

DiGi.com (DIGI MK)

**HOLD**

## Higher taxes kick in

Share Price MYR 3.82  
 12m Price Target MYR 4.00 (+8%)  
 Previous Price Target MYR 4.00

### A slow start

1Q22 results were in line with our forecasts but below consensus, with consensus forecasts seemingly yet to reflect the effects of Cukai Makmur. Despite further service revenue decline in 1Q22, management remains optimistic on eventually delivering growth for FY22. Maintain HOLD with an unchanged DCF-based TP of MYR4.00. We prefer TM (T MK, BUY, CP: MYR4.99, TP: MYR7.50 in the space.

### Results in line with ours but below consensus

Digi's 1Q22 net profit of MYR236m (-11% YoY, -22% QoQ) represents 23%/20% of our/consensus full-year forecasts respectively. The net profit decline was mainly due to higher taxes as Cukai Makmur took effect (seemingly not yet reflected in consensus forecasts). A first interim DPS of 2.9sen was declared (-15% YoY, -26% QoQ), again representing c.100% payout ratio.

### Revenue trends still soft

1Q22 service revenue declined 1.0% QoQ and 2.2% YoY, with further prepaid decline (lower subscribers and ARPU) being partly offset by slight postpaid growth (higher subscribers, lower ARPU). Management cited generally lower prepaid usage partly attributable to the expiry of the PRIHATIN subsidies. Meanwhile, costs were lower sequentially on lower device costs. Consequently, 1Q22 EBITDA margin expanded by 2.0ppt QoQ to 48.7%.

### Maintaining earnings

Management is maintaining its FY22 guidance of stable EBITDA on service revenue growth. Our earnings forecasts and MYR4.00 TP (DCF-based assuming 6.8% WACC and 2% LT growth) are unchanged. CEO Albern Murty will take a temporary leave of absence effective 28 Apr due to family reasons. CMO Praveen Rajan will assume CEO-related duties and responsibilities on an acting basis.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,153	6,336	6,393	6,474	6,498
EBITDA	3,077	3,010	2,992	3,030	3,041
Core net profit	1,221	1,162	1,047	1,192	1,193
Core EPS (sen)	15.7	14.9	13.5	15.3	15.3
Core EPS growth (%)	(14.8)	(4.8)	(9.9)	13.8	0.1
Net DPS (sen)	15.6	14.9	13.5	15.3	15.3
Core P/E (x)	26.4	29.2	28.4	24.9	24.9
P/BV (x)	53.1	53.6	46.9	46.9	46.9
Net dividend yield (%)	3.8	3.4	3.5	4.0	4.0
ROAE (%)	192.9	187.6	165.5	188.4	188.5
ROAA (%)	14.9	14.5	13.3	15.1	15.1
EV/EBITDA (x)	12.1	12.8	11.5	11.4	11.4
Net gearing (%) (incl perps)	849.9	751.4	757.4	764.6	771.5
Consensus net profit	-	-	1,082	1,228	1,273
MKE vs. Consensus (%)	-	-	(3.2)	(2.9)	(6.3)

Tan Chi Wei, CFA  
 chiwei.t@maybank-ib.com  
 (603) 2297 8690

### Company Description

Digi is a leading mobile telecommunication company in Malaysia.

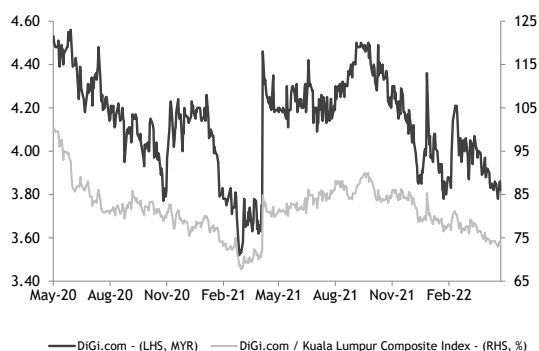
### Statistics

52w high/low (MYR)	4.50/3.78
3m avg turnover (USDm)	3.0
Free float (%)	33.4
Issued shares (m)	7,775
Market capitalisation	MYR29.7B USD6.8B

### Major shareholders:

Telenor ASA	49.0%
Employees Provident Fund	15.2%
Permodalan Nasional Bhd.	10.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(2)	(9)
Relative to index (%)	(4)	(6)	(10)

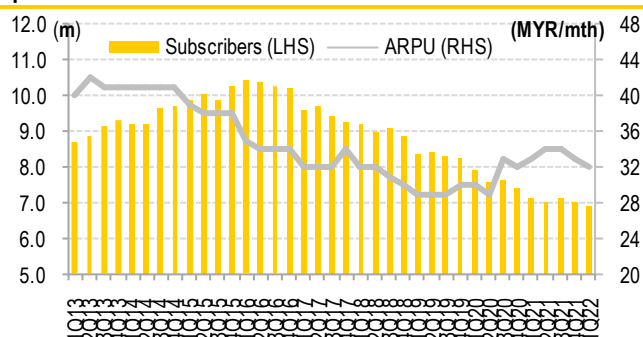
Source: FactSet

## Summary Results Table - DiGi.Com

FY Dec (MYR m)	Quarterly				
	1Q22	1Q21	%YoY	4Q21	%QoQ
Revenue	1,521.7	1,550.2	(1.8)	1,582.6	(3.8)
EBITDA	741.5	738.0	0.5	739.8	0.2
EBIT	429.5	427.4	0.5	419.2	2.4
Net interest expense	(55.1)	(68.8)	(19.9)	(54.1)	1.8
<b>Pre-tax profit</b>	<b>374.4</b>	<b>358.5</b>	<b>4.4</b>	<b>365.1</b>	<b>2.5</b>
Tax	(138.2)	(93.7)	47.5	(60.6)	128.2
Minority Interests	0.0	0.0	N/A	0.0	N/A
<b>Reported Net Profit</b>	<b>236.1</b>	<b>264.8</b>	<b>(10.8)</b>	<b>304.6</b>	<b>(22.5)</b>
Service revenue	1,308.0	1,337.0	(2.2)	1,321.0	(1.0)
EBITDA margin (chg in ppts)	48.7	47.6	1.1	46.7	2.0
Reported EPS (sen)	3.0	3.4	(10.8)	3.9	(22.5)
Net DPS (sen)	2.9	3.4	(14.7)	3.9	(25.6)
Net cash/(debt)	(4,796.3)	(5,103.9)	(6.0)	(4,754.7)	0.9
Gearing (%)	847.8	863.9		751.4	
Capex	82.2	155.1	(47.0)	291.0	(71.7)
<b>Operations</b>					
<b>Prepaid</b>	<b>1Q22</b>	<b>1Q21</b>	<b>%YoY</b>	<b>4Q21</b>	<b>%QoQ</b>
Subscribers, period end (m)	6.9	7.2	(3.6)	7.0	(1.7)
Net additions (m)	(0.12)	(0.24)	(49.8)	(0.10)	22.7
Subscribers, average (m)	7.0	7.3	(4.4)	7.1	(1.5)
ARPU (MYR/month)	32.0	33.0	(3.0)	33.0	(3.0)
<b>Revenue</b>	<b>668.3</b>	<b>720.6</b>	<b>(7.3)</b>	<b>699.9</b>	<b>(4.5)</b>
<b>Postpaid</b>	<b>1Q22</b>	<b>1Q21</b>	<b>%YoY</b>	<b>4Q21</b>	<b>%QoQ</b>
Subscribers, period end (m)	3.3	3.1	8.1	3.3	1.3
Net additions (m)	0.04	0.05	(16.0)	0.05	(16.0)
Subscribers, average (m)	3.3	3.1	8.3	3.3	1.4
ARPU (MYR/month)	61.0	65.0	(6.2)	62.0	(1.6)
<b>Revenue</b>	<b>607.2</b>	<b>597.7</b>	<b>1.6</b>	<b>608.6</b>	<b>(0.2)</b>

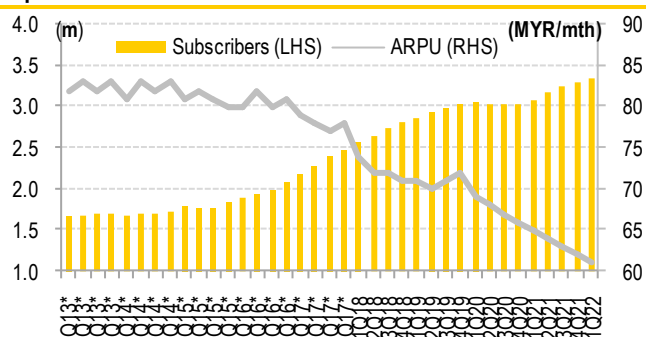
Source: Company, Maybank IBG Research

### Prepaid subscribers and ARPU



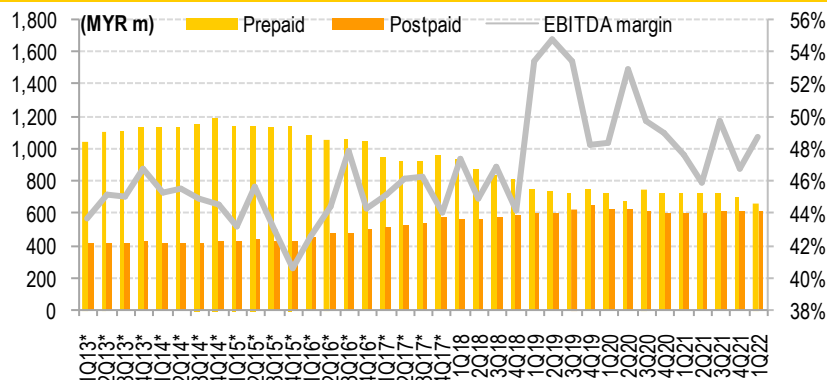
Source: Company, Maybank IBG Research

### Postpaid subscribers and ARPU



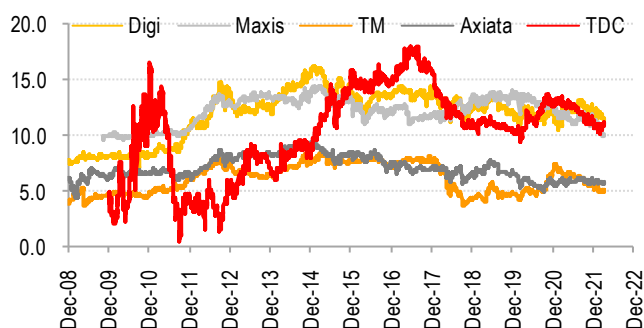
\*Pre-MFRS15, Source: Company, Maybank IBG Research

### Revenue and EBITDA margin (MFRS 16 started from 1Q19)



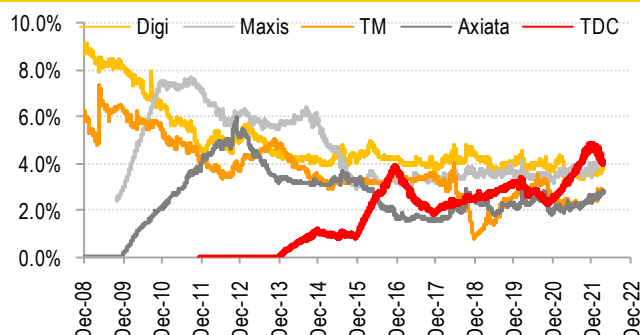
\*Pre-MFRS15, Source: Company, Maybank IBG Research

### EV/EBITDA - Malaysia telcos



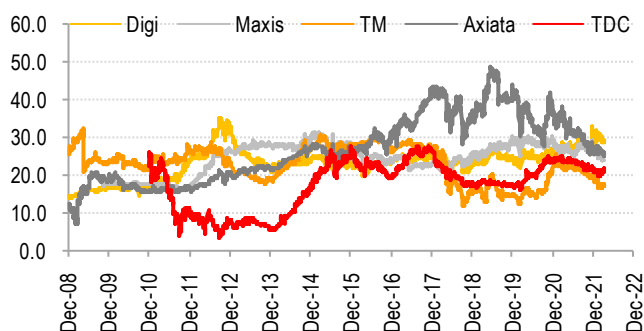
Source: Bloomberg, Maybank IBG Research

### Net dividend yield - Malaysia telcos



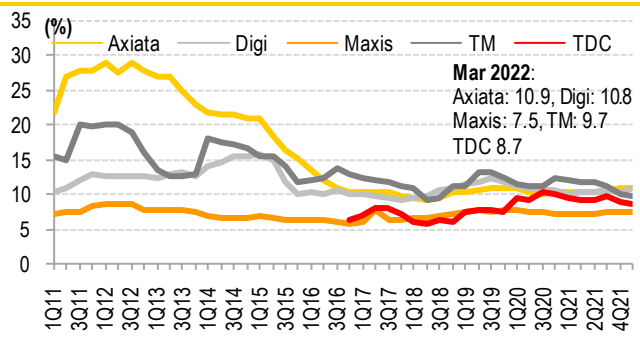
Source: Bloomberg, Maybank IBG Research

### PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

### Foreign shareholding



Source: Companies

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for DiGi. Competitive developments, such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to DiGi's earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	27.0	27.6	28.4	24.9	24.9
Core P/E (x)	26.4	29.2	28.4	24.9	24.9
P/BV (x)	53.1	53.6	46.9	46.9	46.9
P/NTA (x)	(12.0)	(13.7)	(11.7)	(11.4)	(11.2)
Net dividend yield (%)	3.8	3.4	3.5	4.0	4.0
FCF yield (%)	6.0	5.9	5.8	6.3	6.3
EV/EBITDA (x)	12.1	12.8	11.5	11.4	11.4
EV/EBIT (x)	20.7	22.3	19.7	19.4	19.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,152.7	6,335.7	6,392.6	6,474.4	6,497.7
EBITDA	3,077.2	3,010.1	2,991.7	3,030.0	3,040.9
Depreciation	(1,272.6)	(1,280.2)	(1,238.4)	(1,246.8)	(1,254.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,804.7	1,729.9	1,753.3	1,783.2	1,786.9
Net interest income / (exp)	(182.6)	(215.0)	(212.9)	(214.8)	(217.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
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	1,622.0	1,514.9	1,540.4	1,568.4	1,569.8
Income tax	(401.1)	(352.8)	(492.9)	(376.4)	(376.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,221.0	1,162.1	1,047.5	1,192.0	1,193.0
Core net profit	1,221.0	1,162.1	1,047.5	1,192.0	1,193.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	302.9	204.5	166.4	120.7	77.0
Accounts receivable	1,037.8	1,101.5	1,120.9	1,135.2	1,139.3
Inventory	137.2	116.6	122.6	124.2	124.6
Property, Plant & Equip (net)	2,883.1	2,863.6	2,861.8	2,860.5	2,859.6
Intangible assets	3,280.0	3,112.8	3,176.3	3,230.8	3,277.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	544.8	440.7	440.7	440.7	440.7
<b>Total assets</b>	<b>8,185.7</b>	<b>7,839.8</b>	<b>7,888.7</b>	<b>7,912.2</b>	<b>7,918.9</b>
ST interest bearing debt	774.5	1,123.4	1,123.4	1,123.4	1,123.4
Accounts payable	1,738.3	1,790.1	1,839.0	1,862.5	1,869.2
LT interest bearing debt	4,677.5	3,835.9	3,835.9	3,835.9	3,835.9
Other liabilities	390.0	458.0	458.0	458.0	458.0
<b>Total Liabilities</b>	<b>7,579.9</b>	<b>7,207.0</b>	<b>7,255.8</b>	<b>7,279.4</b>	<b>7,286.1</b>
Shareholders Equity	605.9	632.8	632.8	632.8	632.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>605.9</b>	<b>632.8</b>	<b>632.8</b>	<b>632.8</b>	<b>632.8</b>
<b>Total liabilities and equity</b>	<b>8,185.7</b>	<b>7,839.8</b>	<b>7,888.7</b>	<b>7,912.2</b>	<b>7,918.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,622.0	1,514.9	1,540.4	1,568.4	1,569.8
Depreciation & amortisation	1,272.6	1,280.2	1,238.4	1,246.8	1,254.0
Adj net interest (income)/exp	182.6	215.0	212.9	214.8	217.1
Change in working capital	(402.8)	(323.7)	23.4	7.6	2.2
Cash taxes paid	(393.0)	(248.7)	(492.9)	(376.4)	(376.7)
Other operating cash flow	398.1	380.0	0.0	0.0	0.0
Cash flow from operations	2,679.5	2,817.8	2,522.2	2,661.2	2,666.4
Capex	(736.1)	(801.9)	(800.0)	(800.0)	(800.0)
Free cash flow	1,943.5	2,015.9	1,722.2	1,861.2	1,866.4
Dividends paid	(1,275.1)	(1,135.2)	(1,047.5)	(1,192.0)	(1,193.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(88.3)	(325.8)	0.0	0.0	0.0
Other invest/financing cash flow	(735.9)	(644.5)	(712.9)	(714.8)	(717.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(155.9)	(89.5)	(38.2)	(45.6)	(43.8)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.3)	3.0	0.9	1.3	0.4
EBITDA growth	(6.8)	(2.2)	(0.6)	1.3	0.4
EBIT growth	(14.2)	(4.1)	1.4	1.7	0.2
Pretax growth	(14.3)	(6.6)	1.7	1.8	0.1
Reported net profit growth	(14.8)	(4.8)	(9.9)	13.8	0.1
Core net profit growth	(14.8)	(4.8)	(9.9)	13.8	0.1
<b>Profitability ratios (%)</b>					
EBITDA margin	50.0	47.5	46.8	46.8	46.8
EBIT margin	29.3	27.3	27.4	27.5	27.5
Pretax profit margin	26.4	23.9	24.1	24.2	24.2
Payout ratio	99.3	99.7	100.0	100.0	100.0
<b>DuPont analysis</b>					
Net profit margin (%)	19.8	18.3	16.4	18.4	18.4
Revenue/Assets (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	13.5	12.4	12.5	12.5	12.5
ROAE (%)	192.9	187.6	165.5	188.4	188.5
ROAA (%)	14.9	14.5	13.3	15.1	15.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(350.1)	(275.3)	(278.3)	(280.3)	(281.6)
Days receivable outstanding	68.4	60.8	62.6	62.7	63.0
Days inventory outstanding	26.6	26.0	24.1	24.5	24.6
Days payables outstanding	445.2	362.1	365.0	367.5	369.2
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.6	0.5	0.5	0.5	0.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	849.9	751.4	757.4	764.6	771.5
Net gearing (%) (excl. perps)	849.9	751.4	757.4	764.6	771.5
Net interest cover (x)	9.9	8.0	8.2	8.3	8.2
Debt/EBITDA (x)	1.8	1.6	1.7	1.6	1.6
Capex/revenue (%)	12.0	12.7	12.5	12.4	12.3
Net debt/ (net cash)	5,149.2	4,754.7	4,792.9	4,838.5	4,882.3

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, FCA**  
(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 TECHAUSDIN, 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

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

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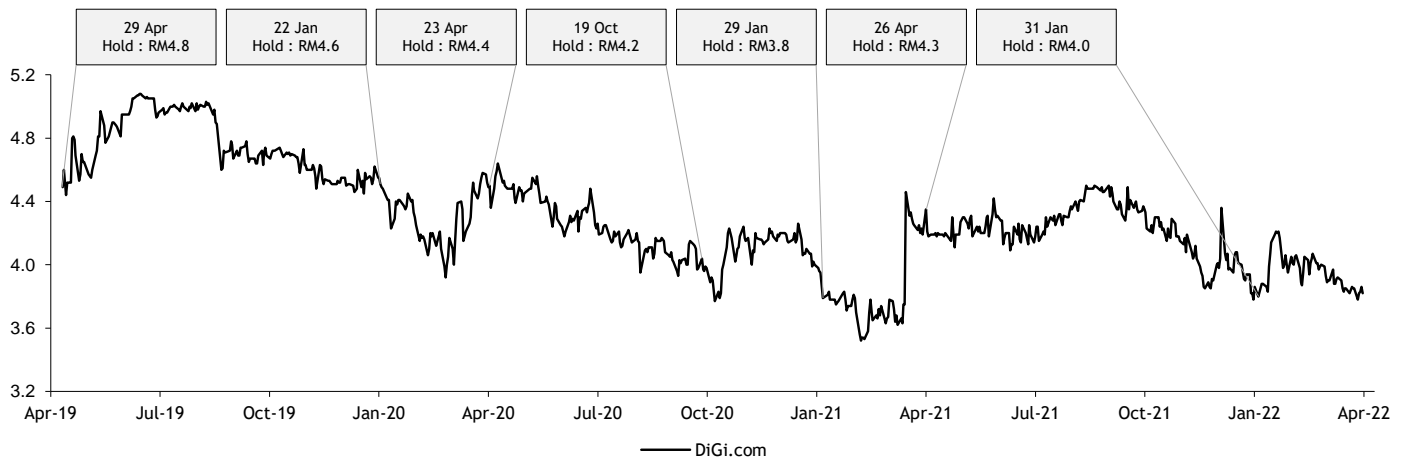
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### Malaysia

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