

# StarHub (STH SP)

# HOLD

## Improving operations

Share Price SGD 1.26  
 12m Price Target SGD 1.32 (+9%)  
 Previous Price Target SGD 1.29

### 1Q22 PATMI missed; Maintain HOLD

1Q22 PATMI was 23% of MIBG/ 24% of consensus forecasts. Overall, 1Q22 net profit was underwhelming with increased mobile competition and the lumpy nature of its cybersecurity business, which we think will be backend loaded. Our FY22-FY24E forecasts are unchanged following the MyRepublic acquisition and a recovery in roaming revenues as international borders reopen. As such, we maintain a HOLD rating with a DCF-based (WACC: 6.96%, LTG: 0%) TP of SGD1.32.

### Operational costs a drag on bottomline

Higher YoY service revenue was driven by a 3.8% rise in Mobile revenue, 9.6% growth in Broadband revenue, 3.9% higher Entertainment revenue and 18.9% growth in Enterprise revenue. But Service EBITDA has been lagging (-12.8% YoY, -18% QoQ) due to increased staff cost and frontloaded capex for IT transformation which we think will be recurring given the high inflationary environment. As a result, net profit fell to SGD29.7m (-2.6% YoY, -27.7% QoQ) along with negative FCF reported for the quarter.

### Improving operational parameters

Mobile revenue rose (3.8% YoY, -0.7% QoQ) on higher Postpaid ARPU and subscriber growth offset by a drop in Prepaid ARPU (-20% YoY, QoQ) with the subscriber base still below pre-pandemic levels. The prepaid market remains challenging while postpaid benefitted from higher take-up of 5G mobile plans. Enterprise segment revenue grew 18.9%, mainly due to consolidation of JOS SG & MY. Cyber Security recognised lower QoQ revenue due to the absence of significant projects recognised in 4Q21. The sector continues to focus on growth opportunities from new product launches with healthy market traction achieved.

### New initiatives to drive future growth

We see potential in leveraging the newly integrated MyRepublic's regional market presence to explore new growth engines and offer differentiated solutions to its enterprise clients. Management is upbeat about more infinity play products and a Super App platform launching at the end of 2022. Rerating catalysts for the stock include, how quickly tourism returns to Singapore leading to a rise in prepaid SIM card sales, market consolidation, 5G adoption rates and enterprise growth.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,029	2,043	2,287	2,495	2,703
EBITDA	793	720	496	598	754
Core net profit	162	151	128	147	163
Core FDEPS (cts)	9.3	8.7	7.4	8.5	9.4
Core FDEPS growth(%)	(5.2)	(6.8)	(15.1)	14.9	10.5
Net DPS (cts)	5.0	6.4	5.0	5.0	6.0
Core FD P/E (x)	14.0	15.6	17.1	14.8	13.4
P/BV (x)	4.2	4.0	3.3	2.7	2.1
Net dividend yield (%)	3.8	4.7	4.0	4.0	4.8
ROAE (%)	14.3	7.2	6.7	8.3	6.3
ROAA (%)	5.7	4.9	3.9	4.4	4.5
EV/EBITDA (x)	4.1	4.3	6.2	5.0	3.7
Net gearing (%) (incl perps)	120.8	76.4	88.9	64.2	35.2
Consensus net profit	-	-	129	149	166
MKE vs. Consensus (%)	-	-	(0.6)	(1.1)	(2.0)

Kelvin Tan  
 kelvin.tan1@maybank.com  
 (65) 6231 5837

### Company Description

Starhub is the 2nd largest wireless service and largest pay TV operator in Singapore

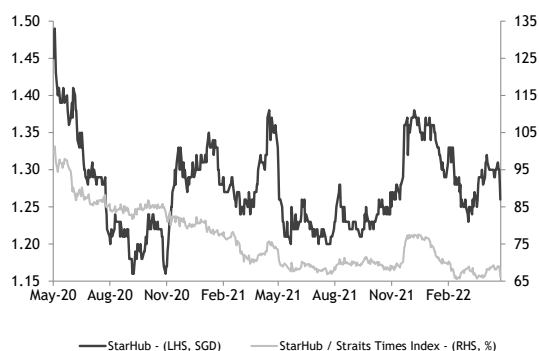
### Statistics

52w high/low (SGD)	1.38/1.20
3m avg turnover (USDm)	1.7
Free float (%)	34.2
Issued shares (m)	1,732
Market capitalisation	SGD2.2B
	USD1.6B

### Major shareholders:

Singapore Technologies Telemedia Pte Ltd	55.8%
Nippon Telegraph & Telephone Corp.	9.9%
The Vanguard Group, Inc.	0.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(2)	(7)
Relative to index (%)	(0)	(6)	(11)

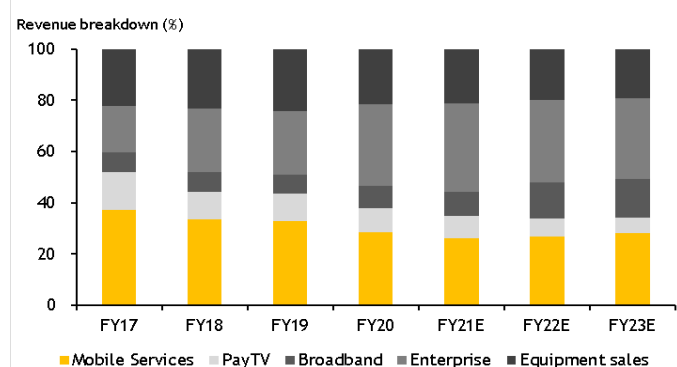
Source: FactSet

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## Value Proposition

- Second largest operator in a mature, high-income ASEAN economy. Entrant of fourth operator threatens market share, returns and cost of capital.
- Cyclical EBITDA margin within the calendar year due to smartphone launches and a largely postpaid-revenue-driven market that values handset subsidies.
- Network management experience and breadth drives increased initiatives to tap private and public enterprise contracts.
- Dividend yield has been a key investment thesis. Despite reducing payout commitment (from SGD0.20 to SGD0.16), potential for DPS to exceed EPS remains; as in prior years.

### Revenue breakdown by segment

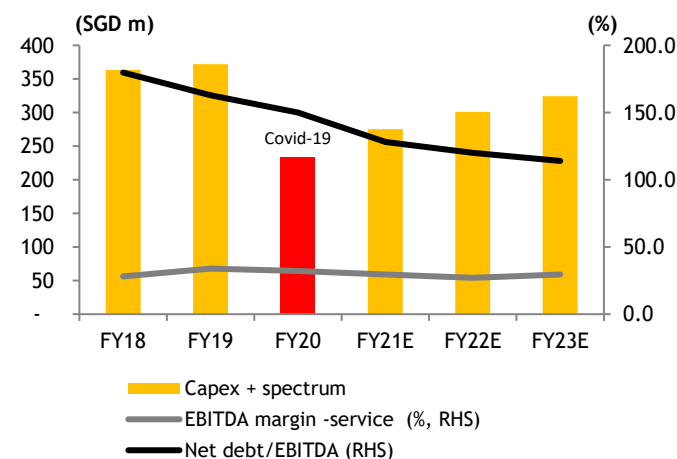


Source: Company

## Financial Metrics

- Under our DPS assumptions, gearing will remain within loan covenants.
- ARPU's could come under pressure due to competition from MVNOs and the slow recovery of tourism.
- Key financial/operating metrics we would be monitoring in subsequent quarters are post-paid ARPU, PayTV churn rate and growth of the enterprise division.

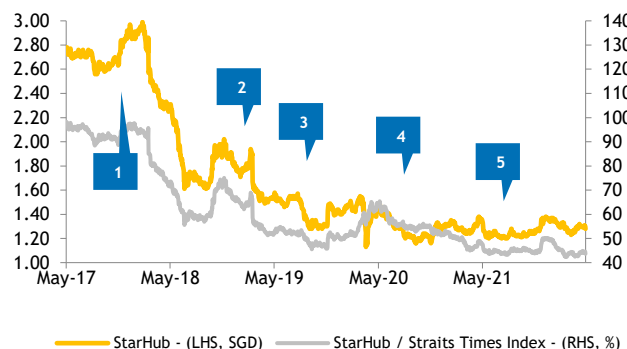
### Service EBITDA margin, capex and net debt/EBITDA



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. Consistent dividend payout kept share price generally stable.
2. Expectations of a new entrant, initially with a Dec 2016 spectrum action that led to TP's entry. Dividend payout commitment was cut by 20% to SGD0.16 per share.
3. Weakness in wireless revenue and viability of Pay TV sparked concerns.
4. Management outlines cost and organisational restructuring efforts.
5. Weak 1H20 results amid Covid-19, driven by declines in roaming, excess data usage and prepaid cards amid vapourisation of tourists and work-from-home arrangement.

## Swing Factors

### Upside

- Potential source of new revenues by targeting enterprise business, including government contracts linked to the Smart Nation initiatives.
- Market consolidation in the wireless segment.
- Higher-than-expected dividend payout commitment.

### Downside

- Further pressure on rates/data allocation of wireless tariff packages.
- Material investments in enterprise division that may have a lengthy gestation period before realising returns.
- Faster than expected shift in consumer preference towards Over-The-Top players such as Netflix and HBO GO

Risk Rating & Score <sup>1</sup>	24.6 (Medium)
Score Momentum <sup>2</sup>	-0.1
Last Updated	24 April 2021
Controversy Score <sup>3</sup> (Updated: 31 March 2021)	1 (Low)

## Business Model & Industry Issues

- StarHub is most exposed to cyber security and personal-data-leakage risks given the nature of its business.
- That said, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act, as well as sector specific cyber security requirements imposed by the Infocomm Media Development Authority. Audits are also performed to verify its compliance on an on-going basis.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.
- As StarHub is in the business of connectivity, it is supporting youths, social and digital inclusion. The telco has donated >SGD1m to 15 voluntary welfare organisations and non-profit organisations to support disadvantaged groups in the areas of digital inclusion and employability through community investment.
- StarHub displays no exceptional risks for telco operator for ESG and it's in line with other peers in tackling ESG issues.

### Material E issues

- Carbon tax was introduced in 2019 on large direct emitters, which indirectly led to an increase in StarHub's energy costs.
- As such, StarHub has been increasing its use of renewable energy to 4.6% of its energy consumption in 2020, and is on track to increase it to 10% by 2022.
- Achieved 18% reduction in direct fuel consumption from non-renewable sources.
- About 60,000 tonnes of e-waste (cables, mobile phones, laptops and CPUs) was generated in Singapore, resulting in loss of valuable resources and greenhouse gas emission.
- StarHub has initiated flagship e-waste recycling programme, RENEW, in 2012 to provide avenues for Singaporeans to recycle their electronic waste (e-waste). More than 171 tonnes of e-waste was collected in 2020.

### Material S issues

- In 2020, no incidents of discrimination were reported directly to StarHub or through Tripartite Alliance for Fair Employment Practices.
- It has also achieved zero workplace fatality in 2020.
- 25% of the board and 43% of the workforce are female. It also has a whistleblowing programme to escalate employee concerns.
- 16,857 hours of training were provided to 77% of its employees.
- In Mar 2020, StarHub has set up StarHub Cares Covid-19 and raised over SGD1m to fund various community support programmes. The initiatives supported went to a variety of community sectors such as healthcare, lower-income groups, education, migrant workers and its customers.

### Key G metrics and issues

- In 2021, StarHub was ranked Asia's most sustainable telco by Corporate Knights Global 100. It was ranked 38th out of 578 Singapore-listed companies in the Singapore Governance and Transparency Index 2020.
- Board consists of 11 independent & non-executive directors, of which 27% are females.
- Independent directors chair the nomination, audit, investment and remuneration committees.
- There were no corruption cases and legal actions taken against StarHub for anti-competitive behaviour in 2020.
- At the most basic level, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

## Focus Charts

Fig 1: MBIG vs Consensus

(End-Dec, SGD m)	FY22E	FY23E	FY24E
Revenues (MBIG)	2287.0	2495.5	2702.5
EBITDA (MBIG)	496.2	598.1	754.2
EBITDA margin (MBIG)	21.7%	24.0%	27.9%
Net profit (MBIG)	128.2	147.3	162.7
Target price (MBIG)	1.32		
Revenues (consensus)	2325.2	2616.5	2819.0
EBITDA (consensus)	490.0	627.2	788.9
EBITDA margin (consensus)	21.1%	24.0%	28.0%
Net profit (consensus)	124.4	156.1	167.1
Target price (consensus)	1.37		
Revenues (MBIG / consensus)	-1.6%	-4.6%	-4.1%
EBITDA (MBIG / consensus)	1.3%	-4.6%	-4.4%
Net profit (MBIG / consensus)	3.0%	-5.6%	-2.7%
Target price (MBIG / consensus)	-3.6%		

Source: Maybank IBG Research

Fig 2: Quarterly Income

FYE Dec (SGD m)	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	YoY %	QoQ %	MBKE FY22E	YTD as % of FY22
Gross revenue (incl equipment)	579.5	487.0	486.7	517.2	551.8	512.7	5.3%	-7.1%	2,287	22.4%
Service revenue (excl equipment)	419.4	375.7	403.8	418.1	413.8	416.0	10.7%	0.5%	1,834	22.7%
- Mobile	138.6	129.6	130.2	133.3	137.6	134.1	3.5%	-2.5%	531	25.3%
- Entertainment	47.1	44.9	45.6	45.0	44.5	47.2	5.1%	6.1%	180	26.2%
- Broadband	45.7	47.0	48.6	49.8	49.1	51.5	9.6%	4.9%	194	26.5%
- Enterprise	188.0	154.2	179.4	190.0	182.6	183.3	18.9%	0.4%	706	26.0%
- Equipment	160.1	111.4	82.9	99.1	138.0	96.7	-13.2%	-29.9%	431	22.4%
EBITDA	183.3	122.7	123.2	132.9	132.1	109.1	-11.1%	-17.4%	492	22.2%
EBIT	55.7	50.2	54.4	64.1	63.0	43.8	-12.7%	-30.5%	227	19.3%
Net profit	36.1	30.5	37.4	40.0	41.0	29.7	-2.6%	-27.6%	157	19.0%

Source: Maybank IBG Research

Fig 3: Quarterly Operating Metrics

FYE Dec	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	YoY %	QoQ %
<b>Mobile</b>								
Postpaid subscribers	1,414,000	1,417,000	1,443,000	1,458,000	1,484,000	1,501,000	5.9%	1.1%
Prepaid subscribers	564,000	534,000	508,000	458,000	468,000	517,000	-3.2%	10.5%
Postpaid ARPU (SGD)	31.0	28.0	28.0	29.0	29.0	29.0	3.6%	0.0%
Prepaid ARPU (SGD)	11.0	10.0	10.0	10.0	10.0	8.0	-20.0%	-20.0%
<b>Broadband</b>								
Subscriber	498,000	495,000	489,000	485,000	484,000	484,000	-2.2%	0.0%
ARPU (SGD)	30.0	31.0	32.0	34.0	33.0	33.0	6.5%	0.0%
<b>Pay TV</b>								
Subscribers - PayTV	314,000	306,000	296,000	287,000	279,000	450,000	47.1%	1.4%
Subscribers - OTT	26,000	70,000	92,000	121,000	165,000			
ARPU (SGD) - PayTV	40.0	40.0	42.0	43.0	44.0	31.0	-	-3.1%

Source: Maybank IBG Research

Fig 4: DCF Valuation

YE Dec 31 (SGDm)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBITDA	476	496	598	754	792	816	840	857	874
Tax paid	(40)	(41)	(57)	(83)	(90)	(98)	(107)	(115)	(126)
Change in WC	78	(188)	8	8	4	4	4	4	5
Capex	(89)	(301)	(325)	(317)	(311)	(265)	(275)	(285)	(298)
Unlevered FCF	425	(33)	224	362	396	457	462	460	455
PV of FCF	397	(29)	183	276	283	305	289	269	248
Total PV of FCF	2,221								
Terminal value	6,540								
PV of Terminal Value	1,062								
Enterprise value	3,283								
Less: Net debt	1,000								
Equity value	2,283								
Equity value / share (SGD)	1.32								
Last traded price (SGD)	1.27								
Upside/downside (%)	4.0%								

Source: Maybank IBG Research

Fig 5: DCF Parameters

Risk Free Rate (%)	2.5%
Market risk premium (%)	6.5%
Beta (x)	0.9
Cost of Equity (%)	8.6%
Cost of Debt (%)	3.6%
Debt to capital ratio	50%
WACC (%)	6.96%
Terminal Growth (%)	0.0%

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	14.1	14.5	17.0	14.8	13.4
Core P/E (x)	14.0	15.6	17.0	14.8	13.4
Core FD P/E (x)	14.0	15.6	17.1	14.8	13.4
P/BV (x)	4.2	4.0	3.3	2.7	2.1
P/NTA (x)	(0.1)	(0.2)	(0.3)	(1.2)	0.4
Net dividend yield (%)	3.8	4.7	4.0	4.0	4.8
FCF yield (%)	14.6	20.6	nm	7.7	12.8
EV/EBITDA (x)	4.1	4.3	6.2	5.0	3.7
EV/EBIT (x)	6.4	6.5	11.4	8.3	5.6

**INCOME STATEMENT (SGD m)**

Revenue	2,028.8	2,042.6	2,287.0	2,495.5	2,702.5
EBITDA	793.2	720.3	496.2	598.1	754.2
Depreciation	(281.1)	(244.2)	(225.6)	(236.6)	(249.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	512.1	476.1	270.7	361.4	504.5
Net interest income / (exp)	(38.9)	(45.0)	(47.0)	(47.8)	(47.6)
Associates & JV	0.5	3.4	3.4	3.4	3.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	192.6	190.3	227.1	317.1	460.3
Income tax	(32.7)	(40.1)	(40.9)	(57.1)	(82.9)
Minorities	2.1	0.8	0.8	0.8	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	162.0	151.0	128.2	147.3	162.7
Core net profit	162.0	151.0	128.2	147.3	162.7
Preferred Dividends	86.4	110.6	86.4	86.4	103.7

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	415.4	832.8	685.8	774.6	956.6
Accounts receivable	291.3	388.1	434.5	474.1	513.5
Inventory	79.8	50.0	74.9	81.8	88.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	755.0	694.7	770.7	858.6	926.2
Intangible assets	719.5	712.0	712.0	712.0	712.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	670.3	565.2	578.9	578.9	578.9
<b>Total assets</b>	<b>2,931.3</b>	<b>3,242.8</b>	<b>3,256.9</b>	<b>3,479.9</b>	<b>3,775.7</b>
ST interest bearing debt	8.7	226.2	226.2	226.2	226.2
Accounts payable	555.1	694.4	592.7	646.7	700.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,163.7	1,138.5	1,138.5	1,138.5	1,138.5
Other liabilities	577.0	488.0	535.0	550.0	550.0
<b>Total Liabilities</b>	<b>2,304.8</b>	<b>2,546.7</b>	<b>2,492.9</b>	<b>2,561.1</b>	<b>2,614.7</b>
Shareholders Equity	538.3	589.5	657.4	812.3	1,054.4
Minority Interest	88.2	106.6	106.6	106.6	106.6
<b>Total shareholder equity</b>	<b>626.5</b>	<b>696.1</b>	<b>764.0</b>	<b>918.9</b>	<b>1,161.0</b>
<b>Total liabilities and equity</b>	<b>2,931.3</b>	<b>3,242.8</b>	<b>3,256.9</b>	<b>3,479.9</b>	<b>3,775.7</b>

**CASH FLOW (SGD m)**

Pretax profit	192.6	190.3	227.1	317.1	460.3
Depreciation & amortisation	281.1	244.2	225.6	236.6	249.6
Adj net interest (income)/exp	38.9	45.0	47.0	47.8	47.6
Change in working capital	75.5	77.8	(187.6)	7.6	7.5
Cash taxes paid	(32.7)	(40.1)	(40.9)	(57.1)	(82.9)
Other operating cash flow	111.2	91.7	107.6	116.7	113.9
Cash flow from operations	522.2	657.1	226.9	491.5	596.0
Capex	(191.2)	(171.9)	(301.6)	(324.5)	(317.3)
Free cash flow	331.0	485.2	(74.6)	167.0	278.7
Dividends paid	(82.2)	(86.6)	(86.4)	(86.4)	(103.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	174.4	(1.6)	8.2	5.1	2.8
Other invest/financing cash flow	(114.8)	114.0	(93.9)	(96.9)	(96.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	308.4	511.0	(246.7)	(11.2)	80.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(12.9)	0.7	12.0	9.1	8.3
EBITDA growth	(15.7)	(9.2)	(31.1)	20.5	26.1
EBIT growth	(14.4)	(7.0)	(43.1)	33.5	39.6
Pretax growth	(11.9)	(1.2)	19.3	39.6	45.2
Reported net profit growth	(5.2)	(6.8)	(15.1)	14.9	10.5
Core net profit growth	(5.2)	(6.8)	(15.1)	14.9	10.5
<b>Profitability ratios (%)</b>					
EBITDA margin	39.1	35.3	21.7	24.0	27.9
EBIT margin	25.2	23.3	11.8	14.5	18.7
Pretax profit margin	9.5	9.3	9.9	12.7	17.0
Payout ratio	53.3	73.2	67.4	58.6	63.7
<b>DuPont analysis</b>					
Net profit margin (%)	8.0	7.4	5.6	5.9	6.0
Revenue/Assets (x)	0.7	0.6	0.7	0.7	0.7
Assets/Equity (x)	5.4	5.5	5.0	4.3	3.6
ROAE (%)	14.3	7.2	6.7	8.3	6.3
ROAA (%)	5.7	4.9	3.9	4.4	4.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	55.8	59.9	64.7	65.5	65.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.9	1.4	1.5	1.7	1.6
Current ratio (x)	1.5	1.5	1.6	1.6	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.3	1.3	1.3	1.4	1.4
Net gearing (%) (incl perps)	120.8	76.4	88.9	64.2	35.2
Net gearing (%) (excl. perps)	120.8	76.4	88.9	64.2	35.2
Net interest cover (x)	13.2	10.6	5.8	7.6	10.6
Debt/EBITDA (x)	1.5	1.9	2.8	2.3	1.8
Capex/revenue (%)	9.4	8.4	13.2	13.0	11.7
Net debt/ (net cash)	757.0	531.9	678.9	590.1	408.1

Source: Company; Maybank IBG Research

## 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

**Brian LEE Shun Rong**  
(65) 6231 5846  
brian.lee1@maybank.com

**Luong Thu Huong**  
(65) 62315 8467  
hana.thuluong@maybank.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, CFA**  
(65) 6340 1079  
winsonphoon@maybank.com

**SE THO Mun Yi, CFA**  
(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

**Nur Farah SYIFAA**  
(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

**Eric ONG**  
(65) 6231 5924 ericong@maybank.com  
• Healthcare • Transport • SMIDs

**Kelvin TAN**  
(65) 6231 5837 kelvintan1@maybank.com  
• Telcos

**Samuel TAN**  
(65) 6231 5843 samuel.tan@maybank.com  
• Technology

**LI Jialin**  
(65) 6231 5845 jialin.li@maybank.com  
• REITs

### PHILIPPINES

**Jacqui de JESUS** *Head of Research*  
(63) 2 8849 8840  
jacqui.dejesus@maybank.com  
• Strategy • Conglomerates

**Rachelleen RODRIGUEZ, CFA**  
(63) 2 8849 8843  
rachelleen.rodriguez@maybank.com  
• Banking & Finance • Transport • Telcos

**Daphne SZE**  
(63) 2 8849 8847  
daphne.sze@maybank.com  
• Consumer

**Miguel SEVIDAL**  
(63) 2 8849 8844  
miguel.sevidal@maybank.com  
• REITs • Property

**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

**Tran Thi Thanh Nhan**  
(84 28) 44 555 888 ext 8088  
nhan.tran@maybank.com  
• Consumer

**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 TECHAUSUDIN, 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

**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

**Jaroontan WATTANAWONG**  
(66) 2658 5000 ext 1404  
jaroontan.w@maybank.com  
• Transportation • Small cap

**Thanatphat SUKSRICHAVALIT**  
(66) 2658 5000 ext 1401  
thanatphat.s@maybank.com  
• Media • Electronics



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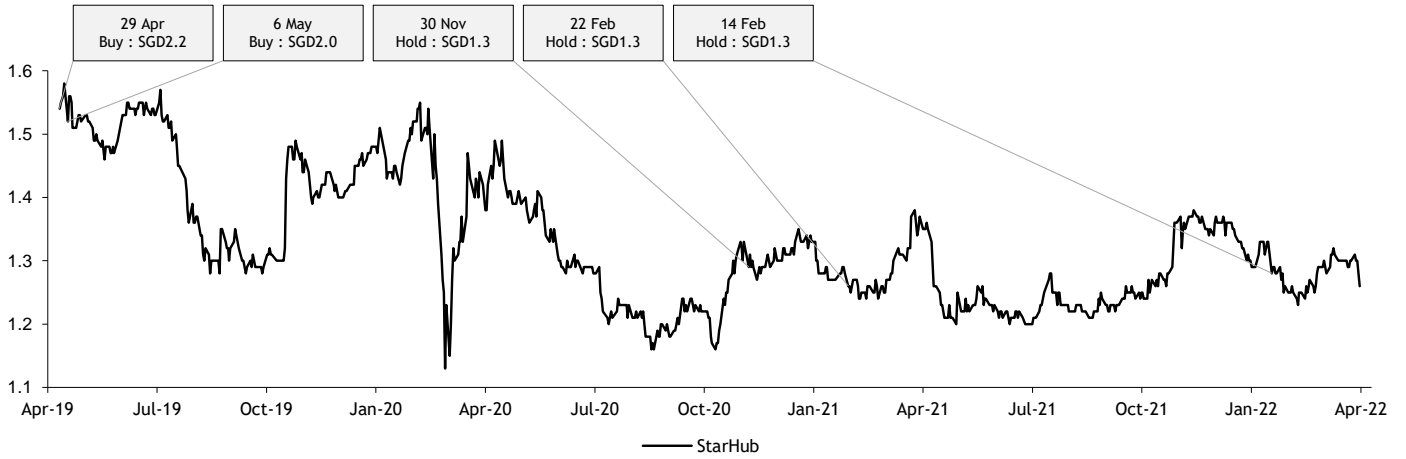
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 **Malaysia**

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