

# FPT Corporation (FPT)

## Outstanding growth in 1Q22

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Senior Analyst Nguyen Anh Tung  
tungna@kbsec.com.vn

**1Q22 PAT reached VND1,539 billion, up 33.7% YoY**

In 1Q22, FPT Corporation (FPT) saw outstanding growth with NPAT of VND1,539 billion (+33.7% YoY) and revenue of VND9,730 billion (+28.3% YoY). The main contributions to the revenue growth were technology (up 34.6% YoY), telecommunications (up 18.7% YoY), and education & investment (up 31.8% YoY).

**4M22 signed revenue jumped by 40.3% YoY, with new large-scale clients on the rise**

Over the first four months of this year, newly signed tech orders (signed revenue) of foreign IT services hit VND9,018 billion (+40.3% YoY). By the end-1Q22, the number of new large-scale clients continued to rise, with revenue of over USD500,000 deals up 30.6% YoY and over USD1 million deals up 47.6% YoY.

**FPT targets PBT to grow by 20.2% YoY**

FPT sets a positive business plan for 2022, with revenue from the technology, telecommunications, and education segments increasing by 21.1%, 14.8%, and 32.5%, respectively. PBT should reach VND7,618 billion, up 20.2% YoY in 2022, and the investment cost is about VND4,000 billion.

**FPT plans to pay dividends in cash (20%) and stock (20%) in 3Q22**

At the FY22 AGM, the BOD approved the plan for dividend payment for 2021 in 3Q22, including cash dividend payment at the rate of 20% and stock dividend payment at the rate of 20%.

**We recommend BUY for FPT shares with a target price of VND137,800**

We recommend BUY for FPT stock based on valuation results, business outlook, and possible risks. The target price is VND137,800/share, 23.3% higher than the closing price on June 1, 2022.

**Buy** maintain

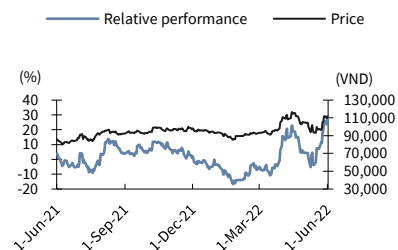
<b>Target price</b>	<b>VND137,800</b>
Upside/Downside	23.3%
Current price (June 1, 2022)	VND111,800
Consensus target price	VND134,790
Market cap (VNDbn)	89,774

<b>Trading data</b>	
Free float	87.1%
3M avg trading value (VNDbn/USDmn)	375/16.2
Foreign ownership	49%
Major shareholder	Truong Gia Binh (7.05%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	7	17	14	34
<b>Relative</b>	19	29	23	28

### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	29,830	35,657	44,495	53,645
Revenue growth (%)	7.6%	19.5%	24.8%	20.6%
Gross profit (VNDbn)	11,814	13,632	17,353	20,921
Gross profit margin (%)	39.6%	38.2%	39.0%	39.0%
Net profit (VNDbn)	3,538	4,337	5,497	6,637
Earnings growth (%)	12.8%	22.6%	26.7%	20.7%
EPS (VND)	4,513	4,779	6,057	7,313
EPS growth (%)	-2.4%	5.9%	26.7%	20.7%
P/E (x)	24.4	23.0	18.1	15.0



Source: Bloomberg, KB Securities Vietnam

## Business performance

**1Q22 PAT reached VND1,539 billion, up 33.7% YoY**

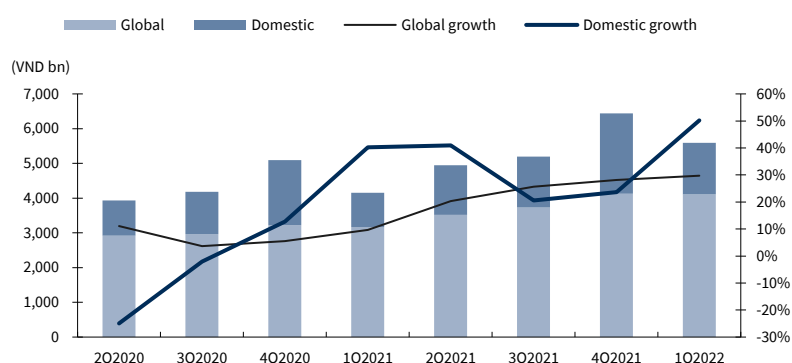
In the first three months of the year, FPT recorded outstanding growth, with revenue reaching VND9,730 billion, up 28.3% YoY, the highest quarterly growth over the past few years. The main contributions to the revenue growth were Technology (+34.6% YoY), Telecommunications (+18.7% YoY), and Education & Investment (+31.8% YoY). The gross profit margin was 40.6% (+247bps YoY); expenses increased slightly with G&A expenses/sales ratio touching 15.7%, up 305bps YoY, making 1Q22 PAT reach VND1,539 billion, up 33.7% YoY.

The technology segment achieved positive growth with PBT up 39.0% YoY and revenue up 34.6% YoY in 1Q22.

The software outsourcing segment continued its steady growth with revenue up 29.7% YoY.

Meanwhile, the domestic technology segment grew by 50.2% YoY thanks to the digital transformation of enterprises and public administration.

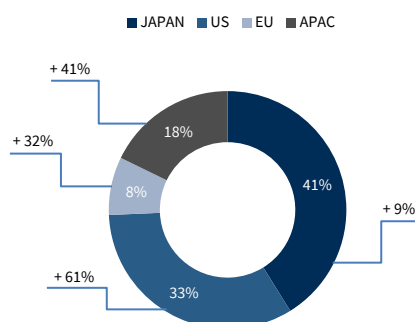
**Fig 1. FPT – Technology revenue (VNDbn, %YoY)**



Source: FPT Corporation, KB Securities Vietnam

In 1Q22, software outsourcing revenue enjoyed impressive growth in the US (+61% YoY), EU (+32% YoY), and APAC (+41% YoY) markets. Meanwhile, software outsourcing to the Japanese market contributed the highest proportion with an increase of 9% YoY and 7% QoQ.

**Fig 2. FPT – Outsourcing revenue structure (VNDbn, %YoY)**

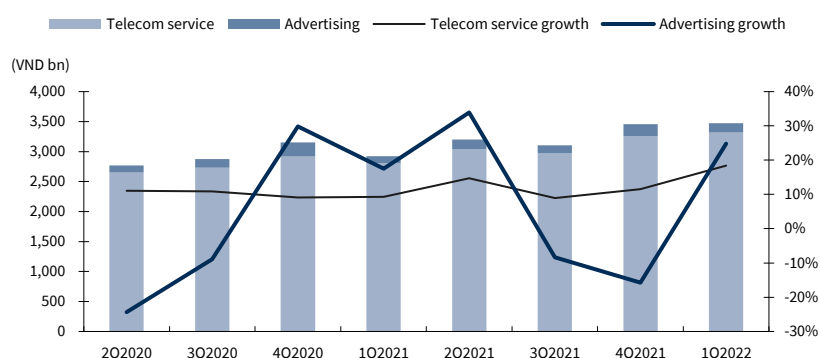


Source: FPT Corporation, KB Securities Vietnam

1Q22 Telecommunications revenue returned to double-digit growth, reaching 18.7% YoY. In particular, Telecommunication services grew by 18.4% thanks to Pay TV with digital advertising revenue up 24.8% YoY after two-quarters of negative growth. PBT of the Telecom segment in 1Q22 reached VND701 billion, up 21.7% YoY.

PayTV contributed 20% to Telecommunications services revenue. FPT expects PayTV to grow by 25% per year in the coming years.

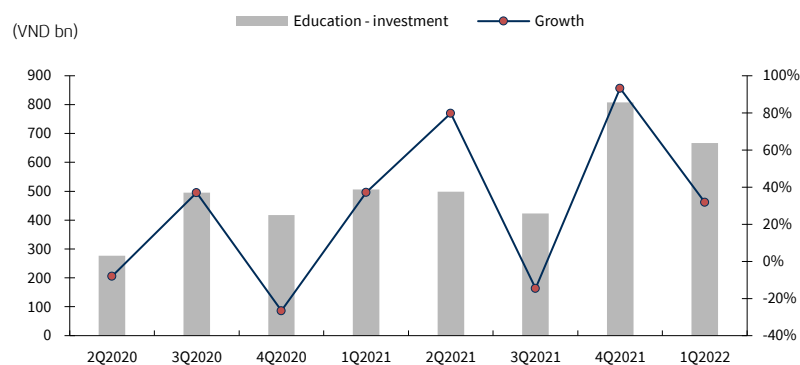
Fig 3. FPT – Telecommunications revenue (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

In 1Q22, Education & Investment segment achieved PBT of VND308 billion (+15.4% YoY) on revenue of VND667 billion (+31.8% YoY).

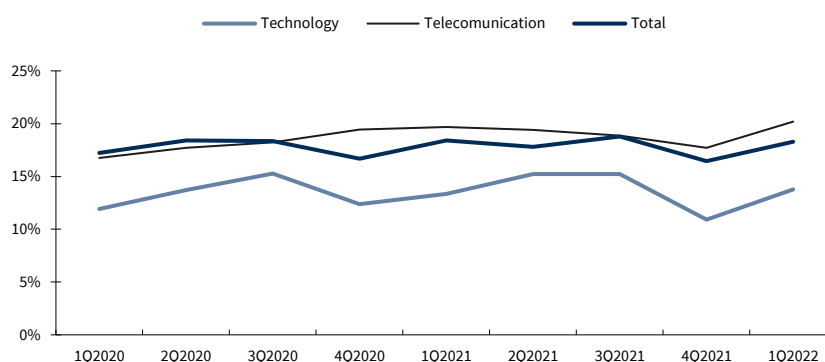
Fig 4. FPT – Education & investment revenue (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

FPT's pretax profit margin in 1Q22 saw a significant improvement over the same period, especially in the Telecommunications segment, thanks to the outstanding growth of PayTV.

Fig 5. FPT – Pretax profit margin (%)



Source: FPT Corporation, KB Securities Vietnam

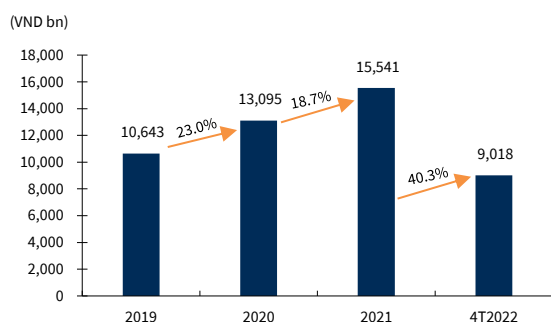
### 4M22 signed revenue jumped by 40.3% YoY, with new large-scale clients on the rise

Signed revenue in 4M22 of foreign IT services reached VND9,018 billion, up 40.3% YoY, doubling the growth rate of 18.7% in 2021. By the end of 1Q22, the number of new large-scale clients continued to advance with revenue of over USD500 thousand deals up 30.6% YoY and over USD1 million deals up 47.6% YoY. Mega-deals (USD1 mn+) and large deals (USD5 mn+) rose by 93% YoY and 75% YoY, respectively.

### FPT continued to promote domestic digital transformation

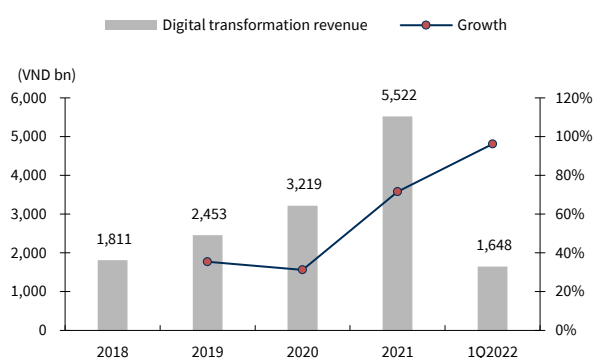
FPT continued to promote digital transformation in 4M22. On April 4, 2022, FPT deployed the "Rise with SAP" cloud technology for An Gia Real Estate Investment and Development Corporation (AGG). It helps ensure transparency in its legal operations, sales, operation, auditing. At the same time, the solution develops diverse capital mobilization methods, maximizing cash flow and managing prudent financial risks. In addition, on April 28, 2022, FPT and Soc Trang Provincial People's Committee signed a cooperation agreement to implement digital transformation during 2022–2025. In our view, businesses and the public administration sector will continue to boost digital transformation in the coming time, which will be the key growth driver for FPT's domestic information technology segment.

Fig 6. FPT – Signed revenue (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

Fig 7. FPT – Digital transformation revenue (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

### FPT targets PBT to grow by 20.2% YoY

FPT sets a positive business plan for 2022, with revenue from the technology, telecommunications, and education sectors increasing by 21.1%, 14.8%, and 32.5%, respectively. PBT should reach VND7,618 billion, up 20.2% YoY in 2022. The investment cost is about VND4,000 billion, including VND1,200 billion for Technology, VND2,000 billion for Telecommunications, and VND800 billion for Education & others. With outstanding business results in 1Q22, KBSV expects FPT to be able to exceed the business plan this year.

### FPT plans to pay dividends in cash (20%) and stock (20%) in 3Q22

At the FY22 AGM, the BOD approved the plan for dividend payment for 2021 in 3Q22, including cash dividend payment (20%) and stock dividend payment (20%). Along with that, the BOD also plans to pay cash dividends for 2022 at 20%.

## Forecast & Valuation

### 2022F business results

We estimate revenue in 2022F to reach VND44,495 billion, up 24.8% YoY and up 4.5% compared to the previous forecast, assuming that:

- Technology revenue should increase by 31.6% YoY to VND27,287 billion with a higher growth rate than the previous forecast, domestically and internationally.
- Telecommunications revenue is estimated at VND14,415 billion, up 13.6% YoY, of which Telecommunications services should increase by 14.0% YoY with the motivation from the PayTV segment.
- Pretax profit is VND8,031 billion, up 26.7% YoY. NPAT of the parent company is VND5,497 billion, up 26.7% YoY, and EPS is about VND6,057/share.

**Table 8. FPT – 2022E–2023E business results**

VND bn	2020A	2021A	2022F	2023F
Net revenue	29,830	35,657	44,495	53,645
Cost of goods sold	18,017	22,025	27,142	32,723
Gross profit	11,814	13,632	17,353	20,921
Selling expense	2,714	3,605	4,539	5,472
G&A expense	4,495	4,612	6,007	7,188
Financial expense	548	1,144	1,306	1,129
PBT	5,263	6,337	8,031	9,697
<b>PAT of the parent company</b>	<b>3,538</b>	<b>4,337</b>	<b>5,497</b>	<b>6,637</b>

Source:

**We recommend BUY for FPT shares with a target price of VND137,800**

We use two valuation methods FCFE (Free Cash Flow to Equity) and P/E comparison of companies of similar size in the same industry in Asian developing markets for the technology and telecommunications segments. Concerning the education segment, we assume the current P/E is reasonable, given its small contribution to the expected earnings and unseparated education & investment.

Combining the above two valuation methods with the weight of 50–50, we recommend BUY for FPT stock with a target price of VND137,800 per share, 23.3% higher than the closing price on June 1, 2022.

**Table 9. FPT – Target price according to FCFE valuation method (VND/share)**

Cost of equity	10.85%	Present value of perpetual value (VND bn)	100,047
Risk-free rate	3.1%	Present value for 2022–2028 (VND bn)	30,690
Market risk premium	8.21%	Equity value (VND bn)	130,738
Beta	0.95	Outstanding shares (thousand shares)	907,552
Perpetual growth rate	3.0%	<b>Equity value / Outstanding shares (VND)</b>	<b>144,056</b>
Forecast period	6 years		

Source: KB Securities Vietnam

Table 10. FPT – Target price according to P/E valuation method

	Industry average P/E	Contribution to NPAT	Weighted P/E
Technology	25.4	44%	11.1
Telecommunications	18.9	38%	7.1
Education & Investment	19.2	18%	3.5
Total			21.7
<b>Target price (VND)</b>			<b>131,624</b>

Source: KB Securities Vietnam

Table 11. Asian developing markets – P/E comparison among technology companies

	Market cap (USD bn)	Forward PE	Weight	Weighted P/E
Mindtree Ltd	6,394	25.5	14.9%	3.8
Mphasis Ltd	6,240	26.6	14.5%	3.9
Persistent Systems Ltd	3,710	31.8	8.6%	2.7
Coforge Ltd	3,056	26.8	7.1%	1.9
Hyundai Autoever Corp	2,976	36.0	6.9%	2.5
DHC Software Co Ltd	2,830	28.9	6.6%	1.9
Chinasoft International Ltd	2,773	12.6	6.4%	0.8
China TransInfo Technology Co	2,079	15.1	4.8%	0.7
Taiji Computer Corp Ltd	1,598	20.8	3.7%	0.8
PCI Technology Group Co Ltd	1,595	25.2	3.7%	0.9
CETC Digital Technology Co Ltd	1,586	25.5	3.7%	0.9
Digital China Information Serv	1,585	21.2	3.7%	0.8
Yusys Technologies Co Ltd	1,580	17.0	3.7%	0.6
Wonders Information Co Ltd	1,539	37.3	3.6%	1.3
Beijing eGOVA Co Ltd	1,209	25.9	2.8%	0.7
Fujian Boss Software Developme	1,164	23.1	2.7%	0.6
Hand Enterprise Solutions Co L	1,135	16.8	2.6%	0.4
<b>Average P/E</b>				<b>25.4</b>

Source: Bloomberg, KB Securities Vietnam

**Table 12. Asian developing markets – P/E comparison among telecommunications companies**

	Market cap (USD bn)	Forward PE	Weight	Weighted P/E
XL Axiata Tbk PT	1.983	19.2	3.0%	0.6
Sarana Menara Nusantara Tbk PT	3.366	13.3	5.1%	0.7
Tata Communications Ltd	3.687	18.0	5.6%	1.0
Indus Towers Ltd	7.031	9.4	10.7%	1.0
Axiata Group Bhd	6.802	22.1	10.4%	2.3
DiGi.Com Bhd	6.101	22.6	9.3%	2.1
LG Uplus Corp	4.867	7.7	7.4%	0.6
Total Access Communication PCL	2.972	24.9	4.5%	1.1
Telekom Malaysia Bhd	4.480	16.5	6.8%	1.1
Indosat Tbk PT	2.964	33.1	4.5%	1.5
China Communications Services	3.186	6.2	4.9%	0.3
TIME dotCom Bhd	1.829	17.9	2.8%	0.5
Maxis Bhd	6.427	20.5	9.8%	2.0
Robi Axiata Ltd	1.769	46.2	2.7%	1.2
New Guomai Digital Culture Co	1.165	42.5	1.8%	0.8
Tianjin 712 Communication & Br	3.201	20.9	4.9%	1.0
Converge Information and Commu	3.618	17.9	5.5%	1.0
<b>Average P/E</b>				<b>18.9</b>

Source: Bloomberg, KB Securities Vietnam

**Table 13. FPT – Target price according to valuation methods (VND/share)**

Valuation method	Forecast price	Weight	Weighted price
FCFE	144,056	50%	72,028
P/E	131,624	50%	65,812
<b>Target price (VND)</b>			<b>137,800</b>

Source: KB Securities Vietnam

## FPT – 2020A–2023E financials

## Income Statement

(VND billion)	2020	2021	2022F	2023F
Net sales	29,830	35,657	44,495	53,645
Cost of sales	18,017	22,025	27,142	32,723
Gross Profit	11,814	13,632	17,353	20,921
Financial income	822	1,271	1,686	1,672
Financial expenses	548	1,144	1,306	1,129
of which: interest expenses	385	484	1,306	1,129
Gain/(loss) from joint ventures	312	687	707	729
Selling expenses	2,714	3,605	4,539	5,472
General and admin expenses	4,495	4,612	6,007	7,188
Operating profit/(loss)	4,878	5,542	7,188	8,805
Other incomes	131	133	166	200
Other expenses	59	25	31	37
Net other income/(expenses)	73	109	136	164
Net accounting profit/(loss) before tax	5,263	6,337	8,031	9,697
Corporate income tax expenses	840	988	1,252	1,512
Net profit/(loss) after tax	4,424	5,349	6,779	8,185
Minority interests	886	1,012	1,282	1,548
Attributable to parent company	3,538	4,337	5,497	6,637

## Margin ratio

(%)	2020	2021	2022F	2023F
Gross profit margin	39.6%	38.2%	39.0%	39.0%
EBITDA margin	23.9%	23.7%	25.0%	24.5%
EBIT margin	18.9%	19.1%	21.0%	20.2%
Pre-tax profit margin	17.6%	17.8%	18.0%	18.1%
Operating profit margin	16.4%	15.5%	16.2%	16.4%
Net profit margin	14.8%	15.0%	15.2%	15.3%

## Cash Flow Statement

(VND billion)	2020	2021	2022F	2023F
Net profit/(loss) before tax	5,263	6,337	8,031	9,697
Depreciation and amortisation	1,491	1,644	1,801	2,318
Profit/loss from investing activities	-1,040	-1,700	0	0
Interest expense	385	484	1,306	1,129
Operating profit/(loss) before changes in Working Capital	6,410	7,053	11,138	13,144
(Increase)/decrease in receivables	312	-694	-1,285	-1,680
(Increase)/decrease in inventories	-55	-218	-352	-382
Increase/(decrease) in payables	1,061	1,910	900	769
(Increase)/decrease in prepaid expenses	52	-376	257	223
Interest expense	0	0	0	0
Net cash inflows/(outflows) from operating activities	6,340	5,840	9,894	11,433
Purchases of fixed assets and other long term assets	-3,018	-2,911	-4,450	-5,664
Proceeds from disposal of fixed assets	3	3	0	0
Loans granted, purchases of debt instruments	-5,954	-35,827	0	0
Collection of loans, proceeds from sales of debts instruments	0	27,590	0	0
Investments in other entities	-101	-451	0	0
Proceeds from divestment in other entities	31	0	0	0
Dividends and interest received	894	1,183	0	0
Net cash inflows/(outflows) from investing activities	-8,144	-10,413	-4,450	-5,664
Proceeds from issue of shares	60	88	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	20,449	34,464	0	0
Repayment of borrowings	-15,570	-26,931	-17,799	0
Finance lease principal payments	-2	-1	0	0
Dividends paid	-1,899	-2,254	-2,983	-3,601
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	3,037	5,365	-5,863	-5,769
Net increase in cash and cash equivalents	1,233	791	-418	0
Cash and cash equivalents at the beginning of period	3,453	4,686	5,418	5,000
Cash and cash equivalents at the end of period	4,686	5,418	5,000	5,000

## Balance Sheet

(VND billion)	2020	2021	2022F	2023F
TOTAL ASSETS	41,734	53,698	57,682	63,183
CURRENT ASSETS	25,266	35,118	36,469	38,624
Cash and cash equivalents	4,686	5,418	5,000	5,000
Short-term investments	12,436	20,731	20,731	20,731
Accounts receivable	6,265	6,882	8,168	9,847
Inventories	1,290	1,507	1,859	2,241
LONG-TERM ASSETS	16,468	18,580	21,213	24,559
Long-term trade receivables	243	167	167	167
Fixed assets	10,691	11,689	14,337	17,684
Long-term incomplete assets	2,373	1,291	1,291	1,291
Long-term investments	2,581	3,102	3,102	3,102
Goodwill	200	466	452	452
LIABILITIES	23,129	32,280	32,381	33,299
Current liabilities	22,365	29,761	29,949	30,867
Trade accounts payable	2,825	2,866	0	0
Short-term unrealized revenue	1,963	2,530	0	0
Short-term borrowings	12,062	17,799	14,919	12,752
Long-term liabilities	764	2,519	2,432	2,432
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	38	35	35	35
Long-term borrowings	678	2,296	2,297	2,297
OWNER'S EQUITY	18,606	21,418	25,214	29,798
Paid-in capital	7,840	9,076	9,076	9,076
Share premium	50	50	50	50
Undistributed earnings	6,391	7,000	0	0
Other funds	532	660	3	0
Minority interests	2,860	3,477	3,477	3,477

## Key ratios

(x, %, VND)	2020	2021	2022F	2023F
Multiple				
P/E	24.4	23.0	18.1	15.0
P/E diluted	24.4	23.0	18.1	15.0
P/B	5.5	5.6	4.6	3.8
P/S	2.9	2.8	2.2	1.9
P/Tangible Book	2.1	1.9	1.8	1.6
P/Cash Flow	13.6	17.1	10.1	8.7
EV/EBITDA	14.0	11.8	9.0	7.6
EV/EBIT	17.7	14.6	10.7	9.2
Operating performance				
ROE	22.5%	24.2%	25.3%	25.2%
ROA	8.5%	8.1%	9.5%	10.5%
ROIC	16.6%	14.8%	18.1%	20.5%
Financial structure				
Cash Ratio	76.6%	87.9%	85.9%	83.4%
Quick Ratio	101.1%	102.3%	104.7%	106.8%
Current Ratio	113.0%	118.0%	121.8%	125.1%
LT Debt/Equity	3.6%	10.7%	9.1%	7.7%
LT Debt/Total Assets	1.6%	4.3%	4.0%	3.6%
ST Debt/Equity	64.8%	83.1%	59.2%	42.8%
ST Debt/Total Assets	28.9%	33.1%	25.9%	20.2%
ST Liabilities/Equity	120.2%	139.0%	118.8%	103.6%
ST Liabilities/Total Assets	53.6%	55.4%	51.9%	48.9%
Total Liabilities/Equity	124.3%	150.7%	128.4%	111.7%
Total Liabilities/Total Assets	55.4%	60.1%	56.1%	52.7%
Activity ratios				
Account Receivable Turnover	4.7	5.4	5.9	6.0
Inventory Turnover	14.0	15.7	16.1	16.0
Account Payable Turnover	12.9	5.9	6.4	7.3

Source: FPT Corporation, KB Securities Vietnam



## KB SECURITIES VIETNAM RESEARCH

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**Nguyen Xuan Binh**  
Head of Research  
binhnx@kbsec.com.vn

### Equity

**Duong Duc Hieu**  
Head of Equity Research  
hieudd@kbsec.com.vn

**Nguyen Anh Tung**  
Senior Analyst – Financials & Information Technology  
tungna@kbsec.com.vn

**Pham Hoang Bao Nga**  
Senior Analyst – Real Estate, Construction & Materials  
ngaphb@kbsec.com.vn

**Luong Ngoc Tuan Dung**  
Analyst – Retails & Consumers  
dunglnt@kbsec.com.vn

**Tieu Phan Thanh Quang**  
Analyst – Oil & Gas, Utilities  
quangtpt@kbsec.com.vn

**Nguyen Duc Huy**  
Analyst – Banks, Insurance & Securities  
huynd1@kbsec.com.vn

**Research Division**  
research@kbsec.com.vn

### Macro/Strategy

**Tran Duc Anh**  
Head of Macro & Strategy  
anhtd@kbsec.com.vn

**Le Hanh Quyen**  
Analyst – Macroeconomics & Banks  
quyenlh@kbsec.com.vn

**Thai Huu Cong**  
Analyst – Strategy, Chemicals  
congth@kbsec.com.vn

**Tran Thi Phuong Anh**  
Analyst – Strategy, Fishery & Textiles  
anhttp@kbsec.com.vn

### Support team

**Nguyen Cam Tho**  
Assistant  
thonc@kbsec.com.vn

**Nguyen Thi Huong**  
Assistant  
huongnt3@kbsec.com.vn

## KB SECURITIES VIETNAM (KBSV)

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### Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam  
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

### Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam  
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

### Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam  
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

### Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam  
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

## CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656  
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276  
Email: [ccc@kbsec.com.vn](mailto:ccc@kbsec.com.vn)  
Website: [www.kbsec.com.vn](http://www.kbsec.com.vn)

## 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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