

TSH Resources (TSH MK)

A strong end to FY21

Results exceeded expectations

FY21 core PATMI beat our/street estimates on record high CPO ASP achieved. TSH's strong earnings momentum is likely to sustain into FY22E driven by the great start to CPO prices in 2022. Following our EPS upgrade, we retain our BUY call with a higher TP of MYR1.60 after rolling forward valuation to FY23E on unchanged 20x PER peg, at -1SD of 5Y mean (from MYR1.48 TP on 20x FY22E PER peg). An interim DPS of 3sen was declared (ex-date: 30 Mar).

4Q21: Benefitted immensely from high CPO ASP

4Q21 core PATMI grew 176% YoY to MYR60m (+27% QoQ), bringing FY21 core PATMI to MYR174m (+154% YoY) which met 116%/115% of our/consensus estimates. 4Q core PATMI was boosted by higher CPO ASP achieved of MYR4,347/t (+56% YoY, +21% QoQ) which more than offset lower FFB output (-23% YoY, -18% QoQ) on recent change in crop pattern especially in Kalimantan. Meanwhile, share of associate/JV profits rose 151% YoY to MYR30m (+117% QoQ) in 4Q. By our estimate, FY21 all-in operating cost to customer was a higher MYR2,223/t (+29% YoY) due to higher windfall and Sabah sales taxes as well as fertiliser cost.

Anticipating output recovery of 5% YoY in FY22E

FY21's FFB output grew just 1% YoY to 0.92mt. For FY22E, TSH is again guiding for a recovery in output (+7-11% YoY) but we have conservatively assumed just 5% YoY FFB growth to 0.97mt.

Raising FY22E/23E EPS by 61%/10%

Following our industry-wide CPO ASP revisions to MYR4,100/t (from 3,200/t) for 2022E, and MYR3,200/t (from 3,000/t) for 2023E, we raise our FY22E/23E core EPS forecasts for TSH by 61%/10% respectively. We introduce our FY24E EPS forecast. Note that our FY22E forecast has yet to factor in the proposed disposal of some of TSH's Sabah estate measuring 3,007 ha (planted: 2,933 ha) and 1 mill for MYR248m cash. The disposal is estimated to net a gain of MYR104m.

| FYE Dec (MYR m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|-------|-------|-------|--------|-------|
| Revenue | 782 | 1,189 | 1,348 | 1,250 | 1,270 |
| EBITDA | 215 | 342 | 332 | 277 | 288 |
| Core net profit | 68 | 174 | 164 | 110 | 122 |
| Core EPS (sen) | 5.0 | 12.6 | 11.9 | 8.0 | 8.8 |
| Core EPS growth (%) | 197.6 | 153.8 | (5.7) | (32.7) | 10.6 |
| Net DPS (sen) | 1.5 | 3.0 | 3.6 | 2.4 | 2.7 |
| Core P/E (x) | 23.2 | 8.6 | 11.9 | 17.6 | 16.0 |
| P/BV (x) | 1.1 | 0.9 | 1.1 | 1.1 | 1.0 |
| Net dividend yield (%) | 1.3 | 2.8 | 2.5 | 1.7 | 1.9 |
| ROAE (%) | 4.3 | 10.9 | 9.6 | 6.1 | 6.5 |
| ROAA (%) | 2.1 | 5.4 | 4.9 | 3.3 | 3.6 |
| EV/EBITDA (x) | 13.4 | 7.2 | 8.9 | 10.2 | 9.4 |
| Net gearing (%) (incl perps) | 72.0 | 45.0 | 41.5 | 32.5 | 24.4 |
| Consensus net profit | - | - | 137 | 124 | na |
| MKE vs. Consensus (%) | - | - | 19.8 | (10.9) | na |

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

BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 1.41 |
| 12m Price Target | MYR 1.60 (+16%) |
| Previous Price Target | MYR 1.48 |

Company Description

TSH Resources engages in the oil palm cultivation and forest plantation.

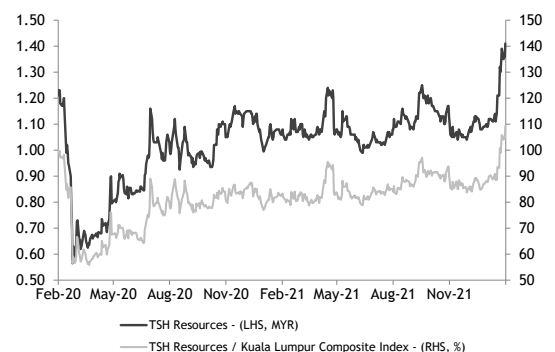
Statistics

| | |
|------------------------|--------------------|
| 52w high/low (MYR) | 1.41/0.99 |
| 3m avg turnover (USDm) | 0.9 |
| Free float (%) | 34.7 |
| Issued shares (m) | 1,382 |
| Market capitalisation | MYR1.9B USD464M |

Major shareholders:

| | |
|-------------------------|-------|
| TAN AIK PEN | 18.2% |
| Tunas Lestari Sdn. Bhd. | 4.9% |
| Embung Yakini Sdn. Bhd. | 4.9% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 28 | 25 | 33 |
| Relative to index (%) | 23 | 20 | 31 |

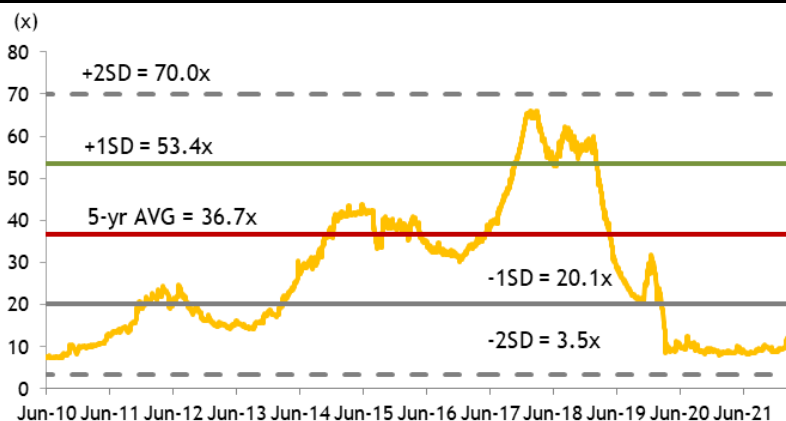
Source: FactSet

Figure 1: TSH's summary results table

| | Quarterly | | | | | Cumulative | | |
|--|-------------|-------------|----------------|-------------|----------------|--------------|--------------|----------------|
| (MYR m) | 4Q21 | 4Q20 | %YoY | 3Q21 | %QoQ | 12M21 | 12M20 | %YoY |
| Revenue | 328.3 | 195.2 | 68.2 | 309.1 | 6.2 | 1,188.9 | 781.7 | 52.1 |
| EBIT | 57.6 | 21.5 | 167.7 | 64.4 | (10.6) | 239.8 | 116.0 | 106.8 |
| Gain/(Loss) on FX | 1.9 | 12.5 | (84.9) | (2.6) | NA | (13.1) | 1.6 | NA |
| Gain/(Loss) on FV of biological assets | 1.1 | 0.0 | NA | (0.7) | NA | 4.5 | 0.0 | NA |
| Net interest | (6.3) | (9.7) | (34.9) | (9.3) | (32.0) | (32.4) | (41.9) | (22.6) |
| Share of Associates | 30.1 | 12.0 | 150.8 | 13.9 | 116.7 | 54.9 | 32.0 | 71.7 |
| Pre-tax profit | 84.3 | 36.2 | 132.8 | 65.7 | 28.3 | 253.7 | 107.7 | 135.7 |
| Tax | (11.1) | (11.6) | (3.9) | (11.9) | (6.8) | (52.1) | (34.8) | 49.6 |
| PAT from continuing operations | 73.2 | 24.7 | 196.9 | 53.8 | 36.1 | 201.6 | 72.9 | 176.7 |
| PAT/(LAT) from discontinued operations | 0.0 | 9.5 | NA | 0.0 | NA | 0.0 | 17.6 | NA |
| PAT | 73.2 | 34.2 | 114.1 | 53.8 | 36.1 | 201.6 | 90.5 | 122.9 |
| Minority Interests | (9.8) | (1.2) | 693.0 | (8.7) | 12.2 | (32.6) | (11.4) | 186.6 |
| PATMI | 63.4 | 33.0 | 92.5 | 45.1 | 40.7 | 169.0 | 79.1 | 113.7 |
| Core PATMI | 59.8 | 21.7 | 176.2 | 47.2 | 26.8 | 173.8 | 68.5 | 153.7 |
| Segmental | 4Q21 | 4Q20 | %YoY | 3Q21 | %QoQ | 12M21 | 12M20 | %YoY |
| Revenue | | | | | | | | |
| Palm and bio-integration | 298.0 | 176.5 | 68.9 | 286.8 | 3.9 | 1,094.5 | 670.1 | 63.3 |
| Other | 30.4 | 18.8 | 61.7 | 22.3 | 36.4 | 94.4 | 111.6 | (15.4) |
| Total revenue | 328.3 | 195.2 | 68.2 | 309.1 | 6.2 | 1,188.9 | 781.7 | 52.1 |
| EBIT | | | | | | | | |
| Palm and bio-integration | 68.5 | 19.7 | 246.9 | 64.9 | 5.5 | 252.1 | 99.8 | 152.5 |
| Other | (10.9) | 1.8 | NA | (0.5) | 2,128.4 | (12.3) | 16.1 | NA |
| Total EBIT | 57.6 | 21.5 | 167.7 | 64.4 | (10.6) | 239.8 | 116.0 | 106.8 |
| Group EBIT margin (%) | 17.5 | 11.0 | +/- ppt | 20.8 | +/- ppt | 20.2 | 14.8 | +/- ppt |
| | | | 6.5 | | (3.3) | | | 5.3 |
| Operational | 4Q21 | 4Q20 | %YoY | 3Q21 | %QoQ | 12M21 | 12M20 | %YoY |
| FFB production (t) | 196,425 | 255,008 | (23.0) | 239,222 | (17.9) | 918,986 | 906,175 | 1.4 |
| CPO (t) | 56,098 | 60,335 | (7.0) | 65,729 | (14.7) | 253,874 | 257,236 | (1.3) |
| PK (t) | 11,649 | 12,044 | (3.3) | 13,531 | (13.9) | 52,395 | 54,466 | (3.8) |
| CPO ASP (MYR/t) | 4,347 | 2,779 | 56.4 | 3,586 | 21.2 | 3,570 | 2,478 | 44.1 |

Source: Company

Figure 2: TSH's 12M forward PER



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for TSH Resources. Key risks to the palm oil sector and TSH 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 government on upstream or downstream segments, (v) sharply lower crude oil prices which makes palm biodiesel demand not viable, and (vi) weaker competing oil prices (like soybean and rapeseed).

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 22.5 | 8.9 | 11.9 | 17.6 | 16.0 |
| Core P/E (x) | 23.2 | 8.6 | 11.9 | 17.6 | 16.0 |
| P/BV (x) | 1.1 | 0.9 | 1.1 | 1.1 | 1.0 |
| P/NTA (x) | 1.1 | 0.9 | 1.1 | 1.1 | 1.0 |
| Net dividend yield (%) | 1.3 | 2.8 | 2.5 | 1.7 | 1.9 |
| FCF yield (%) | 11.5 | 23.4 | 2.7 | 9.2 | 9.1 |
| EV/EBITDA (x) | 13.4 | 7.2 | 8.9 | 10.2 | 9.4 |
| EV/EBIT (x) | 26.4 | 10.7 | 13.4 | 17.0 | 15.2 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 781.7 | 1,188.9 | 1,347.7 | 1,250.0 | 1,270.0 |
| EBITDA | 214.9 | 342.4 | 331.8 | 277.3 | 288.3 |
| Depreciation | (105.5) | (111.2) | (111.1) | (110.1) | (109.1) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 109.4 | 231.2 | 220.6 | 167.2 | 179.2 |
| Net interest income / (exp) | (35.3) | (32.4) | (21.0) | (24.0) | (17.2) |
| Associates & JV | 32.0 | 54.9 | 47.0 | 25.0 | 25.0 |
| Exceptionals | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 107.7 | 253.7 | 246.6 | 168.3 | 187.0 |
| Income tax | (34.8) | (52.1) | (51.6) | (37.0) | (41.9) |
| Minorities | (11.4) | (32.6) | (31.2) | (21.0) | (23.2) |
| Discontinued operations | 17.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 61.5 | 169.0 | 163.8 | 110.3 | 121.9 |
| Core net profit | 68.5 | 173.8 | 163.8 | 110.3 | 121.9 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 163.1 | 297.2 | 250.4 | 345.6 | 435.8 |
| Accounts receivable | 68.2 | 49.2 | 110.8 | 102.7 | 104.4 |
| Inventory | 122.9 | 143.6 | 201.6 | 186.2 | 189.8 |
| Property, Plant & Equip (net) | 2,118.6 | 2,300.4 | 2,239.2 | 2,179.1 | 2,120.0 |
| Intangible assets | 54.2 | 51.6 | 51.6 | 51.6 | 51.6 |
| Investment in Associates & JVs | 157.1 | 171.5 | 218.5 | 243.5 | 268.5 |
| Other assets | 481.8 | 279.8 | 279.8 | 279.8 | 279.8 |
| Total assets | 3,166.0 | 3,293.3 | 3,352.0 | 3,388.6 | 3,449.9 |
| ST interest bearing debt | 690.4 | 522.3 | 497.3 | 472.3 | 447.3 |
| Accounts payable | 75.0 | 188.4 | 151.2 | 139.7 | 142.3 |
| LT interest bearing debt | 623.7 | 591.7 | 566.7 | 541.7 | 516.7 |
| Other liabilities | 179.0 | 178.0 | 178.0 | 178.0 | 178.0 |
| Total Liabilities | 1,568.0 | 1,479.9 | 1,392.7 | 1,331.1 | 1,283.8 |
| Shareholders Equity | 1,453.1 | 1,641.2 | 1,755.9 | 1,833.0 | 1,918.4 |
| Minority Interest | 144.9 | 172.3 | 203.5 | 224.5 | 247.7 |
| Total shareholder equity | 1,598.0 | 1,813.5 | 1,959.3 | 2,057.5 | 2,166.1 |
| Total liabilities and equity | 3,166.0 | 3,293.3 | 3,352.0 | 3,388.6 | 3,449.9 |
| CASH FLOW (MYR m) | | | | | |
| Pretax profit | 107.7 | 253.7 | 246.6 | 168.3 | 187.0 |
| Depreciation & amortisation | 105.5 | 111.2 | 111.1 | 110.1 | 109.1 |
| Adj net interest (income)/exp | (35.3) | (32.4) | (21.0) | (24.0) | (17.2) |
| Change in working capital | 5.0 | 58.2 | (156.8) | 11.9 | (2.5) |
| Cash taxes paid | (16.8) | (33.0) | (51.6) | (37.0) | (41.9) |
| Other operating cash flow | 70.2 | 35.8 | (26.0) | (1.0) | (7.8) |
| Cash flow from operations | 236.1 | 393.6 | 102.3 | 228.3 | 226.8 |
| Capex | (53.9) | (44.0) | (50.0) | (50.0) | (50.0) |
| Free cash flow | 182.3 | 349.5 | 52.3 | 178.3 | 176.8 |
| Dividends paid | (13.8) | (20.7) | (49.1) | (33.1) | (36.6) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (113.0) | (215.9) | (50.0) | (50.0) | (50.0) |
| Other invest/financing cash flow | 29.6 | 51.0 | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | (1.6) | (2.5) | 0.0 | 0.0 | 0.0 |
| Net cash flow | 83.4 | 161.5 | (46.8) | 95.2 | 90.2 |

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|---------|-------|-------|--------|-------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (6.8) | 52.1 | 13.4 | (7.2) | 1.6 |
| EBITDA growth | 14.8 | 59.3 | (3.1) | (16.4) | 4.0 |
| EBIT growth | 25.9 | 111.3 | (4.6) | (24.2) | 7.2 |
| Pretax growth | 45.9 | 135.7 | (2.8) | (31.8) | 11.2 |
| Reported net profit growth | 39.6 | 174.9 | (3.1) | (32.7) | 10.6 |
| Core net profit growth | 197.6 | 153.7 | (5.7) | (32.7) | 10.6 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 27.5 | 28.8 | 24.6 | 22.2 | 22.7 |
| EBIT margin | 14.0 | 19.4 | 16.4 | 13.4 | 14.1 |
| Pretax profit margin | 13.8 | 21.3 | 18.3 | 13.5 | 14.7 |
| Payout ratio | 33.7 | 24.5 | 30.0 | 30.0 | 30.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 7.9 | 14.2 | 12.2 | 8.8 | 9.6 |
| Revenue/Assets (x) | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 |
| Assets/Equity (x) | 2.2 | 2.0 | 1.9 | 1.8 | 1.8 |
| ROAE (%) | 4.3 | 10.9 | 9.6 | 6.1 | 6.5 |
| ROAA (%) | 2.1 | 5.4 | 4.9 | 3.3 | 3.6 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 71.4 | 18.5 | 22.5 | 51.3 | 48.9 |
| Days receivable outstanding | 30.2 | 17.8 | 21.4 | 30.7 | 29.4 |
| Days inventory outstanding | 101.6 | 59.1 | 67.5 | 82.2 | 78.2 |
| Days payables outstanding | 60.4 | 58.4 | 66.4 | 61.6 | 58.6 |
| Dividend cover (x) | 3.0 | 4.1 | 3.3 | 3.3 | 3.3 |
| Current ratio (x) | 1.0 | 0.9 | 1.1 | 1.2 | 1.4 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.0 | 2.2 | 2.4 | 2.5 | 2.7 |
| Net gearing (%) (incl perps) | 72.0 | 45.0 | 41.5 | 32.5 | 24.4 |
| Net gearing (%) (excl. perps) | 72.0 | 45.0 | 41.5 | 32.5 | 24.4 |
| Net interest cover (x) | 3.1 | 7.1 | 10.5 | 7.0 | 10.4 |
| Debt/EBITDA (x) | 6.1 | 3.3 | 3.2 | 3.7 | 3.3 |
| Capex/revenue (%) | 6.9 | 3.7 | 3.7 | 4.0 | 3.9 |
| Net debt/ (net cash) | 1,151.0 | 816.7 | 813.5 | 668.3 | 528.1 |

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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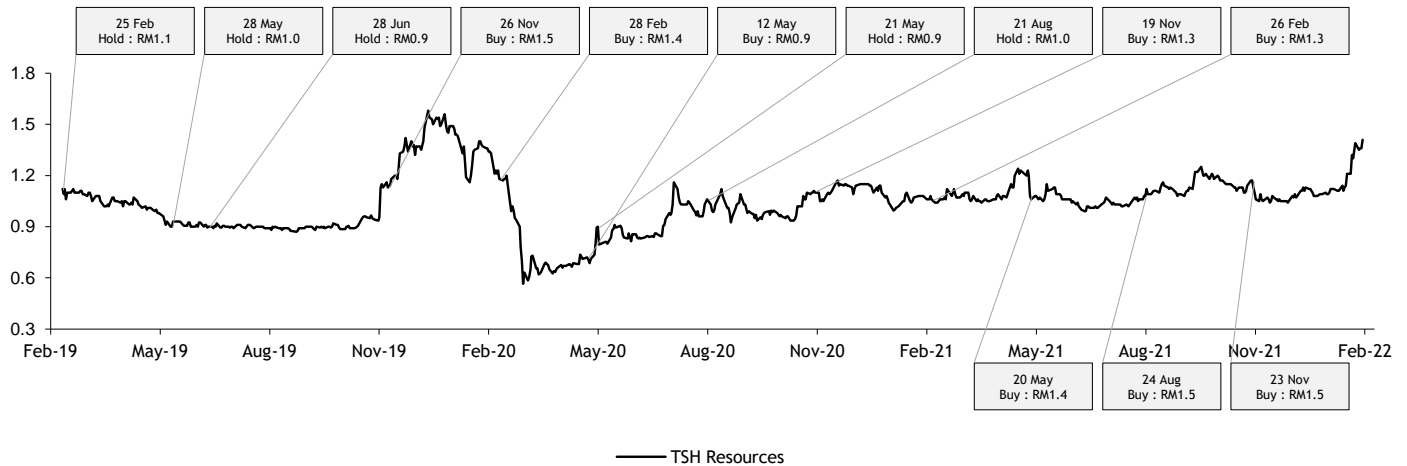
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Malaysia

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