

AMMB Holdings (AMM MK)

Higher provisions in 3QFY22

BUY maintained, TP raised

3QFY22 core earnings were below expectations and we lower FY22/23E earnings by 6-12% on higher credit cost assumptions. We look to core earnings growth of 13% in FY23E in the absence of Cukai Makmur and marginally lower provisions. We roll forward valuations to CY23 and peg on a PBV of 0.7x (CY23E ROE: 8.0%) for a higher TP of MYR4.05 (+15sen).

Below expectations due to higher provisions

AMMB's 3QFY22 core net profit of MYR211m (-15% YoY, -27% QoQ) took 9MFY22 core net profit to MYR852m (-4% YoY) - the results were below expectations at 71% of our full-year forecast/consensus. The primary variance stemmed from increased provisions against troubled O&G accounts. Reported 3QFY22 net profit included a MYR234m tax credit that the group is hoping to be reimbursed from its previous MYR2.83b Global Settlement, offset in part by a MYR75m provision for Cukai Makmur. We cut FY22/23E earnings by 6%/12% on higher credit cost assumptions.

15% of loans under Repayment Assistance

Loans under repayment assistance (RA) amounted to 15% of total loans, down from a peak of 32% in Aug 2021. Total loan loss coverage including regulatory reserves has since built up to a healthy 164%. Management guides for full-year credit cost of 72bps (74bps in 9MFY22), which implies a 4QFY22 credit cost of about 65bps.

Hoping to resume dividend payments

AMMB's capital ratios are recovering nicely and its CET1 ratio stood at 11.9% end-Dec 2021. This is expected to build up to about 12.2% by end-March 2022 even before factoring in any enhancement from the divestment of its insurance business, which could accrete about 25bps. With this build up, management is working towards a dividend payment in FY22. We have conservatively assumed a dividend payout ratio of 20% against a historical average of 30-40% (nil in FY21).

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	4,230	4,509	4,736	4,828	5,050
Pre-provision profit	2,122	2,376	2,654	2,635	2,738
Core net profit	1,341	1,013	1,149	1,293	1,487
Core EPS (MYR)	0.45	0.34	0.36	0.39	0.45
Core EPS growth (%)	5.5	(24.5)	7.8	7.4	15.0
Net DPS (MYR)	0.13	0.00	0.09	0.12	0.14
Core P/E (x)	6.7	8.7	9.4	8.8	7.6
P/BV (x)	0.5	0.6	0.7	0.6	0.6
Net dividend yield (%)	4.4	0.0	2.6	3.4	3.9
Book value (MYR)	6.16	4.86	5.06	5.33	5.65
ROAE (%)	7.4	6.1	7.3	7.5	8.2
ROAA (%)	0.8	0.6	0.7	0.7	0.8
Consensus net profit	-	-	1,190	1,451	1,599
MKE vs. Consensus (%)	-	-	17.1	(10.9)	(7.0)

Desmond Ch'ng, BFP, FCA
desmond.chng@maybank-ib.com
(603) 2297 8680

BUY

Share Price	MYR 3.43
12m Price Target	MYR 4.05 (+18%)
Previous Price Target	MYR 3.90

Company Description

AMMB Holdings provides integrated financial services such as retail banking, wholesale banking, investment banking, and Islamic banking, among others.

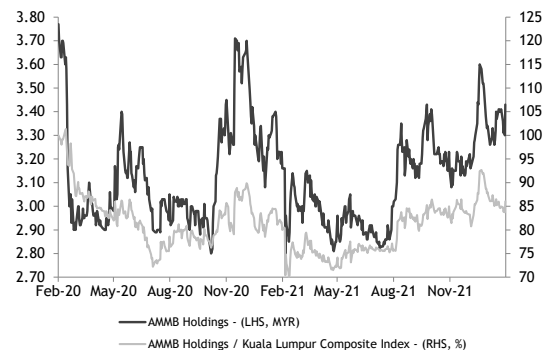
Statistics

52w high/low (MYR)	3.60/2.80
3m avg turnover (USDm)	2.4
Free float (%)	53.0
Issued shares (m)	3,314
Market capitalisation	MYR11.4B
	USD2.7B

Major shareholders:

Australia & New Zealand Banking Group Lt	21.6%
HASHIM AZMAN	11.8%
Employees Provident Fund	9.3%

Price Performance



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

Source: FactSet

AMMB: Summary results table

FYE Mar (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Interest income	1,038.4	1,005.9	3.2	1,000.5	3.8	3,044.3	3,146.6	(3.3)
Interest expense	(439.2)	(462.9)	(5.1)	(437.4)	0.4	(1,313.3)	(1,627.4)	(19.3)
Net Interest income	599.2	543.1	10.3	563.1	6.4	1,731.0	1,519.2	13.9
Islamic banking income	267.5	304.6	(12.2)	235.8	13.4	784.2	728.1	7.7
Non-interest income	313.3	312.7	0.2	316.4	(1.0)	991.8	1,138.9	(12.9)
Operating income	1,180.0	1,160.4	1.7	1,115.4	5.8	3,507.0	3,386.2	3.6
Operating expenses	(528.7)	(545.2)	(3.0)	(513.6)	2.9	(1,536.9)	(1,607.6)	(4.4)
Operating profit	651.3	615.2	5.9	601.8	8.2	1,970.1	1,778.6	10.8
Loan impairment allowance	(295.2)	(257.7)	14.5	(163.4)	80.7	(647.5)	(661.5)	(2.1)
Other provisions	(42.3)	(4.4)	>100	(10.5)	>100	(67.1)	17.0	Nm
Associates & JVs	3.1	15.5	(80.0)	5.5	(43.8)	34.9	37.0	(5.7)
Pretax profit	316.9	368.6	(14.0)	433.4	(26.9)	1,290.3	1,171.0	10.2
Taxation	99.9	(85.6)	Nm	(95.4)	Nm	(113.3)	(213.6)	(46.9)
Minority interest	(13.5)	(19.2)	(29.6)	(17.0)	(20.5)	(66.1)	(91.1)	(27.5)
Net profit	403.3	263.8	52.9	321.0	25.6	1,110.9	866.3	28.2
Recurring net profit	211.1	249.4	(15.3)	296.0	(28.7)	851.8	887.1	(4.0)
EPS (sen) (basic)	12.2	8.8	38.9	9.7	25.6	33.7	28.8	17.1
DPS (sen)	-	-	0.0	0.0	0.0	-	-	0.0
Cost-to-income (%)	44.8	47.0	(4.6)	46.0	(1.2)	43.8	47.5	(7.7)
Tax rate (%)	(31.5)	23.2	Nm	22.0	Nm	8.8	18.2	(51.8)
Balance sheet (MYR m)	Dec 21	Dec 20	% YoY	Sep 21	% QoQ	Dec 21	Mar 21	YTD chg
Customer loans (gross)	119,307	111,898	6.6	115,553	3.2	119,307	114,759	4.0
Customer loans (net)	116,847	110,019	6.2	113,043	3.4	116,847	112,478	3.9
Deposits from customers	124,909	119,234	4.8	116,036	7.6	124,909	120,638	3.5
			ppt chg		ppt chg			ppt chg
Gross LDR (%)	95.5	93.8	1.7	99.6	(4.1)	95.5	95.1	0.4
Gross impaired loans	1,608	1,936	(16.9)	1,668	(3.6)	1,608	1,770	(9.2)
Gross impaired loans ratio (%)	1.3	1.7	(0.4)	1.4	(0.1)	1.3	1.5	(0.2)
Loan loss coverage	153.0	97.1	55.9	150.5	2.5	153.0	128.8	24.2

Source: Company

Key highlights

Tax credit of MYR234m. Of the exceptionals of MYR192m in 3QFY22, MYR234m relates to a tax credit on its Global Settlement. Management believes that the Global Settlement payment of MYR2.83b in FY21 should be treated as a direct business expense, and it is looking to reclaim the tax on that settlement. The total tax credit on this sum would amount to MYR667m but management is looking to claim MYR234m first, which is the corporate tax that it had paid in FY21. It will assess claiming the balance depending on the outcome.

Repayment assistance: Loans under repayment assistance (RA) totalled MYR17.8b on 18 Feb 2022 (15% of total loans), down significantly from a peak of MYR36.5b in Aug 2021 (32% of total loans). Retail loans comprised 37% of this amount, with SME and commercial/corporate loans accounting for 51% and 12% respectively.

Loan growth: Group loans rose 4% YTD and 5% on an annualized basis. On a YTD basis, mortgages rose 5%, 4% for retail SME loans and 5% for business banking loans. This offset a 3% YTD decline in auto finance. Corporate loans rose about 6% YTD. Management continues to push for loan growth of 5% for FY22.

Customer deposits: Following a contraction end-Sep 2021, customer deposits rose 3% YTD end-Dec 2021, with CASA expanding 5% YTD. The group's CASA ratio, however, slipped to 30.0% end-Dec 2021 from 30.7% end-Sep 2021.

Net interest margin (NIM): Underlying NIM improved to 1.96% in 3QFY22 from 1.94% in 2QFY22. Excluding a mod gain during the period, NIM was a higher 2.09% for the quarter. 9MFY22 NIM averaged 2.07% versus 1.82% in 9MFY21. Management guides for NIM to average 2.04%-2.05% in FY22.

Non-interest income (NOII): NOII was stable YoY in 3QFY22, but contracted 13% YoY in 9MFY22 due to lower insurance and investment income.

Operating expenses: Operating expenses rose 3% YoY in 3QFY22 but was overall 4% lower YoY in 9MFY22. The group's cost/income ratio (CIR) averaged 43.8% in 9MFY22 versus 47.5% in 9MFY21. Management guides for a full-year CTI of 45%.

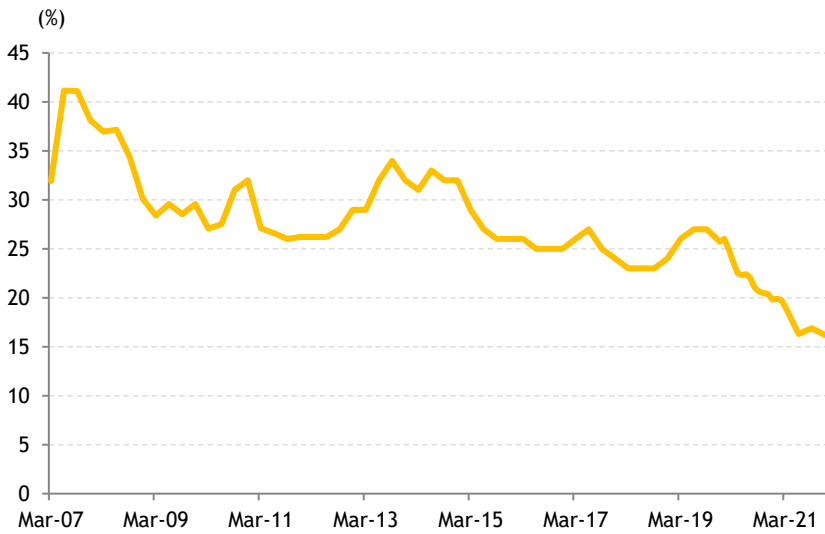
Credit cost: Credit cost was a higher 101bps in 3QFY22 as management put through higher provisions against two O&G loans, taking 9MFY22 credit cost to 74bps. Of the MYR259m individual allowances in 9MFY22, MYR280m related to an O&G account that has already been classified as NPL, and is almost fully covered. A second O&G account is about 60% covered and will be classified as NPL in the following quarter, with further provisions in 4QFY22. Guidance is for full year FY22 credit cost of 72bps. This implies that 4QFY22 credit cost would be about 65bps.

Capital ratio: AMMB's capital ratios are recovering nicely and its CET1 ratio stood at 11.9% end-Dec 2021. This is expected to build up to about 12.2% by end-March 2022 before even factoring in any enhancement from the divestment of its insurance business, which could accrete about 25bps. The adoption of the Internal Risk Based framework could add a further 80bps in FY23. With this build up, management is working towards a dividend payment in FY22.

Tax credit of MYR234m. Management is looking to a tax refund on its Global Settlement payment of MYR2.83b in FY21, as this will be treated as a direct business expense. The total tax credit on this sum would amount to MYR667m but management is looking to claim MYR234m first, which is the corporate tax that it had paid in FY21. It will assess claiming the balance depending on the outcome.

Cukai Makmur: *Cukai Makmur* will be levied on the group's chargeable income in FY22 and management provided MYR74m in 3QFY22. It estimates *Cukai Makmur* to average MYR90m for the full year.

AMMB's foreign shareholding - (excl. ANZ's 23.8% stake): 16.2% end-Dec 2021

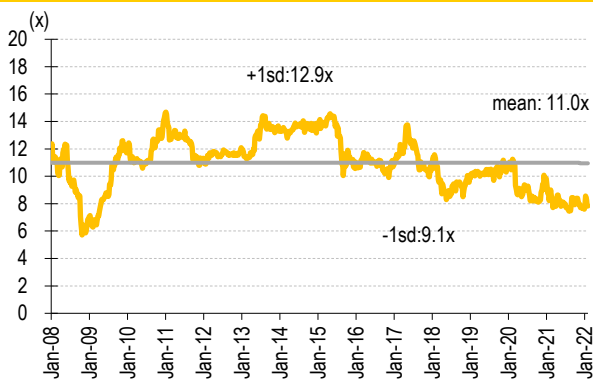


Source: Bank

Risk statement

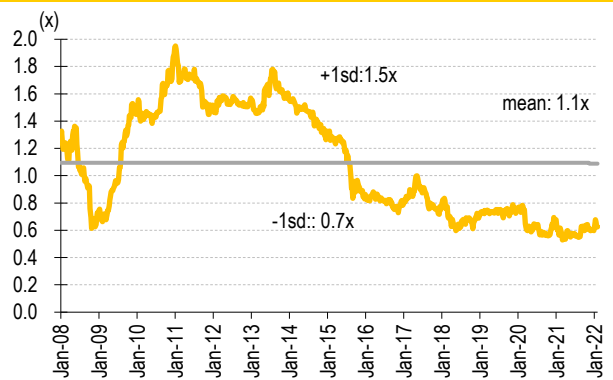
There are several risk factors for our earnings estimates, price target, and rating for AMMB. Any slowdown in the domestic economy would have a negative impact on the group's earnings, as would a pick-up in deposit rate competition. Meanwhile, a deterioration in asset quality particularly in relation to its exposure to the commercial property sector, could result in higher-than-expected provision levels.

AMMB: One-year forward rolling PER (x)



Source: Bank, Maybank IBG Research

AMMB: One-year forward rolling P/BV (x)



Source: Bank, Maybank IBG Research

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	6.7	8.7	9.4	8.8	7.6
Core FD P/E (x)	6.7	8.7	9.4	8.8	7.6
P/BV (x)	0.5	0.6	0.7	0.6	0.6
P/NTA (x)	0.6	0.7	0.7	0.7	0.7
Net dividend yield (%)	4.4	0.0	2.6	3.4	3.9
INCOME STATEMENT (MYR m)					
Interest income	4,940.0	4,155.8	4,306.0	4,526.0	4,772.3
Interest expense	(3,001.4)	(2,063.9)	(1,907.4)	(2,051.9)	(2,194.8)
Net interest income	1,938.6	2,091.9	2,398.6	2,474.0	2,577.5
Islamic banking income	1,019.6	929.7	1,004.0	1,084.4	1,171.1
Net insurance income	440.7	494.3	543.7	489.4	499.2
Net fees and commission	543.8	581.7	639.9	659.1	678.9
Other income	287.6	411.0	150.0	121.6	123.3
Total non-interest income	1,272.1	1,487.1	1,333.7	1,270.1	1,301.4
Operating income	4,230.3	4,508.6	4,736.3	4,828.5	5,050.0
Staff costs	(1,241.0)	(1,280.2)	(1,280.2)	(1,331.4)	(1,384.6)
Other operating expenses	(867.2)	(852.1)	(802.2)	(861.8)	(926.9)
Operating expenses	(2,108.2)	(2,132.2)	(2,082.3)	(2,193.1)	(2,311.6)
Pre-provision profit	2,122.1	2,376.4	2,654.0	2,635.3	2,738.4
Loan impairment allowances	(322.6)	(1,116.9)	(846.5)	(800.1)	(643.1)
Other allowances	(13.5)	(4,786.8)	(67.1)	0.0	0.0
Associates & JV income	(3.1)	43.8	46.0	48.3	50.7
Pretax profit	1,782.9	(3,483.5)	1,786.4	1,883.5	2,146.0
Income tax	(330.0)	(228.6)	(260.5)	(452.0)	(515.0)
Minorities	(112.1)	(114.4)	(133.2)	(138.6)	(144.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,340.7	(3,826.5)	1,392.6	1,292.9	1,486.8
Core net profit	1,340.7	1,013.3	1,149.5	1,292.9	1,486.8
BALANCE SHEET (MYR m)					
Cash & deposits with banks	15,710.6	18,912.5	18,617.5	20,455.8	21,274.0
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	12,545.9	9,562.0	10,231.3	10,947.5	11,713.8
Available-for-sale securities	24,575.7	21,978.6	24,176.5	26,594.1	29,253.5
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	105,950.9	112,478.3	118,773.8	124,118.7	129,704.0
Central bank deposits	489.0	425.3	467.9	482.0	501.0
Investment in associates/JVs	699.3	588.9	622.1	656.8	693.4
Insurance assets	457.9	432.7	441.3	450.2	459.2
Fixed assets	571.8	486.7	244.5	244.5	244.5
Intangible assets	3,261.5	1,443.9	1,443.9	1,443.9	1,443.9
Other assets	4,940.5	3,869.3	3,537.6	3,632.7	3,731.0
Total assets	169,203.1	170,178.3	178,556.6	189,026.2	199,018.3
Deposits from customers	113,175.4	120,638.0	125,485.5	130,630.4	135,986.2
Deposits from banks & FIs	10,021.9	9,920.9	10,119.3	10,321.7	10,528.1
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	5,140.0	7,275.0	8,002.5	8,802.8	9,683.0
Insurance liabilities	2,479.2	2,479.0	2,528.6	2,579.2	2,630.7
Other liabilities	18,826.5	14,275.0	14,569.3	17,797.2	20,110.3
Total liabilities	149,643.0	154,587.9	160,705.2	170,131.2	178,938.4
Share capital	5,851.6	5,951.6	6,776.6	6,776.6	6,776.6
Reserves	12,729.2	8,689.2	9,992.0	10,897.0	11,937.8
Shareholders' funds	18,580.8	14,640.8	16,768.5	17,673.6	18,714.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	979.3	949.6	1,082.8	1,221.4	1,365.5
Total equity	19,560.0	15,590.4	17,851.4	18,895.0	20,079.9
Total liabilities & equity	169,203.1	170,178.3	178,556.6	189,026.2	199,018.3

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	12.4	7.9	14.7	3.1	4.2
Non-interest income	3.8	16.9	(10.3)	(4.8)	2.5
Operating expenses	(1.1)	1.1	(2.3)	5.3	5.4
Pre-provision profit	19.8	12.0	11.7	(0.7)	3.9
Core net profit	5.3	(24.4)	13.4	12.5	15.0
Gross loans	5.3	7.0	4.9	4.5	4.5
Customer deposits	5.5	6.6	4.0	4.1	4.1
Total assets	6.6	0.6	4.9	5.9	5.3
Profitability (%)					
Non-int. income/Total income	30.1	33.0	28.2	26.3	25.8
Average lending yields	3.88	3.16	3.16	3.16	3.18
Average cost of funds	2.60	1.76	1.54	1.53	1.56
Net interest margin	1.94	1.90	2.05	2.03	2.03
Cost/income	49.8	47.3	44.0	45.4	45.8
Liquidity (%)					
Loans/customer deposits	93.6	93.2	94.7	95.0	95.4
Asset quality (%)					
Net NPL	1.3	1.1	0.9	0.9	0.9
Gross NPL	1.7	1.5	1.5	1.5	1.5
(SP+GP)/average gross loans	0.3	1.0	0.7	0.7	0.5
Loan loss coverage	68.4	128.8	89.0	89.0	89.0
Capital adequacy (%)					
CET1	12.4	10.4	12.0	12.0	12.1
Tier 1 capital	12.4	11.1	12.5	12.6	12.6
Risk-weighted capital	15.8	14.8	16.1	16.2	16.2
Returns (%)					
ROAE	7.4	6.1	7.3	7.5	8.2
ROAA	0.8	0.6	0.7	0.7	0.8
Shareholders equity/assets	11.0	8.6	9.4	9.3	9.4

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

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@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, FCA
(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
• Petrochemicals • Technology

Shafiq KADIR
(603) 2297 8691
msshafiqk.abkadir@maybank-ib.com
• Healthcare • Software

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping

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

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.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
willygoutama@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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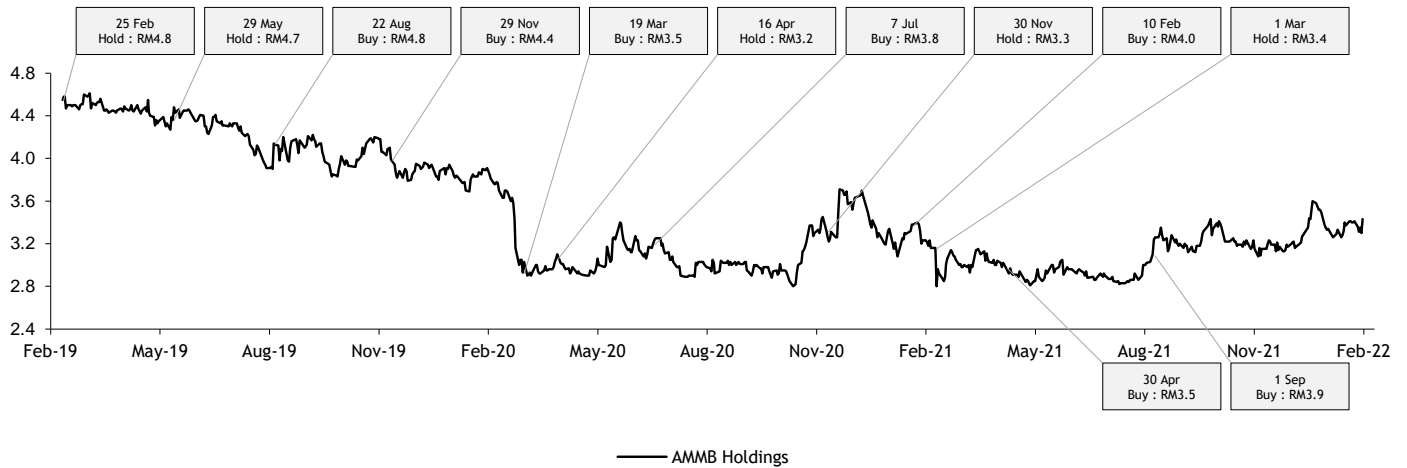
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Malaysia

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