

# China / Hong Kong Company Guide

# China Merchants Port Hldgs

Version 6 | Bloomberg: 144 HK EQUITY | Reuters: 0144.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Apr 2018

## BUY

Last Traded Price( 4 Apr 2018):HK\$17.20(HSI : 29,519)  
Price Target 12-mth:HK\$28.00 (63% upside) (Prev HK\$28.70)

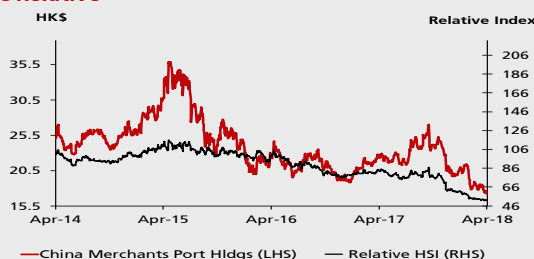
### Analyst

Paul YONG, CFA+65 6682 3712  
paulyong@dbs.com

### What's New

- Profit up 10% y-o-y to HK\$6.03bn, 14% ahead of our expectations on strong SIPG contribution
- Final dividend of 59 HK cts
- Trading at 5-year low despite solid earnings
- Maintain BUY with HK\$28 TP

### Price Relative



### Forecasts and Valuation

FY Dec (HK\$m)	2016A	2017A	2018F	2019F
Turnover	7,976	8,692	9,041	9,317
EBITDA	8,061	9,786	11,007	10,271
Pre-tax Profit	6,683	7,445	10,689	7,008
Net Profit	5,494	6,028	9,307	5,681
Net Pft (Pre Ex) (core profit)	4,534	5,644	6,427	5,681
Net Profit Gth (Pre-ex) (%)	1.6	24.5	13.9	(11.6)
EPS (HK\$)	2.10	2.04	2.84	1.73
Core EPS (HK\$)	1.74	1.91	1.96	1.73
EPS Gth (%)	12.9	(2.9)	39.0	(39.0)
Core EPS Gth (%)	0.4	10.2	2.5	(11.6)
DPS (HK\$)	0.87	2.11	1.18	0.78
BV Per Share (HK\$)	25.10	22.41	23.83	24.98
PE (X)	8.2	8.4	6.1	9.9
EV/EBITDA (X)	8.9	8.8	8.6	9.2
Net Div Yield (%)	5.1	12.3	6.9	4.5
P/Book Value (X)	0.7	0.8	0.7	0.7
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	8.2	8.7	12.3	7.1
Earnings Rev (%)			106	NEW
Consensus EPS (HK\$)			1.63	1.74
Other Broker Recs:		B: 12	S: 0	H: 4

Source of all data on this page: Company, DBSV, Thomson Reuters, HKEX

## Trading undeservedly at 5-year low

**Valuations are bombed out.** We see China Merchants Port Holdings (CM Ports) as a deep value play as the stock is now trading at a 5-year low in terms of PE, P/BV and share price despite having a solid earnings track record and a positive outlook. The stock is trading at just 0.7x FY18F P/BV, offering 6.5% dividend yield.

**Focusing on growing its overseas port portfolio.** The sale of its 24.5% stake in CIMC to its parent for HK\$8.5bn and the impending disposal of its stake in Shenzhen Chiwan Wharf will provide CM Ports with substantial funds to grow its overseas portfolio. Having already announced investments in TCP Group (Brazil), Hambantota (Sri Lanka) and the Port of Newcastle (Australia) in the last 12 months, we believe more acquisitions could be on the cards as it looks to further diversify and grow its earnings base.

**Where we differ:** We have not factored in any earnings or value accretion from future acquisitions.

**Potential catalysts:** A resolution of the US-China trade war situation and more clarity on domestic tariff rates should improve investor sentiment on the stock and sector.

### Valuation:

**Our TP of HK\$28 for CM Ports is based on sum-of-parts valuation.** Port operations are valued using a DCF methodology (7.5% WACC, 1% terminal growth for consolidated operations; 8.5% WACC, 1% terminal growth for associates and joint ventures) while its stake in Dalian Port is valued at market price. Meanwhile, logistics and investments, as well as corporate liabilities are valued at FY17 NAV.

### Key Risks to Our View:

A worsening of the global economy and/or if China has a hard landing could see throughput growth turn negative and impact the group's earnings.

### At A Glance

Issued Capital (m shrs)	3,172
Mkt. Cap (HK\$m/US\$m)	54,560 / 6,951
Major Shareholders	
China Merchants Group Limited (%)	62.0
Free Float (%)	38.0
3m Avg. Daily Val. (US\$m)	18.5
ICB Industry	Industrials / Industrial Transportation



ed-TH / sa- CS / AH

**WHAT'S NEW****Net profit improves 10% y-o-y to HK\$6.03bn, above expectations**

CM Ports reported FY17 net profit of HK\$6,028m (+9.7% y-o-y), which was 14% above our expectations, due mainly to a higher-than-expected contribution from associate SIPG (Shanghai International Port Group), which had a very strong financial year. Revenues rose by 9% y-o-y to HK\$8,692m while gross profit rose 2.6% y-o-y to HK\$ 3,441m – in line with our projections. Operating profit fell 6% y-o-y to HK\$ 2,757m on lower other income and higher administrative costs. Meanwhile, contribution from associates jumped 50% y-o-y to HK\$5,087m, which was partially offset by lower exceptional gains (-60% y-o-y) of HK\$384m. The company reported that recurrent net profit rose by 19.9% y-o-y to HK\$5,492m. Operationally, CM Ports saw throughput handled growth of 7.4% to 102.9m TEUs, while bulk cargo throughput handled rose 10.3% to 507m tonnes.

A final dividend of 59 HK cts (2016: 65 HK cts) was declared.

Looking ahead, we believe the company's core earnings will continue to be driven by both organic and inorganic throughput growth, as the company has and will continue to invest in more terminals, especially outside of China.

While there are still worries about the potential impact of the announced cuts in published container handling rates in China, most port operators have downplayed the actual impact on effective rates. Moreover, a potential expanded or sustained trade war between US and China could affect trade and throughput. However, we believe these are already more than priced in at today's share price level of less than 0.8x FY17 P/BV (against FY17 ROE of 8.1%).

**Income Statement (HK\$ m)**

FY Dec	2016A	2017A	% chg yoy
Revenue	7,976	8,692	9.0
Cost of Goods Sold	(4,621)	(5,251)	13.6
<b>Gross Profit</b>	<b>3,355</b>	<b>3,441</b>	<b>2.6</b>
Other Opng (Exp)/Inc	(811)	(1,016)	25.3
<b>Operating Profit</b>	<b>2,544</b>	<b>2,425</b>	<b>(4.7)</b>
Other Non Opg (Exp)/Inc	393	332	(15.5)
Associates & JV Inc	3,686	5,472	48.5
Net Interest (Exp)/Inc	(900)	(1,168)	nm
Exceptional Gain/(Loss)	960	384	(60.0)
<b>Pre-tax Profit</b>	<b>6,683</b>	<b>7,445</b>	<b>11.4</b>
Tax	(477)	(744)	56.0
Minority Interest	(712)	(673)	nm
<b>Net Profit</b>	<b>5,494</b>	<b>6,028</b>	<b>9.7</b>
Net Profit before Except.	4,534	5,644	24.5
EBITDA	8,061	9,786	21.4
<b>Margins &amp; Ratio</b>			
Gross Margins (%)	42.1	39.6	
Opg Profit Margin (%)	31.9	27.9	
Net Profit Margin (%)	68.9	69.4	

Source: Company, DBS Vickers

## CRITICAL FACTORS TO WATCH

### Critical Factors

**Domestic throughput growth to be dragged by sale of Shenzhen Chiwan Wharf.** We expect organic throughput growth in China to average around the mid-single-digit pace, but the proposed sale of its stake in Shenzhen Chiwan Wharf, which we assume will be completed by mid year, will be a drag on growth. Newly acquired Shantou Port's new terminals will only be completed in late 2019/early 2020 and contribute thereafter.

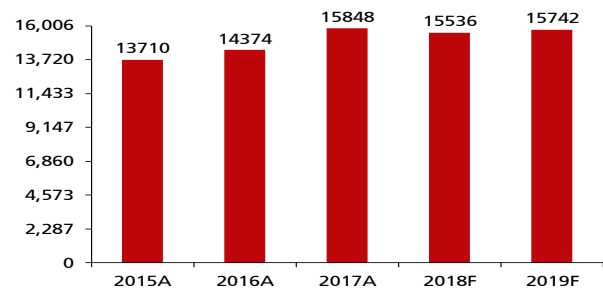
**Pressure on ASPs domestically while overseas ports should see some increase.** Following the announced cut in published terminal handling charges in some of China's ports by the National Reform and Development Commission, we expect overall average ASPs for domestic throughput to be under some pressure. Meanwhile, overseas ports should see a slightly higher tariff increase of 3-4%, and that should help the overall average tariff for the group's subsidiary port operations stay stable.

**Steady core operating profit growth.** We project operating earnings to improve steadily to HK\$3,019m in 2018F and HK\$3,148m in 2019F, driven by greater contributions from overseas ports.

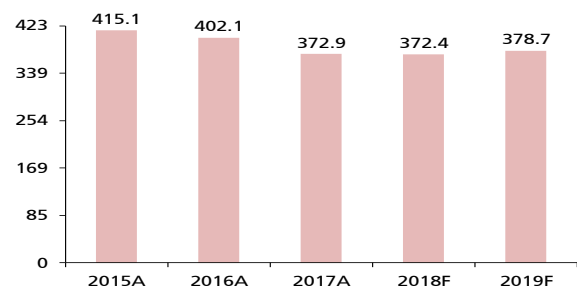
**SIPG to continue contributing heavily.** As at December 2017, the group held a 26.45% stake in Shanghai-listed Shanghai International Port Group (SIPG), which has historically been a substantial earnings contributor, and is expected to continue doing so. With SIPG now being able to equity account for its stake in Postal Savings Bank of China, it is expected to continue recording an elevated level of profit, thereby contributing to CM Ports's bottom line as well.

**Focusing on growing overseas port investments to diversify and expand its earnings base.** The sale of its 24.5% stake in CIMC to its parent for HK\$8.5bn in 2017 and the impending sale of its stake in Shenzhen Chiwan Wharf will provide CM Ports with substantial funds to grow its overseas portfolio. Having already announced investments in TCP Group (Brazil), Hambantota (Sri Lanka) and the Port of Newcastle (Australia) in the last 12 months, we believe more acquisitions could be on the cards as it looks to further diversify and grow its earnings base.

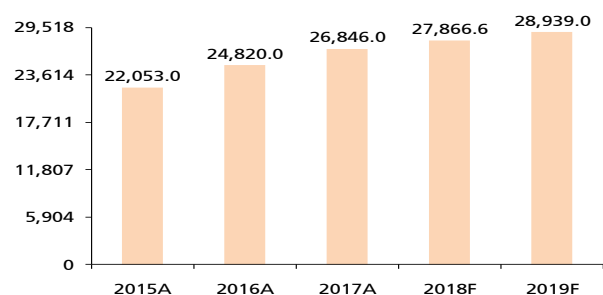
### Subsidiaries' Container Throughput ('000 TEUs)



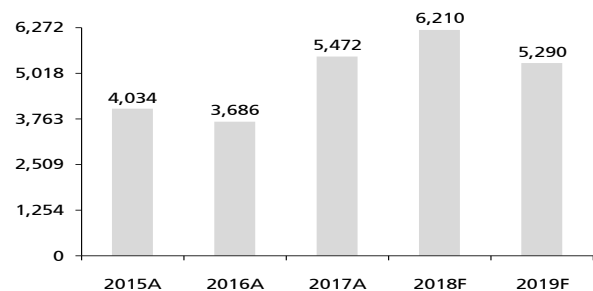
### Subsidiary Port Operations' Average ASP/TEU (HK\$)



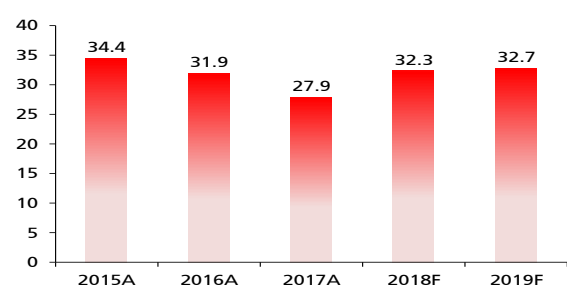
### Associates and Jointly-Controlled Entities' Container Throughput ('000 TEUs)



### Share of Results of Associates and Jointly-Controlled Entities



### Operating Margin(%)



Source: Company, DBS Vickers

**China Merchants Port Hldgs**

**Balance Sheet:**

**Strong balance sheet.** CM Ports’s net debt-to-equity stood at just 0.2x at the end of 2017 even after paying out an interim dividend (interim plus special) of c. HK\$5bn, and with an announced sale of its stake in Shenzhen Chiwan Wharf for c. HK\$5.75bn, the group should be in a strong balance sheet position in 2018.

**Significant debt headroom and firm cash flow generation to support further acquisitions.** With operating cash flows and dividends from associates and JVs totalling over HK\$5bn per annum, as well as its strong balance sheet, CM Ports is well positioned to make further acquisitions to grow its business, both geographically and to grow its bottom line.

**Share Price Drivers:**

**Our TP of HK\$28 for CM Ports is based on sum-of-parts valuation.** Port operations are valued using DCF methodology (7.5% WACC, 1% terminal growth for consolidated operations; 8.5% WACC, 1% terminal growth for associates and joint ventures) while the stake in Dalian Port is valued at market price. Meanwhile, logistics, investments as well as corporate liabilities are valued at FY17 NAV.

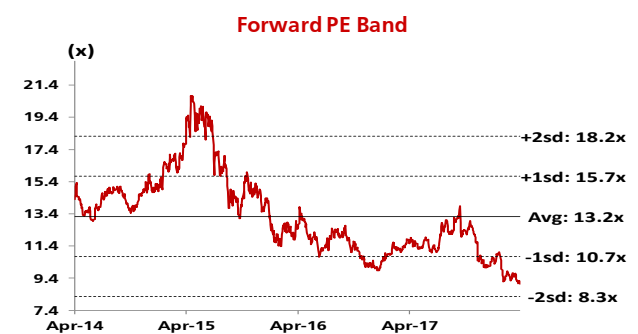
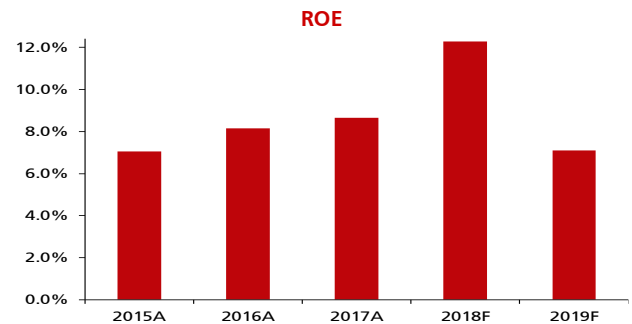
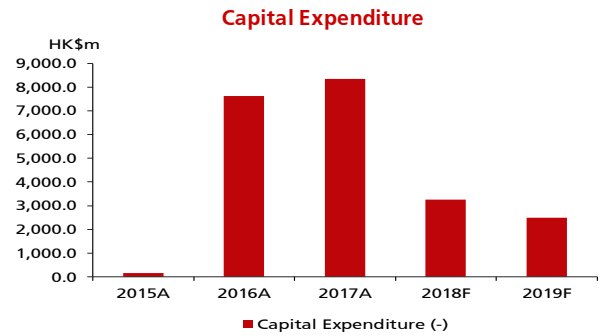
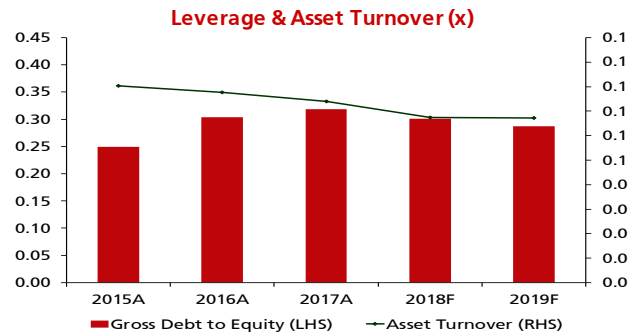
**Value-accretive acquisitions could help the stock further re-rate.** While we have not assumed any future acquisition by the group, any value-accretive acquisitions made could help the stock further re-rate.

**Key Risks:**

**Vulnerable to potential sustained decline in throughput volumes in Pearl River Delta region.** CM Ports currently derives over one-third of its port operating earnings (including associate and JV contributions) from its operations in the Pearl River Delta region. A sustained throughput decline in this region could affect the group’s earnings.

**Company Background**

**China Merchants Port Holdings (CM Ports) is the largest public port operator in China,** with throughput volume of its invested terminals in Mainland China accounting for nearly one-third of China’s total container throughput. It also has port investments in HK, Taiwan, Africa and Europe. It is over 70% owned by the China Merchants Group, a leading state-owned enterprise in China.



Source: Company, DBS Vickers

**Key Assumptions**

FY Dec	2015A	2016A	2017A	2018F	2019F
Subsidiaries' Container Throughput ('000 TEUs)	13,710.0	14,374.0	15,848.0	15,536.3	15,742.0
Subsidiary Port Operations' Average ASP/TEU (HK\$)	415.1	402.1	372.9	372.4	378.7
Associates and Jointly- Controlled Entities' Container Throughput ('000 TEUs)	22,053.0	24,820.0	26,846.0	27,866.6	28,939.0
Share of Results of Associates and Jointly-Controlled Entities	4,034.0	3,686.0	5,472.0	6,209.9	5,290.2
Operating Margin(%)	34.4	31.9	27.9	32.3	32.7

Source: Company, DBS Vickers

**Segmental Breakdown (HK\$ m)**

FY Dec	2015A	2016A	2017A	2018F	2019F
<b>Revenues (HK\$ m)</b>					
Port Operations	7,789	7,570	8,185	8,610	8,864
Bonded logistics & Cold chain operations	408	405	410	431	452
Port-Related Manufacturing	0	0	0	0	0
Others (Investments & Property)	36	1	97	1	1
<b>Total</b>	<b>8,233</b>	<b>7,976</b>	<b>8,692</b>	<b>9,041</b>	<b>9,317</b>
<b>Operating profit (HK\$ m)</b>					
Port Operations	2,998	3,632	2,292	3,277	3,420
Bonded logistics & Cold chain operations	214	153	132	146	154
Port-Related Manufacturing	178	(1)	813	0	0
Others (Investments & Property)	13	497	304	15	16
Corporate	(422)	(384)	(400)	(420)	(441)
<b>Total</b>	<b>2,981</b>	<b>3,897</b>	<b>3,141</b>	<b>3,019</b>	<b>3,148</b>
<b>Operating profit Margins (%)</b>					
Port Operations	38.5	48.0	28.0	38.1	38.6
Bonded logistics & Cold chain operations	52.5	37.8	32.2	34.0	34.0

Source: Company, DBS Vickers

**Income Statement (HK\$ m)**

<b>FY Dec</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
Revenue	8,233	7,976	8,692	9,041	9,317
Cost of Goods Sold	(4,602)	(4,621)	(5,251)	(5,129)	(5,258)
<b>Gross Profit</b>	<b>3,631</b>	<b>3,355</b>	<b>3,441</b>	<b>3,912</b>	<b>4,060</b>
Other Opng (Exp)/Inc	(795)	(811)	(1,016)	(993)	(1,011)
<b>Operating Profit</b>	<b>2,836</b>	<b>2,544</b>	<b>2,425</b>	<b>2,919</b>	<b>3,048</b>
Other Non Opg (Exp)/Inc	(201)	393	332	100	100
Associates & JV Inc	4,034	3,686	5,472	6,210	5,290
Net Interest (Exp)/Inc	(700)	(900)	(1,168)	(1,420)	(1,430)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	346	960	384	2,880	0
<b>Pre-tax Profit</b>	<b>6,315</b>	<b>6,683</b>	<b>7,445</b>	<b>10,689</b>	<b>7,008</b>
Tax	(790)	(477)	(744)	(664)	(693)
Minority Interest	(717)	(712)	(673)	(718)	(634)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,808</b>	<b>5,494</b>	<b>6,028</b>	<b>9,307</b>	<b>5,681</b>
Net Profit before Except.	4,462	4,534	5,644	6,427	5,681
EBITDA	8,061	8,061	9,786	11,007	10,271
<b>Growth</b>					
Revenue Gth (%)	(0.3)	(3.1)	9.0	4.0	3.0
EBITDA Gth (%)	(2.8)	0.0	21.4	12.5	(6.7)
Opg Profit Gth (%)	5.0	(10.3)	(4.7)	20.4	4.4
Net Profit Gth (%)	6.2	14.3	9.7	54.4	(39.0)
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	44.1	42.1	39.6	43.3	43.6
Opg Profit Margin (%)	34.4	31.9	27.9	32.3	32.7
Net Profit Margin (%)	58.4	68.9	69.4	102.9	61.0
ROAE (%)	7.1	8.2	8.7	12.3	7.1
ROA (%)	4.7	5.3	5.1	6.9	4.1
ROCE (%)	2.5	2.4	2.0	2.2	2.1
Div Payout Ratio (%)	41.6	41.5	114.7	41.6	45.0
Net Interest Cover (x)	4.1	2.8	2.1	2.1	2.1

Source: Company, DBS Vickers

## Interim Income Statement (HK\$ m)

FY Dec	2H2015	1H2016	2H2016	1H2017	2H2017
Revenue	4,153	3,847	4,129	4,055	4,637
Cost of Goods Sold	(2,392)	(2,206)	(2,415)	(2,291)	(2,960)
<b>Gross Profit</b>	<b>1,761</b>	<b>1,641</b>	<b>1,714</b>	<b>1,764</b>	<b>1,677</b>
Other Oper. (Exp)/Inc	(473)	(301)	(510)	(317)	(699)
<b>Operating Profit</b>	<b>1,288</b>	<b>1,340</b>	<b>1,204</b>	<b>1,447</b>	<b>978</b>
Other Non Opg (Exp)/Inc	(242)	0	393	0	332
Associates & JV Inc	2,117	1,423	2,263	2,064	3,408
Net Interest (Exp)/Inc	(403)	(417)	(483)	(546)	(622)
Exceptional Gain/(Loss)	41	0	960	813	(429)
<b>Pre-tax Profit</b>	<b>2,801</b>	<b>2,346</b>	<b>4,337</b>	<b>3,778</b>	<b>3,667</b>
Tax	(429)	(356)	(121)	(302)	(442)
Minority Interest	(345)	(300)	(412)	(328)	(345)
<b>Net Profit</b>	<b>2,027</b>	<b>1,690</b>	<b>3,804</b>	<b>3,148</b>	<b>2,880</b>
Net profit bef Except.	1,986	1,690	2,844	2,335	3,309

## Growth

Revenue Gth (%)	(4.2)	(5.7)	(0.6)	5.4	12.3
Opg Profit Gth (%)	(2.8)	(13.4)	(6.5)	8.0	(18.8)
Net Profit Gth (%)	(14.7)	(39.2)	87.7	86.3	(24.3)

## Margins

Gross Margins (%)	42.4	42.7	41.5	43.5	36.2
Opg Profit Margins (%)	31.0	34.8	29.2	35.7	21.1
Net Profit Margins (%)	48.8	43.9	92.1	77.6	62.1

Source: Company, DBS Vickers

## Balance Sheet (HK\$ m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	27,115	25,724	43,731	41,584	42,251
Invt in Associates & JVs	46,994	51,929	53,064	61,802	64,792
Other LT Assets	15,954	19,447	22,104	22,104	22,104
Cash & ST Invt	10,293	3,637	9,247	7,063	7,857
Inventory	77	77	99	90	92
Debtors	1,916	2,296	3,705	3,854	3,971
Other Current Assets	0	3	1	1	1
<b>Total Assets</b>	<b>102,349</b>	<b>103,113</b>	<b>131,951</b>	<b>136,498</b>	<b>141,069</b>
ST Debt	1,800	5,362	6,268	6,268	6,268
Creditors	2,582	3,497	8,999	8,162	8,345
Other Current Liab	406	285	262	262	262
LT Debt	17,345	17,072	22,292	22,292	22,292
Other LT Liabilities	3,567	3,159	4,489	4,489	4,489
Shareholder's Equity	68,828	65,908	73,447	78,113	81,867
Minority Interests	7,821	7,830	16,194	16,912	17,546
<b>Total Cap. &amp; Liab.</b>	<b>102,349</b>	<b>103,113</b>	<b>131,951</b>	<b>136,498</b>	<b>141,069</b>
Non-Cash Wkg. Capital	(995)	(1,406)	(5,456)	(4,480)	(4,543)
Net Cash/(Debt)	(8,852)	(18,797)	(19,313)	(21,497)	(20,703)
Debtors Turn (avg days)	124.3	96.4	126.0	152.6	153.3
Creditors Turn (avg days)	322.7	348.5	617.4	934.7	879.5
Inventory Turn (avg days)	10.5	8.8	8.7	10.3	9.7
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	2.6	0.7	0.8	0.7	0.8
Quick Ratio (x)	2.5	0.6	0.8	0.7	0.8
Net Debt/Equity (X)	0.1	0.3	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.1	0.3	0.3	0.3	0.3
Capex to Debt (%)	(0.8)	34.0	29.2	(11.4)	8.8
Z-Score (X)	2.0	1.8	2.0	2.0	2.0

Source: Company, DBS Vickers

## China Merchants Port Hldgs

## Cash Flow Statement (HK\$ m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	6,315	6,683	7,445	10,689	7,008
Dep. & Amort.	1,392	1,438	1,557	1,779	1,832
Tax Paid	(739)	(477)	(744)	(664)	(693)
Assoc. & JV Inc/(loss)	(4,034)	(3,686)	(5,472)	(6,210)	(5,290)
(Pft)/ Loss on disposal of FAs	(475)	0	(384)	(2,880)	0
Chg in Wkg.Cap.	324	535	(113)	(976)	63
Other Operating CF	697	(1,241)	1,168	1,420	1,430
<b>Net Operating CF</b>	<b>3,480</b>	<b>3,252</b>	<b>3,457</b>	<b>3,157</b>	<b>4,351</b>
Capital Exp.(net)	154	(7,632)	(8,349)	3,248	(2,499)
Other Invt.(net)	(2)	0	0	0	0
Invt in Assoc. & JV	(2,379)	(3,284)	8,739	(4,828)	0
Div from Assoc & JV	3,204	2,300	2,300	2,300	2,300
Other Investing CF	244	60	135	122	112
<b>Net Investing CF</b>	<b>1,221</b>	<b>(8,556)</b>	<b>2,825</b>	<b>843</b>	<b>(87)</b>
Div Paid	(1,163)	(2,004)	(6,687)	(4,641)	(1,927)
Chg in Gross Debt	(1,138)	1,525	6,091	(1,542)	(1,542)
Capital Issues	172	100	0	0	0
Other Financing CF	(1,653)	(764)	(306)	0	0
<b>Net Financing CF</b>	<b>(3,782)</b>	<b>(1,143)</b>	<b>(902)</b>	<b>(6,184)</b>	<b>(3,469)</b>
Currency Adjustments	(127)	(209)	230	0	0
Chg in Cash	792	(6,656)	5,610	(2,184)	794
Opg CFPS (HK\$)	1.22	1.04	1.21	1.26	1.31
Free CFPS (HK\$)	1.41	(1.68)	(1.66)	1.95	0.56

Source: Company, DBS Vickers

## Target Price &amp; Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Apr-17	HK\$22.40	HK\$28.70	Buy
2:	31-Aug-17	HK\$25.60	HK\$28.70	Buy

Source: DBS Vickers

Analyst: Paul YONG, CFA



DBSVHK recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 6 Apr 2018 08:14:07 (HKT)  
Dissemination Date: 6 Apr 2018 09:25:17 (HKT)

Sources for all charts and tables are DBS Vickers unless otherwise specified.

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**DBS Vickers (Hong Kong) Limited**18<sup>th</sup> Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523

Company Regn. No. 31758

## DBS Regional Research Offices

**HONG KONG****DBS Vickers (Hong Kong) Ltd****Contact: Carol Wu**

18th Floor Man Yee Building

68 Des Voeux Road Central

Central, Hong Kong

Tel: 852 28204888

Fax: 852 2863 1523

e-mail: dbsvhk@dbs.com

Participant of the Stock Exchange of Hong Kong Ltd

**MALAYSIA****AllianceDBS Research Sdn Bhd****Contact: Wong Ming Tek (128540 U)**19th Floor, Menara Multi-Purpose,  
Capital Square,

8 Jalan Munshi Abdullah 50100

Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

**SINGAPORE****DBS Bank Ltd****Contact: Janice Chua**

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

Fax: 65 65353 418

e-mail: equityresearch@dbs.com

Company Regn. No. 196800306E

**INDONESIA****PT DBS Vickers Sekuritas (Indonesia)****Contact: Maynard Priajaya Arif**

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: research@id.dbsvickers.com

**THAILAND****DBS Vickers Securities (Thailand) Co Ltd****Contact: Chanpen Sirithanarattanukul**

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

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