

## QL Resources (QLG MK)

# Expecting sequentially higher earnings

### Maintain SELL with unchanged TP of MYR4.00

QLG's 3QFY22 results were below expectations on higher-than-expected effective tax expense. We believe sequential earnings could fare better on resilient demand for MPM products, alleviated margin pressure in the ILF division from the Governments poultry product subsidies and improved POCE division led by rising CPO ASPs. As such, we leave our earnings estimates unchanged. Maintain SELL with unchanged TP of MYR4.00 (WACC: 7%, LT growth: 4%) on demanding valuations.

### Below expectations

QLG's 3QFY22 net profit of MYR60m (-22% YoY, +30% QoQ) brought 9MFY22 net profit to MYR148m (-25% YoY), below expectations at 68% of both our/consensus full-year earnings estimates. The earnings shortfall mainly came from higher-than-expected tax expense.

### Underperformance in MPM and ILF

Key takeaways from 3QFY22 results: (i) the marine division's (MPM) pre-tax profit weakened 16% YoY as higher feed input costs, fuel and supply disruptions led to lower margins (-4.5 ppts YoY) despite stable sales volume of surimi-based products, (ii) livestock division (ILF) pre-tax profit also fell 45% YoY on the back of elevated feed costs and egg price controls in Dec 2021, (iii) its palm oil & clean energy (POCE) division was the only core segment to post positive earnings growth upon higher CPO ASPs and FFB tonnage harvested at its Indonesian plantations along with inclusion of Boilermech (*BOILERM, Not Rated*) as a subsidiary.

### Earnings estimates are unchanged

Feed raw material costs are likely to remain high in 4QFY22. However, we expect rising demand for MPM products to keep earnings stable while concerns over ILF's compressed margins could be allayed by Government subsidies of 5sen/egg (from 4 Feb to 5 Jun) in sequential quarters. We understand that FamilyMart has also experienced strong sales momentum upon the easing of movement restrictions and could be disclosed as a separate segment as early as 4QFY22. Hence, we make no changes to our earnings estimates for now.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,156	4,373	5,114	5,420	5,657
EBITDA	541	680	547	625	694
Core net profit	239	232	218	261	292
Core EPS (sen)	9.8	9.5	8.9	10.7	12.0
Core EPS growth (%)	10.4	(2.9)	(6.4)	19.8	11.8
Net DPS (sen)	3.0	3.5	4.4	4.5	4.5
Core P/E (x)	50.2	63.5	54.8	45.7	40.9
P/BV (x)	6.0	6.4	4.9	4.5	4.2
Net dividend yield (%)	0.6	0.6	0.9	0.9	0.9
ROAE (%)	12.1	14.4	9.1	10.2	10.6
ROAA (%)	6.2	5.2	4.4	5.0	5.4
EV/EBITDA (x)	24.2	23.4	24.0	21.0	18.8
Net gearing (%) (incl perps)	47.7	35.6	37.1	32.6	27.4
Consensus net profit	-	-	219	281	319
MKE vs. Consensus (%)	-	-	(0.7)	(7.2)	(8.6)

Jade Tam  
jade.tam@maybank-ib.com  
(603) 2297 8687

# SELL

Share Price	MYR 4.90
12m Price Target	MYR 4.00 (-18%)
Previous Price Target	MYR 4.00

### Company Description

QL Resources Bhd. engages in the livestock farming, surimi manufacturing, and palm oil businesses.

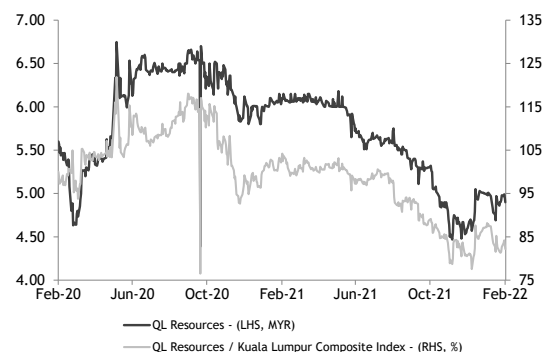
### Statistics

52w high/low (MYR)	6.18/4.47
3m avg turnover (USDm)	1.3
Free float (%)	37.1
Issued shares (m)	2,434
Market capitalisation	MYR11.9B USD2.8B

### Major shareholders:

Cbg L Pte Ltd.	40.3%
Farsathy Holdings Sdn. Bhd.	11.6%
Employees Provident Fund	7.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	6	(20)
Relative to index (%)	(6)	1	(21)

Source: FactSet

**QL Resources: Results Summary Table**

FY Mar (RM m)	Quarterly					Cumulative		
	3QFY22	3QFY21	% YoY	2QFY22	% QoQ	9MFY22	9MFY21	% YoY
Turnover	1,400.8	1,111.4	26.0	1,248.1	12.2	3,874.3	3,159.6	22.6
EBITDA	166.4	166.9	(0.3)	140.3	18.6	438.1	465.3	(5.8)
Depreciation	(57.3)	(51.5)	11.4	(57.7)	(0.7)	(177.6)	(151.2)	17.4
EBIT	109.1	115.5	(5.5)	82.6	32.1	260.5	314.0	(17.1)
Net interest expense	(12.3)	(11.6)	5.9	(12.0)	2.8	(32.5)	(36.9)	(12.1)
Associates	0.2	4.7	(95.0)	0.2	30.0	0.4	9.2	(95.6)
<b>Pretax profit</b>	<b>97.0</b>	<b>108.5</b>	<b>(10.6)</b>	<b>70.8</b>	<b>37.1</b>	<b>228.4</b>	<b>286.3</b>	<b>(20.2)</b>
Tax	(28.3)	(28.0)	0.8	(20.0)	41.1	(63.7)	(79.1)	(19.4)
Minorities	(8.9)	(4.2)	>100.0	(4.8)	86.7	(16.8)	(9.9)	69.8
<b>Net profit</b>	<b>59.8</b>	<b>76.3</b>	<b>(21.7)</b>	<b>45.9</b>	<b>30.2</b>	<b>147.9</b>	<b>197.3</b>	<b>(25.0)</b>
<b>Recurring net profit *</b>	<b>59.8</b>	<b>76.3</b>	<b>(21.7)</b>	<b>45.9</b>	<b>30.2</b>	<b>147.9</b>	<b>197.3</b>	<b>(25.0)</b>
			<b>+/- p.pts</b>		<b>+/- p.pts</b>			<b>+/- p.pts</b>
			<b>YoY</b>		<b>QoQ</b>			<b>YoY</b>
<i>EBITDA margin (%)</i>	11.9	15.0	(3.1)	11.2	0.6	11.3	14.7	(3.4)
<i>EBIT margin (%)</i>	7.8	10.4	(2.6)	6.6	1.2	6.7	9.9	(3.2)
<i>Tax rate (%)</i>	29.1	25.8	3.3	28.3	0.8	27.9	27.6	0.3
<b>Revenue:</b>			<b>% YoY</b>		<b>% QoQ</b>			<b>% YoY</b>
Marine Products (MPM)	330.5	318.6	3.8	284.4	16.2	885.7	961.6	(7.9)
Palm Oil (POA)	188.8	52.4	>100.0	127.8	47.7	469.9	170.9	>100.0
Integrated Livestock (ILF)	881.6	740.4	19.1	835.9	5.5	2,518.7	2,027.1	24.3
<b>Total</b>	<b>1,400.8</b>	<b>1,111.4</b>	<b>26.0</b>	<b>1,248.1</b>	<b>12.2</b>	<b>3,874.3</b>	<b>3,159.6</b>	<b>22.6</b>
<b>Pretax profit:</b>			<b>% YoY</b>		<b>% QoQ</b>			<b>% YoY</b>
Marine Products (MPM)	61.7	73.7	(16.3)	53.2	16.0	156.6	209.2	(25.2)
Palm Oil (POA)	16.2	0.0	>100.0	11.0	46.9	39.5	12.9	>100.0
Integrated Livestock (ILF)	19.1	34.8	(45.1)	6.6	>100.0	32.4	64.2	(49.5)
<b>Total</b>	<b>97.0</b>	<b>108.5</b>	<b>(10.6)</b>	<b>70.8</b>	<b>37.1</b>	<b>228.4</b>	<b>286.3</b>	<b>(20.2)</b>
<b>Pretax profit margin (%):</b>			<b>+/- p.pts</b>		<b>+/- p.pts</b>			<b>+/- p.pts</b>
			<b>YoY</b>		<b>QoQ</b>			<b>YoY</b>
Marine Products (MPM)	18.7	23.1	(4.5)	18.7	(0.0)	17.7	21.8	(4.1)
Palm Oil (POA)	8.6	0.1	8.5	8.6	(0.0)	8.4	7.5	0.9
Integrated Livestock (ILF)	2.2	4.7	(2.5)	0.8	1.4	1.3	3.2	(1.9)
<b>Total</b>	<b>6.9</b>	<b>9.8</b>	<b>(2.8)</b>	<b>5.7</b>	<b>1.3</b>	<b>5.9</b>	<b>9.1</b>	<b>(3.2)</b>
<b>Revenue (% b/down):</b>			<b>+/- p.pts</b>		<b>+/- p.pts</b>			<b>+/- p.pts</b>
			<b>YoY</b>		<b>QoQ</b>			<b>YoY</b>
Marine Products (MPM)	23.6	28.7	(5.1)	22.8	0.8	22.9	30.4	(7.6)
Palm Oil (POA)	13.5	4.7	8.8	10.2	3.2	12.1	5.4	6.7
Integrated Livestock (ILF)	62.9	66.6	(3.7)	67.0	(4.0)	65.0	64.2	0.9
<b>Pretax profit (% b/down):</b>			<b>+/- p.pts</b>		<b>+/- p.pts</b>			<b>+/- p.pts</b>
			<b>YoY</b>		<b>QoQ</b>			<b>YoY</b>
Marine Products (MPM)	63.6	67.9	(4.3)	75.1	(11.5)	68.5	73.1	(4.5)
Palm Oil (POA)	16.7	0.0	16.7	15.6	1.1	17.3	4.5	12.8
Integrated Livestock (ILF)	19.7	32.1	(12.4)	9.3	10.4	14.2	22.4	(8.2)

Source: Company

**Risk statement**

There are several risk factors for our earnings estimates, price target, and rating for QLG. Larger-than-expected impact of the weaker MYR on feed costs, and prolonged weak farm product prices on unfavourable supply-demand situation may impact earnings. Higher-than-expected operating expenses for its current business may also adversely impact QLG's earnings. Departure of key management is another risk factor.

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	49.4	47.9	54.8	45.7	40.9
Core P/E (x)	50.2	63.5	54.8	45.7	40.9
P/BV (x)	6.0	6.4	4.9	4.5	4.2
P/NTA (x)	6.0	6.8	5.2	4.7	4.4
Net dividend yield (%)	0.6	0.6	0.9	0.9	0.9
FCF yield (%)	1.4	2.8	nm	1.1	1.7
EV/EBITDA (x)	24.2	23.4	24.0	21.0	18.8
EV/EBIT (x)	36.9	33.6	37.7	31.1	26.8
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	4,155.9	4,373.4	5,114.3	5,419.9	5,657.3
EBITDA	540.6	679.6	547.4	625.3	694.4
Depreciation	(186.2)	(206.9)	(198.8)	(203.8)	(208.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	354.4	472.7	348.6	421.5	485.9
Net interest income / (exp)	(58.2)	(49.5)	(49.1)	(51.2)	(49.9)
Associates & JV	10.8	9.3	5.0	12.0	12.0
Exceptionals	0.0	79.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	306.9	432.6	304.5	382.3	447.9
Income tax	(68.0)	(107.4)	(73.1)	(91.8)	(107.5)
Minorities	0.4	(13.8)	(13.8)	(29.8)	(48.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	239.3	311.4	217.6	260.8	291.6
Core net profit	239.3	232.4	217.6	260.8	291.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	308.2	487.5	397.6	452.0	540.4
Accounts receivable	415.8	484.3	566.3	600.2	626.5
Inventory	496.3	648.5	796.1	833.4	861.0
Property, Plant & Equip (net)	2,006.4	2,214.0	2,315.3	2,411.5	2,503.0
Intangible assets	10.1	136.6	136.6	136.6	136.6
Investment in Associates & JVs	142.2	2.3	7.3	19.3	31.3
Other assets	687.4	862.1	862.1	862.1	862.1
<b>Total assets</b>	<b>4,066.4</b>	<b>4,835.3</b>	<b>5,081.2</b>	<b>5,315.1</b>	<b>5,560.8</b>
ST interest bearing debt	655.5	786.0	786.0	786.0	786.0
Accounts payable	368.1	475.9	584.1	611.6	631.8
LT interest bearing debt	650.4	608.3	608.3	608.3	608.3
Other liabilities	301.0	419.0	419.0	419.0	419.0
<b>Total Liabilities</b>	<b>1,975.4</b>	<b>2,288.8</b>	<b>2,397.1</b>	<b>2,424.5</b>	<b>2,444.7</b>
Shareholders Equity	2,017.5	2,314.9	2,447.4	2,648.7	2,869.0
Minority Interest	73.5	231.5	236.7	241.9	247.1
<b>Total shareholder equity</b>	<b>2,091.0</b>	<b>2,546.5</b>	<b>2,684.1</b>	<b>2,890.6</b>	<b>3,116.1</b>
<b>Total liabilities and equity</b>	<b>4,066.4</b>	<b>4,835.3</b>	<b>5,081.2</b>	<b>5,315.1</b>	<b>5,560.8</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	306.9	432.6	304.5	382.3	447.9
Depreciation & amortisation	186.2	206.9	198.8	203.8	208.5
Adj net interest (income)/exp	58.2	49.5	49.1	51.2	49.9
Change in working capital	35.6	124.4	(121.3)	(43.8)	(33.6)
Cash taxes paid	(31.9)	(75.5)	(73.1)	(91.8)	(107.5)
Other operating cash flow	(16.1)	0.0	(5.0)	(12.0)	(12.0)
Cash flow from operations	528.2	807.8	298.5	433.2	497.9
Capex	(354.3)	(393.7)	(300.0)	(300.0)	(300.0)
Free cash flow	174.0	414.1	(1.5)	133.2	197.9
Dividends paid	(73.0)	(73.0)	(85.2)	(107.1)	(110.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	41.6	(91.8)	0.0	0.0	0.0
Other invest/financing cash flow	(123.1)	(29.2)	(1.3)	(1.3)	(1.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	19.5	220.0	(87.9)	24.8	86.3

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	14.8	5.2	16.9	6.0	4.4
EBITDA growth	14.4	25.7	(19.4)	14.2	11.0
EBIT growth	13.3	33.4	(26.3)	20.9	15.3
Pretax growth	12.7	40.9	(29.6)	25.6	17.2
Reported net profit growth	10.4	30.1	(30.1)	19.8	11.8
Core net profit growth	10.4	(2.9)	(6.4)	19.8	11.8
<b>Profitability ratios (%)</b>					
EBITDA margin	13.0	15.5	10.7	11.5	12.3
EBIT margin	8.5	10.8	6.8	7.8	8.6
Pretax profit margin	7.4	9.9	6.0	7.1	7.9
Payout ratio	30.5	27.4	49.2	42.3	37.8
<b>DuPont analysis</b>					
Net profit margin (%)	5.8	7.1	4.3	4.8	5.2
Revenue/Assets (x)	1.0	0.9	1.0	1.0	1.0
Assets/Equity (x)	2.0	2.1	2.1	2.0	1.9
ROAE (%)	12.1	14.4	9.1	10.2	10.6
ROAA (%)	6.2	5.2	4.4	5.0	5.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	54.4	52.9	53.4	56.5	56.9
Days receivable outstanding	34.4	37.0	37.0	38.7	39.0
Days inventory outstanding	57.8	60.2	61.9	66.7	67.1
Days payables outstanding	37.7	44.4	45.4	48.9	49.2
Dividend cover (x)	3.3	3.7	2.0	2.4	2.6
Current ratio (x)	1.4	1.4	1.4	1.5	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.1	2.1	2.2	2.3
Net gearing (%) (incl perps)	47.7	35.6	37.1	32.6	27.4
Net gearing (%) (excl. perps)	47.7	35.6	37.1	32.6	27.4
Net interest cover (x)	6.1	9.6	7.1	8.2	9.7
Debt/EBITDA (x)	2.4	2.1	2.5	2.2	2.0
Capex/revenue (%)	8.5	9.0	5.9	5.5	5.3
Net debt/ (net cash)	997.6	906.8	996.7	942.2	853.9

Source: Company; Maybank

## Research Offices

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(603) 2297 8682  
suhaimi\_iliast@maybank-ib.com

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

**LEE Ju Ye**  
Singapore | Thailand | Indonesia  
(65) 6231 5844  
leejuy@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 TARAPORNITIP** *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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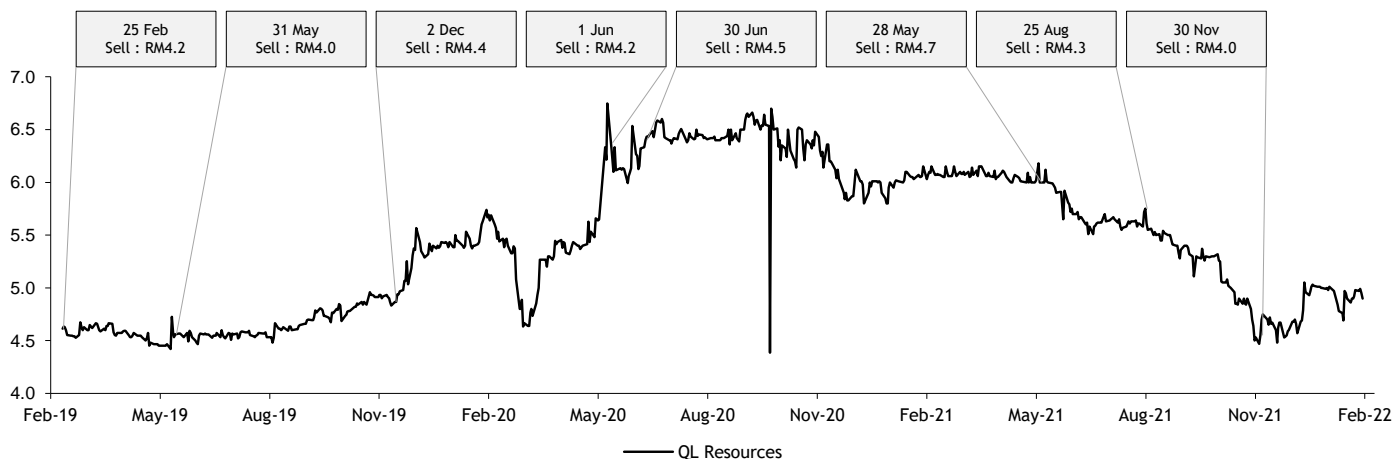
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**Malaysia**

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, 22<sup>nd</sup> 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, 11<sup>th</sup> 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,  
 20<sup>th</sup> - 21<sup>st</sup> 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