

# Mobileworld (MWG)

## Maintaining pricing strategies

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### Weak purchasing power and price war in 2Q affected profits

At the end of 2Q23, Mobile World Investment (MWG) achieved net revenue of VND29,465 billion, down 14.2% YoY as purchasing power for non-essential products such as ICT&CE was still quite low due to macroeconomic influences. GPM fell to 18.5%, the lowest level since 2020, down 2.9ppts YoY. NPAT was only VND17 billion, which also reached the bottom low since the listing.

### Price competition in ICT&CE segment affects profit margin in return for gaining more market share and generating strong cash flow

Realizing that ICT&CE purchasing power is still quite weak, MWG continues to implement pricing strategies to compete with other rivals. Although the profit margin decreased, the inventory ratio fell to a very low level, the technology retail market share increased by about 5%, and the company's cash balance was raised to the peak of over USD1 billion.

### Bach Hoa Xanh continues to record many positive signals

Bach Hoa Xanh store chain (BHX), after a period of continuous restructuring, has operated effectively with steady sales growth over the months despite weak purchasing power. The chain's better performance (the return of old customers and the attraction to new customers, which is reflected in the increased number of invoices) supported revenue growth, although the cart value has not increased due to weak demand. BHX should break even by the end of this year and start contributing profits from next year.

### HOLD Recommendation – Target price VND54,900

We expect MWG's 2023 NPAT to reach VND843 billion (-79.5% YoY) on revenue of VND124,736 billion (-6.5% YoY). We recommend HOLD for MWG stock with a target price of VND54,900/share.

## Hold change

<b>Target price</b>	<b>VND54,900</b>
Upside	6%
Current price (Aug 28, 2023)	VND51,700
Consensus target price	VND56,278
Market cap (VNDtn/USDbn)	73.9/3.1

### Forecast earnings & valuation

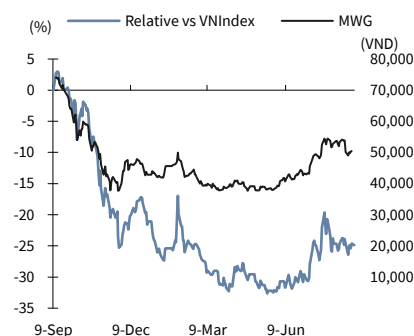
FY-end	2021	2022	2023F	2024F
Net sales (VNDbn)	124,142	134,722	124,736	144,233
Operating profit (VNDbn)	6,468	6,575	1,288	5,765
NPAT (VNDbn)	4,901	4,102	843	4,506
EPS (VND)	3,348	2,802	576	3,078
EPS growth (%)	-21%	-16%	-79%	435%
P/E (x)	12.7	13.6	88.2	16.5
P/B (x)	3.4	3	4.5	1.7
ROE (%)	24%	17%	3%	17%
Dividend yield (%)	15%	10%	5%	10%

### Trading data

Free float	38.9%
3M avg trading value (VNDbn/USDmn)	292.1/12.2
Foreign ownership	49%
Major shareholder	Retail World Investment Consultant (10.48%)

### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-2	25	28	-29
<b>Relative</b>	0	17	15	-25



Source: Bloomberg, KB Securities Vietnam

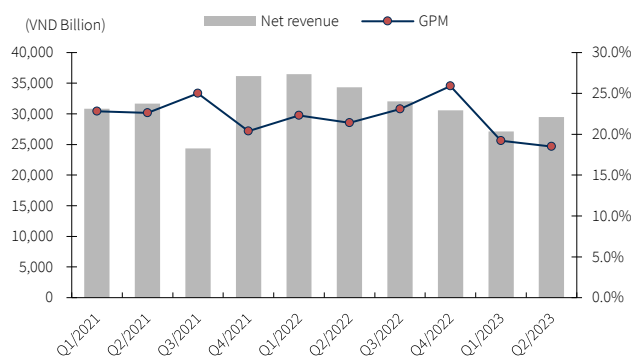
## 2Q23 performance updates

Table 1. MWG – 2Q23 performance updates

	2Q22	2Q23	+/-%YoY	KBSV's notes
<b>Revenue (VNDbn)</b>	<b>34,338</b>	<b>29,465</b>	<b>-14%</b>	Revenue dropped as and purchasing power kept sagging amid macroeconomic difficulties.
TGDD + Topzone	8,913	6,711	-25%	The ICT segment is hit the hardest as it is the most non-essential product and faces fierce competition.
DMX	18,072	14,922	-17%	The CE segment is also strongly affected as it also provides non-essential products.
BHX	6,762	7,320	8%	BHX's operations are effective with improved sales thanks to larger customer traffic.
<b>Gross profit (VNDbn)</b>	<b>7,336</b>	<b>5,441</b>	<b>-26%</b>	Gross profit and GPM both declined sharply due to MWG's aggressive pricing strategies.
Gross profit margin (%)	21.4%	18.5%	-14%	
Financial income (VNDbn)	298	585	96%	Short-term investment volume surged, which made financial income spike.
Financial expenses (VNDbn)	-360	-397	10%	
SG&A (VNDbn)	-5,308	-5,440	2%	Despite recording lower revenue, MWG had to pay fixed costs such as staff, premises, marketing, and promotion costs.
Operating profit (VNDbn)	1,966	189	-90%	
Profit before taxes (VNDbn)	1,702	130	-92%	
<b>Profit after taxes (VNDbn)</b>	<b>1,151</b>	<b>17</b>	<b>-98%</b>	Profit dropped sharply as both revenue and GPM decreased. The company still had to bear a lot of fixed costs.

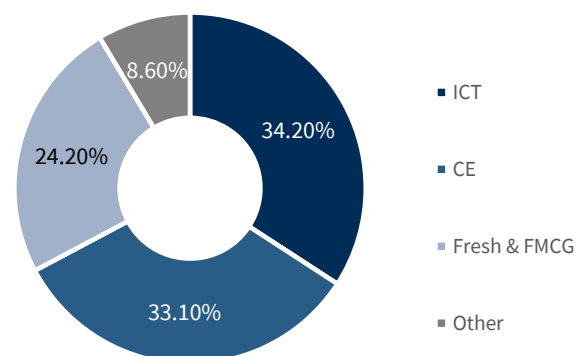
Source: Mobile World Investment, KB Securities Vietnam

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



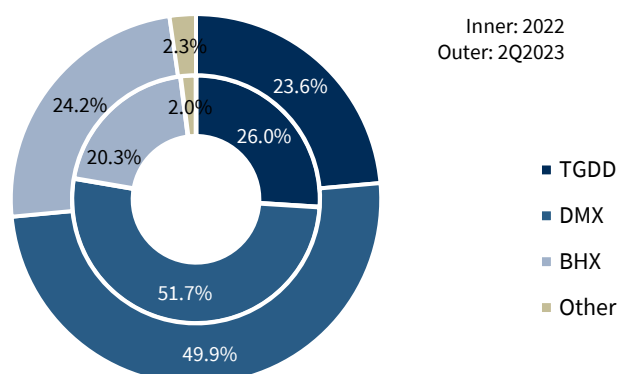
Source: Mobile World Investment, KB Securities Vietnam

Fig 3. MWG – Revenue structure by product



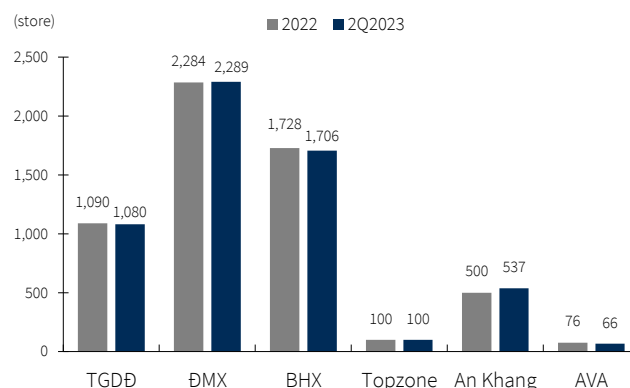
Source: Mobile World Investment, KB Securities Vietnam

Fig 4. MWG – Revenue structure by store chain



Source: Mobile World Investment, KB Securities Vietnam

Fig 5. MWG – Number of stores by chain

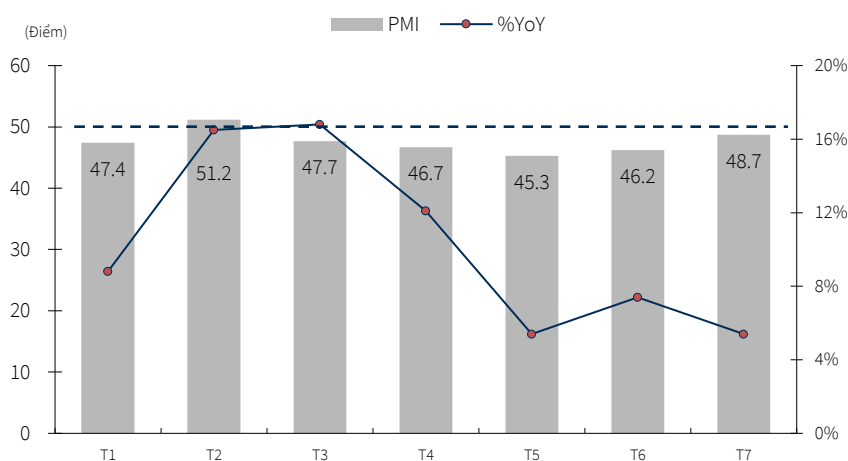


Source: Mobile World Investment, KB Securities Vietnam

### The purchasing power of ICT&CE products continues to be weak due to macroeconomic effects

The first half of 2023 continues to be a difficult time for retailers, especially those dealing in consumer discretionary. The macro economy still has not had many positive signals, the total retail sales growth is slow, exports decrease, and credit disbursement is slow, thereby affecting people's income and consumption. The end of the year may be a time for demand recovery as it is the concentration of many holidays and New Year. For technology retail, there is also an event of iPhone launching new products, but according to our assessment, the purchasing power may not significantly improve when the economic situation in the country and many major economies in the world are still not positive. According to Mr. Nguyen Duc Tai, Chairman of MWG, it is too optimistic to expect the retail market to recover in 2H23 and early 2024.

Fig 6. Vietnam – PMI by month in 2023 (point)



Source: General Statistics Office, KB Securities Vietnam

### Continue competitive pricing strategy, gain more market share

As expecting the demand would be weaker than previous years in 2H23 and early 2024, MWG said that it will continue the pricing strategies to stimulate demand and meet customer demand during the financial hardship. Given the leading market share position with large coverage, MWG will have exclusive cooperation with brands to bring good prices to customers while also maintaining an appropriate profit margin to cover fixed costs. We believe that MWG will maintain this strategy until early 2024, however, it will combine analysis of demand and purchasing power of the market to offer appropriate prices while strengthening its market share and generating profits for shareholders.

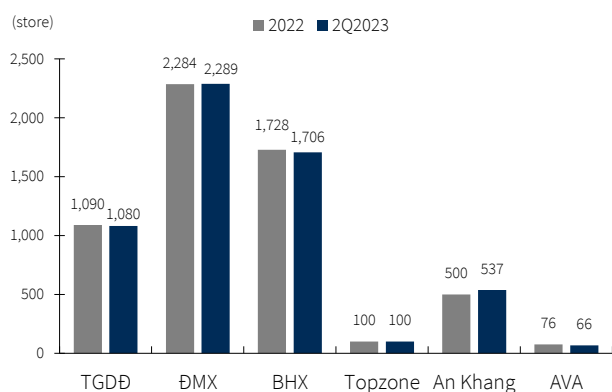
Price competition affects MWG's GPM, but it helps the company retain old customers and attract new customers, thereby narrowing the price range to other retailers and capturing more market share. According to MWG, by the end of 2Q, the market share value of the two chains gained 5ppts QoQ. Of that, the iPhone segment increased its market share the most (reaching 45% from 25%-30% in 1Q). The goal for 2023 is to increase the market share by 10%.

## MWG limits new openings to focus on maintaining cash flow

MWG said that in 2023, it would focus on maintaining sales at existing stores, optimizing cost structure, and limiting new store launches for all chains. The corporation also closed some stores when failing to negotiate space or moved stores to more suitable locations in the same area. For The gioi Di Dong (TGDD) and Dien may Xanh (DMX) chains, the market is already relatively saturated, making new openings relatively competitive. For the remaining chains such as BHX, An Khang, and AVAKids, the company prioritizes cost optimization towards break-even before mass opening.

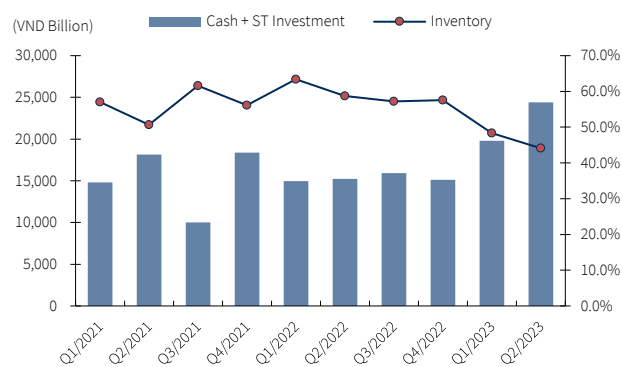
Although there is no profit in 1H23, MWG currently has a strength that few businesses have during the economic slowdown, a huge amount of cash. As inventory technology products easily become outdated and lose value quickly after the launch of a new version, MWG used its pricing strategies and good inventory management ability to bring the inventory ratio to the lowest level in many years. The corporation's inventory to current assets ratio has been under 50% in two straight quarters, which brought a huge amount of cash. For the first time in history, MWG's cash and short-term investments have exceeded USD1 billion. The large amount of cash will be a great advantage of MWG as it can open more stores and balance the increase in inventories to serve consumption demand when the market and purchasing power recover.

Fig 7. MWG – Number of stores by chain vs 2022



Source: Mobile World Investment, KB Securities Vietnam

Fig 8. MWG – Cash amount & inventory ratio (VNDbn, %)



Source: Mobile World Investment, KB Securities Vietnam

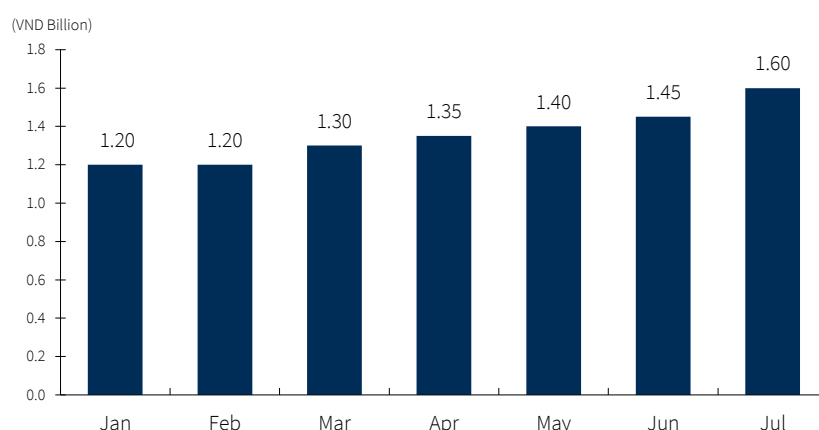
## BHX chain is potential

Same-store sales growth (SSSG) also advanced 21% YoY in 2Q thanks to big efforts. Sales of fresh products rose 35%-40% QoQ, and sales of FMCG products inched up 5% QoQ. Average sales per store rose 15% QoQ to VND1.4 billion in 2Q and maintained steady growth over the months, reaching VND1.6 billion in July (up 10% MoM).

BHX has currently tried to SSSG by raising customer traffic and cart value. The customer traffic has recently been improving thanks to the return of old customers and attraction to new customers from other channels, reflected in the increased number of invoices. Meanwhile, the average value of the shopping cart is flat due to weak demand, so it should increase in line with the demand recovery and help to significantly improve BHX sales.

MWG's management believes that at the current rate, BHX is expected to break even by the end of this year and start contributing profits to the group from 2024. BHX's average sales per store should reach VND1.8 billion per month by December 2023, gaining 10% compared to July and reaching the breakeven point. The actions needed to be taken include: (1) Increasing SSSG (increasing the number of invoices and the value of the cart); (2) optimizing operating costs (cost of premises); and (3) optimizing logistics costs from 6% in 1Q to 5% in 2Q and 3.5-4% when SSSG is optimal.

**Fig 1. MWG – BHX chain's sales per store by month in 2023 (VNDbn)**



Source: Mobile World Investment, KB Securities Vietnam

### Information on other store chains

For other retail chains, the common goal is to try to increase SSSG and optimize operations and logistics to reach the break-even point by the end of 2023.

For the An Khang chain, MWG said that they have no plans to expand in 2023, the current goal of this chain is to improve store sales, decrease inventory, optimize operations, and improve the capacity of pharmacists and medical supplies. The chain is expected to reach the breakeven point by the end of 2023 and then expand the store coverage.

For the AVAKids, MWG said that there is no plan to expand to focus on optimizing operation and product portfolio. For EraBlue, the parent group aims to open 25 more stores, bringing the total number of stores to 30 in 2H23. This chain's sales per store are quite good, almost equivalent to the stores in Vietnam. However, it is difficult to find premises for EraBlue stores due to the differences between Indonesia and Vietnam in geographical, infrastructure and population characteristics.

## Forecast & valuation

### 2023F performance

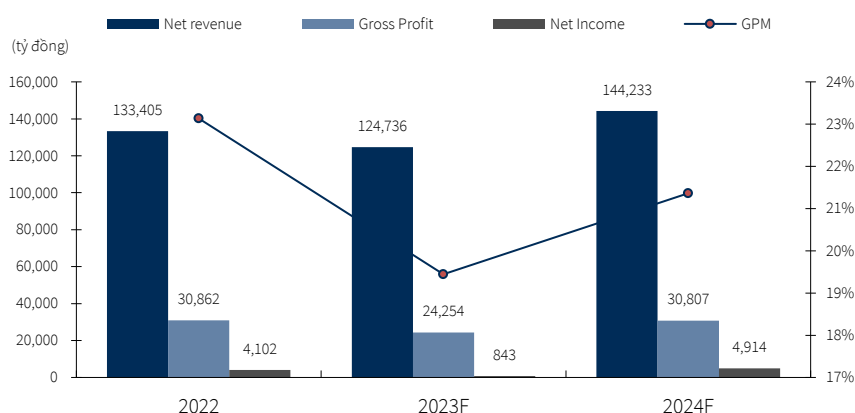
We believe that although the macro situation has shown positive signs, the overall economic recovery speed is quite slow, leading to the purchasing power not being able to recover quickly. We forecast MWG's revenue to reach VND124,736 billion (-6.5% YoY), full-year NPAT falling to 19.4% due to MWG's competitive pricing strategy at TGDD and DMX chains. EAT reached VND 843 billion (-78.6% YoY). In 2024, when the economy and purchasing power recover, MWG with a large competitive advantage and a large amount of cash is expected to have strategies to help restore profits to the peak period.

**Table 4. MWG – 2023–2024F business performance**

	2022	2023F	+/- % YoY	2024F	+/- YoY	KBSV's notes
<b>Revenue (VNDbn)</b>	<b>133,405</b>	<b>124,736</b>	<b>-6.5%</b>	<b>144,233</b>	<b>15.6%</b>	
TGDD + Topzone	34,685	29,400	-15.2%	33,424	13.7%	ICT products are the hardest hit due to the decline in purchasing power, which is also a fiercely competitive segment in the market with many ICT chains and small stores.
DMX	68,970	60,694	-12.0%	68,780	13.3%	Although CE products are less affected thanks to a few key products that are not affected much, it is difficult to maintain revenue growth when the purchasing power of the whole economy decreases.
BHX	27,058	32,327	19.5%	39,377	21.8%	After the restructuring, BHX continued to operate effectively. In 2023, BHX will continue to improve its internal chain and revenue growth despite limiting new openings and decreasing purchase power. BHX is expected to break even and become profitable from 2024.
<i>Others</i>	2,691	2,316	-13.9%	2,652	14.5%	
<b>Gross profit (VNDbn)</b>	<b>30,862</b>	<b>24,254</b>	<b>-21.4%</b>	<b>30,807</b>	<b>27.0%</b>	
<i>Gross profit margin (%)</i>	23.13%	19.44%	-16.0%	21.36%	9.9%	GPM may decline due to the price war, especially when the demand is rebounding.
SG&A (VNDbn)	-24,218	-22,995	-5.0%	-24,440	6.3%	
EBIT (VNDbn)	6,644	1,258	-81.1%	6,367	406%	
EBT (VNDbn)	6,056	1,296	-78.6%	6,300	386%	
<b>Profit after taxes (VNDbn)</b>	<b>4,102</b>	<b>843</b>	<b>-79.5%</b>	<b>4,914</b>	<b>483.1%</b>	2023F NPAT should fall but may grow again when purchasing power recovered in ICT and BHX breaks even and becomes profitable.

Source: Mobile World Investment, KB Securities Vietnam

**Fig 2. MWG – 2023–2024F results**



Source: Mobile World Investment, KB Securities Vietnam

**Valuation: HOLD Recommendation**  
**– Target price VND54,900**

We use two methods (1) FCFF and (2) comparables approach to give a reasonable price for MWG stock.

(1) For FCFF, we discount the free cash flow in the corporation with the below assumption. We set a target price for MWG at VND56,800/share.

(2) For the comparables method, we use P/E and P/S for each store chain, we use P/E = 12 for TGDD and DMX chains. For BHX and An Khang, the target P/S is 1 and 0.4. The other chains' contribution is still insignificant, so we did not include them in the valuation.

Using the two methods, weighting 50–50, we recommend HOLD for MWG stock with the target price of VND54,900/share, 6% higher than the closing price on the August 28, 2023.

**Table 4. MWG – FCFF model and assumption**

Cost of equity	14.04%	PV of terminal value	56,614
Cost of debt	8.00%	PV of FCFF	24,322
Risk free rate	5.00%	Cash and Cash Equivalent	5,254
Beta	1.1	ST Investment	18,125
Terminal growth	4.0%	Firm value	104,314
Estimated time	5	Total Debt	21,226
WACC	12.48%	Equity value	83,089
		Number of share outstanding	1,463,879,280
<b>Target price</b>			<b>61,300</b>

Source: KB Securities Vietnam

**Table 4. MWG – Comparables model**

	Earning Per Share	P/E target	Target price
Dienmayxanh & Thegioididong	1,238	12	14,858
	Sales Per Share	P/S target	Target price
Bachhoaxanh	22,083	1.5	33,124
An Khang	1,223	0.4	489
<b>Target price</b>			<b>48,500</b>

Source: KB Securities Vietnam

**Table 4. MWG – Final valuation**

Method	Method	Weight	Price per weight
FCFF	61,300	50%	30,650
P/E – P/S	48,500	50%	24,250
<b>Target price</b>			<b>54,900</b>

Source: KB Securities Vietnam

## MWG – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND Billion)	2021	2022	2023F	2024F	(VND Billion)	2021	2022	2023F	2024
Net sales	124,142	134,722	124,736	144,233	Total assets	62,971	55,834	58,800	64,32
Cost of sales	-95,326	-102,543	-100,483	-113,425	Current assets	51,955	44,578	49,312	55,28
Gross profit	27,632	30,862	24,254	30,807	Cash & equivalents	4,142	5,061	5,254	11,16
Financial Income	1,288	1,313	1,533	1,343	ST investments	14,237	10,069	18,125	12,68
Financial Expenses	-715	-1,383	-1,503	-1,421	Accounts receivable	3,162	3,001	2,489	3,60
of which: interest expenses	-674	-1,362	-1,134	-1,053	Inventory	29,167	25,696	22,453	26,68
Gain/(loss) from joint ventures	-2	0	0	0	Long-term assets	11,016	11,256	9,488	9,04
Selling expenses	-17,914	-22,337	-21,209	-22,542	LT trade receivables	482	503	466	53
General & admin expenses	-3,823	-1,881	-1,786	-1,898	Fixed assets	9,647	9,728	8,001	7,28
Operating profit/(loss)	6,466	6,575	1,288	6,289	Investment properties	80	124	186	25
Net other income/(expenses)	6	-518	9	11	Liabilities	42,593	31,902	34,753	36,76
Gain/(loss) from joint ventures	6,472	6,056	1,296	6,300	Current liabilities	42,593	26,000	28,852	31,91
Pretax profit/(loss)	-1,570	-1,955	-454	-1,386	Trade accounts payable	12,180	8,746	8,108	9,37
Income tax	4,901	4,102	843	4,914	Advances from customers	0	0	0	0
Net profit/(loss)	12	15	15	15	ST borrowings	24,647	10,688	15,325	16,04
Minority interests	4,890	4,087	828	4,899	Long-term liabilities	0	5,901	5,901	4,85
					LT payables	0	0	0	0
					LT borrowings	0	0	0	0
					Other LT liabilities	0	5,901	5,901	4,85
Margin ratio	2021	2022	2023F	2024F	Shareholders' equity	20,378	23,933	24,047	27,56
Gross profit margin	22%	23%	19%	21%	Paid-in capital	7,131	14,639	14,639	14,71
EBITDA margin	8%	8%	4%	7%	Share premium	3	(3)	0	0
EBIT margin	6%	6%	2%	5%	Undistributed earnings	12,675	8,724	8,835	12,27
Pre-tax profit margin	5%	4%	1%	4%	Reserve & others	0	0	0	0
Operating profit margin	6%	6%	2%	5%	Minority interest	12	15	15	1
Net profit margin	4%	3%	1%	3%					
Cash flow statement					Key ratio				
(VND Billion)	2022	2022	2023F	2024F	(x, %, VND)				
Net profit	6,472	6,056	1,296	6,300	Multiple				
Plus: depreciation & amort	2,921	3,540	2,811	2,991	P/E	15.2	18.1	88.2	15.
Plus: investing (profit)/loss	-959	-349	0	0	P/E diluted	15.2	18.1	88.2	15.
Interest Expense	-674	-1,362	-1,134	-1,053	P/B	3.6	3.1	3.1	2.
Change in working capital	7,759	7,886	2,973	8,239	P/S	0.6	0.6	0.6	0.
(Inc)/dec - receivables	-828	-589	549	-1,190	P/Tangible Book	7.7	7.6	9.3	10.
(Inc)/dec - inventory	-9,924	3,792	3,269	-4,294	P/Cash Flow	(23.2)	80.9	386.1	12.
Inc/(dec) - payables	3,782	-2,287	-1,785	2,338	EV/EBITDA	7.1	6.5	13.7	6.
Inc/(dec) - advances	-27	-101	-238	-154	EV/EBIT	6.8	6.6	20.1	6.
Other adj for operations	0	0	0	0					
Operating cash flow	171	7,976	5,423	4,669	Operating Performance				
Purchase of Fixed Assets and long term assets	-4,977	-4,465	-1,084	-2,271	ROE%	24%	17%	3%	18%
Proceeds from disposal of fixed assets	1	5	0	0	ROA%	8%	7%	1%	8%
Loans granted, purchases of debt instruments	-19,225	-20,799	0	5,437	ROIC%	11%	10%	2%	10%
Collection of loans, proceeds from sales of debts instruments	12,164	25,852	-8,055	0	Financial Structure				
Investments in other entities	-16	-181	4	-203	Cash ratio	0.1	0.2	0.2	0.
Proceed from divestment in other entities	797	0	0	0	Quick Ratio	0.1	0.1	0.1	0.
Dividends and interest received	2	1,138	0	0	Current Ratio	1.2	1.7	1.7	1.
Investing cash flow	-11,255	1,549	-9,135	2,964	LT Debt/Equity	0.0	0.2	0.2	0.
Proceeds from issue of shares	228	193	0	73	LT Debt/Total assets	0.0	0.1	0.1	0.
Payment for share returns and repurchase	-2	-5	0	0	ST Debt/Equity	1.2	0.4	0.6	0.
Proceeds from borrowings	63,936	65,252	61,121	67,068	ST Debt/Total assets	0.4	0.2	0.3	0.
Repayment of borrowings	-56,045	-73,314	-56,485	-67,394	ST liabilities/Equity	0.9	0.6	0.6	0.
Finance lease principal payments	0	0	0	0	ST liabilities/Total asset	0.3	0.3	0.2	0.
Dividends paid	-240	-732	-732	-1,471	Total liabilities/Equity	0.9	0.6	0.6	0.
Interests, dividends, profits received	0	0	0	0	Total liabilities/Total assets	0.3	0.3	0.2	0.
Financing cash flow	7,877	-8,606	3,904	-1,724	Activity Ratio				
Net increase in cash & equivalents	-3,206	919	193	5,909	Account receivable turnover	52.2	43.7	45.4	47.
Cash & equivalents – beginning	7,348	4,142	5,061	5,254	Inventory turnover	3.9	3.7	4.2	4.
Cash & equivalents – ending	4,142	5,061	5,254	11,163	Account payable turnover	10.1	9.5	11.5	13.

Source: Mobile World Investment, KB Securities Vietnam



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## Investment ratings & definitions

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### 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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