

Singapore Company Update

Keppel Corporation

Bloomberg: **KEP SP** | Reuters: **KPLM.SI**

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Oct 2023

BUY

Last Traded Price (19 Oct 2023): S\$6.25 (STI : 3,099.60)

Price Target 12-mth: S\$8.05 (29% upside) (Prev S\$8.30)

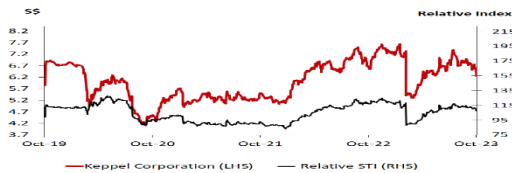
Analyst

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

What's New

- 3Q/9M23 earnings higher y-o-y, driven by Infrastructure; power spreads to remain steady despite lower USEP in 3Q
- KREIT's DIS goes ex on 25 Oct; reduced FY23/24F earnings by 1/5% to reflect lower KREIT stake
- CFO retiring end of this year, succeeded by current deputy CFO; no impact on operations expected
- Reiterate BUY; TP adjusted to S\$8.05 to reflect KREIT distribution and TP revisions of listed REITs

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	6,611	6,620	6,622	7,173
EBITDA	1,984	1,356	1,543	1,742
Pre-tax Profit	1,385	1,178	4,350	1,285
Net Profit	1,018	910	4,092	1,001
Net Pft (Pre Ex.)	1,244	827	910	1,001
Net Pft Gth (Pre-ex) (%)	nm	(33.5)	10.0	10.0
EPS (S cts)	55.9	50.0	225	55.0
EPS Pre Ex. (S cts)	68.3	45.4	50.0	55.0
EPS Gth Pre Ex (%)	nm	(34)	10	10
Diluted EPS (S cts)	55.6	49.7	223	54.7
Net DPS (S cts)	33.0	33.0	30.0	33.0
BV Per Share (S cts)	640	614	573	598
PE (X)	11.2	12.5	2.8	11.4
PE Pre Ex. (X)	9.1	13.8	12.5	11.4
P/Cash Flow (X)	nm	43.9	2.4	17.7
EV/EBITDA (X)	10.4	15.7	14.0	12.6
Net Div Yield (%)	5.3	5.3	4.8	5.3
P/Book Value (X)	1.0	1.0	1.1	1.0
Net Debt/Equity (X)	0.7	0.8	0.9	0.8
ROAE (%)	9.1	8.0	37.9	9.4
Earnings Rev (%):			(1)	(5)
Consensus EPS (S cts):			127.1	54.4
Other Broker Recs:		B: 8	S: 2	H: 3

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

Sailing steady

Investment Thesis:

Asset manager with developer and operator capabilities. Keppel Corporation (Keppel) offers investors a unique and unrivalled proposition as a global asset manager with developer and operator capabilities in real estate and green industrial space (Energy & Environment and Infrastructure). We believe that Keppel's strong engineering/construction roots and track record in capital management position it well to grow as a global asset manager.

Promising earnings growth ahead. We project core earnings (excl. O&M sale) to grow at a CAGR of 12% in the next two years, driven largely by an expanding FUM base under Asset Management from S\$50bn as of end-2022 towards S\$80bn. In the medium term, Keppel aims to double its FUM to S\$100bn by 2026 and quadruple to S\$200bn by 2030, which we estimate can add S\$4/share to our current TP. In addition, property and land sales in China/Vietnam look set to recover following their reopening.

Improving earnings quality and ROE. Earnings quality has improved dramatically, with recurring income contribution to group profit jumping from 25-40% prior to Vision 2030 (V2030) to c.60% since 2022. The trend should continue with concerted effort made to pivot away from orderbook-based revenue to income from fees and from its portfolio assets (real estate, infrastructure, and digital assets). While its ROE at ~9% is far behind its target of 15%, we look forward to FUM growth and turnaround of property business to drive returns towards this target in the medium term.

BUY with S\$8.05 target price. Our SOTP is derived based on 1) 18x FY23 PE on asset management earnings; 2) 25% discount to Property RNAV plus DCF for Tianjin Eco-city land sales; and 3) 9x PE on Infrastructure and Connectivity earnings. Our TP of S\$8.05 implies 16x FY23 PE and 1.3x P/BV. We believe 40% of the upside will be driven by earnings growth of 12% CAGR while the remaining 60% will be on multiple re-rating from 1.1x towards 1.3x P/BV.

Key Risks

Slower-than-expected AUM growth, revaluation loss, and impairment of non-core assets pose downside risks to our forecasts.

At A Glance

Issued Capital (m shrs)	1,762
Mkt. Cap (S\$m/US\$m)	11,014 / 8,019
Major Shareholders (%)	
Temasek Holdings Pte	21.3
BlackRock Inc	5.0
Free Float (%)	73.7
3m Avg. Daily Val (US\$m)	18.9
GIC Industry : Industrials / Capital Goods	



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WHAT'S NEW

Steady 3Q performance

9M23 core revenue grew 5% y-o-y to S\$5.3bn. Both 3Q23 and 9M23 net profit were higher y-o-y with stellar performance from Infrastructure and Connectivity segments. CFO will be retiring end of this year, to be succeeded by current deputy CFO.

Singapore Power business under the spotlight. Infrastructure segment, in particular **the Integrated Power Operations, was the star performer** in 1H23, offsetting the weakness in the Real Estate segment. There were concerns on the profitability of Singapore power earnings in 3Q23, in view of the decline in Uniform Singapore Energy Price (USEP, -35% y-o-y; -44% relative to 1H23 average) following government measures to reduce electricity price volatility.

Management guided that **at least 60-65% of power capacity (total 1.3GW) is contracted** and assured that **spreads remained fairly steady in 3Q23**, which translated to **higher power earnings y-o-y** despite the decline in USEP (and thus revenue). This is attributable to improvement in efficiency and their proprietary ways of managing their generation and sale of electricity.

Low carbon energy importation was in focus as well given Keppel's license to import ~1.4GW of low carbon energy (c.35% of Singapore's 4GW target by 2030) from neighbouring countries such as Cambodia, Indonesia, Malaysia and Laos. This is still at a preliminary stage and details on importation plans and capex were not disclosed. In terms of clean energy, Keppel also has ~3.0GW renewable energy portfolio, largely in Europe. Of which 65% is solar, 32% wind and 3% hydro.

9M23 segmental revenue

S\$m	9M22	9M23
Group		
Revenue	5,016	5,274
Infrastructure	3,202	3,560
Real Estate	835	650
Connectivity	979	1,060
Corporate activities	-	4
	9M Lower	9M Higher
Net Profit	yoy	yoy
Net Gearing	0.79	0.89

Source: Company, DBS Bank

Real Estate in China remains challenging though, we are seeing light at the end of tunnel. Home sales rose 55% y-o-y to 2,620 units in 9M23, driven largely by China and India, which both saw nearly doubling of home sales to 1,460 and 1,030 units respectively. It successfully sold two plot of lands at Tianjin Eco-city, one of which recorded S\$14m profit in 1H23 and the other plot is expected to fetch a similar profit in 2H23.

Net gearing increased slightly to 0.89x, from 0.86x as of end Jun-2023 and 0.78x as of end 2022. This could head higher marginally by 0.02x post distribution of KREIT shares due to lower Group book value. Management is mindful of the gearing level and aims to keep net gearing below 1x.

Outperformed its asset monetisation target. Keppel has announced S\$865m worth of divestments YTD (including S\$323m from KREIT distribution), lifting total assets monetized to S\$5.3bn, outpacing the target of S\$3-5bn by year end. Keppel continues to work towards achieving S\$10-12bn of divestments by end of 2026.

Special dividend for KREIT shares goes ex on 25 Oct. The proposed special dividend for KREIT shares, in conjunction with Keppel's 55th year anniversary, was approved at an EGM on 18-Oct. Keppel shareholders will receive 1 KREIT share for every 5 Keppel shares held as special dividend. Based on closing price of S\$0.835 on 18-Oct, the special dividend is worth c.16.7Scts / Keppel share. Post distribution, Keppel's NTA is expected to drop by S\$420m or ~24 Scts per share while P&L could register a non-cash accounting loss of ~S\$140m, which we consider it as one-off.

We have lowered our FY23/24F earnings forecasts by 1/5% and TP by 25 Scts/share to account for the KREIT distribution and adjustment in listed REITs' forecasts and TPs.

Promising dividends; no further plans for share buyback. Besides KREIT's dividend-in-specie, Keppel has also paid 15 Scts interim dividend. Assuming a similar final dividend, total cash dividend payout for 2023F would amount to 30 Scts, implying decent 4.8% dividend yield (excl KREIT special dividend). Management sees no pressing need to extend share buyback program at this point.

Retirement of CFO. Mr. Chan Hon Chew will be retiring on 31-Dec-2023 after serving as CFO of Keppel for c.10-years. Current deputy CFO, Mr. Kevin Chng will succeed him as new CFO. Mr Chng joined Keppel in 2016 and had held various senior positions including GM of Group Risk and Compliance and CFO of Keppel O&M. We find comfort that Keppel has placed much emphasis on senior

leadership succession plans and thus not expecting operational disruption following the retirement of Mr Chan.

Asset Management made two acquisitions for the education fund and achieved encouraging first closing of Infrastructure fund in Oct-2023. Next in line would be the first close for Keppel Sustainable Urban Renewal (SUR) Fund. There are also new funds for infrastructure, data centres and debt planned for launch in the next 2 years. In terms of deployment, there is a robust deal pipeline with over S\$13bn of assets and M&A deals being pursued across Infrastructure, Real Estate, and Connectivity.

Keppel Core Infrastructure Fund (KCIF), its flagship open-ended infrastructure fund with an initial target size of US\$2.5bn, has successfully achieved its first closing with initial capital and co-investment commitments of US\$575m, as announced in a press release on 13-Oct. The robust demand reflects the appeal of critical infrastructure assets with inflation-protected cash flows.

Keppel Education Asset Fund (KEAF) acquires two assets in Sydney. On 12-Oct, Keppel announced that its private fund – KEAF - has acquired two assets in Sydney for A\$198m (approx. S\$175m), lifting Keppel's portfolio of assets in Australia to A\$4.8bn (approx. S\$4.3bn; assets in the key cities of Sydney, Melbourne and Perth, including infrastructure, prime commercial assets and data centres).

Adding on to KEAF's existing two education assets in Singapore and Japan, the two newly acquired assets in Sydney are:

- 1) **An existing purpose-built campus** strategically located in Kensington, which is a 15-minute drive or 20 minutes by light rail to the Sydney central business district. The property with total net lettable area of approx. **10,700 sm** is currently **fully leased to the University of New South Wales (UNSW)** on a long-term basis.

- 2) A seven-storey commercial building in North Sydney to be acquired under a forward purchase agreement. Extensive asset enhancements would be carried out to the **existing building to upgrade and convert it to a K12 independent school campus**, which will yield a total net lettable area of approx. **9,150 sm**. Located within the Ward Street Precinct in the heart of the North Sydney central business district, the property is well connected by major arterial roads and public transportation nodes with the soon-to-be-completed Victoria Cross metro station. **The property comes with pre-commitment from a leading global operator of premium schools for a long-term lease.**

Launched in 2020, backed by institutional investors, KEAF aims to make strategic investments in education-related assets, including those in the kindergarten to 12th grade (K12), higher education as well as research and tertiary education segments in the Asia Pacific. Keppel, as the sponsor, committed US\$50m investment to KEAF.

Company Background

Keppel is an asset manager and operator, focusing on green investment in real estate, infrastructure, connectivity, and alternative assets. Asset Management and Urban development account for 30-40% of group profit each while Energy & Environmental c20% and Connectivity c.5%. Corporate & others take the remaining 3-5%. It possesses unique value proposition and strong market leadership with its integrated business model, functioning as an eco-system of companies, providing end-to-end solutions for sustainable urbanisation. It has maintained AAA MSCI rating since 2020.

SOTP-based Valuation

	Net Profit	PE Multiple	Valuation		Methodology
	FY23F	(x)	(\$ m)	(\$/share)	
Asset Management	301	17	5,244	2.88	
Keppel Capital & Private Funds	125	18	2,243	1.23	18x PE
REIT & Trusts	177	17	3,001	1.65	DBS's TP
Urban Development	354	20	7,147	3.93	
Keppel Land	314	21	6,507	3.57	25% discount to RNAV
Tianjin Eco-City	40	16	639	0.35	DCF (10% WACC)
Energy & Environment	197	9	1,792	0.98	9x PE
Connectivity	53	9	473	0.26	9x PE
Total SOTP valuation			14,655	8.05	

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

Keppel Corporation

Peer comparison

Company	Last Px (LC)	Market cap (US\$m)	P/E				ROE (%)		Div Yld (%)	
			FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	Current	Current
Blackstone	105.13	127,784	24.8x	18.0x	9.8x	8.8x	46.7%	62.4%	0.5x	3.3%
Brookfield Asset Management	31.98	13,196	24.3x	20.3x	na	na	na	na	CASH	3.0%
Cohen & Steers	59.67	2,932	20.7x	18.9x	na	na	42.2%	45.7%	CASH	3.8%
GoodMan Group	21.51	25,932	20.4x	18.5x	2.0x	1.8x	10.4%	10.3%	0.1x	1.4%
Charter Hall Group	9.25	2,776	12.1x	10.7x	1.4x	1.3x	11.1%	12.3%	0.0x	5.5%
ESR Cayman	11.00	6,142	11.0x	9.5x	0.7x	0.6x	6.4%	7.0%	0.4x	2.3%
Capitaland Investment	3.05	11,403	18.0x	14.9x	1.0x	1.0x	5.7%	6.5%	0.5x	3.9%
Keppel Corp	6.57	8,460	4.7x	12.3x	1.1x	1.0x	8.3%	8.9%	0.8x	5.0%
		Average:	17.0x	15.4x	2.7x	2.4x	18.7%	21.9%	0.4x	3.5%
		Median:	19.2x	16.4x	1.2x	1.2x	10.4%	10.3%	0.4x	3.5%

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

Historical PE and PB band



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

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Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Energy & Environment	3,943	3,560	4,229	3,933	4,130
Urban Development	1,275	1,629	904	1,084	1,301
Connectivity	1,220	1,260	1,291	1,356	1,424
Asset Management	135	162	195	249	318
Others	1.00	0.0	0.48	0.0	0.0
Total	6,574	6,611	6,620	6,622	7,173
Net Profit (\$m)					
Energy & Environment	(1,181)	(189)	173	197	223
Urban Development	438	763	282	354	393
Connectivity	13.0	64.0	37.2	52.5	60.8
Asset Management	280	301	311	301	340
Others	(56.0)	308	36.5	6.01	(15.3)
Total	(506)	1,247	839	910	1,001
Net Profit Margins (%)					
Energy & Environment	(30.0)	(5.3)	4.1	5.0	5.4
Urban Development	34.4	46.8	31.2	32.6	30.2
Connectivity	1.1	5.1	2.9	3.9	4.3
Asset Management	207.4	185.9	159.4	121.1	106.8
Others	N/A	N/A	N/A	N/A	N/A
Total	(7.7)	18.9	12.7	13.7	14.0

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	6,574	6,611	6,620	6,622	7,173
Cost of Goods Sold	(4,591)	(5,082)	(5,174)	(4,966)	(5,308)
Gross Profit	1,983	1,529	1,445	1,656	1,865
Other Opng (Exp)/Inc	(1,975)	(400)	(880)	(914)	(993)
Operating Profit	8.40	1,129	565	742	871
Other Non Opg (Exp)/Inc	29.4	105	48.5	66.2	71.7
Associates & JV Inc	(162)	459	536	517	566
Net Interest (Exp)/Inc	(130)	(81.8)	(54.8)	(156)	(224)
Exceptional Gain/(Loss)	0.0	(226)	83.1	3,182	0.0
Pre-tax Profit	(255)	1,385	1,178	4,350	1,285
Tax	(253)	(375)	(245)	(240)	(263)
Minority Interest	2.23	11.5	(10.8)	(18.6)	(20.4)
Preference Dividend	0.0	(3.4)	(11.6)	0.0	0.0
Net Profit	(506)	1,018	910	4,092	1,001
Net Profit before Except.	(506)	1,244	827	910	1,001
EBITDA	289	1,984	1,356	1,543	1,742
Growth					
Revenue Gth (%)	(13.3)	0.6	0.1	0.0	8.3
EBITDA Gth (%)	(80.3)	586.4	(31.6)	13.8	12.9
Opg Profit Gth (%)	(99.0)	13,342.7	(50.0)	31.2	17.5
Net Profit Gth (Pre-ex) (%)	nm	nm	(33.5)	10.0	10.0
Margins & Ratio					
Gross Margins (%)	30.2	23.1	21.8	25.0	26.0
Opg Profit Margin (%)	0.1	17.1	8.5	11.2	12.2
Net Profit Margin (%)	(7.7)	15.4	13.8	61.8	14.0
ROAE (%)	(4.6)	9.1	8.0	37.9	9.4
ROA (%)	(1.6)	3.2	2.9	14.4	3.8
ROCE (%)	0.0	3.3	1.8	3.1	3.1
Div Payout Ratio (%)	N/A	59.0	66.0	13.3	60.0
Net Interest Cover (x)	0.1	13.8	10.3	4.7	3.9

Source: Company, DBS Bank

Keppel Corporation

Interim Income Statement (\$\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	3,677	2,934	3,356	3,264	3,716
Cost of Goods Sold	(2,639)	(2,443)	(2,644)	(2,530)	(2,678)
Gross Profit	1,038	491	712	734	1,038
Other Oper. (Exp)/Inc	(850)	450	(357)	(523)	(466)
Operating Profit	188	941	355	210	572
Other Non Opg (Exp)/Inc	83.8	21.1	24.2	24.3	31.4
Associates & JV Inc	315	144	203	333	122
Net Interest (Exp)/Inc	(70.7)	(11.1)	(31.4)	(23.4)	(122)
Exceptional Gain/(Loss)	0.0	(226)	62.5	20.5	3,182
Pre-tax Profit	516	870	613	565	3,784
Tax	(219)	(156)	(110)	(135)	(140)
Minority Interest	2.95	8.56	(6.6)	(4.2)	(12.0)
Net Profit	300	722	497	425	3,638
Net profit bef Except.	300	948	434	405	456
EBITDA	783	1,200	684	672	825

Growth

Revenue Gth (%)	8.4	(20.2)	14.4	(2.7)	13.8
EBITDA Gth (%)	99.2	53.3	(43.0)	(1.7)	22.8
Opg Profit Gth (%)	19.1	400.6	(62.3)	(40.7)	171.7
Net Profit Gth (%)	858.7	140.7	(31.2)	(14.4)	755.3

Margins

Gross Margins (%)	28.2	16.7	21.2	22.5	27.9
Opg Profit Margins (%)	5.1	32.1	10.6	6.4	15.4
Net Profit Margins (%)	8.2	24.6	14.8	13.0	97.9

Balance Sheet (\$\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	2,716	2,044	977	1,057	1,122
Invts in Associates & JVs	5,991	6,050	6,662	7,227	7,839
Other LT Assets	9,011	9,383	8,416	8,416	8,416
Cash & ST Invts	2,614	3,644	1,191	836	589
Inventory	7,617	7,774	2,557	2,472	2,678
Debtors	2,531	2,169	1,228	1,228	1,330
Other Current Assets	1,627	1,260	9,904	4,585	4,585
Total Assets	32,106	32,323	30,935	25,822	26,559
ST Debt	4,433	4,749	3,614	3,614	3,614
Creditor	4,604	4,957	2,786	2,649	2,869
Other Current Liab	3,050	2,129	4,960	717	758
LT Debt	7,607	7,268	6,766	6,766	6,766
Other LT Liabilities	1,257	778	896	896	896
Shareholder's Equity	10,728	11,655	11,178	10,427	10,882
Minority Interests	427	786	735	754	774
Total Cap. & Liab.	32,106	32,323	30,935	25,822	26,559
Non-Cash Wkg. Capital	4,120	4,116	5,943	4,920	4,967
Net Cash/(Debt)	(9,425)	(8,373)	(9,189)	(9,544)	(9,791)
Debtors Turn (avg days)	146.6	129.7	93.6	67.7	65.1
Creditors Turn (avg days)	402.3	364.2	284.5	208.9	198.4
Inventory Turn (avg days)	727.6	586.2	379.5	193.3	185.2
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.3
Current Ratio (x)	1.2	1.3	1.3	1.3	1.3
Quick Ratio (x)	0.4	0.5	0.2	0.3	0.3
Net Debt/Equity (X)	0.8	0.7	0.8	0.9	0.8
Net Debt/Equity ex MI (X)	0.9	0.7	0.8	0.9	0.9
Capex to Debt (%)	4.0	(1.1)	5.9	2.9	2.9

Source: Company, DBS Bank

Keppel Corporation

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	(255)	1,385	1,178	4,350	1,285
Dep. & Amort.	414	406	242	219	233
Tax Paid	(177)	(260)	(388)	(259)	(240)
Assoc. & JV Inc/(loss)	162	(459)	(536)	(517)	(566)
Chg in Wkg.Cap.	595	(263)	426	1,042	(70.0)
Other Operating CF	(536)	(1,162)	(662)	0.0	0.0
Net Operating CF	202	(352)	260	4,835	643
Capital Exp.(net)	(484)	137	(613)	(299)	(298)
Other Invt.(net)	332	1,146	579	0.0	0.0
Invt. in Assoc. & JV	(367)	513	(676)	(249)	(248)
Div from Assoc & JV	245	311	331	201	202
Other Investing CF	0.0	0.0	(288)	0.0	0.0
Net Investing CF	(274)	2,108	(667)	(347)	(344)
Div Paid	(297)	(357)	(676)	(601)	(546)
Chg in Gross Debt	1,081	(599)	(1,637)	0.0	0.0
Capital Issues	0.0	398	0.0	0.0	0.0
Other Financing CF	0.22	(115)	416	(4,242)	0.0
Net Financing CF	784	(673)	(1,897)	(4,843)	(546)
Currency Adjustments	(9.8)	53.4	(170)	0.0	0.0
Chg in Cash	702	1,137	(2,474)	(355)	(247)
Opg CFPS (S cts)	(21.6)	(4.9)	(9.1)	208	39.2
Free CFPS (S cts)	(15.5)	(11.8)	(19.4)	249	18.9

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	17 Apr 23	6.05	8.30	BUY
2:	28 Jul 23	7.20	8.30	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

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

Completed Date: 20 Oct 2023 07:34:26 (SGT)

Dissemination Date: 20 Oct 2023 08:05:58 (SGT)

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: indonesiaresearch@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
Securities and Exchange Commission, Thailand