Maybank IB Research

Shariah Compliant

Automotive

Malaysia

Bermaz Auto Berhad (BAUTO MK)

IA21: Key takeaways

BUY

Share Price	MYR 1.53
12m Price Target	MYR 2.25 (+47%)
Previous Price Target	*MYR 2.25*

Ready to electrify. BUY.

BAuto is ready to ride on the electrification growth with a line-up of EVs (Kia, Peugeot & Mazda), ready to roll out once MY unveils its EV policy (expected in Jul). It has set short & long-term targets to: (i) revive Peugeot & Kia and (ii) sell 30k units (Mazda, Kia & Peugeot). BAuto remains one of our key picks in the sector. It offers visible growth, strong management acumen, attractive dividend yields and inexpensive valuations. Our TP is pegged to 16x FY22 PER (mean valuation).

3 KEY topics at our IA21

We recently hosted BAuto's top senior management at our IA21 event on 7 Jul. The main conversation topics were on: (i) its electrification plans, (ii) reviving the Kia and Peugeot marques and (iii) updates on Mazda's performance and outlook in MY and the PH.

Get ready to be excited of its EVs pipeline

BAuto offers an insight into its electrification plans in MY. It plans to bring in the following EV models: (i) Kia's flagship EV6 and Niro (BEVs) and Sportage (PHEV), (ii) Peugeot's CBUs 3008 (BEVs), 508 (HEV) & (iii) Mazda's MX-30 (BEV), (subject to Principals' approvals), if MY's upcoming EV policy is attractive. It has identified private charging operators (PCOs) to collaborate with, on the EV charging infrastructure (to address range-anxiety issues). Its EV models will have subscription-based plans (for batteries; key cost component of EVs - to address cost/ warranty issues).

Has plans to revive Kia & Peugeot and grow Mazda

BAuto remains committed to turning around these new marques by 2022. It is optimistic of addressing legacy issues (parts availability, customer satisfaction & after-sales services). It will CKD 3 Kia models in MY (new Sportage (ICEV & PHEV), Carnival (MPV) & Seltos). It will also introduce the new face-lifted Puegeot 3008 & 5008 CKD models in Jul and 2008 in Nov/ Dec. It targets to achieve 1.5k-1.8k units sales for FY22 (242 units in FY21; from Dec 2020). As for Mazda, the introduction of its new CX3 is on schedule (Jul). It targets to CKD another model in FY23 and is confident of its PH ops turning around in FY22, on lower OPEX, inventory and higher sales (+41% YoY; to 1.8k units), aided by the introduction of its BT-50 model.

FYE Apr (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,755	2,288	2,745	3,695	4,478
EBITDA	120	167	207	322	378
Core net profit	104	131	161	237	270
Core EPS (sen)	9.0	11.3	13.9	20.4	23.3
Core EPS growth (%)	(60.6)	25.2	23.3	46.7	14.3
Net DPS (sen)	7.5	6.5	8.3	12.2	14.0
Core P/E (x)	15.1	13.1	11.0	7.5	6.6
P/BV (x)	3.4	3.0	2.7	2.2	1.9
Net dividend yield (%)	5.5	4.4	5.4	8.0	9.1
ROAE (%)	19.5	25.8	26.4	32.7	31.5
ROAA (%)	9.3	9.9	11.1	14.0	14.0
EV/EBITDA (x)	13.9	11.3	9.4	6.0	5.0
Net gearing (%) (incl perps)	7.2	19.6	14.3	7.2	1.1
Consensus net profit	-	-	148	175	na
MKE vs. Consensus (%)	-	-	9.0	35.6	na

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

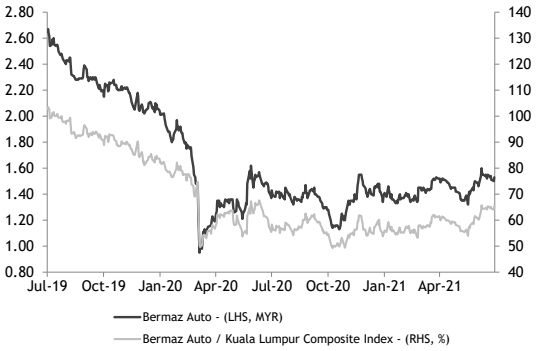
Company Description

Franchise holders and sole distributors of: (i) Mazda, Peugeot and Kia vehicles in Malaysia and (ii) Mazda in the Philiippines.

Statistics

52w high/low (MYR)	1.60/1.13
3m avg turnover (USDm)	0.6
Free float (%)	63.4
Issued shares (m)	1,164
Market capitalisation	MYR1.8B
	USD425M
Major shareholders:	
Employees Provident Fund	16.5%
Dynamic Milestone Sdn. Bhd.	13.5%
Permodalan Nasional Bhd.	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	1	10
Relative to index (%)	6	6	17

Source: FactSet

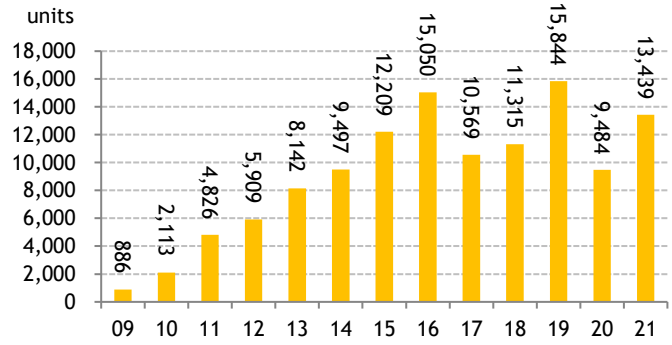
ESG@MKE

Tear Sheet Insert

Value Proposition

- The exclusive distributor for: (i) Mazda & Kia vehicles in Malaysia (CKD & CBU models) and (ii) Mazda in the Philippines (CBU models via a 60% stake in Berjaya Auto Philippines).
- Appointed as the sole distributor of Peugeot marque in Malaysia in Dec 2020, via a 20% stake in Berjaya Auto Alliance S/B (BAASB). Raised its stakes at BAASB to 55% in Jun 2021.
- Its 30%/ 33%-owned associate, Mazda Malaysia S/B (MMSB)/ Kia Malaysia S/B (KMSB) is involved in the local assembly of Mazda/ Kia vehicles at 3rd party Inokom's (29%-owned) manufacturing facility in Kulim, Kedah, a right granted by Mazda Japan/ Kia Korea in 2010/ 2021.
- Vehicle sales reached a high in FY19 due to the zero-GST impact from Jun-Aug 2020.

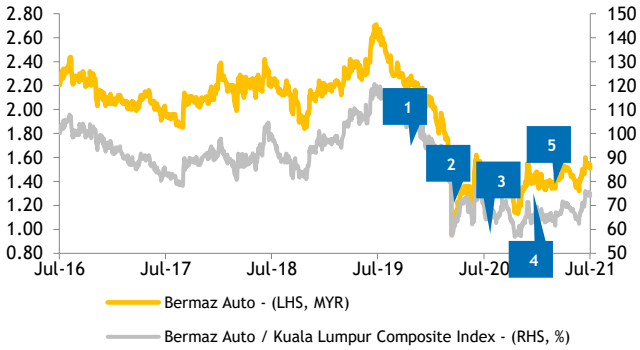
Mazda vehicle sales in MY (FY09-FY21)



Source: Company

Price Drivers

Historical share price trend



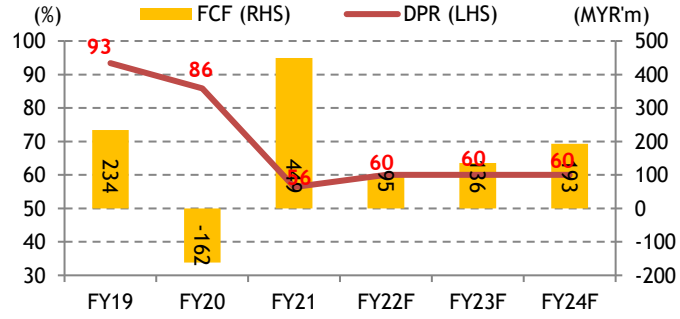
Source: Company, Maybank Kim Eng

1. MCO started in Mar 2020, affecting vehicle sales & production in Apr, May & Jun 2020.
2. SST exemption policy from mid-Jun 2020.
3. Talks of BAuto looking for a new franchise (Kia & Peugeot) beyond Mazda emerge.
4. Appointed as the sole distributor of Peugeot marque in Malaysia since Dec 2020, via a 20% stake in Berjaya Auto Alliance S/B (BAASB).
5. Secured its 3rd franchise – Kia in Apr 2021.

Financial Metrics

- ASP, vehicle sales volume, margins, forex and opex are BAuto's key earnings drivers for its operations. Variation in any of these parameters will impact profitability.
- Earnings are expected to be weak in FY20 as operations (sales & production) are disrupted by Malaysia's MCO since Mar 2020 due to the COVID-19 pandemic. This is moderated by the SST exemption that came about from mid-Jun 2020.
- Nimble balance sheet. Constantly generates decent positive FCFs (ex-FY20). Its consistent dividends are a key appeal.

FCF and DPR trends



Source: Company

Swing Factors

Upside

- New model launches, rebates, incentives (i.e. zero GST, SST) will spur volume sales.
- Higher/ special dividend payment serves as a potential positive catalyst.
- Adding a new franchise, with big growth potential and minimal capital is another catalyst, for it de-risks BAuto's sole dependence on Mazda.

Downside

- A sharp downturn in consumer sentiment in the MY and PH markets may affect its vehicle sales volume.
- Loss/ non extension of its Mazda franchise is a key risk.
- Supply chain disruption. BAuto is dependent on its automotive OEMs (Mazda, Peugeot, Kia) for the supply of vehicles and CKD components.
- Forex volatility, especially JPY/MYR, will affect BAuto's earnings, especially for its CBU vehicles.

tjliaw@maybank-ib.com

ESG@MKE

tjliaw@maybank-ib.com

Risk Rating & Score[1]	Low & 10.5
Score Momentum[2]	+0.0
Last Updated	1 Jun 2021
Controversy Score[3] (Updated: 1 Jun 2021)	0

Business Model & Industry Issues

- The franchise holder of: (i) Mazda in MY (CKD & CBU models) and the PH (CBU models, via its 60% stake at Berjaya Auto PH), (i) Kia in MY (CKD & CBU models) and (iii) Peugeot (distributor) in MY, via its 55% stake in Berjaya Auto Alliance S/B (BAASB).
- It is a constituent of the FTSE4Good index Series.
- Has consistently disclosed its natural capitals data. Aims to roll out its short-mid-long-term ESG targets.
- We are positive on BAuto's accelerating integration of ESG factors and targets into its operating model. Pursuing its electrification agenda, with the support from its principal partners, will further improve its ESG parameters.

Material E issues

- BAuto's environmental policy is closely correlated to its principal partner's standards/ practices; Mazda, which:
  i. *aims to reduce its corporate average well-to—wheel CO^2 emissions by 50% in 2030 and 90% by 2050 (from 2010's levels); and,*
  ii. *plans to equip all its ICE cars with some form of electrification technology and targeting 5% of its sales to be BEVs by 2030.*
- In FY20, BAuto's CO^2 emissions from:
  i. *Scope 1 (from company-owned vehicles) totalled 872k tonnes (+1.5% YoY). MY accounted for 89% (+1ppts YoY) of the amount,*
  ii. *Scope 2 (from purchased electricity) was 2,195 tonnes (-2% YoY); {MY:PH ratio = 98:2}; and*
  iii. *Scope 3 (from air travel) was at 237 tonnes (+65% YoY). (MY:PH ratio = 84:16).*
- Generated: (i) 213 tonnes (+36% YoY) of scheduled waste (84% of that was relating to lubricating oil) and (ii) disposed 1,800 kg of solid waste in FY20 (unchanged YoY).
- Consumed: (i) 3,749,334 kWh (-2% YoY) of electricity (MY: PH = 98: 2) and (ii) 29,092 m^3 of water (-9% YoY) in FY20. It practises rainwater harvesting.

Material S issues

- Adopts these policies: (i) equal treatment & non-discrimination/ harassment, (ii) anti-bribery & corruption, (iii) whistle blowing & (iv) no child labour, to name a few.
- Has a diversified workforce of 717 staff (+10% YoY) across 2 countries (MY: 91%: PH: 9%), with a turnover rate of 8.3% (-2.0-ppts) in MY/ 14.3% (-9.7-ppts) in PH in FY20.
- 51%/ 26%/ 13%/ 10% of its workforce are of <30 / 30-40/ 40-50/ >50 years old brackets respectively.
- Female makes up 30% of the workforce. Female representation in the top management level is at 24%.
- 14,730 hours of training in FY20. MY/ PH employees received 22.3 hours/ 1.9 hours (per staff) of training time. Mazda Medicare Fund (MMF) has contributed more than MYR20m since it started in 2015, helping 181 patients.

Key G metrics and issues

- BAuto is a constituent of the FTSE4Good index Series.
- The Board is comprised of members with relevant knowledge, skills, experience, and areas of expertise in discharging its duties.
- BAuto's board comprised of 7 directors – 5 independent non-executive directors (INEDs), 1 Chairman/ Executive Director (ED) and 1 CEO/ ED.
- Adopts board diversify policy. The company has 29% of women representation on the Board.
- Tenure of an INED shall not exceed a cumulative term of 9 years, under its Board Charter. However, upon completion of the 9 years, the INEDs may continue to serve in that capacity with annual approval from shareholders.
- Dynamic Milestones S/B – a major shareholder of BAuto has 2 board seats and holds the Chairman/ ED and CEO/ ED positions.
- The BODs total remuneration packages of MYR7.9m for FY20 accounted for 6% of its PBT of MYR132m.
- Established the following board committees: (i) audit, (ii) nomination, (iii) remuneration, (iv) risk manage-ment, (v) sustainability working and (vi) employees' share scheme, which consist of a majority of INEDs.
- Its Audit Committee members comprises entirely of non-executive directors (INEDs). The Chairman of the audit committee is appointed by the Board and not the Chairman of the board.
- The Risk Management Committee is made up of 4 INEDs, 1 Executive Chairman and 1 CEO.
- Audited by Ernst & Young PLT (EY), one of the Big Four accounting firms. The BODs re-appointed EY as their external auditor for FY20.
- Berjaya Group ceased as a major shareholder in 2016. It sold 79.1m shares to the management @ MYR2.10/shr and placed out 146.5m shares to the market thereafter.
- RPT: Charges 30%-owned MMSB: (i) management fees income (MYR2.3m p.a.) for provision of services (i.e. accounting, advisory, treasury, logistics support, car inspection) and (iii) rental income (MYR0.3m p.a.) at its HQ. RPT is small, below 1% of FY20 revenue.

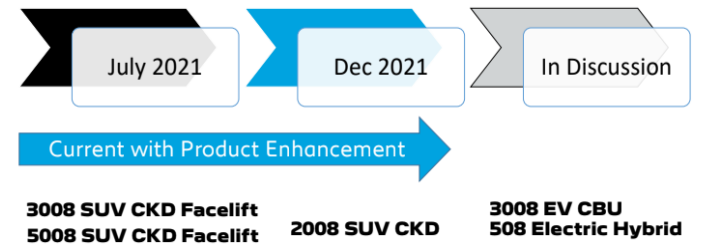
[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

BAuto's auto stats (unit)

FY Apr	2020	2021	2022F	2023F	2024F
Mazda					
- MY (100%)	9,484	13,439	12,970	13,752	14,712
- PH (60%)	2,227	1,245	1,750	2,440	2,440
Kia					
- MY (100%)			2,000	6,000	10,000
Peugeot					
- MY (55%)	-	242*	1,400	2,800	3,500

*Note: *20% equity stake from Dec 2021 to Jun 2021*
Source: Company, Maybank Kim Eng

Peugeot's product lineups for 2021



Source: Company

Peugeot's CKD 2008 SUV (Dec 2021)

Source: Company

Peugeot's CKD 3008 SUV facelift (Jul 2021)

Source: Company

Peugeot's CKD 5008 SUV facelift (Jul 2021)

Source: Company

Peugeot's 508 electric hybid (HEV) - in discussion

Source: Company

Peugeot's 3008 (BEV) - in discussion

Source: Company

Kia's product lineups for 2021

Source: Company

Kia's EV6 (BEV) - in discussion

Source: Company

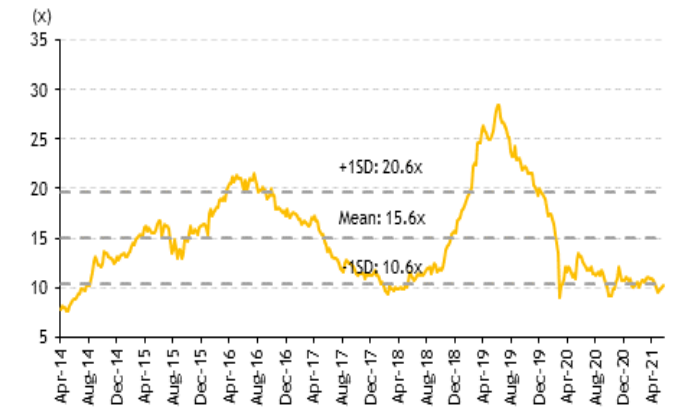
Kia's Niro (BEV) - in discussion

Source: Company

Kia's Sportage (PHEV) - in discussion (2022)

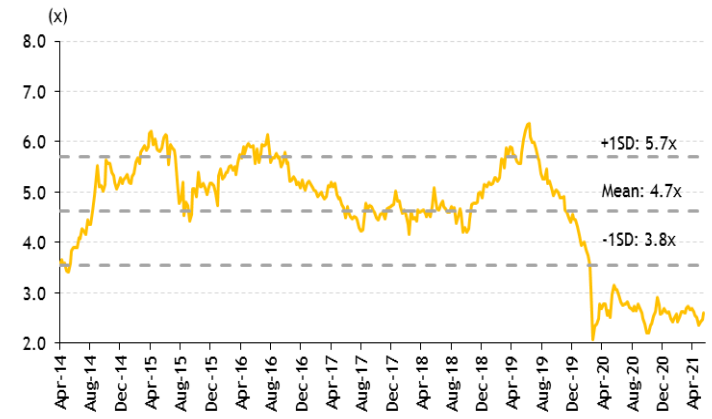
Source: Company

1-year forward PER



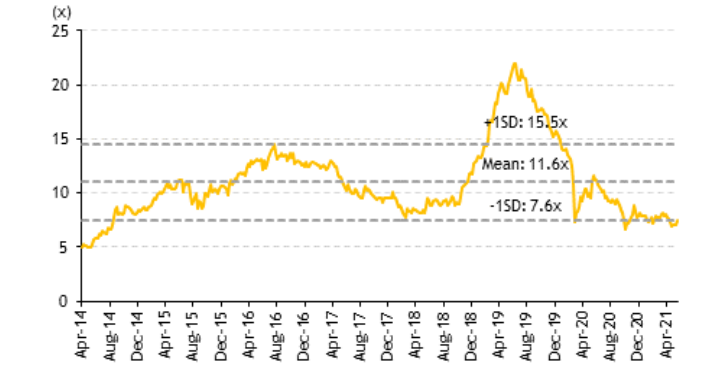
Source: Company, Maybank KE

1-year forward PBV



Source: Company, Maybank KE

1-year forward EV/ EBITDA



Source: Company, Maybank KE

FYE 30 Apr	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	24.0	12.1	11.0	7.5	6.6
Core P/E (x)	15.1	13.1	11.0	7.5	6.6
P/BV (x)	3.4	3.0	2.7	2.2	1.9
P/NTA (x)	3.4	3.0	2.7	2.2	1.9
Net dividend yield (%)	5.5	4.4	5.4	8.0	9.1
FCF yield (%)	nm	26.1	5.3	7.6	10.9
EV/EBITDA (x)	13.9	11.3	9.4	6.0	5.0
EV/EBIT (x)	14.4	11.7	9.6	6.1	5.1
INCOME STATEMENT (MYR m)					
Revenue	1,755.4	2,287.9	2,745.3	3,695.4	4,478.1
EBITDA	120.1	166.8	207.2	321.9	378.3
Depreciation	(4.4)	(4.9)	(4.9)	(4.9)	(4.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	115.8	161.9	202.3	317.0	373.4
Net interest income /(exp)	(6.7)	(12.8)	(19.9)	(29.6)	(29.6)
Associates & JV	26.5	20.5	32.2	40.0	42.5
Exceptionals	(3.7)	3.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	132.0	172.7	214.5	327.3	386.2
Income tax	(27.9)	(41.1)	(45.1)	(68.7)	(81.1)
Minorities	(3.2)	2.4	(8.2)	(22.0)	(34.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	100.8	133.9	161.3	236.5	270.3
Core net profit	104.5	130.8	161.3	236.5	270.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	100.2	84.6	204.1	243.0	294.6
Accounts receivable	107.5	131.3	157.5	212.1	257.0
Inventory	684.6	239.1	286.9	386.2	468.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	38.7	37.2	42.3	47.4	52.5
Intangible assets	0.5	0.5	0.5	0.5	0.5
Investment in Associates & JVs	210.4	233.3	265.5	305.5	348.0
Other assets	146.5	617.0	617.0	617.0	617.0
Total assets	**1,288.4**	**1,343.1**	**1,573.9**	**1,811.8**	**2,037.6**
ST interest bearing debt	137.7	105.7	105.7	105.7	105.7
Accounts payable	349.5	183.1	219.7	295.8	358.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	99.8	200.0	200.0	200.0
Other liabilities	280.0	337.0	337.0	337.0	337.0
Total Liabilities	**767.2**	**725.7**	**862.6**	**938.6**	**1,001.3**
Shareholders Equity	470.1	567.2	653.0	792.7	921.1
Minority Interest	51.2	50.2	58.4	80.4	115.3
Total shareholder equity	**521.2**	**617.4**	**711.4**	**873.2**	**1,036.3**
Total liabilities and equity	**1,288.4**	**1,343.1**	**1,573.9**	**1,811.8**	**2,037.6**
CASH FLOW (MYR m)					
Pretax profit	132.0	172.7	214.5	327.3	386.2
Depreciation & amortisation	4.4	4.9	4.9	4.9	4.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(230.5)	(204.3)	(37.4)	(77.8)	(64.1)
Cash taxes paid	(27.9)	(41.1)	(45.1)	(68.7)	(81.1)
Other operating cash flow	(25.2)	521.0	(32.2)	(40.0)	(42.5)
Cash flow from operations	(147.2)	453.1	104.8	145.7	203.5
Capex	(15.0)	(3.6)	(10.0)	(10.0)	(10.0)
Free cash flow	(162.2)	449.5	94.8	135.7	193.5
Dividends paid	(53.8)	(37.2)	(75.5)	(96.8)	(141.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	137.7	67.7	100.2	0.0	0.0
Other invest/financing cash flow	(141.6)	(495.6)	0.0	0.0	0.0
Effect of exch rate changes	5.0	(1.1)	0.0	0.0	0.0
Net cash flow	(214.9)	(16.7)	119.5	38.9	51.5

FYE 30 Apr	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(30.3)	30.3	20.0	34.6	21.2
EBITDA growth	(59.4)	38.9	24.2	55.4	17.5
EBIT growth	(60.4)	39.9	24.9	56.7	17.8
Pretax growth	(61.2)	30.8	24.2	52.6	18.0
Reported net profit growth	(61.8)	32.8	20.4	46.7	14.3
Core net profit growth	(60.6)	25.2	23.3	46.7	14.3
Profitability ratios (%)					
EBITDA margin	6.8	7.3	7.5	8.7	8.4
EBIT margin	6.6	7.1	7.4	8.6	8.3
Pretax profit margin	7.5	7.5	7.8	8.9	8.6
Payout ratio	85.8	56.4	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	5.7	5.9	5.9	6.4	6.0
Revenue/Assets (x)	1.4	1.7	1.7	2.0	2.2
Assets/Equity (x)	2.7	2.4	2.4	2.3	2.2
ROAE (%)	19.5	25.8	26.4	32.7	31.5
ROAA (%)	9.3	9.9	11.1	14.0	14.0
Liquidity & Efficiency					
Cash conversion cycle	75.0	54.4	28.4	27.1	28.4
Days receivable outstanding	21.1	18.8	18.9	18.0	18.9
Days inventory outstanding	116.2	84.0	40.5	38.9	40.7
Days payables outstanding	62.2	48.5	31.0	29.8	31.1
Dividend cover (x)	1.2	1.8	1.7	1.7	1.7
Current ratio (x)	1.6	2.4	2.7	2.6	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.9	1.8	1.9	2.0
Net gearing (%) (incl perps)	7.2	19.6	14.3	7.2	1.1
Net gearing (%) (excl. perps)	7.2	19.6	14.3	7.2	1.1
Net interest cover (x)	17.4	12.6	10.2	10.7	12.6
Debt/EBITDA (x)	1.1	1.2	1.5	0.9	0.8
Capex/revenue (%)	0.9	0.2	0.4	0.3	0.2
Net debt/ (net cash)	37.5	120.8	101.6	62.6	11.1

Source: Company; Maybank

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

LEE Ju Ye
Singapore | Thailand | Indonesia
(65) 6231 5844
leejuye@maybank.com

Linda LIU
Singapore | Vietnam |
Cambodia | Myanmar | Laos
(65) 6231 5847
lindaliu@maybank.com

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh@maybank-ib.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, ACA
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

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

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional
• Automotive

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property • Glove

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Technology

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Fahmi FARID
(603) 2297 8676 fahmi.farid@maybank-ib.com
• Software

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigars@maybank.com
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 4223 2606 neerav@maybank.com
• Software Technology • Telcos

Vikram RAMALINGAM
(91) 22 4223 2607
vikram@maybank.com
• Automobile • Media

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank.com
• REITs - Regional

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank.com
• Technology • Healthcare

Kareen CHAN
(65) 6231 5926 kareenchan@maybank.com
• Transport • Telcos • Consumer

Eric ONG
(65) 6231 5924 ericong@maybank.com
• SMIDs

Matthew SHIM
(65) 6231 5929
matthewshim@maybank.com
• Retail Research

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Benedict CLEMENTE
(63) 2 8849 8846
benedict.clemente@maybank.com
• Utilities

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank-kimeng.com.vn
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8085
dung.nguyen@maybank-kimeng.com.vn
• Utilities • Property

Tran Thi Thu Thao
(84 28) 44 555 888 ext 8180
thao.tran@maybank-kimeng.com.vn
• Industrials

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Retail Research

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement
• Autos • Consumer • Utility

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank-ke.co.id
• Consumer

Farah OKTAVIANI
(62) 21 8066 8691
farah.oktaviani@maybank-ke.co.id
• Construction

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Services

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

Kaushal LADHA, CFA
(66) 2658 6300 ext 1392
Kaushal.l@maybank-ke.co.th
• Oil & Gas – Regional
• Petrochemicals - Regional
• Utilities

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank-ke.co.th
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P @maybank-ke.co.th
• Services • Healthcare

Ekachai TARAPORNTIP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Food & Beverage • Commerce

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanaphat.s@maybank-ke.co.th
• Media • Electronics

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Theerasate PROMPONG
(66) 2658 5000 ext 1400
theerasate.p@maybank-ke.co.th
• Equity Portfolio Strategist

Apiwat TAVESIRIVATE
(66) 2658 5000 ext 1310
apiwat.t@maybank-ke.co.th
• Chartist and TFEX

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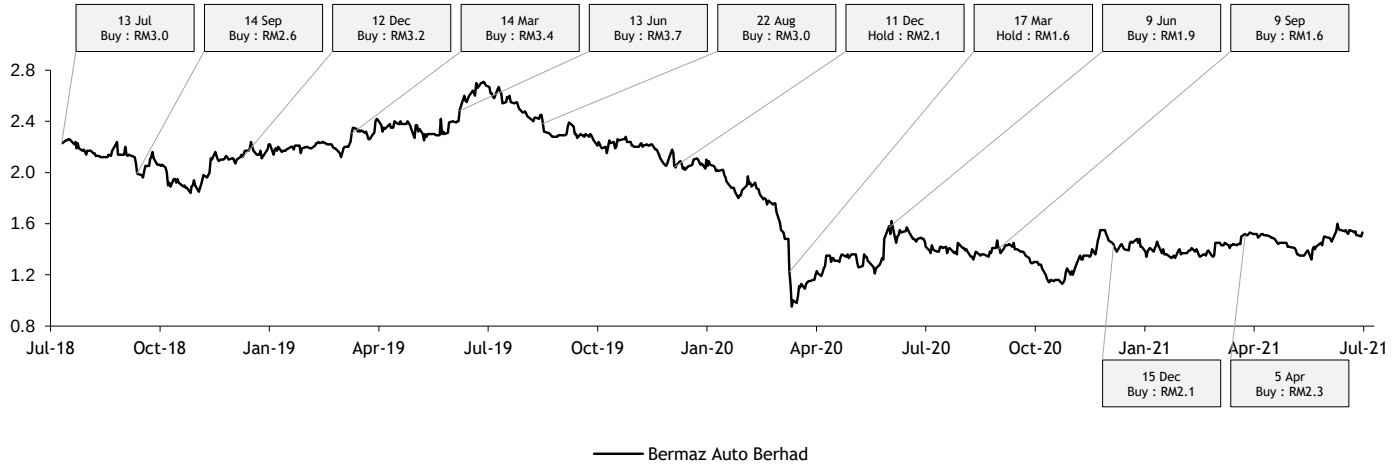

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Malaysia

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

Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Hong Kong

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

London

Maybank Kim Eng Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Indonesia

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

New York

Maybank Kim Eng Securities USA Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

India

Kim Eng Securities India Pvt Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

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)

Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

Saudi Arabia

In association with
Anfaal Capital
Ground Floor, KANOO Building
No.1 - Al-Faisaliyah,Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423

South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia
Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

New York
James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Philippines
Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

London
Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

India
Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629