

Kuala Lumpur Kepong (KLK MK)

A strong start to FY22E

Near term outlook remains bright

1QFY22 core net profit exceeded expectations at 41%/36% of our/consensus full-year forecasts. Near term earnings prospects remain promising given still high CPO prices. KLK remains our preferred large cap BUY with a new TP of MYR29.60 as we roll forward valuation to FY23 on 22x PER, its updated -0.5SD of 5Y mean (unchanged) (previously MYR30.70 on 23x FY22 PER).

New acquisitions and high CPO ASP lifted upstream

KLK reported a strong 1QFY22 headline PATMI of MYR599m (+68% YoY, -4% QoQ) in part lifted by gain on derivatives (+MYR81m) which offset inventory provision (-MYR46m) and a relatively high tax rate of 29% on high withholding tax paid (-MYR66m) on foreign dividend and interest income. Operationally, upstream EBIT jumped to MYR598m (+172% YoY, +40% QoQ) on better CPO ASP (MYR4,063/t; +50% YoY, +12% QoQ) and FFB output (+30% YoY, +26% QoQ; following the purchase of IJMP and PT PWS in 4QFY21). 1Q output met 24% of our full year forecast - inline.

Downstream profits grew while property softened

As for downstream, manufacturing EBIT grew to MYR331m (+70% YoY, +15% QoQ) on the back of stronger revenue (+56% YoY, +10% QoQ) while margins expanded slightly to 6.0% (+0.5-ppts YoY, +0.2-ppts QoQ). Note that effective FY22, KLK has classified contribution from its refineries and kernel crushing operations under manufacturing (previously plantation) to better reflect the performance of the upstream business. As for its property division, the segment posted weaker YoY EBIT of MYR17m (-13% YoY, +53% QoQ) despite higher revenue (+5% YoY, -16% QoQ). This was attributed to project recognition with lower margins.

Raising EPS forecasts to factor in higher CPO ASPs

Following our industry-wide CPO ASP revisions for 2022E/2023E/2024E to MYR4,100/3,200/3,100 (from MYR3,200/3,000/3,000) per tonne respectively, we raise FY22E/23E/24E core EPS for KLK by 40%/15%/14%.

FYE Sep (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	15,596	19,916	25,554	22,045	22,441
EBITDA	1,809	3,013	3,763	2,883	2,927
Core net profit	712	1,772	2,011	1,450	1,508
Core EPS (sen)	66.4	164.3	186.5	134.4	139.8
Core EPS growth (%)	21.8	147.6	13.5	(27.9)	4.0
Net DPS (sen)	50.0	100.0	100.0	80.7	83.9
Core P/E (x)	34.4	12.2	13.7	19.0	18.3
P/BV (x)	2.3	1.8	2.2	2.1	2.0
Net dividend yield (%)	2.2	5.0	3.9	3.2	3.3
ROAE (%)	7.4	19.4	16.3	11.1	11.0
ROAA (%)	3.4	7.2	7.1	5.0	5.1
EV/EBITDA (x)	15.6	9.8	9.6	12.0	11.6
Net gearing (%) (incl perps)	23.0	38.5	37.6	27.0	20.1
Consensus net profit	-	-	1,579	1,338	1,276
MKE vs. Consensus (%)	-	-	27.4	8.4	18.2

Ong Chee Ting, CA
ct.ong@maybank-ib.com
(603) 2297 8678

BUY

Share Price	MYR 25.60
12m Price Target	MYR 29.60 (+20%)
Previous Price Target	MYR 30.70

Company Description

KLK is an integrated palm oil operator. It has a property development arm to monetise estates that are prime for development.

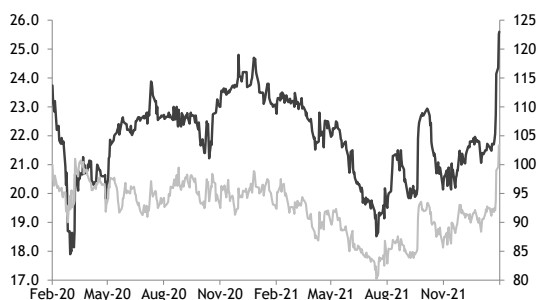
Statistics

52w high/low (MYR)	25.60/18.52
3m avg turnover (USDm)	4.4
Free float (%)	33.5
Issued shares (m)	1,081
Market capitalisation	MYR27.7B USD6.6B

Major shareholders:

Batu Kawan Bhd.	47.6%
Employees Provident Fund	13.6%
Permodalan Nasional Bhd.	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	17	27	12
Relative to index (%)	14	21	12

Source: FactSet

Abbreviation

- ASP = Average selling price
- EBIT = Earnings before interest and taxes
- IJMP = IJM Plantations (privatised)
- PATMI = Profit after tax and minority interests

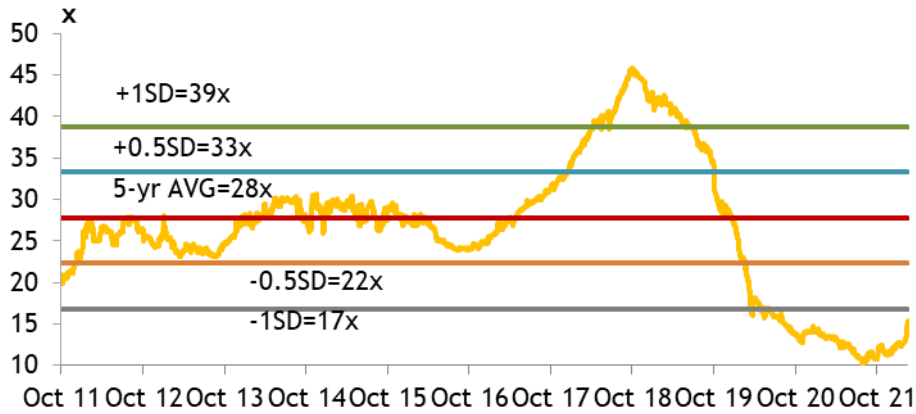
Fig. 1: Kuala Lumpur Kepong summary results table

FYE Sept (MYR m)	Quarterly				
	1QFY22	1QFY21 <i>Restated*</i>	% YoY	4QFY21 <i>Restated*</i>	% QoQ
Revenue	6,828.9	4,299.8	58.8	5,934.5	15.1
EBIT	1,006.2	473.4	112.5	659.9	52.5
Unrealised FX (loss)/gain	(3.5)	51.4	NM	(4.6)	(23.9)
Net interest	(63.8)	(43.7)	45.9	(49.1)	30.0
Share of Associates	16.2	12.8	26.5	273.8	(94.1)
Pre-tax profit	955.1	493.9	93.4	880.0	8.5
Tax	(277.5)	(86.2)	222.1	(184.3)	50.6
Minority Interests	(78.2)	(50.3)	55.5	(69.8)	12.0
PATMI	599.3	357.4	67.7	625.8	(4.2)
Core PATMI	598.5	305.8	95.7	694.9	(13.9)
			<i>+/- ppt</i>		<i>+/- ppt</i>
EBIT margin (%)	14.7	11.0	3.7	11.1	3.6
Effective Tax Rate (%)	29.1	17.4	11.6	20.9	8.1
Segmental	1QFY22	1QFY21	% YoY	4QFY21	% QoQ
Revenue					
Plantation*	1,106.6	567.1	95.1	843.4	31.2
Manufacturing*	5,513.3	3,541.0	55.7	4,993.0	10.4
Property development	56.0	53.4	4.8	66.6	(15.9)
Others	152.9	138.3	10.6	31.4	386.2
Total revenue	6,828.9	4,299.8	58.8	5,934.5	15.1
EBIT					
Plantation*	597.6	219.7	172.0	427.1	39.9
Manufacturing*	331.4	194.5	70.4	288.5	14.9
Property development	17.1	19.7	(12.8)	11.2	52.5
Others	60.0	39.5	51.7	(67.0)	NM
EBIT	1,006.2	473.4	112.5	659.9	52.5
EBIT margin (%)			<i>+/- ppt</i>		<i>+/- ppt</i>
EBIT margin - Plantation*	54.0	38.7	15.3	50.6	3.4
EBIT margin - Manufacturing*	6.0	5.5	0.5	5.8	0.2
EBIT margin - Property Development	30.6	36.8	(6.2)	16.9	13.7
Overall	14.7	11.0	3.7	11.1	3.6
Operational	1QFY22	1QFY21	% YoY	4QFY21	% QoQ
FFB production (t)	1,265,971	973,744	30.0	1,007,401	25.7
CPO (t)	314,901	210,715	49.4	281,408	11.9
PK (t)	63,061	39,428	59.9	54,643	15.4
CPO ASP (MYR/t)	4,063	2,703	50.3	3,631	11.9

Sources: Company, Maybank IBG Research

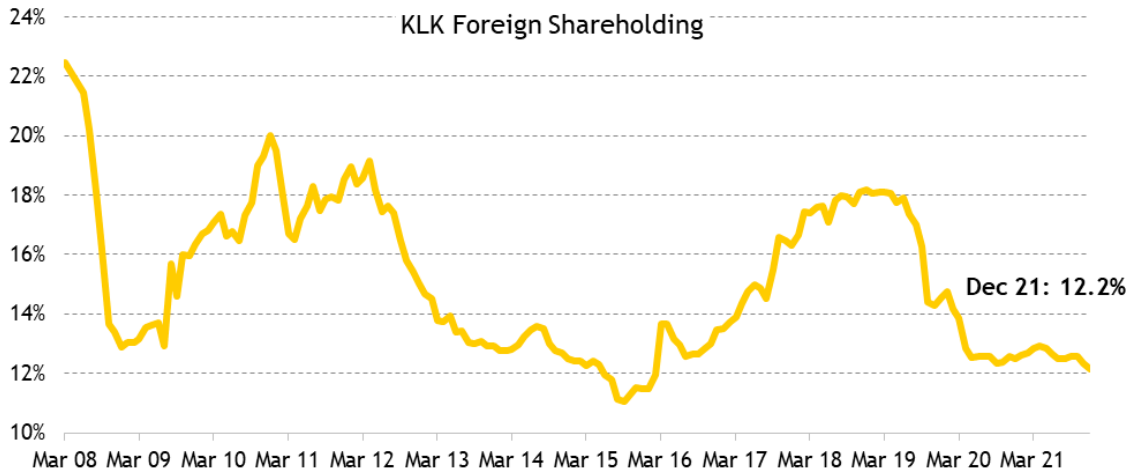
*Restated because effective FY22, refineries and kernel crushing operations are classified from plantation to manufacturing segment to better reflect the performance of the upstream business

Fig. 2: KLK's 12M forward PER



Source: Bloomberg

Fig. 3: KLK's foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, target price and rating for KLK. Key risks to the palm oil sector and KLK are: (i) weather anomalies resulting in poorer-than-expected output growth; (ii) lower-than-expected CPO price achieved; (iii) negative policies imposed by import countries; (iv) unfriendly policies imposed by the Malaysian and Indonesian governments on upstream or downstream segments; (v) sharply lower crude oil prices, which make palm biodiesel demand unviable; and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 30 Sep	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	30.8	10.8	13.7	19.0	18.3
Core P/E (x)	34.4	12.2	13.7	19.0	18.3
P/BV (x)	2.3	1.8	2.2	2.1	2.0
P/NTA (x)	2.3	1.9	2.2	2.1	2.0
Net dividend yield (%)	2.2	5.0	3.9	3.2	3.3
FCF yield (%)	1.9	1.9	5.6	6.8	5.2
EV/EBITDA (x)	15.6	9.8	9.6	12.0	11.6
EV/EBIT (x)	23.6	12.4	11.9	16.5	15.9
INCOME STATEMENT (MYR m)					
Revenue	15,596.0	19,915.8	25,554.2	22,044.8	22,441.4
EBITDA	1,808.6	3,013.0	3,763.1	2,882.7	2,926.6
Depreciation	(616.5)	(633.6)	(750.9)	(778.0)	(797.6)
EBIT	1,192.1	2,379.3	3,012.2	2,104.7	2,128.9
Net interest income / (exp)	(127.7)	(185.5)	(275.1)	(258.9)	(227.8)
Associates & JV	23.6	319.4	216.4	191.6	213.2
Exceptionals	105.8	411.0	0.0	0.0	0.0
Pretax profit	1,193.7	2,924.2	2,953.4	2,037.4	2,114.3
Income tax	(328.7)	(524.4)	(722.6)	(461.5)	(475.3)
Minorities	(84.4)	(194.5)	(219.6)	(126.1)	(131.1)
Reported net profit	780.6	2,205.4	2,011.2	1,449.9	1,507.9
Core net profit	712.0	1,772.1	2,011.2	1,449.9	1,507.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	3,872.9	3,459.4	2,994.0	4,285.3	5,095.8
Accounts receivable	2,192.3	3,192.3	3,150.5	2,717.9	2,766.8
Inventory	2,099.8	3,201.2	3,150.5	2,717.9	2,766.8
Property, Plant & Equip (net)	8,525.0	12,331.5	12,277.6	12,006.4	11,635.4
Intangible assets	348.7	348.3	341.4	334.5	327.8
Investment in Associates & JVs	1,690.7	1,957.5	2,424.9	2,616.5	2,829.7
Other assets	2,216.8	3,587.2	4,449.6	4,329.3	4,215.1
Total assets	20,946.3	28,077.4	28,788.4	29,007.7	29,637.4
ST interest bearing debt	1,343.3	3,162.5	3,004.3	2,854.1	2,711.4
Accounts payable	1,212.8	2,734.1	2,450.4	2,113.9	2,151.9
LT interest bearing debt	5,250.3	5,761.3	5,761.3	5,761.3	5,761.3
Other liabilities	1,336.0	2,212.0	2,212.0	2,212.0	2,212.0
Total Liabilities	9,142.2	13,870.4	13,428.6	12,941.8	12,837.2
Shareholders Equity	10,827.1	11,859.3	12,792.5	13,372.4	13,975.6
Minority Interest	977.0	2,347.8	2,567.4	2,693.5	2,824.6
Total shareholder equity	11,804.1	14,207.0	15,359.9	16,065.9	16,800.2
Total liabilities and equity	20,946.3	28,077.4	28,788.4	29,007.7	29,637.4
CASH FLOW (MYR m)					
Pretax profit	1,193.7	2,924.2	2,953.4	2,037.4	2,114.3
Depreciation & amortisation	616.5	633.6	750.9	778.0	797.6
Adj net interest (income)/exp	(240.6)	(230.8)	(324.3)	(318.8)	(313.5)
Change in working capital	(50.1)	(1,336.8)	(191.2)	528.8	(59.8)
Cash taxes paid	(206.6)	(255.7)	(722.6)	(461.5)	(475.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,289.3	1,415.1	2,249.9	2,372.4	1,850.2
Capex	(816.9)	(1,001.2)	(690.0)	(500.0)	(420.0)
Free cash flow	472.4	413.8	1,559.9	1,872.4	1,430.2
Dividends paid	(275.5)	(733.2)	(1,078.0)	(869.9)	(904.8)
Change in Debt	(183.0)	1,673.1	(158.1)	(150.2)	(142.7)
Other invest/financing cash flow	846.8	(866.9)	(789.1)	439.0	427.7
Net cash flow	860.7	486.8	(465.4)	1,291.3	810.5

FYE 30 Sep	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	0.4	27.7	28.3	(13.7)	1.8
EBITDA growth	22.5	66.6	24.9	(23.4)	1.5
EBIT growth	30.7	99.6	26.6	(30.1)	1.2
Pretax growth	55.3	145.0	1.0	(31.0)	3.8
Reported net profit growth	38.8	182.5	(8.8)	(27.9)	4.0
Core net profit growth	22.7	148.9	13.5	(27.9)	4.0
Profitability ratios (%)					
EBITDA margin	11.6	15.1	14.7	13.1	13.0
EBIT margin	7.6	11.9	11.8	9.5	9.5
Pretax profit margin	7.7	14.7	11.6	9.2	9.4
Payout ratio	68.7	48.9	53.6	60.0	60.0
DuPont analysis					
Net profit margin (%)	5.0	11.1	7.9	6.6	6.7
Revenue/Assets (x)	0.7	0.7	0.9	0.8	0.8
Assets/Equity (x)	1.9	2.4	2.3	2.2	2.1
ROAE (%)	7.4	19.4	16.3	11.1	11.0
ROAA (%)	3.4	7.2	7.1	5.0	5.1
Liquidity & Efficiency					
Cash conversion cycle	73.2	63.0	54.4	60.1	55.2
Days receivable outstanding	50.3	48.7	44.7	47.9	44.0
Days inventory outstanding	56.6	56.1	52.8	54.8	50.3
Days payables outstanding	33.7	41.8	43.1	42.6	39.1
Dividend cover (x)	1.5	2.0	1.9	1.7	1.7
Current ratio (x)	3.0	1.5	1.6	1.8	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.0	2.1	2.2	2.3
Net gearing (%) (incl perps)	23.0	38.5	37.6	27.0	20.1
Net gearing (%) (excl. perps)	23.0	38.5	37.6	27.0	20.1
Net interest cover (x)	9.3	12.8	10.9	8.1	9.3
Debt/EBITDA (x)	3.6	3.0	2.3	3.0	2.9
Capex/revenue (%)	5.2	5.0	2.7	2.3	1.9
Net debt/ (net cash)	2,720.6	5,464.4	5,771.7	4,330.2	3,376.9

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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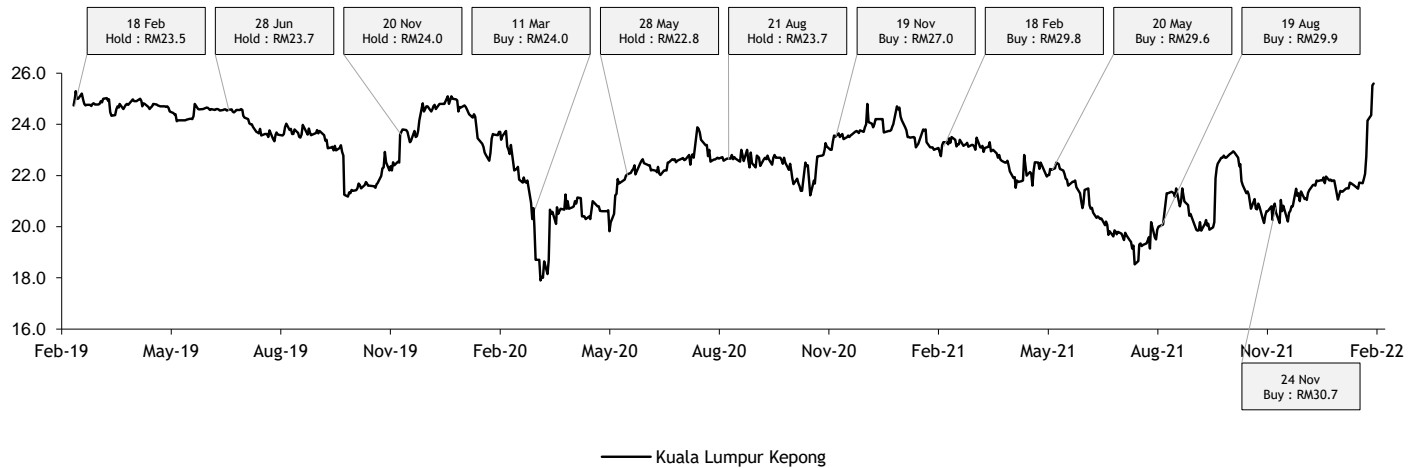
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Historical recommendations and target price: Kuala Lumpur Kepong (KLK MK)



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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