

UEM Sunrise (UEMS MK)

Expect to turnaround in 2022

Concall note

After the poor operating performances in 2020 and 2021 when UEMS reported losses, management aims to turnaround the company in 2022, supported by stronger sales and progress billings as well as land sales. It is targeting to dispose MYR300m worth of non-core landbank this year. UEMS has also set a property sales target of MYR1.5b for 2022 (2021: MYR1.46b). Surprises could come from the resumption of dividend payment. We maintain our earnings forecasts and MYR0.35 TP (on 0.3x PBV). HOLD.

Set MYR1.5b sales goal for 2022

We recently hosted a concall with UEMS. UEMS has locked in MYR1.46b sales in 2021 (+30% YoY; 71% from Klang Valley [KV]), or 22% above its initial sales target. Management has set a flat sales target of MYR1.5b for 2022 driven by MYR3.3b worth of new launches (52:24:24 Klang Valley: Johor: Melbourne) in 2022. UEMS will launch its project (AUD250m GDV) in Collingwood, Melbourne in 2H22. It is now at the stage of applying for the planning permit for the project. Despite the end of the Home Ownership Campaign in Dec 2021, UEMS has seen encouraging responses for its KV properties thanks to its aggressive marketing campaigns e.g. "Happy Duo Duo" that offers free legal fees for loans and SPA, and waiver of stamp duty on loan agreement and MOT for selected products.

Solving the root of the problem

Management has been focusing on rectifying internal issues over the last one year and it has come out with several strategies including expediting property launches by creating new product pipelines, reviewing existing land use, improving cost structure and divesting some loss-making JVs as well as non-core assets. It is targeting to divest MYR300m worth on non-core assets/landbank and some of these asset sales could materialize in 1H22, we understand.

Surprises may come from dividend payment

We maintain our earnings forecasts pending the release of its 4Q21 results on 23 Feb. Potential surprises could come from the resumption of dividend payment from 2022 onwards. To recap, UEMS has not been paying dividend since 2016 despite having a dividend payout policy of 20-40% of its realised PATAM.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,909	1,137	994	1,332	1,587
EBITDA	488	11	66	232	269
Core net profit	310	(175)	(73)	76	109
Core EPS (sen)	6.0	(3.5)	(1.5)	1.5	2.2
Core EPS growth (%)	(4.5)	nm	nm	nm	43.1
Net DPS (sen)	0.0	0.0	0.0	0.0	0.4
Core P/E (x)	11.7	nm	nm	22.3	15.6
P/BV (x)	0.4	0.4	0.2	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	1.3
ROAE (%)	3.1	(3.9)	(1.1)	1.1	1.6
ROAA (%)	2.2	(1.3)	(0.6)	0.6	0.8
EV/EBITDA (x)	13.2	nm	78.1	22.0	18.9
Net gearing (%) (incl perps)	30.1	40.8	40.6	39.7	39.2
Consensus net profit	-	-	(73)	71	105
MKE vs. Consensus (%)	-	-	(0.8)	7.5	3.3

Wong Wei Sum, CFA
 weisum@maybank-ib.com
 (603) 2297 8679

HOLD

Share Price	MYR 0.34
12m Price Target	MYR 0.35 (+4%)
Previous Price Target	MYR 0.35

Company Description

UEM Sunrise is principally involved in the property development business.

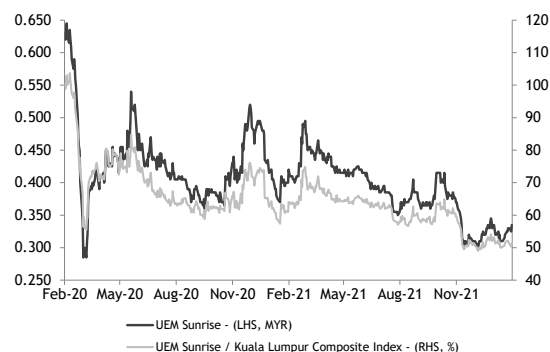
Statistics

52w high/low (MYR)	0.50/0.30
3m avg turnover (USDm)	0.2
Free float (%)	18.6
Issued shares (m)	5,058
Market capitalisation	MYR1.7B USD405M

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	69.6%
Urusharta Jamaah Sdn. Bhd.	6.3%
Employees Provident Fund	3.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(11)	(16)
Relative to index (%)	(0)	(14)	(15)

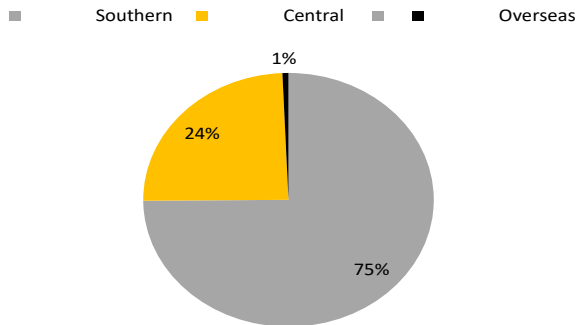
Source: FactSet

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 Tear Sheet Insert

Value Proposition

- The largest land owner in Iskandar Malaysia (IM), Johor. Khazanah owns a 66% stake in UEMS.
- 75% of total GDV is derived from Johor (mostly located in IM area).
- UEMS' low land cost should allow it to be more flexible in pricing and project launches in IM.
- Over the past four years, UEMS has been actively looking for land outside of IM to reduce its concentration risk in that region.

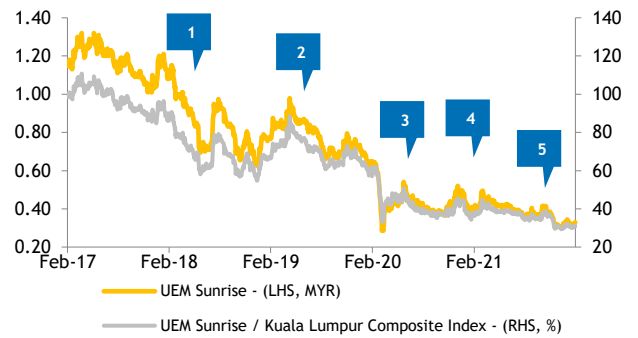
GDV breakdown by location - MYR108b as at end-2020



Source: Company

Price Drivers

Historical share price trend



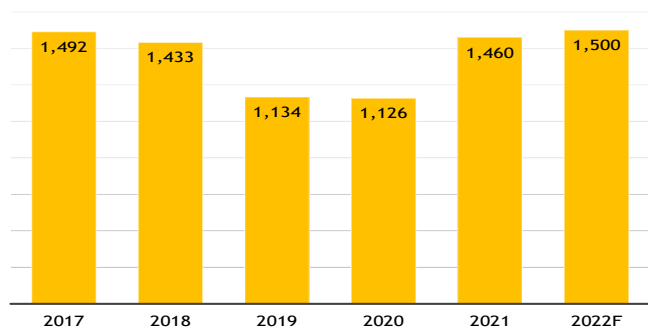
Source: Company, Maybank IBG Research

1. 2018: Buying sentiment for properties was weak pre-GE14.
2. 2019: Earnings were boosted by two completed Australian projects.
3. 1H 20: Earnings and sales were severely hit by MCO1.0.
4. Oct 2020: Proposed merger between ECW-UEMS by UEMS' major shareholder in Oct 20 (source: Bursa Malaysia).
5. 2021: UEMS has decided not to pursue the proposed merger with ECW after the latter called off the deal (source: Bursa Malaysia).

Financial Metrics

- UEMS has a dividend payout policy of 20-40% of its realised PATAMI.
- UEMS has set a MYR1.5b sales target for 2022.

Historical sales track record (MYRm)



Source: Company

Swing Factors

Upside

- RNAV-accretive land acquisitions.
- Higher-than-expected property sales.
- Land/asset sales.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Delay in obtaining necessary approvals for its projects.
- Country/currency risks as UEMS has property projects in Australia and South Africa.

weisum@maybank-ib.com

Risk Rating & Score ¹	15.9 (Low)
Score Momentum ²	-1.8
Last Updated	31 Mar 2021
Controversy Score ³ (Updated: DD Mmm YYYY)	0 -No incidents

Business Model & Industry Issues

- UEMS is one of the largest land owners in Malaysia (10,643 acres; 72% of total GDV is derived from Johor projects). Its projects span over 3 countries i.e. Malaysia, Australia and South Africa. Its geographical spread naturally exposes UEMS to multiple ESG risks including bribery and corruption.
- UEMS has a zero-tolerance approach to bribery and corruption practices in its business conduct and operations. With the support of the Board Governance & Risk Committee (BGRC), the Board oversees the formulation and building of a strong governance, ethical and integrity culture within UEMS and provides oversight and guidance on the integrity, governance and anti-corruption initiatives. In 2020, the Board has approved UEMS' Anti-Corruption Guidelines. Its anti-corruption policy is also communicated to suppliers, contractors, agents and JV partners.
- UEMS has been a constituent of the FTSE4Good Bursa Malaysia Index since 2014. Its score has been steadily improving, from 2.3 to 3 in 2021. Guided by the United Nations' Sustainable Development Goals (UNSDGs), UEMS has identified 11 relevant SDGs for sustainable development.

Material E issues

- UEMS embeds sustainable features in its township and high-rise developments.
- It has installed 12 electric vehicle charging points that are now operational across UEMS developments.
- In 2020, five of its projects have achieved Green Building certifications including Residensi Allevia, KAIA Heights and Solaris Parq. These buildings are designed to save energy and resources, recycle materials and minimise the emission of toxic substances throughout their life cycles.
- UEMS partnered with Kloth Malaysia S/B to install a fabric bank recycling bin at Publika on 1 Dec 2020. It has also installed an e-Waste bin in Publika to collect electronic waste. In 2020, UEMS has collected close to 205kg of fabric and 250kg of e-waste. Both bins continue to be stationed in Publika in 2021 with plans to expand collections to other suitable locations.

Material S issues

- UEMS' workforce consisted of 50% women, with 48%/25% women representation in Management/Top Management.
- UEMS has adopted 16 schools under the PINTAR programme (led by its major shareholder, Khazanah). PINTAR stands for Promoting Intelligence, Nurturing Talent and Advocating Responsibility. It conducted the Highly Immersive Programme to encourage and instil confidence in students when communicating in English. It has also set up Melbourne's International Student Pop-Up Store in Aurora Melbourne Central together with Foodbank Victoria for international students experiencing food insecurity caused by the pandemic. It has supplied over 195,000 kg of food to 263 learning institutions, covering 84 different nationalities.

Key G metrics and issues

- There are 10 members on UEMS's board comprising of 4 Non-independent Non-Executive Director (NINED; including Chairman) and 6 Independent Non-Executive Director (INED).
- In terms of board gender and diversity, 4 of the 10 board members are female (40% of board members) and 3 are non-bumiputera.
- UEMS has been audited by Ernst & Young PLT since 2008.
- The cumulative remuneration of the board members (MYR10m) represented 2% of UEMS's core net loss in FY20 (FY19: 1% of core net profit).
- Audit committee is made up of 3 INEDs. Its nomination and remuneration committees comprise 3 INEDs and 1 NINED while Board Governance & Risk Committee comprises 1 NINED and 4 INEDs.
- UEMS reported losses since 2020 are due to various phases of lockdown and impairments. In 2020, it reported total core net loss of MYR175m, excluding the MYR36m impairment of inventories and MYR26m impairment on Marina Walk in Puteri Harbour and MYR17.5m on Artisan Hills.

UEMS is jointly-developing 228 acres of land in Desaru with its major shareholder, Khazanah. In Oct 2020, Khazanah had proposed a merger between UEMS and Eco World Development (ECW MK; TP: MYR0.93; HOLD) via share and warrant swap in Oct 2020. However, the proposed merger was called off in Jan 2021 after ECW decided not to pursue the proposed merger after discussions with UEMS (*source: Bursa Malaysia*).

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).

UEM Sunrise's RNAV estimates

Landbank at market value

	Location	Stake	Acres	MV (MYR m)
Nusajaya -Residential	Nusajaya	100%	1,916.0	2,086.5
Nusajaya -Commercial	Nusajaya	100%	2,332.1	3,555.5
Nusajaya -Industrial	Nusajaya	100%	230.0	350.7
Puteri Harbour	Nusajaya	100%	276.1	330.5
- Residential	Nusajaya	100%	207.7	226.2
- Commercial	Nusajaya	100%	68.4	104.3
Regional commercial centre	Nusajaya	100%	480.0	731.8
Bangi land	Selangor	100%	448.6	195.4
Tapah land	Perak	100%	2,405.0	168.4
Symphony Hills	Cyberjaya	100%	24.1	21.0
Setia Haruman land	Cyberjaya	25%	2,000.0	588.1
- Residential	Cyberjaya	25%	1,200.0	326.7
- Commercial	Cyberjaya	25%	800.0	261.4
Desaru	Johor	51%	678.7	226.2
Fraser Metropolis	Johor	60%	2,500.0	522.7
Mont Kiara	Kuala Lumpur	100%	43.2	470.4
Mersing, Johor	Johor	100%	431.1	53.7
Seremban	Seremban	50%	225.5	49.1
Sub-total (1)				9,349.9

Active developments: DCF @ 12-18% WACC

				(MYR m)
East Ledang	Nusajaya	100%		27.3
Horizon Hills	Nusajaya	50%		47.2
Nusa Bayu	Nusajaya	100%		4.6
SiLC	Nusajaya	100%		21.7
Northern Estuary	Nusajaya	100%		101.8
R10/R11	Nusajaya	100%		3.9
Ledang Heights	Nusajaya	100%		3.7
Afiat Healthpark	Nusajaya	100%		2.1
Ascendas-UEML Tech Park	Nusajaya	40%		62.4
Gerbang Nusajaya, JV with KLK	Nusajaya	40%		68.8
Angkasaraya, KLCC	KLCC vicinity	100%		25.2
Bukit Jelutong	Selangor	50%		31.9
Solaris 3	Mont kiara	100%		92.8
Kepong	Kepong	50%		104.1
Taman Pertama	Cheras	100%		27.1
Conservatory, Melbourne	Australia	100%		0.9
Sub-total (2):				625.3

Investment properties

	NLA (sq.ft.)	MYRm
Plaza Mont Kiara -office	31,980	17.6
Solaris MK - retail & car park	18,146 sq.ft. & 1,776 bays	70.9
Solaris Dutamas - retail & car park	335,000 sq.ft. & 5,000 bays	459.2
Sub-total (3):		547.7

UEM Sunrise's RNAV estimates (continued)

<i>Grand total = (1) + (2) + (3)</i>	10,523.0
Net debt-2020	(3,007.1)
RNAV (MYR m)	7,515.9
Enlarged share capital (m shares)	5,145.5
FD RNAV (MYR/sh)	1.46

Source: Maybank IBG Research

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	18.2	nm	nm	22.3	15.6
Core P/E (x)	11.7	nm	nm	22.3	15.6
P/BV (x)	0.4	0.4	0.2	0.2	0.2
P/NTA (x)	0.5	0.4	0.3	0.3	0.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	1.3
FCF yield (%)	44.7	nm	12.2	21.1	19.3
EV/EBITDA (x)	13.2	nm	78.1	22.0	18.9
EV/EBIT (x)	13.2	nm	78.1	22.0	18.9
INCOME STATEMENT (MYR m)					
Revenue	2,909.5	1,136.9	994.2	1,331.6	1,587.3
EBITDA	487.9	11.3	65.6	231.9	268.7
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	487.9	11.3	65.6	231.9	268.7
Net interest income / (exp)	(117.5)	(132.9)	(167.3)	(169.2)	(171.7)
Associates & JV	19.9	(64.7)	6.6	38.9	46.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(8.6)	(9.1)	0.0	0.0	0.0
Pretax profit	381.8	(195.3)	(95.1)	101.7	143.6
Income tax	(161.3)	(81.4)	22.8	(24.4)	(34.5)
Minorities	1.1	(0.6)	(1.2)	(1.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	221.6	(277.3)	(73.5)	76.1	108.9
Core net profit	309.9	(174.8)	(73.5)	76.1	108.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,057.4	1,086.3	1,068.0	1,200.8	1,302.4
Accounts receivable	641.7	494.3	272.4	364.8	434.9
Inventory	948.9	580.5	326.9	437.8	521.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	456.1	478.6	643.0	736.5	830.0
Intangible assets	621.4	621.4	621.4	621.4	621.4
Investment in Associates & JVs	1,521.7	1,475.6	1,475.6	1,475.6	1,475.6
Other assets	8,201.7	8,743.2	8,208.5	8,058.8	7,979.6
Total assets	13,449.1	13,479.9	12,615.7	12,895.8	13,165.9
ST interest bearing debt	1,049.0	1,493.1	1,593.1	1,693.1	1,793.1
Accounts payable	1,083.9	1,007.0	272.4	368.5	443.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,337.9	2,600.3	2,436.4	2,436.4	2,436.4
Other liabilities	1,246.0	1,009.0	1,017.0	1,025.0	1,032.0
Total Liabilities	5,716.4	6,109.3	5,318.6	5,522.6	5,705.5
Shareholders Equity	7,264.3	6,901.6	6,828.1	6,904.2	6,991.4
Minority Interest	468.3	469.0	469.0	469.0	469.0
Total shareholder equity	7,732.7	7,370.6	7,297.1	7,373.2	7,460.3
Total liabilities and equity	13,449.1	13,479.9	12,615.7	12,895.8	13,165.9
CASH FLOW (MYR m)					
Pretax profit	381.8	(195.3)	(95.1)	101.7	143.6
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	21.9	11.6	167.3	169.2	171.7
Change in working capital	0.0	0.0	259.0	107.3	79.0
Cash taxes paid	(103.1)	(187.7)	(81.4)	22.8	(24.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,660.2	(89.8)	256.4	407.5	376.4
Capex	(37.5)	(277.9)	(50.0)	(50.0)	(50.0)
Free cash flow	1,622.8	(367.7)	206.4	357.5	326.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,296.6)	706.5	100.0	100.0	100.0
Other invest/financing cash flow	(381.9)	(343.8)	(324.7)	(324.7)	(324.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(55.8)	(4.9)	(18.3)	132.8	101.6

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	42.3	(60.9)	(12.6)	33.9	19.2
EBITDA growth	1.1	(97.7)	480.6	253.5	15.9
EBIT growth	1.1	(97.7)	480.6	253.5	15.9
Pretax growth	(8.2)	nm	nm	nm	41.2
Reported net profit growth	(20.9)	nm	nm	nm	43.1
Core net profit growth	(4.5)	nm	nm	nm	43.1
Profitability ratios (%)					
EBITDA margin	16.8	1.0	6.6	17.4	16.9
EBIT margin	16.8	1.0	6.6	17.4	16.9
Pretax profit margin	13.1	nm	nm	7.6	9.0
Payout ratio	0.0	0.0	0.0	0.0	20.0
DuPont analysis					
Net profit margin (%)	7.6	nm	nm	5.7	6.9
Revenue/Assets (x)	0.2	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.9	2.0	1.8	1.9	1.9
ROAE (%)	3.1	(3.9)	(1.1)	1.1	1.6
ROAA (%)	2.2	(1.3)	(0.6)	0.6	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.2	2.4	2.3	2.3
Net gearing (%) (incl perps)	30.1	40.8	40.6	39.7	39.2
Net gearing (%) (excl. perps)	30.1	40.8	40.6	39.7	39.2
Net interest cover (x)	4.2	0.1	0.4	1.4	1.6
Debt/EBITDA (x)	6.9	nm	nm	17.8	15.7
Capex/revenue (%)	1.3	24.4	5.0	3.8	3.1
Net debt/ (net cash)	2,329.4	3,007.1	2,961.6	2,928.8	2,927.1

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

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, CFA
(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 FARAH
(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

Kelvin TAN
(65) 6231 5837 kelvintan1@maybank.com
• Telcos

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

Florenzo de JESUS
(63) 2 8849 8846
florenzo.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

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

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 TARAPORN TIP *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

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.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 TFXE

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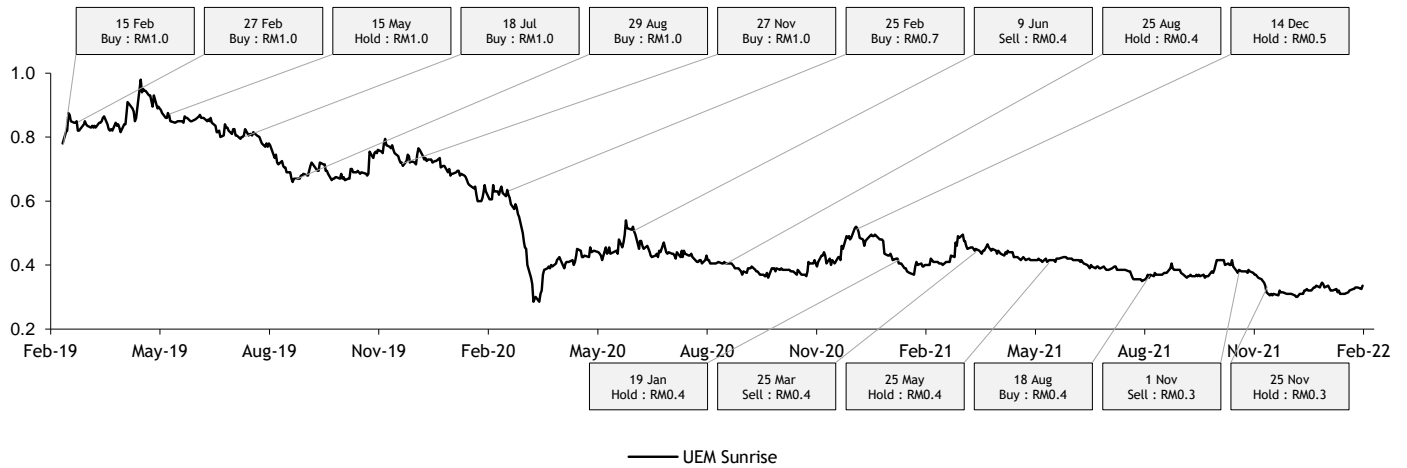
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Malaysia

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