

BUY (unchanged)

Share price: HKD10.14
Target price: HKD12.56

Alex YEUNG
alexyeung@kimeng.com.hk
(852) 2268 0636

Stock Information

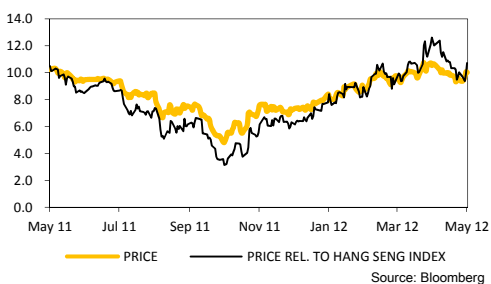
Description: Founded in 1985 in Hong Kong, Techtronic Industries is a world-class leader in power tools, outdoor power equipment, and floor care appliances for consumers, professionals, and industrial users in the home improvement, repair and construction industries.

Ticker:	669 HK
Shares Issued (m):	1,661
Market Cap (USDm):	2,170
3-mth Avg Daily Turnover (USDm):	7.6
HSI:	21,086
Free Float (%):	72.1

Major Shareholders:	%
Chairman Pudwill Horst Julius	24.11
Chung Chi Ping Roy	5.67

Key Indicators

ROE – annualised (%)	14.9
Net debt (USDm):	599
NTA/shr (USD):	0.86
Interest cover (x):	8.2

Historical Chart

Performance:

52-week High/Low HKD10.84/HKD4.60

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	(4.7)	12.5	32.5	(1.6)	26.9
Relative (%)	(7.1)	10.7	25.4	7.4	12.5

Techtronic Industries

Powering Up!

Upbeat 1Q12 business. We met Techtronic's (TTI) management and learnt that its professional power tools sales grew by 20% YoY, mainly driven by the Milwaukee brand. Sales from the floor care segment were soft, as TTI has shifted the focus to margins instead of sales growth. We believe that TTI will be able to achieve its high single-digit sales growth for FY12 comfortably, with the potential to surprise the market on the upside as the US economy continues to improve.

Stanley Black & Decker's (SWK) 1Q12 results. SWK professional power tools segment grew by only 6% YoY, compared to TTI's 20%. We argue that TTI is growing faster than SWK and has been taking the latter's market share. We believe that this trend will continue in 2Q12, thus, TTI's valuation discount to SWK should narrow eventually.

Winner in 1Q12. The key reason underlying TTI's success in 1Q12 is its short product development cycle. TTI is able to develop a new product within six months. Management reiterates its confidence of rolling out 300 new products this year. Additionally, its lithium batteries that can be used interchangeably among most of its wide-reaching products further enhance customer loyalty.

Expect full CB conversion. It is likely that CB holders will exercise the call for the remaining CB conversion (USD110m) after May 2012. The conversion of the entire amount (USD150m) would lead to the issue of 223.5m shares, that represent 12.2% of its enlarged capital. In addition to saving on the annual coupon interest of 8.5%, TTI will also experience a decline in its net gearing to 38%, thus meeting TTI's commitment to reduce its gearing ratio.

Reiterate BUY. We lower our FY12F/13F EPS by 10.6%/9.8% to factor in dilution from the CB conversion. Nonetheless, we see further price upside potential as we believe that investors should take into account TTI's decent corporate governance and solid execution capability. We raise our TP to HKD12.56 (from HKD12.05), based on 14x FY12F PER (12x previously), in-line with the multiples of global peers. Maintain BUY.

Techtronic Industries – Summary Earnings Table

FYE Dec (USDm)	2010A	2011A	2012F	2013F
Revenue	3,383	3,667	3,997	4,360
EBITDA	308	338	357	412
Recurring Net Profit	122	151	211	257
Recurring Basic EPS (USD)	0.08	0.09	0.12	0.14
EPS growth (%)	85.8	23.7	22.5	21.8
DPS (USD)	0.01	0.02	0.02	0.02
PER (x)	17.1	13.8	11.3	9.3
EV/EBITDA (x)	8.0	6.8	6.2	5.1
Div Yield (%)	1.0	1.3	1.5	1.9
P/BV (x)	1.8	1.7	1.5	1.3
Net Gearing (%)	78.2	64.6	38.0	28.0
ROE (%)	8.7	12.7	14.9	15.2
ROA (%)	3.0	4.5	6.0	6.8
Consensus Net Profit (USDm)	N/A	N/A	206	263

Source: Company data, Kim Eng Securities

Figure 1: Key assumptions

Growth YoY (%)	FY08	FY09	FY10	FY11	FY12F	FY13F
Power equipment	9.8	(8.4)	9.6	11.6	10.5	10.0
Floor care appliance	2.3	(13.4)	11.1	0.7	5.0	6.5

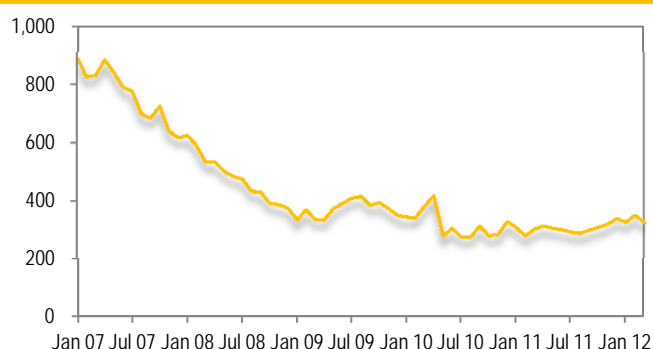
Source: Company data, Kim Eng Securities estimates

Figure 2: Earnings revision

USDm	New		Old		Change (%)	
	FY12F	FY13F	FY12F	FY13F	FY12F	FY13F
Revenue	3,997	4,360	3,997	4,360	0.0	0.0
Operating profit	268	318	268	318	0.0	0.0
Net profit	211	257	207	250	1.8	2.8
EPS (USD)	0.12	0.14	0.13	0.16	(10.6)	(9.8)

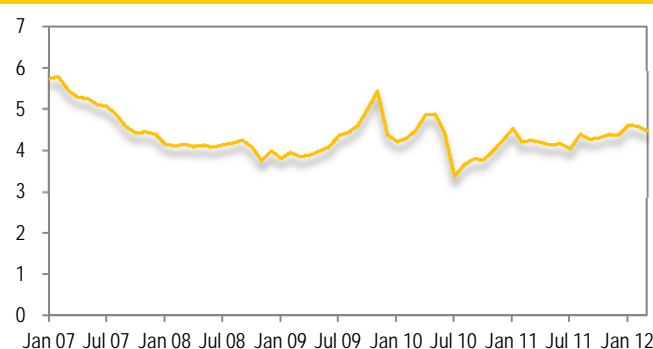
Source: Company data, Kim Eng Securities estimates

Figure 3: US new home sales ('000 units)



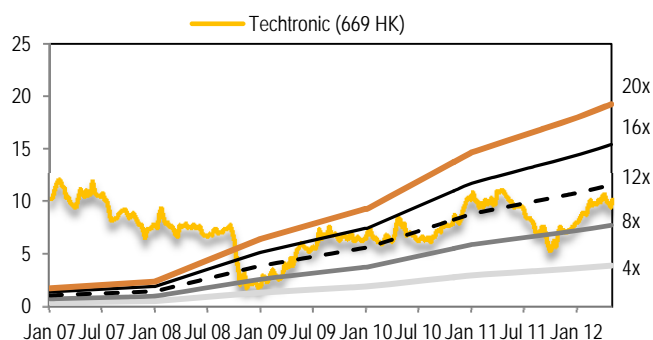
Source: Bloomberg, Kim Eng Securities

Figure 4: US existing home sales (m units)



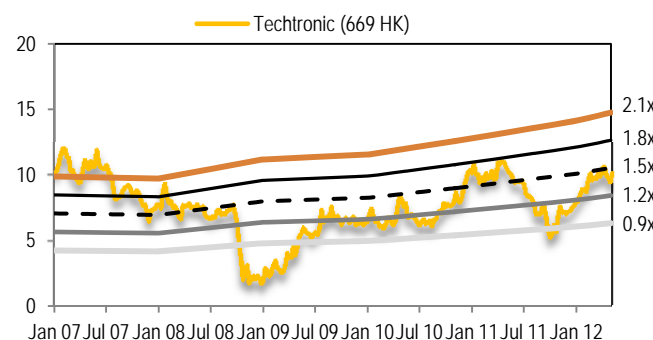
Source: Bloomberg, Kim Eng Securities

Figure 5: PE band



Source: Bloomberg, Kim Eng Securities

Figure 6: PB band



Source: Bloomberg, Kim Eng Securities

Figure 7: Valuation comparison with peers (Share price as of 4 May 2012)

Company name	Ticker	Latest price (Lcl ccy)	Mkt cap (HKDm)	PER (x)		PBR (x)		Forward		
				FY12	FY13	FY12	FY13	Div yield (%)	ROA (%)	ROE (%)
Techtronic Industries	669 HK	10.14	16,843.2	11.1	9.1	1.5	1.3	1.8	6.0	15.0
Stanley Black & Decker	SWK US	72.22	95,793.9	12.3	10.9	1.5	1.4	2.4	7.4	13.5
Snap-On	SNA US	62.35	28,119.4	12.5	11.2	N/A	N/A	2.3	N/A	N/A
Makita	6586 JP	2861.00	38,899.3	12.6	11.4	1.2	1.1	2.6	8.9	10.1
Hitachi Koki	6581 JP	676.00	8,079.4	21.8	18.0	0.7	0.7	3.6	2.8	3.8
Average				14.0	12.1	1.2	1.1	2.5	6.3	10.6

Source: Bloomberg, Kim Eng Securities

INCOME STATEMENT

FYE Dec (USDm)	2010A	2011A	2012F	2013F
Revenue	3,383	3,667	3,997	4,360
Gross Profit	1,089	1,194	1,319	1,460
EBITDA	308	338	357	412
Depreciation & Amortisation	(113)	(120)	(89)	(94)
Operating Profit (EBIT)	195	219	268	318
Interest (Exp)/Inc	(72)	(58)	(38)	(36)
Associates	(0)	(0)	(0)	(0)
One-offs	(27)	0	0	0
Pre-Tax Profit	96	160	229	282
Tax	0	(9)	(18)	(25)
Minority Interest	(1)	(0)	(0)	(0)
Net Profit	95	151	211	257
Recurring Net Profit	122	151	211	257
Revenue Growth (%)	10.0	8.4	9.0	9.1
EBITDA Growth (%)	34.5	9.8	5.5	15.6
EBIT Growth (%)	54.9	12.3	22.5	18.8
Net Profit Growth (%)	50.8	58.9	39.6	21.8
Recurring Net Profit Growth (%)	93.2	24.1	39.6	21.8
Tax Rate %	N/A	5.8	8.0	9.0

BALANCE SHEET

FYE Dec (USDm)	2010A	2011A	2012F	2013F
Fixed Assets	339	360	404	443
Other LT Assets	1,013	1,034	1,034	1,034
Cash/ST Investments	513	460	526	644
Other Current Assets	1,401	1,516	1,640	1,776
Total Assets	3,266	3,370	3,604	3,897
ST Debt	797	869	721	741
Other Current Liabilities	626	734	790	851
LT Debt	599	402	405	405
Other LT Liabilities	114	111	111	111
Minority Interest	15	9	9	9
Shareholders' Equity	1,115	1,246	1,569	1,781
Total Liabilities-Capital	3,266	3,370	3,604	3,897
Share Capital (m)	1,601	1,606	1,829	1,829
Gross Debt/(Cash)	1,397	1,270	1,125	1,145
Net Debt/(Cash)	884	811	599	501
Working Capital	491	373	656	829

CASH FLOW

FYE Dec (USDm)	2010A	2011A	2012F	2013F
Profit before taxation	96	160	229	282
Depreciation & Amortisation	113	120	89	94
Net interest receipts/(payments)	72	58	38	36
Working capital change	(131)	(37)	(68)	(75)
Cash tax paid	(83)	(62)	(18)	(25)
Others (incl'd exceptional items)	17	16	0	0
Cash flow from operations	84	255	270	312
Capex	(93)	(95)	(90)	(90)
Disposal/(purchase)	(12)	13	0	0
Others	(50)	(57)	5	6
Cash flow from investing	(155)	(139)	(85)	(84)
Debt raised/(repaid)	312	(214)	(11)	20
Equity raised/(repaid)	10	(3)	0	0
Dividends (paid)	(17)	(30)	(37)	(45)
Interest payments	0	0	0	0
Others	(143)	77	(51)	(85)
Cash flow from financing	163	(171)	(98)	(110)
Change in cash	92	(54)	86	118

RATES & RATIOS

FYE Dec	2010A	2011A	2012F	2013F
Gross Profit Margin (%)	32.2	32.6	33.0	33.5
EBITDA Margin (%)	9.1	9.2	8.9	9.5
Op. Profit Margin (%)	5.8	6.0	6.7	7.3
Net Profit Margin (%)	2.8	4.1	5.3	5.9
ROA (%)	3.0	4.5	6.0	6.8
ROE (%)	8.7	12.7	14.9	15.2
Net Margin Ex. EI (%)	3.6	4.1	5.3	5.9
Net Gearing %	78.2	64.6	38.0	28.0
Asset Turnover (x)	1.0	1.1	1.1	1.1
Asset/Debt (x)	2.3	2.7	3.2	3.4
Debt/ EBITDA (x)	4.5	3.8	3.2	2.8
Debt/ Market Cap (x)	0.6	0.6	0.5	0.5
Interest Cover (x)	4.1	5.4	8.2	9.8
Dividend Cover (x)	4.6	5.7	5.7	5.7
Inventory Turn (days)	102.6	104.0	104.6	105.4
Debtors Turn (days)	66.7	67.0	67.0	67.0
Creditors Turn (days)	76.9	91.3	91.9	92.6

PER SHARE DATA

FYE Dec (USD)	2010A	2011A	2012F	2013F
EPS	0.06	0.09	0.12	0.14
BVPS	0.71	0.78	0.86	0.98
DPS	0.01	0.02	0.02	0.02
SPS	2.11	2.28	2.19	2.38
EBITDA/share	0.19	0.21	0.20	0.23
CFPS	0.05	0.16	0.15	0.17

Source: Company data, Kim Eng Securities

RESEARCH OFFICES

REGIONAL

ECONOMICS

P K BASU

Regional Head, Research & Economics
(65) 6432 1821 pk.basu@maybank-ke.com.sg

WONG Chew Hann, CA

Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

THAM Mun Hon

Regional Strategist
(852) 2268 0630 thammunhon@kimeng.com.hk

ONG Seng Yeow

Regional Products & Planning
(852) 2268 0644 ongsengyeow@maybank-ke.com.sg

Suhaimi ILIAS

Chief Economist
Singapore | Malaysia
(603) 2297 8682 suhaimi_iliash@maybank-ib.com

Luz LORENZO

Economist
Philippines | Indonesia
(63) 2 849 8836 luz_lorenzo@maybank-atrke.com

Chaiyachoke SUWISUTTANGKUL

Economist
Thailand
(662) 658 6300 chaiyachoke.s@maybank-ke.co.th

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686 wchewh@maybank-ib.com

- Strategy
- Construction & Infrastructure

Desmond CH'NG, ACA

(603) 2297 8680 desmond.chng@maybank-ib.com

- Banking - Regional

LIAW Thong Jung

(603) 2297 8688 tjliaw@maybank-ib.com

- Oil & Gas
- Automotive
- Shipping

ONG Chee Ting

(603) 2297 8678 ct.ong@maybank-ib.com

- Plantations

Mohshin AZIZ

(603) 2297 8692 mohshin.aziz@maybank-ib.com

- Aviation
- Petrochem
- Power

YIN Shao Yang, CPA

(603) 2297 8916 samuel.y@maybank-ib.com

- Gaming - Regional
- Media
- Power

WONG Wei Sum, CFA

(603) 2297 8679 weisum@maybank-ib.com

- Property & REITs

LEE Yen Ling

(603) 2297 8691 lee.yl@maybank-ib.com

- Building Materials
- Manufacturing
- Technology

LEE Cheng Hooi Head of Retail

chenghooi.lee@maybank-ib.com

- Technicals

HONG KONG / CHINA

Edward FUNG Head of Research

(852) 2268 0632 edwardfung@kimeng.com.hk

- Construction

Ivan CHEUNG

(852) 2268 0634 ivancheung@kimeng.com.hk

- Property
- Industrial

Ivan LI

(852) 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

Jacqueline Ko

(852) 2268 0633 jacquelineko@kimeng.com.hk

- Consumer Staples

Andy POON

(852) 2268 0645 andypoon@kimeng.com.hk

- Telecom & equipment

Samantha KWONG

(852) 2268 0640 samanthakwong@kimeng.com.hk

- Consumer Discretionaries

Alex YEUNG

(852) 2268 0636 alexyeung@kimeng.com.hk

- Industrial

Catherine CHAN

(852) 2268 0631 catherinechan@kimeng.com.hk

- Cement

Anita HWANG, CFA | Jacky WONG, CFA

anitahwang@kimeng.com.hk | jackywong@kimeng.com.hk

(852) 2268 0142 | (852) 2268 0107

- Special Situations
- Quants

INDIA

Jigar SHAH Head of Research

(91) 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas
- Automobile
- Cement

Anubhav GUPTA

(91) 22 6623 2605 anubhav@kimeng.co.in

- Metal & Mining
- Capital goods
- Property

Haripreet BATRA

(91) 226623 2606 haripreet@kimeng.co.in

- Software
- Media

Ganesh RAM

(91) 226623 2607 ganeshram@kimeng.co.in

- Telecom
- Contractor

Darpin SHAH

(91) 226623 2610 darpin@kimeng.co.in

- Banking & Financial Services

Gagan KWATRA

(91) 226623 2612 gagan@kimeng.co.in

- Small Cap

SINGAPORE

Stephanie WONG Head of Research

(65) 6432 1451 swong@maybank-ke.com.sg

- Strategy
- Small & Mid Caps

Gregory YAP

(65) 6432 1450 gyap@maybank-ke.com.sg

- Technology & Manufacturing
- Telcos - Regional

Wilson LIEW

(65) 6432 1454 wilsonliaw@maybank-ke.com.sg

- Hotel & Resort
- Property & Construction

James KOH

(65) 6432 1431 jameskoh@maybank-ke.com.sg

- Logistics
- Resources
- Consumer
- Small/ Mid cap

YEAK Chee Keong, CFA

(65) 6433 5730 yeakcheekeong@maybank-ke.com.sg

- Healthcare
- Offshore & Marine

Alison FOK

(65) 6433 5745 alisonfok@maybank-ke.com.sg

- Services
- S-chips

Bernard CHIN

(65) 6433 5726 bernardchin@maybank-ke.com.sg

- Transport
- Shipping
- Aviation

INDONESIA

Katarina SETIAWAN Head of Research

(62) 21 2557 1125 ksetiawan@kimeng.co.id

- Consumer
- Strategy
- Telcos

Lucky ARIESANDI, CFA

(62) 21 2557 1127 lariesandi@kimeng.co.id

- Base metals
- Coal
- Oil & Gas

Rahmi MARINA

(62) 21 2557 1128 rmarina@kimeng.co.id

- Banking
- Multifinance

Pandu ANUGRAH

(62) 21 2557 1137 panugrah@kimeng.co.id

- Auto
- Heavy equipment
- Plantation
- Toll road

Adi N. WICAKSONO

(62) 21 2557 1130 anwicaksono@kimeng.co.id

- Generalist

Anthony YUNUS

(62) 21 2557 1134 ayunus@kimeng.co.id

- Cement
- Infrastructure
- Property

Arwani PRANADJAYA

(62) 21 2557 1129 apranadjaya@kimeng.co.id

- Technicals

PHILIPPINES

Luz LORENZO Head of Research

+63 2 849 8836 luz_lorenzo@maybank-atrke.com

- Strategy

Laura Dy-LIACCO

(63) 2 849 8840 laura_dyliacco@maybank-atrke.com

- Utilities
- Conglomerates
- Telcos

Lovell SARREAL

(63) 2 849 8841 lovell_sarreal@maybank-atrke.com

- Consumer
- Media
- Cement
- Mining

Kenneth NERECINA

(63) 2 849 8839 kenneth_nerecina@maybank-atrke.com

- Conglomerates
- Property
- Ports/ Logistics

Katherine TAN

(63) 2 849 8843 kat_tan@maybank-atrke.com

- Banks
- Construction

THAILAND

Mayuree CHOWVIKARAN Head of Research

(66) 2658 6300 ext 1440 mayuree.c@maybank-ke.co.th

- Strategy

Maria BRENDA SANCHEZ LAPIZ Co-Head of Research

Dir (66) 2257 0250 | (66) 2658 6300 ext 1399

Maria.L@maybank-ke.co.th

Andrew STOTZ Strategist

(66) 2658 6300 ext 1399

Andrew@maybank-ke.co.th

Suttatip PEERASUB

(66) 2658 6300 ext 1430 suttatip.p@maybank-ke.co.th

- Media
- Commerce

Sutthichai KUMWORACHAI

(66) 2658 6300 ext 1400 sutthichai.k@maybank-ke.co.th

- Energy
- Petrochem

Termporn TANTIVIVAT

(66) 2658 6300 ext 1520 termporn.t@maybank-ke.co.th

- Property

Woraphon WIROONSRI

(66) 2658 6300 ext 1560 woraphon.w@maybank-ke.co.th

- Banking & Finance

Jaroopan WATTANAWONG

(66) 2658 6300 ext 1404 jaroopan.w@maybank-ke.co.th

- Transportation
- Small cap.

Suchot THIRAWANNARAT

(66) 2658 6300 ext 1550 suchot.t@maybank-ke.co.th

- Automotive
- Construction Materials
- Soft commodity

VIETNAM

Michael KOKALARI, CFA Head of Research

+84 838 38 66 47 michael.kokalari@kimeng.com.vn

- Strategy

Nguyen Thi Ngan TUYEN

+84 844 55 58 88 x 8081 tuyen.nguyen@kimeng.com.vn

- Food and Beverage
- Oil and Gas

Ngo Bich VAN

+84 844 55 58 88 x 8084 van.ngo@kimeng.com.vn

- Banking

Nguyen Quang DUY

+84 844 55 58 88 x 8082 duy.nguyenquang@kimeng.com.vn

- Rubber

Dang Thi Kim THOA

+84 844 55 58 88 x 8083 thoa.dang@kimeng.com.vn

- Consumer

Nguyen Trung HOA

+84 844 55 58 88 x 8088 hoa.nguyen@kimeng.com.vn

- Steel
- Sugar
- Macro

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Kim Eng Research uses the following rating system:

BUY	Total return is expected to be above 15% in the next 12 months
HOLD	Total return is expected to be between -15% to +15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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- Malaysia**
Maybank Investment Bank Berhad
 (A Participating Organisation of
 Bursa Malaysia Securities Berhad)
 33rd Floor, Menara Maybank,
 100 Jalan Tun Perak,
 50050 Kuala Lumpur
 Tel: (603) 2059 1888;
 Fax: (603) 2078 4194
- Stockbroking Business:
 Level 8, Tower C, Dataran Maybank,
 No.1, Jalan Maarof
 59000 Kuala Lumpur
 Tel: (603) 2297 8888
 Fax: (603) 2282 5136
- Philippines**
**Maybank ATR Kim Eng Securities
 Inc.**
 17/F, Tower One & Exchange Plaza
 Ayala Triangle, Ayala Avenue
 Makati City, Philippines 1200
- Tel: (63) 2 849 8888
 Fax: (63) 2 848 5738
- South Asia Sales Trading**
 Connie TAN
 connie@maybank-ke.com.sg
 Tel: (65) 6333 5775
 US Toll Free: 1 866 406 7447
- Singapore**
Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
 9 Temasek Boulevard
 #39-00 Suntec Tower 2
 Singapore 038989
- Tel: (65) 6336 9090
 Fax: (65) 6339 6003
- Hong Kong**
Kim Eng Securities (HK) Ltd
 Level 30,
 Three Pacific Place,
 1 Queen's Road East,
 Hong Kong
- Tel: (852) 2268 0800
 Fax: (852) 2877 0104
- Thailand**
**Maybank Kim Eng Securities
 (Thailand) Public Company
 Limited**
 999/9 The Offices at Central World,
 20th - 21st Floor,
 Rama 1 Road Pathumwan,
 Bangkok 10330, Thailand
- Tel: (66) 2 658 6817 (sales)
 Tel: (66) 2 658 6801 (research)
- North Asia Sales Trading**
 Eddie LAU
 eddielau@kimeng.com.hk
 Tel: (852) 2268 0800
 US Toll Free: 1 866 598 2267
- London**
**Maybank Kim Eng Securities
 (London) Ltd**
 6/F, 20 St. Dunstan's Hill
 London EC3R 8HY, UK
- Tel: (44) 20 7621 9298
 Dealers' Tel: (44) 20 7626 2828
 Fax: (44) 20 7283 6674
- Indonesia**
PT Kim Eng Securities
 Plaza Bapindo
 Citibank Tower 17th Floor
 Jl Jend. Sudirman Kav. 54-55
 Jakarta 12190, Indonesia
- Tel: (62) 21 2557 1188
 Fax: (62) 21 2557 1189
- Vietnam**
In association with
**Kim Eng Vietnam Securities
 Company**
 1st Floor, 255 Tran Hung Dao St.
 District 1
 Ho Chi Minh City, Vietnam
- Tel : (84) 838 38 66 36
 Fax : (84) 838 38 66 39
- New York**
**Maybank Kim Eng Securities USA
 Inc**
 777 Third Avenue, 21st Floor
 New York, NY 10017, U.S.A.
- Tel: (212) 688 8886
 Fax: (212) 688 3500
- India**
Kim Eng Securities India Pvt Ltd
 2nd Floor, The International 16,
 Maharishi Karve Road,
 Churchgate Station,
 Mumbai City - 400 020, India
- Tel: (91).22.6623.2600
 Fax: (91).22.6623.2604
- Saudi Arabia**
In association with
Anfaal Capital
 Villa 47, Tujjar Jeddah
 Prince Mohammed bin Abdulaziz
 Street P.O. Box 126575
 Jeddah 21352
- Tel: (966) 2 6068686
 Fax: (966) 26068787

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