

# China / Hong Kong Company Update

## China Tower

Bloomberg: 788 HK Equity | Reuters: 0788.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Aug 2022

### BUY

Last Traded Price (8 Aug 2022): HK\$1.01 (HSI : 20,046)  
Price Target 12-mth: HK\$1.30 (29% upside) (Prev HK\$1.22)

#### Analyst

Tsz Wang Tam +852 36684195 tszwangtam@db.com  
Harry Zhuang harryzhuang@db.com

#### What's New

- 1H22 EBITDA grew by 2.5% y-o-y, in line with market expectations
- Revenue increased by 6.6% y-o-y, with contribution from non-tower business expanding 3.5ppts y-o-y to 15.1%
- Tower tenants increased by 62k in 1H22, with tower tenancy ratio, reaching 1.72x
- Maintain BUY for benefiting from 5G network buildouts and rapid expansion of new business with a TP of HK\$1.3

#### Price Relative



#### Forecasts and Valuation

| FY Dec (RMBm)               | 2021A  | 2022F  | 2023F  | 2024F   |
|-----------------------------|--------|--------|--------|---------|
| Turnover                    | 86,585 | 92,253 | 97,116 | 101,229 |
| EBITDA                      | 63,017 | 65,130 | 68,564 | 71,467  |
| Pre-tax Profit              | 9,615  | 11,527 | 13,451 | 15,627  |
| Net Profit                  | 7,329  | 8,807  | 10,277 | 11,939  |
| Net Profit Gth (Pre-ex) (%) | 14.0   | 20.2   | 16.7   | 16.2    |
| EPS (RMB)                   | 0.04   | 0.05   | 0.06   | 0.07    |
| EPS (HK\$)                  | 0.05   | 0.06   | 0.07   | 0.08    |
| EPS Gth (%)                 | 14.0   | 19.3   | 16.7   | 16.2    |
| Diluted EPS (HK\$)          | 0.05   | 0.06   | 0.07   | 0.08    |
| DPS (HK\$)                  | 0.03   | 0.04   | 0.05   | 0.06    |
| BV Per Share (HK\$)         | 1.25   | 1.28   | 1.31   | 1.34    |
| PE (X)                      | 20.8   | 17.4   | 14.9   | 12.8    |
| P/Cash Flow (X)             | 2.5    | 4.0    | 3.5    | 3.2     |
| P/Free CF (X)               | 5.4    | 19.2   | 11.5   | 6.6     |
| EV/EBITDA (X)               | 3.6    | 3.5    | 3.2    | 2.9     |
| Net Div Yield (%)           | 3.0    | 3.7    | 4.7    | 5.5     |
| P/Book Value (X)            | 0.8    | 0.8    | 0.8    | 0.8     |
| Net Debt/Equity (X)         | 0.4    | 0.4    | 0.3    | 0.3     |
| ROAE (%)                    | 3.9    | 4.6    | 5.2    | 6.0     |
| EBITDA Rev (%)              |        | (0.2)  | 0.0    | New     |
| Consensus EPS (RMB)         |        | 0.05   | 0.06   | 0.07    |
| Other Broker Recs:          |        | B:12   | S:1    | H:8     |

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

### A beneficiary of 5G network buildouts

#### Investment Thesis

Continues to benefit from 5G construction. Expect solid growth for the tower business, with c.600k 5G base stations (BTS) being deployed per annum in the next three years. The strong need for indoor coverage will support DAS business growth.

Rapid expansion of Two Wings business, riding on the development of digital economy and national "dual-carbon" goals. Two Wings business accounts for 15% of total revenue in 1H22, compared to 2% in FY18.

Increase in dividend payout ratio a potential catalyst. The company has increased its payout ratio of annual distributable net profit from 50% in FY18 to 70% in FY21. A further increase in the payout ratio will be positive for the share price, supported by its strong free cash flow.

#### Valuation:

Our TP of HK\$1.3 is based on a 4x FY23 EV/EBITDA, in line with its historical average.

#### Where we differ:

Downside limited from renewal of lease agreements. The market is overly concerned about pricing pressure from telecom operators. We expect limited downside risk from the upcoming renewal of the lease agreement in 2022.

#### Key Risks to Our View:

**Significant price cut from telcos.** Since tower business still contributes more than 80% of revenue, any significant price cut for leasing terms of macro cell would put pressure on overall revenue.

**Slowdown of non-tower business.** Revenue contribution from the non-tower business is increasing due to its rapid growth. Any slowdown in the non-tower business will drag down overall revenue growth.

#### At A Glance

|  |                  |
|--|------------------|
| Issued Capital (m shrs)  | 176,008          |
| Mkt Cap (HKm/US\$m)  | 177,768 / 22,646 |
| Major Shareholders (%)   |                  |
| GIC Private Limited  | 7.0              |
| Free Float (%)   | 93.0             |
| 3m Avg. Daily Val. (US\$m)   | 15.51            |
| GICS Industry: Communication Services / Telecommunication Services |                  |



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**WHAT'S NEW****1H22 results in line; Two Wings business rapidly expanded 46.5% y-o-y****1H22 results highlights**

Operating revenue grew by 6.6% y-o-y to Rmb45.5bn, driven by a 3.9% increase in the TSP business and a 46.5% increase in the Two Wings (Smart Tower and Energy) business.

Compared to Dec 2021, the number of tower sites increased by 11k to 2,049k and the total number of tower tenants increased by 62k to 3,521k, with the tower tenancy ratio increasing from 1.70x to 1.72x. Revenue per tower site increased by 3.3% y-o-y to Rmb20k.

EBITDA increased by 2.5% y-o-y to Rmb32bn, with the EBITDA margin contracting 2.8ppts y-o-y to 70.3%. Net profit increased by 22.2% y-o-y to Rmb4.2bn. Net margin expanded 1.2ppts y-o-y to 9.3%.

**Outlook**

We expect the tower business to grow at a low single-digit rate in FY22. The net addition of 5G base transceiver stations (BTS) accelerated from 134k in 1Q22 to 295k in 2Q22. The net addition is expected to be lower in 2H22 compared to 1H22, as MIIT has maintained the target of 600k for 2022. The retirement of non-5G BTS (42k in 1H22) would also affect tower business revenue.

The DAS and Two Wings business will continue to be the key growth drivers. The strong demand for indoor coverage for buildings, high-speed railway tunnels, and subways will continue to drive the growth of the DAS business. The Two Wings business, namely the smart tower business and energy business, will benefit from the "Digital China" strategy and national "dual carbon" goals, respectively.

2Q22 EBITDA margin recovered to 71.2% from trough in 1Q22, mainly due to the additional repairment and maintenance expenses for extending the useable life of assets over the depreciation period in 1Q22. We expect the EBITDA margin in 2H22 to be similar in 2Q22, as the benefits from increasing tower tenancy ratio might partly be offset by a rising contribution from the Two Wings business, since the overall EBITDA margin of the Two Wings business is lower than that of the TSP business.

CAPEX in 1H22 decreased by 12.3% y-o-y to Rmb9bn due to effective CAPEX control and slower construction progress under the impact of the pandemic. Management expects CAPEX to speed up in 2H22, while full-year CAPEX as a percentage of revenue will be similar to FY21 and the total CAPEX will not exceed the initial budget of Rmb\$30bn.

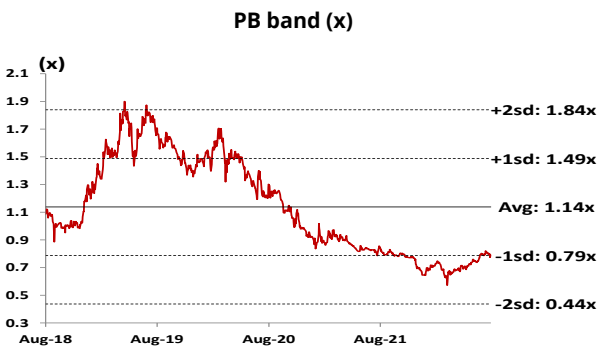
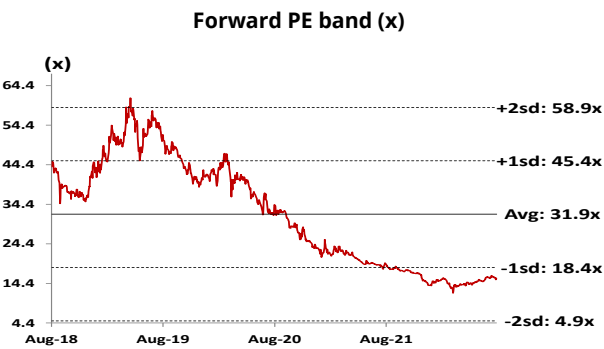
Renewal of the Commercial Pricing Agreement with the three telcos that will expire by the end of 2022 is in progress. No details were disclosed at the current stage.

We have kept our EBITDA forecast largely unchanged for FY22 and FY23. We forecast EBITDA to grow by 3.4%, 5.3%, and 4.2% for FY22, FY23, and FY24, respectively. We maintain BUY on the counter with a TP of HK\$1.3, with valuation rolled over to FY23. Our TP is based on 4x FY23 EV/EBITDA (previously 4x FY22 EV/EBITDA), in line with its historical average.

**Company Background**

China Tower is the largest tower company in China with c.2m tower sites and a 90%+ market share. It was established as the result of the consolidation of towers between CM, CU, and CT in 2014.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China Tower

## Key Assumptions

| FY Dec                         | 2020A   | 2021A   | 2022F   | 2023F   | 2024F   |
|--------------------------------|---------|---------|---------|---------|---------|
| Total number of tenants ('000) | 3,361.0 | 3,459.0 | 3,564.0 | 3,664.0 | 3,759.0 |
| Tenancy ratio                  | 1.6     | 1.6     | 1.5     | 1.5     | 1.5     |
| EBITDA margin (%)              | 73.4    | 72.8    | 70.6    | 70.6    | 70.6    |

Source: Company, DBS HK

## Segmental Breakdown (RMB m)

| FY Dec                          | 2020A         | 2021A         | 2022F         | 2023F         | 2024F          |
|---------------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>Revenues (RMB m)</b>         |               |               |               |               |                |
| Tower business                  | 73,371        | 75,857        | 77,861        | 79,865        | 81,869         |
| DAS business                    | 3,528         | 4,340         | 5,642         | 6,770         | 7,583          |
| Smart Tower and Energy business | 3,939         | 6,131         | 8,490         | 10,220        | 11,517         |
| Others                          | 261           | 257           | 260           | 260           | 260            |
| <b>Total</b>                    | <b>81,099</b> | <b>86,585</b> | <b>92,253</b> | <b>97,116</b> | <b>101,229</b> |

Source: Company, DBS HK

## Income Statement (RMB m)

| FY Dec                    | 2020A         | 2021A         | 2022F         | 2023F         | 2024F         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                   | 81,099        | 86,585        | 92,253        | 97,116        | 101,229       |
| Cost of Goods Sold        | (4,627)       | (5,161)       | (5,074)       | (5,341)       | (5,568)       |
| <b>Gross Profit</b>       | <b>76,472</b> | <b>81,424</b> | <b>87,179</b> | <b>91,774</b> | <b>95,661</b> |
| Other Opg (Exp)/Inc       | (64,460)      | (68,389)      | (72,717)      | (75,401)      | (77,131)      |
| <b>Operating Profit</b>   | <b>12,012</b> | <b>13,035</b> | <b>14,462</b> | <b>16,373</b> | <b>18,530</b> |
| Other Non Opg (Exp)/Inc   | 318           | 303           | 300           | 300           | 300           |
| Associates & JV Inc       | 0             | 0             | 0             | 0             | 0             |
| Net Interest (Exp)/Inc    | (3,923)       | (3,723)       | (3,235)       | (3,222)       | (3,203)       |
| Dividend Income           | 0             | 0             | 0             | 0             | 0             |
| Exceptional Gain/(Loss)   | 0             | 0             | 0             | 0             | 0             |
| <b>Pre-tax Profit</b>     | <b>8,407</b>  | <b>9,615</b>  | <b>11,527</b> | <b>13,451</b> | <b>15,627</b> |
| Tax                       | (1,980)       | (2,287)       | (2,720)       | (3,175)       | (3,688)       |
| Minority Interest         | (1)           | (1)           | 0             | 0             | 0             |
| Preference Dividend       | 0             | 0             | 0             | 0             | 0             |
| <b>Net Profit</b>         | <b>6,428</b>  | <b>7,329</b>  | <b>8,807</b>  | <b>10,277</b> | <b>11,939</b> |
| Net Profit before Except. | 6,428         | 7,329         | 8,807         | 10,277        | 11,939        |
| EBITDA                    | 59,527        | 63,017        | 65,130        | 68,564        | 71,467        |

## Growth

|                    |      |      |      |      |      |
|--------------------|------|------|------|------|------|
| Revenue Gth (%)    | 6.1  | 6.8  | 6.5  | 5.3  | 4.2  |
| EBITDA Gth (%)     | 5.0  | 5.9  | 3.4  | 5.3  | 4.2  |
| Opg Profit Gth (%) | 6.5  | 8.5  | 10.9 | 13.2 | 13.2 |
| Net Profit Gth (%) | 23.1 | 14.0 | 20.2 | 16.7 | 16.2 |

## Margins &amp; Ratio

|                        |      |      |      |      |      |
|------------------------|------|------|------|------|------|
| Gross Margins (%)      | 94.3 | 94.0 | 94.5 | 94.5 | 94.5 |
| Opg Profit Margin (%)  | 14.8 | 15.1 | 15.7 | 16.9 | 18.3 |
| Net Profit Margin (%)  | 7.9  | 8.5  | 9.5  | 10.6 | 11.8 |
| ROAE (%)               | 3.5  | 3.9  | 4.6  | 5.2  | 6.0  |
| ROA (%)                | 1.9  | 2.2  | 2.7  | 3.2  | 3.6  |
| ROCE (%)               | 3.1  | 3.4  | 3.8  | 4.3  | 4.7  |
| Div Payout Ratio (%)   | 61.2 | 63.0 | 65.0 | 70.0 | 70.0 |
| Net Interest Cover (x) | 3.1  | 3.5  | 4.5  | 5.1  | 5.8  |

Source: Company, DBS HK

## China Tower

## Interim Income Statement (RMB m)

| FY Dec                  | 1H2020        | 2H2020        | 1H2021        | 2H2021        | 1H2022        |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                 | 39,794        | 41,305        | 42,673        | 43,912        | 45,479        |
| Cost of Goods Sold      | (2,249)       | (2,378)       | (2,344)       | (2,817)       | (2,507)       |
| <b>Gross Profit</b>     | <b>37,545</b> | <b>38,927</b> | <b>40,329</b> | <b>41,095</b> | <b>42,972</b> |
| Other Oper. (Exp)/Inc   | (33,953)      | (30,507)      | (33,975)      | (34,414)      | (35,883)      |
| <b>Operating Profit</b> | <b>3,592</b>  | <b>8,420</b>  | <b>6,354</b>  | <b>6,681</b>  | <b>7,089</b>  |
| Other Non Opg (Exp)/Inc | 120           | 198           | 69            | 234           | 76            |
| Associates & JV Inc     | 0             | 0             | 0             | 0             | 0             |
| Net Interest (Exp)/Inc  | (2,064)       | (1,859)       | (1,865)       | (1,858)       | (1,603)       |
| Exceptional Gain/(Loss) | 0             | 0             | 0             | 0             | 0             |
| <b>Pre-tax Profit</b>   | <b>1,648</b>  | <b>6,759</b>  | <b>4,558</b>  | <b>5,057</b>  | <b>5,562</b>  |
| Tax                     | (920)         | (1,060)       | (1,101)       | (1,186)       | (1,338)       |
| Minority Interest       | (1)           | 0             | 0             | (1)           | 0             |
| <b>Net Profit</b>       | <b>729</b>    | <b>5,699</b>  | <b>3,457</b>  | <b>3,872</b>  | <b>4,224</b>  |
| Net profit bef Except.  | 729           | 5,699         | 3,457         | 3,872         | 4,224         |

## Growth

|                    |        |       |       |        |      |
|--------------------|--------|-------|-------|--------|------|
| Revenue Gth (%)    | 4.8    | 7.4   | 7.2   | 6.3    | 6.6  |
| Opg Profit Gth (%) | (42.1) | 65.8  | 76.9  | (20.7) | 11.6 |
| Net Profit Gth (%) | (76.7) | 171.9 | 374.2 | (32.1) | 22.2 |

## Margins

|                        |      |      |      |      |      |
|------------------------|------|------|------|------|------|
| Gross Margins (%)      | 94.3 | 94.2 | 94.5 | 93.6 | 94.5 |
| Opg Profit Margins (%) | 9.0  | 20.4 | 14.9 | 15.2 | 15.6 |
| Net Profit Margins (%) | 1.8  | 13.8 | 8.1  | 8.8  | 9.3  |

Source: Company, DBS HK

## China Tower

## Balance Sheet (RMB m)

| FY Dec                        | 2020A          | 2021A          | 2022F          | 2023F          | 2024F          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Fixed Assets              | 286,422        | 269,005        | 257,931        | 245,768        | 228,293        |
| Invts in Associates & JVs     | 0              | 0              | 0              | 0              | 0              |
| Other LT Assets               | 7,754          | 5,910          | 5,910          | 5,910          | 5,910          |
| Cash & ST Invts               | 5,042          | 6,471          | 9,403          | 13,738         | 26,482         |
| Inventory                     | 0              | 0              | 0              | 0              | 0              |
| Debtors                       | 30,658         | 34,194         | 44,158         | 51,628         | 59,307         |
| Other Current Assets          | 7,504          | 7,679          | 8,447          | 9,292          | 10,221         |
| <b>Total Assets</b>           | <b>337,380</b> | <b>323,259</b> | <b>325,848</b> | <b>326,335</b> | <b>330,213</b> |
| ST Debt                       | 61,999         | 37,142         | 40,000         | 40,000         | 40,000         |
| Creditors                     | 31,460         | 25,264         | 20,807         | 16,741         | 15,874         |
| Other Current Liab            | 13,176         | 13,776         | 13,776         | 13,776         | 13,776         |
| LT Debt                       | 27,121         | 41,572         | 41,572         | 41,572         | 41,572         |
| Other LT Liabilities          | 17,378         | 16,151         | 16,151         | 16,151         | 16,151         |
| Shareholder's Equity          | 186,245        | 189,354        | 193,543        | 198,095        | 202,841        |
| Minority Interests            | 1              | 0              | 0              | 0              | 0              |
| <b>Total Cap. &amp; Liab.</b> | <b>337,380</b> | <b>323,259</b> | <b>325,848</b> | <b>326,335</b> | <b>330,213</b> |
| Non-Cash Wkg. Capital         | (6,474)        | 2,833          | 18,022         | 30,402         | 39,878         |
| Net Cash/(Debt)               | (84,078)       | (72,243)       | (72,169)       | (67,834)       | (55,090)       |
| Debtors Turn (avg days)       | 128.1          | 136.7          | 155.0          | 180.0          | 200.0          |
| Creditors Turn (avg days)     | (258.6)        | (231.0)        | (184.4)        | (146.3)        | (125.7)        |
| Inventory Turn (avg days)     | N/A            | N/A            | N/A            | N/A            | N/A            |
| Asset Turnover (x)            | 0.2            | 0.3            | 0.3            | 0.3            | 0.3            |
| Current Ratio (x)             | 0.4            | 0.6            | 0.8            | 1.1            | 1.4            |
| Quick Ratio (x)               | 0.3            | 0.5            | 0.7            | 0.9            | 1.2            |
| Net Debt/Equity (X)           | 0.5            | 0.4            | 0.4            | 0.3            | 0.3            |
| Net Debt/Equity ex MI (X)     | 0.5            | 0.4            | 0.4            | 0.3            | 0.3            |
| Capex to Debt (%)             | 42.4           | 41.3           | 36.8           | 36.8           | 30.6           |
| Z-Score (X)                   | NA             | NA             | NA             | NA             | NA             |

Source: Company, DBS HK

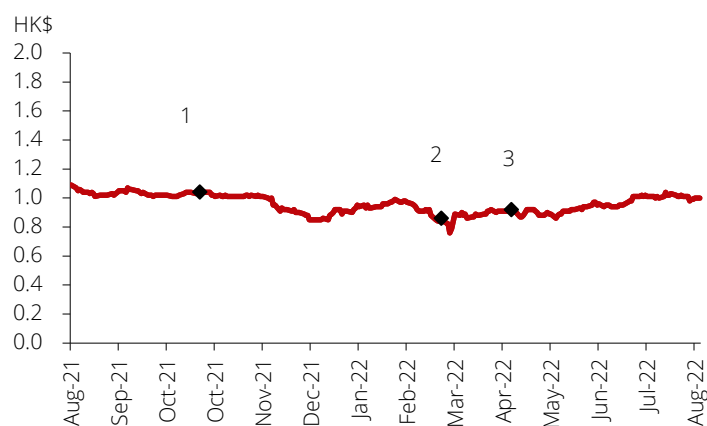
## Cash Flow Statement (RMB m)

| FY Dec                         | 2020A           | 2021A           | 2022F           | 2023F           | 2024F           |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-Tax Profit                 | 8,407           | 9,615           | 11,527          | 13,451          | 15,627          |
| Dep. & Amort.                  | 47,515          | 49,982          | 41,074          | 42,162          | 42,475          |
| Tax Paid                       | (2,220)         | (2,619)         | (2,720)         | (3,175)         | (3,688)         |
| Assoc. & JV Inc/(loss)         | 0               | 1               | 0               | 0               | 0               |
| (Pft)/ Loss on disposal of FAs | 1,100           | 868             | 0               | 0               | 0               |
| Chg in Wkg.Cap.                | (1,526)         | (1,259)         | (15,189)        | (12,381)        | (9,476)         |
| Other Operating CF             | 12,679          | 13,530          | 14,790          | 16,714          | 18,890          |
| <b>Net Operating CF</b>        | <b>57,548</b>   | <b>60,503</b>   | <b>37,955</b>   | <b>43,322</b>   | <b>48,201</b>   |
| Capital Exp.(net)              | (37,800)        | (32,513)        | (30,000)        | (30,000)        | (25,000)        |
| Other Invts.(net)              | 0               | 0               | 0               | 0               | 0               |
| Invts in Assoc. & JV           | 0               | 0               | 0               | 0               | 0               |
| Div from Assoc & JV            | 0               | 0               | 0               | 0               | 0               |
| Other Investing CF             | (97)            | 998             | 0               | 0               | 0               |
| <b>Net Investing CF</b>        | <b>(37,897)</b> | <b>(31,515)</b> | <b>(30,000)</b> | <b>(30,000)</b> | <b>(25,000)</b> |
| Div Paid                       | (2,561)         | (3,934)         | (4,618)         | (5,724)         | (7,194)         |
| Chg in Gross Debt              | (6,594)         | (10,521)        | 2,858           | 0               | 0               |
| Capital Issues                 | 0               | 0               | 0               | 0               | 0               |
| Other Financing CF             | (11,682)        | (13,105)        | (3,263)         | (3,263)         | (3,263)         |
| <b>Net Financing CF</b>        | <b>(20,837)</b> | <b>(27,560)</b> | <b>(5,023)</b>  | <b>(8,987)</b>  | <b>(10,457)</b> |
| Currency Adjustments           | 5               | 1               | 0               | 0               | 0               |
| Chg in Cash                    | (1,181)         | 1,429           | 2,932           | 4,334           | 12,745          |
| Opg CFPS (RMB)                 | 0.34            | 0.35            | 0.30            | 0.32            | 0.33            |
| Free CFPS (RMB)                | 0.11            | 0.16            | 0.05            | 0.08            | 0.13            |

Source: Company, DBS HK

## China Tower

### Target Price & Ratings History



| S.No. | Date      | Closing Price | 12-mth Target Price | Rating |
|-------|-----------|---------------|---------------------|--------|
| 1:    | 20-Oct-21 | HK\$1.04      | HK\$1.30            | Buy    |
| 2:    | 10-Mar-22 | HK\$0.84      | HK\$1.25            | Buy    |
| 3:    | 20-Apr-22 | HK\$0.92      | HK\$1.22            | Buy    |

Source: DBS HK

Analyst: Tsz Wang Tam

Harry Zhuang

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: : 9 Aug 2022 07:42:57 (HKT)

Dissemination Date: 9 Aug 2022 08:21:30 (HKT)

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

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**DBS Bank (Hong Kong) Limited**

13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

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

## China Tower

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### DBS Regional Research Offices

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#### HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

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: Paul Yong

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 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

Company Regn. No 0105539127012

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