

# Singapore Company Guide

## Venture Corporation

Version 14 | Bloomberg: VMS SP | Reuters: VENM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Nov 2018

### BUY

Last Traded Price ( 2 Nov 2018): S\$16.26 (STI : 3,116.39)  
Price Target 12-mth: S\$21.30 (31% upside) (Prev S\$21.30)

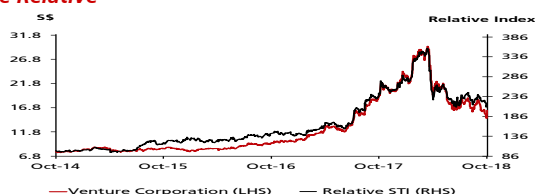
#### Analyst

Carmen Tay +65 6682 3719 carmentay@db.com

#### What's New

- Disappointing 3Q18 profit of S\$80.8m (-27.5% y-o-y) a temporary blip
- Rare outlook guidance by Venture signals confidence that growth will be restored starting 4Q18
- Multiple drivers to set growth trend back in motion, but FY18/19F earnings lowered by 8%/6% to account for negative near-term transitional effects
- Maintain BUY; TP adjusted to S\$21.30

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2017A	2018F	2019F	2020F
Revenue	4,005	3,829	4,044	4,151
EBITDA	480	470	507	528
Pre-tax Profit	444	438	470	492
Net Profit	373	370	396	414
Net Pft (Pre Ex.)	361	370	396	414
Net Pft Gth (Pre-ex) (%)	100.1	2.3	7.2	4.4
EPS (S cts)	131	130	139	146
EPS Pre Ex. (S cts)	127	130	139	146
EPS Gth Pre Ex (%)	96	2	7	4
Diluted EPS (S cts)	131	130	139	146
Net DPS (S cts)	60.0	60.0	60.0	60.0
BV Per Share (S cts)	762	832	912	997
PE (X)	12.4	12.5	11.7	11.2
PE Pre Ex. (X)	12.8	12.5	11.7	11.2
P/Cash Flow (X)	10.3	11.3	12.1	7.8
EV/EBITDA (X)	8.1	7.9	7.0	6.0
Net Div Yield (%)	3.7	3.7	3.7	3.7
P/Book Value (X)	2.1	2.0	1.8	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	18.1	16.3	16.0	15.3
Earnings Rev (%):		(8)	(6)	-
Consensus EPS (S cts):		139	147	156
Other Broker Recs:		B: 6	S: 1	H: 2

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

### Better times ahead

**Maintain BUY with lower TP of S\$21.30.** Venture stands out for its hard-to-replicate ecosystems and unique positioning at the forefront of technology. Its coveted partnerships with global technological leaders across various attractive end-markets have allowed the group to command industry-leading margins, and are testament to its success in the area of value-creation.

While Venture has been penalised by the market over the lack of clarity in its underlying business profile, positive steps taken to improve transparency and communication – evidenced by rare disclosures made in its outlook statement this quarter – signals a brighter future. This should help reinstate investor confidence despite the temporary earnings blip. Strong sequential growth is expected from 4Q18, as new product introductions and contributions from new customers kick in.

We have lowered our growth assumptions for FY18F/19F to adjust for the 3Q18 earnings shortfall and near-term transitional effects, but remain confident in Venture's ability to deliver sustainable long-term growth ahead. Maintain BUY!

**Where we differ:** While we have assumed lower earnings growth vs consensus on more conservative revenue and margin assumptions, we remain positive on Venture's unique offerings, know-how and hard-to-replicate ecosystems.

**Potential catalysts:** New products and continued expansion into non-traditional markets with higher margins, and new customer acquisitions are potential near-term catalysts. Customer M&As and US-China trade developments, while a noise in the near-term, may give rise to new business opportunities ahead.

#### Valuation:

**Maintain BUY with lower TP of S\$21.30,** based on 15.8x PE (based on global peers' average) on blended FY18F/19F earnings. Against a 8%/6% cut to our earnings estimates for FY18F/19F, this translates into a lower TP of S\$21.30.

#### Key Risks to Our View:

**Weakening client or global growth prospects.** A broad global slowdown is likely to impact Venture due to its vulnerability to business cycles. Potential weakening of clients' end-demand and/or the USD could also dampen revenue growth.

#### At A Glance

Issued Capital (m shrs)	288
Mkt. Cap (S\$m/US\$m)	4,684 / 3,408
Major Shareholders (%)	
Wong Ngit Liong	7.0
BlackRock Inc	6.0
Schroders Plc	5.9
Free Float (%)	72.2
3m Avg. Daily Val (US\$m)	16.7
ICB Industry : Industrials / Electronic & Electrical Equipment	



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## WHAT'S NEW

### Look past the weak 3Q; brighter prospects ahead

**Weak 3Q18 performance a temporary blip.** Venture's 3Q18 performance disappointed as market expectations of seasonal strength – typically exhibited in 2H, did not materialise in 3Q18.

Dragged by the sharp decline in revenue (-27.4% y-o-y; -19.1% q-o-q) to S\$770.4m in 3Q18, earnings fell 27.5% y-o-y and 17.5% q-o-q to S\$80.8m. With reference to the prudent outlook statement made in 2Q18, management reiterated that the dip was transitory in nature and was not representative of current business activity, which remained healthy. Negative transitional effects included product transitions and noise from customer M&As.

Notwithstanding the weaker topline, the group continued to deliver sequential improvements on the margin front. Gross and net margins improved from 12.1% and 10.3% in 2Q18 to 10.3% and 10.5%, respectively, reflecting the group's successes in the area of value creation and an efficient operating structure.

Overall, 9M18 profit of S\$262.4m formed 65.6%/66.5% of our/consensus FY18F forecasts and was below expectations.

**Worst may be over; contributions from new products and customers to set a V-shaped recovery in motion from 4Q18.** A rare disclosure made in Venture's revised outlook guidance was a strong statement that signaled management's confidence in the group's long-term growth prospects, and that the worst may soon be over for Venture. New product introductions for several customers, coupled with maiden contributions from several new customers are set to spark a recovery from 4Q18. Benefits from these projects are expected to extend into the subsequent quarters and drive strong sequential growth ahead.

The resumption of growth is likely to be broad-based, across all seven of Venture's technological domains. Meanwhile in 3Q, we note that only three clusters exhibited growth and two remained flat, while the remaining clusters registered declines.

**Strong outlook statement to help reinstate investor confidence?** Growth expectations aside, we commend efforts undertaken by the management team to improve transparency and investor communication within the confines of its strict client NDAs.

Ahead of the unveiling of its new segmental classifications, we believe the revised format of its outlook statement – while subtle, provides investors with greater clarity over the operating environment. This should help instill confidence, despite the earnings blip.

**Upside from opportunities arising from customer M&As, diversion of US-China trade flows.** Similar to the previous quarter, Venture reiterated that current trade tariffs do not have a material impact on the group.

While customer M&As (such as Illumina's acquisition of rival Pacific Biosciences) and US-China trade developments may be a noise in the near-term, these could give rise to new business opportunities for the group going forward, driving further earnings upside.

**Maintain BUY; TP adjusted to S\$21.30.** We have lowered our growth assumptions for FY18F/19F by 8%/6%, mainly to adjust for the 3Q18 earnings shortfall and near-term transitional effects. Against a valuation multiple of 15.8x PE (based on global peers' average) on blended FY18F/19F earnings, we derive a lower TP of S\$21.30.

Maintain BUY!

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

FY Dec	3Q2017	2Q2018	3Q2018	% chg yoy	% chg qoq
Revenue	1,062	952	770	(27.5)	(19.1)
Cost of Goods Sold	(801)	(685)	(556)	(30.6)	(18.8)
<b>Gross Profit</b>	<b>261</b>	<b>268</b>	<b>214</b>	<b>(17.9)</b>	<b>(19.9)</b>
Other Oper. (Exp)/Inc	(130)	(154)	(122)	(6.6)	(21.0)
<b>Operating Profit</b>	<b>131</b>	<b>113</b>	<b>106</b>	<b>(18.8)</b>	<b>(6.3)</b>
Other Non Opg (Exp)/Inc	0.80	2.02	2.36	194.5	16.4
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.3)	(0.3)	(13.9)	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Pre-tax Profit</b>	<b>131</b>	<b>115</b>	<b>94.7</b>	<b>(27.9)</b>	<b>(17.8)</b>
Tax	(19.9)	(17.3)	(13.9)	(30.3)	(19.5)
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Profit</b>	<b>111</b>	<b>97.9</b>	<b>80.8</b>	<b>(27.5)</b>	<b>(17.5)</b>
Net profit bef Except.	111	97.9	80.8	(27.5)	(17.5)
EBITDA	140	125	118	(15.8)	(5.4)
<b>Margins (%)</b>					
Gross Margins	24.6	28.1	27.8		
Opg Profit Margins	12.3	11.9	13.8		
Net Profit Margins	10.5	10.3	10.5		

Source of all data: Company, DBS Bank

## CRITICAL DATA POINTS TO WATCH

### Critical Factors

**Net margin is a critical factor driving share price, which is currently well supported by changing business mix.** According to our critical factor analysis, Venture's net margins have a direct correlation with its share price. Venture's evolving business mix, with increasing contribution from the Test, Measurement, Medical and Life Science segment and declining contribution from Computer Peripherals and Printing, is likely to improve its margins.

We believe that the specialised nature of the Medical and Life Science segment permits Venture to realise better margins on contracts. However, given potential disruptions to business activity on the back of global supply chain shifts, we have lowered margin assumptions for FY19F to be conservative.

**Growing exposure to attractive, high-growth end markets,** including the Test, Medical and Life Science segments. Venture has established strong relationships with companies researching on Genome sequencing, which could see healthy growth over the medium term with increasing investments and use of MedTech.

Further, an increased focus on lower-cost technologies in healthcare is likely to boost the Test, Measurement, Medical and Life Science segment. The segment has contributed strongly to the top line in recent years, which has helped to offset the weak performance from the Computer Peripherals & Data Storage segments.

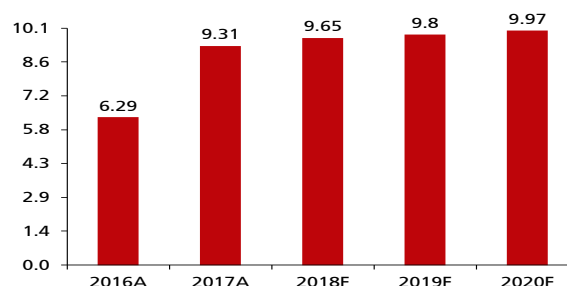
**Stronger USD to benefit Venture.** The bulk of Venture's revenues are derived in SGD. Meanwhile, we estimate that 50-55% of Venture's cost base, excluding COGS, is denominated in MYR. DBS Group Research forecasts the USD/MYR to move to 4.18 by the end of FY18 (compared to 3.93 in 1Q18).

Our sensitivity analysis shows that every 1% depreciation of MYR against USD will increase net profit by c.2%.

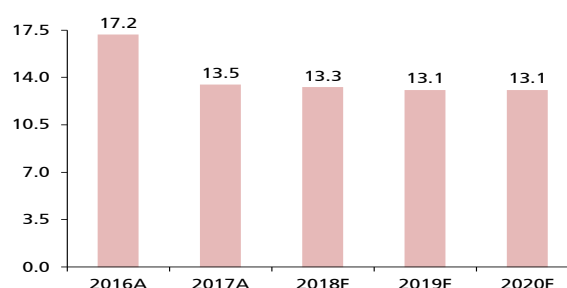
**Newly acquired sites are at catchment areas for high-tech companies, which may benefit Venture.** In 2Q16, Venture acquired a leasehold facility in Batu Kawan, which is almost ready for launch. Located in the Batu Kawan Industrial Park near Penang island, well known for its high-tech electronics manufacturing industry, we believe that Venture could benefit from the proximity to leading tech/manufacturing companies, specialised labour and improved supply chain networks with its presence in this area.

Recently in January 2018, Venture acquired a freehold site in Milpitas (California) within the Silicon Valley, which suggests that bigger plans lie ahead.

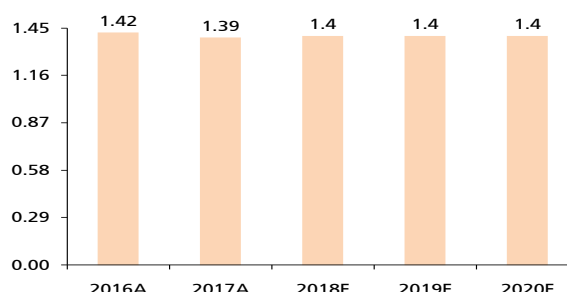
Net margin (%)



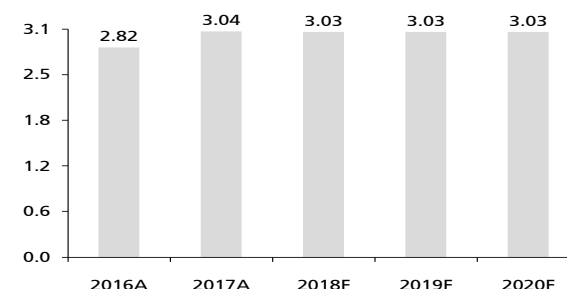
% of SGA (%)



USD/SGD



SGD/MYR



Source: Company, DBS Bank

**Balance Sheet:**

**Strong balance sheet position.** Venture's net cash position has tripled since FY15 to c.\$697.9m as at end-3Q18, which should support expectations that the higher 60-Sct DPS will be repeated in FY18F.

**Share Price Drivers:**

**Consistent quarterly revenue and profit growth over last four years.** Venture has posted consistent revenue and profit growth (excluding exceptional items) over the past 16 quarters (on a y-o-y basis) before 3Q18, despite the weak economic conditions of its customers' markets. We believe the disappointing 3Q18 profit of S\$80.8m (-27.5% y-o-y) is a temporary blip.

The group's strategy of pursuing the more resilient Test, Measurement, Medical and Life Science segment has been successful in generating revenue and profits. We believe the continued demonstration of its successes would result in a more bullish market perception for Venture, and re-rate the stock.

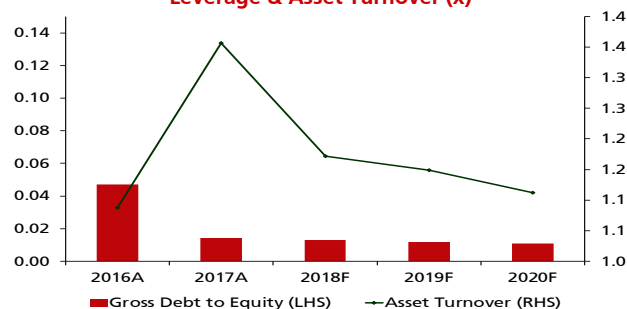
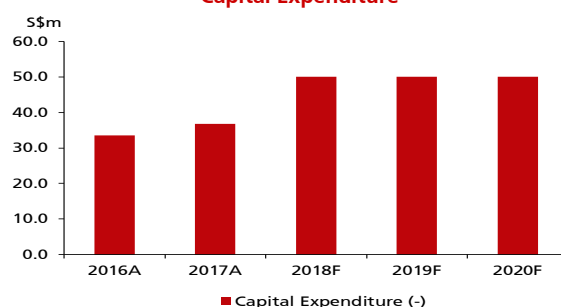
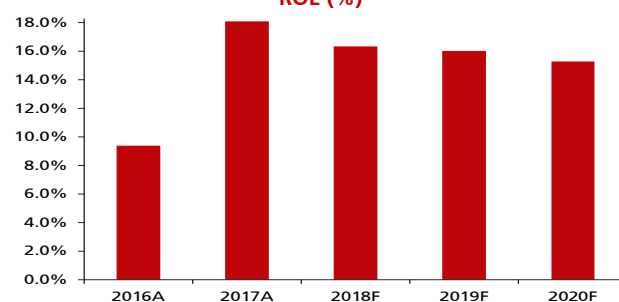
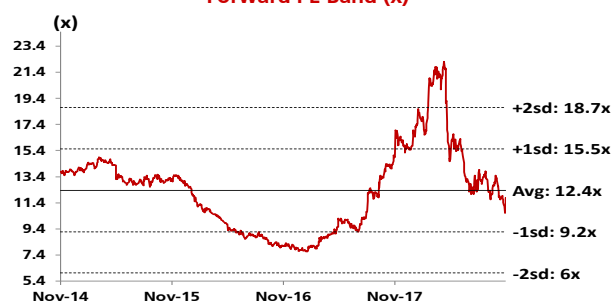
**Key Risks:**

**Dependent on global market conditions.** As Venture has exposure to customers in the US, EU and Asia, a broad global slowdown is likely to impact Venture due to its vulnerability to business cycles. Possible weakness in the Eurozone arising from political instability or the adoption of restrictive trading policies by the US could weaken global growth prospects. We note that most electronic products do not carry tariffs in the US. Deterioration in the world economy could affect corporate spending, which will in turn adversely impact Venture's results.

**Weakening USD could impact the top line.** A weakening USD against SGD and a prolonged accommodative monetary policy could impact Venture's earnings. DBS Group Research forecasts the USD/SGD to move to 1.37 by the end of 2018. Our sensitivity analysis shows that every 1% appreciation of USD against SGD will increase net profit by ~1.9%.

**Company Background**

Venture is a global provider of technology products and solutions. It is best known for its superior capabilities in Original Design Manufacturing (ODM) and in providing high-mix, high-value and complex manufacturing.

**Leverage & Asset Turnover (x)****Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

**Key Assumptions**

FY Dec	2016A	2017A	2018F	2019F	2020F
Net margin (%)	6.29	9.31	9.65	9.80	9.97
% of SGA (%)	17.2	13.5	13.3	13.1	13.1
USD/SGD	1.42	1.39	1.40	1.40	1.40
SGD/MYR	2.82	3.04	3.03	3.03	3.03

**Income Statement (\$m)**

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	2,874	4,005	3,829	4,044	4,151
Cost of Goods Sold	(2,172)	(3,039)	(2,887)	(3,049)	(3,122)
<b>Gross Profit</b>	<b>702</b>	<b>965</b>	<b>942</b>	<b>995</b>	<b>1,030</b>
Other Opng (Exp)/Inc	(491)	(537)	(507)	(527)	(542)
<b>Operating Profit</b>	<b>211</b>	<b>428</b>	<b>435</b>	<b>467</b>	<b>488</b>
Other Non Opng (Exp)/Inc	3.06	3.80	2.00	1.50	1.50
Associates & JV Inc	2.96	1.67	1.67	1.67	1.67
Net Interest (Exp)/Inc	(0.9)	(1.0)	(0.2)	(0.3)	(0.3)
Exceptional Gain/(Loss)	0.0	11.4	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>216</b>	<b>444</b>	<b>438</b>	<b>470</b>	<b>492</b>
Tax	(35.2)	(71.1)	(68.8)	(73.8)	(77.1)
Minority Interest	0.0	0.12	0.12	0.12	0.12
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>181</b>	<b>373</b>	<b>370</b>	<b>396</b>	<b>414</b>
Net Profit before Except.	181	361	370	396	414
EBITDA	263	480	470	507	528
<b>Growth</b>					
Revenue Gth (%)	8.2	39.3	(4.4)	5.6	2.7
EBITDA Gth (%)	15.0	82.3	(2.1)	7.8	4.3
Opg Profit Gth (%)	18.6	103.1	1.6	7.4	4.4
Net Profit Gth (Pre-ex) (%)	17.3	100.1	2.3	7.2	4.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	24.4	24.1	24.6	24.6	24.8
Opg Profit Margin (%)	7.3	10.7	11.4	11.6	11.8
Net Profit Margin (%)	6.3	9.3	9.7	9.8	10.0
ROAE (%)	9.4	18.1	16.3	16.0	15.3
ROA (%)	6.8	12.6	11.3	11.3	11.1
ROCE (%)	8.6	16.9	15.9	15.7	15.0
Div Payout Ratio (%)	77.1	45.7	46.1	43.0	41.2
Net Interest Cover (x)	235.5	422.9	1,794.6	1,515.9	1,582.9

Source: Company, DBS Bank

## Quarterly / Interim Income Statement (\$5m)

FY Dec	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Revenue	1,062	1,086	856	952	770
Cost of Goods Sold	(801)	(794)	(628)	(685)	(556)
<b>Gross Profit</b>	<b>261</b>	<b>293</b>	<b>228</b>	<b>268</b>	<b>214</b>
Other Oper. (Exp)/Inc	(130)	(126)	(131)	(154)	(122)
<b>Operating Profit</b>	<b>131</b>	<b>167</b>	<b>97.0</b>	<b>113</b>	<b>106</b>
Other Non Opg (Exp)/Inc	0.80	1.34	1.95	2.02	2.36
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.2)	(0.3)	(0.3)	(13.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>131</b>	<b>168</b>	<b>98.6</b>	<b>115</b>	<b>94.7</b>
Tax	(19.9)	(25.0)	(14.9)	(17.3)	(13.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>111</b>	<b>143</b>	<b>83.7</b>	<b>97.9</b>	<b>80.8</b>
Net profit bef Except.	111	143	83.7	97.9	80.8
EBITDA	140	178	109	125	118

## Growth

Revenue Gth (%)	4.8	2.3	(21.2)	11.2	(19.1)
EBITDA Gth (%)	53.0	26.4	(38.9)	15.2	(5.4)
Opg Profit Gth (%)	59.0	27.5	(41.9)	17.0	(6.3)
Net Profit Gth (Pre-ex) (%)	59.5	28.3	(41.4)	17.0	(17.5)

## Margins

Gross Margins (%)	24.6	27.0	26.6	28.1	27.8
Opg Profit Margins (%)	12.3	15.4	11.3	11.9	13.8
Net Profit Margins (%)	10.5	13.2	9.8	10.3	10.5

## Balance Sheet (\$5m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	203	198	217	230	244
Invts in Associates & JVs	20.3	0.79	2.46	4.13	5.80
Other LT Assets	661	669	669	669	669
Cash & ST Invts	500	752	941	1,103	1,475
Inventory	623	700	736	778	670
Debtors	713	766	766	809	692
Other Current Assets	38.3	58.3	58.3	58.3	58.3
<b>Total Assets</b>	<b>2,759</b>	<b>3,144</b>	<b>3,390</b>	<b>3,652</b>	<b>3,814</b>
ST Debt	92.6	30.8	30.8	30.8	30.8
Creditor	491	591	638	674	593
Other Current Liab	211	352	352	352	352
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.80	1.72	1.72	1.72	1.72
Shareholder's Equity	1,960	2,166	2,365	2,591	2,834
Minority Interests	2.42	2.31	2.19	2.19	2.19
<b>Total Cap. &amp; Liab.</b>	<b>2,759</b>	<b>3,144</b>	<b>3,390</b>	<b>3,652</b>	<b>3,814</b>
Non-Cash Wkg. Capital	673	580	570	618	474
Net Cash/(Debt)	407	722	910	1,072	1,444
Debtors Turn (avg days)	81.5	67.4	73.0	71.1	66.0
Creditors Turn (avg days)	72.5	66.0	78.6	79.5	74.9
Inventory Turn (avg days)	101.3	80.7	91.8	91.7	85.6
Asset Turnover (x)	1.1	1.4	1.2	1.1	1.1
Current Ratio (x)	2.4	2.3	2.4	2.6	3.0
Quick Ratio (x)	1.5	1.6	1.7	1.8	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	36.2	119.2	162.2	162.2	162.2
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, DBS Bank

## Cash Flow Statement (\$\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	216	444	438	470	491
Dep. & Amort.	46.4	46.4	31.2	36.2	36.2
Tax Paid	(33.5)	(50.3)	(68.8)	(73.8)	(77.1)
Assoc. & JV Inc/(loss)	(3.0)	(1.7)	(1.7)	(1.7)	(1.7)
Chg in Wkg.Cap.	(8.2)	13.8	10.1	(48.4)	144
Other Operating CF	13.6	(3.4)	0.0	0.12	0.12
<b>Net Operating CF</b>	<b>231</b>	<b>449</b>	<b>409</b>	<b>383</b>	<b>593</b>
Capital Exp.(net)	(33.5)	(36.7)	(50.0)	(50.0)	(50.0)
Other Invt.(net)	0.0	(15.3)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	31.6	0.0	0.0	0.0
Div from Assoc & JV	1.05	1.08	0.0	0.0	0.0
Other Investing CF	2.06	5.36	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(30.4)</b>	<b>(14.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Div Paid	(138)	(141)	(171)	(171)	(171)
Chg in Gross Debt	(42.0)	(56.3)	0.0	0.0	0.0
Capital Issues	17.7	70.7	0.0	0.0	0.0
Other Financing CF	(1.1)	(25.0)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(164)</b>	<b>(151)</b>	<b>(171)</b>	<b>(171)</b>	<b>(171)</b>
Currency Adjustments	3.33	(30.5)	0.0	0.0	0.0
Chg in Cash	40.5	253	189	162	372
Opg CFPS (\$ cts)	85.9	153	140	152	158
Free CFPS (\$ cts)	71.0	145	126	117	191

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Nov 17	21.99	26.00	BUY
2:	01 Mar 18	26.92	32.20	BUY
3:	26 Apr 18	22.22	27.20	BUY
4:	06 Aug 18	18.60	22.90	BUY

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*

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## DBS Regional Research Offices

### HONG KONG

#### DBS (Hong Kong) Ltd

Contact: Carol Wu  
11th Floor The Center  
99 Queen's Road Central  
Central, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

### 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

### 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

### 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