

Military Bank (MBB)

Impressive growth in 2Q24

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MBB's average annual credit growth is expected to remain around 18–20% in 2024–2026

KBSV expects that disbursement to the individual group of Military Bank (MBB) to improve in 2H24 as the demand of this group has started to recover. MBB's average annual credit growth should be maintained at 18–20% in 2024–2026 thanks to (1) the bank's promoting the advantages of the ecosystem, in addition to owning a large customer base and (2) joining to handle weak credit institutions, which helps MBB be granted additional credit limits.

Asset quality has positive changes

We expect that asset quality will be kept at the current level as the NPL from the individual customer group is still relatively large (accounting for 70–90% of NPLs). However, NPLs from corporate customers should be better controlled. For some large customers, MBB said that the collateral is three times larger than the total outstanding loans at these businesses.

NIM is under pressure as IEA decreased

At the moment, the motivation to increase interest rates is no longer too great as the pressure on exchange rates and system liquidity has been eased and in general, the interest rate level is still low, giving CoF more room to decrease but with a slower pace. Regarding the yield on earning assets (IEA), we adjust our expectations to a more cautious level, down 24bps compared to the old forecast. Accordingly, 2024F NIM is lowered to 4.39%.

Valuation: BUY rating – Price target VND29,100

After adjusting our expectations on business results, KBSV raised our target price for MBB from VND27,000 to VND29,100, 21% higher than the closing price on September 6, 2024 with a BUY rating.

Buy maintain

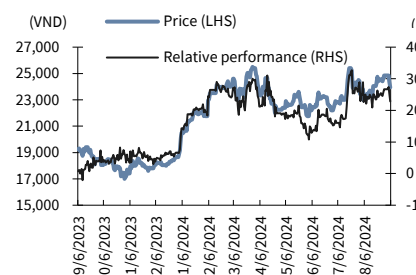
Target price	VND29,100
Upside	21.5%
Current price (Sep 6, 2024)	VND24,000
Consensus target price	VND28,900
Market cap (VNDtn/USDbn)	127.4/5.2

Trading data	
Free float	67.1%
3M avg trading value (VNDbn/USDmn)	401.1/15.9
Foreign ownership	23.2%
Major shareholder	Viettel (14.14%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.4	7.2	-2.6	24.4
Relative	-2.4	8.4	-3.1	22.6

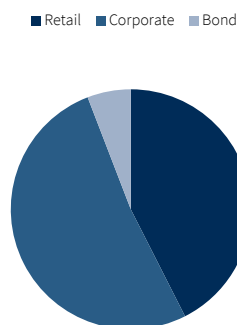
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	36,023	38,684	42,571	53,615
Operating income/loss (VNDbn)	30,777	32,393	38,287	45,585
NPAT-MI (VNDbn)	18,155	21,054	22,956	25,602
EPS (VND)	3,856	3,966	4,309	4,788
EPS growth (%)	15%	3%	9%	11%
P/E (x)	11.4	11.1	10.2	9.2
P/B (x)	17,559	18,548	22,205	26,393
ROE (%)	2.51	2.37	1.98	1.67
Dividend yield (%)	25.6%	23.9%	21.6%	20.2%



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Military Bank, KB Securities Vietnam

Business operation

Military Commercial Joint Stock Bank (MBB) was established in 1994 with the initial purpose of providing financial services to military enterprises. After more than 30 years of development, MBB has now become the bank with the largest scale of assets and credit in the group of private commercial banks. Developed under a corporate model, MBB is at the forefront of digital transformation with the industry-leading number of customers and CASA ratio.

Investment Catalysts

MBB's average annual credit growth is expected to remain around 18~20% in 2024~2026

NIM is high compared to the whole industry thanks to its leading position in CASA

Asset quality should improve as the proportion of loans to concentrated risk sectors is reduced

Notes

Please find more details [here](#)

Please see more details below

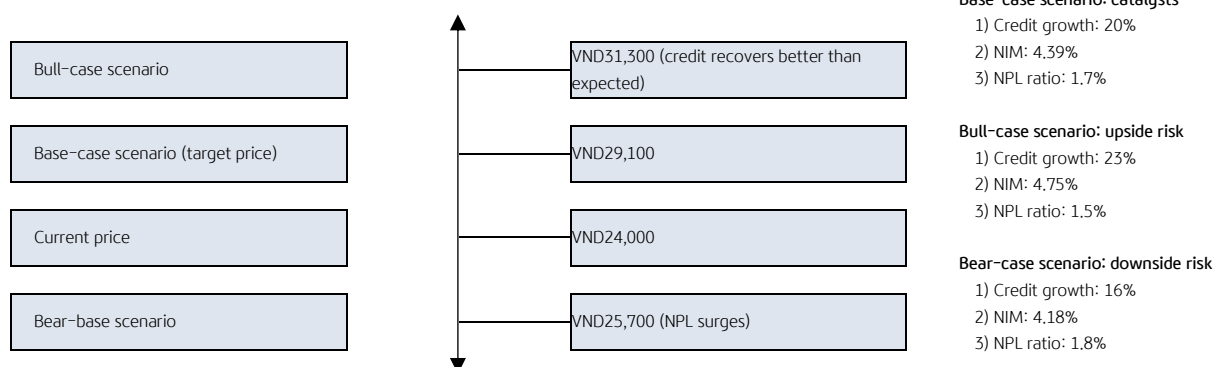
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	42,571	53,615	-7%	-4%	41,101	51,063	4%	5%
EBIT	38,287	45,585	1%	0%	38,200	47,000	0%	-3%
NP after MI	22,466	24,965	0%	-6%	22,127	25,684	2%	-3%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 business results

Impressive growth in NOII offset the decrease in NII in 1H24

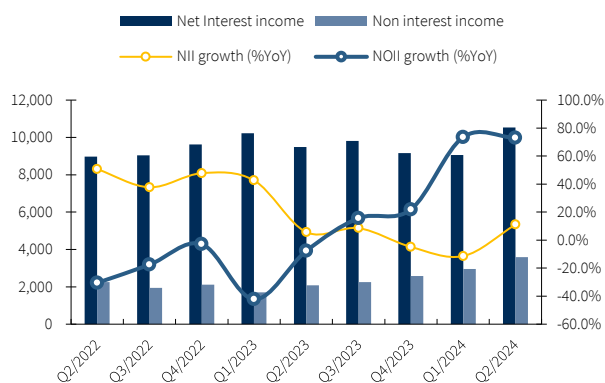
In 2Q24, credit growth recovered well compared to the first three months of the year, increasing by 9% in this quarter alone and reaching 9.4% YTD as of the end of June 2024. Interest rate competition and the effect of “temporary loans” (as mentioned in the 1Q24 update report) caused the accumulated NII in 1H24 to decrease slightly by 0.6% YoY. The impressive growth of 73.3% YoY in NOII partly offset NII, so overall, TOI still grew by more than 11% YoY. In addition, NIM and asset quality also had more positive developments in 2Q. The bank's accumulated 6M PBT reached VND13,428 billion (+5.4% YoY), completing 45% of our forecast.

Table 1. MBB – 1H24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	1H23	1H24	+/-%YoY	Notes
Net interest income (NII)	9,481	10,531	11.1%	19,709	19,593	-0.6%	2Q NII grew 11% YoY thanks to improved credit, but accumulated 1H24 NII decreased slightly by 1% as (1) disbursement speed was less positive in 1Q; (2) lending interest rates were lower than in 1H23. Non-interest income grew impressively, offsetting the decrease in NII: – Net fee income (NFI) in 2Q24 rose 57% YoY, mainly coming from securities brokerage, debt collection, payment and treasury activities, while bancassurance activities still decreased slightly by 5% YoY. – Foreign exchange trading, securities investment & trading also posted impressive growth of 21% YoY, 265% YoY, and 218% YoY, respectively.
Non-interest income (NOII)	2,079	3,598	73.0%	3,782	6,553	73.3%	
Total operating income (TOI)	11,561	14,129	22.2%	23,491	26,146	11.3%	
Operating expenses (OPEX)	(4,135)	(4,491)	8.6%	(7,703)	(8,005)	3.9%	
Cost to income ratio (CIR)	35.8%	31.8%	-4.0%	33%	31%		
Provisions (VNDbn)	(1,203)	(2,006)	66.8%	(3,052)	(4,713)	54.4%	Provisions declined 26% QoQ as loans for customers affected by CIC in the previous quarter have now been reclassified to standard debts.
Profit before taxes (PBT)	6,223	7,633	22.7%	12,735	13,428	5.4%	
Profit after taxes (NPAT)	4,982	6,102	22.5%	10,188	10,726	5.3%	
Credit growth (% YTD)	10.6%	9.4%					Customer lending grew positively in 2Q, increasing by 9.6% from a modest 0.7% in 1Q. Meanwhile, corporate debt balance still decreased by 4% compared to the end of 2023.
Deposit growth (% YTD)	11.5%	3.6%					
Net interest margin (NIM)	5.47%	4.44%	1.03%				2Q NIM rose 33bps QoQ thanks to a better improvement in IEA after a sharp decline of more than 100bps in the previous quarter, while CoF maintained a downward trend (-33bps QoQ).
Non-performing loan ratio (NPL)	1.44%	1.64%	0.19%				NPL ratio fell 33bps QoQ after customers completed their debt obligations to return to standard debt group at other banks, significantly reducing the impact from CIC in 1Q.

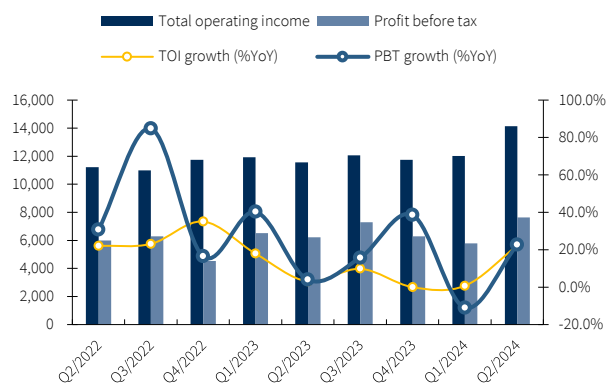
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – NII & NOII by quarter (VNDbn)



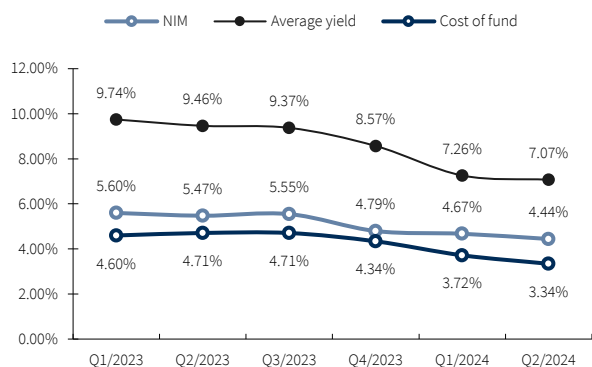
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – TOI & PBT (VNDbn)



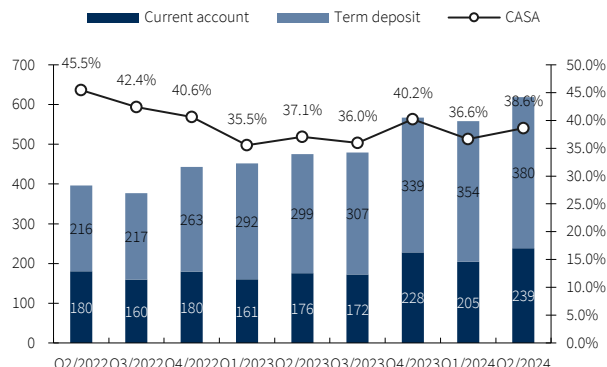
Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – NIM by quarter (%)



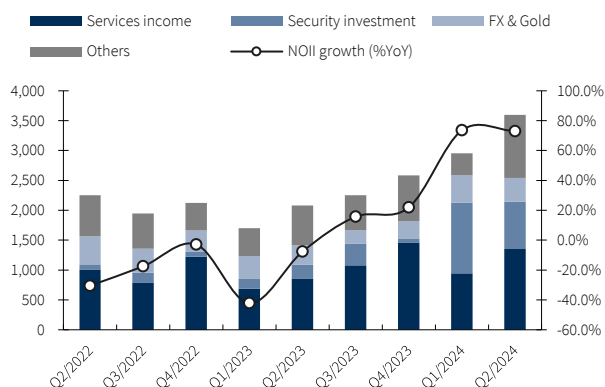
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – Deposit growth (%)



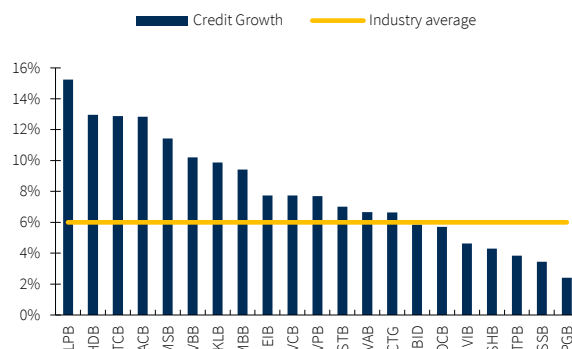
Source: Military Bank, KB Securities Vietnam

Fig 6. MBB – NOII components



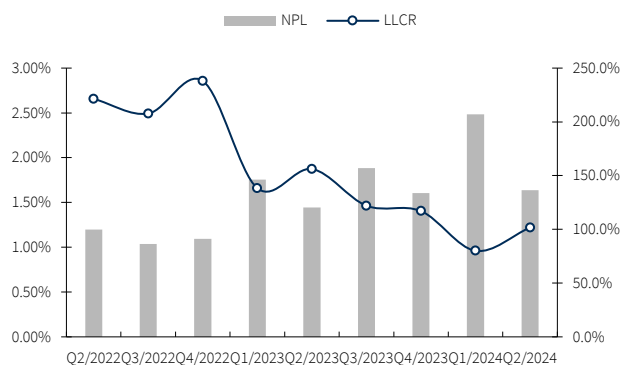
Source: Military Bank, KB Securities Vietnam

Fig 7. Vietnam banks – Credit growth (%)



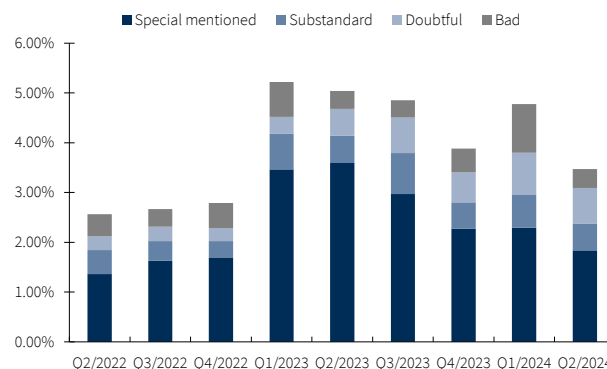
Source: Vietnam banks, KB Securities Vietnam

Fig 8. MBB – NPL & LLCR (%)



Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – NPLs/total credit ratio (%)



Source: Military Bank, KB Securities Vietnam

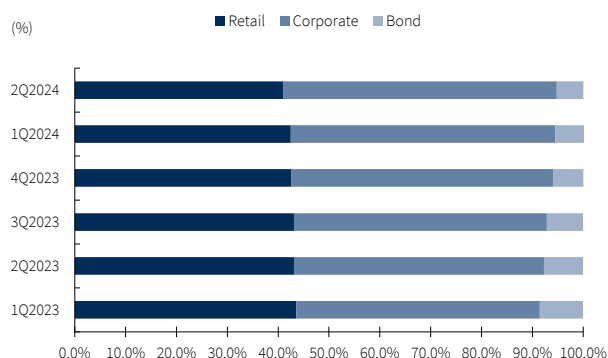
MBB's average credit growth for 2024F should be around 18–20% in 2024–2026

As the disbursement of loans to individuals is currently low, credit growth in the first half of 2024 was mainly led by the corporate customer group thanks to the bank's ability to take advantage of its relationships with many military enterprises and its pricing strategy. Corporate customer loans grew by 14% YTD while corporate customer loans recorded a modest single-digit growth (+6% YTD). KBSV expects credit to individuals to improve in 2H24 as the demand from this group has shown signs of recovery in recent months.

Outstanding loans in risky areas like real estate and bonds have tended to decrease in the past two quarters. The change in lending structure between sectors is reflected in the fact that outstanding loans into real estate gradually decreased in proportion from more than 11% in 2023 to 10.2% in 1H24, while loans to the trade, manufacturing, and service sectors contributed to MBB's credit growth. At the recent business results update meeting, the bank said it would reduce the proportion to this sector to below 10%. MBB did not refuse to disburse to the real estate sector but would be more cautious in selecting customers. We believe that after the fluctuations in the real estate and corporate bond markets recently, MBB has lowered its risk appetite to avoid future asset risks.

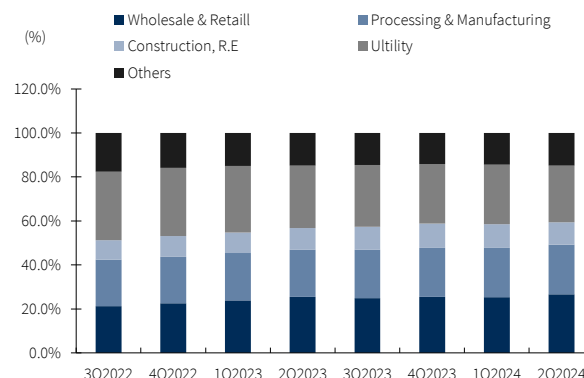
KBSV expects MBB's average annual credit growth to remain around 18–20% in the 2024–2026 period thanks to (1) its promoting ecosystem advantages, in addition to owning a large customer base; and (2) handling weak credit institutions that helps it to be granted additional credit limits.

Fig 10. MBB – Credit structure by customer group (%)



Source: Military Bank, KB Securities Vietnam

Fig 11. MBB – Credit structure by purpose (%)



Source: Military Bank, KB Securities Vietnam

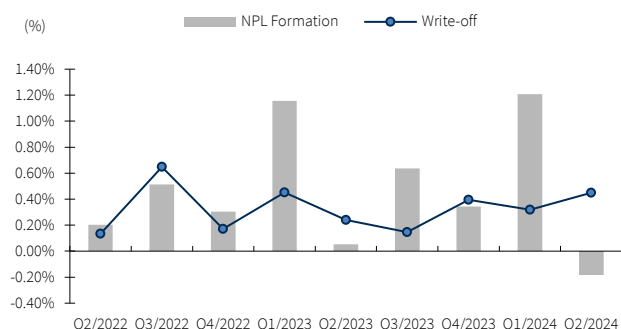
Asset quality changes positively

MBB's asset quality has shown positive changes in 2Q24:

- Customers whose debt group changes caused a sudden decline in asset quality in the previous quarter have returned to standard debt group, which has helped improve NPL indicators significantly in 2Q. The NPL ratio fell from a peak of 2.5% in 1Q to 1.6%, and the formation of NPL decreased by VND1,248 billion. The proportion of substandard, doubtful, and bad all plunged compared to the previous quarter. Bad debt alone dropped 58% QoQ.
- The LLCR increased again to 102% from 80% in the previous quarter mainly thanks to a faster decrease in NPL. Provisions surged 67% YoY compared to the low base in 2023 (in 2023, MBB is the only bank with a decrease in provisioning compared to the same period after having made a large provision in the period of 2021–2022). KBSV believes that provisioning pressure still exists because the bank is entering the stage of reinforcing its reserve buffer after using a large source to handle bad debt in the previous year and in the coming time. In 2Q, MBB used more than VND3,000 billion (the highest level in the past two years) to remove bad debt from the balance sheet.

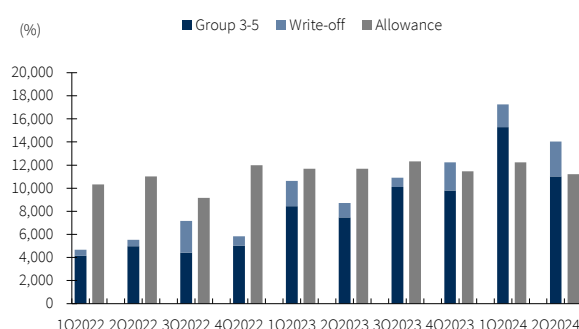
We expect that asset quality will be kept at the current level as the NPL from the individual customer group is still relatively large (accounting for 70–90% of NPLs). However, NPLs from corporate customers should be better controlled. For some large customers, MBB said that the collateral is three times larger than the total outstanding loans at these businesses (Table 14).

Fig 12. MBB – NPL & NPL formation (%)



Source: Military Bank, KB Securities Vietnam

Fig 13. MBB – Debt handling & reverse buffer (VNDbn)



Source: Military Bank, KB Securities Vietnam

Table 14. MBB – Loans from large customers

No.	Customer	Debt status
1	Novaland	<p>MBB is currently lending to three Novaland projects including: Nova Phan Thiet, Aqua City and Nova Ho Tram. Outstanding loans to Novaland are still decreasing while the progress of these projects is still good according to the bank's assessment. The current legal status of these projects is as follows:</p> <ol style="list-style-type: none"> 1) Nova Phan Thiet: The project has no legal issues and is in the process of land valuation. It is converting annual land rent into one-time land use right payment. 2) Aqua City: MBB assesses this as one of the projects that the government is focusing on removing difficulties. The current challenge for this project is waiting for approval of the 1/500 planning. In addition, NVL needs to obtain a license to open for sale for the remaining 600 apartments. 3) Nova Ho Tram: Four small projects (The Tropicana, Wonderland, Morito, and Habana Island) have been licensed for sale, and a few component projects are still in the process of applying for construction permits.
2	Trung Nam Group	MBB has lent money to three solar power projects, Trung Nam – Thuan Nam, Trung Nam – Thuan Bac, and Trung Nam – Tra Vinh. According to the Management, these projects have all finalized FIT prices, and outstanding debt for this customer has decreased by about VND2,000 billion this year. MBB assesses that these projects still ensure stable cash flow to fulfill debt obligations to the bank.
3	Sun Group	The two projects funded are both related to tourism, namely Ba Den Mountain project and Sun World Fansipan Legend tourist area. These projects all have steady cash flow and relatively low credit scale.
4	VinGroup	The projects that MBB lends money to are projects that are implemented in the final step and are strictly controlled by the bank. MBB does not lend to VinFast.

Source: Military Bank, Novaland, KB Securities Vietnam

NIM is under pressure as IEA declines

NIM has shown signs of recovery in 2Q thanks to the effect of “temporary loans” that ended in 1Q (as mentioned in the previous report), helping IEA improve while CoF continues to decline (–38bps QoQ). Management expects CoF to increase again as the deposit interest rates fell to a new level, which may put pressure on NIM. However, we believe that in the current context, the momentum for increasing interest rates is no longer too great as exchange rate pressure and system liquidity have been eased and in general, the interest rate level is still low, giving CoF more room to continue to decrease, albeit at a slower pace. For IEA, we adjust our expectations to a more conservative level, down 20bps from the previous forecast as (1) the interest rate competition among banks has not shown any signs of stopping; and (2) low interest rates from “temporary loans” will continue this year as concentrated credit increased sharply in late June (this also happened at many other banks). On that basis, we adjust our 2024F NIM to 4.46%.

Forecast & valuation

Table 15. MBB – 2024–2025F results

(VNDbn, %)	2023A	2024F	% YoY 2023	2025F	%YoY 2024	Notes
NII	38,684	43,241	12%	53,615	24%	Adjusted net interest income down after changing expectations of lower IEA yield due to (1) interest rate competition; (2) continued "temporary loans" in the late period; (3) weak but not strong recovery in personal credit. Adjusted forecasts for most non-interest income sources up after recording more positive results in Q2, offsetting net interest income for the whole year 2024.
NOII	8,622	13,733	59%	13,030	-5%	
TOI	47,306	56,975	20%	66,645	17%	
Pre-provision operating profit (PPOP)	32,393	38,743	20%	45,585	18%	
Provision expenses	(6,087)	(9,592)	58%	(13,583)	42%	Increased provisions for 2025–2026 as we expect MBB to strengthen its reserve buffer during this period.
PBT	26,306	29,151	11%	32,002	10%	
NIM	4.79%	4.46%	-33bps	4.75%	28bps	
Average IEA	8.57%	7.25%	-132bps	7.62%	37bps	
Average CoF	4.34%	3.19%	-114bps	3.29%	9bps	
CIR	31.5%	32.0%	48bps	31.6%	-40bps	
NPL	1.60%	1.70%	10bps	1.70%	0bps	NPL expects to control at current levels based on expectations that bad debt peaked in Q1, and customers' debt repayment progress will improve in the coming time.
Total assets	944,954	1,051,148	11%	1,271,599	21%	
Equity	96,711	116,143	20%	137,979	19%	

Source: Military Bank, KB Securities Vietnam

Valuation: BUY rating – Price target VND29,100

We combine two valuation methods, P/B and residual income, to find a reasonable price for MBB shares.

(1) P/B valuation method:

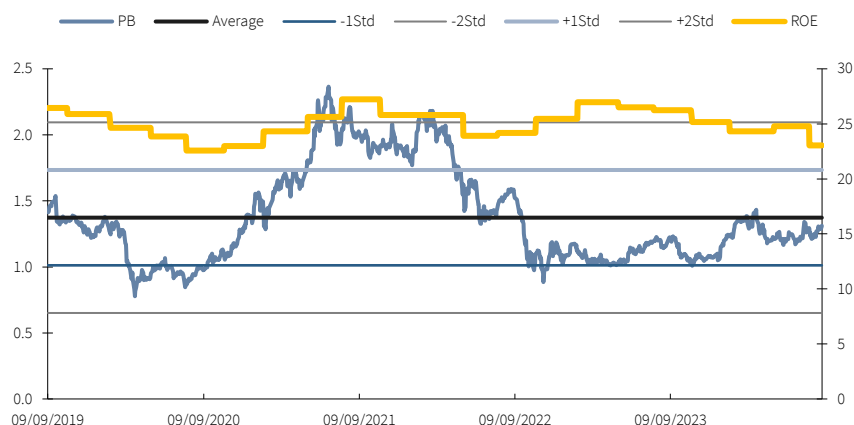
We adjust the target P/B for 2024 to 1.3x, equivalent to the five-year average.

(2) Residual earnings method:

In addition, we combine the use of the discounted residual earnings method to reflect systematic risks and long-term expectations

After adjusting the expectation on business results, KBSV raised the target price from VND27,000/share to VND29,800/share. With the potential for a 24% increase compared to the closing price on September 6, 2024, KBSV recommends BUYING MBB shares.

Fig 16. MBB – ROE & P/B (% , x)



Source: Military Bank, KB Securities Vietnam

Table 17. MBB – 2024F valuation according to residual income method

(VNDbn)	2024F	2025F	2026F
NPAT	23,571	28,157	31,988
Excessed return	5,523	6,251	7,720
Required rate of return (re)	14.56%		
Growth (g)	3%		
Terminal value	20,973		
Total present value (PV)	141,658		
Value per share	27,168		

Source: Military Bank, KB Securities Vietnam

Table 18. MBB – Final valuation & target price (VND)

Valuation method	Forecast price	Weighting	Price per weight
Residual income	27,168	50%	13,584
P/B	26,787	50%	13,394
Target price (VND)			27,000

Source: Military Bank, KB Securities Vietnam

MBB – 2022A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	26,200	36,023	38,684	43,241	53,615	Loans	354,797	448,599	599,579	714,586	855,948
Interest income	38,465	52,486	69,143	70,220	86,048	Marketable securities	7,575	4,106	44,251	13,446	16,439
Interest expense	(12,265)	(16,463)	(30,459)	(26,978)	(32,433)	Cash (ex. Reserves)	3,475	3,744	3,675	5,043	6,165
Fees & commissions	4,367	4,136	4,085	5,978	6,661	Interest earning assets	574,482	697,256	916,370	1,021,121	1,238,016
Other non-interest income	3,254	2,142	2,428	2,301	2,216	Fixed assets & other assets	38,176	38,836	34,928	39,287	46,593
Total operating income	36,934	45,593	47,306	56,975	66,645	Total assets	607,140	728,532	944,954	1,051,148	1,271,599
SG&A expenses	(12,377)	(14,816)	(14,913)	(18,232)	(21,060)	Customer deposits	384,692	443,606	567,533	676,114	826,645
Pre-provisioning OP	24,557	30,777	32,393	38,743	45,585	Borrowings & call money/repos	68,886	98,581	129,263	114,954	137,192
Provision for credit losses	(8,030)	(8,048)	(6,087)	(9,592)	(13,583)	Interest bearing liabilities	513,400	607,335	796,615	892,496	1,079,581
Other income	4,211	3,026	3,458	2,557	2,878	Other liabilities	31,254	41,584	51,628	42,508	54,039
Other expense	(956)	(884)	(1,030)	(256)	(662)	Total liabilities	544,654	648,919	848,242	935,005	1,133,620
Pre-tax income	16,527	22,729	26,306	29,151	32,002	Charter capital	37,783	45,340	52,141	52,141	52,141
Income tax expense	(3,306)	(4,574)	(5,252)	(5,830)	(6,400)	Capital surplus	869	869	869	869	869
NP	13,221	18,155	21,054	23,321	25,602	Retained earnings	12,915	19,064	25,560	45,262	67,098
Minority interest profit	(524)	(672)	(377)	(490)	(637)	Capital adjustments	-	-	-	-	-
Parent NP	12,697	17,483	20,677	22,831	24,965	Total shareholders' equity	62,486	79,613	96,711	116,143	137,979

Financial Indicators						Valuation					
(%)	2021	2022	2023	2024F	2025F	(VND, X, %)	2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	23.5%	25.6%	23.9%	21.9%	20.1%	EPS	3,361	3,856	3,966	4,379	4,788
ROA	2.4%	2.7%	2.5%	2.3%	2.2%	BVPS	16,538	17,559	18,548	22,275	26,463
Pre-provision ROE	34.9%	34.6%	29.4%	29.1%	28.7%	Tangible BVPS	16,140	17,197	18,226	21,920	26,073
Pre-provision ROA	3.6%	3.7%	3.1%	3.1%	3.1%	Valuations					
Net interest margin (NIM)	5.0%	5.7%	4.8%	4.5%	4.7%	PER	13.1	11.4	11.1	10.0	9.2
Efficiency						PBR	2.7	2.5	2.4	2.0	1.7
Pure Loan to deposit ratio	94.5%	103.8%	107.7%	108.0%	106.0%	Dividend yield	23.5%	25.6%	23.9%	21.9%	20.1%
Cost-income ratio	33.5%	32.5%	31.5%	32.0%	31.6%	ROE					
Growth						Capital Adequacy					
Asset growth	22.7%	20.0%	29.7%	11.2%	21.0%	CAR	10.4%	11.3%	11.4%	>11%	>11%
Loan growth	20.7%	26.4%	33.7%	19.2%	19.8%	Asset Quality					
PPOP growth	46.1%	25.3%	5.3%	19.6%	17.7%	NPL ratio (substandard)	0.9%	1.1%	1.6%	1.7%	1.7%
Parent NP growth	53.7%	37.7%	18.3%	10.4%	9.3%	Coverage ratio (substandard)	133.2%	174.1%	122.1%	125.8%	136.2%
EPS growth	13.8%	14.7%	2.8%	10.4%	9.3%	NPL ratio (precautionary)	2.0%	2.8%	3.9%	3.5%	3.5%
BVPS growth	-7.6%	6.2%	5.6%	20.1%	18.8%	Coverage ratio (precautionary)	60.6%	68.2%	50.5%	61.1%	66.2%

Source: Military Bank, 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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