

Raffles Medical Group (RFMD SP)

Growth set to normalise post-pandemic

Cuts FY22-24E EPS but remain long-term positive

FY21 PATMI of SGD84.2m (+27.7% YoY) came in ahead of MIBG and consensus estimates by 9%/11%. While 2H21 net profit fell 8.1% YoY to SGD44.7m on lower other operating income (-56.2% YoY), arising from less government grants such as JSS payout and property tax rebate, this was largely expected, in our view. We cut our FY22-24E EPS by 8-12% due to lower contributions from Covid-19-related services and its China hospitals. This reduces our DCF-based TP to SGD1.50 (LTG: 3%, COE, 8%) but maintain BUY with 16% upside potential. Transfer coverage to Eric Ong.

Expects Covid-19 support activities to taper off

2H21 revenue grew by 16.3% YoY to SGD380m, boosted by sales of Covid-19 related products & services given the Delta-strain wave. On a segmental basis, turnover from the Healthcare Services division grew by 61.3% YoY, whilst Hospital Services division declined by 6.2% YoY in 2H21. We forecast Covid-19 support activities to taper off sequentially, especially its PCR test revenues as Singapore relaxes testing protocols for VTL travellers. On a positive note, international travel should gradually resume and we expect some of RFMD's regional patients to return as borders reopen.

Breakeven of China hospitals may be delayed

Meanwhile, China is experiencing sporadic COVID-19 clusters that may impact some of RFMD's operations there. Management has guided that break even for its Chongqing hospital is likely to be delayed by a year to 2022, and Shanghai operations could incur EBITDA loss of SGD10m this year. That said, the group remains optimistic its three hospitals in China will continue to see improved patient loads with easing movement restrictions.

Beneficiary of the increased focus on primary care

The group declared a slightly higher-than-expected final DPS of 2.8 cents, which comprises core DPS of 1.8 cents and a special DPS of 1.0 cent for FY21. In the recent Budget 2022, the government proposed to restructure the local healthcare eco-system by allowing GPs to play a greater role given the fast-aging population. This should also benefit RFMD in the longer term given its large primary care networks.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	568	724	716	737	766
EBITDA	124	161	150	158	165
Core net profit	66	84	76	81	85
Core EPS (cts)	3.6	4.5	4.1	4.3	4.6
Core EPS growth (%)	10.2	24.0	(9.6)	6.1	5.6
Net DPS (cts)	2.5	2.8	2.0	2.2	2.4
Core P/E (x)	27.4	30.4	31.9	30.1	28.5
P/BV (x)	2.1	2.7	2.4	2.3	2.2
Net dividend yield (%)	2.5	2.0	1.5	1.7	1.8
ROAE (%)	7.6	9.1	7.8	7.9	8.0
ROAA (%)	4.9	5.7	4.9	5.0	5.1
EV/EBITDA (x)	14.4	15.5	15.4	14.4	13.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	85	86	na
MKE vs. Consensus (%)	-	-	(10.9)	(6.2)	na

Eric Ong
ericong@maybank.com
(65) 6231 5924

BUY

Share Price	SGD 1.30
12m Price Target	SGD 1.50 (+15%)
Previous Price Target	SGD 1.68

Company Description

Raffles Medical owns operates medical hospitals and clinics

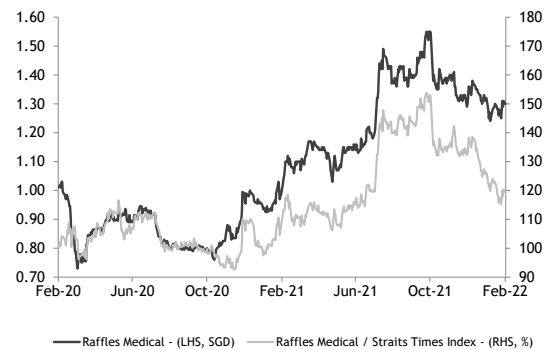
Statistics

52w high/low (SGD)	1.55/1.02
3m avg turnover (USDm)	1.9
Free float (%)	42.5
Issued shares (m)	1,873
Market capitalisation	SGD2.4B USD1.8B

Major shareholders:

LOO CHOON YONG	52.2%
S&D Holdings Pte Ltd.	3.3%
The Vanguard Group, Inc.	1.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(6)	32
Relative to index (%)	(5)	(11)	11

Source: FactSet

Value Proposition

- Provides private medical services that fill the gap between cheap-but-slow public services and fast-and-affordable private healthcare.
- Foreign patient load under pressure from strong SGD vs. regional currencies and travel restrictions as a result of Covid-19.
- As growth prospects in Singapore mature, we expect China to be the next long-term growth driver.

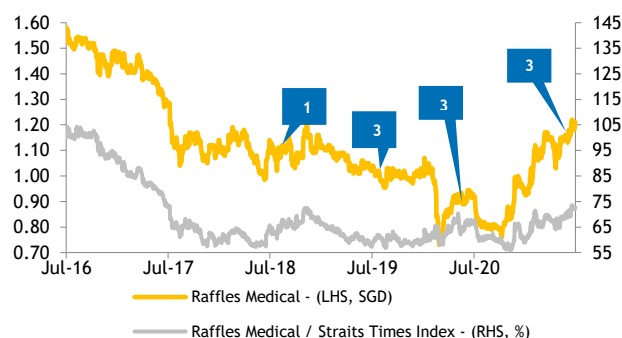
Affordable pricing of RMG vs peers

Procedures (SGD)	Mt Nov*	Mt E*	Gleneagles*	Raffles	Mount Alv
Colonoscopy	3,412	2,964	3,027	2,621	2,900
Delivery (Normal)	10,659	10,691	11,960	9,203	9,384
Delivery (C section)	16,906	17,629	18,096	17,373	13,319
Complex gastroscopy (same day)	3,351	2,880	3,238	3,300	3,114
Cataract surgery (one side)	9,243	9,349	8,699	9,496	5,610

Bills size based on 75th percentile and below. *indicates IHH hospitals
Source: Ministry of Health

Price Drivers

Historical share price trend



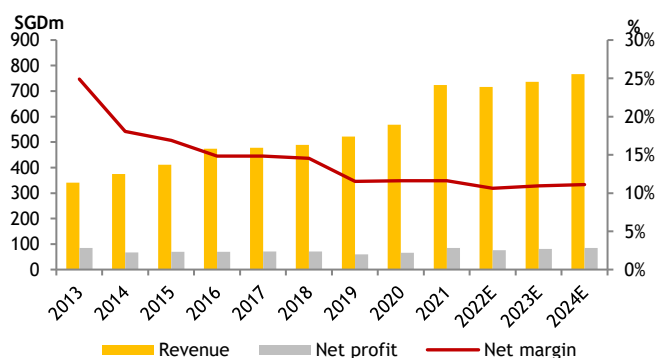
Source: Company, FactSet, Maybank IBG Research

1. Signed a MOU with China Taiping to jointly provide medical / healthcare insurance solutions.
2. Raffles Hospital Chongqing - a 700 bed hospital with GFA of more than 100,000 sqm.
3. Signed MOU with China Life Insurance to provide medical services, and healthcare management/financing.
4. Raffles Hospital Shanghai - a 400 bed tertiary hospital spanning 70,000 sqm officially opened in Pudong Qiatan.

Financial Metrics

- We project FY22E EPS to fall by 10% on the back of lower contributions from Covid-19 related services and its China hospitals. Longer-term, foreign patient volume recovery is a key growth factor.
- Balance sheet is strong with net cash position in FY21. Expects to maintain its core payout ratio of at least 50%.
- Capex should gradually decline to normalised levels as works at Raffles Hospital Shanghai are mostly complete.

Net profit, margin and revenue



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Faster-than-expected breakeven of new China hospitals.
- Cyclical recovery of foreign patient volumes.
- Stronger-than-expected domestic patient load from market share gains, etc.

Downside

- Execution risks for Chongqing and Shanghai hospitals, its maiden hospital expansion forays.
- Structural decline of medical tourism in Singapore.
- Market share loss in Singapore due to increased competitive pressures from both private and public hospitals.

ericong@maybank.com

Risk Rating & Score ¹	25.5
Score Momentum ²	-1.5
Last Updated	14 April 2021
Controversy Score ³ (Updated: 05 July 2017)	Low -1

Business Model & Industry Issues

- As a medical services provider, regulatory compliance and patient safety are among the highest priorities for both RMG and stakeholders. Employees' welfare, access to healthcare, economic performance and customer experience are also important priorities. The lowest priorities include waste and local supplies.
- While RMG sees energy and water usage as of medium significance, whereas stakeholders view these as low priority.
- RMG complies with all relevant laws and regulations and it submits periodic reports to relevant parties. RMG also has procedures to safeguard customer information.
- Raffles Hospital Singapore has been JCI accredited since 2008, and it has various committees to review clinical quality to promote patient safety.

Material E issues

- Raffles Hospital Singapore received the Green Mark certification in 2019 by the Building & Construction Authority. Among other requirements, Green Mark buildings have to maintain temperature in public areas within 24-26C and relative humidity less than 65%.
- In 2020, the water consumption index improved to 1.18m³/GFA (2018: 1.38); the electricity consumption index was comparable at 1.86 kWh/GFA from 186; and recycling tonnage improved to 78 tons from 42 tons.
- Among practical measures that RMG has taken to be more energy and water efficient are to install smart meters, timers and motion sensors, as well as water-efficient fittings.

Material S issues

- Customer satisfaction at Raffles Hospital Singapore improved to 84 in 2020 from 75.5 in 2019. Clinics satisfaction index rose to 73 in 2020 from 70 in 2019.
- RMG observes fair employment practices and also promotes workplace diversity as this is an advantage in catering to its various patient groups.
- As at 2019, RMG had a workforce of 2,766 employees (FY19: 2,631).
- Average training hours per employee fell to 6.5 in 2020 from 16 in 2018.
- Workplace injury rate increased to 19.5 in 2019 from 12.5 in 2018. However, this was due to improved reporting processes.
- Employee turnover rate fell to 22% in 2020 from 28% in 2019.

Key G metrics and issues

- The board consists of 11 members, of which three are executives, including the founder, chairman and CEO Dr Loo Choon Yong, and one is non-executive and non-independent. The remaining directors are independent (63%).
- The nominating, audit and remuneration committees are chaired by independent directors.
- Two independent directors have served for more than nine years. The board determined that these two directors remain independent.
- Auditor is KPMG LLP, appointed in 2019.
- RMG complies with all relevant statutory and regulatory requirements, and submits periodic reports to relevant government agencies and bodies.
- Raffles Hospital Singapore has been accredited by the JCI since 2008; a testament to its commitment to patient safety and care.
- There are several committees (e.g. medical audit committee, critical care committee etc) that look into the different areas of clinical quality. In addition, the quality committee has oversight of these committees with the aim to improve patient safety.
- RMG has clear policies relating to Personal Data Protection Act, and it has data protection officers to ensure adequate action is taken to protect personal data, including customers'. There was no incident of leak, theft or loss of customer data in 2020.

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).

Fig 1: Peer comparisons

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	Mcap USDm	P/E (x)			EV /EBITD A (x) FY1	Div yield (%) FY1	ROE (%) FY1	
						Act	FY1	FY2				
Raffles Med	RMFD SP	Buy	1.50	1.30	1,824	36.1	29.1	32.2	30.3	14.8	2.1	9.1
Singapore listed peers												
Q&M Dental	QNM SP	Buy	0.78	0.57	409	27.6	15.8	16.3	14.6	9.4	7.0	-
SMG	SMG SP	NR	-	0.32	114	17.4	-	-	-	-	-	-
IHH Healthcare	IHH MK	Buy	7.48	6.55	13,767	80.9	39.2	33.6	28.4	14.7	1.1	-
Average						74.0	37.5	33.0	28.2	14.6	1.3	9.1
APAC ex- China peers												
KPJ	KPJ MK	Buy	1.10	1.09	1,171	99.1	31.1	22.2	18.2	10.2	1.5	-
BDMS	BDMS TB	NR	-	23.20	11,461	51.6	49.4	41.9	37.1	23.6	1.6	8.5
BCH	BCH TB	NR	21.5	18.40	1,426	37.3	8.0	19.8	27.5	5.8	6.6	-
Bumrungrad Hosp	BH TB	NR	-	153.50	3,792	101.5	136.1	53.7	36.3	49.8	1.4	5.1
Chularat Hosp	CHG TB	NR	-	3.22	1,101	40.3	11.5	26.0	26.4	8.0	5.4	49.6
Fortis Healthcare	FORH IN	NR	-	261.45	2,644	-	52.9	38.5	30.7	17.7	0.0	5.6
Apollo Hosp	APHS IN	NR	-	4,472	8,614	697.7	67.6	53.8	41.0	28.8	0.2	16.7
Ramsay Health	RHC AU	NR	-	64.26	10,556	33.4	35.6	23.3	21.0	9.8	1.8	9.9
PT Mitra Keluarga	MIKA IJ	NR	-	2,230	2,217	37.7	28.1	30.4	27.4	17.0	1.4	20.8
PT Siloam Int'l	SILO IJ	NR	-	8,025	911	112.3	19.4	22.7	17.8	6.0	1.5	10.7
Average						187.6	52.9	38.0	31.6	21.2	1.5	11.2
China peers												
China Resources Med	1515 HK 300015	NR	-	4.66	775	15.7	12.3	11.7	11.0	6.9	1.9	6.2
Aier Eye Hosp.	CH 600763	NR	-	35.05	29,951	108.2	78.4	59.4	45.2	43.6	0.4	19.5
Topchoice Med	CH	NR	-	158.00	8,008	102.6	68.9	52.4	40.3	46.3	0.0	25.5
Average						105.2	75.1	57.0	43.5	43.4	0.4	20.5

Source: Bloomberg, FactSet, Maybank IBG Research

Fig 2: DCF

Items (SGDm)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	715.8	736.7	765.9	815.0	854.8	908.7	959.1	1020.8	1107.8	1179.1	1234.8
Growth	-1%	3%	4%	6%	5%	6%	6%	6%	9%	6%	5%
EBIT	109.2	114.0	118.6	127.7	137.7	151.9	162.1	176.4	197.8	215.7	228.1
Growth	-10%	4%	4%	8%	8%	10%	7%	9%	12%	9%	6%
Margin	15%	15%	15%	16%	16%	17%	17%	17%	18%	18%	18%
add D&A	41.2	44.3	46.3	48.1	49.7	51.1	52.4	53.7	54.9	56.2	57.5
less tax paid & associates	(28.0)	(28.9)	(29.8)	(31.6)	(33.6)	(37.2)	(39.8)	(43.4)	(48.8)	(53.4)	(56.5)
less addition to WC	11.3	0.6	5.8	1.5	1.0	1.2	0.8	0.8	0.6	0.1	(0.2)
less capex	(50.0)	(45.0)	(40.0)	(35.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
FCFF	83.7	85.0	100.9	110.7	124.9	137.0	145.5	157.4	174.5	188.6	198.8
Terminal value											4096.1
PV	77.5	72.9	80.1	81.4	85.0	86.3	84.9	85.0	87.3	87.3	1842.0
Total discounted FCF	2,669.8										
Less net debt	132.4										
No. shares outstanding (m)	1,867.6										
TP	1.50										
Implied P/E	36.8										

Source: Maybank IBG Research

Fig 3: DCF assumptions

Items	Comment
WACC (%)	8.0 RMG is net-cash over the long run
Cost of debt (%)	5.0
Cost of equity (%)	8.0
Beta (x)	0.85 Bloomberg: 0.7x. Reduced from 1x to factor in our view of lower China execution risks
Risk free rate (%)	2.5
Market return (%)	9.0
LTG assumption (%)	3.0

Source: Maybank IBG Research, Bloomberg

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	24.3	27.2	31.9	30.1	28.5
Core P/E (x)	27.4	30.4	31.9	30.1	28.5
P/BV (x)	2.1	2.7	2.4	2.3	2.2
P/NTA (x)	2.1	2.7	2.4	2.3	2.2
Net dividend yield (%)	2.5	2.0	1.5	1.7	1.8
FCF yield (%)	0.8	3.8	3.2	3.3	4.0
EV/EBITDA (x)	14.4	15.5	15.4	14.4	13.5
EV/EBIT (x)	20.2	20.5	21.2	19.9	18.7
INCOME STATEMENT (SGD m)					
Revenue	568.2	723.8	715.8	736.7	765.9
EBITDA	123.9	160.6	150.4	158.3	164.9
Depreciation	(35.5)	(39.3)	(41.2)	(44.3)	(46.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	88.4	121.3	109.2	114.0	118.6
Net interest income / (exp)	(4.0)	(5.7)	(5.7)	(4.8)	(4.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	84.4	115.6	103.6	109.2	114.5
Income tax	(19.8)	(31.9)	(28.0)	(28.9)	(29.8)
Minorities	1.2	0.5	0.5	0.5	0.5
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	65.9	84.2	76.1	80.7	85.2
Core net profit	65.9	84.2	76.1	80.7	85.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	203.1	265.0	302.7	339.0	388.5
Accounts receivable	113.4	160.7	158.8	163.9	171.0
Inventory	14.6	13.4	14.0	14.4	15.4
Property, Plant & Equip (net)	739.9	797.4	806.2	806.9	800.6
Intangible assets	34.1	31.8	31.8	31.8	31.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	299.0	277.0	277.0	277.0	277.0
Total assets	1,404.1	1,545.3	1,590.5	1,633.1	1,684.3
ST interest bearing debt	27.2	96.3	96.3	96.3	96.3
Accounts payable	191.4	253.6	263.6	269.7	283.6
LT interest bearing debt	143.9	77.9	74.0	70.3	66.8
Other liabilities	127.0	141.0	141.0	141.0	141.0
Total Liabilities	489.7	568.7	574.8	577.2	587.6
Shareholders Equity	899.0	960.8	999.5	1,039.1	1,079.5
Minority Interest	15.4	15.8	16.3	16.7	17.2
Total shareholder equity	914.4	976.6	1,015.8	1,055.8	1,096.7
Total liabilities and equity	1,404.1	1,545.3	1,590.5	1,633.1	1,684.3
CASH FLOW (SGD m)					
Pretax profit	84.4	115.6	103.6	109.2	114.5
Depreciation & amortisation	35.5	39.3	41.2	44.3	46.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(4.3)	14.2	11.3	0.6	5.8
Cash taxes paid	(10.7)	(21.7)	(28.0)	(28.9)	(29.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	105.0	147.3	128.1	125.2	136.9
Capex	(89.8)	(49.9)	(50.0)	(45.0)	(40.0)
Free cash flow	15.1	97.4	78.1	80.2	96.9
Dividends paid	(46.6)	(37.3)	(37.4)	(41.1)	(44.8)
Equity raised / (purchased)	27.5	5.6	0.0	0.0	0.0
Change in Debt	6.0	3.2	(3.9)	(3.7)	(3.5)
Other invest/financing cash flow	49.3	(20.6)	0.9	0.9	0.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	51.3	48.3	37.7	36.3	49.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.8	27.4	(1.1)	2.9	4.0
EBITDA growth	17.6	29.6	(6.4)	5.2	4.2
EBIT growth	16.1	37.2	(10.0)	4.4	4.0
Pretax growth	11.2	36.9	(10.4)	5.4	4.9
Reported net profit growth	9.3	27.7	(9.6)	6.1	5.6
Core net profit growth	9.3	27.7	(9.6)	6.1	5.6
Profitability ratios (%)					
EBITDA margin	21.8	22.2	21.0	21.5	21.5
EBIT margin	15.6	16.8	15.3	15.5	15.5
Pretax profit margin	14.9	16.0	14.5	14.8	15.0
Payout ratio	68.8	62.1	49.1	50.9	52.6
DuPont analysis					
Net profit margin (%)	11.6	11.6	10.6	11.0	11.1
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	7.6	9.1	7.8	7.9	8.0
ROAA (%)	4.9	5.7	4.9	5.0	5.1
Liquidity & Efficiency					
Cash conversion cycle	(373.7)	(455.7)	(506.0)	(508.5)	(493.5)
Days receivable outstanding	62.5	68.2	80.3	78.8	78.7
Days inventory outstanding	32.9	35.1	32.8	33.1	32.6
Days payables outstanding	469.2	559.0	619.2	620.4	604.8
Dividend cover (x)	1.5	1.6	2.0	2.0	1.9
Current ratio (x)	1.2	1.1	1.1	1.2	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.7	2.8	2.8	2.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	22.1	21.2	19.3	23.6	29.5
Debt/EBITDA (x)	1.4	1.1	1.1	1.1	1.0
Capex/revenue (%)	15.8	6.9	7.0	6.1	5.2
Net debt/ (net cash)	(32.1)	(90.8)	(132.4)	(172.4)	(225.4)

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.rodriguez@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 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

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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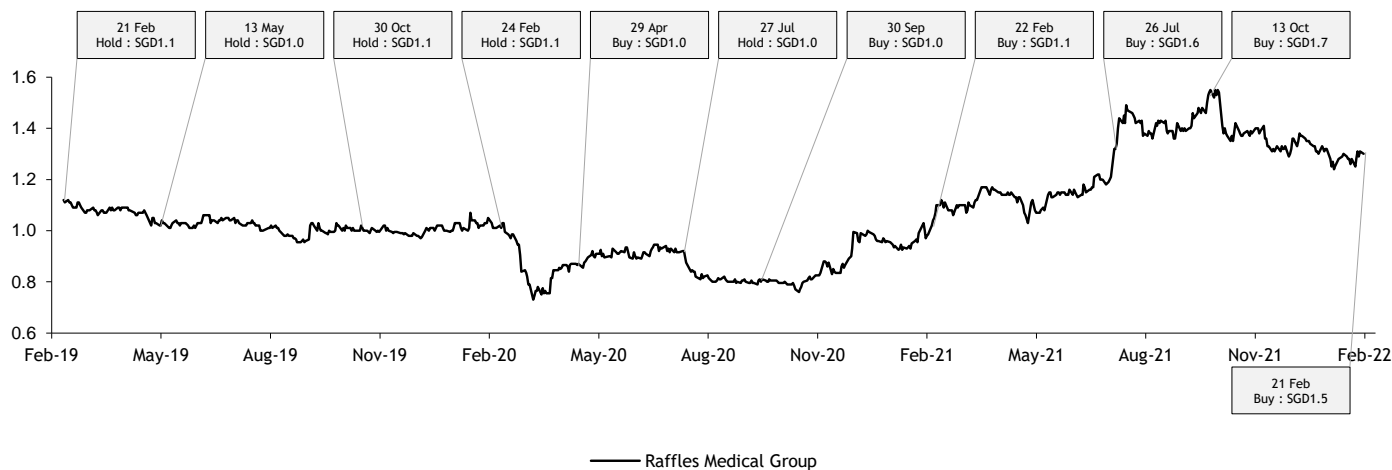
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 **Malaysia**

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