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DGW reported subdued business results due to weak purchasing power

Digiworld Corporation (DGW) posted VND5,413 billion in 3Q net revenue, decreasing 11% YoY due to the weakening purchasing power on the entire retail market. GPM rose 0.4ppts YoY to 7.1% as the company joined new industries with higher profit margins. NPAT went down 43% YoY to VND102 billion as lower revenue and higher costs to support retailers led to a decrease in net profit margin.

All product lines witnessed a decline like the whole retail industry

The purchasing power for most of products of DGW has declined as the trend on the whole industry. New product lines and brands that initially contributed to revenue of the company include Achison and ABInbev.

Prospects for recovery depend on the purchasing power and new product lines

Retail businesses have shown signs of bottoming out in profits, the demand is gradually recovering, and inventories have also returned to a relatively low level. However, the recovery speed will be quite slow, so the purchasing power should fully recover by the end of 2024. By continuously searching for new product lines and brands to diversify revenue with a different business model, DGW should soon improve its business performance, and the profit would not bear impacts as strong as other retailers.

HOLD recommendation – Target price VND56,800

We forecast 2023F NPAT of DGW will reach VND392 billion (–43% YoY) on net revenue of VND19,857 billion (–10% YoY) as the purchasing power slowly recovers and new products have not contributed as expected. We recommend HOLD for DGW shares with a target price of VND56,800.

Hold change

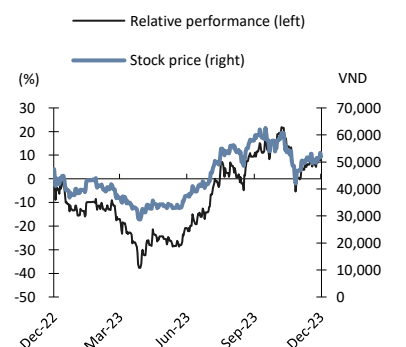
Target price	VND56,800
Upside	7%
Current price (Dec 7, 2023)	VND53,000
Consensus target price	VND53,400
Market cap (VNDtn/USDbn)	8.7/0.4

Trading data	
Free float	67.2%
3M avg trading value (VNDbn/USDmn)	99/4.1
Foreign ownership	25%
Major shareholder	Created Future (32.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	11.1	-11.9	38.9	18.2
Relative	7.2	-2.5	36.6	11.1

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net sales (VNDbn)	20,923	22,028	19,857	22,811
Operating income (VNDbn)	821	868	500	822
NPAT (VNDbn)	655	684	392	652
EPS (VND)	4,012	4,188	2,401	3,994
EPS growth (%)	145%	4%	-43%	66%
P/E (x)	13.4	12.8	22.4	13.5
P/B (x)	4.9	3.6	3.3	2.8
ROE (%)	45%	33%	15%	23%
Dividend yield (%)	1.5%	1.5%	1.5%	1.5%



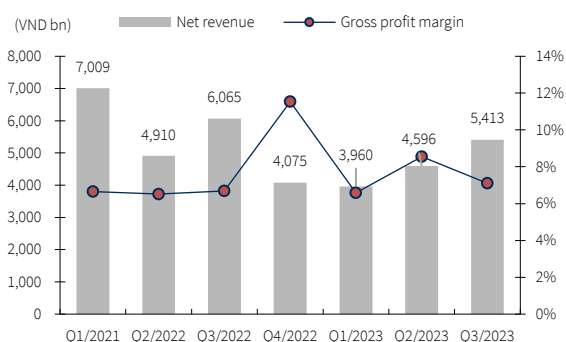
3Q23 performance updates

Table 1. DGW – 3Q23 results

	3Q22	3Q23	+/-%YoY	KBSV's notes
Revenue (VNDbn)	6,065	5,413	-10.8%	The main product line, ICT, sharply decreased while new product lines did not contribute too much, leading to a decline in revenue.
<i>Laptops & tablets</i>	2,457	2,398	-2.4%	Purchasing power for laptops recovered as students usually buy laptops to prepare for the back-to-school season in 3Q.
<i>Smartphones</i>	2,399	1,774	-26.1%	Purchasing power for smartphone products is often poor in 3Q. DGW's low- and mid-range smartphones are also heavily affected by declining purchasing power.
<i>Office equipment</i>	908	907	-0.1%	In general, purchasing power for office equipment has not yet recovered because corporate customers of DGW are tightening spending, and revenue is flat thanks to the new contribution from the consolidated subsidiary Achison to DGW's revenue.
<i>Home appliance</i>	205	163	-20.5%	Similar to other product lines, home appliance is affected by the purchasing power of the economy and the gloomy real estate market.
<i>Consumer goods</i>	96	171	78.1%	This is the only product line that grew thanks to DGW joining new industry groups with beer products (ABInbev), soda, and juice (Lotte Chilsung).
Gross profit (VNDbn)	406	385	-5.2%	Gross profit decreased to a lesser extent than the decline in revenue thanks to higher GPM. GPM improved YoY because the company entered new industries with higher profit margins but decreased compared to the previous quarter because the company implemented many trade discount programs and reduced product prices. .
Gross profit margin (%)	6.7%	7.1%	6.0%	
SG&A (VNDbn)	-188	-262	39.4%	SG&A costs increased sharply because DGW supported advertising costs for retail agents.
Operating income (VNDbn)	227	131	-42.3%	
Profit before taxes (VNDbn)	227	134	-41.0%	
Profit after taxes (VNDbn)	180	103	-42.8%	Net profit plunged as low purchasing power squeezed revenue, and the company had to support advertising and marketing costs for retail agents.

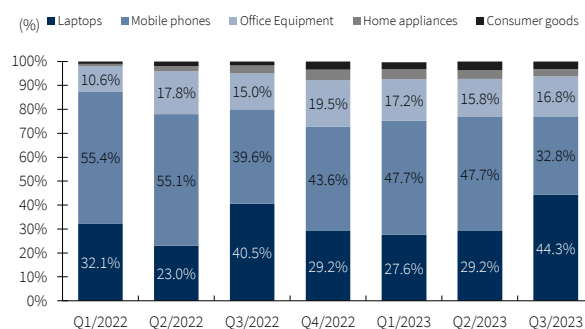
Source: Digiworld Corporation, KB Securities Vietnam

Fig 2. DGW – Net revenue & GPM (VNDbn, %)



Source: Digiworld Corporation, KB Securities Vietnam

Fig 3. DGW – Revenue structure by product line



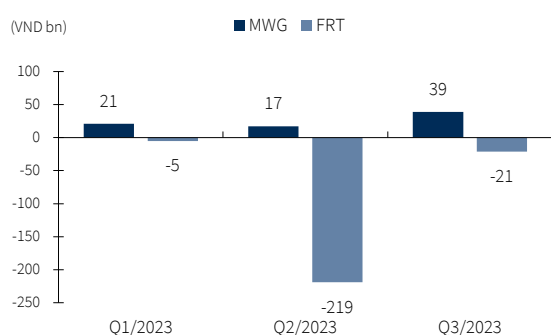
Source: Digiworld Corporation, KB Securities Vietnam

Purchasing power has bottomed out, and the speed of recovery will determine DGW's business prospects

It can be noted that purchasing power has bottomed out in 2Q23 and is gradually recovering in 2H23. Macro data also began to show signs of improvement, indexes were bottoming out, exports have initially recovered, and inflation has cooled down. It is forecast that purchasing power will continue to recover in the near future, but the recovery speed will be very slow compared to expectations. The speed of recovery in purchasing power will determine the business prospects of retailers, thereby directly affecting DGW's business performance.

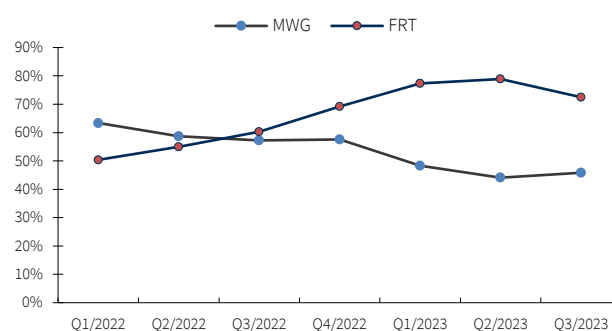
Retailers have also brought their inventories to fairly low levels but still remained cautious. Instead of massively importing, they will manage inventories to maintain cash flow and avoid the risk of not being able to sell products, leading to product price loss (FPT Retail – FRT has a large inventory ratio due to the recent continuous expansion of the Long Chau chain and the need to raise medicine inventories. In fact, ICT inventory is also at a low level).

Fig 4. MWG & FRT – NPAT in 2023 (VNDbn)



Source: Financial statements, KB Securities Vietnam

Fig 5. MWG & FRT – Inventories/short-term assets ratio (%)



Source: Financial statements, KB Securities Vietnam

iPhone is the hope for the ICT industry at the end of the year

DGW's main business, ICT, including smartphones and laptops, has recently faced many difficulties from declining purchasing power on non-essential products. Revenue saw a sharp fall YoY due to low purchasing power and high comparative bases in 3Q22 (supported by pent-up demand for ICT during and immediately after the pandemic).

The laptops segment, after a sharp decline in 1H23 compared to high base levels last year, has improved its revenue. In 3Q23, revenue did not decrease much thanks to high demand for laptops during the peak back-to-school season. At the end of 3Q, the business segment completed 88% of the plan. Although 4Q is not the peak season for laptops, the corporation is forecast to reach the quarter targets.

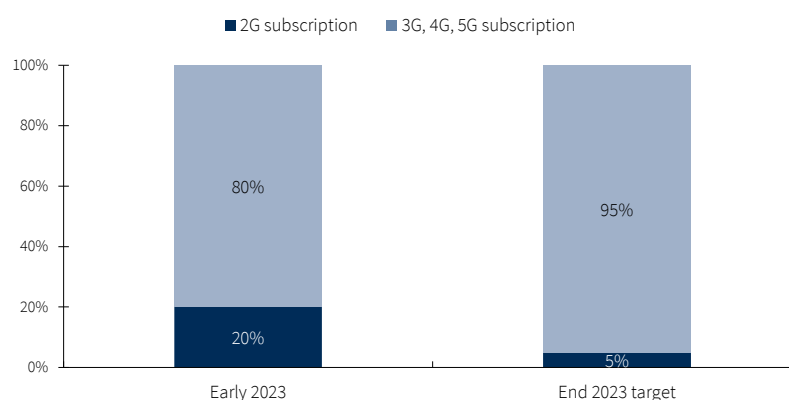
After the first three quarters of the year, the smartphone segment only reached 67% of the full-year objective. Low- and mid-range smartphone lines are affected because the customer segment for these products is strongly affected by the economic slowdown, while high-range products (like iPhone) are less affected. The 4Q, when the new model iPhone handset is launched, is often a time of booming phone sales. In addition, this year the iPhone supply has become more stable than last year as China has lifted the Zero Covid policy. It is forecasted that revenue from smartphones in 4Q will positively grow YoY thanks to stable iPhone supply.

DGW continuously looks for new product lines and brands, but it will take more time to earn profits

As mentioned in the initiation report, DGW's strategy in the coming period is to maintain horizontal growth. Thanks to the advantages of the MES model, after completing the supply chain of a product line, DGW will continue to look for the next brands on the same product line or continue to develop new product lines by taking advantage of the system. Logistic system and distribution channels are available. In 3Q and in the coming time, DGW has cooperated with many brands, the specific prospects for each product line are as follows:

- (1) The smartphone product line has the ZTE brand of the low-cost segment. With the roadmap of the Ministry of Information and Communications aiming to stop 2G mobile technology no later than September 2024, DGW is constantly looking for low-range smartphone lines that can replace 2G phone products to stay ahead of the curve. According to statistics, up to now there are still more than 20 million phones using 2G and after turning off 2G signals, they will almost have to be completely replaced. This is an opportunity for DGW to distribute low-priced replacement smartphones. With a portfolio of low-cost smartphones from brands such as Xiaomi, TCL and recently ZTE, DGW shows that they are carefully prepared to catch this wave.

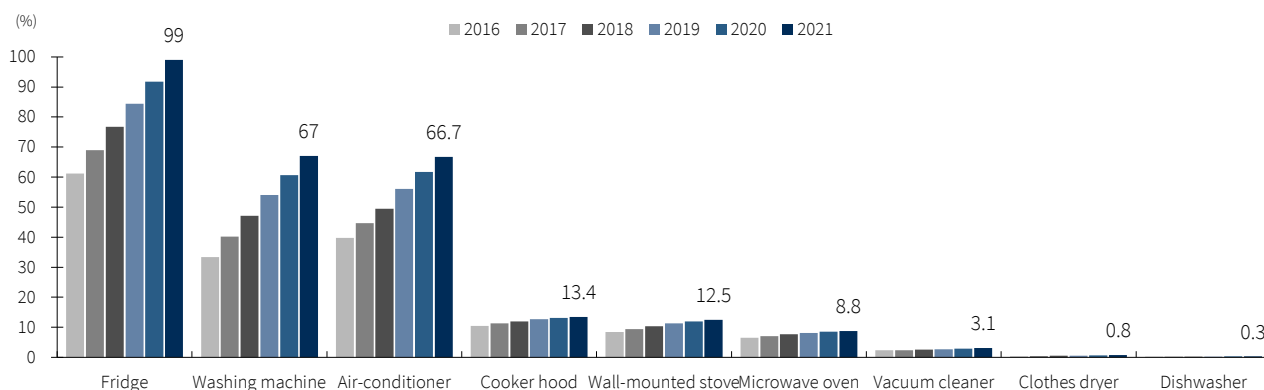
Fig 6. Vietnam – Roadmap to turn off 2G signals



Source: Digiworld Corporation, KB Securities Vietnam

- (2) For the home appliance industry, DGW plans to distribute more Xiaomi brand air conditioners and refrigerators in 2024. As we predicted, after DGW and Xiaomi successfully cooperated in the phone segment, Xiaomi will continue to bring its products to the Vietnamese market through its most trusted partner, DGW, with most products exclusively distributed by DGW. With a diverse product portfolio and reasonable prices that have proven successful in many markets, Xiaomi products are expected to continue to bring success and increasingly contribute to DGW's revenue. This industry is temporarily facing difficulties due to a sharp decline in purchasing power for non-essential products. However, in the future, the existing product portfolio and great potential in many product groups should bring stable revenue growth to DGW.

Fig 7. Vietnam – Home appliance at households over the years



Source: Euromonitor, KB Securities Vietnam

- (3) For the consumer goods industry, DGW recently cooperated with the Japanese Mitsuei brand, which is a 50-year-old brand and holds the second largest market share in Japan. After establishing relationships with retail partners in this industry, DGW continuously cooperates with new brands. The specifics of the FMCG industry in Vietnam are that big brands account for the majority of the market share (Unilever, P&G, Pepsico, and Sabeco). These brands have been present for a long time and are very familiar to consumers. Furthermore, their distribution channels are widespread and reach every corner. Therefore, new brands cooperating with DGW in the consumer goods industry will need time to penetrate the market and prove their effectiveness.
- (4) For the office equipment, DGW will distribute Belkin products, including headphones and charging cables in the mid-range and high-end segments. This is the most promising industry after smartphones and laptops. DGW has a diverse portfolio of both physical and non-physical products from many of the world's leading brands such as Microsoft, Apple, and Logitech suitable for many different needs and segments. The current market share is only about 5%, the growth potential is huge. DGW also recently entered the industrial equipment industry after the acquisition of Achison. This industry also has great growth potential with benefits from the FDI inflows, production base relocation and the existing ecosystem. When the economy recovers, these industries will strongly grow and significantly contribute to the company's overall revenue.

Fig 8. Vietnam – Number of newly-registered firms (thousand firms)



Source: General Statistics of Vietnam, KB Securities Vietnam

Fig 9. Vietnam – Realized FDI in 2015–2022 (USDbn)



Source: KB Securities Vietnam

Forecast & valuation

2023F performance

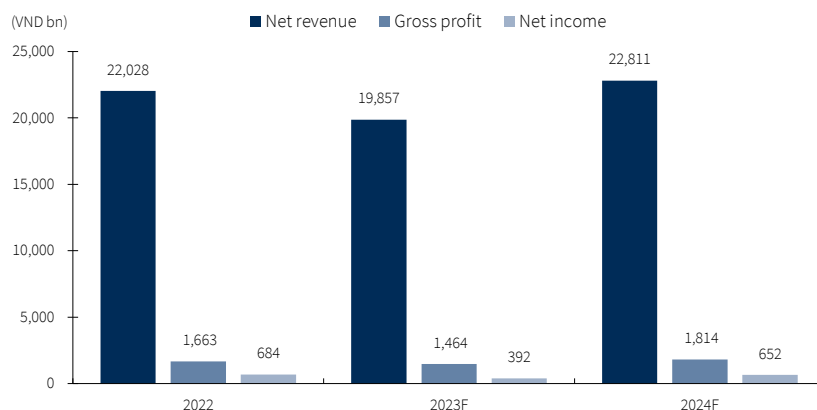
We believe that the sharp decrease in purchasing power in 1H23 and its slow recovery in 2H23 affected DGW's business results. For 2023, net revenue of the corporation may hit VND19,857 billion (-10% YoY), and GPM should slightly fall to 7.4%. NPAT may only reach VND392 billion (-43% YoY) due to weak purchasing power and expenses to support advertising costs for retailers. It is forecasted that in 2024, with the expectation of recovery from the ICT industry and the potential from new product lines, DGW will regain growth momentum.

Table 10. DGW – 2023–2024F results

	2022	2023F	+/- YoY	2024F	+/- YoY	KBSV notes
Revenue (VNDbn)	22,028	19,857	-10%	22,811	15%	Revenue may decrease due to declining purchasing power in 1H23 and its slow recovery in the second half. The decline in purchasing power strongly affected the two main product lines, smartphones and laptops, because they are non-essential items. In 2024, with the prospect of slow recovery in purchasing power along with the contribution of new brands and product lines, DGW is expected to regain double-digit growth.
Laptops & tablets	7,027	5,973	-15%	6,570	10%	The ICT industry, including smartphones and laptops, will witness a sharp decline in 2023 due to the decline in purchasing power of essential goods. The smartphone segment may only see a modest decrease thanks to the more stable contribution from iPhone supply compared to last year. When purchasing power recovers in 2024, supplemented with factors such as the renewal cycle and turning off 2G signals, DGW's ICT industry revenue may rebound.
Smartphones	10,759	9,683	-10%	10,845	12%	
Office equipment	3,320	3,486	5%	4,288	23%	The office equipment industry will move sideways in 2023 due to a decrease in the number of newly registered businesses and tightening business spending. It is forecasted that in 2024, when the economy recovers, the demand from businesses will increase again. This, combined with the contribution and synergistic benefits from Achison, the office equipment industry should record strong growth.
Home appliance	556	751	35%	1,088	45%	With continuous cooperation with famous home appliance brands and actively exploring the market, the potential of this industry is still huge for DGW.
Consumer goods	397	715	80%	1,108	55%	As DGW has just entered the industry, the growth rate is relatively high. Although the corporation has to face many difficulties with existing large competitors, the growth potential of this segment will still be high in a large market.
Gross profit (VNDbn)	1,663	1,464	-12%	1,814	24%	GPM should slightly drop as the company implemented many discount and promotional policies to retailers. New products with high profit margins have not made any significant contribution, which hinders profit margins from making a big improvement.
Gross profit margin (%)	7.5%	7.4%	-10bps	8.0%	60%	
SG&A (VNDbn)	(858)	(993)	16%	(1,015)	2%	SG&A costs will increase sharply in 2023 due to many advertising support policies for retailers.
Operating income (VNDbn)	957	640	-33%	946	48%	
Profit before taxes (VNDbn)	862	502	-42%	825	64%	
Profit after taxes (VNDbn)	684	392	-43%	652	66%	Decreasing revenue and additional sales support for distribution channels cause profits to drop sharply. It is expected that NPAT will grow again thanks to the recovery in purchasing power and the contribution of new products with higher profit margins.

Source: Digiworld Corporation, KB Securities Vietnam

Fig 11. DGW – 2022A–2024F results



Source: Digiworld Corporation, KB Securities Vietnam

Valuation: HOLD recommendation
– Target price VND56,800 apiece

We used two methods, (1) FCFF and (2) comparables, to find a fair price for DGW shares.

(1) For the FCFF, we use the discounted free cash flow method in the FCFF enterprise with the assumptions stated below. We give DGW stock a target price of VND63,500/share.

(2) For the comparables, we use a target P/E of 16x, which is close to the five-year average P/E +1SD but still conservative compared to the current P/E of 21x to reflect the slow recovery in purchasing power and unpredictable growth of new product lines. Target EPS is VND3,124/share. We set a target price for this method of VND50,000/share.

With the proportion used in the valuation model for each method being 50–50, we recommend HOLD for DGW stock. The final target price is VND56,800/share, 7% higher than the closing price on December 7, 2023.

Table 12. DGW – FCFF valuation and assumptions

Cost of equity	14.86%	Present value of terminal value	8,622
Cost of debt	6.00%	Present value of FCFF	2,901
Risk-free rate	5.00%	Cash and cash equivalents	1,116
Beta	1.2	Short-term investments	-
Terminal growth	4.0%	Enterprise value	12,639
Duration	5	Loan debt	2,023
WACC	12.85%	Equity value	10,616
		Outstanding shares	167,072,974
Target price			63,500

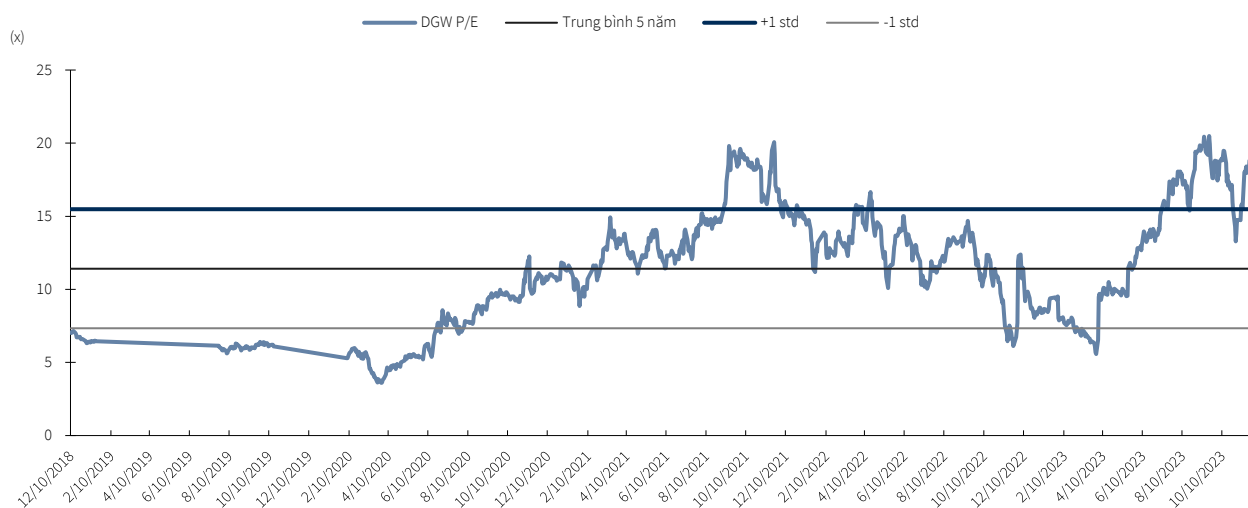
Source: KB Securities Vietnam

Table 13. DGW – Final valuation results

Method	Weight (%)	Price per weight (VND)
FCFF	50%	63,500
P/E	50%	50,000
Target price		56,800

Source: Digiworld Corporation, KB Securities Vietnam

Fig 4. DGW – P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

DGW – 2021A–2024F financials

Income statement					Balance Sheet				
(VNDbn)	2021A	2022A	2023F	2024F	(VNDbn)	2021A	2022A	2023F	2024
Net sales	20,923	22,028	19,857	22,811	Total assets	6,545	6,355	6,964	7,16
Cost of sales	(19,415)	(20,365)	(18,393)	(20,996)	Current assets	6,255	5,783	6,398	6,60
Gross Profit	1,508	1,663	1,464	1,814	Cash & equivalents	1,494	828	1,116	1,30
Financial income	180	209	181	154	ST investments	0	0	0	
Financial expenses	(42)	(144)	(153)	(131)	Accounts receivable	1,679	1,496	2,581	2,05
of which: interest expenses	(32)	(94)	(138)	(121)	Inventory	2,910	3,445	2,581	3,07
Gain/(loss) from joint ventures	(2)	(2)	-	-	Long-term assets	289	573	566	56
Selling expenses	(708)	(722)	(814)	(821)	LT trade receivables	18	22	25	2
General & admin expenses	(114)	(136)	(179)	(194)	Fixed assets	94	95	109	11
Operating profit/(loss)	821	868	500	822	Investment properties	0	0	0	
Net other income/(expenses)	(2)	(6)	3	3	Liabilities	4,764	3,932	4,312	4,02
Pretax profit/(loss)	820	862	502	825	Current liabilities	4,753	3,882	4,294	4,01
Income tax	(221)	(175)	(111)	(173)	Trade accounts payable	2,844	1,210	1,589	1,48
Net profit/(loss)	655	684	392	652	Advances from customers	72	96	60	6
Minority interests	1	(0)	(0)	(0)	ST borrowings	1,117	1,915	2,014	2,01
Net profit after MI	654	684	392	652	Long-term liabilities	10	50	18	1
					LT payables	0	0	0	
					LT borrowings	10	9	9	1
					Other LT liabilities	0	41	9	
					Shareholders' equity	1,781	2,423	2,652	3,14
					Paid-in capital	886	1,632	1,632	1,63
					Share premium	61	61	61	6
					Undistributed earnings	838	707	935	1,42
					Reserve & others	0	0	0	
					Minority interest	2	29	29	2
Operating ratios					Key ratio				
	2021A	2022A	2023E	2024E	(%, %, VND)	2021A	2022A	2023E	2024
Gross profit margin	7.2%	7.5%	7.4%	8.0%	Multiple				
EBITDA margin	4.1%	4.4%	3.3%	4.2%	P/E	13.4	12.8	22.4	13.
EBIT margin	4.1%	4.3%	3.2%	4.1%	P/E diluted	13.4	12.8	22.4	13.
Net Operating margin	3.9%	3.9%	2.5%	3.6%	P/B	4.9	3.6	3.3	2.
Pre-tax profit margin	3.9%	3.9%	2.5%	3.6%	P/S	0.4	0.4	0.4	0.
Net profit margin	3.1%	3.1%	2.0%	2.9%	P/Tangible Book	5.1	3.7	3.4	2.
					P/Cash Flow	(13.2)	30.4	45.7	24.
					EV/EBITDA	11.5	11.1	16.7	11.
					EV/EBIT	11.6	11.2	16.9	11.
Cash flow statement					Operating Performance				
(VNDbn)	2021A	2022A	2023E	2024E	ROE%	44.5%	32.5%	15.4%	22.5%
Net profit	820	862	502	825	ROA% <td>13.6%</td> <td>10.6%</td> <td>5.9%</td> <td>9.2% </td>	13.6%	10.6%	5.9%	9.2%
Plus: depreciation & amort	6	9	7	8	ROIC% <td>22.6%</td> <td>15.6%</td> <td>8.4%</td> <td>12.7% </td>	22.6%	15.6%	8.4%	12.7%
Plus: investing (profit)/loss	-35	-44	0	0	Financial Structure				
Interest Expense	32	94	138	121	Cash ratio	0.3	0.2	0.3	0.
Change in working capital	823	922	647	954	Quick Ratio	0.7	0.6	0.9	0.
(Inc)/dec - receivables	-762	335	-1,073	509	Current Ratio	1.3	1.5	1.5	1.
(Inc)/dec - inventory	-2,066	-488	863	-498	LT Debt/Equity	0.0	0.0	0.0	0.
Inc/(dec) - payables	2,365	-1,732	283	-301	LT Debt/Total assets	0.0	0.0	0.0	0.
Inc/(dec) - advances	-5	-18	18	-3	ST Debt/Equity	0.6	0.8	0.8	0.
Other adj for operations	0	0	0	0	ST Debt/Total assets	0.2	0.3	0.3	0.
Operating cash flow	149	-1,110	382	362	ST liabilities/Equity	2.0	0.8	0.9	0.
Purchase of Fixed Assets and long-term assets	-12	-8	-21	-18	ST liabilities/Total asset	0.6	0.3	0.3	0.
Proceeds from disposal of fixed assets	0	0	0	0	Total liabilities/Equity	2.0	0.8	0.9	0.
Loans granted, purchases of debt instruments	-6	-24	0	0	Total liabilities/Total assets	0.6	0.3	0.3	0.
Collection of loans, proceeds from sales of debts instruments	0	6	0	0	Activity Ratio				
Investments in other entities	-10	-307	23	20	Account receivable turnover	12.5	14.7	7.7	11.
Proceed from divestment in other entities	0	0	0	0	Inventory turnover	6.7	5.9	7.1	6.
Dividends and interest received	41	48	0	0	Account payable turnover	7.6	17.3	11.0	14.
Investing cash flow	12	-285	2	2					
Proceeds from issue of shares	12	22	0	0					
Payment for share returns and repurchase	0	0	0	0					
Proceeds from borrowings	4,902	9,943	5,163	5,703					
Repayment of borrowings	-4,415	-9,145	-5,095	-5,712					
Finance lease principal payments	0	0	0	0					
Dividends paid	-44	-91	-163	-163					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	455	729	-96	-172					
Net increase in cash & equivalents	-667	288	192	354					
Cash & equivalents - beginning	878	1,494	828	1,116					
Cash & equivalents - ending	1,494	828	1,116	1,308					

Source: Digiworld Corporation, 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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