

Westports Holdings (WPRTS MK)

Lingering uncertainties

Higher container yield boost results

MYR735m FY21 CNP was above our expectation but within consensus at 103%/91% respectively; the former, from much higher blended container yield on higher VAS revenue (extraordinarily high demand for reefer and storage needs) and a slight improvement in container handling charges. We tweaked up FY22-23E EPS on better container yield assumptions and introduce FY24E. Maintain HOLD with a new DCF-TP of MYR3.99 (WACC: 7.5%, LTG: 2%); stock is fairly-valued at 12M fwd PER of 21.0x (5Y mean: 21.4x), 3.6% FY22E DY. A 2nd interim DPS of 9.28sen brings FY21 to 18sen.

Core net margin improved, but might not sustain

4Q21 revenue of MYR494m (ex- construction revenue) improved by 4% YoY despite an 11% YoY container throughput volume fall, as blended yield ballooned to MYR176/TEU (+18% YoY). Conventional revenue rose 4% YoY on higher break bulk ingot volume and RORO units handled. 4Q21 CNP jumped 17% YoY to MYR191m as core net margin improved from lower admin expenses, finance costs (after MYR150m Sukuk repayment in 2021) and tax rate (reversal of deferred taxes). This is despite the 63% surge in fuel costs YoY as oil price trended higher. Notwithstanding the good results, the VAS revenue surge and lower costs may not sustain.

Yard congestion hurts operational capacity

FY21 container throughput volume declined 1% YoY (gateway: -3% YoY; transshipment: 0% YoY) despite high demand from shipping lines as handling capacity was constrained by yard congestion. Yard congestion has since eased, at c.85-90% utilization in Jan 2022, vs. 95% in 4Q21. Into FY22E, guidance is for a flat-to-low single digit container volume growth, assuming logistics bottleneck eases by 2H22. Jan MTD, Westports has seen slightly lower container volume handled YoY. We project a small 2% container throughput volume growth in FY22E, in line with guidance.

Maintain HOLD; risk-reward balanced

WPRTS's near term catalyst is lacking; risk-reward is balanced. While the easing of port congestion could provide some upside to throughput volume, this could come at lower margins (vs. higher margins from VAS revenue). Also, higher fuel costs will further pressure margins. W2 expansion plan progress remains highly uncertain, which could delay WPRTS's recovery from the pandemic-led supply chain disruptions.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,836	1,978	1,947	2,036	2,110
EBITDA	1,210	1,267	1,285	1,346	1,395
Core net profit	673	735	637	779	834
Core EPS (sen)	19.7	21.6	18.7	22.8	24.5
Core EPS growth (%)	4.5	9.2	(13.4)	22.3	7.1
Net DPS (sen)	11.5	17.8	14.0	17.1	18.3
Core P/E (x)	21.8	18.8	21.0	17.2	16.0
P/BV (x)	5.2	4.4	4.1	3.8	3.6
Net dividend yield (%)	2.7	4.4	3.6	4.4	4.7
ROAE (%)	25.0	27.1	19.9	23.0	23.3
ROAA (%)	13.0	13.8	11.7	13.9	14.5
EV/EBITDA (x)	12.6	11.3	10.8	10.1	9.5
Net gearing (%) (incl perps)	20.7	18.0	17.4	6.1	net cash
Consensus net profit	-	-	676	778	na
MKE vs. Consensus (%)	-	-	(5.8)	0.1	na

Anand Pathmakanthan

anand.pathmakanthan@maybank-ib.com

(603) 2297 8783

HOLD

Share Price	MYR 3.92
12m Price Target	MYR 3.99 (+5%)
Previous Price Target	MYR 3.92

Company Description

Westports Holdings Bhd is a key transshipment port at Straits of Malacca and is also a key port in Malaysia serving the Klang Valley area.

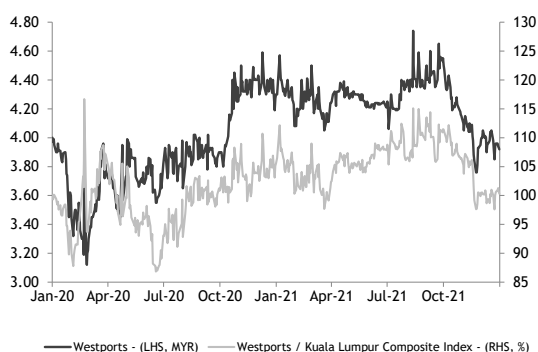
Statistics

52w high/low (MYR)	4.74/3.76
3m avg turnover (USDm)	2.0
Free float (%)	23.3
Issued shares (m)	3,410
Market capitalisation	MYR13.4B
	USD3.2B

Major shareholders:

Pembinaan Redzai Sdn. Bhd.	42.4%
South Port Investment Holdings Ltd.	23.5%
Employees Provident Fund	7.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(14)	(9)
Relative to index (%)	0	(10)	(5)

Source: FactSet

Acronyms

TEU - twenty-foot equivalent unit (1 container)
W2 - "Westports 2"

DCF - discounted cash flow

LTG - long-term growth

NP - net profit

TP - target price

WACC - weighted average cost of capital

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Tear Sheet Insert

Risk Rating & Score¹	11.2 (Low)
Score Momentum²	-1.3
Last Updated	07 Dec 2021
Controversy Score³ (Updated: 03 Dec 2021)	1 - Business Ethics Incidents (Accounting & Tax)

Business Model & Industry Issues

- Westports is the largest port operator in Malaysia and also the 12th busiest port globally with an annual capacity of 14m TEUs. Its success is mainly attributable to its strategic location, deep channel and world-class efficiency.
- The group consistently complies with the various environmental, safety and regulatory standards and also aims to make sustainability its core mission. Additionally, we note that Westports is one of only a few listed entities in Malaysia that issue a comprehensive Sustainability Report (since 2016) in accordance with the internationally-recognised GRI Standards.
- In our view, Westports is a sustainable port operator and is well-positioned to capitalise on global economic growth, with its related expansion in trade activities in the years ahead. The “Westports 2” concession (doubling capacity to 28m TEUs) could be finalised by 1Q22, after which the first new berth should commence operation in 2025.

Material E issues

- Its sites have been certified with ISO 14001 (International Standards for Effective Environmental Management System) since 2009.
- Diesel consumption - In FY20, it consumed 50m litres of diesel (flat YoY). It plans to reduce its reliance on diesel through optimizing its fleet of tractors/RTG cranes and potentially sourcing for alternative fuel (i.e. B7 biodiesel).
- Energy efficiency - In FY20, energy intensity increased by 22% to 11.4 kWh/TEU. Mgmt aims to reduce this via the implementation of a digital power metering project.
- Scheduled waste disposal - In FY20, scheduled waste disposal decreased to 254,854kg (-18.4% YoY).
- Oil spill contingency plan - It has a comprehensive and effective oil spill response plan (OSCP) in place.
- Hydraulic oil recycling - In FY20, it increased its volume of recycled hydraulic oil by 76% YoY to 13.4 tonnes
- Mangrove planting - As of 2020, it has planted 5,988 trees through various public-private partnerships since 2015.
- For “Westports 2”, it has completed a preliminary detailed Environmental Impact Assessment (EIA) and it has obtained approval from the local port authority to proceed with the plan and negotiations for “Westports 2”.

Material S issues

- Male employees account for 98% of its total workforce. However, <0.1% of its employees are foreigners.
- Employee benefits (compensation, medical, training) are given to the employees on an annual basis. In FY20, training hours per employee decreased 58% YoY due to Covid-19 lockdown-related implementation restrictions.
- It is currently in the process of migrating to the new ISO 45001 standard (Occupational Health and Safety). In FY20, the number of incidents per 100K TEUs increased to 6.8 (FY19: 5.7) for its container operations. However, there were no cases reported for the conventional operations.
- Since 2017, the group has contributed c.MYR9m in social development of the surrounding area of its port location, Pulau Indah. Additionally, c.37% of its total workforce originate from Pulau Indah and its surrounding areas.

Key G metrics and issues

- The Board has a total of 13 members, out of which 8 are independent directors (or 62% of the Board; minimum requirement is 50%).
- There are 4 women directors on the Board, representing 31% of the board. The minimum requirement for female representation is 30%.
- The Chairman is Tan Sri Datuk G. Gnanalingam while the Group Managing Director is Datuk Ruben Emir Gnanalingan (Chairman's eldest son). Collectively, the family holds a 45.5% stake in Westports.
- Hutchison Port Holdings, through South Port Investment Holdings Limited, is the second biggest shareholder, holding a 23.6% stake in Westports. It has 2 non-executive directors on the Board.
- All 4 committees are chaired by and comprised of an independent majority (100% for the Audit/Sustainability committees; 67% for the Nomination & Remuneration / Risk Management committees).
- In FY20, directors' remuneration accounted for 4% of group's net profit and 2% of group-wide employee compensation.
- Deloitte has been the group's external auditor since 2018. Prior to that, the group was audited by KPMG for a 5-year period since its listing in 2013.
- In FY20, related party transactions were insignificant at MYR4.4m (FY19: MYR3.1m).
- In Feb 2020, the group signed an SPA for the MYR394m purchase of a 146ha land at Pulau Indah (next to the existing sites) from the major shareholder, Gnanalingam family. At the EGM in May 2020, 99.99% of the shareholders (ex-Gnanalingam family) voted for the land acquisition as the land is vital to the group's future expansion and the valuation was deemed fair by the independent valuer.
- In Mar 2021, the group signed an SPA for the MYR230m purchase of the Boustead Cruise Centre (BCC) in a 50:50 JV with MMC Corp-owned Northport. The purchase price was deemed fair as it valued BCC at 0.8x FY20 P/BV and was also c.20% below the ind. valuer's estimate (MYR289m).
- The group has a strong whistleblowing policy. In FY19, the group began incentivising reporting with cash rewards.

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).

Figure 1: WPRTS results summary table

	4Q21	4Q20	YoY %	3Q21	QoQ %	FY20	FY21	YoY %
Revenue (exclude construction)	494.0	473.0	4.4	498.2	(0.8)	1,835.8	1,977.8	7.7
Gross profit	359.4	351.5	2.3	368.1	(2.4)	1,442.7	1,468.7	1.8
EBITDA	312.9	298.6	4.8	324.0	(3.4)	1,209.7	1,266.7	4.7
Depreciation and Amortisation	(37.1)	(36.2)	2.5	(37.3)	(0.4)	(260.4)	(258.8)	(0.6)
EBIT	249.2	234.6	6.2	259.5	(4.0)	949.3	1,007.9	6.2
Finance income	3.2	4.0	(21.4)	2.8	14.2	17.2	12.7	(26.4)
Finance cost	(18.7)	(20.4)	(8.7)	(18.7)	(0.3)	(82.5)	(74.4)	(9.8)
Exceptional items	31.5	0.0	<i>n.m.</i>	21.6	45.8	0.0	73.0	<i>n.m.</i>
Pretax profit	265.2	218.2	21.5	265.2	(0.0)	865.1	1,039.5	20.2
Tax expense	(42.3)	(54.7)	(22.7)	(66.1)	(36.0)	(210.6)	(231.3)	9.9
Net profit	222.9	163.5	36.3	199.1	12.0	654.5	808.2	23.5
Core net profit	191.4	163.5	17.1	177.5	7.8	654.5	735.2	12.3
<u>Margins and Tax rate (%)</u>								
Gross margin	72.8	74.3	(1.6)	73.9	(1.1)	78.6	74.3	(4.3)
EBITDA margin	63.3	63.1	0.2	65.0	(1.7)	65.9	64.0	(1.8)
Core net margin	38.7	34.6	4.2	35.6	3.1	35.7	37.2	1.5
Effective tax rate	15.9	25.1	(9.1)	24.9	(9.0)	24.3	22.3	(2.1)
<u>Revenue breakdown (MYR m)</u>								
Container	434.0	412.0	5.3	441.0	(1.6)	1,605.0	1,735.0	8.1
Conventional	35.0	33.0	6.1	32.0	9.4	116.0	134.0	15.5
Marine	15.0	17.0	(11.8)	15.0	0.0	76.0	65.0	(14.5)
Rental	10.0	10.0	0.0	10.0	0.0	39.0	43.0	10.3
Total revenue	494.0	473.0	4.4	498.2	(0.8)	1,835.8	1,977.8	7.7
<u>Container metrics</u>								
Container yield (MYR/TEU)	175.7	148.7	18.1	167.7	4.8	152.9	164.4	7.6
Container throughput ('000 TEUs)	2,470.0	2,770.0	(10.8)	2,630.0	(6.1)	10,500.0	10,552.5	0.5
Transshipment	1,570.0	1,800.0	(12.8)	1,790.0	(12.3)	6,750.0	6,783.8	0.5
Local	890.0	970.0	(8.2)	840.0	6.0	3,750.0	3,768.8	0.5

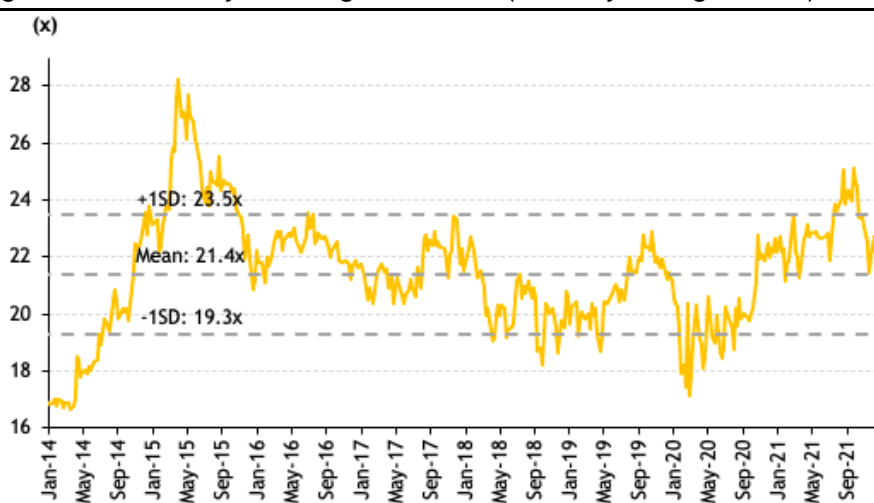
Source: Company, Maybank KE

Figure 2: Maybank IBG: Key assumptions for WPRTS

	----- New -----		----- Old -----		---- Change (%/ppt) ----	
	2022E	2023E	2022E	2023E	2022E	2023E
Total throughput ('000 TEUs)	10,763.6	11,194.1	10,763.6	11,194.1	0.0	0.0
Transshipment ('000 TEUs)	6,919.4	7,196.2	6,919.4	7,196.2	0.0	0.0
Local ('000 TEUs)	3,844.1	3,997.9	3,844.1	3,997.9	0.0	0.0
Total throughput growth (%)	2.0%	4.0%	2.0%	4.0%	0.0	0.0
Transshipment	2.0%	4.0%	2.0%	4.0%	0.0	0.0
Local	2.0%	4.0%	2.0%	4.0%	0.0	0.0
Container mix (% of total volume)						
Transshipment	64%	64%	64%	64%	0.0	0.0
Local	36%	36%	36%	36%	0.0	0.0
Container tariff: Blended (MYR/TEU)	132.0	133.7	129.5	129.8	1.9	3.0
Transshipment	88.2	90.8	84.4	84.8	4.5	7.1
Local	210.8	210.8	210.8	210.8	0.0	0.0
Effective capacity ('000 TEUs)	14,070.0	15,120.0	14,070.0	15,120.0	0.0	0.0
Utilisation (%)	76.5	74.0	76.5	74.0	0.0	0.0
VAS (% of container revenue)	15.9	15.4	14.7	14.6	1.2	0.8
Revenue	1,947.1	2,035.7	1,893.1	1,968.9	2.9	3.4
Net profit	636.9	778.9	608.7	727.9	4.6	7.0

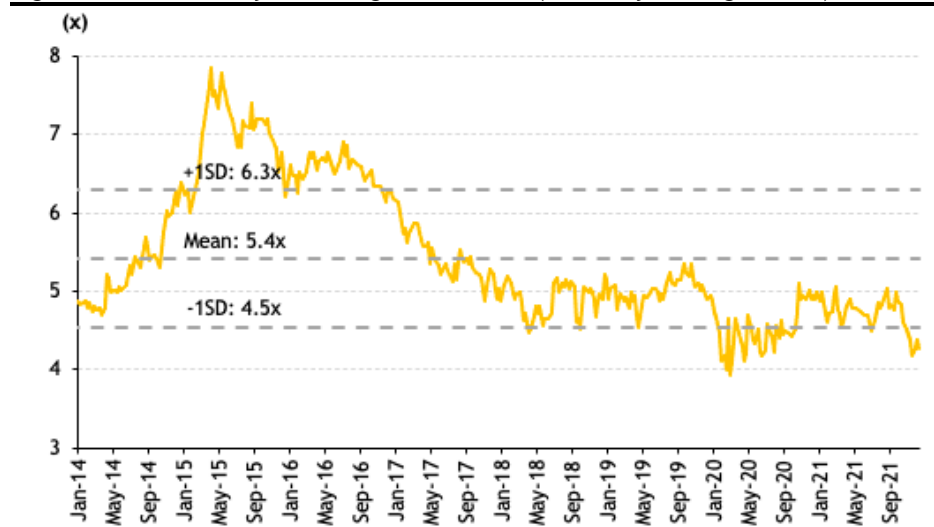
Source: Maybank IBG (compilation)

Figure 3: WPRTS one-year rolling forward PER (currently trading at 22.0x)



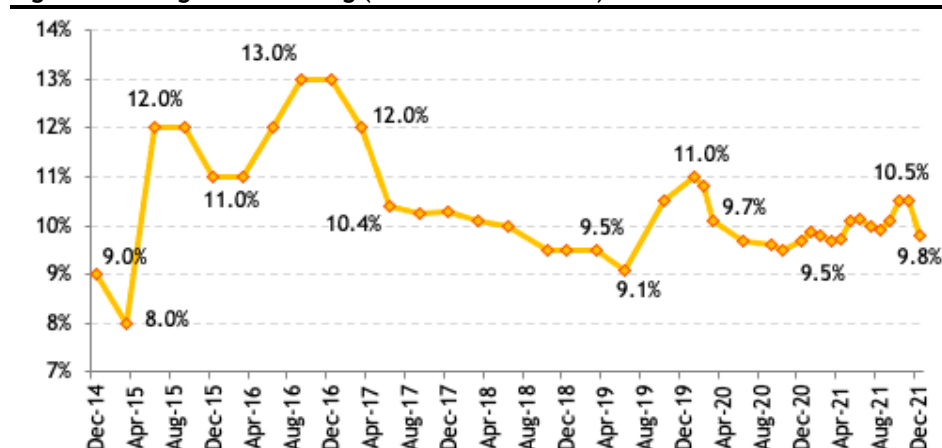
Source: Bloomberg, Maybank IBG (compilation)

Figure 4: WPRTS one-year rolling forward PBV (currently trading at 4.3x)



Source: Bloomberg, Maybank IBG (compilation)

Figure 5: Foreign shareholding (end-Dec 2021: 9.8%)



Source: Company data

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Westports. Abrupt changes to trading routes or a substantial slowdown in the global economy may lead to lower earnings for Westports. An unfavourable outcome on the 'Westports 2' concession agreement or unexpected delays in scheduled tariff hikes will also lead to a dampening of future earnings growth.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	19.5	18.0	21.0	17.2	16.0
Core P/E (x)	21.8	18.8	21.0	17.2	16.0
P/BV (x)	5.2	4.4	4.1	3.8	3.6
P/NTA (x)	5.2	4.4	4.1	3.8	3.6
Net dividend yield (%)	2.7	4.4	3.6	4.4	4.7
FCF yield (%)	5.2	5.7	4.4	7.9	8.2
EV/EBITDA (x)	12.6	11.3	10.8	10.1	9.5
EV/EBIT (x)	16.1	14.3	13.9	12.5	11.5
INCOME STATEMENT (MYR m)					
Revenue	1,835.8	1,977.8	1,947.1	2,035.7	2,109.6
EBITDA	1,209.7	1,266.7	1,284.7	1,346.0	1,395.0
Depreciation	(179.4)	(174.6)	(198.2)	(212.6)	(197.1)
Amortisation	(81.1)	(84.2)	(85.2)	(84.0)	(81.8)
EBIT	949.3	1,007.9	1,001.4	1,086.4	1,153.1
Net interest income / (exp)	(65.3)	(61.7)	(64.3)	(61.5)	(55.3)
Associates & JV	0.0	(0.4)	(0.4)	(0.4)	1.0
Exceptionals	0.0	73.0	0.0	0.0	0.0
Other pretax income	0.0	20.8	0.4	0.4	(1.0)
Pretax profit	884.0	1,039.5	937.1	1,024.8	1,097.8
Income tax	(210.6)	(231.3)	(300.3)	(246.0)	(263.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	673.4	808.2	636.9	778.9	834.3
Core net profit	673.4	735.2	636.9	778.9	834.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	779.1	656.0	653.5	1,016.0	1,373.1
Accounts receivable	278.6	296.3	274.1	286.9	297.6
Inventory	4.8	5.4	5.4	5.4	5.4
Property, Plant & Equip (net)	1,618.9	1,727.2	1,848.9	1,686.3	1,539.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2,580.3	2,730.4	2,735.4	2,671.5	2,609.7
Total assets	5,261.6	5,415.3	5,517.4	5,666.1	5,825.1
ST interest bearing debt	174.0	199.1	199.1	199.1	199.1
Accounts payable	167.0	146.6	145.0	149.6	153.4
LT interest bearing debt	1,191.8	1,021.3	1,025.6	1,029.9	1,034.3
Other liabilities	900.0	922.0	862.0	807.0	749.0
Total Liabilities	2,432.5	2,288.4	2,231.3	2,185.3	2,135.7
Shareholders Equity	2,829.1	3,126.9	3,286.1	3,480.8	3,689.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,829.1	3,126.9	3,286.1	3,480.8	3,689.4
Total liabilities and equity	5,261.6	5,415.3	5,517.4	5,666.1	5,825.1
CASH FLOW (MYR m)					
Pretax profit	884.0	1,039.5	937.1	1,024.8	1,097.8
Depreciation & amortisation	260.4	258.8	283.3	296.5	278.9
Adj net interest (income)/exp	60.7	57.3	59.9	57.2	51.0
Change in working capital	53.6	1.9	2.8	(8.2)	(6.9)
Cash taxes paid	(191.1)	(204.2)	(300.3)	(246.0)	(263.5)
Other operating cash flow	0.0	0.0	0.0	0.0	1.0
Cash flow from operations	1,090.6	1,161.5	987.3	1,128.7	1,162.7
Capex	(323.1)	(370.9)	(400.0)	(70.0)	(70.0)
Free cash flow	767.5	790.6	587.3	1,058.7	1,092.7
Dividends paid	(385.7)	(510.5)	(477.7)	(584.1)	(625.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(101.1)	149.3	0.0	0.0	0.0
Other invest/financing cash flow	(113.5)	(113.3)	(112.1)	(112.1)	(108.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	167.3	316.1	(2.5)	362.4	358.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.0	7.7	(1.6)	4.6	3.6
EBITDA growth	1.2	4.7	1.4	4.8	3.6
EBIT growth	1.0	6.2	(0.6)	8.5	6.1
Pretax growth	9.0	17.6	(9.9)	9.4	7.1
Reported net profit growth	7.3	20.0	(21.2)	22.3	7.1
Core net profit growth	4.5	9.2	(13.4)	22.3	7.1
Profitability ratios (%)					
EBITDA margin	65.9	64.0	66.0	66.1	66.1
EBIT margin	51.7	51.0	51.4	53.4	54.7
Pretax profit margin	48.2	52.6	48.1	50.3	52.0
Payout ratio	58.3	75.0	75.0	75.0	75.0
DuPont analysis					
Net profit margin (%)	36.7	40.9	32.7	38.3	39.5
Revenue/Assets (x)	0.3	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.9	1.7	1.7	1.6	1.6
ROAE (%)	25.0	27.1	19.9	23.0	23.3
ROAA (%)	13.0	13.8	11.7	13.9	14.5
Liquidity & Efficiency					
Cash conversion cycle	(62.8)	(55.0)	(50.1)	(49.9)	(48.3)
Days receivable outstanding	62.4	52.3	52.7	49.6	49.9
Days inventory outstanding	4.7	3.6	3.9	3.8	3.6
Days payables outstanding	129.9	110.9	106.8	103.3	101.8
Dividend cover (x)	1.7	1.3	1.3	1.3	1.3
Current ratio (x)	1.6	1.3	1.2	1.7	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.4	2.5	2.6	2.7
Net gearing (%) (incl perps)	20.7	18.0	17.4	6.1	net cash
Net gearing (%) (excl. perps)	20.7	18.0	17.4	6.1	net cash
Net interest cover (x)	14.5	16.3	15.6	17.7	20.9
Debt/EBITDA (x)	1.1	1.0	1.0	0.9	0.9
Capex/revenue (%)	17.6	18.8	20.5	3.4	3.3
Net debt/ (net cash)	586.7	564.4	571.1	213.0	(139.8)

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

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@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, CA
(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

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

Syifaa' Nur FARAHA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Construction • Renewable Energy • REITs

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Ports • Shipping
• Petrochemicals • Technology

Shafiq KADIR
(603) 2297 8691
msshafiqk.abkadir@maybank-ib.com
• Healthcare • Software

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

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

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

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

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.rodriquez@maybank.com
• Banking & Finance • Transport • Telcos

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

Miguel SEVIDAL
(63) 2 8849 8844
miguel.sevidal@maybank.com
• REITs • Property

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.dejesus@maybank.com
• Utilities

VIETNAM

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

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

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

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

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

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

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Chartist

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

INDONESIA

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank.com
• Banking & Finance

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Farah OKTAVIANI
(62) 21 8066 8691
farah.oktaviani@maybank.com
• Construction

Satriawan, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

THAILAND

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

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

Kaushal LADHA, CFA, CESGA
(66) 2658 6300 ext 1392
Kaushal.l@maybank.com
• Oil & Gas - Regional
• Petrochemicals - Regional
• Utilities

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank.com
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P@maybank.com
• Services • Healthcare

Ekachai TARAPORNTIP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank.com

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Jaroontan WATTANAWONG
(66) 2658 5000 ext 1404
jaroontan.w@maybank.com
• Transportation • Small cap

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanatphat.s@maybank.com
• Media • Electronics

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank.com
• Strategist

Theerasate PROMPONG
(66) 2658 5000 ext 1400
theerasate.p@maybank.com
• Equity Portfolio Strategist

Apiwat TAVESIRIVATE
(66) 2658 5000 ext 1310
apiwat.t@maybank.com
• Chartist and TFEX

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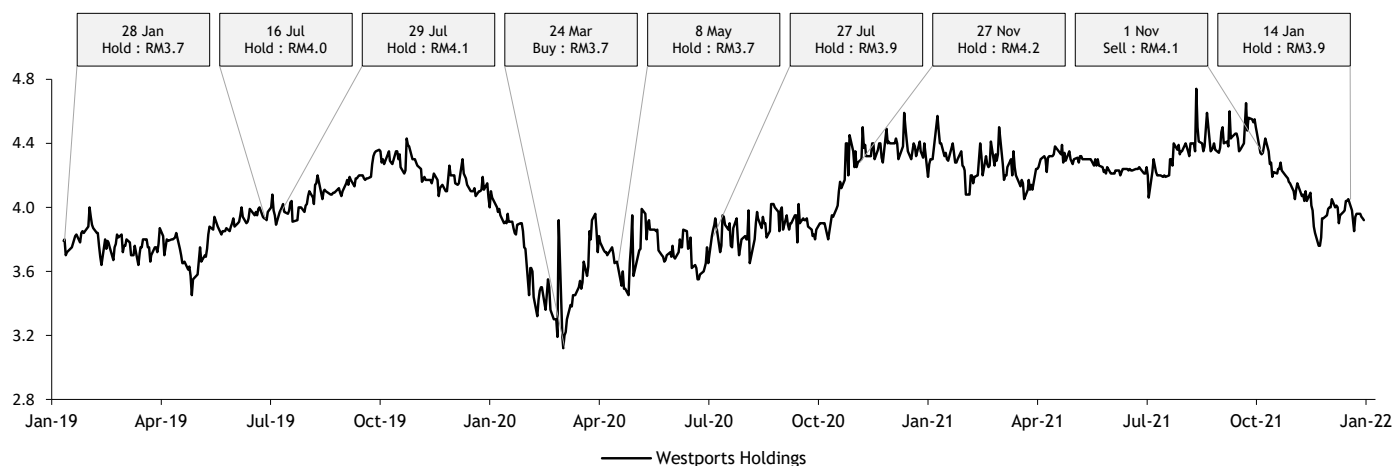
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Malaysia

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

Tel: (65) 6336 9090

Hong Kong

MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

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

London

Maybank 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 Sekuritas Indonesia
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 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

MIB Securities India Pte 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 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 Securities (Thailand) PCL
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 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

Sales Trading

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

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

New York

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

Philippines

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

London

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

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629