

Mobileworld (MWG)

Accelerating after the hardship

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Business results improved after restructuring

Mobile World Investment's (MWG) 1Q net revenue gained 16.2% YoY to VND31,486 billion. The end of the price war helped GPM bounce back to 21.3% (+2.1ppts YoY or +1.6ppts QoQ). Thanks to restructuring and cost optimization, the company recorded a sharp YoY increase in NPAT to VND902 billion.

The TGDD and DMX chains accelerated after the price war

The ICT&CE segment, represented by the The gioi Di dong (TGDD) and Dien may Xanh (DMX) store chains, also showed positive signals after the price war. Both achieved a 7% YoY growth in revenue, which outperformed the entire industry despite the closure of some stores. GPM strongly recovered by 3ppts YoY to 19%, and profit has also grown stably again.

BHX maintained stable growth and is the future growth driver of MWG

Bach hoa Xanh (BHX) maintained revenue growth despite flat purchasing power and suspension of new store launches. 1Q revenue of the chain gained 44% YoY, and sales per store were flat at VND1.8 billion before approaching VND1.9 billion in April. The loss for the whole first quarter was just over VND100 billion, a sharp decrease compared to the loss of more than VND300 billion in 1Q last year.

BUY rating – Target price VND69,000

We expect MWG's 2024 net revenue and NPAT will be VND132,866 billion (+11.4% YoY) and VND3,679 billion (+2,095% YoY) respectively. Believing TGDD and DMX chains will accelerate and the BHX chain will begin to make a profit, we gave a BUY recommendation for MWG stocks with the target price VND69,000/share.

Buy maintain

Target price	VND69,000
Upside	15%
Current price (May 20, 2024)	VND60,000
Consensus target price	VND61,800
Market cap (VNDtn/USDbn)	87/3.5

Forecast earnings & valuation

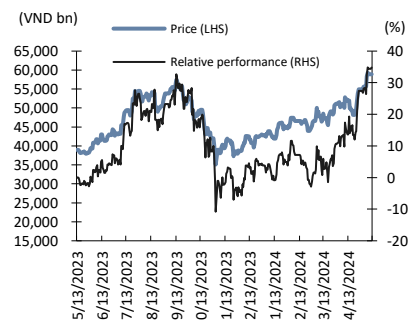
FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	134,722	119,234	132,866	147,959
Operating income/loss (VNDbn)	6,575	1,018	4,652	5,901
NPAT-MI (VNDbn)	4,102	168	3,679	4,703
EPS (VND)	2,802	115	2,517	3,228
EPS growth (%)	-16%	-96%	2095%	28%
P/E (x)	17.3	423.0	19.3	15.0
P/B (x)	3.0	3.0	2.6	2.3
ROE (%)	18%	1%	14%	16%
Dividend yield (%)	2.4%	1.2%	2.1%	2.1%

Trading data

Free float	25.2%
3M avg trading value (VNDbn/USDmn)	107.6/4.5
Foreign ownership	46%
Major shareholder	Retail World Investment Consultant (10.49%)

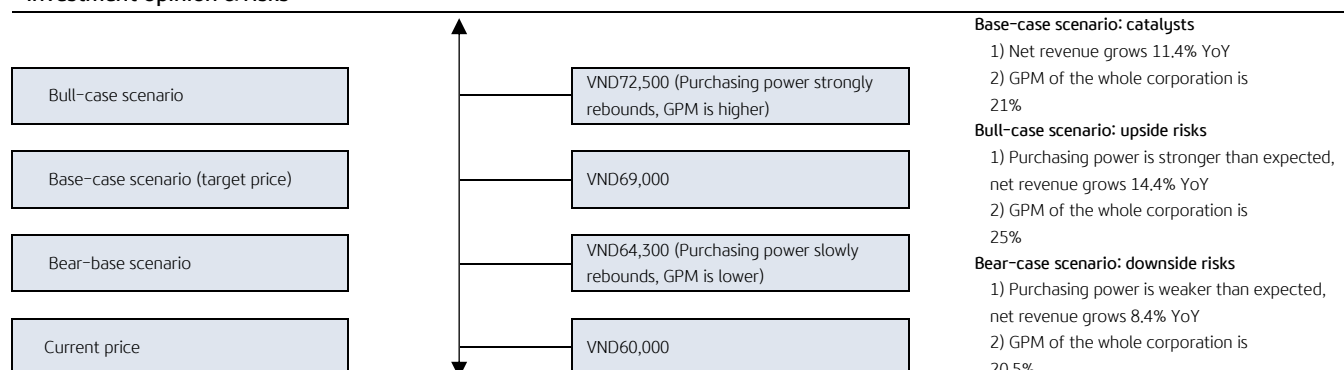
Share price performance

(%)	1M	3M	6M	12M
Absolute	13.3	26.4	47.3	51.0
Relative	15.8	22.5	34.1	34.4



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	128,181	143,442	132,866	147,959	3.7	3.1
EBIT	4,652	6,297	5,972	7,210	28.4	14.5
NP after MI	2,514	4,000	3,679	4,703	46.3	17.6

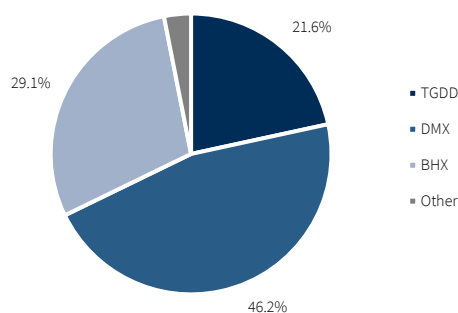
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	132,866	147,959	128,889	145,614	3.1	1.6
EBIT	5,972	7,210	3,398	5,055	75.8	42.6
NP after MI	3,679	4,703	2,900	4,142	26.9	13.5

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Business operation

MWG was established in 2004. It owns TGDD & DMX chains retailing mobile devices and electronics with the largest market share in Vietnam (over 50%). Currently, the company is focusing resources on developing the BHX retail chain of fresh goods and FMCGs. After 20 years of operation, MWG currently has a revenue of over VND100 trillion and peak NPAT of nearly VND5,000 billion.

Source: Mobile World Investment, KB Securities Vietnam

1Q24 performance updates

NPAT marked a 42-time surge YoY

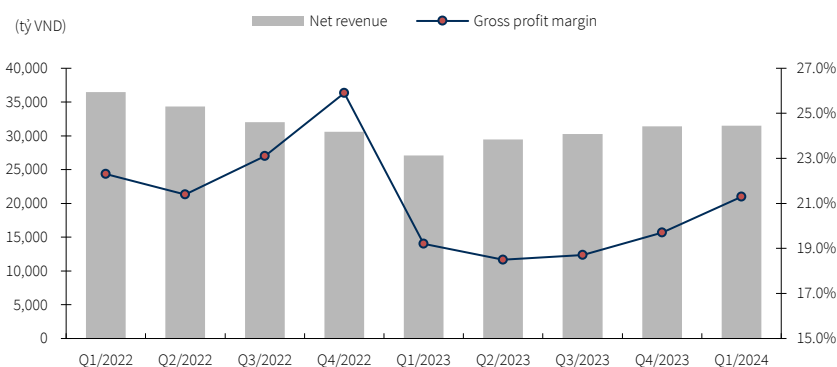
By the end of 1Q24, MWG revenue gained 16% YoY, underpinned by large store chains. The TGDD and DMX chains achieved growth of 2% and 9% YoY, respectively, a larger increase than the average of the entire industry. The BHX chain maintained positive revenue growth and 1Q loss was equal to only one-third of the same period last year. The end of price war and the optimization of costs helped the company achieve a 42-fold gain in NPAT compared to 1Q23.

Table 1. MWG – 1Q24 updated results

(VNDbn, %)	1Q23	1Q24	+/-%YoY	3M22	3M23	+/-%YoY	Notes
Revenue	27,106	31,486	16%	27,106	31,486	16%	Revenue still grew despite flat purchasing power.
COGS	6,640	6,791	2%	6,640	6,791	2%	The smartphone segment, thanks to gaining more market share, maintained slight growth while the entire retailing market is still declining.
Gross profit	13,306	14,526	9%	13,306	14,526	9%	The electronics segment recovered faster as hot season came early this year, benefiting refrigeration sales.
<i>Gross profit margin</i>	6,370	9,149	44%	6,370	9,149	44%	BHX maintained positive growth thanks to increased purchases and more fresh and FMCGs.
Financial income	5,215	6,713	29%	5,215	6,713	29%	Absolute gross profit and GPM surged after the price war ended. The big market share is an advantage in negotiating with suppliers, and electronics products with high profit margins increased.
Financial expenses	19.2%	21.3%	2.1ppts	19.2%	21.3%	2.1ppts	
Profits from affiliates	359	585	63%	359	585	63%	
SG&A	-296	-375	27%	-296	-375	27%	
Operating profit/loss	-5,110	-5,690	11%	-5,110	-5,690	11%	
Other income	159	1,206	659%	159	1,206	659%	
PBT	21	903	4200%	21	903	4200%	
<i>PBT margin</i>	0.1%	2.9%	2.8ppts	0.1%	2.9%	2.8ppts	SG&A increased, but its margin to revenue decreased, showing the effectiveness of MWG's restructuring.
CIT expenses	21	902	4197%	21	902	4197%	
NPAT	27,106	31,486	16%	27,106	31,486	16%	
<i>NPAT margin</i>	6,640	6,791	2%	6,640	6,791	2%	NPAT saw a big gain thanks to the corporation's nonstop efforts in raising revenue and optimizing costs.
NP after MI	13,306	14,526	9%	13,306	14,526	9%	

Source: Mobile World Investment, KB Securities Vietnam

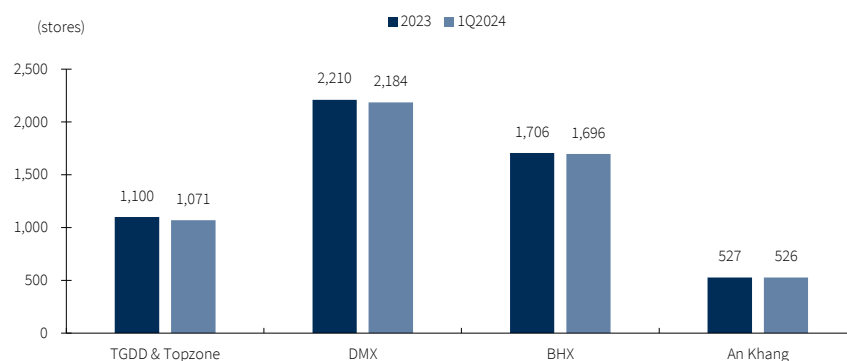
Fig 2. MWG – Revenue & GPM (VNDbn, %)



Source: Mobile World Investment, KB Securities Vietnam

MWG still follows the policy of limited new opening and closing ineffective stores. The number of stores is getting smaller, but revenue has not declined.

Fig 3. MWG – Number of stores by chain (store)



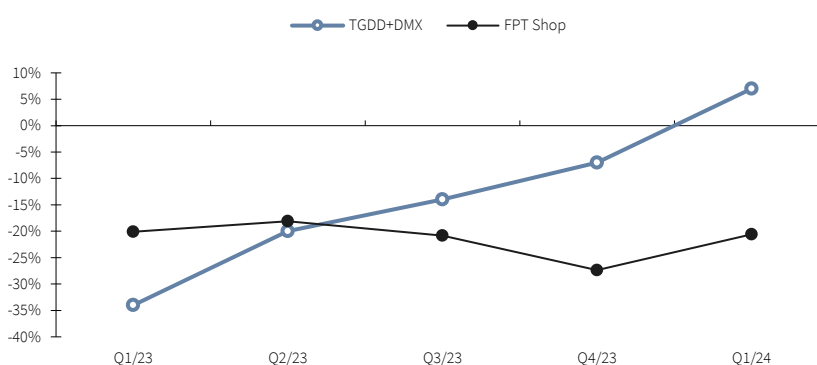
Source: Mobile World Investment, KB Securities Vietnam

The ICT&CE industry rebounded strongly

After the price war, MWG successfully gained more market share from other peers and maintained positive results in 1Q24, outperforming the whole industry. According to Mr. Doan Van Hieu Em, CEO of TGDD & DMX, for the smartphone industry, the whole market has lost about 15%, but MWG still grew 5%. For the electronics industry, the whole market gained 6%, but MWG increased stronger by 12%. TGDD & DMX chains even outperformed FPT Shop, strong competitor on the market (Figure 4).

The management of MWG predicts that the purchasing power of the entire market in the coming time will only have a slight recovery. We forecast that the two product lines ICT&CE will continue to maintain revenue growth by benefiting from the recovery of purchasing power, based on: (1) Increased exports; (2) PMI continuously exceeding the threshold of 50; and (3) increased basic salary from July 1, 2024. The electronics industry is forecast to grow faster because this year summer came early and is expected to last longer than last year. Meanwhile, the smartphone industry does not have many sudden changes. The company has many positive expectations for the launch of the iPhone 16 handset with completely new AI features.

Fig 4. MWG & FRT – Revenue growth of smartphone & electronics products (%)



Source: Mobile World Investment, FPT Digital Retail, KB Securities Vietnam

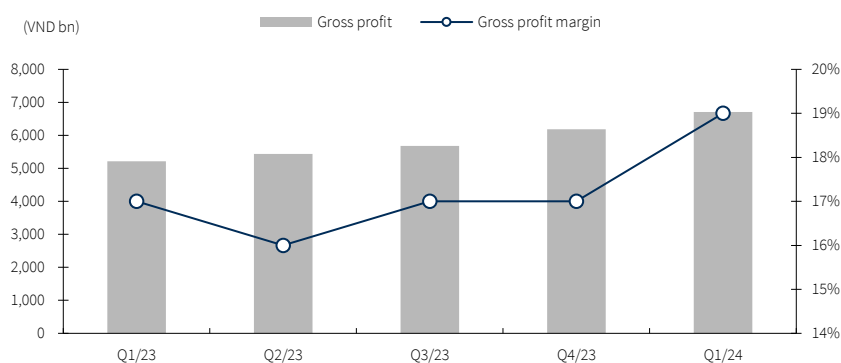
GPM of the ICT&CE segment rebounded after the price war ended

In 2023, MWG started a price competition to regain market share, so it lowered the prices of many products, hurting GPM badly. In 1Q24, right after the end of the policy, the chains raised product prices again and improved GPM. Other factors supporting GPM include: (1) larger market share increases the ability to negotiate prices with suppliers; (2) the faster recovery of the electronics industry has higher profit margins than the smartphone industry; and (3) MWG optimized inventory and increased inventory turnover.

As MWG's plan is to improve absolute gross profit from selling more products instead of focusing on high-margin items, we believe that it will maintain profit margin to gain market share and revenue, thereby improving its gross profit.

Gross profit & GPMs of the two chained bounced back strongly

Fig 5. MWG – Gross profit & GPM of TGDD & DMX (VNDbn, %)

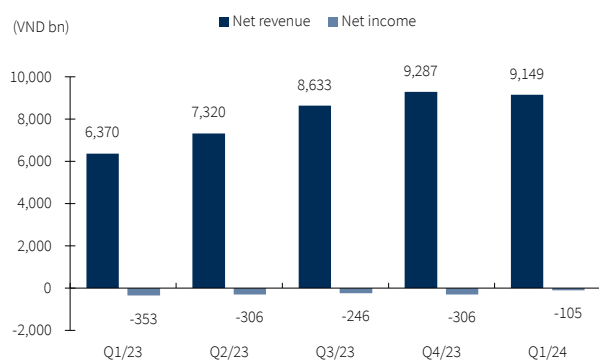


Source: Mobile World Investment, KB Securities Vietnam

BHX maintained positive growth in 1Q24

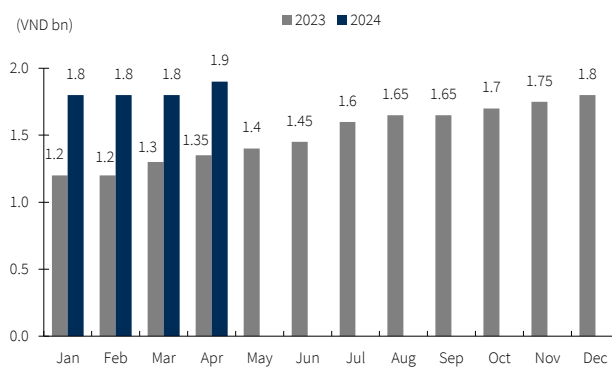
1Q revenue of BHX rose 44% YoY to VND9,100 billion, driven by both fresh and FMCGs. High proportion of fresh products helped to attract new customers and raise the returning customer rate. The number of purchase invoices increased 40% YoY although the shopping cart value almost did not increase due to flat purchasing power. BHX's loss also narrowed more than three times over the same period in 2023 to more than VND100 billion.

Fig 6. MWG – Revenue & NPAT of BHX (VNDbn)



Source: Mobile World Investment, KB Securities Vietnam

Fig 7. MWG – Average sales per store/month of BHX (VNDbn)



Source: Mobile World Investment, KB Securities Vietnam

BHX's plan to make stores profitable in 2024 is completely feasible

The management board said that the most important goal for BHX in 2024 is to reach break-even point and be profitable for the whole year. It is expected that the chain will open 100 new stores this year. The company said that in the coming time, will continue attracting customers to increase revenue while optimizing costs, including shop operating costs and logistics costs. The logistics costs to revenue ratio in the first quarter reduced to 3.5% from 4% in 4Q23. The ratio of logistics costs should continue to decrease as sales per stores increase, raising the flow of goods through distribution centers (DCs) and making warehouses and DCs operate at full capacity.

We forecast that 2024F net revenue for the entire BHX chain will go up 25% YoY to VND39,500 billion. Profit for the whole year may reach VND100 billion, corresponding to a net profit margin of 0.25%, adjusted down from 0.4% of the old forecast. In April 2024, the company announced preliminary business results, in which the chain's revenue was estimated at VND3,200 billion (+40% YoY), and the average sales per store per month of the BHX chain has approached VND1.9 billion. If BHX maintains this level of revenue in the remaining months of 2Q, the chain will break even in the quarter and become profitable in the following quarters.

BHX completed a private placement to CDH Investment

In 1Q24, MWG announced the completion of a private placement of 5% of BHX chain shares to CDH Investment. The proceeds from the transaction are nearly VND1,800 billion, implying that CDH valued the BHX chain at about VND35,500 billion, corresponding to a P/S valuation of about 1.1x the chain's revenue in 2023.

Updates about other chains

For An Khang, we see there are not many good signals to this pharmaceutical chain, especially when FRT's Long Chau continuously expands to gain market share. At the recent AGM, the management said they are trying to boost store sales and optimize target costs to reach break-even point at the end of the year, but we think this is quite challenging goal.

For the EraBlue chain in Indonesia, it had 55 stores by the end of 1Q. The mini model achieved VND4.5 billion/store in revenue, and the supermini earned VND2.5 billion/store, which is quite positive compared to stores in Vietnam. By the end of 1Q, MWG alone recorded a loss of more than VND20 billion in this chain, with MWG's 45% ownership in the joint venture estimated to have a loss of VND45 billion in 1Q. The management expects that by the end of this year, the chain will launch 100 new stores and reach the break-even point. We think Era Blue is a promising model in the Indonesian market with a large market scale and high sales per store. The chain is attracting customers well with its new model. With the experience of MWG and partner Erajaya, it is expected that the chain will soon reach break-even point and accelerate expansion and contribute to the entire company's profit in the near future.

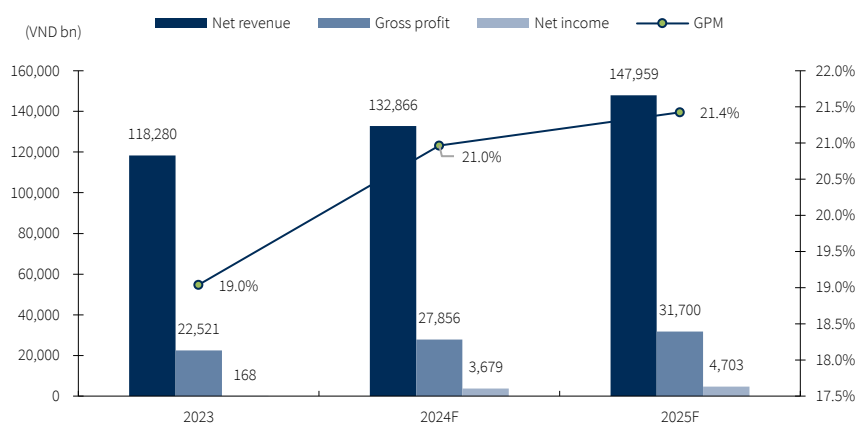
Forecast & valuation

Table 8. MWG – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	118,280	132,866	12.3%	147,959	11.4%	
TGDD & TopZone	28,269	29,656	4.9%	32,235	8.7%	The ICT&CE industry should grow in revenue from the low base of the previous year and gain more market share from other competitors. 2024–2025 is also a period of product innovation after the booming period of 2021–2022. The electronics industry may grow stronger thanks to refrigeration products. The smartphone segment has less growth potential, relying on the iPhone 16 series.
DMX	55,237	59,713	8.1%	65,250	9.3%	
BHX	31,610	39,522	25.0%	45,583	15.3%	
Gross profit	22,521	27,856	23.7%	31,700	13.8%	GPM should improve sharply after the end of the price war. In addition, MWG's large market share is an advantage when negotiating prices with suppliers. The company continuously implements restructuring and cost optimization. Although SG&A costs increase, its margin will be lower.
GPM	19.0%	21.0%	1.9%	21.4%	0.5%	
SG&A	-22,114	-23,916	8.1%	-26,485	10.7%	
PBT	690	4,664	576.2%	5,907	26.7%	
NPAT	168	3,684	2095%	4,725	28.3%	
NPAT margin	0.1%	2.8%	3.1 pts	3.2%	0.7 pts	
NP after MI	168	3,679	2092%	4,703	27.8%	

Source: Mobile World Investment, KB Securities Vietnam

Fig 9. MWG – 2024–2025F business results



Source: Mobile World Investment, KB Securities Vietnam

Valuation: BUY – Target price
VND69,000

We value MWG shares with two methods, (1) FCFF and (2) comparables:

- (1) FCFF: We used this method with the assumptions stated below and found the target price for MWG stock would be VND77,800/share.
- (2) Comparables: We used P/E and P/S for each chain of MWG (P/E = 12x for TGDD and DMX chains). For BHX and An Khang, we use a target P/S for the two series of 1.1x and 0.5x, respectively. As the remaining chains have not contributed much to the parent, we have not included them in the valuation. In this method, the target price for MWG stock is VND60,200/share.

Combining the two models, weighting 50–50, we gave a BUY rating to MWG stock with the target price of VND69,000, 15% higher than the closing price on May 20, 2024.

Table 10. MWG – Valuation & assumption according to FCFF model

Cost of equity	13.82%	PV of terminal value	83,007
Cost of debt	6.50%	Present value of FCFF	25,417
Risk-free rate	4.70%	Cash & equivalents	7,050
Beta	1.2	Short-term investments	20,831
Terminal growth	4.0%	Enterprise value (EV)	136,305
Duration	5	Debt	22,456
WACC	12.10%	Equity value	113,848
		Outstanding shares	1,463,879,280
Target price			77,800

Source: KB Securities Vietnam

Table 11. MWG – Valuation according to comparables method

	Earnings per share	Target P/E	Target price
DMX&TGDD	2,552	12	30,620
	Sales per share	Target P/S	Target price
BHX	26,998	1.1	28,213
An Khang	2,715	0.5	1,357
Target price			60,200

Source: KB Securities Vietnam

Table 12. MWG – Final valuation

Valuation method	Forecast price	Weighting	Weighted price
FCFF	77,800	50%	38,900
Comparables approach	60,200	50%	30,100
Target price			69,000

Source: KB Securities Vietnam

MWG – 2022A–2025F financials

Income Statement					Balance Sheet				
(VND Billion)	2022	2023	2024F	2025F	(VND Billion)	2022	2023	2024F	2025F
Net sales	134,722	119,234	132,866	147,959	Total assets	55,834	60,108	63,536	67,042
Cost of sales	-102,543	-95,759	-105,009	-116,259	Current assets	44,578	51,947	57,184	60,905
Gross profit	30,862	22,521	27,856	31,700	Cash & equivalents	5,061	5,366	7,050	6,919
Financial Income	1,313	2,167	2,020	1,988	ST investments	10,069	18,937	20,831	21,872
Financial Expenses	-1,383	-1,556	-1,308	-1,303	Accounts receivable	3,001	5,159	4,650	4,661
of which: interest expenses	-1,362	-1,448	-1,308	-1,303	Inventory	25,696	21,824	23,916	26,633
Gain/(loss) from joint ventures	0	0	0	0	Long-term assets	11,256	8,161	6,353	6,136
Selling expenses	-22,337	-20,917	-22,321	-24,857	LT trade receivables	503	458	510	568
General & admin expenses	-1,881	-1,196	-1,594	-1,628	Fixed assets	9,728	6,500	4,671	4,268
Operating profit/(loss)	6,575	1,018	4,652	5,901	Investment properties	124	4	4	(0)
Net other income/(expenses)	-518	-328	11	6	Liabilities	31,902	36,748	35,743	35,920
Gain/(loss) from joint ventures	6,056	690	4,664	5,907	Current liabilities	26,000	30,762	29,758	29,935
Pretax profit/(loss)	-1,955	-522	-979	-1,181	Trade accounts payable	8,746	7,927	8,636	9,765
Income tax	4,102	168	3,684	4,725	Advances from customers	0	0	0	0
Net profit/(loss)	15	0	5	23	ST borrowings	10,688	19,129	16,471	14,992
Minority interests	4,087	168	3,679	4,703	Long-term liabilities	5,901	5,986	5,985	5,985
					LT payables	0	0	0	0
					LT borrowings	0	1	0	0
					Other LT liabilities	5,901	5,985	5,985	5,985
Margin ratio	2022	2023	2024F	2025F	Shareholders' equity	23,933	23,360	27,793	31,121
Gross profit margin	23%	19%	21%	21%	Paid-in capital	14,639	14,634	14,634	14,707
EBITDA margin	8%	5%	7%	7%	Share premium	(3)	(6)	(6)	(6)
EBIT margin	6%	2%	4%	5%	Undistributed earnings	8,724	8,160	10,820	14,074
Pre-tax profit margin	4%	1%	4%	4%	Reserve & others	0	0	0	0
Operating profit margin	6%	2%	4%	5%	Minority interest	15	13	754	754
Net profit margin	3%	0%	3%	3%					
Cash flow statement	2022	2023	2024F	2025F	Key ratio	2022A	2023E	2024E	2025E
(VND Billion)					(x, %, VND)				
Net profit	6,056	690	4,664	5,907	Multiple				
Plus: depreciation & amort	3,540	3,381	2,866	2,504	P/E	17.3	423.0	19.3	15.0
Plus: investing (profit)/loss	-349	-1,538	0	0	P/E diluted	17.3	423.0	19.3	15.0
Interest Expense	-1,362	-1,448	-1,308	-1,303	P/B	3.0	3.0	2.6	2.3
Change in working capital	7,886	1,084	6,221	7,108	P/S	0.5	0.6	0.5	0.5
(Inc)/dec - receivables	-589	676	456	-69	P/Tangible Book	7.3	10.9	15.2	16.6
(Inc)/dec - inventory	3,792	4,169	-2,246	-2,758	P/Cash Flow	77.2	233.2	42.1	(541.8)
Inc/(dec) - payables	-2,287	-3,139	1,653	1,657	EV/EBITDA	6.8	13.5	8.4	7.7
Inc/(dec) - advances	-101	130	-76	-84	EV/EBIT	6.9	23.9	8.5	7.1
Other adj for operations	0	0	0	0					
Operating cash flow	7,976	3,436	6,492	6,017	Operating Performance				
Purchase of Fixed Assets and long-term assets	-4,465	-523	-1,036	-2,101	ROE%	18%	1%	14%	16%
Proceeds from disposal of fixed assets	5	31	0	0	ROA%	7%	0%	6%	7%
Loans granted, purchases of debt instruments	-20,799	-34,151	-15,473	-1,042	ROIC%	13%	0%	10%	13%
Collection of loans, proceeds from sales of debts instruments	25,852	22,805	13,579	0	Financial Structure				
Investments in other entities	-181	-106	31	-129	Cash ratio	0.2	0.2	0.2	0.2
Proceed from divestment in other entities	0	0	0	0	Quick Ratio	0.1	0.2	0.2	0.2
Dividends and interest received	1,138	1,113	0	0	Current Ratio	1.7	1.7	1.9	2.0
Investing cash flow	1,549	-10,831	-2,899	-3,271	LT Debt/Equity	0.2	0.3	0.2	0.2
Proceeds from issue of shares	193	0	1,773	73	LT Debt/Total assets	0.1	0.1	0.1	0.1
Payment for share returns and repurchase	-5	-10	0	0	ST Debt/Equity	0.4	0.8	0.6	0.5
Proceeds from borrowings	65,252	70,374	66,433	75,459	ST Debt/Total assets	0.2	0.3	0.3	0.2
Repayment of borrowings	-73,314	-61,933	-69,090	-76,939	ST liabilities/Equity	0.6	0.5	0.5	0.5
Finance lease principal payments	0	0	0	0	ST liabilities/Total assets	0.3	0.2	0.2	0.2
Dividends paid	-732	-731	-1,024	-1,471	Total liabilities/Equity	0.6	0.5	0.5	0.5
Interests, dividends, profits received	0	0	0	0	Total liabilities/Total assets	0.3	0.2	0.2	0.2
Financing cash flow	-8,606	7,700	-1,909	-2,877	Activity Ratio				
Net increase in cash & equivalents	919	304	1,685	-131	Account receivable turnover	43.7	29.2	27.1	31.8
Cash & equivalents – beginning	4,142	5,061	5,365	7,050	Inventory turnover	3.7	4.0	4.6	4.6
Cash & equivalents - ending	5,061	5,365	7,050	6,919	Account payable turnover	9.5	11.0	12.9	12.9

Source: Mobile World Investment, 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:	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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