16 August 2006

Initiate Coverage

Gallant Venture

Islands Of Opportunity

BUY | **Current Price : S$0.625** | **Target (12-mth): S$0.88**

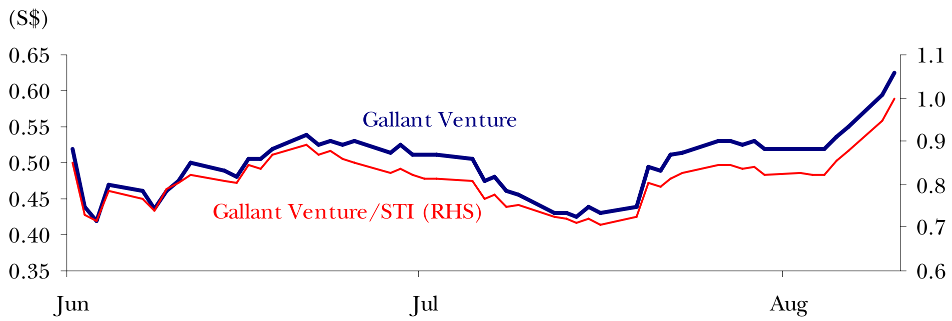
Gallant Venture (Gallant) is the biggest industrial park operator and utilities provider in Indonesia's Batam and Bintan islands. The company is managed by its two reputable major shareholders, the Salim Group and SembCorp Industries, which should provide the synergy for the timely development of the islands.

Significant earnings potential from Bintan landbank. The company focuses on developing the 1,504.6ha Lagoi Bay, North Bintan, that will provide potential earnings of S$412m. Additional revenues from the sale of the remaining 16,700ha landbank in North and West Bintan could post potential sales of S$1.8b.

Plenty of growth drivers. These will come from: a) the recent agreement between Singapore and Indonesia governments to form a special economic zone in Batam, Bintan and Karimun, b) increasing foreign direct investment in Indonesia in the next five years, c) the recovery in visitor arrivals in Indonesia, d) uptrend in Singapore electronics exports, and e) increased business opportunities with the opening of the integrated resorts in Singapore.

Sound balance sheet with low gearing. With debt of only S$137.6m, balance sheet is relatively sound with low net gearing of just 3.3%. With higher sales generated from future landbank sales and stronger cash flow from operations, the company has a sound foundation and in a good financial position for stronger growth.

BUY with a 40.8% price upside. Despite trading at a high 2007F PE of 19.2x, Gallant's sizeable landbank puts the stock at 2007 P/B of only 1.2x, compared to its regional peers' 3.0x. This stock provides exciting earnings growth potential, but without the high foreign exchange, management or credit risks often associated with Indonesia investment exposures. We initiate coverage with a BUY and based on our NAV estimates, our 12-month target price is S$0.88, or a price upside of 40.8%.



Sector	Conglomerate
Bloomberg	GALV SP
Website	www.gallantventure.com
Exchange Rate	S$1.5782/US$
52-Wk Range (S$)	0.635/0.30
52-Wk Avg Daily Vol. ('000)	11,123
No. of Shares (m)	2,410.4
Market Cap (S$m)	1,506.5
(US$m)	954.6
Major Shareholders (%)	
SembPark Hldgs	26.84
PVP XXX	26.02
PT HR	21.03
Book NTA per Share (S$)	0.50
ROE (%)	0.5
Net Debt per Share (S$)	0.02
Alternate Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - STI (x)	
2005	12.2
2006F	14.2

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Year to 31 Dec	Turnover (S$m)	EBITDA (S$m)	Net Profit (S$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)
2004	202.0	67.9	12.7	0.53	65.6	117.9	23.2	0.6
2005	227.1	68.2	6.1	0.25	(52.8)	250.0	23.2	0.0
2006F	311.5	99.8	23.2	0.96	284.5	65.0	15.8	0.6
2007F	506.0	205.6	78.4	3.25	238.6	19.2	7.7	0.6
2008F	578.7	246.4	95.4	3.96	21.6	15.8	6.4	0.6

Consensus net profit – n.a.

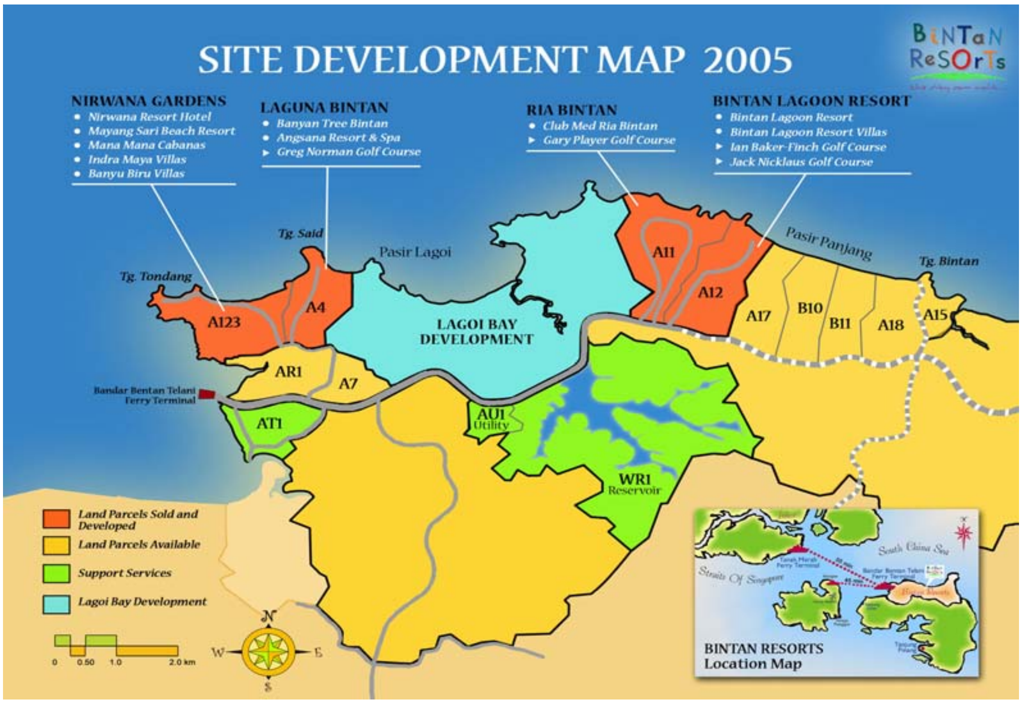
Contents

Investment Highlights

LAND SALES

The catalyst for medium-term growth: land sales in Lagoi Bay, Bintan. Gallant currently owns 14,400ha land in North Bintan and 3,800ha land in West Bintan. It is now focusing on marketing the 1,504.6ha Lagoi Beach Village (LBV) project situated on a strategic area in North Bintan. The company is looking for potential investors to complement the existing resorts with new amenities to encourage visitors to extend their stay in Bintan resorts. We believe this project would push Gallant's medium-term sales growth. Assuming an average selling price of the landbank at S$42.1psm and an average acquisition cost of S$3.0psm, Gallant could book a net profit of S$412.3m (EPS of S$0.2) just from the land sales of LBV projects. Besides LBV, Gallant plans to develop a potential 200ha beach in Pasir Panjang (located in North Bintan area) in the near future. As such, we estimate the company's huge landbank would last the company for the next 10 to 15 years.

Figure 1: Lagoi Bay Development



Source: Gallant Venture

Figure 2: Future Lagoi Bay Income

Type of Development	Projected Average Land Prices (S$psm)
3-star mid class hotels/cottages/condotels	34
4 to 5-star hotels/cottages/boutique hotels	65
Upper class residential housing and villas	77.5
Upper middle residential housing and villas	27.5
Commercial/sports/recreation/leisure facilities	6.5
Average selling price of the land (psm)	42.1
Book value of land inventories (S$m)	541.423
Total land bank available (sqm)	182,000,000
Estimated acquisition price (psm)	3.0
Total land bank in Lagoi Bay (sqm)	15,046,000
Potential revenues in Lagoi Bay (S$m)	633.4
Potential gross profit from land sales in Lagoi Bay (S$m)	588.7
Assuming tax rate at 30%	176.6
Potential net profit (S$m)	412.1
Potential EPS from land sales in Lagoi Bay (S$)	0.17

Source: Colliers International, UOB Kay Hian

Total sales from land inventory could possibly be bigger than Gallant's market capitalisation. With current landbank of 18,200ha and book value of undeveloped land at S$541.4m, Gallant is banking on its low book value of the land inventory of just S$3psm. Assuming average land selling price of S$10psm (which is more conservative than Colliers estimate of an average of S$42.1psm land value in Lagoi Bay), the company is expected to book total sales of S$1.8b, much higher than the company's current market capitalisation of S$1.2b. In addition to the potential landbank sales, the company has recurring businesses (industrial park, utilities and resort operations) with a book value of S$366.3m.

Cultivating on more recurring income from landbank sales in Bintan. One of Gallant's strength is its recurring income from utilities and resort operations. Based on 2005 financial data, we estimate income from the utilities division at S$10.9psm. If recent negotiations to sell 320ha of land in Bintan are successful, the company could potentially book additional recurring income of S$17.5m annually in the future. With a sizeable landbank of 18,200ha and assuming 60% of the landbank can be sold (after setting aside land for infrastructure and social amenities), potential income from the utilities division is estimated at S$1.0b annually! Recurring income growth is correlated to the amount of landbank sold. Besides, Gallant could also capitalise on more visitors to Bintan Resort, which ultimately could boost revenue for the resort operation.

Figure 3: Estimate Future Utilities Sales

Description	Size (sqm)	Value
Income from Utilities in 2005 (S$)		140,377,000
Total net lettable area in BIP	530,000	
Total net lettable area in BIE	106,000	
Total area in Nirwana Garden Resort	3,000,000	
Total area in Laguna Bintan Resort	2,200,000	
Total area in Bintan Lagoon Resort	3,000,000	
Total area in Ria Bintan Resort	4,000,000	
Total area served by utilities division (sqm)		12,836,000
Average income from utilities (S$/psm)		10.9

Source: Gallant Venture, UOB Kay Hian

SPECIAL ECONOMIC ZONE

Improving political and economic environments in Indonesia. Indonesia has had some turbulent years since the financial crisis in 1997. After the general elections in 2004, the political climate has since been peaceful. The economy has steadily expanded with GDP growth of 5.1% in 2004 and 5.6% in 2005. Inflation is on a downward trend after peaking at end-05 as a result of oil price hikes. The rupiah is strengthening against major currencies on the back of stronger national reserves and improving political stability. All these conditions would definitely lift investors' confidence and attract more visitors to Indonesia.

Batam, Bintan and Karimun (BBK)- the new hinterland for Singapore. The strong outlook for Gallant is underpinned by Singapore's endeavour to broaden its free trade zone (FTZ) in BBK. There are five main reasons why Singapore would like to develop a FTZ in BBK:

a) Singapore has limited land space to expand its industries. Therefore, Batam and Bintan (as part of Riau province) would be a good place for Singapore to expand its industrial activities because of their close proximity to Singapore.

b) As a city-state economy with limited natural resources, Singapore needs to establish as many Free Trade Agreements (FTAs) with other countries to maintain its economic growth. The SEZ joint development in Batam and Bintan would definitely support higher level of FTA with Indonesia.

c) Singapore regards Batam and Bintan as its hinterland to support some 10,000 multinational companies headquartered in the country. Batam exports 60-70% of its products to Singapore and 70-80% of total foreign investments in Batam originate from Singapore.

d) Singapore can benefit from cheap labour costs without losing product quality because production control could still be done in Singapore.

e) The development in Batam and Bintan would be part of Singapore's strategic plan to maintain stability in the region. If the countries around Singapore prosper, this would support strong political stability in the Malacca Straits.

Figure 4: Singapore, Batam And Bintan

Source: Gallant Venture

As such, we believe BBK would be Singapore's next biggest FTZs after the success of FTZs in China and India. In China, Singapore managed to transform 70 sq km of quiet area in Suzhou into a sophisticated industrial park with an annual exports value of US$20b. Batam and Bintan, with annual exports value of just US$4.9b, would definitely have room for development.

Benefiting from the SEZ cooperation between Singapore and Indonesia. In May 06, Indonesia and Singapore signed a cooperation agreement to turn Batam, Bintan and Karimun islands into SEZs. We view the cooperation would benefit the two economies in the long run. After establishing similar Free Trade Zones (FTZ) with China and India, Singapore wants to expand its economic activities in BBK in anticipation of growing competition in the region. Indonesia, on the other side, would need new investments and infrastructure developments and Singapore's networking and marketing skills to develop the islands. We believe Gallant would benefit the most from the cooperation between the two countries as it could generate more land sales as well as providing utilities and other support services in the future.

Capitalising on the government's Investment Incentive Package in BBK. Gallant will also benefit from the government's effort to attract more investments to Indonesia by creating better facilities and infrastructure in BBK. According to Gallant, the government is planning to build a 400ha airport on the company's landbank in Bintan. The government has initiated several investment incentive policies as well as special laws and regulations that could create an investment-friendly SEZ. We believe such measures would drive a faster development in BBK, which would help to propel Gallant's growth.

Figure 5: Several Incentives in SEZ

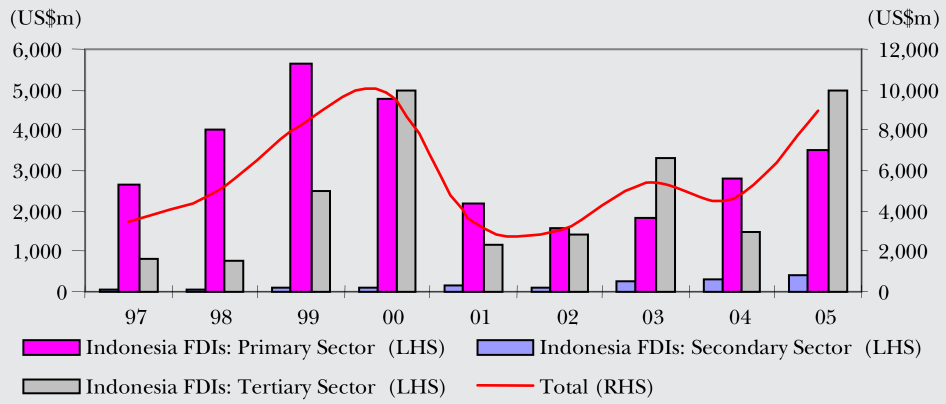
Facilities to be Provided	Infrastructure to be Prepared
Free import tariff and luxury good tax (PPn- BM)	State-of-the-art seaports equipped with crane
Raw material storage	Expanding harbor piers
Simplified custom process with "National Single Window" concept	Building roads to reach all areas in the island
Licensing Process under one roof system which takes a maximum two weeks	Sufficient electricity power
Free from illegal collection	Adequate water
Factory land	Rejuvenate airports
Processing area	

Source: Bisnis Indonesia

FOREIGN DIRECT INVESTMENTS

Tapping potential foreign direct investments (FDI) in BBK of US$15b in the next five years. Although FDIs have not recovered since it peaked at US$9.9b in 2000, total FDIs in Indonesia are on an upward trend over the last five years. In 2005, total FDI reached US$8.9b, the highest since 2001. As of 1H06, foreign investments climbed 4.8% yoy to Rp34.1trillion (US$3.8b) from Rp32.5trillion (US$3.6b) in 1H05. The total number of FDI projects in 1H06 has risen to 487 from 424 in 1H05. With the SEZ, we believe Batam and Bintan would benefit the most because of its close proximity to Singapore. Batam has so far managed to attract about 800 foreign companies with total investments of US$7.5b. In the long run, we think Bintan would complement Batam to become one of the best investment destinations in Indonesia.

Figure 6: FDIs in Indonesia



Source: CEIC

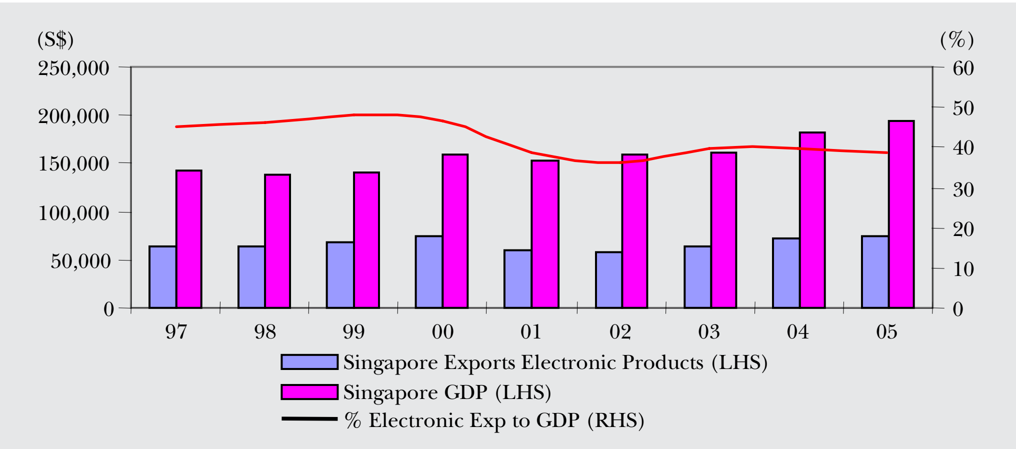
As Indonesia is highly dependent on FDIs to boost economic growth, the government will work hard to attract more foreign investors to BBK to stimulate economic growth which is expected to grow 5.9% in 2006 according to the 2006 state budget.

Hundreds of foreign investors have committed to invest in BBK. Total investments are estimated at US$15b spread over the next five years. Several big investors have showed their interest to invest in the SEZ. These include Daeju Corporation, a Korean shipyard company, planning to invest US$8b, Motorola is carrying out a feasibility study, Lohmun Lether Products Pte Ltd from Singapore to develop 15ha of residential property, and Flexi Components Singapore to build a factory in BBK.

SINGAPORE ELECTRONIC EXPORTS

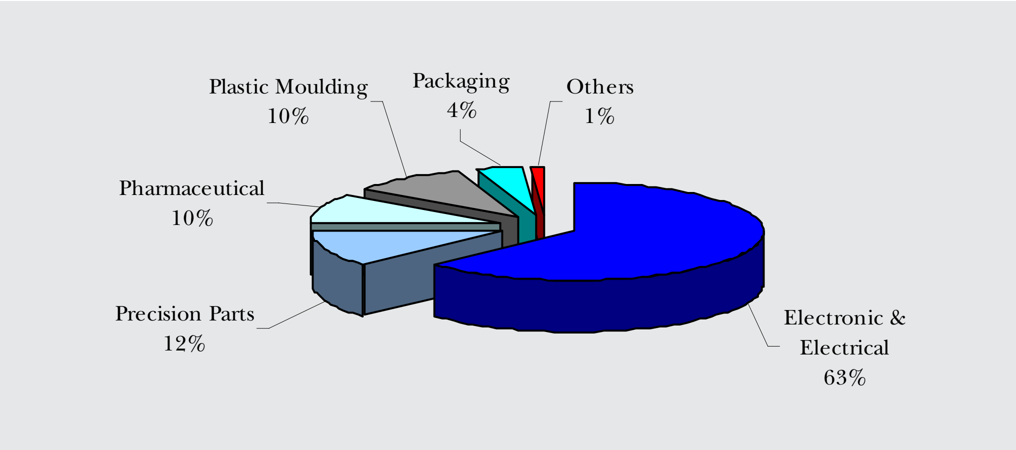
Singapore's growing electronic exports would enhance industrial parks and utilities businesses. Gallant's industrial parks business is closely related to Singapore electronic exports. According to Gallant, some 50-60% of the tenants in BIP and BIE industrial parks produce electronic components and electrical products to be shipped into Singapore for final assembly before exporting to other countries. As such, an upbeat sentiment in Singapore electronic output would post a strong outlook for BIP and BIE too. The prospects of BIP and BIE remain bright on two main factors: a) electronic exports account for about 40% of Singapore's GDP and is one of the strongest drivers for Singapore's economic growth, and b) Singapore electronic exports have risen over the years with a CAGR of 2.1% (1997-2005) to US$75.3b. As such, we believe the growth in Singapore electronic exports would also boost Gallant's growth, as current electronics and electrical sector contribute about 60% of Gallant's income in industrial park and utilities divisions.

Figure 7: Singapore Electronics Exports



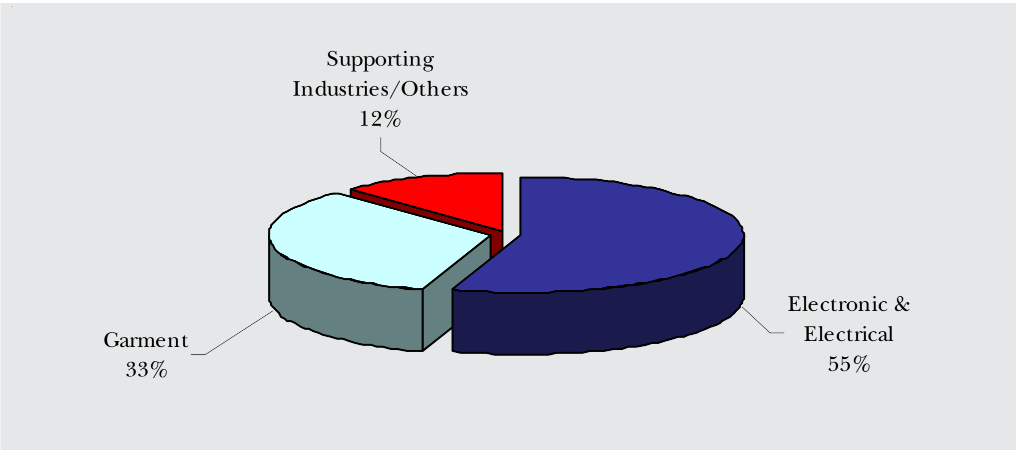
Source: CEIC

Figure 8: Sector Contribution To BIP Revenue (1H05)



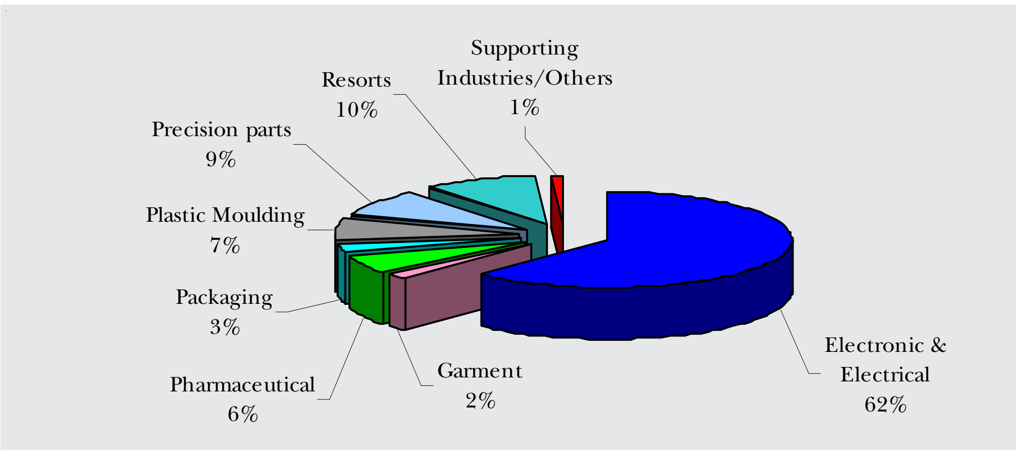
Source: Gallant Venture

Figure 9: Sector Contribution To BIE Revenue (1H05)



Source: Gallant Venture

Figure 10: Sector Contribution To Utilities Revenue



Source: Gallant Venture

POSITIVE OUTLOOK FROM TOURISM AND LEISURE SECTORS

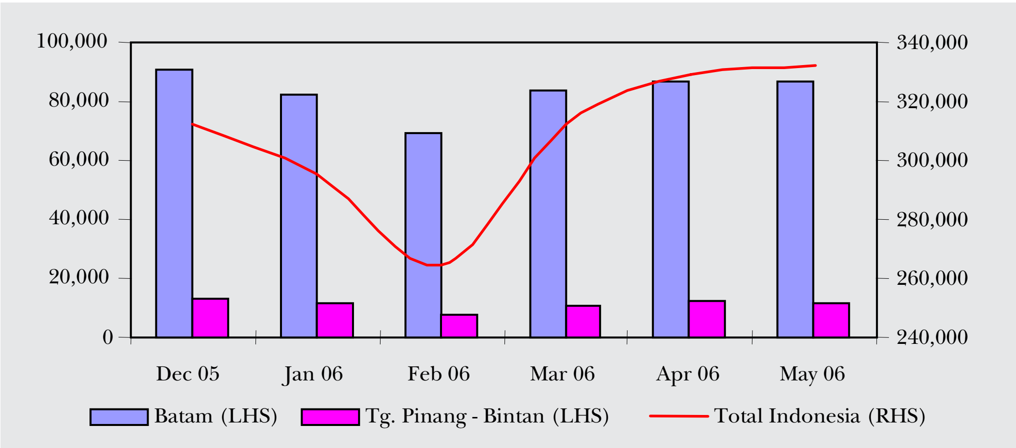
More visitor arrivals to Indonesia will boost resort operations business. Data from Indonesian Central Statistical Bureau (BPS) showed that the number of visitors to Indonesia has risen to 5.3m in 2004 (back to the pre-financial crisis level in 1996). In May 06, total visitors to Indonesia surged 0.9% mom to 332,445, the highest monthly number this year. The number of visitors to Batam rose 10.1% mom (one of the highest monthly growth compared to other domestic entry points) to 86,953 while the number of visitors to Bintan fell a slight 1.9% mom to 11,710, still higher than the monthly average of 10,695 for Jan-May 06. As such, we believe the increasing number of visitors to Batam and Bintan would benefit Gallant (especially for the resort operation division).

Figure 11: Number Of Visitors To Indonesia

Country of Residence	2000		2001		2002		2003		2004	
	Visitors	% share	Visitors	% share	Visitors	% share	Visitors	% share	Visitors	% share
Brunei	12,787	0.3	14,526	0.3	15,310	0.3	11,408	0.3	14,146	0.3
Malaysia	475,845	9.4	484,692	9.4	475,163	9.4	466,811	10.5	622,541	11.7
Philippines	79,682	1.6	82,828	1.6	84,060	1.7	76,665	1.7	76,742	1.4
Singapore	1,427,886	28.2	1,477,132	28.7	1,447,315	28.8	1,469,282	32.9	1,644,717	30.9
Thailand	48,477	1.0	50,489	1.0	50,589	1.0	42,585	1.0	55,024	1.0
Other Asean	5,324	0.1	4,890	0.1	13,299	0.3	16,569	0.4	17,984	0.3
Total Asean	2,050,001	40.5	2,114,557	41.1	2,085,736	41.4	2,083,320	46.6	2,431,154	45.7
Europe	799,769	15.8	861,970	16.7	833,004	16.5	605,904	13.6	720,706	13.5
America	232,117	4.6	243,097	4.7	222,052	4.4	175,546	3.9	209,779	3.9
Asia Pasific	1,909,353	37.7	1,856,849	36.0	1,818,118	36.1	1,540,636	34.5	1,888,236	35.5
Africa	37,573	0.7	40,282	0.8	36,503	0.7	30,244	0.7	35,507	0.7
Middle East	35,404	0.7	36,865	0.7	37,987	0.8	31,371	0.7	35,783	0.7
Total	**5,064,217**	**100.0**	**5,153,620**	**100.0**	**5,033,400**	**100.0**	**4,467,021**	**100.0**	**5,321,165**	**100.0**

Source: Indonesian Central Statistical Bureau (BPS)

Figure 12: Number Of Visitors To Batam And Bintan



Source: Indonesian Central Statistical Bureau (BPS)

Benefitting from the momentum of the integrated resort in Singapore in 2009. Gallant could also benefit from Singapore's integrated resort in Marina Bay. When completed in 2009, Singapore is expected to attract 17.0m visitors annually compared to the current 8.0m per year. This definitely would bring a multiplier effect to the number of visitors to Batam and Bintan. According to property consultant Colliers International, from 1996 to 2004, Bintan island captured an average of 3.6% of Singapore's total visitors. Based on this, we expect Bintan would gain 612,000 visitors annually (or more than double the 288,083 visitors to Bintan in 2005) after the opening of the integrated resort in 2009. This would definitely accelerate Gallant's sales especially in its effort to sell landbank for more resort and leisure developments in North and West Bintan.

Valuation

Lower P/B compared to regional peers'. The stock may not be attractively valued at 2007 PE of 19.2x vs the average of 11.3x for its regional peers. But it trades at a relatively low P/B of 1.2x compared to its regional peers' average of 3.0x. We believe the valuation is even more compelling as the company can bank on its potential land sales in Bintan.

Trades at 28.8% discount to our appraised NAV/share. As the company has recurring income as well as landbank sales, we use sum-of-the-parts valuation to appraise its net asset value. The valuation is divided into two parts:

a) Using the "income approach", the net operating income from recurring businesses, estimated at S$26.1m, is divided by a discount rate of 12.2%, incorporating current risk-free rate and risk premium minus its long-term growth rate. Our estimated value for recurring businesses is S$213.3m.

b) For landbank valuation, our appraised value of the landbank assumes: a) net saleable area of 60% for landbank in Bintan and 80% for BIP after setting aside land for infrastructure and social amenities, b) average selling price of landbank in Lagoi Bay of S$50psm, and c) average selling price for Landbank I, II, III of S$15psm. By multiplying net saleable area and the average selling prices, our total landbank value is S$2.0b.

Combining the two appraised values, our net asset value for Gallant is S$0.88/share, a 28.8% discount to current share price of S$0.625.

Figure 13: Valuation

Gallant Venture Estimated NAV per Share

GALV Consolidated Revenues from Recurring Business (Industrial Park, Utilities & Resort Operations)

Description	**Assumption**	**2007F (S$'000)**
Revenue from Ind. Park		84,816
Revenue from Resort Operations		29,080
Revenue from Utility		193,259
Total Revenues (SGD'000)		307,156
COGS	based on average historical data: 70% of total revenues	215,009
General & Adm	based on average historical data: 1.5% of total revenues	4,607
Operating Expenses	based on average historical data: 20% of total revenues	61,431
Net Operating Income		26,108
Risk Free Rate	based on current average ten-year bond yield	11.7%
Country Risk Premium	based on Bloomberg data	5.6%
Expected Return (k)		17.3%
Less Long Term GALV Growth Rate (g)	based on 2007 Retaining Rate x ROE	5.1%
Applied Discount Rate (k-g)		12.2%
Infinite period present value of recurring business (PV= NOI/(k-g)):		
Appraised value of Recurring Business		213,300

Assets	**Area (ha)**	**Appraised Asset Value (S$'000)**	**Ownership (%)**	**Discount for Social (%)**	**Market Value (S$'000)**
Land bank in BIP for future development	35	70,000	100	20	55,944
Land bank in Bintan Utara, Lobam, Bintan Island	3,868	580,200	100	40	348,120
Land bank in Lagoi Bay Bintan Resorts, Bintan Island	1,504.6	752,300	100	40	451,380
Land bank I in Bintan Resorts, Bintan Island	3,718.5	557,775	100	40	334,665
Land bank II in Bintan Resorts, Bintan Island	2,987.1	448,065	100	40	268,839
Land bank III in Bintan Resorts, Bintan Island	5,805.9	870,885	100	40	522,531
Appraised value of Assets					1,981,479
Appraised Market Value					2,194,780
Add Cash as of 1H06					97,805
Less Total Debt as of 1H06					137,633
Less Advances from Customers as of 1H06					40,430
Estimated Net Asset Value					2,114,522
No. of shares outstanding ('000)					2,410,423
NAV per share (S$)					0.88
Current share price (S$)					0.625
Premium to share price (%)					28.75

Source: UOB Kay Hian

Sensitivity Analysis. Since Gallant's future earnings are highly dependent on land sales in Bintan, we carry out a sensitivity analysis on the elasticity of estimate land price to NAV/share. As a base for landbank selling prices, we apply US$42.1psm for Lagoi Bay (based on average Colliers International land price estimate on the area) and US$10.1psm (based on the company's recent landbank sales price) for landbank outside Lagoi bay area. Our sensitivity analysis shows that every S$1.0 increase in land price would raise NAV/share by S$0.045. If the company can sell its landbank at S$10.0 higher than above mentioned based prices, our NAV/share would be S$1.1, double the IPO price of S$0.5.

Figure 14: Sensitivity Analysis Of GALV's Landbank Sales

Appraised value of Recurring Business (S$m)	Sensitivity of additional land selling price (S$)	Land bank at BIP (S$m)	Land bank in Lagoi Bay (S$m) Base price: S$42.1psm	Land bank outside Lagoi Bay (S$m) Base Price: S$10.1psm	Net Adjustment from 1H06 B/S (S$m)	Total NAV (S$m)	Number of shares (m)	NAV per share (S$)
213.3	0	70.0	380.1	989.6	-80.3	1,572.8	2,410.4	0.65
213.3	1	70.0	389.1	1,087.9	-80.3	1,680.1	2,410.4	0.70
213.3	2	70.0	398.1	1,186.2	-80.3	1,787.4	2,410.4	0.74
213.3	3	70.0	407.1	1,284.5	-80.3	1,894.7	2,410.4	0.79
213.3	4	70.0	416.2	1,382.8	-80.3	2,002.0	2,410.4	0.83
213.3	**5**	**70.0**	**425.2**	**1,481.0**	**-80.3**	**2,109.3**	**2,410.4**	**0.88***
213.3	10	70.0	470.3	1,972.4	-80.3	2,645.8	2,410.4	1.10
213.3	15	70.0	515.5	2,463.8	-80.3	3,182.3	2,410.4	1.32
213.3	20	70.0	560.6	2,955.2	-80.3	3,718.8	2,410.4	1.54
213.3	30	70.0	650.9	3,938.0	-80.3	4,791.9	2,410.4	1.99
213.3	40	70.0	741.2	4,920.7	-80.3	5,864.9	2,410.4	2.43
213.3	50	70.0	831.4	5,903.5	-80.3	6,938.0	2,410.4	2.88

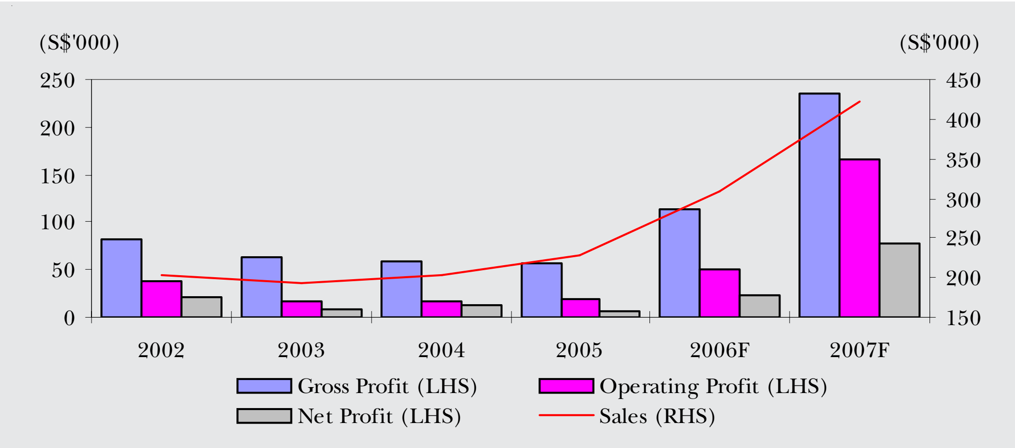
** Our target NAV per share*
Source: UOB Kay Hian

BUY with a target price of S$0.88, a price upside of 40.8%. The share price has recently been moving up steadily after the company managed to sell a piece of land for S$34.0m. We believe the share price would appreciate further when the company announces more landbank sales in the future. With a positive outlook from the SEZ, the company's sound fundamentals and a huge asset value, we initiate coverage with a BUY and a 12-month target price of S$0.88 (based on current NAV/share), implying a price upside of 40.8%. As landbank sales would drive future earnings, our target price is affected by any setbacks on the company's efforts on land divestments, especially in Lagoi Bay.

Financials

Accelerating sales growth. In 1H06, Gallant posted a strong revenue growth of 19.0% yoy to S$123.5m (1H05: S$103.8m). The higher revenue came from greater income from the utilities segment as the higher electricity costs were passed on to customers. Most of the company's incomes were generated from its utilities and industrial park operations in Batam and Bintan. Although there were no sales generated from the property development division in the past three years due to unfavourable economic conditions, the company is expected to book substantial revenue from landbank sales in the years to come. This year, the company managed to sell a piece of land in North Bintan for S$34.0m. Incorporating the recent land sale in North Bintan as well as our estimate of 10.0% of total landbank to be sold in 2007, we expect FY06 and FY07 sales to grow 37.2% yoy to S$311.5m and 62.4% yoy to S$505.9m respectively.

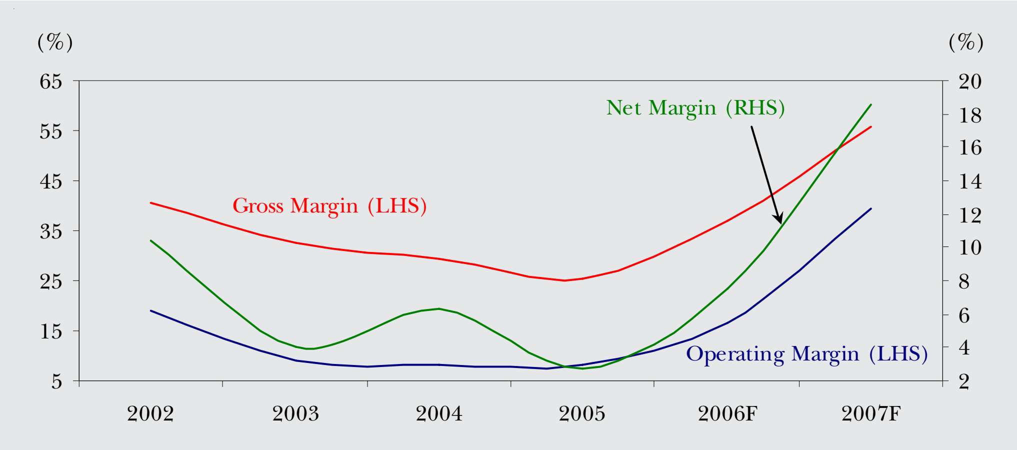
Figure 15: Profitability



Source: Gallant Venture, UOB Kay Hian

Energy efficiency to minimise costs and improve margins. After the Indonesian government reduced fuel subsidy in Oct 05, Gallant incurred higher energy costs for its operations, especially in its utilities and ferry services. The company had not been able to pass on all cost increments to its customers as that would affect sales. Therefore, although sales increased 19.0% to S$123.5m in 1H06, gross profit fell 12.8% as cost of sales jumped 32.3% to S$97.2m. Operating and net margins also fell significantly in 1H06 to just 8.6% (9.5% in 1H05) and 0.3% (3.2% in 1H05) respectively on the back of: a) high energy costs, b) huge forex loss of S$49,000 vs a forex gain of S$3.0m a year ago, and c) higher tax expenses (+16.6% yoy) as some of the company's revenues (rental, utility charges and service charges) are subjected to a 10% tax.

Figure 16: Margin



Source: Gallant Venture, UOB Kay Hian

Anticipating increasing costs (especially high diesel prices), the company is refurbishing 12 power plants in BIP to gas-fired generators in place of diesel-powered ones. It has also added three new gas-fired generators and four more diesel-powered generators will be converted into gas-powered at the end of this year. By doing so, the company expects to cut operating costs by 30-40% and thus, boost margins. Moreover, higher margins expected from landbank sales would enhance overall margin as well. The recent land sale in North Bintan was S$34.0m, while the book value of the land was just S$8.8m. As a result, we forecast FY06 operating margin to improve to 16.5% in FY06 (FY05: 8.3%) and net margin to 7.4% (FY05: 2.7%).

An asset play. Unlike many developers that emphasise on short-term earnings and have limited assets (especially landbank), Gallant is an asset play property company with sizeable assets that can generate long-term and stable earnings. Currently, it has total assets of S$1.5b with 35.7% (S$541.4b) in land inventory. Gallant has the biggest asset value among its peers in Indonesia such as Kawasan Industri Jababeka (KIJA IJ) with S$342m (Rp2trillion) and Pembangunan Jaya Ancol (PJAA IJ) with S$150m (Rp872.7b). The company also has the biggest landbank of 18,200ha vs other Indonesian property players with an average landbank of 785.6ha.

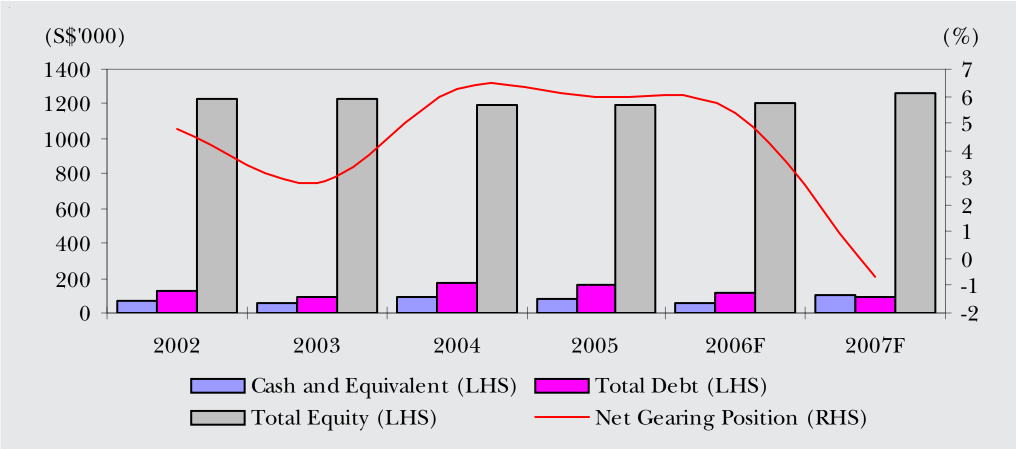
Figure 17: Landbank Comparison

Landbank	Current landbank (ha) as of Dec 05
Gallant Venture (GALV SP)	18,200.0
Kawasan Industri Jababeka (KIJA IJ)	1,497.0
Jaya Real Property (JRPT IJ)	1,214.0
Duta Pertiwi (DUTI IJ)	1,199.0
Ciputra Development (CTRA IJ)	1,000.0
Lippo Karawaci (LPKR IJ)	923.0
Summarecon Agung (SMRA IJ)	550.0
Ciputra Surya (CTRS IJ)	427.4
Bakrieland Development (ELTY IJ)	239.0
Jakarta International Hotel Development (JIHD IJ)	21.0

Source: Erdhika Elit Research, Gallant Venture

Healthy balance sheet with low gearing. As of 1H06, Gallant has total debt of S$137.6m and total equity of S$1.2b, implying a low net gearing of just 3.3%. Total assets increased 2.7% yoy to S$1.5b, propelled by higher investment in fixed asset, mainly on a power plant that converts diesel into gas. Considering a stronger cash flow (especially from higher net profit generated from land sales in the coming years) to repay debt, we expect net gearing should be maintained below 5.0% in FY06 with a net cash position in FY07.

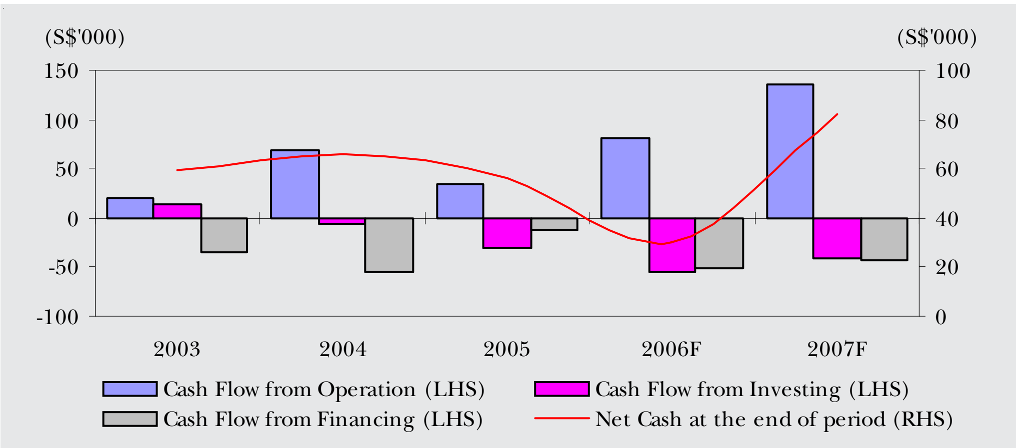
Figure 18: Net Gearing



Source: Gallant Venture, UOB Kay Hian

Strong cash flow from operation. During FY03 to FY05, Gallant's cash flow from operation fluctuated on the back of unstable earnings and increasing operating costs. We believe cash flow should be more stable in years to come considering: a) higher expected income from land sales, b) more cost efficiency (revamping power plant), and c) lower financing costs as a result of debt repayment. Operating cash flow is envisaged to reach S$81.8m by this year-end (FY05: S$34.7m). Net cash flow is expected to decline to S$30.0m from S$56.3m in FY05 due to debt repayment and higher capital expenditure for revamping power plant at BIP, before improving to S$81.8m in FY07 driven by higher sales growth.

Figure 19: Cash Flow



Source: Gallant Venture, UOB Kay Hian

Company Background

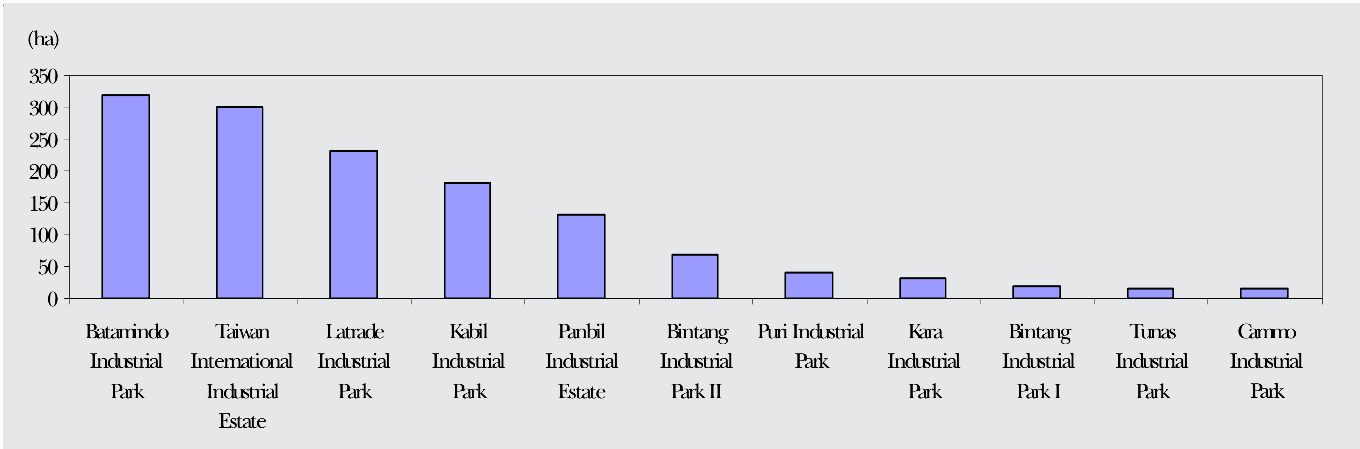
Gallant Venture (Gallant) is the biggest industrial park operator and utilities provider in Indonesia's Batam and Bintan islands. The company is managed by its two reputable major shareholders, Indonesia-based Salim Group and Singapore-based SembCorp Industries.

INDUSTRIAL PARK

First-mover advantage in Batam and Bintan. Gallant manages 16 subsidiaries in Indonesia and Singapore. Several subsidiaries have commenced operations since 1990 to accommodate the close economic cooperation between Singapore and Indonesia to promote the Riau province (including Batam, Bintan and Karimun islands) as an international investment and tourist destination under the Framework Agreement on Regional Economic Development (FARED). Under FARED, several projects were slated in 1992, namely: a) the Bintan Industrial Estate by GALLANT's subsidiary PT. Bintan Inti Industrial Estate (BIIE), b) integrated tourism project Bintan Beach International by PT. Bintan Resort Corp, c) the development of water treatment (mainly developed by BIIE), and d) the construction of Karimun Marine & Industrial Complex (KMIC) in Karimun island. Gallant has established an industrial estate in Batam (320 ha) and Bintan (170 ha) and developed some 60,000ha in Bintan to be one of the biggest tropical resorts in Asia with a total of 1,400 rooms.

State-of-the-art industrial estates in Batam and Bintan. Gallant manages two state-of the-art industrial estates, the 320ha Batamindo Industrial Park (BIP) in Batam and 170ha Bintan Industrial Estate (BIE) in Bintan. The company provides land and buildings for production facilities, and offers comprehensive amenities to its tenants, such as electricity, potable water supplies, good telecommunication infrastructure, industrial water treatments and housing for workers and executives. It also provides others services such as business licensing application, tenant security and logistics services. To date, BIP is the biggest and the most comprehensive industrial park compared to its 16 competitors in Batam. The company is trying hard to expand its industrial park business in BIE.

Figure 20: Batam Industrial Park Comparison



Source: Gallant Venture

RESORT OPERATIONS

Supports one of the biggest tropical resorts in Asia. Gallant is the only company that provides infrastructure and comprehensive amenities to support operations for four Bintan resorts (Nirwana Garden Resort, Bintan Lagoon Resort, Laguna Bintan Resort and Ria Bintan Resort). These four resorts are some of the biggest tropical resorts in Asia with a total of 1,400 rooms and hence post a huge income stream for Gallant's resort operation division. This division serves ferry transport to/from Singapore, ferry terminal operations, workers' accommodation, security and fire-fighting services. The division also provides hotel and resort reservation, ticketing and tour packages, and rental housing for resort workers and managers. Under the utility division, Gallant provides comprehensive utility services such as electricity, water and telecommunication to support the daily operations at the resorts. The company expects to generate more income from the resort operation division in the future as this division is not only dedicated to serve the four resorts but also to support future developments in North and West Bintan.

UTILITIES

Well-established utilities provider in Batam and Bintan. Gallant owes its success not only to its ability to provide high quality industrial parks, but also to its commitment to deliver world-class infrastructure, utility and amenities to support the operations of its customers. Gallant has a competitive edge as these infrastructure and amenities are not easily replicated by competitors.

There are several reasons why Gallant has an edge over its competitors:

a) Negligible number of power outages as well as huge capacity of power supply (current utilisation rate is 76%). Gallant's customers are thus benefiting from more efficient production (lesser possible production breakdowns). In anticipating high fuel price and to reduce energy costs, Gallant is spending US$25m this year to convert all diesel-powered generators into gas-fired generators at BIP.

b) Sophisticated water treatment plants in Batam and Bintan that meet the World Health Organization's guidelines for drinking water quality.

c) Outstanding telecommunication services with interconnection for domestic and international communication. The company is also planning to install WiFi system for internet browsing in BIE.

d) Set aside landfills for disposal of solid wastes in BIP and BIE and monitors liquid wastes in Bintan Resorts, reflecting the company's commitment to uphold environmental-friendly principles when operating industrial estates and supporting resort operations.

PROPERTY DEVELOPMENT

Huge potential from 18,200ha landbank in Bintan island. Many traditional property developers may face serious problems such as the scarcity of landbank for development as the limited land available may not be able to accommodate increasing property demand. We believe Gallant may not face this problem in the next 10 to 15 years as it has a huge landbank of 14,400ha in North Bintan and 3,800ha in West Bintan. Besides, its low land acquisition cost of S$3.0psm would definitely boost profits significantly as the property and infrastructure developments in Bintan are expected to improve in years to come.

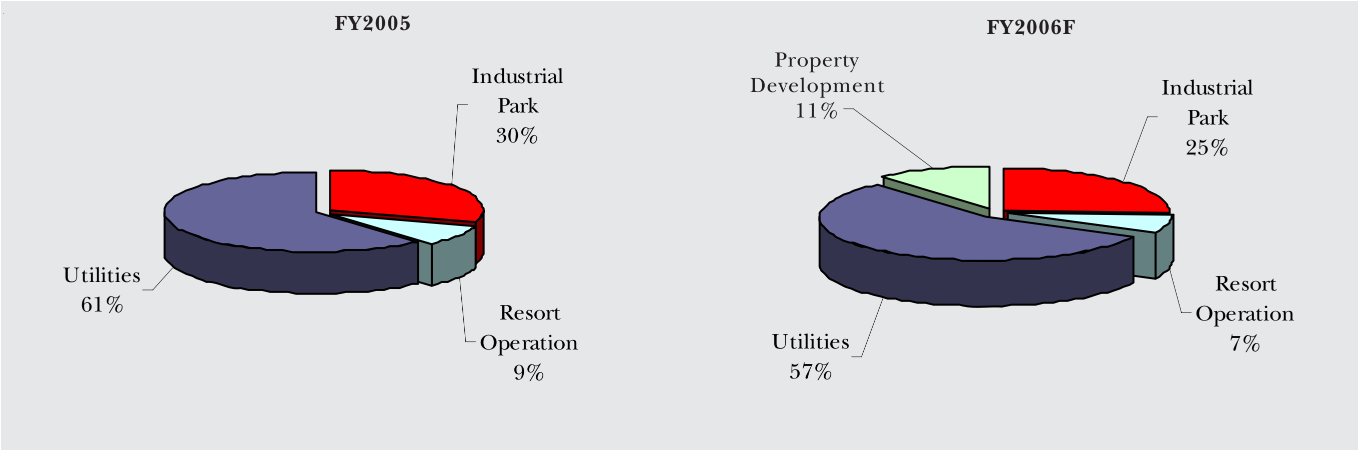
Figure 21: Bintan Landbank

Source: Gallant Venture

BUSINESS STRATEGY

Diversified exposure reduces business risk. Gallant's business strategy that combines industrial park, utilities and resort operations differentiates the company from major traditional property players in Indonesia which concentrate on residential developments. In FY05, the utilities division contributed 61% of total revenue, followed by the industrial park division (30%) and the resort operation division (9%). The property development division has not yet contributed to the company's income due to a series of economic downturns since 1997. However, the company expects land sales to drive sales and profitability in the near future as the outlook is good for development in Batam and Bintan. As such, Gallant's diversifed business portfolio should provide a broad sales mix with relatively low business risk.

Figure 22: Sales Mix



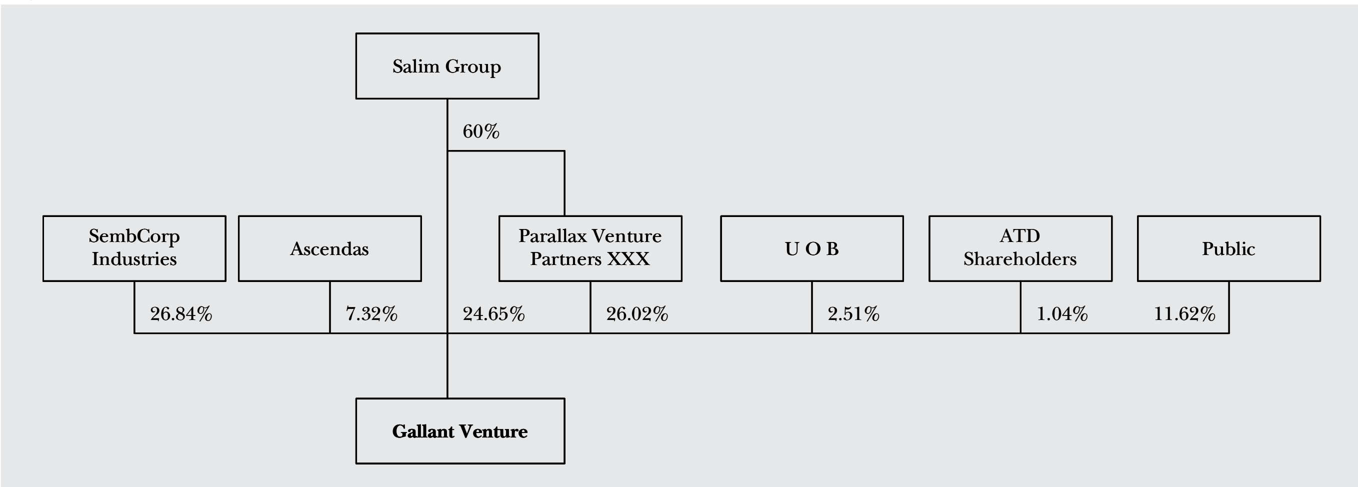
Source: Gallant Venture, UOB Kay Hian

New developments stimulates demand for support services. As Gallant provides utilities and other services that support industrial parks and resort operations, it will benefit from further developments on the islands. The company aims to sell substantial landbank in Lagoi Bay in North Bintan. If this materialises, the company can expect more recurring income from the utilities and resort operation divisions

MAJOR SHAREHOLDER

Links to Indonesian conglomerate, the Salim Group. The Salim Group (SG) has US$30b in assets and some 500 companies spread across several countries with activities in 12 divisions, namely: agribusiness, automotive and shipping, banking and financial services, chemicals, computer & communications, construction materials, food & consumer products, international, multi-industry, natural resources, property development & leisure industry and trading & distribution. SG is the biggest shareholder (40.3% stake) in Gallant and plays a major role in the development of a special economic zone (SEZ) in Batam and Bintan. As part of the SG, Gallant could benefit from SG's management expertise and strong business networks in Indonesia and the region.

Figure 23: Shareholder Structure



Source: Gallant Venture

Risks

Despite our optimism on earnings and outlook on the company, there are several potential risks. Also, any setback on the sale of landbank (especially in Lagoi Bay) may affect the company's growth and profitability.

Political instability. Indonesian currently has 24 political parties representing a 250m population that has different race, religion and ethnic backgrounds. As such, Indonesia is exposed into political instability, especially during a general election. Credit should be given to Indonesia for its successful presidential election in 2004, but there is no guarantee the next general election in 2009 will be smooth. Political instability and a changing government would affect Gallant's ability to deal with multiple regulatory regimes.

Changes in laws and regulations. Gallant may incur expenses and unforeseen capital expenditure if there are changes in laws and regulations related to real estate, such as those governing usage, zoning, taxes, government charges, building standards, city planning, deregulation of new laws related to redevelopment as well as environmental issues. On top of that, Gallant also faces some risks of extending leasehold property (referred to as Hak Guna Bangunan or HGB) in Indonesia. Current initial lease period for leasehold property is up to 30 years and the HGB may not be extended.

The uncertainties of economic conditions in Singapore and Indonesia. As of 1H06, the company has bank borrowings of S$137.6m exposed to floating interest rates. Hence, any increase in interest rate would affect earnings because of higher interest expenses. Besides, changing economic policies would also affect inflationary rate. For instance, the Indonesian government lifted fuel subsidy and caused inflation to jump to 17.1% in 2005 from 6.4% in 2004.

Increasing energy costs. Rising energy costs would jeopardise Gallant's earnings, especially for its utilities division. With the political situation in the Middle East, oil price is unlikely to fall in the short term. Despite recent efforts to use gas-fired generators in place of diesel-powered generators, the company faces the possibility of higher gas price in the near future. The Indonesian government is also tightening the gas distribution across the country due to a significant increase in gas demand in recent years.

Foreign exchange. The company is subject to the fluctuation in exchange rates since major expenses are incurred in Rupiah while sales are in Singapore dollar. An appreciation in the Rupiah would affect bottom line. As a consequence, the high volatility in the Rupiah is one of the key factors that causes the unstable earnings in the last four years. Besides, regulatory risks including the imposition or tightening of foreign exchange controls or restrictions on repatriation of dividends and profits may affect the company operations too.

Potential uncertainty of SEZ agreement. Despite our optimism on the SEZ agreement between Singapore and Indonesia, there is no assurance that the joint cooperation between the two countries would last indefinitely. In fact, the cooperation between Singapore and Indonesia to develop BBK was initiated in 1992 (just before Singapore started developing Suzhou SEZ in 1994) under FARED. But the incessant changes in policies resulted in uncertain investment regulations have caused the BBK development to be left behind Suzhou's. Moreover, external factors such as a change in the government may cause SEZ agreement to be reviewed, the dispute over border issues and conflict of political and economic interests between the two countries may arise anytime in the future.

Natural disasters. Since Gallant's business is related to tourism and leisure activities, recent earthquake and the tsunami in Jogjakarta, Central Java and Pangandaran, West Java may deter tourists from visiting Bintan. The series of disasters may also jeopardise landbank sales in North Bintan which are mainly for commercial properties for tourism and leisure purposes.

Terrorist attacks. Increasing terrorist activities has led into several bombing incidents in Indonesia (Bali, JW Marriot Hotel, the Australian embassy) in the past few years. As terrorist attacks may be specifically directed at foreigners, these could dampen investor's confidence and deter tourists to visit Indonesia.

Figure 24: Profit & Loss

Year to 31 Dec (S$'000)	2004	2005	2006F	2007F	2008F
Turnover	**201,996**	**227,056**	**311,506**	**505,992**	**578,697**
COGS	(142,399)	(169,645)	(197,592)	(270,081)	(298,807)
Gross Profit	59,597	57,411	113,915	235,911	279,890
General & Adm Expenses	(2,540)	(4,276)	(4,359)	(6,740)	(7,852)
Operating Expenses	(40,302)	(34,324)	(58,224)	(63,228)	(68,661)
Operating Profit	16,755	18,811	51,332	165,944	203,377
Interest Income	2,033	3,299	1,758	4,472	8,244
Gain/Loss on forex	3,287	458	(2,542)	(6,217)	(1,964)
Share of associate results	170	325	203	233	254
Financing costs	(8,833)	(6,531)	(7,112)	(6,113)	(4,778)
Others	9,412	5,811	9,553	17,348	17,466
Pre-tax Profit	**22,824**	**22,173**	**53,193**	**175,667**	**222,599**
Tax	(11,697)	(16,923)	(31,624)	(98,567)	(128,509)
Minority Interest	1,572	855	1,600	1,342	1,266
Extraordinary Items	0	0	0	0	0
Net Profit	**12,699**	**6,105**	**23,169**	**78,441**	**95,356**

Source: Gallant Venture, UOB Kay Hian

Figure 25: Balance Sheet

Year to 31 Dec (S$'000)	2004	2005	2006F	2007F	2008F
Current Assets					
Cash and Cash Equivalents	65,568	56,283	30,055	81,799	150,800
Account Receivables	34,170	42,695	51,207	83,983	95,435
Inventories, Net	8,122	15,267	10,827	14,799	16,373
Land Inventories	541,350	541,422	532,586	482,380	442,587
Other Current Assets	42,103	44,966	47,507	57,267	56,586
Non-current Assets					
Fixed Assets	370,812	367,569	371,071	371,544	376,459
Investment Properties	354,615	340,344	344,371	345,369	350,809
Other Long-Term Assets	85,699	88,061	89,038	93,769	95,174
Total Assets	**1,502,439**	**1,496,608**	**1,476,661**	**1,530,910**	**1,584,223**
Current Liabilities					
Short-Term Debt	37,620	50,024	27,000	32,000	34,000
Account Payables	20,870	20,256	27,067	37,859	41,250
Other Current Liabilities	48,178	49,988	51,014	55,007	55,234
Non-current Liabilities					
Long-Term Debt	129,966	105,179	91,000	59,000	25,000
Other Long-Term Liabilities	43,296	43,792	44,884	47,986	49,284
Total Liabilities	279,930	269,239	240,965	231,852	204,769
Minority Interest	32734	32417	32575	32496	32536
Shareholders' Equity	1,189,775	1,194,952	1,203,121	1,266,563	1,346,919
Total Equity & Liabilities	**1,502,439**	**1,496,608**	**1,476,661**	**1,530,910**	**1,584,223**

Source: Gallant Venture, UOB Kay Hian

Figure 26: Cash Flow

Year to 31 Dec (S$'000)	2004	2005	2006F	2007F	2008F
Net Profit	12,699	6,105	23,169	78,441	95,356
Depreciation and amortization	51,190	49,343	48,428	39,637	43,037
Change in Working Capital	5,093	(20,333)	10,165	16,858	30,957
Others Non-Cash	(861)	(408)	0	0	0
Cash Flow from Operations	68,121	34,707	81,763	134,937	169,350
Capex	(10,430)	(34,056)	(55,957)	(41,108)	(53,391)
Investment	0	0	10	(5)	3
Others Investing Activities	3,343	2,786	0	0	0
Cash Flow from Investments	(7,087)	(31,270)	(55,947)	(41,113)	(53,389)
New Capital	0	0	0	0	0
Net Change in Debt	(41,028)	(12,282)	(37,203)	(27,000)	(32,000)
Dividend	(15,000)	0	(15,000)	(15,000)	(15,000)
Others Financing Activities	942	(440)	159	(79)	40
Cash Flow from Financing	(55,086)	(12,722)	(52,044)	(42,079)	(46,960)
Change in Cash	**5,947**	**(9,285)**	**(26,228)**	**51,745**	**69,001**
Begin Cash & Cash Equivalent	**59,621**	**65,568**	**56,283**	**30,054**	**81,799**
Ending Cash & Cash Equiv	**65,568**	**56,283**	**30,054**	**81,799**	**150,799**

Source: Gallant Venture, UOB Kay Hian

Figure 27: Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	5.4	12.4	37.2	62.4	14.4
Gross Profit	(4.8)	(3.7)	98.4	107.1	18.6
Pre-tax Profit	28.6	(2.9)	139.9	230.2	26.7
Net Profit	63.0	(51.9)	279.5	238.6	21.6
EPS	63.0	(51.9)	279.5	238.6	21.6
Profitability					
Gross Margin	29.5	25.3	36.6	46.6	48.4
Operating Margin	8.3	8.3	16.5	32.8	35.1
Net Margin	6.3	2.7	7.4	15.5	16.5
ROA	0.9	0.4	1.6	5.2	6.1
ROE	1.1	0.5	1.9	6.4	7.3
Leverage					
Total Debt/Total Assets	11.2	10.4	8.0	5.9	3.7
Total Debt/Equity	14.1	13.0	9.8	7.2	4.4
Net Debt (Cash) /Equity	8.4	6.0	5.0	(1.1)	(8.2)
Interest Coverage (x)	1.9	2.9	7.2	27.1	42.6
Liquidity					
Current Ratio	6.5	5.8	6.4	5.8	5.8
Quick Ratio	6.4	5.7	6.3	5.6	5.7
Debtor Turnover (day)	62.3	61.8	55.0	48.8	56.6
Creditor Turnover (day)	59.8	44.2	43.7	43.9	48.3
Inventory Turnover (day)	1,406.9	1,190.0	1,016.1	703.2	584.0

Source: Gallant Venture, UOB Kay Hian

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