

Petrolimex (PLX)

Well-positioned to capitalize on industry trends

December 9, 2024

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A sharp fall in oil prices weighed on 3Q2024 performance

In 3Q2024, PLX's revenue and gross profit fell 11.2% and 9.1% YoY, respectively, largely due to significant drops in Brent crude oil and Asian gasoline prices, which shrank by 13.6% and 18.9% YoY. However, increases in regulated operating costs in July 2023 and July 2024 contributed to an improvement in GPM for 9M2024.

Petroleum consumption is poised for strong long-term growth

Vietnam's petroleum consumption has benefited from the overall economic recovery. PetroVietnam (PVN) forecasts a compound annual growth rate (CAGR) of 4.0% in national petroleum consumption from 2022 to 2030. We anticipate that the growing trend of "automobilization" and increased air transport traffic will further boost petroleum demand in the coming years.

The 4th draft of the Decree on Petroleum Business could enhance the business environment for major distributors

The 4th draft of the Decree on Petroleum Business proposes granting greater autonomy to major/wholesale distributors in setting retail prices. Regulated costs are set to be adjusted annually based on CPI. Major distributors' bargaining power may increase significantly as retailers face limited supply sources.

PLX's competitive edge positions it as the prime beneficiary of industry trends

PLX holds the largest market share in Vietnam's petroleum sector, supported by its superior infrastructure compared to industry peers. We believe these competitive advantages will help PLX sustain its market leadership and capitalize on favorable industry developments.

We recommend BUY for PLX with a target price of VND48,000

We BUY recommend BUY for PLX with a target price of VND48,000/share at the horizon of 2025, 19.6% higher than the closing price on December 9, 2024

Buy maintain

Target price VND48,000

Upside	19.6%
Current price (Dec 9, 2024)	VND40,150
Consensus target price	VND49,400
Market cap (VNDtn/USDbn)	51.0/2.0

Trading data

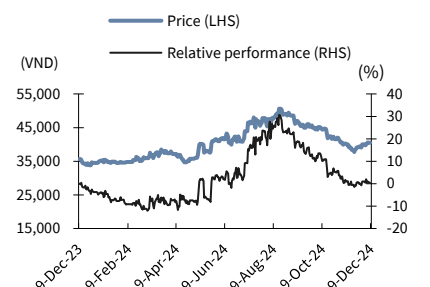
Free float	41.7/1.7
3M avg trading value (VNDbn/USDmn)	17.9%
Foreign ownership	CMSC (77.0%)
Major shareholder	

Share price performance

(%)	1M	3M	6M	12M
Absolute	1.0	-12.9	-2.5	13.5
Relative	-0.4	-13.1	-1.2	0.5

Forecast earnings & valuation

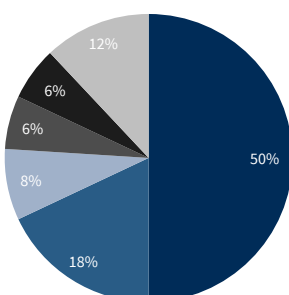
FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	304,064	273,979	279,134	289,881
Operating income/loss (VNDbn)	997	2,175	2,913	4,068
NPAT-MI (VNDbn)	1,450	2,834	2,841	3,767
EPS (VND)	1,497	2,422	2,428	3,220
EPS growth (%)	-39.1	61.8	0.3	32.6
P/E (x)	26.8	16.6	16.5	12.5
P/B (x)	1.8	1.7	1.7	1.6
ROE (%)	6.8	10.5	10.3	13.0
Dividend yield (%)	6.3	4.1	6.1	6.2



Source: Bloomberg, KB Securities Vietnam

Vietnam – Market share of major distributors (2023)

■ PLX ■ OIL ■ TLP ■ Saigon Petro ■ Mippec ■ Other



Business operation

Vietnam National Petroleum Group (PLX) was established in 1995. Its core business is petroleum trading, accounting for 96.6% of its revenue in 2023. Today, PLX stands as the largest supplier of various petroleum products in the domestic market.

Source: Petrolimex, KB Securities Vietnam

Investment Catalysts

Notes

Petroleum consumption is poised for strong long-term growth. Vietnam's petroleum consumption has been boosted by economic recovery, the growing "automobilization" trend, and increased air transport traffic.

Please find more details below

The 4th draft of the Decree on Petroleum Business would enhance the business environment. Major distributors are authorized to set retail prices, while regulated costs are adjusted according to CPI, strengthening their bargaining power with retailers.

Please find more details below

PLX holds a sustainable competitive edge due to its superior infrastructure compared to industry competitors, positioning it as the prime beneficiary of positive industry developments.

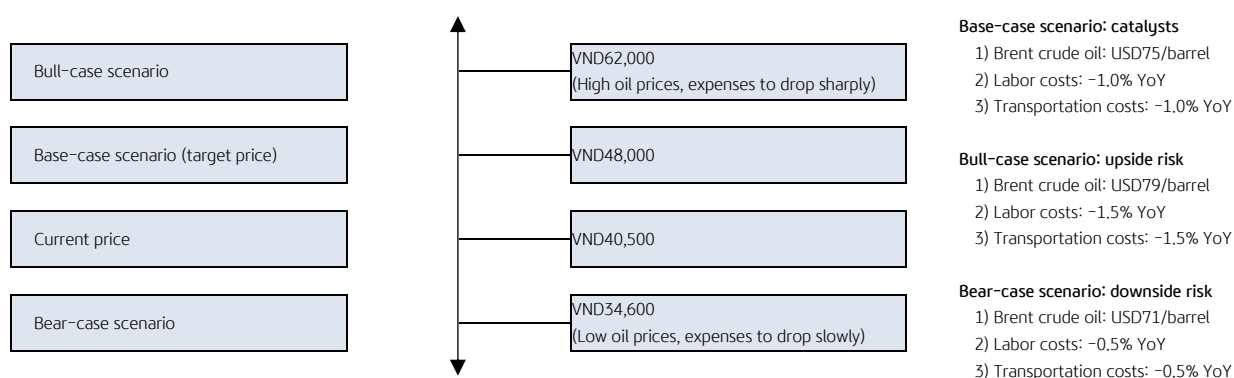
Please find more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	279,134	289,881	N/A	N/A	281,142	280,457	-1%	3%
EBIT	2,912	4,068	N/A	N/A	3,294	3,366	-12%	21%
NP after MI	2,841	3,767	N/A	N/A	3,153	3,680	-10%	2%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Business performance

A sharp fall in oil prices weighted on 3Q2024 performance

In 3Q2024, PLX's revenue and gross profit fell 11.2% and 9.1% YoY, respectively, largely due to significant drops in Brent crude oil and Asian gasoline prices, which shrank by 13.6% and 18.9% YoY. However, increases in regulated operating costs in July 2023 and July 2024 contributed to an improvement in the gross profit margin (GPM) for 9M2024.

Table 1. PLX – 9M2024 business performance

(VNDbn)	3Q2023	3Q2024	+/-%YoY	9M2023	9M2024	+/-%YoY	Notes
Revenue	72,414	64,324	-11.2%	205,596	213,267	3.7%	In 3Q2024, Brent crude oil prices decreased sharply compared to the same period last year. A sharp fall in oil prices weighted on gross profit in 3Q2024. However, increases in regulated operating costs in July 2023 and July 2024 contributed to an improvement in GPM for 9M2024.
Gross profit	3,780	3,436	-9.1%	11,270	12,727	12.9%	
Gross profit margin	5.2%	5.3%		5.5%	6.0%		
Financial income	1,189	496	-58.3%	2,135	1,376	-35.5%	PLX divested from PGBank (PGB) in 3Q2023.
Financial expenses	627	232	-63.1%	1,365	980	-28.2%	
Profits from affiliates	137	109	-20.4%	480	385	-19.7%	
SG&A	3,325	3,587	7.9%	9,517	10,485	10.2%	
Operating income/loss	1,153	223	-80.7%	3,003	3,023	0.7%	
Other income	27	19	-31.1%	79	162	104.1%	
Profit before tax (PBT)	1,180	241	-79.6%	3,082	3,185	3.3%	
Net profit after tax (NPAT)	729	130	-82.1%	2,288	2,538	10.9%	
NP after MI	738	66	-91.1%	2,171	2,338	7.7%	
NPAT margin	1.0%	0.1%		1.1%	1.1%		
RON 95 gasoline in Asia (USD/barrel)	107.4	87.1	-18.9%	99.6	95.7	-3.9%	
Brent crude oil (USD/barrel)	89.2	77.1	-13.6%	82.6	82.2	-0.4%	

Source: Petrolimex, KB Securities Vietnam

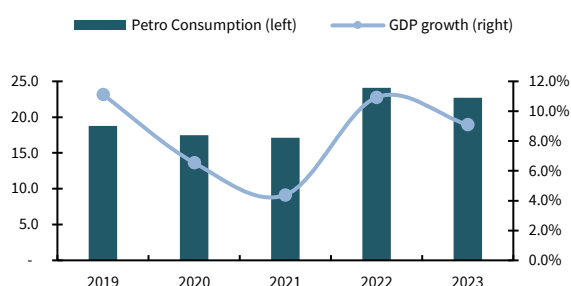
Investment catalysts

1. Petroleum consumption is poised for strong long-term growth

Economic recovery is driving up nationwide petroleum consumption

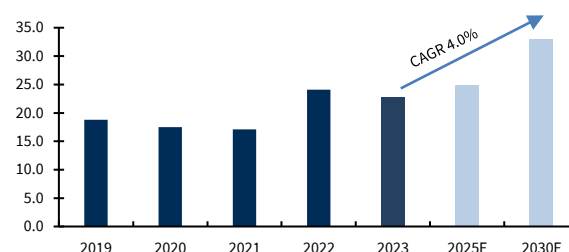
The outlook for Vietnam's petroleum consumption heavily depends on economic growth. The International Monetary Fund (IMF) forecasts Vietnam's GDP will grow at a CAGR of 8.5% from 2022 to 2030. Meanwhile, PVN projects national petroleum consumption to increase at a CAGR of 4.0% over the same period. We assess the long-term outlook for the petroleum sector as positive.

Fig 2. Vietnam – Correlation between petroleum consumption & GDP growth (million tons, %)



Source: General Statistics Office, Ministry of Industry & Trade, PetroVietnam, KB Securities Vietnam

Fig 3. Vietnam – 2019A–2030F petroleum consumption (million tons)

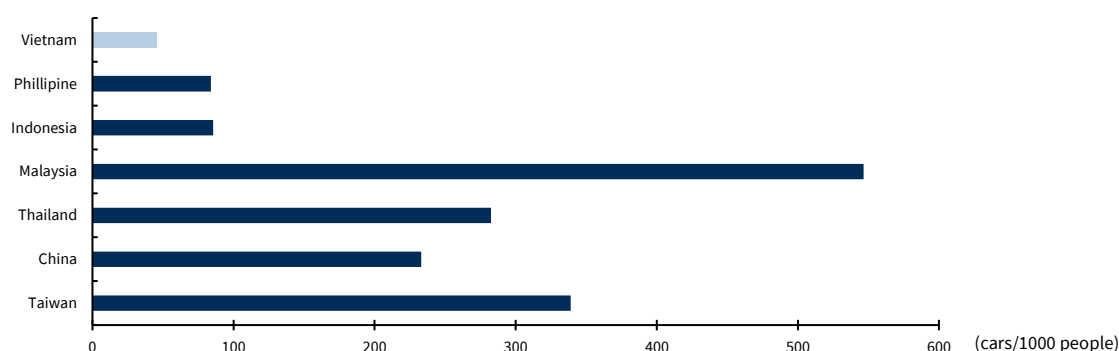


Source: Ministry of Industry & Trade, PetroVietnam, KB Securities Vietnam

The increasing trend of car ownership will likely drive petroleum demand

The rate of personal car ownership in Vietnam is currently very low compared to other countries in the region. However, with the IMF projecting a 7.8% CAGR in Vietnam's GDP per capita and an increase in the urbanization rate from 39% to 44% during the 2022–2030 period, we anticipate an "automobilization" trend as cars gradually replace motorcycles in the long term, driven by the improving living standards and the development of infrastructure. The increase in personal car ownership will could boost petroleum demand, as cars consume significantly more fuel than motorcycles over the same distance.

Fig 4. Asia – Ratio of cars per 1,000 people in Vietnam compared to regional countries

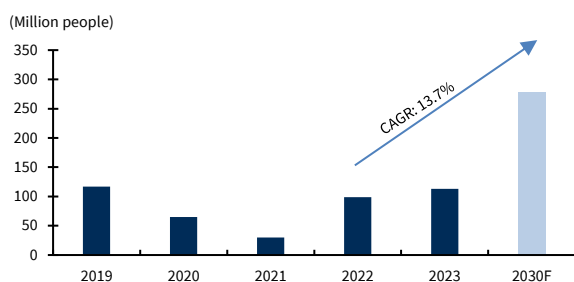


Source: KB Securities Vietnam

Rising air transport demand may boost jet fuel consumption

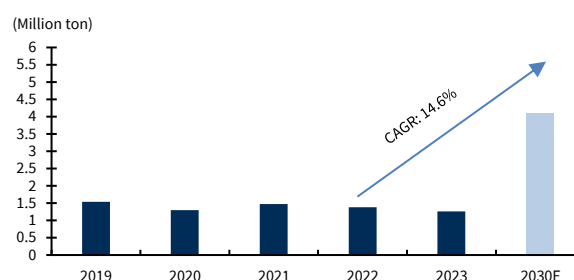
The Civil Aviation Authority of Vietnam (CAAV) estimates that passenger air transport and air freight in Vietnam will grow at compound annual growth rates (CAGR) of 12.2% and 12.9%, respectively from 2022 to 2030. The aviation transport sector is well-positioned for growth, driven by a positive economic outlook, increasing GDP per capita, and ongoing infrastructure development. This anticipated expansion is expected to bolster long-term demand for jet fuel in Vietnam.

Fig 5. Vietnam – 2019A–2030F passenger air transport demand, CAGR (million people, %)



Source: Airports Corporation of VietNam, Civil Aviation Authority of Vietnam, KB Securities Vietnam

Fig 6. Vietnam – 2019A–2030F air cargo demand, CAGR (million tons, %)



Source: Source: Airports Corporation of VietNam, Civil Aviation Authority of Vietnam, KB Securities Vietnam

2. The 4th draft of the Decree on Petroleum Business is expected to enhance the business environment for major distributors

Petrol distributors are granted greater autonomy in setting retail prices

The 4th draft proposes two options for regulating the retail pricing mechanism: **(1) granting major/wholesale distributors full autonomy to set retail prices based on market dynamics** or **(2) providing distributors greater flexibility within a government-regulated framework**. Under **Option (1)**, distributors would gain a significant advantage, allowing them to proactively lower prices to capture market share or raise prices in less competitive areas to maximize profits. **Option (2)** would see the government regulating only the retail price ceiling, rather than the entire base price as before. Distributors would be permitted to set retail prices freely, provided they remain below the government-mandated price ceiling. In summary, both options are expected to have positive effects, enabling retail prices to more accurately reflect input costs without relying on government adjustments as is currently required.

The 4th draft proposes annual adjustments to regulated costs to align with actual input expenses

Regulated operating costs for gasoline remained unchanged at VND1,050/liter from 2014 to 2023, with a modest adjustment to VND1,140/liter (+8.6%) implemented in 2024. The fixed nature of these regulated costs, despite significant fluctuations in actual expenses—such as input costs, transportation, and exchange rate changes—between 2020 and 2023, has led to a sharp decline in the gross profit margins of petroleum businesses. The 4th draft proposes annual adjustments to regulated costs to align with actual input expenses, measured by the average CPI. This change would allow distributors to reflect cost fluctuations in retail prices, potentially improving gross margins over the long term.

Major distributors are authorized to set retail prices, while regulated costs are adjusted according to CPI, strengthening their bargaining power with retailers

The draft proposes two options. **Option (1)** would preserve the current structure, while **Option (2)** would substantially strengthen the negotiating power of leading distributors by: (i) requiring wholesale distributors to source supplies exclusively from major distributors, eliminating cross-selling practices; (ii) restricting retailers to purchasing supplies from a single distributor, greatly limiting their choices; and (iii) introducing stricter standards for major/wholesale distributors, reducing the number of qualified competitors and raising industry entry barriers. Furthermore, the revocation of business licenses from certain wholesale distributors like Xuyen Viet Oil and Hai Ha Petro (with an estimated combined market share of around 6.4%) would create opportunities for leading distributors to further consolidate their market dominance.

Table 7. Vietnam – Amendments to the 4th draft of the Decree on Petroleum Business

Factors	Current Decree	4th Draft of the new Decree	Effects on major distributors
1 Price adjustment responsibility	– Government	– Major/wholesale distributors have full authority to negotiate retail prices or the Government regulates a price ceiling.	– Increase flexibility in price adjustments – Better reflect market conditions
2 Retail price formula	– Base price	– Ceiling price	
3 Regulated operating costs	– Ministry of Finance reviews and announces the costs before July 1 each year (had maintained the same rates during the 2014–2023 period and has just adjusted them in 2024)	– Adjusted based on the average annual CPI of the most recent year – Reviewed once every 3 years by the Ministry of Industry and Trade to ensure reasonableness	– Save time and minimize reporting obligations regarding cost structures for major distributors – Better capture the actual developments in overall price level
4 Stabilization fund	– Managed by major distributors	– Managed by the Ministry of Industry and Trade	– Limit the misuse of funds
5 Participants	– Major distributors – Wholesale distributors: Purchase from major or other wholesale distributors – Retail distributors: Purchase from up to 3 major/wholesale distributors	– Major distributors – Wholesale distributors: As before or only allowed to purchase from major distributors – Retail distributors: As before or only allowed to purchase from a single major/wholesale distributor	– Increase negotiating power for major distributors

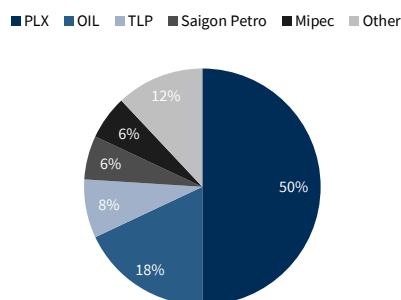
Source: Ministry of Industry & Trade, Ministry of Finance, KB Securities Vietnam

3. PLX's competitive edge positions it as the prime beneficiary of industry trends

PLX boasts superior infrastructure compared to competitors

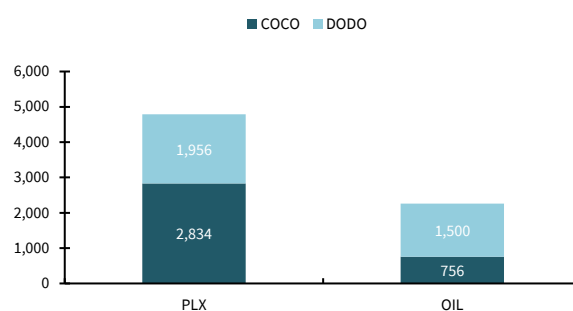
PLX holds the largest market share in Vietnam's petroleum sector, benefiting from a sustainable competitive advantage due to its superior infrastructure compared to industry peers. Notably, PLX operates twice as many outlets as its closest competitor, PV Oil (OIL), and 3.7 times the number of directly owned retail stores. This extensive network enables PLX to achieve higher profit margins by reducing reliance on independent retail agents, thereby minimizing profit-sharing.

Fig 8. Vietnam – Market share of major distributors (%)

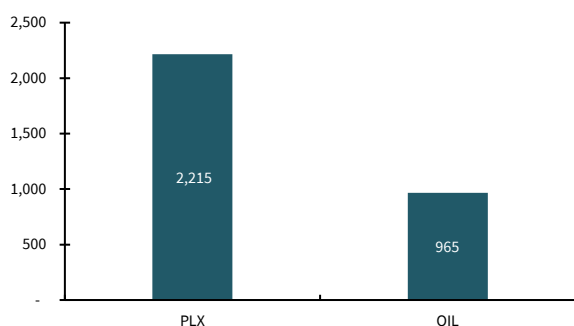


Source: Petrolimex, PV Oil, Vietnam Center for Economic and Strategic Studies, KB Securities Vietnam

Fig 9. PLX, OIL – Number of petroleum retail outlets

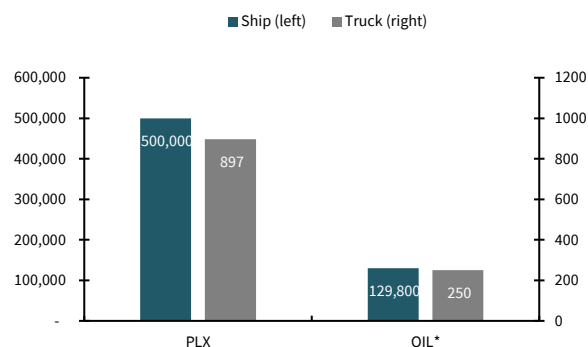


Source: Petrolimex, PV Oil, KB Securities Vietnam

Fig 10. PLX, OIL – Transportation capacity ('000 m³)

Source: Petrolimex, PV Oil, KB Securities Vietnam

Fig 11. PLX, OIL – Petroleum storage capacity (DWT)



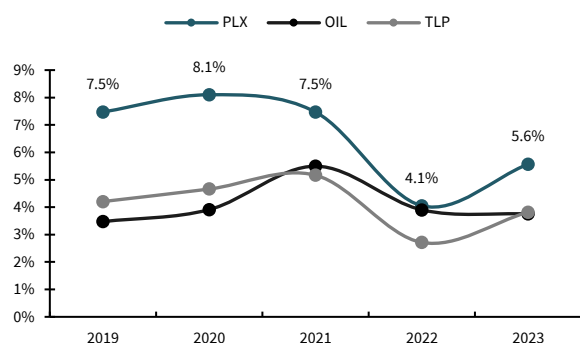
Source: Petrolimex, PV Oil, PV Transportation, KB Securities Vietnam

*Includes estimated support from PVT

PLX's competitive edge positions it as the prime beneficiary of industry trends

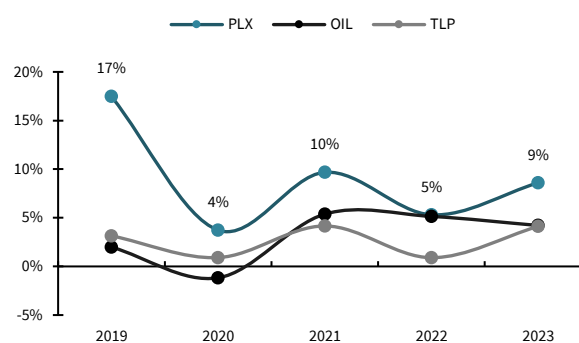
PLX stands out with the highest profitability in the sector, capitalizing on its established competitive advantages. These strengths are expected to reinforce its market leadership and position it as the primary beneficiary of favorable industry trends. Furthermore, PLX's competitive edge opens up opportunities to diversify into non-petroleum sectors, as discussed later. This strategic move would allow the company to optimize its existing infrastructure while gradually reducing its reliance on the petroleum sector over the long term.

Fig 12. PLX, OIL, TLP – Gross profit margin (%)



Source: Petrolimex, PV Oil, Thanh Le General Import-Export Trading Corporation, KB Securities Vietnam

Fig 13. PLX, OIL, TLP – ROE (%)



Source: Petrolimex, PV Oil, Thanh Le General Import-Export Trading Corporation, KB Securities Vietnam

4. Other long-term growth drivers

Non-petroleum services are expected to enhance PLX's position over the long term, although their contribution may remain limited in the short to medium term

To leverage its extensive nationwide store network, PLX is focusing on diversifying into non-petroleum services, including: (i) value-added services for vehicles (convenience stores, auto repair and car washing, accommodations, etc.) and (ii) electric vehicle (EV) charging stations.

For **value-added services**, PLX is supported by its strategic partner, JX Nippon, which operates the ENEOS petrol station brand. ENEOS holds a significant market presence in Japan, holding 50% of the market share, and brings experience from managing the Dr. Drive automotive care chain. Value-added services are expected to deliver gross margins of 15–20%, substantially higher than the 7–9% margins for traditional petroleum services. However, the rollout of these services has been gradual and is not expected to meaningfully impact PLX's financial performance in the short to medium term.

The **EV charging station service** could align PLX's business with the clean energy trend in the long term. PLX has partnered with VinFast to install around 500 EV charging stations at existing petrol stations. While this initiative positions PLX for future growth, the low penetration of EVs in Vietnam, especially in heavy transport, means significant expansion of this segment is unlikely before 2027.

Restructuring efforts would further streamline operations

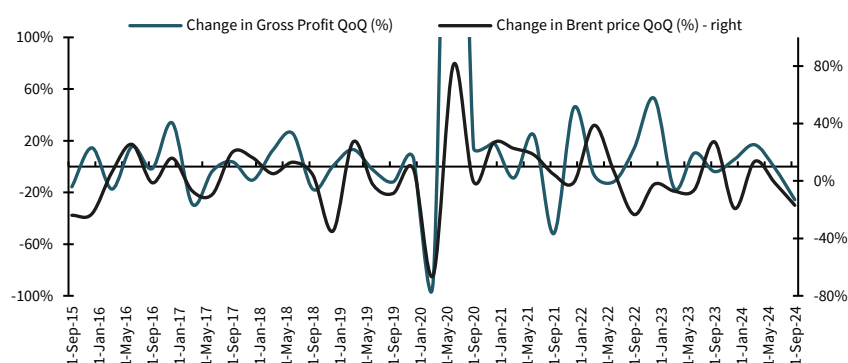
PLX is implementing a comprehensive restructuring strategy to streamline its operations and focus on core business areas. In 2023, the company successfully divested from the banking sector by exiting PGBank (PGB). As part of its 2021–2025 restructuring plan, PLX aims to fully withdraw from the construction sector by 2025, further aligning its resources with its primary business objectives. This strategic shift underscores PLX's commitment to enhancing operational efficiency and long-term profitability.

RISKS

Fluctuations in crude oil prices would dampen PLX's gross margin

The price of refined petroleum products is closely tied to crude oil prices. A decline or significant fluctuation in crude oil prices forces PLX to (1) sell products with higher input costs at lower prices and (2) set aside provisions for inventory write-downs. Prior to 2021, PLX's gross profit moved in tandem with crude oil price trend. However, from 2021 to 2023, this correlation weakened due to (i) rapid and volatile commodity prices and shipping costs, which caused domestic fuel prices to lag behind, and (ii) other factors such as internal restructuring within PLX and the 2022 Nghi Son Refinery incident, which led to local supply shortages. In the future, barring unforeseen disruptions, the correlation between PLX's gross margin and crude oil prices could strengthen. As such, the risk of a decline in oil prices remains a potential threat to PLX's gross profitability.

Fig 14. PLX – Correlation between PLX's GPM & Brent crude oil price changes (%)



Source: Petrolimex, Bloomberg, KB Securities Vietnam

The transition to EVs poses a challenge for PLX as it relies on fuel sales a major revenue source

BMI (Fitch Solution) forecasts that the growth rate of EV sales in Vietnam will reach a CAGR of 25.1% during the 2022–2029 period. The faster-than-expected penetration of EVs into the domestic market could result in a decline in gasoline and oil consumption, weighing on PLX's financial performance.

PLX faces heightened competition as it expands into value-added services

Value-added services, including vehicle repair and washing, may face significant competition from numerous small-scale businesses operating in the same field. The EV charging station segment is poised to experience competition from new entrants like PV Oil (OIL), PV Power (POW), and office buildings or shopping centers that meet the required standards for such facilities. This competitive landscape could challenge companies like PLX as they look to expand their offerings in these areas.

Forecast

Table 15. PLX – 2023A–2025F business performance

(VNDbn)	2023A	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	273,979	279,134	1.9%	289,881	3.8%	
Petroleum distribution	257,017	262,874	2.3%	273,491	4.0%	KBSV assumes that average oil prices will drop to USD75/barrel from 2025. The growth thereafter is expected to be driven primarily by increased consumption, benefiting from broader economic recovery.
Petrochemicals	6,622	5,960	-10.0%	5,888	-1.2%	
Liquefied petroleum gas (LPG)	2,499	2,249	-10.0%	2,200	-2.2%	
Petroleum transportation	6,042	6,216	2.9%	6,429	3.4%	
Others	1,799	1,835	2.0%	1,872	2.0%	
Gross profit	15,264	16,691	9.4%	18,377	10.1%	
Gross profit margin	5.6%	6.0%		6.3%		GPM is expected to improve driven by (i) operational streamlining, with a focus on core segments, leading to cost reductions from 2025; (ii) the anticipated adjustment of international transportation costs starting in 2025; and (iii) the planned adjustment of regulated costs based on CPI from 2Q2025.
Financial income	2,743	1,746	-36.3%	1,813	3.8%	
Financial expenses	1,723	1,495	-13.2%	1,474	-1.4%	
Profits from affiliates	624	561	-10.0%	570	1.5%	
SG&A	13,089	13,779	5.3%	14,309	3.8%	
Operating income/loss	3,818	3,725	-2.4%	4,977	33.6%	
Other income	129	132	1.9%	137	3.8%	
Profit before tax (PBT)	3,947	3,856	-2.3%	5,114	32.6%	
Net profit after tax (NPAT)	3,077	3,085	0.3%	4,091	32.6%	
NP after MI	2,834	2,841	0.3%	3,767	32.6%	
NPAT margin	1.0%	1.0%		1.3%		
RON 95 gasoline in Asia (USD/barrel)	99	95	-3.6%	89	-6.3%	
Brent crude oil (USD/barrel)	83	80	-3.6%	75	-6.3%	

Source: Petrolimex, KB Securities Vietnam

Valuation

We recommend BUY for PLX with a target price of VND48,000/share

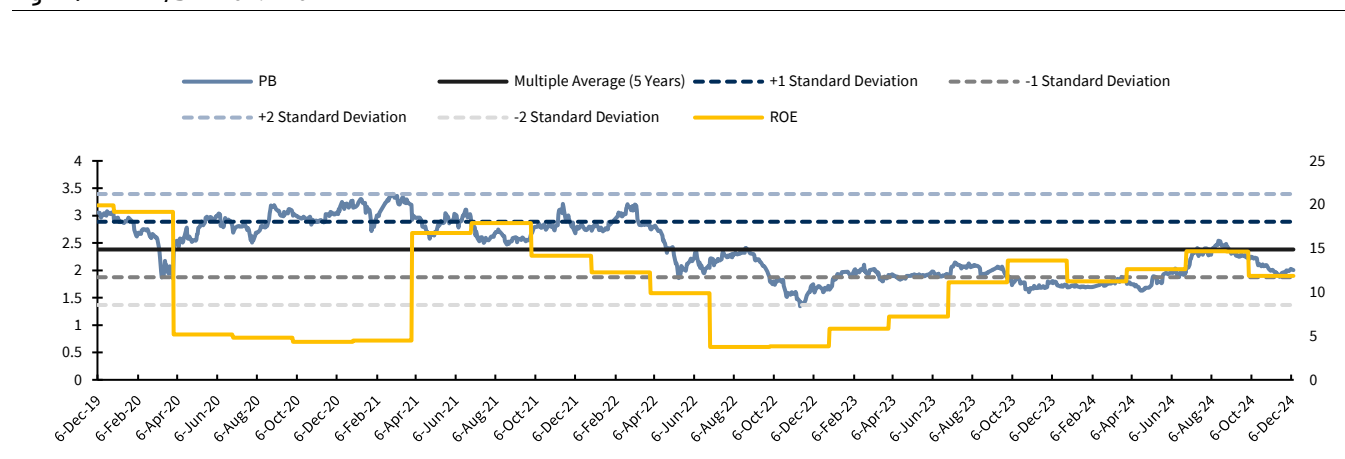
Based on the Free Cash Flow to the Firm (FCFF) valuation approach, we recommend BUY for PLX with a target price of VND48,000 per share for 2025, which represents a 19.6% upside from the closing price of VND40,150 per share on December 9, 2024. 2025 forward P/E and P/B ratios are 14.9x and 1.9x, respectively. The expected dividend yield stands at 6.2%.

Table 16. PLX – FCFF model assumptions

Risk-free rate	4.7%	Present value of terminal value (VNDbn)	47,395
Risk premium	7.9%	Present value during 2024–2028	21,915
Beta	1.01	Total present value	69,310
Average interest rate	7.5%	+ Cash & short-term investments	15,140
Corporate income tax	20.0%	– Total debt	–20,136
WACC	10.1%	– Minority interest	–3,263
Terminal growth	1.5%	Equity value	61,051
		Number of shares outstanding (million shares)	1,271
		Value per share (VND)	48,000
		Current price (Dec 9, 2024)	40,150
		Upside	19.6%

Source: Bloomberg, KB Securities Vietnam

Fig 17. PLX – P/B in 2019–2024



Source: Bloomberg, 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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