

Singapore Company Guide

Mapletree Industrial Trust

Version 19 | Bloomberg: MINT SP | Reuters: MAPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Apr 2020

BUY

Last Traded Price (27 Apr 2020): S\$2.44 (STI : 2,549.40)

Price Target 12-mth: S\$2.70 (11% upside)

Analyst

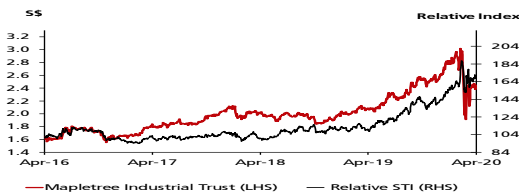
Derek TAN +65 6682 3716 derektan@db.com

Dale LAI +65 66823715 dalelai@db.com

What's New

- Retention of S\$6.6m in distributions (c.3%) as a buffer for uncertainties ahead
- Metrics to remain stable in the face of a sharp economic contraction
- Datacenter portfolio to contribute positively in FY21F
- Maintain BUY and S\$2.70 TP

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2019A	2020A	2021F	2022F
Gross Revenue	376	406	393	415
Net Property Inc	288	318	295	314
Total Return	271	367	264	274
Distribution Inc	232	265	270	281
EPU (S cts)	12.5	15.0	12.0	12.1
EPU Gth (%)	0	20	(20)	1
DPU (S cts)	12.2	12.2	12.3	12.4
DPU Gth (%)	3	1	0	1
NAV per shr (S cts)	151	162	161	159
PE (X)	19.5	16.3	20.3	20.2
Distribution Yield (%)	5.0	5.0	5.0	5.1
P/NAV (x)	1.6	1.5	1.5	1.5
Aggregate Leverage (%)	28.1	29.3	31.6	31.6
ROAE (%)	8.2	9.6	7.4	7.5

Distr. Inc Chng (%)		0	0
Consensus DPU (S cts)		12.7	13.2
Other Broker Recs:	B: 8	S: 4	H: 4

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

A position of strength

Maintain BUY and TP of S\$2.70. We maintain our BUY call with TP of S\$2.70 on Mapletree Industrial Trust (MINT). MINT is fast becoming an alternative data centre play and has ample capacity for strategic acquisitions in the US. TP maintained at S\$2.70.

Where we differ: An expected dip operational performance. The current COVID-19 outbreak has disrupted tenant operations and the Manager has proactively offered a rental relief package to its tenants (ranging from 0.5-1.5 months), in line with market practice. The Manager has also turned cautious in the face of an economic recession. That said, the REIT's asset diversity and contribution from its recently acquired datacenter portfolio should push distributions higher. Our estimates are c.7% below consensus given more conservative forecasts.

Attractive "land bank" in Singapore. We believe MINT can surprise on the upside in terms NAV, and acquisitions in the medium term. The redevelopment of its "land bank" of older flatted factories like the Kolam Ayer cluster should help to increase portfolio GFA and drive medium-term growth in distributions and NAV. These should continue to keep valuations at a premium.

Valuation:

MINT's resilience is a valued trait in this market which would support its higher valuations. We maintain our BUY call with TP of S\$2.70 based on DCF.

Key Risks to Our View:

Rising interest rates. An increase in refinancing rates will be negative to distributions.

At A Glance

Issued Capital (m shrs)	2,201
Mkt. Cap (\$m/US\$m)	5,370 / 3,785
Major Shareholders (%)	
Temasek Holdings Pte Ltd	29.4
Schroders Plc	5.0
Free Float (%)	65.6
3m Avg. Daily Val (US\$m)	20.3
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

WHAT'S NEW

FY20 DPU (after retention) in line

(+) FY20 DPU in line with expectations (after retention, if not above). The COVID-19 outbreak has dented the outlook for Mapletree Industrial Trust (MINT) somewhat with the Manager opting to take the safe route by withholding S\$6.6m of tax-exempt income from its US data-centers in 4Q20 for better flexibility in cash management. For the full year, FY20 revenues and net property income (NPI) rose by 7.9% and 10.5% respectively to S\$405.6m and S\$318.1m respectively. The stronger operational numbers were primarily from the past acquisitions of 18 Tai Seng, 7 Tai Seng and Mapletree Sunview 1. As a result, distributable income rose by 14.5% to S\$265.3m. After retaining S\$6.6m, this translates to a DPU of 12.24 Scts, 0.7% higher y-o-y. This is in line with our projections.

(-) Slower momentum ahead. 4QFY20 revenues and NPI while higher by 3.0% and 3.2% on a y-o-y basis, were notably lower compared to a quarter ago with revenues and NPI down 0.8% and 4.5%, mainly due to the winding down of Kolam Ayer 2 Cluster which will be upgraded into a new development as well as higher operational expenses. Looking ahead, we anticipate q-o-q weakness in the near term given S\$13.7m in rental reliefs provided to tenants under its COVID-19 Assistance and Relief Programme on top of S\$10.5m in property tax rebates (from government) to tenants. We have factored these expenses in FY21 distribution projections.

(-/+) Higher gearing levels, but other metrics remain solid. Valuations on a like-for-like basis increased marginally (S\$79.7m + capitalised cost of S\$31.9m) for the SG portfolio mainly due to higher valuations for its Hi-specification properties, business parks and stack-up/ramp-up factories offset by a slight decline in values for its flatted factories, which we reckon is due to the shorter land tenures. NAV per share increased to S\$1.62 as a result. Balance sheet remains strong with a weighted average debt tenure of 4.7 years with interest cost stable at 2.9% (down 10bps y-o-y). Approximately 73.4% of its interest cost has been hedged into fixed rates. Interest coverage ratio remains high at 7.7x.

(+) Operating metrics resilient. Portfolio occupancy rates remained stable at 91.5% (vs 90.9% in 3QFY20) with retention rate high at c.78% for the quarter. We saw an overall improvement in occupancy rates in Singapore (90.7%

in 4Q20) with improvement across most asset classes - Hi-Tech hit a high of 98.8% (vs 98.4% in 3Q20), Business Parks at 86.1% (vs 85.1% in 3QFY20) due to improvement in occupancy rates at The Strategy building, stack-ups improved to 94.0% from 90.4%, while light industrial buildings remained stable at 80.0%. MINT's flatted factories saw a slight dip to 86.2% (vs 87.5% a quarter ago) mainly due to progressive re-location of tenants at Kolam Ayer cluster, as the redevelopment of the site is expected to commence in 2H of 2020. The Manager reported that arrears ratio is low at 0.2% as of end FY20 but may rise if more tenants seek shelter under the COVID-19 (Temporary Measures) Act.

(-) Rental reversionary trends mixed; but may turn down in FY21. While green shoots were emerging with rental reversionary trends turning positive /flattish for most subsectors (with the exception for new leases for flatted factory space which is due to discounts given to tenants relocating out of the Kolam Ayer Cluster), we anticipate that rental reversionary trends may turn down in FY21F given the expected economic downturn. With the Singapore economy expected to contract, the manufacturing sector is expected to be impacted somewhat and MINT, being one of the largest landlords in Singapore, will likely be affected. We believe that the Manager will take on the strategy of managing occupancy (if able to) and forego rental growth in FY21 in order to defend cashflows going into the recession.

Limiting downside risk is a long WALE of 3.4 years for its Singapore portfolio, with c.17.7% of leases up for renewal in FY21F. The full year contribution from the acquisition of its US data-center portfolio will also provide a buffer against a lower y-o-y performance.

(+) Robust outlook driven by acquisitions and continued asset rejuvenation. Looking ahead, we remain excited about the outlook for MINT, driven by ongoing asset rejuvenation from the development of Kolam Ayer 2 cluster (S\$263m development costs, completing in 2H2022), and boost in distributions from the acquisition of 13 data-centers in the USA together with its Sponsor. While timing may be delayed till a more stable outlook post COVID-19, the availability of a pipeline remains an attractive prospect for investors.

Mapletree Industrial Trust

Quarterly / Interim Income Statement (\$m)

FY Mar	4Q2019	3Q2020	4Q2020	% chg yoy	% chg qoq
Gross revenue	98.8	103	102	3.0	(0.8)
Property expenses	(23.0)	(20.8)	(23.5)	2.5	13.5
Net Property Income	75.9	81.9	78.3	3.2	(4.5)
Other Operating expenses	(8.7)	(9.2)	(8.5)	(1.8)	(7.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	13.2	6.85	60.9	361.8	789.3
Net Interest (Exp)/Inc	(10.3)	(9.9)	(10.7)	(3.6)	(7.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	70.0	69.6	120	71.3	72.3
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	70.0	69.6	120	71.2	72.4
Total Return	101	69.6	171	69.4	145.5
Non-tax deductible Items	(40.9)	(6.8)	(102)	148.6	1,391.1
Net Inc available for Dist.	59.9	69.4	69.2	15.4	(0.4)
Ratio (%)					
Net Prop Inc Margin	76.8	79.8	76.9		
Dist. Payout Ratio	100.0	100.0	97.0		

Source of all data: Company, DBS Bank

Key Statistics

Key operational data	4Q 19/20	3Q 19/20	%q-o-q	4Q 18/19	% y-o-y
Portfolio WALE (years)	4.2	3.9	0.3	3.6	0.6
Portfolio occupancies (%)	90.7%	90.5%	0.2%	89.8%	0.9%
- Flatted factories	86.2%	87.5%	-1.3%	87.9%	-1.7%
- Hi-tech buildings	98.8%	98.4%	0.4%	94.7%	4.1%
- Business park buildings	86.1%	85.1%	1.0%	79.4%	6.7%
- Stack-up/Ramp-up buildings	94.0%	90.4%	3.6%	91.6%	2.4%
- Light industrial buildings	80.0%	81.0%	-1.0%	97.5%	-17.5%
Passing rents (\$\$) psf / mth					
- Flatted factories	1.74	1.76	(0.02)	1.78	(0.04)
- Hi-tech buildings	2.94	2.92	0.02	2.84	0.10
- Business park buildings	3.67	3.64	0.03	3.76	(0.09)
- Stack-up/Ramp-up buildings	1.27	1.28	(0.01)	1.28	(0.01)
Rent renewal (\$\$) psf / mth					
- Flatted factories	1.87	1.79	0.08	1.73	0.14
- Hi-tech buildings	4.55	2.11	2.44	2.13	2.42
- Business park buildings	3.66	4.01	(0.35)	3.94	(0.28)
- Stack-up/Ramp-up buildings	1.32	1.26	0.06	1.18	0.14
New leases (\$\$) psf / mth					
- Flatted factories	1.73	1.54	0.19	1.63	0.10
- Hi-tech buildings	4.46	2.26	2.20	3.49	0.97
- Business park buildings	3.68	4.14	(0.46)	3.62	0.06
- Stack-up/Ramp-up buildings	1.26	1.13	0.13	1.20	0.06

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

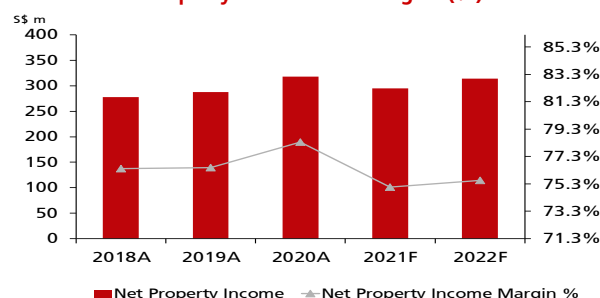
Offering high level of income visibility and stability. MINT has consistently delivered portfolio occupancy rates averaging around 90%, which have been steady across market cycles. This is mainly due to its diversified asset portfolio and a wide base of tenants in different industries. There is therefore no industry-specific concentration risk, meaning that performance is likely to remain stable across market cycles.

Industrial sector projected to turn around in 2020. We believe that the industrial sector will bottom out at in 1H2020 after the large supply of new industrial properties that were completed last year have been taken up. That said, the COVID-19 outbreak will likely bring this growth to a halt. With downside risks from an economic recession in 2020, we believe that rents are likely to turn down instead in 2021.

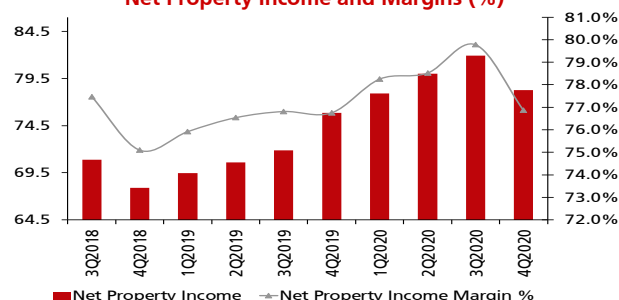
Improving portfolio quality through strategic moves in the data-centre space. We like the recent acquisitions of 18 Tai Seng, a quality high-specification industrial property located in Paya Lebar iPark, and two portfolios of data centres in the US. We see a concerted effort to upgrade its portfolio to better-specification properties (data centres, high-specification industrial properties, business parks), which will help MINT to maintain its premium P/NAV multiples to the market. Concerns on the weakness from its flatted factory portfolio will dissipate over time as its exposure to this asset class gets diluted on the back of its acquisition activities. We like it that management is taking incremental steps towards diversification which aims to limit earnings volatility for investors.

Development opportunities with upside in NAV and earnings in the medium term. The manager has over time looked within its portfolio and enhanced its value through planned redevelopments - Telok Blangah cluster redeveloped into a built-to-suit project for Hewlett Packard, 30A Kallang Place property on top of a carpark, and is commencing its biggest redevelopment of Kolam Ayer Cluster into a high-specification industrial property. These developments would be value-accretive to MINT, allowing it to extract unutilised plot ratios and additional gross floor area (GFA) for lease. On its books is another opportunity with Kaki Bukit cluster, which when executed should drive significant upside in valuations and earnings in the medium term.

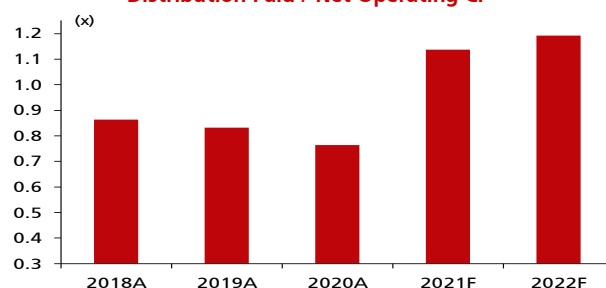
Net Property Income and Margins (%)



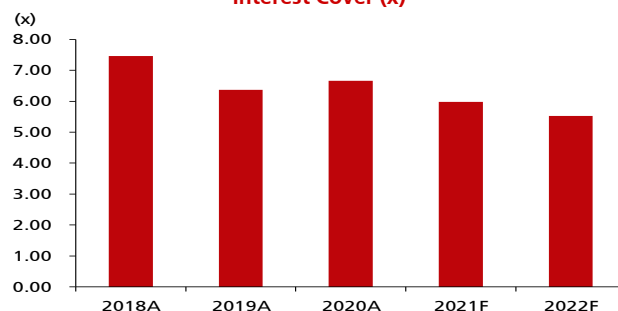
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Mapletree Industrial Trust

Balance Sheet:

Low gearing allows for opportunistic acquisitions and developments. Gearing is projected to rise to c.33% (on a see-through basis: c.37%) in FY21-22F implying that the manager may look to re-start its dividend reinvestment scheme to pare it down over time.

Stable weighted average debt-to-maturity. MINT has a well-staggered debt profile with most debt due for repayment only from FY21 onwards. With c.70% of its borrowings on fixed interest rates, MINT is well protected against future increases in interest rates.

Share Price Drivers:

Better-than-expected rental reversions/acquisitions will boost earnings and share price. We are forecasting modest rental uplifts of 0-3%. The REIT's ability to maintain or beat expectations will mean upside to our/consensus forecasts. In addition, acquisitions or further development projects which are accretive to earnings will likely result in upside to its TP and share price.

Key Risks:

Rising interest rates. An increase in refinancing rates will negatively impact distributions. However, MINT has minimised the impact as c.73% of its interest cost has been fixed.

Economic risk. A deterioration in the economic outlook could have a negative impact on industrial rents and occupancies as companies cut back on production and require less space. Industrial rents have a strong historical correlation with GDP growth.

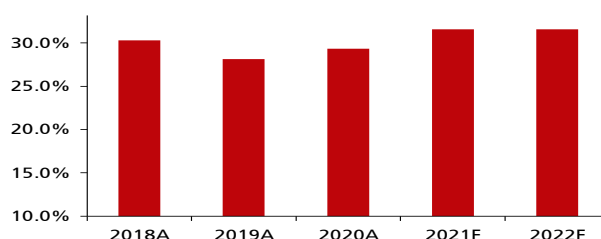
Environment, Social, Governance:

MINT's third Sustainability Report for its Singapore portfolio has enabled it to accumulate a moderate disclosure score with clarity and transparency in ESG and financial reports. As part of MINT's endeavours towards sustainability, the process of attaining or renewing green building certifications for the REIT's portfolio is reviewed during its monthly engineering forums. Total building electricity consumption has decreased by 3.2% and total building greenhouse gas emissions have been reduced by 4.4% from FY17/18.

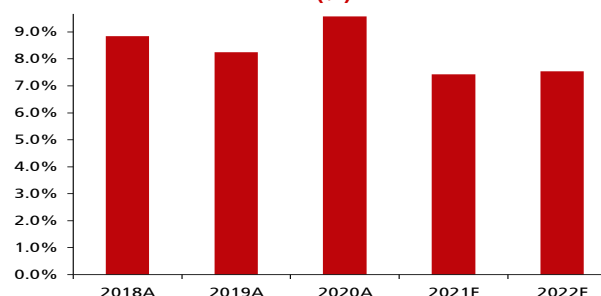
Company Background

Mapletree Industrial Trust (MINT) is a real estate investment trust which invests primarily in income-producing industrial assets located in Singapore. Its portfolio includes a diverse mix of business parks, hi-tech industrial buildings, ramp-up buildings and flatted factories.

Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Gross revenue	363	376	406	393	415
Property expenses	(85.6)	(88.3)	(87.8)	(98.0)	(101)
Net Property Income	278	288	318	295	314
Other Operating expenses	(31.1)	(33.7)	(35.8)	(36.9)	(39.6)
Other Non Opg (Exp)/Inc	0.02	0.0	0.0	0.0	0.0
Associates & JV Inc	21.8	26.1	76.5	49.4	49.3
Net Interest (Exp)/Inc	(33.0)	(39.9)	(42.4)	(43.2)	(49.6)
Exceptional Gain/(Loss)	(0.2)	0.0	0.0	0.0	0.0
Net Income	235	240	316	264	274
Tax	0.0	0.0	(0.1)	0.0	0.0
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 Income After Tax	235	240	316	264	274
Total Return	301	271	367	264	274
Non-tax deductible Items	(84.7)	(39.4)	(102)	5.87	7.05
Net Inc available for Dist.	216	232	265	270	281
Growth & Ratio					
Revenue Gth (%)	6.7	3.5	7.9	(3.1)	5.6
N Property Inc Gth (%)	8.1	3.7	10.5	(7.2)	6.3
Net Inc Gth (%)	17.3	2.3	31.6	(16.4)	3.6
Dist. Payout Ratio (%)	100.0	100.0	97.4	100.0	100.0
Net Prop Inc Margins (%)	76.4	76.5	78.4	75.1	75.6
Net Income Margins (%)	64.7	63.9	77.9	67.3	66.0
Dist to revenue (%)	59.4	61.6	65.4	68.8	67.7
Managers & Trustee's fees	8.6	9.0	8.8	9.4	9.5
ROAE (%)	8.8	8.2	9.6	7.4	7.5
ROA (%)	5.9	5.5	6.5	5.0	5.0
ROCE (%)	6.4	5.9	5.9	5.0	5.1
Int. Cover (x)	7.5	6.4	6.7	6.0	5.5

Source: Company, DBS Bank

Dip in topline projected from rental reliefs, lower reversions.

Mapletree Industrial Trust

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

FY Mar	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Gross revenue	98.8	99.6	102	103	102
Property expenses	(23.0)	(21.7)	(21.9)	(20.8)	(23.5)
Net Property Income	75.9	77.9	80.0	81.9	78.3
Other Operating expenses	(8.7)	(8.9)	(9.1)	(9.2)	(8.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	22	26	77	49	49
Net Interest (Exp)/Inc	(10.3)	(10.5)	(11.3)	(9.9)	(10.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	70.0	62.8	64.0	69.6	120
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	70.0	62.8	64.0	69.6	120
Total Return	101	62.8	64.0	69.6	171
Non-tax deductible Items	(40.9)	0.42	(0.5)	(6.8)	(102)
Net Inc available for Dist.	59.9	63.2	63.5	69.4	69.2
Growth & Ratio					
Revenue Gth (%)	6	1	2	1	(1)
N Property Inc Gth (%)	6	3	3	2	(4)
Net Inc Gth (%)	22	(10)	2	9	72
Net Prop Inc Margin (%)	76.8	78.3	78.5	79.8	76.9
Dist. Payout Ratio (%)	200.0	200.0	200.0	200.0	200.0

Balance Sheet (\$\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Investment Properties	3,908	4,336	4,473	4,572	4,971
Other LT Assets	183	195	645	645	645
Cash & ST Invt	37.4	40.0	53.4	66.3	66.1
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	26.0	35.3	16.1	18.8	19.9
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	4,154	4,607	5,188	5,302	5,702
ST Debt	185	75.0	1.28	91.3	331
Creditor	103	105	94.8	115	121
Other Current Liab	0.27	0.48	4.93	4.93	4.93
LT Debt	1,033	1,322	1,458	1,463	1,468
Other LT Liabilities	52.7	57.7	68.4	68.4	68.4
Unit holders' funds	2,780	3,048	3,560	3,559	3,708
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	4,154	4,607	5,188	5,302	5,702
Non-Cash Wkg. Capital	(77.4)	(69.8)	(83.6)	(101)	(106)
Net Cash/(Debt)	(1,181)	(1,357)	(1,406)	(1,488)	(1,733)
Ratio					
Current Ratio (x)	0.2	0.4	0.7	0.4	0.2
Quick Ratio (x)	0.2	0.4	0.7	0.4	0.2
Aggregate Leverage (%)	30.3	28.1	29.3	31.6	31.6
Z-Score (X)	2.5	2.3	2.4	2.4	2.2

Gearing will be c.37% on a pass-through level instead.

Source: Company, DBS Bank

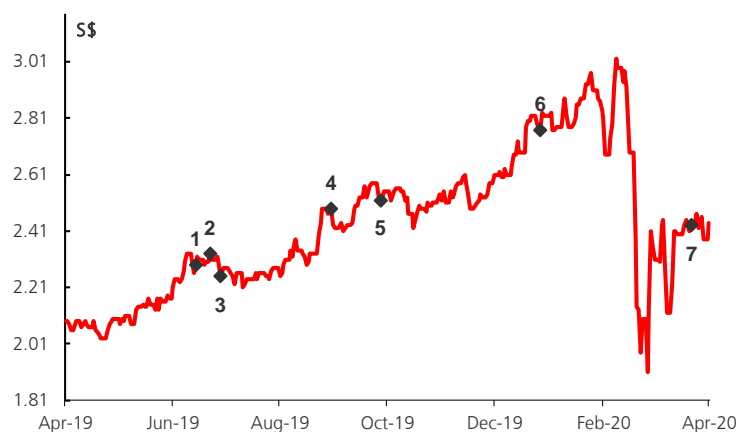
Mapletree Industrial Trust

Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	235	271	367	264	274
Dep. & Amort.	0.01	0.01	0.55	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	(21.8)	(26.1)	(76.5)	(49.4)	(49.3)
Chg in Wkg.Cap.	3.15	(7.9)	3.06	17.4	5.42
Other Operating CF	29.1	7.83	(7.4)	5.22	5.60
Net Operating CF	246	245	287	238	236
Net Invnt in Properties	(101)	(384)	(50.1)	(98.9)	(399)
Other Invt (net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(173)	0.0	(394)	0.0	0.0
Div from Assoc. & JVs	0.0	14.6	17.8	49.4	49.3
Other Investing CF	0.0	0.0	(2.8)	0.0	0.0
Net Investing CF	(274)	(370)	(429)	(49.5)	(350)
Distribution Paid	(212)	(204)	(219)	(270)	(281)
Chg in Gross Debt	122	174	29.8	95.0	245
New units issued	153	199	394	0.0	150
Other Financing CF	(35.2)	(41.5)	(48.2)	0.0	0.0
Net Financing CF	28.1	127	156	(175)	114
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(0.6)	2.59	13.4	12.9	(0.3)
Operating CFPS (S cts)	12.9	13.2	13.4	10.00	10.2
Free CFPS (S cts)	7.67	(7.3)	11.2	6.30	(7.2)

Source: Company, DBS Bank

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:	10 Jul 19	2.29	2.50	BUY
2:	18 Jul 19	2.33	2.50	BUY
3:	24 Jul 19	2.25	2.50	BUY
4:	25 Sep 19	2.49	2.75	BUY
5:	23 Oct 19	2.52	2.75	BUY
6:	22 Jan 20	2.77	3.00	BUY
7:	17 Apr 20	2.43	2.70	BUY

Source: DBS Bank

Analyst: Derek TAN

Dale LAI

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: 28 Apr 2020 08:01:02 (SGT)

Dissemination Date: 28 Apr 2020 08:18:37 (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

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: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand