

MNC Investama (BHIT IJ)

Fully geared to a domestic recovery

Holding companies

Company report
March 30, 2015

(Initiate)	Buy
Target Price (12M, IDR)	415
Share Price (3/27/15, IDR)	288
Expected Return	44.2%

Market Cap (IDRbn)	11,196		
Shares Outstanding (mn)	38,710		
52-Week Low	236		
52-Week High	379		
(%)	1M	6M	12M
Absolute	-15.3	-17.0	-16.0
Relative	-14.3	-22.2	-30.3

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In our January 13th strategy report, titled "[Reasons to believe](#)," we outlined three main themes for the year, namely, (i) earnings clarity, (ii) consumer spending recovery, and (iii) policy support. We believe MNC Investama (BHIT) fits well with our consumer spending recovery theme. We are initiating coverage on BHIT with a Buy recommendation. Our target price of IDR415 implies a 44.2% upside.

Domestic consumption recovery cycle ahead

We expect to see unfolding of a favorable consumption-driven economic recovery in 2015. Prolonged crude oil price deterioration is likely to ease inflationary pressures, which should relax spending pressures for households. Furthermore, government's determination to boost the economy through higher government spending is likely to translate into wealth transfer from public to private sector and therefore lead to higher income level for households. Collectively, we see greater probabilities for higher disposable income which should provide a good base for BHIT's earnings recovery.

Highly leveraged to embrace the cyclical recovery

Given 80%+ of BHIT's revenue is domestic-driven (advertising, media subscription), consumption recovery cycle should translate into higher top line growth. According to the latest research industry research, Indonesia's consumer confidence came in at 2nd place, outpacing its ASEAN peers. We believe improving macro backdrop and higher household disposable income will prompt fast-moving consumer goods (FMCG) companies to take advantage of the changing environment and allocate more to their ad spend. Over the longer horizon, we also note that Indonesia's economic fundamental improvement is likely to ease pressure on the USD/IDR exchange rate.

Uncertainties are fading

The long dispute over the ownership of MNC TV between Berkah Karya Bersama (BKB) and Siti Harduyanti Rukmana (Tutut) is nearing an end. According to the latest company filing, the National Board of Arbitration ruled in favor of BKB, which should balance the negative sentiment from the last ruling of the Supreme Court (in favor of Tutut). Heading forward, we expect concerns over the group's ownership of MNC TV to abate. Moreover, we note that most of the noise related to the dispute is baked in the cake.

Initiate coverage on BHIT with a Buy recommendation

We are initiating coverage on BHIT with a Buy rating on the back of (i) a favorable macro and policy backdrop, (ii) dissipating concerns over MNC TV dispute and FX translation losses, and (iii) attractive valuations. Our target price of IDR415 is derived by applying P/B multiple of 1.49x, which we believe is undemanding.

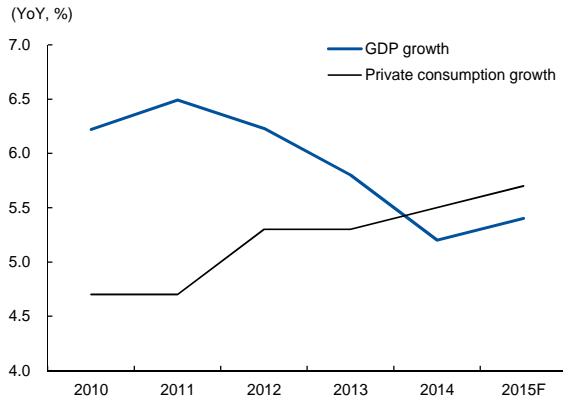
FY (Dec.)	12/10	12/11	12/12	12/13	12/14F	12/15F
Revenue (IDRbn)	6,831.8	7,713.3	9,787.2	11,531.7	13,245.2	16,294.6
Operating Profit (IDRbn)	1,425.2	1,940.3	2,738.8	3,068.4	3,468.2	4,529.1
OP Margin (IDRbn)	20.9	25.2	28.0	26.6	26.2	27.8
Net Profit (IDRbn)	258.5	244.2	695.0	-343.7	-78.9	467.0
EPS (IDR)	9	8	19	NM	NM	12
BPS (IDR)	187	189	260	229	260	278
P/E (x)	18.8	36.2	27.7	NM	NM	23.9
P/B (x)	0.9	1.6	2.1	1.5	1.1	1.0
ROE (%)	4.6	4.3	9.3	NM	NM	4.5
ROA (%)	1.6	1.4	3.0	NM	NM	0.9

Note: NP refers to net profit attributable to controlling interests

Source: Company data, KDB Daewoo Securities Indonesia Research estimates

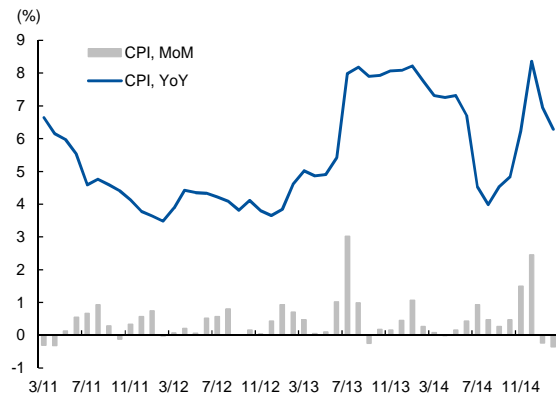
Key charts for MNC Investama

Figure 1. Economic output growth



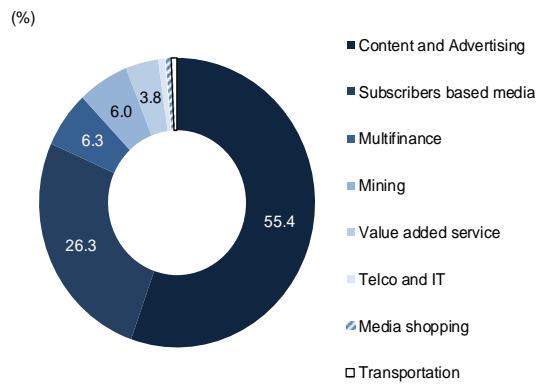
Source: BPS, KDB Daewoo Securities Research

Figure 2. Inflation trends



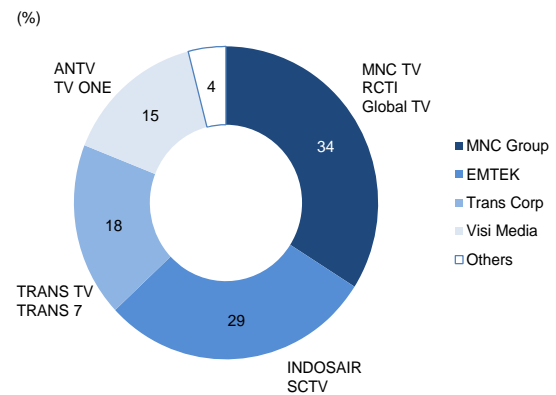
Source: BI, KDB Daewoo Securities Research

Figure 3. Revenue decomposition of BHIT



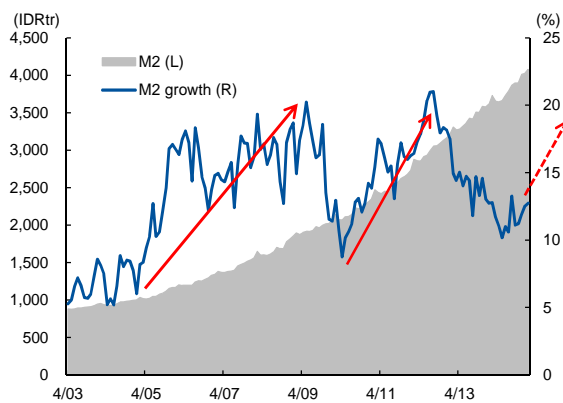
Source: Company data, KDB Daewoo Securities Research

Figure 4. TV Market share by media groups



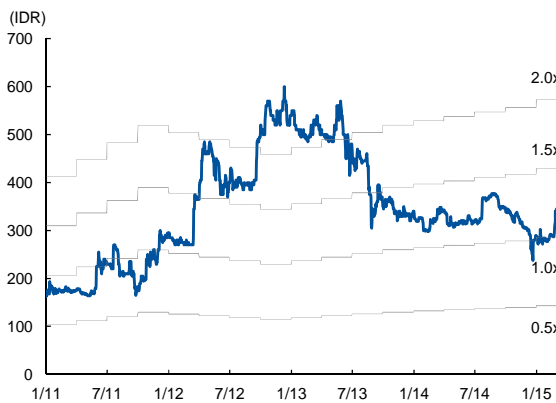
Source: Company data, KDB Daewoo Securities Research

Figure 5. Economic growth driven by liquidity



Source: BI, KDB Daewoo Securities Research

Figure 6. 12MF P/B valuation band



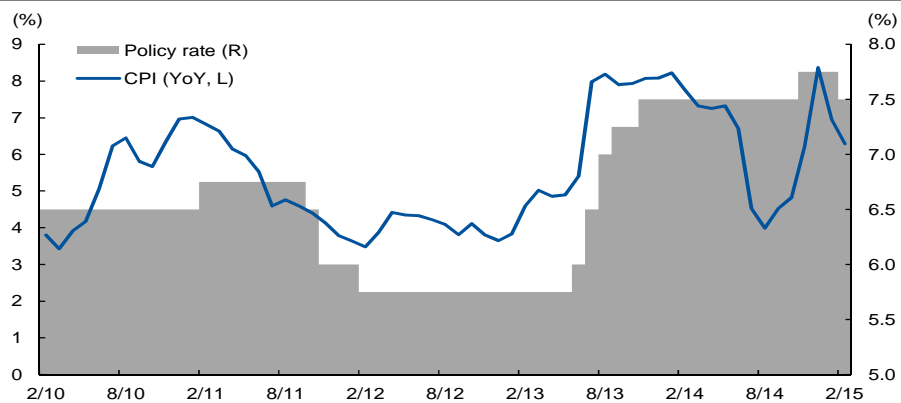
Source: KDB Daewoo Securities Research

Domestic consumption recovery cycle ahead

Relaxed spending pressures...

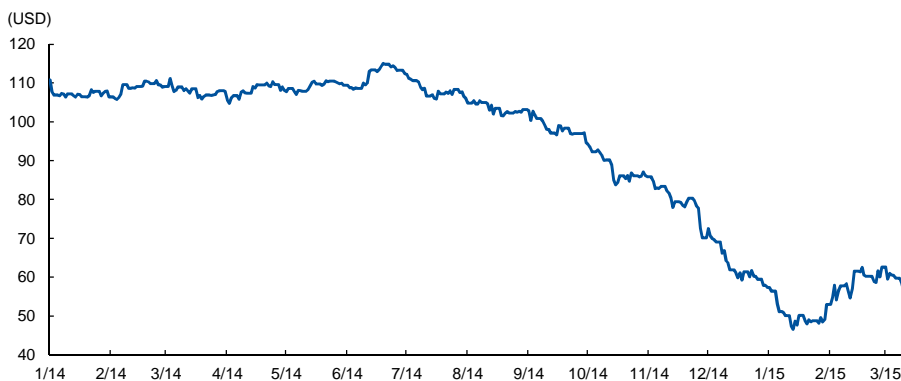
We believe recent market developments both inside and out are pin pointing to a favorable outlook for consumption. According to the latest data released by the BPS, February consumer price index came in at 6.29% YoY which was significantly lower than consensus estimates of 6.70%. In our view, falling oil prices was the key driver to easing inflationary pressures. During the month of February, lower fuel price prices have led to cheaper transportation costs, which have brought down the overall price of staple foods such as chilies, onions, etc. We would also like to underscore the recent surprise policy rate cut by the central bank. On February 17, Bank Indonesia lowered the policy rate by 25bps from 7.75% to 7.50%, in response to falling oil prices. Collectively, we believe favorable macro backdrop and policy combination will eventually lead to higher spending for households.

Figure 7. Policy rate vs. CPI



Source: BPS, BI, KDB Daewoo Securities Research

Figure 8. Crude oil price trend

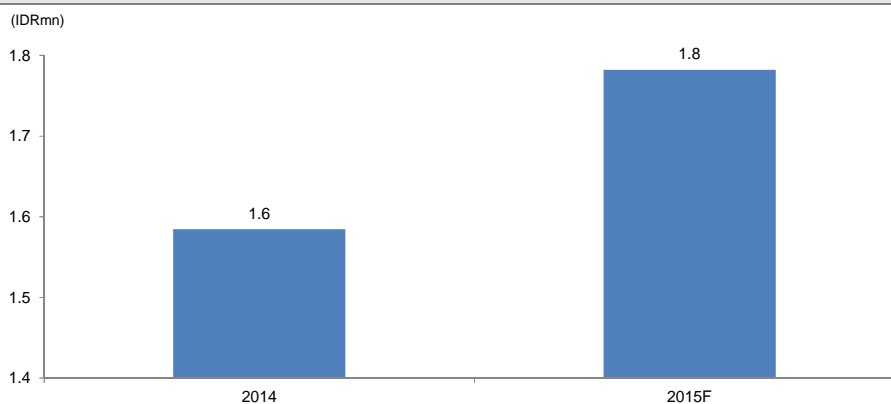


Source: Bloomberg, KDB Daewoo Securities Research

...and improved household income

According to the 29 provinces that have confirmed the new provincial minimum wage scheme, Indonesia's minimum wage is expected to increase by 12.5% in 2015. A decent hike in minimum wages will translate into higher base income of households and provide greater room for spending, in our view. Although the minimum wage growth is slower than 2014 growth figures of 19.1%, we still consider double digit minimum wage growth to be meaningful. Furthermore, given minimum wage and inflation growth are two key benchmarks for employee wage growth, we expect meaningful actual increase in general households' wage for 2015.

Figure 9. Minimum wage trend



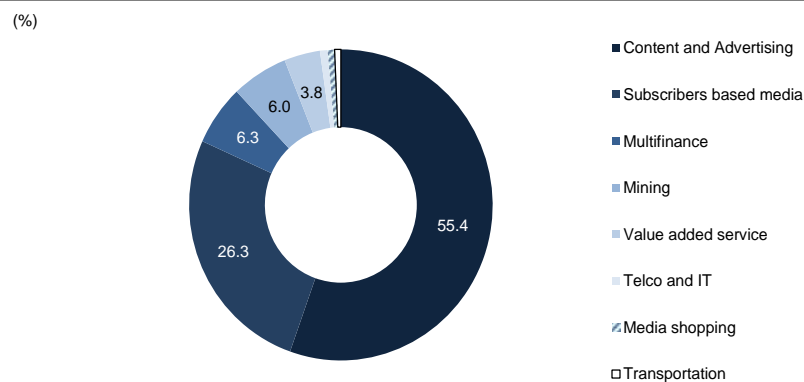
Source: Press reports, KDB Daewoo Securities Research

Opportunities for growth

Well positioned to capture domestic consumption recovery story

The main bulk of BHIT’s revenue stems from its media business. According to 2013 financial statements, revenue from the media business accounted for 81.7% of the total revenue (content and advertising based media 55.4%, subscribers based media 26.3%). The third largest revenue contribution came from multi-finance (6.3%). Given 88.0% of BHIT’s revenue is originated from private spending, consumption recovery cycle will boost BHIT’s top line growth, in our view.

Figure 10. Decomposition of BHIT’s revenue (2013)



Source: Company data, KDB Daewoo Securities Research

Global Mediacom

Profile

Global Mediacom (BMTR) is the holding company for BHIT’s media businesses. BMTR is a listed company within the Indonesian stock exchange (Ticker: BMTR) with a market cap of IDR24.3tr. As of 3Q14, BHIT’s ownership in BMTR stands at 53.2%. BMTR’s revenue stems from contents and advertising (67%), subscriber based media (31%) and others (2%). Key subsidiaries under BMTR are Media Nusantara Citra (MNCN; Free-to-air television), Global Mediacom International, MNC Sky Vision (MSKY; Pay TV)), and others.

Advertisement spending growth

Increased purchasing power for households is likely to bode positive for its media subsidiaries, namely, Media Nusantara Citra (MNCN). We expect to see higher ad spend activities from fast moving consumer goods (FMCG) companies as they are likely to leverage off the consumption recovery scenario. Further easing of inflationary pressures is likely to boost advertisers’ ad spending given higher purchasing power of households.

Figure 11. CPI trend

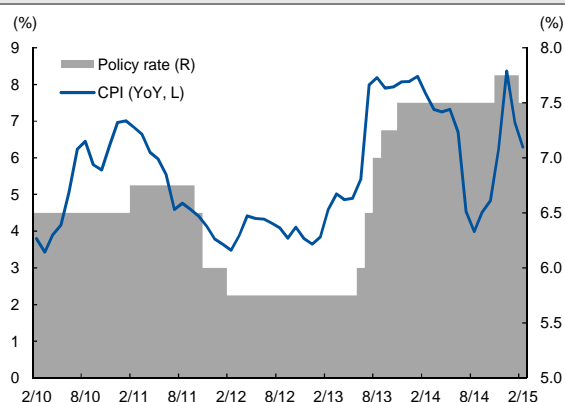
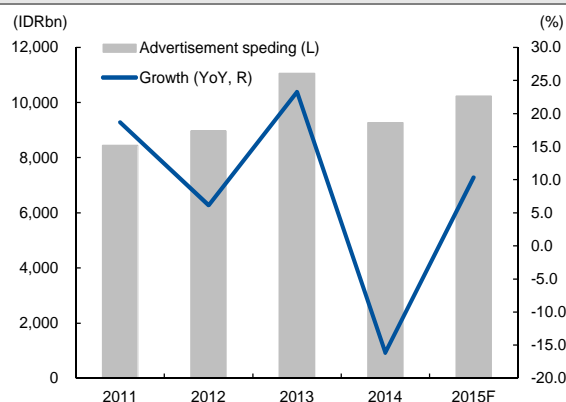


Figure 12. Advertisement spending



Source: BI, KDB Daewoo Securities Research

Note: We aggregated ad spend trend of UNVR, KLBF, ICBP, GGRM, and TLKM and forecasted 2015 figures based on the same ad spend per revenue of 2014 figures, which we consider is a bearish approach
 Source: Company data, Bloomberg, KDB Daewoo Securities Research

According to Euromonitor, Indonesia’s advertisement market is primarily driven by television (USDD3,135.7mn; portion: 54.1%), print (USD2,290.1mn; 39.5%) followed by outdoor (USD261.2mn; 4.5%), radio (USD100.8mn; 1.7%), and others (cinema, online). Given the geographical characteristics of Indonesia being an archipelago, we firmly believe that the portion of ad spend through television medium will remain unchanged, in our view. Indonesia’s TV ad spend market is significantly higher than is Asian peers (e.g., China 43.8%, India 40.6%, Singapore 32.1%, Korea 34.2%).

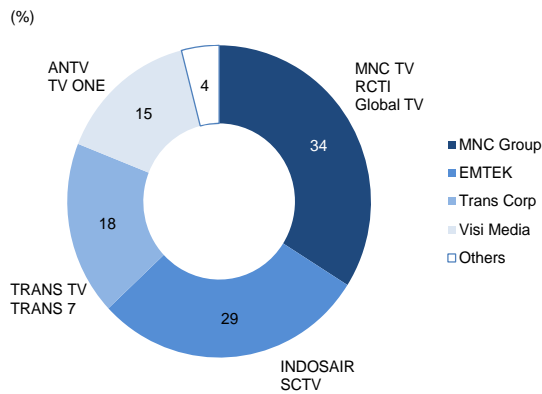
Table 1. Ad spend by medium (2012)

	Television	Radio	Print	Cinema	Outdoor	Online	Total
China	16,648.5 43.8%	1,605.1 4.2%	9,251.7 24.3%	62.0 0.2%	4,857.9 12.8%	5,576.6 14.7%	38,001.8 100.0%
Indonesia	3,135.7 54.1%	100.8 1.7%	2,290.1 39.5%	2.3 0.0%	261.2 4.5%	1.4 0.0%	5,791.4 100.0%
India	2,186.8 40.6%	176.2 3.3%	2,561.6 47.5%	32.0 0.6%	268.9 5.0%	165.5 3.1%	5,391.0 100.0%
Japan	22,010.7 43.5%	1,551.8 3.1%	10,493.3 20.7%	0.0 0.0%	5,952.8 11.8%	10,589.7 20.9%	50,598.3 100.0%
Malaysia	829.4 35.7%	120.7 5.2%	1,235.8 53.3%	5.4 0.2%	64.1 2.8%	64.9 2.8%	2,320.3 100.0%
Philippines	1,211.6 64.7%	194.8 10.4%	231.4 12.4%	8.4 0.4%	179.4 9.6%	47.6 2.5%	1,873.2 100.0%
Singapore	647.5 32.1%	156.5 7.8%	852.8 42.3%	8.2 0.4%	181.3 9.0%	168.5 8.4%	2,014.8 100.0%
Korea	3,470.3 34.2%	172.0 1.7%	2,937.8 28.9%	61.7 0.6%	351.1 3.5%	3,166.5 31.2%	10,159.4 100.0%
Taiwan	922.5 43.8%	138.1 6.6%	542.2 25.7%	0.0 0.0%	130.0 6.2%	375.3 17.8%	2,108.1 100.0%
Thailand	1,906.4 53.2%	204.8 5.7%	889.5 24.8%	255.6 7.1%	310.1 8.6%	18.7 0.5%	3,585.1 100.0%
Vietnam	551.1 79.3%	1.6 0.2%	113.5 16.3%	0.1 0.0%	24.6 3.5%	4.1 0.6%	695.0 100.0%

Source: Euromonitor, KDB Daewoo Securities Research

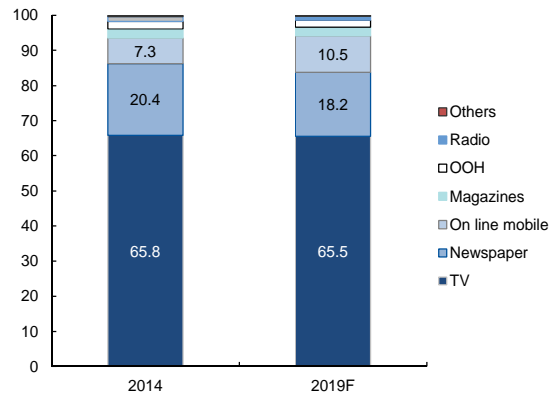
Global Mediacom (BMTR) owns three free-to-air TV stations (MNC TV, RCTI, Global TV) through its subsidiary, Media Nusantara Citra (MNCN). According to Nielsen, MNCN's 3 FTA TV channels have a combined market share of 34% which is the largest in Indonesia. Television is the most dominant form of mass media for an average Indonesians. According to Broadcasting Board of Governors, almost all Indonesians (95.9%) use TV at least once a week to view the latest news which is quite comparable to radio (24.1%) and Internet (19.3%). What is quite interesting is the fact that in 2006, 50% of Indonesians used radio for news. Rising smartphone and Internet penetration in Indonesia is becoming a threat to non-TV channels such as radio and printed newspapers. However, we conclude that TV is a source that cannot be replaced in the near horizon. This, we think, is largely due to the combination of infrastructure conditions and geographical characteristics of Indonesia. According to the company, TV advertisement market share is likely to remain the most widely utilized source in 2019. Given BHIT's strong position in the domestic market, we believe BHIT is well poised to capture the growing ad spend market.

Figure 13. TV Market share by media groups



Source: Nielsen, KDB Daewoo Securities Research

Figure 14. Media advertising market share by channel

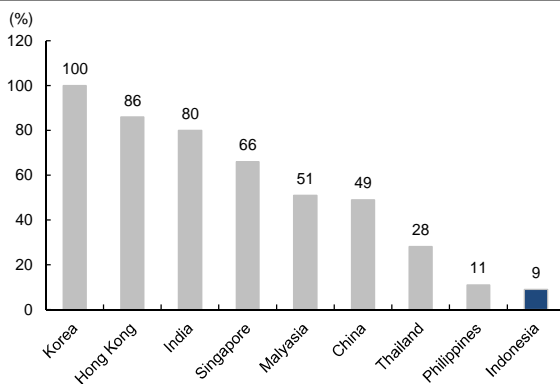


Source: Media Partners Asia, KDB Daewoo Securities Research

Subscribers based media

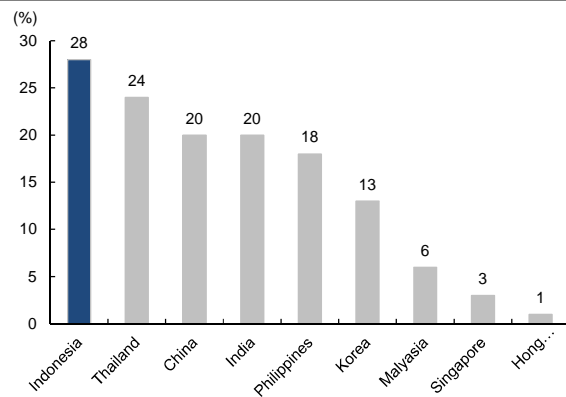
We envisage huge potential for Indonesia's pay TV market. Over the past 5 years (2009~2013), BHIT's subscribers based media revenue exhibited an average growth rate of 30.6%. Given the low pay TV penetration of 9% (vs. ASEAN peers: Philippines 11%, Thailand 28%, China 49%, Malaysia 51%, Singapore 66%), we see ample volume growth potential. Total pay TV subscribers have been growing at an average annual growth pace of 33.5%. Under our current assumptions, we expect subscriber growth to pick up at an annual pace of 20.3% over the next 5 years.

Figure 15. Pay TV penetration



Source: Media Partners Asia, Company data, KDB Daewoo Securities Research

Figure 16. Pay TV subscriber growth



Source: Media Partners Asia, Company data, KDB Daewoo Securities Research

MNC Kapital

Profile

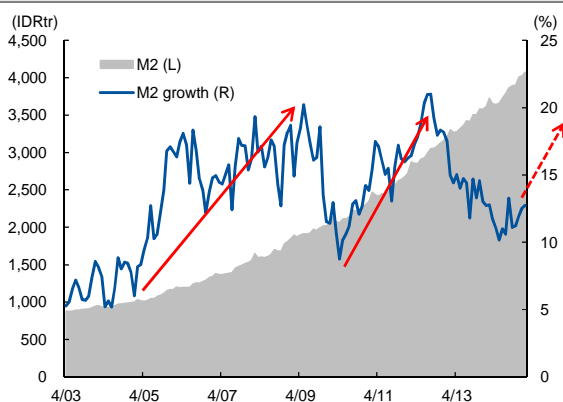
MNC Kapital Indonesia (BCAP) manages strategic investments in the financial services sector throughout Indonesia. The company, through its subsidiaries, provides a complete range of financial products and services consisting of life insurance, general insurance, consumer finance, operating & financial lease, asset management, brokerage & investment banking, and a fully licensed bank. The company is listed in the IDX with a market capitalization of IDR6.8tr.

Liquidity is the base of the economic recovery cycle

MNC Kapital (BCAP), the financial holding company of BHIT is expected to benefit from a liquidity driven economic recovery. In our view, the economic recovery in 2015 is likely to be supported by higher liquidity. Given the recent acquisition of Bank ICB Bumiputera (which was later renamed as Bank MNC Internasional), we believe BCAP is able to embrace the economic growth agenda through its wide range of financial service units. All in all, we expect money mediators to be key beneficiaries during the economic growth cycle.

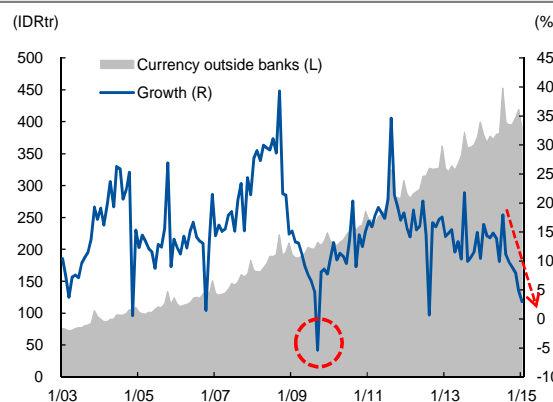
During past economic growth cycles, we note that liquidity has demonstrated resilient growth. This is because liquidity acts as a lubricant to juice up economic growth. As we expect 2015 to mark another beginning of an economic recovery cycle, we foresee unfolding of a favorable macro backdrop for BCAP. Also, recent discussions from the government related to anti-corruption, money laundering and anti-terrorism should bring underground money up to the mainstream (as seen in figure 18), which should be captured by the licensed financial subsidiaries.

Figure 17. Liquidity (M2) growth



Source: Bank Indonesia, KDB Daewoo Securities Research

Figure 18. Currency outside banks

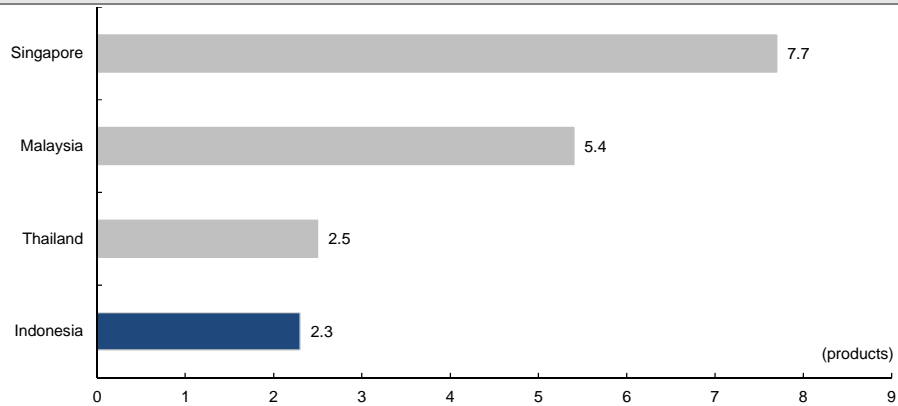


Source: Bank Indonesia, KDB Daewoo Securities Research

High growth potential for financial services industry

Indonesia's financial services penetration on a retail level is still in its premature stage. The average financial services usage per capita is far lower than its regional peers and we believe the financial industry has ample leg room to fill over the longer horizon. According to a survey conducted by McKinsey in 2011, the average number of financial products owned by Indonesians stand at 2.3 products, which is far lower than Singapore (7.7), Malaysia (5.4) and similar with Thailand (2.5).

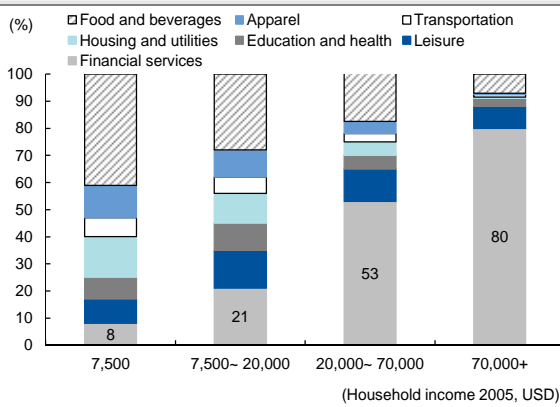
Figure 19. Average financial product ownership per capita



Source: McKinsey Global Institute, KDB Daewoo Securities Research

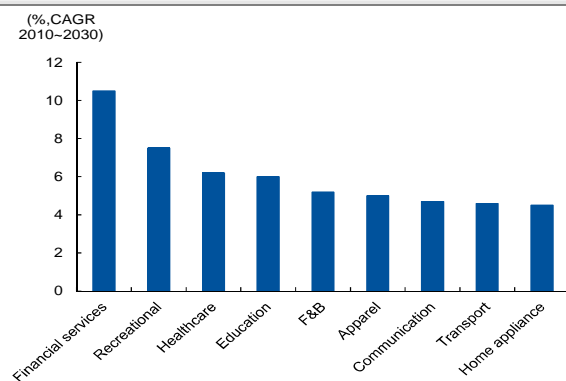
Decomposing the average household spending, we underscore that household spending on financial services (including savings and investments) accounted for 53% of the total spending. However, the portion of financial services spending is significantly reduced (8%~ 21%) at the lower income level. As household disposable income level improves (chiefly by higher income growth and eased spending pressures), we expect to see paradigm shift to higher financial services usage. According to the survey conducted by McKinsey in 2011, Indonesia’s financial services market is expected to become a huge consumer market by 2013 growing at a CAGR of 10.5% by 2030.

Figure 20. Decomposition of annual household spending



Source: McKinsey Global Institute, KDB Daewoo Securities Research

Figure 21. Financial services market embeds ample growth



Source: McKinsey Global Institute, KDB Daewoo Securities Research

Leveraging off the well-established franchise

Through its media subsidiaries, MNC group has built a good reputation and established strong footprints in the Indonesian consumer market. We believe MNC’s well reputed brand name will provide leverage as the company further strengthens its business into the financial segment. We also expect MNC group to leverage off the group’s existing customer base of its media subsidiaries. In particular, we expect to see ample potential for the group’s financial units to capitalize on the media-based subscribers (pay TV and others). Furthermore, as the group’s financial transactions are likely to be conducted through MNC Bank, we expect high growth potential for its banking unit.

MNC Land

Profile: One of a kind

MNC Land (KPIG) is an integrated resort, commercial property developer and services company. KPIG's property portfolio ranges from Nirwana Bali Resort, Lido Theme Park to MNC Plaza, MNC Tower and Plaza Indonesia. MNC Land aims to focus on 3 strategic businesses which consist of lifestyle and entertainment property developments, resort developments and general developments. As of 3Q14, KPIG is a non-consolidated subsidiary of BHIT. The company is listed in the IDX with a market capitalization of IDR8.9tr.

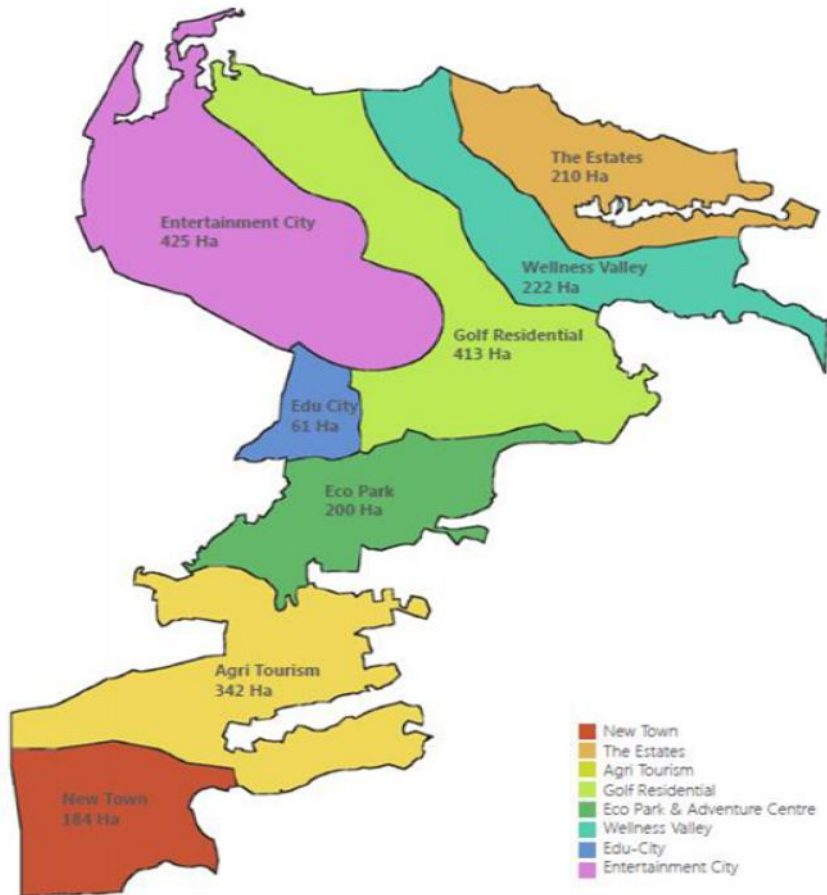
Complete entertainment solution development highlights

As of 3Q14, the key source of KPIG's revenue stems from hotels (hospitality), which accounted for 79.7% of its total revenue, followed by office rentals (14.5%), others (4.5%) and apartments (1.4%). Management has continuously communicated with the market that it will focus on lifestyle and entertainment property developments. Going forward, we expect key developments such as Lido (Bogor), Westin Resort, Nirwana Resort (Bali) and Mandalika Resort (Lombok) will be main revenue drivers.

- **Lido integrated resort and theme park:** KPIG intends to develop Lido resort as the key destination for entertainment. Located in Bogor (65km from Jakarta), Lido development is an integrated resort and theme park developed to meet international quality. KPIG owns 1,600ha of land and is planning to increase the development site up to 2,000ha. According to the company's master plan, Lido resort and theme park will be developed into 8 zones which include entertainment city, golf estates, and many others. In particular, Lido development will designate 425ha of land exclusively dedicated for "Entertainment City". On August, 2014, the company inaugurated the renovation of its golf course, which is the first phase of the Lido development. The renovation is set to be complete in 2016. Company also highlights that Lido site will accessible through national road and train tracks. Management cited that a direct toll road connecting Jagorawi toll road to Lido is currently under construction and is expected to be operational in 4Q15.

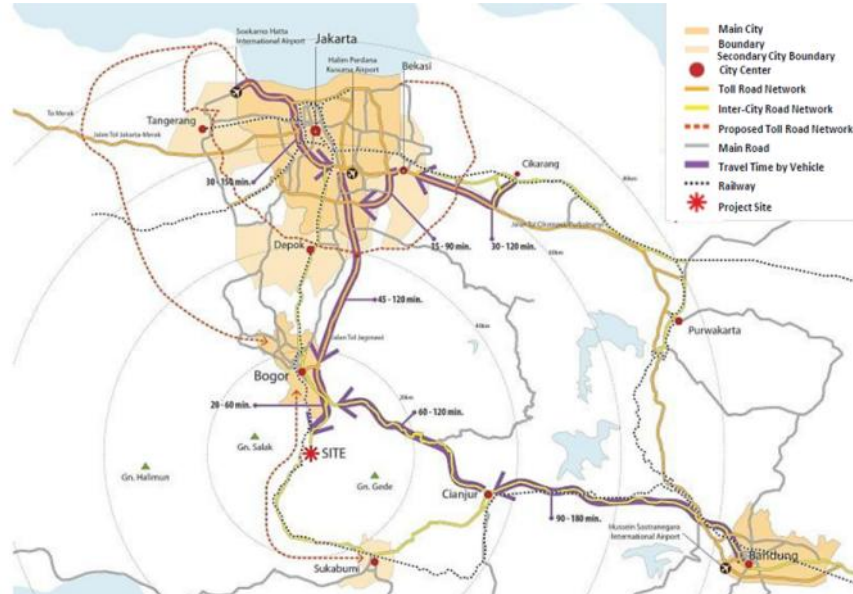
Figure 22. Lido integrated resort and theme park master plan

MASTER PLAN



Source: Company data, KDB Daewoo Securities Research

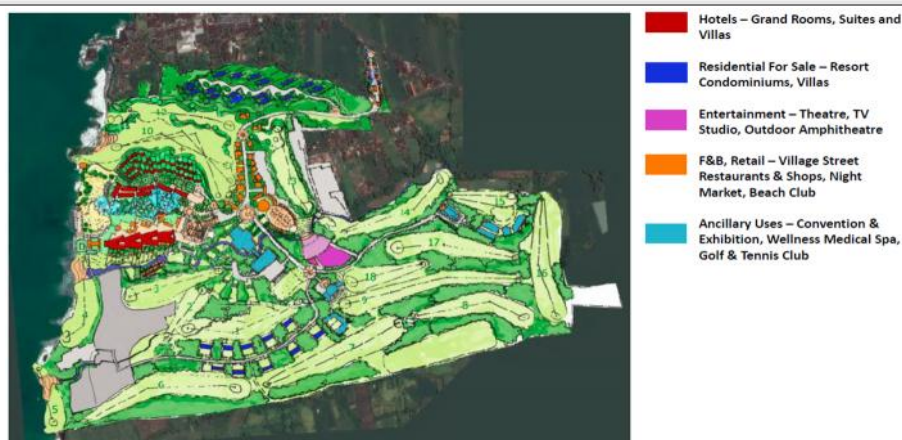
Figure 23. Lido development location map



Source: Company data, KDB Daewoo Securities Research

- Bali Nirwana Resort:** Bali Nirwana Resort is a 103ha resort development in Bali, which is located 45 minutes from Bali International Airport. Currently operated by Pan Pacific, Nirwana is one of the largest integrated resort developments in Bali with a five-star resort facility (278 rooms) and 18-hole signature golf course. We expect the company to commence a renovation process including the redesigning of the hotel, condominiums, golf course and others.

Figure 24. Bali Nirwana Resort master plan



Source: Company data, KDB Daewoo Securities Research

Non-resort developments in the pipeline

Table 2. Ongoing projects in the pipeline

Development	Profile	Location	Cost of development	Construction date	Completion
MNC News Center	A premium studio and office bldg. to cater group's media biz	Central Jakarta	IDR658bn	2011	1Q15
3TV Office & Studio	Head office and studio for 3 TV stations (RCTI, Global, MNC)	West Jakarta	IDR1.22tr	2011	1Q15
MNC Tower	The base of all MNC business unit in East Java	Surabaya	IDR154bn	2013	1Q15
One East Residences	Cutting edge mixed-use development	Surabaya	IDR716bn	2013	2Q16
MNC Media Tower & Park Hyatt	Landmark tower for premium news companies	Central Jakarta	IDR2.3tr	2013	4Q17

Source: Company data, KDB Daewoo Securities Research

Existing property portfolio to contribute to recurring flow of revenue

Table 3. Existing property portfolio (Office)

Name	Location	Land area (sqm)	Building area (sqm)	Floor	Occupancy (%)
MNC Tower (MNC Plaza)	Central Jakarta	17,850	80,200	29 (2)	95
MNC Financial Center	Central Jakarta	4,222	24,450	22	100
The Plaza	CBD Jakarta	6,803	70,880	49	97
High End Building	Central Jakarta	4,062	5,937	5	99
SINDO Building	Central Jakarta	1,064	5,127	8	100
Wisma Indovision	West Jakarta	3,297	10,669	10	100
Ariobimo Central Building	South Jakarta	13,659	32,345	12	98
Indovision Bali Building	Bali	2,730	5,057	4	91

Source: Company data, KDB Daewoo Securities Research

Table 4. Existing property portfolio (Hotel and resorts)

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Name	Location	Land area (sqm)	Capacity (rooms)	Occupancy (%)
Grand Hyatt	CBD Jakarta	12,868	428	66
Keraton At the Plaza	CBD Jakarta	5,610	140	50
Westin Hotel & Convention	Bali	93,006	433	80
Nirwana Bali Resort	Bali	9.8ha	278	72

Source: Company data, KDB Daewoo Securities Research

Table 5. Existing property portfolio (Retail)

Name	Location	Land area (sqm)	Net lettable area(sqm)	Floor	Occupancy (%)
Plaza Indonesia	CBD Jakarta	16,049	65,236	5	98
fx Sudirman	CBD Jakarta	11,460	31,202	9	92

Source: Company data, KDB Daewoo Securities Research

Investment risks are fading

We suspect that investors are considering following risks in investing in MNC Investama: 1) legal dispute between MNCN and Siti Hardijanti Rukmana (popularly known as Tutut) and 2) Forex loan exposures. Our general belief is that the above risks are mostly reflected into the price. Our assessment of the above mentioned investment risks are as follows:

MNC TV dispute: Long road to a resolution

The backdrop: The long dispute between Berkah Karya Bersama (BKB; a company owned by Mr. Hary Tanoesoedibjo) and Siti "Tutut" Hardiyanti Rukmana dates back to March 2005, during an extraordinary general shareholders' meeting (EGM) of MNC TV (formerly known as TPI or Televisi Pendidikan Indonesia). At the EGM, BKB officially took control of the 75% stake in TPI which had been arguably belonged to Tutut. In 2011, the Central Jakarta District Court ruled in favor of Tutut citing that the shareholders' meeting was unlawful. BKB appealed to the higher court saying that the ownership handover from Tutut to BKB was legitimate as the stake transfer was in exchange for the settlement of debt she owed to the company (hence, debt-equity swap). While the High Court ruled in favor of BKB (2012), the Supreme Court ruled in favor of Tutut (2013). In November 2014, the Supreme Court rejected the judicial review requested by BKB, however, the following month, Indonesia National Board of Arbitration (BANI) stated that BKB is the legitimate owner of the 75% stake in TPI. It's worth mentioning that according to the investment agreement between BKB and Tutut, any dispute between the two parties should be settled with BANI.

Table 6. Chronicle of the TPI dispute

Date	Event
Mar. 18, 2005	PT Berkah Karya Bersama officially becomes the majority shareholder of Televisi Pendidikan Indonesia (TPI) television station via a debt-to-equity conversion.
Mar. 21, 2005	Law and human rights minister approves debt-to-equity conversion from PT CTPI to PT Berkah Karya Bersama (BKB). Shares of PT BKB transferred to Media Nusantara Citra Tbk.
Oct. 14, 2009	Jakarta Commercial Court declares PT TPI bankrupt after request from Crown Capital Global Limited (CCGL).
Dec. 15, 2009	Supreme Court rules in favor of PT TPI, annuls decision by Commercial Court.
Oct. 20, 2010	Televisi Pendidikan Indonesia (TPI) officially renamed Media Nusantara Citra (MNC) TV.
Apr. 14, 2011	Central Jakarta District Court decides to return some of television station TPI's shares to one of former president Soeharto's daughters, Siti Hardiyanti "Tutut" Rukmana, who previously owned 100 percent of the company. Judges said BKB's ownership of the shares and the shareholders' meetings were unlawful. The trial also granted several compensatory demands (Ruled in favor of Tutut)
April 20, 2012	Jakarta High Court annuls Central Jakarta District Court (Ruled in favor of BKB)
Oct. 2, 2013	Supreme Justice (MA) annuls Central Jakarta District Court (Ruled in favor of Tutut)
Nov. 11, 2014	Supreme Court rejected the Judicial Review request by BKB (Ruled in favor of Tutut)
Dec. 12, 2014	Indonesia National Board of Arbitration (BANI) stated that BKB is the legal owner of the 75% stake in TPI (Ruled in favor of BKB)

Source: Jakarta Post, Company data, KDB Daewoo Securities Research

What investors are concerned: The ownership dispute of MNC TV between BKB and Tutut is negative for the group. Key concern for investors is the potential loss of ownership in MNC TV as this would squeeze MNC group's earnings. MNC TV is one of Indonesia's big 4 TV stations and is also the second largest revenue contributor to MNCN after RCTI. MNC has been convincing the market that assuming a worst-case scenario, even if the company's ownership of MNC TV were to be lost, Tutut will be taking over the outer shell of the TV station and argued that the contents are still with MNCN (and will be transferred to SINDO TV).

Recent development from BANI is positive: The timing of the resolution and the final outcome of the dispute still remain unclear. However, the latest result from Indonesia National Board of Arbitration (BANI) should somehow balance the one sided sentiment, in our view.

Negatives are baked in the cake: Given the long chronicle of the legal dispute, we believe that investors are very well aware of the issue. According to our conversations with investors, we noticed that investors expect another 5 to 10 years of legal fight until the final resolution. That being said, we believe the legal dispute is already baked in the cake and any developments related to the legal case will likely place positive/negative implications over a short investment horizon.

FX losses are squeezing bottom line earnings

The main culprit is the weakening of the rupiah...: The group has monetary assets and liabilities denominated in foreign currencies. In 2013, BHIT incurred losses of IDR1,549.5bn which was significantly larger than the losses of IDR217.8bn incurred in 2012. Our findings revealed that the translation losses were primarily driven by the weakening of the rupiah. In 2013, USD denominated assets grew by USD19.8mn (USD50.8mn in 2012 vs. USD70.6mn in 2013), while USD denominated liabilities increased by USD25.2mn (USD341.6mn in 2012 vs. USD366.8mn in 2013). The USD denominated net assets was -USD5.4mn. However, given the weakening of the rupiah from 2012 (USD/IDR @9,670) to 2013 (USD/IDR @12,189) by 26.0%, the translated net asset was boosted from -IDR2.8tr to -IDR3.6tr representing a YoY change of -IDR823.8bn.

Table 7. Monetary assets and liabilities denominated in foreign currencies

Assets	Currency	Year		Currency	Year		
		2012	2013		2012	2013	
Cash and cash equivalents	USD	15,196,916	53,434,136	IDR	146,955	650,147	
	Others				41	31	
Other financial assets - current	USD	5,715,749	4,358,873		55,271	53,130	
Restricted cash in banks	USD	10,529,416	2,654,571		101,819	32,357	
Trade accounts receivable	USD	13,750,176	3,649,842	IDR	132,965	42,281	
	EUR		475,921				8,006
	Others				7,846	21	
Premium receivable	USD	3,078,655	3,017,226		29,771	36,777	
Accounts receivable	USD	0	2,243,579		0	27,347	
Other accounts receivable	USD	1,298,952	43,546		12,561	531	
Other assets	USD	1,204,988	1,204,259		11,652	14,679	
Total assets	USD	50,774,852	70,606,032		498,881	865,307	
Liabilities	Currency	Year		Currency	Year		
		2012	2013		2012	2013	
Bank loans	USD	5,900,000		IDR	57,053	0	
	EUR		1,643,356				27,644
Trade accounts payable	USD	85,820,417	80,893,248	IDR	829,884	986,008	
	Others				5,660	1,464	
Other accounts payable	USD	203,616	870,126	IDR	1,969	10,606	
	Others				785	29	
Accrued expenses	USD	3,975,035	9,390,693		38,439	114,463	
Reinsurance debt	USD	893	1,568,863		9	19,120	
Consumer advances	USD	377,404	0		3,649	0	
Long-term loans	USD	87,261,889	273,029,769		843,823	3,327,960	
Finance lease obligations	USD	1,946,472	0		18,822	0	
Bonds payable	USD	154,145,240	0		1,490,584	0	
Liabilities to policy holders	USD	876,980	1,035,940		8,480	12,627	
Other non-current liabilities	USD	1,087,500	0		10,516	0	
Total liabilities	USD	341,595,446	366,788,639		3,309,673	4,499,921	
Net assets	USD	-290,820,594	-296,182,607		-2,810,792	-3,634,614	

Source: Company data, KDB Daewoo Securities Research

...but, it's a non-fundamental issue: We would like to maintain our stance that FX translation losses are non-fundamental losses. Given the super dollar cycle, we expect rupiah (and the rest of the non-US currency) to remain pressured for the time being which should pressure bottom line earnings. However, given that the group's core earnings generating ability remain intact, we suggest investors to focus on BHIT's core fundamentals.

Conservative translation: According to the company's 2013 financial statements, the FX rate which was used for the FY12 and FY13 translation stood was IDR9,670 (2012) and IDR12,819 (2013) respectively. However, given the actual average FX rate for the year 2012 and 2013 were IDR9,386 (2012) and IDR10,451 (2013), we suspect that the company was taking a bearish approach in translating the assets. Given 2014 actual average FX rate was IDR11,867 (lower than the FX rate which was used to translate 2013 figures), we think the translation losses in 2014 will not be as bad as investors anticipate.

Price trends and valuations

Share price trend of BHIT and its affiliates

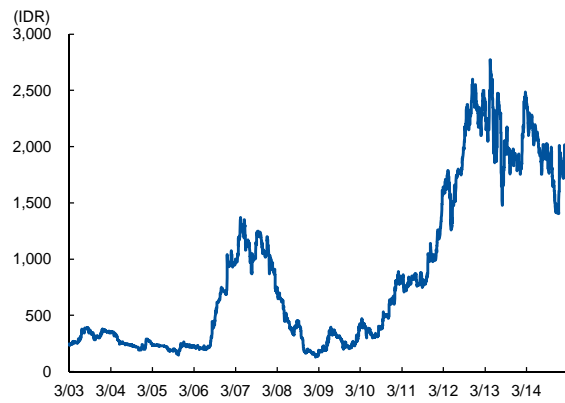
In December of 2012, BHIT marked a historical high of IDR600. Since the peak, BHIT's share price plunged by 60.3% to IDR238 (December 2014) within 2 years. During the two years, company's fundamentals have much improved while the ongoing legal dispute over MNC TV has been finalized (although further appeals and disputes are yet to come).

Figure 25. Share price trend (BHIT)



Source: HOTS, KDB Daewoo Securities Research

Figure 26. Share price trend (BMTR)



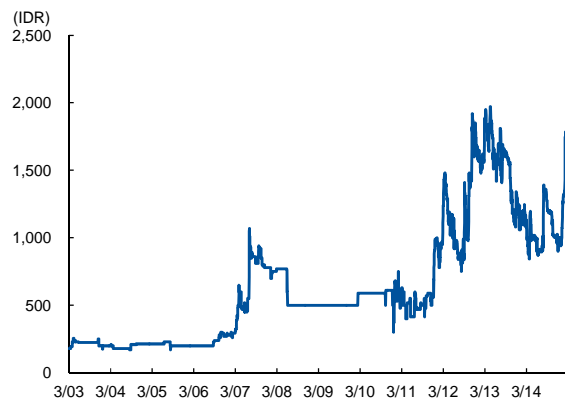
Source: HOTS, KDB Daewoo Securities Research

Figure 27. Share price trend (MNCN)



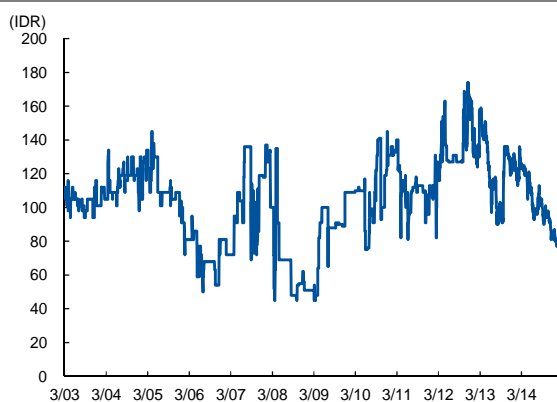
Source: HOTS, KDB Daewoo Securities Research

Figure 28. Share price trend (BCAP)



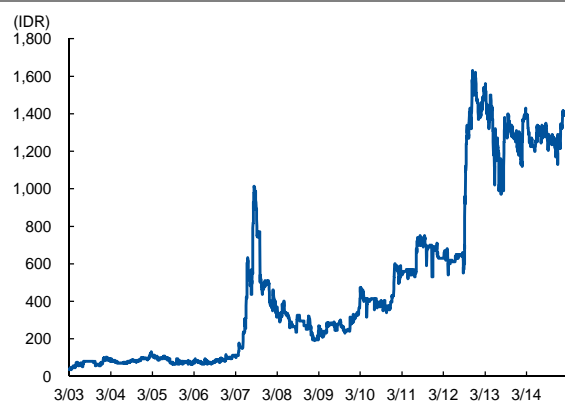
Source: HOTS, KDB Daewoo Securities Research

Figure 29. Share price trend (BABP)



Source: HOTS, KDB Daewoo Securities Research

Figure 30. Share price trend (KPIG)

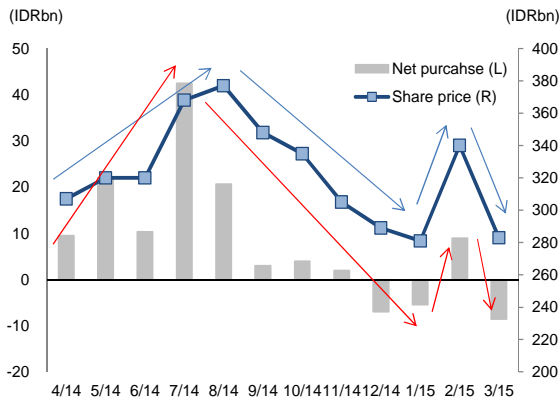


Source: HOTS, KDB Daewoo Securities Research

Share price driven by foreign net purchase trends

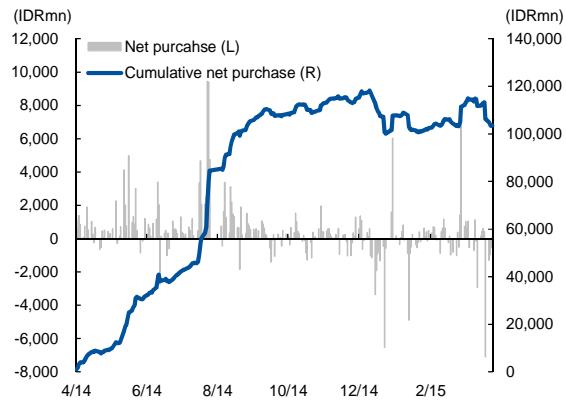
BHIT’s share price trend shows high correlation with the foreigners’ net purchase of the company. Our observation for the past 1 year revealed that BHIT’s share price trended upwards when there was active foreign net purchase of the company, while price showed a downward trend when foreign net purchase slowed (or when foreigners net sold). Since the summer of last year, foreign net purchase trend was largely muted with a modest sell-off which began from December of 2014. Going forward, we expect to see positive sentiment from foreigners as improved macro backdrop and policy support should support BHIT’s earnings recovery.

Figure 31. Share price trend vs. foreign net purchase (Monthly)



Source: HOTS, KDB Daewoo Securities Research

Figure 32. Cumulative foreigner net purchase trend

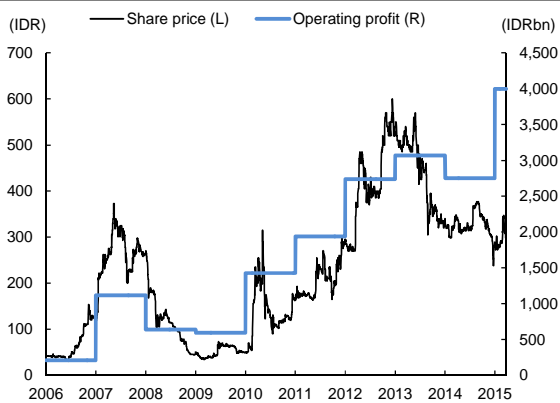


Source: HOTS, KDB Daewoo Securities Research

It’s imperative for the management to print BHIT’s net profit in black

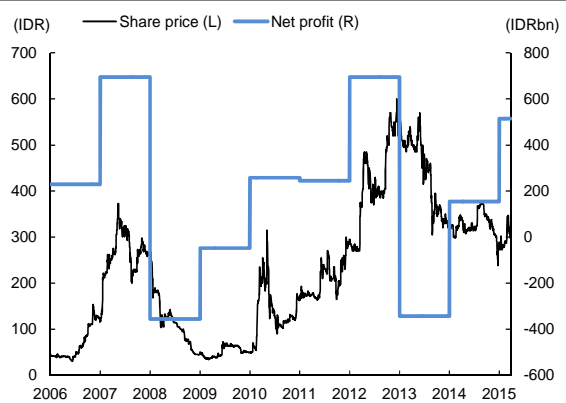
Both BHIT’s operating profit and net profit trends showed strong correlation with the share price, over the past 10 years. However, BHIT’s recent share price shows higher correlation with net profit trend. That being said, we believe bringing BHIT’s weak bottom line earnings above the surface should be an important agenda for the management team, in our view.

Figure 33. BHIT share price vs. operating profit



Source: Company data, KDB Daewoo Securities Research

Figure 34. BHIT share price vs. net profit



Source: Company data, KDB Daewoo Securities Research

Valuations: Macro outlook and policy support to justify higher valuations

Given the high cyclicality of BHIT’s business profile and negative bottom line earnings, we are valuing the group from a book value perspective. We are also assessing the company’s core earnings generating ability (Price to operating profit) as a supplementary indicator.

BHIT is trading at 1.04x to our 2015F BPS estimates. Compared to the post Global Financial Crisis (GFC; 2010 and onwards) valuation trends, current valuations represent 18.6% premium to trough valuations (0.87x in 2010) and 50.2% discount to peak valuations (2.08x in 2012). Post GFC average valuation trends, we firmly believe that BHIT shares are trading at below historical average levels.

Table 8. Valuations are well below historical averages

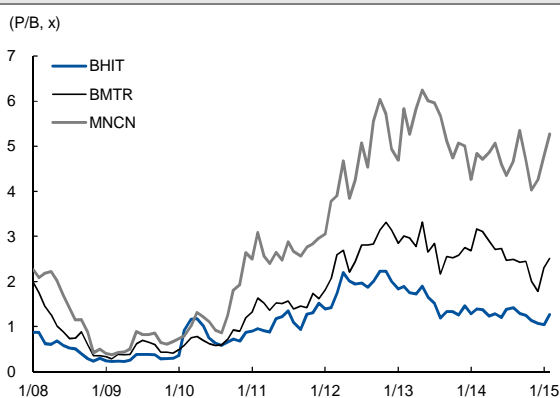
MNC Investama valuations	Current	Post GFC average	Difference
Price/Book value (2015F, x)	1.04	1.42	-27.2%
Price/Earnings (2015F, x)	23.93	27.58	-13.2%
Price/Operating profit (2015F, x)	2.47	4.44	-44.4%

Source: KDB Daewoo Securities Research

We expect valuations to converge into post GFC average levels. Our base case scenario is that we expect to see normalization of earnings on the back of prudent policy support to revitalize private consumption. Furthermore, given the high hurdle of the MNC TV dispute has come down (Supreme Court results and BANI results are final stages), we expect to see low probabilities of any unpredictable developments arising heading forward. In addition, we firmly believe that current FX rates are hovering at unsustainable levels and argue that there is more downside than upside.

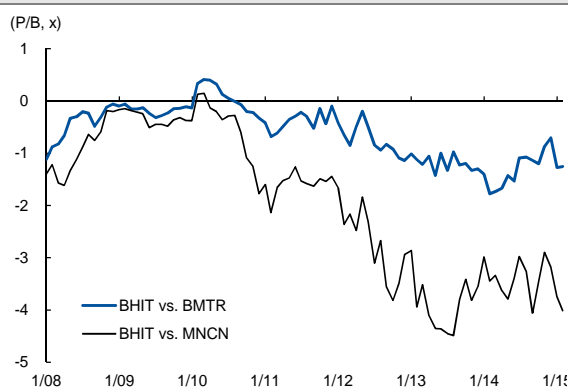
BHIT’s valuation gap between BMTR and MNCN are likely to narrow. As of February of 2015, P/B valuation gap between BHIT-BMTR and BHIT-MNCN has widened to -1.25x and -4.01x, respectively. Given the average valuation gap remained at -0.73x and -2.45x post the GFC, we expect to see narrowing of the valuation gap heading forward.

Figure 35. Valuation (P/B) trends



Source: Bloomberg, KDB Daewoo Securities Research

Figure 36. Valuation (P/B) gap



Source: Bloomberg, KDB Daewoo Securities Research

Table 9. Valuation discount vs. key subsidiaries

	BHIT	BMTR	MNCN
Feb 2015 (Trailing P/B, x)	1.26	2.51	5.28
Post GFC average (Trailing P/E, x)	1.33	2.06	3.78
Valuation discount (Feb 2015, %)		-49.8%	-76.1%
Valuation discount (Post GFC average, %)		-35.3%	-64.9%

Source: Bloomberg, KDB Daewoo Securities Research

Initiating coverage with a Buy recommendation with a target price of IDR415 (upside 44.2%)

We initiate coverage on BHIT with a Buy recommendation and a target price of IDR415. Our target price is derived by applying a target P/B multiple of 1.56x. We believe BHIT valuations have undergone a full cycle (trough – recovery – boom – recession) and now trending in the early stage of the recovery cycle. Given our outlook for a favorable macro backdrop (i.e., domestic consumption recovery) and dissipating risks, we consider our target P/B multiple of 1.49x (representing 5% premium to the full valuation cycle since 2010) to be undemanding. Our investment summary on BHIT is as follows:

- **Macro developments are quite encouraging:** We expect a macro rebound in 2015 (GDP growth is expected to come in at 5.4% in 2015) and also forecast that private consumption will be the key driver of growth. Our key thesis in a benign private consumption cycle is premised on the base that falling oil price (relaxed spending) and transfer of wealth from public to private (higher income) will boost household disposable income. Given BHIT's domestically-oriented business profile, unfolding of a benign macro backdrop will enhance the company's revenue, in our view. Our model factors in a 23.0% revenue growth in 2015.
- **Risks are fading:** Key investment risks of BHIT, namely, MNC TV dispute and FX translation losses have been well-flagged by investors. We agree with the market that these risks are likely to persist and could lead to price volatility in the event negative results were to surface. However, we argue that (i) the dispute between BKB and Tutut has reached the final verdict with an even outcome (Supreme Court ruled in favor of Tutut, while BANI ruled in favor of BKB). Further appeals and rulings should develop over time, however, it might take significant years until the final resolution. The best case scenario (and a quick resolution of the dispute) would be MNC group's purchase of Tutut's remaining 25% stake in MNC TV, which is currently in the negotiation process. (ii) Given the super dollar cycle (and unless the rupiah strengthens significantly), BHIT is expected to book FX translation losses for the time being. Under our current assumption, we expect BHIT to book FX translation losses of IDR1,265.6bn and IDR1,098.8bn in 2014 and 2015, respectively. However, given MNC group has taken conservative translation standards in 2013, we expect to see downside risk to our estimates for both 2014 and 2015. What we would like to highlight is the fact that (a) FX translation losses are non-operating issues and also argue that (b) current FX rates are unreasonably high. We firmly believe that current FX rates are unsustainable and forecast it to improve starting from 2016. On top of this, we believe investment risks on BHIT have been reflected into the price.
- **Valuations are attractive:** We believe current valuations are attractive and recommend investors to take this attractive valuation levels as a buying opportunity. According to our projections, BHIT shares are trading at 1.04x to our 2015F BPS estimates. Over the past 5 years (2010~ 2014F), the company's shares were trading at an average of 1.42x P/B. Given our forecast for a benign consumption recovery and earnings improvement, current valuations (trading at liquidation value of 1x book) seem overly compressed. We judge the company should trade at least at post GFC average valuation level. We are giving a discretionary 5% premium on the 5-year average valuation and hence derive our target multiple of 1.49x.

MNC Investama (BHIT/Buy/TP: IDR415)

Income Statement (Summarized)

(IDRbn)	12/12	12/13	12/14F	12/15F
Revenue	9,787	11,532	13,245	16,295
Cost of revenue	5,085	6,293	7,460	9,103
Gross profit	4,702	5,239	5,785	7,191
Operating expenses	1,963	2,170	2,317	2,662
Operating profit	2,739	3,068	3,468	4,529
Interest expense	423	879	962	1,273
Foreign exchange losses (gains)	0	1,549	1,266	1,099
Net non-operating losses (gains)	-250	-66	-29	92
Pre-tax profit	2,565	706	1,269	2,065
Tax expenses	590	311	317	516
Net profit	1,976	395	952	1,549
Minority interest	1,281	739	1,030	1,082
Attributable net profit	695	-344	-79	467
Growth (%)				
Revenue	26.9	17.8	14.9	23.0
Cost of revenue	23.2	23.7	18.6	22.0
Gross profit	31.1	11.4	10.4	24.3
Operating expenses	19.3	10.5	6.7	14.9
Operating profit	41.1	12.0	13.0	30.6
Interest expense	-15.0	107.5	9.5	32.3
Foreign exchange losses (gains)	NM	NM	-18.3	-13.2
Net non-operating losses (gains)	NM	NM	NM	NM
Pre-tax profit	85.3	-72.5	79.6	62.8
Tax expenses	45.4	-47.2	1.9	62.8
Net profit	101.8	-80.0	140.9	62.8
Minority interest	74.3	-42.3	39.5	5.0
Attributable net profit	184.6	NM	NM	-691.8

Source: Company data, KDB Daewoo Securities Research estimates

Key performance indicators

	12/12	12/13	12/14F	12/15F
Per share data				
EPS (IDR)	19	-10	-2	12
EPS growth (%)	139.0	-149.2	-78.7	-690.3
BPS (IDR)	260	229	260	278
BPS growth (%)	37.3	-11.7	13.4	7.0
DPS (IDR)	5	3	2	4
Key ratios (%)				
ROE	9.3	-3.9	-0.9	4.5
ROA	3.0	-1.2	-0.2	0.9
Gross profit margin	48.0	45.4	43.7	44.1
OP margin	28.0	26.6	26.2	27.8
Net profit margin	7.1	-3.0	-0.6	2.9
Tax rate	23.0	44.1	25.0	25.0
Debt/equity	47.9	88.8	120.0	118.1
Assets/equity	147.9	188.8	221.0	218.5
Current ratio	301.8	288.4	204.4	199.8
Payout ratio	24.7	NM	NM	30.0

Source: Company data, KDB Daewoo Securities Research estimates

Balance Sheet (Summarized)

(IDRbn)	12/12	12/13	12/14F	12/15F
Cash and equivalents	1,339	1,948	4,559	4,710
Short-term investments	0	1,824	3,698	4,317
Accounts & notes receivable	2,961	3,209	3,347	3,508
Inventories	1,724	1,830	1,972	2,008
Other current assets	8,423	4,229	11,999	14,646
LT investments & receivables	2,823	3,677	4,693	6,037
Net fixed assets	5,100	6,064	7,349	7,926
Other long-term assets	4,885	8,968	10,258	10,829
Total assets	27,254	31,749	47,874	53,981
Accounts payable	1,299	1,654	1,776	1,884
Short-term borrowings	1,128	180	554	610
Other short-term liabilities	2,359	2,686	10,178	12,115
Long-term borrowings	3,525	9,491	13,393	15,262
Other long-term liabilities	516	917	868	952
Total liabilities	8,827	14,928	26,213	29,270
Paid in capital	3,569	3,590	3,871	3,881
Additional paid in capital	2,345	2,419	3,235	3,238
Other capital - Stock option	23	28	17	17
Diff. in equity stake of subsidiaries	1,495	719	1,503	1,855
Diff. in equity transn w/ minority	568	168	168	168
Other comprehensive income	11	218	245	270
Retained earnings	1,790	1,273	1,136	1,463
Less of treasury stocks	-539	-185	-111	-97
Total equity attributable to majority	9,262	8,231	10,065	10,796
Non-controlling interest	9,165	8,589	11,596	13,915
Total shareholders' equity	18,426	16,820	21,661	24,711

Source: Company data, KDB Daewoo Securities Research estimates

Balance sheet growth rate

(%)	12/12	12/13	12/14F	12/15F
Cash and equivalents	19	46	134	3
Short-term investments	NM	NM	103	17
Accounts & notes receivable	15	8	4	5
Inventories	56	6	8	2
Other current assets	142	-50	184	22
LT investments & receivables	42	30	28	29
Net fixed assets	33	19	21	8
Other long-term assets	2	84	14	6
Total assets	44	16	51	13
Accounts payable	47	27	7	6
Short-term borrowings	-27	-84	208	10
Other short-term liabilities	87	14	279	19
Long-term borrowings	36	169	41	14
Other long-term liabilities	33	78	-5	10
Total liabilities	32	69	76	12
Paid in capital	19	1	8	0
Additional paid in capital	179	3	34	0
Other capital - Stock option	17	22	-39	0
Retained earnings	50	-29	-11	29
Less of treasury stocks	190	-66	-40	-13
Total equity attributable to majority	64	-11	22	7
Non-controlling interest	40	-6	35	20
Total shareholders' equity	51	-9	29	14

Source: Company data, KDB Daewoo Securities Research estimates

Important Disclosures & Disclaimers

Disclosures

As of the publication date, Daewoo Securities Co., Ltd and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Stock Ratings		Industry Ratings	
Buy	Relative performance of 20% or greater	Overweight	Fundamentals are favorable or improving
Trading Buy	Relative performance of 10% or greater, but with volatility	Neutral	Fundamentals are steady without any material changes
Hold	Relative performance of -10% and 10%	Underweight	Fundamentals are unfavorable or worsening
Sell	Relative performance of -10%		

* Ratings and Target Price History (Share price (----), Target price (----), Not covered (⊖), Buy (Ⓛ), Trading Buy (Ⓛ), Hold (●), Sell (Ⓛ))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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