

Hartalega (HART MK)

4QFY22 hit by prosperity tax

Smaller than expected quarterly loss

4QFY3/22 net loss of MYR198m (-1.8x QoQ, -1.2x YoY) was better than expected due to lower-than-expected prosperity tax. Despite the recent pick-up in orders and stabilising ASP, management remains cautious on industry outlook due to stiff competition and escalating raw material costs. We raise our FY23/24 earnings forecasts by 4-5% and TP to MYR3.14 (+13sen) on an unchanged 19.4x CY23 PER (-1SD of historical mean). Reiterate SELL.

4QFY22 in the red due to prosperity tax

4QFY3/22 net loss was MYR197.9m (-1.8x QoQ, -1.2x YoY), taking FY3/22 net profit to MYR3.2b (+8.7% YoY), or 106%/100% of our/street's forecasts. The earnings gap was due to the lower-than-expected prosperity tax, we reckon. Excluding tax, FY22 PBT was within our expectation. Despite the higher sales volume (+33% QoQ; utilisation rate +17ppt QoQ to 69%), 4QFY22 PBT declined -38% QoQ on lower ASP (-28% QoQ). Hartalega declared a 3rd interim div of 3.5sen (YTD:53.5sen) in 4QFY22.

Key takeaways from con-call

(i) Despite the recent pick up in orders and stabilising ASP, management remains cautious on its ability to fully pass on the higher costs (from manpower, electricity and raw materials) to its customers due to stiff competition. Management expects contraction in margin post-Covid due to rising global supply and production costs, (ii) management will put its NGC 2.0 expansion (82 lines or 32b pcs gloves) on hold for now in view of stiff competition and (iii) management has set up a team to explore M&A opportunities. Elsewhere, the upcoming 1QFY3/23 results would likely be weaker QoQ on lower ASP and higher operating costs.

Earnings adjustments

We raise our FY23/24 earnings forecasts by 4.6%/4.4% to factor in: 1) actual FY22 results, 2) MYR4.15/USD exchange rate (from MYR4.10) and 3) lower tax rate of 23% for FY23 (from 24%), offset by 4) high nitrile latex price (+2%). As at end-Mar, Hartalega had MYR2.1b net cash (MYR0.63/sh).

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	6,703	7,888	3,569	3,926	4,416
EBITDA	4,065	4,733	835	910	973
Core net profit	2,976	3,235	526	563	595
Core FDEPS (sen)	86.6	94.2	15.3	16.4	17.3
Core FDEPS growth(%)	570.0	8.7	(83.7)	7.0	5.8
Net DPS (sen)	50.2	56.8	9.2	9.9	10.4
Core FD P/E (x)	10.3	5.2	28.3	26.5	25.0
P/BV (x)	6.1	3.2	2.8	2.7	2.6
Net dividend yield (%)	5.6	11.7	2.1	2.3	2.4
ROAE (%)	76.8	64.1	10.1	10.3	10.5
ROAA (%)	58.4	49.0	8.1	8.3	8.4
EV/EBITDA (x)	6.9	3.1	14.6	13.4	12.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	711	721	na
MKE vs. Consensus (%)	-	-	(26.0)	(21.9)	na

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

SELL

Share Price	MYR 4.34
12m Price Target	MYR 3.14 (-26%)
Previous Price Target	MYR 3.01

Company Description

Hartalega is the world's largest nitrile medical gloves producer.

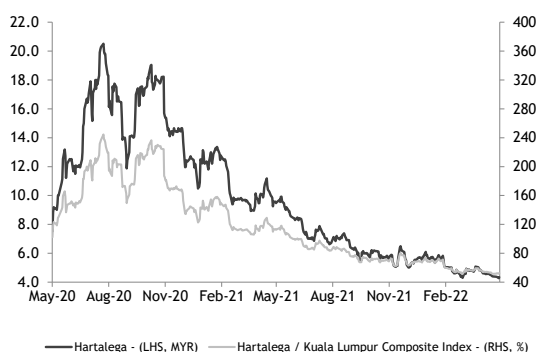
Statistics

52w high/low (MYR)	9.92/4.28
3m avg turnover (USDm)	5.6
Free float (%)	34.3
Issued shares (m)	3,428
Market capitalisation	MYR14.9B USD3.4B

Major shareholders:

Hartalega Industries Sdn. Bhd.	34.3%
Employees Provident Fund	8.6%
BNP Paribas Wealth Management	8.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(11)	(14)	(55)
Relative to index (%)	(8)	(13)	(54)

Source: FactSet

Hartalega: Results summary table

FY Mar (MYR m)	4QFY22	4QFY21	% YoY	3QFY22	% QoQ	FY2022	FY2021	% YoY
Turnover	968.7	2,307.5	(58.0)	1,005.4	(3.7)	7,888.3	6,703.5	17.7
EBITDA	255.6	1,728.0	(85.2)	381.3	(33.0)	4,739.4	4,064.3	16.6
Depreciation and Amortisation	(39.5)	(35.8)	-10.2	(37.9)	(4.2)	(151.9)	(137.4)	-10.5
EBIT	216.2	1,692.1	(87.2)	343.4	(37.1)	4,587.5	3,926.9	16.8
Net interest exp	0.0	0.4	(91.1)	3.1	(98.8)	5.8	(0.9)	>+100
Unrealised forex gain/(loss)	4.6	35.3	(87.0)	(1.6)	>+100	(60.6)	32.9	>-100
Fair value change on derivatives	(2.4)	(126.2)	98.1	7.6	>-100	76.0	(35.5)	>+100
Pre-tax profit	218.4	1,511.7	(85.6)	352.4	(38.0)	4,637.2	3,813.4	21.6
Tax	(408.1)	(386.6)	-5.6	(96.3)	>-100	(1,394.6)	(909.6)	-53.3
Minority Interest	(8.2)	(6.0)	-36.9	3.0	>-100	(7.9)	(18.2)	56.6
Net profit	(197.9)	1,119.2	>-100	259.1	>-100	3,234.7	2,885.5	12.1
Core net profit	(197.9)	1,209.2	>-100	257.1	>-100	3,234.7	2,975.5	8.7
Margins and tax rate	4QFY22	4QFY21	+/- ppt	3QFY22	+/- ppt	FY2022	FY2021	+/- ppt
EBITDA margin (%)	26.4	74.9	(48.5)	37.9	(11.5)	60.1	60.6	(0.5)
EBIT margin (%)	22.3	73.3	(51.0)	34.2	(11.8)	58.2	58.6	(0.4)
Pretax margin (%)	22.5	65.5	(43.0)	35.0	(12.5)	58.8	56.9	1.9
Tax rate (%)	186.9	25.6	161.3	27.3	159.5	30.1	23.9	6.2
Operating metrics	4QFY22	4QFY21	% YoY	3QFY22	% QoQ	FY2022	FY2021	% YoY
Effective capacity (b pieces)	10.5	10.5	0.0	10.5	0.0	42.0	39.2	7.1
Plant utilisation rate (%)	69.0	64.4	7.1	52.0	32.7	70.0	89.0	(21.3)
Sales volume (b pieces)	7.3	6.7	9.0	5.5	32.7	29.6	34.8	(15.1)

Source: Company, Maybank IBG Research

Upside risks

(i) Raw material prices decline faster than ASP and (ii) Higher demand/consumption for gloves from non-healthcare industries post pandemic.

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	15.7	7.1	28.2	26.4	24.9
Core P/E (x)	10.3	5.1	28.2	26.4	24.9
Core FD P/E (x)	10.3	5.2	28.3	26.5	25.0
P/BV (x)	6.1	3.2	2.8	2.7	2.6
P/NTA (x)	6.2	3.3	2.8	2.7	2.6
Net dividend yield (%)	5.6	11.7	2.1	2.3	2.4
FCF yield (%)	10.1	22.1	5.7	1.9	2.2
EV/EBITDA (x)	6.9	3.1	14.6	13.4	12.5
EV/EBIT (x)	7.2	3.2	18.3	17.0	16.0

INCOME STATEMENT (MYR m)

Revenue	6,703.5	7,888.3	3,568.9	3,925.8	4,415.9
EBITDA	4,064.7	4,733.4	835.0	909.7	972.8
Depreciation	(137.8)	(151.9)	(171.9)	(191.9)	(211.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3,926.9	4,581.5	663.2	717.9	760.9
Net interest income / (exp)	(0.9)	5.7	21.7	24.3	24.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(90.0)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,813.4	4,637.2	684.8	742.1	785.0
Income tax	(909.6)	(1,394.6)	(157.5)	(178.1)	(188.4)
Minorities	(18.2)	(7.9)	(1.3)	(1.4)	(1.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,885.5	3,234.7	526.0	562.6	595.1
Core net profit	2,975.5	3,234.7	526.0	562.6	595.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,668.7	2,378.1	2,929.5	2,900.8	2,887.7
Accounts receivable	1,110.7	418.6	591.3	650.4	731.6
Inventory	633.5	397.0	337.2	371.0	417.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,156.4	2,367.0	2,595.2	2,803.3	2,991.4
Intangible assets	32.6	30.8	30.8	30.8	30.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	264.2	756.0	149.4	149.4	149.4
Total assets	6,866.0	6,347.6	6,633.4	6,905.7	7,208.2
ST interest bearing debt	92.9	102.1	102.1	102.1	102.1
Accounts payable	1,091.3	378.1	458.9	504.8	567.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	250.1	136.7	129.9	129.9	129.9
Other liabilities	433.0	586.0	586.0	586.0	586.0
Total Liabilities	1,866.9	1,202.4	1,276.5	1,322.4	1,385.4
Shareholders Equity	4,974.9	5,121.6	5,332.0	5,557.0	5,795.1
Minority Interest	24.2	23.7	24.9	26.3	27.8
Total shareholder equity	4,999.1	5,145.2	5,356.9	5,583.3	5,822.8
Total liabilities and equity	6,866.0	6,347.6	6,633.4	6,905.7	7,208.2

CASH FLOW (MYR m)

Pretax profit	3,813.4	4,637.2	684.8	742.1	785.0
Depreciation & amortisation	137.8	151.9	171.9	191.9	211.9
Adj net interest (income)/exp	0.9	(5.7)	(21.7)	(24.3)	(24.1)
Change in working capital	(146.6)	182.4	568.4	(47.0)	(64.5)
Cash taxes paid	(730.7)	(1,168.9)	(157.5)	(178.1)	(188.4)
Other operating cash flow	13.4	(76.0)	0.0	0.0	0.0
Cash flow from operations	3,088.2	3,720.9	1,245.9	684.7	719.9
Capex	(7.2)	(57.2)	(400.0)	(400.0)	(400.0)
Free cash flow	3,081.0	3,663.7	845.9	284.7	319.9
Dividends paid	(604.2)	(2,989.0)	(315.6)	(337.6)	(357.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	80.8	(111.0)	0.0	0.0	0.0
Other invest/financing cash flow	(199.9)	(854.9)	21.7	24.3	24.1
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	2,357.8	(291.2)	552.0	(28.7)	(13.1)

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	129.2	17.7	(54.8)	10.0	12.5
EBITDA growth	461.3	16.4	(82.4)	8.9	6.9
EBIT growth	555.5	16.7	(85.5)	8.2	6.0
Pretax growth	585.6	21.6	(85.2)	8.4	5.8
Reported net profit growth	563.7	12.1	(83.7)	7.0	5.8
Core net profit growth	584.4	8.7	(83.7)	7.0	5.8
Profitability ratios (%)					
EBITDA margin	60.6	60.0	23.4	23.2	22.0
EBIT margin	58.6	58.1	18.6	18.3	17.2
Pretax profit margin	56.9	58.8	19.2	18.9	17.8
Payout ratio	59.5	60.0	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	43.0	41.0	14.7	14.3	13.5
Revenue/Assets (x)	1.0	1.2	0.5	0.6	0.6
Assets/Equity (x)	1.4	1.2	1.2	1.2	1.2
ROAE (%)	76.8	64.1	10.1	10.3	10.5
ROAA (%)	58.4	49.0	8.1	8.3	8.4
Liquidity & Efficiency					
Cash conversion cycle	13.5	1.9	44.0	41.2	40.5
Days receivable outstanding	43.3	34.9	50.9	56.9	56.3
Days inventory outstanding	59.3	77.5	49.3	43.7	43.8
Days payables outstanding	89.2	110.6	56.2	59.5	59.6
Dividend cover (x)	1.7	1.7	1.7	1.7	1.7
Current ratio (x)	3.1	3.9	4.3	4.2	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.7	5.3	5.2	5.2	5.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.1	0.1	0.3	0.3	0.2
Capex/revenue (%)	0.1	0.7	11.2	10.2	9.1
Net debt/ (net cash)	(2,325.7)	(2,139.4)	(2,697.5)	(2,668.8)	(2,655.7)

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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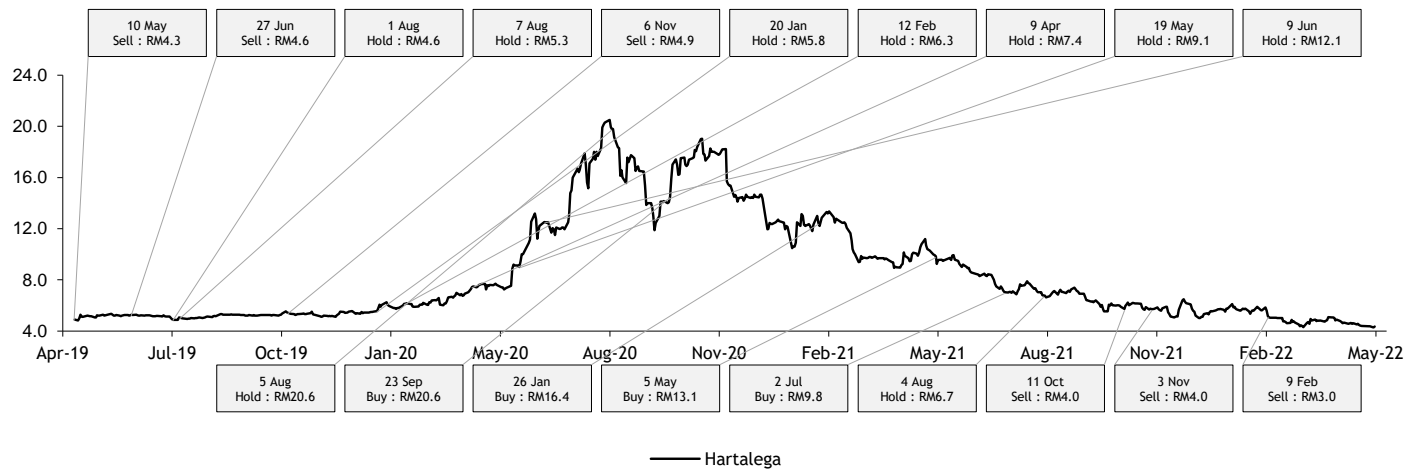
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Malaysia

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, 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