

Singapore Company Guide

ARA LOGOS Logistics Trust

Version 19 | Bloomberg: ALLT SP | Reuters: CALT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jun 2020

BUY (Upgrade from HOLD)

Last Traded Price (12 Jun 2020): S\$0.53 (STI : 2,684.63)

Price Target 12-mth: S\$0.70 (32% upside) (Prev S\$0.56)

Analyst

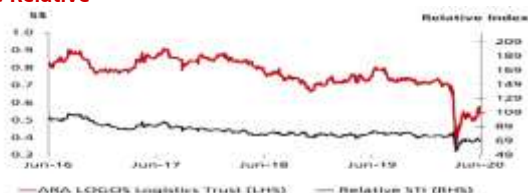
Dale LAI +65 66823715 dalelai@db.com

Derek TAN +65 6682 3716 derektan@db.com

What's New

- Abating downside risks with the gradual reopening of businesses; sufficient provisions made in 1Q20
- With more clarity on earnings outlook, we shift our attention to acquisitions from its new Sponsor
- Potential acquisitions can be made accretive at the right share price
- Upgrade to BUY with a TP of S\$0.70

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Gross Revenue	114	121	122	125
Net Property Inc	85.8	83.8	84.2	86.6
Total Return	(7.7)	46.3	45.6	47.6
Distribution Inc	65.3	52.3	54.4	56.6
EPU (S cts)	4.59	4.25	4.14	4.29
EPU Gth (%)	(4)	(8)	(3)	4
DPU (S cts)	6.04	4.80	4.95	5.10
DPU Gth (%)	(19)	(20)	3	3
NAV per shr (S cts)	58.9	58.3	57.6	56.8
PE (X)	11.5	12.5	12.8	12.4
Distribution Yield (%)	11.4	9.1	9.3	9.6
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	38.2	38.2	38.1	38.1
ROAE (%)	7.3	7.2	7.1	7.5

Distn. Inc Chng (%)	0	2	7
Consensus DPU (S cts)	5.40	5.50	5.50
Other Broker Recs:	B: 2	S: 0	H: 4

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

The price is right

Upgrade to BUY with revised TP of S\$0.70. With government grants and cash retained in 1Q20, we believe that ARA LOGOS Logistics Trust (ALLT) has sufficient buffers in place to provide financial assistance to its tenants in the near term. As the economy gradually reopens, we believe that the next focus from investors will be on its pipeline from its new Sponsor, which brings exciting inorganic growth opportunities. Our TP is revised up to S\$0.70 on lower risk premium and rolling forward valuations to FY21.

Where we differ: A new sponsor with a sizeable pipeline. We are excited that LOGOS brings about a new paradigm for ALLT to grow into. A vertically integrated logistics player, LOGOS offers significant inorganic growth potential, having a logistics portfolio valued at S\$9.4bn located throughout Asia Pacific. In addition, ALLT can also ride on the strategic partnership with Yang Kee Logistics in Singapore as it rides on the longer-term structural e-commerce growth trend in Asia.

Potential catalysts: Increased commitment from Sponsor will boost share price. With a combined stake of only c.11.5% in ALLT, we believe that any transaction that increases the Sponsor's strategic stake in ALLT (up to 30%) will be an injection of confidence and commitment to the REIT. The ability to deliver value-accretive deals will also spark the REIT's path back to the virtuous inorganic growth cycle.

Valuation:

We have rolled our model forward to FY21 and upgraded ALLT to BUY with a higher DCF-based TP of S\$0.70. At the current share price, a prospective 8.6% yield for FY20F is on offer.

Key Risks to Our View:

Non-accretive acquisitions. Given the high portfolio NPI yield of around 7%, it may be difficult to source for acquisitions that are yield accretive immediately. The value-add will have to come from strong cashflows and eventually higher capital values.

At A Glance

Issued Capital (m shrs)	1,087
Mkt. Cap (S\$m/US\$m)	576 / 414
Major Shareholders (%)	
Lim Hwee Chiang	11.5
LOGOS China Inv Ltd	11.0
Prudential PLC	4.9
Free Float (%)	72.6
3m Avg. Daily Val (US\$m)	1.2

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)



WHAT'S NEW

The price is right

Downside risks abating with reopening of economies

- Landlords and tenants can look forward to reopening of businesses as Singapore gradually lifts its Circuit Breaker measures in phases
- Amendment to Temporary Measures Act requires landlords to provide one month of rental waiver to SME tenants whose businesses have been significantly affected by the COVID-19 pandemic
 - Despite being detrimental for landlords, it provides certainty on impact to earnings
 - Moreover, only SME tenants who have seen revenues decline by more than 35% are eligible for this rental waiver
- Only about one-third of ALLT's tenants in Singapore qualify as SMEs
- Retention of 20% of income in 1Q20 should be more than sufficient to provide for the one-month rental waiver even if all SME tenants are eligible
 - We do not foresee the need for further provisions in 2Q20

Potential to grow AUM with new partnership

- ALLT's AUM has grown by less than S\$140m in the past five years at a CAGR of 2.3%
 - At the same time, AUM of industrial S-REITs grew at a CAGR of 10.7%
- ALLT's Singapore portfolio has been shrinking while its Australia portfolio has been growing steadily to more than 30% of the total portfolio currently
- Partnership between ARA and LOGOS will create synergies in property management and provide pipeline for ALLT
- LOGOS's investments are concentrated in its three key markets of Singapore, Australia, and China
- These three key markets are also complementary to ALLT's portfolio and could be valued at as much as c.S\$4bn

LOGOS Property Group	
Established in	Australia (2010)
Value of property and developments	S\$9.4bn
Countries invested in	Australia, China, Singapore, Indonesia, Malaysia, Vietnam, India, New Zealand
Ventures managed	18
GFA	More than 6m sqm of property owned and under development

Source: Company data

LOGOS's properties in the three key markets

Singapore

- LOGOS currently has interest in seven logistics and industrial properties in Singapore
- Three of the six assets are jointly held and occupied by Yang Kee Logistics in which LOGOS has a c.35% stake
- Its latest sale-and-leaseback project, LOGOS Penjurong Logistics Centre, is being redeveloped and will be fully leased to CSC Holdings on a 10-year lease upon completion at the end of FY21
- The estimated value of the seven properties in Singapore is c.S\$1.6bn

Location	Property	Estimated Valuation (\$'m)
Singapore, Pandan Cres	LOGOS eCommerce Hub	297
Singapore, Tuas	LOGOS Tuas Logistics Hub	585
Singapore, Tuas	LOGOS Food21	79
Singapore, Tuas	2 Tuas South Link 1	150
Singapore, Tuas	71 Tuas South Avenue	59
Singapore, Jurong	8 Jurong Pier Road	277
Singapore, Penjurong Cres	LOGOS Penjurong Logistics Centre	113
Singapore Total: S\$1.6bn		

Source: Company data, DBS Bank estimates

Australia

- LOGOS currently has investments in 13 logistics facilities in Australia with an estimated value of c.S\$2.0bn
- At least eight of the assets have known anchor tenants and have an estimated occupancy of between 50-100%

Location	Property	Estimated Valuation (\$'m)
Australia, NSW	Marsden Park Logistics	601
	Prestons Logistics	
	Villawood Logistics	
Australia, VIC	27-43 Toll Drive	242
	Altona Logistics	
	Truganina Logistics	
Australia, QLD	Heathwood Logistics	974
	47 Logistics Place	
	2-6 Bishop Drive	
	Gold Coat Logistics	
Australia, WA	Berrinba Logistics	156
	Yatala Logistics	
	Hazelmere Logistics	

Australia Total: S\$2.0bn

Source: Company data, DBS Bank estimates

China

- LOGOS has investments in nine logistics assets in China with an estimated value of c.S\$0.6bn
- Most of the properties are either under development or newly completed
- At least two of the newly completed assets have known anchor tenants that occupy approximately c.35-90% of the property

Location	Property	Estimated Valuation (\$'m)
China, Guangdong	LOGOS Foshan Gaoming Logistics	65
China, Jiangsu	LOGOS Changshu Industrial	320
	LOGOS Nantong Logistics	
	LOGOS Wujiang FOHO	
	LOGOS Taicang Europe	
	LOGOS Taicang Dongting	
China, Hangzhou	LOGOS Hangzhou Xiasha Cold Storage	28
China, Shanghai	LOGOS Shanghai Fengxian Distribution	73
China, Zhejiang	LOGOS Hangzhou Dajiangdong Logistics Park	146
China Total: S\$0.6bn		

Source: Company data, DBS Bank estimates

Our views

With the worst of the COVID-19 pandemic likely to be past us, we see more clarity in earnings for ALLT especially as the retention of 20% of income in the previous quarter should be sufficient for rental waivers.

The partnership between ARA and LOGOS provides ALLT with a Sponsor that is vertically integrated in the logistics space and could provide it with access to S\$9.4bn of assets in the region. LOGOS's investments in the three main markets of Singapore, Australia and China would be complementary to ALLT's portfolio.

Looking ahead, we expect ALLT to revisit its growth plans through acquisitions as the market stabilises and its share price recovers. ALLT's new Sponsor should provide it with opportunities to acquire properties or participate in higher yielding development projects. Based on our analysis above, a S\$300m acquisition will require ALLT to raise c.S\$180m in equity. Although the quantum may not be too demanding, current market conditions may not be supportive of an equity fund-raising. However, we see this as an opportunity for the Sponsor to support the fund-raising by taking a larger portion and to increase its stake in the REIT at the same time.

We rolled forward our model to derive a DCF-based TP of S\$0.70 and upgraded our recommendation to a BUY due to a potential upside of 29% from current share price.

Right price for acquisitions

- We performed a scenario analysis to look at how various levels of ALLT's share price affect its WACC and make conditions conducive for accretive acquisitions
- Some of the assumptions made are:
 - Acquisition value of S\$300m
 - 40:60 debt-to-equity funding structure
 - Acquisition NPI yield of 6.7%
 - Acquisition completion in 2H20
- Given the implied yield of its portfolio, ALLT will have to raise equity at a share price of at least S\$0.62 to make an accretive acquisition
 - c.0.3% accretion to FY20 DPU
 - Portfolio gearing will remain around 40.6%

Share price for equity raising	Projected FY20 DPU	Estimated accretion/dilution
S\$0.56	4.75 Scts	-1.0%
S\$0.60	4.79 Scts	-0.1%
S\$0.65	4.84 Scts	0.8%
S\$0.70	4.88 Scts	1.6%

Source: DBS Bank estimates

Critical Factors

Warehouse oversupply situation in Singapore is tapering off.

With the Singapore warehouse sector in an oversupply situation over the past few years, the committed occupancy of ALLT's portfolio has remained at c.95% through the years, higher than the industry average of c.88%. As industry new supply tapers off from 2020 onwards, we believe that risk of more downside to occupancy rates is mitigated.

Rental reversions should begin to stabilise in the medium term.

Rental reversions have been negative but were showing signs of bottoming out in 2019. We believe that the worst may be over for the REIT supported by more favourable supply/demand dynamics. Apart from selected assets which are currently facing higher transitional vacancies like CWT commodity Hub & Cache Gul LogisCentre where vacant spaces have been progressively filled up, we believe that the future is turning bright for the REIT. However, given the ongoing COVID-19 outbreak, rental rates may face some near-term pressure before stabilising in the medium term.

Looking overseas for inorganic growth. ALLT has over the past few years built a significant footprint in Australia with 17 properties worth c.A\$428.4m (S\$404.6m) valued at an estimated cap rate of 6.3%. With an enlarged presence in Australia, ALLT benefits from having a larger proportion of its portfolio on a freehold tenure and lengthens the Trust's WALE, which improves earnings visibility. As its ability to deliver DPU growth and address shorter land lease tenures remains a key priority, we believe that acquisitions will remain a key theme for the REIT in the medium term.

Yield curve to steepen progressively in 2020-2021. As a REIT, movement in interest rates will have an impact on investors' returns on investments. Over time, we have found a close correlation between the steepening of the yield curve and ALLT's share price. While we see DPU growth as a compensating factor, given a flattish DPU outlook over 2020-2021, we believe that its share price is likely to remain rangebound.

Tie-up with LOGOS Property Group to offer potential acquisition possibilities. ARA Asset Management (ARA) recently completed the tie-up with LOGOS to establish a best-in-class logistics real estate development and investment management partnership in the Asia Pacific region. We believe things are turning up for ALLT, which has the opportunity to work with a vertically integrated player with management expertise in various aspects of logistics real estate. We look forward to potential acquisitions from LOGOS over time as ALLT looks to build up its AUM.

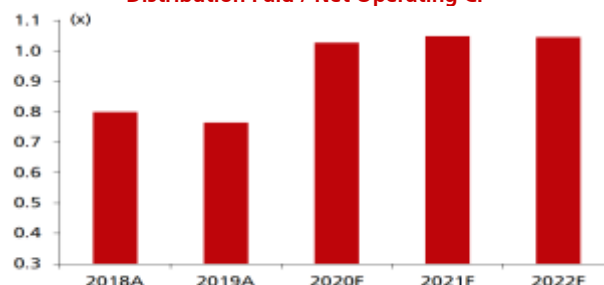
Net Property Income and Margins (%)



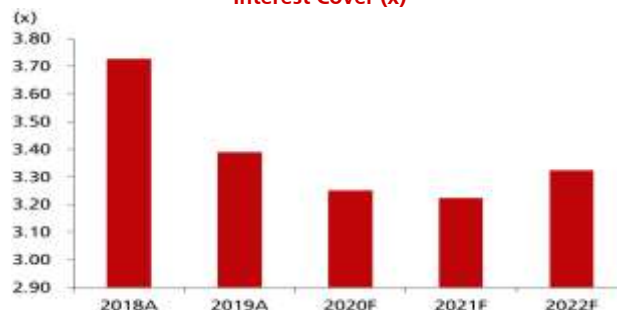
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

ARA LOGOS Logistics Trust

Balance Sheet:

Gearing increased to 40.8% post Australia acquisition. While gearing has nudged higher following its recent acquisition, ALLT continues to enjoy financial flexibility for further acquisitions, if any, which we believe is important from a diversification and portfolio enhancement standpoint.

Average debt maturity of 3.8 years. After successfully refinancing all loans that were due in FY20, ALLT's weighted average debt-to-maturity has been extended substantially to 3.8 years currently. The recent disencumbering of its Singapore assets should also help drive improvements in operational flexibility.

Share Price Drivers:

Acquisition of assets. Moving forward, the Manager is casting its focus on ARA's and LOGOS' network in the Asia Pacific region. While Australia remains an attractive market for ALLT, China may also be of interest given freehold land tenures. The delivery of accretive acquisitions should help mitigate concerns in the Singapore market, which is still bottoming out, and help drive a recovery in share price.

Asset divestments. ALLT has been actively selling non-core properties in Singapore and looking to redeploy into higher-yielding properties, mainly in Australia where assets are freehold and offer stronger cashflows.

Key Risks:

Non-accretive acquisitions: The high portfolio NPI yield of around 7% implies that the acquisition hurdle remains higher. That said, proceeds from recent divestment of assets and deployment into new assets will help to improve portfolio quality.

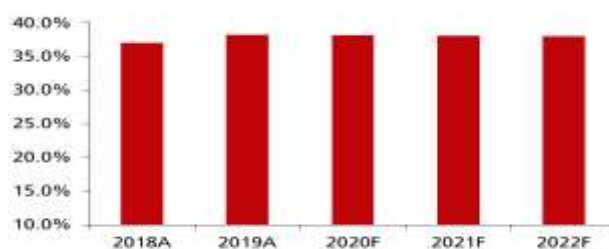
Environment, Social, Governance:

ALLT's Sustainability Working Committee is at the forefront of initiating responsible business practices, boosting performance, and improving sustainability reporting disclosures. A solar power agreement had also been signed with Sembcorp Industries in January 2019 for the installation of rooftop solar farms at three of its logistics warehouses. ALLT's dedication towards maintaining the wellbeing and safety of its workers is evident from its annual site inspections and safety audits.

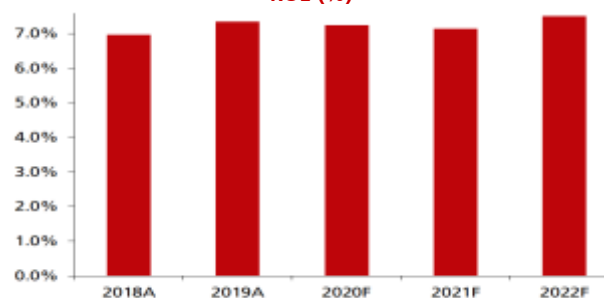
Company Background

ARA LOGOS Logistics Trust (ALLT) is a REIT whose investment mandate is to invest primarily in logistics properties located in the Asia Pacific region. The REIT has presence in Singapore and Australia.

Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	122	114	121	122	125
Property expenses	(30.6)	(27.7)	(37.1)	(37.8)	(38.8)
Net Property Income	90.9	85.8	83.8	84.2	86.6
Other Operating expenses	(22.3)	(13.0)	(12.3)	(13.2)	(13.4)
Other Non Opg (Exp)/Inc	0.94	0.33	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.4)	(21.5)	(22.0)	(22.0)	(22.0)
Exceptional Gain/(Loss)	2.85	0.0	0.0	0.0	0.0
Net Income	54.0	51.7	49.6	49.0	51.2
Tax	(2.5)	(2.0)	(3.2)	(3.4)	(3.5)
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	51.5	49.7	46.3	45.6	47.6
Total Return	29.7	(7.7)	46.3	45.6	47.6
Non-tax deductible Items	27.8	67.2	6.02	6.08	6.14
Net Inc available for Dist.	80.1	65.3	52.3	54.4	56.6
Growth & Ratio					
Revenue Gth (%)	8.6	(6.6)	6.5	0.9	2.8
N Property Inc Gth (%)	4.2	(5.6)	(2.3)	0.4	2.9
Net Inc Gth (%)	(7.6)	(3.5)	(6.7)	(1.7)	4.6
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	74.8	75.6	69.3	69.0	69.1
Net Income Margins (%)	42.3	43.7	38.3	37.3	38.0
Dist to revenue (%)	65.9	57.5	43.3	44.6	45.1
Managers & Trustee's fees	18.4	11.4	10.1	10.8	10.7
ROAE (%)	7.0	7.3	7.2	7.1	7.5
ROA (%)	4.1	3.7	3.4	3.4	3.5
ROCE (%)	5.2	5.3	5.0	4.9	5.1
Int. Cover (x)	3.7	3.4	3.3	3.2	3.3

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	31.0	30.8	27.8	27.7	27.2
Property expenses	(7.6)	(7.1)	(7.3)	(6.6)	(6.7)
Net Property Income	23.4	23.8	20.5	21.1	20.5
Other Operating expenses	(6.6)	(2.7)	(5.1)	(5.4)	0.17
Other Non Opg (Exp)/Inc	(0.1)	0.05	0.21	(0.5)	(0.2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(4.9)	(5.2)	(5.4)	(5.4)	(5.4)
Exceptional Gain/(Loss)	0.12	0.0	0.0	0.0	0.0
Net Income	11.9	15.9	10.2	9.79	15.0
Tax	(1.2)	(0.6)	(0.5)	(0.5)	(0.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	10.7	15.4	9.64	9.34	14.5
Total Return	(11.1)	14.6	8.88	9.34	(40.5)
Non-tax deductible Items	2.82	1.73	1.73	6.26	47.2
Net Inc available for Dist.	(8.3)	16.3	10.6	14.2	14.4
Growth & Ratio					
Revenue Gth (%)	(2)	(1)	(10)	0	(2)
N Property Inc Gth (%)	1	2	(14)	3	(3)
Net Inc Gth (%)	(18)	44	(37)	(3)	56
Net Prop Inc Margin (%)	75.4	77.1	73.6	76.3	75.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	200.0	300.0

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Investment Properties	1,269	1,334	1,336	1,338	1,340
Other LT Assets	1.27	1.05	1.05	1.05	1.05
Cash & ST Invt	33.3	15.3	11.8	7.23	2.74
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	5.91	8.21	1.86	1.88	1.93
Other Current Assets	0.14	0.21	0.21	0.21	0.21
Total Assets	1,310	1,359	1,351	1,348	1,346
ST Debt	28.1	116	116	116	116
Creditor	14.9	18.5	7.58	7.65	7.86
Other Current Liab	0.78	0.13	3.24	3.40	3.55
LT Debt	442	471	471	471	471
Other LT Liabilities	9.14	11.3	11.3	11.3	11.3
Unit holders' funds	815	741	741	738	735
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,310	1,359	1,351	1,348	1,346
Non-Cash Wkg. Capital	(9.6)	(10.2)	(8.8)	(9.0)	(9.3)
Net Cash/(Debt)	(437)	(573)	(576)	(581)	(585)
Ratio					
Current Ratio (x)	0.9	0.2	0.1	0.1	0.0
Quick Ratio (x)	0.9	0.2	0.1	0.1	0.0
Aggregate Leverage (%)	37.1	38.2	38.2	38.1	38.1
Z-Score (X)	1.1	0.8	0.9	0.9	0.9

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	54.0	51.7	49.6	49.0	51.2
Dep. & Amort.	1.66	1.42	0.0	0.0	0.0
Tax Paid	(2.8)	(2.4)	0.0	(3.2)	(3.4)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.4)	0.43	(4.7)	0.05	0.16
Other Operating CF	31.0	28.6	6.02	6.08	6.14
Net Operating CF	80.5	79.7	50.9	51.8	54.1
Net Invnt in Properties	(127)	(47.9)	(2.0)	(2.0)	(2.0)
Other Invnts (net)	16.2	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.15	0.15	0.0	0.0	0.0
Net Investing CF	(110)	(47.8)	(2.0)	(2.0)	(2.0)
Distribution Paid	(64.3)	(61.0)	(52.3)	(54.4)	(56.6)
Chg in Gross Debt	35.6	35.8	0.0	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	77.6	(26.1)	0.0	0.0	0.0
Net Financing CF	48.8	(51.3)	(52.3)	(54.4)	(56.6)
Currency Adjustments	(0.7)	1.31	0.0	0.0	0.0
Chg in Cash	18.4	(18.1)	(3.4)	(4.6)	(4.5)
Operating CFPS (S cts)	7.78	7.33	5.10	4.70	4.86
Free CFPS (S cts)	(4.3)	2.94	4.48	4.53	4.69

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jul 19	0.77	0.75	HOLD
2:	24 Jan 20	0.73	0.75	HOLD
3:	29 Apr 20	0.53	0.56	HOLD

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

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

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

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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