

November 09, 2021

SHATIRAH HOUSE RESTAURANT CO. (BURGERIZZR)

Initiating Coverage Report

Rating Neutral
12- Month Target Price SAR 218.0

Price as of Nov-08, 2021 SAR 228.60
Upside to Target Price (4.6%)
Expected Dividend Yield 2.0%
Expected Total Return (2.6%)

Market Data

52 Week H/L SAR 336/214
Market Capitalization SAR 572 mln
Shares Outstanding 2,500 mln
Free Float 100%
12-Month ADTV 14,778
Bloomberg Code BURGERIZ AB

■ Play on Retail Segment

DCF valuation at SAR 545 million (SAR 218/share)

Our SAR 545 million (SAR 218 per share) valuation is based on Discounted Cash Flows using a cost of equity of 5% and cost of debt of 4%. Burgerizzr's future growth is likely to be led by the Quality of Life program, continuing population growth, recreational and cultural seasons in key cities, marketing domestic tourism, attracting foreign tourists and lifestyle changes as well as expansion into the uncovered regions in Saudi Arabia.

The Quality of Life program

The Quality of Life Program was designed to enhance the quality of life of individuals through creating an environment to advance new lifestyle options, which will boost people's participation in entertainment activities. We believe this will directly boost the restaurant and cafes segment.

Low number of restaurants and cafes

One of the challenges is the low number of shopping centers, restaurants and cafes in relation to KSA's population as compared to similar countries around the world. This shows a gap which needs to be filled and creates investments opportunities and growth for the private sector.

Expansion in uncovered regions

Burgerizzr has not covered the Northern, Southern, and the Western regions, excluding Jeddah, yet. This presents an opportunity for the Company to close these gaps and expand into regions with strong growth potential.

Keeping up with market changes

Burgerizzr expanded into make-it-at-home products by introducing Gatherizzr, a make it at home burger box. This peaked during COVID-19 lockdown period. Also, the Company has been keeping pace with technological changes, as 45% of its 2020's total sales depend on technology through its own application, other delivery applications and the call centers.

IFRS16 impact reduces net margin

Net income for Burgerizzr has experienced a continuous growth over the past three years to reach SAR 19 mln in 2020. We assume that net income will grow at a CAGR of +7% between 2021-2025 to reach SAR 30 mln in 2025. However, net margin shrank by -200 bps in 2019 to 10% due to the impact of IFRS16 which increased recognized finance costs. We forecast net margin to remain steady.

Table 1: Key Financial Figures and Ratios (2020-2025)

	2020	2021E	2022E	2023E	2024E	2025E
Income Statements (SAR mln)						
Sales	196	235	266	285	298	313
Gross Profit	51	61	70	77	81	83
EBIT	22	26	31	32	33	33
Net Income	19	23	28	29	30	30
Key Ratios						
Gross Margin	26%	26%	27%	27%	27%	27%
EBIT Margin	11%	11%	12%	11%	11%	11%
Net Margin	10%	10%	10%	10%	10%	10%

Source: Riyadh Capital, Burgerizzr's Prospectus

■ Macro and Sector Overview

During the past few years, the Saudi economy has witnessed major developments and advancements which has positively impacted a large number of sectors. Along with structural reforms, this is not only confined to reducing dependence on oil, but also improving the environment in the country in all aspects. Through launching the Vision 2030 program and under the directives of its leadership, the Kingdom drew a road map towards a comprehensive and integrated future national development program, which is fulfilling its objectives.

Governmental support in Tourism, Entertainment and Sports

Vision 2030 aims to increase family spending on domestic entertainment from 2.9% in 2015 to 6.0% of total spending by 2030. This target was followed by the establishment of Saudi Giga projects such as Qiddiya and Red Sea projects coupled with the increased focus on local sporting events to hosting global events including Formula 1 and Formula E. These projects increase the demand for the food and beverage sector and creates opportunities for local and international brands.

Therefore, part of the Vision 2030 programs has contributed to the increase in tourism and recreational activities in the Kingdom, which we will illustrate more below.

The Quality of Life program

The Quality of Life Program was designed and launched in 2018, to enhance the quality of life of individuals within Saudi Arabia, through creating the needed environment to advance new lifestyle options. These options will boost people's participation in all cultural, entertainment, sports and tourism activities that raise their quality of life. Therefore, we believe that this program and its initiatives will have its impact on both economic (by creating jobs) and social (by creating diversifying entertainment activities and options) levels.

Low number of shopping centers, restaurants and cafes

One of the challenges facing the program mentioned above is the low number of shopping centers, restaurants and cafes in relation to KSA's population as well as compared to similar countries around the world. However, the program has worked to solve these challenges, where the program achieved an increase in shopping center space to reach 0.32 m²/person (exceeded the target of 0.16 m²/person). Yet, there's still a gap which needs to be filled. We believe this indicates more investments opportunities and growth for the private sector.

Increasing number of fine dining places

The Saudi food and beverage market witnessed an increase in international fine dining pop-ups associated with Saudi seasons specially in Riyadh and Jeddah cities, leading to an increase in permanent locations for these concepts while there is competition from locally established fine dining brands. We believe it's working in-line with the Quality of Life program targets to increase the number of fine dining restaurants to 5 in 2023, compared to 1 restaurant in 2019, then to 10 in 2030.

Exhibit 1: Key Performance Indicator (KPIs) for Quality of Life Program



Source: Riyad Capital, Quality of Life Program

Human Resource and qualified cadre challenges

Among the challenges include the lack of competencies and qualified cadres in the sector to improve the quality of restaurants. Yet, the government was smart to start minimizing this challenge by starting with the introduction of the Culinary Arts Commission in Feb 2020 under the Ministry of Culture to support, develop, and supervise the industry. The commission also aims to shed light on Saudi traditional food locally and internationally. In addition to starting educational programs by establishing the Culinary Arts Academy in King Abdullah Economic City, and the culinary arts diploma in Princess Nora Bint Abdul Rahman university.

It's worth to mention that 30 male and female students were sent to the Le Cordon Bleu Institute in London, as well as 20 male and female students entered at Higher Institute for Tourism and Hospitality in Riyadh.

Saudi Food and Beverages market

Based on the point-of-sale (POS) data transactions issued by the Saudi Central Bank (SAMA), we have observed a continuous growth in general in the Saudi Beverage and Food sector since 1Q2019. The highest surge was in 2Q2020 which increased by +36% Q/Q to reach SAR 17.5 bln, due to the seasonality of Ramadan and Eid Al-Fitr holidays coupled with the lockdown impact. However, it continues to grow with a steady pace until now, reaching SAR 18.3 bln in 3Q2021.

Exhibit 2: The point-of-sale (POS) Transactions' value for Beverage and Food sector (SAR bln)



Source: Riyad Capital, Saudi Central Bank (SAMA)

Saudi Restaurants & Café market

Based on POS transactions' value data for Restaurants & Café sector issued by SAMA, we've witnessed a growth in the sector since 1Q2019. However, the lockdown impact in 2Q2020 hit differently, where the POS transactions value during the lockdown drooped by -37% Q/Q to reach SAR 5.4 bln. We believe this is because with the beginning of COVID-19 in KSA, indoor dining restaurants had been postponed, as a precautionary measure to prevent the spread of the virus.

Yet, the restaurants and cafes quickly adapted with the new changes and compensated it by online orders, delivery applications and providing a new product (make-it-at-home products). Thus, the transactions' value rose again by +123% Q/Q in 3Q2020 and continue to grow since then with a stable growth rate to reach SAR 16.5 bln in 3Q2021.

Exhibit 3: Point-of-sale (POS) Transactions' Value for Restaurants & Café sector (SAR bln)



Source: Riyadh Capital, Saudi Central Bank (SAMA)

Growth will continue

According to the Ministry of Municipal Rural Affairs and Housing, the total issued commercial licenses in restaurants has reached to 48,436 in 2020. We believe that the growth in both Beverage and Food sector and Restaurants & Café sector will continue due to the following factors: Continuing population growth, opening recreational and cultural seasons in key cities, marketing domestic tourism, attracting foreign tourists and lifestyle changes.

Adding digital flavor to F&B sector

The rise of e-commerce paved the way for the growth of homemade brands, followed by the establishment of Maroof, an initiative under the Ministry of Commerce to regulate and organize transactions between merchants and customers. According to Maroof, the number of subscribed businesses in kitchen and bakeries has reached to 16,421 subscribers as of October 2021.

The growth of e-commerce has also led to the innovation of delivery applications that has been leading the food and beverage scene in the current decade. This also led to the introduction of cloud kitchens, central kitchens of one or multi-brands set up for the preparation of food for delivery purpose only.

■ Company Overview

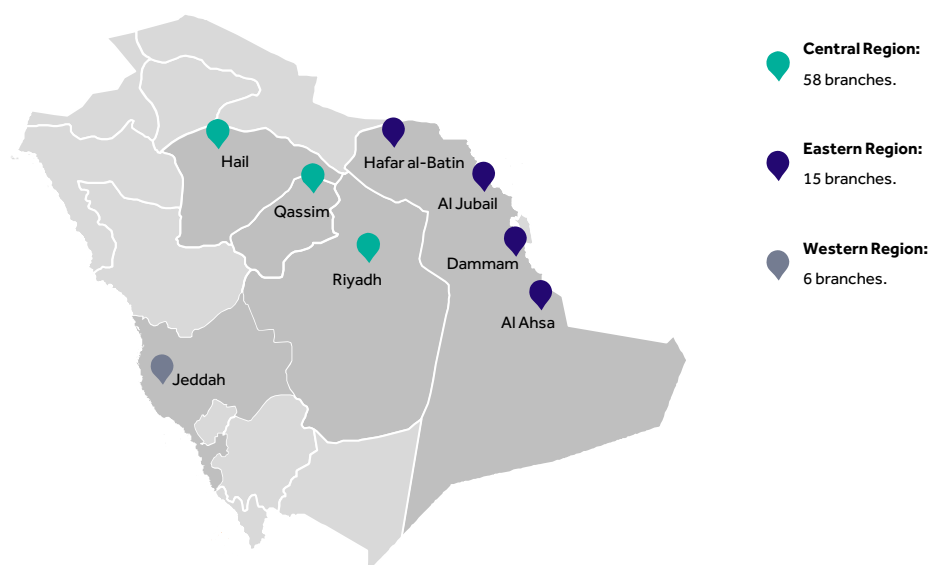
Burgerizzr is a burger restaurants chain operating in Saudi Arabia since 2009 with 79 branches as of December 31, 2020, located between the Central, Eastern, and Western regions. The chain targets a large customer segment, and it focuses on easy accessibility strategy to its selling channels, with a simple menu for easier operation, and holds a strong brand image of high-quality low-priced products. It's worth mentioning that Burgerizzr doesn't currently operate outside of the Kingdom and doesn't have any subsidiaries.

The company relies on several main sales channels such as its own branches, call centers, own application and other delivery applications.

Restaurants Network

The map below details locations of Burgerizzr's Restaurants as of December 31, 2020.

Exhibit 4: Burgerizzr's Restaurants Network



Source: Riyad Capital, Burgerizzr's Prospectus

Major Shareholders

There are three major shareholders for Burgerizzr Co., their ownership after the IPO is as follows:

Table 2: Major Shareholders of Burgerizzr

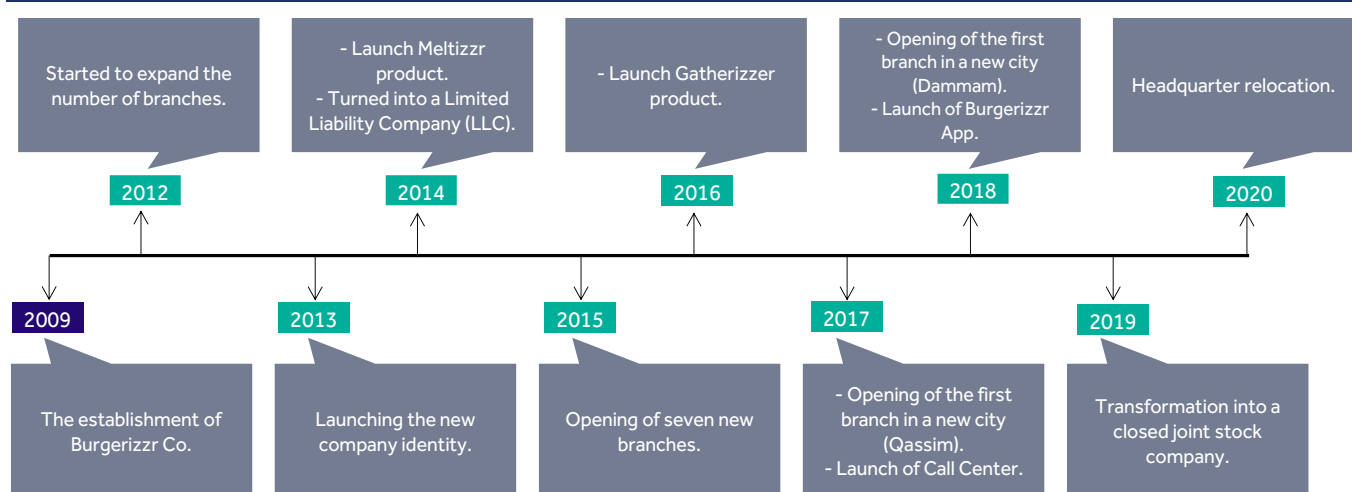
Shareholders Name	# of Shares (Mln)	Ownership%
Mohammed Al-Ruwaigh	1.08	43%
Ali Mohamed Al-Ruwaigh	0.45	18%
Samy Mohamed Al-Obaid	0.25	10%

Source: Riyad Capital, TADAWUL

Burgerizzr's history

Despite the recent establishment of the Company, it had an eventful journey since 2009, the following is a brief about the most prominent events since its establishment until 2020.

Exhibit 5: Timeline of Key Events Since Inception



Source: Riyad Capital, Burgerizzr's Prospectus

■ Competitive Advantages and Future Strategy

Burgerizzr has a variety of competitive advantages that differentiates it from other fast-food restaurants in the Saudi Market. The most notable of this is being known for its high-quality low-priced products.

Strong brand image

Burgerizzr has a strong brand image of providing high quality fresh beef and chicken with relatively low prices in comparison to the market, the following illustrate the key products and its price range:

Table 3: Key Products and its Prices in Burgerizzr

#	Key Products	Price Range (SAR)
1	Classic Burger	20-23
2	Meltizzer Burger	20-23
3	Burgerizzr Box	79-123
4	Gatherizzr	97-921

Source: Riyad Capital, Burgerizzr's Prospectus

Uncovered regions

Burgerizzr has not covered the Northern, Southern, and the Western region, excluding Jeddah City, yet. Therefore, this presents a great opportunity for growth for the company to close these gaps in regions that have strong growth potential.

Large base of customers

The chain serves a large base of customers as most of the restaurant's customers are from the young generation (15-34 years), which represents 34% of the population in the Kingdom, according to the General Authority for Statistics (GASTAT), as of mid-year 2020. This has ensured and is likely to ensure for the future, a steady portion of revenue.

Keeping up with the market

Burgerizzr reacts fast to market changes, as it followed the movement of consumer behavior towards healthy options and different dietary lifestyles to introduce Keto burger to its menu, which exposes it to new customer segment (Healthy Customers).

Burgerizzr was quick to venture into make-it-at-home products by providing Gatherizzr product, a make it at home burger box, that peaked during COVID-19 lockdown period. This is in addition to coping with the increase in fried chicken burger concepts to introduce its own fried chicken burger.

The ability to keep up with changes

The Company was able to keep pace with technological changes, as 45% of its 2020's total sales depend on technology through its own application, other delivery applications and the call centers.

Simplified operations

The company follows Simplified Operations Methodology or Concept, where it has simplified the menus to avoid clutter and ease of understanding. In addition, all the non-core operations, such as maintenance and construction, were assigned to a specialized third party.

Future Strategy and Plans

In terms of expansion, as mentioned earlier, the company doesn't currently operate outside the Kingdom. Yet, its plan is to continue its fast-geographical expansion by expanding abroad to GCC and Middle East countries that has similar fast food consumption habits through strategic partnerships and franchises. In addition, locally, Burgerizzr is seeking to enter regions that have low or no presence of fast food restaurants while maintaining and strengthening its presence in the current regions.

In terms of new products, the company is currently working on insourcing its bread by adding bread baking to its central kitchen, Burgerizzr's already purchased the needed equipment and is working on hiring trained and skilled staff to operate it.

■ Risk and Challenges

The Company operates in a cyclical industry which exposes it to certain risks. We have identified a few risks and challenges facing Burgerizzr below.

Reliance on delivery applications

Delivery applications are considered one of the major sales channels for Burgerizzr. As of December 31, 2020, the company is dealing with 7 delivery applications. We saw the increased importance of these applications especially during the pandemic period where 45% of its 2020's total sales were dependent on technology.

If the restaurant is removed from any delivery app due to disagreement in renewing the contract, sales may suffer. In addition, technical malfunctions that the delivery applications may encounter, for example, the interruption of the connection, the malfunction of the devices in the branches also poses a risk. All these factors may lead to the loss of sales or a large part of it through these apps.

Changing in end consumer spending behavior

Fluctuations in the Kingdom's economy affect the pattern and behavior of the end consumer towards recreational goods both in terms of entertainment or eating out. Thus, any reduction in the spending or disposable personal income would affect the demand for the Company's products and sales, which would negatively impact the financials.

5 suppliers represented 57% of purchases in 2020

Most of the company's total purchases rely on five key suppliers. These companies supply meat, chicken, bread, potatoes and refreshments and represent 57% of total purchase as of December 31, 2020. Accordingly, failure to pursue or maintain contractual relationships with its key suppliers may negatively affect the company's business and thus its financial results, which is one of the risks that the company may face in the future.

Financial Analysis

Increasing topline

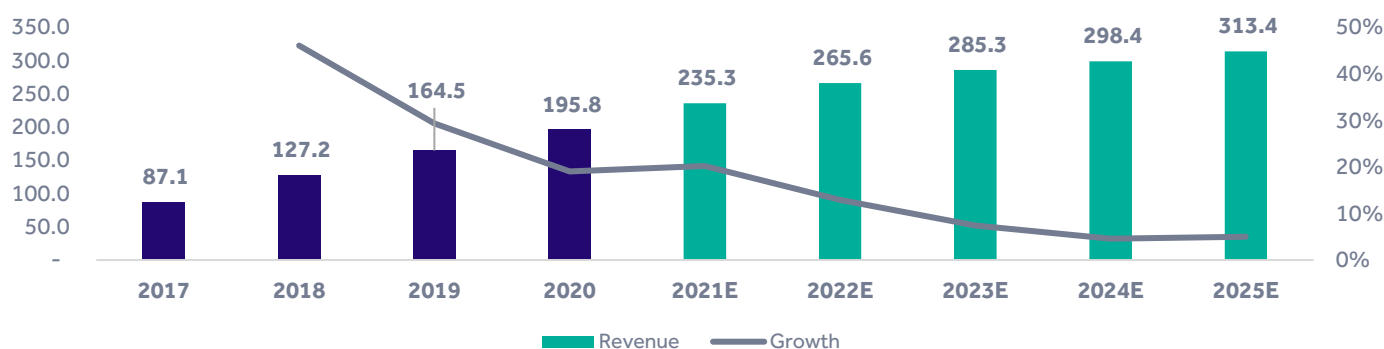
Historically Burgerizzr's revenue witnessed growth with a CAGR of +31% between 2017-2020, driven by the combined effect of rapid expansion in branches and increase in the revenue per branch.

Going more in-depth, revenue rose by +46% Y/Y and +29% Y/Y in 2018 and 2019 respectively, to reach SAR 164 mln in 2019 as a result of +41% Y/Y increase in the number of branches from 41 to 58 branches in 2018, followed by a growth in branches by +24%, reaching 72 branches by 2019. Also, the value of revenue per branch improved by +3% Y/Y and +4% Y/Y in 2018 and 2019 respectively, to reach SAR 2.3 mln per branch in 2019.

However, as a result of the COVID-19 lockdown period, 2020 topline grew at slower pace of +19% Y/Y to SAR 196 mln as the lockdown affected the sales and planned expansions for branches, which increased only by +10% Y/Y reaching 79 branches in 2020. With the ease of precautionary measures and return to normal life in 2021, we expect revenue to grow at a higher pace to compensate for 2020 slowdown. Our forecast shows an increase by +20% Y/Y in 2021.

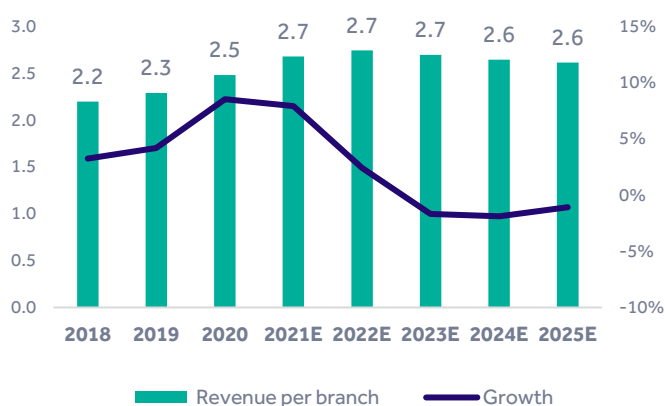
We assume that Burgerizzr will continue to increase its branches in all three existing regions, with a focus on the Western region, due to the low number of branches there. In addition, our assumptions call for new branches in the Northern and Southern Region as one of its strategies is to expand into regions that it currently does not cover. In brief, we assumed a CAGR of +7% in revenue between 2021-2025 to reach SAR 313 mln in 2025.

Exhibit 6: Revenues 2017-2025 (SAR mln)



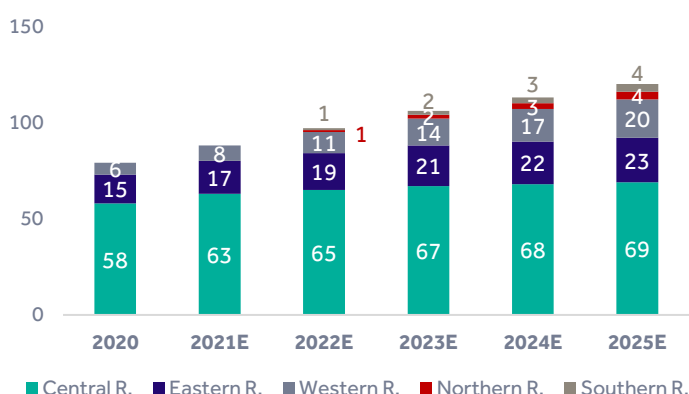
Source: Riyad Capital, Company financial reports

Exhibit 7: Revenue per Branch (SAR mln)



Source: Riyad Capital

Exhibit 8: Number of Branches



Source: Riyad Capital

COGS at 74% of revenue for the past 3 years

Historically, the biggest component was direct meals cost which comprised an average of 50% of cost of goods sold, followed by salaries that form an average of 23%. Going forward, we expect the COGS as a percentage of revenue will be between 73% - 74% until 2025.

Stable gross margin

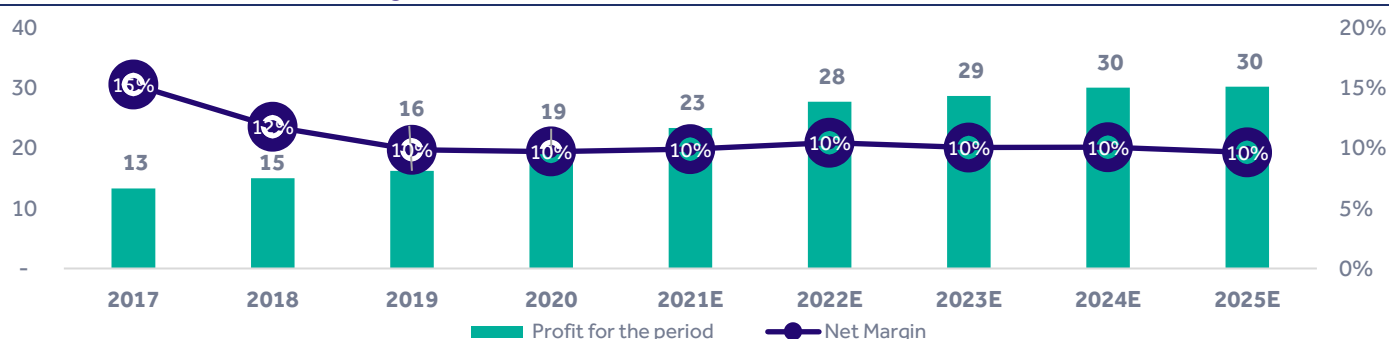
It's worth noting that gross margin shrank by -400 bps from 30% in 2017 to 26% in 2018 as COGS increased at a higher rate than revenue growth, then stabilized at the same level in 2018 to 2020. We believe that gross margin will be the same in 2021, but will increase to 27% from 2022 until 2025.

IFRS16 shrinking net margin

Net income for Burgerizzr had experienced a continuous growth over the past three years; on a yearly basis by +13%, +8%, +17%, in 2018, 2019, and 2020 respectively to reach SAR 19 mln in 2020. We assume that net income will grow with a CAGR of +7% between 2021-2025 to reach SAR 30 mln in 2025.

Net margin shrank by -200 bps in 2019 to 10%, a result of the impact of the application of IFRS16 that increased recognized finance costs. After that, net margin remained steady at 10% in 2019 and 2020. Our expectations show a stable net margin at 10% between 2021-2025.

Exhibit 9: Net Income and Net Margin 2017-2025 (SAR mln - %)

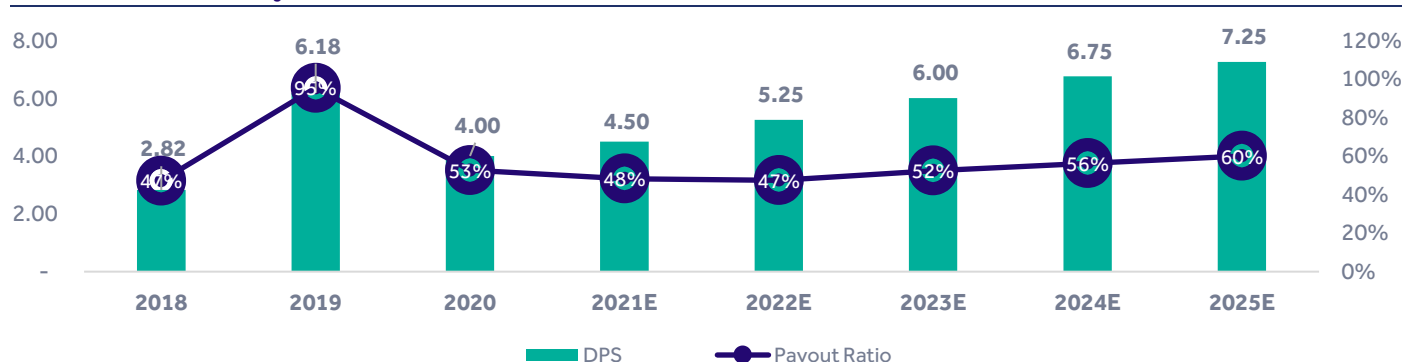


Source: Riyad Capital, Company financial reports

Dividends at SAR 3.20/Share in 1H2021

The Board of Directors of Burgerizzr Co. has recommended a cash dividend of SAR 3.20 per share, a total dividend of SAR 8 mln for 1H2021. Historically, dividends per share (DPS) were SAR 2.82, SAR 6.18, and SAR 4.00 per share, in 2018, 2019, and 2020 respectively. For the future, we forecast the payout ratio to be an average of 53% between 2021-2025. The following chart illustrate the DPS and Payout Ratio between 2017-2025.

Exhibit 10: DPS and Payout Ratio between 2018-2025 (SAR - %)



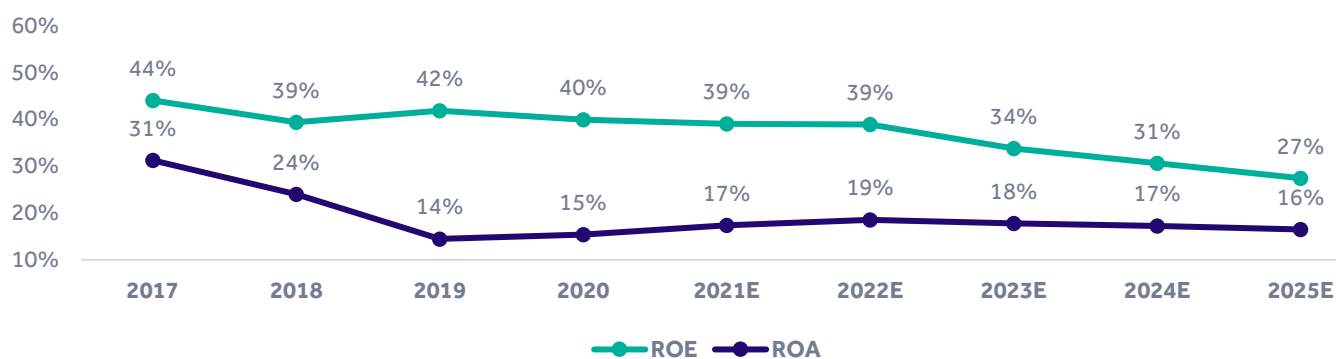
Source: Riyad Capital, Company financial reports

Profitability

Return on Equity (ROE) was at its highest level in 2017 at 44%, after that it began to vary in the range of 39%-42% between 2018-2020. We assume a gradual decline in ROE until 2025 to reach 27%.

Return on Assets (ROA) was at its highest level in 2017 at 31%. It decreased from 24% to 14% thereafter between 2018 and 2019, as the denominator increased by +80% mainly as a result of the application of IFRS16 to recognize rights of use assets. We believe that ROA will be stable going forward.

Exhibit 11: ROE and ROA between 2017-2025 (%)



Source: Riyad Capital, Company financial reports

■ Valuation

We have conducted the valuation for Shatirah House Restaurant Co. (BURGERIZZR) through the Discounted Cash Flows (DCF) valuation technique. We arrive at a valuation of SAR 545 million or SAR 218 per share.

Discounted Cash Flows (DCF)

To calculate the Weighted Average Cost of Capital (WACC), we have used the Saudi Arabia 10 Year Government Sukuk yield of 2.78% as the risk-free rate and an equity risk premium of 6.08% along with an adjusted Beta of 0.36 obtained from Bloomberg.

Our calculation calls for the equity and debt weight of 87% and 13% respectively, as of 2020 financials, while our cost of debt assumption is at 4% for Burgerizzr. Therefore, applying the respective weights to cost of equity and cost of debt, we arrive at a WACC of 4.8%.

Table 4: WACC Assumptions

Cost of Equity	
Risk free rate	2.8%
Equity risk premium	6.1%
Beta	0.36
Cost of equity	4.9%
Equity Weight	87.2%
Cost of Debt	
Cost of debt	4.0%
Zakat	2.5%
Debt Weight	12.8%
WACC	4.8%

Source: Riyad Capital

Table 5: Discounted Cash Flow Valuation

SAR mln	2022E	2023E	2024E	2025E
EBIT	307	316	330	331
Depreciation	12	15	17	22
Change in Working Capital	(1)	(9)	(6)	(20)
Capital Expenditure	(9)	(9)	(12)	(17)
Cash Flow to the Firm	33	28	31	18
Terminal Value				18
Total FCFF	33	28	31	558
Discounting Factor	0.95	0.91	0.87	0.83
Discounted Cash Flows	31	25	27	462
Long-term growth rate	1.5%			
Enterprise value	546			
Less: Debt	7			
Plus: Cash	6			
Equity Value	545			
Number of shares (mln)	2.5			
Fair Value per Share	218			

Source: Riyad Capital

Financial Statements

The following are the condensed Income statement and Balance Sheet for Burgerizzr:

Table 6: Income Statement

Income Statement (SAR mln)	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenues	127.2	164.5	195.8	235.3	265.6	285.3	298.4	313.4
Cost of Goods Sold	(94.2)	(121.8)	(144.8)	(174.1)	(195.2)	(208.3)	(217.8)	(230.3)
Gross Profit	33.1	42.7	51.1	61.2	70.4	77.0	80.6	83.1
Selling expenses	6.0	8.7	10.4	12.5	14.2	15.2	15.9	16.7
Administrative expenses	11.7	16.0	18.8	22.6	25.5	30.3	31.7	33.3
Operating Income	15.4	18.0	21.8	26.0	30.7	31.6	33.0	33.1
Total Opreating expenses	(0.5)	(1.6)	(2.7)	(2.4)	(2.7)	(2.6)	(2.6)	(2.6)
Profit before zakat	15.4	16.6	19.6	24.1	28.6	29.5	31.0	31.1
Zakat	(0.4)	(0.4)	(0.6)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Profit for the period	15.0	16.2	19.0	23.3	27.7	28.6	30.0	30.2
Gross Margin	26%	26%	26%	26%	27%	27%	27%	27%
EBIT Margin	12%	11%	11%	11%	12%	11%	11%	11%
Net Margin	12%	10%	10%	10%	10%	10%	10%	10%

Source: Riyadh Capital

Table 7: Balance Sheet

Balance Sheet (SAR mln)	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Assets								
Total Current Assets	19.2	25.9	28.1	30.8	37.5	47.2	57.9	67.1
Total Non-Current Assets	43.1	86.3	95.2	103.5	111.9	114.4	116.3	115.9
Total Assets	62.3	112.2	123.4	134.3	149.3	161.6	174.1	183.0
Liabilities & Equity								
Total Current Liabilities	12.4	42.0	45.6	49.7	55.0	55.5	59.7	48.5
Total Non-Current Liabilities	11.9	31.4	30.1	24.9	23.1	21.1	16.4	24.3
Total Liabilities	24.3	73.5	75.7	74.6	78.1	76.6	76.1	72.9
Share Capital	1.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Retained Earnings	36.5	11.6	18.6	28.4	39.1	52.4	65.6	77.6
Total Shareholders Equity	38.0	38.7	47.7	59.7	71.3	84.9	98.1	110.1
Total Liab & Equity	62.3	112.2	123.4	134.3	149.3	161.6	174.1	183.0

Source: Riyadh Capital

■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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