

Viettel Post (VTP)

Promote digital transformation and application of high tech

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2Q22 revenue was up 5.2% YoY to VND5,460 billion and 1H22 revenue delivered 44% of the year plan

In the second quarter of 2022, Viettel Post (VTP) recorded net revenue of VND5,460 billion, up 5.2% YoY. The profit margin during the period inched up against the previous quarter to 3.8%. Thus, after the first six months of the year, VTP's PBT hit VND250.2 billion on revenue of VND11,232 billion (+8.52% YoY), fulfilling 40% and 44% of the year plan for earnings and revenue, respectively.

VTP benefits largely from the e-commerce boom and gains a competitive edge thanks to its extensive network

With 3,000 post offices and 6,000 places of receipt, VTP is now the second largest delivery company in Vietnam. An extensive distribution network and the application of cutting-edge technology enabled VTP to shorten transit time and optimize costs of inter-provincial transport, especially bulky goods delivery, ensuring its leading position in these two segments.

During 2022–2025, VTP implements investment projects to boost competitiveness in the delivery and logistics market

VTP poured VND3,400 billion into building 17 logistics centers nationwide towards 2025. Also, VTP worked with Saigon Newport Corporation with a total investment of VND2,000 billion to promote logistics revenue. Besides, the company has been digitizing post offices, planning to open 8–10 new high-tech fulfillment centers.

VTP expects to fulfill its plan to change listing to HoSE this year

VTP is completing the procedure to change its listing to the Ho Chi Minh Stock Exchange (HoSE) in the second half of this year.

We recommend BUY for VTP stocks with a target price of VND72,200

Based on valuation results, business outlook, and possible risks, we recommend BUY for VTP stocks. Target price is VND72,200/share, equivalent to a total return of 19.7% compared to the closing price on September 15, 2022.

Buy maintain

Target price VND 72,200

Upside/Downside +19.7%
Current price (Sep 15, 2022) VND 60,300
Market cap (VNDbn) 6244.58

Trading data

Free float 40%
3M avg trading value (VNDbn) 18,982
Foreign ownership 21.25%
Major shareholder Viettel Group (61.8%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-6	-3	-10	-26
Relative	-4	-6	4	-19

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	17,234	21,452	24,120	26,684
Operating income (VNDbn)	474	365	397	509
NPAT (VNDbn)	383	296	321	411
EPS (VND)	4,060	2,462	3,102	3,632
EPS growth (%)	-29	-39	26	17
P/E (x)	26.7	24.5	19.4	16.6
P/B (x)	6.4	8.5	3.7	3.4
ROE (%)	31.7	22.3	19.1	20.5



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q22 revenue was up 5.2% YoY to VND5,460 billion and 1H22 revenue delivered 44% of the year plan

In 2Q22, VTP recorded net revenue of VND5,460 billion, up 5.2% YoY. To be specific, commercial sales reached VND3,128 billion (down 8.4% YoY), and delivery revenue reached VND2,332 billion (up 31.3%). Gross profit picked up 6.7% YoY to VND207 billion, and gross profit margin was 3.8%, virtually unchanged from the previous quarter at 3.7%.

At its April AGM (Annual General Meeting), VTP set targets for 2022F revenue and PBT at VND25,723 billion (up 19.3% YoY) and VND623 billion (up 68% YoY). Halfway through the year, VTP achieved VND250.2 billion in PBT and VND11,232 billion (up 8.52% YoY) in revenue, delivering 40% and 44% of the full-year targets for earnings and revenue.

Net revenue was underpinned by increased delivery services revenue on rising delivery fees and volume

2Q22 saw net revenue growth of 5.2% YoY, with the main contribution from delivery and logistics services (up >31% thanks to a 20% rise in delivery volume). Along with that, VTP's slight increase in shipping rates at the start of this year as a result of surging fuel prices and input costs also contributed to higher revenue and gross profit for VTP.

2Q22 NPAT narrowed by 9.1% YoY due to surging fuel prices and input costs as well as higher advertising costs

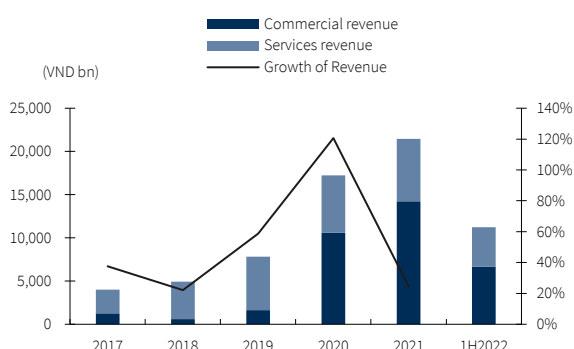
Net revenue improved but NPAT dropped by 9.1% YoY to VND96.5 billion as cost of goods sold (COGS) was up 5.1% YoY to VND4,997 billion. Furthermore, financial expenses, selling expenses, and general & administrative (G&A) expenses jumped by 27.1%, 180.4% and 19%, respectively.

Skyrocketing fuel prices and input costs were the main catalysts behind rising COSG and other expenses. Higher G&A expenses primarily came from outsourcing expenses. In addition, in the first half of this year, VTP promoted marketing activities, causing selling expenses to upsurge.

Total assets improved by 4.2% YTD, 89.6% of which were short-term assets

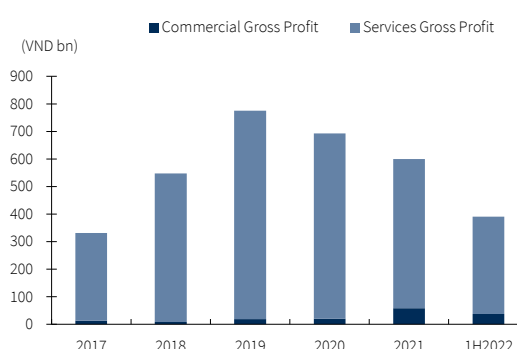
As of the end of 2Q22, the company's total assets expanded by 4.2% YTD (year to date). Short-term assets accounted for 89.6% of the total assets, mainly interest income (term deposits) (VND1,844 billion) and short-term accounts receivable (VND2,362 billion).

Fig 1. VTP – Revenue breakdown (%)



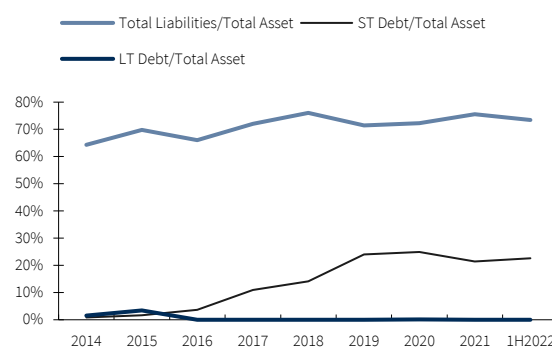
Source: Viettel Post, KB Securities Vietnam

Fig 2. VTP – Gross profit breakdown (VNDbn)



Source: Viettel Post, KB Securities Vietnam

Fig 3. VTP – Liabilities, short-term debts and long-term debts to total assets (%)



Source: Viettel Post, KB Securities Vietnam

Investment catalysts

1. VTP benefits from the e-commerce boom in the long term

Vietnam's e-commerce market is expected to grow at an impressive CAGR of 28% towards 2025

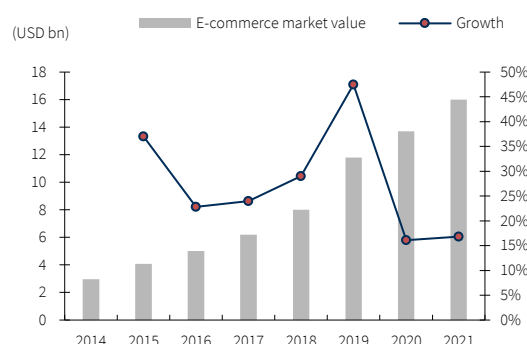
E-commerce in Vietnam is still in its infancy with plenty of room for growth. According to the e-Conomy SEA report from Google, Temasek, and Bain & Company, Vietnamese e-commerce market is set to grow at an impressive CAGR (compound annual growth rate) of 28% and reach USD52 billion by 2025. The Vietnam E-commerce Index Report of the Vietnam E-Commerce Association (VECOM) shows that the growth of e-commerce exceeded 20% in 2021, hitting over USD16 billion. The growth driver came from a growing number of new online consumers and customers becoming more familiar and comfortable with e-commerce, especially after prolonged lockdowns, creating a premise for the boom of e-commerce.

Fig 4. Global – Retail e-commerce sales (USDbn)



Source: Statista, KB Securities Vietnam

Fig 5. Vietnam – E-commerce market value



Source: Statista, KB Securities Vietnam

E-commerce logistics has huge potential and the value of Vietnam's delivery and logistics market is expected to reach a CAGR of 24.1%

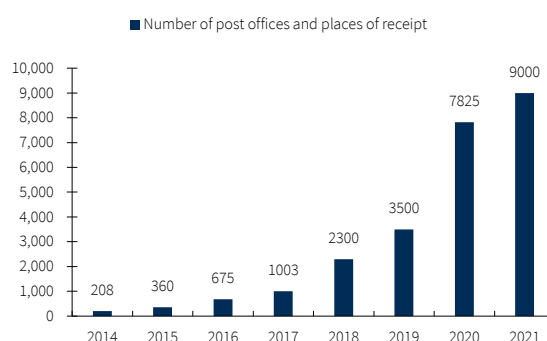
Along with the positive effect of thriving e-commerce on Voso.vn, logistics benefited the most from this trend and achieved strong growth. While the value of e-commerce increased by over 20%, Vietnam's postal and delivery market enjoyed even higher growth, with revenue in the first six months estimated at VND27,000 billion, equivalent to 870 million parcels (up 30% YoY). Allied Market Research estimated the total value of Vietnam's express delivery services market at USD0.71 billion in 2021, expected to reach USD4.88 billion by 2030 with a CAGR of 24.1%.

2. VTP maintain market share of above 15% thanks to extensive network

VTP owns an extensive network of more than 3,000 post offices and 6,000 places of receipt

Starting with just over 200 post offices in 2014, VTP is now the second largest delivery unit, just behind VNPost, with more than 3,000 post offices and a delivery system spanning 63 provinces and cities. An extensive distribution network enables VTP to gain a competitive edge over other newcomers in the logistics market.

Fig 6. VTP – Number of post offices and places of receipt



Source: Viettel Post, KB Securities Vietnam

VTP should uphold its leading position in the bulky goods and inter-provincial delivery segments thanks to (1) nationwide network; (2) decent inter-provincial delivery service fees

Delivery companies are struggling amid stiff price competition in the context of a slew of new delivery businesses entering the market and discounting service fees to the minimum lows to grab market share. However, newcomers like J&T Express only focus on inner-city transport because developing a post office system for inter-provincial transportation requires time and huge investment. The nationwide delivery system enables VTP to optimize the transit time and gain an advantage in the inter-provincial delivery segment with the highest profit margin in the delivery industry.

Currently, VTP provides inter-provincial delivery services with the most decent fees. The incurred charge for exceeding inter-provincial shipment volume is only VND4,500 every 0.5 kg, the lowest in the industry, thanks to VTP's vast network of post offices and kiosks. Moreover, the company runs a system of modern fulfillment centers capable of fulfilling 42,000 parcels/hour, the highest capacity nationwide, thereby optimizing cost per package. Also, VTP constantly invests in infrastructure and technology to optimize costs and shorten transit time, contributing to increasing market share and maintaining its position in the long-distance delivery segment.

Table 1. Vietnam – Delivery fees for intra-provincial delivery of some delivery companies

	Fast Delivery	Giao hang tiet kiem	VNPost	J&T Express	Viettel Post
Inter-provincial shipping rate (<0.5kg)	29000	31000	30000	33500	32000
Fee for each following 500gr	5000	5000	10000	9900	4500

Source: Viettel Post, Fast Delivery, Giao hang tiet kiem, VNPost, J&T Express

Table 2. Vietnam – Inter-provincial delivery rates of some delivery companies

	Fast Delivery	Giao hang tiet kiem	VNPost	J&T Express	Viettel Post
Inner-city shipping rate					
<500g	21000	22000	23000	23800	22000
<1000g	23500	22000	23000	27500	22000
<1500g	26000	22000	23000	31800	22000
<2000g	28500	22000	23000	35800	22000
Fee for each following 500gr	2500	2500	2500	5500	2500

Source: Viettel Post, Fast Delivery, Giao hang tiet kiem, VNPost, J&T Express

VTP invests VND3,400 billion to build 17 logistics centers across the country

VTP plans to build 17 more logistics centers across the country in the 2022–2025 period, primarily in two years 2022 and 2023. The enterprise has decided on construction sites for 11 centers and is looking for suitable locations for the rest. Total investment capital is about VND3400 billion, with VND1,200 billion for 2022 alone. VTP manages to balance the equity capital to loans ratio at 50:50. The construction of logistics centers would boost sorting parcels, shorten the time in transit between regions, and improve service quality. Once completed, the system will help to raise the total capacity by 30%, helping to increase the profit margin for VTP.

VTP cooperates with Saigon Newport Corporation to boost revenue growth for the logistics segment

To promote revenue growth for the logistics segment, VTP signed a five-year cooperation agreement with the port giant Saigon Newport Corporation in 2021 to buy stake in IPP Group's subsidiary. VTP alone contributed a total of VND2,000 billion, equivalent to a 10% ownership, thus optimizing road, sea, and air transport. This move will help VTP to grow strongly in the future, especially when the import–export logistics market is much larger than the e-commerce logistics segment. As evidenced in 2021, the total import–export value reached USD668.54 billion vs. USD16 billion in the e-commerce market.

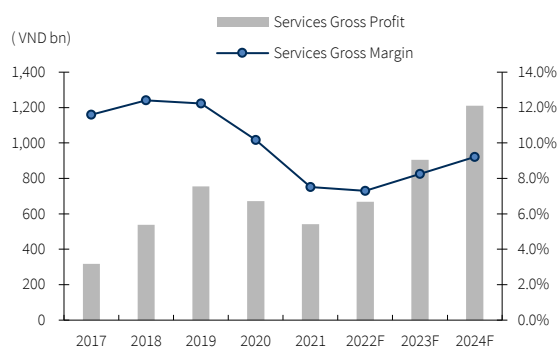
VTP hopes to restore the delivery profit margin to 10% in the next 2–3 years

VTP can gradually restore gross profit margin to over 10% in the next 2–3 years thanks to effective governance and cost optimization.

- The company is applying automatic systems to traditional post offices to cut labor costs. In particular, VTP laid off 535 employees while maintaining growth over the first six months of this year.
- VTP plans to launch 8 to 10 high-tech fulfillment centers in 2022 to optimize fulfillment time and enhance service quality. This past July, VTP put into use three new technology platforms to improve productivity and built one more fulfillment center in Dai Tu, Long Bien applying the most advanced technology in Vietnam.
- VTP's profit margin is expected to improve in the second half of the year when petrol and oil prices (accounting for 30% of VTP's overall costs) show signs of cooling down. Along with that, shipping rates also increased thanks to easing competitive pressure on the ongoing investigation into unfair price competition against delivery companies.

Along with the sustainable development, VTP now charters the entire cargo compartment to deliver goods, thereby reducing the cost per package. Revenue and costs improved across the value chain thanks to the VTP's complete closed ecosystem with Voso.vn (e-commerce platform), Viettel Sale (multi-channel sales management), Mygo (last-mile delivery), and Viettel Pay (cashless payment).

Fig 7. VTP – Gross profit, gross profit margin (VNDbn, %)



Source: Viettel Post, KB Securities Vietnam

VTP plans to change listing from UPCoM to HoSE this year

At the end of March 2022, VTP shared that it was preparing related procedures to list VTP shares on HoSE this year. Changing listing from UPCoM to HoSE was intended in 2021, but the company failed to deliver. It is expected that VTP will fulfill its plan in the second half of 2022.

VTP would issue more than 9 million shares for FY21 dividend payment

At its April AGM, VTP approved the charter capital increase via issuing 9,671,518 shares for FY21 dividend payment, thus raising the outstanding shares to 113,230,010.

Risks

Fierce price competition

Increasingly, price wars in the express delivery market are stiff and expected to continue. By the end of 2021, more than 700 businesses were licensed to provide postal services, not to mention a series of unlicensed postal companies and coaches entering the market. Price pressures can pull VTP's profit margin down.

Fluctuations of gasoline prices

Fuel costs account for 30% of VTP's overall expenses. The risk of spiraling gasoline prices will dampen VTP's profit margin.

Existential economic downturn and resultant falling demand

China's ongoing lockdown measures can reduce the source of goods for e-commerce businesses in Vietnam. Besides, the existential economic recession can produce lower consumer spending, thus negatively affecting commercial sales and delivery services revenue of VTP.

Forecast & Valuation

In 2022, NPAT is expected to reach VND321 billion, up 9% YoY and forward EPS should be VND3,102

In 2022, we forecast VTP's revenue to be VND24,120 billion, with delivery and logistics services revenue is up 27% YoY and commercial sales up 5% YoY. Commercial sales gross margin should maintain at 0.4%. This figure of delivery services is 7%, expected to reach 10% in 2024. NPAT in 2022 is VND321 billion, up 9% YoY.

We use two valuation methods, FCFE (free cash flow to equity) and P/E, with a weight of 50-50 to find a fair price for VTP stocks. We give VTP a target PE of 20.3x.

Table 3. VTP – 2022F–2023F business results

	2019A	2020A	2021A	2022F	2023F
Net sales	7,812	17,234	21,452	24,120	26,684
Cost of sales	7,036	16,536	20,852	23,369	25,714
Gross Profit	775	699	600	752	970
Gain/loss from financial investment	45	45	46	-9	-77
SG&A expenses	334	269	281	346	383
Net other income/expense	-9	6	6	0	0
Gain/loss from joint venture	0	0	0	0	0
Net profit/loss before tax	477	480	371	402	515
Tax	97	97	75	81	104
Net profit after tax	380	383	296	321	411

Source: KB Securities Vietnam

We recommend BUY for VTP stocks with a target price of VND72,200/share

Considering an outstanding network and the application of high technology, we expect VTP to maintain its position in the fierce competition in the Vietnamese delivery market. Based on valuation results, business prospects as well as possible risks, we recommend BUY on VTP stocks with a target price of VND72,200/share, equivalent to a total return of 19.7% compared to the closing price on September 15, 2022.

Table 4. VTP – Target price according to valuation methods (VND/share)

Valuation method	Target price	Weight	Weighted price
FCFE	81,400	50%	40,700
P/E	63,000	50%	31,500
Target price			72,200
Current price			60,300
Upside			19.7%

Source: KB Securities Vietnam

VTP - 2020A-2023E financials

Income Statement (VND billion)				
	2020	2021	2022F	2023F
Net sales	17,234	21,452	24,120	26,684
Cost of sales	16,536	20,852	23,391	25,714
Gross Profit	699	600	729	970
Financial income	99	94	111	110
Financial expenses	54	48	120	189
of which: interest expenses	54	48	120	189
Gain/(loss) from joint ventures	0	0	0	0
Selling expenses	22	39	36	40
General and admin expenses	248	242	310	343
Operating profit/(loss)	474	365	374	508
Other incomes	9	9	0	0
Other expenses	3	3	0	0
Net other income/(expenses)	6	6	6	6
Net accounting profit/(loss) before tax	480	371	380	514
Corporate income tax expenses	97	75	77	104
Net profit/(loss) after tax	383	296	303	410
Minority interests	0	0	0	0
Attributable to parent company	383	296	303	410
Margin ratio (%)				
	2020	2021	2022F	2023F
Gross profit margin	4.1%	2.8%	3.0%	3.6%
EBITDA margin	4.1%	3.2%	3.4%	3.9%
EBIT margin	3.1%	1.9%	2.1%	2.6%
Pre-tax profit margin	2.8%	1.7%	1.6%	1.9%
Operating profit margin	2.7%	1.7%	1.6%	1.9%
Net profit margin	4.1%	2.8%	3.0%	3.6%
Cash Flow Statement (VND billion)				
	2020	2021	2022F	2023F
Net profit/(loss) before tax	477	480	380	514
Depreciation and amortisation	57	74	73	172
Profit/loss from investing activities	95	105	0	0
Interest expense	49	54	120	189
Operating profit/(loss) before changes in Working Capital	500	504	573	875
(Increase)/decrease in receivables	-211	-244	47	-228
(Increase)/decrease in inventories	72	-558	-260	-64
Increase/(decrease) in payables	-148	418	4	76
(Increase)/decrease in prepaid expenses	-40	33	-40	28
Interest expense	-49	-58	0	0
Net cash inflows/(outflows) from operating activities	-22	-69	234	606
Purchases of fixed assets and other long term assets	-203	-51	-1,378	-1,396
Proceeds from disposal of fixed assets	1	14	0	0
Loans granted, purchases of debt instruments	-649	-482	0	0
Collection of loans, proceeds from sales of debts instruments	349	271	0	0
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	74	95	0	0
Net cash inflows/(outflows) from investing activities	-428	-154	-1,378	-1,396
Proceeds from issue of shares	33	0	97	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	11,711	10,806	0	0
Repayment of borrowings	-11,296	-10,526	-1,166	0
Finance lease principal payments	0	0	0	0
Dividends paid	-62	-88	-61	-82
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	387	192	1,127	790
Net increase in cash and cash equivalents	-64	-30	-17	0
Cash and cash equivalents at the beginning of period	411	347	317	300
Cash and cash equivalents at the end of period	347	317	300	300
Balance Sheet (VND billion)				
	2020	2021	2022F	2023F
TOTAL ASSETS	4,367	5,434	6,956	8,490
CURRENT ASSETS	3,916	4,955	5,153	5,462
Cash and cash equivalents	317	337	300	300
Short-term investments	1,572	1,902	1,902	1,902
Accounts receivable	1,302	2,189	2,142	2,370
Inventories	606	384	644	708
LONG-TERM ASSETS	450	479	1,804	3,028
Long-term trade receivables	5	5	5	5
Fixed assets	314	320	1,625	2,849
Long-term incomplete assets	62	9	9	9
Long-term investments	0	34	34	34
Goodwill	0	0	0	0
LIABILITIES	3,158	4,109	5,292	6,496
Current liabilities	3,151	4,108	5,291	6,496
Trade accounts payable	386	441	445	521
Short-term unrealized revenue	16	15	0	0
Short-term borrowings	1,088	1,166	2,258	3,130
Long-term liabilities	7	1	1	1
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	0	0	0	0
Long-term borrowings	7	0	0	0
OWNER'S EQUITY	1,209	1,326	1,665	1,993
Paid-in capital	830	1,036	1,132	1,132
Share premium	22	22	22	22
Undistributed earnings	350	266	0	0
Other funds	0	0	0	0
Minority interests	0	0	0	0
Key ratios (x, %, VND)				
	2020	2021	2022F	2023F
Multiple				
P/E	26.7	25.2	21.2	17.1
P/E diluted	26.7	25.2	21.2	17.1
P/B	6.4	8.5	3.9	3.5
P/S	0.4	0.5	0.3	0.3
P/Tangible Book	6.6	8.7	4.0	3.6
P/Cash Flow	-348.5	-163.0	27.5	11.6
EV/EBITDA	11.0	16.4	7.9	6.8
EV/EBIT	14.5	26.9	12.8	10.0
Operating performance				
ROE	31.7%	22.3%	18.2%	20.6%
ROA	8.8%	5.4%	4.4%	4.8%
ROIC	26.9%	19.4%	13.8%	14.6%
Financial structure				
Cash Ratio	60.0%	54.5%	41.6%	33.9%
Quick Ratio	76.9%	111.0%	105.0%	101.9%
Current Ratio	101.3%	107.8%	82.1%	70.4%
LT Debt/Equity	0.6%	0.0%	0.0%	0.0%
LT Debt/Total Assets	0.2%	0.0%	0.0%	0.0%
ST Debt/Equity	90.0%	88.0%	135.6%	157.0%
ST Debt/Total Assets	24.9%	21.5%	32.5%	36.9%
ST Liabilities/Equity	260.7%	309.9%	317.8%	325.9%
ST Liabilities/Total Assets	72.2%	75.6%	76.1%	76.5%
Total Liabilities/Equity	261.3%	310.0%	317.8%	325.9%
Total Liabilities/Total Assets	72.3%	75.6%	76.1%	76.5%
Activity ratios				
Account Receivable Turnover	13.2	9.8	11.3	11.3
Inventory Turnover	27.3	54.3	36.3	36.3
Account Payable Turnover	57.5	49.9	53.4	53.4

Source: Viettel Post, KB Securities Vietnam

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Investment ratings & definitions

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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