

Malaysia Company Guide

Gamuda

Version 16 | Bloomberg: GAM MK | Reuters: GAMU.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Oct 2018

HOLD (Downgrade from buy)

Last Traded Price (5 Oct 2018): RM3.21 (KLCI : 1,777.15)

Price Target 12-mth: RM2.98 (-7% downside) (Prev RM4.72)

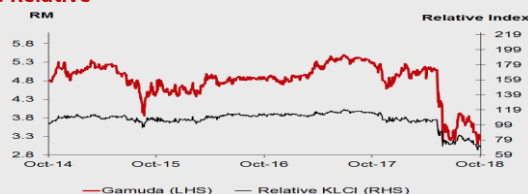
Analyst

Tjen San CHONG, CFA +60 3 26043972 tjensan@alliancedbs.com

What's New

- Loss of MRT 2 tunnelling a big negative surprise
- 23% project cut for MRT 2 above ground work and move to turnkey model within expectations
- Cutting earnings forecast by 19-24%
- Downgrade to Hold, new TP of RM2.98

Price Relative



Forecasts and Valuation

FY Jul (RMm)	2017A	2018A	2019F	2020F
Revenue	3,211	4,227	4,313	4,183
EBITDA	613	604	790	759
Pre-tax Profit	826	729	714	674
Net Profit	602	514	520	489
Net Pft (Pre Ex.)	701	818	520	489
Net Pft Gth (Pre-ex) (%)	11.9	16.8	(36.4)	(6.0)
EPS (sen)	21.5	18.3	18.5	17.4
EPS Pre Ex. (sen)	25.0	29.2	18.5	17.4
EPS Gth Pre Ex (%)	12	17	(36)	(6)
Diluted EPS (sen)	21.5	18.3	18.5	17.4
Net DPS (sen)	8.88	8.88	8.88	8.88
BV Per Share (sen)	266	270	278	284
PE (X)	15.0	17.5	17.3	18.4
PE Pre Ex. (X)	12.9	11.0	17.3	18.4
P/Cash Flow (X)	nm	16.1	35.7	48.3
EV/EBITDA (X)	22.2	22.4	17.3	18.3
Net Div Yield (%)	2.8	2.8	2.8	2.8
P/Book Value (X)	1.2	1.2	1.2	1.1
Net Debt/Equity (X)	0.5	0.5	0.5	0.5
ROAE (%)	8.4	6.8	6.8	6.2
Earnings Rev (%)			(19)	(24)
Consensus EPS (sen):		31.0	32.2	34.2
Other Broker Recs:		B: 9	S: 4	H: 11

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

Loss of MRT tunnelling a big negative

Loss of MRT 2 tunnelling leaves a huge void. In an unexpected turn of events, the federal government has cancelled the underground portion of the Mass Rapid Transit (MRT) Line 2, citing the inability to reach an agreement with the consortium of MMC-Gamuda. All unfinished underground work will be retendered through an international open tender. As at end-August 2018, the underground contract is 37% completed while the outstanding unbilled amount is c.RM5.5bn. While we expect larger contractors with reputable track records and strong balance sheets (like Gamuda) to emerge as winners when projects are eventually revived, this piece of news is a key negative and leaves a huge earnings void, compounding the loss of earnings from Gamuda's recent sale of its water concessionaire Syarikat Pengeluar Air Selangor Sdn Bhd (Splash) to the Selangor state government.

Where we differ. Our earnings are below consensus as we factor in the loss of earnings from Splash, new terms for Gamuda Water and loss of MRT 2 tunnelling. Our earnings forecast is also fully diluted for its warrant issue.

Potential catalyst: The most important catalyst for Gamuda and the sector as a whole is the revival of key infrastructure projects. Gamuda's strong reputation, based on work for MRT Line 1 and 2, as well as its appointment as project delivery partner (PDP) for the Penang Transport Master Plan (PTMP) will put it in the driver's seat when there is more certainty on government-related projects. The water division overhang has also been removed with the acceptance of Splash's takeover offer and new operations and maintenance agreement (OMA) terms for Gamuda Water Sdn Bhd.

Valuation:

Our new SOP-derived TP of RM2.98 assumes no contribution from MRT 2 tunnelling, some construction new wins in FY20F and discounts for its highway tolls.

Key Risks to Our View:

Faster implementation of projects. In our view, the new government's expedition of projects, revival of the PTMP and limitation on foreign participation will be positives for Gamuda.

At A Glance

Issued Capital (m shrs)	2,468
Mkt. Cap (RMm/US\$m)	7,922 / 1,911
Major Shareholders (%)	
EPF	9.8
KWAP	6.8
Free Float (%)	75
3m Avg. Daily Val (US\$m)	5.4

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

MRT 2 tunnelling loss a negative surprise

MRT 2 tunnelling cancelled. The project accounts for the bulk of its order book and will further compound the earnings void from Splash.

Cutting earnings: We cut our FY19-20F earnings forecast by 19-24% to account for this cancellation, while we have already factored in the cost cutting for MRT2 above ground work.

Downgrade to Hold, lower TP of RM2.98. At a P/BV of 1.1x, valuations may appear cheap but the stock now trades at FY20F PE of 18x on a declining earnings trajectory.

Underground contract cancelled. In an unexpected turn of events, the federal government has cancelled the underground portion of MRT Line 2, citing the inability to reach an agreement with the MMC-Gamuda consortium. According to the Finance Minister, all unfinished underground work will be retendered through an international open tender. As at end-August 2018, the underground contract is 37% completed while the unbilled order book is c.RM5.5bn.

Above ground project cut in line with expectations. As for the above ground portion of MRT 2, the government announced that the total project cost will be cut by 23% or RM5.22bn. Savings will be realised through a reduction in cost and rationalisation in work scope without cancelling any of the above ground stations.

The new project cost is now RM17.4bn vs the original cost of RM22.6bn. The above ground portion has been 28% completed as at end-August 2018. Additionally, the project structure will be converted to turnkey (vs the previous PDP model). This effectively means that MMC-Gamuda will be the main contractor for the above ground portion, while the other above ground contractors (IJM, Sunway Construction, WCT etc) will be the subcontractors to MMC-Gamuda.

Dissecting the total project cost numbers. According to the Finance Minister, the MRT2 project was approved in February 2014 with an initial estimated cost of RM28bn. This did not include consultant fees, PDP fees, as well as interest and overhead cost for Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) Corp. However, the project cost ballooned to RM56.93bn due to the extension of the line to Bandar

Malaysia, a change in scope, depreciation of the ringgit and other factors. The overall cost comprised of RM39.3bn construction cost, RM6.18bn land acquisition cost, RM36m for feeder bus and depot cost, RM1.2bn in other costs, as well as RM9.84bn worth of interest expenses during construction.

Our view : The cancellation of the underground contract is a key negative for Gamuda and wipes out c.RM5.5bn worth of high margin work, which would have been crucial to ensure continuity in construction earnings growth in FY19-20F before PTMP starts to contribute.

At this juncture, we are unsure if retendering the contract through an international open tender makes sense in terms of costs and timing of completion. We understand that MMC-Gamuda won both MRT Line 1 and 2 tunnelling contracts via a Swiss Challenge procurement model, which gave it the first right of refusal for the job at the lowest bid. However, foreign contractors submitted less competitive bids and MMC-Gamuda did not exercise the Swiss Challenge.

The impact of the cancellation on the other above ground contractors under our coverage will not be so severe. In terms of percentage contribution to total outstanding order book - WCT (15%), Sunway Construction (10%) and IJM (10%).

Impact on earnings. We cut our FY19/20F earnings by 19%/24% to account for the removal of MRT 2 tunnelling contract from its order book. We had already accounted for the cost reduction for the above ground works.

Downgrade to Hold, new TP of RM2.98. We downgrade our rating on the stock to Hold (BUY previously) as we expect this piece of news to alter its near term earnings profile significantly and compound the loss of earnings from Splash. Gamuda now trades at FY20F PE of 18x on a declining earnings trajectory. Our new TP of RM2.98 assumes no contribution from MRT 2 tunnelling.

CRITICAL DATA POINTS TO WATCH

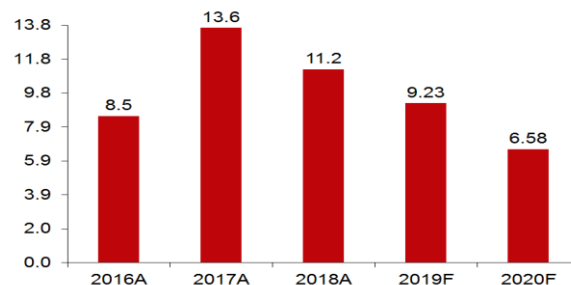
Key critical factors. The most critical factor for Gamuda is the revival of contracts by the new federal government. On a more micro level, our findings reveal that significant contract wins coupled with earnings growth are the main key share price drivers. As the dust settles, we expect larger contractors with reputable track records and strong balance sheets (like Gamuda) to emerge as winners, when projects are eventually revived. In our view, given Gamuda's strong design and engineering capabilities, it will be using the down time to explore and propose more relevant projects to the government. Greater transparency, less bureaucracy and potentially less foreign competition due to changes in government policies will be the long term trend in the sector

Clarity on government projects. The cancellation of the MRT 2 tunnelling project, which was a key anchor for outstanding order book, is a big negative. The new government has also cancelled/deferred two projects (high speed rail (HSR) and MRT 3) so far. The latter was crucial for visibility of Gamuda's new wins. The potential cancellation of the east coast rail line (ECRL) has no impact on Gamuda because it had already indicated that it was willing to forego this contract

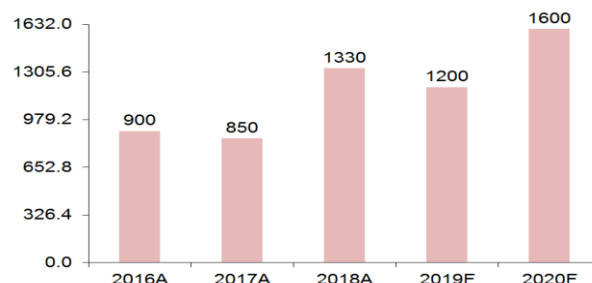
MRT 3 to be revived. In our view, MRT 3 has to be revived eventually. It is crucial to ensure connectivity to the other two MRT lines and will drive ridership into the city. The project may be retendered at a later stage, with possible changes in alignment or a higher proportion of above ground works. The last indicative value for MRT 3 was RM40-45bn. 32km out of the 40km stretch would have been underground. At the onset of the entire MRT project's conceptualisation, Gamuda had an earlier proposal for MRT 3 which included 35% underground work. This proposal could potentially lower the cost of MRT 3 to RM20-25bn. Assuming a 35% underground portion, this would work out to RM7-8.75bn tunnelling portion. Gamuda with its tunnel boring machines and experience with MRT Line 1 and 2 will be a key beneficiary. It won MRT Line 1 and 2 tunnelling works without having to exercise the Swiss Challenge.

Penang Transport Master Plan (PTMP) project to kick off. Gamuda has a 60% stake in SRS Consortium, the PDP for this RM32bn project. RM16bn is allocated for the public transportation system and the balance RM16bn for land reclamation works. The contract value for the light rapid transit (LRT) portion is RM8bn. The next near term catalyst for Gamuda is the formalisation and approval for the PTMP. We understand that the federal government has given approval for the LRT project in principle. The next important milestone will be in 4QCY18 where Gamuda and its consortium partners for SRS Consortium will sign and finalise the PDP agreement. It was announced recently that the validity of the PDP agreement has been extended to August 2019. On top of this, the relevant federal government agencies are expected to approve the railway scheme for the LRT and environmental impact studies for Pan Island Link 1 and reclamation works. If this timeline is kept, we can expect some design works and tenders to be called in 1HCY19 and award of contracts in 2HCY19.

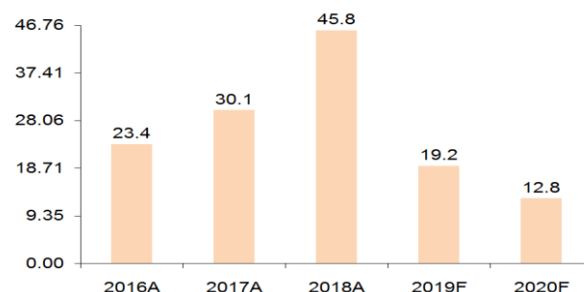
Construction margins



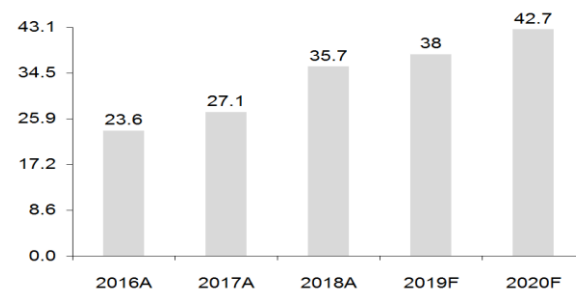
Property launches Malaysia



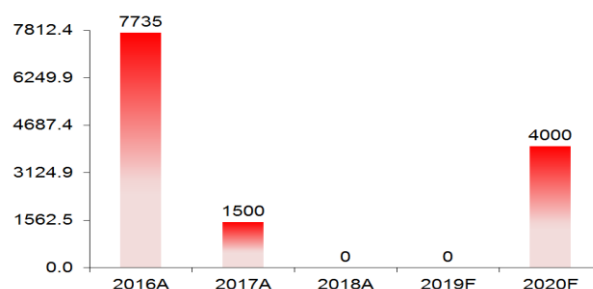
Construction profit contribution



Property profit contribution

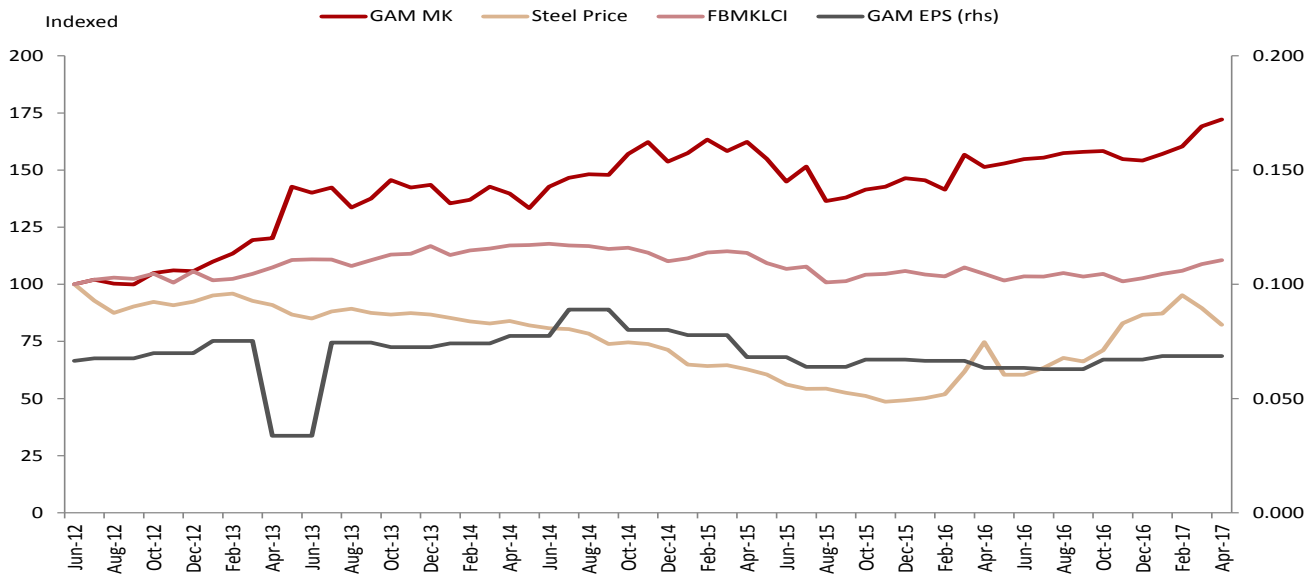


New order wins



Source: Company, AllianceDBS

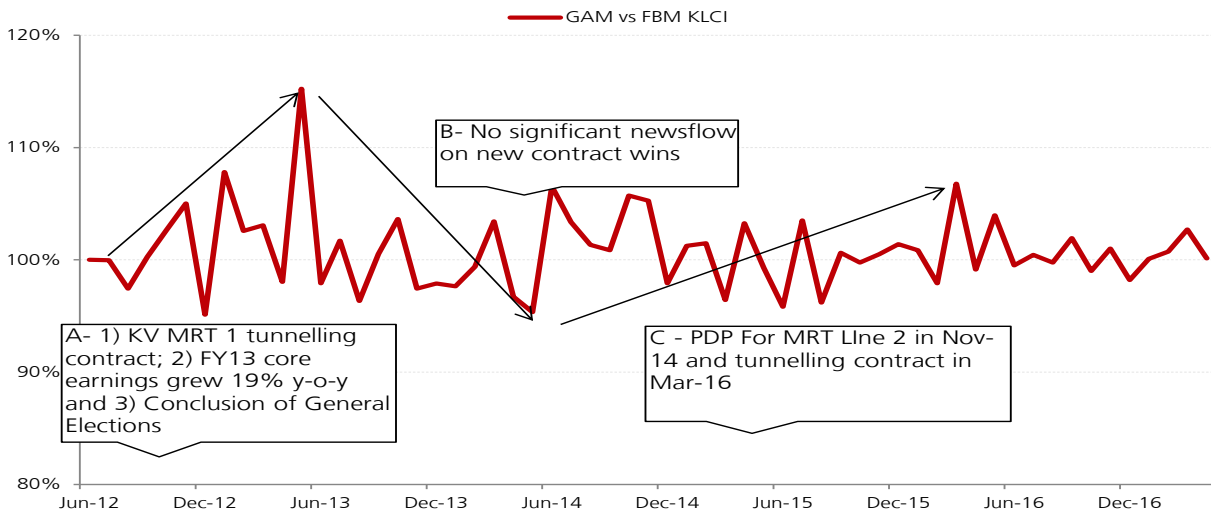
Appendix 1: A look at Company's listed history – what drives its share price?
Gamuda's share price performance vs KLCI, Steel price and EPS



Source: Company, AllianceDBS

The key share price driver for Gamuda appears to be new contract wins and, to some extent, earnings growth. For the period until June 2016, there was some negative correlation with steel price, likely because raw material requirements for the KV MRT Line tunnelling contract was borne by the contractor.

Gamuda's share price performance vs contract wins



Source: Company, AllianceDBS

Gamuda's share price showed the most significant outperformance during the period between June 2012 and July 2013 (Period A). This was due to a combination of positive newsflow from the announcement of the MRT Line 1 tunnelling contract worth RM8.28bn in April 2012 and expectations of strong earnings growth in FY13. FY13 core net earnings grew by c.19% y-o-y stripping out the one-off arbitration charge. This also coincided with the conclusion of the 13th General Election.

From July 2013 onwards (Period B), Gamuda's share price was on a general downtrend until June 2014 given the lack of significant newsflow post the award of MRT Line 1. From June 2014 to March 2016 (Period C), we think the outperformance was led by a combination of the award of the PDP role for MRT Line 1 in November 2014, PDP for the Penang Transport Master Plan (PTMP) as well as the tunnelling package for MRT Line 2 worth RM15.47bn in March 2016.

Major contract wins for Gamuda since 2012:

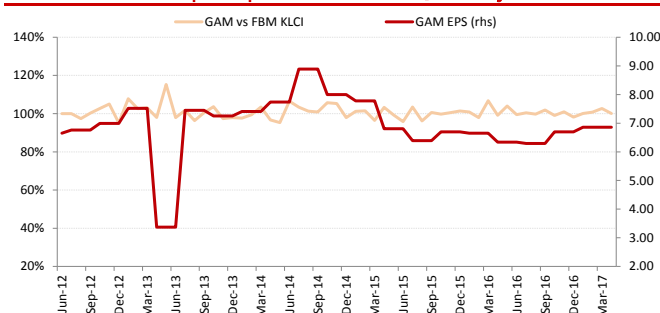
April 2012 – Announcement on KV MRT Line 1 tunnelling contract worth RM8.28bn.

Nov 2014- Appointment as PDP for MRT Line 2.

August 2015 – Appointment as PDP for Penang Transport Master Plan.

March 2016 – Awarded tunnelling contract for KV MRT Line 2 worth RM15.47bn.

Gamuda's share price performance vs Quarterly EPS



Source: Company, AllianceDBS

Gamuda's share price performance does not have any meaningful correlation with quarterly EPS delivery. We think this is because it manages investors' expectations fairly well. Even in 3Q13, when it reported a one-off provision for tribunal awards of RM113m, the share price did not de-rate significantly. Stripping this out, 9M13 net profit would have increased 14%.

Gamuda

Balance Sheet:

Manageable net gearing. Net gearing remained manageable at 0.57x as at 31 July 2018. Land bank purchases over the past few years include its maiden project in Toa Payoh, Singapore for S\$345.9m (Gamuda has a 50% share), a small parcel of freehold land in Melbourne for AUD40m, an 18-acre land in Kota Kinabalu for RM100m, and a 257-acre parcel located just 2km from Kota Kemuning for RM392m.

Further land banking possible. Gamuda is still seeking to land bank further in choice locations despite the softening property market. Its recently announced new project Anchorvale Crescent in Sengkang, Singapore (gross development value (GDV) RM650m; SGD1,100-1,200 psf) is expected to do as well as Gem Residences, as it is designated as an Executive Condominium and not likely to be impacted by the property cooling measures.

Share Price Drivers:

Revival of large scale government projects. The most important catalyst for Gamuda is the revival of some of the more crucial government infrastructure projects such as MRT 3. In the long term and taking into account the changing landscape of the sector, Gamuda’s reputable execution track record and strong balance sheet should help it emerge as a winner. This is because there will be greater transparency, less bureaucracy and potentially less foreign competition. When these projects are eventually revived by the new government, we expect the stock to still be the best proxy in the construction space.

Increased property sales. Gamuda’s property pre-sales over the past few years have been driven by its overseas projects. This helped cushion the slowdown of local property sales. A revival in the local property market would be a catalyst for Gamuda.

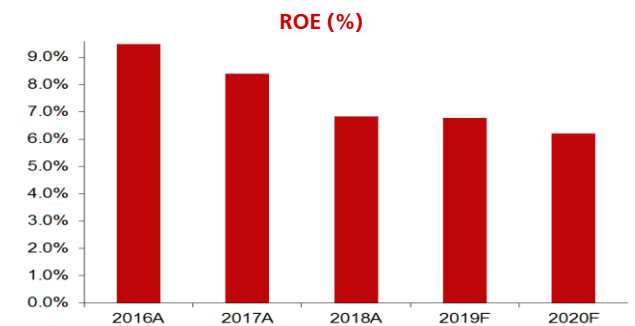
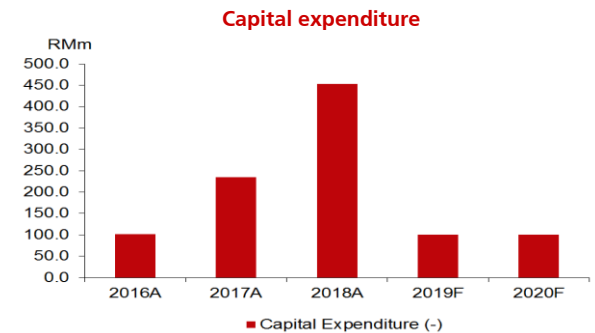
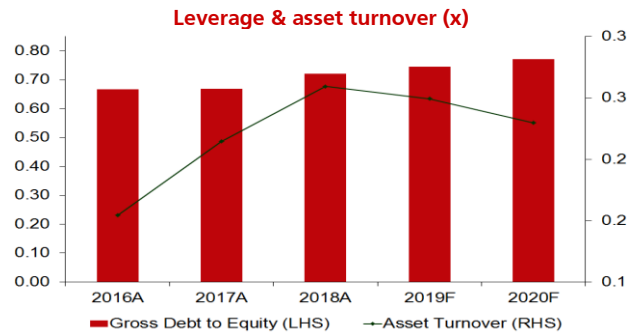
Key Risks:

Macroeconomic factors and project uncertainties. An economic slowdown and lack of clarity on projects by the new government could adversely affect the group. Some infrastructure projects could be deferred or halted. This may result in slower order book replenishment.

Slowdown in property market. The various tightening policies in the Malaysian property sector could reduce demand for properties (residential and commercial) in the near future.

Company Background

Gamuda’s core business segments are engineering & construction, infrastructure concessions, and property development.



Source: Company, AllianceDBS

Key Assumptions

FY Jul	2016A	2017A	2018A	2019F	2020F
Construction margins	8.50	13.6	11.2	9.23	6.58
Property launches Malaysia	900	850	1,330	1,200	1,600
Construction profit contribution	23.4	30.2	45.9	19.2	12.8
Property profit contribution	23.6	27.1	35.7	38.0	42.7
New order wins	7,735	1,500	0.0	0.0	4,000

Segmental Breakdown

FY Jul	2016A	2017A	2018A	2019F	2020F
Revenues (RMm)					
Construction	905	1,234	1,925	1,782	1,600
Property development	758	1,486	1,807	915	1,150
Infrastructure	459	491	496	351	358
Others	0.0	0.0	0.0	1,265	1,075
Total	2,122	3,211	4,227	4,313	4,183
Pretax profit (RMm)					
Construction	212	280	378	165	105
Property development	214	252	295	207	238
Infrastructure	481	398	152	368	366
Others	0.0	0.0	0.0	119	114
Net interest expense	(126)	(104)	(96.1)	(145)	(148)
Total	781	826	729	714	674
Pretax Margins (%)					
Construction	23.4	22.7	19.7	9.2	6.6
Property development	28.2	16.9	16.3	22.6	20.7
Total	36.8	25.7	17.3	16.5	16.1

Income Statement (RMm)

FY Jul	2016A	2017A	2018A	2019F	2020F
Revenue	2,122	3,211	4,227	4,313	4,183
Cost of Goods Sold	(1,685)	(2,629)	(3,651)	(3,573)	(3,487)
Gross Profit	437	582	576	740	696
Other Opng (Exp)/Inc	10.9	3.72	(10.1)	(8.6)	3.19
Operating Profit	448	586	566	731	699
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	413	248	129	130	131
Net Interest (Exp)/Inc	(79.7)	(7.8)	34.4	(148)	(156)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	781	826	729	714	674
Tax	(112)	(170)	(165)	(143)	(135)
Minority Interest	(42.6)	(54.1)	(50.5)	(50.5)	(50.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	626	602	514	520	489
Net Profit before Except.	626	701	818	520	489
EBITDA	470	613	604	790	759
Growth					
Revenue Gth (%)	(11.6)	51.3	31.6	2.0	(3.0)
EBITDA Gth (%)	(20.4)	30.5	(1.5)	30.8	(3.8)
Opg Profit Gth (%)	(21.4)	30.7	(3.3)	29.2	(4.5)
Net Profit Gth (Pre-ex) (%)	(8.2)	11.9	16.8	(36.4)	(6.0)
Margins & Ratio					
Gross Margins (%)	20.6	18.1	13.6	17.2	16.6
Opg Profit Margin (%)	21.1	18.2	13.4	17.0	16.7
Net Profit Margin (%)	29.5	18.7	12.2	12.1	11.7
ROAE (%)	9.5	8.4	6.8	6.8	6.2
ROA (%)	4.6	4.0	3.2	3.0	2.7
ROCE (%)	3.2	3.5	3.1	3.9	3.6
Div Payout Ratio (%)	39.8	41.4	48.5	47.9	51.0
Net Interest Cover (x)	5.6	75.5	NM	4.9	4.5

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Jul	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	1,013	772	1,003	1,238	1,215
Cost of Goods Sold	(846)	(619)	(867)	(1,085)	(1,145)
Gross Profit	167	153	136	153	70.1
Other Oper. (Exp)/Inc	42.7	30.5	35.3	31.7	87.8
Operating Profit	210	183	171	184	158
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(12.1)	102	121	96.5	(191)
Net Interest (Exp)/Inc	(17.5)	(25.9)	(23.7)	(27.1)	(19.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	180	259	268	254	(52.3)
Tax	(56.9)	(41.6)	(44.3)	(41.2)	(37.9)
Minority Interest	(20.8)	(14.8)	(12.8)	(12.0)	(10.9)
Net Profit	103	203	211	201	(101)
Net profit bef Except.	103	203	211	201	(101)
EBITDA	198	285	292	281	(32.9)

Growth

Revenue Gth (%)	20.7	(23.8)	29.9	23.4	(1.8)
EBITDA Gth (%)	(21.6)	44.1	2.4	(3.8)	nm
Opg Profit Gth (%)	23.3	(12.8)	(6.6)	7.8	(14.4)
Net Profit Gth (Pre-ex) (%)	(39.9)	97.6	4.1	(5.0)	(150.4)

Margins

Gross Margins (%)	16.5	19.8	13.5	12.3	5.8
Opg Profit Margins (%)	20.7	23.7	17.1	14.9	13.0
Net Profit Margins (%)	10.1	26.3	21.1	16.2	(8.3)

Balance Sheet (RMm)

FY Jul	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	420	619	1,009	1,051	1,091
Invt in Associates & JVs	2,881	2,914	2,776	2,906	3,037
Other LT Assets	5,529	5,804	5,718	5,718	5,718
Cash & ST Invt	1,473	1,042	1,623	1,919	2,154
Inventory	117	228	495	570	655
Debtors	1,441	2,476	2,508	2,884	3,317
Other Current Assets	2,297	2,689	2,709	2,709	2,709
Total Assets	14,158	15,772	16,839	17,758	18,682
ST Debt	640	629	1,427	1,827	2,227
Creditor	1,046	1,402	1,642	1,889	2,172
Other Current Liab	413	536	644	644	644
LT Debt	4,169	4,615	4,310	4,310	4,310
Other LT Liabilities	676	746	865	865	865
Shareholder's Equity	6,878	7,476	7,568	7,790	7,980
Minority Interests	336	369	384	434	485
Total Cap. & Liab.	14,158	15,772	16,839	17,758	18,682
Non-Cash Wkg. Capital	2,395	3,456	3,426	3,630	3,865
Net Cash/(Debt)	(3,335)	(4,201)	(4,114)	(4,217)	(4,382)
Debtors Turn (avg days)	242.3	222.6	215.2	228.2	270.6
Creditors Turn (avg days)	263.5	171.7	153.7	183.3	216.2
Inventory Turn (avg days)	33.2	24.2	36.5	55.3	65.2
Asset Turnover (x)	0.2	0.2	0.3	0.2	0.2
Current Ratio (x)	2.5	2.5	2.0	1.9	1.8
Quick Ratio (x)	1.4	1.4	1.1	1.1	1.1
Net Debt/Equity (X)	0.5	0.5	0.5	0.5	0.5
Net Debt/Equity ex MI (X)	0.5	0.6	0.5	0.5	0.5
Capex to Debt (%)	2.1	4.5	7.9	1.6	1.5
Z-Score (X)	1.7	1.7	1.8	1.7	1.7

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Jul	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	781	826	729	714	674
Dep. & Amort.	21.6	27.2	37.6	58.1	60.3
Tax Paid	(124)	(104)	(199)	(143)	(135)
Assoc. & JV Inc/(loss)	(413)	(248)	(129)	(130)	(131)
Chg in Wkg.Cap.	(228)	(1,128)	77.2	(204)	(235)
Other Operating CF	67.3	94.0	44.0	(42.4)	(47.0)
Net Operating CF	105	(533)	560	252	187
Capital Exp.(net)	(102)	(235)	(453)	(100.0)	(100.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	189	239	178	0.0	0.0
Other Investing CF	(743)	(24.2)	(41.8)	42.4	47.0
Net Investing CF	(656)	(20.2)	(317)	(57.6)	(53.1)
Div Paid	(289)	(292)	(295)	(298)	(298)
Chg in Gross Debt	650	480	511	400	400
Capital Issues	27.3	123	53.8	0.0	0.0
Other Financing CF	198	(188)	67.7	0.0	0.0
Net Financing CF	586	122	337	102	102
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	35.2	(431)	581	296	235
Opg CFPS (sen)	11.9	21.2	17.2	16.3	15.0
Free CFPS (sen)	0.10	(27.4)	3.83	5.43	3.08

Source: Company, AllianceDBS

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:	29 Nov 17	4.74	6.70	BUY
2:	04 Dec 17	4.75	6.70	BUY
3:	06 Mar 18	5.08	6.70	BUY
4:	26 Mar 18	5.11	6.70	BUY
5:	06 Apr 18	5.09	6.70	BUY
6:	14 May 18	4.21	4.73	HOLD
7:	06 Jun 18	3.55	4.73	BUY
8:	28 Jun 18	3.23	4.73	BUY
9:	06 Aug 18	3.72	5.03	BUY
10:	23 Aug 18	3.79	5.03	BUY
11:	21 Sep 18	3.30	4.72	BUY
12:	01 Oct 18	3.28	4.72	BUY

Source: AllianceDBS

Analyst: Tjen San CHONG

AllianceDBS 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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 8 Oct 2018 07:21:43 (MYT)

Dissemination Date: 12 Oct 2018 09:19:14 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by AllianceDBS Research Sdn Bhd ("AllianceDBS"). This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of AllianceDBS Research Sdn Bhd ("AllianceDBS").

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets. Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Aug 2018.
2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.


Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	<p>This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
Hong Kong	<p>This report has been prepared by an entity(ies) which is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).</p> <p>For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at equityresearch@dbs.com</p>
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;"> Wong Ming Tek, Executive Director, ADBSR</p>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	<p>This report is produced by AllianceDBS Research Sdn Bhd which is regulated by the Securities Commission Malaysia.</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and</p>

	associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608 - 610, 6 th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by AllianceDBS Research Sdn Bhd ("AllianceDBS"). DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
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

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

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

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

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