

# Monthly Report.

February 2024



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## Monthly Highlights.

### New Tax eats into NPAT for Banks.

The extra +15% added to the commercial bank tax rate, which is now 45%, affected the NPAT earnings for both BSP (-17.8% y/y) and Kina Bank (-9.5% y/y) for their FY2023 results.

### T-bills raise +36.71% more than January level.

The Government's Treasury bills raised PGK1.77 billion, a +36.71% increase from January's figure, as the market continues to be oversubscribed by more than 80%.

### BPNG increased intervention.

BPNG increased its intervention into the local FX market by +15% from the previous month, with added import pressures, especially for petroleum products continuing to drive the demand for foreign currency. The PGK/USD interbank rate continued its 'crawl' to close the month at 0.2660.

### CPL shares remain suspended.

CPL reported that total damages to its business because of 'Black Wednesday' is currently estimated at PGK40 million. A final evaluation on the financial and operational impact is yet to be determined. In the interim, its shares remain under suspension.

### KSL introduces Dividend Reinvestment Plan.

Shareholders of Kina Securities Limited (KSL) will now have the option to automatically reinvest their cash dividend into additional KSL shares through a Dividend Reinvestment Plan that was recently announced by KSL.

### Agriculture prices remain strong.

Global Cocoa prices continue to outperform agriculture commodities, increasing +35% in February. Palm Oil prices also had a strong month, rebounding from its dips in 2023 to increase by +5.5% in February.

# Market Commentary.

## **Bank stocks remain resilient despite Bank tax**

BSP and Kina Bank both reported strong results for the FY2023. BSP announced a Net Profit after Tax (NPAT) of PGK890 million, while KSL's reported NPAT was PGK105 million. However, it was also noted during the respective investor briefings that results for both banks were considerably impacted by the Government's increased commercial bank tax rate of 45% (up 15% from the previous year). This resulted in BSP's NPAT being down -17.8%, while KSL's was -9.5%.

## **Positive News from mining sector**

There was positive news from the mining sector during the past month, with **Porgera's re-commencement advancing** further with Prime Minister James Marape on hand to witness the first gold pour of the New Porgera Mine, according to the PNG Chamber of Resources & Energy (CORE). The mine is expected to be at full operational capacity by July of this year. There was also **positive news reported by St Barbara from their Simberi Mine**, with a reported increase of 3.4% in gold production during the December quarter of 2023. The mine operators attributed the increase to a 15% improvement in head grade to the mill as mining progressed into the higher-grade zone in the Sorowar pit.

## **Uncertainty surrounding Papua LNG project**

There has been mixed news surrounding the Papua LNG project over the past month. There were expectations that the project would progress to its final planning stages, including a Final Investment Decision (FID) by the end of this year. However, the project's profile took a significant setback with major French financiers, including BNP Paribas and Société Générale declaring that they would not be supporting the project based on environmental and social considerations. The continued delay will prolong the wait for much needed foreign currency that is expected to come in for the project's construction phase once the FID is finalised.

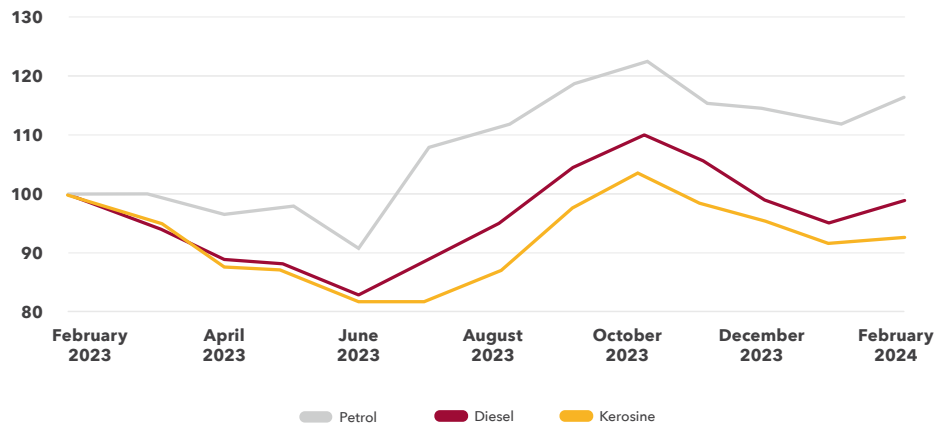
# Kina Bank Outlook.

## Fuel price watch

Fuel prices increased by 3.3% (petrol) and 3.6% (diesel) respectively for PNG consumers during February. Petrol prices in particular have been on the rise for the past 12 months with a +15% increase for the year between February 2023 - 2024. In March, the ICCC released its retail price schedule which sees another increase in fuel prices again by +6% due to the continued global supply disruptions from conflicts in the Red Sea impacting shipping routes. The medium-term outlook will remain unpredictable with on-going conflicts posing a risk for prices to spike again.

On the domestic front, the well-publicised stand-off between fuel supplier, Puma, its major bank BSP, and BPNG also provides uncertainty for supplies, particularly for aviation fuel.

Fuel Price Changes Y/Y



Source: ICCC, KFM Economics

## Upcoming economic policy guidance: March 2024 MPS and 2023 FBO

March is set to be a busy month for economic policy makers with the expected release of the March Monetary Policy Statement (MPS) from BPNG, and the Final Budget Outcome (FBO) for the 2023 National Budget by the Treasurer.

BPNG's upcoming March MPS will be the first for its new Board members and Governor, Elizabeth Genia since their permanent appointments. The MPS will also provide some indication on the current inflation environment in the country, which we project will be around 6% for this year with the continued depreciation of the nominal exchange rate having the greatest impact. The MPS will also provide further guidance on BPNG's current foreign reserve levels which have been used to support domestic importer demand through monthly interventions in the FX market. The previous MPS reported reserve levels at US\$4.1 billion, which was

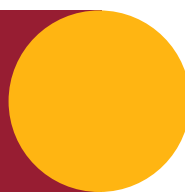
	2022 ACTUAL	2023 BUDGET	2023 MYEFO
Total Revenue & Grants	18,538.20	19,852.00	21,196.00
Total Expenditure & Net Lending	24,390.00	24,566.90	26,181.10
Net Lending (+)/ Net Borrowing (-)	-5,851.80	-4,714.90	-4,985.10
<b>% of GDP</b>	<b>-5.40%</b>	<b>-4.20%</b>	<b>-4.40%</b>
Total Public Debt Stock	53,679.90	58,664.80	58,664.80
<b>Debt as a % of GDP</b>	<b>49.80%</b>	<b>51.90%</b>	<b>52.20%</b>
Nominal GDP (PGK'm)	107,807.30	113,108.20	112,283.50

Source: PNG Department of Treasury

sufficient for 11.2 months of total import cover and 22.9 months of non-mineral import cover.

The 2023 FBO, by law (Fiscal Responsibility Act 2006) is supposed to be released by the end of March by the Treasurer. From the 2023 Mid-Year Economic & Fiscal Outlook (MYEFO) released last year, the Government expects to run another deficit of 4.4%

of GDP, with debt stock to be managed around 52.2% of GDP. The MYEFO also reported that the Government would be sourcing financing from the World Bank (US\$100 million) and other development partners including Australia to fund the remaining budget estimates. We should get a better picture of these financing arrangements in the upcoming FBO.



# PNG FX Market.

The Bank of PNG (BPNG) interbank rate (PGK/USD) continued its steady “crawling” depreciation in February, moving down 12 basis points (bps) in increments of 1 bps over the course of the month. This is the third month in a row that the interbank rate has experienced this ‘crawl-like’ movement, with the interbank closing the month at 0.2660. Given the movement of the interbank over the past quarter, we should see

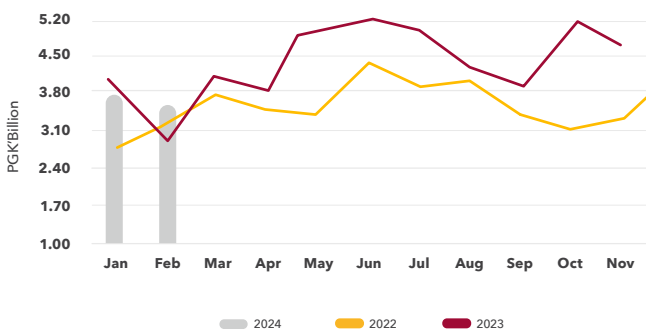
the PGK/USD at or below 0.2650 before the end of March.

BPNG also increased its intervention into the domestic market by +15% from January’s intervention levels. Despite the added support, total FX market turnover during February is still at levels experienced from 12 months ago - with foreign currency demand still outweighing exporter flows coming in.

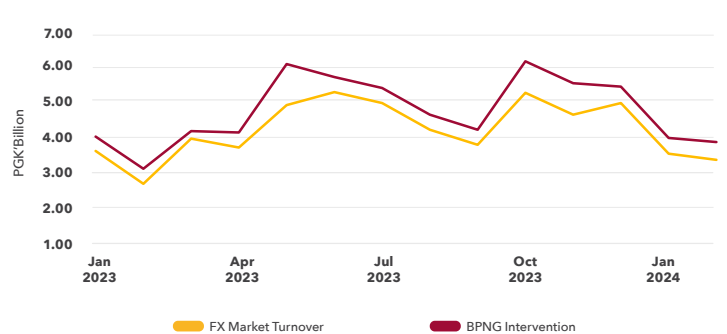
When adjusting for BPNG intervention and looking strictly at market flows, the month of February over the past two years has been on an average of just under 19% lower than the market flows in January.

Heading into March, we may expect an increase in market-generated liquidity with monthly average increases between February and March up 27% over the past two years.

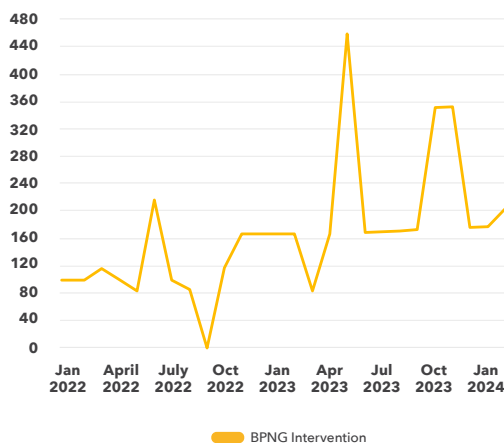
Monthly FX Market Turnover



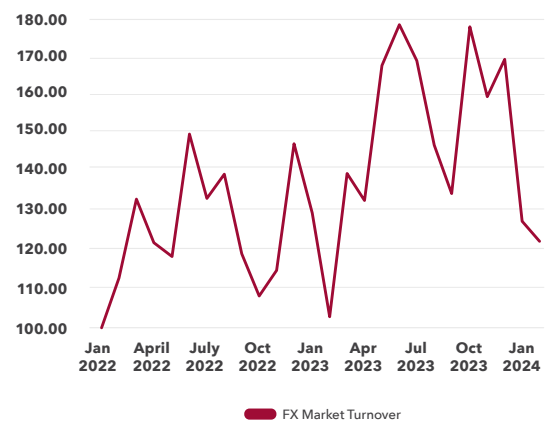
BPNG Intervention



BPNG Intervention at US100m/month



FX Market Turnover (adjusting for BPNG Intervention)



Sources: : Bank of Papua New Guinea, KFM Economics Calculations



# PNG Cash & Fixed Income.

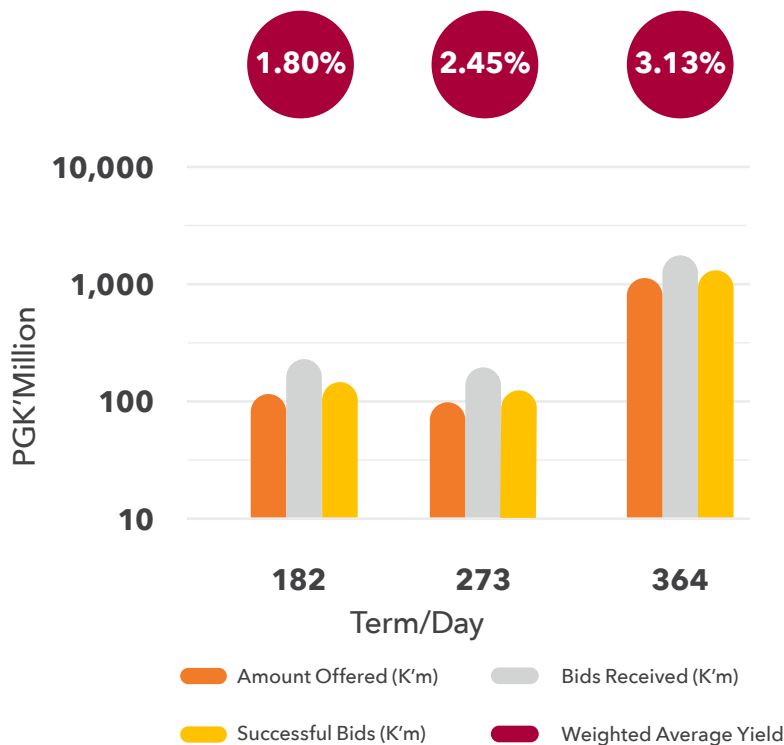
In February 2024, Treasury bills generated approximately PGK1.77 billion, a +36.71% rise from the previous month. Yields dropped across all T-bills, with the 1-year paper shedding 31bps since January, while the 182-day and 273-day papers dropped 24bps and 14bps respectively.

Supply offered across all maturities increased by +41.31%, with the 273-day instrument seeing a 100% increase from its January level.

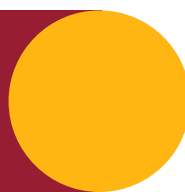
Demand exceeded supply for the 1-year T-bill, which was oversubscribed by 75.78%, however bids received dropped by -6.59% m/m. Meanwhile, bids for the 182-day paper recovered considerably from being undersubscribed for the past 3 months, as investors spread out their investment options in the domestic market.

Overall, Treasury bills were oversubscribed by more than 80%, consistent with high liquidity persisting

in financial markets, and given limited options for domestic institutional investors to invest in.



Source: Bank of Papua New Guinea



# International Cash & Fixed Income.

Inflation numbers came in higher than expected in the U.S and U.K, signalling that central banks may not cut interest rates as much as initially thought. This caused bond prices to decline, while bond yields rose. Yields for both the U.S 10-year Treasury bond and the U.K 10-year gilt rose by 9bps m/m to close at 4.25% and 4.12% respectively. A similar case was seen for yields of both the Australian and Kiwi 10-year papers, both adding 3bps m/m.

Overall, fixed income returns were muted for the month as bond yields rose on signals of slower rate cuts due to dovish comments from central banks and a lower inflation print. Demand for new bond issuance remained strong due to high cash levels and expectations of falling rates.

## Inflation and interest rates

The U.S Federal Reserve (Fed) left interest rates unchanged at its latest meeting but signalled that it may start cutting rates later this year. While inflation remains above the Fed's 2% target, Fed officials see signs that inflation is moderating and the economy is growing solidly with a tight labour market. Fed Chair, Jerome Powell, stated that interest rates have likely peaked for this cycle and rate cuts will likely begin "at some point this year" once the Fed has more confidence

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.25%	↑	0.09	↑	0.08	↑	0.09
United Kingdom	4.12%	↑	0.09	↑	0.08	↑	0.09
Australia	4.14%	↑	0.03	↑	0.07	↑	0.03
New Zealand	4.70%	↑	0.03	↑	0.03	↑	0.03
France	2.89%	↑	0.08	↓	-0.08	↑	0.08
Japan	0.71%	↓	-0.03	↑	0.39	↓	-0.03

Source: Bloomberg

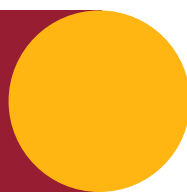
that inflation is moving towards its 2% goal. However, Mr. Powell did not commit to an immediate rate cut at the next meeting in March. The Fed also removed language from its statement that indicated concerns about risks to households and businesses, suggesting officials feel the current outlook may persist barring any shocks.

Overall, the Fed's actions signalled that it sees risks to the economy as balancing out and that it may soon start dialling back its current policy stance by cutting interest rates. Still, the Fed will likely move cautiously and wait for more confirmation that inflation is stable before cutting rates, balancing the risks of acting too soon versus too late. Most analysts expect the Fed to begin lowering rates in the second half of this year.

## A brief look at Chinese Bonds

While major central banks in the G7 held policy rates steady, China's central bank continued pursuing an independent easing path by lowering banks' reserve requirement ratios. This fuelled demand for Chinese government bonds as a safe haven asset as the renminbi showed resilience against the strengthening U.S. dollar. Longer-dated Chinese bond yields fell to four-year lows, causing the yield curve to flatten significantly.

By cutting reserve ratios while keeping interest rates unchanged, the People's Bank of China (PBOC) injected crucial liquidity into the financial system. Maintaining price stability remained a key priority for the PBOC.



# PNG Equities.

## 2023 full-year financial results

It is the time of the year again where PNGX-listed companies start releasing their full-year results for the last financial year. Several of the major companies announced their results during February, including the two major banks, BSP and Kina Bank.

There was a glaring fall in NPAT for PNG's commercial banks (BSP and KSL). This was attributed to the Government's tax rate hike for PNG commercial banking license-holders from 30% to 45% in 2023.

- BSP's NPAT was also impacted by higher impairment expenses (PGK182 million) due to a rising delinquency rate. It reported that 4.1% of accounts in BSP's loan portfolio are more than 90 plus days overdue in payments.

## PNGX movements

The Kina Securities index (KSi), a price-weighted measure of PNGX stocks, moved +0.57% higher as investors surfed the wave of dividend announcements. Key drivers for the KSi this month were stocks within the financial, investment, and oil & gas sectors. Total volume traded during the month was 2.3 million (equating to PGK19.7 million), compared to 1.5 million units in January 2024.

## KSL Dividend Reinvestment Plan

Kina Securities Limited (PNGX: KSL | ASX: KSL) introduced a Dividend Reinvestment Plan (DRP) for its existing shareholders. The DRP provides an option for KSL shareholders to automatically reinvest their cash dividend into additional KSL shares. This means that when KSL declares a dividend, shareholders who have participated in the DRP will receive additional KSL shares, proportional to the dividends they would have received in cash. For more information, [read here](#).

	Net Profit after Tax (NPAT)		Final Dividend	**Dividend Yield
	2023	CHANGE		
<b>Banking</b>				
BSP Financial Group Limited	PGK890m	-17.8%	PGK1.06	10.44%
Kina Securities Limited	PGK105m	-9.5%	PGK0.16	10.36%
<b>Industrial</b>				
Steamship Trading Company	PGK58m	+0.3%	*PGK0.60	2.68%
<b>Mining and Oil &amp; Gas Sector</b>				
Santos Limited	US\$1.4b	-33.3%	US\$0.18	5.00%

\* Subject to Board approvals

\*\* Calculated using the closing share price as at 29 December 2023

Source: 2023 Annual Reports

- Steamship achieved a +0.3% increase in NPAT, showing the Group's disciplined approach to financial management amidst challenging economic conditions.
- Santos' NPAT fell -33.3% in 2023, largely due to lower production and lower realised prices for LNG and crude oil, compared to the high prices it experienced in the previous year (FY2022).

	PRICE*		MONTH		YOY		YTD
<b>PNG Stock Exchange (PNGX)</b>							
Credit Corporation PNG (CCP)	2.01	↑	0.50%	↑	5.79%	↑	0.50%
Kina Asset Management (KAM)	1.01	↑	12.22%	↑	6.32%	↑	12.22%
Kina Securities Ltd (KSL)	2.90	↑	7.41%	↑	5.45%	↑	7.41%
BSP Financial Group Ltd (BSP)	16.12	↑	7.47%	↑	25.94%	↑	7.47%
Santos Limited (STO)	19.30	↑	0.31%	↑	1.05%	↑	0.31%
<b>Australian Securities Exchange (ASX)</b>							
Kina Securities Ltd (KSL)	0.91	↑	5.81%	↑	13.75%	↑	5.81%
BSP Financial Group Ltd (BFL)	6.55	↑	8.26%	↑	25.96%	↑	8.26%
Santos Limited (STO)	7.08	↑	-9.81%	↑	1.14%	↑	-9.81%
<b>PNG Market Indices</b>							
KSi	6,392.50	↑	0.57%	↑	1.67%	↑	0.57%
KSHi	15,725.10	↑	1.05%	↑	0.90%	↑	1.05%

\* PNGX prices in PGK; ASX prices in AUD. Prices as at 29/02/2024

Source: PNGX, Bloomberg, KFM Calculation

## Some advantages of the DRP

- Cost - effective: buy additional shares without paying brokerage or commission fees.
- Accumulate shareholding at discounts: accumulate additional shares at a discount price.
- Compounding return: increase shareholding, potentially increasing investment value.



# PNG Equities, cont.

## City Pharmacy shares remain suspended

City Pharmacy Group Limited (PNGX: CPL) updated PNGX of its assessment on the damages incurred during “Black Wednesday”, as well as the suspension of its shares. CPL estimated

a value of PGK40 million in damages to its stock, stock fixtures, and equipment. In addition, the Group’s evaluation on financials and operational implications are still on going, while seeking

government support and perusing insurance claims to help minimize impact on its financials. For this reason, CPL has advised PNGX that it’s shares remain under suspension.

# International Equities.

## Q4 earnings and A.I optimism support Global Equities

Global equities closed February on a high note, with major equity benchmarks hitting record highs on A.I optimism and upbeat fourth quarter (Q4) results from mega-capitalisation companies including Meta Platform (META), Amazon (AMZN) and Nvidia (NVDA). This provided a haven for investors amidst uncertainty from mixed economic data that was released in February. However, as the earnings season faded, equity prices lost momentum towards the back end of the month.

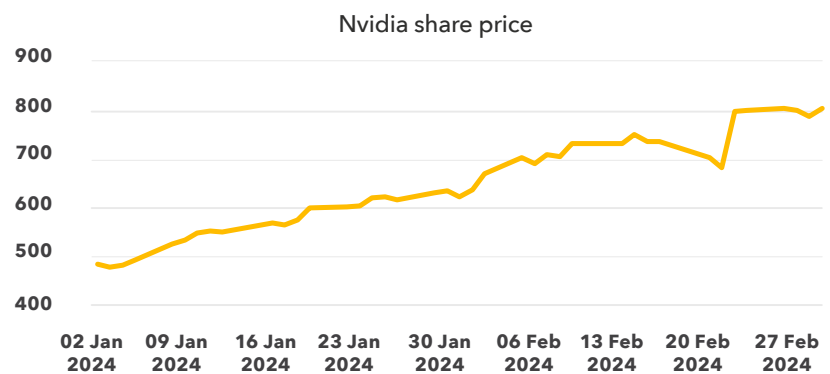
In the U.S, the S&P 500 equity index broke the 5,000 mark for the first time in two years, closing at 5,096.27, while the tech-heavy Nasdaq Composite rose to a new record high of 16,091.92.

The pan-European STOXX 600 index joined its U.S peers by hitting an all-time-high, supported by technology stocks. Japan’s Nikkei also rose to a record high in February, breaking its 35-year record high.

## Nvidia continue to rise

Shares of Nvidia, the world’s largest chipmaker, rose over +28% in February, extending its bullish run from last year and heading into 2024. This stock has been fuelled by its A.I dominance.

	PRICE		MONTH		YOY		YTD
<b>North America</b>							
Dow Jones IA	38,996.39	↑	2.22%	↑	18.57%	↑	2.22%
S&P 500	5,096.27	↑	5.17%	↑	27.97%	↑	5.17%
NASDAQ	16,091.92	↑	6.12%	↑	40.33%	↑	6.12%
Toronto S&P/TSX	21,363.61	↑	1.63%	↑	5.45%	↑	1.63%
<b>Europe</b>							
FTSE	7,630.02	↓	-0.01%	↓	-3.84%	↓	-0.01%
DAX	17,678.19	↑	4.58%	↑	14.93%	↑	4.58%
CAC 40	7,927.43	↑	3.54%	↑	8.66%	↑	3.54%
<b>Asia</b>							
Nikkei	39,166.19	↑	7.94%	↑	42.82%	↑	7.94%
Hang Seng Index	16,511.44	↑	6.63%	↓	-17.21%	↑	6.63%
Shanghai Composite	3,015.17	↑	8.13%	↓	-7.45%	↑	8.13%
Sensex	72,500.30	↑	1.04%	↑	22.28%	↑	1.04%
S&P/ASX 200	7,698.70	↑	0.23%	↑	6.56%	↑	0.23%



Source: Marketwatch.com

In 2023, Nvidia claimed over 85% market share of the generative A.I sector. We expect Nvidia to continue its growth this year with the rising demand for chips.



# Commodities.

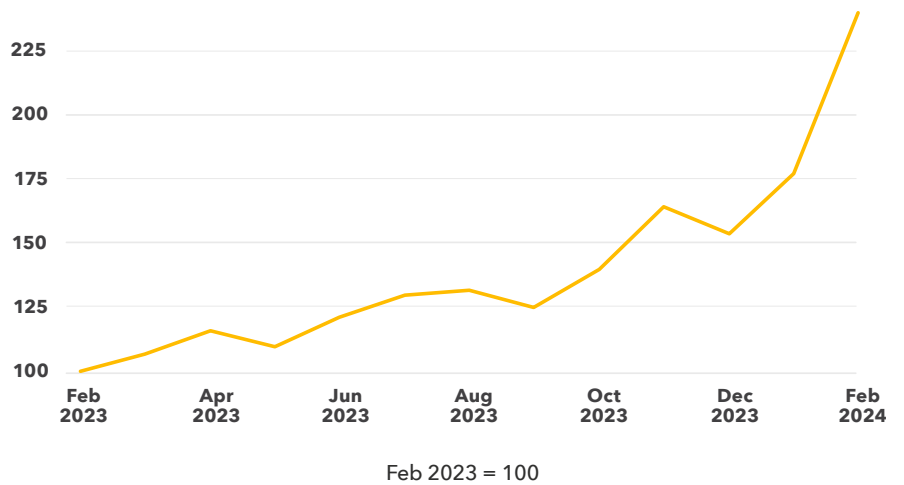
## Strong start to the year for agriculture exporters

It was another positive month for agricultural exporters, with positive price increases for cocoa, coffee, and palm oil. Cocoa continues to outperform all commodities, with cocoa prices continuing to rise in February by +35% to close out the month at US\$6,510/mt.

The continued global supply shortage of cocoa, which has been largely attributed to weather shocks in major suppliers from the West African region, has meant cocoa has now increased by 130% over the past 12 months.

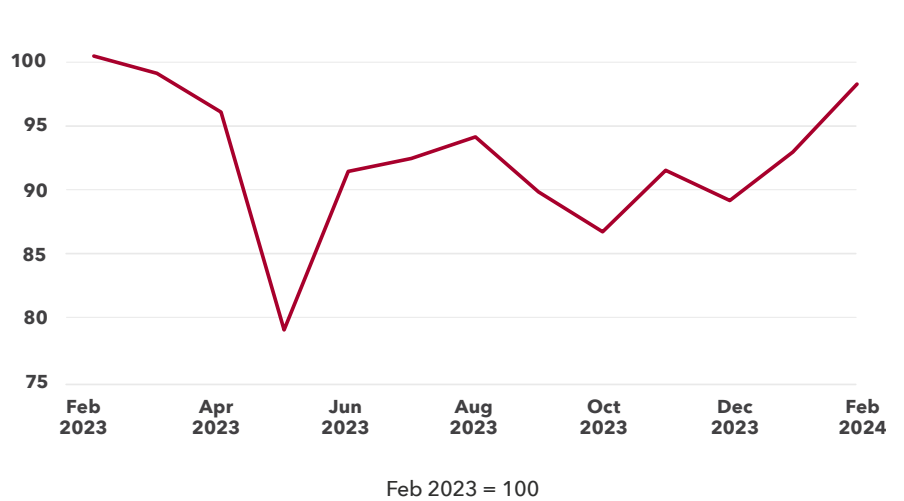
Coffee and Palm Oil prices have also enjoyed solid starts to the year, with Palm Oil prices, in particular increasing +5.53% to trade above RM4,000/tn in February. After dropping to around RM3,255/tn last May, Palm Oil prices have gradually risen by over 20% this past 10 months. Global Palm Oil supply is expected to remain tight due to "stagnating production and dwindling stockpiles", will underpin palm oil prices relative to other edible oils in the near term, according to veteran trader Dorab Mistry (Bloomberg). He expects output to remain flat, particularly in major producers, Indonesia, and Malaysia, "as the industry contends with aging trees, erratic weather and little improvement in farming practices". The strong agriculture prices will also mean greater FX conversion to PGK which will boost revenues for local exporters, as well as provide some good currency flows for local importers.

Price Change in Coca Since Jan-2023

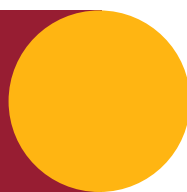


Source: Bloomberg; KFM Economics Calculations

% price change in Palm Oil y/y



Source: Bloomberg; KFM Economics Calculations



## Commodities, cont.

### Energy prices mixed as Iron Ore slips further

LNG prices have continued to go lower, with a -12.17% drop during February. According to Reuters, Asia spot LNG prices hit their lowest levels in nearly three years during February as weak demand in Asia and Europe weighed on the market. However, the fall in prices incentivised LNG importers from markets such as China and India to increase spot purchases.

Oil Prices were up during the month (2% - 3%), while precious metals remained flat, bar iron ore, which fell 10.05%. The fall in iron prices has been attributed to the gloomy Chinese economic outlook, with China being the major importer. The long-term implications of soft demand from China for this resource could translate into denting mining stocks for top iron exporter, Australia.

	PRICE (USD)		MONTH		YOY		YTD
<b>Agriculture</b>							
Coffee (US cents/lb)	195.85	↑	0.93%	↑	3.08%	↑	0.93%
Cocoa (US\$/mt)	6,510.00	↑	35.01%	↑	136.90%	↑	35.01%
Palm Oil (RM/tn)	4,025.00	↑	5.53%	↓	-2.14%	↑	5.53%
<b>Energy</b>							
Brent Crude (US\$/bbl)	83.62	↑	2.34%	↓	-0.32%	↑	2.34%
LNG (US\$/mmBtu)	8.37	↓	-12.17%	↓	-41.71%	↓	-12.17%
Light Crude WTI Futures (US\$/bbl)	78.26	↑	3.18%	↑	1.57%	↑	3.18%
<b>Precious Metals</b>							
Gold (US\$/oz)	2,054.70	↓	-0.14%	↑	11.87%	↓	-0.14%
Silver (US\$/oz)	22.89	↓	-0.69%	↑	8.61%	↓	-0.69%
<b>Base Metals</b>							
Copper (US\$/lb)	3.85	↓	-1.22%	↓	-5.94%	↓	-1.22%
Iron Ore (US\$/mt)	116.46	↓	-10.05%	↓	-2.27%	↓	-10.05%

Source: Bloomberg



# Kina Bank Wealth Management.

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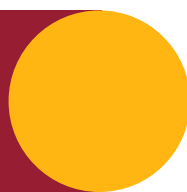
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# Disclaimer.

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