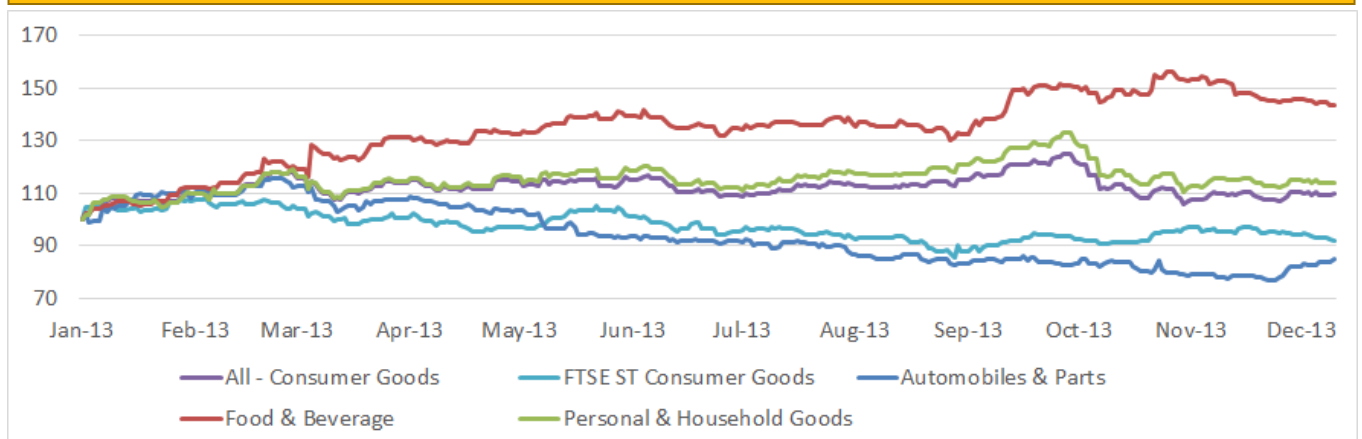


## Consumer Goods Industry – Identifying Growth Areas

**Food & Beverage Led Year-To-Date Gains:** SGX listed consumer goods companies saw their market value grow by an average of 7.3% thus far in 2013 (as at 9 Dec 2013). In contrast, the Straits Times Index fell by 1.7% over the same period. Food and beverage companies experienced the largest jump in market capitalization, averaging at 43%, while companies in the automobile and parts supersector saw market capitalization fall by an average of 15%. Personal and household goods producers' average market capitalization grew by 14%. Valuation growth was generally driven by a mix of earnings and/or PE multiple expansion.<sup>1</sup>

**Figure 1: Indexed Chained Average Change in Market Capitalization, by Supersectors**



1 Jan 2013 = 100. As of 9 Dec 2013, All – Consumer Goods = 109.6, FTSE ST Consumer Goods = 92.4, Food & Beverage = 143.4, Personal & Household Goods = 113.8, Automobiles & Parts = 84.1.

Source: Bloomberg, Voyage Research

**Retail Sales in Developing Markets Still Strong:** Based on the most recently available monthly retail sales data, major developed economies with the exception of the Eurozone, seem to be experiencing positive retail sales growth with countries such as the US and Japan clocking latest year-on-year growth of 4.7% and 2.2% respectively. China, Malaysia and Indonesia generally reported retail sales growth of 6.4% (Indonesia) to 11.8% (China). Thailand is the only developing country in our survey that reported lower retail sales as higher debt burden and living costs restrained consumer spending.<sup>2</sup>

<sup>1</sup> As shown in Figure 1, the FTSE ST Consumer Goods index shows a loss of 7.6% for the year instead of a gain. The difference is mainly due to the index being free float adjusted and market capitalization weighted. Illiquid counters are also excluded from the index. As such, the performance of less active and smaller counters is given lower weightage in the calculation of the FTSE ST Consumer Goods index.

<sup>2</sup> Bank of Thailand Business Outlook Report Oct 2013.

[http://www.bot.or.th/English/EconomicConditions/Thai/BLP/Documents/BLP\\_Eng\\_Q3\\_2013.pdf](http://www.bot.or.th/English/EconomicConditions/Thai/BLP/Documents/BLP_Eng_Q3_2013.pdf)

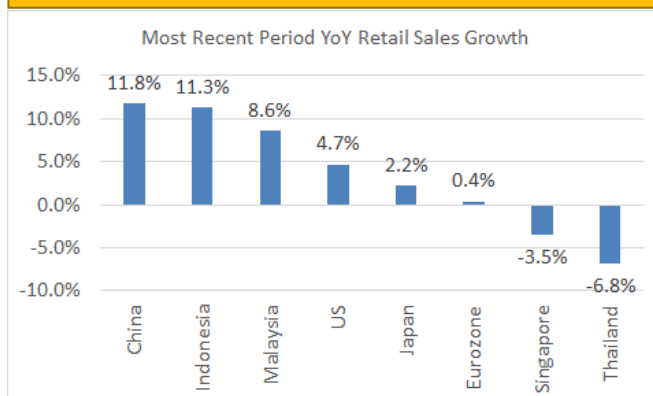
**Singapore Retail Sales Lacklustre:** In comparison, Singapore's real retail sales fell by 3.5% year-on-year in Nov 2013. Even the Eurozone eked out a 0.4% year-on-year increase in real retail sales in Oct 2013. Sluggish retail sales in Singapore was in part due to weak vehicle sales. Nonetheless, retail sales was flat year-on-year even when vehicle sales were excluded.

**Dual Themes of Recovery and Emerging Market Growth:** Faster retail sales growth in developing countries has been attributed to the long term expansion of the middle class in these economies, both in terms of size and in terms of per capita income. Nonetheless, other factors such as inflation and fluctuations in consumer debt capacity can dent near term spending, such as the case in Thailand. Figures 2 and 3 show that lower income countries within our survey group reported faster retail sales growth except for Thailand.

Developed countries, on the other hand, seem to be experiencing a slight to moderate recovery in spending. The rebound is particularly pronounced in the US, while Japan and Europe seem to be reporting flat to modest growth in retail sales.

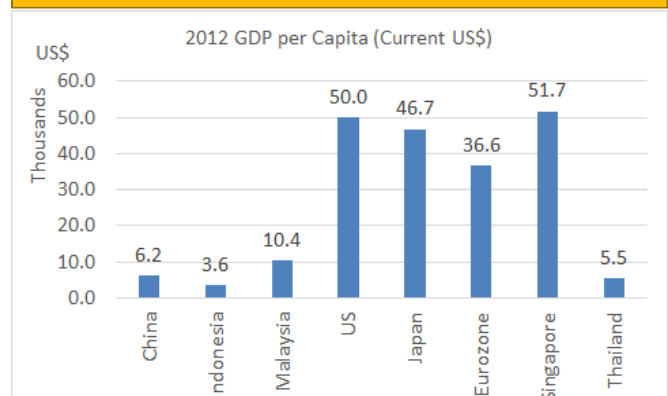
**Our View:** Given the two themes, we are more positive about developing countries such as China and Indonesia, where growth rates are higher. We are uncertain if the high growth in Japan or US is sustainable as part of the growth experienced by these countries might be due to short term pent up demand held back over years of sluggish economic growth. On the whole, the data suggests we be more positive about companies planning to expand aggressively overseas or already have significant overseas market shares.

**Figure 2: Retail Sales Growth<sup>3</sup>**



Source: Bloomberg, Various country statistics agencies, Voyage Research

**Figure 3: GDP per Capita - 2012**



Source: World Bank, ECB, Voyage Research

<sup>3</sup> Data Definitions For Figure 2: 1) China Nov 2013 Retail Sales, Real, YoY, 2) Malaysia 3Q 2013 Total Retail Sales Value, YoY, 3) Indonesia Nov 2013 Retail Sales, Real, YoY, 4) US Nov 2013 Retail and food services sales, SA, YoY, 5) Japan, Oct 2013 Retail Trade, YoY, 6) Eurozone Retail Sales Volume, SA, YoY 7) Singapore Nov 2013 Retail Sales, Constant Prices, YoY, 8) Thailand, Sep 2013 Retail Sales Index, YoY

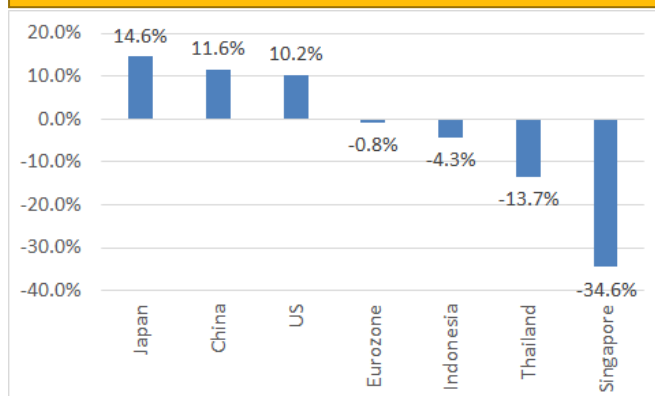
Not all countries presented inflation adjusted data. The latest CPI for these countries are as follows: Oct 2013 CPI: Malaysia = 2.8%, US = 1.0% (non-seasonally adjusted), Japan = 1.1%, Nov 2013 CPI: Thailand = 1.9%. Eurozone refers to the EU17 countries.

**What are People Buying?** In general, large ticket durable consumer products saw faster growth in developed countries, based on automobile retail sales data across countries. Growth in developing countries was broader based. Consumers in developing countries listed in our survey bought more of IT and communication products such as in China and Indonesia. Growth rates for F&B products were also comparatively higher. In Thailand, consumers bought more clothing, food and beverage products and medical goods, while electrical household appliances and motor vehicles saw negative year-on-year growth.

**Purchases Reflect Key Economic Trends:** These trends generally reflect, for instance, low interest rates in US and Japan boosting auto sales. In particular the recovery of the US housing market pushed sales growth at furniture and home furnishing stores to 9.7% year-on-year in Nov 2013, while day-to-day purchases such as food and beverage and apparel saw 2% to 5% year-on-year growth. China also scored fast vehicle sales growth. However, growth rates in other product categories in China were higher. Trends in developing countries tend to reflect rising living standards as evidenced by broader retail sales growth. Auto sales in Indonesia were weak due to the hiking of interest rates by the Bank of Indonesia this year.

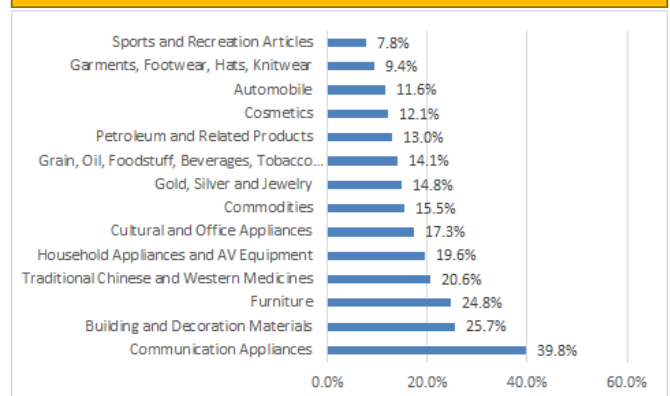
Over in Singapore, retail sales growth has been split between high growth in watches and jewellery and a sharp decline in motor vehicles, with most other categories registering slight to moderate growth or decline. Automotive sales in Singapore has been weak due to increases in vehicle tax (i.e. COE). We hypothesize that consumers may be compensating vehicle purchases with luxury goods.

**Figure 4: Automobile Sales Growth, YoY<sup>4</sup>**



Source: Bloomberg, Various country statistics agencies, Voyage Research

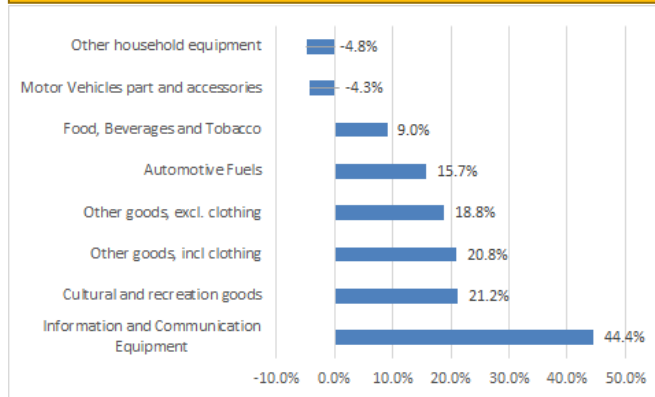
**Figure 5: China Retail Sales, By Products**



Source: www.stats.gov.cn, Voyage Research

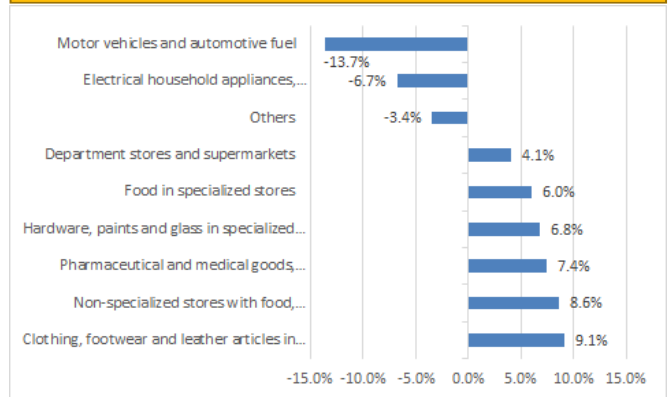
<sup>4</sup> Data Definitions for Figures 4 to 11: 1) All data is based on year-on-year comparison. 2) Nov 2013: China, US and Indonesia data, Oct 2013: Japan, Eurozone, Singapore data, Sep 2013: Thailand data. 3) China, Japan, US and Thailand data is believed to be nominal. Inflated adjusted data is available for the other countries. Retail sales growth, broken down by product categories, is unavailable for Malaysia.

**Figure 6: Indonesia Retail Sales**



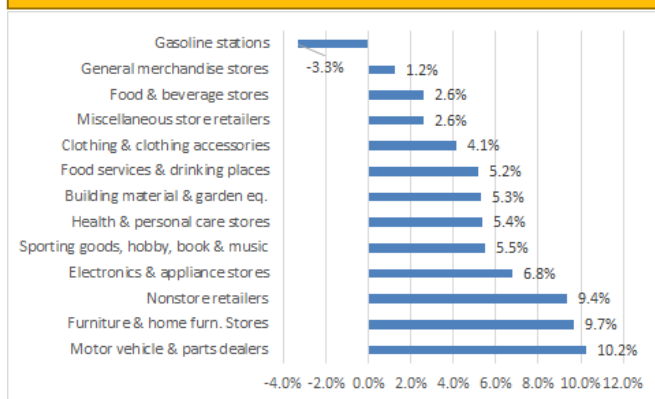
Source: www.bi.go.id, Voyage Research

**Figure 7: Thailand Retail Sales**



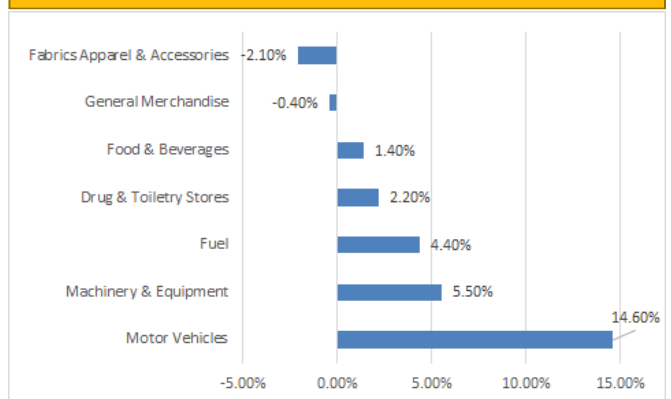
Source: Bank of Thailand, Voyage Research

**Figure 8: US Retail Sales**



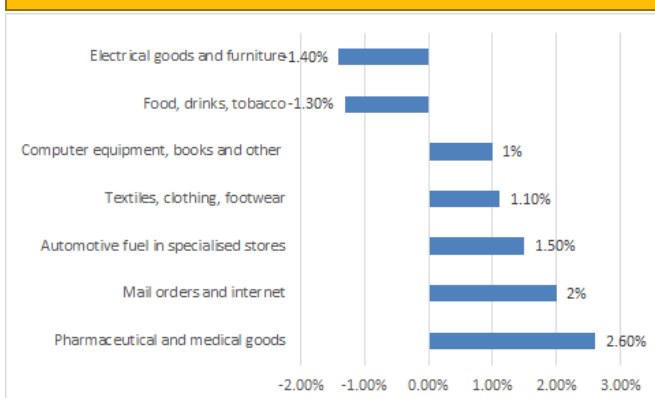
Source: www.census.gov, Voyage Research

**Figure 9: Japan Retail Sales**



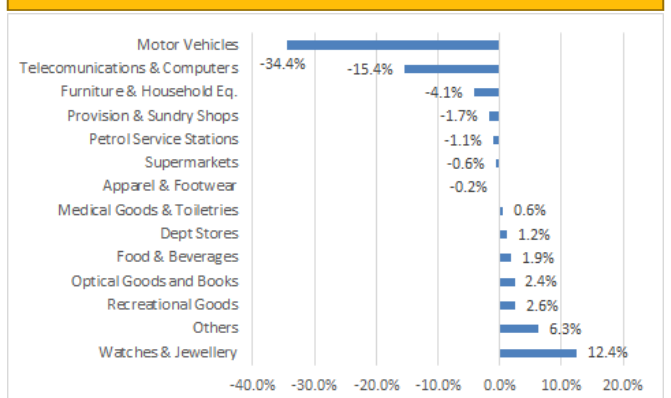
Source: Japan Ministry of Economy, Trade and Industry, Voyage Research

**Figure 10: Eurozone Retail Sales**



Source: Eurostat, Voyage Research

**Figure 11: Singapore Retail Sales**



Source: www.singstat.gov.sg, Voyage Research

**Fast Moving Consumer Goods Offer Stable Growth:** The fastest growing product category varies from country to country, based on Figures 5 to 11. In general, demand for fast moving consumer products seem to be growing more consistently across territories, except for the Eurozone which experienced a 1.3% year-on-year drop in food, drinks and tobacco sales volume.

Demand for edible products grew by 14.1% year-on-year in China, 9.0% in Indonesia and 6% to 9%, depending on the type of establishment, in Thailand. Consistent with slower growth in developed countries, demand for food and beverage products grew by 2.6% to 5.2%, depending on the type of establishment, in the US, 1.4% in Japan and 1.9% in Singapore.

Fewer countries offer data on pharmaceutical and medical products. In China, medicines and cosmetics saw sales growth of 20.6% and 12.1% year-on-year. Over in Thailand, pharmaceutical and medical goods, cosmetic and toilet articles saw growth of 7.4%. Demand for such products were generally positive even in the developed countries.

**Our View:** Based on sales growth across different countries and product categories, we are of the view that prospects for food and beverage products, as well as fast moving household goods in developing countries are comparatively positive. We are conservative about demand for durable products, such as automobiles, household appliances, electrical products and furniture, in spite of strong growth in China and US due to their demand being cyclical in nature. As we are at the extreme low end of the interest rate cycle, demand may shrink when interest rates rise and consumer credit tightens.

**Consumer Goods Companies Listed on the SGX:** Within consumer goods companies listed on the SGX, there are 42 food & beverage counters, 43 personal & household goods companies and five automobile & parts players. Within these supersectors<sup>5</sup>, the geographical focus of these companies ranges from single country players to large international companies like OSIM International.

**Valuation Multiples:** Comparing the median of the respective supersectors' return on equity, trailing 12-month earnings per share growth, price-to-earnings and price-to-book values, the automobiles & parts supersector stands out for its combination of comparatively high return on equity and low price-to-book value. No single supersector outperformed when we compared earnings per share growth against price-to-earnings ratio as all supersectors had median negative earnings per share growth on a trailing 12-month basis with automobile & parts companies having the lowest median price-to-earnings ratio.

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<sup>5</sup> In this report, we follow the industry classification benchmark, which sorts companies based on industry, followed by supersector, sector and subsector. Given the number of companies in the consumer goods industry, we kept our analysis at the supersector level.



**Figure 12: Supersector Comparative Figures and Ratios**

	Return on Com. Equity				P/B			
	Average	Median	10th Percentile	90th Percentile	Average	Median	10th Percentile	90th Percentile
Automobiles & Parts	12.0%	8.7%	5.3%	22.2%	0.74	0.79	0.57	0.87
Food & Beverage	6.3%	7.7%	-13.1%	23.9%	1.37	1.05	0.52	2.64
Personal & Household	-17.9%	-3.2%	-65.5%	18.6%	2.25	0.80	0.14	2.65
	EPS Growth (Trailing 12M)				P/E			
	Average	Median	10th Percentile	90th Percentile	Average	Median	10th Percentile	90th Percentile
Automobiles & Parts	30.0%	-3.7%	-68.1%	167.0%	16.91	8.64	6.68	33.72
Food & Beverage	11.8%	-5.5%	-66.0%	76.2%	30.39	11.98	4.13	41.09
Personal & Household	12.7%	-2.6%	-82.4%	65.1%	22.92	14.05	2.10	46.36

\*The top 46% of food and beverage companies and the top 49% of personal and household goods companies have positive earnings growth. Data is extracted on 18 Dec 2013.

Source: Bloomberg, Voyage Research

As such, we do not rule out that there may be some automobile & parts companies that are currently undervalued, in spite of our conservative view on the supersector as a whole. At the same time, we also noted the comparatively higher price-to-earnings and price-to-book multiples in the food & beverage and personal & household goods supersectors. Given this contrasting backdrop, we further filtered our list of companies to identify counters with above supersector median and positive return on equity and earnings per share growth, as well as below supersector median price-to-earnings and price-to-book ratios.

**Stock Screen Results:** Only four companies, all of which come from the food & beverage companies, fit our criteria and they are Khong Guan Flour Milling Ltd, ABR Holdings Ltd, Dukang Distillers Holdings Ltd and China Minzhong Food Corp Ltd. As for the other two supersectors, four companies passed the earnings growth versus price-to-earnings ratio criteria and another eight companies met the return on equity versus price-to-book ratio threshold. These companies are marked out in Figure 13 to 15. However, we will have to factor in more information such as specific company plans and risks before specific investment ratings can be generated for these counters.

Consumer goods companies that we currently cover include Petra Foods Ltd and Eratat Lifestyle Ltd. Petra Foods Ltd offers exposure to the Indonesia food & beverage market with its local market leadership in chocolate confectionary. We have an Invest rating on Petra Foods with an intrinsic value of S\$4.43. Eratat Lifestyle Ltd is a highly undervalued S-chip trading at a fraction of its book value and offers exposure to the apparel market in China. We have an Increase Exposure rating on Eratat with an intrinsic value of S\$0.280.

**Figure 13: Comparative Information<sup>6</sup>**

Supersector / Company Name	Cur. Mkt Cap (\$\$m)	Cur. P/E	Cur. P/BV	T12 EPS Growth	Ret on Com. Equity	Tot Debt / Com. Equity
<b>Automobiles &amp; Parts</b>						
YHI International Ltd	152.0	18.3	0.6	-52.1%	3.4%	53.6%
Stamford Tyres Corp Ltd**	96.6	7.3	0.8	18.6%	8.7%	112.6%
Lizhong Wheel Group Ltd	78.7	6.2	0.5	-3.7%	8.2%	116.7%
Tye Soon Ltd	49.7	8.6	0.9	265.9%	31.1%	86.1%
Jackspeed Corp Ltd	22.1	44.0	0.8	-78.7%	8.7%	65.6%
<b>Food &amp; Beverage</b>						
Wilmar International Ltd	21,500.9	12.0	1.2	-21.6%	10.0%	155.1%
Thai Beverage PCL**	12,555.0	11.2	3.7	135.4%	37.7%	128.0%
Golden Agri-Resources Ltd	6,932.3	22.7	0.6	-68.4%	2.8%	21.8%
Olam International Ltd*	3,441.9	9.7	1.0	-4.0%	11.2%	259.1%
First Resources Ltd**	3,247.3	11.4	2.6	14.3%	22.3%	48.6%
Petra Foods Ltd	2,004.6	93.7	5.6	-57.1%	-4.0%	130.2%
Super Group Ltd/Singapore	1,906.9	19.3	4.3	27.7%	24.0%	0.3%
Bumitama Agri Ltd	1,669.7	22.6	3.1	16.2%	14.3%	52.8%
Yeo Hiap Seng Ltd	1,407.1	19.7	1.9	65.2%	10.5%	2.7%
People's Food Holdings Ltd	1,364.4	27.3	1.2	31.7%	4.4%	16.3%
Indofood Agri Resources Ltd	1,225.9	25.9	0.8	-29.2%	3.3%	49.1%
China Fishery Group Ltd*	777.6	4.7	0.5	-10.9%	8.5%	103.9%
Del Monte Pacific Ltd	771.5	19.6	2.6	16.9%	13.3%	55.5%
GMG Global Ltd	750.7	35.6	0.9	-60.2%	2.6%	16.1%
Mewah International Inc	730.9	28.1	1.0	-41.4%	3.7%	68.1%
Pacific Andes Resources Development Ltd**	632.4	5.0	0.4	1.1%	7.7%	137.4%
China Minzhong Food Corp***	563.7	3.6	0.6	4.9%	16.0%	13.3%
Sino Grandness Food Industry**	443.4	5.0	1.7	91.2%	39.4%	46.5%
QAF Ltd	445.4	14.3	1.1	-43.1%	7.8%	30.5%
Food Empire Holdings Ltd	285.1	14.6	1.4	36.7%	9.6%	8.0%
Kencana Agri Ltd	258.3	NA	1.2	-25.0%	-0.9%	89.0%
Dukang Distillers Holdings***	255.5	3.5	0.6	78.7%	19.7%	4.3%
Etika International Holdings Ltd	242.4	63.9	2.3	-68.4%	8.4%	191.2%
Auric Pacific Group Ltd	162.1	10.8	0.7	70.5%	6.6%	2.7%
ABR Holdings Ltd***	150.7	1.9	1.0	517.9%	72.4%	0.2%
JB Foods Ltd	132.0	4.8	1.5	-7.0%	27.0%	90.5%
Hanwell Holdings Ltd	129.9	NA	0.5	NA	-3.8%	16.4%
Yamada Green Resources Ltd*	94.7	5.8	0.7	-54.1%	NA	0.0%
Consciencefood Holding Ltd	72.5	7.9	1.1	-33.2%	14.5%	35.0%
Zagro Asia Ltd*	72.5	7.4	0.9	-13.6%	12.7%	10.0%

\*Above supersector median and positive return on equity and below supersector median price-to-book ratio.

\*\*Above supersector median and positive earnings growth and below supersector median price-to-earnings ratio.

\*\*\*Satisfies both conditions \* and \*\*.

Source: Bloomberg, Voyage Research

**Figure 14: Comparative Information**

Supersector / Company Name	Cur. Mkt Cap (\$\$m)	Cur. P/E	Cur. P/BV	T12 EPS Growth	Ret on Com. Equity	Tot Debt / Com. Equity
<b>Food &amp; Beverage - Continued</b>						
Oceanus Group Ltd	69.1	NA	1.3	57.9%	-93.3%	95.4%
HLH Group Ltd	71.2	NA	1.3	NA	-14.1%	9.6%
United Food Holdings Ltd	63.8	NA	0.2	NA	-16.6%	0.0%
Global Palm Resources Holdings	63.2	NA	0.7	NA	-4.9%	3.3%
Khong Guan Flour Milling***	55.5	3.8	0.8	NA	23.2%	0.2%
Oriental Group Ltd	53.9	44.7	2.5	NA	0.3%	24.1%
China Dairy Group Ltd**	52.8	6.3	0.8	NA	4.6%	60.9%
Qian Hu Corp Ltd	38.1	437.5	0.7	NA	-17.8%	25.3%
Hosen Group Ltd	23.9	21.6	0.8	-60.5%	2.0%	48.3%
Chew's Group Ltd**	21.5	9.4	1.3	9.3%	9.1%	8.2%
Luzhou Bio-Chem Technology Ltd	21.0	NA	0.2	-78.4%	4.9%	133.0%
China Essence Group Ltd	8.6	NA	0.1	-99.0%	-40.8%	77.5%
Youyue International Ltd	5.3	28.2	1.4	NA	4.8%	295.6%
<b>Personal &amp; Household Goods</b>						
OSIM International Ltd	1,626.0	16.9	7.0	17.5%	46.7%	72.5%
GSH Corp Ltd	731.5	NA	2.3	NA	-0.5%	5.0%
Aspial Corp Ltd	715.6	8.6	2.4	-25.2%	32.7%	224.0%
Ocean Sky International Ltd	148.3	49.4	3.0	9.8%	23.7%	4.0%
Cortina Holdings	140.7	7.9	1.2	-21.9%	18.0%	88.5%
Design Studio Furniture Manufacturer Ltd	128.8	16.0	1.2	-24.7%	8.0%	0.0%
HTL International Holdings Ltd*	125.8	117.3	0.6	35.7%	1.3%	92.7%
Nobel Design Holdings Ltd**	107.0	8.2	1.3	325.4%	52.8%	58.6%
GP Batteries International Ltd	92.3	NA	0.3	NA	-6.4%	71.0%
China Gaoxian Fibre Fabric Holdings Ltd*	88.7	NA	0.3	60.4%	NA	23.3%
Micro-Mechanics Holdings**	74.4	12.1	2.1	21.7%	12.1%	0.0%
Action Asia Ltd*	50.0	NA	0.5	-70.2%	2.1%	39.1%
Ossia International Ltd	53.1	NA	1.1	NA	-3.5%	7.6%
Latitude Tree International Group Ltd	47.9	NA	0.8	NA	17.8%	62.1%
China Taisan Technology Group Holdings Ltd	42.6	NA	0.2	NA	-4.0%	2.5%
Eratat Lifestyle Ltd*	43.7	1.4	0.2	-7.1%	12.2%	0.0%
Equation Corp Ltd	39.3	NA	0.9	47.9%	-60.6%	75.7%
Best World International Ltd*	38.2	17.5	0.8	576.9%	3.8%	0.0%
Grand Banks Yachts Ltd	38.9	NA	0.6	59.7%	-21.5%	0.0%
Kitchen Culture Holdings Ltd	33.5	NA	2.7	NA	-2.9%	47.7%
Fuxing China Group Ltd	40.2	NA	0.2	NA	-18.2%	24.0%
W Corp Ltd**	32.3	1.0	20.3	NA	NA	15.0%

\*Above supersector median and positive return on equity and below supersector median price-to-book ratio.

\*\*Above supersector median and positive earnings growth and below supersector median price-to-earnings ratio.

\*\*\*Satisfies both conditions \* and \*\*.

Source: Bloomberg, Voyage Research



**Figure 15: Comparative Information**

Supersector / Company Name	Cur. Mkt Cap (\$m)	Cur. P/E	Cur. P/BV	T12 EPS Growth	Ret on Com. Equity	Tot Debt / Com. Equity
<b>Personal &amp; Household Goods - Continued</b>						
Asia Fashion Holdings Ltd*	32.4	NA	0.3	NA	1.0%	4.4%
Plastoform Holdings Ltd	25.6	NA	1.3	NA	3.6%	0.0%
CCFH Ltd	28.4	NA	1.0	NA	-109.6%	53.8%
Gems TV Holdings Ltd	29.0	NA	1.0	NA	5.2%	0.0%
Chaswood Resources Holdings Ltd	26.5	NA	1.4	67.2%	-9.0%	44.3%
Dapai International Holdings Co Ltd	26.8	NA	1.1	-45.1%	-156.0%	220.8%
Qingmei Group Holdings Ltd	22.4	NA	0.1	NA	-12.7%	0.0%
China Sports International Ltd*	21.2	NA	0.1	-67.8%	2.3%	8.0%
Foreland Fabrictech Holdings Ltd	16.9	NA	0.1	-87.6%	-7.1%	0.0%
Lorenzo International Ltd	16.9	NA	0.5	-340.7%	-16.2%	70.8%
Transcu Group Ltd	15.1	NA	0.5	2.0%	-123.0%	0.0%
Koda Ltd	15.0	18.6	0.5	NA	-10.3%	48.4%
Nippecraft Ltd	15.5	NA	0.3	-15.5%	-3.7%	0.2%
China Fibretech Ltd	13.9	NA	0.1	NA	-4.0%	10.4%
Great Group Holdings Ltd*	11.4	NA	0.1	NA	0.6%	78.3%
Sitra Holdings International Ltd	9.7	NA	32.9	16.7%	-323.7%	5961.0%
Cacola Furniture International Ltd	10.9	NA	0.2	NA	-30.2%	0.0%
P99 Holdings Ltd	10.4	NA	1.6	-208.8%	-18.0%	0.0%
Joyas International Holdings Ltd	10.6	NA	0.9	NA	4.0%	21.9%
China Hongcheng Holdings Ltd	8.0	NA	0.1	-20.3%	-24.0%	239.9%

\*Above supersector median and positive return on equity and below supersector median price-to-book ratio.

\*\*Above supersector median and positive earnings growth and below supersector median price-to-earnings ratio.

\*\*\*Satisfies both conditions \* and \*\*.

Source: Bloomberg, Voyage Research

<sup>6</sup> We downloaded from Bloomberg a list of 107 companies listed on the SGX and classified under the consumer goods industry based on the Industry Classification Benchmark. Next, we cursorily perused through the list to remove suspended counters, companies that were classified in the wrong industry and companies whose data were not available for more than two out of six fields, resulting in a list of five automobiles & parts, 43 food & beverage and 42 personal & household goods companies. The data presented in Figures 13 to 15 is extracted on 18 Dec 2013.

**Rating Definition:**

**Increase Exposure** – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

**Invest** – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

**Fairly Valued** – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

**Take Profit** – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

**Reduce Exposure** - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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**IMPORTANT DISCLOSURE:**

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