster is still the largest source of revenue for GMD with total port throughput reaching 560,000 TEUs in 1H22. Nam Dinh Vu Port phase 2, which should come into operation from early 2023, will become a growth driver for Northern ports in the medium term.

**Gemalink is GMD's growth force in the medium and long term and is expected to reach 90% capacity in 2022**

Gemalink port throughput was 650,000 TEUs in 1H22, contributing VND68 billion to GMD's profit. As Cai Mep port area has a fast growth rate and most of the ports in this area are already operating at full capacity, Gemalink is expected to reach more than 90% capacity this year. Gemalink 2, which should be operated from 1Q25, would drive the growth of GMD in the long term.

**2022 NPAT is estimated at VND959 billion (+33% YoY)**

We estimate GMD's 2022 NPAT at VND 959 billion, up 33% YoY, and net sales should be VND3,680 billion, up 15% YoY, led by Gemalink port's projected profit of VND174 billion this year.

**BUY recommendation with a target price of VND71,500/share**

Using the sum-of-the-parts valuation (SOTP), we recommend BUY for GMD stocks with a target price of VND71,500/share, equivalent to a 37.5% return on the closing price on August 10, 2022.

**Buy** maintain

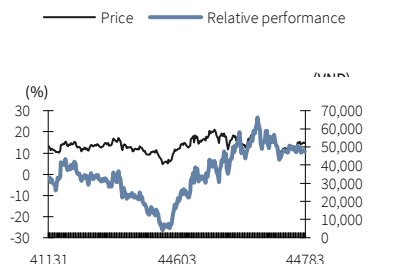
Target price	VND 71,500
Upside (%)	37.5%
Current price (August 10, 2022)	VND52,000
Consensus target price	VND71,500
Market cap (VNDbn)	15,671

Trading data	
Free float (%)	74
3M avg trading value (VNDbn/USDmn)	133,569
Foreign ownership (%)	43.6
Major shareholder	SSJ Consulting (9.9%)

Share price performance				
(%)	1M	3M	6M	12M
<b>Absolute</b>	5	3	2	3
<b>Relative</b>	-1	0	18	11

#### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	2,606	3,206	3,680	4,323
Earnings/loss (VNDbn)	950	1,142	1,328	1,564
NPAT (VNDbn)	440	721	959	1,111
EPS (VND)	6,207	1,602	2,760	2,404
EPS growth (%)	207%	-74%	72%	-13%
P/E (x)	8.4	32.5	18.9	21.6
P/B (x)	2.4	2.2	1.7	2.1
ROE (%)	6.7%	10.2%	10.2%	11.4%



## Business performance

**2Q NPAT reached VND334 billion on revenue of VND978 billion (up 30% YoY mainly thanks to revenue from port services).**

GMD's net revenue increased 30% YoY to VND978 billion in 2Q and reached VND1,858 billion in 1H22, completing 49% of the full-year target. Revenue from port services accounted for the largest proportion of 83% of VND1,536 billion (+24%YoY) while revenue from logistics was VND322 billion (+61% YoY). Profit before taxes (PBT) of GMD surged 98% YoY to VND370 billion in 2Q, raising return on sales ratio (ROS) to 38% (compared to 26% in 2Q21). 2Q net-profit after taxes (NPAT) was VND334 billion, up 87% from VND178 billion record in 2Q last year. In the first six months, GMD's NPAT reached VND653 billion (+86%YoY), fulfilling 72% of the year's earnings target.

**Revenue growth was underpinned by (1) the increase in sea freight charges and (2) the rise in container throughput at GMD ports (up 30% YoY)**

The revenue from Gemadept port increased rapidly thanks to the spike in port throughput and the increase in sea freight rates and surcharges. Although the handling fees in did not change much in 2Q, GMD's average port rate in this quarter still improved on higher container handling fees and new services. In 1H22, the economy maintained a recovery momentum, production activities were promoted, the global supply chain was gradually opened, the total throughput at Vietnam's ports reached 12.75 million TEUs. Container throughput at GMD port system rose 30% YoY to 1.6 million TEUs in 1H22. Hai Phong ports' capacity recorded a growth of 14% YoY to 560,000 TEUs. For Southern ports, the volume increased impressively by 41% YoY to more than 1 million TEUs, most of which came from Gemalink deep seaport.

**Gross profit gained 45% as the increase in COGS was smaller than that of revenue. Financial revenue in 1H22 decreased by 73%**

2Q COGS modestly gained 25% while net sales rose 30%, leading to an increase in gross profit margin from 42% 2Q21 to 45% in 2Q22. Gross profit increased from VND319 billion in 2Q21 to VND436 billion in 2Q22 (+37% YoY). In 1H2022, financial revenue decreased by more than 73% to VND8.2 billion as there was no interests from liquidation of investments.

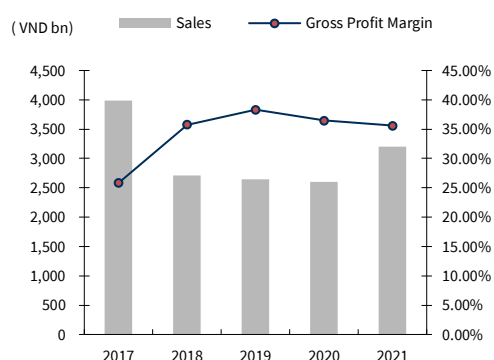
**Profit of joint ventures, mainly from Gemalink and SCS, reached VND100 billion in 2Q22**

Profit from joint ventures and associates was up 47% YoY from VND68 billion to VND100 billion in 2Q22, raising GMD's net profit by 87% YoY to VND334 billion. In the first half of the year, earnings from GMD's joint ventures and associates reached VND225 billion, of which SCSC Cargo Service (SCS) recorded a net profit of VND340 billion, up 19% YoY and adding VND50 billion to total profit of GMD. Gemalink also made a big contribution as it started to break even and record earnings from 4Q21. In 1H2022, Gemalink's outturn was more than doubled compared to the same period last year, recording a profit of VND68 billion (vs a loss of nearly VND40 billion in 1H21). In addition, the profit generated by CJ Gemadept Shipping Holdings also increased by VND25 billion.

**Gemadept's total assets reached VND11,378 billion, and total debt was VND1,980 billion**

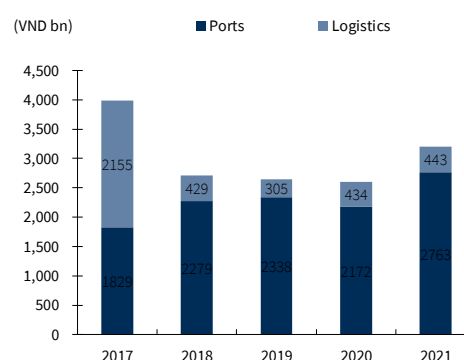
GMD's total assets were valued at VND11,378 billion, rising VND600 billion from the beginning of the year. Asset items did not change much, except for short-term receivables which gained 32% to VND1,109 billion. GMD's total debt at the end of June was VND1,980 billion (or 55% of liabilities), which was unchanged from the beginning of the year.

Fig 1. GMD – Revenue &amp; gross profit margin (VNDbn, %)



Source: Gemadept, KB Securities Vietnam

Fig 2. GMD – Revenue structure (VNDbn)



Source: Gemadept, KB Securities Vietnam

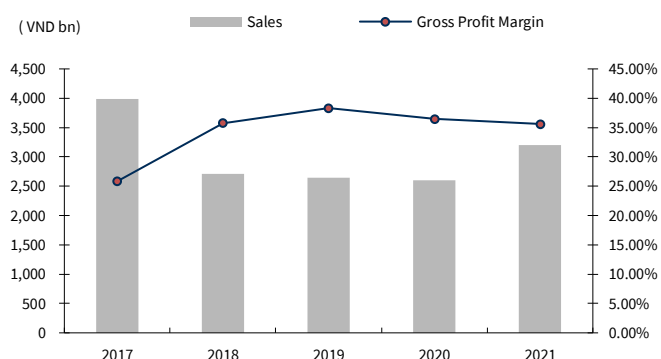
## Investment catalysts

### 1. Port industry expects to grow 3-4% each year in the next five years

#### Container throughput at Vietnam's ports grew to 12.75 million TEUs in the first six months of the year

In the first six months of this year, the total volume of goods transported through Vietnam's seaports reached more than 371 million tons, up 2% YoY. Total container throughput was estimated at 12.75 million TEUs, an increase of 1% compared to 1H21. Although port throughput still record growth, the growth has slowed down to recent years' lows because (1) freight rates decreased by 30% since February but were still times higher than the pre-pandemic levels; rising oil and raw material prices also pushed surcharges up; (2) The Zero Covid policy of China, a Vietnam's big import market, is one of the main reasons for the decline of 8% in goods imports in 1H22, which negatively affected the port throughput; and (3) increasing inflation in the context of gloomy growth prospects caused governments and people to tighten spending and consumption, which partly slowed down the growth of the port industry. The port industry is expected to recover from 2023 when social distancing is loosened and supply chain disruptions due to container congestion are solved thanks to the supply of new containers in 2023. Production and consumption activities returning to normal will help freight traffic through seaports continue to grow 4% per year, according to Drewry forecasts for the Southeast Asian markets in the next three years.

Fig 3. Vietnam – Container throughput and throughput growth (thousand TEUs, %)



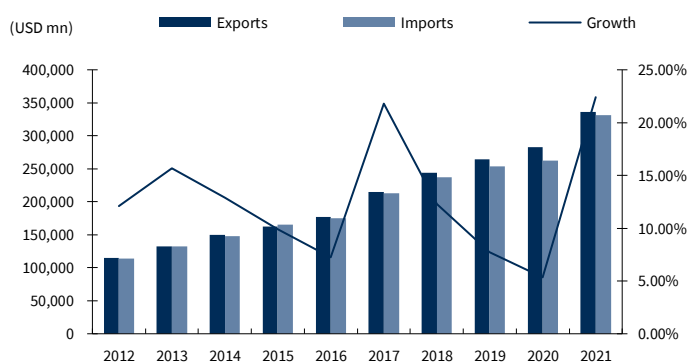
Source: Vinamarine, KB Securities Vietnam

We assess that the port industry could maintain its growth, based on (1) stable growth of Vietnam's import-export turnover and (2) opportunities from trade agreements.

**The port industry has a good growth potential given positive GDP growth and import-export turnover**

Vietnam's total import-export turnover in the past 10 years has always maintained a 10%–20% growth, it fell to 10% in 2020 only when the pandemic broke out and disrupted the global supply chain. In 1H22, import and export activities were positive, the turnover reached VND371 billion, up 16.4% YoY. We expect Vietnam's total import-export value to gain 10–15% in the next five years as most industries and fields tend to recover. The GDP of Vietnam's main export markets such as the US, EU, and Japan should continue to grow in 2022 and 2023. The recovery of consumer demand in these markets will also positively affect import and export activities of Vietnam, thereby maintaining growth potential for the port industry.

Fig 4. Vietnam – Import-export turnover &amp; growth (USDmn, %)



Source: UNCTAD, KB Securities Vietnam

**Trade agreements give many export opportunities in the US and European markets**

The recovery of production and consumption after the pandemic and the strengthening of trade relations through trade agreements are promising to the future of the port industry. Tariff incentives of the EVFTA facilitate local exporters of textiles, footwear, fishery, iron and steel and plastic raw materials to grow strongly in the EU market. The CPTPP also offers many opportunities in the Americas market, which accounts for 29% of Vietnam's export turnover. The RCEP, which came into effect on January 1, 2022, will also help to boost Vietnam's trade with other countries.

**2. Hai Phong port cluster is expected to maintain growth thanks to Nam Dinh Vu 2 Port**

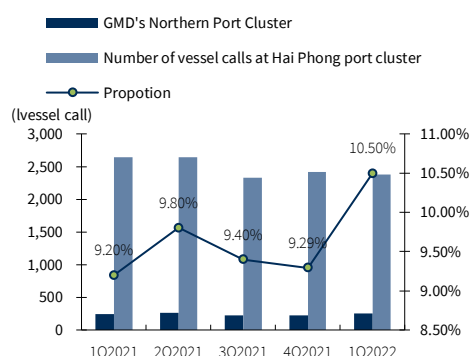
**Cargo throughput at Hai Phong ports is quite positive, which occupied 90% of design capacity. Nam Dinh Vu Port should fill 90% of its capacity in 2022**

According to data from Maritime administration of Hai Phong, cargo throughput of Hai Phong ports in the first six months of the year rose 1.7% YoY to 47.6 million tons. The container throughput in this region increased 7.5% to 3.05 million TEUs, equivalent to 94% of the total design capacity. The downstream ports started to be occupied. Northern ports should keep a stable growth when the competitive pressure on Lach Huyen Deep Seaport decreases due to the lack of new supply from now to 2025 and port sedimentation. Meanwhile, the demand for large tonnage ships is increasing, shipping lines are gradually prioritizing larger vessels to meet the needs of shippers and save costs. Nam Dinh Vu Port may have more opportunities to handle large ships moving from Lach Huyen Port thanks to its prime location in the downstream of Cam River with a deep draft and the ability to handle large vessels of 40,000 DWT. We expect Nam Dinh Vu's throughput to reach 90% of its design capacity in 2022.

**Nam Dinh Vu 2 Port is planned to be inaugurated in 1Q23 and reach its full capacity in the medium term**

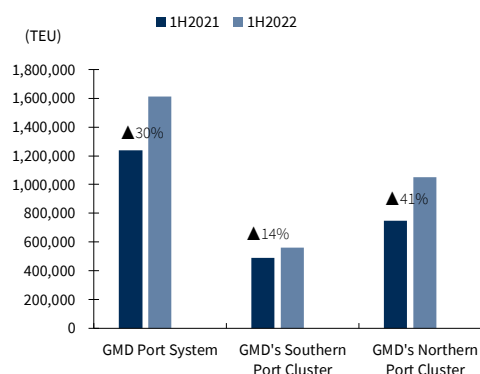
In December 2021, the company started the second phase of Nam Dinh Vu port cluster. As of the end of June 2022, Nam Dinh Vu phase 2 was on schedule in terms of all construction and installation items, from wharf to container yard. Nam Dinh Vu phase 2 should be put into operation from 1Q23, fill 50% of capacity in the first year and reach maximum capacity before 2026. Nam Dinh Vu 1 is expected to reach 90% capacity in 2022 and will soon reach full capacity. Nam Dinh Vu 2 will be put into operation timely to meet the needs of large ships, while the unresolved sedimentation still hinders large ships docking at Lach Huyen Deep Seaport.

Fig 5. GMD & Hai Phong ports – Ship arrivals and weights (Arrival, %)



Source: Gemadept, KB Securities Vietnam

Fig 6. GMD, Hai Phong & Southern ports – Port throughput & growth (TEU, %)



Source: Gemadept, KB Securities Vietnam

### 3. Southern ports, led by Gemalink, would maintain the growth in the long term

**The growth prospect of Gemalink is positive, underpinned by (1) increased demand for deep seaports and (2) Cai Mep ports' working beyond capacity**

Cai Mep Thi Vai is the fastest growing port cluster in Vietnam. On May 25, S&P Global Market Intelligence released container port performance index (CPPI) for 370 ports globally, in which Cai Mep deep seaport cluster ranked 11th, showing that the cluster is appreciated. Besides, the demand for deep ports is increasing, shipping lines are building more mega-ships with a capacity of over 18,000 TEUs. The container shipping industry also raises the size of ships, capacity per shipment, and market share for large deep seaports. Gemalink is the only deep port in the region that is capable of handling three mother ships at the same time, receiving ships with a tonnage of up to 200,000 DWT with a design capacity of 1.5 million TEUs. Therefore, the outlook of Gemalink is bright, especially when most of the ports in the region are operating beyond their capacity.

Gemalink is believed to become the main growth driver of GMD as it is a new port that is superior in terms of capacity and ability to handle large vessels in Cai Mep area. In addition, the infrastructure of Ho Chi Minh City ports is not enough to meet the increased export demand, so goods tend to be transported through Ba Ria – Vung Tau ports. According to the plan, Cai Mep port cluster will be the center of transshipment of exported goods to the US and Europe. The expressway system in the public investment policy should connect Cai Mep port cluster with industrial production centers in the South, which will reduce costs, improve logistics efficiency and increasing the growth advantage for Gemalink port.

**Gemalink throughput in 1H22 reached 650,000 TEUs, increasing its market share to more than 20%. It expects 2022 throughput to hit 1.4 million TEUs**

Gemalink has reached breakeven point and recorded profit in 2021. The port throughput reached 800,000 TEUs last year, making Gemalink the first port in Vietnam to reach 1 million TEUs after a year of operation.

In the first half of the year, the port completed the installation of two more STS cranes and six e-RTG cranes (new generation) and other modern equipment to improve operating capacity and efficiency.

Gemalink's operating efficiency in the first six months of 2022 reached 87% with an output of 650,000 TEUs, which is a big improvement compared to 40% operating efficiency, equivalent to more than 300,000 TEUs in 1H21. Gemalink's market share in Cai Mep Thi Vai area expanded to 22% from 15% in 2021. Most of the ports in Cai Mep – Thi Vai port cluster have reached over 90% capacity or hit full capacity, so GMD plans to fill over 90% of Gemalink capacity by 2022, raise throughput to 1.4 million TEUs and maintain market share at 20%.

**Gemalink 2 is expected to be put into operation from the beginning of 2025 and fill its capacity in the first three years**

The construction of Gemalink phase 2 should start in 3Q22. The total length of the wharf in phase 2 is 370m. Gemalink 2 is expected to come into operation from the first quarter of 2025. In phase 2, Gemalink can handle three mother ships, three feeder ships and five barges at the same time. The port is equipped with eight Korean STS cranes weighing more than 1,700 tons so the port can reach 70m into the sea (equivalent to 24+2 rows of containers). The port can lift two containers of 20 feet at the same time or handle bulk and project cargo with a tonnage of 65 tons and 85 tons.

After phase 2 is completed, Gemalink will become the largest deep seaport in Vietnam and one of the top 19 largest ports in the world, capable of receiving ships of up to 250,000 DWT. Considering Gemalink's prime location (on the international navigation route, right at the river mouth), deepest draft, convenience for returning ships, we expect Gemalink 2 will be fully occupied within three years when the wharf has been stagnant for a long time as all ports in Cai Mep are currently operating beyond capacity, except for Gemalink 1 which is expected to reach over 90% capacity this year. Gemalink's total capacity after phase 2 will reach nearly three million TEUs, and its market share in Cai Mep – Thi Vai area can be up to 35%.

**GMD plans to increase capital up to VND2,009 billion via share issuance**

GMD has many profitable and sustainable investment projects, including Gemalink 2 and Nam Dinh Vu 2 projects. GMD plans to ask shareholders for approval of a right issue with a ratio of 3:1 to increase capital contribution in Nam Dinh Vu port phase 2 and inland waterway projects (VND800 billion) and in Cai Mep Gemalink phase 2 (VND1,000 billion). The capital would also be used to purchase fixed assets to develop the company's business activities (VND209 billion). The maximum number of shares to be offered for sale should be up to 100.4 million shares with the issue price of VND20,000/share, totaling VND2,009 billion.

**Non-core items can bring abnormal profit**

Non-core business segments can become investment catalysts in the near future if GMD successful finds a divestment partner. The company has planned to divest rubber capital in Cambodia for many years. The total investment by 2021 for 10,000ha of rubber out of a total area of 30,000ha in Cambodia is VND1,746 billion. Now is a good time to divest as rubber trees grew and rubber prices are currently high. If the divestment is successful, GMD will receive abnormal profits, increase valuation and generate cash flow to invest in core activities.

In addition, GMD is also contacting many investors and related partners to transfer 24% of Gemalink's capital, giving priority to partners with shipping lines. If GMD finds a suitable partner, Gemalink 2 may fill its capacity sooner than expected.

## Risks

### **Container throughput at Vietnam's ports grew to 12.75 million TEUs in the first six months of the year**

Although the Russia-Ukraine war did not exert strong direct effects on Vietnam, the indirect impact through oil prices or from countries applying sanctions against Russia is a matter of concern. If the tense situation continues to worsen, it may exacerbate the supply chain congestion, increase shipping costs, and affect the movement of goods through the port.

In addition, rising fuel costs and inflation-induced prices may hurt purchasing power, and a decline in international trade will affect our forecast on output levels as Gemalink and Nam Dinh Vu 2 ports performed below expectations.

### **China's zero-covid policy continues to exacerbate the supply chain disruptions**

The Chinese government began to ease COVID-19 lockdown protocols from June 6, which can be noted when restaurants, entertainment facilities, and schools in Beijing returned to normal operations. However, this is not the first time that China has plans to ease its regulations. China's continued refusal to live with the coronavirus will aggravate the supply chain disruption and the port industry.

### **There might be a world economic recession**

In the context of the Russia-Ukraine war with no end, the global inflation index increases, the risk of recession and the risk of slowing growth of many countries will lead to the tightening of people and governments. spending, especially in major partner markets of Vietnam such as the EU and the US. The risk that global producers reduce output and reduce trade demand will have a negative impact on the port industry.

### **Oversupply in Hai Phong and lack of infrastructure in Cai Mep port area could negatively affect GMD's outturn**

In the Northern region, although the sedimentation at Lach Huyen Port has a positive impact on the output of GMD ports in Hai Phong port cluster, Nam Dinh Vu still faces fierce competition from downstream ports such as VIP Green, Tan Vu, and Dinh Vu.

In the Southern region, although the infrastructure of Cai Mep is under construction, it progresses quite slowly, and congestion in the port still occurs frequently. These are factors that may pose risks to the business results of both the Northern and Southern port clusters of GMD.



## Forecast

**GMD's NPAT in 2022 should reach VND959 billion (+33% YoY), and forward EPS is VND2,760/share**

For 2022, we estimate GMD's revenue at VND3,680 billion (up 15% YoY), based on the following factors:

Port operation revenue is expected to reach VND3,206 billion, up 16% YoY thanks to (1) the increase in the container throughput in all regions (with a large contribution coming from Hai Phong port cluster although the growth speed has slowed down due to oversupply; Nam Dinh Vu 1 is expected to fill 90% of capacity this year, reaching 450,000 TEUs) and (2) the potential rise of port service charges (up by 7%).

Logistics revenue is estimated at VND474 billion with an expectation of 7% YoY growth.

Profit from joint ventures and associates should surge to VND361 billion, up 52% YoY, assuming profit contribution from SCS grows 15% YoY. We expect Gemalink 1 to fill 90% of its capacity and reach 1.4 million TEUs this year, gaining GMD VND113 billion.

We forecast PBT of GMD would be VND1,108 billion, up 37% YoY, and NPAT should reach VND959 billion, up 33% YoY.

**Table 1. GMD – 2022F performance (VNDbn)**

	2019	2020	2021	2022F	2023F
Net sales	2,643	2,606	3,206	3,680	4,323
Cost of sales	1,630	1,656	2,064	2,351	2,759
Gross Profit	1,013	950	1,142	1,328	1,564
Gain/(loss) from financial investment	39	132	68	-27	-28
SG&A	469	479	449	545	640
Net other income/(expenses)	-37	16	-55	-63	-75
Gain/(loss) from joint ventures	236	157	237	361	404
Net accounting profit/(loss) before tax	705	513	806	1,108	1,281
Tax	91	72	86	149	171
<b>Net profit/(loss) after tax</b>	<b>614</b>	<b>440</b>	<b>721</b>	<b>959</b>	<b>1,111</b>

Source: KB Securities Vietnam

## Valuation

### BUY recommendation with a target price of VND71,500

We used the SOTP valuation to price GMD, including (1) core business + profit from joint ventures, (2) Gemalink project, and (3) rubber and real estate project. We conclude that the target price is VND71,500/share, upside 38.9% compared to the closing price of VND52,000 on August 10, 2022.

Table 2. GMD – Valuation

	Method	Value	GMD's ownership	Equity value attributed to GMD
Ports and logistics	FCFF	13,116	100%	13,116
Gemalink port	FCFF	10,333	65.10%	6,727
Rubber plantation	BV	1,555	100%	1,555
Real estate projects	BV	216	100%	216
<b>Total Equity Value</b>				<b>21,613</b>
Share count (millions)				301.38
<b>Target price</b>				<b>71,500</b>
Current price				52,000
Upside				37.5%

Source: KB Securities Vietnam



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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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