

# Singapore Company Focus

DBS Group Research . Equity

20 March 2007

**BUY S\$1.19** STI: 3113.39

Price Target : 12-month S\$1.71

Reason for Report : Initiation of coverage

Catalyst: Successful launch of Lagoi Bay Village.

## ANALYSTS

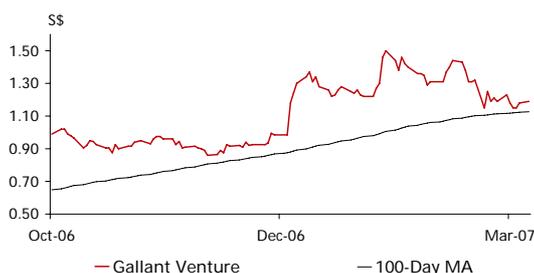
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## Financials and Valuation

FY Dec (\$m)	2005A	2006A	2007F	2008F
Sales (\$m)	227.1	259.0	459.8	499.5
EBITDA (\$m)	74.0	94.0	266.7	298.8
Net Profit (\$m)	6.1	21.1	152.4	160.6
Profit Growth (%)	na	246.2	621.2	5.4
EPS - FD (cts)	0.3	0.9	6.3	6.7
Core EPS Gth (%)	na	246.2	621.2	5.4
BVps (\$)	0.50	0.51	0.57	0.64
DPS (cts)	-	-	-	-
P/Sales (x)	12.6	11.1	6.2	5.7
EV/EBITDA (x)	39.7	31.3	10.7	9.0
P/E (x)	469.8	135.7	18.8	17.9
P/BV (x)	2.4	2.3	2.1	1.9
Div Yield (%)	-	-	-	-
ROE (%)	0.5	1.7	11.7	11.0
Net Debt/Equity (x)	0.1	0.1	Cash	Cash

## SHARE PRICE CHART



## AT A GLANCE

Issued Capital (m shrs):	2,410.4
Mkt Cap (\$m/US\$m):	2,868/1,879
Major Shareholders:	
Salim Group (%)	40.3
SembCorp Industries (%)	26.8
Ascendas (%)	7.3
Free Float (%):	15.2
Avg Daily Vol ('000 shrs):	

Consensus EPS :	2007: -	2008: -
Variance vs Cons :	2007: -	2008: -

Sector: Property

Bloomberg/Reuters Code: GALV SP / GLVT.SI

Principal Business : Runs industrial parks and provides Resorts and Utilities operation services in Batam and Bintan. Also involved in land sales in Bintan.

## Gallant Venture

### Banking on Bintan being the next Bali

➤ **Story:** Gallant Venture runs industrial parks and provides Utilities and Resorts operation services on Batam and Bintan islands, which are 35 minutes from Singapore. Furthermore, it has a land bank of 18,200 hectares on Bintan, which could be sold for industrial, resort and other developments.

➤ **Point:** GV is well positioned to benefit from the future development of Batam and Bintan. Key factors that should drive the growth of these islands include: a) New status as Indonesia's first Special Economic Zone, with the support of the Singapore government, b) increase in tourist arrivals from higher keys and positive spillover from Singapore's Integrated Resorts and c) Bintan's under-development vis-à-vis Phuket and Bali as a tourist destination.

➤ **Relevance:** We Initiate coverage with a BUY recommendation and target price of S\$1.71 for GV, based on our RNAV calculation for the Group, largely due to the S\$3.25bn value we assign to the Group's land bank, which has a book value of S\$543m. The company plans to launch Phase 1 of Lagoi Bay Village (c. 500 hectares) by April – largely beachfront land for hotel and residential developments; and a positive take-up could act as a positive catalyst for future land sales as well as share price.

**GV plans to develop Bintan into the next Phuket or Bali.** GV's prospects and value is tied closely to that of the development of Bintan, especially as a tourist destination. Support from both the Indonesian and Singapore governments and a positive spillover effect from higher tourist arrivals are key drivers to further accelerate this, GV has plans to develop Lagoi Bay (total area 1,500 hectares) as a beachfront tourist destination, complete with 5-star hotels, high-class residential developments, retail shops and restaurants and even a marina, to help further attract more visitors to Bintan.

**Ferries and an Airport are important infrastructure to help attract more visitors.** Plans are also afoot to upgrade its ferry services and also develop an airport to extend Bintan's accessibility to a 3-hour flight radius from Bintan. As Bintan grows as an island resort and tourist destination, the value of GV's huge land bank in Bintan should rise in tandem.

**Utilities and Resort Operations should benefit from long-term Bintan development.** As and when Bintan becomes more developed, further benefits should accrue to the Group's Utilities and Resort Operations business, providing GV with a stable, long-term income stream.

**There is still upside from current levels, especially if one takes a long-term view.** We believe that GV can realize more value from the sale of its land bank than today's share price suggests, especially if one takes the view that Bintan can grow to become a significant player as an island resort and as further development on the island takes place.

## SWOT Analysis

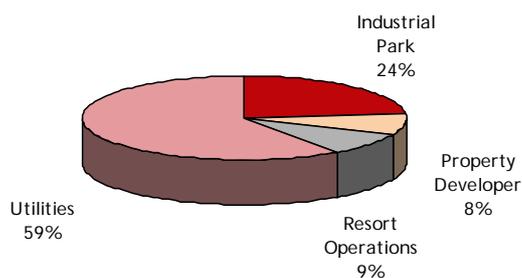
Strengths	Weakness
<ul style="list-style-type: none"> <li>• <b>Positive spillover effects from Singapore's development as a tourist destination as Bintan is a ferry ride away.</b> We believe that Bintan will attract some of the tourists who visit Singapore, given its close proximity to Singapore. We believe that Singapore's tourism industry will do well due to the Integrated Resorts and this will have positive spillover effects on Bintan.</li> <li>• <b>Integrated master planner.</b> GV is not just a developer – it is the integrated master planner for Bintan Resorts, meaning GV has some control over the general look and feel of the development. The Group is responsible for development of infrastructure, utilities, marketing and support services like ferry access between Singapore and Bintan.</li> <li>• <b>Singapore and Indonesian government cooperates in developing Riau Islands.</b> The two governments have signed an agreement to develop the tourism industry, property industry and industrial parks in Riau Islands, where Bintan and Batam are located.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>The huge landbank will take many years to sell off and represents huge execution risk.</b> GV is the master planner, investing in infrastructure on land, all of which requires heavy capital expenditure.</li> <li>• <b>Seasonality factor.</b> As a resort operator, GV is vulnerable to the seasonal nature of the travel industry.</li> <li>• <b>Little is known about Bintan.</b> Given its relatively small size and lack of international airport, Bintan is not well known outside of Asia.</li> <li>• <b>Industrial Park growth is unexciting.</b> Industrial Park business has unexciting outlook as many manufacturers are still moving to China/Vietnam.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• <b>Bintan has the potential to be a tourist hot spot.</b> We believe that Bintan's location near Singapore will encourage tourists to visit the island. We believe that the island's scenic beauty, unspoiled beaches and golf courses will attract tourists. In addition, we believe that the presence of Banyan Tree and Club Med serve to enhance the island's reputation as a holiday spot.</li> <li>• <b>GV has 18,200 ha landbank in Bintan.</b> The Group has a huge landbank of 14,400 ha of residential land in North Bintan and 3,800 ha of industrial land in West Bintan. We like that GV as a master planner, is able to provide a full range of services to tenants and investors.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Major terrorist attack could significantly impact global tourism, thus, arrivals to Bintan.</b> Bali experienced a few terrorist attacks in the past. GV's earnings will be adversely affected should there be a terrorist attack in Bintan or anywhere else in the world.</li> </ul> <p><b>Natural disasters are also another risk.</b> Over the past few years, Indonesia has been hit by tsunamis. We believe that natural disasters anywhere in Indonesia may negatively affect investment sentiment and deter tourists from visiting islands.</p>

Source: DBS Vickers

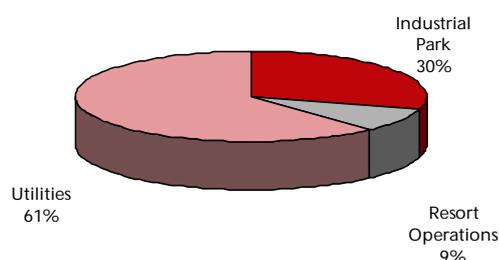
## Company Background

- Gallant Ventures (GV) is a Singapore-listed investment holding company with businesses in Bintan and Batam. The Group owns a huge landbank of 18,200 hectares, largely in Bintan. Its major shareholders are Indonesia’s Salim Group (deemed 41%) and several Singapore shareholders including SembCorp Industries (26.8%), and Ascendas (7.3%).
- The Group is focused on regional growth opportunities. Its existing investments are mainly located in Batam and Bintan, Indonesia. GV’s business Gallant has four lines of business.
  - 1) **Property Development business.** GV derives revenue from the sale of land located in north and west Bintan. GV developed 4 Bintan Resorts: Nirwana Garden Resort, Laguna Bintan resort, Bintan Lagoon resort and Ria Bintan Resort. The Group also holds land in Bintan for industrial development.
  - 2) **Industrial Parks business.** GV owns and operates an industrial park comprising 530k sqm of net lettable area on Batam Island, BIP and an industrial park comprising 106k sqm of net lettable area on Bintan Island , BIE. BIP and BIE offers comprehensive industrial park facilities, utilities and support services to their tenants and investors.
  - 3) **Resorts Operations business.** GV runs Bintan Resorts which spans over 3,000 hectares of land, housing 4 resorts. Bintan Resorts offers a full range of facilities from medical clinic to workers’ accomodation and from water sports to sightseeing tours. The Group also provides ferry services between Singapore and Bintan.
  - 4) **Utilities business.** GV also provides telecommunications, electricity, water supply and waste management services to both its industrial parks and Bintan Resorts.

**FY06 Revenue Breakdown (\$259m)**

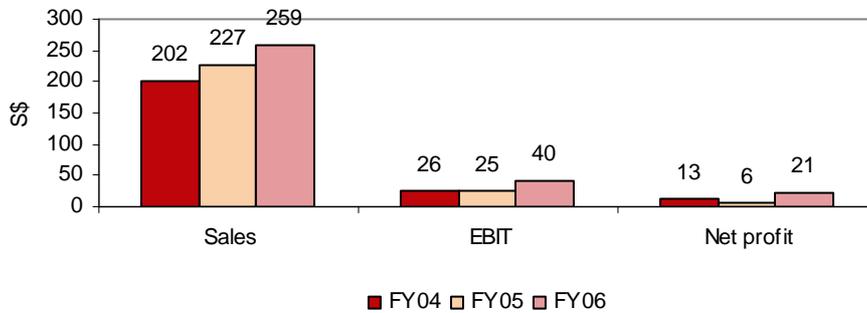


**FY05 Revenue Breakdown (\$227m)**



Source: Company, DBS Vickers

**Sales, EBIT & Net Profit Trend**



Source: Company, DBS Vickers

- Businesses will benefit from Indonesia-Singapore ties.** We believe that GV benefits from the close economic co-operation between Indonesia and Singapore. The signing of the 1990 agreement between the two governments on Economic Cooperation in the Framework of the Development of the Riau province encourages joint efforts in developing tourist resort development and infrastructure, investments by Singapore residents and companies and development of investment projects in the Riau province, where Batam and Bintan are located.
- Where are the islands located?** Batam is an island in the Riau Islands Province of Indonesia, 415 sqkm, with about 700,000 inhabitants. Batam is accessible by air and sea. The island is located about 20 km south of Singapore, a 1 hour ferry ride away. Bintan is an island of 1,866 sqkm located about 48 km southeast of Singapore. Unlike Batam which has an airport with passenger capacity of 3m a year, Bintan is accessible only by sea via its seaports currently.

**Location of Bintan and Batam**



Source: Company, ILLI

**Property Development Business**

- **Has a rich landbank in Bintan.** We believe this business to be the key revenue driver for GV. While Property Development is by itself a business, its growth will also boost the Group's 3 other businesses. Going forward, GV will develop its 18,200 ha of land in Bintan, of which 3,800 has been earmarked for industrial park development. As most of the industrial land in Batam has been developed, GV will focus on Bintan. In the past 3 years, the Group saw no land revenue due to lack of demand for land after the terrorist attacks, especially the Bali bombings. However we believe that investor confidence in Indonesia and the region is gradually increasing, propelled by Singapore's strong economy.

**Landbank in Bintan**



Source: Company, ILLI

- **As integrated master planner & developer, GV creates synergy between its 4 core businesses.** GV is the master planner for its property developments, meaning it has full control over the infrastructure, power supply, telecommunications, water supply and landscape. As such the Group's Utilities business will benefit from new property developments. The Resorts Operations and Industrial Parks businesses will also benefit from growth in this business with more investors and visitors interested in Bintan and Batam. This synergistic relationship is multi-way as growth in Resorts Operations will attract more tourists and enhance Bintan's international name thus attracting tenants and investors to buy properties or invest in land.
- **Marketing Bintan as a potential property haven.** Currently, the most popular places for resort and beachfront properties are Phuket, Bali, Pattaya, Koh Samui and Sentosa. We believe that Bintan offers a similar resort-style environment to those islands but at significantly lower prices. While Sentosa and Bintan are both close to Singapore, Sentosa's property prices are much higher given its better infrastructure, entertainment and popularity with locals and foreigners alike. However there are plans to upgrade Bintan's ferry services and also build an airport. We believe that this will make Bintan more popular and accessible.

- **Master plan includes development of Lagoi Beach Village.** For Bintan, GV targets to increase room count to over 5,000 rooms and 1m visitors per annum. To achieve this, GV plans to develop Lagoi Beach Village, a stretch of beachfront land.

### Industrial Parks Business

- **Complements Singapore's position as a business centre.** The Group owns and operates two industrial parks, Batamindo Industrial Park (BIP) and Bintan Industrial Estate (BIE) in Bintan. We believe that both industrial parks are well positioned to complement Singapore given its strategic location and fully integrated facilities. GV offers its tenants and investors a full range of services from shipping to amenities such as medical clinic and club membership.
- **Batamindo Industrial Park consists of 530k sqm of net lettable area.** BIP has tenants including manufacturers, pharmaceutical companies and plastic moulding companies. Under the economic cooperation agreement between Indonesia and Singapore, Batam may enjoy the benefits under the Generalised System of Preferences and Bonded Zone Plus privileges such as suspension of import duties. BIP is accessible via a seaport, an international airport and 5 ferry terminals.
- **Bintan Industrial Estate consists of 106k sqm of net lettable area.** BIE's tenants include garment and electronic/electric goods manufacturers. Unlike Batam, Bintan doesn't have an airport but has several ferry terminals. BIE itself has a seaport and ferry terminal. Bintan also benefits from the economic cooperation between Indonesia and Singapore.
- **Batam and Bintan versus China.** While China is a popular choice given its low cost and vast space, we believe that Batam and Bintan are superior in terms of 1) close economic cooperation with Singapore 2) close proximity to Singapore, which has a reputable legal system and a vibrant business environment and 3) the presence of an integrated master planner (GV) who oversees the management of the industrial parks.
- **Plans to develop new industrial parks in Bintan.** GV has approx. 3,800 ha of industrial land in Bintan, which it plans to develop. SembCorp Parks, a subsidiary of SembCorp Industries (SCI), will market the industrial parks. SCI is both a major shareholder and strategic partner of GV. We believe that the strategic tie-up will allow GV access to an established business network and leverage on SCI's experience as a leading integrated service provider.

### Resorts Operations Business

- **Resort service provider in Bintan.** GV runs 4 resorts in northern Bintan – Nirwana Garden Resort, Laguna Bintan Resort, Bintan Lagoon Resort and Ria Bintan Resort. GV provides services including ferry services ferry terminal operations, security, fire fighting services and other support services. The resort operations business was initially set up to support the resorts developed by the Group. However it has since evolved into one of GV's core business.
- **Key services: ferry operations, travel agency, property rental and service & conservancy.** In general, GV's resort operations business can be classified into 4 services. In 1H05, ferry operations contributed 46% to Group revenue while property rental, travel agency and service & conservancy contributed 24.6%, 21.3% and 5%, respectively. GV operates ferry services from Tanah Merah ferry terminal in Singapore to the Bandar Betan Telani Ferry Terminal, which is owned and operated by GV. The Group also owns 3 catamaran ferries with a total seating capacity of 860 passengers. In addition to ferry services, GV provides hotel and travel reservation services for tourists to Bintan via its subsidiary, BRF travel agency. GV also rents property to the hotel employees. The Group provides support services like coral reef monitoring, security and vector monitoring.

- **Marketing Bintan as Asia's tourist destination.** At the moment, Bintan is not well known outside of Asia. GV hopes to promote Bintan as next Phuket or Bali by marketing it as a resort-style holiday destination.
- **Bintan has the potential to be the next Phuket/Bali.** GV intends to promote Bintan as a twin holiday destination with Singapore, which has announced a 2007 target of 10.2m tourist arrivals. This should have a positive flowthrough effect for Bintan. GV will ramp up marketing campaigns to attract Singapore's tourists to the neighbouring Bintan. Singapore offers vibrant nightlife and shopping while Bintan offers sandy beaches and golf courses. We believe that Bintan has the potential to be next tourist hotspot.
- **GV plans to market aggressively in emerging tourists markets.** Going forward, the Group hopes to penetrate the Indonesia, Malaysia and China tourists markets via travel promotions, new tours and participation in travel fairs.

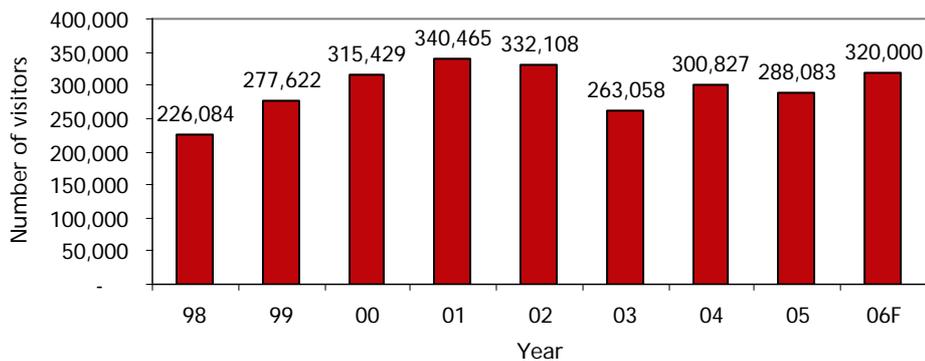
### Utilities Business

- **Complements the other core businesses.** GV supplies power, water, telecommunications and waste management services to BIP, BIE and Bintan Resorts. The Group owns power generation, water treatment, telecommunication and waste management plants, facilities and equipment. We believe that the Utilities business will complement the Group's other businesses like Property Development, Industrial Parks and Resorts Operations.
- **An integrated developer in Batam and Bintan.** Tenants and investors in its industrial parks and Bintan resorts operators are required to purchase utilities from GV. In 1H05, 86% of Group revenue was derived from electricity, 9% from water/waste management and 5% from telecommunications. As an integrated property developer in Bintan and Batam, the utilities business is an essential part of GV's business. Currently GV is the sole supplier of utilities to the industrial parks and resorts, which have agreed to seek the Group's approval should they wish to use a third-party supplier.
- **Benefits from economies of scale.** Currently, the Utilities business derives most of its revenue from the mature BIP at Batam. Going forward, we believe growth will come from Bintan Resorts and BIE, both of which are relatively new.

## Bintan Tourism Industry: Room for growth

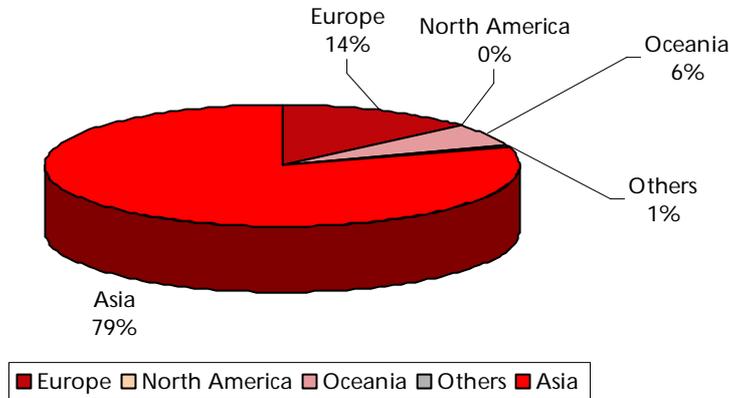
- **We expect Bintan’s tourism industry to pick up in 2007.** Based on statistics released by Bintan Resorts Ferries Pte Ltd and Bandar Bentan Telani Ferry Terminal, the number of visitor arrivals in 2005 dipped 4% yoy to 288,083. However, the number of visitor arrivals in 9M06 was 239,578, up 13% yoy. Hence we estimate the number of visitor arrivals in 2006 to be up 11% yoy to 320,000. Bintan saw the highest number of visitors in 2001. However after the Sept 11 attack and bomb explosions in Bali in 2002, the number of visitors fell substantially. In 2003, the tourism industry was still sluggish due to SARS and the Iraq war. We believe that Bintan’s tourism industry is on a road to recovery.
- **We believe more tourists from Singapore are likely to be dropping by Bintan.** According to statistics, 32.7% of the tourists in 2005 were Singaporean while 14.8% came from Korea, 11.3% from Japan, 5.7% from Indonesia and 3.7% from Malaysia. With Singapore’s tourism industry booming, we believe that tourists are likely to drop by Bintan, as it is only a 1-hour ferry ride away.
- **We expect positive spillover effects from the Integrated Resorts in Singapore.** We believe that GV could benefit from Singapore’s IRs in Marina Bay and Sentosa. We expect Singapore to attract 17.0m visitors annually after the IRs open, compared to the current 8.0m per year. We believe that Bintan will attract some of these visitors, given its close proximity to Singapore. According to property consultant Colliers International, from 1996 to 2004, Bintan captured an average of 3.6% of Singapore’s total visitors. Based on this, we expect Bintan would gain 612,000 visitors per annum, double the 288,083 visitors to Bintan in 2005 after the opening of the IRs in 2009. We believe that GV is in an excellent position to tap on the pool of tourists with its resorts business and impressive landbank.

### Visitor Arrivals To Bintan (2003-2006)



Source: Bintan Resorts Ferries Pte Ltd, Bandar Bentan Telani Ferry Terminal, DBS Vickers

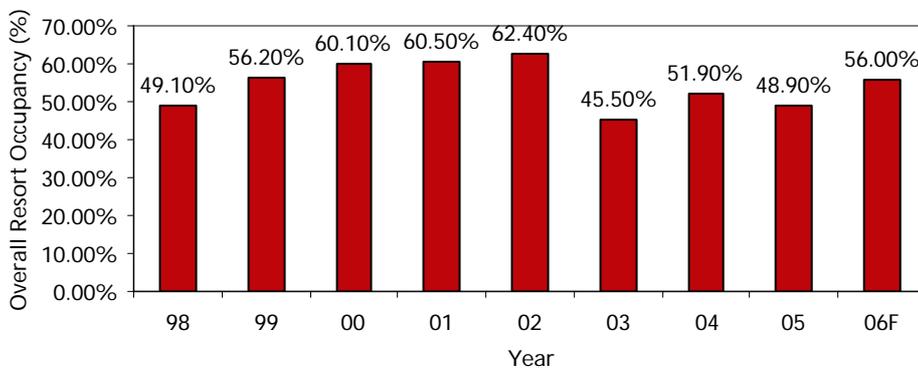
**Jan-Sep 2006 Visitor Arrivals Breakdown By Continents**



Source: Bintan Resorts Ferries Pte Ltd, Bandar Bentan Telani Ferry Terminal, DBS Vickers

- **Bintan’s resorts may see an increase in occupancy rates.** After steadily rising for six years, occupancy rates fell in 2002 and remained below 50% in 2005. We project occupancy rates to increase to approx. 56% in 2006.

**Overall Resort Occupancy (2003-2006)**



Source: Bintan Resorts Ferries Pte Ltd, Bandar Bentan Telani Ferry Terminal, DBS Vickers



Gallant Venture's Residential Land Bank



Source: ILL

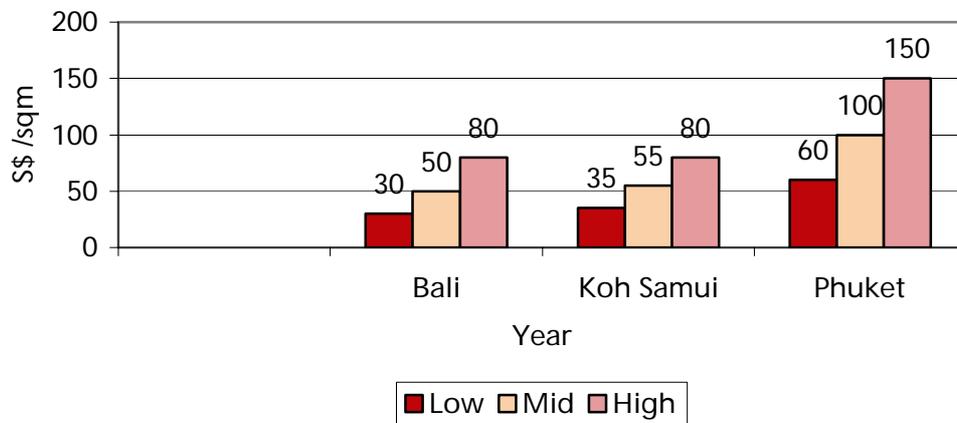
Residential Land Parcels

Locations	Parcel Infrastructure	Number of Parcels	Land area (ha)
Lagoi Bay	Road and basic infrastructure	8	1,505
Landbank 1	Some road and expansion form	19	3,719
Landbank 2	Partial expansion from existing infrastructure	15	3,325
Landbank 3	No infrastructure, minor roads and tracks	24	5,806
		66	14,355

Source: Company, DBS Vickers

- **GV's main project for the next few years will be Lagoi Bay Village (LBV).** Land parcels A5,A6, B1 and B2 will be developed into LBV. The Group will start to develop the 1,505ha LBV, where plots of land will be available for sale to property developers, hotel owners & operators, and individual retail investors. Pasir Panjang, a stretch of beach front parcels located within Landbank 1 can be served by extending the existing roads and utilities services. Whereas the majority of parcels in Landbank 2 and Landbank 3 are greenfield sites with little existing infrastructure.
- **We believe Pasir Panjang will be a premier beachfront development.** The best beaches are on Pasir Panjang Pasir Panjang (land parcels A13/17, B10, B11, A14 and A15), immediately to the east of Bintan Lagoon Resort. We expect the Group to develop this portion of Landbank 1 after the LBV project. The Group's strategy is to set high prices for Lagoi Bay parcels and attract even more visitors to Bintan before making additional beachfront properties available to maximise value for Pasir Panjang.
- **We believe that Bintan has the potential to be the next Bali or Phuket.** The chart below shows our estimates of beachfront property prices in Bintan, Bali, Koh Samui and Phuket. Bintan land prices are substantially cheaper than the already popular 3 islands. Given Bintan lush greenery and unspoilt beaches, we believe that there is room for the property industry. Apart from attracting holidaymakers to the island, we believe that there will be demand for residential properties and industrial parks coming from foreigners.

**Residential Land Parcels**



Source: DBS Vickers

S\$/sqm	Low	Mid	High
Bali	30	50	80
Koh Samui	35	55	80
Phuket	60	100	150

## Management and Strategy

### Key Management Team

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Manager (Date joined)	Current Appointment	Previous Experience
Eugene Park (1 Feb 2006)	Chief Executive Officer – responsible for overall management of the Group	Founder of Parallax Capital Management Group. Has >15 years experience in investment banking with CSFB in London, Chase Manhattan in Hongkong and Banque Paribas in Singapore. Graduated from Princeton University with a degree in Chemistry and has a MBA from Insead.
Choo Kok Kiong (1 Jan 05)	Chief Financial Officer- oversees the Corporate Services Division	Held various management positions in the SCI Group. Was Vice President of the finance division of SembPark and SembCorp Parks Holdings Ltd from 2003-2004. Obtained a diploma in accountancy from Ngee Ann Polytechnic and a MBA jointly awarded by the University of Wales and University of Manchester.

*Source: Company, DBS Vickers*

**Successful execution of Lagoi Bay Development key to GV's story.** Management is focused on the execution of the launch of its Lagoi Bay Development to help drive GV's story. The successful development of Lagoi Bay would help attract more tourists and developers to Bintan and in turn, drive up the value of GV's other land parcels in Bintan. Plans for Lagoi Bay include several renowned hotels, retail shops and restaurants, high-end residential developments and even a marina to attract more visitors to Bintan.

**Investment in infrastructure also important.** In addition to investments on basic infrastructure like roads, power and water access, GV also has plans to improve Bintan's accessibility to visitors. Two key plans include an upgrade of its ferry fleet to lower traveling time from 45-60 min to 30-35min; and perhaps more importantly, an airport located in the Group's industrial land bank, 25-30min south of Lagoi Bay. The airport, should help to attract regional visitors from within a 3-hour flight radius of Bintan.

**Bintan's development is positive for the Utilities and Resort Operations business in the long run.** With more residential, retail and commercial, and resort developments on Bintan, it would help to boost GV's Utilities and Resort operations business, providing the Group with a stable earnings stream in the long-term once sales of land slows down or is completed.

## Competitive Strengths

**Positive spillover effects from Singapore's development as a tourist destination as Bintan is a ferry ride away.** We believe that Bintan will attract some of the tourists who visit Singapore, given its close proximity to Singapore. According to property consultant Colliers International, from 1996 to 2004, Bintan captured an average of 3.6% of Singapore's total visitors. We believe that Singapore's tourism industry will do well due to the Integrated Resorts and this will have positive spillover effects on Bintan.

**Singapore and Indonesian government cooperates in developing Riau Islands.** The two governments have signed an agreement to develop the tourism industry, property industry and industrial parks in Riau Islands, where Bintan and Batam are located.

**Integrated master planner.** GV is not just a developer – it is the integrated master planner for Bintan Resorts, meaning GV has some control over the general look and feel of the development. The Group is responsible for development of infrastructure, utilities, marketing and support services like ferry access between Singapore and Bintan.

**It is easy to get to Riau Islands.** Several daily ferries run between Tanah Merah Ferry Terminal in Singapore and Bandar Bentan Telani in Bintan. It takes around 45min-1hour to get to Bintan. Some people choose to go to Tanjung Pinang through the island of Batam via Telaga Punggur port. Going to Batam is equally convenient. Ferries run daily between Harbour Front Ferry Terminal in Singapore and Batam. Batam is around 1 hour's ferry ride away from Singapore.

**Bintan has the potential to be a tourist hot spot.** We believe that Bintan's location near Singapore will encourage tourists to visit the island. We believe that the island's scenic beauty, unspoiled beaches and golf courses will attract tourists. In addition, we believe that the presence of Banyan Tree and Club Med serve to enhance the island's reputation as a holiday spot.

**GV has 18,200 ha landbank in Bintan.** The Group has a huge landbank of 14,400 ha of residential land in North Bintan and 3,800 ha of industrial land in West Bintan. We like that GV as a master planner, is able to provide a full range of services to tenants and investors.

## Risk Factors

**The huge landbank will take many years to sell off and represents huge execution risk.** GV is the master planner, investing in infrastructure on land, all of which requires heavy capital expenditure.

**Country Risk.** With substantial operations in Indonesia, the prospects of the Group are subject to the country risks associated with being present in Indonesia. These include political, as well as other relevant business and legal risks.

**Little is known about Bintan.** Given its relatively small size and lack of international airport, Bintan is not well known outside of Asia.

**Major terrorist attack could significantly impact global tourism, thus, arrivals to Bintan.** Bali experienced a few terrorist attacks in the past. GV's earnings will be adversely affected should there be a terrorist attack in Bintan or anywhere else in the world.

**Natural disasters are also another risk.** Over the past few years, Indonesia has been hit by tsunamis. We believe that natural disasters anywhere in Indonesia may negatively affect investment sentiment and deter tourists from visiting islands.

## Segmental Forecasts

### Segmental Revenue and Operating Profit Forecasts

FYE Dec (\$m)	2004	2005	2006	2007F	2008F
<b>Sales</b>					
Industrial Park	63.9	67.3	61.2	64.3	67.5
Property Developer	0.0	0.0	19.9	202.2	221.7
Resort Operations	19.2	19.7	23.3	23.3	23.3
Utilities	119.3	140.4	154.5	170.0	187.0
<b>Total Revenue</b>	<b>202.3</b>	<b>227.4</b>	<b>259.0</b>	<b>459.8</b>	<b>499.5</b>
<b>Operating Profit</b>					
Industrial Park	16.32	13.34	13.88	12.9	13.5
Property Developer	(4.74)	(4.06)	12.69	175.1	195.5
Resort Operations	(1.11)	0.64	(6.67)	-4.7	-4.7
Utilities	21.19	18.79	24.48	25.5	28.0
Corporate					
<b>Total</b>	<b>31.7</b>	<b>28.7</b>	<b>44.4</b>	<b>208.8</b>	<b>232.4</b>
<b>Revenue Growth</b>					
Industrial Park		5.4%	-9.1%	5.0%	5.0%
Property Developer		na	na	915.6%	9.6%
Resort Operations		2.6%	18.2%	0.0%	0.0%
Utilities		17.7%	10.1%	10.0%	10.0%
<b>Average</b>		<b>12.4%</b>	<b>13.9%</b>	<b>77.6%</b>	<b>8.6%</b>
<b>Operating Margin</b>					
Industrial Park	25.5%	19.8%	22.7%	20.0%	20.0%
Property Developer	na	na	63.7%	86.6%	88.2%
Resort Operations	-5.8%	3.2%	-28.7%	-20.0%	-20.0%
Utilities	17.8%	13.4%	15.8%	15.0%	15.0%
<b>Average</b>	<b>15.6%</b>	<b>12.6%</b>	<b>17.1%</b>	<b>45.4%</b>	<b>46.5%</b>

Source: DBS Vickers Estimates

**Steady operations for Industrial Parks and Utilities.** We are projecting modest but steady growth for the Group's Industrial Parks and Utilities business, with 5%-10% revenue growth per annum. If Gallant Venture can successfully attract more businesses or resorts to Bintan, then there should be more upside for these segments. In particular, the Utilities segment would benefit from increased activities in both the industrial and tourism sectors on Bintan.

**Higher land sales the main revenue and earnings driver.** The Group made its first land sales in 2006, by moving a couple of parcels of land in landbank 1. The total sale was for 340 hectares with a sale price of S\$34m, two-thirds of it which was recognised in 2006, and the remainder to be booked in 2007. With the launch of Lagoi Bay aimed at sometime in March, we are projecting that the entire area is sold over the next 4 years (Management target is 3 years), garnering sales of over S\$200m for the Property Developer segment.

**Land Sales Forecasts**

FYE Dec (\$m)	2006	2007F	2008F
<b>Property Sales (m2)</b>			
<b>Landbank 1</b>	1,991,000	1409000	
Price / m2	10.0	10	
Sales (\$m)	19.9	14.1	
Cost (\$m)	2.0	4.2	
Gross Profit	17.9	9.9	
<b>Lagoi Bay</b>		3,762,500	3,762,500
Price / m2		50.0	52.5
Sales (\$m)		188.1	197.5
Cost (\$m)		32.5	32.5
Gross Profit		155.63	165.03
Less Costs		9.58	9.39
Operating Profit		165.20	174.42
<b>Industrial</b>		-	967,000
Price / m2		25	25
Sales (\$m)		-	24.2
Cost (\$m)		-	2.70
Gross Profit		-	21.48
Less Costs		-	0.43
Operating Profit		-	21.05

Source: DBS Vickers Estimates

**Lagoi Bay Development the main land sales driver over the next few years.** Gallant Venture is planning to launch its Lagoi Bay Development in March/April and hopes to attract major hotels and other resort/residential developers to buy up its land in this area. We are forecasting that 25% of Lagoi Bay is sold per annum from 2007 to 2010. We have also assumed an average selling price of S\$50 per sqm in 2007, with a 5% price increase per year.

**Sale of industrial land driven by Bintan's status as Special Economic Zone.** Although the Riau Islands have been granted Special Economic Zone status, details of the exact terms and benefits have not yet been officially released. If proven to be very investor friendly, Bintan's status as a Special Economic Zone would help drive sales of the Group's industrial land bank. Currently, we have assumed modest sales of some of the industrial land bank in 2008.

## Profit & Loss

Substantial change in earnings profile from FY07 onwards. With the launch of Lagoi Bay in 1H07 and significant land sales expected to commence from 2007, we expect both top and bottom line to show substantial improvement. Given that its land bank has very low book values, Gallant Venture's land sales are projected to garner very high margins. This should help lift earnings to over S\$100m in 2007.

### Profit & Loss Statement

FY Dec (\$m)	04	05	06	07F	08F
Sales	202.0	227.1	259.0	459.8	499.5
Cost of Goods Sold	(142.4)	(169.6)	(176.8)	(204.6)	(216.1)
Gross Profit	59.6	57.4	82.2	255.2	283.4
Other Operating Income	9.4	5.8	0.4	0.4	0.5
Other Operating Expenses	(42.8)	(38.6)	(42.6)	(46.8)	(51.5)
<b>EBIT</b>	<b>26.2</b>	<b>24.6</b>	<b>40.0</b>	<b>208.8</b>	<b>232.4</b>
Non-Operating Income	3.3	0.5	0.8	0.0	0.0
Interest Income	2.0	3.3	5.3	2.0	4.7
Interest Expense	(8.8)	(6.5)	(7.3)	(7.1)	(7.1)
Share of Associates' or JV Income	0.2	0.3	(0.4)	(0.4)	(0.4)
Exceptional Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>22.8</b>	<b>22.2</b>	<b>38.4</b>	<b>203.2</b>	<b>229.5</b>
Tax	(11.7)	(16.9)	(17.1)	(50.8)	(68.8)
Minority Interests	1.6	0.9	(0.2)	0.0	0.0
<b>Net Profit</b>	<b>12.7</b>	<b>6.1</b>	<b>21.1</b>	<b>152.4</b>	<b>160.6</b>
<b>Growth Rates (%)</b>					
Sales		12	14	78	9
COGS		19	4	16	6
SGA Expenses		(10)	10	10	10
EBIT		(6)	62	422	11
Pretax Pft		(3)	73	429	13
Net Profit		(52)	246	621	5
<b>Margins (%)</b>					
Gross Margin	29.5	25.3	31.7	55.5	56.7
SGA % Sales	21.2	17.0	16.4	10.2	10.3
EBITDA Margin	38.3	32.6	36.3	58.0	59.8
EBIT Margin	13.0	10.8	15.4	45.4	46.5
Pre-tax Margin	11.3	9.8	14.8	44.2	45.9
Net Margin	6.3	2.7	8.2	33.2	32.2
Depr % of sales	25.4	21.8	20.9	12.6	13.3
Effective Tax Rate %	51	76	44	25	30

Source: Company, DBS Vickers

## Balance Sheet

Balance sheet to improve as land sales commences. We expect the Group's cash position to gradually improve as takings from land sales come in. As it is, the current gearing position of the Group is a healthy 6%.

### Balance Sheet Statement

FY Dec (\$m)	04	05	06	07F	08F
Cash	92.9	83.6	67.8	156.3	330.2
ST Invt	0.0	0.0	0.0	0.0	0.0
Trade Receivables	34.2	60.3	71.9	126.0	136.8
Inventories	8.1	15.3	12.7	18.9	16.4
Land Inventory	541.4	541.4	551.0	518.5	483.3
Other Current Assets	14.8	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>691.3</b>	<b>700.6</b>	<b>703.5</b>	<b>819.7</b>	<b>966.8</b>
Net Fixed Assets	370.8	367.6	388.6	523.2	581.8
Intangibles	0.0	0.1	0.1	0.1	0.1
Invmt in Associates & JVs	1.0	1.0	1.2	0.7	0.3
LT Invmt	0.0	0.0	0.0	0.0	0.0
Other LT Assets	71.8	74.1	70.9	70.9	70.9
Investment Properties & Land under development	367.5	353.3	336.9	315.5	295.3
Non Current Assets	811.1	796.0	797.7	910.3	948.4
<b>Total Assets</b>	<b>1,502.4</b>	<b>1,496.6</b>	<b>1,501.19</b>	<b>1,730.0</b>	<b>1,915.2</b>
Trade Payables	20.9	67.7	48.4	75.6	82.1
OD & ST Debt	37.6	50.0	32.5	32.5	32.5
Tax Provision	1.4	2.5	1.6	50.8	68.8
Other ST Liabilities	46.8	0.0	0.0	0.0	0.0
<b>Current Liabilities</b>	<b>106.7</b>	<b>120.3</b>	<b>82.5</b>	<b>158.9</b>	<b>183.5</b>
LT Debt	130.0	105.2	110.1	110.1	110.1
Other LT Liabilities	43.3	43.8	45.3	45.3	45.3
Non Current Liabilities	173.3	149.0	155.3	155.3	155.3
<b>Total Liabilities</b>	<b>279.9</b>	<b>269.2</b>	<b>237.9</b>	<b>314.2</b>	<b>338.8</b>
<b>Total Equity</b>	<b>1,189.8</b>	<b>1,195.0</b>	<b>1,230.4</b>	<b>1,382.9</b>	<b>1,543.5</b>
Minority Interest	32.7	32.4	32.9	32.9	32.9
Total Shareholders' Equity	1,222.5	1,227.4	1,263.3	1,415.8	1,576.4
<b>Total Liabilities and Equity</b>	<b>1,502.4</b>	<b>1,496.6</b>	<b>1,501.2</b>	<b>1,730.0</b>	<b>1,915.2</b>

Source: Company, DBS Vickers

## Cash Flow

**Capex on new power plant, ferries and infrastructure.** GV is expected to spend S\$150m on a new power plant, S\$66m on new fast ferries and a further S\$30m on various infrastructure for Lagoi Bay over the next 2 years.

**Land sales to help fund capex.** With substantial land sales expected to commence in FY07, it will help to fund the Group's capital expenditure plans, as above.

### Cash Flow Statement

FY Dec (\$m)	04	05	06	07F	08F
Pre-tax Profit	22.8	22.2	38.4	203.2	229.5
Tax Paid	(7.3)	(16.1)	(11.3)	(1.6)	(50.8)
Depreciation & Amortization	51.2	49.3	54.0	57.9	66.5
Associates & JVs Inc	(0.2)	(0.3)	0.4	0.4	0.4
Other Non-Cash Adjustments	1.4	(1.3)	(24.5)	0.0	0.0
Changes in Non-Cash Work Cap	0.1	(19.0)	(40.3)	(0.5)	33.3
<b>Cash From Operations</b>	<b>68.1</b>	<b>34.7</b>	<b>16.8</b>	<b>259.5</b>	<b>278.9</b>
Net Change in Capex	(7.4)	(31.1)	(23.0)	(171.0)	(105.0)
Net Change In Investments	0.0	0.0	(192.2)	0.0	0.0
Net Change in Invmts in Assoc & JVs	0.0	0.0	0.0	0.0	0.0
Dividends rec'vd from Associates & JVs	0.3	0.3	0.1	0.0	0.0
Other Investing Activities	0.0	(0.4)	(0.5)	0.0	0.0
<b>Cash from Investing Activities</b>	<b>(7.1)</b>	<b>(31.3)</b>	<b>(215.6)</b>	<b>(171.0)</b>	<b>(105.0)</b>
Dividends Paid	(15.0)	0.0	0.0	0.0	0.0
Net Change in Gross Debt	(41.0)	(12.3)	(7.3)	0.0	0.0
Capital Issues	0.0	0.0	243.9	0.0	0.0
- Par	0.0	0.0	0.0	0.0	0.0
- Share Premium	0.0	0.0	0.0	0.0	0.0
Other Financing Activities	0.9	(0.4)	28.9	0.0	0.0
<b>Cash from Financing Activities</b>	<b>(55.1)</b>	<b>(12.7)</b>	<b>265.5</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Changes in Cash</b>	<b>5.9</b>	<b>(9.3)</b>	<b>66.7</b>	<b>88.5</b>	<b>173.9</b>

Source: Company, DBS Vickers

## Valuations

### Book Value of GV's Land Bank on Bintan Island

Land Parcel	Size (Ha)	Book Value	
		Value (S\$m)	Price /m2 (S\$)
Lagoi Village	1505	130	8.64
Landbank 1	3719	195	5.24
Landbank 2	3325	65	1.95
Landbank 3	5806	45	0.78
Industrial Land	3868	108	2.79
<b>Total</b>	<b>18223</b>	<b>543</b>	<b>2.98</b>

Source: Company

The above table shows the book value of various plots of land bank that GV holds on Bintan. Management targets to sell its land at between 5x-20x of its book value over the next 10-15 years.

### Break-up Book Value of Gallant Venture – As at end FY05

Book Value	Value (S\$m)	Value per m2 (S\$)
Utilities	414	
Industrial Parks	461	
Resorts	81	
Land Bank	543	2.98
<b>Book value</b>	<b>1499</b>	
Debt & Other Liabilities	301	
<b>Shareholders Equity</b>	<b>1198</b>	

**Book Value per share**      \$      **0.50**

Source: Company

GV's break-up book value is shown in the above table. The Group has invested significantly into their Utilities and Industrial Parks business, but the key thing to note is their land bank, which is carried at an expensive S\$3 per sq m, or 26cts per sq f.

**RNAV Valuation for Gallant Venture**

RNAV		RNAV Value per m2 (\$)	FY06 P/Book	FY07 EBITDA	EBITDA (x)
Utilities	420		1.0	43.3	9.7
Industrial Parks	465		1.0	43.5	10.7
Resorts	76		1.0	4.6	16.7
Land Bank	3247.1	17.8	6.0		
<b>Sub-Total</b>	<b>4208.1</b>				
Net Cash (debt)	(74.8)				
<b>RNAV</b>	<b>4133.3</b>				

Value per share \$ 1.71

Source: DBS Vickers Estimates

**Fair value of S\$1.71 for Gallant Venture.** Based on our RNAV methodology, we arrive at a fair value of S\$1.71 for GALV. This is based on 1x book value for its Utilities and Industrial Parks businesses, translating to 10x-11x EBITDA multiples for these highly cash flow generative segments, which we believe is fair. We are also valuing the Resorts Operations segment at 1x book, which is currently loss making but should turn around as Bintan develops. Most importantly, we are valuing the Group's huge land bank of over 18,000 hectares at S\$3.25bn, or c. 6.2x book value. This is based on our estimates of the current value of the Group's various land parcels. (Please see table below for our assumptions.)

**RNAV Valuation for Gallant Venture's Various Land Parcels**

Land Parcel	Size (Ha)	Book Value		RNAV	
		Value (\$m)	Price /m2 (\$)	RNAV*	Price /m2 (\$)
Lagoi Village	1505	130	8.64	526.8	50.0
Landbank 1	3719	195	5.24	1171.5	45.0
Landbank 2	3325	65	1.95	465.5	20.0
Landbank 3	5806	45	0.78	406.4	10.0
Industrial Land	3868	108	2.79	676.9	25.0
<b>Total</b>	<b>18223</b>	<b>543</b>	<b>2.98</b>	<b>3247.1</b>	<b>17.8</b>

\*less tax of 30%

Source: DBS Vickers Estimates

**RNAV Sensitivity to Average Selling Price of Land Bank**

RNAV per m2 (S\$)	RNAV/Shr (S\$)	Comments
11.5	1.30	Based on premium on sale of AR1
13.7	1.40	Current Share Price
17.8	1.71	DBSV Fair Value
23.0	2.11	
29.2	2.57	Low end of mgmt target
44.3	3.72	High end of mgmt target

Source: DBS Vickers

Assuming a 30% tax on land sales, the above table illustrates GV's RNAV sensitivity to the average selling price of its land bank. The higher end of the RNAV estimates are based on management's target average selling prices going into the future. We have not yet taken into account the additional revenues and earnings that would accrue to the Group's Utilities and Resort Operations business from the future development of Bintan.

**Target Selling Prices for Different Types of Land**

Land Type	Area (Hectares)	Mgmt Target (S\$ per m2)	Value range (S\$m)	
Beachfront	1000	100-150	1000	1500
Mid-Tier	6000	60-80	3600	4800
Others	7400	20-40	1480	2960
Industrial Land	3800	40-60	1520	2280
Gross Value			7600	11540
Less Tax (30%)			5320	8078

The above table illustrates the value sensitivity on Gallant Venture's entire land bank, based on management's target average selling prices for the different types of land. We believe these target prices are possible if Bintan can be successfully developed into a leading island resort, based on prevailing land prices that are observed for Phuket, Bali and Koh Samui.

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