

Singapore Company Guide

Genting Singapore

Version 20 | Bloomberg: GENS SP | Reuters: GENS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Mar 2020

BUY

Last Traded Price (19 Mar 2020): S\$0.51 (STI : 2,311.00)

Price Target 12-mth: S\$0.80 (58% upside) (Prev S\$1.10)

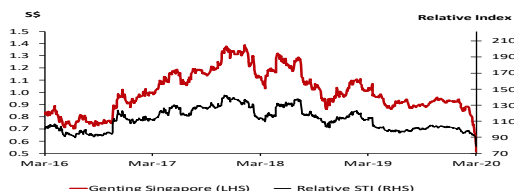
Analyst

Jason SUM +65 66823711 jasonsum@db.com

What's New

- Cut FY20/FY21 EBITDA projection by 26% and 6%
- Bagging Japan IR project seems out of the question
- 7.5-8.0% dividend yield supported by operating cash flows and robust balance sheet
- Maintain BUY with lower TP of S\$0.80

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019A	2020F	2021F
Revenue	2,539	2,480	1,614	2,212
EBITDA	1,230	1,190	606	975
Pre-tax Profit	943	847	308	690
Net Profit	755	689	246	552
Net Pft (Pre Ex.)	758	697	246	552
Net Pft Gth (Pre-ex) (%)	22.5	(8.0)	(64.7)	124.2
EPS (\$ cts)	6.27	5.71	2.04	4.58
EPS Pre Ex. (\$ cts)	6.29	5.78	2.04	4.58
EPS Gth Pre Ex (%)	22	(8)	(65)	124
Diluted EPS (\$ cts)	6.27	5.71	2.04	4.58
Net DPS (\$ cts)	3.50	4.00	4.00	4.00
BV Per Share (\$ cts)	64.6	66.9	65.3	66.4
PE (X)	8.1	8.9	25.0	11.1
PE Pre Ex. (X)	8.1	8.8	25.0	11.1
P/Cash Flow (X)	5.4	5.7	9.9	6.2
EV/EBITDA (X)	2.4	2.1	5.8	4.0
Net Div Yield (%)	6.9	7.8	7.8	7.8
P/Book Value (X)	0.8	0.8	0.8	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.9	8.7	3.1	7.0
Earnings Rev (%):			(51)	(18)
Consensus EPS (\$ cts):			3.8	5.6
Other Broker Recs:		B: 12	S: 0	H: 8

Source of all data on this page: Company, DBS Bank, Thomson Reuters

Too cheap to disregard

Headwinds abound, but share price correction is overdone. We are cutting our FY20/21 earnings before interest, taxes, depreciation and amortisation (EBITDA) estimates on Genting Singapore (GENS) by another 26% and 6% respectively (after slashing our FY20 EBITDA projection in February by 20%), to reflect our expectations of an even more acute drop in tourist arrivals in 2020, and a slight contraction in Singapore's economy (vs marginal growth previously). While we do not see any near term catalysts that could drive a re-rating, (clinching a Japan integrated resorts project is now a remote scenario, and a recovery in earnings might be more drawn-out than expected), its valuation is simply too cheap to ignore, with the stock trading at -2SD (standard deviation) even after factoring our aggressive earnings adjustments. Downside from hereon should be limited, supported by GENS' highly attractive 7.5-8.0% dividend yield.

Where we differ. Below consensus EBITDA estimates, as we expect a steeper decline in gaming volumes, and visitors to its non-gaming attractions.

Valuation:

Our target price (TP) of S\$0.80 is based on a blended valuation framework of forward enterprise value (EV)/EBITDA (6.0x FY2020, -1.5SD from historical average) and discounted cash flow (DCF) (8.5% weighted average cost of capital (WACC), 4x terminal EV/EBITDA multiple).

Key Risks to Our View:

The key risk to our view is if the COVID-19 pandemic prolongs beyond our expectation, and a slower-than-expected economic recovery.

At A Glance

Issued Capital (m shrs)	12,057
Mkt. Cap (\$m/US\$m)	6,149 / 4,238
Major Shareholders (%)	
Genting Bhd	52.5
Free Float (%)	47.8
3m Avg. Daily Val (US\$m)	17.8
GIC Industry : Consumer Discretionary / Consumer Services	



Live more, Bank less

WHAT'S NEW

Revise earnings projection on COVID-19 developments

Cutting FY20/FY21 EBITDA estimates by 26% and 6% respectively, to S\$606.1m (-49.1% y-o-y) in FY20 and S\$974.6m (+60.8% y-o-y) respectively. This is to reflect the following:

1. A 35% decline in 2020 tourist arrivals, owing to more extensive travel restrictions. A ban on Chinese passport holders which was implemented in February, was recently expanded to France, Germany, Italy, Iran, Korea Spain. Furthermore, travellers from all other countries (effective from 21st March) will be required to serve a 14-day stay home notice. At this juncture, additional travel bans are increasingly plausible, with the situation still deteriorating in Europe and North America.
2. Our economists now expect Singapore's gross domestic product (GDP) to contract by 0.5% in 2020, after revising Singapore's GDP growth to 0.9% in early February. Poor domestic consumer sentiment and the resurgence of new COVID-19 cases in Singapore will lead to markedly lower visitors to GENS's casino and attractions.

Expect no reduction in FY20 dividend per share, which translates into a dividend yield of 7.5-8.0% at current price levels. We anticipate GENS to generate around S\$600m of operating cash flow in FY20 despite COVID-19's devastating impact on its operations. Coupled with cash on hand (net cash position of S\$3.7bn as at December 2019), GENS is more than able to cover its mandatory capital expenditure (capex) (Resorts World Sentosa (RWS) 2.0 expansion) and

dividends. Although GENS does not have a fixed dividend policy, we note that the company has never cut dividends on an absolute basis, not even in 2015 when its EBITDA and net profits plunged by 34% and 70% respectively amid a downturn in the gaming sector. Barring a protracted COVID-19 scenario (stretching beyond 3Q19), we do not foresee a reduction in GENS' dividend payout.

Japan IR is a distant dream for now. We are now less sanguine on GENS clinching an integrated resort (IR) project in Japan, following the company's sudden withdrawal from Osaka. GENS is now participating in the request-for-concept for a Yokohama IR, and will likely also participate in Tokyo if it decides to enter the IR race. However, the competition in Yokohama will probably be tougher, with at least five other competitors, namely Las Vegas Sands, Melco Resorts, Wynn Resorts, Galaxy Entertainment and Sega Sammy in the running. Additionally, residents in Yokohama appear to be more opposed to an IR with a casino. The project could be subject to repeated delays, or even be scrapped entirely. Competition in Tokyo will not be any less intense, if it pursues an IR, as casino operators would certainly be drawn to the city's attractive demographics and booming tourism.

Maintain BUY but with lower TP of S\$0.80, after factoring in our negative earnings adjustments. Our BUY call on GENS is largely predicated on its valuation, with the stock trading at -2SD from its historical average. Though it may take time to see a turnaround in GENS' earnings, investors who buy in now can reap a highly attractive 7.8% yield.

CRITICAL DATA POINTS TO WATCH

Critical Factors

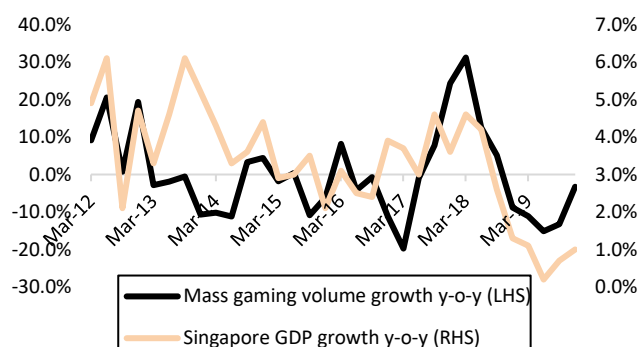
Mass business is not only the largest contributor to its EBITDA, but also its most profitable segment – we estimate its EBITDA margin of 50-55% is significantly higher than the 20-30% range for the VIP business and slightly higher than the 40-45% range for the non-gaming business. Following the COVID-19 outbreak, we now anticipate a steep 25% decline in mass gaming market volumes in 2020, but a strong rebound in 2021, buoyed by a turnaround in the domestic economy, and an uplift from international tourist arrivals. New attractions coupled with increased hotel capacity from RWS' redevelopment plan should stimulate greater mass market volumes over the medium-long term.

Bad debts, primarily stemming from its VIP business, has traditionally dented bottom line when the company is more aggressive with its credit policy. We expect bad debt impairments to remain under control and stay at around S\$15m/quarter (lower than usual run-rate of S\$20m/quarter), underpinned by its stricter credit extension and restraint in attracting excessive number of high rollers, and sharply lower VIP volumes.

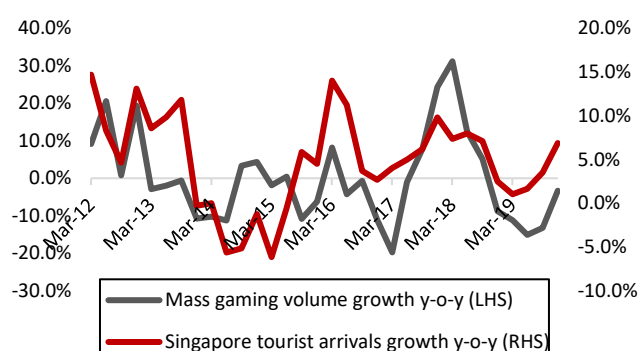
As RWS is one of Singapore's top tourist attractions, an increase in Singapore's tourist arrivals would likely translate into more visitors to the various attractions and casino, and consequently higher revenue. While tourist arrivals are likely to plummet in 1H2020 due to extensive travel restrictions amid the COVID-19 outbreak, we expect pent up travel demand to swiftly materialise and underpin a sharp turnaround from 3Q2020 to pre-outbreak levels over 4Q2020-1Q2021, and a marginal 2-3% decline in 2021 from 2019's level.

VIP business is much more significant in terms of chip volumes, but less impactful to GENS' earnings as both its win rate and profit margin are considerably lower compared to its mass gaming business. VIP volumes will likely be subdued in the near term (due to the COVID-19 outbreak and ban on Chinese tourists which comprises a considerable portion of the business) and weigh heavily on rolling chip volumes in 2020 (-40% y-o-y). Looking ahead, however, we anticipate a sharp 45% increase in 2021 as global economic activity normalises, coupled with an easing of trade tensions between China and the US, and aggressive fiscal stimulus. In the medium term, a full-blown recovery in rolling chip volume will be constrained by GENS' more stringent credit policies, slower economic growth and the clampdown on shadow banking activity in China.

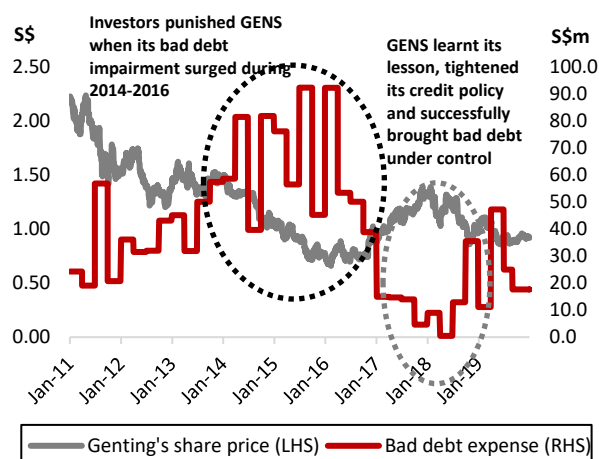
Mass gaming volume against GDP growth



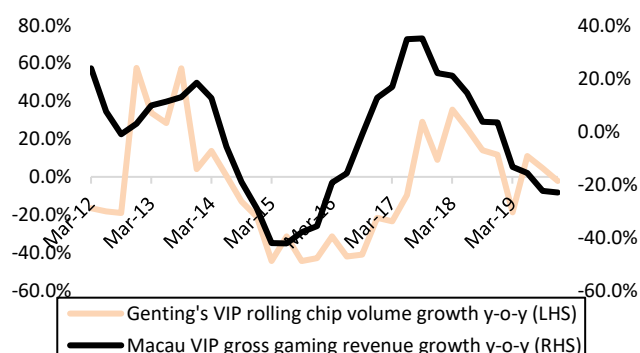
Mass gaming volume against tourist arrivals



Bad debt should trend lower in the short term

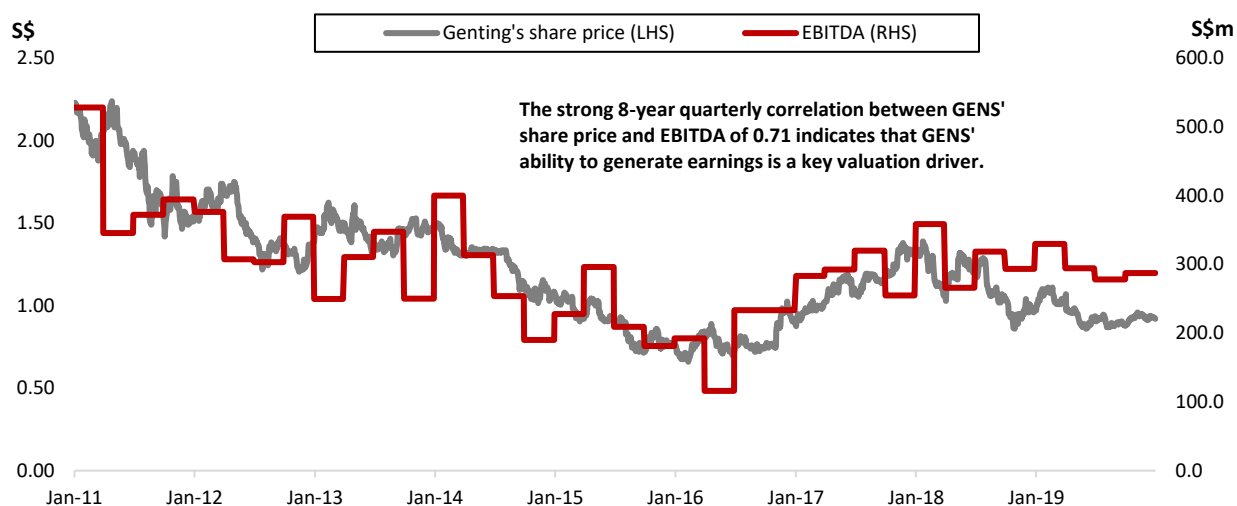


Macau VIP volumes appear to be a good leading indicator



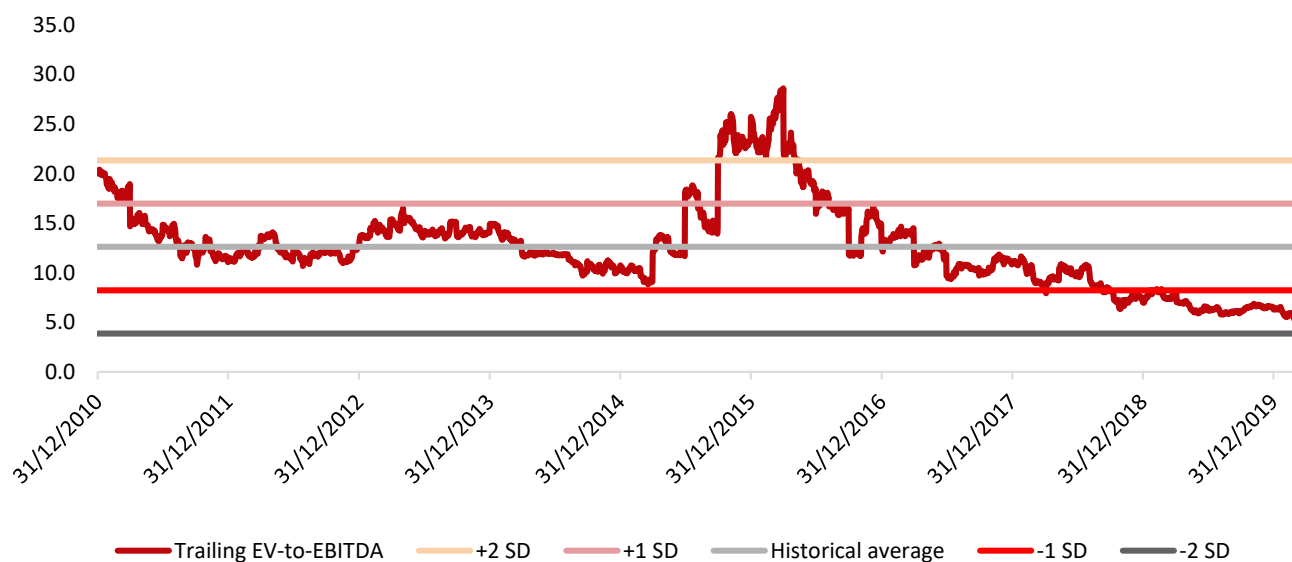
Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



Appendix 2: Genting Singapore's historical EV/EBITDA graph

Trailing EV-to-EBITDA (x)



Source: Bloomberg Finance L.P., DBS Bank

Appendix 2: Regional gaming: Peer comparison

Company	Bloomberg Ticker	Market cap (US\$m)	P/E ratio (x)			EV-to-EBITDA (x)			Dividend yield (%)	Net Debt-to-EBITDA (x)
			19CY	20CY	21CY	19CY	20CY	21CY	20CY	Current
Sands China	1928 HK EQUITY	27,930	21.3x	15.9x	11.4x	15.8x	10.8x	9.1x	7.5%	1.1x
Galaxy Entertainment	27 HK EQUITY	22,286	19.1x	18.6x	12.4x	15.6x	11.7x	8.3x	1.8%	Net cash
Wynn Macau	1128 HK EQUITY	7,298	14.2x	16.0x	9.5x	10.8x	10.3x	7.7x	7.8%	2.3x
SJM Holdings	880 HK EQUITY	4,505	15.7x	25.5x	11.9x	12.5x	13.3x	6.8x	3.4%	Net cash
Melco International	200 HK EQUITY	2,131	46.9x	121.3x	8.3x	8.4x	7.8x	5.6x	0.9%	3.5x
MGM China	2282 HK EQUITY	3,892	46.8x	22.1x	10.1x	18.1x	8.3x	5.9x	2.4%	2.9x
NagaCorp	3918 HK EQUITY	4,463	14.5x	7.8x	6.8x	11.3x	6.2x	5.3x	8.0%	0.3x
		Peer median	19.1x	18.6x	10.1x	12.5x	10.3x	6.8x	3.4%	2.3x
Genting Singapore	GENS SP EQUITY	4,489	16.1x	15.0x	10.2x	6.3x	3.9x	3.2x	7.4%	Net cash

Source: Bloomberg Finance L.P., DBS Bank

Genting Singapore

Balance Sheet:

Net cash position. GENS had net cash of c.S\$3.7bn (S\$3.9bn of cash and restricted cash less gross debt of S\$0.2bn) as at end 4Q-19. With operating cash flows of S\$800m to S\$1.2bn per annum, GENS' financials should remain healthy. The strong balance sheet also allows GENS to raise sufficient debt should it be awarded the rights to develop an IR in Japan which could cost US\$7-12bn, and also to fund the S\$4.5bn redevelopment of RWS.

Share Price Drivers:

Attractive valuation. We believe a significant portion of the negative impact on near term earnings and a more cautious outlook have been priced in with GENS trading at c.4.4x EV/EBITDA (FY20) multiple which is at -2.0SD from its historical average. We believe the current share price weakness presents an attractive entry point.

Expansion into Japan. The Japanese government recently approved the development of integrated resorts. A successful bid for such a project would boost the long term earnings potential of the group which would drive GENS' share price higher.

Key Risks:

Hard landing in China. A hard landing in China would present downside risk to our earnings estimates as this may impact the ability of GENS' Chinese customers to gamble at its properties.

Credit risks. GENS extends credit to its VIP customers. If it is unable to recover its receivables, GENS may face higher levels of bad debts.

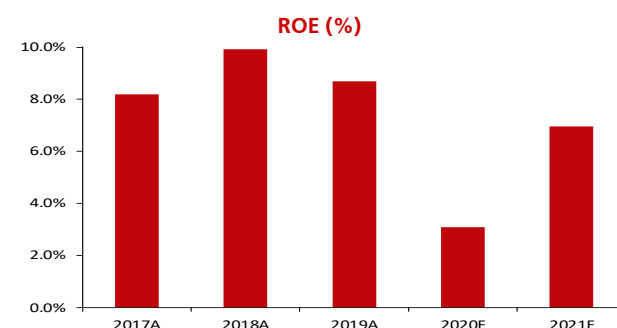
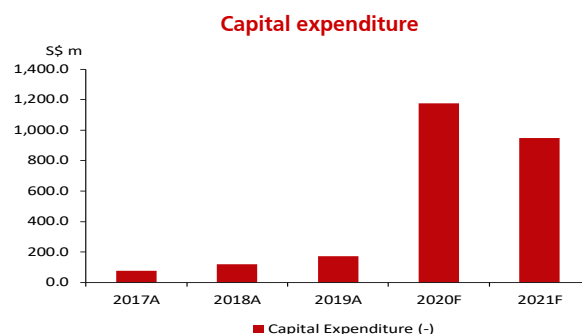
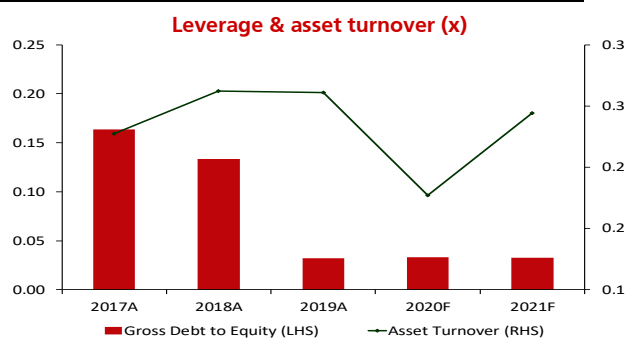
Competition from other markets. Other markets in Asia including Macau, Philippines, Vietnam, Cambodia and potentially Hainan Island have been developing new integrated resorts which may draw GENS' customers away.

Environmental, Social, Governance (ESG):

As one of the largest casino operators in Southeast Asia, GENS' operations have a profound bearing on Singapore's social development. GENS has fared well over the years, consistently besting its regional peers on the ESG front. RWS became the first casino in Asia Pacific to receive Responsible Gambling (RG) check accreditation from the Responsible Gambling Council (RGC). Though GENS has been slapped with five fines by the Casino Regulatory Authority for minor non-compliance cases, the company has already implemented corrective actions.

Company Background

Genting Singapore (GENS) operates Resorts World Singapore (RWS) which is one of the largest fully integrated resorts in Southeast Asia (SEA). RWS consist of convention facilities, hotels, food & beverage and retail outlets, Universal Studios Singapore and a casino.



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$m)					
Singapore IR	2,390	2,537	2,478	1,611	2,209
Others	2.11	2.56	2.81	2.81	2.81
Total	2,393	2,539	2,480	1,614	2,212
EBITDA (\$m)					
Singapore IR	1,172	1,261	1,232	636	1,005
Others	(20.9)	(31.0)	(42.7)	(30.0)	(30.0)
Total	1,151	1,230	1,190	606	975
EBITDA Margins (%)					
Singapore IR	49.0	49.7	49.7	39.5	45.5
Others	nm	nm	nm	nm	nm
Total	48.1	48.4	48.0	37.5	44.1

Income Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	2,393	2,539	2,480	1,614	2,212
Cost of Goods Sold	(1,318)	(1,385)	(1,420)	(1,194)	(1,389)
Gross Profit	1,075	1,154	1,060	420	822
Other Opng (Exp)/Inc	(207)	(240)	(260)	(185)	(212)
Operating Profit	868	914	800	234	610
Other Non Opg (Exp)/Inc	(29.7)	(8.9)	(7.6)	(9.5)	(9.5)
Associates & JV Inc	3.39	3.96	3.99	3.99	3.99
Net Interest (Exp)/Inc	35.4	36.4	59.6	78.9	85.7
Exceptional Gain/(Loss)	(17.4)	(2.4)	(8.9)	0.0	0.0
Pre-tax Profit	860	943	847	308	690
Tax	(174)	(188)	(158)	(61.6)	(138)
Minority Interest	(84.6)	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	601	755	689	246	552
Net Profit before Except.	618	758	697	246	552
EBITDA	1,151	1,230	1,190	606	975
Growth					
Revenue Gth (%)	7.4	6.1	(2.3)	(34.9)	37.0
EBITDA Gth (%)	47.8	6.8	(3.3)	(49.1)	60.8
Opg Profit Gth (%)	80.0	5.3	(12.5)	(70.7)	160.1
Net Profit Gth (Pre-ex) (%)	141.8	22.5	(8.0)	(64.7)	124.2
Margins & Ratio					
Gross Margins (%)	44.9	45.4	42.7	26.0	37.2
Opg Profit Margin (%)	36.3	36.0	32.2	14.5	27.6
Net Profit Margin (%)	25.1	29.7	27.8	15.3	25.0
ROAE (%)	8.2	9.9	8.7	3.1	7.0
ROA (%)	5.7	7.8	7.2	2.7	6.1
ROCE (%)	6.9	8.1	7.4	2.2	5.8
Div Payout Ratio (%)	70.1	55.8	70.0	195.7	87.3
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

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

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	639	665	640	637	596
Cost of Goods Sold	(334)	(410)	(351)	(383)	(359)
Gross Profit	305	254	289	254	237
Other Oper. (Exp)/Inc	(58.5)	(72.6)	(52.1)	(64.0)	(59.4)
Operating Profit	247	182	237	190	177
Other Non Opg (Exp)/Inc	(0.8)	(3.6)	1.98	2.31	0.0
Associates & JV Inc	1.21	1.05	1.01	1.19	1.04
Net Interest (Exp)/Inc	9.91	11.4	12.6	10.6	18.2
Exceptional Gain/(Loss)	0.0	1.44	(4.3)	5.40	3.09
Pre-tax Profit	257	192	248	209	200
Tax	(46.6)	(41.9)	(42.9)	(41.0)	(40.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	210	150	205	168	159
Net profit bef Except.	210	149	210	163	156
EBITDA	319	294	330	294	278

Growth

Revenue Gth (%)	14.1	4.0	(3.7)	(0.6)	(6.4)
EBITDA Gth (%)	19.9	(7.9)	12.3	(10.7)	(5.6)
Opg Profit Gth (%)	25.6	(26.3)	30.4	(19.9)	(6.7)
Net Profit Gth (Pre-ex) (%)	32.0	(29.3)	41.1	(22.3)	(4.4)

Margins

Gross Margins (%)	47.8	38.3	45.2	39.9	39.7
Opg Profit Margins (%)	38.6	27.3	37.0	29.8	29.7
Net Profit Margins (%)	32.9	22.6	32.1	26.4	26.7

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	5,069	4,857	4,667	5,497	6,108
Invt in Associates & JVs	54.3	58.3	62.2	66.2	70.2
Other LT Assets	345	326	387	361	335
Cash & ST Invt	3,834	4,214	3,947	2,910	2,470
Inventory	48.6	48.8	48.7	38.1	46.7
Debtors	127	144	137	91.5	125
Other Current Assets	129	119	0.0	0.0	0.0
Total Assets	9,607	9,767	9,250	8,963	9,155
ST Debt	203	206	3.99	3.99	3.99
Creditor	463	455	489	388	450
Other Current Liab	200	202	210	210	210
LT Debt	1,013	832	257	257	257
Other LT Liabilities	286	291	232	232	232
Shareholder's Equity	7,442	7,781	8,058	7,873	8,002
Minority Interests	0.00	0.00	0.00	0.00	0.00
Total Cap. & Liab.	9,607	9,767	9,250	8,963	9,155
Non-Cash Wkg. Capital	(358)	(345)	(513)	(468)	(488)
Net Cash/(Debt)	2,618	3,176	3,687	2,649	2,209
Debtors Turn (avg days)	24.8	19.5	20.7	25.9	17.9
Creditors Turn (avg days)	143.3	156.5	167.2	194.5	149.2
Inventory Turn (avg days)	19.4	16.6	17.3	19.2	15.1
Asset Turnover (x)	0.2	0.3	0.3	0.2	0.2
Current Ratio (x)	4.8	5.2	5.9	5.1	4.0
Quick Ratio (x)	4.6	5.1	5.8	5.0	3.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	6.3	11.5	65.8	450.8	364.5
Z-Score (X)	6.3	4.7	6.4	6.3	6.3

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	860	943	847	308	690
Dep. & Amort.	283	316	390	372	365
Tax Paid	(78.2)	(181)	(207)	(61.6)	(138)
Assoc. & JV Inc/(loss)	(3.4)	(4.0)	(4.0)	(4.0)	(4.0)
Chg in Wkg.Cap.	197	(25.1)	41.2	(45.3)	19.9
Other Operating CF	858	1,041	866	359	750
Net Operating CF	1,256	1,146	1,086	619	992
Capital Exp.(net)	(76.1)	(120)	(172)	(1,175)	(950)
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	0.0	0.0	0.0	0.0	0.0
Other Investing CF	533	14.3	(74.9)	0.0	0.0
Net Investing CF	457	(105)	(246)	(1,175)	(950)
Div Paid	(361)	(422)	(422)	(482)	(482)
Chg in Gross Debt	(195)	(210)	(785)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(2,219)	(32.0)	102	0.0	0.0
Net Financing CF	(2,775)	(664)	(1,105)	(482)	(482)
Currency Adjustments	(67.5)	2.86	(1.0)	0.0	0.0
Chg in Cash	(1,130)	380	(267)	(1,038)	(440)
Opg CFPS (\$ cts)	8.79	9.72	8.66	5.51	8.07
Free CFPS (\$ cts)	9.79	8.52	7.58	(4.6)	0.35

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Apr 19	0.97	1.54	BUY
2:	10 May 19	0.94	1.20	BUY
3:	05 Aug 19	0.89	1.20	BUY
4:	02 Sep 19	0.89	1.20	BUY
5:	08 Nov 19	0.94	1.20	BUY
6:	09 Nov 19	0.94	1.20	BUY
7:	13 Feb 20	0.89	1.10	BUY

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

Source: DBS Bank

Analyst: Jason SUM

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 20 Mar 2020 10:11:52 (SGT)

Dissemination Date: 20 Mar 2020 12:00:52 (SGT)

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
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

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: indonesiaresearch@dbs.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