

★ KB Securities

VIFTNAM

# Binh Son Refinery (BSR)

# Expecting from the coming high season

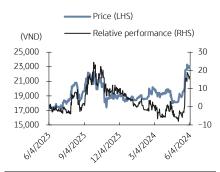
Analyst Pham Minh Hieu June 3, 2024 hieupm@kbsec.com.vn Business operations in 1Q24 were In 1Q24, revenue of Binh Son Refining and Petrochemical Co. Ltd (BSR) dropped adversely affected by a major 10.5% YoY mainly due to the maintenance, causing sales volume to fall 9.7% YoY. maintenance lasting 48 days Gross profit saw a big contraction of 39.4% YoY due to high fixed costs and oversupply-triggered unfavorable developments of in the crack spread of two key products, diesel oil and JetA1. Crack spreads of gasoline and jet We expect strong demand for road and air travel during the upcoming holiday fuels should benefit when demand season to benefit crack spreads of gasoline and jet fuels. The American increases from the end of 2Q Automobile Association predicted that the number of passengers traveling by air in the US during the Memorial Day holiday may reach 20-year highs. BSR adjusted the capital allocation BSR must adjust the equity to loan ratio for the Dung Quat Oil Refinery upgrade plan for the Dung Quat Oil Refinery and expansion project from 40/60 to three alternative scenarios including 60/40, upgrade and expansion project 70/30, and 80/20 due to high interest rates and difficulties in finding sources. The total investment of the project is about VND36.4 trillion, which should be disbursed between 2025 and 2027 and come into operation from 2028. Updated progress of listing on HSX The company is considering a plan to dissolve the subsidiary BSR-BF to exclude its business results from the consolidated financial statements. Overdue debt of this subsidiary is the only barrier to BSR's listing approval on the Ho Chi Minh Stock Exchange (HSX).

# Neutral maintain

VND24,400
6.1%
VND23,000
VND23,600
71.3/2.8

Trading data	
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	152.3/6.1
Foreign ownership	0.7%
Major shareholder	PVN (92.1%)

(%)	1M	3M	6M	12M
Absolute	28.7	17.1	22.6	35.5
Relative	22.8	14.8	6.4	16.2



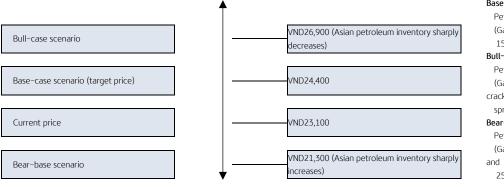
Source: Bloomberg, KB Securities Vietnam

#### Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	167,124	147,423	128,884	145,254
Operating income/loss (VNDbn)	14,673	7,948	6,334	8,025
NPAT-MI (VNDbn)	14,726	8,511	6,590	8,098
EPS (VND)	4,750	2,745	2,125	2,612
EPS growth (%)	129.1	-42.2	-23.0	23.0
P/E (x)	5.1	8.9	11.5	9.3
Р/В (х)	1.5	1.3	1.3	1.2
ROE (%)	28.7	14.8	11.0	12.8
Dividend yield (%)	1.8	2.9	2.9	2.9



#### Investment opinion & risks



#### Base-case scenario: catalyst

Petroleum inventory is at the same level as 2023 (Gasoline & diesel crack spreads fell 5% YoY and 15% YoY respectively)

#### Bull-case scenario: upside risk

Petroleum inventory is lower than 2023's

(Gasoline crack spread rose % YoY, and diesel crack

spread declined 5% YoY)

#### Bear-case scenario: downside risk

Petroleum inventory is higher than 2023's (Gasoline & diesel crack spreads fell 15% YoY

25% YoY respectively)

#### Revised earnings estimates

	Revised		Previous		Change	
(VNDbn, %)	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	121,832	141,885	128,884	145,254	5.8	2.4
EBIT	6,031	7,653	6,334	8,025	5.0	4.9
NP after MI	6,845	8,290	6,590	8,098	(3.7)	-(2.3)

Source: KB Securities Vietnam

#### KBSV estimate vs consensus

2025E
9.4
17.3
17.5

Diesel

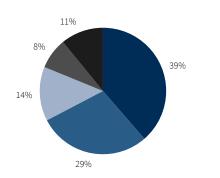
RON95

RON92

■ Jet A1 ■ Other

Source: Bloomberg, KB Securities Vietnam

#### Revenue composition (2023)



#### **Business operation**

Binh Son Refining and Petrochemical Company Limited (BSR) was established in 2008. The company is the management and operation unit of Dung Quat Oil Refinery with a total investment capital of over USD3 billion and capacity of 6.5 million tons of crude oil/year. BSR currently accounts for about 30% of Vietnam's petroleum demand.

Source: Binh Son Refining & Petrochemical, KB Securities Vietnam

### 1Q24 performance updates

### Business operations in 1Q24 were adversely affected by a major maintenance lasting 48 days

1Q24 revenue of BSR dropped 10.5% YoY mainly due to the maintenance, causing sales volume to fall 9.7% YoY. Gross profit saw a big contraction of 39.4% YoY due to high fixed costs and oversupply-triggered unfavorable developments of in the crack spread of two key products, diesel oil and JetA1. Crack spread of A95 gasoline surged 35% YoY, which is not enough to compensate for the decrease in diesel and Jet A1 crack spreads.

#### Table 1. BSR - 1Q24 business results

(VNDbn, %)	1Q23	1Q24	+/-%YoY	Notes
Revenue	34,066	30,503	-10.5%	The 48-day maintenance from mid-March to the end of April is the main reason for the 10% YoY decrease in sales volume.
Diesel oil	13,089	12,383	-5.4%	
A95 gasoline	9,124	9,434	3.4%	
A92 & E5 gasoline	4,863	3,037	-37.5%	
Jet A1	2,812	2,695	-4.2%	
FO oil	362	322	-11.0%	
LPG	2,150	1,606	-25.3%	
Gross profit	2,072	1,256	-39.4%	Sales volume decreased but fixed costs remained high, causing GPM to shrink by 2%. Crack spreads of two key products, diesel and Jet A1, declined 19% and 14% YoY, respectively.
Gross profit margin	6.1%	4.1%		
Financial income	810	520	-35.8%	The decrease was mainly due to the exchange gain losing 61.8% YoY.
Financial expenses	639	256	-59.9%	The decrease was mainly due to the exchange loss falling 62.3% y YoY.
Profits from affiliates	0	0	N/A	
SG&A	414	259	-37.4%	
Operating profit/loss	1,829	1,261	-31,1%	
Other income	14	11	-16.9%	
Profit before taxes (PBT)	1,843	1,271	-31.0%	
PBT margin	5.4%	4.2%		
Net profit after taxes (NPAT)	1,621	1,115	-31.2%	
NPAT margin	4.8%	3.7%		
NP after MI	1,629	1,144	-29.8%	
Production output (million tons)	1,754	1,570	-10.5%	
Sales output (million tons)	1,680	1,517	-9.7%	The overhaul lasted 48 days from mid-March.
Diesel oil	677	637	-5.9%	
A95 gasoline	426	442	3.8%	
A92 gasoline	232	146	-37.2%	
Jet A1	124	136	9.9%	
FO oil	27	24	-11.1%	
LPG	115	89	-22.3%	
Brent oil price (USD/barrel)	82.1	82.0	-0.1%	

Source: Binh Son Refining & Petrochemical, KB Securities Vietnam



Diesel oil crack spread is under the The diesel market is less positive than our expectations in the last report. We believe that in the short and medium term, diesel oil crack spread will face dual pressure from short-term oversupply risks including (1) weak import demand from the EU and China markets due to weaker-than-expected industrial activity and (2) excess supply from the Middle East and Americas due to factories resuming operations after maintenance. We expect strong demand for road and air travel during the upcoming holiday Crack spreads of gasoline and jet season to benefit crack spreads of gasoline and jet fuels. The American fuel should benefit when demand Automobile Association predicted that the number of passengers traveling by increases from the end of 2Q

**OPEC+** maintains current cut policy until 3Q

air in the US during the Memorial Day holiday may reach 20-year highs, signaling the start of the 2024 peak season.

OPEC+ decided to extend the cut of 2.2 million barrels/day until the end of September. After that, 2.2 million barrels/day will be pumped into the market over the next 12 months. We think that the decision leans towards neutrality and aims at increasing the flexibility of the bloc's policies. Although there is a plan to relax the cuts from 4Q24, OPEC+ countries may accelerate or lower the speed of easing, depending on market developments. At the moment, KBSV still maintains the assumption that Brent oil price will average USD83/barrel in 2024.

#### Fig 2. Global - Brent oil price developments (USD/barrel)

Fig 3. Global - Crack spreads of main products (USD/barrel)

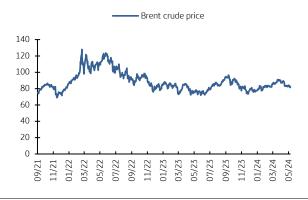
RON 95 Spread

04/24

Jet Spread

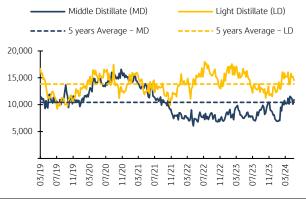
Diesel Spread

RON 92 Spread



Source: Bloomberg, KB Securities Vietnam

#### Fig 4. Asia - Middle distillate (Diesel, FO, JetA1) & light distillate stockpiles (A95 & A92 gasoline) (thousand barrels)



12/21

02/22 04/22 **36/22** 38/22 10/22 12/22 02/23 04/23 06/23 38/23 0/23 12/23 )2/24

0/21

38/21

06/21

80

60

40

20

0

-20

#### Fig 5. China - PMI after post-Covid economic reopening



Source: Bloomberg, KB Securities Vietnam

Source: Bloomberg, KB Securities Vietnam



BSR raised the maximum operating capacity after completing the fifth overhaul	The fifth turnaround ended at the end of April, and Dung Quat Oil Refinery was able to resume operation from May. BSR said it can now push maximum oil refining capacity to 114% of design capacity. Accordingly, we adjusted the assumption of oil refining capacity from 107% to 114% of design capacity (equivalent to 7.4 million tons of crude oil/year) for the period 2024–2027.
The company adjusted the capital allocation plan for the Dung Quat Oil Refinery upgrade and expansion project	BSR must adjust the equity to loan ratio for the Dung Quat Oil Refinery upgrade and expansion project from 40/60 to three alternative scenarios including 60/40, 70/30, and 80/20 due to high interest rates and difficulties in finding sources. We temporarily use the equity/loan scenario at 60/40 to forecast the capital structure for the business. The total investment of the project is about VND36.4 trillion, which should be disbursed between 2025 and 2027 and come into operation from 2028.
Updated dividend and capital increase plans	The oil producer planned to raise capital from VND31 to VND50 trillion in the period 2024–2025 to serve the major project of upgrading the oil refinery. Cash dividend for 2023 reaches VND700/share (close to our forecast)
Updated progress of listing on HSX	BSR is considering a plan to dissolve the subsidiary BSR–BF to exclude its business results from the consolidated financial statements. Overdue debt of this subsidiary is the only barrier to BSR's listing approval on the HSX.

## Forecast & valuation

#### Table 6. BSR - 2024-2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	147,423	128,884	-12.6%	145,25 4	12.7%	Revenue in 2024 may decline mainly due to the major maintenance lasting 48 days. We raised the maximum capacity of BSR from 107% to 114% of design capacity compared to the last report.
Diesel oil	57,736	51,249	-11.2%	57,694	12.6%	
A95 gasoline	42,239	38,019	-10.0%	43,008	13.1%	
A92 & E5 gasoline	19,900	16,386	-17.7%	18,301	11.7%	
Jet A1	11,954	10,693	-10.5%	12,476	16.7%	
FO oil	1,893	1,308	-30.9%	1,264	-3.4%	
LPG	7,451	5,846	-21.5%	6,594	12.8%	
Gross profit	9,608	7,785	-19.0%	9,660	24.1%	Gross profit in 2024 should be lower due to the overhaul and the possible decrease of 5–15% YoY in diesel, gasoline, and Jet A1 crack spreads. We upgraded the forecast for gross profit by 5% after the adjustment in maximum capacity.
Gross profit margin	6.5%	6.0%		6.7%		
Financial income	2,659	2,127	-20.0%	2,127	0.0%	The projection is lowered by 21.6% compared to the last report to match the actual financial income situation of the business in 1Q24.
Financial expenses	1,154	1,174	1.7%	1,198	2.0%	
Profits from affiliates	0	0	N/A	0	N/A	
SG&A	1,660	1,451	-12.6%	1,635	12.7%	
Operating profit/loss	9,453	7,287	-22.9%	8,954	22.9%	
Other income	32	0	-100%	0	N/A	
Profit before taxes (PBT)	9,486	7,287	-23.2%	8,954	22.9%	
PBT margin	6.4%	5.7%		6.2%		
Net profit after taxes (NPAT)	8,455	6,558	-22.4%	8,059	22.9%	
NPAT margin	5.7%	5.1%		5.5%		
NP after MI	8,511	6,590	-22.6%	8,098	22.9%	It was lowered 3.7% compared to the previous report due to a decrease in financial income.
Production output (million tons)	7,150	6,357	-11.1%	7,410	16.6%	
Sales output (million tons)	7,256	6,390	-11.9%	7,445	16.5%	Output may decrease sharply in 2024 due to the overhaul.
Diesel oil	2,990	2,726	-8.8%	3,170	16.3%	
A95 gasoline	1,947	1,744	-10.4%	2,048	17.4%	
A92 gasoline	953	784	-17.7%	906	15.6%	
Jet A1	514	469	-8.8%	562	19.8%	
FO oil	129	89	-31.0%	89	0.0%	
LPG	473	370	-21.8%	431	16.5%	
Brent oil price (USD/barrel)	83	83	0.0%	80	-3.6%	

Source: Binh Son Refining & Petrochemical, KB Securities Vietnam



# Valuation: NEUTRAL rating with a price target of VND24,400

We used a combination of FCFF and P/B comparison to give a NEUTRAL rating to BSR with a target price of VND24,400/share, equivalent to a return of 6.1% compared to the closing price VND23,000 on June 3, 2024. The target P/B of 1.29x is chosen according to the average P/B of BSR in five years.

#### Table 7. BSR - Valuation according to FCFF model

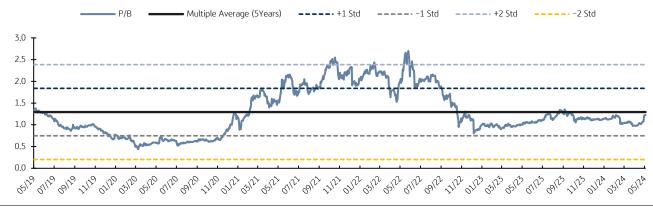
Risk-free rate	4.7%	Present value of terminal value	28,718
Equity risk premium	7.6%	Total present value for the period 2024-2028	17,161
Beta	1.44	Total present value	45,879
Average interest rate	7.0%	Plus: Cash & Short-term investments	39,758
Taxes	10.0%	Minus: Net Debt	-11,065
Weighted cost of capital	12.8%	Minus: Minority interest	-124
Terminal growth rate	1.5%	Equity value	74,448
		Number of shares outstanding (million shares)	3,100.50
		Equity value/share (VND)	24,000

Source: Bloomberg, KB Securities Vietnam

#### Table 8. BSR - Final valuation

Valuation method	Forecast price	Weighting	Weighted price
FCFF	24,000	50%	12,000
P/B (1. <b>29</b> x)	24,700	50%	12,350
Target price (rounded)			24,400
Current price (Jun 3, 2024)			23,300
Upside			4.7%
Source: Bloomberg, KB Securities Vietnam			

#### Fig 9. BSR - P/B in 2019-2024 (x)



Source: Bloomberg, KB Securities Vietnam

#### BSR - 2022A-2025F financials

(VND billion)	2022A	2023A	2024F	2025F
Net sales	167,124	147,423	128,884	145,254
Cost of sales	-151,027	-137,815	-121,099	-135,594
Gross Profit	16,097	9,608	7,785	9,660
Financial income	1,750	2,659	2,127	2,127
Financial expenses	-923	-1,154	-1,174	-1,198
of which: interest expenses	-253	-288	-294 0	-299 0
Gain/(loss) from joint ventures (from 2015)	0 -909	0 -1,034	-904	-1,019
Selling expenses General and admin expenses	-515	-1,034 -626	-547	-616
Operating profit/(loss)	15,500	9,453	7,287	8,954
Other incomes	87	32	0	0
Other expenses	1	0	0	0
Net other income/(expenses)	86	32	0	0
Income from investments in other entities	1	2	3	4
Net accounting profit/(loss) before tax	15,586	9,485	7,287	8,954
Corporate income tax expenses	-916	-1,031	-729	-895
Net profit/(loss) after tax	14,669	8,455	6,558	8,059
Minority interests	-57	-57	-32	-39
Attributable to parent company	14,726	8,511	6,590	8,098
Margin ratio			····	
- Create and fit and the	2022A 9.6%	2023A 6.5%	2024F 6.0%	2025F 6.7%
Gross profit margin	9.8%	6.9%	6.8%	7.5%
EBITDA margin	8.8%	5.4%	4.9%	5.5%
EBIT margin Pre-tax profit margin	9.3%	6.4%	5.7%	6.2%
Operating profit margin	9.3%	6.4%	5.7%	6.2%
Net profit margin	8.8%	5.7%	5.1%	5.6%
Cash Flow Statement				
(VND billion)	2022A	2023A	2024F	2025F
Net profit/(loss) before tax	15,586	9,486	7,287	8,954
Depreciation and amortisation	2,192	2,269	2,421	2,920
Profit/loss from investing activities	-1,102	-2,315	0	0
Interest expense	253	288	294	299
Operating profit/(loss) before changes in Working Capital	16,929	9,728	10,002	12,173
(Increase)/decrease in receivables	-2,943	1,848	-3,468	5,096
(Increase)/decrease in inventories	-6,577	1,305	621	2,546
Increase/(decrease) in payables	883	604	1,026	-5,097
(Increase)/decrease in prepaid expenses	184	36	0	0
Net cash inflows/(outflows) from operating activities	-1,373	-1,833	-1,023	-1,194
Purchases of fixed assets and other long	7,088	11,672	7,158	13,524
term assets				
Proceeds from disposal of fixed assets Loans granted, purchases of debt	-220	-230	-1,558	-10,791
instruments	0	1	0	0
Collection of loans, proceeds from sales of debts instruments	-7,826	-29,789	-29,789	-29,789
Investments in other entities	9,843	10,840	29,789	29,789
Proceeds from divestment in other	0	0	0	0
entities				
Dividends and interest received	0	0	0	0
Net cash inflows/(outflows) from investing activities	897	1,303	0	0
Proceeds from issue of shares	2,695	-17,874	-3,525	-13,209
Payments for share returns and	0	0	0	0
repurchases	0	0	0	0
Proceeds from borrowings Repayment of borrowings	77,969	95,396	520	4,794
Finance lease principal payments	-79,886	-93,407	-425	-208
Dividends paid	0	-55,401	-425	-200
Interests, dividends, profits received	-1,347	-2,164	-2,170	-2,170
Net cash inflows/(outflows) from financing	0	0	0	0
activities				
Net increase in cash and cash equivalents	-3,265	-175	-2,075	2,416
Cash and cash equivalents at the beginning of period	6,518	-6,377	1,558	2,731
Cash and cash equivalents at the end of	16,346	22,853	17,001	18,559
period	10,040	-2,000	±1,001	10,000

Balance Sheet (VND billion)	2022A	2023A	2024F	2025
CURRENT ASSETS	78,488	86,454	89,932	92,81
Cash and cash equivalents	58,471	68,546	73,028	67,95
Short-term investments	22,853	17,001	18,559	21,29
Accounts receivable	2,172	21,122	21,122	21,12
Inventories	16,553	14,999	18,467	13,37
LONG-TERM ASSETS	16,809	15,352	14,731	12,18
Long-term trade receivables	20,017	17,908	16,904	24,85
Fixed assets	534	549	549	54
Investment properties	18,075	16,059	15,055	23,01
Long-term incomplete assets	1,275	1,211	1,211	1,21
Long-term investments	0	0	0	
TOTAL ASSETS	0	0	0	
LIABILITIES	27,298	29,322	30,444	29,93
Current liabilities	26,015	28,439	29,040	24,53
Trade accounts payable	14,836	14,617	15,643	10,54
Advances from customers	38	247	247	24
Short-term unrealized revenue	8,954	10,970	10,545	11,13
Short-term borrowings	1,282	884	1,404	5,39
Long-term liabilities	0	0	0	
Long-term trade payables	0	0	0	
Long-term advances from customers	0	0	0	
Unrealized revenue	0	0	520	4,51
Long-term borrowings	51,190	57,131	59,488	62,88
OWNER'S EQUITY	31,005	31,005	31,005	31,00
Paid-in capital	0	0	0	
Share premium	14,652	16,202	18,591	22,02
Undistributed earnings	5,598	10,048	10,048	10,04
Minority interests	-65	-124	-156	-19
Key ratios				

Key ratio
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Key ratios -				
Multiple				
P/E	5.1	8.9	11.5	9.3
P/E diluted	5.1	8.9	11.5	9.3
P/B	1.5	1.3	1.3	1.2
P/S	0.5	0.5	0.6	0.5
P/Tangible Book	1.5	1.3	1.3	1.2
P/Cash Flow	10.5	6.5	10.6	5.6
EV/EBITDA	3.6	6.8	7.8	6.4
EV/EBIT	4.1	8.7	10.7	8.7
Operating performance				
ROE				
ROA	28.7%	14.8%	11.0%	12.8%
ROIC	18.7%	9.8%	7.3%	8.7%
Financial structure	38.0%	15.3%	12.0%	13.8%
Cash Ratio				
Quick Ratio	1.0	1.3	1.4	1.7
Current Ratio	1.6	1.9	2.0	2.3
LT Debt/Equity	2.3	2.4	2.5	2.8
LT Debt/Total Assets	0.0	0.0	0.0	0.1
Debt/Equity	0.0	0.0	0.0	0.0
Debt/Total Assets	0.2	0.2	0.2	0.2
ST Liabilities/Equity	0.1	0.1	0.1	0.1
ST Liabilities/Total Assets	0.5	0.5	0.5	0.4
Total Liabilities/Equity	0.3	0.3	0.3	0.3
Total Liabilities/Total Assets	0.5	0.5	0.5	0.5
Activity ratios	0.3	0.3	0.3	0.3
Account Receivable Turnover				
Inventory Turnover	11.1	9.3	7.7	9.1
Account Payable Turnover	11.1	8.6	8.1	10.1

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#### Investment ratings & definitions

#### Investment Ratings for Stocks

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