

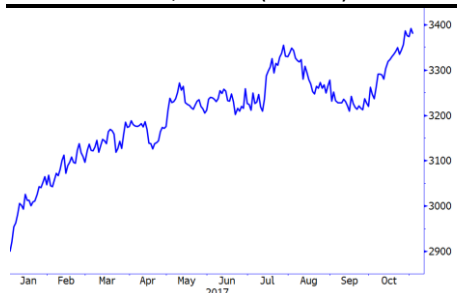
## Market Indicators

	31-Oct	1-Nov	2-Nov
Mkt. T/O (S\$ mil)	1,400.6	1,478.1	1,106.8
Stock Advances	234	307	171
Stock Declines	210	154	282

## Major Indices

	31-Oct	1-Nov	2-Nov
DJ Ind Avg	23,377.2	23,435.0	23,516.3
S & P 500	2,575.3	2,579.4	2,579.9
Nasdaq Comp	6,727.7	6,716.5	6,714.9
Hang Seng	28,245.5	28,594.1	28,518.6

**STI Index** 3,380.50 (-0.33%)

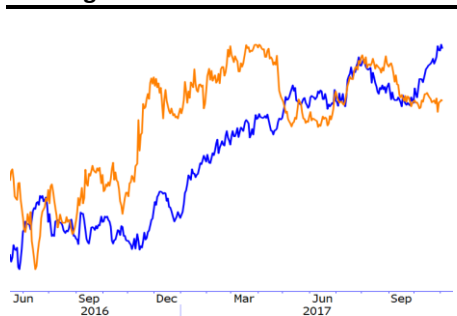


Source: Bloomberg

## Commodities

	Current Price	% Chge from Close
Gold (SPOT) US\$ / oz	1,277.82	0.14%
Oil (NYMEX CWT1) US\$ / bbl	54.92	1.63%
Baltic Dry Index	1496	-1.71%

## Exchange Rates



USD : SGD 1.3591 / MYR : SGD 3.1091

Source: Bloomberg

## Interest Rates

3-mth Sibor	1.126%
SGS (10 yr)	2.121%

KGI Securities Research Team

## Market Colour

U.S. Republicans unveiled their proposed overhaul of the U.S. tax system, calling for corporate tax cuts to 20% from 35%, and tax rate cuts on individuals and families. Closer to home, Singapore's manufacturing activity in October remained upbeat as overall manufacturing PMI rose to 52.6 last month from 52.0 in September. The PMI data may indicate that other segments of the economy are gaining traction. MAS expects some of the laggard sectors - such as financial services, construction and marine sectors - to fare better in the quarters ahead, though at a modest growth pace.

## Industry Report & Company Update

- **Cloud Computing:** Cloud computing titans remain on fast-growth track - Page 2
- **Sembcorp Marine Limited (SMM SP; HOLD; TP: S\$2.050):** Earnings needed to sustain rally; downgrade to HOLD - Page 3

## News

**UOB:** 3Q17 profit rose 12% YoY to S\$883m as net interest income, fees, commissions climb. Net interest income increased 15% YoY to S\$1.41b, driven by higher net interest margin and loan growth. Net interest margin improved 10 basis points to 1.79%, contributed by active balance sheet management and a rising interest rate environment. Growth in fee and commission income was largely driven by wealth management, fund management and credit card businesses. **Earnings came in above consensus estimates of S\$841m for the quarter. Looking forward, we are positive on the banking sector as they grow their wealth income and loan books.**

**Manulife US REIT:** Reported 3Q17 DPU of 1.60 US cents (2.17 SG cents), which came in 9.6% above projection. During the quarter, the REIT completed its maiden acquisition of 500 Plaza Drive in New Jersey which contributed to the 3Q17 results. Portfolio's occupancy remains stable at 95.7%. With a WALE of 5.9 years and a limited percentage of leases expiring in CY17, the manager expects the portfolio to continue to deliver a solid performance. The REIT also had a gearing of 33.1% and an average debt maturity of 3.1 years. **With minimal new supply and rising market rents, as reported by the REIT manager, conditions continue to be generally favourable in the four markets the REIT is invested in.**

**Keppel KBS US REIT:** The REIT plans to raise gross proceeds of US\$553.1m at its IPO. It is offering 262.77m shares at 88 US cents apiece. The REIT's initial portfolio comprises 11 freehold office properties valued at US\$829.4m in seven growth cities in the U.S. FY18 distribution yield is estimated to be 6.8% and 7.2% in FY19. The REIT will distribute 100% of distributable income from the date of listing to the end of FY19 and at least 90% thereafter. **The properties in the portfolio are predominantly located in U.S. suburban areas and provide investors potential growth opportunities in the U.S. REIT sector.**

Business Times / Bloomberg / Straits Times / The Edge Markets / SGX

## Commentaries From The Trading Desk

23/10	Hang Seng is having a "Minsky Moment" while the SET may be going through a "Blumont Impact"
4/10	This is why the Stock Market's rally may be about to end
21/9	3 stories that may come in-play along with Oil price latest move

Note: The comments and views in this section are those of the Trading Desk team and do not necessarily coincide with the views of the Fundamental Equities Research team.

# Cloud Computing

## Cloud computing titans remain on fast-growth track

### Event

“Cloud Shift” continues to take off in a big way as enterprises are increasingly shifting away from legacy systems and towards 100% cloud IT environments. Enterprise Collaboration (EC) remains a key factor driving growth in the Software-as-a-service (or SaaS) cloud segment and thus, fuelled rapid adoption of **Office 365** and **G Suite** (previously known as Google Apps) – the two leading products in the EC market. The EC market was apparently worth about US\$26.7 billion in 2016 and could potentially grow to US\$49.5 billion by 2021 (CAGR 13.1%), according to research firm MarketsandMarkets.

### Impact

**Collaboration fuelling growth in Office 365.** Microsoft recently reported stellar first-quarter results with about \$0.7 billion increase in revenue attributed to Office 365. Unlike traditional Office products, Office 365 works on a subscription-based model that yields monthly fees income. 365 subscriptions have reportedly exceeded perpetual Office licenses and Microsoft said it expects two-thirds of its Office customers to be on 365 subscriptions by end June 2019.

**Underdog G-Suite continues to gain traction with more enterprise users.** However, enterprises also tend to be of smaller size compared to Office 365 users as Google offers a simpler (and cheaper) pricing structure and Office has always been the dominant productivity suite among organisations with Word, Excel, PowerPoint and Outlook being ingrained in everyday workflows. With Google Drive’s 800 million monthly active users and user numbers continue to rise, we think G-Suite could possibly still establish a niche foothold among start-ups and small businesses in the enterprise segment amidst competition.

**Not forgetting Amazon which is also a big beneficiary of mounting cloud trend.** Amazon remains the dominant player in the IaaS/PaaS segment of the cloud with Amazon Web Services (AWS) maintaining a significant share nearing 40%, according to Synergy Research. Amazon leads the way ahead of other big boys comprising Microsoft Azure, Google Cloud Platform, and IBM cloud platform which have an estimated combined share at 23%. The company recently reported strong results with – being the most profitable unit – generating \$4.58 billion quarterly sales and operating income of \$1.17 billion.

### Stocks for Action

We are positive on robust growth potential in cloud computing space for Google’s parent company, Alphabet (GOOG US); Microsoft (MSFT US); and Amazon (AMZN US). Global IT spending on infrastructure products for cloud environment is projected to grow at CAGR 13% over the 2015-2020 period and would likely benefit the stocks stated above.

### Risks

Intensifying competition risks; economic slowdown that could lead to significant cut in IT budget spending among corporates.



# Sembcorp Marine Ltd

## (SMM SP/SCMN.SI)

### Hold - Downgrade

Price as of 2 Nov 2017	2.00
12M target price (S\$)	2.05
Previous target price (S\$)	1.63
Upside (%)	2.3

### Trading data

Mkt Cap (S\$m) / (US\$m)	4,179 / 3,077
Issued Shares (m)	2,089.7
Ave Daily Traded (3-Month) Vol / Val	4.4m / \$7.8m
52 week lo / hi	\$1.28 / \$2.09
Free Float	38.7%

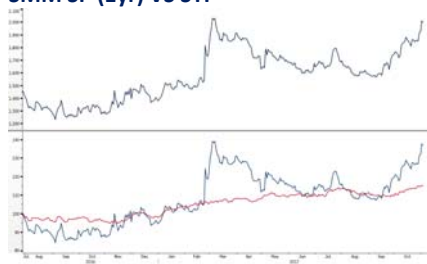
### Major Shareholders

Sembcorp Industries	61.1%
Franklin Resources	5.0%

### Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
31-Jul-17	BUY	1.690	2.050
21-Mar-17	HOLD	1.890	1.630
31-Oct-17	HOLD	1.290	1.390
29-Jul-16	HOLD	1.440	1.530
28-Apr-16	HOLD	1.670	1.650

### SMM SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

## Earnings needed to sustain rally; downgrade to HOLD

### Event

SMM results were uninspiring, although not surprising given the current state of the industry. The group reported a 3Q17 net profit of S\$2.7m, a reversal from a net loss of S\$21.8m in the prior year period. Net gearing remains manageable at 1.3x as at end Sep-17, unchanged from the previous quarter.

SMM's net gearing would have improved to 1.04x with the down payment of US\$500m from Borr Drilling for the nine Pacific Class 400 jack-up drilling rigs. Borr Drilling will take delivery of the jack-ups progressively over a 14-month period, beginning 4Q17 to 1Q19. The US\$800m balance can be paid any time within five years from the respective delivery dates of the rigs.

### Impact

Markets may be disregarding earnings for FY17/FY18 and instead be looking at potential new order wins in the coming quarters. SMM has managed to reverse four years of declining orderbook. Net orderbook (including the Sete Brasil drillships) had increased to S\$8.0 billion as at end 3Q17 from S\$7.8 billion as at end FY16.

### Valuation & Action

We downgrade to HOLD as its share price (+18% since we upgraded to BUY in July 2017) has almost reached our fair value of S\$2.05. Sustained upside potential may need to be driven by earnings growth eventually, which we believe may still take a year to come through. We will have a relook at our investment thesis when we have a clear picture of SMM's margin/earnings trend in its full-year results. Meanwhile, we would prefer pure-play oil producers such as CNOOC (883 HK; NR) to play the recovery in oil markets.

### Risks

Cancellations from customers remains the biggest risk. Lower for longer oil prices may delay recovery in capex spending by customers.

### Financials & Key Operating Statistics

YE Dec (S\$ m)	2015	2016	2017F	2018F	2018F
Revenue	4968.1	3544.8	2591.5	2481.1	3177.1
PATMI	-271.0	78.8	46.8	77.5	97.8
Core PATMI	383.7	97.7	46.8	77.5	97.8
Core EPS	18.4	4.7	2.2	3.7	4.7
Core EPS grth (%)	-31.5	-74.5	-52.1	65.6	26.3
Core P/E (x)	9.2	36.0	75.3	45.5	36.0
DPS (SG Cents)	6.0	2.5	2.0	1.5	2.0
Div Yield (%)	3.6	1.5	1.2	0.9	1.2
Net Margin (%)	-5.5	2.2	1.8	3.1	3.1
Gearing (%)	103.3	112.7	102.0	100.7	107.3
Price / Book (x)	1.4	1.4	1.4	1.3	1.3
ROE (%)	-10.2	3.0	1.8	2.9	3.6

Source: Company Data, KGI Research

**STI Components and Key Metrics**

Ticker	Company Name	Last Price (Lcl)	Market Cap (SGDm)	1 Day Change (%)	Total Return YTD (%)	Total Return 1 Week (%)	Div Yield FY16 (%)	Div Yield FY17 (%)
<b>FINANCIALS</b>								
DBS SP	DBS	23.00	58,826	0.0%	36.7%	2.9%	2.9%	3.1%
OCBC SP	OCBC	11.80	49,433	(1.2%)	36.7%	2.0%	3.2%	3.3%
UOB SP	UOB	24.79	41,221	(0.3%)	25.3%	(0.0%)	2.9%	3.0%
SGX SP	SGX	7.65	8,194	(0.5%)	10.9%	1.2%	4.0%	4.2%
<b>PROPERTIES</b>								
AREIT SP	Ascendas REIT	2.75	7,936	0.4%	25.0%	0.4%	5.8%	6.0%
CAPL SP	CapitaLand	3.67	15,587	(0.8%)	24.8%	(1.6%)	2.8%	2.9%
CCT SP	CapitaLand Comm Trust	1.75	6,314	(0.6%)	28.9%	3.6%	5.0%	5.0%
CT SP	CapitaLand Mall Trust	2.01	7,128	0.0%	12.7%	(0.5%)	5.5%	5.5%
CIT SP	City Development	12.79	11,630	(1.3%)	56.7%	(0.2%)	1.2%	1.2%
GLP SP	Global Logistic	3.33	15,642	0.3%	54.1%	1.2%	1.8%	2.0%
HKL SP	Hongkong Land USD	7.41	23,711	0.5%	20.2%	0.7%	2.7%	2.8%
UOL SP	UOL	9.05	7,615	(0.9%)	54.3%	1.7%	1.7%	1.7%
<b>TELECOMMUNICATIONS</b>								
ST SP	SingTel	3.75	61,234	0.0%	5.6%	(0.3%)	5.3%	4.9%
STH SP	StarHub	2.64	4,565	(0.8%)	(1.5%)	(0.8%)	6.1%	5.9%
<b>CONSUMER SERVICES AND GOODS</b>								
JCNC SP	Jardine C&C	39.00	15,414	0.0%	(3.2%)	(1.4%)	2.8%	3.0%
JM SP	Jardine Matheson USD	63.66	62,873	(0.2%)	17.9%	(2.1%)	2.4%	2.6%
GENS SP	Genting Singapore	1.23	14,791	(0.4%)	39.5%	(1.6%)	2.4%	2.5%
SPH SP	SPH	2.68	4,284	(0.4%)	(22.7%)	(0.4%)	5.1%	5.0%
THBEV SP	ThaiBev	0.97	24,357	(1.0%)	17.3%	0.0%	3.0%	3.2%
<b>TRANSPORT</b>								
SIA SP	Singapore Airlines	10.25	12,121	(0.1%)	7.1%	0.3%	2.4%	2.3%
CD SP	ComfortDelGro	2.05	4,435	0.0%	(13.5%)	2.5%	5.1%	5.3%
<b>COMMODITIES</b>								
GGR SP	Golden Agri	0.39	4,967	(1.3%)	(7.7%)	0.0%	1.7%	2.4%
WIL SP	Wilmar	3.39	21,442	(0.6%)	(3.6%)	1.5%	2.2%	2.8%
<b>OFFSHORE &amp; MARINE/INDUSTRIALS</b>								
KEP SP	Keppel Corp	7.66	13,886	0.0%	36.4%	3.5%	2.7%	3.1%
SCI SP	Sembcorp Industries	3.38	6,032	(0.6%)	21.3%	3.4%	2.3%	2.9%
YZJSGD SP	Yangzijiang SGD	1.59	6,291	0.3%	100.9%	3.9%	2.9%	2.7%
SATS SP	SATS	4.73	5,294	(0.4%)	(0.3%)	1.1%	3.7%	3.9%
SIE SP	SIA Engineering	3.26	3,646	(0.3%)	0.2%	0.9%	4.0%	4.3%
STE SP	ST Engineering	3.48	10,843	(0.3%)	12.1%	0.6%	4.3%	4.5%
HPHT SP	HPH Trust USD	0.44	5,153	0.0%	8.4%	(1.1%)	6.1%	6.3%

Dividend Yield based on Bloomberg consensus. Total return includes dividends.  
Source: Bloomberg

**STI Reserve List (by market cap) - STI next review date: 30 November 2017**

Ticker	Company Name	Last Price (Lcl)	Market Cap (SGDm)	1 Day Change (%)	Total Return YTD (%)	Total Return 1 Week (%)	Div Yield FY16 (%)	Div Yield FY17 (%)
SUN SP	Suntec REIT	1.94	5,132	(0.3%)	23.8%	1.5%	5.2%	5.1%
MCT SP	Mapletree Commercial	1.56	4,489	0.0%	18.5%	0.2%	5.7%	5.7%
VMS SP	Venture Corp	19.28	5,480	(0.3%)	102.9%	3.8%	2.8%	2.8%
SIE SP	SIA Engineering	3.26	3,646	(0.3%)	0.2%	0.9%	4.0%	4.3%
KREIT SP	Keppel REIT	1.18	3,953	0.0%	21.3%	(0.8%)	5.1%	5.1%

Dividend Yield based on Bloomberg consensus. Total return includes dividends.  
Source: Bloomberg

**Appendix 1: Corporate Action**

Company	Results Ann Date	Period	DPS	Ex-Date	Book Close	Payable	Share Price 2 Nov 17	Yield (%)
Ascendas REIT	30-Oct-17	2Q18	SGD 0.08108	<b>3-Nov-17</b>	7-Nov-17	29-Nov-17	SGD 2.750	2.9
HUPSteel	24-Aug-17	FY17	SGD 0.0100	<b>3-Nov-17</b>	7-Nov-17	15-Nov-17	SGD 0.920	1.1
HUPSteel - Special	24-Aug-17	FY17	SGD 0.0100	<b>3-Nov-17</b>	7-Nov-17	15-Nov-17	SGD 0.920	1.1
iFAST Corporation	28-Oct-17	3Q17	SGD 0.0075	<b>3-Nov-17</b>	7-Nov-17	17-Nov-17	SGD 0.980	0.8
LTC Corp	25-Aug-17	FY17	SGD 0.0100	<b>3-Nov-17</b>	7-Nov-17	22-Nov-17	SGD 0.665	1.5
Micro-Mechanics Hldgs	28-Aug-17	FY17	SGD 0.0400	<b>3-Nov-17</b>	7-Nov-17	17-Nov-17	SGD 1.875	2.1
Micro-Mechanics Hldgs - Special	28-Aug-17	FY17	SGD 0.0100	<b>3-Nov-17</b>	7-Nov-17	17-Nov-17	SGD 1.875	0.5
Tai Sin Electric	25-Aug-17	FY17	SGD 0.0160	<b>3-Nov-17</b>	7-Nov-17	14-Nov-17	SGD 0.440	3.6
Wing Tai Hldgs	24-Aug-17	FY17	SGD 0.0300	<b>3-Nov-17</b>	7-Nov-17	23-Nov-17	SGD 2.390	1.3
Wing Tai Hldgs - Special	24-Aug-17	FY17	SGD 0.0300	<b>3-Nov-17</b>	7-Nov-17	23-Nov-17	SGD 2.390	1.3
Health Mgt Int'l	24-Aug-17	FY17	RM 0.0100	<b>6-Nov-17</b>	8-Nov-17	17-Nov-17	SGD 0.635	0.0
Lion Asiapac Ltd	23-Aug-17	FY17	SGD 0.0050	<b>6-Nov-17</b>	8-Nov-17	21-Nov-17	SGD 0.550	0.9
Lum Chang Holdings Ltd	22-Aug-17	FY17	SGD 0.0120	<b>7-Nov-17</b>	9-Nov-17	23-Nov-17	SGD 0.415	2.9
OUE Hospitality Trust	1-Nov-17	3Q17	SGD 0.0136	<b>7-Nov-17</b>	9-Nov-17	1-Dec-17	SGD 0.815	1.7
Far East Hospitality Trust	2-Nov-17	3Q17	SGD 0.010300	<b>8-Nov-17</b>	10-Nov-17	15-Dec-17	SGD 0.715	1.4
Frasers Logistics & Industrial Trust	2-Nov-17	FY17	SGD 0.01680	<b>8-Nov-17</b>	10-Nov-17	19-Dec-17	SGD 1.115	1.5

**Latest Rights Issue Announcement**

Company	Particulars	Ex-Date	Book Close	Rights Trading Period	
				From	To
Z-Obee Holdings	2 offer shares @ US\$0.16 (equivalent to approximately HK\$1.248) per offer share for every 5 consolidated shares held		27-Oct-17 at 5.00 p.m.	<b>Delisting from SGX: 28-Nov-17</b>	

Source: SGX Announcement

**Latest Bonus & Listing Issue Announcement**

Company	Particulars	Ex-Date	Book Close	Payable / Crediting Date	Listing Date
Koda	1 Bonus share for every 1 existing shares held	<b>31-Oct-17</b>	2-Nov-17		

Source: SGX Announcement

Company	Offer Price	Closing Date	Offeror
CWT	SGD 2.33 Cash	5.30 p.m. on 2 Nov 2017	HNA Belt and Road Invts (Spore) Pte. Ltd.
Fischer Tech - Scheme of arrangement	SGD 3.02 Cash	5.00 p.m. on 1 Nov 2017	FT Holding II Ltd
		Expected Payment Date: 13 Nov 2017	
GP Batteries International	SGD 1.30 Cash	5.30 p.m. on 17 Nov 2017	GP Industries Limited
Poh Tiong Choon Logistics	SGD 1.30 Cash	5.30 p.m. on 20 Nov 2017	Respond Logistics Pte. Ltd.

Source: SGX Announcement

**Appendix 2: Financial Calendar**

Monday	Tuesday	Wednesday	Thursday	Friday
<p><b>30-Oct</b></p> <p>Q1: Micro-Mechanics Hldgs</p> <p>Q2: Ascendas REIT</p> <p>Q3: Hutchison Port Hldgs Trust / Raffles Medical Grp / Roxy-Pacific</p> <p>Q4: Second Chance Properties</p>	<p><b>31-Oct</b></p> <p>Q3: Sembcorp Marine</p> <p>Q4: Yorkshine Hldgs</p>	<p><b>1-Nov</b></p> <p>Q3: OUE Hospitality Trust</p>	<p><b>2-Nov</b></p> <p>Q3: China Aviation Oil / Far East Hospitality Trust / Lippo Malls Indonesia Retail Trust / OUE Commercial REIT / Sembcorp Industries / StarHub</p> <p>Q4: Frasers Logistics &amp; Industrial Trust</p>	<p><b>3-Nov-17</b></p> <p>Q2: SIA Engrg Co</p> <p>Q3: Challenger Technologies / Halcyon Agri Corp / Manulife US REIT / UIC / UOB (Before mkt open)</p>
<p><b>6-Nov</b></p> <p>Q2: Ascendas Hospitality Trust / Vallianz Hldgs</p> <p>Q3: BreadTalk Grp / DBS (Before mkt open) / Genting Spore PLC</p>	<p><b>7-Nov</b></p> <p>Q2: RHT Health Trust / Spore Airlines</p> <p>Q3: BHG Retail REIT / Hi-P Int'l / OKP Hldgs / Perennial Real Estate Hldgs</p> <p><b>IPO: Keppel KBS US REIT (Mainboard): Close @ 12.00 noon</b></p>	<p><b>8-Nov</b></p> <p>Q3: Best World Int'l / Capitaland / First Ship Lease Trust / Spore Technologies Engrg / Vicom</p>	<p><b>9-Nov</b></p> <p>Q2: SATS / Spore Telecoms</p> <p>Q3: City Devpts / Ezion / Ho Bee Land / IREIT Global / KrisEnergy / Parkway Life REIT / SBS Transit / Thakral Corp / Trendlines Grp / UOL Grp / Valuetronics Hldgs</p> <p><b>IPO: Keppel KBS US REIT (Mainboard): Commence Trading @ 2.00 p.m.</b></p>	<p><b>10-Nov</b></p> <p>Q2: Global Logistic Properties</p> <p>Q3: ComfortDelGro Corp / Elec &amp; Eltek Int'l / Hiap Hoe / Hong Leong Finance / Htl Royal / IFS Capital / Mewah Int'l Inc / Vard Hldgs / World Precision Machinery (Release on Sat, 11-Nov)</p> <p>Q4: Frasers Centrepoint</p>
<p><b>13-Nov</b></p> <p>Q2: Accordia Golf Trust / Foreland Fabrictech Hldgs</p> <p>Q3: Amara Hldgs / Asian Pay Television Trust / Utd Engineers / Wilmar Int'l</p>	<p><b>14-Nov</b></p> <p>Q1: ASL Marine Hldgs</p> <p>Q2: Serrano / Shanghai Turbo Enterprise</p> <p>Q3: Straco Corp</p>	<p><b>15-Nov</b></p> <p>Q3: Olam Int'l</p>	<p><b>16-Nov</b></p>	<p><b>17-Nov</b></p>
<p><b>20-Nov</b></p>	<p><b>21-Nov</b></p>	<p><b>22-Nov</b></p>	<p><b>23-Nov</b></p> <p><b>SG (Oct 2017): CPI</b></p>	<p><b>24-Nov</b></p> <p><b>SG: 3Q17 GDP (Not later than 24 Nov)</b></p>
<p><b>27-Nov</b></p>	<p><b>28-Nov</b></p>	<p><b>29-Nov</b></p>	<p><b>30-Nov</b></p> <p>STI Review</p>	<p><b>1-Dec-17</b></p>

\* Tentative

Source: Bloomberg

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