

Aneka Tambang

**Indonesia
Mining**
2 April 2007

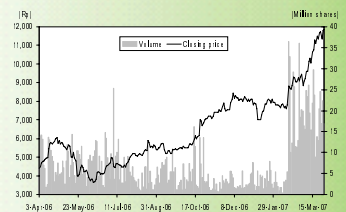
BUY

Final results

Analyst
Ricardo Silaen
(62 21) 3983 1459
rsilaen@kimeng.co.id

Price **Rp11,850**
Target **Rp14,300**
JKSE Index **1831**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	30.2	48.1	115.5
Relative (%)	25.1	46.7	96.2

Stock Information

Ticker code	ANTM
Market Cap (USD m)	2,478
52-week high (Rp)	11,850
52-week low (Rp)	3,650
Shares issued (m)	1,908
6-mth avg. daily val (USD m)	7.7
Free float (%)	25
Major Shareholders (%)	
Government of RI:	65
Open Heimer FD. Inc.:	10

Key Indicators

ROE (%)	36.3
Net gearing (%)	3.2
NTA (Rp b)	7,291
Interest cover (x)	16.9

Still shiny

◆ Strong earning growth

Aneka Tambang reported strong sales growth of 71% Y/Y to Rp5,629b in FY06 from Rp3,251b in FY05. Sales in Q406 was Rp2,228b (up 72% Q/Q) from Rp1,297b, driven by higher production (49% Q/Q) and nickel price (35% Q/Q). Ferronickel still contributed most with Rp2,724b in FY06 (48%), followed by nickel ore Rp2,009 (36%) and gold Rp601b (11%). Gross profit up 93% Y/Y to Rp2,741b while operating profit jumped 119% to Rp2,404b. Net profit came in at Rp1,553b, in line with our estimate.

◆ Nickel price to remain high

Nickel price has been rising almost tenfold in the last five years. It reached a record level US\$50,875/ton recently. Despite some concerns relating to lower demand from stainless steel industry (due to cyclicality), we believe nickel price to stay reasonably high and will not fall abruptly in the short term. Limited supply is the main driving force. We see ongoing greenfield projects to show delays and cost overruns.

◆ JVs to unlock value

To capitalize its abundant resources the company plans to form some Joint Ventures (JVs). More importantly the JVs will enable Aneka Tambang to share risks and reduce the capital required. Recently it formed a JV called PT Indonesia Chemical Alumina (ICA) to develop a plant that will produce 300,000 tons per year chemical grade alumina in Tayan, West Kalimantan. Aneka Tambang share is 49% in the JV, with option to increase to 51% in the future.

◆ Attractive valuation, BUY

In terms of valuation multiples, Aneka Tambang still looks attractive, it is trading at 6.6x FY07 and 3.7x FY07 EV/EBITDA. Benchmarking to Xstrata acquisition price of LionOre Mining at 5.13x EBITDA, and comparing to Inco Indonesia which is trading at 5.2x FY07 EV/EBITDA based on *Bloomberg* consensus, we put target price of Rp14,300 for the stock. This provides 21% upside potential. At that price, Aneka Tambang will be trading at 8.0x FY07 PE and 4.5x EV/EBITDA (13% discount to Inco's EBITDA valuation multiple). BUY.

Year End Dec 31	2004	2005	2006	2007F	2008F
Sales (Rp b)	2,859	3,251	5,629	8,620	7,639
Pre-tax (Rp b)	1,163	1,203	2,220	4,873	3,798
EPS (Rp)	425	441	814	1,788	1,394
EPS growth (%)	258	4	84	120	(22)
PER (x)	27.9	26.9	14.6	6.6	8.5
EV/EBITDA (x)	18.0	18.5	8.0	3.7	4.2
Yield (%)	1.1	1.3	2.3	5.1	4.0

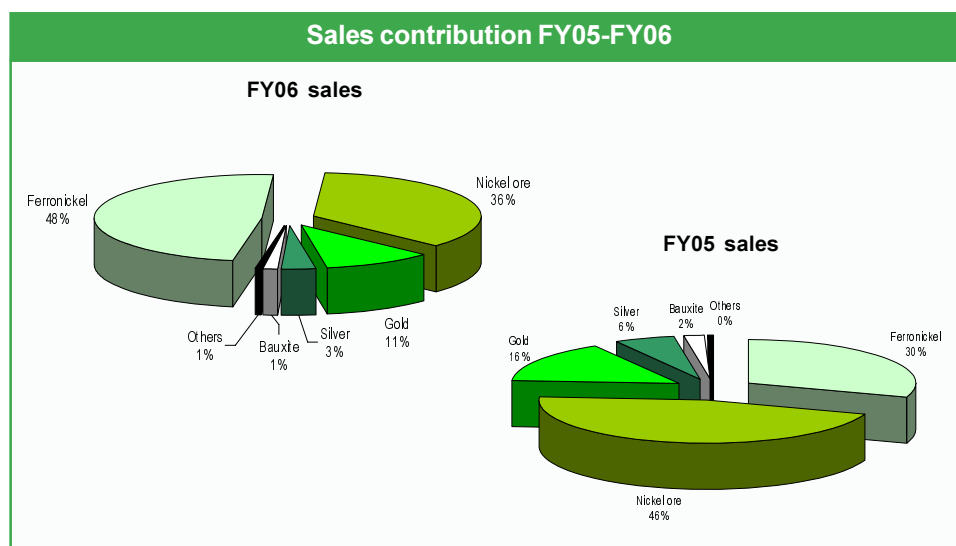
Strong sales and net profit driven by higher ferronickel sales volume and commodity price

Strong earning growth

Aneka Tambang reported strong sales growth of 71% Y/Y to Rp5,629b in FY06 from Rp3,251b in FY05. Sales in Q406 was Rp2,228b (up 72% Y/Y) from Rp1,297b, driven by higher nickel production and nickel price. Ferronickel still contributed most with Rp2,724b in FY06 (48%), followed by nickel ore Rp2,009b (36%) gold Rp601b (11%). Gross profit was up 93% Y/Y to Rp2,741b while operating profit jumped 119% to Rp2,404b. Net profit came in at Rp1,553b, in line with our estimates.

(Rp b)	FY06	FY05	% chg	Q406	Q306	% chg
Revenues	5,629	3,251	73	2,228	1,297	72
COGS	(2,888)	(1,827)	58	(993)	(766)	30
Gross profit	2,741	1,424	93	1,235	530	133
G&A	(295)	(303)	(3)	(119)	(62)	91
Selling and marketing	(11)	(14)	(17)	(2)	(3)	(21)
Exploration	(32)	(8)	293	(28)	(2)	1,293
Operating income	2,404	1,100	119	1,087	463	135
Interest expenses & charges	(142)	(26)	455	(46)	(48)	(5)
Forex gain (loss)	(58)	27	(317)	3	14	(79)
Loss on hedging contract transaction	(95)	(7)	1,225	(95)	-	-
Other income (expenses)	111	109	2	111	(5)	(2,205)
Pretax income	2,220	1,203	85	1,060	424	150
Tax	(667)	(361)	85	(316)	(130)	143
Minority interest	-	(0)	(100)	-	-	-
Net profit	1,553	842	84	744	294	153
EPS (Rp)	814.0	441.3	84	390.0	153.9	153
Gross margin (%)	48.7	43.8		55.4	40.9	
Operating margin (%)	42.7	33.8		48.8	35.7	
Net margin (%)	27.6	25.9		33.4	22.6	

Source: Company data



Source: Company data

Operation of FeNi III boosted ferronickel production by 97% in FY06

Production surged from FeNi III plant

With the operation of FeNi III plant in Mar 06, Aneka Tambang increased its ferronickel production by 97% to 14,474 tons in 2006 from 7,338 tons in 2005. Production in Q406 grew by 49% Q/Q to 4,551 tons. Earlier, the company aimed to produce 19,000 tons of nickel contained in ferronickel in 2006. However, the company had to shut-down FeNi III smelter in July due to leak from the metal tap hole. Later, the smelter was switched on in Oct 06. Compared to 2006, gold and silver production declined by 1% and 3% to 2,873 tons and 23,873 tons. We expect Aneka Tambang to produce 20,000 tons of Ferronickel in 2007, or 38% higher than production in 2006. For gold we expect production to be relatively similar at 2,850 kg.

Production volume	FY06	FY05	% chg	Q406	Q306	% chg
Ferronickel (TNi)	14,474	7,338	97	4,551	3,064	49
Saprolite (Wmt)	3,493,961	3,408,252	3	1,032,056	828,894	25
Limonite (Wmt)	859,871	672,548	28	243,774	239,252	2
Total Nickel ore (Wmt)	4,353,832	4,080,800	7	1,275,830	1,068,146	19
Gold (Kg)	2,873	2,911	(1)	719	874	(18)
Silver (Kg)	23,873	24,605	(3)	6,178	7,067	(13)
Bauxite (Wmt)	1,501,937	1,441,899	4	393,158	433,230	(9)

Source: Company data

Accordingly, sales volume of ferronickel also increased by 92% Y/Y to 13,389 tons in FY06. The company still has undelivered order form in Dec 06, hence not recorded in Q406. We reckon there is 878 tons difference between production and sales in Q406.

Sales volume	FY06	FY05	% chg	Q406	Q306	% chg
Ferronickel (TNi)	13,389	6,988	92	3,673	3,387	8
Saprolite (Wmt)	3,375,466	3,025,841	12	1,161,842	640,737	81
Limonite (Wmt)	933,668	1,060,240	(12)	446,875	128,882	247
Total Nickel ore (Wmt)	4,309,134	4,086,081	5	1,608,717	769,619	109
Gold (Kg)	3,340	3,639	(8)	1,303	859	52
Silver (Kg)	21,063	29,823	(29)	5,055	5,772	(12)
Bauxite (Wmt)	1,536,542	1,617,566	(5)	464,763	363,943	28

Source: Company data

Nickel price has been very strong

Average selling price for ferronickel rose 57% Y/Y in 2006

In line with other metals, nickel price also performed strongly in 2006. Spot nickel price has increased 154% to US\$ 34,025/ton during 2006 with average US\$24,155/ton, making nickel as the best performer in London Metal Exchange (LME). Accordingly, average realized price for Antam's ferronickel also increased by 57% from US\$6.45/lb to US\$10.14/lb. On quarterly basis, nickel price was up 35% to US\$14.24/lb in Q406 from US\$10.54/lb in Q306. Q/Q, gold price was relatively did not change much, with average US\$624/T.oz in Q406.

Price	FY06	FY05	% chg	Q406	Q306	% chg
Ferronickel (US\$/lb)	10.14	6.45	57	14.24	10.54	35
Saprolite (US\$/lb)	54.47	44.64	22	60.92	57.25	6
Limonite (US\$/lb)	29.38	19.06	54	36.54	35.97	2
Gold (US\$/T.oz)	611.59	446.14	37	624.33	621.23	0
Silver (US\$/T.oz)	11.83	7.27	63	12.69	17.84	(29)
Bauxite (US\$/Wmt)	13.87	11.91	16	14.30	14.11	1

Source: Company data

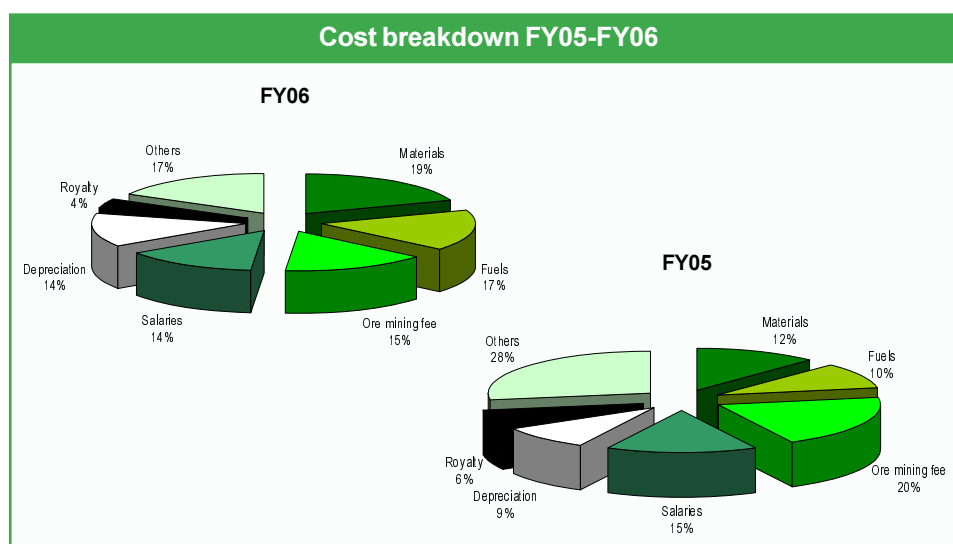
Higher fuel price and raw material caused cash cost for ferronickel and gold to increase by 12% Y/Y

High fuel price put pressure on costs

Cash cost of productions for ferronickel and gold each rose 12% to US\$4.4/lb and to US\$283.9/T.oz in 2006. Cash costs for saprolite and limonite were US\$19.83/Wmt and US\$8.67/Wmt. Cash cost increase was driven by higher raw material and labor cost. In terms of production costs, the biggest increase was materials used (Rp611b, 170% Y/Y), fuels (Rp518b, 184% Y/Y), and labor Rp447b, 61% Y/Y). With the operation of FeNi III smelter in March 06, depreciation increased to Rp426b from Rp168b in FY05. Increase in raw material cost was driven by purchase nickel ore from Inco Indonesia (deal is about 1m Wmt nickel ore per annum from Inco's Pomalaa site) as Antam's reserve in Pomalaa was depleted. Cash cost for electricity from diesel power plant was US\$0.12/kWh in FY06. Going forwards, Aneka Tambang plans to reduce its energy cost. The company is planning to convert the use of diesel to less expensive alternative energy, i.e. natural gas, hydropower and coal. At present a Canadian company is conducting a feasibility study to use hydropower for its power plants, as gas would be less likely considering the difficulties in transporting gas to its operation area.

Production costs	FY06	FY05	% chg
Materials	611	226	170
Fuels	518	182	184
Ore mining fee	478	370	29
Salaries	447	277	61
Depreciation	426	168	154
Royalty	127	106	20
Others	528	502	5
Total	3,135	1,832	71

Source: Company data



Source: Company data

We expect nickel price to stay high, abrupt fall is unlikely

Nickel price outlook remains positive

Price has been riding high, mostly driven by supply issues. Supply is tight as new supply from greenfield projects are limited and additional supply is expected to come mostly from brownfield projects. The completion of Goro project, owned by Companhia Vale do Rio Doce (CVRD), with expected production of 60,000 tons per year in New Caledonia has been delayed from initial plan of 2007 to 2009/2010. Like other similar projects, Goro's project in New Caledonia has glugged with problems ranging from labour, environmental to cost overruns.

Major laterite projects	Location	Company	Capacity ('000 tons)	Start up		Cost est (US\$ b)	
				Initial	Current	Initial	Current
Goro	New Caledonia	CVRD	60	2004	2008	1.45	3
Vermelho	Brazil	CVRD	46	2008	2009	1.2	1.6
Ravensthorpe	Australia	BHPBilliton	50	2007	Q108	1.05	2.2
Koniambo	New Caledonia	Xstrata	60	2009	2009/2010	1.5	2.2-3.0
Caldag	Turkey	European Nickel	20	2007	Q308	0.3	0.3
Onca Puma	Brazil	CVRD	57	2008	2008	1.1	1.2
Total			293				

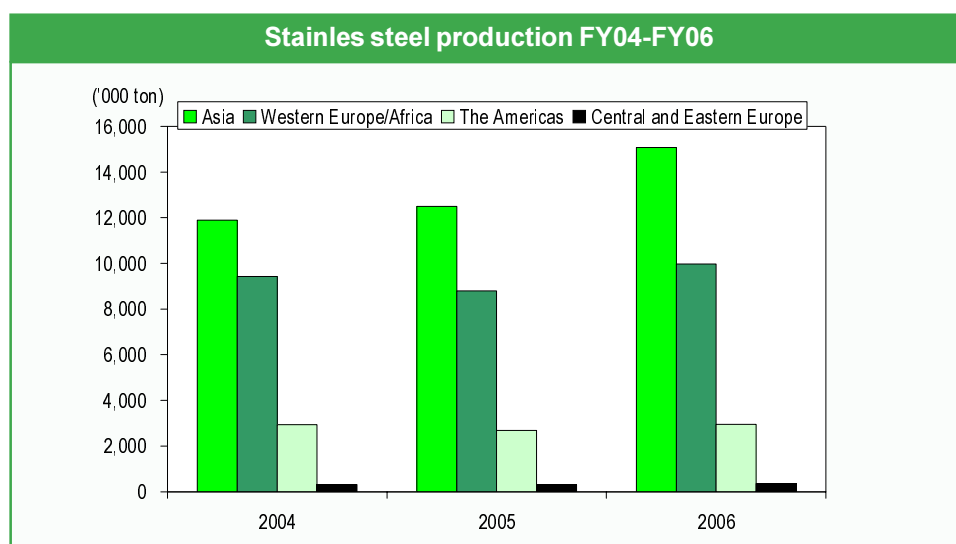
Source: ABARE

Demand is driven by strong demand in China with its booming construction sector

On demand side, stainless steel producer, the biggest nickel consumer, saw 16.7% stainless steel growth to 28,359 tons last year. China is the main driving force, overtaking Japan with 5.5m tons production. Strong demand in China is coming from its booming construction sector. Asia saw 20.6% Y/Y growth to 15,074k tons, while Western Europe/Africa saw 13.4% growth to 9,972 tons. Growth of stainless steel production in last quarter was 28.2% Y/Y.

Region	2006	2005	% chg
Western Europe/Africa	9,972	8,795	13
Central and Eastern Europe	363	310	17
The Americas	2,951	2,688	10
Asia	15,074	12,498	21
World total	28,359	24,292	17

Source: International Stainless Steel Forum (ISSF)



Source: Company data

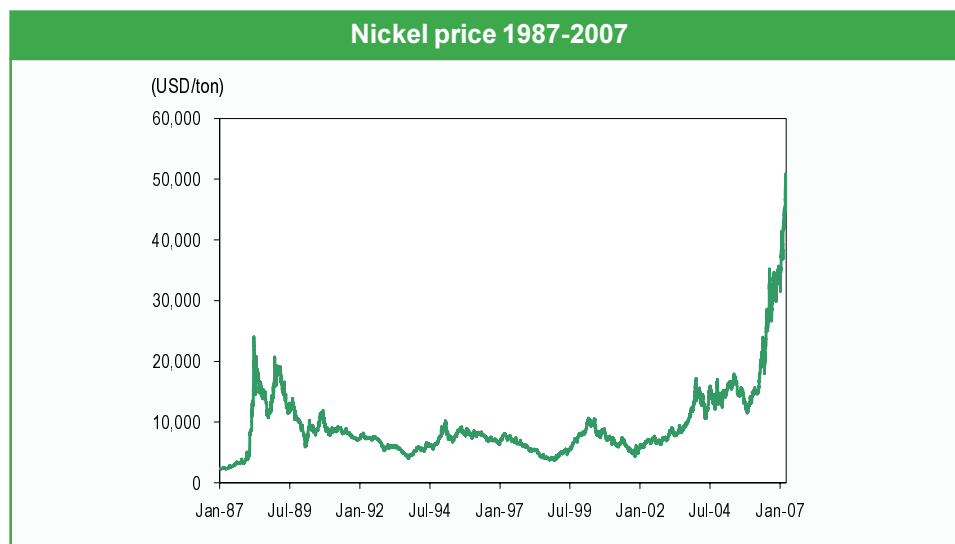
ABARE still expects average nickel price to rise by 50% in 2007

We understand there is concern relating to stainless steel cycle in 2007, in which production of stainless steel is expected to slowdown. However, The Australian Bureau of Agricultural and Resource Economics (ABARE) still estimates nickel demand to grow by 5%, mostly driven by stainless steel industry. The bureau estimates there will be a gap of 30,000 tons of nickel in 2007. We saw stockpile fell by about 90% last year. Nickel inventory in LME currently stood at 5,500 tons, barely enough for 1 day global consumption. Problem on nickel deliveries, like delay of shipment from Port of Esperance in Australia recently, also causes a swing in price. For 2007 ABARE estimate average nickel price to rise some 50% YY to US\$36,750 from last year US\$24,252/ton. Looking beyond 2007, price in 2008 is expected to remain firm, still due to supply concern, while balance is unlikely to be reached until 2010.

Nickel price outlook

	2005	2006	2007F	2008F	2008F	2010F	2011F	2012F
Production	1,293	1,349	1,433	1,526	1,620	1,701	1,820	1,948
Consumption	1,243	1,388	1,463	1,530	1,609	1,691	1,781	1,878
Stocks	112	81	50	45	57	67	107	177
Weeks consumption	4.7	3.0	1.8	1.5	1.8	2.1	3.1	4.9
Price LME- US\$	14,742	24,252	36,750	35,313	27,500	19,063	16,650	16,500

Source: Australian Bureau of Statistics, International Nickel Study Group, London Metal Exchange, World Bureau of Metal Statistics, ABARE



Source: Company data

Amid rising nickel price, the industry is consolidating, acquisition price in the range of 5x EBITDA

Consolidation in industry

We also see a trend of consolidation among industry players and it is to continue. Two big consolidations take place last year. First, it was Xstrata from Switzerland acquired Falconbridge from Canada at C\$62.5 per share (all cash) in mid 2006, at total US\$18b. According to data compiled by *Bloomberg*, Xstrata paid 8.65x EBITDA for Falconbridge. Then it was Brazilian CVRD acquiring Canada's Inco Ltd for C\$86.00 per share (in cash) with ultimate total US\$17.4b. Amid the rising price, this year Xstrata agreed to buy Canada's LionOre Mining International Ltd for US\$4b. Xstrata, the fourth biggest nickel producer and fifth biggest mining company in the world offers to pay C\$18.5 per share. It is said that the deal is valued at LionOre's 5.38x EBITDA. We see this series of consolidation, amid the rising price, as a show of confidence from nickel producers that nickel price will not go down drastically in near future.

JVs to share risk and minimize capital requirement in project development

Projects to unlock value

Recently management announced that it established a JV called PT Indonesia Chemical Alumina with partner Showa Denko KK (SDK) of Japan, Straits Trading Amalgated Resources Private Limited of Singapore (STAR), and Marubeni Corporation of Japan. Aneka Tambang's share in the JV is 49%, the remaining consist of SDK 30%, STAR 15% and Marubeni 6%. According to the agreement, Aneka Tambang will have option to increase its ownership to 51% in the future. The JV will eventually develop a chemical grade alumina plant in Tayan, West Kalimantan. According to Bankable Feasibility Study (BFS) completed by Mizuho in 2003, the project will produce 300,000 tons of chemical grade alumina per year. The project is estimated to cost around US\$250m. Construction is expected to start in 2007 and to operate in 2010. It is reported that Aneka Tambang is seeking US\$50-70m loan to finance the project. Japan Bank of International Cooperation (JBIC) is expected to finance 60% of the project. We have not included the project in our forecast.

Previously the management also announced it is establishing an alliance with BHP Billiton to explore the possibility to develop an extensive nickel laterite source in Halmahera island. These two bids are part of Aneka Tambang strategy to unlock value of its vast reserve. Going forward, the company plans to form JVs for a number of its undeveloped resources. More importantly, the JVs will enable the company to share risk and capital needed.

Other Joint Ventures	Product	Antam's share	Partner
PT Nusa Halmahera Minerals	Gold	17.5	Newcrest
PT Cibaliung Sumberdaya	Gold	10.25	Austindo
PT Sorikmas Mining *	Gold	20	Oropa
PT Gag Nickel *	Nickel	25	BHP Billiton
PT Weda Bay Nickel *	Nickel	10	Weda Bay Minerals
PT Dairi Prima Minerals *	Lead/Zinc	20	Herald Resources
PT Galuh Cempaka *	Diamonds	20	BM Diamonds

Source: Company data

Note: * In these JVs, Antam does not make any cash contribution

Forecast and valuation

We assume nickel price of 15.42/lb in FY07 and 13.11/lb in FY08, or 52% and 29% higher compared to average of Aneka Tambang selling price at US\$10.14/lb in 2006. Please note that our forecast is 7% and 18% lower compared to ABARE's estimate in 2007 and 2008. It is also 22% and 34% lower than YTD average US\$ 19.75/lb.

Assumptions	2006	2007	2008
Nickel Price (US\$/ton)	22,355	34,000	28,900
Nickel Price (US\$/lb)	10.14	15.42	13.11
Gold Price	624.33	600	560
Production			
Ferronickel	14474	20,000	22,000
Gold	2,873	2,850	2,850
Saprolite	3,493,961	3577993.96	3300000
Limonite	859,871	400,000	500,000
Bauxite	393,158	1,536,542	1,536,542

Source: Company data, Kim Eng estimate

We estimate revenue to grow by 53% in FY07 to Rp8,620b, while operating profit to rise 108% to Rp4,994b. We expect gross and operating margins to improve to 62% and 58% respectively from 49% and 43% in 2006. Net profit is expected to come in at Rp3,411b or up 120% Y/Y.

Risks in our forecast include significantly lower commodity prices (nickel and gold in particular), labor dispute, and problems with production facilities that affect lower production and changes in mining law.

In terms of valuation multiples, Aneka Tambang still looks attractive, it is trading at 6.6x FY07 and 3.7x FY07 EV/EV/EBITDA. Benchmarking to Xstrata acquisition price of LionOre Mining at 5.13x EV/EBITDA, and comparing to Inco Indonesia which is trading at 5.2x FY07 EV/EBITDA based on *Bloomberg* consensus, we put target price of Rp14,300 for the stock. This provides 21% upside potential. At that price, Aneka Tambang will be trading at 8.0x FY07 PE and 4.5x EV/EBITDA (13% discount to Inco's EBITDA valuation multiple). BUY.

Target price Rp13,700, providing 17% upside potential. BUY

Profit and loss

YE Dec (Rp b)	2004	2005	2006	2007F	2008F
Revenues	2,859	3,251	5,629	8,620	7,639
Cost of revenues & opex	1,762	2,151	3,226	3,626	3,753
Operating Profit	1,097	1,100	2,404	4,994	3,887
Net interest	8	(3)	(111)	(31)	1
Interest income	10	22	31	69	101
Interest expense	(2)	(26)	(142)	(100)	(100)
Forex gain (loss)	69	27	(58)	(75)	(75)
Gain (loss) on sale of assets	-	-	-	-	-
Other non op income (expenses)	(11)	80	(15)	(15)	(15)
Equity income from assoc coys	-	-	-	-	-
Pretax income	1,163	1,203	2,220	4,873	3,798
Income taxes	(353)	(361)	(667)	(1,462)	(1,139)
Profit from normal activities	810	842	1,553	3,411	2,659
Extraord loss (gain) net of tax	-	-	-	-	-
Minority Interest	-	-	-	-	-
Net profit	810	842	1,553	3,411	2,659
EBITDA	1,258	1,288	2,852	5,448	4,354

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (Rp b)	2004	2005	2006	2007F	2008F
Total assets	6,058	6,403	7,291	9,730	10,994
Current assets	2,992	2,088	3,318	5,980	7,481
Cash & ST investment	1,999	740	1,194	3,458	5,066
Trade payable	282	468	901	1,250	1,108
Inventory	396	527	947	997	1,032
Others	316	352	275	275	275
Non current assets	3,065	4,315	3,973	3,749	3,513
Restr cash & bond sinkin fund	-	-	-	-	-
LT investments	31	31	37	37	37
Net fixed assets	2,693	3,825	3,346	3,093	2,826
Others	342	459	590	620	651
Total liabilities	3,615	3,373	3,009	2,558	2,324
Current liabilities	928	779	1,180	992	1,023
Trade payable	94	117	128	181	188
ST borrowings & current dues	-	29	265	-	-
Others	833	633	787	811	835
Long-term liabilities	2,688	2,594	1,830	1,565	1,301
Long-term debts	2,072	1,944	1,070	806	541
Others	615	650	759	759	759
Minority interest	-	-	-	-	-
Shareholder's equity	2,442	3,030	4,282	7,172	8,671
Paid-in capital	954	954	954	954	954
Additional paid in capital	3	3	-	-	-
Retained earnings	1,465	2,053	3,305	6,198	7,697
Others	22	20	20	20	20

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (Rp b)	2004	2005	2006	2007F	2008F
Operating cash flow	912	742	1,690	3,472	3,532
Net Profit	810	842	1,553	3,411	2,659
Depreciation & amortisation	162	189	448	454	467
Change in working capital	(187)	(295)	(842)	(345)	114
Others	127	7	532	(48)	293
Investment cash flow	(1,088)	(1,615)	(170)	(200)	(200)
Net capex	(1,019)	(1,436)	(86)	(200)	(200)
Change in LT investment	-	-	-	-	-
Change in other assets	(69)	(179)	(84)	-	-
Cash flow after invt.	(176)	(873)	1,521	3,272	3,332
Financing cash flow	67	(506)	(963)	(1,093)	(1,724)
Change in share capital	-	-	-	-	-
Cash dividend paid	(94)	(258)	(286)	(528)	(1,160)
Net change in debt	157	(240)	(668)	(565)	(565)
Change in other LT liab.	4	(8)	(8)	-	-
Net cash flow	(109)	(1,378)	558	2,179	1,608
Cash at BY	1,927	1,999	721	1,279	3,458
Cash at YE	1,999	721	1,279	3,458	5,066

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (Rp b)	2004	2005	2006	2007F	2008F
Growth (% YoY)					
Sales	34	14	73	53	(11)
OP	145	0	119	108	(22)
EBITDA	116	2	121	91	(20)
NP	258	4	84	120	(22)
EPS	258	4	84	120	(22)
Profitability (%)					
Operating margin	38.4	33.8	42.7	57.9	50.9
EBITDA margin	44.0	39.6	50.7	63.2	57.0
Net Profit margin	28.3	25.9	27.6	39.6	34.8
ROA	13.4	13.1	21.3	35.1	24.2
ROE	33.2	27.8	36.3	47.6	30.7
Stability					
Gross debt/equity (%)	85	65	31	11	6
Net debt/equity (%)	3	41	3	(37)	(52)
Int. coverage (X)	497.99	43.03	16.93	49.94	38.87
Int. & ST debt coverage (X)	497.99	19.98	5.91	49.94	38.87
Cash flow int. coverage (X)	(80.03)	(34.14)	10.71	32.72	33.32
Cash flow int. & ST debt (X)	(80.03)	(15.85)	3.74	32.72	33.32
Current ratio (X)	3.23	2.68	2.81	6.03	7.31
Quick ratio (X)	2.15	0.95	1.01	3.48	4.95
Gross debt (Rp b)	2,072	1,973	1,335	806	541
Net debt (Rp b)	74	1,233	141	(2,652)	(4,525)
Per share data (Rp)					
EPS	425	441	814	1,788	1,394
BVPS	1,280	1,588	2,244	3,759	4,545
SPS	1,498	1,704	2,951	4,519	4,005
EBITDA/share	660	675	1,495	2,856	2,282
DPS	49	135	150	277	608

Source: Company data, Kim Eng estimates

ANALYST' COVERAGE / RESEARCH OFFICES

SINGAPORE

Sebastian HENG *Head of Research*
+65 6432 1858 sebastianheng@kimeng.com

- Strategy
- Oil & gas
- Marine

Stephanie WONG

+65 6432 1451 swong@kimeng.com

- Telcos
- Media
- Consumer

Gregory YAP

+65 6432 1450 gyap@kimeng.com

- China Consumer
- Regional Themes

Rohan SUPPIAH

+65 6432 1455 rohan@kimeng.com

- Conglomerates
- Transport

Pauline LEE

+65 6432 1453 paulinelee@kimeng.com

- Bank & Finance
- Consumer

Wilson Liew

+65 6432 1454 wilsonliew@kimeng.com

- Properties

David LOOMIS

+65 6432 1417 dloomis@kimeng.com

- Korea Special Situations

KELIVE Singapore

ONG Seng Yeow *Head of Research*

+65 6432 1832 ongsengyeow@kimeng.com

TAN Chin Poh

+65 6432 1859 chinpoh@kimeng.com

GOH Han Peng

+65 6432 1857 gohhanpeng@kimeng.com

Geraldine EU

+65 6432 1469 geraldineeu@kimeng.com

Daniel THAM

+65 6432 1412 danieltham@kimeng.com

HONG KONG / CHINA

Stephen BROWN *Head of Research*

+852 2268 0638 stephenbrown@kimeng.com.hk

Edward FUNG

+852 2268 0632 edwardfung@kimeng.com.hk

- Utilities
- Telcos

Ivan LI

+852 2268 0641 ivanli@kimeng.com.hk

- Bank & Finance

Alvin WONG

+852 2268 0633 alvinwong@kimeng.com.hk

- Property

Larry GRACE

+852 2268 0630 larrygrace@kimeng.com.hk

- Oil & Gas

Dennis LAM

+852 2268 0635 dennislam@kimeng.com.hk

- Consumer

Ivan CHEUNG

+852 2268 0634 ivancheung@kimeng.com.hk

- Industrials

Elsa YANG

+852 2268 0631 elsayang@kimeng.com.hk

- China consumer

MALAYSIA

YEW Chee Yoon *Head of Research*

+603 2141 1555 cheeyoon@kimengkl.com

- Strategy
- Banks
- Telcos
- Property
- Shipping
- Oil & gas
- Gaming
- Media
- Power
- Construction
- Food & Beverage
- Manufacturing
- Plantations
- Tobacco
- Electronics

INDONESIA

Katarina Setiawan *Head of Research*

+6221 3983 1458 ksetiawan@kimeng.co.id

- Strategy
- Telco
- Cigarettes/Consumer
- Shipping
- Others

Ricardo SILAEN

+6221 3983 1455 rsilaen@kimeng.co.id

- Heavy Equipment
- Resources
- Property

Andrey WIJAYA

+6221 3983 1457 andreywijaya@kimeng.co.id

- Retail
- Cement
- Pharmaceutical
- Oil & Gas

Yusuf A. WINOTO, CFA

+6221 3983 1455 yawinoto@kimeng.co.id

- Banking
- Multifinance

Yuniar RESTANTO

+6221 3983 1455 yrestanto@kimeng.co.id

- Technical Analyst

Adi N. WICAKSONO

+6221 3983 1455 Anwicaksono@kimeng.co.id

- Generalist

PHILIPPINES

Ed BANCOD *Head of Research*

+63 2 849 8848 ed_bancod@atr.com.ph

- Strategy
- Telcos
- Banking

Luz LORENZO

Economist

+63 2 849 8836 luz_lorenzo@atr.com.ph

- Strategy
- Economics

Laura DY-LIACCO

+63 2 849 8843 laura_dyliacco@atr.com.ph

- Power & Energy
- Utilities
- Media
- Conglomerates
- Electronics

Leo VENEZUELA

+63 2 849 8839 leo_venezuela@atr.com.ph

- Consumer
- Property
- Ports

TAIWAN

Darryl CHENG

+886 2 2718 1647 darryl.cheng@yuanta.com.tw

- Downstream

Chialin LU

+886 2 2714 9840 chialin.lu@yuanta.com.tw

- Optical storage
- Networking
- Camera

Eric LIN

+886 2 2546 0618 eric.lin@yuanta.com.tw

- Optical
- Passive components
- TFT-LCD

Tess WANG

+886 2 2719 8105 tess.wang@yuanta.com.tw

- Financials

THAILAND

David BELLER

+662 658 6300 x 4740 david.b@kimeng.co.th

- Banks
- Shipping
- Construction

Montip NITIBHON

+662 658 6300 x 4750 montip@kimeng.co.th

- Telecoms
- Entertainment

Naphat Chantaraserkul

+662 658 6300 x 4770 naphat@kimeng.co.th

- Electronics
- Automotive
- Tourism
- Commerce

Bussaba Watcharapasorn

+662 658 6300 x 4760 bussaba@kimeng.co.th

- Property

Nash SHIVARUCHIWONG

+662 658 6300 x 4730 nathavut@kimeng.co.th

KELIVE Thailand

George HUEBSCH *Head of Research*

+662 658 6300 ext 1400 george.h@kimeng.co.th

SOUTH KOREA

Woo-Kyun CHANG *Head of Research*

+82 2 6730 1555 wkchang@kimeng.co.kr

- Bank & Finance
- Stockbrokers & Insurers

Peter AUO

+82 2 6730 1562 peterauo@kimeng.co.kr

- Auto & Auto-parts manufacturers
- Shipbuilding & Shipbuilding Parts

Heather KANG

+82 2 6730 1551 hkang@kimeng.co.kr

- Food & Beverage
- Consumer & Retailers
- Travel & Hotel

Youna HONG

+82 2 6730 1553 younahong@kimeng.co.kr

- Pharmaceuticals
- Casinos & Resorts
- Media

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SINGAPORE

Kim Eng Securities Pte Ltd
Kim Eng Research Pte Ltd
9 Temasek Boulevard.
#39-00 Suntec Tower 2
Singapore 038989

Tel: +65 6336 9090
Fax: +65 6339 6003

LAU Wai Kwok (sales)
lauwk@kimeng.com

Sebastian HENG (research)
sebastianheng@kimeng.com

London

Kim Eng Securities (London) Ltd
6/F, 20 St. Dunstan's Hill
London EC3R 8HY, UK.

Tel: +44 20 7621 9298
Dealers' Tel: +44 20 7626 2828
Fax: +44 20 7283 6674

David PIRKIS (sales)
dpirkis@kimeng.co.uk

Geoff HO (sales)
gho@kimeng.co.uk

James JOHNSTONE (sales)
jjohnstone@kimeng.co.uk

New York

Kim Eng Securities USA Inc
406, East 50th Street
New York, NY 10022, U.S.A.

Tel: +1 212 688 8886
Fax: +1 212 688 3500

Sunny YOON
syoon@kesusa.com

Jeffrey S. SEO
jseo@kesusa.com

Lucy CHUAH
lchuah@kesusa.com

Lynda KOMMEL-BROWNE
Lkommel@kesusa.com

Jonathan NASSER
jnasser@kesusa.com

South Korea

Kim Eng Research Pte Ltd
Korea Branch Office
10th Floor, Seoul Finance Center
84 Taepyung-ro 1-ka
Chung-ku
Seoul, Korea 100-768

Tel: +82 2 6730 1550
Fax: +82 2 6730 1564

Woo-Kyun CHANG (research)
wkchang@kimeng.co.kr

Taiwan

Yuanta Core Pacific Securities
11/F, No 225, Nanking East Rd
Section 3
Taipei, Taiwan

Tel: +886 2 2717 6391
Fax: +886 2 2545 6394

Gary CHIA (sales)
Gary.chia@yuanta.com.tw

Hong Kong

Kim Eng Securities (HK) Ltd
Level 30, Three Pacific Place
1 Queens's Road East
Hong Kong

Tel: +852 2268 0800
Fax: +852 2877 0104

Ray LUK (sales)
rluk@kimeng.com.hk

Stephen BROWN (research)
stephenbrown@kimeng.com.hk

Thailand

Kim Eng Securities (Thailand)
Public Company Limited
999/9 The Offices at Centralworld,
20th - 21st Floor,
Rama 1 Road, Pathumwan,
Bangkok 10330, Thailand

Tel: +66 2 658 6300
Fax: +66 2 658 6384

Vikas KAWATRA (sales)
vkawatra@kimeng.co.th

Ron GARCHA (sales)
ron@kimeng.co.th

Indonesia

PT Kim Eng Securities
9/F, Deutsche Bank Bldg
Jl. Imam Bonjol 80
Jakarta 10310, Indonesia

Tel: +62 21 3983 1360
Fax: +62 21 3983 1361

Kurnia SALIM (sales)
ksalim@kimeng.co.id

Katarina SETIAWAN (research)
ksetiawan@kimeng.co.id

Philippines

ATR-Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: +63 2 849 8888
Fax: +63 2 848 5738

Lorenzo ROXAS (sales)
lorenzo_roxas@atr.com.ph

Ed BANCOD (research)
ed_bancod@atr.com.ph

Malaysia

Kim Eng Research Sdn Bhd
16/F, Kompleks Antarabangsa
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia

Tel: +603 2141 1555
Fax: +603 2141 1045

YEW Chee Yoon (research)
cheeyoon@kimengkl.com

South Asia Sales Trading

Connie TAN
connie@kimeng.com
Tel: +65 6333 5775
US Toll Free: +1 866 406 7447

North Asia Sales Trading

Vivian LAU
vivianlau@kimeng.com.hk
Tel: +852 2268 0800
US Toll Free: +1 866 598 2267

North America Sales Trading

Howard KEUM
hkeum@kesusa.com
Tel: +1 212 688-8886

Katarina Setiawan | Head of Research

INDONESIA EQUITY RESEARCH | Our reports are available at | Bloomberg | First Call | Reuters | Multex | www.kimengresearch.com.sg