

Singapore Company Update

Sembcorp Industries

Bloomberg: **SCI SP** | Reuters: **SCIL.SI**

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Feb 2024

BUY

Last Traded Price (20 Feb 2024): S\$5.81 (STI : 3,244.06)

Price Target 12-mth: S\$7.15 (23% upside)

Analyst

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

What's New

- FY23 core profit of S\$1bn slightly above expectations, thanks to strong Singapore power earnings
- Renewable segment saw 42% y-o-y jump in net profit; sustainable solutions contributed to c.30% of group profit
- Renewable installed capacity to rise 28% in 2024; mitigates impact of 60-day scheduled maintenance of Singapore power plants in 1H24
- Declared 8 Sct final dividend, translating to over 2% dividend yield; reiterate BUY and TP S\$7.15

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Revenue	7,825	7,042	6,955	6,911
EBITDA	1,778	1,993	2,014	2,156
Pre-tax Profit	1,009	1,153	1,186	1,329
Net Profit	848	942	912	1,008
Net Pft (Pre Ex.)	883	976	912	1,008
Net Pft Gth (Pre-ex) (%)	87.1	10.5	(6.6)	10.6
EPS (S cts)	47.4	52.6	50.9	56.3
EPS Pre Ex. (S cts)	49.3	54.5	50.9	56.3
EPS Gth Pre Ex (%)	87	10	(7)	11
Diluted EPS (S cts)	47.4	52.6	50.9	56.3
Net DPS (S cts)	12.0	13.0	13.0	13.0
BV Per Share (S cts)	222	256	294	337
PE (X)	12.3	11.0	11.4	10.3
PE Pre Ex. (X)	11.8	10.7	11.4	10.3
P/Cash Flow (X)	6.3	7.0	7.0	8.4
EV/EBITDA (X)	9.3	8.6	8.6	8.3
Net Div Yield (%)	2.1	2.2	2.2	2.2
P/Book Value (X)	2.6	2.3	2.0	1.7
Net Debt/Equity (X)	1.4	1.3	1.2	1.1
ROAE (%)	21.9	22.0	18.5	17.8
Earnings Rev (%):			-	8
Consensus EPS (S cts):			50.5	53.0
Other Broker Recs:		B: 11	S: 0	H: 1

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

Igniting the renewable spark

Investment Thesis:

A leading energy transition player in Asia – particularly China, India, and Southeast Asia – Sembcorp Industries (SCI) is uniquely positioned in the energy transition drive, with a full suite of competitive and green energy solutions. After quadrupling its installed renewable capacity in three years to ~10GW by end-2023, SCI now aims to raise its capacity 2.5-fold to c.25GW by 2028, representing over 80% of its total power portfolio.

Renewable on fast growth track. While its gearing level has been relatively high, SCI has strong operating cash flow, good access to project financing for renewable projects, as well as the flexibility to recycle capital through the securitisation of assets/partnerships. These allow it to continue self-funding the five-year growth plan without the need for equity fundraising (EFR). Based on projections, the renewable segment could see profit rising at a 25% CAGR during 2022-2028, driving a >7.5% group profit CAGR during 2024-2028. Renewable and urban solutions could accumulatively contribute 55%-60% to group profit.

Steadier earnings growth and execution of five-year roadmap are key catalysts. Gas-related assets are expected to see a milder-than-expected decline of 2% in profit during 2022-2028, thanks to SCI's remarkable shift towards locking in more long-term PPAs from 3Q23, leaving spot exposure of only <5%. Coupled with upstream gas hedges, SCI will deliver more predictable and stable Singapore power earnings ahead, eliminating an earnings risk concern. The growing renewable energy portfolio with accretive acquisitions remains the key share price driver for SCI in the current phase. In addition, continuous earnings delivery from the renewable energy portfolio is also critical to strengthening investor confidence. Efficient capital recycling to free up cash would also cheer up the market.

Reiterate BUY; TP S\$7.15, based on a 14x FY24PE, in line with regional peers' average. This implies a 23% upside potential. We believe 40% of the rerating could come from the ~25% six-year CAGR in renewable profit and 60% from an uplift in the valuation multiple from a 11x PE to 14x PE, on the back of 1) accretive renewable acquisitions and 2) steady earnings delivery.

Key Risks

Key risks to earnings are interest rate spikes and execution hiccups in the company's renewable energy plans.

At A Glance

Issued Capital (m shrs)	1,786
Mkt. Cap (S\$m/US\$m)	10,375 / 7,722
Major Shareholders (%)	
Temasek Holdings Pte	49.5
Free Float (%)	50.5
3m Avg. Daily Val (US\$m)	12.2
GIC Industry : Industrials / Capital Goods	



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WHAT'S NEW

Record profit in FY23

A steady 2H23. SCI's FY23 core profit (excl. SEIL divestment loss of S\$78m) of S\$1bn is 5% above our estimate. The outperformance was attributable to stronger-than-expected gas & related services, especially Singapore power. Net profit for the gas segment was down a slight S\$60m or c.15% h-o-h to S\$374m in 2H23, despite a sharp decline in the Uniform Singapore Energy Price (USEP), as the group shifted away from the volatile merchant market.

Gas and related services were the star performer. Gas segment contributed S\$809m (+34% y-o-y) in net profit in FY23, making up c.72% of group profit. Of this, c.80% came from the Singapore power business.

The steady 2H23 gas earnings, down by a slight 15% h-o-h to S\$374m, despite the much steeper decline of 45% in the USEP, vindicates management's guidance of more predictable and steady power earnings ahead, with measures in place to mitigate merchant risk.

This includes: 1) **>95% contraction of capacity** from 2H23 (average tenure of 12 years), lifted from two-thirds previously, with the commencement of long-term PPAs with [Micron](#) (18-year PPA to supply up to 450MW of power, with 350MW starting in 2H23); [Singtel](#) (10-year PPA @ S\$180m pa from 1 Oct, we estimate that it takes up around 90-100MW capacity); and [ST Telemedia](#) (8-10-year PPAs for up to 100MW). 2) **Effective hedges** against gas price fluctuations, especially contracts with no cost pass-through. We believe **2H23 is a good reference point** for normalised Singapore power earnings ahead.

Plant maintenance and retirement. Management guided that two-thirds of Singapore's power capacity will undergo a major scheduled plant maintenance for 60 days in 1H24. We estimate that this could impact the bottom line by c.S\$70m in FY24. In addition, Phu My 3 power plant in Vietnam will be returned to the government from end-Feb 2024, reducing annual profit by c.S\$10m. Taking these into consideration, gas-related profit could hover around S\$670m in F24F and rebound to ~S\$700m in FY25F, backed by long-term PPAs.

Commendable renewable performance. Net profit for the renewable segment rose 42% y-o-y to S\$200m in FY23 (vs. S\$133m for FY22), driven largely by acquisitions in China and India as well as the new energy storage system. The segment contributed c.20% to group profit.

40% growth in renewable installed capacity next 2 years. Gross installed capacity totalled 9.4GW (6.1GW attributable to SCI) as of end-Dec 2023 with an additional 4GW capacity under development and expected to come online in the next two years. This shall drive c.40% growth in renewable installed capacity and organic growth over the next two to three years.

Integrated Urban Solutions is recovering. Net profit saw sequential improvement in 2H23 (+45% h-o-h from a low base), with full-year profit contributions of S\$121m (-19% y-o-y). While land sales increased 44% y-o-y to 248ha, growth came largely from lower margin industrial lands. We expect the land sales momentum to continue in Vietnam, driven by the China+1 initiatives.

Decent dividends. SCI declared 8 Scts/share final dividend, bringing full-year dividends to 13 Scts/share (vs. 12 Scts in FY2022), in line with its 23% payout ratio. This translates to a decent dividend yield of over 2%.

Earnings revisions. While spark spread for Singapore power is stronger-than-expected, we are keeping our FY24F estimate largely intact due to the earnings impact from maintenance shutdown. We believe spark spread will stay elevated into 2025 in view of the high contracted capacity and thus are raising our FY25F net profit forecasts by 4%.

Looking ahead, **we believe SCI could deliver 5-year CAGR of ~5% from FY23 profit** of ~S\$950m, based on targets set in their investor day in Nov 2023. Renewable could grow at 25% CAGR if achieving 25GW target by 2028, implying ~S\$500m profit. Gas and Related earnings could normalise to ~S\$550-600m by 2028 on spark spread normalisation. There could be upside to this as Sakra plant is assumed to run as backup capacity.

Company Background

Sembcorp Industries (SCI) is a trusted provider of essential energy and water solutions to both industrial and municipal customers. It has facilities with over 16GW of gross power capacity and c.9m cubic metres of water per day in operation and under development. It is also an established brand name in the urban development space (comprising industrial parks as well as business, commercial, and residential space) in Vietnam, China, and Indonesia.

Sembcorp Industries

Segmental Breakdown

	Interim				Annual	
	1H22	2H22	1H23	2H23	2022	2023
Core Profit						
Gas and Related Services	296	307	435	374	603	809
Renewables	76	57	120	78	133	198
Integrated Urban Solutions	63	80	54	72	143	126
Decarbonisation Solutions	(1)	(3)	(3)	(7)	(4)	(10)
Others / Corporate	(0)	(27)	2	(101)	(27)	(99)
Total Net Profit	434	414	608	412	848	1,020

Source: Company, DBS Bank Ltd

Interim Income Statement (\$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Revenue	3,070	3,658	3,384	10.2	(7.5)
Cost of Goods Sold	(2,520)	(2,826)	(2,643)	4.9	(6.5)
Gross Profit	550	832	741	34.7	(10.9)
Other Oper. (Exp)/Inc	(143)	(190)	(284)	98.6	49.5
Operating Profit	407	642	457	12.3	(28.8)
Other Non Opg (Exp)/Inc	25	131	44	76.0	(66.4)
Associates & JV Inc	115	146	118	2.6	(19.2)
Net Interest (Exp)/Inc	(95)	(176)	(176)	(85.3)	nm
Exceptional Gain/(Loss)	(35)	0	(34)	2.9	nm
Pre-tax Profit	417	743	409	(1.9)	(45.0)
Tax	(45)	(121)	(61)	35.6	(49.6)
Minority Interest	(14)	(14)	(14)	nm	nm
Net Profit	358	608	334	(6.7)	(45.1)
Net profit bef Except.	393	608	368	(6.4)	(39.5)
EBITDA	547	919	619	13.2	(32.6)
Margins (%)					
Gross Margins	17.9	22.7	21.9		
Opg Profit Margins	13.3	17.6	13.5		
Net Profit Margins	11.7	16.6	9.9		

Source of all data: Company, DBS Bank Ltd

Sembcorp Industries

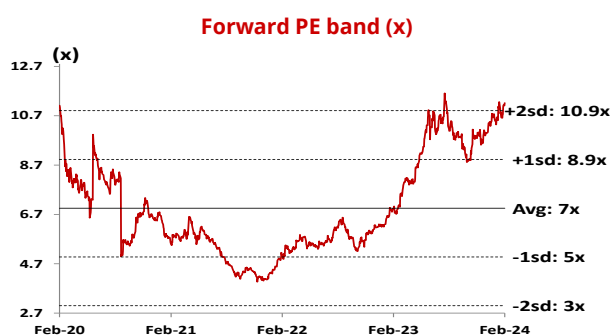
Peer comparison

Company	Market cap (US\$m)	P/E ratio (x)		EV-to-EBITDA (x)		P/B (x)		Core ROE (%)		Net Debt-to-EBITDA (x)		Dividend Yield	
		CY23F	CY24F	CY23F	CY24F	CY23F	CY24F	CY23F	CY24F	Equity (x)	(x)	CY23F	CY24F
Power Producer													
NEXTERA ENERGY	113,793	18.0x	16.5x	13.9x	13.5x	2.4x	2.3x	14.1%	15.4%	1.2x	4.3x	3.4%	3.7%
IBERDROLA SA	74,665	14.4x	13.9x	9.0x	8.9x	1.5x	1.4x	11.0%	10.9%	0.8x	4.1x	4.9%	5.1%
ENEL SPA	66,486	9.4x	9.1x	6.1x	5.8x	1.9x	1.7x	21.3%	20.5%	1.8x	2.9x	7.1%	7.4%
ORSTED A/S	23,383	nm	18.6x	12.2x	9.8x	2.4x	2.2x	-33.0%	13.9%	0.3x	nm	3.7%	3.6%
ENGIE	38,331	6.7x	8.4x	4.8x	5.6x	1.1x	1.0x	15.5%	12.8%	0.6x	nm	9.8%	8.2%
RWE AG	26,524	5.8x	11.3x	4.2x	6.2x	0.8x	0.7x	13.9%	6.9%	0.0x	0.8x	3.0%	3.3%
EDP RENOVAVEIS S	15,892	25.9x	24.1x	11.4x	10.8x	1.4x	1.4x	5.2%	5.5%	0.6x	3.9x	1.4%	1.6%
AVANGRID INC	11,719	14.7x	13.5x	10.9x	11.0x	0.6x	0.6x	3.9%	4.6%	0.5x	6.0x	5.8%	5.8%
BROOKFIELD RENEW	16,441	nm	na	30.4x	29.4x	2.7x	3.3x	-0.9%	-4.1%	1.0x	9.2x	5.4%	5.7%
CLEARWAY ENERG-C	4,618	47.5x	17.8x	12.1x	11.2x	1.4x	1.4x	6.7%	10.8%	1.7x	7.5x	6.6%	7.1%
ATLANTICA SUSTAI	2,191	70.4x	36.8x	9.3x	8.6x	1.4x	1.5x	3.3%	4.2%	2.5x	5.1x	9.5%	9.6%
CHINA LONGYUAN-H	14,836	4.8x	4.1x	8.8x	8.4x	0.5x	0.5x	11%	11%	1.3x	4.6x	4.1%	4.8%
CHINA DATANG C-H	1,600	4.1x	3.9x	7.5x	8.1x	0.6x	0.6x	14%	14%	1.5x	4.4x	3.0%	3.2%
CECEP WIND POW-A	2,747	12.7x	10.9x	nm	nm	1.0x	0.8x	8%	8%	1.1x	nm	nm	nm
GUANGXI GUIGAN-A	6,074	26.6x	14.3x	nm	nm	2.4x	2.2x	7.7%	15.5%	0.9x	nm	2.3%	5.1%
TATA POWER CO	15,185	33.7x	29.0x	16.4x	14.8x	4.0x	3.6x	12%	12%	1.2x	5.3x	0.6%	0.7%
TORRENT POWER LT	6,834	27.4x	20.1x	12.4x	11.3x	4.5x	3.9x	18%	20%	0.8x	2.0x	1.5%	1.4%
JSW ENERGY LTD	10,010	46.3x	32.0x	17.8x	13.4x	4.1x	3.7x	9%	12%	1.1x	6.1x	0.5%	0.5%
ENERGY ABSOLUTE	4,288	18.6x	18.9x	14.6x	13.9x	3.2x	2.8x	19.1%	16.1%	1.2x	4.3x	1.2%	1.1%
BCPG PCL	696	18.4x	16.8x	12.2x	10.2x	0.8x	0.8x	4.4%	6.9%	0.2x	6.8x	3.3%	4.2%
ACEN CORP	3,120	21.6x	16.8x	40.2x	24.3x	1.2x	1.2x	5.4%	7.4%	0.0x	nm	1.0%	1.2%
SEMBCORP INDUS	7,356	10.5x	11.2x	9.3x	9.3x	2.0x	1.8x	21.6%	17.5%	1.4x	4.4x	2.3%	2.1%

Average

Asia Average	20.6x	15.9x	15.6x	12.5x	2.1x	1.9x	11.1%	12.5%	1.0x	4.7x	2%	2%
US & Europe	23.6x	17.0x	11.3x	11.0x	1.6x	1.6x	5.5%	9.2%	1.0x	4.9x	6%	6%

Historical PE and PB band



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



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

Sembcorp Industries

Segmental Breakdown

FY Dec	2022A	2023A	2024F	2025F
Revenues (\$m)				
Gas and Related Services	6,547	5,457	5,184	4,925
Renewables	506	703	844	1,012
Integrated Urban	444	418	439	461
Decarbonisation	3.00	16.0	17.6	19.4
Others	328	448	470	494
Total	7,828	7,042	6,955	6,911
Net Profit (\$m)				
Gas and Related Services	603	809	668	701
Renewables	133	198	227	272
Integrated Urban	143	126	139	146
Decarbonisation	(4.0)	(10.0)	(12.0)	(10.0)
Others	(27.0)	(177)	(111)	(101)
Total	848	942	912	1,008
Net Profit Margins (%)				
Gas and Related Services	9.2	14.8	12.9	14.2
Renewables	26.3	28.2	26.9	26.9
Integrated Urban	32.2	30.1	31.6	31.6
Decarbonisation	(133.3)	(62.5)	(68.2)	(51.7)
Others	(8.2)	(39.5)	(23.5)	(20.4)
Total	10.8	13.4	13.1	14.6

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	6,408	7,825	7,042	6,955	6,911
Cost of Goods Sold	(5,396)	(6,598)	(5,469)	(5,491)	(5,339)
Gross Profit	1,012	1,227	1,573	1,463	1,572
Other Opng (Exp)/Inc	(279)	(186)	(474)	(317)	(294)
Operating Profit	733	1,041	1,099	1,146	1,278
Other Non Opng (Exp)/Inc	(197)	28.0	175	130	119
Associates & JV Inc	206	248	264	274	283
Net Interest (Exp)/Inc	(275)	(273)	(352)	(365)	(354)
Exceptional Gain/(Loss)	(193)	(35.0)	(34.0)	0.0	0.0
Pre-tax Profit	274	1,009	1,153	1,186	1,329
Tax	(123)	(138)	(182)	(237)	(265)
Minority Interest	128	(23.0)	(28.0)	(35.5)	(53.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	279	848	942	912	1,008
Net Profit before Except.	472	883	976	912	1,008
EBITDA	1,199	1,778	1,993	2,014	2,156
Growth					
Revenue Gth (%)	17.6	22.1	(10.0)	(1.2)	(0.6)
EBITDA Gth (%)	(5.1)	48.3	12.1	1.1	7.0
Opg Profit Gth (%)	2.8	42.0	5.6	4.3	11.5
Net Profit Gth (Pre-ex) (%)	56.8	87.1	10.5	(6.6)	10.6
Margins & Ratio					
Gross Margins (%)	15.8	15.7	22.3	21.0	22.7
Opg Profit Margin (%)	11.4	13.3	15.6	16.5	18.5
Net Profit Margin (%)	4.4	10.8	13.4	13.1	14.6
ROAE (%)	7.9	21.9	22.0	18.5	17.8
ROA (%)	2.0	5.6	6.0	5.7	6.0
ROCE (%)	1.6	5.0	4.9	4.0	4.5
Div Payout Ratio (%)	32.1	25.3	24.7	25.5	23.1
Net Interest Cover (x)	2.7	3.8	3.1	3.1	3.6

Source: Company, DBS Bank Ltd

Sembcorp Industries

Balance Sheet (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	7,094	5,305	6,465	7,502	8,530
Invt in Associates & JVs	1,600	2,287	2,396	2,570	2,753
Other LT Assets	1,768	1,920	3,930	3,930	3,930
Cash & ST Invt	1,344	1,254	767	812	622
Inventory	222	137	135	137	133
Debtors	1,986	1,564	1,674	1,211	1,203
Other Current Assets	381	3,553	130	130	130
Total Assets	14,395	16,020	15,497	16,290	17,301
ST Debt	754	1,096	1,281	1,281	1,281
Creditor	1,708	1,715	1,630	1,679	1,633
Other Current Liab	443	2,010	565	395	423
LT Debt	6,637	5,974	5,973	6,173	6,373
Other LT Liabilities	935	1,009	1,176	1,176	1,176
Shareholder's Equity	3,767	3,977	4,588	5,267	6,042
Minority Interests	151	239	284	320	373
Total Cap. & Liab.	14,395	16,020	15,497	16,290	17,301
Non-Cash Wkg. Capital	438	1,529	(256)	(597)	(590)
Net Cash/(Debt)	(6,047)	(5,816)	(6,487)	(6,642)	(7,032)
Debtors Turn (avg days)	101.3	82.8	83.9	75.7	63.7
Creditors Turn (avg days)	105.9	101.8	121.7	120.1	124.2
Inventory Turn (avg days)	15.4	10.7	9.9	9.9	10.1
Asset Turnover (x)	0.5	0.5	0.4	0.4	0.4
Current Ratio (x)	1.4	1.3	0.8	0.7	0.6
Quick Ratio (x)	1.1	0.6	0.7	0.6	0.5
Net Debt/Equity (X)	1.5	1.4	1.3	1.2	1.1
Net Debt/Equity ex MI (X)	1.6	1.5	1.4	1.3	1.2
Capex to Debt (%)	3.6	13.6	18.3	20.1	19.6

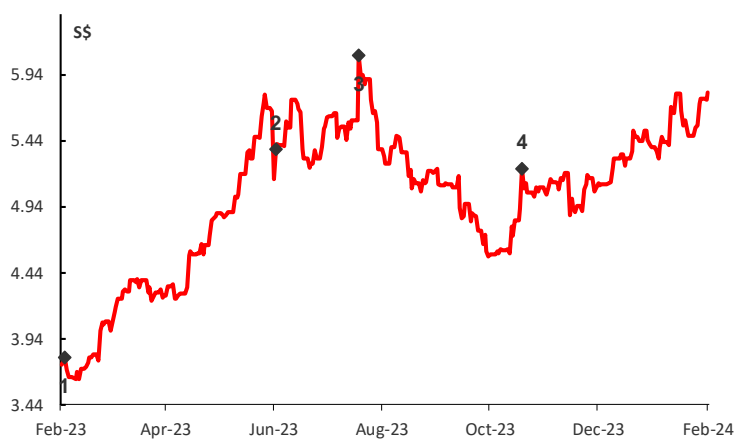
Source: Company, DBS Bank Ltd

Cash Flow Statement (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	274	1,009	1,152	1,184	1,326
Dep. & Amort.	457	461	454	463	472
Tax Paid	123	(64.0)	(190)	(236)	(237)
Assoc. & JV Inc/(loss)	(206)	(248)	(264)	(274)	(283)
Chg in Wkg.Cap.	(49.0)	24.0	(16.0)	340	(35.2)
Other Operating CF	620	470	345	0.0	0.0
Net Operating CF	1,219	1,652	1,481	1,477	1,243
Capital Exp.(net)	(265)	(958)	(1,328)	(1,500)	(1,500)
Other Invt.(net)	18.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(630)	(148)	0.0	0.0
Div from Assoc & JV	95.0	95.0	100	100	100
Other Investing CF	52.0	108	498	0.0	0.0
Net Investing CF	(100.0)	(1,385)	(878)	(1,400)	(1,400)
Div Paid	(107)	(125)	(231)	(233)	(233)
Chg in Gross Debt	(349)	310	(437)	200	200
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(375)	(463)	(404)	0.0	0.0
Net Financing CF	(831)	(278)	(1,072)	(32.8)	(32.8)
Currency Adjustments	24.0	(79.0)	(18.0)	0.0	0.0
Chg in Cash	312	(90.0)	(487)	44.6	(189)
Opg CFPS (S cts)	70.9	91.0	83.6	63.5	71.4
Free CFPS (S cts)	53.3	38.8	8.54	(1.3)	(14.3)

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



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

Source: DBS Bank Ltd

Analyst: Pei Hwa HO

DBS Bank Ltd 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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DBS Regional Research Offices
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: Andy Sim
 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
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