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3Q22 PBT jumped by 71.1%YoY to VND4,475 billion

Asia Commercial Bank (ACB) gained 3Q22 NII of VND6,032 billion (+7.6% QoQ, +33.4% YoY), NOII of VND1,059 billion (-19.6% QoQ, -9.4% YoY). 3Q22 cost-to-income ratio (CIR) was 35.6%, down 4 pts YoY thanks to positive TOI growth. During the period, provision expenses stayed low at VND90 billion (-133.7% QoQ, -89% YoY). As a result, 3Q22 PBT rose sharply by 71.1% YoY to VND4,475 billion.

3Q22 NIM reached 4.49%, up 0.2 pts QoQ and up 0.58 pts YoY

The average earnings yield increased by 0.46 pts QoQ. The effective capital restructuring strategy helped the average cost of funds inch up by only 0.33 pts QoQ. Thus, 3Q22 NIM improved by 0.2 pts QoQ to 4.49%.

Credit grew in line with estimate

Credit grew by 11.1% YTD by the end of September. Personal loans made up 65% of total outstanding loans (vs. 63% in 2021), and outstanding loans climbed 18.4% YTD. SME and wholesale loans picked up by 7.4% and 14.8% YTD, respectively. Total mobilized capital improved by 4.1% YTD on the back of valuable papers (+31.1% YTD) and customer deposits (+3.2% YTD). Loan-to-deposit ratio (LDR) remained above 83%, nearing the assigned limit of 85%.

NPL ratio touched 1.01% on the reclassification of restructured loans

ACB's NPL ratio, for the first time since 2017, hit 1% (+0.25 pts QoQ) due to the reclassification of restructured loans. However, ACB has fully set aside and may record provision reversal this November and December. LLCR dropped to 137.8%.

We recommend BUY for ACB with a target price VND28,000/share

Based on P/B and residual income methods, we recommend BUY for ACB with a target price of VND28,000, 32.8% higher than the closing price on Nov 18, 2022.

Buy maintain

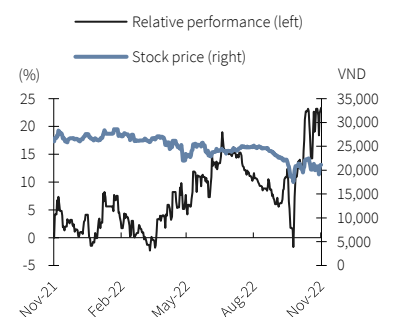
Target price	VND 28,000
Upside/Downside	32.8%
Current price (Nov 18, 2022)	VND 21,150
Consensus target price	VND 34,200
Market cap (VNDbn)	77,276

Trading data	
Free float	83.2%
3M avg trading value (VNDbn)	75.76
Foreign ownership	30%
Major shareholder	Dragon Financial Holding (6.92%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.2	-15.9	-8.7	-21.0
Relative	8.4	10.5	16.9	18.4

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	14,582	18,945	23,105	27,086
Pre-provision operating profit (VNDbn)	10,537	15,334	18,423	21,974
NPAT of parent company (VNDbn)	7,683	9,603	14,016	16,733
EPS (VND)	3,511	3,498	4,150	3,963
EPS growth (%)	-3.3%	-0.4%	18.6%	-4.5%
PER (x)	8.95	9.71	8.44	8.84
Book value per share (VND)	15,906	16,219	19,253	21,225
PBR (x)	1.98	2.09	1.82	1.65
ROE (%)	24.3%	23.9%	25.2%	21.3%
Dividend yield (%)	30%	25%	25%	25%



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q22 PBT jumped by 71.1%YoY to VND4,475 billion

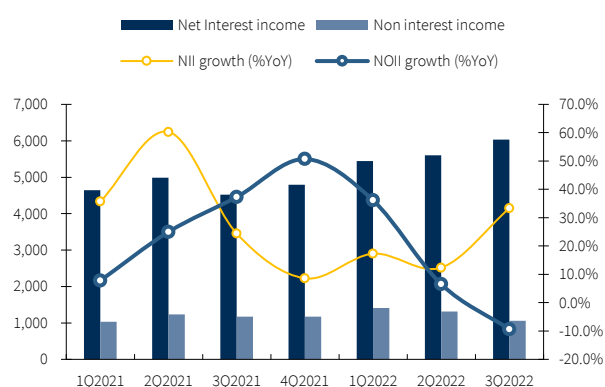
ACB posted 3Q22 net interest income (NII) of VND6,032 billion (+7.6% QoQ, +33.4% YoY), non-interest income (NOII) of VND1,059 billion (-19.6% QoQ, -9.4% YoY). Total operating income (TOI), therefore, expanded by 22.6% YoY and 2.4% QoQ. Operating expenses (OPEX) hit VND2,526 billion (+11% QoQ, +12.1% YoY). Provision expenses came down to VND90 billion from VND820 billion in 3Q21. Hence, 3Q22 PBT jumped by 71.1% YoY to VND4,475 billion. However, it was 8.9% lower than that of the previous quarter since ACB reversed up to VND267 billion in 2Q22.

3Q22 NIM reached 4.49%, up 0.2 pts QoQ and up 0.58 pts YoY

The profitability of the interest-earnings asset portfolio improved in the third quarter. Specifically, the average earnings yield shot up 0.48 pts QoQ to 7.68%, primarily thanks to boosted lending activities with the average lending rate up 0.46% ppts QoQ and up 0.27 ppts YoY to 9.07%. We assess ACB's loan portfolio will benefit from the uptrend of deposit rates for: (1) Personal loans represented 65% of outstanding loans, with 62.6% of short-term loans and (2) ACB actively reduced the interest fixing period for short-term loans to three months while removing the fixed interest rate for long-term ones. ACB has promoted lending to other institutions since the end of 2021, thereby improving interest income on rapidly increasing interbank rates. ACB earned VND789 billion (+5.6 times higher YoY) after the first nine months of the year from this activity.

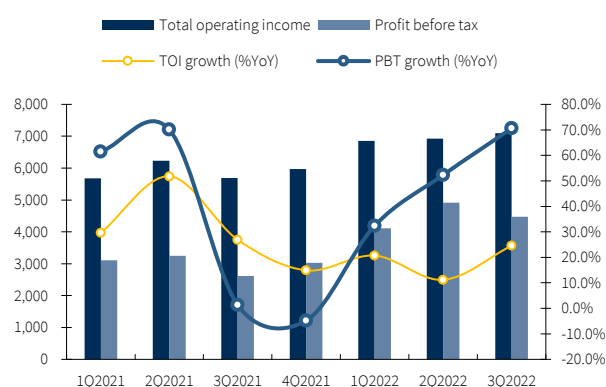
The average cost of funds inched up 0.33 pts QoQ to 3.58% in 3Q22, driven by rising deposit rates. Interest expense from the interbank market or the issuance of valuable papers was flat QoQ. The CASA ratio shrank by 2.8 pts QoQ to 24.2% by the end of September, similar to that of the entire banking system as customers preferred term deposits. With the average cost of funds increasing at a slower pace than the average earnings yield, ACB recorded 3Q22 net interest margin (NIM) of 4.49% (+0.2 pts QoQ and +0.58 pts %YoY).

Fig 1. ACB – NII, NOII growth (VNDbn, %)



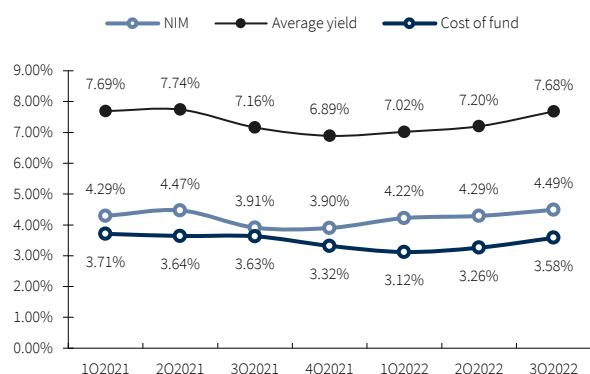
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – TOI, NPAT growth (VNDbn, %)



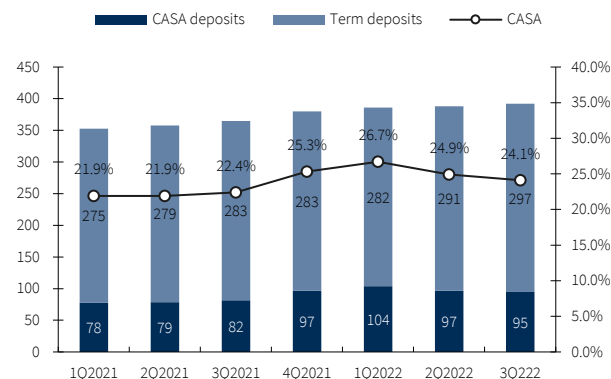
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – NIM, average earnings yield & cost of funds (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – CASA (%)

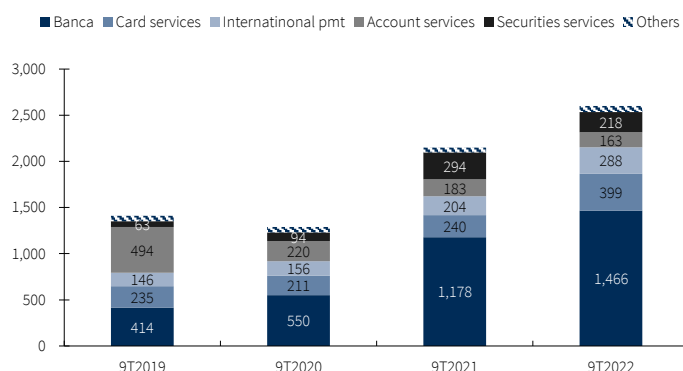


Source: Asia Commercial Bank, KB Securities Vietnam

3Q22 NOII reached VND1,059 billion, down 9.4% YoY

NOII in the third quarter hit VND1,059 billion (-19.6% QoQ and -9.4%YoY), with VND867 billion (+36.3% YoY, -12.7% QoQ) from net fee income (NFI). For 9M22, NFI touched VND2,599 billion (+20.9% YoY). Bancassurance has become the main source of NFI since the bank signed an exclusive agreement with Sun Life at the end of 2020, contributing VND1,488 billion, up 24.4% YoY between January and September. Card services and international settlement also recorded high growth of 66.3% YoY and 41.2% YoY respectively. ACB is promoting settlement services through Usance L/C payable at sight (Upas L/C) to raise NOII while reducing its reliance on interest income and decreasing bancassurance sales. This explains why ACB's receivables doubled YTD to VND6.9 trillion by the end of 3Q22.

Fig 5. ACB – Net fee income breakdown (VNDbn)

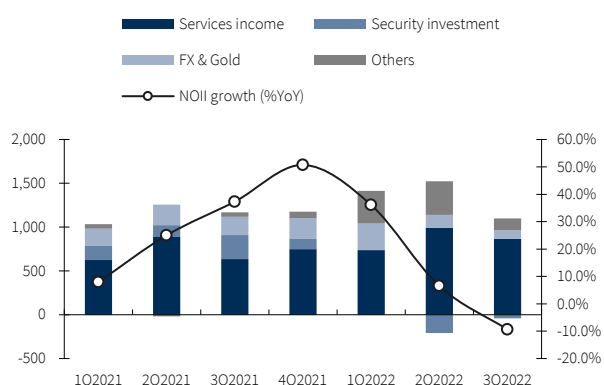


Source: Asia Commercial Bank, KB Securities Vietnam

Investment securities recorded a loss of VND42 billion in 3Q22 and VND254 billion in 9M22, primarily due to ACB Securities (ACBS). It is expected that the situation will improve in the fourth quarter. Foreign exchange and gold dealings brought in VND96 billion (-33.8% QoQ, -53.4%YoY). Net other income was VND138 billion (-64.3% QoQ, +165.4% YoY). For the year to the end of September, debt settlement contributed VND680 billion, of which about VND200 billion was collected from a group of six companies (G6) related to Mr. Nguyen Duc Kien.

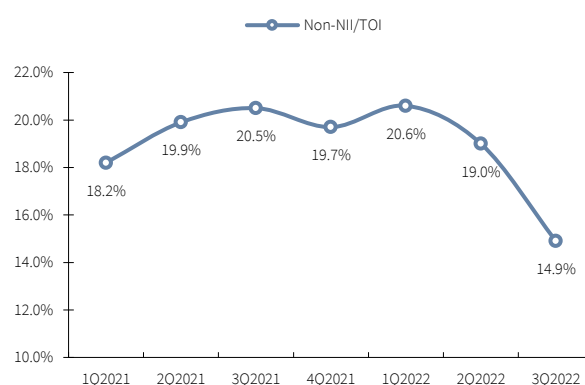
NOII decreased while NII remained positive, causing NOII/TOI ratio to drop to 14.9% in 3Q22. We assess that NOII will continue to contribute a small proportion to TOI in the last months of the year on the gloomy outlook of the stock market and the slowdown of debt settlement due to economic headwinds.

Fig 6. ACB – NOII breakdown (VNDbn, %)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – NOII/TOI (%)



Source: Asia Commercial Bank, KB Securities Vietnam

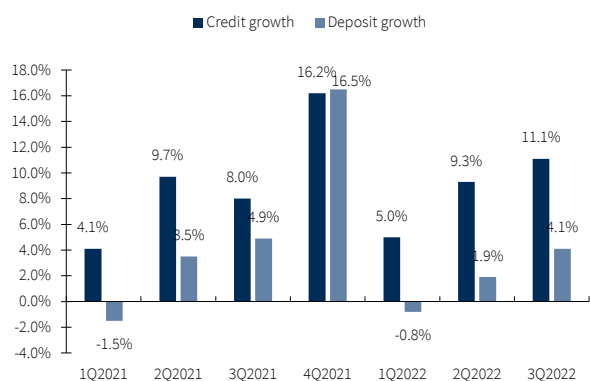
Credit grew in line with estimate

ACB's credit room was expanded by another 3% in September, taking the total quota for FY22 to 13%. Total outstanding loans in 9M22 reached VND402 trillion, up 11.1% YTD. We estimate that the remaining credit room of about 1.9% and the turnover of loans (mainly short-term loans) can help the bank fulfill its profit plan. In terms of loan structure, personal loans reached VND261 trillion (+14.5 percent YTD) or 65% of total outstanding loans (**Figure 9**). The proportion of personal loans increased by about 2 pts compared to the end of 2021. SME loans improved by 3.93% YTD to VND116 trillion. Wholesale loans still accounted for about 6% of total outstanding loans or VND24 trillion. Hence, the bank upheld its leading position regarding retail lending.

Total mobilized capital reached VND484 trillion, up 4.1% YTD. Customer deposits remained positive, up 3.2% YTD vs. 4% YTD growth of the whole industry. Individual and SME deposits represented 80% and 13% of total deposits, respectively. Other credit institutions maintained a large amount of deposits at ACB, reaching VND45,532 billion (+10% YTD and -4% QoQ) by the end of 3Q22. The figure increased the most in the second quarter (+40.5% QoQ) before the interbank rates peaked, thus reducing interest expenses. Also, ACB promoted mobilizing from valuable papers (+31.1% YTD), mainly bonds with maturity from 1-3 years and short-term certificates of deposit.

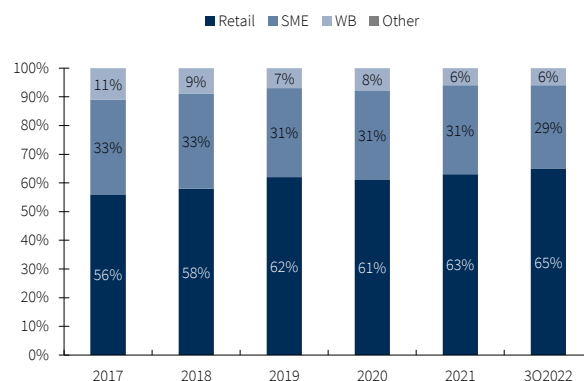
LDR at the end of 3Q22 remained above 83%. Although the turnover of loans helped limit ACB's dependence on capital mobilization, the bank should still bring the LDR ratio down to about 80%-82%. The ratio of short-term capital for medium and long-term loans was around 20.9% in the third quarter, which is in accordance with Circular No. 22.

Fig 8. ACB – Credit & deposit growth (%YTD)



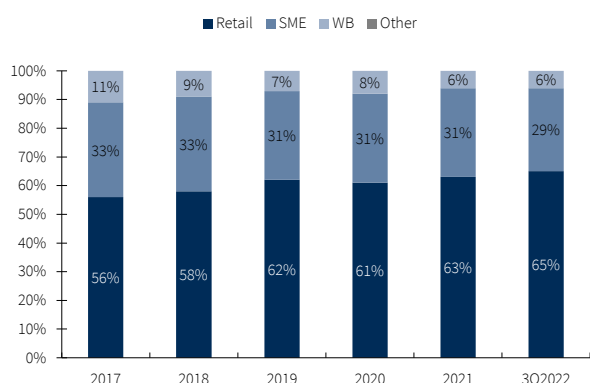
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – Customer loans (VNDbn, %)



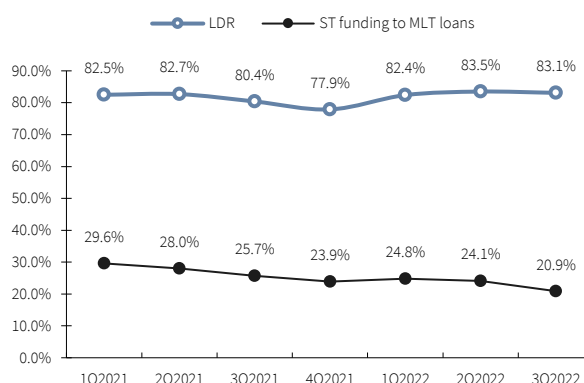
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 10. ACB – Deposit growth (%YTD)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 11. ACB – LDR, short-term capital for medium and long-term loans (%)

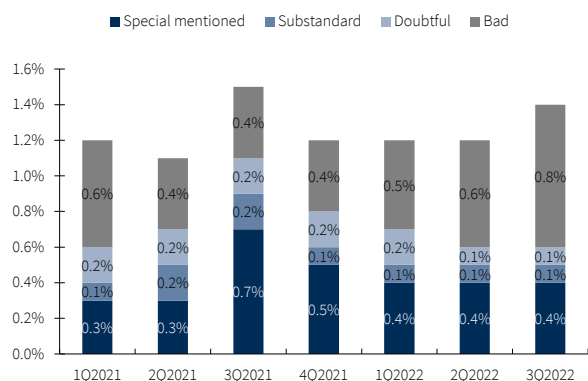


Source: Asia Commercial Bank, KB Securities Vietnam

Surging bad debts caused the NPL ratio to expand by 0.25 pts QoQ to 1.01%

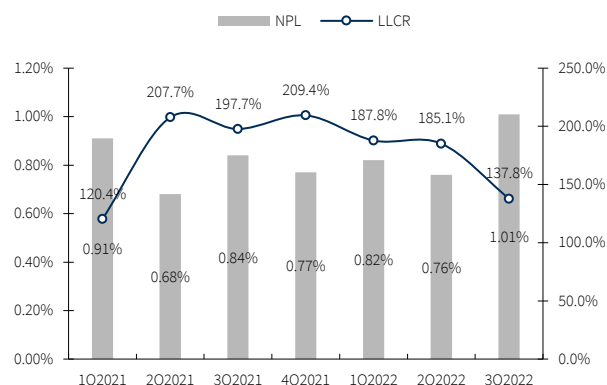
ACB's NPL ratio by the end of the third quarter rose 0.25 pts QoQ to 1.01%. Bad debts recorded the sharpest increase with VND1,000 billion, while subprime and doubtful debts only increased marginally over the previous quarter. Collateral for bad debts was up to VND6,300 billion, and bad debt recovery and collateral management remain under control. We see that the NPL ratio of 1% has reflected the reclassification of restructured loans. The bank's restructured loans were about VND11.2 trillion (-13.8% QoQ and -34.3% YTD), and customers' ability to repay is still guaranteed. In addition, collateral for restructured loans was up to VND22.2 trillion. ACB is still closely monitoring the repayment process as well as creating favorable conditions for cash-strapped customers. The bank is confident that some bad debts will be reclassified as standard loans as early as November and December. The loan loss coverage ratio (LLCR) dropped sharply from 185.1% in 2Q22 to 137.8% by the end of 3Q22.

Fig 11. ACB – Groups of debts (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 12. ACB – NPL, LLCR (%)

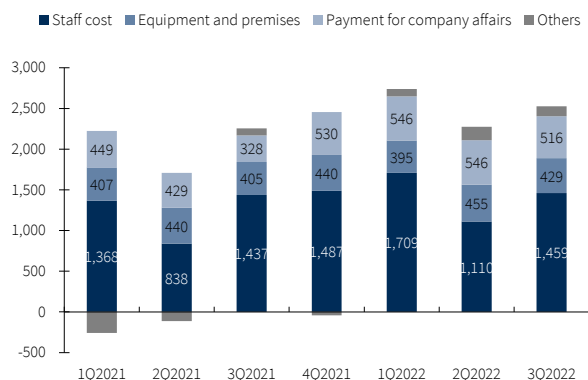


Source: Asia Commercial Bank, KB Securities Vietnam

Credit cost remained low

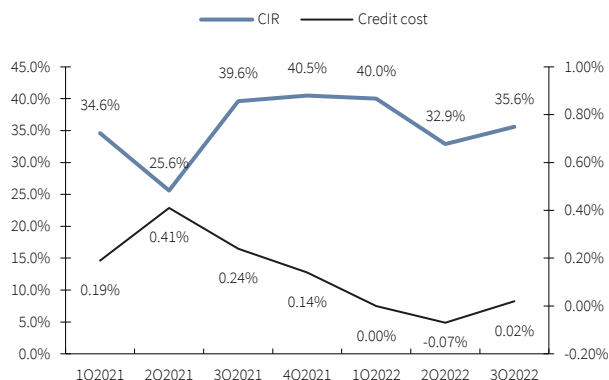
3Q22 OPEX touched VND2,526 billion (+10.9%QoQ and +12.1%YoY), with payment for company affairs up 57.3%YoY and staff cost up 1.5%YoY. While operating income increased slightly QoQ, CIR expanded by 2.7 pts to 35.6%. Credit cost remained low at only about 0.02%.

Fig 13. ACB – Operating costs (VNDbn)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 14. ACB – CIR, credit cost (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Updates on the analyst meeting

Does ACB face risks associated with real estate lending?

ACB mainly focuses on home loans which account for 21.5% of total outstanding loans, while property loans only account for 1.5%, virtually the lowest in the banking system. The bank aims to reduce the NPL ratio of home loans to 1% from 1.14% currently. ACB is confident that it can keep this ratio in check as the bank only disburses to those wishing to buy a house for living. At the same time, ACB assesses customers' ability to repay debts based on their salary and actual income, so it will better withstand a troubled property market.

Does ACB face liquidity risk when deposit growth lags behind loan growth?

Realizing that businesses would withdraw money for production, ACB has actively restructured deposits to slash its dependence on such deposits, progressively shifting to retail customers with VND1–5 billion deposits. Therefore, deposit growth was modest in 1Q22 but improved in 2Q22 and 3Q22. Especially in the third quarter, while deposit of the banking system fell,

ACB's deposit still recorded 1% growth. ACB believes October deposit will continue to enjoy positive growth, thereby minimizing liquidity risks.

Updates on digital transformation

Besides ACB One targeting individual customers, ACB launched ACB One Biz and ACB One Pro for corporate customers. As a result, transactions via E-Banking channels accounted for 85% of ACB's total transactions (vs. 66% in 2021 and 50% in 2020). Transactions through traditional ones such as ATM, CDM, POS and paper-based transactions reduced to 8% and 7% (from 25% and 9% in 2021). The number of customers using ACB One reached 4.3 million by the end of 3Q22, an increase of 700 thousand compared to the start of the year. Transactions via digital channels in 9M22 reached 185 million (up 16.3% compared to 2021), equivalent to VND 5.2 million billion (up 15.5% compared to 2021).

Forecast & Valuation

2022–23F business results

We make our forecast for ACB's 2022–23F business results as follows:

- Credit should grow by 14.8% for the entire 2022, higher than the assigned quota of 13% on the expectation that the State Bank of Vietnam (SBV) will expand credit quota for ACB and ACB is qualified for it. And we keep 2023F credit growth unchanged from 2022F at 13–14%, given the fact that the SBV remains conservative ahead of the US Federal Reserve's interest rate hikes.
- The average earnings yield recovered better than expected, so we expect this trend to continue in the fourth quarter. Along with that, higher credit growth will help boost interest income. 2022F NIM should increase by 0.32 pts YoY to 4.33%. Though pressures from rate increases will likely continue at least into the first half of 2023, we expect 2023F NIM to decline slightly to 4.29% thanks to rising interest income.
- As the NPL ratio touched 1% in the third quarter, we project the figure to be 0.8% for 2022F thanks to bad debt recovery.
- Provision expenses are expected at VND147 billion for 2022F thanks to better-than-expected recovery of customers. The figure for 2023F is VND1,054 billion, reflecting economic risks.
- 2022F NPAT of the parent bank is VND14,222 billion, up 48.1% YoY. It should rise to VND16,287 billion (+14.5%YoY) for 2023F.

Table 2. ACB – 2022–23F business results

VND bn	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	18,945	23,435	26,424	23.7%	12.8%
Net fee and commission income	2,894	3,124	3,901	7.9%	24.9%
Total operating income	23,564	28,176	31,693	19.6%	12.5%
Provision expenses	-3,336	-147	-1,045	-95.6%	610.9%
NPAT of the parent bank	9,603	14,296	16,287	48.9%	13.9%
NIM	4.01%	4.33%	4.29%		
Average earnings yield	7.14%	7.36%	7.87%		
Average cost of funds	3.42%	3.38%	4.08%		
CIR	34.9%	36.1%	32.5%		
NPL	0.77%	0.80%	0.70%		
Total assets	527,770	582,910	688,899	10.4%	18.2%
Equity	44,901	59,382	90,862	32.3%	53.0%

Source: KB Securities Vietnam

We recommend BUY for ACB stocks with a target price of VND28,000/share

We combine two valuation methods, P/B and residual income, to find a fair price for ACB stocks.

(1) P/B valuation (**Figure 15**)

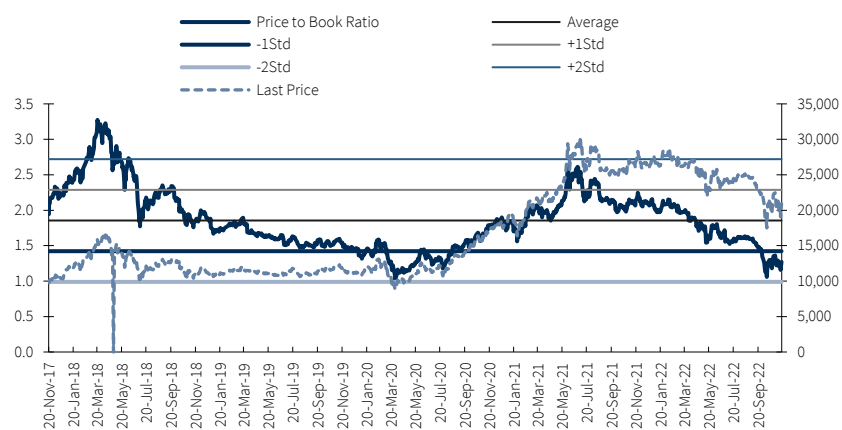
ACB put a lot of effort into controlling bad debts and ensuring asset quality. In addition, ACB's real estate lending will be less affected by the SBV's tight control over real estate credit as ACB mainly focuses on home loans, and real estate loans only account for 1% of outstanding loans. The bank's securities portfolio includes government bonds only. ACB is now trading at a P/B of 1.24x, below -1Std. We keep ACB's 12M trailing P/B unchanged at 1.8x, equivalent to ACB's three-year average P/B. We believe ACB stocks deserve a high valuation, considering ACB's prudent operations and not being impacted by the bond market.

(2) Residual income valuation (Table 2)

In addition, we incorporate the residual income method to reflect systematic risks and long-term expectations. We adjust the risk-free rate (Rf) from 4% to 5%, given changes in 10-year government bond yields.

Combining the above two valuation methods with a ratio of 50:50, we recommend BUY for ACB stocks. The target price is VND28,000/share, 32.8% higher than the closing price on November 18, 2022 (Table 3) but 11.7% lower than our previous projection due to adjustments in the risk-free rate, beta, and expected business results. Some downside risks include: (1) Higher-than-expected cost of funds and (2) rising bad debts arising from economic headwinds.

Fig 15. ACB – P/B (x)



Source: Bloomberg, KB Securities Vietnam

Table 2. ACB – Residual income valuation

VND bn	2022F	2023F	2024F	2025F	2026F
Profit after tax	14,222	16,287	19,264	23,465	29,599
Excessed return	5,355	2,749	1,293	43	-680
Required rate of return (re)	14.9%				
Growth (g)	5%				
Terminal value	-3,601				
Present value (PV)	3,678				
Share price (VND)	17,979				

Source: KB Securities Vietnam

Table 3. ACB – Residual income & P/B valuation

Valuation method	Forecast price	Weight	Weighted price
Residual income	17,979	50%	8,990
P/B	38,151	50%	19,076
Target price			28,065

Source: KB Securities Vietnam

ACB – 2020A–2023F financials

Income Statement					Balance Sheet				
(Bn VND)	2020	2021	2022F	2023F	(Bn VND)	2020	2021	2022F	2023F
Interest and Similar Income	31,856	33,714	39,792	48,434	TOTAL ASSETS	444,530	527,770	582,910	688,899
Interest and Similar Expenses	-17,274	-14,769	-16,357	-22,010	Cash and precious metals	6,968	7,510	6,646	7,517
Net Interest Income	14,582	18,945	23,435	26,424	Balances with the SBV	16,617	32,350	5,435	6,756
Fees and Commission income	2,804	4,027	4,376	5,428	Placements with and loans to other credit in	31,671	49,819	72,603	96,562
Fees and Commission expenses	-1,109	-1,133	-1,252	-1,527	Trading securities, net	6,168	11,260	631	985
Net Fee and Commission Income	1,695	2,894	3,124	3,901	Derivatives and other financial assets	55	227	117	138
Net gain/(loss) from foreign currency and gol	687	872	735	691	Loans and advances to customers, net	308,529	356,051	409,881	468,722
Net gain/(loss) from trading of trading secur	167	450	-228	38	Debts purchase	0	0	0	0
Net gain/(loss) from disposal of investment s	732	244	126	152	Investment securities	63,399	59,475	72,560	84,968
Net Other income/(expenses)	280	140	934	467	Investment in other entities and LT investmer	100	172	233	207
Dividends income	19	20	50	20	Fixed assets	3,783	3,763	4,080	5,022
Total operating income	18,161	23,564	28,176	31,693	Investment properties.	349	216	233	344
General and Admin expenses	-7,624	-8,230	-10,168	-10,300	Other assets	6,893	6,929	10,492	12,590
Operating Profit Before Provision for Credit L	10,537	15,334	18,008	21,393	LIABILITIES AND SHAREHOLDER'S EQUITY	444,530	527,770	582,910	688,899
Provision for credit losses	-941	-3,336	-147	-1,045	Total liabilities	409,082	482,869	523,527	598,037
Profit before tax	9,596	11,998	17,861	20,348	Due to Gov and Loans from SBV	0	0	0	0
Corporate income tax	-1,913	-2,395	-3,565	-4,061	Deposits and Loans from other credit instit	23,875	54,394	55,591	65,041
Net profit for the year	7,683	9,603	14,296	16,287	Deposits from customers	353,196	379,921	399,297	448,810
Minority interest	0	0	0	0	CBs/CDs and other valuable papers issued	22,050	30,548	47,655	62,571
Attributable to parent company	7,683	9,603	14,296	16,287	Other liabilities	9,845	17,921	20,985	21,615
					Shareholder's equity	35,448	44,901	59,382	90,862
					Charter capital	21,616	27,020	33,774	42,218
					Share premium	272	272	272	477
					Reserves	5,742	7,164	9,076	11,519
					Retained Earnings	7,819	10,445	16,260	36,648
					Valuation				
					(VND, x, %)	2020	2021	2022F	2023F
					Pricing ratio				
					Basic EPS	3,511	3,498	4,233	3,858
					Book value per share	15,906	16,219	17,237	21,196
					Valuation ratio				
					PER	6.91	7.39	5.00	5.48
					PBR	1.53	1.59	1.23	1.00
					Dividend yield	0.9%	1.6%	1%	1%

Source: Asia Commercial Bank, 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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