

Sime Darby Property (SDPR MK)

On the right track

Concall note

Key updates from SDPR's concall last Friday: 1) latest status of Battersea Power Station (BPS) project, 2) its future strategies on landbanking and 3) SDPR is looking to monetise all of its non-core land (≈2,300 acres worth MYR3b) by 2025. We maintain our earnings forecasts and MYR0.69 TP (on an unchanged 0.5x PBV). Reiterate HOLD.

Update on Battersea Power Station Phase 2 and 3A

The concall centered mostly on its FY21 results and future strategies. To recap, SDPR reported MYR136.9m core net profit (1.7x YoY) and impressive sales of MYR2.95b (+49% YoY) in 2021. It sets a lower sales target of MYR2.6b in 2022 (see our report dated [25 Feb](#)). Elsewhere, its 40%-owned BPS (the remaining 40% and 20% are owned by SP Setia and EPF)' phase 2 and phase 3A, which have recorded GBP404m sales in 2021, are targeted to be officially opened in Sep 22. Thus far, the commercial spaces are 84% leased. Elsewhere, the consortium is looking to launch Phase 3B residential in 2H2022.

Looking to acquire more land

Management is exploring the land option agreements with Sime Darby Plantation (11,805 acres; SDPL; HOLD; MYR4.78 TP) and Sime Darby Bhd (8,036 acres; SIME MK; BUY; MYR2.70TP). This is to replenish and capitalize on activation of new townships following the pace of development and orderly monetization undertaken by SDPR. It may exercise or extend some of these call options, we were told. To recap, SDPR has exercised its first right of refusal to acquire 760.1 acres of agricultural land in Labu for MYR280m (or MYR8.46psf) from SIME.

Expanding its recurring income

Management is looking to transforming itself into real estate company (from pure play developer) by 2025 with 70:30 of its operating income derived from its property development: recurring income. We maintain our earnings forecasts. SDPR currently trades at 0.5x/0.3x PBV/PRNAV. Surprises could come from the disposal of non-core landbank (2021: >200 acres disposed). It is targeting to monetise all of its non-core landbank (≈2300 acres) worth MYR3b by 2025.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,063	2,220	3,342	3,944	4,222
EBITDA	3	354	446	599	659
Core net profit	51	137	257	302	353
Core EPS (sen)	0.7	2.0	3.8	4.4	5.2
Core EPS growth (%)	(89.2)	168.4	88.0	17.3	16.9
Net DPS (sen)	1.0	1.0	1.9	2.2	2.6
Core P/E (x)	88.7	29.6	16.9	14.4	12.3
P/BV (x)	0.5	0.4	0.5	0.5	0.5
Net dividend yield (%)	1.5	1.7	2.9	3.4	4.0
ROAE (%)	(5.4)	1.5	2.8	3.2	3.7
ROAA (%)	0.3	0.9	1.6	1.7	1.9
EV/EBITDA (x)	nm	20.2	18.3	14.1	12.7
Net gearing (%) (incl perps)	27.5	31.3	37.4	39.0	37.0
Consensus net profit	-	-	250	245	na
MKE vs. Consensus (%)	-	-	2.9	23.3	na

Wong Wei Sum, CFA
 weisum@maybank-ib.com
 (603) 2297 8679

HOLD

Share Price	MYR 0.64
12m Price Target	MYR 0.69 (+8%)
Previous Price Target	MYR 0.69

Company Description

A developer cum land seller which owns about 20,798 acres of land in Malaysia and Australia.

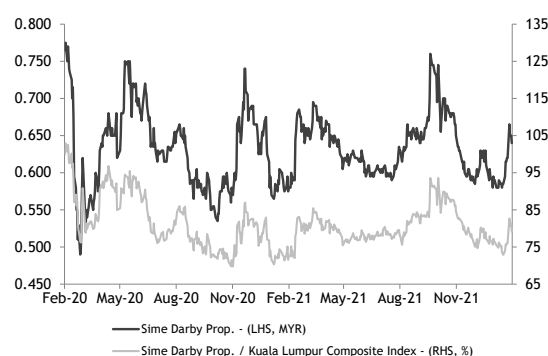
Statistics

52w high/low (MYR)	0.76/0.58
3m avg turnover (USDm)	0.5
Free float (%)	76.1
Issued shares (m)	6,801
Market capitalisation	MYR4.4B
	USD1.0B

Major shareholders:

Permodalan Nasional Bhd.	44.5%
Employees Provident Fund	15.9%
Kumpulan Wang Persaraan	6.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	(4)	11
Relative to index (%)	5	(8)	11

Source: FactSet

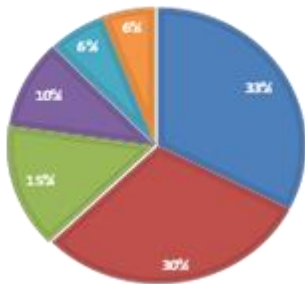
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 Tear Sheet Insert

Value Proposition

- One of the largest developers and land sellers in Malaysia.
- It has a total remaining landbank of 20,000 acres throughout Malaysia. The bulk of it is located in the Klang Valley (the main property market) followed by Negeri Sembilan, Johor and elsewhere in Malaysia.
- Focus is on township development. Its low land cost provides some product and pricing flexibilities.
- Over the last few years, earnings were boosted by land/asset sales, hence, the volatility in profit margin.

Landbank by location

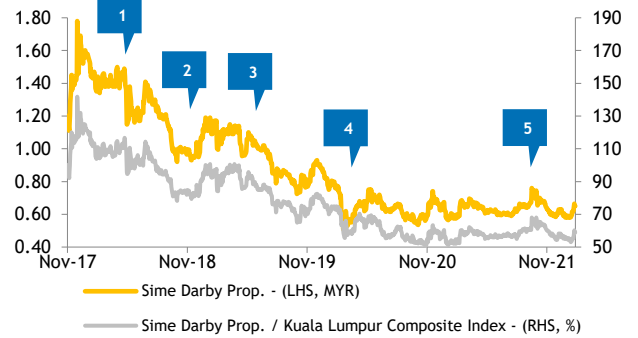
■ Other area in KV ■ Guthrie Corridor ■ Klang
■ Serenia City ■ Johor ■ Negeri Sembilan



Source: Company

Price Drivers

Historical share price trend



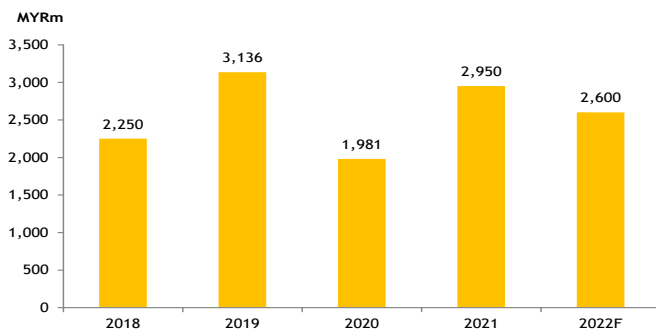
Source: Company, Maybank IBG Research

1. Heavy selling due to foreign fund outflow post-GE14.
2. Heavy selling pre-Budget 2019 in anticipation of stricter property measures.
3. Better property market outlook in 2019 on the launch of *Home Ownership Campaign* between Jan-June 2019.
4. 1H20: Hit by MCO.
5. 2H21: Property stocks on the recovery theme play.

Financial Metrics

- Volatile earnings trend due to: 1) asset/land sales; and 2) lumpy earnings recognition from its 40%-owned Battersea Power Station project in London.
- SDPR has a dividend payout policy of 20% of net profit. Net gearing was healthy at 0.31x in end-Dec 2021.
- SDPR has set a sales target of MYR2.6b for 2022.

Sales trend/target between FY18-2022F (MYRm)



Source: Company

Swing Factors

Upside

- Higher-than-expected land/asset sales.
- Stronger-than-expected take-up rates for its ongoing and new projects.
- Better-than-expected operating margin.
- RNAV-accretive land acquisition.

Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses and raw material prices.
- Compulsory land acquisition by the government.
- Cancellation of the sale of commercial spaces at Battersea Power Station phase 2.
- Execution risk.
- Country and currency risk.

Risk Rating & Score ¹	14.2 (Low)
Score Momentum ²	-1.3/
Last Updated	3 Dec 2021
Controversy Score ³ (Updated: 2 Dec 2021)	0- No reported incidents

Business Model & Industry Issues

- SDPR is one of the largest property developers in Malaysia. It has remaining landbank of 19,977 acres worth MYR87b in GDV. Almost 67% of the remaining developable landbank is located within 24 active townships, integrated and niche developments. So many development projects could expose SDPR to some ESG risks (bribery and corruption).
- SDPR is at the forefront of the sustainable development of the property industry. It has started adopting 'sustainability' into its corporate vision and set up Board of Sustainability Governance back in 2007. SDPR is the only developer to be rated by CDP for carbon management and stakeholder engagement. It is rated C in Carbon Disclosure Project and BBB un MSCI ESG Ratings.
- To ensure better corporate governance, SDPR has established several policies (no gift policy, whistleblowing policy) to ensure the business conducts are consistently carried out ethically and with integrity. Certain policies are applicable to its contractors, subcontractors, consultants and parties performing work or services for or on behalf of SDPR.

Material E issues

- SDPR is the first and only fully certified Audubon Cooperative Sanctuary for Golf in Malaysia. The Audubon Cooperative Sanctuary Program for Golf is an award winning education and certification program that helps golf courses protecting the environment and preserve the natural heritage of the game of golf.
- SDPR has set various goals including 30% intensity reduction in operational carbon, water and waste, 30% intensity increase in operational recycling, building 10,000 energy efficient homes, building minimum one urban farm per township and utilising water savings fittings for 30,000 residential units.
- SDPR has been focusing on the development of more energy efficient homes. It has completed 513 solar-ready homes at Ilham Residence, Elmina in collaboration with with TNBX. It has also completed 536 units of sustainable homes that are 30% faster with zero construction waste and 10% lower construction cost.
- SDPR has recycled 39.4 tonnes of waste as at Dec 2020. It has set a 1:10 urban farming plot to home allotment target in City of Elmina and achieved 2:20 in 2020.

Material S issues

- Female representation is 22% at the board level and 42% in workforce. It has also achieved zero work-related fatalities for the 4th consecutive year.
- SDPR has introduced a new Vendor Code of Business Conduct with a focus on human rights commitment among its vendors. It has achieved its "Zero human rights violation" target in FY20.
- Constructed 1,888 statutory units of affordable housing for lower income community priced from MYR200k-270k.
- Under its 2030 Sustainability Goals, SDPR has aimed to build 15,000 units of affordable homes priced below MYR600k between 2020-2030.

Key G metrics and issues

- There are 9 members on SDPR's board comprising of 1 Executive Director (Managing Director), 2 Non-independent Non-Executive Director (NINED; including Chairlady) and 6 Independent Non-Executive Director (INED).
- In terms of board gender and diversity, 2 of the 9 board members are female, 2 are non-bumiputera and 6 are of non-finance/accounting backgrounds.
- SDPR has been audited by PricewaterhouseCoopers since 2017.
- The cumulative remuneration of the board members represented 6% of SDPR's core net profit in FY20.
- Audit committee made up of 4 INEDs. Its risk management committee comprised of 4 INEDs and 1 NINED while its nomination and remuneration committee comprises 3 INEDs and 1 NINED.
- SDPR has Board Tender Committee comprised of 3 INEDs, the Group Managing Director and a NINED and Special Committee comprised of 3 INEDs and 1 NINED in FY20.
- There have been no questionable related-party transactions since the de-merger exercise in 2017. Nevertheless, as part of the internal rationalisation of Sime Darby Bhd (SIME MK, BUY, TP MYR2.70) in 2017 which resulted in the creation of three stand-alone pure play companies, SDPR is granted several call option agreements, allow it to access to Sime Darby Plantation (SDPL MK, HOLD, TP MYR4.78)'s landbank for future development purposes at the market values prevailing at the time of the exercise of the call options. SDPR has yet to exercise any of these call options.

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: RNAV estimate

Projects	Location	Stake (%)	Land status	Acre	MV (MYRm)	BV (MYRm)	Surplus (MYRm)
-							
1. Landbank - MARKET VALUE							
Malaysian Vision Valley (MVV)	Negeri Sembilan	100%	Freehold	3,195.6	835.2	725.6	109.6
Planters' Haven, Nilai	Negeri Sembilan	100%	Freehold	95	20.8	3.2	17.6
SD Serenity Cove	Australia	100%	Freehold	65	127.8	124.7	3.1
Others	KV, Kedah, Sabah	100%	Freehold	4,837	948.2	846.6	101.7
Labu land	Negeri Sembilan	100%	Freehold	760.1	280.0	280.0	0.0
Sub-total (1)				8,193.5	1,932.0	1,700.0	232.0
2. Active development (WACC: 10.5%-13%)							
	Location	Stake (%)	Land status				(MYRm)
Malaysia							
Elmina West, Shah Alam	Selangor	100%	Freehold				514.4
Elmina East, Shah Alam	Selangor	100%	Freehold				129.6
Denai Alam & Bukit Subang	Selangor	100%	Freehold				48.1
Bandar Bukit Raja 2& 3, Klang	Selangor	100%	Freehold				420.9
Bandar Bukit Raja 1, Klang	Selangor	100%	Freehold				105.0
Serenia City, Sepang	Selangor	100%	Freehold				306.4
Putra Heights, Subang Jaya	Selangor	100%	Freehold				205.8
Ara Damansara, Petaling Jaya	Selangor	60%	Freehold				223.6
Bukit Jelutong, Shah Alam	Selangor	50%	Freehold				65.5
Saujana Impian, Kajang	Selangor	100%	Freehold				0.3
Tamn Melawati, Ulu Klang	Kuala Lumpur	100%	Freehold				52.0
Nilai Impian 2, Nilai	Negeri Sembilan	100%	Freehold				162.5
Nilai Impian 1, Nilai	Negeri Sembilan	100%	Freehold				74.4
Bandar Ainsdale, Seremban	Negeri Sembilan	100%	Freehold				91.9
Bandar Universiti Pagoh, Muar	Johor	100%	Leasehold				172.7
Taman Pasir Putih, Pasir Gudang	Johor	100%	Freehold				3.5
Alya, Kuala Lumpur	Kuala Lumpur	60%	Leasehold				119.3
Chemara Hills, Seremban	Negeri Sembilan	100%	Freehold				3.6
USJ Heights, Subang Jaya	Selangor	100%	Freehold				5.7
SJ 7, Subang Jaya	Selangor	100%	Freehold				115.2
SJCC, Subang Jaya	Selangor	100%	Freehold				115.4
KL East	Kuala Lumpur	100%	Freehold				55.4

Fig 1: RNAV estimate (Cont'd)

Projects	Location	Stake (%)	Land status	Acre	MV (MYRm)	BV (MYRm)	Surplus (MYRm)
	-						
Overseas							
Battersea Power Station, London	United Kingdom	40%	Leasehold				524.4
Sub-total (2)							3,515.5
3. Other investments							
Surplus from investment properties	Klang Valley, Kedah						217.2
PPE							276.4
Sub-total(3)							493.6
Grand total= (1) + (2) +(3)							4,241.0
Shareholders fund - 2021							9,141.4
Total RNAV (MYR m)							13,382.4
Number of shares (m shares)							6,800.8
Fully diluted number of shares							6,800.8
FD RNAV (MYR/share)							1.97

Source: Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	31.6	16.9	14.4	12.3
Core P/E (x)	88.7	29.6	16.9	14.4	12.3
P/BV (x)	0.5	0.4	0.5	0.5	0.5
P/NTA (x)	0.5	0.4	0.5	0.5	0.5
Net dividend yield (%)	1.5	1.7	2.9	3.4	4.0
FCF yield (%)	8.3	11.8	nm	nm	4.0
EV/EBITDA (x)	nm	20.2	18.3	14.1	12.7
EV/EBIT (x)	nm	24.7	20.7	16.4	14.8
INCOME STATEMENT (MYR m)					
Revenue	2,062.8	2,219.9	3,342.3	3,944.2	4,221.7
EBITDA	2.6	354.0	446.3	599.3	659.2
Depreciation	(62.1)	(64.7)	(51.4)	(85.0)	(92.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(59.5)	289.3	394.9	514.2	567.1
Net interest income / (exp)	5.6	7.8	(76.4)	(92.0)	(89.9)
Associates & JV	(420.9)	(28.8)	50.4	13.9	49.3
Exceptionals	(556.2)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(474.8)	268.3	368.9	436.1	526.6
Income tax	(60.7)	(117.3)	(88.5)	(104.7)	(126.4)
Minorities	34.0	(14.1)	(23.0)	(29.5)	(47.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(501.6)	136.9	257.4	302.0	352.9
Core net profit	51.0	136.9	257.4	302.0	352.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	801.8	909.7	968.4	745.5	848.9
Accounts receivable	622.7	721.9	1,086.9	1,282.6	1,372.9
Inventory	1,760.0	1,922.8	4,015.8	4,768.1	5,109.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	625.2	615.2	1,018.6	1,103.7	1,195.8
Intangible assets	5.7	7.3	7.3	7.3	7.3
Investment in Associates & JVs	2,615.2	3,300.0	2,443.6	2,457.5	2,515.8
Other assets	8,358.3	7,779.8	7,930.6	7,822.6	7,608.8
Total assets	14,789.0	15,256.7	17,471.2	18,187.2	18,658.5
ST interest bearing debt	292.5	1,075.2	1,375.2	1,375.2	1,375.2
Accounts payable	1,248.1	1,016.2	2,014.6	2,377.3	2,544.6
Insurance contract liabilities	134.2	230.8	219.8	259.3	277.6
LT interest bearing debt	3,033.9	2,756.4	3,156.4	3,156.4	3,156.4
Other liabilities	887.0	852.0	1,167.0	1,299.0	1,360.0
Total Liabilities	5,595.6	5,930.1	7,932.5	8,467.0	8,713.5
Shareholders Equity	9,013.8	9,141.4	9,270.9	9,422.9	9,600.5
Minority Interest	179.5	185.1	267.8	297.2	344.5
Total shareholder equity	9,193.4	9,326.5	9,538.7	9,720.1	9,945.0
Total liabilities and equity	14,789.0	15,256.7	17,471.2	18,187.2	18,658.5
CASH FLOW (MYR m)					
Pretax profit	(474.8)	268.3	368.9	436.1	526.6
Depreciation & amortisation	62.1	64.7	51.4	85.0	92.1
Adj net interest (income)/exp	(5.6)	(7.8)	(76.4)	(92.0)	(89.9)
Change in working capital	251.7	276.5	(502.5)	(496.0)	(228.7)
Cash taxes paid	(107.1)	(25.5)	(88.8)	(104.7)	(126.4)
Other operating cash flow	311.9	6.3	0.0	0.0	0.0
Cash flow from operations	410.3	494.3	(247.4)	(171.4)	173.8
Capex	(34.4)	(17.0)	(352.0)	0.0	0.0
Free cash flow	375.8	477.3	(599.4)	(171.4)	173.8
Dividends paid	(204.0)	(68.0)	(27.4)	(51.5)	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	124.4	505.1	700.0	0.0	0.0
Other invest/financing cash flow	(105.0)	(687.0)	(14.5)	0.0	(10.0)
Effect of exch rate changes	2.5	(0.0)	0.0	0.0	0.0
Net cash flow	193.7	227.5	58.7	(222.9)	163.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(35.1)	7.6	50.6	18.0	7.0
EBITDA growth	(99.6)	13,540.6	26.1	34.3	10.0
EBIT growth	nm	nm	36.5	30.2	10.3
Pretax growth	nm	nm	37.5	18.2	20.7
Reported net profit growth	nm	nm	88.0	17.3	16.9
Core net profit growth	(89.2)	168.4	88.0	17.3	16.9
Profitability ratios (%)					
EBITDA margin	0.1	15.9	13.4	15.2	15.6
EBIT margin	nm	13.0	11.8	13.0	13.4
Pretax profit margin	nm	12.1	11.0	11.1	12.5
Payout ratio	nm	49.7	49.7	49.7	49.7
DuPont analysis					
Net profit margin (%)	nm	6.2	7.7	7.7	8.4
Revenue/Assets (x)	0.1	0.1	0.2	0.2	0.2
Assets/Equity (x)	1.6	1.7	1.9	1.9	1.9
ROAE (%)	(5.4)	1.5	2.8	3.2	3.7
ROAA (%)	0.3	0.9	1.6	1.7	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.6	2.2	2.1	2.1
Net gearing (%) (incl perps)	27.5	31.3	37.4	39.0	37.0
Net gearing (%) (excl. perps)	27.5	31.3	37.4	39.0	37.0
Net interest cover (x)	10.6	na	5.2	5.6	6.3
Debt/EBITDA (x)	nm	10.8	10.2	7.6	6.9
Capex/revenue (%)	1.7	0.8	10.5	0.0	0.0
Net debt/ (net cash)	2,524.6	2,921.9	3,563.2	3,786.1	3,682.7

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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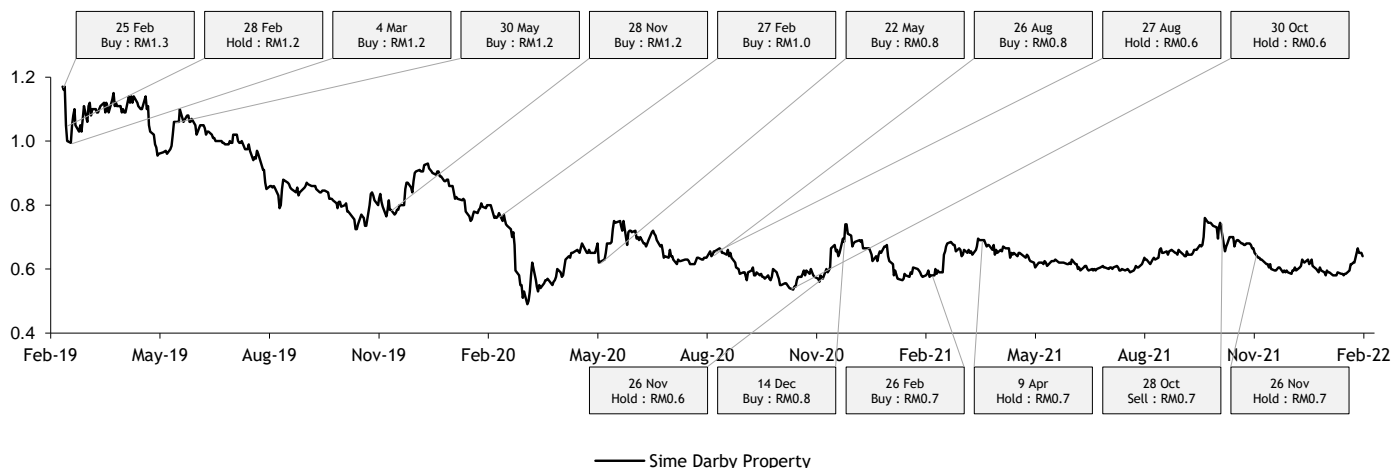
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Malaysia

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