

# Kinh Bac City (KBC)

Legal procedures for Trang Due 3 should be completed within 2023

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In 1H23, KBC posted revenue of VND4,551 billion (+319% YoY) and NPAT of VND2,068 billion (+934% YoY)

KBC expects to record more than 160 ha of IP land sales this year

Trang Due 3 should have legal procedures completed within 2023 and book revenue from 2024

We recommend BUY for KBC with a target price of VND39,500/share

In 1H23, Kinh Bac City Development Holding (KBC) recorded revenue and NPAT of VND4,551 billion (+319% YoY) and VND2,068 billion (+934% YoY) respectively thanks to recording IP land sales of as much as 128 ha. As such, the firm achieved 50.6% and 51.7% of full-year revenue and net profit objectives.

Last year, KBC signed a series of IP land sales contracts and principles of lease agreements but could not carry out land handovers since its customers did not receive the investment approval. Most unbilled backlog at Nam Son Hap Linh, Tan Phu Trung and Quang Chau IPs is expected to be handed over this year.

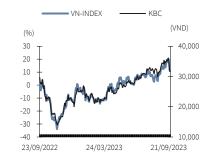
Trang Due 3 should have its legal procedures completed by the end of 2023 or early next year and begin operation in 2024 with high occupancy rate shortly after its launch as (1) LG Innotek received investment approval for its USD1 billion capital increase for investment projects at Trang Due 3 and (2) KBC just signed four memorandums of understanding (MOUs) during Korea's recent visit on investment cooperation for projects at Trang Due 3 IP.

Based on business prospects and valuation results, we recommend BUY for KBC with a target price of VND39,500/share, 16% higher than the closing price of VND34,000 on December 22, 2023.

# Buy maintain

Target price	VND39,500	Trading data		
ranger price	11057,500	Free float		65.5%
Upside	16%	3M avg trading value (\	/NDbn/USDmn)	315/13.1
Current price (Sep 22, 2023)	VND34,000	Foreign ownership		20.72%
Consensus target price	VND36,100	Major shareholder		Dang Thanh Tam
Market cap (VNDbn/USDmn)	4,168/172			(18.1%)
Forecast earnings & valuation				
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	4,246	957	6,427	4,228
NPAT (VNDbn)	954	1,596	3,045	1,983
NPATMI (VNDbn)	782	1,547	2,740	1,785
EPS (VND)	1,586	2,019	3,570	2,325
EPS growth (%)	232%	27%	77%	-35%
P/E (x)	15.3	16.8	9.5	14.6
P/B (x)	2.2	1.0	1.6	1.4
ROE (%)	5.9%	8.9%	15.7%	9.3%
Dividend yield (%)	0.8%	0.5%	0.8%	0.0%

(%)	1M	3M	6M	12M
Absolute	0	5	40	7
Relative	4	5	31	12



Source: Bloomberg, KB Securities Vietnam

# **Business performance**

#### Table 1. KBC - 1H22-1H23 business results

VNDbn	2Q2022	2Q2023	+/-%YoY	1H2022	1H2023	+/-% YoY	Comments
Net revenue	394	2,051	+421%	1,085	4,551	+319%	Completed 50.6% of full-year revenue target (VND9,000 billion)
- IP segment	269	2,273	+745%	586	4,351	+642%	In 1H23, KBC handed over up to 128 ha under IP land sales contracts with high rental prices ranging from USD140– 150/ha/lease term.
- Residential segment	34	9	-74%	322	30	-91%	
- Service provision	77	75	-3%	152	172	+13%	
Gross profit	184	1,493	+711%	463	3,199	+591%	
Gross profit margin	47%	73%	+26ppts	43%	70%	+27ppts	GPM improved due to increased revenue contribution of the high-margin IP segment (higher than the industry average due to low costs of the leased land bank.
Financial income	85	138	+62%	155	292	+88%	Bank deposit interest rose by more than VND25 billion. Besides, KBC recorded divestment gains of nearly VND100 billion from stake sales at Kinh Bac – Da Nang Investment Co., Ltd.
Financial expense	155	152	-2%	300	287	-4%	
SG&A	104	451	+334%	248	596	+140%	Sales and marketing expenses surged from VND37 billion in 1H22 to nearly VND303 billion in 1H23, mainly due to an increase of more than VND250 billion in legal consultancy and brokerage fees.
PBT	-276	1,027		294	2,605	+786%	
NPAT	-323	747		200	2,068	+934%	Completed 51.7% of full year NPAT target (VND4,000 billion)

Source: Kinh Bac City Development Holding, KB Securities Vietnam

# KBC aims to record another 30–50 ha of IP land sales in 2H23, taking the total leased area in 2023 to 150–170 ha

In 2023, KBC's expected leased land area could exceed 160 ha, primarily from handovers of unbilled backlog in 2022, including over 90 ha at Nam Son Hap Linh IP, 77 ha at Quang Chau IP, and over 20 ha at Tan Phu Trung IP. – In 1H23, KBC booked revenue for nearly 130 ha of land handover at Nam Son Hap Linh and Quang Chau expansion.

- KBC's remaining leasable land bank that has been signed an MOU includes more than 20 ha in each of Quang Chau, Tan Phu Trung, and NSHL Industrial Parks. We expect the enterprise will recognize revenue from handing over 30– 50 ha of IP land in 2H23, of which the Quang Chau IP expansion will reach a 100% occupancy rate in late 2023 and early 2024.

# Fig 2. KBC - Quang Chau IP



Source: Kinh Bac City Development Holding

# Fig 3. KBC - Tan Phu Trung IP



Source: Kinh Bac City Development Holding

# Nam Son Hap Linh, Tan Phu Trung, and Trang Due 3 are KBC's medium- and long-term growth drivers

Nam Son Hap Linh IP covers an area of 300 ha, with 204 ha being commercial land. Including 10 ha booked revenue in 1Q23 and 62 ha booked in 2Q23, Nam Son Hap Linh's remaining leasable area is 112 ha. The project has a convenient location adjacent to Highway 18B, 15km from the Samsung factory. It is the main contributor to KBC's business results in 2023.

Trang Due 3 should have legal procedures completed by the end of 2023 or early 2024 and reach a 100% occupancy rate shortly after its launch Quang Chau IP is expected to be fully occupied by end-2023 or early next year, ongoing projects Nam Son Hap Linh, Tan Phu Trung, Tan Tap, Loc Giang, and Trang Due 3 with large land banks available for lease will be KBC's medium- and long-term growth driver when (1) new MOUs with large IP land sales still go on, implying stable demand for large-scale industrial park land amid tight supply for industrial parks meeting high standards and (2) prices at Nam Son Hap Linh and Tan Phu Trung remain high and tend to increase by 5-7% compared to the average price agreed under contracts signed at the beginning of the year.

# Fig 4. KBC – Nam Son Hap Linh IP



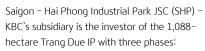
Source: Kinh Bac City Development Holding

We expect KBC to soon complete legal procedures for Trang Due 3 IP for the following reasons:

The need to promptly provide business premises for its major partner - LG Group. On June 26, LG Innotek received its USD1 billion capital increase approval for an investment project at Trang Due IP in Hai Phong.
Master plan adjustments by Hai Phong authority in March 2023 to speed up legal procedures for Trang Due 3.

Legal documents for Trang Due 3 are expected to be approved by the end of this year, and leasing activities can begin in 2024. After legal framework completion and infrastructure construction, we expect the occupancy rate to reach 100% soon, specifically: (1) Trang Due 3 will receive more than USD4 billion that LG plans to invest in expanding production in Vietnam (most suppliers and subsidiaries of LG are in Trang Due IP, while Trang Due 1 and 2 are almost out of leasable land) and (2) KBC signed four MOUs during Korea's recent visit with STS Group, JB Financial Group, Gyeongsang National University, and Gyeongsan National University Hospital on investment cooperation for projects at Trang Due 3 IP with USD1 billion investment capital commitment.

Fig 5. KBC – Trang Due 3 IP



- Phase 1 & 2 (401 ha) have been fully occupied, attracting USD9.6 billion of foreign direct investment (FDI), of which USD8.2 billion is from LG Group.

- Trang Due 3 IP belongs to Dinh Vu - Cat Hai Economic Zone with a scale of 687 ha, targeting electronics and high-tech industries. KBC applied for project approval in 2022 and has completed clearance for 300 ha of land.



Source: Kinh Bac City Development Holding

KBC's urban area sales should remain weak in 2H23, and Trang Cat Urban Area is expected to be opened for sale from 2025 In 2023, KBC may record a small revenue contribution from the residential segment following the lower-than-expected performance in 1H23 due to the quietness of the real estate market in general as well as the legal problems facing key projects (Phuc Ninh Urban Area, Trang Cat Urban Area).

Concerning Trang Cat Urban Area, following master plan adjustments as well as coercive measures to speed up legal procedures by Hai Phong authority, we expect KBC to receive land allocation for this project by the end of 2023 or early next year, starting construction in 2024 to open for sale from 2025.

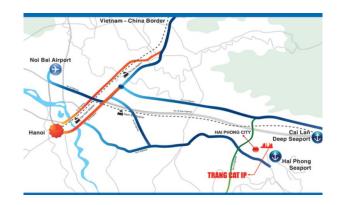


Fig 6. KBC – Trang Cat Urban Area

# Fig 7. KBC - Phuc Ninh Urban Area



Source: Kinh Bac City Development Holding

KBC completed all legal procedures for this project. Construction commenced in 4Q21 and should be completed by 4Q23. Currently, five buildings at Lot CT1 are under construction, three of which have been topped off and are being completed.

# Fig 8. KBC - Social housing project for workers in Nenh new urban area



Source: Kinh Bac City Development Holding

Project	Location	Leasable land (ha)	Occupancy rate (%)	Estimated price (USD/ha)	Comments
Launched IPs					
Que Vo 1	Nam Son, Que Vo, Bac Ninh	192	100%	75	
Que Vo 2	Nam Son, Que Vo, Bac Ninh	171	100%	90	
Trang Due 1	An Duong, Hai Phong	129	100%	80	
Trang Due 2	An Duong, Hai Phong				
Quang Chau	Viet Yen, Bac Giang	133	100%	85	Compensated 97% of the total land area
Quang Chau expansion	Viet Yen, Bac Giang	306.9	96%	136	' Signed MOU for the entire area
Nam Son Hap Linh	Dai Dong, Tien Du, Bac Ninh	67	80%	140	108 ha has not been compensated
Tan Phu Trung	Tan Phu Trung, HCM	204	20%	140	Invested VND1,296 billion at the end of 2022,
	lannia naily, new	314	74%	140	compensated 94%
IPs about to be launched/wait	ing for approval				
Long An Industrial Cluster	Long An	110.6	0%	120	100 ha for potential customers under negotiation
– Phuoc Vinh Dong 2	Phuoc Vinh Dong, Long An	32,4			
– Tan Tap industrial cluster	Tan Tap, Long An	46,3			
– Phuoc Vinh Dong 4	Phuoc Vinh Dong, Long An	31,9			
Hung Yen Industrial Park	Hung Yen	51.7			
Cluster		245	0%	115	
Long An Industrial Parks	Long An		0%		
– Loc Giang		327		125	Investment plan for 2022 was approved
– Nam Tan Tap		159			
- Tan Tap		461		125	Invested VND128 billion by the end of 2022
Trang Due 3	An Duong, Hai Phong				Signed MOU for 115 ha, completed clearance for
		456	0%	120	300 ha of land

# Table 9. KBC - Key industrial park projects

Source: Kinh Bac City Development Holding, KB Securities Vietnam

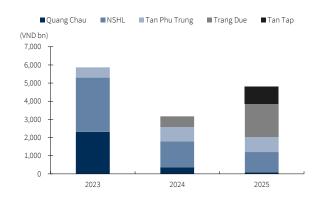
# Forecast

#### Table 10. KBC - 2022A-2023F business results

(VNDbn)	2022A	2023F	+/-%YoY	Comments
Revenue	957	6,427	+572%	Completed 71.4% of full-year revenue target of VND9,000 billion
- IP segment	657	5,859	+792%	Recorded sales for 170.7 ha of IP land: 15ha at Tan Phu Trung, 87.7ha at Nam Son Hap Linh, 68 ha at Quang Chau
- Residential segment	353	71	-80%	
- Service provision	337	369	+9%	
Gross profit	268	4,418	+1,549%	
Gross profit margin	28%	69%	+41ppts	Driven by the high-margin IP segment. We estimate the GPM of the IP segment is 70.4% and of the residential segment is 37%.
Financial income	338	401	+19%	
Financial expense	592	557	-6%	Due to a reduction in loan balance from the end of 2Q23
SG&A	505	951	+88%	
PBT	1,719	3,336	+94%	
Corporate tax	123	291	+137%	
NPAT	1,596	3,045	+91%	Completed 76% of full-year NPAT target of VND4,000 billion

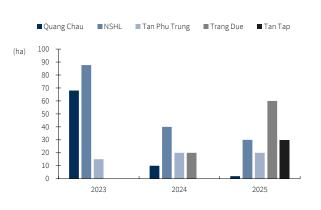
Source: Kinh Bac City Development Holding, KB Securities Vietnam

# Fig 11. KBC - IP land sales breakdown (VNDbn)



Source: Kinh Bac City Development Holding, KB Securities Vietnam

# Fig 12. KBC - 2023-25F IP land sales (ha)



Source: Kinh Bac City Development Holding, KB Securities Vietnam

We remain upbeat about KBC for (1) impressive performance in 2023
following unbilled backlog handovers in 2022; (2) Trang Due 3 IP profitable
from 2024 thanks to high occupancy due to high demand for industrial land for
lease in Hai Phong and many MOUs for leasing Trang Due 3 signed this year; (3)
land bank expansion following a slew of projects approved in 2022, which is the
medium- and long-term growth momentum of KBC; and (4) recently signed
contracts enjoying high rental prices which are expected to rise further.
Regarding urban development projects, because of difficulties during the site
clearance progress at Phuc Ninh Urban Area as well as legal problems faced by
Trang Cat Urban Area, we pushed back revenue recognition to 2025 with slow
sales velocity.

Project	Valuation method	KBC's ownership	Project's net present value	Value attributed to KBC
IPs				15,005
- Quang Chau & Quang Chau expansion	DCF	88%	1,623	1,429
– Nam Son Hap Linh	DCF	100%	2,968	2,968
- Trang Due 3	DCF	87%	4,384	3,794
- Tan Phu Trung	DCF	72%	1,524	1,104
– Long An Industrial Cluster	DCF	83%	761	631
- Hung Yen Industrial Cluster	DCF	69%	1,380	948
– Long An Industrial Parks	DCF	66%	6,264	4,131
Urban areas				17,340
- Phuc Ninh	DCF	100%	1,913	1,91
- Trang Due	DCF	87%	617	534
- Trang Cat	DCF	100%	13,868	13,868
- Social housing in Nenh	DCF	74%	1,394	1,02
Other				625
Inventory revaluation				32,973
(+) Cash & equivalents				1,50
(-) Net debt				4,166
RNAV				30,312
Outstanding shares				767,604,759
Value per share (VND)				39,500
Current price (December 22, 2023)				34,000
Total shareholder return				16.2%

# Table 12. KBC – Valuation result

Source: Kinh Bac City Development Holding, KB Securities Vietnam

# KBC - 2021A-2024F financials

# Income Statement

(VND billion)	2021	2022	2023F	2024F
Net sales	4,246	957	6,427	4,228
Cost of sales	1,779	689	2,009	1,578
Gross Profit	2,467	268	4,418	2,649
Financial income	170	338	401	392
Financial expenses	541	592	557	276
of which: interest expenses	481	523	557	276
Gain/(loss) from joint ventures	14	2,199	15	15
Selling expenses	190	46	308	169
General and admin expenses	429	459	643	423
Operating profit/(loss)	1,491	1,708	3,326	2,189
Other incomes	5	21	0	0
Other expenses	132	10	0	0
Net other income/(expenses)	-127	10	10	15
Net accounting profit/(loss) before tax	1,364	1,719	3,336	2,204
Corporate income tax expenses	410	123	291	220
Net profit/(loss) after tax	954	1,596	3,045	1,983
Minority interests	172	48	304	198
Attributable to parent company	782	1,547	2,740	1,785

Margin ratio				
(%)	2021	2022	2023F	2024F
Gross profit margin	58.1%	28.0%	68.7%	62.7%
EBITDA margin	47.3%	263,2%	65.3%	67.3%
EBIT margin	43.4%	234.1%	60.6%	58.7%
Pre-tax profit margin	32,1%	179.5%	51.9%	52.1%
Operating profit margin	35.1%	178.5%	51.7%	51.8%
Net profit margin	22.5%	166.7%	47,4%	46.9%

#### Cash Flow Statement

(VND billion)	2021	2022	2023F	2024F
Net profit/(loss) before tax	662	1,272	3,336	2,204
Depreciation and amortisation	164	278	300	367
Profit/loss from investing activities	40	25	0	0
Interest expense	32	57	557	276
Operating profit/(loss) before changes in Working Capital	818	1,596	4,194	2,847
(Increase)/decrease in receivables	-93	-322	2,338	3,013
(Increase)/decrease in inventories	-3	-30	3,998	1,771
Increase/(decrease) in payables	210	333	-1,486	1,737
(Increase)/decrease in prepaid expenses	-11	-8	-15	-302
Interest expense	-6	-10	0	0
Net cash inflows/(outflows) from operating activities	790	1,295	5,610	8,071
Purchases of fixed assets and other long term assets	-620	-1,604	-1,214	-1,496
Proceeds from disposal of fixed assets	53	0	0	0
Loans granted, purchases of debt instruments	-69	-430	0	0
Collection of loans, proceeds from sales of debts instruments	45	364	0	0
Investments in other entities	-78	-17	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	20	25	0	0
Net cash inflows/(outflows) from investing activities	-650	-1,661	-1,214	-1,496
Proceeds from issue of shares	99	20	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	287	716	0	0
Repayment of borrowings	-175	-293	-4,198	-2,788
Finance lease principal payments	-20	-76	0	0
Dividends paid	-67	-69	-213	-139
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	124	299	-4,411	-2,927
Net increase in cash and cash equivalents	264	-67	-15	3,648
Cash and cash equivalents at the beginning of period	221	485	415	400
Cash and cash equivalents at the end of period	485	415	400	4,048

Source: Kinh Bac City Development Holding, KB Securities Vietnam

# Balance Sheet

(VND billion)	2021	2022	2023F	2024F
TOTAL ASSETS	30,604	34,932	28,298	28,158
CURRENT ASSETS	25,684	27,837	20,288	19,020
Cash and cash equivalents	2,562	1,683	400	4,048
Short-term investments	2,016	2,442	2,442	2,442
Accounts receivable	9,346	11,142	8,804	5,791
Inventories	11,515	12,254	8,257	6,486
LONG-TERM ASSETS	4,920	7,095	8,010	9,138
Long-term trade receivables	1,490	577	577	577
Fixed assets	249	360	1,274	2,402
Long-term incomplete assets	1,074	1,266	1,266	1,266
Long-term investments	1,900	4,713	4,713	4,713
Goodwill	0	0	0	0
LIABILITIES	14,433	17,067	8,869	6,885
Current liabilities	6,511	10,638	3,425	3,954
Trade accounts payable	152	607	-879	858
Short-term unrealized revenue	2	2	0	0
Short-term borrowings	1,515	3,901	688	413
Long-term liabilities	7,922	6,429	5,444	2,931
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	5	4	4	4
Long-term borrowings	5,539	3,738	2,752	239
OWNER'S EQUITY	16,171	17,865	19,430	21,274
Paid-in capital	5,757	7,676	7,676	7,676
Share premium	3,397	2,744	2,744	2,744
Undistributed earnings	5,099	5,664	8,922	11,044
Other funds	0	0	0	0
Minority interests	0	0	0	0

#### Key ratios

(x,%,VND)	2021	2022	2023F	2024F
Multiple				
P/E	15.3	16.8	9.5	14.6
P/E diluted	15.3	16.8	9.5	14.6
P/B	2.2	1.0	1.6	1.4
P/S	8.2	19.4	4.7	7.2
P/Tangible Book	2.2	1.0	1.6	1.4
P/Cash Flow	44.3	14.3	5.4	3.8
EV/EBITDA	17.4	7.4	7.2	10.6
EV/EBIT	19.0	8.3	7.8	12,2
Operating performance				
ROE	5.9%	8,9%	15.7%	9.3%
ROA	3.1%	4.6%	10.8%	7.0%
ROIC	8.0%	8,5%	15.5%	12,1%
Financial structure				
Cash Ratio	70.3%	38.8%	83.0%	164.1%
Quick Ratio	96.5%	89.5%	131.3%	178.4%
Current Ratio	213.8%	143.5%	340.0%	310.6%
LT Debt/Equity	34.3%	20.9%	14.2%	1,1%
LT Debt/Total Assets	18.1%	10.7%	9.7%	0.8%
ST Debt/Equity	9.4%	21.8%	3.5%	1.9%
ST Debt/Total Assets	5.0%	11,2%	2,4%	1.5%
ST Liabilities/Equity	40.3%	59.5%	17.6%	18.6%
ST Liabilities/Total Assets	21.3%	30.5%	12,1%	14.0%
Total Liabilities/Equity	89.2%	95.5%	45.6%	32,4%
Total Liabilities/Total Assets	47.2%	48.9%	31.3%	24.5%
Activity ratios				
Account Receivable Turnover	0.5	0.1	0.7	0.7
Inventory Turnover	0.2	0.1	0.2	0.2
Account Payable Turnover	11.4	3.8	14.6	18.3

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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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