

# Neutral

## Media A Slow Sunrise

### Tough 1Q17

Revenues of media companies are largely, if not solely, ad-driven. Most of their revenue comes from FMCG companies and therefore, it is only sensible that when those companies experience a slowdown, just like they did in 1Q17, media companies, too, deteriorates. It was apparent that advertising expenditure from FMCG companies was rather soft in 1Q17 (see Exhibit 4). While MNCN was proven to be more resilient from this particular hit, SCMA was hurt by -6.0% YoY decline in its revenue.

### So can we expect the usual pickup in 2Q17?

Fueled by Idul Fitri momentum and academic mid-year holiday, FMCG sales should be able to generate a fairly firm uptick as a result of increased consumer spending. This upsurge in sales then can be passed on to higher advertisement expenditure, sending a positive jolt to both SCMA and MNCN. Moreover, during Idul Fitri, TV stations also have longer prime-time hours, which will provide SCMA and MNCN with more opportunity to maximize their revenues. However, with the somewhat lukewarm political condition in Indonesia and not to mention the effect of electricity price still to be digested by consumers, we are more cautious on our approach to estimate whether or not this year's 2Q17 seasonality can be as meaningful as those in previous years.

### Why 3Q17 will be challenging

After Lebaran, both MNCN and SCMA will be forced to face with a period of moderating ad-spending by FMCG companies. However, this is a common trend that we have been seeing for these past few years. After forming a high base in 2Q, 3Q will go through a drop. Nonetheless, this seasonality effect will likely to normalize in 4Q.

### Post-acquisition of SinemArt

Even though SCMA shows improvement in its audience share, it is not as significant as we previously expected (see Exhibit 8 and 9). Nonetheless, SinemArt does manage to produce successful shows for SCMA, such as Anak Langit, Berkah Cinta and Orang-orang Kampung Duku – all of which managed to climb into Indonesia's Top 20 drama series as of March 2017. At this juncture, we expect both MNCN and SCMA to steadily hold their current respective audience shares with RCTI and SCTV as the leading players competing in a tight race.

### Our top pick: SCMA

At this point, we prefer SCMA for a couple of reasons:

#### (i) Profitability

Over the past five years, SCMA has always been able to consistently maintain high profitability margins – those that are considerably higher than MNCN's. Furthermore, SCMA could still protect its margins in spite of a period of falling audience share as was the case in 2014 to mid 2016. This proves SCMA's resilience towards external turbulence. SCMA also has no USD denominated liability, making them immune to exchange rate volatility.

#### (ii) Stronger cash flow

Based on our estimation, during FY17F-FY19F, SCMA will be able to generate Rp1.6 tn – Rp1.8 tn free cash flow – still with a net cash position, a stance that SCMA has been able to continuously maintain since 2010.

Our main concern for SCMA is its weakening audience share.

|                  |         |
|------------------|---------|
| Sector           | Media   |
| Bloomberg Ticker | JAKTRAD |

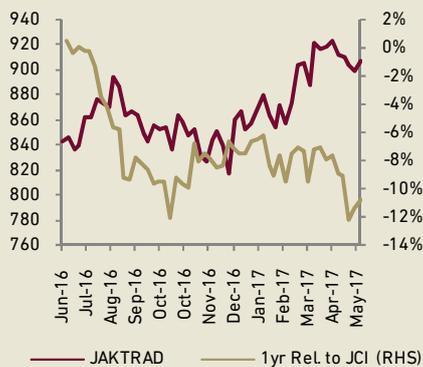
### Share Price Performance

|            |       |
|------------|-------|
| Last price | 907.5 |
|------------|-------|

|                    |         |
|--------------------|---------|
| 52w High/Low price | 934/810 |
|--------------------|---------|

|                       |                |
|-----------------------|----------------|
| Mkt. Cap (Rpbn/USDmn) | 680,331/51,210 |
|-----------------------|----------------|

|                     | 3m   | 6m   | 12m   |
|---------------------|------|------|-------|
| Absolute (%)        | 5.8  | 7.3  | 7.6   |
| Relative to JCI (%) | -0.7 | -1.7 | -10.7 |



### Nichelle Ongko

+62 21 2557 4800 ext. 740

ongkonichelle@ciptadana.com

<http://www.ciptadana.com>

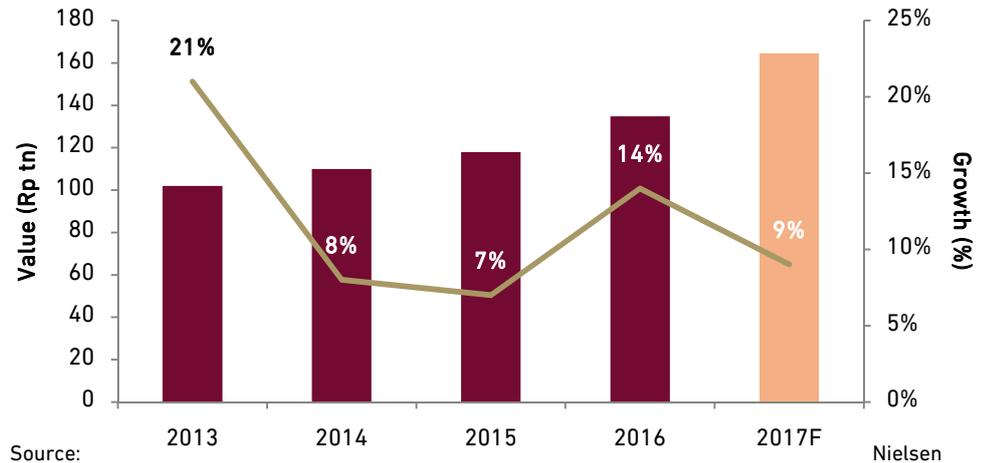
### Exhibit 1: Media stocks rating and valuation

| Berg Ticker | Rating | Mkt.cap (Rp bn) | Last Price | Target Price | Upside Pot. (%) | PER 2017F | EV/EBITDA 2017F | ROE 2017F (%) | Yield 17F (%) |
|-------------|--------|-----------------|------------|--------------|-----------------|-----------|-----------------|---------------|---------------|
| SCMA        | BUY    | 38,162          | 2,610      | 3,360        | 28.7            | 23.5      | 16.7            | 46.2          | 3.4           |
| MNCN        | HOLD   | 27,910          | 1,955      | 1,970        | 0.8             | 14.9      | 10.2            | 19.7          | 4.7           |

# Industry overview

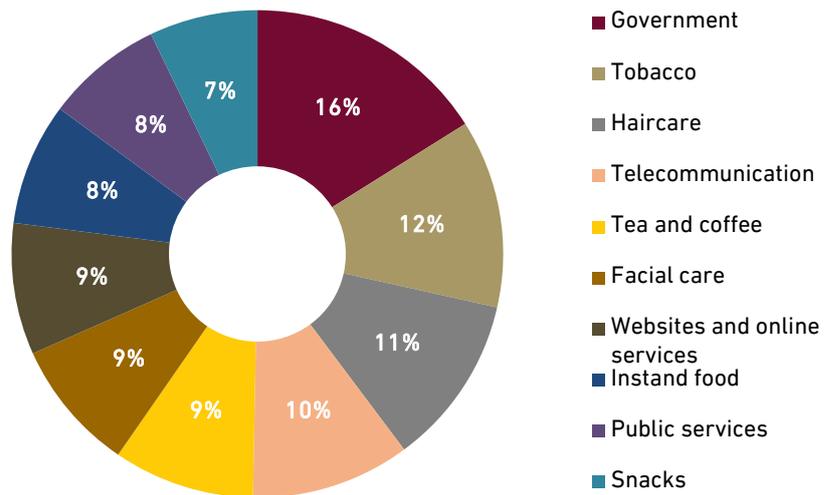
Brief snapshot of Indonesia's media sector

**Exhibit 2: Advertising expenditure (2013-2017F)**



After recovering from a 2-year period of single-digit growth rates, advertising expenditure finally achieved double-digit growth in 2016. However, advertising expenditure growth in 2017 is forecasted to abate and enter the single-digit zone yet again.

**Exhibit 3: Top 10 advertisers by sector in 2016**



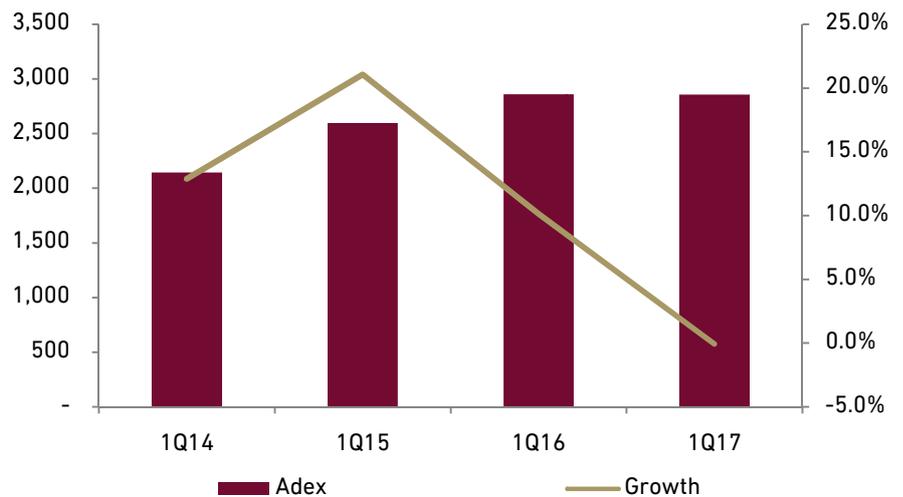
Source: Nielsen

Government and political organizations is the largest player in Indonesia's media sector, but it was Tobacco who recorded the highest jump with a staggering 45% YoY growth. Snacks and Haircare products came in next with 29% YoY and 27% YoY growth, respectively. Furthermore, with the rise of e-commerce businesses, Website and online services kept expanding with 25% YoY growth.

## Tough 1Q17

To estimate ad-spending growth, we examined a basket of FMCG companies, namely, UNVR, GGRM, HMSP, ICBP, MYOR and KLBF and put together their advertising expenses over the past few years. It was rather apparent that advertising spending from these companies was exceptionally soft in 1Q17 (see Exhibit 4). In fact, on a yearly basis, 1Q17 ad-spend declined by -0.1% YoY. While MNCN was proven to be more resilient from this particular hit, SCMA was hurt by -6.0% YoY decline in its revenue.

Exhibit 4: 1Q14 – 1Q17 adex by FMCG companies\*

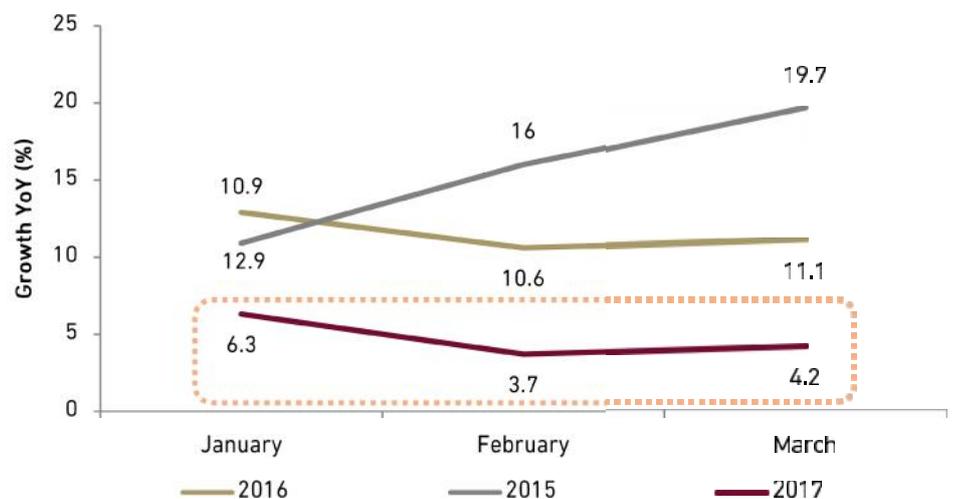


Source: as per stated under Selling expenses  
\*UNVR, GGRM, HMSP, ICBP, MYOR and KLBF

### Behind the sluggish ad-spend figures

Creeping under the disappointing 1Q17 was an overall stagnation sweeping the consumer sector. As a matter of fact, retail sales in 1Q17 sank further below what seems to be an already weak 1Q16's performance compares to 1Q15's (see Exhibit 5).

Exhibit 5: 1Q15 – 1Q17 retail sales

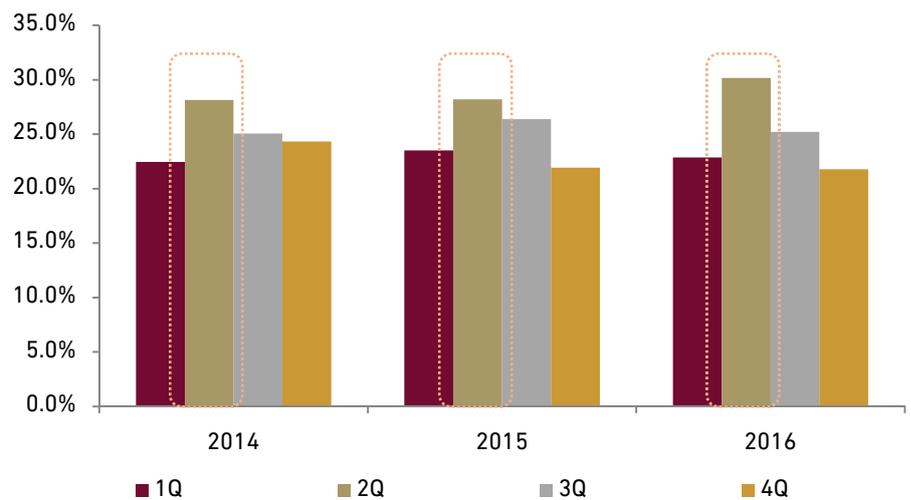


Source: BI survey publications

**2Q has always been better**

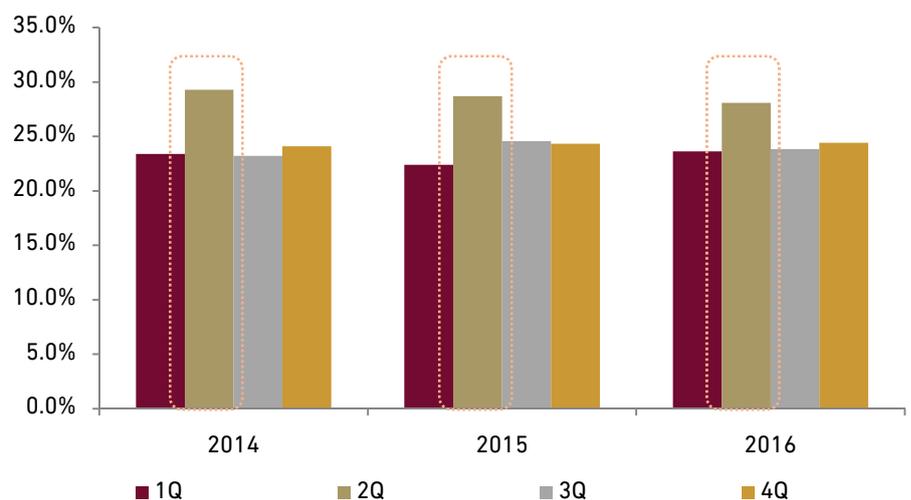
Fueled by spurring demand from consumers during Idul Fitri, FMCG companies will advance in 2Q, sending a breath of relief for media companies. In addition to Lebaran effect, TV stations will also have longer prime-time hours during the holiday. As can be seen in Exhibit 6 and 7, both MNCN and SCMA's sales have consistently peaked in the second quarters. As a result, 2Q's sales contribute the most to total full-year sales. Likewise, we expect the same trend to continue this year.

**Exhibit 6: MNCN's quarterly sales as a percentage to full-year sales**



Source: MNCN, Ciptadana Estimates

**Exhibit 7: SCMA's quarterly sales as a percentage to full-year sales**



Source: SCMA, Ciptadana Estimates

**High base for 3Q**

On the other hand, as a consequence of robust 2Q, 3Q sales are more than likely to register a fairly notable downward trend. In fact, historically, 3Q revenue will slip back to more or less the same level as that in 1Q. As for 4Q, MNCN's sales will usually dip further below 3Q while SCMA's moderate – but both never achieve the same jump like they did in 2Q.

## Post-acquisition of SinemArt

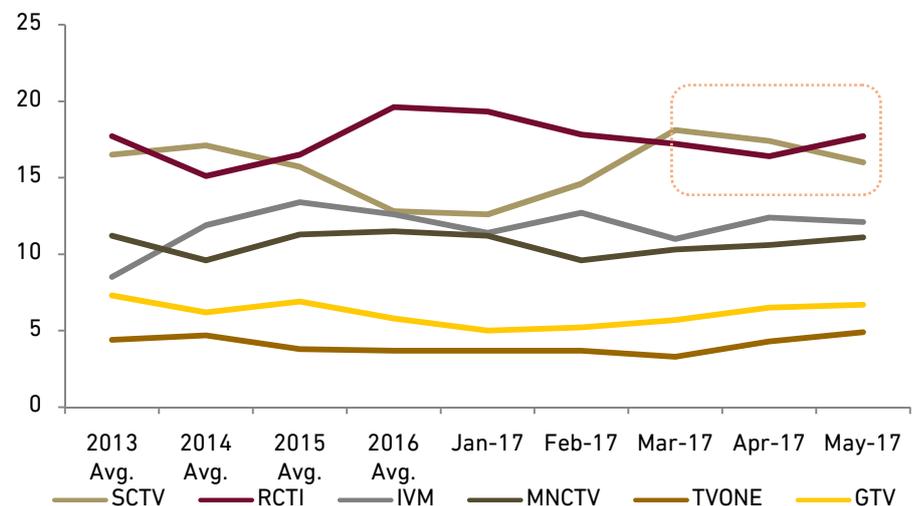
### SCMA's audience share improvement not as significant as expected

After acquiring SinemArt, SCMA does show improvement in its audience share; however, after 2 months (March onwards), the gain subdues, in spite of having successful drama shows that are consecutively included in the top 10 programs (see Exhibit 8 and 9). SCMA's average monthly audience shares YTD (January 2017 – May 2017) comes in at 15.7%, the same to its average audience shares in 2015 but much better than 2016's average of 12.8%.

### RCTI has proven itself remarkably resilient

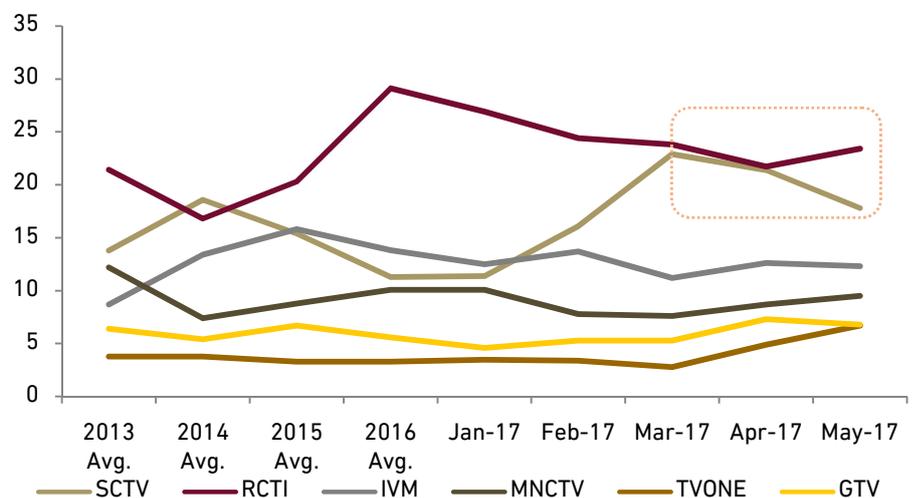
Meanwhile, under MNCN's wholly-owned production house, MNC Pictures, RCTI continues to flourish and even manages to yet again, as seen in 2016, widen its gap with SCTV. However, supported mainly by SinemArt, we do not expect SCTV's shares to drop as much as it did in 2016. By the same token, as of March 2017 YTD, SCTV has more shows admitted in the top 10 programs than it did before SinemArt (see Exhibit 10 and 11).

#### Exhibit 8: All time (02:00 – 25:59) audience share



Source: Nielsen

#### Exhibit 9: Prime time (18:00 – 22:59) audience share



Source: Nielsen

**Exhibit 10: After SinemArt – Top 10 drama shows as of March 2017**

Top drama series as of March 2017

|    | Program                   | Channel | TV Rating | Share |
|----|---------------------------|---------|-----------|-------|
| 1  | Dunia Terbalik            | RCTI    | 6.2       | 24.9  |
| 2  | Anak Langit               | SCTV    | 5.3       | 21.6  |
| 3  | Berkah Cinta              | SCTV    | 4.0       | 20.4  |
| 4  | Top Tukang Ojek Pengkolan | RCTI    | 3.7       | 17.1  |
| 5  | Orang-orang Kampung Duku  | SCTV    | 3.0       | 13.2  |
| 6  | Anak Sekolahan            | SCTV    | 2.9       | 16.9  |
| 7  | Geet                      | ANTV    | 2.7       | 14.5  |
| 8  | Anandhi                   | ANTV    | 2.7       | 20.7  |
| 9  | Mohabbatein               | ANTV    | 2.7       | 10.3  |
| 10 | Cinta Dari Surga          | RCTI    | 2.4       | 14.8  |

Source: Company presentation

**Exhibit 11: Before SinemArt – Top 10 drama shows in January 2017**

Top drama series in January 2017

|    | Program                   | Channel | TV Rating | Share |
|----|---------------------------|---------|-----------|-------|
| 1  | Dunia Terbalik            | RCTI    | 6.3       | 25.6  |
| 2  | Anugerah Cinta            | RCTI    | 5.7       | 26.9  |
| 3  | Tukang Bubur Naik Haji    | RCTI    | 4.6       | 18.9  |
| 4  | Anak Jalanan              | RCTI    | 4.5       | 22.0  |
| 5  | Anadhi                    | ANTV    | 3.6       | 24.5  |
| 6  | Geet                      | ANTV    | 3.5       | 26.0  |
| 7  | Gopi                      | ANTV    | 3.5       | 21.6  |
| 8  | Lonceng Cinta             | ANTV    | 3.2       | 14.3  |
| 9  | Top Tukang Ojek Pengkolan | RCTI    | 3.0       | 17.9  |
| 10 | Thapki                    | ANTV    | 2.9       | 21.8  |

Source: Company presentation

**RCTI's Dunia Terbalik remains audience's favorite**

Since Dunia Terbalik first aired on RCTI in January, it continues to display strong trend. Up to March 2017, the shows remain the #1 program. The shows primarily targets mid-to-lower income segment. Essentially, Dunia Terbalik takes place in a small village where the husbands are left to take care of household works, including raising their children, while the wives work overseas as maids. Although MNC Pictures has previously produced several shows for RCTI, this is the first drama series that the house produced after SinemArt's departure.

**Exhibit 12: Poster for Dunia Terbalik**



Source: RCTI website

## MNCN's refinancing phase

MNCN (HOLD/TP: Rp1,970/share)

### Refinancing details

MNCN is currently eyeing USD200 mn syndicated loan to refinance its existing USD250 mn loan that will be due this September 2017. MNCN has just finished conducting its Roadshow in Singapore (May 31), Taipei (June 1) and Hong Kong (June 2). Deutsche Bank, ING and Standard Chartered have been chosen by MNCN to arrange the new loan which will bear a margin interest of 3.25% + Libor rate. Retail lenders can participate in this refinancing through 4 different programs:

- (i) Mandated lead arrangers and bookrunners (minimum commitment: USD35 mn),
- (ii) Mandated lead arrangers (minimum commitment: USD20 mn - USD35 mn),
- (iii) Lead arrangers (minimum commitment: USD15 mn – USD20 mn) and
- (iv) (Arrangers committing (minimum commitment: USD5 mn – USD15 mn).

MNCN has just finished its Roadshow to Singapore (May 31), Taipei (June 1) and Hong Kong (June 2).

### What it means for MNCN

MNCN expects to provide further details at the end of 2Q17. However, looking at the current scheme, MNCN would be able to gain 0.25% interest rate spread from the new loan (the previous loan bears an interest rate of 3.5% + Libor per annum). This will reduce MNCN's monthly interest expense. However, since the new loan will be a bullet-term loan, just like the old one, at the end of the loan's term MNCN will be left with yet again another large payment of the loan's principal amount. Therefore, during the term of the loan, MNCN will need to pay careful attention to its cash flow if MNCN wants to fully pay off the loan without further refinancing.

### A closer look at MNCN's refinancing plan

After committing itself to a large investment that lasts for 2 years to build new studios, MNCN's cash flow has become slightly tight and we believe this is reflected in MNCN's plan of obtaining USD200 mn loan, which indicates that they will repay only USD50 mn of its USD250 mn loan. MNCN has previously stated that they will only repay a part of its loan and refinance the rest. The company stated its repayment range was within USD50 mn – USD100 mn, depending on their cash flow position. Choosing the minimum amount of repayment signals a negative indication on MNCN's cash flow.

### Exhibit 13: New studio facilities



Source: Company presentation

## Top pick: SCMA

### MNCN undoubtedly has stronger audience base but relatively weaker fundamental

RCTI has been constantly leading the FTA TV market with its top drama shows that are able to attract large audience share. We do believe that RCTI has a very strong and wide audience base. Its success in cementing brand loyalty has led them to a comfortable place as one of Indonesia's top TV stations. That being said, we prefer SCMA for several reasons:

#### (i) Profitability

Over the past five years, SCMA has always been able to consistently maintain high profitability margins – those that are considerably higher than MNCN's (see Exhibit 14). Furthermore, the Company could still protect its margins in spite of a period of falling audience share as was the case in 2014 to mid 2016. This proves SCMA's resilience towards external turbulence. On top of that, SCMA also has no USD denominated liability, which makes them immune to foreign exchange rate volatility.

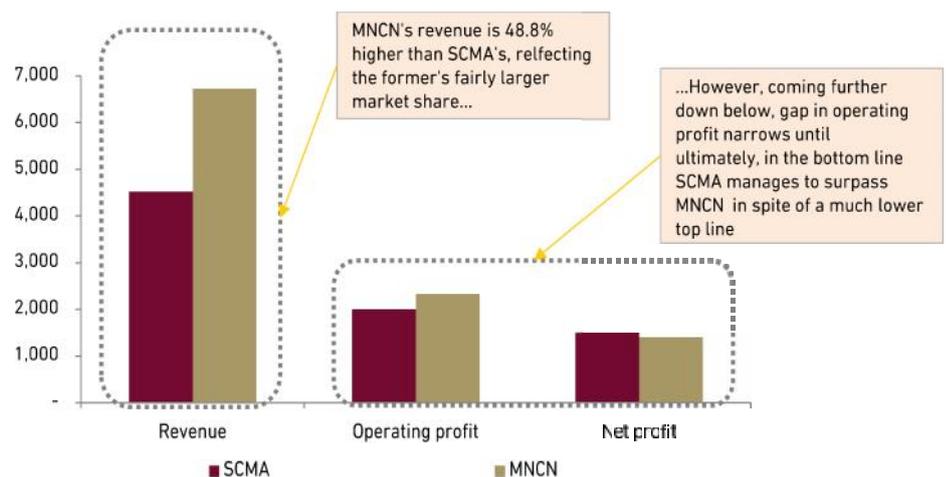
#### Exhibit 14: Margin comparison

|      | 2016                |                         |                   |
|------|---------------------|-------------------------|-------------------|
|      | Gross profit margin | Operating profit margin | Net profit margin |
| SCMA | 61%                 | 44%                     | 33%               |
| MNCN | 57%                 | 35%                     | 20%               |

Source: SCMA, MNCN, Ciptadana Estimates

We believe SCMA's ability to maintain high margins is one of the reasons why in spite of declining audience shares (i.e. during 2013 – 2016), SCMA was still able to deliver solid performance and even surpassing MNCN's net profit in FY16 (see Exhibit 15).

#### Exhibit 15: FY16 performance comparison



Source: SCMA, MNCN, Ciptadana Estimates

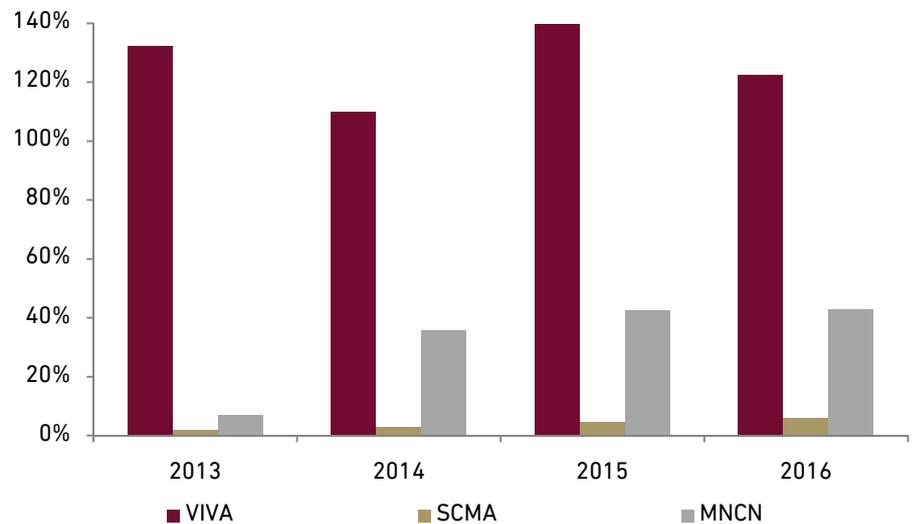
**(ii) Stronger cash flow**

Based on our estimation, during FY17F-FY19F, SCMA will be able to generate Rp1.6 tn – Rp1.8 tn free cash flow; still with a net cash position, a stance that SCMA has been able to continuously maintain since 2010. Moreover, we do not see this will change in the near future since SCMA has a very low level of debt of Rp206.8 bn, especially compared to its peers with MNCN having Rp3.7 tn debt and VIVA Rp3.2 tn.

**Exhibit 16: Net cash/(debt) position as of FY16**



**Exhibit 17: D/E ratio comparison**

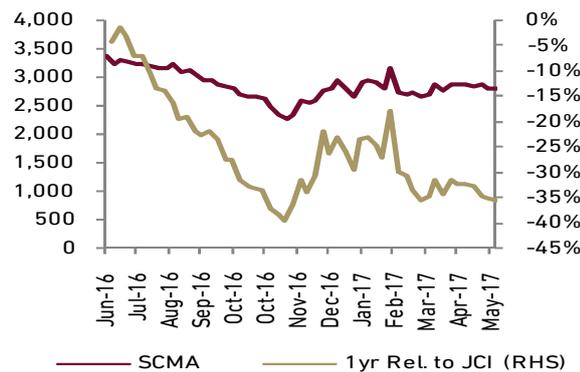


**Exhibit 18: EBIT to Interest expense comparison**

| EBIT to Interest expense (x) |      |      |      |      |
|------------------------------|------|------|------|------|
|                              | 2013 | 2014 | 2015 | 2016 |
| VIVA                         | 2.5  | 1.4  | 0.9  | 1.5  |
| SCMA                         | 37.6 | 28.3 | 46.8 | 70.2 |
| MNCN                         | 62.4 | 44.7 | 11.2 | 12.0 |

Source: SCMA, MNCN, Bloomberg, Ciptadana Estimates

**Exhibit 19: SCMA's share price performance**

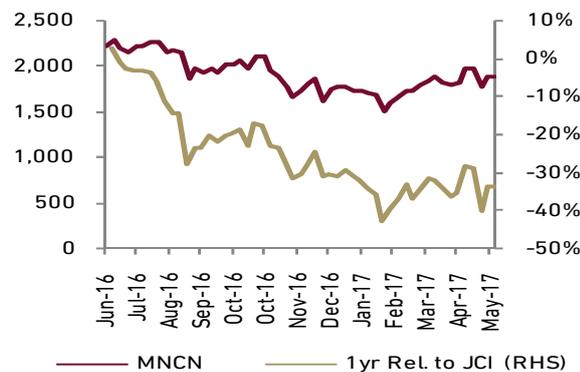


**Exhibit 20: SCMA's financial highlights**

| Year to 31 Dec          | 2015A | 2016A | 2017F | 2018F | 2019F |
|-------------------------|-------|-------|-------|-------|-------|
| Revenue (Rpbn)          | 4,238 | 4,524 | 5,019 | 5,567 | 6,175 |
| Operating profit (Rpbn) | 2,015 | 2,003 | 2,331 | 2,594 | 2,878 |
| Net profit (Rpbn)       | 1,524 | 1,501 | 1,746 | 1,935 | 2,142 |
| EPS (Rp)                | 104.2 | 102.7 | 119.4 | 132.3 | 146.5 |
| EPS growth (%)          | 4.7   | -1.5  | 16.3  | 10.8  | 10.7  |
| EV/EBITDA (x)           | 19.9  | 19.1  | 16.7  | 15.0  | 13.5  |
| PER (x)                 | 26.9  | 27.3  | 23.5  | 21.2  | 19.1  |
| PBV (x)                 | 13.0  | 11.9  | 10.8  | 9.8   | 8.9   |
| Dividend yield (%)      | 4.5   | 3.0   | 3.4   | 3.8   | 4.2   |
| ROE (%)                 | 48.4  | 43.8  | 46.2  | 46.4  | 46.5  |

Source : SCMA, Ciptadana Estimates

**Exhibit 21: MNCN's share price performance**



**Exhibit 22: MNCN's financial highlights**

| Year to 31 Dec          | 2015A | 2016A | 2017F | 2018F | 2019F |
|-------------------------|-------|-------|-------|-------|-------|
| Revenue (Rpbn)          | 6,445 | 6,730 | 7,269 | 7,850 | 8,478 |
| Operating profit (Rpbn) | 2,194 | 2,332 | 2,689 | 2,905 | 3,137 |
| Net profit (Rpbn)       | 1,186 | 1,369 | 1,803 | 2,010 | 2,163 |
| EPS (Rp)                | 83.1  | 95.9  | 126.3 | 140.8 | 151.5 |
| EPS growth (%)          | -32.7 | 15.4  | 31.8  | 11.5  | 7.6   |
| EV/EBITDA (x)           | 12.4  | 11.8  | 10.2  | 9.4   | 8.7   |
| PER (x)                 | 22.7  | 19.7  | 14.9  | 13.4  | 12.4  |
| PBV (x)                 | 3.0   | 3.1   | 2.9   | 2.8   | 2.7   |
| Dividend yield (%)      | 3.3   | 2.2   | 4.7   | 5.2   | 5.6   |
| ROE (%)                 | 13.2  | 15.5  | 19.7  | 21.0  | 21.6  |

Source : MNCN, Ciptadana Estimates

**EQUITY RESEARCH**

**HEAD OF RESEARCH**

**Arief Budiman**

Strategy, Automotive, Heavy Equipment,  
Construction, Shipping  
T +62 21 2557 4800 ext 819  
E budimanarief@ciptadana.com

**ANALYST**

**Kurniawan Sudjatmiko**

Coal, Metal Mining, Oil & Gas and Services  
T +62 21 2557 4800 ext 739  
E sudjatmikokurniawan@ciptadana.com

**ANALYST**

**Niko Margaronis**

Telecommunication, Tower  
T +62 21 2557 4800 ext 734  
E margaronisniko@ciptadana.com

**TECHNICAL ANALYST**

**Trevor Gasman**

T +62 21 2557 4800 ext 934  
E gasmantrevor@ciptadana.com

**EQUITY SALES**

**Co HEAD OF INSTITUTIONAL SALES**

**Dadang Mulyana**

Plaza ASIA Office Park unit 2  
Jl. Jend. Sudirman Kav. 59  
Jakarta - 12190  
T +62 21 2557 4800 ext 838  
F +62 21 2557 4900  
E mulyanadadang@ciptadana.com

**JAKARTA - MANGGA DUA**

**Gavin Ishak**

Komplek Harco Mangga Dua  
Rukan Blok C No.10  
Jl. Mangga Dua Raya  
Jakarta - 10730  
T +62 21 600 2850  
F +62 21 612 1049  
E ishakgavin@ciptadana.com

**SEMARANG**

**Lusiana Permatasari**

Gedung Menara Suara Merdeka  
6th Floor Unit-02  
Jl. Pandanaran No.30  
Semarang - 50134  
T +62 24 7692 8777  
F +62 24 7692 8778  
E permatasarihusiana@ciptadana.com

**ANALYST**

**Syaiful Adrian**

Banking, Consumer, Cigarette  
T +62 21 2557 4800 ext 919  
E adriansyaiful@ciptadana.com

**ANALYST**

**Nichelle Ongko**

Media, Retail, Others  
T +62 21 2557 4800 ext 740  
E ongkonichelle@ciptadana.com

**ANALYST**

**Yasmin Souliisa**

Property, Healthcare  
T +62 21 2557 4800 ext 799  
E soulisayasmin@ciptadana.com

**RESEARCH ASSISTANT**

**Sumarni**

T +62 21 2557 4800 ext 920  
E sumarni@ciptadana.com

**Co HEAD OF INSTITUTIONAL SALES**

**The Fei Ming**

Plaza ASIA Office Park unit 2  
Jl. Jend. Sudirman Kav. 59  
Jakarta - 12190  
T +62 21 2557 4800 ext 807  
F +62 21 2557 4900  
E thefeiming@ciptadana.com

**JAKARTA - PURI KENCANA**

**Chandra Herotionjaya**

Perkantoran Puri Niaga III  
Jl. Puri Kencana Blok M8 No.2E  
Kembangan  
Jakarta - 11610  
T +62 21 5830 3450  
F +62 21 5830 3449  
E herotionjayachandra@ciptadana.com

**ANALYST**

**Zabrina Raissa, CSA**

Poultry, Cement, Toll Road, Aviation  
T +62 21 2557 4800 ext 735  
E raissazabrina@ciptadana.com

**ANALYST**

**Edward Lowis**

Consumer, Plantations  
T +62 21 2557 4800 ext 820  
E lowisedward@ciptadana.com

**JUNIOR ECONOMIST**

**Imanuel Reinaldo**

T +62 21 2557 4800 ext 820  
E reinaldoimanuel@ciptadana.com

**Imelda Soetikno**

Intiland Tower Surabaya  
Ground Floor Suite 5 & 6  
Jl. Panglima Sudirman 101-103  
Surabaya - 60271  
T +62 31 534 3938  
F +62 31 534 3886  
E soetiknoimelda@ciptadana.com

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