

Singapore Company Guide

Sunningdale Tech Ltd

Version 4 | Bloomberg: SUNN SP | Reuters: SUNN.SI

Refer to important disclosures at the end of this report

DBS Group Research. Equity

24 Apr 2018

HOLD (Downgrade from BUY)

Last Traded Price (24 Apr 2018): S\$1.47 (STI : 3,584.56)

Price Target 12-mth: S\$1.53 (4% upside) (Prev S\$2.70)

Analyst

Carmen Tay +65 6682 3719 carmentay@db.com

What's New

- 1Q18 earnings of S\$1.9m disappoints, weighed down by steeper-than-expected forex losses amounting to S\$5.2m
- Forex risks outweigh Sunningdale's perceived benefits of diversification for now
- Lower earnings projections for FY18F/19F by 33%/25% on more conservative sales and margin estimates
- Cut to HOLD and lower TP to S\$1.53; suspend coverage

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2016A	2017A	2018F	2019F
Revenue	684	725	723	746
EBITDA	73.6	72.4	67.6	75.2
Pre-tax Profit	47.2	39.4	33.1	39.5
Net Profit	39.1	31.4	26.4	31.5
Net Pft (Pre Ex.)	31.7	31.4	26.4	31.5
Net Pft Gth (Pre-ex) (%)	34.2	(1.0)	(16.0)	19.4
EPS (S cts)	20.9	16.7	13.9	16.6
EPS Pre Ex. (S cts)	16.9	16.7	13.9	16.6
EPS Gth Pre Ex (%)	33	(2)	(17)	19
Diluted EPS (S cts)	20.5	16.4	13.8	16.5
Net DPS (S cts)	6.00	7.00	7.50	7.50
BV Per Share (S cts)	188	195	200	209
PE (X)	7.0	8.8	10.6	8.8
PE Pre Ex. (X)	8.7	8.8	10.6	8.8
P/Cash Flow (X)	5.2	7.6	3.4	4.6
EV/EBITDA (X)	3.5	3.8	3.6	3.1
Net Div Yield (%)	4.1	4.8	5.1	5.1
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.5	8.7	7.1	8.1
Earnings Rev (%):				
Consensus EPS (S cts):			21.3	23.0
Other Broker Recs:		B: 3	S: 0	H: 0

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

Hit by forex volatility

Downgrade to HOLD with lower TP of S\$1.53 following a disappointing 1Q18. In 1Q18, Sunningdale's reported a 75% drop in profits to c.S\$1.9m, mainly as the group was hit by 1) steeper-than-expected forex losses of c.S\$5.2m, and 2) a dip in Consumer/IT sales.

Taking a more conservative view on growth, we have lowered our sales and margin assumptions, resulting in a 33%/25% cut to FY18F/19F earnings projections. With forex risks potentially outweighing perceived benefits of diversification over the near term, we have also lowered our valuation peg for Sunningdale from 13x to local peers' average of 11x, and arrive at a lower TP of S\$1.53. *We are also suspending coverage on the stock until a clearer re-rating catalyst emerges.*

Where we differ: While we like Sunningdale for its world-class engineering capabilities and attractive MNC client base, we believe its higher susceptibility to currency volatility could outweigh the benefits of diversification over the near term.

Potential catalysts: Sunningdale's share price could re-rate if it delivers steady earnings growth or value-accretive acquisitions.

Near-term headwinds. Near term, forex weakness and start-up losses for the upcoming Penang plant could weigh on outlook. Due to its wide geographical presence and broad client base, Sunningdale is more exposed to currency volatility as it transacts in various currencies such as USD, RMB, and MYR but reports in SGD. Its Penang plant could only see a ramp up in production late 2018/ early next year.

Valuation:

Downgrade to HOLD with a TP of S\$1.53, based on 11x FY18F PE. After cutting earnings estimates for FY18F/19F by 33%/25%, and applying a lower valuation peg of 11x, we arrive at a lower TP at S\$1.53 for the stock.

Key Risks to Our View:

Global economic slowdown could pose significant challenges to Sunningdale, especially in Consumer/IT and Automotive.

At A Glance

Issued Capital (m shrs)	189
Mkt. Cap (S\$m/US\$m)	278 / 211
Major Shareholders (%)	
Boon Hwee Koh	15.8
Yarwood Engineering And Trading	8.1
Goi Seng Hui	8.1
Free Float (%)	68.0
3m Avg. Daily Val (US\$m)	1.5
ICB Industry : Industrials / Electronic & Electrical Equipment	

WHAT'S NEW

1Q18 earnings below expectations mainly on forex drag

Results Commentary

1Q18 hit by forex volatility; earnings fall 75% y-o-y on forex loss of S\$5.2m. Revenue for the seasonally weakest 1Q18 was stable at S\$169.0m (-1.6% y-o-y, -9.7% q-o-q), forming 22% of our FY18F forecasts.

While the majority of the group's segments delivered growth, the 1) dip in Consumer/IT sales – traditionally one of Sunningdale's best-performing segments, and mainly 2) steeper-than-expected forex losses came as a disappointment:

(1) Consumer/IT: Lower contributions (-12.2% y-o-y to S\$57.8m) from Consumer/IT were attributed to the decline in demand and end-of-life for certain projects, as newer generations/projects have yet to commence their ramp-up phase.

Segmental Revenue Breakdown

Segment (S\$m)	1Q18	1Q17	% change
Automotive	69.3	67.3	2.9
Consumer / IT	57.8	65.9	-12.2
Healthcare	14.1	13.7	3.1
Mould Fabrication	27.7	24.9	11.5
TOTAL	169.0	171.8	-1.6

(2) Forex: Sunningdale transacts in various currencies such as USD, RMB, and MYR but reports in SGD. The largest currency exposure is to the USD, which we estimate represents approximately 70-80% of the group's revenue in 1Q18.

Owing to macroeconomic factors, greater-than-average fluctuations in its key functional currencies (USD, RMB, MYR) ranging between 7% and 10% during the quarter weighed heavily on both top and bottom line. As a result, forex losses for the quarter amounted to S\$5.2m, vs S\$2.2m in 1Q17, negating the bulk of Sunningdale's profits in 1Q18.

Gross profit decreased 17.2% y-o-y to \$21.4m for 1Q18. Correspondingly, gross profit margin declined to 12.7% from 15.0% for 1Q17. This was mainly due to the low utilisation levels as a result of lower orders for the Consumer/IT segment. Consequently, net profit fell 74.8% y-o-y to S\$1.9m, which only formed c.5% of our full-year forecast.

Adjusted 1Q18 net profit, which excludes foreign exchange loss, retrenchment costs and gains from the disposal of plant, property and equipment, would have been substantially higher at c.\$7.1m (25.5% y-o-y decline).

Outlook

Orderbook to remain stable. According to the company, order backlog across the Automotive, Healthcare, Consumer/IT and Mould Fabrication segments is expected to remain stable, as business queries from both new and existing customers remain healthy. Going forward, Sunningdale will continue its strategy to diversify its customer base and product mix in order to ensure the long-term sustainability of its operations.

Expect stronger 2H18; 20th manufacturing facility in Penang on schedule. Construction of the group's latest manufacturing site in Penang, Malaysia has been completed and is in the midst of doing pilot runs for mass production in the Consumer/IT segment that is scheduled for ramp-up in the second half of 2018. This new 15,000-square meter facility is strategically located in close proximity to key customers. Sunningdale will progressively add capacity to this facility with new contract wins from both new and existing customers.

Valuations

Cut to HOLD with lower TP of S\$1.53, mainly as we lower earnings projections for FY18F/19F by 33%/25%. The recent pullback in Consumer/IT sales has prompted us to be more cautious. We have cut our sales forecasts for FY18F/19F by 4.6%/5.2% respectively. After imputing lower margins and forex losses that have materialised in 1Q18, we cut FY18F/19F by 33%/25% respectively.

Given its higher exposure to currency volatility arising from its wide geographical presence and broader client base, which currently mitigates the perceived benefits of diversification, we have also lowered our valuation peg for Sunningdale from 13x to 11x, in line with local peers' average.

In view of the limited near-term catalysts and upside to our current TP of S\$1.53, we have cut our recommendation to HOLD and will suspend coverage until a clearer re-rating catalyst emerges.

Quarterly / Interim Income Statement (S\$m)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	172	187	169	(1.6)	(9.7)
Cost of Goods Sold	(146)	(162)	(148)	1.1	(8.9)
Gross Profit	25.9	25.0	21.4	(17.2)	(14.5)
Other Oper. (Exp)/Inc	(17.1)	(17.8)	(19.5)	13.5	9.5
Operating Profit	8.71	7.26	1.95	(77.6)	(73.2)
Other Non Opg (Exp)/Inc	1.60	1.69	1.51	(5.6)	(10.4)
Associates & JV Inc	0.18	0.53	0.35	98.9	(33.5)
Net Interest (Exp)/Inc	(0.7)	(0.8)	(0.9)	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	9.83	8.70	2.96	(69.9)	(66.0)
Tax	(2.1)	(1.0)	(1.0)	(52.3)	6.7
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	7.70	7.75	1.94	(74.8)	(75.0)
Net profit bef Except.	7.70	7.75	1.94	(74.8)	(75.0)
EBITDA	17.6	16.5	11.7	(33.7)	(29.2)
Margins (%)					
Gross Margins	15.0	13.4	12.7		
Opg Profit Margins	5.1	3.9	1.2		
Net Profit Margins	4.5	4.1	1.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Beneficiary of the broad-based substitution for functional plastics in the Automotive, Consumer/IT and Healthcare sectors. Owing to improved plastic material properties (i.e. strength and durability) and higher cost efficiency, precision plastic components are increasingly replacing their metal counterparts in a wide range of industrial applications – particularly in the automotive, consumer goods and healthcare sectors.

Factors Driving Adoption of Plastic (vs Metal) Components

End-use Industries	Drivers
Automotive	Government regulations to reduce the weight of vehicles to lower harmful emissions
Consumer Goods	Popularity of consumer wearables with the emergence of cloud computing and Internet of Things (IoT) technologies, thus stimulating demand for plastics in electronic components Replacement of metal with plastic (which are cheaper) components to boost profit margins
Healthcare	New technologies (i.e. antimicrobial plastic) are purportedly able to repel bacteria on surfaces Plastic devices are cheaper to use and easier to replace

Additionally, the underlying demand outlook across the above end-sectors is also positive and industry experts have forecast these to grow at high single-digit to low double-digit levels per annum into 2020. Riding on these trends, we project Sunningdale's top line to grow at a steady 1.5% CAGR over FY17-19F.

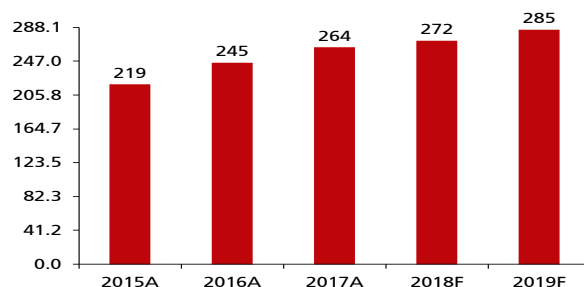
Raising capacity. While most of the industry players are focused on managing costs amid the challenging business climate, Sunningdale is one of few precision engineering companies that continues to actively invest in future growth.

In anticipation of the group's medium- to longer-term capacity requirements, Sunningdale has completed constructing a new facility in Penang (Malaysia), which is near the operations of a number of Fortune 500 companies. As plant utilisation at newer facilities (i.e. Chuzhou and Thailand) remains low, there is room for Sunningdale to add capacity at these sites progressively alongside order growth.

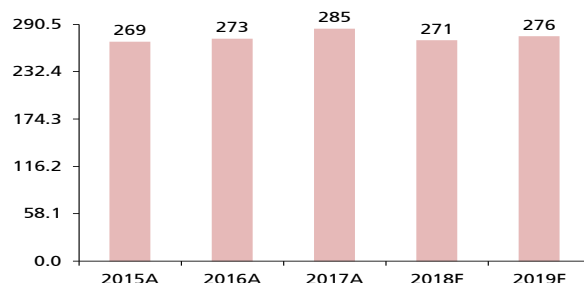
Muted margins. Net margins going forward is expected to be muted, at c.4% net. Strategies the group can employ to deliver growth over the longer-term include:

- (i) Development or acquisition of new engineering capabilities,
- (ii) Higher-margin sales mix,
- (iii) Productivity improvements and cost advantages on growing scale, through resource optimisation and automation

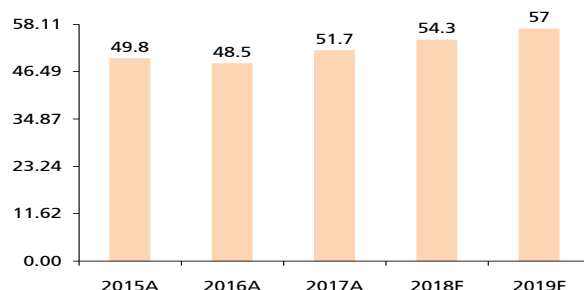
Automotive Sales



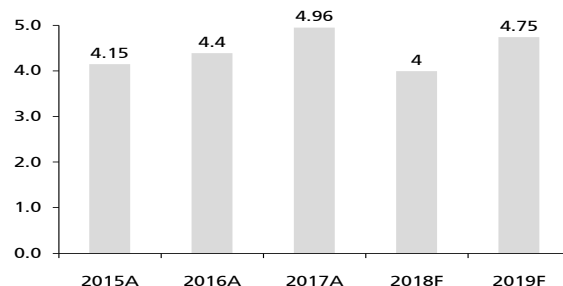
Consumer/IT Sales



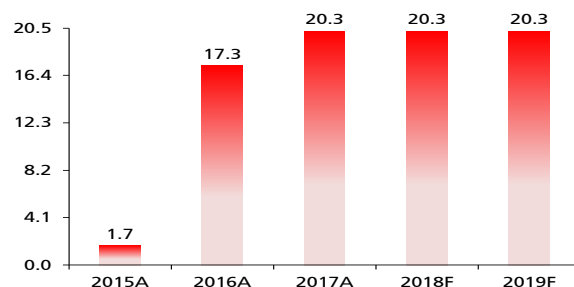
Healthcare Sales



Operating Margins (%)



Effective Tax Rate (%)



Source: Company, DBS Bank

Balance Sheet:

Low gearing. Sunningdale was in slight net debt position as at end-1Q18. Gearing is still relatively low at 0.28x as at end-1Q18, there remains room for Sunningdale to gear up for acquisitions if attractive opportunities arise.

Share Price Drivers:

Growing on acquisitions. Sunningdale has made three acquisitions since 2010 – UFE in 2011, First Engineering in 2014 and SKAN-tooling in 2015. With cash of S\$105m as at end-1Q18 and restructuring of its South China plant now complete, Sunningdale could be looking to acquire.

Judging from its earlier acquisitions, we believe that the group's criteria for future M&As would likely include precision plastic players which provide access to (1) new geographies, (2) wider product offerings or capabilities within existing Automotive, Consumer/IT and Healthcare verticals, and (3) new clientele.

Takeover potential in the longer term. Sunningdale's proven record of strong cash flow generation, healthy balance sheet and inexpensive valuations – the stock currently trades at a c.25% discount to book NAV of S\$1.98 per share - could lead to a takeover offer.

Given the group's advanced manufacturing capabilities, global manufacturing footprint and diversified MNC customer base, we see Sunningdale as an attractive takeover target for private equity (PE) funds or larger top-tier players in the precision plastic field looking to (1) acquire advanced manufacturing capabilities, (2) have global manufacturing facilities, or (3) gain immediate access to a diversified MNC customer base.

Key Risks:

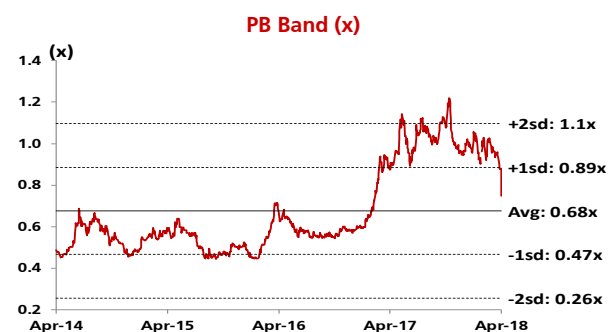
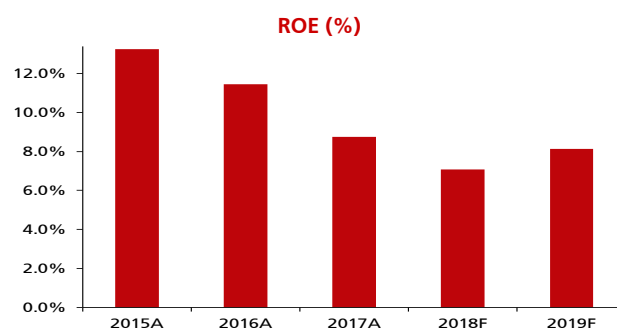
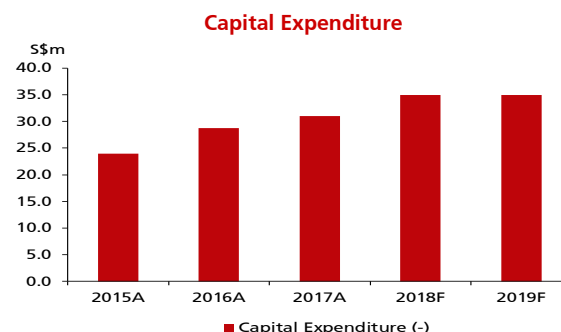
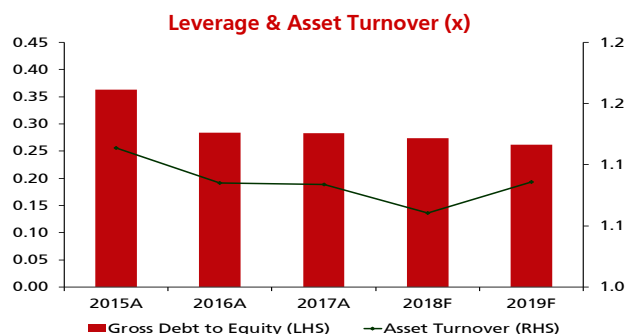
Global economic slowdown. With exposure across some of the world's main manufacturing regions, a global economic slowdown could pose significant challenges to Sunningdale as several of its industry segments such as Consumer/IT and Automotive are sensitive to fluctuations in the global economy.

Fluctuations in raw material costs. Key raw materials for Sunningdale are resin and engineering plastics, which typically represent c.50% of COGS. Despite cost-plus arrangements, volatility in raw material prices can still weigh on earnings.

Managing currency exposures. Due to its wide geographical presence and broad client base, Sunningdale transacts in various currencies such as USD, RMB, and MYR but reports in SGD. The largest currency exposure is to the USD, which we estimate represents approximately 70% of the group's revenue.

Company Background

Sunningdale (SUNN SP) provides one-stop turnkey plastic solutions, with capabilities ranging from product and mould designs, fabrication, injection moulding, micro-precision engineering, finishings, through to the precision assembly of complete products. The group is mainly focused on three sectors - Automotive, Consumer/IT and Healthcare.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Automotive Sales	219	245	264	272	285
Consumer/IT Sales	269	273	285	271	276
Healthcare Sales	49.8	48.5	51.7	54.3	57.0
Operating Margins (%)	4.15	4.40	4.96	4.00	4.75
Effective Tax Rate (%)	1.70	17.3	20.3	20.3	20.3

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$m)					
Automotive	219	245	264	272	285
Consumer / IT	269	273	285	271	276
Healthcare	49.8	48.5	51.7	54.3	57.0
Mould Fabrication	137	118	124	127	128
Others	0.0	0.0	0.0	0.0	0.0
Total	674	684	725	723	746

Income Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	674	684	725	723	746
Cost of Goods Sold	(584)	(590)	(619)	(626)	(642)
Gross Profit	90.8	94.3	106	97.6	104
Other Opng (Exp)/Inc	(62.8)	(64.2)	(69.6)	(68.7)	(69.0)
Operating Profit	28.0	30.1	36.0	28.9	35.5
Other Non Opng (Exp)/Inc	(1.2)	11.8	5.18	5.18	5.18
Associates & JV Inc	0.90	0.94	1.22	1.41	1.48
Net Interest (Exp)/Inc	(3.4)	(3.0)	(3.0)	(2.4)	(2.6)
Exceptional Gain/(Loss)	18.5	7.40	0.0	0.0	0.0
Pre-tax Profit	42.8	47.2	39.4	33.1	39.5
Tax	(0.7)	(8.2)	(8.0)	(6.7)	(8.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	42.1	39.1	31.4	26.4	31.5
Net Profit before Except.	23.6	31.7	31.4	26.4	31.5
EBITDA	61.1	73.6	72.4	67.6	75.2
Growth					
Revenue Gth (%)	41.8	1.5	5.9	(0.2)	3.2
EBITDA Gth (%)	21.1	20.4	(1.6)	(6.7)	11.2
Opg Profit Gth (%)	86.3	7.6	19.3	(19.5)	22.5
Net Profit Gth (Pre-ex) (%)	(2.1)	34.2	(1.0)	(16.0)	19.4
Margins & Ratio					
Gross Margins (%)	13.5	13.8	14.6	13.5	14.0
Opg Profit Margin (%)	4.2	4.4	5.0	4.0	4.8
Net Profit Margin (%)	6.2	5.7	4.3	3.6	4.2
ROAE (%)	13.2	11.5	8.7	7.1	8.1
ROA (%)	7.0	6.2	4.7	3.9	4.6
ROCE (%)	4.4	6.2	6.0	4.9	5.8
Div Payout Ratio (%)	22.0	28.7	42.0	53.9	45.1
Net Interest Cover (x)	8.3	10.0	12.1	11.8	13.5

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	172	178	188	187	169
Cost of Goods Sold	(146)	(150)	(161)	(162)	(148)
Gross Profit	25.9	27.7	27.0	25.0	21.4
Other Oper. (Exp)/Inc	(17.1)	(17.3)	(17.4)	(17.8)	(19.5)
Operating Profit	8.71	10.4	9.55	7.26	1.95
Other Non Opg (Exp)/Inc	1.60	0.86	1.03	1.69	1.51
Associates & JV Inc	0.18	0.21	0.31	0.53	0.35
Net Interest (Exp)/Inc	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.83	10.8	10.1	8.70	2.96
Tax	(2.1)	(2.6)	(2.4)	(1.0)	(1.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	7.70	8.20	7.72	7.75	1.94
Net profit bef Except.	7.70	8.20	7.72	7.75	1.94
EBITDA	17.6	18.5	17.9	16.5	11.7

Growth

Revenue Gth (%)	(6.7)	3.4	6.0	(0.6)	(9.7)
EBITDA Gth (%)	(44.1)	5.0	(3.2)	(7.9)	(29.2)
Opg Profit Gth (%)	5.1	19.6	(8.3)	(24.0)	(73.2)
Net Profit Gth (Pre-ex) (%)	(64.2)	6.5	(5.9)	0.4	(75.0)

Margins

Gross Margins (%)	15.0	15.6	14.3	13.4	12.7
Opg Profit Margins (%)	5.1	5.9	5.1	3.9	1.2
Net Profit Margins (%)	4.5	4.6	4.1	4.1	1.1

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	187	192	194	198	201
Invt in Associates & JVs	5.54	5.27	6.08	7.34	8.68
Other LT Assets	20.8	19.4	19.7	18.7	17.7
Cash & ST Invt	121	115	105	138	148
Inventory	106	115	146	117	120
Debtors	168	194	212	192	198
Other Current Assets	4.36	7.68	5.48	5.48	5.48
Total Assets	613	649	688	676	699
ST Debt	74.0	67.6	60.8	60.8	60.8
Creditor	150	184	206	177	182
Other Current Liab	2.25	3.93	2.69	6.72	8.03
LT Debt	46.0	32.2	42.9	42.9	42.9
Other LT Liabilities	9.58	9.63	9.74	9.74	9.74
Shareholder's Equity	331	351	366	378	396
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	613	649	688	676	699
Non-Cash Wkg. Capital	126	129	155	130	133
Net Cash/(Debt)	1.11	15.5	1.60	33.9	44.7
Debtors Turn (avg days)	88.3	96.6	102.3	101.8	95.2
Creditors Turn (avg days)	75.7	109.1	120.8	117.9	107.7
Inventory Turn (avg days)	71.5	72.2	80.9	80.9	71.2
Asset Turnover (x)	1.1	1.1	1.1	1.1	1.1
Current Ratio (x)	1.8	1.7	1.7	1.8	1.9
Quick Ratio (x)	1.3	1.2	1.2	1.3	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	20.0	28.8	29.9	33.8	33.8
Z-Score (X)	2.5	2.5	2.5	2.5	2.7

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	42.8	47.2	39.4	33.1	39.5
Dep. & Amort.	33.5	30.8	30.1	32.1	33.1
Tax Paid	(2.5)	(6.2)	(9.7)	(2.7)	(6.7)
Assoc. & JV Inc/(loss)	(0.9)	(0.9)	(1.2)	(1.4)	(1.5)
Chg in Wkg.Cap.	(3.1)	(10.8)	(27.1)	20.3	(4.5)
Other Operating CF	(2.3)	(7.3)	4.87	0.0	0.0
Net Operating CF	67.4	52.8	36.3	81.4	59.8
Capital Exp.(net)	(24.0)	(28.8)	(31.0)	(35.0)	(35.0)
Other Invt.(net)	0.0	0.0	(1.4)	0.0	0.0
Invt in Assoc. & JV	(1.2)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.76	1.08	0.14	0.14	0.14
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(24.4)	(27.7)	(32.3)	(34.9)	(34.9)
Div Paid	(7.4)	(9.3)	(16.0)	(14.2)	(14.2)
Chg in Gross Debt	(18.3)	(21.2)	5.15	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.71	(0.5)	(3.2)	0.0	0.0
Net Financing CF	(25.0)	(31.0)	(14.0)	(14.2)	(14.2)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	18.0	(5.9)	(10.0)	32.3	10.8
Opg CFPS (\$ cts)	38.0	34.1	33.7	32.3	34.0
Free CFPS (\$ cts)	23.4	12.9	2.82	24.5	13.1

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 May 17	2.02	2.62	BUY
2:	03 Aug 17	2.15	2.62	BUY
3:	04 Aug 17	2.12	2.70	BUY
4:	09 Nov 17	2.15	2.70	BUY
5:	22 Feb 18	1.93	2.70	BUY
6:	24 Apr 18	1.47	1.53	HOLD

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

Source: DBS Bank

Analyst: Carmen Tay

DBS Bank recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 24 Apr 2018 17:10:06 (SGT) (SGT)

Dissemination Date: 24 Apr 2018 17:59:38 (SGT)

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

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DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@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: research@id.dbsvickers.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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