

Singapore Company Guide

Sheng Siong Group

Version 22 | Bloomberg: SSG SP | Reuters: SHEN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Jul 2020

BUY

Last Traded Price (29 Jul 2020): S\$1.73 (STI : 2,573.45)

Price Target 12-mth: S\$1.91 (11% upside) (Prev S\$1.66)

Analyst

Alfie YEO +65 6682 3717 alfieyeo@db.com

Andy SIM, CFA +65 6682 3718 andysim@db.com

What's New

- Record quarter for 2Q20 driven by Circuit Breaker
- Interim DPS of 3.5 Scts declared
- Raise FY20-21F earnings by 15-35%
- Maintain BUY with higher TP of S\$1.91

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	991	1,294	1,217	1,286
EBITDA	125	187	175	185
Pre-tax Profit	91.9	155	138	146
Net Profit	75.7	129	115	121
Net Pft (Pre Ex.)	75.7	129	115	121
Net Pft Gth (Pre-ex) (%)	6.9	69.8	(10.5)	5.3
EPS (S cts)	5.04	8.55	7.65	8.05
EPS Pre Ex. (S cts)	5.04	8.55	7.65	8.05
EPS Gth Pre Ex (%)	7	70	(11)	5
Diluted EPS (S cts)	5.04	8.55	7.65	8.05
Net DPS (S cts)	3.55	5.98	5.35	5.64
BV Per Share (S cts)	20.8	23.4	25.7	28.1
PE (X)	34.4	20.2	22.6	21.5
PE Pre Ex. (X)	34.4	20.2	22.6	21.5
P/Cash Flow (X)	22.2	10.6	27.3	10.7
EV/EBITDA (X)	20.1	12.7	13.6	12.1
Net Div Yield (%)	2.1	3.5	3.1	3.3
P/Book Value (X)	8.3	7.4	6.7	6.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	25.1	38.7	31.2	29.9
Earnings Rev (%)		35	15	N/A
Consensus EPS (S cts)		6.40	6.20	5.10
Other Broker Recs:		B: 4	S: 1	H: 2

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

Record quarter thanks to Circuit Breaker

Maintain BUY, TP lifted higher to S\$1.91. Maintain BUY on Sheng Siong for 11% potential upside. We raised our FY20-21F earnings by 15-35% due to stronger than expected 2Q20 earnings led by the Circuit Breaker. The full impact of the Circuit Breaker is reflected in this set of 2Q20 results. We have assumed a reasonable tapering of earnings in 2H20, followed by some moderation of sales in FY21F. As the Circuit Breaker restrictions ease, those cautious will continue to stay home, supporting sales going forward post Circuit breaker. Nonetheless, we have raised FY21F earnings due to a higher store count and better gross margins. Sheng Siong is a direct beneficiary of Singapore supermarket sales in addition to its defensive qualities of strong balance sheet and cashflow generation capabilities.

Where we differ. Our estimates are above consensus as we believe the market has yet to factor in the full impact of the circuit breaker on its earnings.

Potential catalysts. We believe that Sheng Siong, with its strong store network and logistics chain, could be a takeover target for online players eventually. Online players such as Alibaba's Hema (盒马鲜生) and Amazon (Wholefoods) are taking the online-to-offline route and operating physical stores.

Valuation:

Our target price for Sheng Siong is raised to S\$1.91, based on 25x FY21F PE, pegged to regional peers.

Key Risks to Our View:

Store openings, price competition. Revenue growth will be led by new store openings. Excessive discounts and promotions by competitors will ultimately result in lower margins. Faster than expected COVID-19 recovery scenario would result in consumers staying home less and purchasing less food from supermarkets.

At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (S\$m/US\$m)	2,601 / 1,886
Major Shareholders (%)	
S & S Holdings Inc	29.9
Lim Brothers	27.4
Mondrian Investment Partners Ltd	6.1
Free Float (%)	36.6
3m Avg. Daily Val (US\$m)	4.9
GIC Industry : Consumer Staples / Food & Staples Retailing	



WHAT'S NEW**Record profit for 2Q20 due to CB**

2Q20 above expectations: Revenue and earnings of S\$419m and S\$46.1m in 2Q20 were above expectations. Revenue jumped 75.8% y-o-y due to the Circuit Breaker which was in place from 7 April till 19 June. As a result, Sheng Siong was a beneficiary of almost everybody staying home. Same Store Sales Growth (SSSG) grew by 13% y-o-y, with annualised sales per square feet reaching over S\$3,000 compared with a normalised level of S\$2,000. Gross margin was at a record high of 28.1% (+0.7ppt) led by better sales mix from higher sales of fresh food, house brands and diversification of food sources. Operating margins increased to 11.5% (+2.0ppts) as a result. An interim dividend of 3.5 Scts was declared, equivalent to 70% payout ratio for 1H20.

Robust Singapore Retail sales for Supermarkets: Grocery sales was strong during the Circuit Breaker, with Singapore retail sales for supermarkets growing by 74.6% and 56.1% y-o-y in April and May, outperforming overall retail sales decline of 41% and 52% for the same period.

Slow recovery from COVID-19 anticipated, moderate drop in sales: We assume a scenario where safe distancing is still practiced and mass gatherings and dining in big crowds are still prohibited. Based on this, consumers would still cook at home, supporting demand and delaying a drop in

supermarket sales growth. For outlet openings, Sheng Siong will open three more new stores in 2H20 at Potong Pasir, Sengkang West and Tampines St 86, bringing total store count to 64 by the end of the year. With more outlets in operation, the sales moderation in FY21F would be minimised.

Raise earnings by 15-35%. We raised our FY20-21F earnings forecast by 15-35%, taking into account better than expected 2Q20 results. This assumes margin expansion and higher store count that Sheng Siong would be adding to its store network this year. We have forecast FY21F earnings to record a slight decline as we believe that the absence of Circuit Breaker next year would lead to lower earnings.

Maintain BUY with higher S\$1.91 TP as a result of our earnings revision. Stock trades at around 22x FY21F PE at +1 SD of its four-year historical mean. Our S\$1.91 TP for Sheng Siong is based on 25x FY21F earnings. We continue to like the stock for its defensive earnings, strong balance sheet, cashflow generation capabilities and strong exposure to Singapore's supermarket consumption. Maintain BUY for 11% upside.

Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	238	329	419	75.8	27.4
Cost of Goods Sold	(173)	(240)	(301)	74.1	25.5
Gross Profit	65.2	88.8	118	80.2	32.4
Other Oper. (Exp)/Inc	(44.8)	(57.4)	(69.5)	55.1	21.2
Operating Profit	20.4	31.4	48.1	135.4	53.0
Other Non Opg (Exp)/Inc	1.89	3.75	6.89	264.1	83.6
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.2)	0.23	(0.2)	(59.7)	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	22.2	35.4	54.7	146.9	54.6
Tax	(3.7)	(5.9)	(8.5)	128.1	43.6
Minority Interest	0.0	0.31	(0.1)	nm	nm
Net Profit	18.4	29.8	46.1	150.4	54.8
Net profit bef Except.	18.4	29.8	46.1	150.4	54.8
EBITDA	32.5	47.1	67.8	108.9	44.1
Margins (%)					
Gross Margins	27.4	27.0	N/A		
Opg Profit Margins	8.6	9.6	N/A		
Net Profit Margins	7.7	9.1	N/A		

Source: DBS Bank, Company

CRITICAL DATA POINTS TO WATCH

Critical Factors

Store expansion. Sheng Siong operated 61 stores as of end-2Q20. Compared to the other local operators, it has scope to expand its store network, particularly in areas such as Serangoon and Hougang, where it has a smaller presence. In the past six years, up to 10 stores were opened annually, largely a function of supply of HDB shop space available for tender and Sheng Siong's ability to win the tenders. Sheng Siong mainly operates in HDB estates.

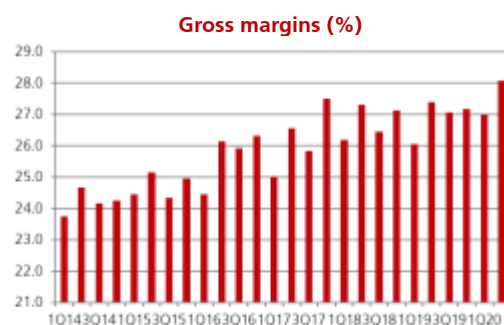
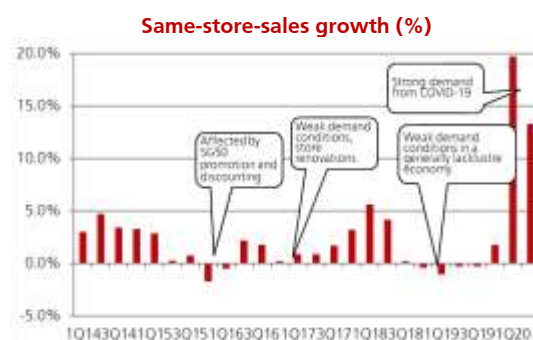
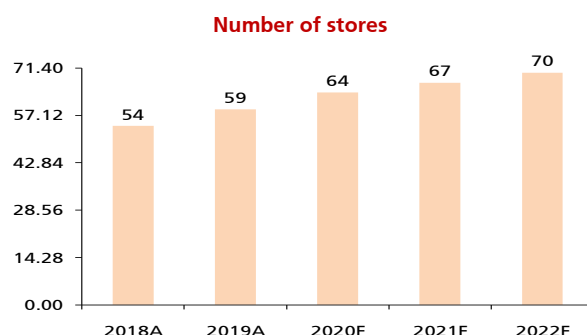
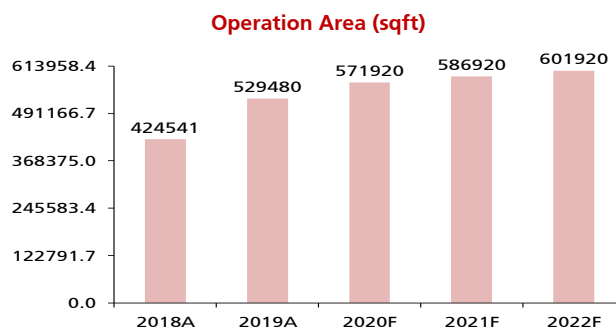
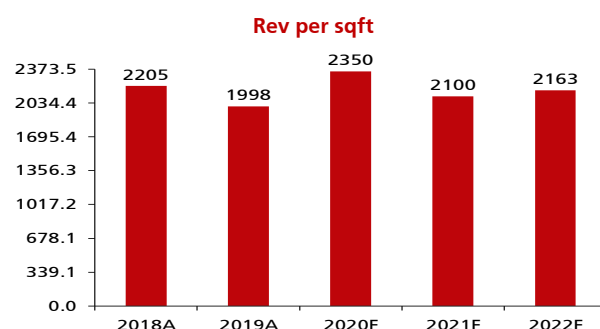
Gross margin expansion through better sales mix. The gross margin for fresh products is estimated to be 30%, and close to 20% for non-fresh grocery items. Sheng Siong's product mix stands at approximately 40% fresh vs 60% non-fresh. We see headroom for its sales mix to improve to 50% for each as it skews its store offerings towards fresh products.

Mandai Distribution Centre to expansion. The Mandai Distribution Centre allows Sheng Siong to perform direct sourcing and bulk handling. This effectively drives down input costs, resulting in cost savings and better margins. We estimate that the facility is currently running at 90% of capacity. Expansion of the warehouse will help support more new stores. It will be able to secure more suppliers and products to trade through the distribution centre to effectively enjoy more bulk handling and higher supplier rebates. Margins are expected to trend up as utilisation increases towards full capacity.

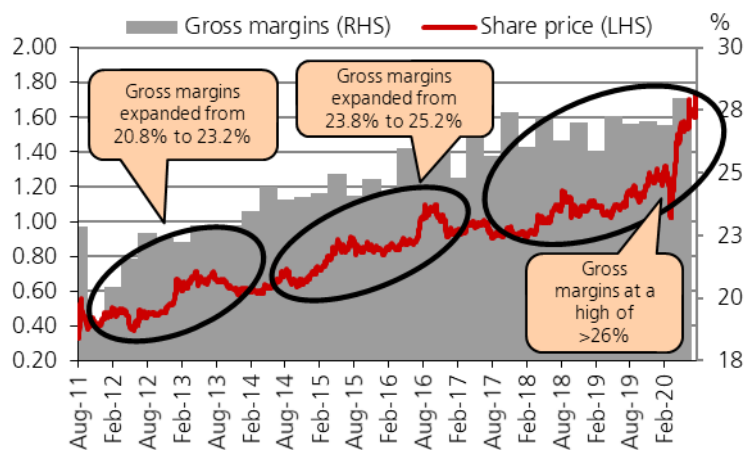
Margin expansion through direct sourcing. Sheng Siong is increasingly sourcing directly from suppliers such as farms instead of from middlemen. The company has the resources to place large orders, which is welcomed by producers.

Generating more same-store-sales growth (SSSG) to increase revenue. Sheng Siong has been able to maintain positive SSSG since 4Q13 (excluding 4Q15, 1Q16) through longer operating hours and renovation of older stores, offering high-demand products, and effective marketing. SSSG was affected partly by the renovation of the Loyang store from 3Q16 to 1Q17. The SSSG would have been positive had the Loyang store performed similarly to the previous year and was not shut down for renovation. SSSG was positive in 1Q18 to 3Q18 but was slightly negative from 4Q18 to 3Q19 at between -0.3% and -1%. 1Q20's SSSG was exceptional at +19.7% due to strong demand from the COVID-19 outbreak. 2Q20's SSSG was also strong at 13% led by the Circuit breaker.

Kunming store in China. Its first store in Kunming (40,000 sqft) commenced operations in 2017, broke even in 1Q19 and is now profitable. Downside for the JV is limited to its US\$6m paid-up capital, which is sufficient to open 2-3 new stores. We expect higher contributions going forward. The JV opened a second store in June 2019.



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?**Correlation of stock price to gross margin improvement is strong at 0.9**

Source: DBS Bank

Sheng Siong Group

Balance Sheet:

Net cash of c.S\$222m or c.14.8 Scts per share as at end-2Q20.

The excess cash allows for strategic store acquisitions to expand its store presence in the future. The business generates positive working capital. Inventory is purchased on credit, and quickly turned into cash. Over the past eight years, the business had generated between S\$28-92m of operating cashflow each year. Dividend payout has been attractive at over 70%. We expect this to be maintained as long as there is no significant requirement for cash funding. Hence, there is scope for a higher dividend payout.

Share Price Drivers:

Strong earnings growth performance. Sheng Siong's financial performance has consistently met our expectations, delivering earnings growth (6-year CAGR of 11.7% since FY13) through a combination of margin expansion, store growth, and SSSG. We believe continued delivery of consistent performance and profit growth will support a strong share price.

China is a wildcard. We believe Sheng Siong's JV in China is a wildcard. If operations prove to be successful, in time to come, China can provide an alternative source of growth. There is scope for the number of stores to increase should Sheng Siong's business model work. Downside remains limited to US\$6m should the JV fail.

Key Risks:

Revenue growth limited by store openings. Store expansion in Singapore is largely dependent on the supply of new supermarket retail space released by HDB and its ability to secure the tenders.

Excessive discounts and promotions may erode margins.

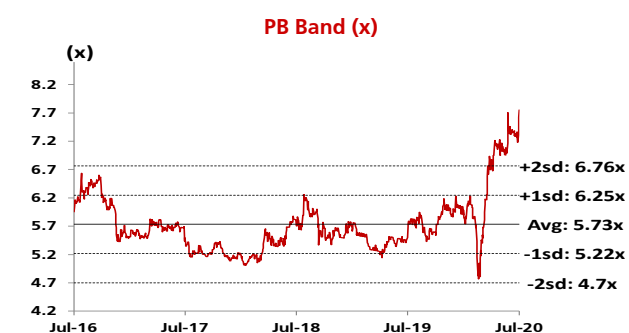
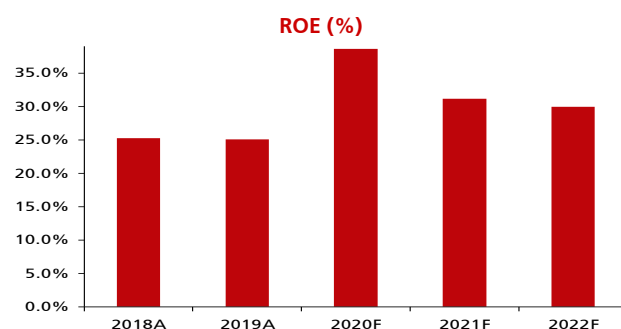
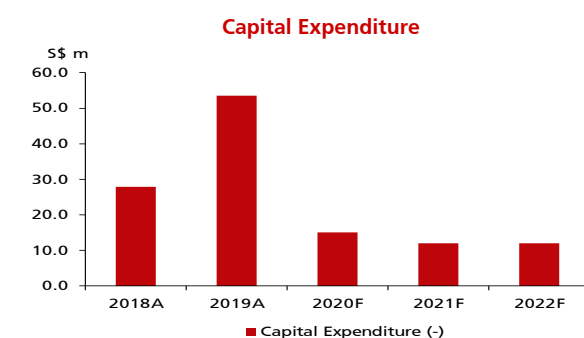
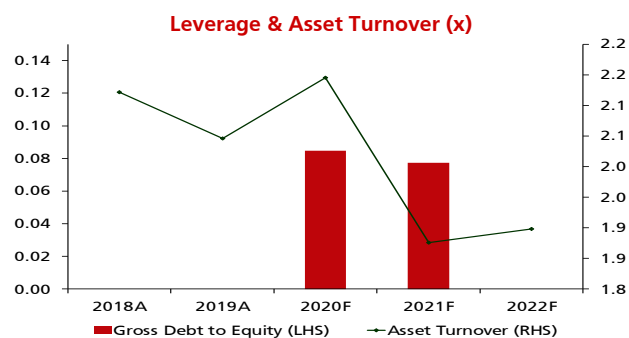
Heavier discounts and promotions vis-a-vis competitors would drive sales revenue, but this could be gained at the expense of margins.

Environment, Social, Governance:

Sheng Siong's sustainability journey is built on five key pillars of Business Excellence, Care for Customers, Care for Employees, Care for the Community, and Care for the Environment.

Company Background

Sheng Siong is the third-largest supermarket operator in Singapore, behind NTUC Fairprice and Dairy Farm International.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Rev per sqft	2,205	1,998	2,350	2,100	2,163
Operation Area (sqft)	424,541	529,480	571,920	586,920	601,920
Number of stores	54.0	59.0	64.0	67.0	70.0

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
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Revenues (\$\$m)

Singapore	891	991	1,294	1,217	1,286
Total	891	991	1,294	1,217	1,286

Operating profit (\$\$m)

Singapore	76.2	83.7	137	128	135
Total	76.2	83.7	137	128	135

Operating profit Margins

Singapore	8.6	8.4	10.6	10.5	10.5
Total	8.6	8.4	10.6	10.5	10.5

Income Statement (\$\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
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Revenue	891	991	1,294	1,217	1,286
Cost of Goods Sold	(653)	(724)	(937)	(882)	(932)
Gross Profit	238	267	357	335	354
Other Opng (Exp)/Inc	(162)	(183)	(220)	(207)	(218)
Operating Profit	76.2	83.7	137	128	135
Other Non Opng (Exp)/Inc	7.61	8.93	18.0	8.00	8.00
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.89	(0.7)	(0.5)	2.27	2.32
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	84.7	91.9	155	138	146
Tax	(14.1)	(16.2)	(26.0)	(23.3)	(24.5)
Minority Interest	0.27	0.0	0.02	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	70.8	75.7	129	115	121
Net Profit before Except.	70.8	75.7	129	115	121
EBITDA	92.6	125	187	175	185

Growth

Revenue Gth (%)	7.4	11.3	30.6	(6.0)	5.7
EBITDA Gth (%)	7.3	35.4	49.5	(6.4)	5.7
Opg Profit Gth (%)	6.5	9.8	63.8	(6.5)	5.7
Net Profit Gth (Pre-ex) (%)	1.8	6.9	69.8	(10.5)	5.3

Margins & Ratio

Gross Margins (%)	26.8	26.9	27.6	27.5	27.5
Opg Profit Margin (%)	8.6	8.4	10.6	10.5	10.5
Net Profit Margin (%)	7.9	7.6	9.9	9.5	9.4
ROAE (%)	25.2	25.1	38.7	31.2	29.9
ROA (%)	16.9	15.6	21.3	17.7	17.9
ROCE (%)	22.2	21.4	29.8	24.5	24.7
Div Payout Ratio (%)	72.2	70.5	70.0	70.0	70.0
Net Interest Cover (x)	NM	123.7	267.0	NM	NM

Source: Company, DBS Bank

Revenue continues to be robust led by higher store count, but offset by normalization of sales per square feet.

Robust sales per square feet due to COVID-19

Better sales mix from higher sales of fresh food, house brands and diversification of food sources

Expect y-o-y decline for FY21F in the absence of CB henceforth.

Assume normal growth rate from FY22F.

Quarterly Income Statement (\$m)

FY Dec	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	238	254	248	329	419
Cost of Goods Sold	(173)	(185)	(180)	(240)	(301)
Gross Profit	65.2	68.7	67.4	88.8	118
Other Oper. (Exp)/Inc	(44.8)	(46.4)	(47.4)	(57.4)	(69.5)
Operating Profit	20.4	22.3	20.0	31.4	48.1
Other Non Opg (Exp)/Inc	1.89	2.94	1.71	3.75	6.89
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.3)	0.23	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	22.2	25.0	21.4	35.4	54.7
Tax	(3.7)	(4.5)	(4.0)	(5.9)	(8.5)
Minority Interest	0.0	0.0	0.0	0.31	(0.1)
Net Profit	18.4	20.6	17.4	29.8	46.1
Net profit bef Except.	18.4	20.6	17.4	29.8	46.1
EBITDA	32.5	35.8	33.4	47.1	67.8

Growth

Revenue Gth (%)	(5.3)	6.6	(2.4)	32.6	27.4
EBITDA Gth (%)	(0.6)	10.3	(6.6)	40.8	44.1
Opg Profit Gth (%)	(2.6)	9.0	(10.2)	57.2	53.0
Net Profit Gth (Pre-ex) (%)	(4.8)	11.7	(15.6)	71.5	54.8

Margins

Gross Margins (%)	27.4	27.1	27.2	27.0	N/A
Opg Profit Margins (%)	8.6	8.8	8.1	9.6	N/A
Net Profit Margins (%)	7.7	8.1	7.0	9.1	N/A

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	266	295	260	224	186
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	60.9	60.9	60.9	60.9
Cash & ST Invts	87.2	76.4	246	249	365
Inventory	69.9	82.2	93.4	72.6	104
Debtors	13.0	18.0	13.6	16.7	14.7
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	436	533	674	623	731
ST Debt	0.0	0.0	7.50	7.50	0.0
Creditor	126	141	204	122	222
Other Current Liab	15.4	43.3	52.8	50.0	51.3
LT Debt	0.0	0.0	22.5	22.5	0.0
Other LT Liabilities	2.92	33.3	33.3	33.3	33.3
Shareholder's Equity	290	313	352	386	423
Minority Interests	2.14	2.11	2.09	2.14	2.19
Total Cap. & Liab.	436	533	674	623	731
Non-Cash Wkg. Capital	(58.2)	(84.0)	(150)	(82.4)	(154)
Net Cash/(Debt)	87.2	76.4	216	219	365
Debtors Turn (avg days)	5.7	5.7	4.5	4.6	4.5
Creditors Turn (avg days)	68.0	71.2	70.9	71.2	71.0
Inventory Turn (avg days)	37.5	40.7	36.1	36.3	36.5
Asset Turnover (x)	2.1	2.0	2.1	1.9	1.9
Current Ratio (x)	1.2	1.0	1.3	1.9	1.8
Quick Ratio (x)	0.7	0.5	1.0	1.5	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	50.0	40.0	N/A
Z-Score (X)	12.5	9.0	8.5	8.6	8.6

Government Agency
loans, assume for two
years

Source: Company, DBS Bank

Cash Flow Statement (\$m)

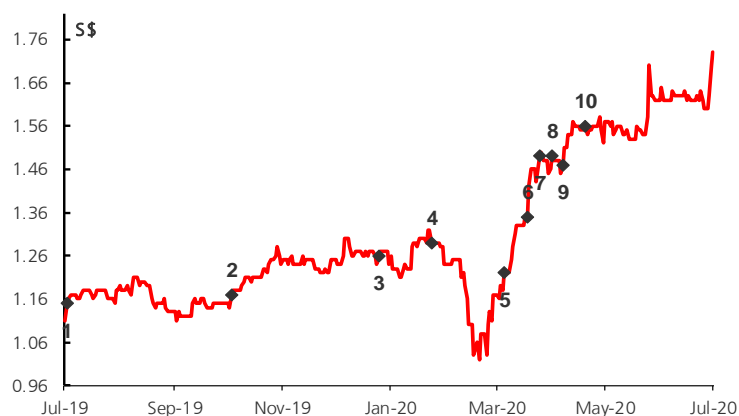
FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	84.7	91.9	155	138	146
Dep. & Amort.	16.5	41.8	50.4	47.4	50.1
Tax Paid	(14.9)	(14.8)	(16.6)	(26.0)	(23.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	6.88	(2.2)	56.2	(64.4)	70.8
Other Operating CF	(0.9)	0.63	0.0	0.0	0.0
Net Operating CF	92.2	117	245	95.3	243
Capital Exp.(net)	(27.9)	(53.5)	(15.0)	(12.0)	(12.0)
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	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.89	1.34	0.0	0.0	0.0
Net Investing CF	(27.0)	(52.2)	(15.0)	(12.0)	(12.0)
Div Paid	(51.1)	(52.6)	(90.0)	(80.5)	(84.7)
Chg in Gross Debt	0.0	0.0	30.0	0.0	(30.0)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(23.3)	0.0	0.0	0.0
Net Financing CF	(51.1)	(75.9)	(60.0)	(80.5)	(115)
Currency Adjustments	(0.3)	0.0	0.0	0.0	0.0
Chg in Cash	13.8	(10.8)	170	2.84	117
Opg CFPS (\$ cts)	5.68	7.95	12.5	10.6	11.5
Free CFPS (\$ cts)	4.28	4.24	15.3	5.54	15.4

Government agency loans.

Assume repayment in two years

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Jul 19	1.15	1.32	BUY
2:	31 Oct 19	1.17	1.32	BUY
3:	22 Jan 20	1.26	1.41	BUY
4:	21 Feb 20	1.29	1.45	BUY
5:	02 Apr 20	1.22	1.45	BUY
6:	15 Apr 20	1.35	1.50	BUY
7:	22 Apr 20	1.49	1.56	BUY
8:	29 Apr 20	1.49	1.58	BUY
9:	05 May 20	1.47	1.58	BUY
10:	18 May 20	1.56	1.66	BUY

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

Source: DBS Bank

Analyst: Alfie YEO

Andy SIM, CFA

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

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