

Singapore Company Update

Tuan Sing Holdings

Bloomberg: TSH SP | Reuters: TSHS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Sep 2020

BUY

Last Traded Price (15 Sep 2020): S\$0.295 (STI : 2,485.83)

Price Target 12-mth: S\$0.44 (50% upside)

Analyst

Singapore Research Team equityresearch@dbs.com

Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Office fundamentals favourable for completion of Robinson Point sale
- GulTech to extend hot streak and ride semiconductor upcycle
- Resilient Singapore property market a plus for potential launch of Peak Residence
- COVID-19 impact likely priced in; reiterate BUY

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2019A	2020F	2021F	2022F
Revenue	311	205	375	339
EBITDA	72.0	60.6	89.6	84.8
Pre-tax Profit	42.0	134	48.2	45.4
Net Profit	33.2	121	40.4	34.3
Net Pft (Pre Ex.)	0.01	(4.9)	40.4	34.3
Net Pft Gth (Pre-ex) (%)	(100.0)	nm	nm	(15.1)
EPS (S cts)	2.80	10.2	3.41	2.89
EPS Pre Ex. (S cts)	0.00	(0.4)	3.41	2.89
EPS Gth Pre Ex (%)	(100)	nm	nm	(15)
Diluted EPS (S cts)	2.80	10.2	3.41	2.89
Net DPS (S cts)	0.60	0.60	0.60	0.60
BV Per Share (S cts)	93.2	103	106	108
PE (X)	10.5	2.9	8.7	10.2
PE Pre Ex. (X)	nm	nm	8.7	10.2
P/Cash Flow (X)	17.1	814.7	11.5	13.3
EV/EBITDA (X)	26.4	22.6	14.8	14.9
Net Div Yield (%)	2.0	2.0	2.0	2.0
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	1.4	0.8	0.8	0.7
ROAE (%)	3.0	10.4	3.3	2.7
Earnings Rev (%):		(3)	0	0
Consensus EPS (S cts):		(0.1)	3.40	2.90
Other Broker Recs:		B: 1	S: 0	H: 0

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Making a case

Investment Thesis:

Undervalued property play. We maintain our BUY call and TP of S\$0.44. Trading at 0.3x P/NAV (between -1SD and -2SD from 3-year mean), we continue to see good value in the stock. In addition, office fundamentals favour a completion of the S\$500m sale of Robinson Point which could drive a re-rating in valuation following improved balance sheet metrics.

Transformation into partial tech play. GulTech's earnings have grown by a CAGR of 26% in the past five years and may be ripe for unlocking through dividends to Tuan Sing.

Resilient property market. The Singapore private property market has held up well amid the pandemic, a successful sales launch of Peak Residences could catalyse share price.

Valuation:

Our TP of S\$0.44 is based on SOTP. We assume a valuation of 11.0x FY20F PE for GulTech, a 65% discount to RNAV of S\$676.8m, and a further 10% conglomerate discount. The TP represents a P/BV of 0.47x compared to the current P/BV of 0.31x (-1SD below 3-year mean of 0.42x) and peer P/BV of 0.46x.

Where we differ:

We are the only house covering the counter. That said, we have assumed more conservative earnings growth for GulTech.

Key Risks to Our View:

Resurfacing of COVID-19 could lead to construction delays, factory and hotel disruptions, FX risk, soft office market, termination of Robinson Point sale.

At A Glance

Issued Capital (m shrs)	1,188
Mkt. Cap (S\$m/US\$m)	351 / 256
Major Shareholders (%)	
Nuri Holdings S Pte Ltd	52.9
Koh Wee Meng	5.9
Free Float (%)	41.2
3m Avg. Daily Val (US\$m)	0.16
GIC Industry : Real Estate / Real Estate Holding & Development	



Live more, Bank less

Tuan Sing Holdings

WHAT'S NEW

Making a case

Reiterate BUY; TP of S\$0.44. We reiterate our BUY recommendation as we think the stock remains undervalued at its current P/NAV of 0.3x (between -1SD and -2SD from 3-year mean). While we have revised FY20F earnings slightly by -3% due to the lockdown affecting the Australian hotel business, we think the share price may have yet to fully price in the completion of the Robinson Point sale and may appreciate further once the deal is confirmed. In the meantime, GulTech looks set to continue riding the semiconductor upcycle while a recovery in the Australian hospitality business may be on the cards as COVID-19 subsides.

Market may be awaiting further confirmation of Robinson Point sale. While worries over the attractiveness of office properties and in turn cast doubts over the completion of the deal arising from pandemic-led work-from-home trends. We think a case can still be made for the deal.

We note that the structure of the deal (1% initial deposit and due diligence conducted before sale and purchase agreement) is similar to the 2016 sale of the Straits Trading Building. In addition, while Robinson Point is being sold at a significant 70% premium to AXA Tower on a per NLA basis, the former is a freehold property compared to the 61-year leasehold period of the latter. A fairer comparison could be with Straits Trading Building where the premium is a lower 5.6%.

Robinson Point transaction comparables

	Robinson Point	Straits Trading Building*	AXA Tower
Transacted Value (S\$m)	500	560	1,680
Land Tenure	Freehold	999 years	61 years
GFA ('000 sqft)	169	200	1,029
NLA ('000 sqft)	134	159	767
S\$/GFA	2,959	2,802	1,632
S\$/NLA	3,721	3,520	2,189

*transaction conducted in 2016

Source: DBS Bank

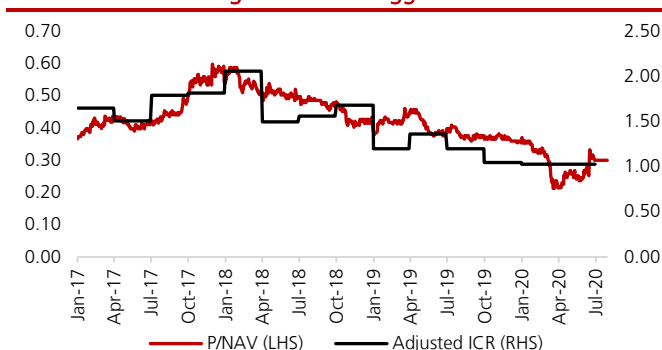
Low upcoming office supply favourable for deal completion.

New space in the office market is expected to remain low over the next few years with 2Q20 pipeline supply of office space at 708,000 sqm. Indeed, the previous time pipeline supply was at or below this level was in 3Q06 at 692,000 sqm. While demand for office space may have tapered off temporarily due to the pandemic, it is worth noting that the current office environment is still better than in 3Q17 when vacancy rates hit 13.3% and pipeline supply stood at 1,054,000 sqm.

While we acknowledge that work-from-home trends may bring about structural changes in the office market, we believe a lack of supply could help mitigate any impact. Work-from-home is not without its fair share of issues. Some matters that have been discussed include a weakening in company culture and difficulty in onboarding of new hires. As such, while work-from-home trends could lead to a reduction in space needed, we think companies will prefer to retain some space and utilise it more efficiently (e.g. through conversion to hot desking).

Successful sale could catalyse P/BV re-rating. We observe that a high net debt-to-equity and low interest coverage ratio may have dragged on Tuan Sing's valuations. With most of the proceeds from the sale being used to repay borrowings, we estimate that net debt-to-equity could improve to 0.90 from 1H20's 1.37, with NAV uplifted to S\$1,252.7m (vs S\$1,129.5m in 1H20). As such, an improved interest coverage ratio and net debt-to-equity could catalyse P/BV to re-rate closer to peers' mean P/BV of 0.46x.

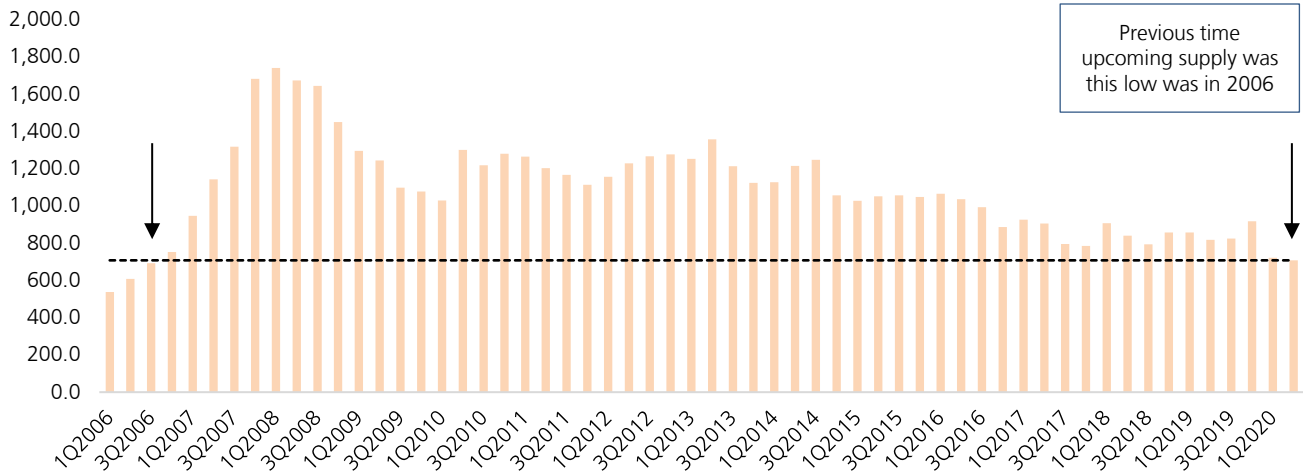
Lower interest coverage ratio has dragged on valuations



Source: Company, DBS Bank

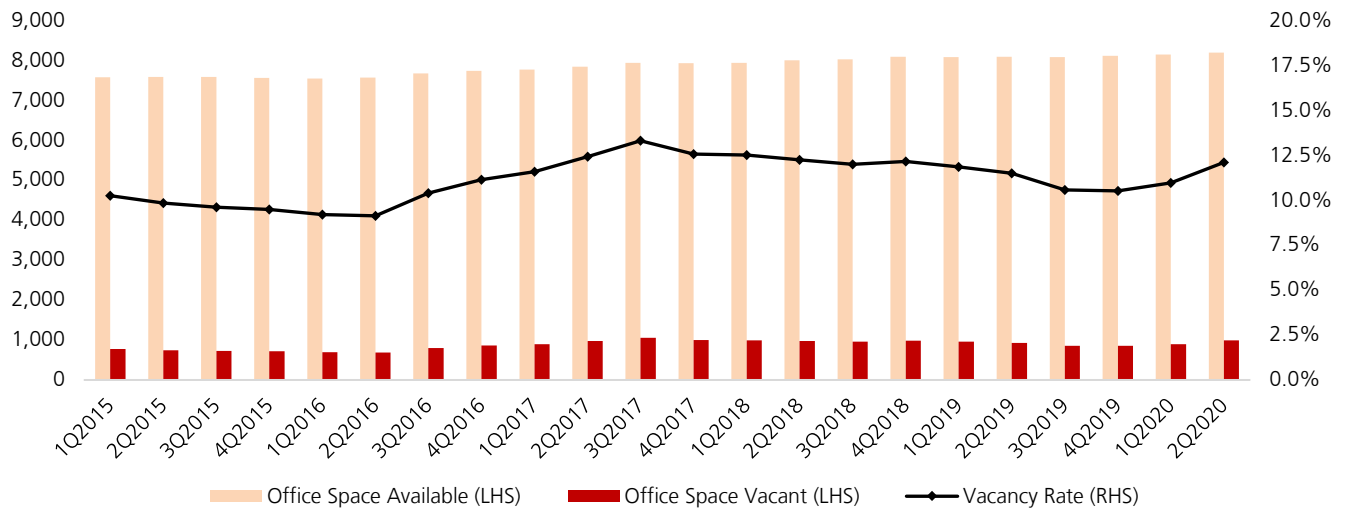
Tuan Sing Holdings

Pipeline supply of office space (GFA '000 sqm)



Source: URA, DBS Bank

Available office space ('000 sqm) and vacancy rates (%)

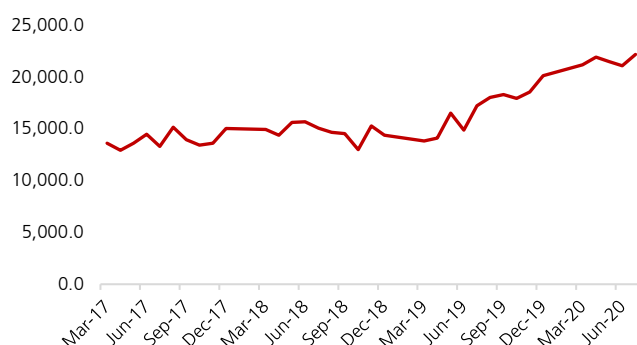


Source: URA, DBS Bank

Tuan Sing Holdings

GulTech remains on hot streak. While we have taken a conservative stance on GulTech’s earnings growth, forecasting a c.25% rise for FY20F (vs +c.38.8% y-o-y in 1H20), recent Chinese semiconductor production data has remained strong. Specifically, China’s July semiconductor integrated circuit production hit a record high of 22.2bn pieces (+28.8% y-o-y, +5.2% m-o-m). As such, the semiconductor upcycle appears to have more room to run and could benefit GulTech as demand flows down to its printed circuit boards.

China semiconductor integrated circuit production (mn pieces)

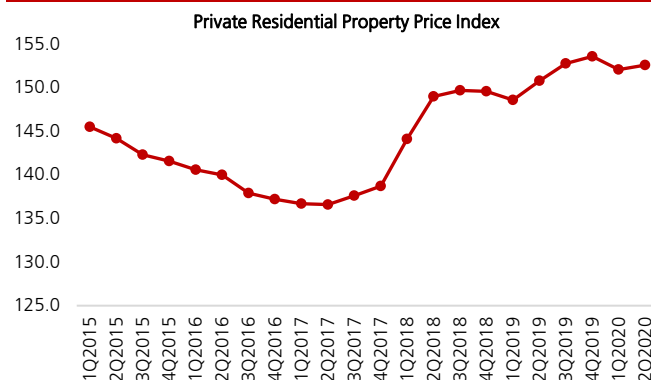


Source: CEIC, DBS Bank

Singapore residential properties showing signs of resilience.

Prices of residential projects inched up 0.3% in 2Q20 despite the COVID-19 pandemic circuit breaker. Notably, private residential unit take-up for 2Q20 fell 20.2% q-o-q, coinciding with the Singapore Circuit Breaker and may also be partially due to the 11.5% q-o-q decrease in units launched. Encouragingly, private residential sales in July was up 8.2% m-o-m (-8.4% y-o-y) to 1,080 units with 869 units launched (+46% m-o-m, -4.6% y-o-y). August resale volume of non-landed private homes also hit a two-year high with 1,052 units sold in the month. Given these indicators, a strong sales launch of Peak Residence may be possible.

Prices are holding up despite pandemic-led recession



Source: URA, DBS Bank

Downsides look to be mostly priced in. Unfortunately, a key risk in the form of a second COVID-19 wave played out in Australia which dented the recovery of Tuan Sing’s Grand Hyatt Melbourne and Hyatt Regency Perth. The state of Victoria, where Grand Hyatt Melbourne is located, has enacted movement restrictions with the hospitality sector only allowed to accept patrons from 23 November at the earliest. In Western Australia, where Hyatt Regency Perth is situated, borders remain closed. As such, we have revised our occupancy estimates for the hotels to between 20 – 40% for FY20F. That said, things are once again looking more optimistic in Australia with c.39 cases reported on 14 September, a nearly 3-month low. Barring a third wave, Tuan Sing’s Hyatt Regency Perth should see an improvement in the coming months, albeit at a gradual pace.

Company Background

Tuan Sing Holdings Limited (Tuan Sing) is a Singapore-based investment holding company with core interests in property development, property investment and hotel ownership. The Group’s real estate businesses are mainly focused in the key Asia Pacific markets of Singapore, China, Indonesia and Australia. The Group also has interests in PCB manufacturing, commodity trading and production of polypropylene packaging bags. In recent years, GulTech, the Group’s PCB manufacturing arm, has grown in importance and contributions to Tuan Sing’s profit.

Tuan Sing Holdings

Peer comparison table

Name	Last Price 11 Sep 2020	Market Capitalisation (S\$m)	FY20F	P/E	FY21F
AEM Holdings	3.63	996.5	10.8		9.9
UMS Holdings	0.97	514.8	11.9		10.7
Valuetronics	0.53	230.6	9.9		9.4
Frencken Group	0.99	421.8	10.7		9.1
Hi-P	1.14	919.9	12.0		11.0
Venture Corporation	19.20	5,564.5	17.7		15.1
Average			10.9		9.8

	Last Price	Market Capitalisation (S\$m)	P/NAV
Hiap Hoe Ltd	0.64	298.8	0.40
Bukit Sembawang Estates Ltd	3.68	952.8	0.72
Chip Eng Seng Corp	0.45	352.3	0.36
SingHaiyi Group	0.07	307.5	0.47
Far East Orchard Ltd	0.98	446.4	0.36
Average			0.46
Tuan Sing Holdings	0.31	362.4	0.32

Source: Bloomberg Finance L.P., DBS Bank

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

Tuan Sing Holdings

SOTP-Valuation

Development Properties	Interest (%)	Number of Units	Surplus Value (\$m)
Kandis Residences	100	130	4.7
Mont Botanik	100	108	13.0

Key Investment Properties	NLA (sq ft)	Est. Market Value (\$m)	Change in FV (\$m)
18 Robinson	191,965	540.0	(141.5)
Link@896 Dunearn Road	202,708	202.7	(185.3)

SOTP Breakdown	\$m
NAV	1,236.3
Total Surplus Value	17.7
Total Change in FV	(323.9)
Less: NAV of Equity Accounted Investments, SP Corporation and Goodwill Property Inv*	(253.3)
RNAV	676.8
Discount to RNAV	65%
Discounted RNAV	236.9
Add: Gultech (based on FY20F P/E of 11.0x)	296.5
Add: SP Corporation	10.0
Add: Sanya Summer Real Estate	14.9
Add: Goodwill Property Investment	25.2
Total	583.6
Conglomerate Discount	10%
Est. Tuan Sing Market Value	525.2
Number of shares (millions)	1,185
Share Price	S\$0.44

*equity accounted investments also include Sanya Summer Real Estate

Source: DBS Bank

Tuan Sing Holdings

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (\$m)					
Property	81.9	108	142	176	118
Hotels investment	109	101	28.0	75.8	97.5
Industrial services	145	101	35.0	123	123
Other investments	0.0	0.0	0.0	0.0	0.0
Others	0.18	0.18	0.20	0.20	0.20
Total	336	311	205	375	339
PBTFV (\$m)					
Property	14.0	(0.8)	17.7	36.3	27.0
Hotels investment	5.95	3.87	(15.0)	1.52	4.88
Industrial services	1.42	1.54	1.48	1.48	1.48
Other investments	19.3	21.8	27.0	31.7	34.8
Others	7.13	4.51	0.90	0.90	0.90
Total	22.5	8.83	8.38	48.2	45.4
PBTFV Margins (%)					
Property	17.1	(0.8)	12.5	20.6	22.9
Hotels investment	7.3	3.6	(10.6)	0.9	4.1
Industrial services	1.0	1.5	4.2	1.2	1.2
Other investments	N/A	N/A	N/A	N/A	N/A
Others	3,982.1	2,477.5	454.5	454.5	454.5
Total	6.7	2.8	4.1	12.8	13.4

Lockdown measures in Australia to lead to more losses

Income Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	336	311	205	375	339
Cost of Goods Sold	(267)	(239)	(153)	(289)	(261)
Gross Profit	69.5	71.5	52.3	86.3	77.9
Other Opng (Exp)/Inc	(26.0)	(31.8)	(29.1)	(38.5)	(38.9)
Operating Profit	43.5	39.8	23.3	47.7	39.0
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	19.2	21.6	27.0	31.7	34.8
Net Interest (Exp)/Inc	(40.2)	(52.5)	(41.9)	(31.2)	(28.4)
Exceptional Gain/(Loss)	113	33.2	126	0.0	0.0
Pre-tax Profit	136	42.0	134	48.2	45.4
Tax	(4.2)	(9.4)	(13.4)	(6.0)	(6.8)
Minority Interest	0.11	0.53	0.10	(1.8)	(4.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	132	33.2	121	40.4	34.3
Net Profit before Except.	18.5	0.01	(4.9)	40.4	34.3
EBITDA	71.4	72.0	60.6	89.6	84.8
Growth					
Revenue Gth (%)	(5.6)	(7.6)	(33.9)	82.7	(9.7)
EBITDA Gth (%)	18.4	0.8	(15.8)	47.8	(5.4)
Opg Profit Gth (%)	19.2	(8.7)	(41.4)	104.9	(18.3)
Net Profit Gth (Pre-ex) (%)	3.6	(100.0)	nm	nm	(15.1)
Margins & Ratio					
Gross Margins (%)	20.7	23.0	25.5	23.0	23.0
Opg Profit Margin (%)	13.0	12.8	11.3	12.7	11.5
Net Profit Margin (%)	39.1	10.7	58.8	10.8	10.1
ROAE (%)	12.7	3.0	10.4	3.3	2.7
ROA (%)	4.7	1.1	4.2	1.5	1.3
ROCE (%)	1.6	1.1	0.8	1.6	1.3
Div Payout Ratio (%)	8.1	21.4	5.9	17.6	20.8
Net Interest Cover (x)	1.1	0.8	0.6	1.5	1.4

Gain on sale of Robinson Point

Source: Company, DBS Bank

Tuan Sing Holdings

Interim Income Statement (\$m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	158	178	151	159	91.9
Cost of Goods Sold	(126)	(141)	(121)	(119)	(67.4)
Gross Profit	32.1	36.6	30.3	40.3	24.4
Other Oper. (Exp)/Inc	(9.2)	(16.4)	(10.1)	(20.7)	(13.2)
Operating Profit	22.8	20.3	20.2	19.6	11.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	9.12	10.1	10.3	11.3	14.3
Net Interest (Exp)/Inc	(18.0)	(18.7)	(24.3)	(28.2)	(21.8)
Exceptional Gain/(Loss)	(0.2)	113	(0.2)	33.4	3.20
Pre-tax Profit	13.8	125	5.95	36.1	6.98
Tax	(2.5)	(1.7)	(4.2)	(5.2)	(0.5)
Minority Interest	(0.1)	(0.1)	(0.1)	0.67	0.11
Net Profit	11.1	123	1.64	31.6	6.61
Net profit bef Except.	11.3	9.95	1.81	(1.8)	3.41
EBITDA	36.3	34.7	34.5	34.9	25.6
Growth					
Revenue Gth (%)	nm	12.5	(14.9)	5.2	(42.3)
EBITDA Gth (%)	nm	(4.4)	(0.6)	1.2	(26.7)
Opp Profit Gth (%)	nm	(11.1)	(0.5)	(3.1)	(42.3)
Net Profit Gth (%)	nm	1,005.8	(98.7)	1,825.2	(79.1)
Margins					
Gross Margains (%)	20.3	20.6	20.0	25.3	26.6
Opp Profit Margains (%)	14.4	11.4	13.3	12.3	12.3
Net Profit Margains (%)	7.0	69.2	1.1	19.8	7.2

Tuan Sing Holdings

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	426	414	408	438	431
Invt in Associates & JVs	118	138	165	196	231
Other LT Assets	1,747	1,826	1,451	1,451	1,451
Cash & ST Invt	133	172	313	303	265
Inventory	2.79	2.37	1.48	2.89	2.59
Debtors	76.1	70.4	46.5	85.0	76.8
Other Current Assets	409	374	324	253	201
Total Assets	2,912	2,997	2,709	2,730	2,659
ST Debt	884	281	100	300	300
Creditor	125	109	97.9	150	147
Other Current Liab	5.91	5.75	15.0	7.62	8.41
LT Debt	746	1,430	1,219	960	860
Other LT Liabilities	47.4	52.1	45.0	45.0	45.0
Shareholder's Equity	1,088	1,105	1,219	1,252	1,279
Minority Interests	14.7	14.1	14.0	15.8	20.1
Total Cap. & Liab.	2,912	2,997	2,709	2,730	2,659
Non-Cash Wkg. Capital	357	332	259	183	125
Net Cash/(Debt)	(1,497)	(1,539)	(1,005)	(956)	(895)
Debtors Turn (avg days)	89.7	86.1	104.0	64.0	87.2
Creditors Turn (avg days)	174.8	187.0	264.9	162.4	217.1
Inventory Turn (avg days)	4.0	4.1	4.9	2.9	4.0
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.6	1.6	3.2	1.4	1.2
Quick Ratio (x)	0.2	0.6	1.7	0.8	0.8
Net Debt/Equity (X)	1.4	1.4	0.8	0.8	0.7
Net Debt/Equity ex MI (X)	1.4	1.4	0.8	0.8	0.7
Capex to Debt (%)	0.2	0.4	0.3	3.2	0.3
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Bank

Tuan Sing Holdings

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	136	42.0	134	48.2	45.4
Dep. & Amort.	8.64	10.6	10.3	10.2	10.9
Tax Paid	(12.3)	(5.6)	(4.2)	(13.4)	(6.0)
Assoc. & JV Inc/(loss)	(19.2)	(21.6)	(27.0)	(31.7)	(34.9)
Chg in Wkg.Cap.	(136)	(32.3)	20.0	17.2	10.8
Other Operating CF	(70.9)	27.3	(133)	0.0	0.0
Net Operating CF	(93.9)	20.5	0.43	30.4	26.3
Capital Exp.(net)	(3.4)	(7.1)	(4.0)	(40.0)	(4.0)
Other Invt.(net)	(86.0)	35.1	44.5	65.4	46.7
Invt in Assoc. & JV	(14.9)	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	(14.8)	(35.1)	500	0.0	0.0
Net Investing CF	(119)	(7.1)	541	25.4	42.7
Div Paid	(5.4)	(9.4)	(7.1)	(7.1)	(7.1)
Chg in Gross Debt	192	98.1	(393)	(58.9)	(100.0)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(54.4)	(78.8)	0.0	0.0	0.0
Net Financing CF	132	9.84	(400)	(66.0)	(107)
Currency Adjustments	(3.5)	(0.9)	0.0	0.0	0.0
Chg in Cash	(84.6)	22.4	141	(10.1)	(38.2)
Opg CFPS (S cts)	3.52	4.45	(1.6)	1.12	1.30
Free CFPS (S cts)	(8.2)	1.13	(0.3)	(0.8)	1.88

Proceeds from Robinson
Point to repay debt

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Jun 20	0.30	0.38	BUY
2:	11 Aug 20	0.31	0.44	BUY
3:	11 Sep 20	0.31	0.44	BUY

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

Tuan Sing Holdings

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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Dissemination Date: 15 Sep 2020 18:30:00 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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Tuan Sing Holdings

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

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: indonesiaresearch@dbs.com