

Singapore Company Update

DFI Retail Group Holdings

Bloomberg: DFI SP | Reuters: DAIR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Aug 2022

HOLD

Last Traded Price (29 Jul 2022): US\$2.80 (STI : 3,211.56)
Price Target 12-mth: US\$2.67 (5% downside) (Prev US\$3.01)

Analyst

Andy SIM, CFA +65 6682 3718 andysim@dbs.com

What's New

- 1H22 results below, as operations affected by COVID restrictions in North Asia, higher expenses and losses from associates
- Headline loss of US\$52m, though subsidiaries were profitable at US\$76m (-51% y-o-y)
- Interim dividend of 1 US ct, down from 3 US cts
- Trimmed earnings and TP to US\$2.67; two factors to catalyse share price – lifting of travel restrictions, concrete results from its investments in transformation

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Revenue	10,269	9,015	9,168	9,598
EBITDA	682	409	293	452
Pre-tax Profit	340	153	49.8	185
Net Profit	271	103	35.6	142
Net Pft (Pre Ex.)	276	105	35.6	142
Net Pft Gth (Pre-ex) (%)	(14.1)	(62.1)	(66.0)	298.6
EPS (US cts.)	20.0	7.61	2.63	10.5
EPS Pre Ex. (US cts.)	20.4	7.73	2.63	10.5
EPS Gth Pre Ex (%)	(14)	(62)	(66)	299
Diluted EPS (US cts.)	20.0	7.60	2.63	10.5
Net DPS (US cts.)	16.5	9.50	3.00	8.00
BV Per Share (US cts.)	97.8	93.7	88.8	94.3
PE (X)	14.0	36.8	106.4	26.7
PE Pre Ex. (X)	13.7	36.2	106.4	26.7
P/Cash Flow (X)	3.5	4.0	5.0	3.4
EV/EBITDA (X)	6.8	11.3	16.4	10.2
Net Div Yield (%)	5.9	3.4	1.1	2.9
P/Book Value (X)	2.9	3.0	3.2	3.0
Net Debt/Equity (X)	0.6	0.7	0.9	0.7
ROAE (%)	21.4	7.9	2.9	11.5
Earnings Rev (%):			(77)	(30)
Consensus EPS (US			13.8	19.1
Other Broker Recs:		B: 0	S: 1	H: 8

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Awaiting visible catalysts

Investment Thesis

Grocery retail faces demand normalisation and intense competition. We believe the grocery retail business may face challenges ahead in the form of normalizing demand in regions where the pandemic situation has stabilised. Competition is also fierce in both the online channel (impacting Yonghui in China) and offline channel (Indonesia).

Transformation of DFI will not happen overnight. The pandemic and current high price inflationary environment may have changed consumption patterns in favour of value. In our view, DFI's investment in digital capabilities as well as price investment strategy may lead to a period of lower margins and will need time to bear fruit as cost structure changes are implemented.

Key catalysts – watch for return of Hong Kong-China travel and/or tangible results from digital investments. Health & Beauty segment's revenue dropped c.US\$1bn in FY20 and stayed under US\$2bn in FY21 as the flow of visitors from Mainland China dried up. Expectations of a reopening could provide hope and catalyse the share price.

Valuation:

TP of US\$2.67 based on SOTP valuation. We lowered our TP to US\$2.67 to factor in our earnings cuts, roll our valuation to FY23F (from FY22F), and is derived from a sum-of-parts valuation methodology. We value DFI's core business at US\$1.67 based on DCF and its 20% and 18% stakes in Yonghui and RRHI at US\$0.78 and US\$0.22 respectively based on market prices.

Where we differ:

We are more conservative on margins as we believe DFI's multi-year transformation programme needs time to take shape.

Key Risks to Our View:

A better-than-expected improvement in operating margins or earnings performance could provide upside to our TP.

At A Glance

Issued Capital (m shrs)	1,353
Mkt. Cap (US\$m/US\$m)	3,789 / 3,789
Major Shareholders (%)	
Jardine Matheson Holdings Ltd	77.6
Free Float (%)	22.4
3m Avg. Daily Val (US\$m)	1.9
GIC Industry : Consumer Staples / Food & Staples Retailing	



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WHAT'S NEW

Still not a convenient time

Underwhelming 1H22; conditions still lacking for share price catalyst to materialise. DFI Retail Group's (DFI) share price has underperformed and seems bombed out, but we believe conditions are lacking for a positive boost to catalyse its share price. Firstly, lingering COVID-19 restrictions in North Asia continue to pose headwinds for its operations. In addition, its investments in digital capabilities, while necessary for the Group's longer-term value and growth, are creating a drag on headline operating profits in the near term. In our view, until tangible signals from both factors are clearer, DFI's share price could still flirt around current levels even though PB valuations seem low based on historical trend.

TP trimmed to US\$2.67; Maintain HOLD with share price near lows. We trim our TP to US\$2.67, on the back of lower earnings forecasts post its underwhelming 1H22 results. We cut our FY22F/ 23F earnings by 77%/ 30% on the back of higher losses from its associates, coupled with higher operating expenses, mainly arising from investments in digital capabilities as well as cost inflation. With share price already severely underperforming and negative factors largely known, we maintain our HOLD recommendation. Upside/ downside risks to our recommendation comes from the earlier/ delayed occurrence of the catalysts we highlighted above.

1H22 Results Review

1H22 DFI Group headline loss of US\$52m; below expectations largely on associates' losses, restrictions and investments. DFI Retail Group (DFI) reported a headline net loss of US\$52m, which includes US\$60m loss from associates (largely Yonghui and Maxim). While its subsidiaries remained profitable, posting **1H22 sales of US\$4.48bn (-1.2% y-o-y)** with an underlying **operating profit of US\$76m**, this was 51% lower compared to the same period last year. The Group had, in its 1Q22 business update in earlier in May 22, guided for 2022 results to be lower compared to 2021, but the headline performance was still underwhelming for us in respect of the higher-than-expected operating expenses and operational challenges.

Health and Beauty performance failed to mitigate weakness in Grocery Retail and Convenience Stores, and higher investments in digital. Among the performance of its subsidiaries, while Health and Beauty posted strong performance, this failed to mitigate the weakness in its

Grocery Retail as well as Convenience Stores. In addition, the Group also increased its investments in digital capacity and capability, which is said to be necessary to meet customers' needs and to drive long-term growth and value. In its results briefing, management guided that the level of investments in its digital capabilities are likely to continue into 2H22F, and possibly FY23 as well.

Overall performance dragged down by Yonghui and Maxim's contribution. The underwhelming headline performance can be attributed to the Group's share of Yonghui's results amounting to US\$64m (due to the latter's performance in 4Q 2021) as well as losses from Maxim's, which contributed an underlying loss of US\$26m due to movement restrictions in Hong Kong.

An interim dividend of 1 USct was declared for 1H22, vs 3.0 US cts a year ago.

Segments commentary

Grocery Retail segment hard hit by reopening in Southeast Asia, inflation and investments. While Grocery Retail in North Asia saw decent like-for-like sales, this failed to negate the impact from Southeast Asia as Group operations were affected by easing restrictions, store renovations in Singapore and stock availability in Malaysia. Recall that in 1H21, COVID restrictions were still predominant, while in 2H22, easing restrictions towards 2Q22 saw a shift towards out-of-home consumption. Management also indicated that renovation for several stores had ramped up in 1H22 after these were delayed due to COVID restrictions in 2021. There are expectations for these to be completed by end of 2022.

As a result, 1H22 Grocery Retail saw sales drop by 8.5% y-o-y to US\$2.0bn (from US\$2.19bn). Along with higher costs of goods, operating costs from labour and electricity and e-commerce investment costs, operating profit for the segment plunged by 44.2% to US\$47.4m, from US\$84.9m a year ago.

Convenience Stores impacted by Hong Kong and China restrictions. While Singapore convenience stores saw strong sales and profit arising from easing of restrictions, the segment was impacted by restrictions in China and Hong Kong. In 1Q, due to restrictions, 50% of its stores were forced to close or had shortened operating hours. We noted that there was q-o-q sales recovery post lockdowns

DFI Retail Group Holdings

in 2Q22. As a result, sales for the segment in 1H22 was US\$1.08bn, but profitability was impacted with an operating loss of US\$0.1m, down from a profit of US\$18.6m a year ago. Store expansion continues, nonetheless, with 100 new stores opened, of which 75 were in South China.

Health & Beauty the star; 1H22 sales +11%, operating profit +91% y-o-y. Health & Beauty was the star performer with 1H22 sales at US\$984.5m, up by 11% y-o-y due to recovery across North Asia (Mannings) and Southeast Asia (Guardian). Mannings Hong Kong saw higher like-for-like sales due to surge in demand for COVID-19 related products and over-the-counter (OTC) medicines as well as double-digit sales growth for Own Brand. Guardian stores across Southeast Asia benefitted from easing of COVID restrictions and recovery in mall and tourist locations, with profit more than doubling for Guardian. Overall, operating profit for Health and Beauty almost doubled to US\$39.3m (+90.8% y-o-y) in 1H22, compared to a year ago.

Home furnishing improved from new stores and e-commerce. Home furnishing saw 1H22 revenue improving by 6.4% y-o-y to US\$409.6m, on the back of newly opened stores last year and e-commerce sales. However, like-for-like sales were impacted in 1Q22 due to COVID restrictions on store operating capacity as well as stock availability. It was noted that stock availability was at c.80-85%, down against more than 95% during pre-COVID. Notwithstanding the challenges, Home Furnishing segment posted an operating profit of US\$15.2%, up by 32.2% y-o-y, with like-for-like sales improving in 2Q22. Ikea now has 40 touchpoints with c.4.3m sq ft of trading space. Its new upgraded Taiwan fulfillment centre is expected to be operational in 2H22.

Maxim also reeled from restrictions in Hong Kong, while Robinson Retail (RRH) benefited from Philippines' easing of restrictions. Maxim was severely impacted by the restrictions from dining-in in Hong Kong, and the temporary lockdowns in China. The opposite was true for

RRH where its drugstores, department stores and specialty segments saw strong performance on increase in economic activity following easing restrictions. For Hong Kong, it was noted that like-for-like sales recovered over the course of 2Q as restrictions eased.

Our views

Trim FY22F/ 23F earnings by 77%/ 30%. As a result of its underwhelming 1H22 and higher-than expected investment into its digital capabilities that is expected to last into 2H22 and possibly FY23, we cut our forecasts by 77%/ 30% for FY22F/ 23F. This is also contributed by the slower than expected lifting of restrictions in North Asia as well as sales impact from store renovations in Southeast Asia for Grocery Retail in which we have brought down our sales forecasts by 4.5%/3.5% for FY22F/23F.

Facing headwinds; firm easing of restrictions and concrete results from investments needed.

While the Group had earlier guided for a weaker 2022 compared to 2021, its underwhelming 1H22 performance took us by surprise. The impact from Yonghui is well-flagged though the steep plunge in underlying performance of its subsidiaries, particularly its Grocery Retail segment - traditionally the main contributor - could be hard for the market to digest. There continues to be challenges faced by the Group and we understand the investments are needed to drive its longer-term growth. However, for confidence in the share price to return, we believe two key factors are needed: (i) firm easing of restrictions in North Asia; (ii) concrete positive results from investments made thus far.

TP revised down to US\$2.67; HOLD. Accordingly, we revised down our TP to US\$2.67, rolling our valuation to FY23F. With share price already severely underperforming and negative factors largely known, we maintain our HOLD recommendation. Upside/ downside risks to our recommendation comes from the earlier/ delayed occurrence of the catalysts we highlighted above.

	Current		Previous		Change	
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Sales	9,168	9,598	9,605	9,949	-4.5%	-3.5%
EBIT	227	366	367	411	-38.3%	-11.1%
PBT	50	185	215	266	-76.9%	-30.4%
PATMI	36	142	154	204	-76.9%	-30.4%
EBIT margin	2.5%	3.8%	3.8%	4.1%	-1.4%	-0.3%
PBIT margin	0.5%	1.9%	2.2%	2.7%	-1.7%	-0.7%
PATMI margin	0.4%	1.5%	1.6%	2.0%	-1.2%	-0.6%

Source: DBS Bank estimates

DFI Retail Group Holdings

Company Background

Dairy Farm (DFI) is a Pan Asian retailer, operating over 6,400 supermarkets, hypermarkets, health and beauty stores, convenience stores, home furnishing stores and restaurants

under well-known brand names in Hong Kong, Taiwan, China, Macau, Singapore, the Philippines, Cambodia, Brunei, Malaysia, Indonesia, and Vietnam.

Interim Income Statement (US\$m)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	4,537	4,479	4,483	(1.2)	0.1
Cost of Goods Sold	(3,124)	(3,022)	(3,080)	(1.4)	1.9
Gross Profit	1,413	1,457	1,403	(0.7)	(3.7)
Other Oper. (Exp)/Inc	(1,258)	(1,298)	(1,327)	5.5	2.3
Operating Profit	155	159	76	(51.1)	(52.5)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	(44)	3	(65)	(49.5)	nm
Net Interest (Exp)/Inc	(60)	(59)	(57)	5.7	3.7
Exceptional Gain/(Loss)	(15)	14	(6)	61.0	nm
Pre-tax Profit	36	117	(52)	nm	nm
Tax	(19)	(41)	(18)	(3.7)	(55.4)
Minority Interest	0	10	7	nm	(30.3)
Net Profit	17	86	(64)	nm	nm
Net profit bef Except.	32	72	(58)	nm	nm
EBITDA	111	162	10	(90.6)	(93.6)
Margins (%)					
Gross Margins	31.1	32.5	31.3		
Opg Profit Margins	3.4	3.6	1.7		
Net Profit Margins	0.4	1.9	(1.4)		

Source of all data: Company, DBS Bank

DFI Retail Group Holdings

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

DFI Retail Group Holdings

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Number of outlets	6,028	5,553	5,218	5,366	5,467
Sales per store blended	1,857	1,849	1,728	1,708	1,756

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$m)					
Food	7,376	7,447	6,394	6,155	6,396
Health & beauty stores	3,051	1,990	1,805	1,996	2,127
Home furnishing stores	766	832	816	1,017	1,075

Total	11,192	10,269	9,015	9,168	9,598
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Operating profit (US\$m)

Food	145	324	197	102	173
Health & beauty stores	296	65.7	56.4	79.8	106
Home furnishing stores	42.7	70.5	45.0	40.7	86.0
Support office/others	(46.8)	(48.8)	15.2	3.86	0.41

Total	437	412	314	227	366
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Operating profit Margins

Food	2.0	4.4	3.1	1.7	2.7
Health & beauty stores	9.7	3.3	3.1	4.0	5.0
Home furnishing stores	5.6	8.5	5.5	4.0	8.0

Total	3.9	4.0	3.5	2.5	3.8
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Income Statement (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	11,192	10,269	9,015	9,168	9,598
Cost of Goods Sold	(7,659)	(7,078)	(6,146)	(6,250)	(6,543)
Gross Profit	3,534	3,191	2,870	2,918	3,055
Other Opng (Exp)/Inc	(3,097)	(2,779)	(2,556)	(2,691)	(2,690)
Operating Profit	437	412	314	227	366
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	115	76.0	(40.4)	(61.7)	(47.8)
Net Interest (Exp)/Inc	(158)	(143)	(119)	(115)	(132)
Exceptional Gain/(Loss)	2.90	(4.7)	(1.7)	0.0	0.0
Pre-tax Profit	396	340	153	49.8	185
Tax	(69.5)	(74.2)	(60.0)	(17.4)	(55.6)
Minority Interest	(2.8)	5.00	10.0	3.25	12.1
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	324	271	103	35.6	142
Net Profit before Except.	321	276	105	35.6	142
EBITDA	739	682	409	293	452
Growth					
Revenue Gth (%)	(4.7)	(8.3)	(12.2)	1.7	4.7
EBITDA Gth (%)	(12.4)	(7.7)	(40.1)	(28.2)	54.1
Opg Profit Gth (%)	(13.7)	(5.7)	(23.8)	(27.7)	61.1
Net Profit Gth (Pre-ex) (%)	(10.4)	(14.1)	(62.1)	(66.0)	298.6
Margins & Ratio					
Gross Margins (%)	31.6	31.1	31.8	31.8	31.8
Opg Profit Margin (%)	3.9	4.0	3.5	2.5	3.8
Net Profit Margin (%)	2.9	2.6	1.1	0.4	1.5
ROAE (%)	27.7	21.4	7.9	2.9	11.5
ROA (%)	3.8	3.3	1.3	0.5	1.9
ROCE (%)	6.9	6.3	3.9	3.1	5.3
Div Payout Ratio (%)	87.7	82.4	124.9	114.0	76.3
Net Interest Cover (x)	2.8	2.9	2.6	2.0	2.8

Source: Company, DBS Bank

DFI Retail Group Holdings

Interim Income Statement (US\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	5,240	5,029	4,537	4,479	4,483
Cost of Goods Sold	(3,641)	(3,437)	(3,124)	(3,022)	(3,080)
Gross Profit	1,599	1,592	1,413	1,457	1,403
Other Oper. (Exp)/Inc	(1,389)	(1,390)	(1,258)	(1,298)	(1,327)
Operating Profit	210	202	155	159	75.6
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & IV Inc	15.7	60.3	(43.6)	3.20	(65.2)
Net Interest (Exp)/Inc	(74.4)	(68.3)	(60.0)	(58.8)	(56.6)
Exceptional Gain/(Loss)	10.1	(14.8)	(15.4)	13.7	(6.0)
Pre-tax Profit	161	179	35.6	117	(52.2)
Tax	(37.4)	(36.8)	(19.0)	(41.0)	(18.3)
Minority Interest	1.60	3.40	0.10	9.90	6.90
Net Profit	125	146	16.7	86.2	(63.6)
Net profit bef Except.	115	160	32.1	72.5	(57.6)
EBITDA	226	262	111	162	10.4
Growth					
Revenue Gth (%)	(3.5)	(4.0)	(9.8)	(1.3)	0.1
EBITDA Gth (%)	(7.3)	16.2	(57.6)	46.3	(93.6)
Op (Profit) Gth (%)	3.8	(3.8)	(23.4)	3.0	(52.5)
Net Profit Gth (%)	(11.9)	16.1	(88.5)	416.2	(173.8)
Margins					
Gross Margins (%)	30.5	31.7	31.1	32.5	31.3
Op (Profit) Margins (%)	4.0	4.0	3.4	3.6	1.7
Net Profit Margins (%)	2.4	2.9	0.4	1.9	(1.4)

Yonghui and Maxim's losses

Balance Sheet (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	820	772	803	837	875
Invts in Associates & JVs	2,102	2,257	2,164	2,103	2,055
Other LT Assets	3,943	3,484	3,312	3,234	3,124
Cash & ST Invts	301	278	210	61.7	264
Inventory	896	779	782	822	860
Debtors	281	304	232	239	263
Other Current Assets	26.1	28.0	101	101	101
Total Assets	8,370	7,901	7,605	7,396	7,542
ST Debt	938	852	744	794	794
Creditor	2,315	2,061	2,081	1,883	1,972
Other Current Liab	911	813	716	724	720
LT Debt	184	242	311	311	311
Other LT Liabilities	2,782	2,597	2,486	2,486	2,486
Shareholder's Equity	1,209	1,322	1,267	1,201	1,276
Minority Interests	30.3	13.6	0.0	(3.3)	(15.4)
Total Cap. & Liab.	8,370	7,901	7,605	7,396	7,542
Non-Cash Wkg. Capital	(2,023)	(1,763)	(1,683)	(1,446)	(1,468)
Net Cash/(Debt)	(821)	(817)	(844)	(1,043)	(840)
Debtors Turn (avg days)	9.9	10.4	10.8	9.4	9.5
Creditors Turn (avg days)	114.3	116.0	125.8	118.2	109.8
Inventory Turn (avg days)	44.2	44.4	47.4	47.8	47.9
Asset Turnover (x)	1.3	1.3	1.2	1.2	1.3
Current Ratio (x)	0.4	0.4	0.4	0.4	0.4
Quick Ratio (x)	0.1	0.2	0.1	0.1	0.2
Net Debt/Equity (X)	0.7	0.6	0.7	0.9	0.7
Net Debt/Equity ex MI (X)	0.7	0.6	0.7	0.9	0.7
Capex to Debt (%)	20.8	20.8	17.6	17.1	18.3
Z-Score (X)	1.9	1.8	1.8	1.9	1.9

Source: Company, DBS Bank

DFI Retail Group Holdings

Cash Flow Statement (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	396	340	153	49.8	185
Dep. & Amort.	1,002	983	886	906	914
Tax Paid	(25.1)	(110)	(110)	(17.4)	(55.6)
Assoc. & JV Inc/(loss)	(115)	(76.0)	40.4	61.7	47.8
Chg in Wkg.Cap.	(76.7)	(102)	(10.4)	(244)	25.5
Other Operating CF	107	32.1	(16.2)	7.95	(4.1)
Net Operating CF	1,288	1,067	942	764	1,113
Capital Exp.(net)	(233)	(227)	(185)	(189)	(202)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(3.8)	(18.3)	(1.6)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(45.9)	159	62.0	(25.0)	(25.0)
Net Investing CF	(283)	(86.4)	(125)	(214)	(227)
Div Paid	(284)	(264)	(196)	(101)	(67.7)
Chg in Gross Debt	73.4	(70.7)	(59.9)	50.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(797)	(709)	(585)	(647)	(616)
Net Financing CF	(1,008)	(1,043)	(841)	(698)	(684)
Currency Adjustments	6.30	8.00	(0.5)	0.0	0.0
Chg in Cash	3.80	(54.1)	(24.2)	(149)	202
Opg CFPS (US cts.)	101	86.4	70.4	74.5	80.4
Free CFPS (US cts.)	78.0	62.1	56.0	42.5	67.3

Source: Company, DBS Bank

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Aug 21	3.69	3.96	HOLD
2:	07 Mar 22	2.46	3.01	HOLD

Source: DBS Bank

Analyst: Andy SIM, CFA

DFI Retail Group Holdings

DBS Bank 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

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

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DBS Regional Research Offices

HONG KONG

DBS (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 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
Company Regn. No 0105539127012
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