

Gia Lai Electricity (GEG)

Delayed the announcement of price framework

Analyst Nguyen Viet Anh

anhnv3@kbsec.com.vn

(+84) 24-7303-5333

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3Q24 revenue inched up 3.4% YoY, but high interest rates led to a net loss

Gia Lai Electricity's JSC posted VND543 billion (-4% YoY/+11.4% QoQ) in revenue with NPAT hitting VND47.8 billion, marking the first quarter of loss. The main business, wind power, recorded a small contraction in revenue, reaching VND217 billion (-10% YoY/21% QoQ).

Hydropower benefits from La Nina and heavy rains in 2H24, improving business results

9M24 electricity output was 1.01 billion kWh (+16.5% YoY) thanks to higher contribution of the wind power segment. Wind power output recorded 516 million kWh, jumping up 45% YoY thanks to the operation of Tan Phu Dong wind power project. Better wind speed in 1Q helped wind turbines increase 6ppts YoY contracted sales volume ratio (Qc) to 34%. Hydropower output recorded positive results, reaching 128 million kWh (-3% YoY/374% QoQ) thanks to higher water reserves when La Nina brought heavy rain to the Central region.

New progress in wind power price framework may boost negotiations on official transition prices

On December 4, 2024, EVN sent the Ministry of Industry and Trade (MOIT) a document proposing a power generation price framework applicable to onshore and nearshore wind power plants in 2025. The proposed price for nearshore wind power projects is VND1,890.68/kWh, 4.12% higher than the price for transitional projects. The official price framework is expected to be issued soon, which will promote price negotiation progress for renewable energy projects.

Valuation: BUY rating – Target price VND14,300/share

Based on SOTP valuation, business prospects, and potential risks, we reiterate our BUY recommendation on GEG shares. Target price is VND14,300, 26.5% higher than the price on December 18, 2024.

Buy maintain

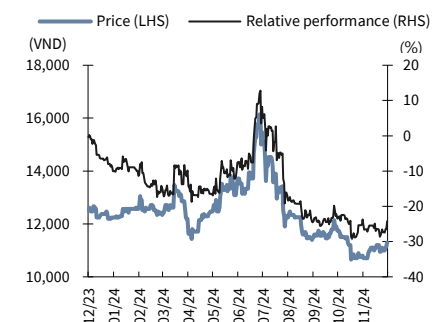
Target price	VND14,300
Upside	26.5%
Current price (Dec 18, 2024)	VND11,300
Consensus target price	VND14,200
Market cap (VNDtn/USDbn)	4.0/0.2

Trading data	
Free float	40.8%
3M avg trading value (VNDbn/USDmn)	788/33
Foreign ownership	46.01%
Major shareholder	AVH Pte.Ltd (29.76%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.3	-3.9	-16.0	-11.8
Relative	-1.3	-5.8	-14.6	-26.4

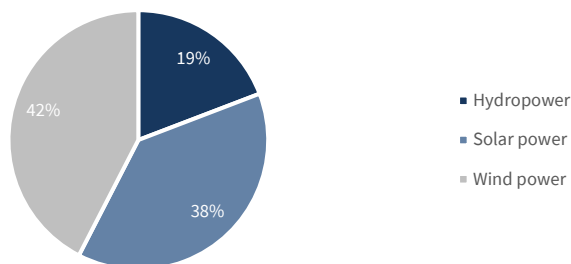
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	2,093	2,163	2,922	2,922
Operating income/loss (VNDbn)	851	962	1,200	1,346
NPAT-MI (VNDbn)	316	137	733	733
EPS (VND)	880	214	1,681	1,681
EPS growth (%)	0.0	-75.7	190.0	190.0
P/E (x)	18.6	76.6	25.0	12.8
P/B (x)	1.6	1.6	1.4	1.2
ROE (%)	6.6	2.5	4.5	8.5
Dividend yield (%)	0.0	0.7	0.6	3.7



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Business operation

Gia Lai Electricity JSC (GEG) is a prominent player in the renewable energy sector, ranking third in installed capacity among listed companies. Initially focused on hydropower projects in Gia Lai, Hue, and Lam Dong, the company has since expanded into solar and wind power, with total capacities of 291 MW and 230 MW, respectively.

Source: Gia Lai Electricity, KB securities Vietnam

Investment Catalysts

Notes

La Nina extends to 1Q25, expected to support water flows for the whole year. We believe that the flow to the reservoir will remain positive in 2025 and help GEG's hydropower output to reach 416 million kWh (+17% YoY).

Please find more details [here](#)

The new price framework will promote price negotiation progress for Tan Phu Dong 1 (TPD 1). In order to achieve the wind power capacity target by 2030, a new price framework will be announced. This will be the driving force for price negotiation for TPD 1.

Please see more details below

GEG carried out restructuring to balance financial capacity. GEG is restructuring its finances through issuing bonds at low costs. It also recovers investment capital in subsidiaries to offset cash flow.

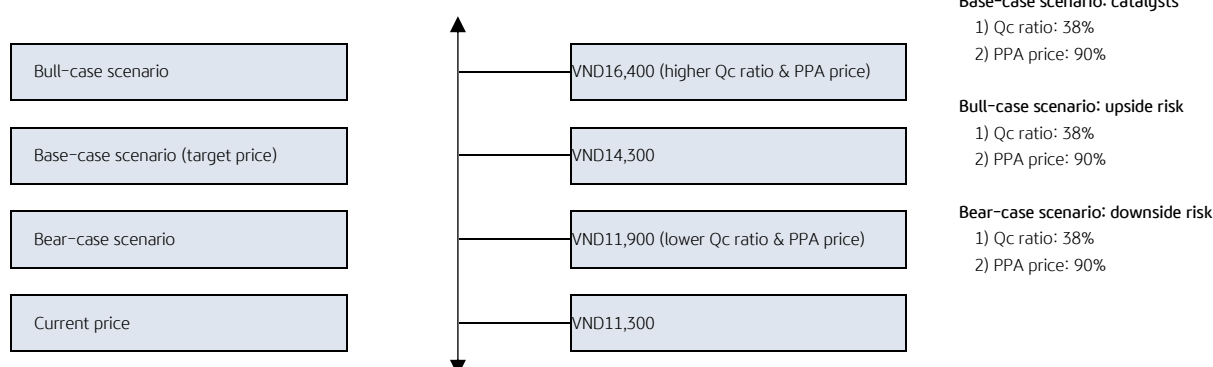
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	2,922	2,922	4%	8%	2,527	2,731	16%	7%
EBIT	1,200	1,657	-20%	20%	1,053	1,138	14%	46%
NP after MI	223	733	-65%	23%	156	267	43%	175%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



3Q24 performance updates

Revenue and profit respectively dropped 4% YoY and 293% YoY in 3Q

In 3Q24, GEG recorded VND48 billion in NPAT on revenue of VND543 billion (-4% YoY/+11% QoQ) with the main contribution from wind and solar power. Revenue from wind power was less positive due to lower output during the low wind season, reaching VND217 billion in 3Q (+2% YoY/-13% QoQ) and VND845 billion in 9M24 (+26% YoY). Solar power recorded the lowest quarterly revenue of the year at VND217 billion (+2% YoY/-13% QoQ) owing to less sunshine hours and frequent rains in the area.

Total electricity output grew QoQ as hydropower benefited from La Nina and the rainy season starting from 3Q

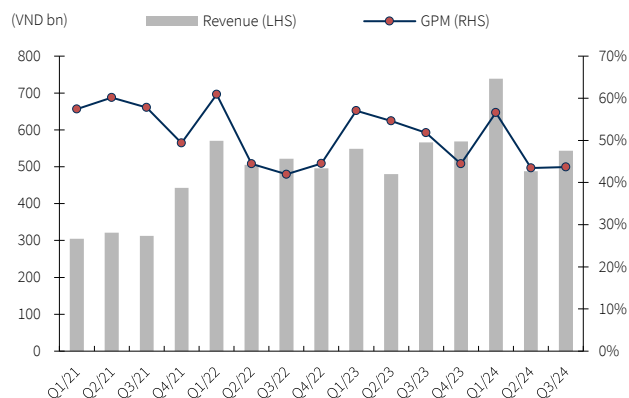
3Q total electricity output was 359 million kWh (-5% YoY/+42% QoQ), mostly coming from hydropower with 128 million kWh (-2% YoY/+374% QoQ). 3Q was also the beginning of the monsoon in the Central and Central Highlands, which improved the frequency and volume of rainfall and thereby supported the operating capacity of hydropower reservoirs. The observed rainfall in the quarter in this region recorded an increase of 8%-13% YoY, keeping the water level of hydropower reservoirs at a high level and optimizing water columns to maximize turbine capacity.

Table 1. GEG – 9M24 business performance

(VNDbn, %)	3Q23	3Q24	+/-%YoY	9M23	9M24	+/-%YoY	Notes
Revenue	566	543	-4%	1,594	1,770	11%	
Hydropower	91	86	-5%	233	190	-18%	
Solar power	212	217	2%	652	690	6%	
Wind power	241	217	-10%	668	845	26%	
Sales volume	378	359	-5%	868	1,011	16%	
Hydropower	131	128	-2%	217	182	-16%	9M24 output was lower than that of 9M23 as the La Nina came later, so the Qc ratio of hydropower has not improved much in 3Q24.
Solar power	95	101	6%	295	313	6%	
Wind power	152	130	-14%	356	516	45%	The negative growth in 3Q results from lower wind speed.
Gross profit	293	237	-19%	868	867	0%	
Gross profit margin	52%	44%	-8 ppts	54%	49%	-5 ppts	
Financial income	13	10	-23%	38	28	-26%	
Financial expenses	-252	-231	-8%	-645	-646	0%	
Profits from affiliates	-8	-5	-38%	-6	-8	33%	
SG&A	-29	-33	14%	-111	-106	-5%	
Operating income/loss	264	204	-23%	756	761	1%	
Other income	-2	-1	-50%	-7	-3	-57%	
Profit before taxes (PBT)	23	-18	-178%	143	141	-1%	
Profit after taxes (NPAT)	0	-48	NA	111	79	-29%	
NP after MI	14	-27	-293%	87	84	-3%	GEG recorded its first quarter of loss due to a sharp decline in operating profit.
NPAT margin	0%	-9%	-9 ppts	7%	4%	-3 ppts	

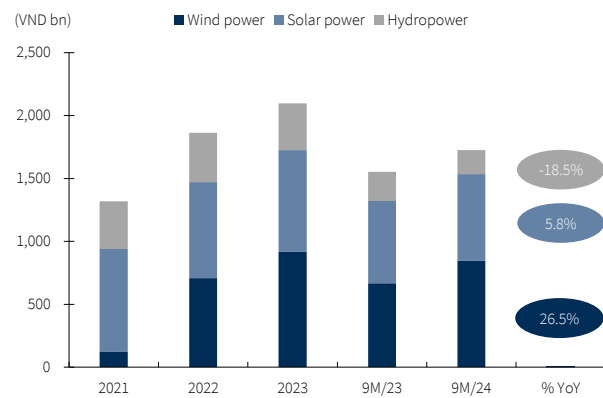
Source: Gia Lai Electricity, KB Securities Vietnam

Fig 2. GEG – Revenue & GPM in 2021–2024 (VNDbn, %)



Source: Gia Lai Electricity, KB securities Vietnam

Fig 3. GEG – Revenue components



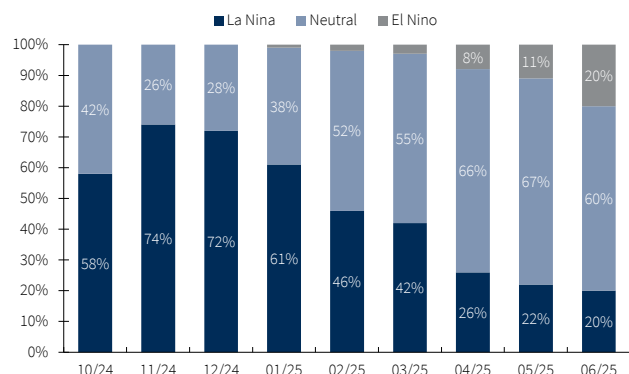
Source: Gia Lai Electricity, KB securities Vietnam

Hydropower continues to drive 2025 revenue growth thanks to favorable weather conditions

GEG's small and medium hydropower plants in the Central Highlands and South Central regions has a total capacity of 65 MW. In October and November 2024, these two regions experienced heavy rains with total regional rainfall 50–100% higher than the average of many years. Heavy rains occurring throughout the Gia Lai region caused the water levels of reservoirs to reach the normal level (the maximum designed water level of hydropower reservoirs), supporting the discharge of water from the reservoirs and help turbines generate electricity. In 4Q, business results of hydro plants should be positive thanks to the longer-term impacts of La Nina, which will bring abundant rainfall to the region until the first half of December. We expect hydropower output generated by GEG in 4Q to reach 173 million kWh (+24% YoY), equivalent to 100% of the plant's turbine operating capacity. The average electricity price equivalent to VND986/kWh in Q4/23 will help bring revenue for Q4 and the whole year of 2024 to VND170 billion and VND360 billion (+24% YoY and –3% YoY), respectively.

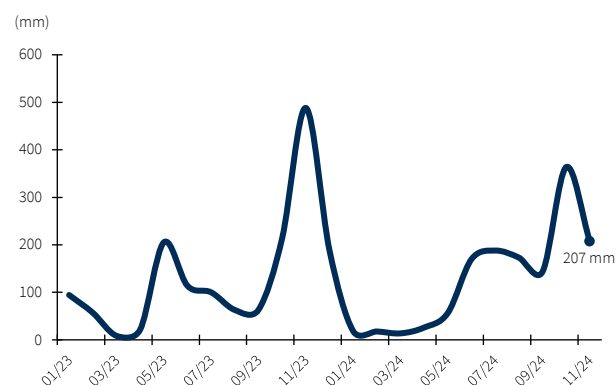
In 2025, hydropower will support GEG's growth momentum. We estimate that 2025 output and revenue will be higher than 2024, reaching 416 million kWh and VND485 billion (+17% YoY/+17% YoY), respectively, thanks to (i) larger rainfall in the first months of the year during La Nina phase; (ii) higher water capacity in reservoirs that helps hydropower to be mobilized early from the beginning of the year; and (iii) stably growth of 9%–10% YoY of electricity consumption. In the long term, GEG's power generation capacity in the hydropower segment will increase to 89.6 MW through the completion of the Ea Tih small hydropower project (8.6 MW). The project has an average annual power output of 32 million kWh. We expect the project to be completed and start contributing revenue from 2026.

Fig 4. Global – Probability of weather phases in 2024–2025



Source: IRI, KB securities Vietnam

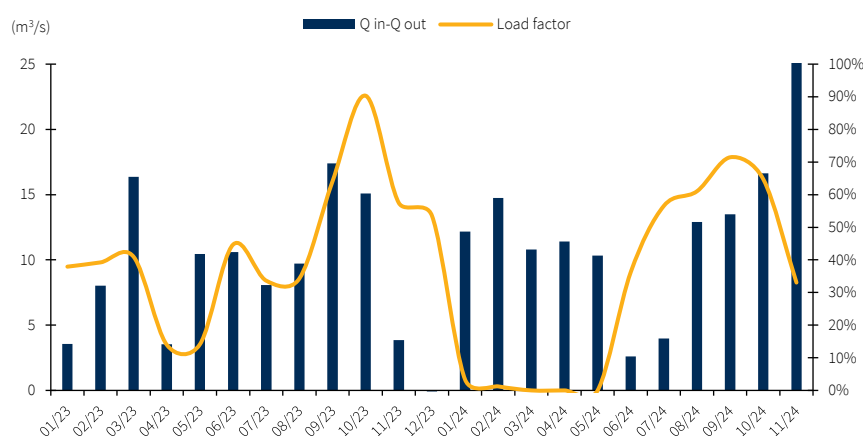
Fig 5. Vietnam – Observed rainfall in An Khe, Gia Lai



Source: Vrain, KB securities Vietnam

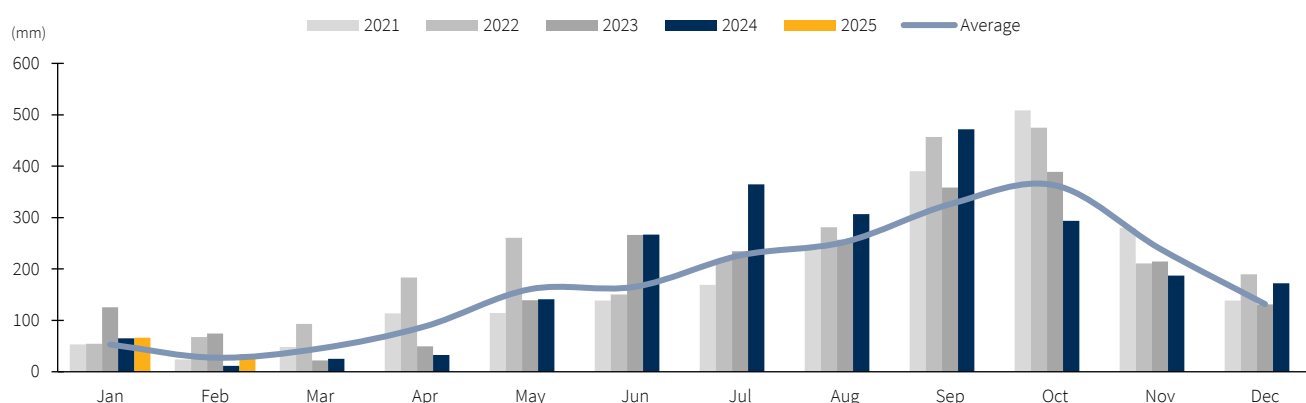
GEG's hydropower capacity accounts for a large proportion in Gia Lai with the water flow for power generation depending on the water discharge situation of major rivers. In Gia Lai, the Se San River plays an important role in supplying water to downstream areas, so the water discharge process that began in 2Q24 has brought more water to downstream rivers and streams, improving the power output of hydropower plants, including GEG. By November, Se San Lake began to close its water discharge gates to increase its capacity. However, the generator will soon be mobilized again thanks to the La Nina weather phase that lasted until 1Q25, contributing to maintaining the flow to the lake.

Fig 6. GEG – Average volumetric flow rate at Se San Lake and load factor (m^3/s , %)



Source: Gia Lai Electricity, KB securities Vietnam

Fig 7. GEG – Rainfall forecast for Central Highlands and Southern region 2024–2025 (mm)



Source: IMHEN, KB securities Vietnam

Renewable energy: TPD1 Wind Power Project should offer a price equivalent to 90% of transitional price ceiling

Since the TPD1 Wind Power Plant's official operation, GEG's renewable energy segment has not recorded many new changes in business results. 9M24 revenue of wind power and solar power segments reached VND845 billion (+26% YoY) and VND690 billion (+6% YoY), respectively. Wind power revenue growth came from the larger cumulative operating hours contributed by the TPD1 project, while solar power revenue increased on improved sunshine hours in the first half of the year.

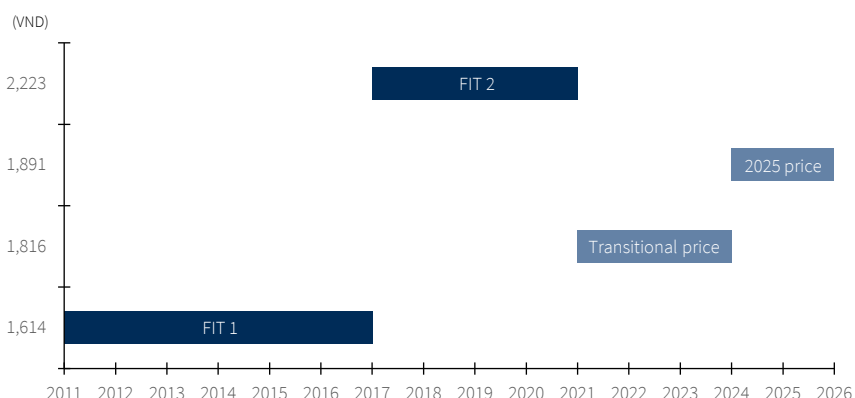
Currently, GEG has not yet completed official price negotiations for all 72 transitional renewable power projects, including 100MW capacity of TPD1, which is still recording a selling price of VND908/kWh (50% of the transitional price ceiling). We believe that the move to increase retail electricity prices by 4% in October 2024 and the direction to eliminate the cross-subsidy mechanism for electricity prices mentioned in the revised Electricity Law 2024 will help improve EVN's financial situation, thereby being ready to negotiate PPAs for renewable energy projects with higher prices. In terms of legal aspects, EVN has also publicly announced the results of the assessment of the progress of completing legal procedures of transitional projects, in which TPD1 has now completed all criteria and is eligible to negotiate official PPA prices. By 2030, Vietnam wants to complete the goals set out in the National Power Development Plan 8 (NPDP8), so it needs to prioritize ensuring the legitimate rights of investors through an attractive selling price mechanism, so the early completion of official price negotiations will bode well for investors who are ready to build and put new projects into operation. We expect TPD1 to be one of the pioneer projects to have official PPA prices with EVN in 1H25 (delayed by half a year from our previous forecast in November 2024). The price should be equivalent to 90% of the transitional price frame and a retroactive level of 80% of the difference between the official PPA price and the provisional price since the plant's operation (estimated at VND273 billion).

The early completion of the wind power price framework is a driving force for the signing and implementation of PPAs for new renewable energy projects

Regarding the progress of announcing the price framework for wind power projects implemented from 2025 based on Circular 19/2023/BCT, the EPTC has developed and submitted to EVN for approval the price framework for onshore and nearshore wind power projects at VND1,610.56/kWh and VND1,890.68~1,902.08/kWh, respectively (1.5%/4.1% higher than the transitional prices). We believe that the official price framework will need time for EVN to review and submit to the Ministry of Industry and Trade for consideration for official announcement, expected to take effect in 1Q25. The VPL project (phase 2 – 30MW) that GEG is implementing will be sold at the price regulated according to the new wind power price framework, so the announcement of the above regulations is a legal basis for investors to negotiate and sign PPAs with EVN and facilitate capital mobilization from credit institutions. We have not yet included the VPL phase 2 in our projection and are waiting for the next progress updates from the enterprise.

Fig 8. Vietnam – New price framework for nearshore power projects (VND)

The price framework is calculated based on the input parameters of two nearshore wind power plants, Nexif Energy Ben Tre (30 MW) with a feasibility report in 2023 and Nexif Ben Tre Phase 2-3 (48 MW) with a feasibility report in 2023. After the transition period, since no wind power plant has submitted a feasibility study, the price framework is calculated based on the two projects that submitted feasibility studies at the most recent time to fully reflect the costs incurred by investors to develop the electricity price framework.

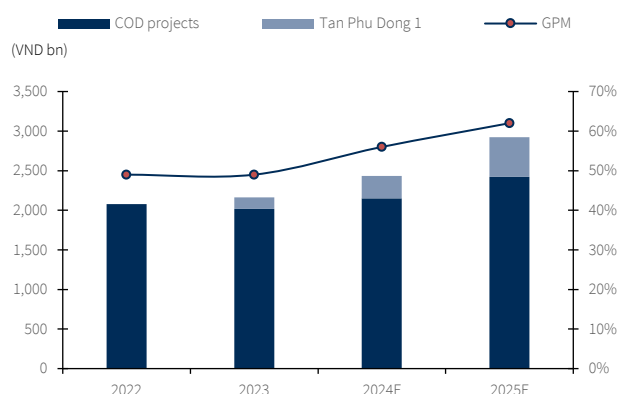


Source: Gia Lai Electricity, KB securities Vietnam

GEG actively carried out restructuring to balance financial capacity

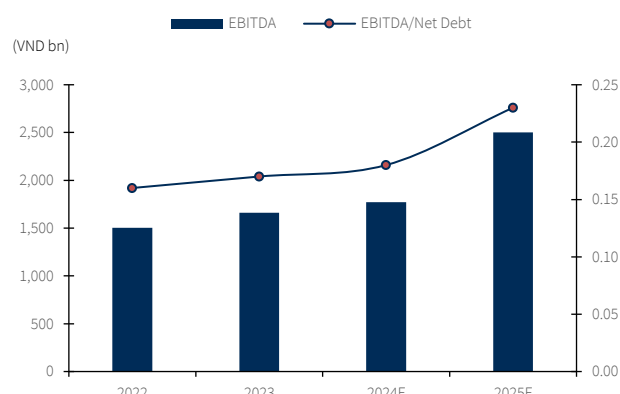
In September 2024, GEG successfully issued VND200 billion in five-year bonds, maturing on August 26, 2024. The bonds are secured by 61 million shares of TTC Duc Hue – Long An Electricity JSC, owned by GEG, combining fixed and floating interest rates at 9.5% in the first year and floating interest rates of 3.9%/year in the second–fourth years and 5.4%–11.5% in the fifth year. GEG, through its subsidiaries VPL Energy JSC and TTC Duc Hue – Long An Electricity JSC, successfully transferred all common shares at LAVI Wind Power JSC to Solwind Energy JSC to earn nearly VND100 billion. We believe that it will be able to mobilize capital in time to optimize interest expenses and meet debt obligations due in late 2024 and early 2025. The capital demand for investment in the coming period is not large, so the operating cash flow after negotiating the official selling price of Tan Phu Dong 1 will help improve profitability and solvency.

Fig 9. GEG – Revenue & GPM (VNDbn, %)



Source: Gia Lai Electricity, KB securities Vietnam

Fig 10. GEG – EBITDA & EBITDA/Net debt (VNDbn, %)



Source: Gia Lai Electricity, KB securities Vietnam

Forecast & valuation

Table 11. GEG – 2023A–2025F business performance

(VNDbn)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Assumptions
Revenue	2,163	2,432	12%	2,922	20%	2024: Revenue increases mainly thanks to the TPD project operating for the whole year of 2024. 2025: Revenue increases thanks to the completion of the official selling price negotiation in the first half of 2025.
Hydropower	420	414	-1%	485	17%	
Solar power	826	848	3%	823	-3%	
Wind power	918	1,170	27%	1,614	38%	2024: Peak season of wind power output in 4Q24 should bring in VND325 billion in revenue. 2025: Revenue contributed by the TPD project sharply gains with renegotiation of higher PPA prices.
Sales volume	1,029	1,130	10%	1,180	4%	
Hydropower	306	309	1%	367	19%	2025: Hydropower output will improve thanks to improved reservoir flow in the first half of the year.
Solar power	358	356	-1%	356	0%	
Wind power	365	465	27%	457	-2%	Wind power output will decline by 1.5%/year due to wind turbine efficiency deficit.
Gross profit	1,121	1,363	22%	1,821	34%	
<i>Gross profit margin</i>	52%	56%	4 pts	62%	6 pts	2025: Gross profit margin increases thanks to the higher official selling price of the TPD project, which will offset large depreciation costs.
Financial income	101	25	-75%	25	0%	
Financial expenses	-871	-907	4%	-898	-1%	
Profits from affiliates	13	13	n/a	13	0%	
SG&A	-159	-163	3%	-164	1%	
Operating income/loss	962	1,200	25%	1,657	38%	
Other income	-7	0	n/a	273	n/a	2025: GEG will record retroactive income from the generation phase at the provisional price of the TPD 1 project.
Profit before taxes (PBT)	195	331	70%	1,070	223%	
Profit after taxes (NPAT)	143	265	85%	910	243%	
NP after MI	137	223	63%	733	229%	
NPAT margin	7%	11%	4 pts	31%	20 pts	

Source: Gia Lai Electricity, KB Securities Vietnam

Valuation: BUY rating – Target price VND14,300

Since the time of the report's publication on September 18, 2024, GEG's share price has fallen to VND10,600/share and then recovered slightly to VND11,500/share, reflecting expectations of changes in the revised Electricity Law. At present, we believe that GEG's business segment will not benefit much from the passage of the revised Electricity Law. Instead, the main driving factor for revenue growth is the progress of official price negotiations, which has not changed. However, with the optimistic changes coming from important published regulations, we expect TPD1 to complete negotiations in 1H25 and create a positive impact on GEG's business results.

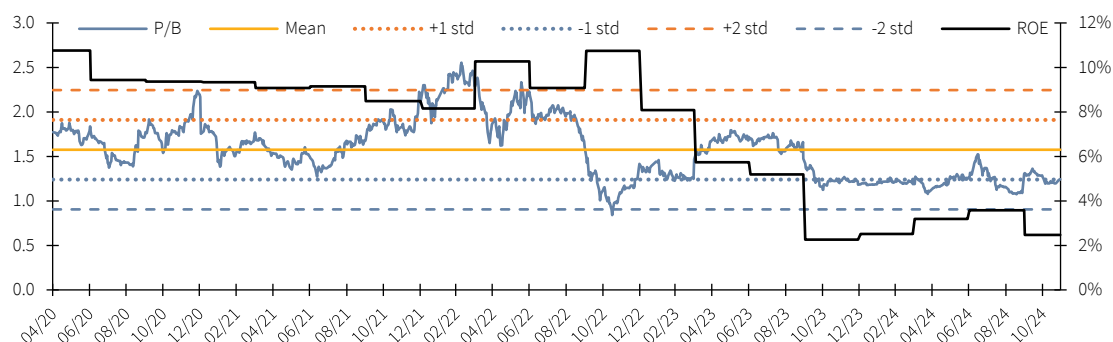
We used the SOTP to value GEG shares and gave a BUY rating for a target price of VND14,300/share, equivalent to an upside of 26.5% compared to the closing price on December 18, 2024. The above target price corresponds to a projected P/B valuation for 2024/2025 of 1.4x/1.2x, respectively, lower than the five-year average of 1.6x.

Table 12. GEG – Valuation results

	Project	Capacity	Valuation method	Net PV
Gia Lai Hydropower JSC (GHC)	H'Chan hydropower	10.0	DCF	1,763
	H'Mun hydropower	16.2	DCF	
	Ham Phu solar power	49.0	DCF	
	Rooftop solar power (2.9 MWp)	2.9	DCF	
Ayun Thuong 1A project	Ayun Thuong 1A hydropower	12.0	DCF	302
Hydropower complex		40.9	DCF	968
<i>Chu Prong</i>	IA Drang 1-3, Ia Muer 3, Ia Puch 3	11.8	DCF	
<i>Dak Pi Hao</i>	Dak Pi Hao 1-2	15.0	DCF	
<i>Hue</i>	Thuong Lo	6.0	DCF	
<i>Lam Dong</i>	Da Khai	8.1	DCF	
TTC Duc Hue – Long An Electricity JSC	Duc Hue 1 solar power	49.0	DCF	1,425
	Rooftop solar power (10 MWp)	10.0	DCF	
Solar power complex		117.0	DCF	1,632
<i>Phong Dien</i>	Phong Dien solar power	48.0	DCF	
<i>Krong Pa</i>	Krong Pa solar power	69.0	DCF	
Truc Son	Truc Son solar power	45.0	DCF	887
	Rooftop solar power (13 MWp)	13.0	DCF	
In cooperation with VIJA	Rooftop solar power (6 MWp)	6.0	DCF	298
IA Bang Wind Power JSC (IBE)	IA Bang 1 wind power	50.0	DCF	1,534
Tien Giang Wind Power JSC (TGE)	Tan Phu Dong 1-2 wind power	150.0	DCF	4,916
VPL Energy JSC (VPL)	VPL 1 wind power	30.0	DCF	1,166
Truong Phu Hydropower JSC			Book value	166
Total				15,057
(-) Net debt				-8,786
(-) Minority interest				-1,408
(-) Preferred stock				-642
Equity value				4,863
Number of shares outstanding (million shares)				341.25
Target price				14,300
Current price (Sep 23, 2024)				11,300
Upside				26.5%

Source: KB Securities Vietnam

Fig 13. GEG – P/B & ROE (x, %)



Source: Bloomberg, KB securities Vietnam

Table 14. GEG – Correlation between Qc ratio & PPA price of TPD1 project (%)

		PPA prices (Base case: 1,634 VND/kWh ~ 90% celling price)				
		80%	85%	90%	95%	100%
Qc ratio at wind power plant (Base case: 38%)	32%	-14.2%	-9.7%	-5.3%	0.0%	4.4%
	35%	0.9%	5.3%	10.6%	15.9%	21.2%
	38%	15.9%	21.2%	26.5%	31.9%	38.1%
	41%	31.0%	37.2%	42.5%	48.7%	54.9%
	44%	46.0%	52.2%	58.4%	64.6%	71.7%

Source: KB Securities Vietnam

Table 15. GEG – Correlation between the time of negotiation completion & retroactive ratio (%)

		Retroactive ratio (Base case: 80%)				
		70%	75%	80%	85%	90%
Year of price negotiation completion (Base case: 2025)	2024	28.3%	28.3%	28.3%	28.3%	28.3%
	2025	25.7%	26.5%	26.5%	27.4%	27.4%
	2026	23.9%	23.9%	24.8%	25.7%	25.7%
	2027	21.2%	22.1%	23.0%	23.9%	23.9%
	2028	17.7%	18.6%	19.5%	20.4%	21.2%

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Research Division

research@kbsec.com.vn

Nguyen Xuan Binh – Head of research

binhnx@kbsec.com.vn

Financials**Nguyen Anh Tung – Manager**

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Consumer**Nguyen Duc Quan – Analyst**

quannd@kbsec.com.vn

Nguyen Hoang Duy Anh – Analyst

anhnhd@kbsec.com.vn

Real Estate**Pham Hoang Bao Nga – Manager**

ngaphb@kbsec.com.vn

Nguyen Thi Trang – Analyst

trangnt6@kbsec.com.vn

Industrials & Materials**Nguyen Thi Ngoc Anh – Analyst**

anhntn@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Macro & Strategy**Tran Duc Anh – Head of macro & strategy**

anhtd@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

Energy, Utilities & IT**Pham Minh Hieu – Analyst**

hieupm@kbsec.com.vn

Nguyen Viet Anh – Analyst

anhnv3@kbsec.com.vn

Support Team**Nguyen Cam Tho – Assistant**

thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant

huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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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