

ACB Bank (ACB)

Promising credit growth amid difficulties

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Analyst Pham Phuong Linh
linhpp@kbsec.com.vn

Corporate lending led credit growth, while the main segment of personal loans should improve in 2H24

KBSV expects Asia Commercial Bank (ACB) to achieve the assigned credit target of 16%, in which large corporate loans should increase further in scale and weight. In the long term, ACB may still focus on retail lending thanks to its inherent advantages and experience with this customer group. The demand for personal loans (consumer loans, business loans, and home loans) may improve in 2H24.

NIM forecast was lowered by 4bps due to higher lending ratio to corporate customers

KBSV believes that lending interest rates have bottomed out and may recover slightly from 3Q. On the other hand, deposit interest rates tend to rise again but will take time to be reflected on the CoF. The increase in CoF will be less than the improvement of the IEA as we believe that interest rates are unlikely to increase as strongly as in 1H23. NIM forecast for 2024 was lowered 4bps to 3.95% due to higher lending to corporate customers with lower NIM than private lending.

Asset quality declined but to a lesser extent than other banks

The loan loss coverage ratio (LLCR) fell to 78.6% by the end of 1Q, putting more provisioning pressure on the bank. However, we observed that all Vietnam banks have experienced a decline in asset quality, and the situation at ACB is still positive compared to the whole industry. The asset quality of ACB is among the top in the industry thanks to its large customer base and low risk appetite.

Valuation: BUY rating – Target price VND30,200

We changed our forecasts for the bank's NOII, NIM, and NPL to reflect current developments. The new price target after dividend payment is VND30,200. We recommend BUY for ACB with a potential return of 23% compared to June 12, 2024.

Buy maintain

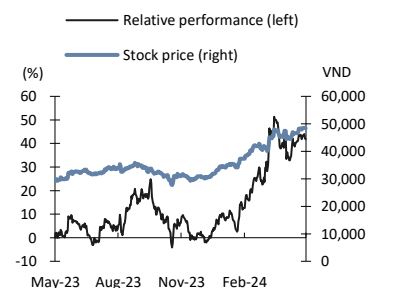
Target price	VND30,200
Upside	23.0%
Current price (Jun 12, 2024)	VND24,550
Consensus target price	VND30,000
Market cap (VNDtn/USDbn)	109.7/4.3

Trading data	
Free float	90%
3M avg trading value (VNDbn/USDmn)	156/6.4
Foreign ownership	30%
Major shareholder	Vietnam Enterprise Investments (5.48%)

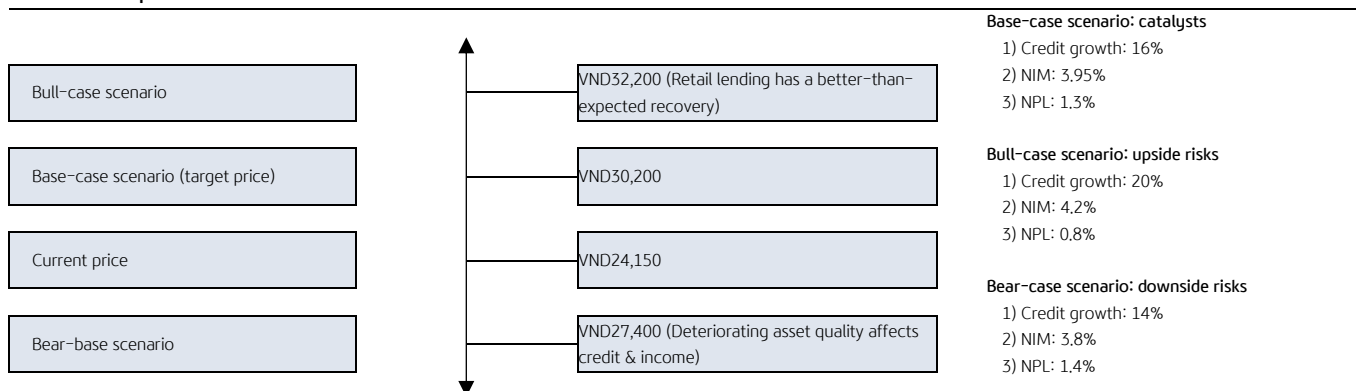
Share price performance				
(%)	1M	3M	6M	12M
Absolute	1.9	2.1	26.6	30.7
Relative	-2.9	-0.2	9.9	14.9

Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
NII (VNDbn)	23,534	24,960	29,559	34,662
PPOP (VNDbn)	17,185	21,872	24,425	28,626
NPAT-MI (VNDbn)	13,688	16,045	17,740	20,779
EPS (VND)	4,053	4,131	4,567	5,350
EPS growth (%)	14%	2%	11%	17%
PER (x)	10.9	10.7	9.6	8.2
BVPS (VND)	17,303	18,269	21,740	25,594
PBR (x)	2.54	2.41	2.02	1.72



Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	29,559	34,662	29,093	34,032	1.6	1.9
EBIT	24,425	28,626	24,058	28,077	1.5	2.0
NP after MI	17,740	20,779	17,319	20,225	2.4	2.7

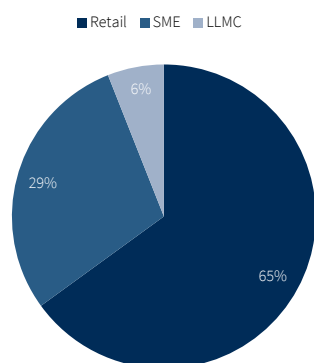
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	29,562	35,276	29,559	34,662	(0.0)	(1.7)
EBIT	25,283	29,694	24,425	28,626	(3.4)	(3.6)
NP after MI	18,838	22,313	17,740	20,779	(5.8)	(6.9)

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Asia Commercial Bank, KB Securities Vietnam

Business operation

Asia Commercial Joint Stock Bank (ACB) was established and officially put into operation in 1993. With total assets of about VND718 trillion, it is currently in the group of large joint stock commercial banks according to our classification. ACB has focused on retail lending with a proportion of over 60% for many years. This is also the bank with the best asset quality in the system with low real estate loans and corporate bonds.

1Q24 performance

Profit before tax reached 8,168 billion, down slightly by 5.1% YoY and 3% QoQ

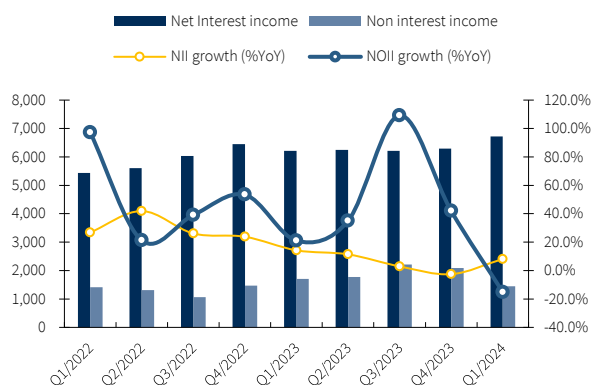
Credit growth in the first quarter of 2024 reached 3.8% YTD with the growth rate of the corporate customer group being better than the scientific and technological group in the context of relatively weak personal credit demand. NIM improves slightly to 3.9% compared to the end of 2023, CASA ratio improves to 23%. First quarter profit decreased slightly compared to quarter 1/2023 due to (1) sharp increase in credit costs; (2) debt collection activities decreased sharply compared to the surge in the same period last year (Q1/2023 +54% YoY). Total operating income (TOI) and PBT reached 8,168 billion and 4,892 billion respectively, completing 22% and 21% of our 2024 forecast.

Table 1. ACB – Updated business results

(VNDbn, %)	1Q23	4Q23	1Q24	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	6,215	6,290	6,722	6.9%	+8.1%	Net interest income was driven by (1) credit growth (+3.8% YTD, better than the industry average of only 0.26%) and (2) NIM improvement compared to the previous quarter. -NFI grew 18% YoY thanks to positive growth in fee activities from the card and international payment segments compared to 1Q23. Meanwhile, the bancassurance segment decreased by 25% YoY.
Non-interest income (NOII)	1,705	2,089	1,447	-30.7%	-15.1%	- Income from securities trading and investment reached VND400 billion compared to a modest level of VND42 billion in 1Q23, compensating for a 47% YoY decline in the foreign exchange segment. - Other income decreased by 89% YoY, making NOII fall 15% YoY. Slower debt collection activities at the beginning of the year were the main factor leading to the decline in other income.
Total operating income (TOI)	7,920	8,378	8,168	-2.5%	+3.1%	
Operating expenses (OPEX)	(2,508)	(3,013)	(2,764)	-8.3%	+10.2%	Operating expenses increased 10% YoY but decreased 8% QoQ, including increased employee and administration costs.
Cost to income ratio (CIR)	31.7%	36.0%	33.8%	-212bps	+217bps	Operating expenses increased faster than total income, triggering a 34% decrease in CIR. However, the decline is still under the bank's control (<35%).
Provision expenses (VNDbn)	(256)	(322)	(512)	59.3%	+100.1%	Debt quality declined in the first quarter, causing provision costs to double YoY and increase 60% QoQ.
Profit before taxes (PBT)	5,156	5,044	4,892	-3.0%	-5.1%	TOI remained flat while operating and provision costs increased, affecting PBT.
Profit after taxes (NPAT)	4,135	4,006	3,905	-2.5%	-5.6%	
Credit growth (% YTD)	-0.6%	17.9%	3.8%			Credit growth recovered compared to 1Q23 and compared to other retail banks. Credit was led by lending to large corporate customers (+26% YTD) and personal customer group (+3.8% YTD), while SME lending decreased slightly by 1.4% YTD.
Deposit growth (% YTD)	-0.1%	18.7%	1.0%			
Net interest margin (NIM)	4.38%	3.86%	3.90%	+4bps	-47bps	NIM began to show signs of improvement compared to the previous quarter, although the improvement was not significant (+4bps QoQ, -47bps YoY) as ACB took the lead in lowering lending interest rates to support customers, causing IEA to decrease 69bps QoQ and decrease more slowly than the 73bps decline of CoF.
Non-performing loan ratio (NPL)	0.97%	1.21%	1.45%	+24bps	+47bps	Asset quality declined slightly, NPL in the first quarter increased to 1.45% (NPL before CIC impact was 1.31%). NPL increased sharply in all retail groups, SMEs, and large enterprises. During the period, the bank also used VND107 billion to remove bad debt from the balance sheet.

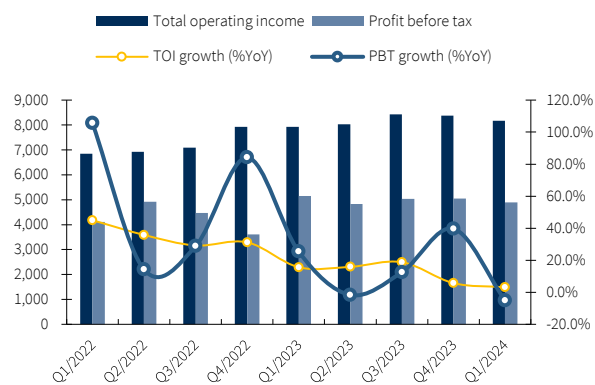
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – NII & NOI growth by quarter (%)



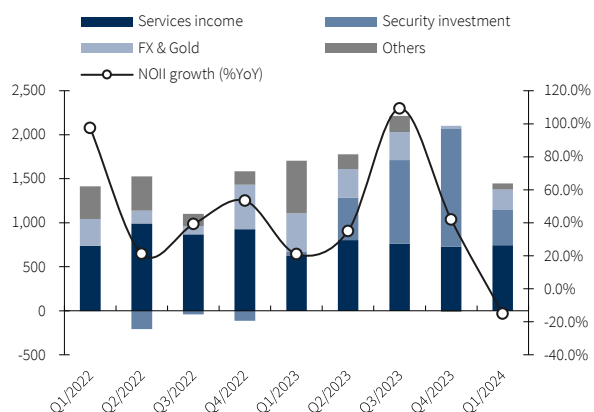
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – TOI & PBT growth (%)



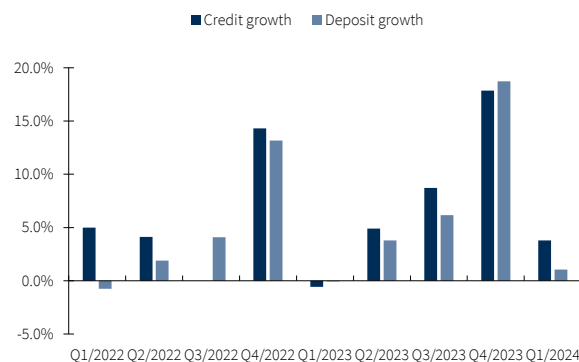
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – NOI breakdown



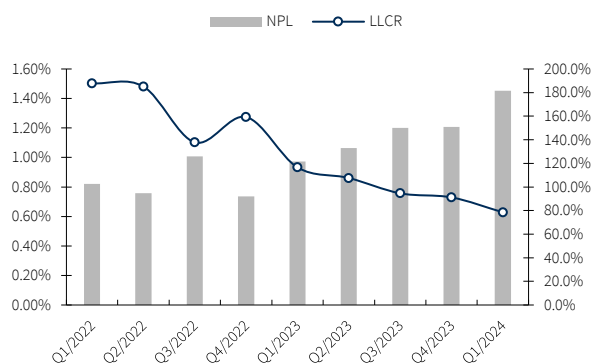
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 5. ACB – Credit & deposit growth (%)



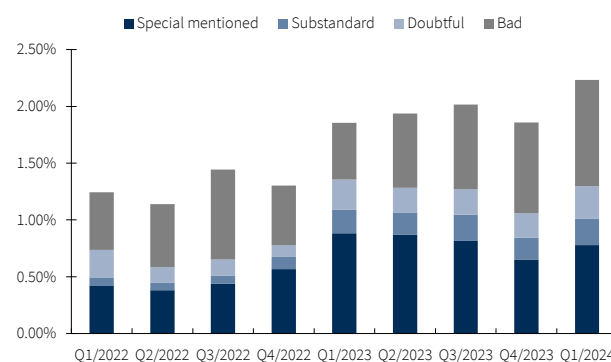
Source: Financial statements of the banks, KB Securities Vietnam

Fig 6. ACB – NPL ratio & LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – NPL breakdown



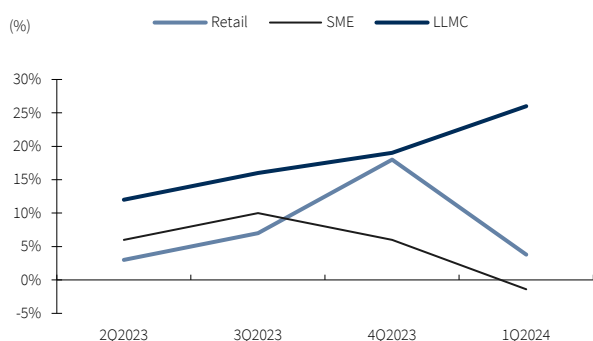
Source: Asia Commercial Bank, KB Securities Vietnam

Corporate lending led credit growth, while the main segment of personal loans should improve in 2H24

Credit in 1Q was led mainly by large corporate customers with a growth rate of 26% YTD in the context of slow economic recovery and subdued personal lending segment. Thanks to that, ACB outperformed other retail banks (Figure 9). By the end of May 2024, ACB's credit growth reached 6.71% YTD, a sign of better recovery in the past two months. Therefore, we expect ACB will reach the assigned credit target of 16% this year. To be more specific, lending to large corporate customers is expected to further increase in scale and contribution proportion after the bank flexibly raised the contribution of this segment from 2023.

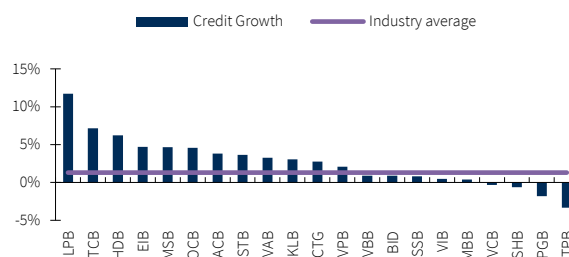
In the long term, ACB may still focus on retail lending thanks to its inherent advantages and experience with this customer group. The demand for personal loans (consumer loans, business loans, and home loans) may improve in 2H24 when (1) interest rates at ACB are more competitive than other banks; (2) the real estate market has gradually warmed up since 1Q24; and (3) business and import-export activities should improve in 2H24.

Fig 8. ACB – Credit growth by customer group (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. Vietnam banks – Credit growth (%)



Source: Vietnam banks, KB Securities Vietnam

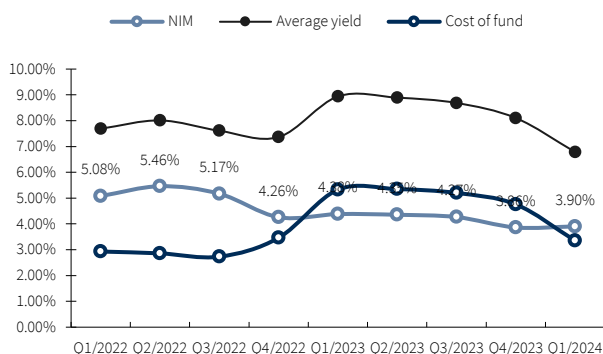
NIM forecast was lowered by 4bps due to higher lending ratio to corporate customers

1Q NIM improved slightly by 4bps, relatively positive compared to the NIM decline of most other banks since (1) ACB well-controlled CoF (-73bps QoQ) after the high interest rate deposits matured in 4Q23 and were rescheduled with new lower interest rates; and (2) IEA decreased more slowly than CoF (-69bps QoQ). IEA's slower decrease may be due to ACB's lower lending interest rate reduction in 1Q compared to other banks because it has always maintained low interest rates for customers before IEA recorded a sharp decrease from 2Q23 (Figure 10).

KBSV believes that lending interest rates have bottomed out and may recover slightly from 3Q. In addition, ACB has been maintaining its lending position in the interbank market with the recent high level of interbank interest rates, which will help IEA improve (decrease more slowly or increase again). On the other hand, deposit interest rates tend to rise again but will take time to be reflected on the CoF. The increase in CoF will be less than the IEA's as we believe that interest rates are unlikely to increase as strongly as in 1H23.

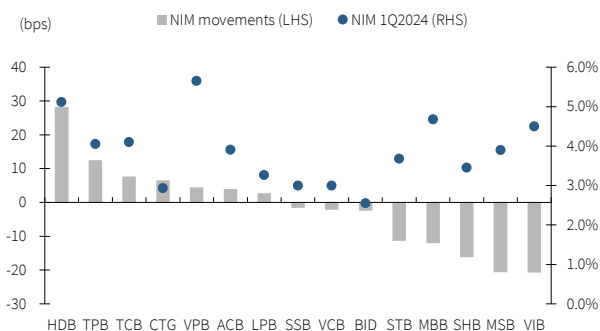
NIM forecast for 2024 was lowered 4bps to 3.95% due to higher lending to corporate customers with lower NIM than private lending.

Fig 10. ACB – NIM growth (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. Vietnam banks – NIM growth (%)



Source: Vietnam banks, KB Securities Vietnam

Asset quality declined but to a lesser extent than other banks

Although the NPL ratio climbed to 1.45%, a slight increase compared to the management’s expectation as (1) the debt collection progress was longer in 1Q (lasting six months instead of two or three months previously); and (2) CIC's involvement (customer's debt at another bank is transferred) contributed 0.14% to NPL. Therefore, the formation of NPLs also increased after decreasing slightly in 4Q23. The LLCR continued to drop to 78.6% by the end of 1Q, putting more provisioning pressure on the bank. However, we observed that all Vietnam banks have experienced a decline in asset quality, and the situation at ACB is still positive compared to the whole industry. The asset quality of ACB is among the top in the industry thanks to its large customer base and low risk appetite.

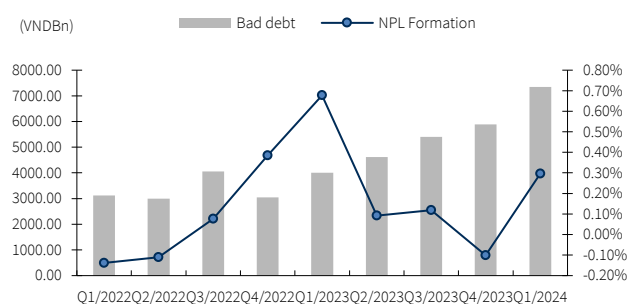
By the end of 1Q, ACB's restructured debt under Circular 02 was about VND2,500 billion, equivalent to an increase of 14% compared to the beginning of the year and accounting for about 0.5% of total outstanding debt. Restructured debts will be fully provisioned in 2024 according to the provisions of the Circular.

Fig 12. Vietnam banks – Asset quality

1Q2024	NPL		+/-bps (QoQ)	NPL adjusted G2		+/-bps (QoQ)	LLCR		QoQ
	4Q2023	1Q2024		4Q2023	1Q2024		4Q2023	1Q2024	
BID	1.3%	1.5%	25	2.8%	3.6%	73	182%	153%	-28
VCB	1.0%	1.2%	24	1.4%	1.8%	36	230%	200%	-30
CTG	1.1%	1.3%	22	2.7%	2.9%	26	167%	151%	-16
MBB	1.6%	2.5%	88	3.9%	4.8%	90	117%	80%	-37
TCB	1.2%	1.1%	-8	2.0%	2.2%	21	102%	106%	4
VPB	5.0%	4.8%	-17	11.9%	13.1%	124	52%	53%	2
ACB	1.2%	1.5%	24	1.9%	2.2%	37	91%	79%	-12
STB	2.3%	2.3%	0	3.0%	3.1%	13	69%	73%	4
SHB	2.8%	3.0%	17	4.1%	4.9%	41	78%	69%	-9
HDB	1.8%	2.2%	45	7.0%	7.0%	53	66%	57%	-9
VIB	3.1%	3.6%	45	8.7%	9.2%	53	51%	50%	-1
LPB	1.3%	1.4%	5	2.5%	2.2%	-28	94%	89%	-5
TPB	2.0%	2.2%	19	4.9%	4.9%	6	64%	60%	-3
SSB	1.9%	2.0%	2	3.1%	3.1%	1	86%	85%	0
MSB	2.9%	3.2%	31	4.6%	4.9%	29	55%	54%	-2
EIB	2.7%	2.9%	21	4.0%	4.1%	10	41%	37%	-4
OCB	2.8%	2.9%	12	4.8%	5.5%	67	50%	55%	5

Source: Vietnam banks, KB Securities Vietnam

Fig 13. ACB – NPL & its formation (VNDbn)



Source: Asia Commercial Bank, KB Securities Vietnam

Forecast & valuation

Table 14. ACB – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Net interest income (NII)	24,960	29,559	+18.4%	34,662	+17.3%	KBSV maintains the forecast for credit growth at 16%, based on strong growth in the first five months of the year, outperforming other retail banks. Credit from the personal customer segment to improve better in 2H24. - We lowered the expected growth rate for NFI because the bancassurance segment may continue to decline, especially when the revised law for credit institutions is about to be applied, which will manage this activity more tightly.
Non-interest income (NOII)	7,787	7,170	-7.9%	8,255	+15.1%	- Other income (mainly from debt collection activities) may also decrease due to slow collection progress this year.
Total operating income (TOI)	32,747	36,729	+12.2%	42,917	+16.8%	
Operating expenses (OPEX)	21,872	24,425	+11.7%	28,626	+17.2%	
Cost to income ratio (CIR)	(1,804)	(2,250)	+24.7%	(2,652)	+17.8%	The pressure on provisioning increases after the LLCR decreased sharply, NPL and bad debt formation still climb.
Provision expenses (VNDbn)	20,068	22,175	+10.5%	25,974	+17.1%	
Profit before taxes (PBT)	3.86%	3.95%	+9bps	4.07%	+ 12bps	
Profit after taxes (NPAT)	8.10%	7.20%	-90bps	7.53%	+ 33bps	
Credit growth (% YTD)	4.76%	3.67%	-109bps	3.92%	+25bps	
Deposit growth (% YTD)	33.2%	33.5%	+29bps	33.3%	-20bps	
Net interest margin (NIM)	1.21%	1.30%	+9bps	1.15%	-15bps	NIM forecast was downgraded by 4bps compared to the old forecast because the bank shifted its credit structure to the corporate customer group - lower NIM than the personal customer segment.
Non-performing loan ratio (NPL)	718,795	814,722	+13.3%	931,845	+14.4%	
Equity	70,956	84,439	+19.0%	99,408	+17.7%	

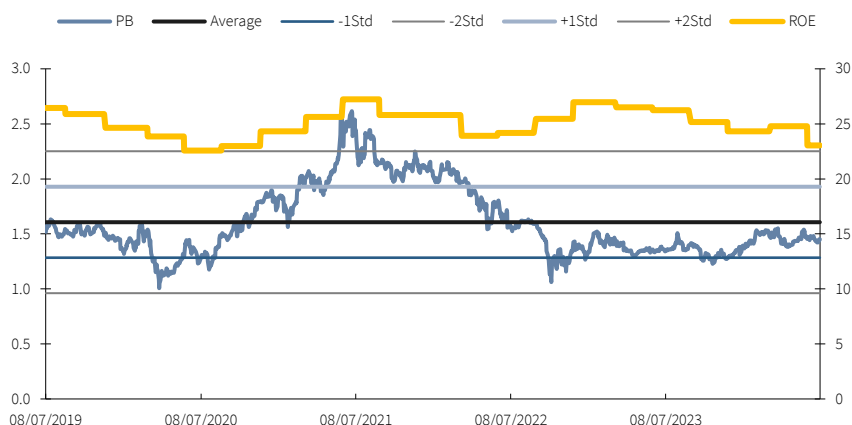
Source: Asia Commercial Bank, KB Securities Vietnam

Valuation: BUY rating – Target price VND30,200

We evaluate ACB shares using two methods comparing P/B and residual income, weighing 50–50 for each method. Although at this time the market conditions do not show many signs of improvement, causing business results to be affected, we still think that ACB is a good investment opportunity for investors. We maintain the 2024 target P/B at 1.5x, based on ACB's ROE maintaining above 20%, NIM and asset quality recovering better.

We recommend BUY for ACB shares with a new target price (VND30,200) after adjusting dividends and adjusting forecasts for some targets, corresponding to a potential price increase of 25% compared to the closing price on June 12, 2024.

Fig 15. ACB - P/B (x)



Source: Bloomberg, KB Securities Vietnam

Table 16. ACB - 2024F valuation according to residual income model

(VNDbn)	2024F	2025F	2026F
NPAT	17,740	20,779	25,366
Excessed return	7,394	6,285	8,120
Required rate of return (re)	14.58%		
Growth (g)	3%		
Terminal value	30,303		
Total present value (PV)	129,044		
Value per share	33,224		

Source: KB Securities Vietnam

Table 17. ACB - Final valuation & target price (VND)

Valuation method	Forecast price	Weight	Price per weight
Residual income	33,224	50%	16,612
P/B	27,180	50%	13,590
Target price			30,200

Source: KB Securities Vietnam

ACB – 2022A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	18,945	23,534	24,960	29,559	34,662	Loans	356,051	408,857	482,235	559,128	653,990
Interest income	33,714	40,699	52,347	53,864	64,144	Marketable securities	11,260	1,131	7,177	8,573	9,729
Interest expense	(14,769)	(17,165)	(27,387)	(24,305)	(29,482)	Cash (ex. Reserves)	7,510	8,461	6,909	10,029	11,499
Fees & commissions	2,894	3,526	2,922	3,709	4,080	Interest earning assets	514,889	590,241	701,817	793,993	908,615
Other non-interest income	139	990	863	802	1,336	Fixed assets & other assets	11,080	14,163	15,631	17,417	19,872
Total operating income	23,564	28,790	32,747	36,729	42,917	Total assets	527,770	607,875	718,795	814,722	931,845
SG&A expenses	(8,230)	(11,605)	(10,874)	(12,304)	(14,291)	Customer deposits	379,921	413,953	482,703	577,161	661,773
Pre-provisioning OP	15,334	17,185	21,872	24,425	28,626	Borrowings & call money/repos	30,634	44,365	52,569	66,050	76,635
Provision for credit losses	(3,336)	(71)	(1,804)	(2,250)	(2,652)	Interest bearing liabilities	464,949	526,664	624,778	700,928	804,586
Other income	703	1,110	1,197	1,002	1,670	Other liabilities	17,920	22,772	23,060	29,355	27,851
Other expense	(564)	(121)	(334)	(200)	(334)	Total liabilities	482,869	549,437	647,839	730,283	832,437
Pre-tax income	11,998	17,114	20,068	22,175	25,974	Charter capital	27,019	33,774	38,841	38,841	38,841
Income tax expense	(2,395)	(3,426)	(4,023)	(4,435)	(5,195)	Capital surplus	272	272	272	272	272
NP	9,603	13,688	16,045	17,740	20,779	Retained earnings	10,445	15,172	20,286	33,769	48,738
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	9,603	13,688	16,045	17,740	20,779	Total shareholders' equity	44,901	58,439	70,956	84,439	99,408

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	23.9%	26.5%	24.8%	22.8%	22.6%	EPS	3,554	4,053	4,131	4,567	5,350
ROA	2.0%	2.4%	2.4%	2.3%	2.4%	BVPS	16,618	17,303	18,269	21,740	25,594
Pre-provision ROE	30.5%	26.6%	27.0%	25.1%	24.9%	Tangible BVPS	16,219	16,968	17,897	21,305	25,086
Pre-provision ROA	2.5%	2.4%	2.6%	2.5%	2.6%	Valuations					
Net interest margin (NIM)	4.0%	4.3%	3.9%	4.0%	4.1%	PER	12.4	10.9	10.7	9.6	8.2
Efficiency						PBR	2.6	2.5	2.4	2.0	1.7
Pure Loan to deposit ratio	95.3%	99.9%	101.0%	98.0%	100.0%	Dividend yield	23.9%	26.5%	24.8%	22.8%	22.6%
Cost-income ratio	34.9%	40.3%	33.2%	33.5%	33.3%	ROE					
Growth						Capital Adequacy					
Asset growth	18.7%	15.2%	18.2%	13.3%	14.4%	CAR	11.0%	11.2%	12.8%	>13%	>13%
Loan growth	15.4%	14.8%	17.9%	15.9%	17.0%	Asset Quality					
PPOP growth	45.5%	12.1%	27.3%	11.7%	17.2%	NPL ratio (substandard)	0.8%	0.7%	1.2%	1.3%	1.2%
Parent NP growth	25.0%	42.5%	17.2%	10.6%	17.1%	Coverage ratio (substandard)	210.0%	159.8%	91.4%	88.3%	102.3%
EPS growth	0.0%	14.0%	1.9%	10.6%	17.1%	NPL ratio (precautionary)	1.3%	1.3%	1.9%	2.0%	1.9%
BVPS growth	1.3%	4.1%	5.6%	19.0%	17.7%	Coverage ratio (precautionary)	125.2%	90.3%	59.4%	57.4%	63.6%

Source: Asia Commercial Bank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research

binhnx@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Manager

ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst

giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst

hieupm@kbsec.com.vn

Research Division

research@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of Macro & Strategy

anhtd@kbsec.com.vn

Vu Thu Uyen – Analyst

uyenvt@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienss@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannd@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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