Cogent Holdings Ltd
Cogent 1. Logistics Hub: The next pillar of growth
SINGAPORE | LOGISTICS SERVICES | INITIATION

- Cogent 1. Logistics Hub scheduled to be completed by end of 2014.
- Partial TOP granted for first 4 (out of 5) floors of warehouse; final TOP for remaining floors expected anytime soon.
- Consolidation of operations estimated to result in capacity expansion, with significant cost savings on Rental expenses.
- Initiate with "Buy" rating on Cogent with TP of $0.470, based on DCF valuation.

What is the news?
- The new Cogent 1. Logistics Hub (1 Buroh Crescent) was substantially completed in June 2014 with temporary occupation permit (TOP) received for the first four floors of the building. The integrated logistics hub is due to be completed by the end of 2014.
- Warehousing operations at 1 Chia Ping Road and 31 Penjuru Lane; and container depot operations at 11 Jalan Terusan to be consolidated to the integrated logistics hub.

What do we think of this
- Re-location of the container depot to the roof-top of the Cogent 1. Logistics Hub to increase operational efficiency and eliminate costly land rental for a low value-add business segment.
- The consolidation of warehouse and container depot operations would effectively reduce Cogent’s largest cost component, which is Rentals on leased premises; while gaining access to a behemoth warehouse for marginally higher net operating costs.
- Improved operating efficiency through housing core businesses under one roof. Expect to see some marginal cost savings in fuel as well, as the trips between warehouses and container depot has been eliminated.
- The new building with its modern design and strategic location should place Cogent in a strong position to weather the upcoming supply of warehouse space.
- Consolidation of operations will be in stages, with full effect to be seen in 1HFY16F onwards.

Investment Actions
We initiate coverage on Cogent Holdings Ltd with a "Buy" rating and DCF-derived TP of $0.470. (Implied 15.0x FY15F fwd P/E multiple.)

Key Financial Summary

<table>
<thead>
<tr>
<th>FYE Dec</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14F</th>
<th>FY15F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (SGD mn)</td>
<td>65.6</td>
<td>96.2</td>
<td>112.8</td>
<td>116.0</td>
<td>121.6</td>
</tr>
<tr>
<td>NPAT, adj. (SGD mn)</td>
<td>3.3</td>
<td>7.8</td>
<td>15.1</td>
<td>14.3</td>
<td>15.0</td>
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<tr>
<td>EPS, adj. (Cents)</td>
<td>0.90</td>
<td>1.62</td>
<td>3.16</td>
<td>3.00</td>
<td>3.14</td>
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<tr>
<td>P/E (X), adj.</td>
<td>11.2</td>
<td>8.3</td>
<td>7.6</td>
<td>12.3</td>
<td>11.8</td>
</tr>
<tr>
<td>BVPS (Cents)</td>
<td>16.15</td>
<td>13.33</td>
<td>16.29</td>
<td>19.26</td>
<td>21.09</td>
</tr>
<tr>
<td>P/B (X)</td>
<td>0.6</td>
<td>1.0</td>
<td>1.5</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>DPS (Cents)</td>
<td>-</td>
<td>0.20</td>
<td>1.26</td>
<td>1.30</td>
<td>1.20</td>
</tr>
<tr>
<td>Div. Yield (%)</td>
<td>0.0%</td>
<td>1.5%</td>
<td>2.1%</td>
<td>3.5%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Source: Company Data, PSR est.
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Company Description
Cogent Holdings Ltd (Cogent) provides a full-suite of logistics services in Singapore. The Company has four main business segments: Transportation Management Services, Warehousing and Container Depot Management Services, Automotive Logistics Management Services, and Property Management Services.

Company Data
Market Cap. (USD mn / SGD mn) | 135 / 177 |
Ent. Value (USD mn / SGD mn) | 191 / 248 |
3M Average Daily T/O (mn) | 0.46 |
Closing Px in 52 wk range | 0.20 |

Major Shareholders (%) | 1. Yeow Khoon TAN | 70.27 |
| 2. Yeow Lam TAN | 13.58 |
| 3. Min Cheow TAN, Benson | 0.48 |

Valuation Method
DCF (WACC: 4.5%, Terminal g: 1.0%)

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Rating: Buy
Initiate with “Buy”
Target Price (SGD) | 0.470 |
Forecast Dividend (SGD) | 0.012 |
Closing Price (SGD) | 0.370 |
Potential Upside | 27.0% |
Investment thesis

- Cogent typically reports full year results in late February. We are expecting Cogent to report a stable set of results for 2HFY14 that is comparable to 1HFY14 – higher revenue from warehouse business segment in line with utilisation of Cogent 1. Logistics Hub, offset by higher expense as the integrated logistics hub is being depreciated.

- The risk-factors involved that would cause 2HFY14 earnings to take a hit, in our view, would be the lack of clarity surrounding the transition period, as tenants are relocated to Cogent 1. Logistics Hub. (Lower revenue reported due to higher vacancy and some additional transportation cost associated with the relocation process.)

- Immediate reduction in Rental expense (S$1.8 million annually) to materialise in 2HFY14, as lease for 31 Penjuru Lane site was not renewed in July 2014.

- Known reduction in warehouse space are from 1 Chia Ping Road and 31 Penjuru Lane, about combined 576,000 sq ft GFA, by our estimates, in comparison to the additional 1.6 million sq ft GFA for Cogent 1.

- With the consolidation of the three sites (1 Chia Ping Road, 31 Penjuru Lane and 11 Jalan Terusan) to Cogent 1. Logistics Hub, Cogent would experience a net increase of about 1.024 million sq ft GFA (PSR est.) of warehousing space, for marginally higher net expense. (Elimination of rental expenses for 31 Penjuru Lane and 11 Jalan Terusan offset by increased depreciation from Cogent 1.)

- Depreciation expense (non-cash item) expected to rise significantly from 2HFY14, as the first 4 floors of Cogent 1. Logistics Hub have been granted TOP in June 2014 and being utilised.

- While there is some uncertainty with the transition, but we think that investors with a long-term view who bite the bullet now, and ride through the transition in FY15F will eventually be rewarded as operations get streamlined during FY15F and normalise into FY16F.

- If Cogent does consolidate the 7 Penjuru Close operations to Cogent 1., Cogent would still see a net increase of about 469,000 sq ft GFA (PSR est.) of warehouse space; but the icing on the cake would be a total reduction of about S$10 million expenses (four sites consolidated to Cogent 1.), by our estimates, in exchange for annual depreciation of slightly over S$6 million. Thus translating to just under S$4 million of additional normalised annual earnings from FY17F onwards. (est. 0.84 Cents additional EPS)

Expect to see partial effect of the consolidation of operations from 2HFY14 onwards; but full year effect will come in from 1HFY16F onwards because we estimate existing container depot lease to continue until sometime in 2HFY15.

Investment merits for Cogent

- Vertically integrated business model that caters to various sectors and has some natural hedging characteristics.

- Cogent 1. Logistics Hub has a modern and superior design; and is strategically located. It should experience resilient occupancy in the wake of up upcoming supply of warehousing space.

- Significant cost savings to be derived from the consolidation of operations at Cogent 1. Logistics Hub – effectively increasing warehouse capacity and reducing rental expense.

- Distinct competitive advantage of being one of few Licensees to store Dangerous Goods – a segment that derives higher margins and serves the petrochemical sector.

- Well positioned to tap on the trend for Companies to outsource their logistics requirements to third-party logistics providers (3PLs).

- Stable recurring income from Property management services (The Grandstand).

Additional kicker would come if Cogent does not renew its lease for 7 Penjuru Close (S$4.5 million annual rental), which is due in December 2016 (est. 555,000 sq ft GFA).
Investment risk factors for Cogent

Business risk
• Supply of warehouse space coming up in 2015 and 2016, putting pressure on rental rates and occupancy. 7.6% and 6.1% YoY increase in supply of warehouse space in the pipe-line.
• Ability to retain existing customers and attract new customers.
• Non-renewal of licences granted by National Environment Agency (NEA) and Singapore Civil Defence Force (SCDF) would affect its range of goods being permitted to be stored.
• Non-renewal of its Master lease agreement for The Grandstand in February 2018 would be a significant negative development.
• Cogent stores hazardous materials, Dangerous Goods, chemicals and flammables.

Regulatory risk
• Unfavourable changes in Government policy can affect Cogent. For example, Warehousing (rules on sub-letting) and Automotive Logistics (supply and demand for new and second-hand vehicles).

Liquidity risk
• Free float of 15.7%, and 30-day average volume of 208,500 (Bloomberg est.).

Information risk
• Cogent is a small capitalisation Company, and disclosure of information is usually not as detailed compared to Blue Chip Companies.
• Lack of market consensus due to absence of extensive analyst coverage.

Valuation Method: Discounted Cash Flow Model

Key assumptions used in our financial model
• Straight-line depreciation of S$152 million cost of Cogent Logistics Hub over the period of 25 years. (S$6.1 mil annual depreciation)
• Disposal of property at 1 Chia Ping Road on 12 December 2014 for S$9.2 million, taking off S$3.315 million of book value, and recognising a one-off gain of S$5.885 million. (Ref. 6 March 2014 announcement.)
• Termination of existing lease of container depot at 11 Jalan Terusan from 4QFY15 onwards.
• 31 Penjuru Lane lease expired in July 2014 and not renewed (annual gross rental of S$1.873 million)

Hence we expect to see the effects of the consolidation to the integrated logistics hub start in 2HFY14, with full effect in 1HFY16 onwards. We derive a TP of S$0.470 for Cogent from DCF valuation method. This gives an implied forward P/E multiple of 15.0x of FY15F EPS.
Cogent Holdings Ltd
12 December 2014

Company Overview
Cogent Holdings Ltd (Cogent) is a leading provider of integrated logistics services in Singapore.

Cogent was listed on the Mainboard of the Singapore Exchange in February 2010 with an offer price of S$0.220 and first day closing price of S$0.225. Cogent has a market capitalisation of about S$177 million and a free float of about 15.7%.

Group Structure
Cogent has investments in various subsidiaries. The following table outlines the various activities that the subsidiaries are engaged in.

<table>
<thead>
<tr>
<th>Name of subsidiary</th>
<th>Country of incorporation and operations</th>
<th>Ownership (%)</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>SH Cogent Logistics Pte Ltd</td>
<td>Singapore</td>
<td>100</td>
<td>Provision of warehousing and container depot management services and transportation of containers and cargo</td>
</tr>
<tr>
<td>Soon Hock Transportation Pte Ltd</td>
<td>Singapore</td>
<td>100</td>
<td>Provision of warehousing services</td>
</tr>
<tr>
<td>Congent Investment Group Pte Ltd</td>
<td>Singapore</td>
<td>100</td>
<td>Investment holding</td>
</tr>
<tr>
<td>Cogent Automotive Logistics Pte Ltd</td>
<td>Singapore</td>
<td>100</td>
<td>Export processing, transportation and storage of motor vehicles</td>
</tr>
<tr>
<td>Subsidiary held by SH Cogent Logistics Pte Ltd:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cogent Land Capital Pte Ltd</td>
<td>Singapore</td>
<td>100</td>
<td>Provision of automotive logistics services and property management services</td>
</tr>
</tbody>
</table>

Source: Company FY2013 Annual Report

Acquisition of associates
Cogent holds stakes in two JVs outlined in the table below as of end of FY13. Cogent had subsequently made announcements in June 2014 and September 2014 on the acquisition of the remaining 50% of JW Cogent and JWC respectively by SH Cogent Logistics. On completion of the acquisitions, both JWC and JW Cogent will become wholly-owned subsidiaries of SH Cogent Logistics, and indirect wholly-owned subsidiary of Cogent.

We have assumed that both acquisitions will be completed during FY14 and have implemented that into our financial model. The resulting stakes will no longer be reported under equity accounting and hence the effect of JV will no longer be present on the Income Statement or Balance Sheet.

<table>
<thead>
<tr>
<th>Name of subsidiary</th>
<th>Country of incorporation and operations</th>
<th>Ownership (%)</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>JWC Logistics Pte Ltd</td>
<td>Singapore</td>
<td>50</td>
<td>Container depot management service</td>
</tr>
<tr>
<td>JW Cogent Logistics Sdn Bhd</td>
<td>Malaysia</td>
<td>50</td>
<td>Container depot management service</td>
</tr>
</tbody>
</table>

Source: Company FY2013 Annual Report
4 Business Segments
Cogent has 4 business segments. The following charts give a breakdown on the revenue and operating profit contributions from the various business segments. Referring to Fig 1., FY13 revenue contribution from the four business segments were comparable, with each contributing significantly. At the EBIT level (Fig 2.), there is some change in the contribution from each of the business segment, as a result of the difference in margins between the business segments.

Fig 1. FY13 Revenue Segmentation

- Transportation 26%
- Warehousing and container depot 19%
- Automotive logistics 35%
- Property 20%

Source: Company, PSR

Fig 2. FY13 Operating profit

- Transportation 39%
- Warehousing and container depot 14%
- Automotive logistics 22%
- Property 25%

Source: Company, PSR

Transportation Management Services
"Transportation services locally for laden and empty containers and other cargoes, as well as provision for dry hubbing logistics solutions." (Source: Company FY2013 Annual Report)

Cogent has a fleet of more than 100 prime movers and a wide range of over 400 trailers. Cogent provides trucking services transporting laden and unladen containers between the port, warehouses, container depot and destinations specified by clients. Apart from transporting containers, Cogent also provides transportation services for oil and gas (equipment used in construction of oil rigs), ISO tanks and raw materials (steel bars).

The dry hubbing service provided by Cogent involves the management of transportation and inventory of laden containers at dedicated storage facilities pending shipping, and other ancillary retrieval and transportation services, including transportation of petroleum and chemical products from Jurong Island.

Elaborating on the dry hubbing service, the service is essentially the consolidation of a large shipment of laden containers, prior to transportation to the port. An open yard to store the laden containers is required to support this operation. Cogent has dry hubbing service both on Jurong Island, as well as on mainland Singapore.

Drivers for this business segment is cargo volume and trade flows. Risk factor for this business segment would be slowdown in global economy with lower production and trade.

1. Transportation management services
2. Warehousing and container depot management services
3. Automotive logistics management services
4. Property management services

Cogent’s closest peer listed-competitor to the Transport Management Services business segment is Poh Tiong Choon Logistics Ltd.
Warehousing and container depot management services
"Rental of warehouses and provision of warehousing services including packing, drumming and other ancillary services. Provision of integrated container services comprising storage, handling, washing and repair of empty containers." (Source: Company FY2013 Annual Report)

Cogent is licenced by the National Environment Agency (NEA) and Singapore Civil Defence Force (SCDF) to store chemicals, hazardous and flammable materials at some of their warehouses.

In addition, Cogent operates Licensed Warehouse, which allows the storage of both dutiable and dutiable goods. An examples of why dutiable goods are stored is due to transhipment, which includes consolidation and deconsolidation.

Value-add services to the warehousing business segment are: inventory management, loading/unloading, shrink-wrapping, palletisation, fork-lifting and chemical drumming services. Profit margins that Cogent is able to derive through these value-add services are better than the margins from rental of warehouse space.

Cogent currently has one of the largest container depot yard in Singapore (approx. 1.2 to 1.5 million sq ft, 20,000 TEU capacity) located at Jalan Terusan, and a fleet of reach stackers, handlers and forklift trucks, capable of stacking empty containers to a maximum of height of nine containers. Other services related to the container depot services are the inspection, cleaning, repair and maintenance of the unladen containers. Customers to the container depot management services are the shipping lines such as A.P. Moller-Maersk A/S, where they store their unladen containers.

The warehousing and container depot businesses are naturally hedged against one another. There is strong demand for the warehousing business’ services when container throughput is high. Ancillary value-add services (such as fork-lifting, inventory management) do well too, when there is high inventory throughput at the warehouse. Conversely, the container depot business segment does better when container throughput is low, because unladen containers are stored at the container depot, and it is typically during this period that the owners of the containers carry out repairs and refurbishments.

Automotive logistics management services
Export processing, transportation and storage of motor vehicles. (Source: Company FY2013 Annual Report)

Cogent is licenced by Singapore Customs to store dutiable motor vehicles, and this business segment focuses on processing, transportation and storage of motor vehicles being imported into Singapore. Cogent's ability to provide the seamless service of port and customs clearance, vehicular transportation, warehousing and delivery eliminates unnecessary transitions between operators, thus offering customers an efficient and cost-effective service.

Cogent is also licenced to operate in the Export Processing Zone (EPZ) which entails de-registration and export of second-hand motor vehicles. There are currently only two players in Singapore for the EPZ market – Cogent and Boeki Auto & Marine Pte Ltd.

- Transhipment – final destination of the goods is not within Singapore.
- Consolidation – inbound dutiable goods are consolidated with other goods in Singapore and then shipped out of Singapore.
- Deconsolidation – some of the dutiable goods are imported into Singapore, while the rest are stored in the Licensed Warehouse, awaiting shipment to another country.

- Cogent's nearest listed-competitors to the warehousing business are Poh Tiong Choon Logistics Ltd., CWT Ltd. and Vibrant Group Ltd.
- Cogent's nearest competitors to the container depot business are OCWS Logistics Pte Ltd, Eng Kong Holdings Ltd, and Allied Container Group.
In addition, Cogent assists LTA in:

- **Repossession** of cars with outstanding road taxes,
- **Impounding** of illegally-modified cars,

and assists the Singapore Police Force in:

- **Removal** of accident vehicles.

Driver for this business segment is demand for new cars in Singapore, which fluctuates with Certificate of Entitlement (COE) premiums. Customers to the automotive logistics management business segment include Borneo Motors, Mazda, Singapore Police Force and Land Transport Authority of Singapore.

### Property management services

Wholly-owned subsidiary of Cogent, Cogent Land Capital Pte Ltd (CLC) is the developer and manager of The Grandstand (formerly known as Turf Club). CLC announced the successful tender to lease the former Bukit Timah Turf Club site at Turf Club Road in October 2011, and the redevelopment was completed in 2012. The Grandstand is now a 1 million sq ft property, with a mix of F&B outlets; and kids’ and family-oriented services. It also houses one of the largest used car marts in Singapore with more than 140 showrooms. Operations commenced on 1 March 2012, and Cogent saw its maiden contribution from The Grandstand in 1HFY12.

In addition to the mall, it is though the car showrooms that Cogent has exposure to the used-car sector in Singapore; thus complementing its exposure to the new car imports that its Automotive logistics management services business segment experiences.

At present, accessibility to the mall is not particularly convenient, and CLC provides shuttle bus services. Accessibility to The Grandstand should be improved with the opening of King Albert Park and Sixth Avenue MRT stations on Downtown Line Phase 2 in mid-2016.

Key risk for this business segment is the ability for Cogent to renew its lease. CLC’s lease for the site is for three years until February 2015, with option to extend for another three years. So there is some uncertainty at this point for 2018 and beyond. The other risk that this business segment faces is tenant occupancy.

However, with the proven experience in the successful management of The Grandstand, we believe that CLC is poised for further expansion to secure other sites to manage, thus mitigating the concentration risk of this lone property to the business segment.

We have modelled flat revenue for this business segment until 2016, with some modest rental escalation from FY16F onwards on the assumptions of (1) going concern of the business segment and (2) improved accessibility from the opening of new MRT stations would allow The Grandstand to command better rentals.
Operating cost structure

In FY13, the largest cost component for Cogent was Cost of services, which made up 64.1% of total operating costs. Little detail is available from this, other than knowing that gross margin for FY13 was 46.7%. We can see that gross margin for Cogent has been improving over the recent years.

Cogent’s Income Statement had been reported by function up to FY13. Cogent began reporting its Income Statement by nature in 1HFY14. Comparing the FY13 (Fig 3.) and 1HFY13 (Fig 4.) operating costs does not show any substantial change within FY13.

By comparing 1HFY13 costs by function (Fig 6.) against costs by nature (Fig 4.), it is observed that Cost of services (which was by function) is substantially Rentals on leased premises, followed by Contract Services and Fuel & Utilities when reported by nature.

Consequently, for 1HFY14, the largest cost component was Rentals on leased premises (34%), followed by Employee benefits and expenses (23%). We argue that through the Cogent 1. Logistics Hub, Cogent will derive significant cost savings on rental expense, with some offset by higher depreciation. Furthermore, rental rates tend to escalate over time, while depreciation typically remains fixed.

Table 3. Historical gross margin

<table>
<thead>
<tr>
<th></th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>1HF14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>38.9%</td>
<td>41.9%</td>
<td>46.7%</td>
<td>48.3%</td>
</tr>
</tbody>
</table>

Source: Company, PSR est.
Results at a glance

<table>
<thead>
<tr>
<th>SGD mn</th>
<th>FY13</th>
<th>FY12</th>
<th>y-y (%)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation managem</td>
<td>29.9</td>
<td>30.5</td>
<td>(1.8)</td>
<td>Moderate slowdown in trade volume.</td>
</tr>
<tr>
<td>warehousing and container depot manag</td>
<td>39.7</td>
<td>36.2</td>
<td>9.7</td>
<td>Increase in cargo volume and container throughput.</td>
</tr>
<tr>
<td>Automotive logistics</td>
<td>21.0</td>
<td>18.9</td>
<td>11.1</td>
<td>Increased business in vehicle storage.</td>
</tr>
<tr>
<td>Property management</td>
<td>22.3</td>
<td>10.7</td>
<td>108.6</td>
<td>Growth in occupancy over 12-months vs. 10-months in FY12.</td>
</tr>
<tr>
<td>Revenue</td>
<td>112.8</td>
<td>96.2</td>
<td>17.3</td>
<td>Strong performance from all segments except Trpt mgmt svcs.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>23.8</td>
<td>14.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>18.3</td>
<td>10.1</td>
<td>82.2</td>
<td></td>
</tr>
<tr>
<td>Net Income, adj.</td>
<td>15.1</td>
<td>7.8</td>
<td>95.0</td>
<td></td>
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</tbody>
</table>

Source: Company, PSR

Discussion of FY13 results
- Three of the core business segments saw strong revenue growth, except the Transportation Management Services segment due to slowdown in trade volume. Total revenue grew 17.3% y-y.
- EBITDA and EBIT margins both improved 5.8ppts y-y to 21.1% and 16.2% respectively. (FY12: 15.3%, 10.5% respectively.)
- Margins improvement largely flowed through to Net income, with Net margin improving 5.3ppts y-y to 13.4%. (FY12: 8.1%.)
- 1.26 Cent final dividend (39.9% payout) was declared for FY13. (FY12: 0.20 Cent, 12.3% payout)

Results at a glance

<table>
<thead>
<tr>
<th>SGD mn</th>
<th>1H14</th>
<th>1H13</th>
<th>y-y (%)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>55.8</td>
<td>56.4</td>
<td>(1.1)</td>
<td>Lower Trpt Mgmt Svcs, higher Automotive Log Mgmt Svcs.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>12.3</td>
<td>11.9</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>9.3</td>
<td>9.2</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Net Income, adj.</td>
<td>7.5</td>
<td>7.3</td>
<td>1.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company, PSR

Discussion of 1HFY14 results
- Group 1HFY14 revenue declined marginally 1.1%y-y due to lower contribution from Transport Management Service segment, offset by higher Automotive Logistics Management Service.
- EBITDA, EBIT and Net margins improved y-y by less than 1ppt each.
- EBITDA, EBIT and Net margins were 22.1%, 16.2% and 13.8% respectively, compared to previous year of 21.1%, 16.3% and 13.0%.
- Net income consequently grew marginally by 1.9%.
**Key features of the Cogent 1. Logistics Hub**

**Modern and superior design**
- Gross Floor Area of approximately 1.6 million sq ft. (For perspective, VivoCity has a GFA of 1.5 million sq ft.)
- Registered patent in Singapore, Europe and China for its design.
- 2 independent vehicular ramps for warehouse and sky depot (container depot).
- Large Single Floor Plate of approximately 280,000 square feet.
- Average of 15 dock levelers per 100,000 sq ft.
- Licensed to store NEA-controlled, flammable materials, project cargo & general cargo.

**Strategically located**
- Within 3.5 km to Jurong Port and Jurong Island.
- Less than 30 minutes' drive to Pasir Panjang Terminal.
- Close proximity to future Tuas Mega Port and Pasir Panjang Future Developments.
- Instant access to AYE, Jalan Buroh and Pioneer Road.

**Multi-level warehouse**
- 1st and 2nd storey houses Flammable Material Warehouse and NEA-controlled warehouses.
- 3rd, 4th and 5th storey for General Goods.
- 6th storey serves as an administration and inspection area for unladen containers.
- Roof-top is where the container depot is located.
- Storage yard for laden containers on ground floor (dry hubbing service).

**Container depot integrated to warehouse**
- Roof-top container depot has 16,000 TEU capacity.
- 16 overhead bridge cranes.
- Facilities for reefers (industry terminology for refrigerated containers) with 160 charging stations.
- Container washing, repair and maintenance service.
Fig 7. Side view of Cogent 1. Logistics Hub

Source: Company

Fig 8. Aerial view of the Cogent 1. Logistics Hub

Source: Company
Recent Insider Transactions in the last 12 months
1 October 2014 – Director / Deputy CEO bought 233,000 shares ($$87,815) at implied average price of $0.377 per share, final direct interest of 2,283,000 shares (0.48%).
11 December 2013 – CEO bought 1,000,000 shares ($$210,000) at implied average price of $0.210 per share. Direct interest of 325,756,775 shares (68.08%).

Dividends
- Cogent reports its financial results on a half-yearly basis.
- First and final dividends are declared in 2H (late February) and usually paid out in early May.
- FY13 dividend was 1.26 Cents (39.9% payout) compared to previous year FY12 dividend of 0.20 Cents (12.3% payout).
- Cogent does not have a formal dividend policy.

Rights Issue in October 2011
Cogent had raised approximately S$17,225,000 million after deducting estimated expenses of approximately S$320,000, from the gross proceeds of the Rights Issue of S$17,545,000.

Source: Company

Table 4. Dividend history
<table>
<thead>
<tr>
<th></th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS, adj. (Cents)</td>
<td>1.30</td>
<td>(0.09)</td>
<td>0.90</td>
<td>1.62</td>
<td>3.16</td>
</tr>
<tr>
<td>DPS (Cents)</td>
<td>-</td>
<td>3.06</td>
<td>-</td>
<td>0.20</td>
<td>1.26</td>
</tr>
<tr>
<td>Payout (%)</td>
<td>0.0%</td>
<td>N.M.</td>
<td>0.0%</td>
<td>12.3%</td>
<td>39.9%</td>
</tr>
</tbody>
</table>

Source: Company, PSR est.
Relative valuation

Table 5. Peer relative data

<table>
<thead>
<tr>
<th>Company</th>
<th>Price (S$)</th>
<th>Mkt. Cap. (S$mn)</th>
<th>TTM P/E</th>
<th>P/B</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGENT HOLDINGS LTD</td>
<td>0.370</td>
<td>177</td>
<td>11.7x</td>
<td>2.3x</td>
</tr>
<tr>
<td>CWT LTD</td>
<td>1.565</td>
<td>939</td>
<td>6.7x</td>
<td>1.3x</td>
</tr>
<tr>
<td>GLOBAL LOGISTIC PROPERTIES LTD</td>
<td>2.530</td>
<td>12,244</td>
<td>16.1x</td>
<td>1.0x</td>
</tr>
<tr>
<td>POH TIONG CHOON LOGISTICS</td>
<td>0.635</td>
<td>137</td>
<td>14.6x</td>
<td>1.9x</td>
</tr>
<tr>
<td>VIBRANT GROUP LTD</td>
<td>0.102</td>
<td>266</td>
<td>6.5x</td>
<td>0.7x</td>
</tr>
</tbody>
</table>

Source: Bloomberg (updated: 11 December 2014), PSR

While we present the peer relative data here (Table 5.), we also point out that this is not a definitive gauge of relative valuation for Cogent’s peer group because of the differences in business segments, outlined in Table 6.; and also difference in geographical exposure. (Global Logistics Properties operates in China, Japan and Brazil.)

Table 6. Peer business segments

<table>
<thead>
<tr>
<th>Company</th>
<th>Transportation</th>
<th>Warehousing</th>
<th>Automotive</th>
<th>Commodities</th>
<th>Property</th>
<th>Financials</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGENT HOLDINGS LTD</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CWT LTD</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>GLOBAL LOGISTIC PROPERTIES LTD</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POH TIONG CHOON LOGISTICS</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>VIBRANT GROUP LTD</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Various Companies, PSR

Possible future upside price catalyst

Monetisation of patent
- Collaborate with port operators at locations where land is scarce, for example, Hong Kong.

Expansion of Property Management Services business segment
- Cogent can leverage on experience from The Grandstand to expand this business segment.

Further reduction in costs
- Non-renewal of the lease for 7 Penjuru Close in December 2016 would lead to a reduction of about $4.5 million in Rental costs.
Outlook and our view for the sector

Healthy historic average occupancy. Available Warehouse space at the end of 2013 was 7.74 million sq m, while Occupied Warehouse space was 7.03 million sq m, implying an occupancy of 90.8%. (Fig 10.)

Available Warehouse space at the end of 2013 was 7.74 million sq m, while Occupied Warehouse space was 7.03 million sq m, implying an occupancy of 90.8%. (Fig 10.)

Fig 10. Annual Warehouse Occupancy (million sq m)

Headwinds of supply pipeline. Near term will be challenging for the warehouse sector, with visible supply pipeline for the next two years (Table 5.); with available warehouse space estimated to grow 7.6% YoY and 6.1% YoY in 2015 and 2016 respectively (Table 6.). This is in contrast to the historical growth of between 0.9% YoY and 5.5% YoY over the last fifteen years. (Fig 11.)

Table 5. Supply Pipeline for Warehouse Space ('000 sq m GFA)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Under Construction</td>
<td>1,018</td>
<td>374</td>
<td>418</td>
<td>226</td>
<td>-</td>
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<tr>
<td>Planned</td>
<td>604</td>
<td>-</td>
<td>195</td>
<td>305</td>
<td>59</td>
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<tr>
<td>Written Permission</td>
<td>108</td>
<td>-</td>
<td>32</td>
<td>76</td>
<td>-</td>
</tr>
<tr>
<td>Provisional Permission</td>
<td>469</td>
<td>-</td>
<td>163</td>
<td>225</td>
<td>36</td>
</tr>
<tr>
<td>Others</td>
<td>27</td>
<td>-</td>
<td>4</td>
<td>23</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,622</strong></td>
<td><strong>374</strong></td>
<td><strong>613</strong></td>
<td><strong>531</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

Source: JTC website (Accessed on 26 Nov 2014.)

Table 6. Warehouse Space Available (million sq m GFA)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse space available</td>
<td>7.74</td>
<td>8.11</td>
<td>8.72</td>
<td>9.25</td>
<td>9.31</td>
<td>9.36</td>
</tr>
<tr>
<td>%YoY</td>
<td>4.8%</td>
<td>7.6%</td>
<td>6.1%</td>
<td>0.6%</td>
<td>0.5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: JTC, PSR est.

Rental has priced-in the upcoming supply and stabilised. On an annual basis, we see that the Rental Index has been rising over the last four years (Fig 12.), but we expect to see a slight dip in the Rental Index at the end of 2014. On a quarterly basis (Fig 13.), we see that there was a dip in 1Q14, but the Rental Index was stable over the last three quarters. This was in spite of the knowledge of the upcoming supply of warehousing space. Hence we believe that the sector has already priced-in the upcoming supply and possibly bottomed on Rental Index.

Fig 12. Annual Rental Index: Multi-User Warehouse (4Q1988=100)

Fig 13. Quarterly Rental Index: Multi-User Warehouse (4Q1988=100)
Cogent Holdings Ltd
12 December 2014

Cogent should not be worse for wear. While the warehousing sector will be facing headwinds from the supply pipeline, but we think that Cogent would not be the worst performer among the sector. Historically, the lowest occupancy experienced was 84.8% in 2003. While that is the average for the sector, neither do we believe the average occupancy to dip to this level, nor do we believe that Cogent would find itself at the lower end of the sector. The new Cogent 1. Logistics Hub is a modern facility with ramp-up feature, which is a superior design compared to older warehouses that still utilise cargo lifts. Operating efficiency of having warehouse integrated with container depot, together with the availability of on-site dry hubbing service should place it on top of every potential tenant’s list. Hence, we think that Cogent should be able to maintain healthy occupancy and command rental rates at the higher end of the sector’s range.
Market structure and industry analysis

Sector classification – Cogent belongs to the Industrial sector, providing commercial services, under the MSCI GICS classification. The Transportation services business segment, and Warehousing & Container services that Cogent provides are tied to trade flows and production. These factors are correlated with the general state of the economy. However, there is some natural hedging characteristics between one another as described earlier in the business segment outline. The Automotive Logistics business segment is driven by demand and supply of new cars and used-cars, which is in turn tied to COE prices. The Property Management business is stable and recurring in nature. Overall, Cogent's business is cyclical in nature, but with different driving factors for each business segment.

Market structure for logistics – The market structure for logistics is highly fragmented, but Cogent’s differentiation arises from its licence to store hazardous and dangerous goods, as well as vertically integrated business model which it derives operating efficiency.

Industry life cycle – The industry is still growing, driven by trade and logistics players are continually upgrading their facilities and integrating their supply chain to better serve their customers more efficiently.

Porter’s Five Forces Analysis for Logistics

Threat of new entrants – low
- Government policy. Key resource required for Warehousing business is land for a large warehouse. The Government is regulating use of land, ensuring high land efficiency, which is a barrier to entry.
- Asset specificity. Warehouses are not specific, owners are able to enhance the building, or partition it for multi-tenant or single tenant use. However, equipment and vehicles used for transportation, packing and fork-lifting are specific and thus inhibits entry into the industry.
- Scale. Requires scale and discourages small players from entering.
- Learning curve. Some learning curve involved, particularly in Property Management business segment.

Threat of substitutes – low
- Substitute products. There are no substitutes for warehouse space.

Intensity of rivalry – moderate
- Industry concentration. The industry is highly fragmented. This raises the intensity of competition, compared to an oligopoly or monopoly.
- Product differentiation. Product differentiation arises from the features and location of the warehouses. Older warehouses tend to be serviced by cargo lifts, while the newer designs are of the ramp-up type. Competitive advantage of the warehouse is its location, which should be near to the port and easily accessible by the expressways.
- High fixed cost. High fixed cost requires players to have scale, thus increasing the effect of rivalry.
- Exit barriers. Exit barriers are low, as warehouses can be modified to meet the requirements of various tenants.

Bargaining Power of suppliers – moderate
- Land. Rental on leased space is the highest cost component with high concentration among landlords, thus there is strong bargaining power of suppliers.
- Threat of forward integration. There is little threat of forward integration by suppliers.
Bargaining Power of customers – low to moderate

- **Customer concentration.** Customer concentration varies differently among the players. However, a survey within the logistics REITs shows that they are facing a high customer concentration risk in properties operated under the master tenant lease.
- **Threat of backward integration.** There is little threat of backward integration by customers as they come from diverse industries.
- **Switching costs.** There is low switching costs involved as other players within the industry generally offer the same suite of services with little product differentiation.

**SWOT Analysis for Cogent**

**Strengths**

- **Experienced player with good working relations.** Long-time player with over 30-years’ experience providing integrated logistics solutions.
- **Vertically integrated business.** Capturing the entire logistics supply chain, from transportation, warehousing (including inventory management, loading/unloading, fork-lifting) and container depot (including storage, repair, cleaning, refurbishment).
- **Access to higher margins niche market.** Licenced by NEA and SCDF to handle and store chemicals and hazardous materials.
- **Flexible storage options.** New Logistics Hub can accommodate both Dangerous (hazardous) Goods and General Goods. Giving accessibility to the higher margin niche segment, and stability from the generic space that is flexible in the type of goods being stored.
- **Stable recurring income.** Arising from Property management (The Grandstand).

**Weaknesses**

- **Restricted growth opportunities.** Operations are currently almost exclusively within Singapore.
- **Occupancy risk.** Needs to continually secure tenants to fill warehouse space.

**Opportunities**

- **Further exposure into property management.** Recently diversified from logistics to be a credible developer and property manager, thus building up the expertise in the property management sector. Cogent has proven itself to be a competent developer and property manager through The Grandstand and can possibly expand in this high-margin business segment.
- **Monetisation of IP.** Patented design for the Logistics Hub opens up opportunities to enter into JVs with other port operators or warehouse operators at locations where land is scarce (example, Hong Kong).
- **Trend of outsourcing logistics to 3PLs.** As Companies pursue an asset light strategy to their business, this creates opportunities for

**Threats**

- **Warehouse supply pipeline.** Facing near term threat from supply pipeline of warehouse space within the next two years, thus putting pressure on rental and occupancy.
- **Change in government policy.** Can be adversely affected by unfavourable change in government policy on land use or trade. Expect to see tightening on land use to enhance land-productivity.
Half-Yearly Revenue and Profitability data

Fig 14. Revenue (S$ mn)

Fig 15. Operating profit (S$ mn)

Remarks: 1Q14 Revenue up 9.2% y-y.
Remarks: 1Q14 EBIT up 5.8% y-y.

Fig 16. Net profit (S$ mn)

Fig 17. Earnings per share (Cents)

Half-Yearly Financial Indicators

Fig 18. EBITDA, EBIT & Net margins
Full Year Revenue and Profitability data

**Fig 19. Revenue (S$ mn)**

Source: Company, PSR

**Fig 20. Operating profit (S$ mn)**

Source: Company, PSR

**Fig 21. Revenue by Business (S$ mn)**

Source: Company, PSR

**Fig 22. Operating profit by Business (S$ mn)**

Source: Company, PSR

**Fig 23. Net profit (S$ mn)**

Source: Company, PSR

**Fig 24. Earnings per share (Cents)**

Source: Company, PSR
Full Year Financial Indicators with Historical Performance

Fig 25. EBITDA, EBIT & Net margins

Remarks: Trend of improving margins

Fig 26. Operating margins by Business

Source: Company, PSR

Fig 27. Cash Flows (S$ mn)

Source: Company, PSR

Fig 28. Shareholder Returns (Cents)

Remarks: 39.9% payout in FY13.

Fig 29. Dupont Analysis

Remarks: ROE improved to 21.4% in FY13.
Cogent Holdings Ltd
12 December 2014

FYE Dec FY11 FY12 FY13 FY14F FY15F

Income Statement (SGD mn)
Revenue 65.6 96.2 112.8 116.0 121.6
Other operating income 0.5 0.5 1.1 1.5 0.6
EBITDA 8.5 14.7 23.8 26.9 29.8
Depreciation & Amortisation 4.2 4.7 5.5 8.4 11.7
EBIT 4.3 10.1 18.3 18.5 18.1
Net Finance (Expense)/Inc (0.2) (0.1) (0.1) (0.2) (0.2)
Other items - - - - -
Associates & JVs (0.3) (0.2) (0.2) - -
Exceptional items - - - 5.9 -
Profit Before Tax 3.7 9.7 18.0 24.2 18.0
Taxation (0.5) (2.0) (2.9) (3.9) (2.9)
Profit After Tax 3.3 7.8 15.1 20.3 15.1
- Non-controlling interest - - - - -
Net Income, reported 3.3 7.8 15.1 20.2 15.0
Net Income, adj. 3.3 7.8 15.1 14.3 15.0

FYE Dec FY11 FY12 FY13 FY14F FY15F

Per share data (Cents)
EPS, reported 0.90 1.62 3.16 4.23 3.14
EPS, adj. 0.90 1.62 3.16 3.00 3.14
DPS - - 0.20 1.26 1.30 1.20
BVPS 16.15 13.33 16.29 19.26 21.09

FYE Dec FY11 FY12 FY13 FY14F FY15F

Cashflow Statements (SGD mn)
CFO PBT 3.7 9.7 18.0 24.1 17.9
Adjustments 4.7 5.0 5.7 8.6 11.9
WC changes (5.1) 16.5 24.2 0.8 1.5
Cash generated from ops 3.3 31.3 47.9 33.6 31.2
Others (1.3) (0.9) (2.2) (3.9) (2.9)
Cashflow from ops 2.0 30.4 45.8 29.7 28.3
CFI CAPEX, net (3.5) (27.4) (30.7) (11.6) (18.8)
Div from associates & JVs - 0.0 0.0 - -
Others (0.7) (0.1) 0.1 0.1 0.1
Cashflow from investments (4.3) (27.4) (30.6) (11.5) (18.8)
CFF Share issuance, net 17.2 - - - -
Loans, net of repayments (6.6) (2.8) (2.4) (4.4) (2.0)
Dividends (0.9) - (1.0) (6.0) (6.2)
Others (0.3) (0.0) 2.0 (0.2) (0.3)
Cashflow from financing 9.4 (2.8) (1.3) (10.7) (8.5)
Net change in cash 7.2 0.1 13.9 7.5 1.1
Effects of exchange rates - - - - -
CCE, end 32.1 32.2 46.1 53.6 54.7

FYE Dec FY11 FY12 FY13 FY14F FY15F

Balance Sheet (SGD mn)
PPE 24.4 49.0 124.3 182.6 188.7
Intangibles - - - - -
Associates & JVs 0.49 0.42 0.20 - -
Investments 0.04 0.04 0.04 0.04 0.04
Others - 2.2 1.3 1.3 -
Total non-current assets 24.9 51.7 125.8 183.9 190.1
Inventories - - - - -
Trade Receivables 15.1 16.5 16.3 16.7 17.5
Investments 0.01 0.02 0.02 0.02 0.02
Cash 35.6 35.6 47.3 54.7 55.8
Others 4.5 3.9 3.8 3.9 4.0
Total current assets 55.1 55.9 67.3 75.3 77.4
Total Assets 80.0 107.6 193.1 259.3 267.5
Short term loans 2.5 2.2 3.7 4.2 2.2
Accounts Payables 4.1 5.5 7.3 7.5 7.9
Others 8.7 25.2 46.6 47.7 49.8
Total current liabilities 15.3 33.0 57.5 59.4 59.9
Long term loans 4.0 3.4 50.2 101.3 101.3
Others 4.7 7.5 7.4 6.4 5.4
Total non-current liabilities 8.7 10.9 57.7 107.7 106.7
Total Liabilities 24.0 43.9 115.2 167.1 166.6
Non-controlling interest - - - - -
Shareholder Equity 56.0 63.8 77.9 92.1 100.9

FYE Dec FY11 FY12 FY13 FY14F FY15F

Valuation Ratios
P/E (X), adj. 11.2 8.3 7.6 12.3 11.8
P/B (X) 0.6 1.0 1.5 1.9 1.8
EV/EBITDA (X), adj. 0.7 2.3 5.1 8.5 7.5
Dividend Yield (%) 0.0% 1.5% 5.3% 3.5% 3.2%

Growth & Margins (%)
Growth Revenue 20.5% 46.6% 17.3% 2.8% 4.8%
EBITDA 83.7% 73.9% 62.0% 12.9% 10.9%
EBIT 391% 166.8% 82.2% 0.7% -1.7%
Net Income, adj. N.M. 108.6% 95.0% -5.2% 4.6%
Margins EBITDA margin 12.9% 15.3% 21.1% 23.2% 24.5%
EBIT margin 6.5% 10.5% 16.2% 15.9% 14.9%
Net Profit Margin 5.0% 8.1% 13.4% 12.4% 12.3%

Key Ratios
ROE (%) 7.0% 13.0% 21.4% 16.9% 15.5%
ROA (%) 4.5% 8.3% 10.1% 6.3% 5.7%
Net Debt/(Cash) (29.1) (30.0) 6.6 50.7 47.7
Net Gearing (X) Net Cash Net Cash 8.5% 55.1% 47.2%

Source: Company Data, PSR est.
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.
Cogent Holdings Ltd
12 December 2014

Ratings History

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Total Returns</th>
<th>Recommendation</th>
<th>Rating</th>
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<tbody>
<tr>
<td>&gt; +20%</td>
<td>+5% to +20%</td>
<td>+20%</td>
<td>Buy</td>
</tr>
<tr>
<td>-5% to +5%</td>
<td>Accumulate</td>
<td>+5% to +20%</td>
<td>2</td>
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<tr>
<td>-5% to -20%</td>
<td>Neutral</td>
<td>-5% to +5%</td>
<td>3</td>
</tr>
<tr>
<td>&lt; -20%</td>
<td>Reduce</td>
<td>-5% to -20%</td>
<td>4</td>
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<tr>
<td></td>
<td>Sell</td>
<td>&lt; -20%</td>
<td>5</td>
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Remarks
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<th>Contact Information</th>
</tr>
</thead>
<tbody>
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