



Banyan Tree Holdings Ltd

(BTH SP/B58.SI)

Riding on the tailwinds of reopening

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Banyan Tree Holdings Ltd (BTH) is a global hospitality group that has grown in its roots in Southeast Asia and is currently operating in 23 countries. The group prides themselves in their consistent high standards of service found across the globe.

We initiate with an **OUTPERFORM** recommendation and TP of S\$0.40, based on 1.24x FY23F P/S. We expect FY22 earnings to improve due to the slow recovery and reopening of the industry.

Financials & Key Operating Statistics

YE Dec (\$ m)	2020	2021	2022F	2023F	2024F
Revenue	157,832	221,228	260,125	281,244	319,961
PATMI	(95,838)	(55,192)	10,152	19,565	20,076
EPS (cents)	(11.41)	(6.44)	1.17	2.26	2.32
EPS growth (%)	(143.6)	0.4	0.0	0.0	-
DPS (Sing cents)	-	-	-	-	-
Div Yield (Y%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net Profit Margin (%)	(60.7%)	(24.9%)	3.9%	7.0%	6.3%
Net Gearing (%)	65.0%	58.9%	56.7%	55.3%	55.1%
Price P/B (x)	4.15	4.94	4.95	4.78	4.60
ROE (%)	-15.3%	-10.3%	1.9%	3.5%	3.4%

Source: Company data, KGI Research

Company review. BTH is a hospitality-based company listed in Singapore. The group's headquarters is in Singapore, allowing it to have easy access to the majority of its properties located in Southeast Asia. BTH currently manages over 60 hotels and plans to continue expanding, with this number being forecasted to increase to 109 hotels in 2025. Among its holdings, Thailand and Maldives are the most prominent.

FY21 financials review: Hounded by Lockdowns. Despite the continual lockdowns in China over the course of 2021, BTH's total revenue still grew by 40.2% YoY from S\$158mn to S\$221mn. This was due to the increase in sales revenue from the property sales segment which grew 76.9% YoY, and it should be noted that their hotel revenue continued to decline 65.7% YoY from 2019 to 2021.

1H22 financials update: A recovery story. With more countries declaring COVID-19 endemic, international borders have opened. The pent-up travel demand has led to an increase in tourism globally. Accordingly, BTH revenue has improved significantly owing to both domestic and international travelling, with the 1H22 revenue exceeding the FY21 total hotel revenue. This was due mainly to the increase in hotel revenue in both Thailand and Maldives.

New openings. In 1H22, the group opened and took over the management of 4 new properties and signed 9 different agreements. Without further delay, it is expected to open 14 new hotels and 2 rebranded hotels in the next 12 months, increasing its total key count by 25%.

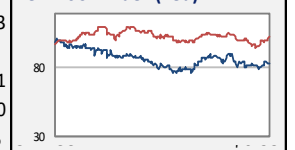
Outperform - Initiation

Price as of 24 Nov 22 (SGD)	0.28	Performance (Absolute)	
12M TP (\$)	0.40	1 Month (%)	1.8
Previous TP (\$)	-	3 Month (%)	-6.7
Upside, incl div (%)	(78.0)	12 Month (%)	-20.0

Trading data

Mkt Cap (\$mn)	243
Issued Shares (mn)	867
Vol - 3M Daily avg (mn)	0.1
Val - 3M Daily avg (\$mn)	0.0
Free Float (%)	35.4%

Perf. vs STI Index (Red)



Major Shareholders

Bibace Investment Ltd	33.1%
Qatar Investment Authority	23.8%
Goodview Properties Pte Lt	5.0%

Previous Recommendations

Hotel bookings and sales continue to improve. BTH revenue is expected to recover to or even exceed pre-covid levels along with the recovery of tourism and hospitality industry, driven by the above-mentioned pent-up demand and continual reopening from various countries.

A pivot into mid-tier accommodations. Going against the trend of introducing more high-end accommodations into its eco-system, BTH has instead decided to expand their portfolio by increasing the number of mid-tier accommodations within their targeted geographical regions.

New customer base. Broadening their customer base through a multi-brand approach, and expanding from just a luxury-oriented model to also include more budget-friendly mid-tier accommodations to appeal to the growing number of millennial travellers. With a lower purchasing power, these mid-tier hotels appeal more to their new targeted demographics.

Valuation & Action:

We initiate BTH with an Outperform recommendation and a S\$0.40 Target Price. Our TP is based on 1.24x P/S.

Narrowing gap in losses. Due to the Covid-19 pandemic, BTH was loss-making in 2020 and 2021. However, the losses have been decreasing over time. PATMI was S\$514k in 1H22 compared to -\$43k in 1H21.

Risks: Increasing prevalence of global diseases such as Covid-19 and Monkey Pox is a key risk to BTH. Increasing lockdown potentials and possibly stricter travel restrictions in the countries where they operate will negatively impact BTH's overall revenue and profits.

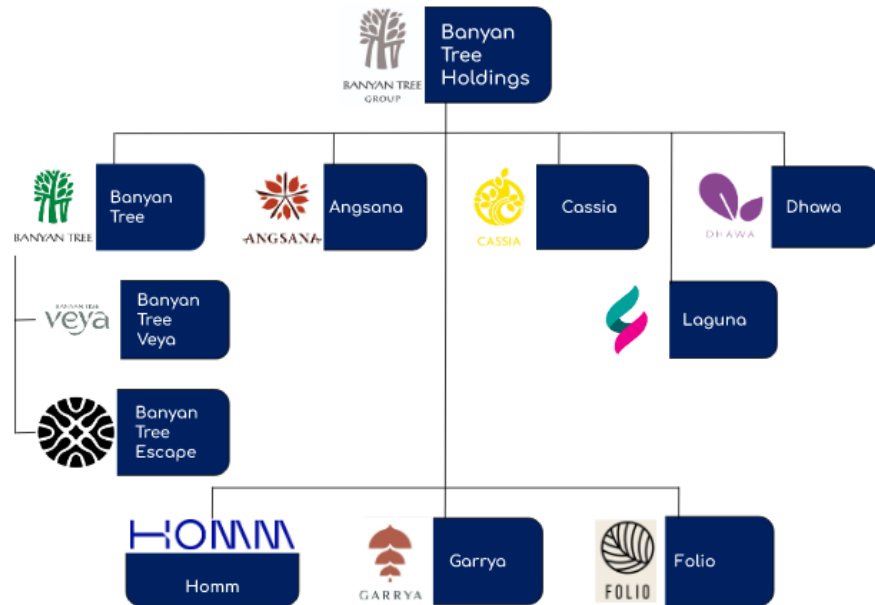
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Business at a glance

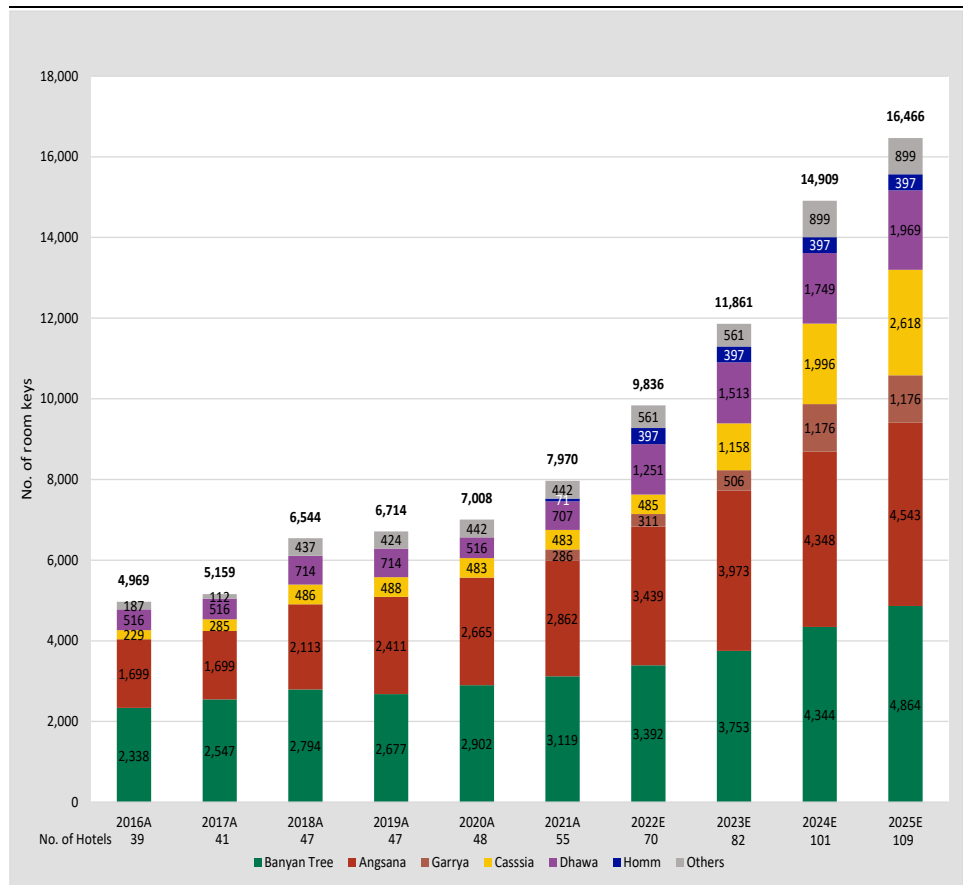
Banyan Tree Holdings (BTH SP) is a leading international manager and developer of premium resorts, hotels, residences, and spas across 22 countries. The Group operates five main brands, namely, Banyan Tree, Angsana, Cassia, Dhawa, and Laguna. In 2021, it launched another three new brands, namely Garrya, Homm, and Folio, and two brand extensions, Banyan Tree Escape and Banyan Tree Veya.

Figure 1: Banyan Tree Holdings Ecosystem



Source: Banyan Tree Holdings, KGI Research

Figure 2: BTH projected pipeline growth



Source: Banyan Tree Holdings, KGI Research

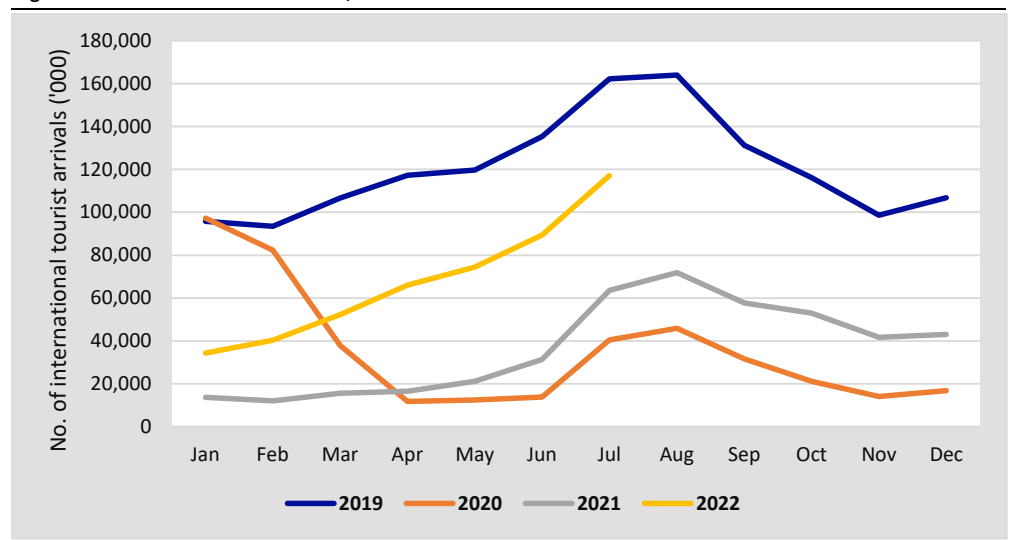
Investment thesis

Covid Reopening

According to the World Tourism Organisation (UNWTO), Covid-19 has caused a loss of US\$1 trillion in total export revenues owing to 1 billion fewer international tourist arrivals since 2020. With the ease of measures in the West and the reopening of Asian countries, tourist arrivals jumped by 221% YoY in 5M22 compared to 5M21. However, the current international tourist arrivals are still 54% lower than the 2019 level. As the pandemic measures begin to ease globally, we expect tourism rates to return to the pre-covid numbers or even higher.

The global hotel industry continues to navigate challenges stemming from the pandemic as well as more recent headwinds from labour shortages, inflation, and geopolitical concerns. The hotel business has been recovering smoothly as more countries gradually open their borders for cross-border travel. As seen in 1Q22, the overall forward bookings of BTH hotels increased by 85% compared to 1Q21.

Figure 3: International tourist arrivals, 2019 to 2022



Source: World Tourism Organization (UNWTO)

Differentiator

With wellness being an important brand value for BTH since its inception, BTH differentiates itself from its competitors by focusing on well-being of its associates and guests. Last year, the company launched Wellbeing Sanctuaries, combining club floors or resort wings, dedicated dining options, spas, and multifunctional practice spaces into an exclusive journey. All the executive club floors have been converted into well-being sanctuaries, serving as a hotel within a hotel.

Consequently, BTH club lounges are stocked with wellness periodicals instead of Wall Street Journals and FT, and all rooms would include a yoga mat. All of this gives BTH a wellness-centred brand name, allowing them to differentiate themselves through this offering.

In 2021, the Group organised various innovative campaigns such as its “Earth Day”, “Rediscover the World” and “The First Trip” Campaigns. Furthermore, it also offered flexibility for extended stays to its guests at Habitat, allowing them to work remotely with a change of environment or have more family time. These initiatives allowed the corporate branding to strengthen and increase its brand association with well-being and sustainability by approximately 10% and 30% respectively. Additionally, the Group introduced purposeful therapy as part of its spa services, enabling its associates to provide treatments to improve guests’ well-being.

Figure 4: Banyan Tree Krabi, designed to enhance well-being


Source: Asia Property Awards, Banyan Tree Holdings

Standing out from the crowd and going against the current

Instead of conforming to the norm of expanding the ecosystem by going upscale, most of Banyan Tree’s new brands are in the mid-tier segments of the market. During the pre-covid operational period, the group focused more on luxuries, mid-upper tiered sectors, and unique experiences crafted for the holidayers, the majority of which came from developed countries. However, in response to the emerging markets of Asia exploding post-covid, BTH now is focusing on regional and midscale tourism; it unveils new concept hotels that will diversify its portfolio of guests, appealing more to current travellers, millennials. Most of the new moderately priced sub-brands will initially focus on Asia, taking advantage of the undersupply in the region.

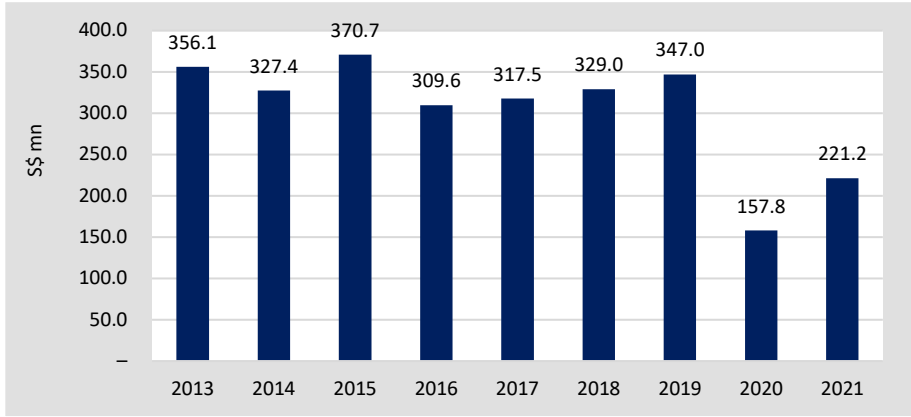
The Covid crisis also created demand among independent, family-owned hotels for a boost in branding. Because so many of these hotels were suffering economically during Covid, the idea of Homm hotels came in family-owned hotels that do not want to become part of big chain hotels with strict standards but rather need the marketing boost provided by a major hotel company. By keeping brand standards flexible, Homm will be able to cast a wide net. The brands are being developed in response to Covid and the new potential for conversion opportunities in resort destinations, emerging second-tier tourism destinations, as well as increasing consumer interest in well-being and sustainability-minded travel offerings.

Figure 5: Night view of Homm Sukhumvit34 Bangkok, Thailand



Source: Homm Hotels, Banyan Tree Holdings

Figure 6: Historical Revenue



Source: Banyan Tree Holdings., KGI Research

Industry Outlook

Even though Banyan Tree Singapore is not revenue driven, it acts as a central hub to manage operations that are predominantly concentrated in Asia.

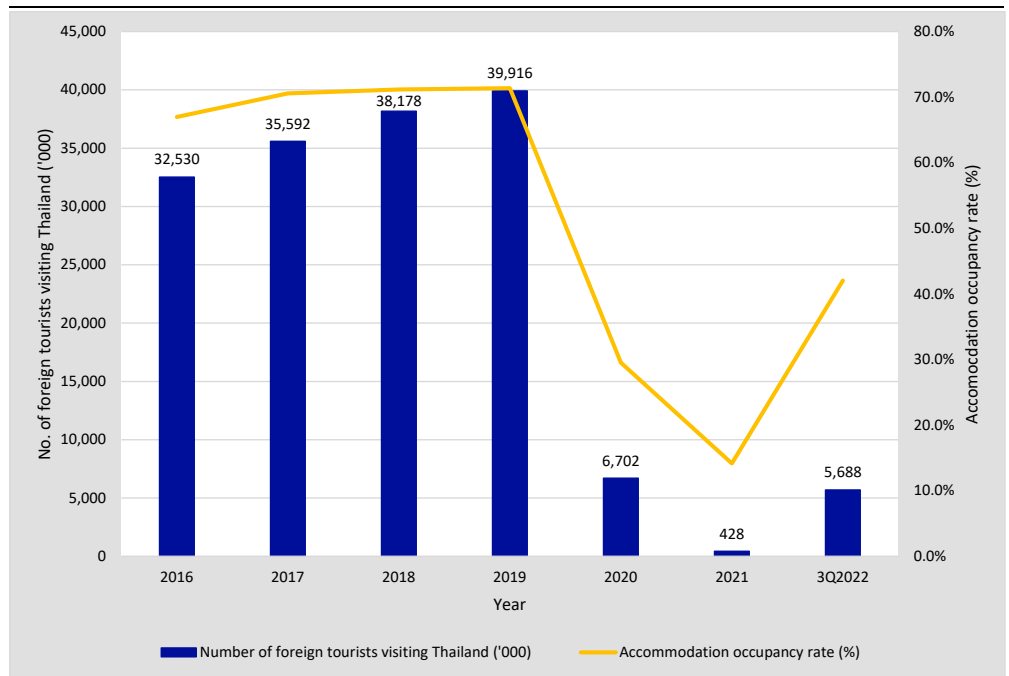
Reopening

Although many countries like Singapore have declared COVID to be endemic, some continue to treat COVID as an ever-present threat. These countries have inhibited the reopening plans of the companies, with the most prominent example of this being China, whose numerous and erratic lockdowns have caused many companies to consider exiting the country. Overall, however, with an increasing number continuing to declare endemic, the general outlook for the hospitality industry has been continually improving.

Thailand

Thailand is a prime example of tourism recovery. According to the government, Thailand has seen a rise in tourist numbers with more than 4 million tourists generating a total of THB176 bn (US\$ 4.93 bn) within 8M22. By the end of the year, it is expected to have 10mn tourists and to generate more than THB400bn (US\$11bn) in 2H22.

Figure 7: Thailand tourism and accommodation occupancy rate

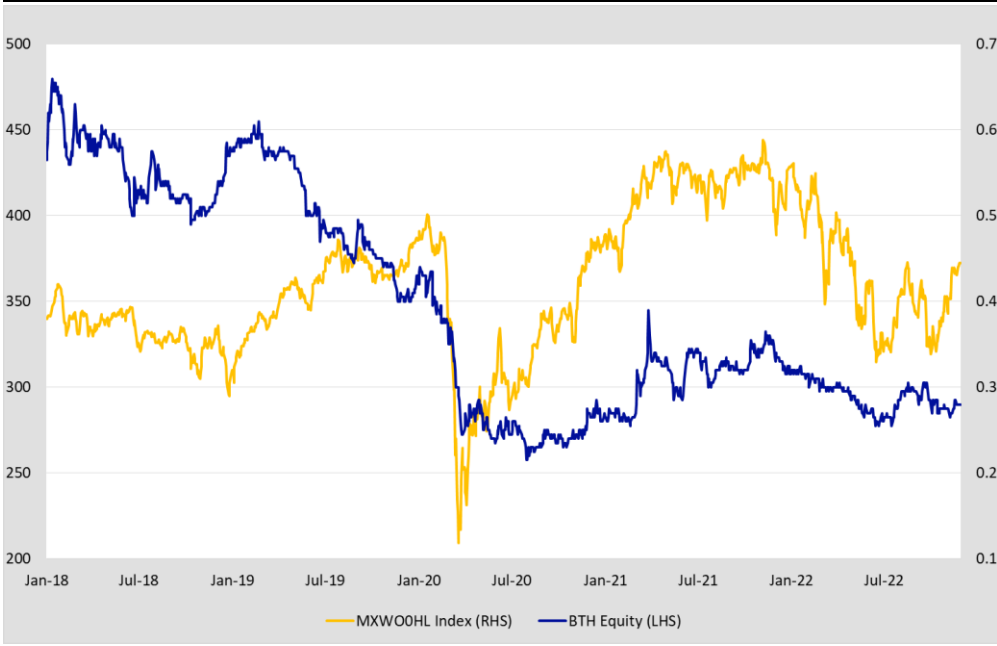


Source: Bank of Thailand tourism indicators, KGI Research

Industry performance as compared to the MXWO0HL index

In terms of performance, the BTH has a YTD loss of **15.63%**. Performing better than the MSCI World Hotels, Restaurants & Leisure Index (MXWO0HL index), which lost 23.92% in the same period. This underperformance indicates the fear and uncertainty of investors in regard to the reopening of borders, especially in countries like China, where lockdown fears loom.

Figure 8: Share price of MXWO0HL index against BTH Equity



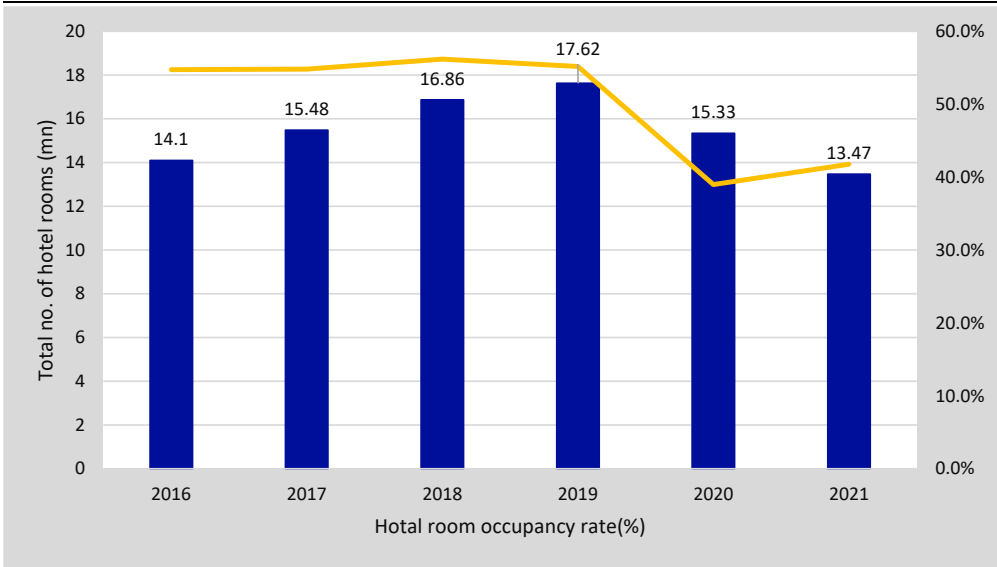
Source: Bloomberg, KGI Research

China

In China, the tourism industry is facing a lot of uncertainties, as the Chinese government still wishes to maintain its zero-Covid policy that causes sporadic lockdowns in its cities. With international borders effectively shut, millions of Chinese took the chance to travel domestically, but tens of thousands end up getting locked down in some travel hotspots. This increases their unwillingness to travel even domestically as they must risk the possibility of being in lockdown outside the comfort of their own home.

Before Covid, the tourism industry consisting of airlines, hotels, tour guides, and restaurants was raking in approximately US\$830 billion annually. In 2021, this number remained relatively stable thanks to domestic travel, however, in 2022 the various lockdowns previously deterred domestic travellers causing their tourism industry to be heavily impacted. Furthermore, the lockdowns curtail the activities of tens of millions of people, intensifying the challenges for China to minimise the economic impact of a "dynamic-zero" Covid policy that has kept China's borders mostly shut to international visitors and made it an outlier as other countries try to live with the coronavirus.

Figure 9: China's Hotel Statistics



Source: Statista, Ceicdata, China Ministry of Culture and Tourism, KGI Research

Valuations and peer comparison

In FY21, BTH's revenue was S\$221.2m compared to the revenues of Hotel Properties Ltd (HPL), Shangri-la Asia Ltd (SGA), and Mandarin Oriental Intl Ltd (MAORF) which were S\$344.2m, US\$1,241.0m and US\$316.9m respectively. Among its peers, BTH owns the least number of hotels as it adopts an asset light strategy that enables it to deliver higher margins. In the coming years, we forecast BTH revenue to be S\$260.1m, S\$281.2m and S\$320.0m in FY22F, FY23F, and FY24F. Even with this growth in revenue, we still expect it to be smaller than its competitors.

Banyan Tree has the smallest revenue and market cap among the 3 companies, with its 4-year average price-to-sales ratio (P/S) at 1.29x whereas HPL, SGA, and MAORF ratios are 4.50x, 2.29x, and 7.22x respectively. We derive a **TP of S\$0.40** based on the FY21 P/S ratio of 1.24x.

Figure 10: Price to Sales ratio (x) comparison

Bloomberg Code	Stock	4 year average P/S (x)	P/S 2018	P/S 2019	P/S 2020	P/S 2021
BTH SP	BANYAN TREE HOLDINGS LTD	1.29	1.47	1.02	1.41	1.24
HPL SP	HOTEL PROPERTIES LTD	4.50	3.24	3.60	6.14	5.04
SGA SP	SHANGRI-LA ASIA LTD	2.29	2.11	1.54	3.09	2.41
MAORF	MANDARIN ORIENTAL INTL LTD	7.22	4.18	4.06	11.69	8.93
Overall industry average P/S(x)		3.82				

Source: Bloomberg, KGI Research

Company Background

Deep roots in Thailand - Emerging from a single resort in Thailand 27 years ago, Banyan Tree Group has grown into one of the world's leading independent hospitality groups offering exceptional, design-led experiences. Not only is BTH a global industry hospitality leader, but it is also an independent, multi-branded hospitality group that aims to create long-term value for all stakeholders and destinations across their network of properties, products and brands. It is ranked among the Top 25 Hotel Brands in the World by Travel + Leisure.

Key Assets and Revenue Streams - The company's diversified portfolio contains hotels, resorts, spas, galleries, golf courses, and residences. It is centred around its brands namely Banyan Tree, Angsana, Cassia, Dhawa, and Laguna, as well as its up-and-coming brands Homm, Garrya, Folio, and two new Banyan Tree brand extensions, Banyan Tree Escape and Banyan Tree Veya. In addition to the Group's existing 59 hotels operating in 16 countries as of 30 June 2022, the Group continues to grow with 50 new hotels and resorts under design and construction in the pipeline.

Innovative expansion and continual excellence - On 3 December 2021, they debuted HOMM as their newest concept accommodation within the Groups global multi-brand ecosystem. Every HOMM hotel provides original experiences through design and local activities while ensuring consistent quality. Their first HOMM is a 71-room contemporary beachfront property located in Phuket, Thailand offered at wallet-friendly prices, and is the brand's first-ever location. Banyan Tree Group is specifically well known for its well-designed resorts and hotels as well as its impeccable standard of service across the globe. In 2016, they entered a strategic long-term partnership with Accor to develop and manage Banyan Tree branded hotels around the world along with access to Accor's global reservations and sales network, as well as the loyalty programme ALL - Accor Live Limitless. It also formed a joint venture with China Vanke Co. Ltd. in 2017 - focusing on active ageing and wellness hospitality projects.

Environment and Social Development - Aside from their main hospitality segment, Banyan Tree Group also focuses on environmental and Social Development. Banyan Tree Management Academy (BTMA) which was established to trained associates focuses on supporting people's development and learning. Additionally, Banyan Tree Global Foundation (BTGF) aligns the Group's commitment to the UN Sustainable Development Goals by committing to environmental protection and community development. These ventures have allowed the Banyan Tree Group to receive recognition for its commitment to environmental protection and community development.

Figure 11: Buahan, a Banyan Tree Escape, Indonesia



Source: Banyan Tree Escape, Dewi Magazine

Key Risks

Pandemic resurgence and the reintroduction of travel restrictions. Covid-19 has showcased exactly how detrimental a public health crisis could be for the tourism industry. As such, the biggest key risk for BTH as well as any other tourism-based companies would be the increasing prevalence of such pandemics. With the resurgence of Covid cases, countries could potentially go back into lockdown, seriously damaging both BTHs' top and bottom lines.

Exchange rate risk. BTH group holding a diverse portfolio of properties worldwide will be susceptible to exchange rate risks. Especially, with the Singapore dollar strengthening. This risk can be mitigated through hedges such as FX swaps.

Inflation risk. With the unpredictability of the rate hike cycles, potential property buyers will be more cautious during this period. Interest rates are at a 15-years high, by purchasing a property at this point, they will have to incur high-interest costs. Furthermore, property prices overseas are currently trending downwards, potential buyers will wait for the property prices to drop further before deciding to make a purchase.

Figure 12: Banyan Tree Huangshan, China



Source: Banyan Tree Holdings

Financial Summary

FYE 31 December					
INCOME STATEMENT (SGD '000)	2020	2021	2022F	2023F	2024F
Revenues	157,832	221,228	260,125	281,244	319,961
Other income	1,747	13,224	16,071	16,071	16,071
Cost of operating supplies	(9,682)	(9,916)	(16,660)	(18,876)	(21,386)
Cost of properties sold	(36,186)	(100,824)	(48,705)	(51,251)	(59,095)
Salaries and related expenses	(55,943)	(50,602)	(65,031)	(70,311)	(79,990)
Administrative expenses	(55,777)	(28,691)	(49,132)	(53,121)	(60,433)
Sales and marketing expenses	(7,933)	(7,123)	(8,324)	(9,000)	(10,239)
Other operating expenses	(27,041)	(25,646)	(40,840)	(44,155)	(50,234)
(Impairment loss)/Write-back of impairment I	(2,135)	(7,111)	(373)	-	-
Depreciation of property, plant and equipment	(25,557)	(21,845)	(20,489)	(20,031)	(19,616)
Amortisation expense	(779)	(825)	(845)	(836)	(817)
Profit from operation	(61,454)	(18,131)	25,798	29,734	34,222
Finance income	7,016	3,638	3,378	3,390	3,541
Finance costs	(33,448)	(39,974)	(12,567)	(12,892)	(13,218)
Share of results of associates	(6,686)	2,647	(4,228)	-	-
Share of results of joint ventures	-	-	-	-	-
Profit before income tax	(94,572)	(51,820)	12,381	20,231	24,545
Income tax expense	(7,936)	(9,454)	(5,841)	(3,439)	(4,173)
Less: Minority Interests	(6,670)	(6,082)	(3,611)	(2,773)	296
PATMI	(95,838)	(55,192)	10,152	19,565	20,076
BALANCE SHEET (SGD '000)	2020	2021	2022F	2023F	2024F
Cash and cash equivalents	51,287	112,326	62,911	74,471	69,699
Other current assets	396,233	399,536	440,212	445,294	478,311
Total current assets	447,520	511,862	503,123	519,765	548,010
Property, plant and equipment and right-of-us	670,591	585,389	572,326	560,464	549,833
Intangible assets	35,198	36,723	36,352	35,516	35,173
Other non-current assets	425,402	289,606	284,999	282,887	285,668
Total non-current assets	1,131,191	911,718	893,678	878,867	870,674
Total assets	1,578,711	1,423,580	1,396,801	1,398,632	1,418,684
Trade and other payables	203,761	208,525	249,030	220,819	213,779
Loans and contract liabilities	342,816	268,699	139,635	143,249	146,862
Other current liabilities	(74,869)	(13,091)	37,800	37,800	37,800
Total current liabilities	471,708	464,133	426,465	401,868	398,441
Lease liabilities and other payables	35,332	35,342	42,335	37,539	36,342
Other non-current liabilities	444,071	386,020	385,507	397,039	399,461
Total non-current liabilities	479,403	421,362	427,842	434,578	435,803
Total liabilities	951,111	885,495	854,307	836,446	834,244
Unitholders' funds and reserves	627,600	538,085	542,494	562,186	584,439
Total liabilities and equity	1,578,711	1,423,580	1,396,801	1,398,632	1,418,684
CASH FLOW STATEMENT (SGD mn)	2020	2021	2022F	2023F	2024F
Profit before tax	(94,572)	(51,820)	12,382	20,232	24,545
Adjustments	88,461	68,856	18,110	30,790	30,530
Operating cash flows before WC changes	(6,111)	17,036	30,492	51,021	55,075
Change in working capital	14,272	124,696	2,002	(33,497)	(42,573)
Income tax paid	(3,493)	(2,680)	(5,841)	(3,439)	(4,173)
Others	(23,821)	(19,646)	(9,370)	(9,502)	(9,677)
Cash flows from operations	(19,153)	119,406	17,283	4,583	(1,348)
Capital expenditure	(9,196)	(6,751)	(7,426)	(8,169)	(8,986)
Others	156	1,521	367	-	(474)
Cash flows from investing	(9,040)	(5,230)	(7,059)	(8,169)	(9,460)
Lease payments	(3,560)	(3,234)	-	-	-
Dividends paid	-	-	-	-	-
Interest paid	-	-	-	-	-
Other financing cashflow	(46,999)	(47,283)	(59,639)	15,145	6,035
Cash flows from financing	(50,559)	(50,517)	(59,639)	15,145	6,035
FX Effects, Others	(763)	(2,620)	-	-	-
Net increase in cash	(78,752)	63,659	(49,415)	11,560	(4,772)
Beginning Cash	130,802	51,287	112,326	62,911	74,471
Ending cash	51,287	112,326	62,911	74,471	69,699
KEY RATIOS	2020	2021	2022F	2023F	2024F
DPS (SGD cents)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
NAV per share (SGD cents)	0.1	0.1	0.1	0.1	0.1
Price/NAV (x)	4.2	4.9	5.0	4.8	4.6
Profitability					
EBITDA Margin (%)	(22.3)	2.1	18.1	18.0	17.1
Net Margin (%)	(60.7)	(24.9)	3.9	7.0	6.3
ROE (ex. Property FV gain) (%)	(15.3)	(10.3)	1.9	3.5	3.4
ROA (ex. Property FV gain) (%)	(6.1)	(3.9)	0.7	1.4	1.4
Financial Structure					
Interest Coverage Ratio (x)	(1.0)	0.1	3.8	3.9	4.1
Gearing Ratio (%)	65.0	58.9	56.7	55.3	55.1

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
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