

China / Hong Kong Company Update

China Petroleum & Chem (Sinopec)

Bloomberg: 386 HK EQUITY | Reuters: 0386.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Mar 2022

BUY

Last Traded Price (29 Mar 2022): HK\$3.89 (HSI : 21,928)
Price Target 12-mth: HK\$5.30 (36% upside) (Prev HK\$5.20)

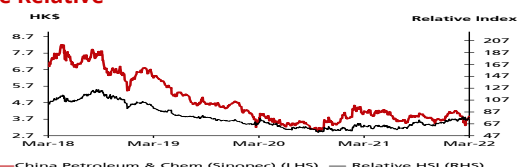
Analyst

Pei Hwa HO +65 6682 3714 peihwa@db.com

What's New

- Record profit - at a 10-year high - on the back of high oil prices and refining margins
- Generous final dividend of Rmb0.31 a big surprise, translates to ~15% yield
- Capex to increase by 18% y-o-y to Rmb198bn, largely for Upstream and Chemical segments
- Valuation remains undemanding at 0.5x PB; Reiterate BUY; TP adjusted slightly to HK\$5.30 following earnings revision

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	2,117,838	2,740,884	3,015,740	3,129,865
EBITDA	117,315	220,611	217,853	227,004
Pre-tax Profit	48,143	109,169	103,449	100,971
Net Profit	33,096	71,975	63,701	62,185
Net Pft (Pre Ex) (core profit)	2,920	71,975	63,701	62,185
Net Profit Gth (Pre-ex) (%)	(94.9)	2,364.9	(11.5)	(2.4)
EPS (RMB)	0.27	0.59	0.53	0.51
EPS (HK\$)	0.34	0.73	0.65	0.63
Core EPS (RMB)	0.02	0.59	0.53	0.51
Core EPS (HK\$)	0.03	0.73	0.65	0.63
EPS Gth (%)	(42.4)	117.5	(11.5)	(2.4)
Core EPS Gth (%)	(94.9)	2,364.9	(11.5)	(2.4)
Diluted EPS (HK\$)	0.34	0.73	0.65	0.63
DPS (HK\$)	0.25	0.58	0.39	0.37
BV Per Share (HK\$)	7.53	7.86	8.12	8.38
PE (X)	11.6	5.3	6.0	6.2
CorePE (X)	131.3	5.3	6.0	6.2
P/Cash Flow (X)	2.3	1.7	2.1	1.9
P/Free CF (X)	9.8	4.7	nm	5.8
EV/EBITDA (X)	3.8	2.0	2.3	2.2
Net Div Yield (%)	6.3	14.8	10.1	9.5
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	4.5	9.5	8.1	7.7
Earnings Rev (%):			14	13
Consensus EPS (RMB)			0.57	0.56
Other Broker Recs:		B:13	S:0	H:6

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Generous Dividend

Investment Thesis

Unjustifiable low valuation at 0.5x PB. Sinopec is accelerating its green energy initiatives, which should reduce the current ESG discount. Downstream profitability is expected to remain at elevated levels despite moderation from 2021 in the absence of exceptionally high inventory gains, supported by strong product demand and pricing.

Oil price ~US\$100/bbl seems manageable. We expect refining margins to moderate from 2021's high of US\$11.2/bbl, to US\$8-9/bbl in view of the higher oil prices at ~US\$100/bbl. This will partially be offset by higher E&P profits with oil price substantially above breakeven level of US\$50/bbl. We expect oil price to average US\$95-100/bbl in FY22, before normalising to US\$80-90/bbl, closer to Sinopec's sweet spot of US\$60-80/bbl.

An attractive dividend play with a 10% yield. We assume a c.60% payout on elevated earnings in FY22-23, translating to Rmb0.30-0.32 DPS or ~10% yield.

Valuation:

Our SOTP-based TP of HK\$5.30 is based on a 50% discount to the reported PV-10 (present value of flows from oil & gas reserves) for the E&P segment, 7x PE for Chemicals and Refining, DCF for Marketing and its PipeChina stake.

Where we differ:

We appreciate that the company is working on addressing the high E&P breakeven, which is yet to be reflected in its share price. The IPO of the marketing business is a potential catalyst that will attract investors to revisit the stock.

Key Risks to Our View:

A slower-than-expected ramp-up in Chinese industrial sector activity could depress demand for refined products and fuels, which would be negative for Sinopec.

At A Glance

Issued Capital - H shares (m shs)	25,513
- Non H shrs (m shs)	95,558
H shs as a % of Total	21
Total Mkt Cap (HK\$m/US\$m)	608,139 / 77,696
Major Shareholders (%)	
China Petrochemical Corporation	86.6
Major H Shareholders (As % of H shares)	
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	57.33
GICS Industry: Energy / Oil, Gas & Consumable Fuels	



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China Petroleum & Chem (Sinopec)

WHAT'S NEW

Earnings at a 10-year high

Highest annual profit in 10 years. Sinopec's FY21 net profit surged 117% y-o-y to Rmb72.0bn, which was at the upper end of its profit guidance. Refining segment was the star performer, with net profit more than double of the pre-covid level in 2019 as refining margin expanded to an all-time high of US\$11.2/bbl, from US\$4.7/bbl in 2020 and US\$7.2/bbl in 2019.

Generous dividend payout. Sinopec declared a final dividend of Rmb0.31, bringing full year dividend to Rmb0.47. This implies a payout ratio of ~80%, translating to an eye-popping ~15% dividend yield. While we expect payout to moderate to 60-70% considering the high capex requirement, dividend yield remains very lucrative at ~10%.

Lifting 2022 capex by 18%, highest since listing. Sinopec spent c.Rmb168bn in 2021, in line with guidance. For 2022, management has guided for an 18% y-o-y increase in capex to Rmb198bn, probably the highest since listing. Of which, 41% is for the upstream business while 33% is for the Chemical segment, similar to last year.

Low impairment risk for Russian Projects. Sinopec continues to import oil and gas from Russia, in compliance

with international rules. There is no impairment required for projects in Russia.

Share buyback mandate. The Board of Directors has proposed a general mandate for share buybacks. Management will discuss and announce details such as scale, timing, and prices in due course.

Earnings revisions. We have fine-tuned our numbers to reflect higher oil prices, partially offset by weaker refining margins. FY22/23 net profit are lifted by 14/13% respectively.

Company Background

Sinopec is an integrated oil major based in China, with operations in the upstream and downstream segments (marketing, refining, chemicals). Sinopec is the largest refiner in China and accounts for about 40% of China's total refinery throughput.

China Petroleum & Chem (Sinopec)

Quarterly performance by segment

Profit from Operations (Rmb m)	4Q20	1Q21	2Q21	3Q21	4Q21	FY19	FY20	FY21	Comments
Exploration and production	(9,997)	2,356	3,877	2,475	(4,023)	9,284	(16,476)	4,685	E&P segment turned EBIT positive in 2021, driven largely by higher oil prices. Realised oil price +65% y-o-y to US\$64/bbl. E&P production output grew 4.5% y-o-y to 479.74mmboe in 2021; crude oil -0.2% to 279.76mmbbls while natural gas +11.9% to 1,199.44bcf. Overall O&G reserves rose ~9% to 3,158mmboe, which implies relatively low reserves life of ~6-years. Refining maintained a high utilisation rate.
Refining	9,543	19,487	19,911	14,143	11,738	30,632	(5,555)	65,279	Refinery throughput rose 7.8% to 255.28mt in 2021 on the back of strong demand recovery. Refining margin expanded to US\$11.2/bbl, from US\$4.7/bbl in 2020, significantly higher than pre-covid level of US\$7.2/bbl in 2019.
Marketing and distribution	3,870	8,021	8,047	5,560	(424)	29,107	20,828	21,204	Marketing domestic sales volume grew 2% y-o-y to 171mt in 2021. New business model with comprehensive energy supply, providing refined oil products, natural gas, hydrogen, EV charging & batter swapping and non-fuel businesses
Chemicals	3,325	7,104	5,901	2,559	(4,458)	17,151	10,372	11,106	Chemical segment was fairly strong in 2021. Sinopec has rapidly adjusted production to optimise product mix.
Corporate and others	2,123	(567)	(3,168)	935	(425)	64	(393)	(3,225)	
Elimination	(699)	(7,700)	(5,160)	1,025	7,414	(40)	4,417	(4,421)	
Total Operating Profit	8,165	28,701	29,408	26,697	9,822	86,198	13,193	94,628	

Source: Company, DBS Bank

China Petroleum & Chem (Sinopec)

Quarterly Income Statement (RMBm)

FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Revenue	563,221	741,638	737,643	31.0	(0.5)
Cost of Goods Sold	(499,303)	(674,417)	(662,176)	32.6	(1.8)
Gross Profit	63,918	67,221	75,467	18.1	12.3
Other Oper. (Exp)/Inc	(55,753)	(40,628)	(65,541)	17.6	61.3
Operating Profit	8,165	26,593	9,926	21.6	(62.7)
Other Non Opg (Exp)/Inc	(1,056)	165	200	nm	21.2
Associates & JV Inc	4,988	5,903	6,217	24.6	5.3
Net Interest (Exp)/Inc	(2,141)	(2,439)	(1,851)	13.5	24.1
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	9,956	30,222	14,492	45.6	(52.0)
Tax	(207)	(5,970)	(2,399)	1,058.9	(59.8)
Minority Interest	(1,112)	(3,525)	(799)	28.1	(77.3)
Net Profit	8,637	20,727	11,294	30.8	(45.5)
Net profit bef Except.	8,637	20,727	11,294	30.8	(45.5)
EBITDA	24,928	60,852	30,549	22.5	(49.8)
Margins (%)					
Gross Margins	11.3	9.1	10.2		
Opg Profit Margins	1.4	3.6	1.3		
Net Profit Margins	1.5	2.8	1.5		

Source: Company, DBS HK

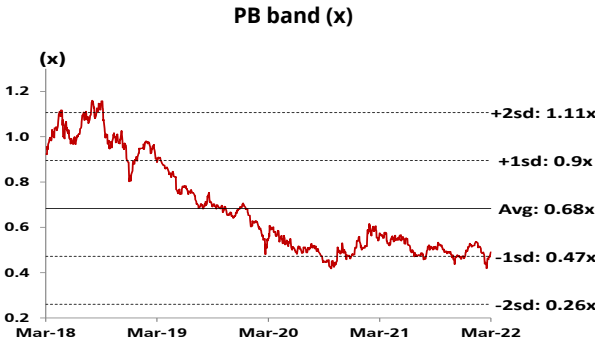
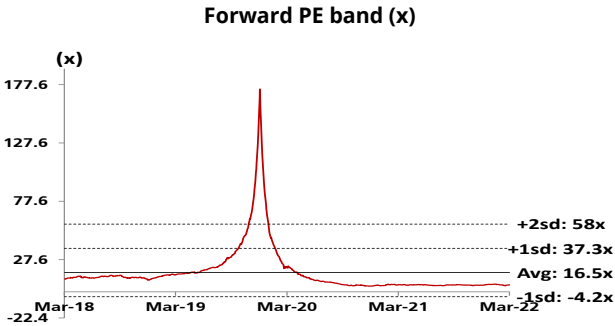
Income Statement (RMB m)

FY Dec	2020A	2021A	% cha yoy
Revenue	2,117,838	2,740,884	29.4
Cost of Goods Sold	(1,957,612)	(2,463,759)	25.9
Gross Profit	160,226	277,125	73.0
Other Opng (Exp)/Inc	(147,033)	(182,497)	24.1
Operating Profit	13,193	94,628	617.3
Other Non Opg (Exp)/Inc	1,829	574	(68.6)
Associates & JV Inc	6,712	23,253	246.4
Net Interest (Exp)/Inc	(10,391)	(9,286)	10.6
Exceptional Gain/(Loss)	36,800	0	nm
Pre-tax Profit	48,143	109,169	126.8
Tax	(6,219)	(23,318)	274.9
Minority Interest	(8,828)	(13,876)	(57.2)
Net Profit	33,096	71,975	117.5
Net Profit before Except.	2,920	71,975	2,364.9
EBITDA	117,315	220,611	88.0
Margins & Ratio			
Gross Margins (%)	7.6	10.1	
Opg Profit Margin (%)	0.6	3.5	
Net Profit Margin (%)	1.6	2.6	

Source: Company, DBS HK

China Petroleum & Chem (Sinopec)

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Petroleum & Chem (Sinopec)

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Crude oil price forecast (US\$/bbl)	64.0	42.0	43.0	95.0	85.0
Refining margins (US\$/bbl)	7.3	4.7	11.2	8.5	0.0
Crude oil reserves	6.6	6.4	6.2	7.2	8.2

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Exploration and Production	210,712	167,755	249,998	274,083	280,084
Refining	1,224,156	944,510	1,385,564	1,210,780	1,237,452
Marketing and Distribution	1,430,963	1,102,206	1,411,544	1,484,965	1,554,447
Chemicals	495,234	371,854	505,503	512,676	533,692
Corporate and others	1,484,822	890,283	1,297,701	1,323,655	1,350,128
Elimination	(1,879,694)	(1,358,770)	(2,109,426)	(1,790,419)	(1,825,937)
Total	2,966,193	2,117,838	2,740,884	3,015,740	3,129,865

Operating profit (RMB m)

Exploration and Production	9,284	(16,476)	4,685	13,469	12,268
Refining	30,632	(5,555)	65,279	54,965	54,963
Marketing and Distribution	29,107	20,828	21,204	19,442	19,355
Chemicals	17,151	10,372	11,106	14,883	15,933
Corporate and others	64	(393)	(3,225)	(3,645)	(3,718)
Elimination	(40)	4,417	(4,421)	0	0
Total	86,198	13,193	94,628	99,114	98,801

Operating profit Margins (%)

Exploration and Production	4.4	(9.8)	1.9	4.9	4.4
Refining	2.5	(0.6)	4.7	4.5	4.4
Marketing and Distribution	2.0	1.9	1.5	1.3	1.2
Chemicals	3.5	2.8	2.2	2.9	3.0
Corporate and others	0.0	0.0	(0.2)	(0.3)	(0.3)
Elimination	0.0	(0.3)	0.2	0.0	0.0
Total	2.9	0.6	3.5	3.3	3.2

Source: Company, DBS HK

China Petroleum & Chem (Sinopec)

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	2,966,193	2,117,838	2,740,884	3,015,740	3,129,865
Cost of Goods Sold	(2,742,764)	(1,957,612)	(2,463,759)	(2,726,635)	(2,833,882)
Gross Profit	223,429	160,226	277,125	289,106	295,983
Other Opg (Exp)/Inc	(137,231)	(147,033)	(182,497)	(189,992)	(197,182)
Operating Profit	86,198	13,193	94,628	99,114	98,801
Other Non Opg (Exp)/Inc	749	1,829	574	83	115
Associates & JV Inc	12,777	6,712	23,253	8,384	8,270
Net Interest (Exp)/Inc	(9,797)	(10,391)	(9,286)	(4,132)	(6,216)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	36,800	0	0	0
Pre-tax Profit	89,927	48,143	109,169	103,449	100,971
Tax	(17,894)	(6,219)	(23,318)	(23,797)	(23,220)
Minority Interest	(14,568)	(8,828)	(13,876)	(15,951)	(15,566)
Preference Dividend	0	0	0	0	0
Net Profit	57,465	33,096	71,975	63,701	62,185
Net Profit before Except.	57,465	2,920	71,975	63,701	62,185
EBITDA	192,759	117,315	220,611	217,853	227,004
Growth					
Revenue Gth (%)	2.6	(28.6)	29.4	10.0	3.8
EBITDA Gth (%)	(9.9)	(39.1)	88.0	(1.2)	4.2
Opg Profit Gth (%)	4.8	(84.7)	617.3	4.7	(0.3)
Net Profit Gth (%)	(6.7)	(42.4)	117.5	(11.5)	(2.4)
Margins & Ratio					
Gross Margins (%)	7.5	7.6	10.1	9.6	9.5
Opg Profit Margin (%)	2.9	0.6	3.5	3.3	3.2
Net Profit Margin (%)	1.9	1.6	2.6	2.1	2.0
ROAE (%)	7.9	4.5	9.5	8.1	7.7
ROA (%)	3.4	1.9	4.0	3.3	3.2
ROCE (%)	4.1	(0.6)	5.0	4.6	4.2
Div Payout Ratio (%)	65.3	73.2	79.1	60.8	58.4
Net Interest Cover (x)	8.8	1.3	10.2	24.0	15.9

Source: Company, DBS HK

China Petroleum & Chem (Sinopec)

Quarterly Income Statement (RMB m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	563,221	576,982	684,621	741,638	737,643
Cost of Goods Sold	(499,303)	(512,158)	(615,008)	(674,417)	(662,176)
Gross Profit	63,918	64,824	69,613	67,221	75,467
Other Oper. (Exp)/Inc	(55,753)	(36,123)	(40,205)	(40,628)	(65,541)
Operating Profit	8,165	28,701	29,408	26,593	9,926
Other Non Opg (Exp)/Inc	(1,056)	76	133	165	200
Associates & JV Inc	4,988	4,311	6,822	5,903	6,217
Net Interest (Exp)/Inc	(2,141)	(2,387)	(2,609)	(2,439)	(1,851)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	9,956	30,701	33,754	30,222	14,492
Tax	(207)	(7,082)	(7,867)	(5,970)	(2,399)
Minority Interest	(1,112)	(5,076)	(4,476)	(3,525)	(799)
Net Profit	8,637	18,543	21,411	20,727	11,294
Net profit bef Except.	8,637	18,543	21,411	20,727	11,294
EBITDA	59,624	59,624	64,094	60,852	30,549

Growth (QoQ)

Revenue Gth (%)	8.2	2.4	18.7	8.3	(0.5)
EBITDA Gth (%)	(56.0)	139.2	7.5	(5.1)	(49.8)
Opg Profit Gth (%)	(69.2)	251.5	2.5	(9.6)	(62.7)
Net Profit Gth (%)	(81.3)	114.7	15.5	(3.2)	(45.5)

Growth (YoY)

Revenue Gth (%)	(23.2)	3.9	43.0	42.5	31.0
EBITDA Gth (%)	(21.1)	88,891.0	111.2	7.3	22.5
Opg Profit Gth (%)	(54.3)	(209.1)	512.2	0.2	21.6
Net Profit Gth (%)	(34.8)	N/A	N/A	(55.1)	30.8

Margins

Gross Margins (%)	11.3	11.2	10.2	9.1	10.2
Opg Profit Margins (%)	1.4	5.0	4.3	3.6	1.3
Net Profit Margins (%)	1.5	3.2	3.1	2.8	1.5

Source: Company, DBS HK

China Petroleum & Chem (Sinopec)

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	622,423	589,247	598,925	692,554	713,788
Invt in Associates & JVs	152,204	188,342	209,179	222,563	235,832
Other LT Assets	534,588	500,821	523,127	517,423	511,507
Cash & ST Invt	131,246	188,058	221,989	157,386	176,820
Inventory	192,442	151,895	207,433	197,961	194,102
Debtors	54,865	35,587	34,861	57,836	60,025
Other Current Assets	67,303	79,855	93,741	93,741	93,741
Total Assets	1,755,071	1,733,805	1,889,255	1,939,464	1,985,814
ST Debt	83,810	29,033	38,125	33,125	28,125
Creditors	187,958	161,656	215,640	208,776	216,988
Other Current Liab	304,606	331,501	387,515	406,503	405,926
LT Debt	58,782	83,815	91,990	91,990	91,990
Other LT Liabilities	244,080	244,942	240,911	243,087	245,372
Shareholder's Equity	738,150	741,494	774,182	799,140	825,004
Minority Interests	137,685	141,364	140,892	156,843	172,409
Total Cap. & Liab.	1,755,071	1,733,805	1,889,255	1,939,464	1,985,814
Non-Cash Wkg. Capital	(177,954)	(225,820)	(267,120)	(265,741)	(275,046)
Net Cash/(Debt)	(11,346)	75,210	91,874	32,271	56,705
Debtors Turn (avg days)	6.9	7.8	4.7	5.6	6.9
Creditors Turn (avg days)	25.8	34.3	29.2	29.6	28.6
Inventory Turn (avg days)	26.0	33.7	27.8	28.3	26.4
Asset Turnover (x)	1.8	1.2	1.5	1.6	1.6
Current Ratio (x)	0.8	0.9	0.9	0.8	0.8
Quick Ratio (x)	0.3	0.4	0.4	0.3	0.4
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	99.0	113.9	110.2	158.4	112.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	89,927	48,143	109,169	103,449	100,971
Dep. & Amort.	93,035	95,581	102,156	110,274	119,819
Tax Paid	(19,523)	(9,022)	(23,786)	(4,809)	(23,797)
Assoc. & JV Inc/(loss)	(12,777)	(6,712)	(23,253)	(8,384)	(8,270)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(36,323)	19,255	15,859	(20,367)	9,883
Other Operating CF	39,081	20,273	45,029	2,176	2,285
Net Operating CF	153,420	167,518	225,174	182,339	200,891
Capital Exp.(net)	(141,141)	(128,533)	(143,443)	(198,198)	(135,135)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(3,810)	45,140	10,598	(5,000)	(4,999)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	37,009	10,929	(12,353)	0	0
Net Investing CF	(107,942)	(72,464)	(145,198)	(203,198)	(140,134)
Div Paid	(46,008)	(31,479)	(35,110)	(38,743)	(36,321)
Chg in Gross Debt	(12,242)	18,665	18,227	(5,000)	(5,000)
Capital Issues	0	0	0	0	0
Other Financing CF	(26,463)	(20,871)	(28,158)	0	0
Net Financing CF	(84,713)	(33,685)	(45,041)	(43,743)	(41,321)
Currency Adjustments	147	(1,239)	(1,003)	0	0
Chg in Cash	(39,088)	60,130	33,932	(64,602)	19,436
Opg CFPS (RMB)	1.57	1.22	1.73	1.67	1.58
Free CFPS (RMB)	0.10	0.32	0.68	(0.13)	0.54

Source: Company, DBS HK

China Petroleum & Chem (Sinopec)

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-21	HK\$4.21	HK\$5.20	Buy
2:	30-Apr-21	HK\$3.96	HK\$5.20	Buy
3:	30-Aug-21	HK\$3.53	HK\$5.20	Buy

Source: DBS HK

Analyst: Pei Hwa HO

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DBS HK recommendations are based on an 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 share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 30 Mar 2022 07:24:54 (HKT)

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

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DBS Bank (Hong Kong) Limited

 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

China Petroleum & Chem (Sinopec)

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@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: indonesiaesearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Pivat 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

Company Regn. No 0105539127012

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