

Apple Inc.

The Apple is still Fresh

USA | TECHNOLOGY | INITIATION

- Large and loyal consumer base
- Service revenue growth
- Undervalued due to current headwinds
- Initiate with **"Buy"** rating and TP of **US\$119.37** based on DCF

Apple Inc. Snapshot

Apple Inc. (AAPL) recently released its 2QFY16 results on 26th Apr-16. Results were not well received, with AAPL share price taking a tumble by more than 6% on the next market day. iPhone units sales were slightly above consensus expectations but revenue and EPS came in below consensus estimates. This marked the first time iPhone sales have fallen. Poor results along with poor profit guidance for the quarter ahead, which is far below consensus estimates, led to the drop in share price. AAPL has experienced a 10.5% decline in share price over a 1 year period.

Investment Thesis/ Investment Merits

- Strong Brand equity with large loyal base
- Transition to Service company
- Rising consumer affluence in developing markets
- Strong balance sheet
- Attractive Capital Return program

2QFY16 Financial Highlights:

Y/E Sep, USD bn	2QFY16	1QFY16	2QFY15	qoq	yoy
Revenue	50.6	75.9	58.0	-33.4%	-12.8%
Services Rev	6.0	6.1	5.0	-1.1%	19.9%
Other Products Rev	2.2	4.4	1.7	-49.7%	29.6%
iPhone Rev	32.9	51.7	40.3	-36.4%	-18.4%
iPad Rev	4.4	7.1	5.4	-37.7%	-18.7%
Mac Rev	5.1	6.7	5.6	-24.3%	-9.0%

Source: Company

- Fall in revenue and earnings.** AAPL [reported](#) quarter revenue of US\$50.6 bn, missing consensus estimate by US\$1.37 bn and EPS of US\$1.90, missing by US\$0.10. Gross margin was 39.4% vs 40.8% yoy.
- Services were the saving grace.** AAPL reported US\$6 bn in revenue for Services, an increase of 20% yoy. It cited growth in its App store, where revenue grew 35% yoy and Apple Music increased its paying subscriber base from 11 mn to 13 mn over the year. Apple Pay also increased its transactions volume by 5x.
- Other Products revenue increased.** Apple Watch sales helped to pull up the Other Products category by 30% yoy.
- Hardware sales continue weakening.** iPhone unit [sales](#) were down 16% yoy, iPad and Mac unit sales were also down by 19% and 12% yoy, respectively.

10 May 2016

BUY (Initiating)

CLOSING PRICE	USD 92.79
FORECAST DIV	USD 2.28
TARGET PRICE	USD 119.37
TOTAL RETURN	31.1%

COMPANY DATA

O/S SHARES (MN) :	5,477
MARKET CAP (USD mn / SGD mn) :	508250 / 508250
52 - WK HI/LO (USD) :	132.97 / 91.85
3M Average Daily T/O (mn) :	38.36

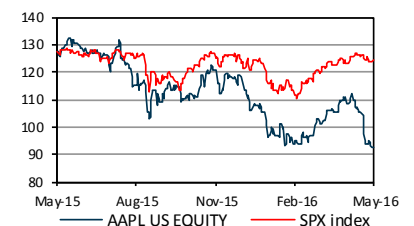
MAJOR SHAREHOLDERS (%)

VANGUARD GROUP	6.0%
BLACKROCK	5.8%
STATE STREET CORP	3.97%
FMR LLC	2.86%
BNY MELLON	1.30%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(14.1)	(17)	(25.8)
SPX RETURN	0.66	11.75	(0.60)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

USD BN	FY 14	FY 15	FY 16e	FY 17e
Revenue	182.8	233.7	231.7	244.7
EBITDA	70.5	93.6	92.7	97.9
NPAT (adj.)	39.5	53.4	50.5	53.2
EPS (adj.)	6.45	9.22	8.72	9.19
PER, x (adj.)	14.4	10.1	10.6	10.1
P/BV, x	5.1	4.5	4.1	3.8
DPS (USD)	1.8	2.0	2.3	2.3
Div Yield, %	2%	2%	2%	3%
ROE, %	34%	46%	41%	39%

Source: Company Data, PSR est.

Ho Kang Wei (+65 65311535)
hokw@phillip.com.sg

AAPL guidance for 3QFY16:

- Revenue between \$41 billion and \$43 billion, down about 15% yoy from US\$49.6 bn
- Gross margin between 37.5% and 38%, about 1-2% difference yoy from 39.7%
- Operating expenses between US\$6 bn and US\$6.1 bn, up yoy from US\$5.5 bn
- Other income/(expense) of US\$300 mn, down from US\$400 mn yoy
- Tax rate of 25.5%, compared to 26.3% last year

Initiating coverage with "Buy" rating

AAPL has had impressive 840% growth rate over the past 10 years, with iPhone as its main growth driver. Despite recent weakness, AAPL is still generating enormous profits and cash. AAPL generated more than US\$50 bn in revenue and more than US\$10 bn in net income during a difficult quarter. Additionally, its expansion in Services segment could provide support to its future growth. Services has been increasing at an incredible rate, averaging about 20% growth over 5 years, and as AAPL expands its services, users would become more entrenched into its ecosystem.

We are **Positive** on the Company's long term prospects, supported by its robust established user base and strong balance sheet. Nonetheless, much would still hinges on the Company's ability to innovate and contribution from its new products.

We have a DCF valuation of **US\$119.37** for AAPL.

Investment Thesis

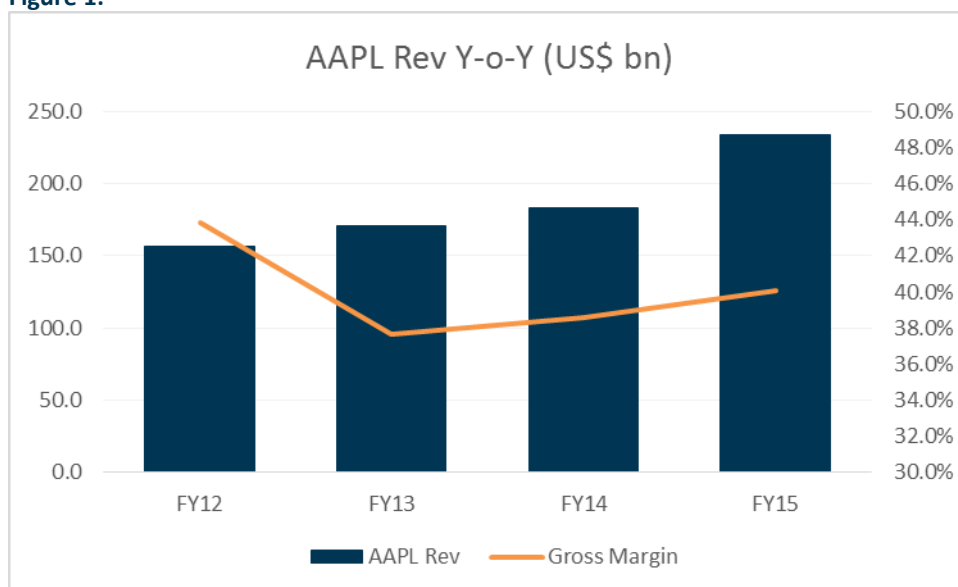
1. Strong Brand Equity with loyal consumer base

iPhone sales are the main revenue source for AAPL and accounts for 65% of AAPL's total revenue. As such, AAPL is known primarily as a hardware company, selling iPhones. The Company has taken steps to diversify its revenue streams. While these steps do show promise, but at this point in time, the impact on total revenue is negligible compared to the revenue from the iPhone.

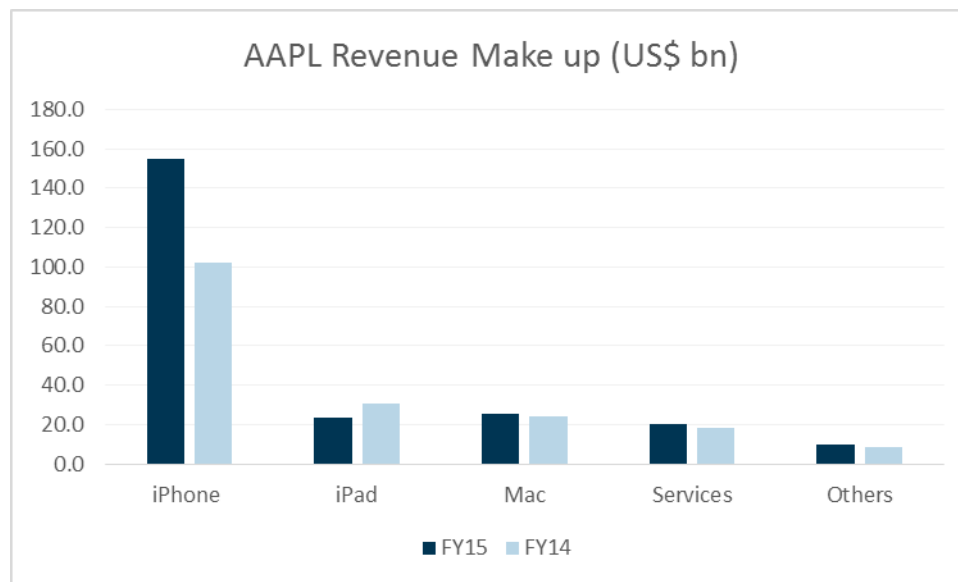
Revenue Sources

- iPhone
- iPad
- Mac
- Services
- Other Products

Figure 1:



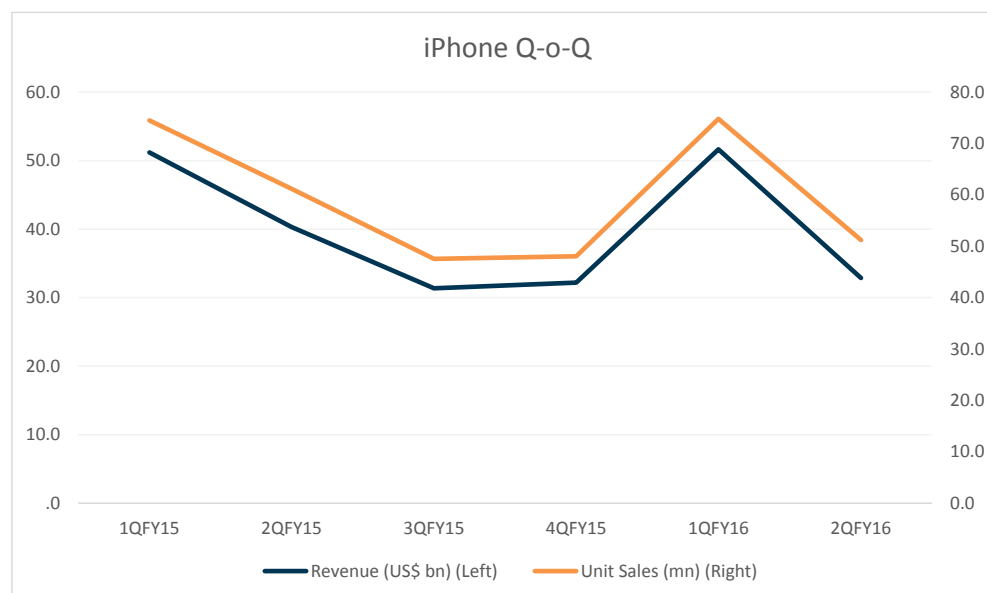
Source: Company

Figure 2:

Source: Company

(a) iPhone Revenue

iPhone had a phenomenal year in FY2015, which saw accelerated upgrade rate leading to close to 40% yoy sales growth. Unit sales have increased at an impressive CAGR of 17% yoy over the past 4 years.

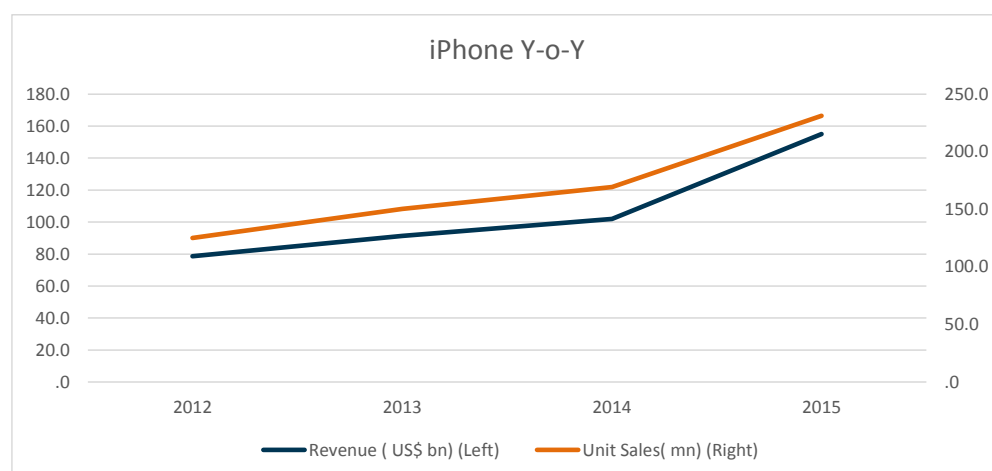
Figure 3:

Source: Company



Source: Apple

Figure 4:



Source: Company

However, with the poor showing in its latest quarter results, coupled with near term macro headwinds and market saturation, it is likely that iPhone sales for the remaining of 2016 could be flattish, and this year could be the first year that AAPL will report a decline in unit sales.

That said, AAPL mentioned several mitigating factors that could underpin iPhone Sales:

- **Upgrades.** The first half of the upgrade cycle for iPhone 6s has seen a slightly higher rate than the iPhone 5s cycle two years ago. It cited a Kantar survey showing a 95% iPhone loyalty rate. Furthermore, [according](#) to Kantar, the iPhone 6 and 6 plus accounted only for 24% of all iPhones being used in US and China (US and China iPhone users account for 65% of its total user base). Coupled with iPhones 6s sales, that represents a sizable portion of current iPhone users that have yet to upgrade to the 6 or 6s, which AAPL could tap on when the next iteration is introduced. This was also [mentioned](#) previously by Tim Cook, with 60% of current iPhone users have yet to upgrade.
- **Switchers.** AAPL mentioned that there were more switchers from Android or other platforms to iOS in the 1H FY16 compared to any other six-month period ever.
- **First timer.** AAPL mentioned that India could be the next growth driver and market for iPhones, citing iPhone sales in India were up 56% yoy. While global smartphone market seems to have reached saturation point in developed nations, India's LTE network is still rolling out, representing a large untapped market. First timers are crucial to the Company's long term growth. Each new user is a potential loyal AAPL user. Once the user becomes entrenched into its "Eco-system", the user could start engaging in its Services and purchasing other AAPL products.

iPhone SE, released on 31st March was not included in 2QFY16's results. AAPL cites that demand for iPhone SE has exceeded its expected supply, leading also to the depressed 3QFY16 profit guidance. Should sales for the iPhone SE take off, it would be indicative of pent up demand for cheaper iPhones and an opportunity for AAPL to create further headway into developing markets.

Should AAPL follow its previous release schedules and release the iPhone 7 around September (end FY16), it could also entice the large pool of older iPhone users to upgrade as the iPhone 5 and 5s would be 2 product cycles old by then. However, the new iPhone 7 could only start contributing to its bottom line in FY17.

Given these factors, we believe that while iPhones will face headwinds in the increasingly saturated developed nations' smartphone market, the fears of "peak iPhone" are

overblown and believe that there is potential for iPhone sales to grow in the future, albeit at a slower rate.

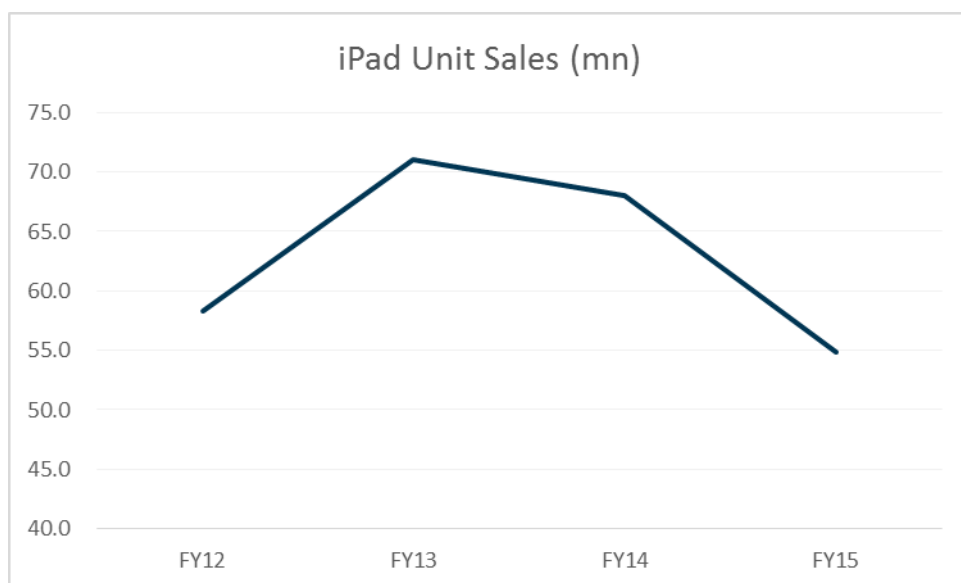
(b) iPad Revenue

AAPL's tablet offering; the iPad, used to account for about 18% of AAPL's total revenue. However, the rapid growth of iPhones and falling iPad sales has led to iPad now making up only 10% of AAPL's total revenue.

Tablets have longer replacement cycles compared to smartphones as consumers are less compelled to upgrade their tablets compared to smartphones. In 2QFY16, AAPL reported iPad sales were down 19% yoy with unit sales of 10.25 mn. iPad sales were slightly better than consensus estimates which were on average about 9.95 mn. Of note however, the new 9.7 inch iPad Pro was only released at the end of Q2 2016 and sales figures would not have captured the full extent of demand. AAPL expects the next quarter to be the best iPad quarter in two years based on their estimates. For now, we expect the iPad to continue accounting for a smaller component of AAPL's revenue over time.



Figure 05:



Source: Company

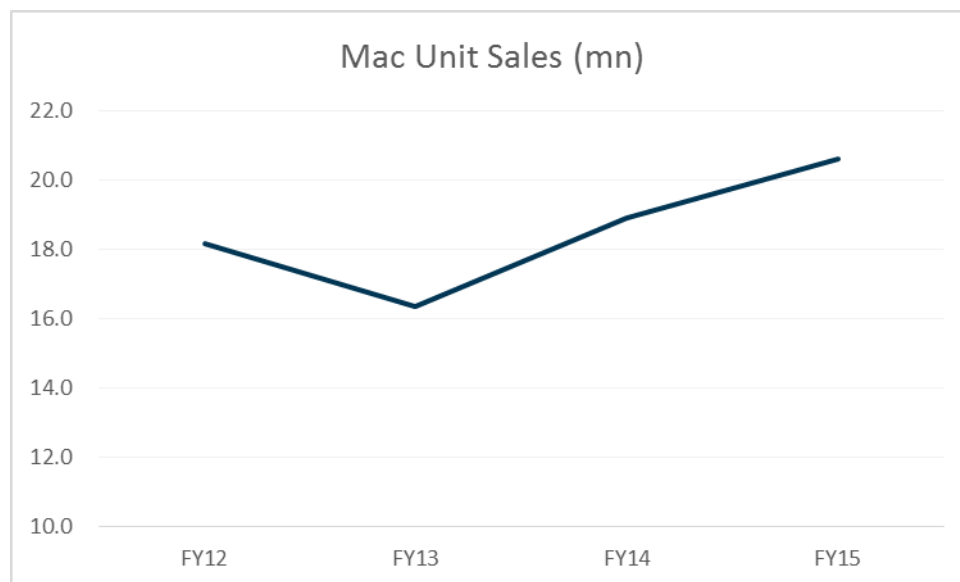
(c) Mac Revenue

Macs are AAPL's laptops offering, they account for 11% of AAPL's revenue. Mac unit sales have been on the uptrend over the past 3 years as the Macbook has gained popularity and more mainstream acceptance. However, Macbook sales fell 9% yoy in 2QFY16, which was worse than consensus estimates. However, a silver lining is that AAPL is gaining traction in China, where 80% of the Chinese Mac buyers were purchasing for the first time.

Management has given guidance that it expects Mac sales to increase in 3QFY16 on the back of an updated Macbook, which was thinner and lighter with better specs. As one of AAPL core offerings, we expect Mac sales to maintain its share of revenue as it gains traction as a viable alternative to PCs. We believe that Mac sales will increase as compared to the iPad, despite both having similarly long replacement cycles compared to iPhone due to Mac having greater functionality.



Figure 06:



Source: Company

(d) Other Products

Apple Watch led to a 30% yoy growth in Other Product revenue, since it is a relatively new product offering, the Watch has generated new avenues of revenue for AAPL. Whether the take up rate can continue or the Watch becoming like the iPad in terms of replacement rate remains to be seen.

2. Transition to Services

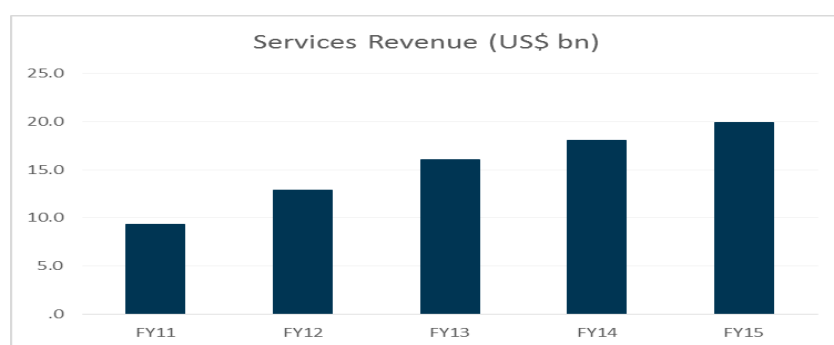
Revenue from Services rose 20% yoy to US\$6 bn in 2QFY16. “Apple as a service” is a concept that AAPL has taken large steps towards and is increasingly becoming the bright spot in the current environment of stalling hardware sales. Services create the “Ecosystem” which allows AAPL to further entrench its user base, creating more reasons for its “stickability”. AAPL has been showing that it is increasingly able to monetize that active user base to generate more revenue from its services. In the 1QFY16, AAPL [revealed](#) that it had 1 bn active installed base, devices that were actively engaged in Services within that quarter, leading to Installed Base Related Purchases of US\$8.9 bn. This figure grew by 27% yoy to US\$9.9 bn in the March quarter.

- **App Store.** Revenue grew by 35% yoy, generating 90% more global revenue [than](#) Google Play.
- **Apple Music.** Music grew from 10 mn to 13 mn paying subscribers since introducing a download and streaming model, leading AAPL to be optimistic that Apple Music revenue will start growing again moving forward.
- **Apple Pay.** Being very new, Apple Pay is not expected to make significant contribution to AAPL’s FY16 revenue. However, adoption rate is increasing exponentially, with transactions volume growing by 500% yoy. AAPL has launched over 2.5 mn locations that accept Apple Pay, with plans to expand further. While usage rates remain low, as the idea of NFC (Near Field Communication) payment is still new and not widely adopted yet, there is still much room for growth and eventually monetization. However, with credit card companies like Visa, as well as other phone companies like Samsung, are also heading into the space, the idea of NFC payments might not take that long to be legitimized. As such, we view this as an avenue with great potential in the future.

Overall, we see great potential in “Apple as a service”. It remains the one category of revenue that AAPL has been able to achieve consecutive double-digit growth, on average about 20%, over the past 5 years. Services provide recurring revenue stream for AAPL that could grow independent of the unit sales, making it especially helpful in the current environment of slowing hardware sales. We expect Services revenue to continue to grow and become a greater part of AAPL’s revenue as upgrade cycles for iPhones stretch to 2-3 years.

Of note though, is China’s recent [ban](#) of AAPL iBooks and iTunes Movies, which could be a potentially worrying trend. Considering that if Services are to be the future of AAPL and China’s important role in this strategy, then it would be a huge detriment to AAPL’s future growth if the ban expands to the rest of AAPL’s services. For now however, with just the iBooks and iTunes Movies ban, while worrying, it is not a large dent in AAPL’s services growth and the thesis of Service growth should still hold.

Figure 7:



Source: Company

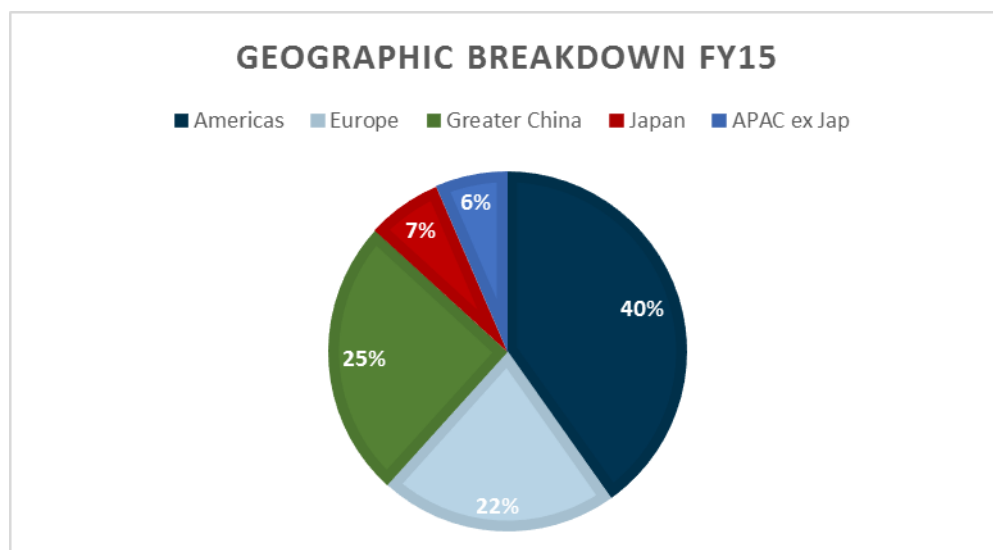
3. Rising consumer affluence in developing nations

AAPL main revenue source by region comes from Americas, which makes up 40% of the total revenue. While Americas’ contribution to AAPL’s revenue has been increasing on an absolute value, it has not been growing at a very fast pace. Americas’ revenue grew 4% in 2014 when total revenue grew 7%, and grew at 17% yoy in 2015 when total revenue grew at 28%. It is likely that Americas’ revenue will continue to grow at a slower pace as compared to the total revenue.

On the other hand, Greater China, which currently makes up 25% of its total revenue, has been rising at an incredibly fast pace. In 2014, Greater China only made up 17.4%, this represents an 84% yoy increase. In the 2QFY16, China had a qoq change of -32% from 1QFY16, and a yoy change of -26%. China was the main reason for AAPL’s explosive growth in the previous year, growing by 84% yoy in FY15. In comparison, 2QFY16’s results appears dismal, coming in at US\$12.5 bn vs previous year’s US\$16.8 bn. When seen against the backdrop of such a breakout year previously, it is not surprising that investors have reacted negatively to AAPL’s performance this quarter in China. However, we feel that this is less of a slowdown and more of a normalization of AAPL’s sales in China. AAPL’s YTD revenue from China stands at roughly US\$30.8 bn, already almost as much as FY14, where revenue from China was US\$31.8 bn. As LTE network continues to expand in China and adoption increases, we expect China’s demand for iPhones to continue to grow. However, whether China adopts the same replacement rate that Americas has had over the past years remains to be seen. Regardless, China should continue to be a growing source of revenue for AAPL.

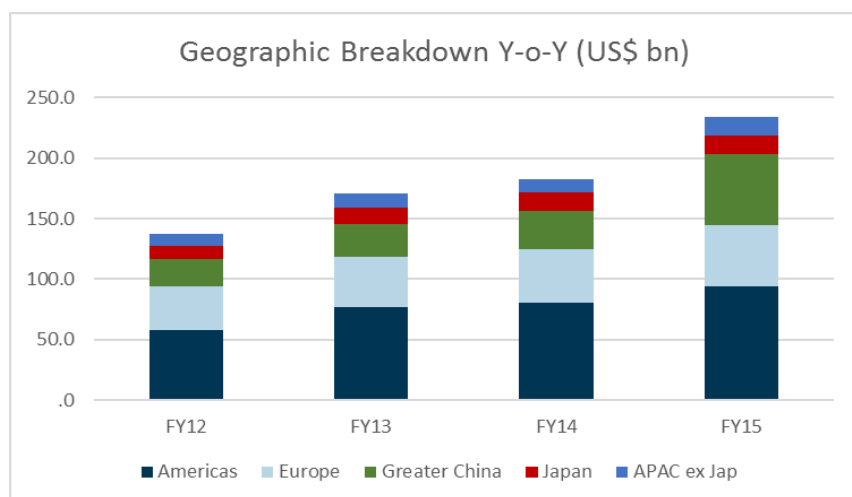
As mentioned earlier, India is also a developing market which could provide avenues of future growth for AAPL, sales having grown 56% yoy. As LTE networks continue to rollout, smartphones become more useable as compared to 2.5G or 3G networks, leading to increase demand. APAC ex Japan accounted only for US\$15 bn, being home to more developing nations, but as those nations continue to develop, AAPL should be able to take advantage of improvements in infrastructure to expand there.

Figure 8:



Source: Company

Figure 9:



Source: Company

4. Strong Balance Sheet

AAPL has amassed a large amount of cash, with US\$232.9 bn in cash and marketable securities as of 31 Mar 2016, up almost US\$20 bn yoy. However, 90% of this cash hoard is outside the USA. This is significant due to USA tax laws, which would cause AAPL to have to pay upwards of about US\$60 bn if it was to remit back to the USA. AAPL has thus taken advantage of the current low interest rate environment to take on more debt. AAPL issued another US\$15.5 bn in USD notes in the latest quarter, bringing its debt level to about US\$72 bn. This puts its current net cash position at about US\$160 bn, which is equivalent to about US\$30 per share. Most of the borrowings has been put to fund the Capital return program, mainly dividends and share buybacks.

5. Attractive Capital Return Program

Dividends and buyback increased. AAPL announced a further increase to its capital return program on 26th April 2016, increasing it to US\$250 bn from US\$200 bn in April 2015. The dividend was increased to US\$0.57 per share for shareholders on close of business 9th May-16, up c.10% from US\$0.52. Since AAPL started paying a dividend in 2012, it has increased the dividend each year consecutively, from US\$0.38 per share to US\$0.52, with a CAGR of about 8%p.a. This represents a payout ratio of about 24%, which is relatively low, indicating that there is still substantial room for future dividend growth. Share repurchase authorization was also increased from US\$140 bn to US\$175 bn.

Valuation

Valuation Methodology: Discounted Free Cash Flow Model

DCF model was used to derive a valuation of AAPL's intrinsic value.

We have made the following assumptions for the model:

- Headwinds in iPhone sales leading to decline and slow growth over the next two years, after which iPhone sales should start growing at a slower rate
- iPad sales may pick up in the next FY but repeat the cycle of slow replacement, leading to flat revenue
- Increase in Mac take up as Macbooks gain traction and more mainstream acceptance as PC and laptop replacements
- Service Revenue will increase as AAPL expands their ecosystem and continues to increase the monetization of their user base

We initiate coverage for AAPL with a “Buy” rating with a target price of **US\$119.37**, derived from our DCF estimates.

Figure 10: Discounted Cash Flow Model

Y/E Sep, USD bn	FY16e	FY17e	FY18e	FY19e	FY20e
Forecasted Free Cash Flows to Firm(US\$)	41.1	41.5	32.2	31.3	43.1
PV of FCF (US\$)	39.5	36.8	26.3	23.6	30.0
Terminal value (US\$)					821.4
PV of Terminal Value (US\$)					548.5
Price Target (US\$)	119.37				
WACC	8.4%				
Assumptions					
Market Cap (US\$ bn)	505.4				
Weight of Equity	0.89				
Cost of Equity	9.3%				
Total Debt (US\$ bn)	64.5				
Weight of Debt	0.11				
Cost of Debt	1.5%				
Terminal growth rate	3.0%				

Source: Philip Securities Research (Singapore)

Risks to valuation

Poor response to iPhone 7. While AAPL's customer base is very loyal, if iPhone 7 has a lacklustre showing and fails to excite that base, it could lead to even lower take up and a longer replacement cycle. Weaker consumer sentiment amidst slowdown in the global economy could also negatively impact the take up of iPhones.

Slowdown in Services. Services have been growing at an incredible rate and been the one bright spot in the 2QFY16. AAPL transitioning into more of a Services company rather than a Hardware company also forms the basis for our estimates of future growth. If Services revenue slows down or if consumers fail to become entrenched into AAPL's ecosystem, it would adversely affect AAPL and our valuations.

Comparisons

Figure 11: Peer Comparisons Table

	Mkt. Cap. (US\$ bn)	Price (US\$)	P/E	Div Yield
Apple Inc.	507.87	92.79	10.32	2.46%
Alphabet Inc- CL A	492.70	729.13	31.24	n/a
Microsoft Corp	396.09	50.07	38.16	2.88%

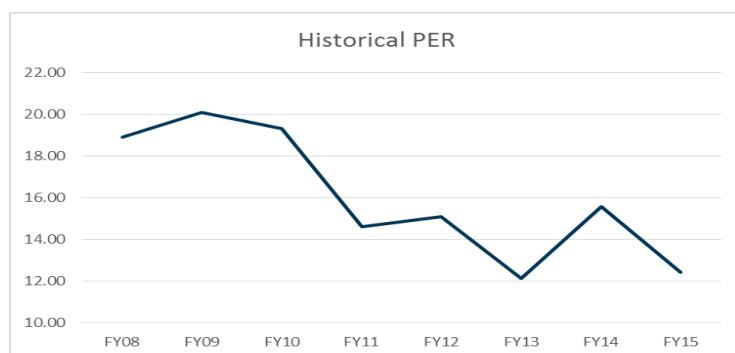
Source: Bloomberg

It is difficult to find a one to one comparison to AAPL in the US market, as while its peers do have some overlap with AAPL, there is also large differences between them. As such, we have chosen to show Google and Microsoft as peer comparisons. Google is relevant for the Android comparison and Microsoft is relevant for the Windows phone, PC and its recent move into a Service company as well.

AAPL remains the largest of the three companies by market cap. Based on PER, it is also the more undervalued stock amongst the three, trading at about 10x PER while the other two trade at more than 30x PER.

AAPL, at US\$92.79, is also trading near its 52 week low of US\$91.85. Based on the Historical PER chart below, it is also trading at near 8 year low valuations. At US\$92.79, AAPL is trading at 10.32x PER as compared to its 5-year historical average of 13.7x PER.

Figure 12: Historical PER Chart



Source: Bloomberg

Conclusion

AAPL gave poor guidance for 3QFY16, citing continued macro headwinds sending AAPL shares tumbling down. We expect AAPL's share price to remain depressed in the short term, while the market reacts bearishly to AAPL prospects and fears on iPhone's saturation.

However, AAPL's balance sheet remains strong with net cash at almost US\$160 bn, which works out to almost US\$30 net cash per share. At current prices, that indicates a net price US\$60 per share, indicating a c.7x FY16e PER.

Additionally, its brand equity and loyal consumer base allows AAPL to continue to generate large profits and cash flow even in difficult seasons. Its growing Services revenue is promising as it shows AAPL is making headway in their transition to a Services company.

Therefore, we believe that the current knee jerk reaction in the market to AAPL is overblown, leading to AAPL being undervalued. As such, we initiate a **"Buy"** rating on AAPL with a Target Price of **US\$119.37**, indicating about a 28% upside to the share (excluding dividends).

Financials

Income Statement

Y/E Sep, USD bn	FY14	FY15	FY16e	FY17e	FY18e
Gross revenue	182.8	233.7	231.7	244.7	250.4
Cost of sales	-112.3	-140.1	-139.0	-146.8	-150.2
Gross Profit	70.5	93.6	92.7	97.9	100.2
Other Expenses	-18.5	-23.3	-24.1	-25.5	-26.1
Finance (Exp)/Inc, Net	1.4	2.2	0.2	0.0	0.0
Profit Before Tax	53.5	72.5	68.7	72.4	74.0
Taxation	-14.0	-19.1	-18.2	-19.2	-19.6
Profit After Tax	39.5	53.4	50.5	53.2	54.4

Per share data (Cents)

Y/E Sep	FY14	FY15	FY16e	FY17e	FY18e
Basic EPS (USD)	6.5	9.2	8.7	9.2	9.4
net DPS - (USD)	1.8	2.0	2.3	2.3	2.5
BVPS (USD)	18.2	20.6	22.4	24.1	26.7

Cash Flow

Y/E Sep, USD bn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net Income	39.5	53.4	50.5	53.2	54.4
Adjustments	7.9	11.3	6.0	6.8	6.8
WC changes	7.0	11.6	5.5	7.2	6.8
Others	5.2	5.0	5.0	5.1	5.2
Cashflow from ops	59.7	81.3	67.0	72.3	73.2
CFI					
CAPEX, net	-9.6	-11.2	-11.9	-12.9	-13.9
Others	5.2	5.0	5.0	5.1	5.2
Cashflow from investments	-22.6	-56.3	-38.7	-39.1	-39.2
CFF					
Share issuance, net	-44.3	-34.7	-26.4	-29.4	-24.4
Loans, net of repayments	18.3	29.3	13.4	16.4	16.2
Dividends	-11.1	-11.6	-13.2	-13.5	-14.5
Others	5.2	5.0	5.0	5.1	5.2
Cashflow from financing	-37.5	-17.7	-26.9	-27.3	-23.6
Net change in cash	-0.4	7.3	1.4	5.9	10.4
CCE, end	13.8	21.1	22.5	28.5	38.8

Balance Sheet

Y/E Sep, USD bn	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
PPE	20.6	22.5	28.4	34.5	41.7
Intangibles	4.1	3.9	3.9	3.9	3.9
Investment	133.9	169.6	190.0	208.8	222.6
Others NCA	4.6	5.1	5.1	5.1	5.1
Total non-current assets	163.3	201.1	227.3	252.3	273.4
Accounts receivables	27.2	30.3	30.1	31.8	32.6
CCE	25.1	41.6	43.0	48.9	59.3
Inventory	2.1	2.3	3.0	3.5	4.0
Others CA	14.1	15.1	16.0	16.9	17.9
Total current assets	68.5	89.4	92.1	101.2	113.8
Total Assets	231.8	290.5	319.4	353.5	387.1
LIABILITIES					
Accounts payables	30.2	35.5	35.2	37.2	38.1
Short term loans	6.3	11.0	11.9	14.9	12.9
Others CL	26.9	34.1	38.9	44.5	50.1
Total current liabilities	63.4	80.6	86.0	96.6	101.0
Long term loans	29.0	53.5	69.4	85.4	101.3
Others NCL	27.9	37.1	34.0	31.9	30.2
Total non-current liabilities	56.8	90.5	103.4	117.2	131.5
Total Liabilities	120.3	171.1	189.4	213.8	232.6
EQUITY					
Retained Earnings	87.2	92.3	102.6	112.3	127.2
Others Equity	24.4	27.1	27.4	27.4	27.4
Shareholder Equity	111.5	119.4	130.0	139.7	154.6

Valuation Ratios

Y/E Sep	FY14	FY15	FY16e	FY17e	FY18e
P/E (X), adj.	14.4	10.1	10.6	10.1	9.9
P/B (X)	5.1	4.5	4.1	3.8	3.5
EV/EBITDA (X), adj.	6.6	4.9	5.2	4.9	4.8
Dividend Yield (%)	2.0%	2.1%	2.5%	2.5%	2.7%

Growth & Margins (%)

Growth					
Gross revenue	7.0%	27.9%	-0.9%	5.6%	2.3%
EBIT	6.6%	35.6%	-5.2%	5.4%	2.3%
Profit After Tax	6.7%	35.1%	-5.4%	5.4%	2.3%
Margins					
Operating margin	29.3%	31.0%	29.7%	29.6%	29.6%
Gross margin	38.6%	40.1%	40.0%	40.0%	40.0%
Net Profit Margin	21.6%	22.8%	21.8%	21.8%	21.7%

Key Ratios

ROE (%)	33.6%	46.2%	40.5%	39.5%	37.0%
ROA (%)	18.0%	20.4%	16.6%	15.8%	14.7%

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)

Management

Jacky Lee (CEO & Head, Research) -
jackyleecw@phillip.com.sg

Research Operations Officer

Mohamed Ghazali - ghazali@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTE, FRM -
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631
 Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090
 Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921
 Website www.phillip.co.th

UNITED STATES

Phillip Futures Inc
 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005
 Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
 Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc
 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769
 Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd
 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099
 Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809
 Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017
 Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
 Level 12, 15 William Street,
 Melbourne, Victoria 3000, Australia
 Tel +61-03 9629 8288
 Fax +61-03 9629 8882
 Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307
 Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940
 Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757
 Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
 2nd Floor, Lakshmans Building,
 No. 321, Galle Road,
 Colombo 03, Sri Lanka
 Tel: (94) 11 2429 100
 Fax: (94) 11 2429 199
 Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
 Member of the Dubai Gold and
 Commodities Exchange (DGCX)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE
 Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.