

Singapore Company Guide

mm2 Asia

Version 16 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 May 2018

BUY

Last Traded Price (28 May 2018): S\$0.50 (STI : 3,518.48)
Price Target 12-mth: S\$0.70 (41% upside) (Prev S\$0.75)

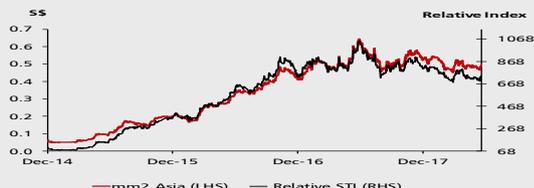
Analyst

Lee Keng LING +65 6682 3703 leekeng@dbs.com

What's New

- FY18 net profit jumped 51% y-o-y - in line; core business remains strong
- Continue to expect stronger growth in North Asia, which accounted for 57% of FY18 production revenue
- A stronger platform with Cathay with content creation capability beyond films and TV to virtual reality
- Reiterate BUY, TP reduced to S\$0.70 on lower valuation peg, in line with peers

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2017A	2018A	2019F	2020F
Revenue	95.7	192	298	346
EBITDA	40.3	64.7	79.1	86.3
Pre-tax Profit	24.0	41.4	47.0	56.5
Net Profit	17.5	26.4	33.2	41.1
Net Pft (Pre Ex.)	17.5	26.4	33.2	41.1
Net Pft Gth (Pre-ex) (%)	114.3	50.9	25.7	23.8
EPS (S cts)	1.67	2.27	2.86	3.54
EPS Pre Ex. (S cts)	1.67	2.27	2.86	3.54
EPS Gth Pre Ex (%)	85	36	26	24
Diluted EPS (S cts)	1.67	2.27	2.86	3.54
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	8.25	15.6	18.5	22.0
PE (X)	29.6	21.8	17.3	14.0
PE Pre Ex. (X)	29.6	21.8	17.3	14.0
P/Cash Flow (X)	122.4	1815.7	47.4	6.5
EV/EBITDA (X)	12.7	9.0	9.8	8.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	6.0	3.2	2.7	2.2
Net Debt/Equity (X)	CASH	CASH	0.6	0.5
ROAE (%)	28.6	19.7	16.8	17.5
Earnings Rev (%):			2	4
Consensus EPS (S cts):		2.20	2.90	3.30
Other Broker Recs:		B: 4	S: 0	H: 0

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

Robust growth in all segments

Growth path on track. We continue to expect strong earnings CAGR of 25% for FY18-20F, underpinned by growth in production, expansion into the China market, and contribution from UnUsUaL. The stronger cinema arm, with the completion of Cathay cinema acquisition, helps the group build a recurring income base. Having a strong presence in the entire value chain of content creation and distribution further cements mm2's status as the leader in the media/entertainment industry.

FY18 results: FY18 revenue doubled y-o-y to S\$192m, 12% above our expectations while net profit of S\$26.4m (+51% y-o-y) was in line with our forecast. All business segments registered strong growth.

Where we differ: Slight difference in valuation peg vs consensus. We value the production business at 21x PE, in line with peers listed in Asia, vs consensus' valuation of about 22x. For UnUsUaL, we value it at current valuation. For the cinema segment, we use 21x PE valuation peg, vs consensus' 20x.

Potential catalyst: Reaping the fruits of labour in North Asia. We expect North Asia to contribute >60% of production revenue from FY19F, up from 36% in FY16, 56% in FY17 and 57% in FY18. Upside to earnings would come from more projects, especially in China, where the market is bigger and budgets are much larger.

Valuation:

Reiterate BUY, TP reduced to S\$0.70. Our sum-of-parts target price is now S\$0.70, pegged to 21x FY19F earnings for core business, cinema and post production segment, and current valuation for UnUsUaL, reduced from 25x previously, in line with peers.

Key Risks to Our View:

No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

Unavailability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

At A Glance

Issued Capital (m shrs)	1,163
Mkt. Cap (S\$m/US\$m)	576 / 429
Major Shareholders (%)	
Wee Chye Ang	49.9
StarHub Ltd	9.8
Yeo Khee Seng	8.1
Free Float (%)	43.2
3m Avg. Daily Val (US\$m)	0.48
ICB Industry : Consumer Services / Media	

WHAT'S NEW

FY18 net profit grew 51% y-o-y; core business remains strong

Results highlight

FY18 net profit in line. mm2 Asia's FY18 revenue doubled y-o-y to S\$192m, 12% above our expectations while net profit of S\$26.4m (+51% y-o-y) was in line with our forecast. The increase in revenue was mainly due to the acquisition of cinema assets – Lotus and Cathay Cineplexes, and also its core business, and full year contribution from UnUsUaL, as compared to 5 months in FY17 as UnUsUaL was acquired by the group in August 2016. Core business of production and distribution increased by 65.4% to S\$93.6m, with North Asia contributing 57% of total revenue, in line with what we have been highlighting that North Asia is a key growth area for mm2 Asia.

Segmental revenue breakdown

(\$m)	FY17	FY18	% change
Core Business	56.6	93.6	65.4
Cinema	12.6	45.0	257.6
UnUsUaL	23.0	46.4	102.3
Vividthree	3.5	6.3	79.7
Others	0.0	0.6	65.4
Total	95.7	192.0	100.6

Continue to expect stronger growth in North Asia. The Group's core business in Singapore continues to show growth, but Hong Kong, Taiwan and China are expected to grow faster. mm2 expects to see a higher number of film productions and co-productions coming out of Hong Kong, Taiwan and China as it leverages its strong network of contacts and talents, especially with UnUsUaL's proposed acquisition of Beijing Wish Entertainment, which would enable UnUsUaL to offer multi-territory promotional deals.

A stronger platform with Cathay. Since the completion of acquisition of Cathay Cineplexes in May 2018, mm2 has further strengthened its position in the multiple platform businesses. It has also signed a binding term sheet with

Singapore Press Holdings to form a company that operates the AsiaOne website, making it a lifestyle, entertainment and news portal for urbanites in Asia. Being the only cinema operator in Malaysia and Singapore, with a major presence in both countries, mm2 can now enjoy the synergistic benefits from the entire value chain.

Content creation capability beyond films and TV to VR.

Vividthree's foray into virtual reality (VR) to create VR tour shows based on the popular 2016 Korean blockbuster - "Train to Busan" - in all territories outside South Korea has transformed the group's content creation capabilities to extend beyond films and TV.

Earnings and Recommendation

Reiterate BUY, TP of S\$0.70. We tweaked our FY19F and FY20F numbers slightly higher to account for the larger contribution from core business, partly offset by higher interest cost. We have also pegged the core business and post production segment to 21x FY19F earnings, reduced from 25x previously, in line with peers. Our sum-of-parts target price is now S\$0.70 (prev S\$0.75).

Sum of parts valuation

Segment	Stake	Valuation	
		(\$m)	Assumption
Production & Distribution	100%	383.4	Based on 21x PE, in line with peers
Cinema Operation	100%	180.8	Based on 21x PE, in line with peers
Post-Production	51%	42.8	Based on 21x PE, in line with peers
Event Production & Concert Promotion	41.91%	202.4	Based on current valuation
Total value		809.4	
Number of shares		1,162.8	
Value per share (S\$)		0.70	

Quarterly / Interim Income Statement (\$m)

FY Mar	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Revenue	42.6	52.4	83.6	96.1	59.6
Cost of Goods Sold	(26.0)	(28.2)	(47.3)	81.8	67.7
Gross Profit	16.6	24.2	36.3	118.5	50.2
Other Oper. (Exp)/Inc	(7.5)	(14.5)	(23.0)	206.7	59.0
Operating Profit	9.12	9.72	13.3	46.0	37.1
Other Non Opg (Exp)/Inc	(0.7)	0.50	0.14	nm	(72.0)
Associates & JV Inc	0.0	0.16	0.16	nm	(1.2)
Net Interest (Exp)/Inc	0.0	0.0	0.0	-	-
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	8.44	10.4	13.6	61.4	31.3
Tax	(0.8)	(1.9)	(2.6)	212.9	35.7
Minority Interest	(1.2)	(2.0)	(2.0)	(61.2)	(3.1)
Net Profit	6.39	6.43	9.07	41.9	41.0
Net profit bef Except.	6.39	6.43	9.07	41.9	41.0
EBITDA	10.1	14.7	27.3	171.9	86.0
Margins (%)					
Gross Margins	39.0	46.1	43.4		
Opg Profit Margins	21.4	18.5	15.9		
Net Profit Margins	15.0	12.3	10.8		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Synergistic acquisitions

mm2 has made several acquisitions to maintain its competitive advantage, and to build synergies across the entire value chain. For content creation, mm2 has several tie-ups globally to co-produce films. It has also acquired a 51% stake in Vividthree, a computer graphic studio, which is planning to go for a Catalist listing on SGX. For the platform business, mm2 is the number four player in Malaysia, and owns a total of 18 cinemas with a market share of about 14% in terms of number of screens. It has also acquired the entire eight Cathay cinemas in Singapore. Other than cinemas, mm2 owns a 42% stake in UnUsUaL Ltd, a market leader in large-scale live events and concerts, and is also beefing up its OTT (over-the-top) platform.

Healthy production pipeline

The number of production titles has increased steadily over the last few years; from six productions in FY14, to about 18 in FY17. mm2 has a robust production pipeline of 35 production titles, from April 2017 to September 2018. Out of these, 23 titles or 62% are from North Asia. In terms of production budget, North Asia accounts for almost 80% of the total.

The securing of the rights by UnUsUaL to present a total of 48 “Disney On Ice” shows in Korea and Taiwan, and securing of the intellectual property rights by Vividthree to develop virtual reality tour show for the film “Train to Busan” outside Korea should further boost the production pipeline.

Expansion in North Asia

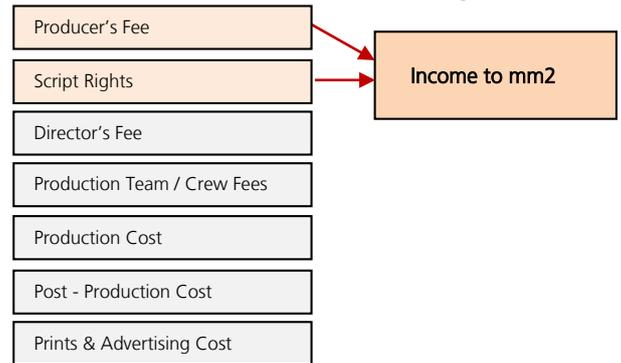
We expect North Asia to contribute >60% of production revenue from FY19F, up from 36% in FY16, 56% in FY17 and 57% in FY18. mm2 has a unique presence in all the Chinese markets, including Singapore, Malaysia, Hong Kong, Taiwan, and China. This presents ample cross-border collaboration opportunities. One example is the remaking of existing successful titles in China, with the adaptation of local settings, which would be more appealing to the locals there. mm2 is also looking to expand to non-Chinese speaking markets like Korea, Japan, Thailand, India, and the US.

UnUsUaL is also leveraging on mm2’s network of contacts in the media and entertainment industry to expand into North Asia. The acquisition of Beijing Wish Entertainment (WISH) would enable UnUsUaL to offer multi territories promotional deals. UnUsUaL is also moving beyond live concerts to organising theme-related shows in Singapore and the region.

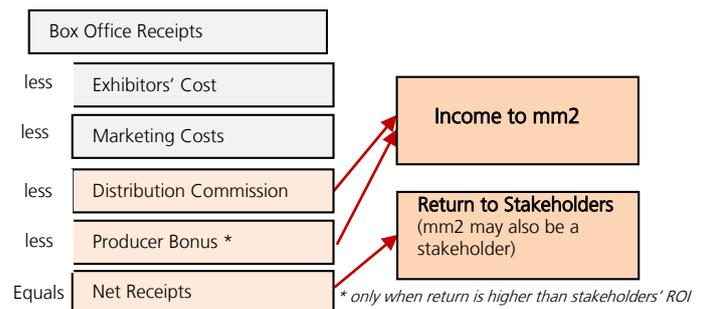
Digital age shift – content is king

The evolution of the media industry, from traditional media (TV, radio, newspaper) to digital media leads to increasing opportunities for mm2, which is strong in content creation and platform businesses.

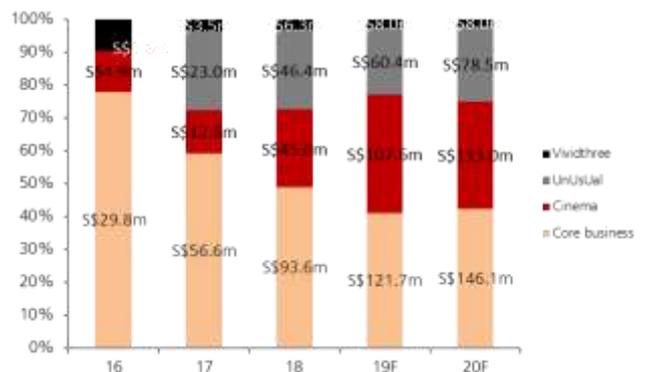
Business Model – The Film Budget



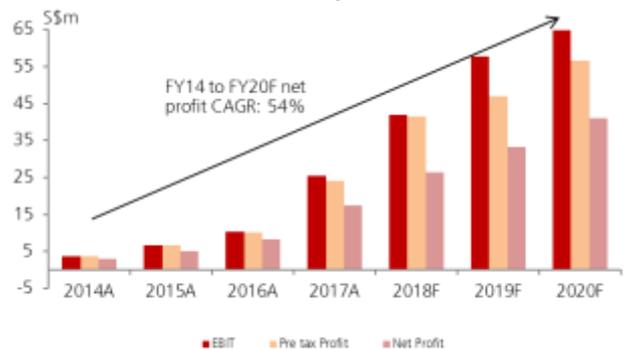
Business Model – Gross Receipts (Box Office)



Revenue Breakdown by Segment

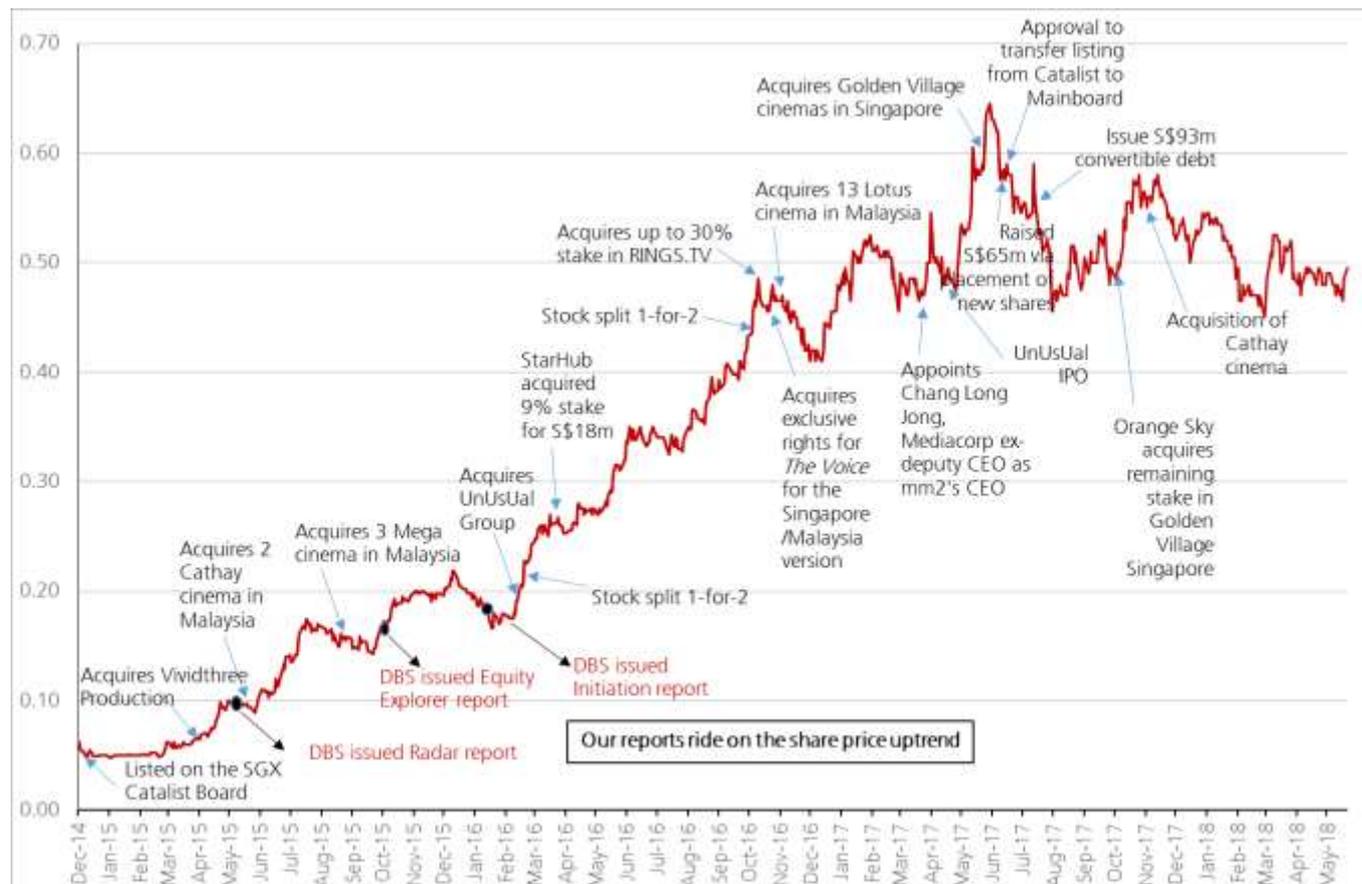


Profitability Trend



Source: Company, DBS Bank

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



Balance Sheet:

Net gearing position in FY19F. We expect the group to take on more debt financing for the acquisition of the Cathay cinemas in Singapore. Net gearing for FY19F is thus expected to increase to 0.77x, from net cash in FY18.

Share Price Drivers:

Cost savings and efficiency from horizontal integration. The full integration of the content business (production of movies, Vividthree) and platform business (Cinema, UnUsUaL) would lead to better efficiency and cost savings for the group. For example, the ownership of cinemas not only provides a source of recurring income but also cost savings as mm2 usually has to pay about 50% of its gross box office proceeds for rental of cinemas. Cinema operations is a profitable business, and may even be profitable with less than 30% of the seats occupied. mm2's multiple platform capabilities would place the group in a position to better distribute and exhibit content to reach a wider audience.

Bigger production budget = higher growth

As mm2 adopts a fee-based model, its revenue is directly correlated to the size of the production budget. We expect North Asia, especially China, to contribute >60% of production revenue from FY19F, up from 36% in FY16, 56% in FY17 and 57% in FY18. The budget for China tends to be much bigger, about S\$10m on average per production, vs average of S\$1-2m for Singapore and Malaysia projects, and S\$3m for Hong Kong and Taiwan productions.

Key Risks:

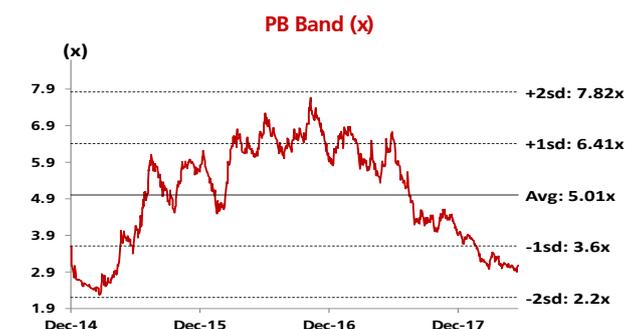
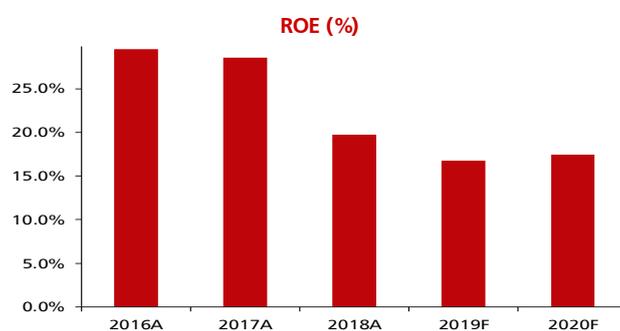
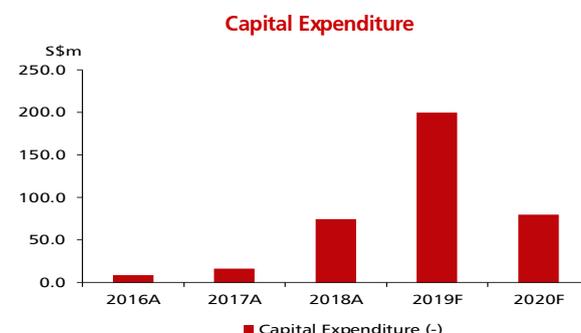
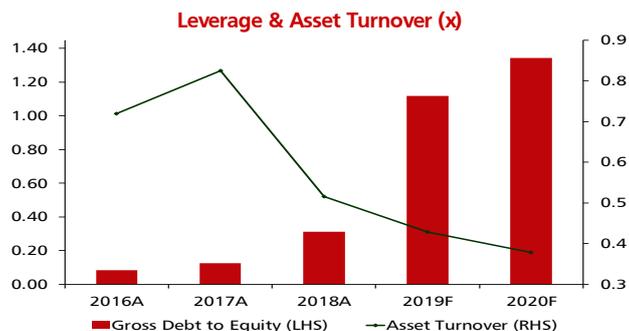
No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

Unavailability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

Inability to predict the commercial success of movies produced. The commercial success of its productions is primarily determined by inherently unpredictable audience reactions.

Company Background

mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire film-making process – from financing and production to marketing and distribution, and thus has diversified revenue streams. mm2 also owns entertainment company, UnUsUaL, and cinemas in Malaysia and Singapore.



Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2016A	2017A	2018A	2019F	2020F
Revenues (\$\$m)					
Production & Distribution	29.8	56.6	93.6	122	146
Cinema Operation	4.90	12.6	45.0	108	113
Event Production & Concert Promotion	0.0	23.0	46.4	60.4	78.5
Post-Production	3.64	3.52	6.32	8.00	8.00
Total	38.3	95.7	192	298	346
Gross profit (\$\$m)					
Production & Distribution	13.1	26.5	40.3	52.3	62.8
Cinema Operation	2.80	7.56	28.2	59.2	62.1
Event Production & Concert Promotion	-	8.55	17.9	23.2	30.2
Post-Production	2.50	2.69	3.86	4.80	4.80
Total	18.4	45.3	90.5	140	160
Gross profit Margins (%)					
Production & Distribution	44.0	46.7	43.1	43.0	43.0
Cinema Operation	57.1	60.0	62.6	55.0	55.0
Event Production & Concert Promotion	N/A	37.2	38.5	38.5	38.5
Post-Production	68.7	76.6	61.2	60.0	60.0
Total	48.0	47.3	47.1	46.8	46.3

Contributions from Lotus and Cathay

Partial contributions from UnUsUaL

Income Statement (\$\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Revenue	38.3	95.7	192	298	346
Cost of Goods Sold	(20.0)	(50.5)	(102)	(159)	(186)
Gross Profit	18.4	45.3	90.5	140	160
Other Opng (Exp)/Inc	(8.0)	(19.8)	(47.3)	(82.0)	(95.2)
Operating Profit	10.4	25.4	43.2	57.7	64.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.11	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(1.4)	(1.9)	(10.7)	(8.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.99	24.0	41.4	47.0	56.5
Tax	(1.1)	(3.7)	(7.9)	(8.0)	(9.6)
Minority Interest	(0.7)	(2.8)	(7.1)	(5.8)	(5.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	8.18	17.5	26.4	33.2	41.1
Net Profit before Except.	8.18	17.5	26.4	33.2	41.1
EBITDA	19.4	40.3	64.7	79.1	86.3
Growth					
Revenue Gth (%)	57.9	149.7	100.6	55.3	16.0
EBITDA Gth (%)	95.2	108.0	60.7	22.2	9.1
Opg Profit Gth (%)	56.7	145.1	69.8	33.6	12.5
Net Profit Gth (Pre-ex) (%)	59.4	114.3	50.9	25.7	23.8
Margins & Ratio					
Gross Margins (%)	48.0	47.3	47.1	46.8	46.3
Opg Profit Margin (%)	27.1	26.6	22.5	19.3	18.8
Net Profit Margin (%)	21.3	18.3	13.8	11.1	11.9
ROAE (%)	29.5	28.6	19.7	16.8	17.5
ROA (%)	15.3	15.1	7.1	4.8	4.5
ROCE (%)	25.0	21.8	12.4	5.4	5.2
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	26.8	18.0	22.8	5.4	7.7

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Mar	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	42.6	24.6	31.4	52.4	83.6
Cost of Goods Sold	(26.0)	(9.3)	(16.8)	(28.2)	(47.3)
Gross Profit	16.6	15.4	14.6	24.2	36.3
Other Oper. (Exp)/Inc	(7.5)	(5.8)	(6.9)	(14.5)	(23.0)
Operating Profit	9.12	9.55	7.71	9.72	13.3
Other Non Opg (Exp)/Inc	(0.7)	0.05	0.46	0.50	0.14
Associates & JV Inc	0.0	0.0	(0.2)	0.16	0.16
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	8.44	9.57	7.99	10.4	13.6
Tax	(0.8)	(1.8)	(1.6)	(1.9)	(2.6)
Minority Interest	(1.2)	(1.4)	(1.8)	(2.0)	(2.0)
Net Profit	6.39	6.40	4.60	6.43	9.07
Net profit bef Except.	6.39	6.40	4.60	6.43	9.07
EBITDA	10.1	11.0	9.81	14.7	27.3

Growth

Revenue Gth (%)	N/A	(42.3)	27.6	66.9	59.6
EBITDA Gth (%)	nm	8.9	(10.4)	49.9	86.0
Opg Profit Gth (%)	nm	4.7	(19.3)	26.0	37.1
Net Profit Gth (Pre-ex) (%)	nm	0.2	(28.2)	40.0	41.0

Margins

Gross Margins (%)	39.0	62.4	46.5	46.1	43.4
Opg Profit Margins (%)	21.4	38.8	24.5	18.5	15.9
Net Profit Margins (%)	15.0	26.0	14.6	12.3	10.8

Balance Sheet (\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	3.65	11.2	41.6	236	310
Invt in Associates & JVs	0.0	1.49	0.0	0.0	0.0
Other LT Assets	26.1	54.3	306	290	275
Cash & ST Invt	4.74	25.8	93.5	121	248
Inventory	9.83	23.3	25.9	38.4	45.0
Debtors	24.4	46.4	114	125	145
Other Current Assets	0.26	0.58	0.64	0.64	0.64
Total Assets	69.0	163	582	811	1,024
ST Debt	0.20	11.1	5.07	5.07	5.07
Creditor	23.8	48.4	282	258	302
Other Current Liab	4.21	7.56	11.5	10.3	11.9
LT Debt	2.85	0.58	61.2	276	396
Other LT Liabilities	0.75	0.97	9.96	9.96	9.96
Shareholder's Equity	36.2	86.5	181	215	256
Minority Interests	0.98	7.94	31.0	36.8	42.6
Total Cap. & Liab.	69.0	163	582	811	1,024
Non-Cash Wkg. Capital	6.49	14.3	(152)	(104)	(124)
Net Cash/(Debt)	1.69	14.1	27.2	(161)	(153)
Debtors Turn (avg days)	214.2	135.0	152.5	146.1	142.0
Creditors Turn (avg days)	640.7	369.8	751.2	717.5	620.6
Inventory Turn (avg days)	243.0	169.5	111.9	85.6	92.5
Asset Turnover (x)	0.7	0.8	0.5	0.4	0.4
Current Ratio (x)	1.4	1.4	0.8	1.0	1.4
Quick Ratio (x)	1.0	1.1	0.7	0.9	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	0.6	0.5
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.7	0.6
Capex to Debt (%)	279.3	141.0	112.7	71.1	19.9
Z-Score (X)	10.3	6.3	6.3	3.6	2.0

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	9.99	24.0	41.4	47.0	56.5
Dep. & Amort.	8.98	14.8	21.4	21.4	21.4
Tax Paid	(1.1)	(3.8)	(5.2)	(9.2)	(8.0)
Assoc. & JV Inc/(loss)	0.0	0.01	(0.1)	0.0	0.0
Chg in Wkg.Cap.	(22.6)	(30.8)	(57.2)	(47.1)	18.0
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	(4.7)	4.24	0.32	12.1	87.9
Capital Exp.(net)	(8.5)	(16.5)	(74.7)	(200)	(80.0)
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	0.0	(9.5)	0.46	0.0	0.0
Net Investing CF	(8.5)	(26.0)	(74.2)	(200)	(80.0)
Div Paid	0.0	0.0	(0.1)	0.0	0.0
Chg in Gross Debt	2.35	17.8	60.2	215	120
Capital Issues	9.10	18.0	81.6	0.0	0.0
Other Financing CF	(0.7)	(0.5)	(0.8)	0.0	0.0
Net Financing CF	10.7	35.3	141	215	120
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(2.5)	13.5	67.0	27.1	128
Opg CFPS (S cts)	1.98	3.34	4.95	5.09	6.01
Free CFPS (S cts)	(1.5)	(1.2)	(6.4)	(16.2)	0.68

FY17 and FY18 -
Acquisition of cinemas
and RINGS.TV

Assume debt financing
for future acquisitions

Mainly to finance
Cathay cinema
acquisition

Proceeds from share
placement

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Jun 17	0.60	0.70	BUY
2:	19 Jul 17	0.59	0.75	BUY
3:	24 Jul 17	0.53	0.75	BUY
4:	14 Aug 17	0.48	0.60	BUY
5:	02 Nov 17	0.57	0.73	BUY
6:	03 Nov 17	0.55	0.73	BUY
7:	08 Feb 18	0.50	0.75	BUY
8:	22 Apr 18	0.50	0.75	BUY

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

Source: DBS Bank

Analyst: Lee Keng LING

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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 30 May 2018 08:10:37 (SGT)

Dissemination Date: 30 May 2018 08:21:48 (SGT)

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

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DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

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: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanukul
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
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