

PV Transportation (PVT)

Liquid cargo is a growth driver

August 31, 2023

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1H revenue slightly decreased while gross profit improved YoY

PV Transportation's (PVT) 1H23 revenue dipped 3.3% YoY due to the company's cutting the proportion of FSO/FPSO and commercial segments to focus on the core segment of logistics. NPAT gained 34% YoY. Gross profit from transportation rose 47% YoY, mainly coming from liquid cargo transportation. The bulk shipping recorded a loss of VND56 billion. Profit from liquidation of ships was VND55 billion.

Freight rates for crude oil and finished oil/chemicals benefit from increased demand and limited vessel supplies

The demand for shipping crude oil and finished oil/chemicals will increase due to (1) stably high oil prices that stimulate mining activities and (2) higher oil refining margins that boost the operating capacity of oil refineries. Meanwhile, the supply will still be tight because (1) the Russia-Ukraine war makes the shipping distance longer; (2) the number of new shipbuilding orders is small; and (3) the investment is pouring into LNG and LPG tankers, following the trend of clean energy.

LPG transport rates benefit as demand should grow stronger than supply

LPG freight rates are likely increase because (1) propane exports from North America to Asia are on the rise due to the widening price gap between the two regions; and (2) propane consumption growth prospects in Asia to the end of 2024 are positive as propane dehydrogenation (PDH) plants in China are expected to come into operation in the period 2023-2024.

BUY recommendation with the target price VND28,900

Based on FCF, EV/EBITDA and P/E valuation, we recommend BUY for PVT stock. The target price is VND28,900/share, equivalent to an upside of 24.5% compared to the price on August 31, 2023.

Buy maintain

Target price	VND28,900
Upside	24.5%
Current price (Aug 31, 2023)	VND23,200
Consensus market price	VND26,200
Market cap (VNDbn/USDmn)	7,201/299

Forecast earnings & valuation

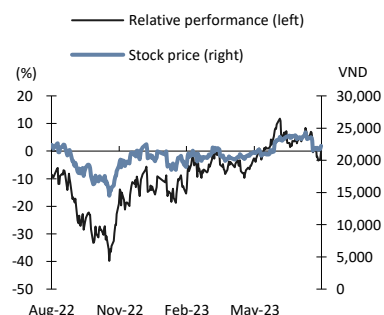
FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	7,368	9,047	9,189	10,640
Operating income (VNDbn)	963	1,234	1,487	1,742
NPAT of the parent (VNDbn)	666	857	1,024	1,191
EPS (VND)	2,056	2,500	2,876	3,345
EPS growth (%)	5.7	21.6	15.0	16.0
P/E (x)	11.1	8.8	10.1	8.6
P/B (x)	1.1	1.0	1.1	1.0
ROE (%)	12.1	14.4	13.0	13.0
Dividend yield (%)	5.1	0.5	3.5	3.5

Trading data

Free float	48.9%
3M avg trading value (VNDbn/USDmn)	82.2/3.4
Foreign ownership	35.8%
Major shareholder	Petrovietnam (PVN, 51%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-9.4	3.1	5.6	-0.2
Relative	-8.5	-7.3	-6.6	8.1



Source: Bloomberg, KB Securities Vietnam

1H23 performance updates

1H revenue slightly decreased while gross profit improved YoY

PVT's 1H23 revenue slightly decreased by 3.3% YoY mainly due to PVT's cutting proportion of the FSO/FPSO and commercial segments. The commercial segment usually helps maintain the revenue scale for PVT and does not contribute much in terms of gross profit, while the FSO/FPSO segment has a high profit margin but does not have a strong position compared to other opponents of PVT. Transportation revenue gained 21% YoY while the FSO/FPSO dropped 29%, and the commercial & other segments fell 62% YoY. Liquid freight rates remained high in 1H23, increasing by 25%–100% YoY for each type of vessel. Particularly, bulk cargo freight rates on the market recorded a decrease of about 50% YoY, returning to the 10-year average. NPAT advanced 34% YoY. Gross profit from transportation was up 47% YoY to VND672 billion, mainly coming from liquid cargo (crude oil, finished oil/chemicals, and LPG). The bulk cargo recorded a loss of VND56 billion. In 1H23, PVT liquidated two ships Apolo Pacific and PVT Dragon. Both are of moderate size and saleable, bringing in VND55 billion for PVT.

Table 1. PVT – 1H23 business results

	1H22	1H23	YoY %	KBSV's notes
Revenue (VNDbn)	4,279	4,141	-3%	
Transportation	2,877	3,467	21%	Positive growth was attributable to (1) the sharp increase in freight rates for crude oil, chemicals/finished products and LPG compared to 1H22 and (2) the contribution from chemical/finished products, LPG and bulk cargo ships bought in June 2022.
FSO/FPSO	421	298	-29%	Revenue from FSO/FPSO declined due to (1) PVT's reducing the contribution of the commercial segment to focus on the core business of shipping and (2) the suspended provision of O&M services to FPSO Chim Sao (Lewek Emas).
Commercial & others	981	375	-62%	Revenue from commercial and other segments declined due to PVT's reducing the contribution of the commercial segment to focus on the core business of shipping.
Gross profit (VNDbn)	732	806	10%	
Transportation	458	673	47%	The increase mainly came from the liquid cargo transportation segment (crude oil, finished oil/chemicals, and LPG). Bulk shipping segment recorded a loss of about VND56 billion in 1H23.
FSO/FPSO	125	95	-24%	
Commercial & others	149	37	-75%	
SG&A costs (VNDbn)	158	154	-3%	
SG&A/revenue ratio (%)	4%	4%		
Operating income (VNDbn)	575	652	13.3%	
Financial income (VNDbn)	79	187	137.5%	Financial income gained thanks to (1) large amount of cash and (2) higher LIBOR interest rate.
Financial expenses (VNDbn)	123	170	38.6%	Financial expenses also increase due to higher LIBOR interest rate.
Other incomes (net, VNDbn)	19	74	301.0%	Profit from liquidation of Apollo Pacific and PVT Dragon ships hit VND55 billion.
Profit before taxes (VNDbn)	550	743	35.2%	
Profit after taxes (VNDbn)	460	616	34.0%	

Source: PV Transportation, KB Securities Vietnam

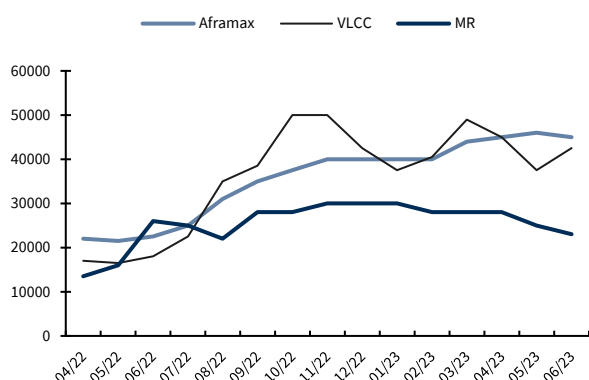
International freight rates for crude oil and finished oil/chemicals benefit from increased demand while ship supply is limited

Production cuts from OPEC+ countries triggered crude oil price rallies but caused transport volumes to decline, negatively affecting freight rates in the short term. However, we believe that in the period 2H23 – 2024, the demand for transportation of crude oil and finished oil/chemicals will rebound thanks to (1) stably high oil prices that stimulate exploitation activities in non-OPEC+ countries and (2) increasing oil refining margins that boost the operating capacity of refineries/petrochemical plants around the world. Meanwhile, the supply of fleets shipping crude oil and finished oil/chemicals will still be tight because (1) the Russia-Ukraine war made transport distances become longer, reducing transport efficiency; (2) the number of new shipbuilding orders has been very low in recent years due to the consequences of the Covid pandemic; and (3) companies around the world are increasingly pouring investment into LNG and LPG ships to follow the energy trend of clean energy.

Crude oil transportation benefits from negotiations to increase freight rates, while finished product/chemical transportation may be slightly affected by the maintenance schedule of petrochemical plants

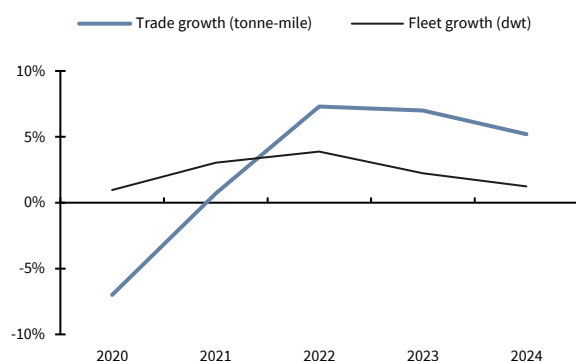
In the domestic market, PVT successfully agreed to increase crude oil freight rates for Binh Son Refining and Petrochemical JSC (BSR). With the new agreement, in addition to raising freight prices to keep up with higher fuel prices, PVT will benefit from a guaranteed profit increase of about 10%, helping to directly improve GPM. The domestic finished oil/chemical transportation segment should be stable in 2H23–2024 as Nghi Son refinery and petrochemical plant (NSR) should perform better compared to 2022. In 2H23–2024, both plants have major overhaul and maintenance schedules (August 2023 for NSR and 2Q24 for BSR). However, we believe that this factor will only slightly affect PVT’s shipping output because (1) during the overhaul process, the plants will not completely stop and (2) PVT can optimize its fleet by operating abroad in the short term.

Fig 2. Global – Freight rates for crude oil and finished oil/chemicals (USD/day)



Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – Crude oil and finished oil/chemicals transportation demand growth vs fleet growth (%)

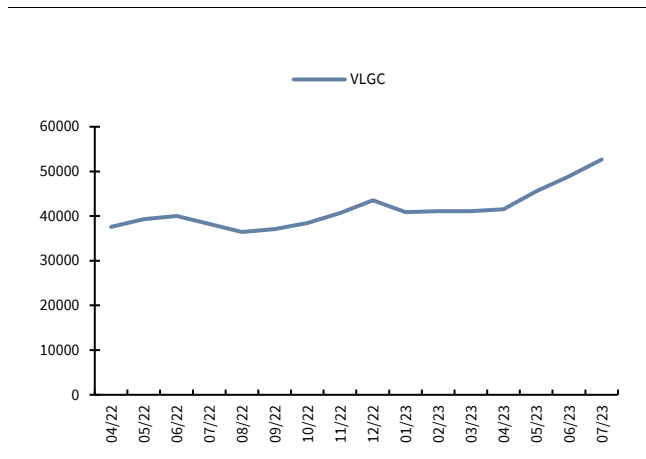


Source: PV Transportation, Clarkson Research, KB Securities Vietnam

LPG freight rates benefit as the demand is expected to grow stronger than supply

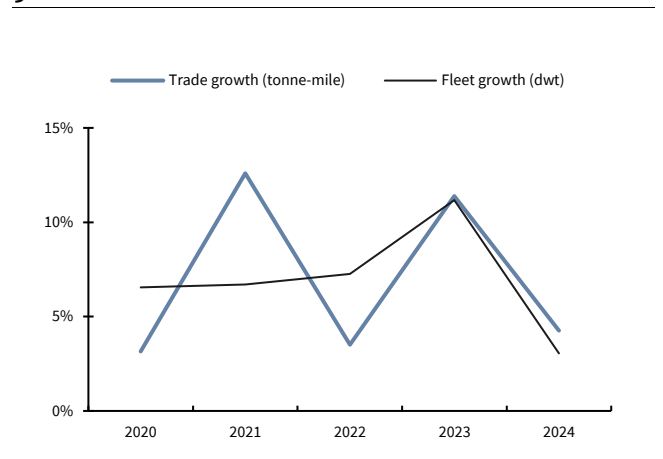
As we mentioned, the number of orders to build new LPG tankers is currently very large due to the trend of prioritizing clean energy. Clarkson Research forecasts that the global LPG fleet growth rate will reach about 11% in 2023. However, we believe that LPG ship freight rates may still increase due to the trend of increasing LPG trading demand in Asia. Propane exports from North America to Asia are on the rise as the price difference between the two regions tends to widen. The growth outlook for propane consumption in Asia until the end of 2024 is also very positive when a large number of PDH plants in China are expected to come into operation in the period 2023–2024. S&P Global forecasts that there will be 11 new plants coming into operation in 2023, in addition to 24 ones in 2022, directly boosting the country's LPG import demand.

Fig 4. Global - LPG tanker rates (USD/day)



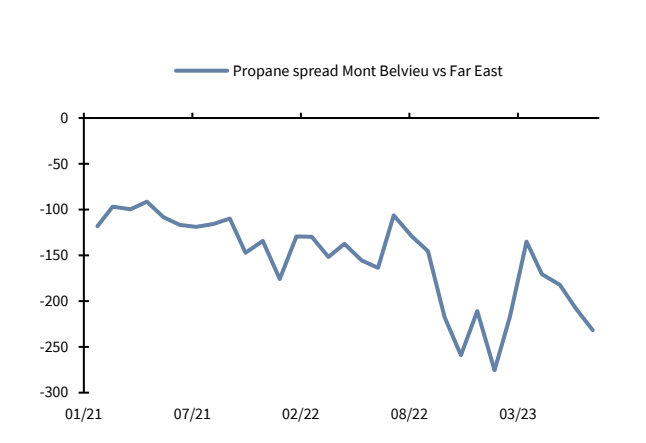
Source: Bloomberg, KB Securities Vietnam

Fig 5. Global - LPG transportation demand growth vs fleet growth (%)



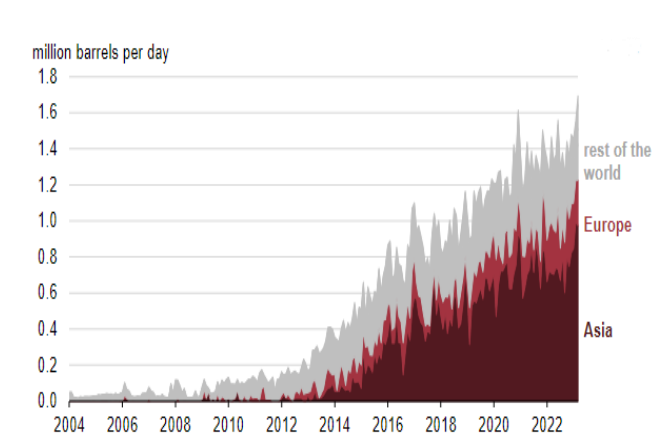
Source: PV Transportation, Clarkson Research, KB Securities Vietnam

Fig 6. Global - Propane price gap between Mont Belvieu and Far East (USD/m³)



Source: Bloomberg, KB Securities Vietnam

Fig 8. PVT - Propane exports from the US to Asia and other regions (million barrels/day)



Source: International Energy Agency, KB Securities Vietnam

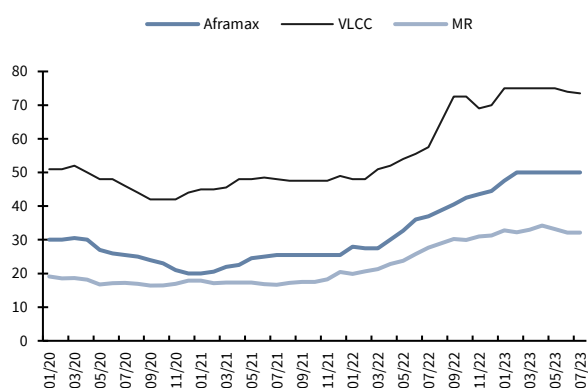
The outlook for the bulk cargo segment is quite gloomy in 2H23 due to the stagnation in global importation and exportation

We believe that the freight rate for bulk cargo in 2H23 will be quite negative since (1) the China real estate market has not yet shown any signs of improvement and (2) port congestion in the world has been partly resolved, increasing the operational efficiency of bulk cargo ships. Bulk freight rates are seasonal and will usually increase in the 4Q for year-end demand, but the base level is too high in 2022 and will still cause freight rates to record negative growth over the same period. We expect the bulk cargo segment to improve in 2024 when China has policies to promote stronger public investment, helping to increase the demand for shipping bulk cargo such as coal and construction steel.

PVT has a strong growth potential thanks to its fleet expansion plan

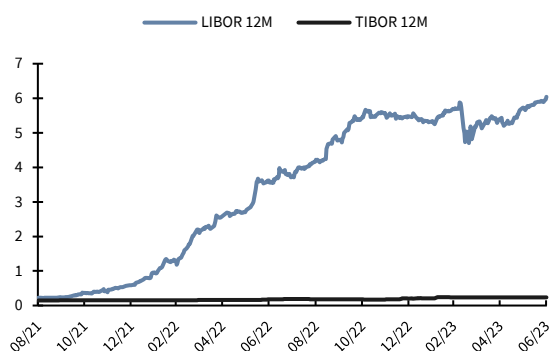
By the end of 2023, PVT will receive two more purchased ships and two more BBHP tankers. PVT is negotiating to invest in a number of additional ships but will only focus on transporting finished oil/chemicals and LPG. By 2025, PVT aims to expand its fleet to 85 ships (72 purchased ships and 13 BBHP ships). We believe that PVT will find it difficult to achieve this target because the current tanker rates are very high compared to the past mainly due to favorable freight rates. However, we believe that the option to strengthen BBHP will be a good solution in the context of high ship prices and world interest rates. PVT often leases and purchases ships from Japan. The BBHP option does not require a large investment immediately while the recurring costs are reasonable due to fluctuations in Japanese interest rates (which are very attractive compared to world LIBOR rates). We expect PVT's fleet to expand to 52 ships by the end of 2023 and 64 ships by 2025.

Fig 8. PVT – Prices of 10-year-old ships on the market (USDmn)



Source: Bloomberg, KB Securities Vietnam

Fig 9. Global – Japanese 12M TIBOR rates vs 12M LIBOR rates (%)



Source: Bloomberg, KB Securities Vietnam

Forecast & valuation

Table 10. PVT – 2023F business results

	2022	2023F	+/-%YoY	KBSV's notes
Revenue (VNDbn)	9,047	9,189	1.6%	
Transportation	6,801	7,710	13.4%	Revenue from transportation should increase thanks to (1) YoY spiking average freight rates for crude oil, chemicals/finished products and LPG and (2) the addition of 11 ships despite liquidating two ships.
FSO/FPSO	796	555	-30.2%	Revenue from FSO/FPSO should decrease due to (1) PVT's reducing the contribution of the commercial segment to focus on the core business of shipping and (2) suspending O&M services to FPSO Chim Sao (Lewek Emas).
Commercial & others	1,450	924	-36.3%	Revenue from this segment should decrease due to as PVT decided to reduce the contribution of the commercial segment to focus on the core business of shipping.
Gross profit (VNDbn)	1,654	1,855	12.2%	
Transportation	1,370	1,651	20.5%	The profit mainly comes from the liquid cargo transportation segment (crude oil, finished oil/chemicals, and LPG). The bulk cargo segment is forecasted to have a gross loss of about VND70 billion.
FSO/FPSO	227	166	-26.9%	
Commercial & others	57	38	-33.3%	
SG&A costs (VNDbn)	421	368	-12.6%	
SG&A/revenue ratio (%)	4.7%	4.0%		
Operating income (VNDbn)	1,234	1,487	20.5%	
Financial income (VNDbn)	221	323	46.2%	Financial income should benefit from accumulated cash from 2022.
Financial expenses (VNDbn)	314	317	1.0%	
Other incomes (net, VNDbn)	288	55	-80.9%	Income from vessel liquidation decreases because in 2022, Athena 100,000 DWT was sold at a high price.
Profit before taxes (VNDbn)	1,457	1,573	8.0%	
Profit after taxes (VNDbn)	1,156	1,243	7.5%	

Source: PV Transportation, KB Securities Vietnam

Valuation: BUY recommendation – target price VND28,900

We use a combination of FCFF, EV/EBITDA and P/E comparisons to give PVT a BUY recommendation with a target price of VND28,900/share, equivalent to a return of 24.5% compared to the closing price of VND23,200/share on August 31, 2023.

Table 11. PVT – Valuation according to FCFF

Risk-free rate	5.0%	Present value of terminal value (VNDbn)	6,079
Equity risk premium	8.2%	Total present value for the period 2023–2027	6,354
Beta	1.2	Total present value for the period 2023–2027	12,433
Average interest rate	7.0%	Plus: Cash & Short-term investments	4,501
Taxes	20.0%	Minus: Net Debt	-3,690
Weighted cost of capital	12.4%	Minus: Minority interest	-2,012
Terminal growth rate	1.0%	Equity value	11,232
		Number of shares outstanding (million shares)	356.10
		Equity value/share (VND)	31,542

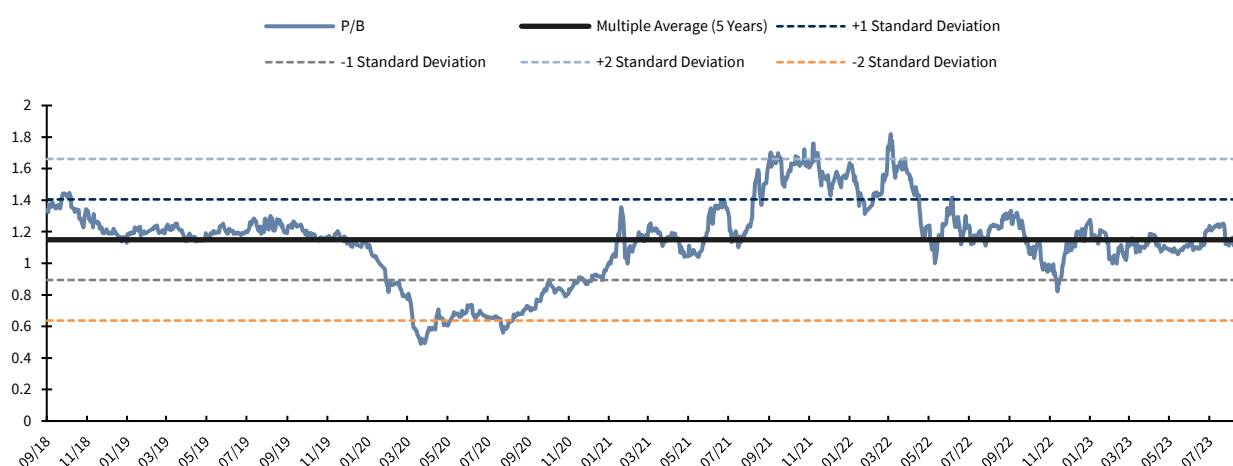
Source: PV Transportation, KB Securities Vietnam

Table 12. PVT – Final valuation

Method	Price	Weight	Price per weight
FCFF	31,542	50%	15,771
EV/EBITDA (3.4x)	28,672	25%	7,168
P/E(8x)	23,008	25%	5,752
Target price (rounded)			28,700
Current price (August 29, 2023)			22,250
Upside			29.0%

Source: PV Transportation, KB Securities Vietnam

Fig 13. PVT – P/B in 2018–2023 (x)



Source: PV Transportation, KB Securities Vietnam

PVT – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND billion)	2021	2022	2023F	2024F	(VND billion)	2021	2022	2023F	2024F
Net sales	7,368	9,047	9,189	10,640	CURRENT ASSETS	4,798	14,251	16,542	18,707
Cost of sales	-6,118	-7,392	-7,334	-8,474	Cash and cash equivalents	1,349	6,286	7,476	8,287
Gross Profit	1,250	1,655	1,855	2,166	Short-term investments	1,726	1,794	2,614	2,947
Financial income	181	221	328	406	Accounts receivable	1,421	2,707	3,083	3,282
Financial expenses	-157	-314	-317	-366	Inventories	142	1,377	1,420	1,644
of which: interest expenses	-147	-214	-286	-366	LONG-TERM ASSETS	7,639	179	159	183
Gain/(loss) from joint ventures (from 2015)	30	25	25	25	Long-term trade receivables	110	7,965	9,066	10,420
Selling expenses	-10	-13	-13	-13	Fixed assets	6,976	135	135	135
General and admin expenses	-277	-408	-355	-411	Investment properties	2	7,260	8,361	9,715
Operating profit/(loss)	1,017	1,166	1,523	1,807	Long-term incomplete assets	0	22	22	22
Other incomes	74	309	55	0	Long-term investments	0	0	0	0
Other expenses	36	21	0	0	TOTAL ASSETS	12,437	14,251	16,542	18,707
Net other income/(expenses)	38	288	55	0	LIABILITIES	5,483	6,238	6,939	7,562
Income from investments in other entities	0	0	0	0	Current liabilities	2,483	3,055	2,864	2,886
Net accounting profit/(loss) before tax	1,055	1,454	1,578	1,807	Trade accounts payable	617	812	725	840
Corporate income tax expenses	-212	-301	-331	-388	Advances from customers	28	25	27	30
Net profit/(loss) after tax	838	1,156	1,247	1,460	Short-term unrealized revenue	0	1	2	3
Minority interests	172	299	219	257	Short-term borrowings	777	1,099	989	856
Attributable to parent company	666	857	1,028	1,203	Long-term liabilities	2,999	3,182	4,075	4,676
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	0	0	0	0
					Long-term borrowings	2,465	2,591	3,484	4,085
					OWNER'S EQUITY	6,954	8,014	9,603	11,145
					Paid-in capital	3,237	3,237	3,561	3,561
					Share premium	0	0	0	0
					Undistributed earnings	926	1,489	2,535	3,820
					Minority interests	1,777	2,012	2,231	2,488
Margin ratio					Key ratios				
Gross profit margin	17.0%	18.3%	20.2%	20.4%	Multiple				
EBITDA margin	25.7%	26.9%	29.5%	29.6%	P/E	11.1	8.8	10.0	8.6
EBIT margin	13.1%	13.6%	16.2%	16.4%	P/E diluted	11.1	8.8	10.0	8.6
Pre-tax profit margin	14.2%	16.1%	17.2%	17.4%	P/B	1.1	1.0	1.1	0.9
Operating profit margin	13.8%	12.9%	16.6%	17.0%	P/S	1.0	0.9	1.1	1.0
Net profit margin	11.4%	12.8%	13.6%	13.7%	P/Tangible Book	1.1	1.0	1.1	0.9
					P/Cash Flow	4.2	3.6	4.2	3.7
					EV/EBITDA	5.8	4.8	5.3	4.7
					EV/EBIT	11.5	9.5	9.7	8.5
Cash Flow Statement					Operating performance				
Net profit/(loss) before tax	1,050	1,457	1,578	1,848	ROE	12.1%	14.4%	13.0%	13.1%
Depreciation and amortisation	930	1,195	1,225	1,410	ROA	6.7%	8.1%	7.5%	7.8%
Profit/loss from investing activities	-221	91	91	91	ROIC	10.3%	11.8%	12.3%	12.7%
Interest expense	139	214	286	366	Financial structure				
Operating profit/(loss) before changes in Working Capital	1,752	2,645	3,180	3,715	Cash Ratio	1.2	1.5	2.0	2.2
(Increase)/decrease in receivables	-28	46	-43	-224	Quick Ratio	1.8	1.9	2.5	2.7
(Increase)/decrease in inventories	30	-37	20	-24	Current Ratio	1.9	2.1	2.6	2.9
Increase/(decrease) in payables	622	81	-87	115	LT Debt/Equity	0.4	0.3	0.4	0.4
(Increase)/decrease in prepaid expenses	-185	-11	-11	-11	LT Debt/Total Assets	0.2	0.2	0.2	0.2
Net cash inflows/(outflows) from operating activities	1,767	2,172	2,443	2,760	Debt/Equity	0.1	0.1	0.1	0.1
Purchases of fixed assets and other long term assets	-2,105	-1,661	-2,285	-2,719	Debt/Total Assets	0.1	0.1	0.1	0.0
Proceeds from disposal of fixed assets	101	389	55	0	ST Liabilities/Equity	0.4	0.4	0.3	0.3
Loans granted, purchases of debt instruments	-2,808	-4,079	0	0	ST Liabilities/Total Assets	0.2	0.2	0.2	0.2
Collection of loans, proceeds from sales of debts instruments	2,872	3,164	0	0	Total Liabilities/Equity	0.8	0.8	0.7	0.7
Investments in other entities	0	0	0	0	Total Liabilities/Total Assets	0.4	0.4	0.4	0.4
Proceeds from divestment in other entities	0	0	0	0	Activity ratios				
Dividends and interest received	172	166	166	166	Account Receivable Turnover	5.8	6.5	6.6	7.0
Net cash inflows/(outflows) from investing activities	-1,599	-2,020	-2,050	-2,539	Inventory Turnover	48.2	46.1	43.4	49.6
Proceeds from issue of shares	239	0	0	0	Account Payable Turnover	10.8	12.7	12.0	13.6
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	1,526	1,489	1,431	1,339					
Repayment of borrowings	-931	-1,090	-648	-871					
Finance lease principal payments	0	0	0	0					
Dividends paid	-373	-40	-356	-356					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	460	359	427	112					
Net increase in cash and cash equivalents	-126	511	820	333					
Cash and cash equivalents at the beginning of period	1,473	1,283	1,794	2,614					
Cash and cash equivalents at the end of period	1,350	1,794	2,614	2,947					

Source: PV Transportation, KB Securities Vietnam

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(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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