



# Sunway

 (SWB MK)

Share Price: MYR3.23

MCap (USD): 1.7B

Malaysia

Target Price: MYR3.05 (-6%)

ADTV (USD): 1M

Real Estate

# HOLD

 (Unchanged)

## Earnings on track

- 9M14 core net profit of MYR386m (+19% YoY) is in line.
- Property sales on track to meet target, but construction job wins lagging behind.
- Maintain earnings forecasts, HOLD rating and MYR3.05 TP (on 0.59x P/RNAV target).

### What's New

Excluding MYR44.6m one-off fair value gain for SunREIT's assets and fair value adjustment for ESOS, Sunway's 3Q14 core net profit of MYR149m (+20% YoY, +19% QoQ) lifted 9M14 core net earnings to MYR386m (+19%YoY), 77%/79% of our/consensus full-year estimate.

The YoY growth in 9M14 earnings was due to improved performance in the property development, construction and healthcare segments as well as its treasury operations.

### What's Our View

9M14 locked-in property sales of MYR951m (accounting for just Sunway's effective stake in some JVs) met 73% of its MYR1.3b internal target for 2014. Unbilled sales were MYR2.1b at end-Sep 2014, 1.1x of our FY15 revenue forecast. Sunway has thus far this year launched MYR1.4b worth of new property projects. It will launch another MYR830m worth of new projects in Nov-Dec 2014 including Sunway Iskandar Citrine service apartment (MYR220m), Sunway Cassia (MYR70m) and Sophia Hills (MYR540m).

Sunway's construction division has, YTD, secured MYR881m worth of works - all internal. This has lifted its outstanding order book to MYR3.3b at end-Sep 2014 (67% external). Management maintains its MYR2.5b job win target for FY14 (including internal construction contracts).

We maintain our earnings forecasts for now pending further details from management.

FYE Dec (MYR m)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	3,876.8	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	535.1	563.1	666.7	753.7	717.3
Core net profit	350.6	482.7	500.5	556.9	565.5
Core EPS (sen)	27.1	28.0	29.0	32.3	32.8
Core EPS growth (%)	7.2	3.2	3.7	11.3	1.5
Net DPS (sen)	6.0	10.0	5.8	6.5	6.2
Core P/E (x)	11.9	11.5	11.1	10.0	9.8
P/BV (x)	1.2	1.0	1.0	0.9	0.8
Net dividend yield (%)	1.9	3.1	1.8	2.0	1.9
ROAE (%)	10.7	10.9	9.0	9.3	8.5
ROAA (%)	4.2	4.9	4.4	4.6	4.4
EV/EBITDA (x)	8.6	11.2	11.0	9.9	9.4
Net debt/equity (%)	45.2	23.9	25.5	25.0	12.5

### Key Data

52w high/low (MYR)	3.54/2.55
3m avg turnover (USDm)	1.2
Free float (%)	35.2
Issued shares (m)	1,728
Market capitalization	MYR5.6B
Major shareholders:	
-Sungei Way Corp. Sdn. Bhd.	48.1%
-Permodalan Nasional Bhd.	7.2%
-Employees Provident Fund	5.7%

### Share Price Performance



— Sunway - (LHS, MYR) — Sunway / Kuala Lumpur Composite Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	1.6	2.2	17.9
Relative to index (%)	(0.1)	4.7	16.2

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	9	3	0
	Maybank Consensus		% +/-
Target Price (MYR)	3.05	3.85	(20.8)
'14 PATMI (MYRm)	501	496	1.0
'15 PATMI (MYRm)	557	533	4.6

Source: FactSet; Maybank

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

Table 1: Quarterly summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative			Comments
	3Q14	3Q13	% YoY	2Q14	% QoQ	9M14	9M13	%YoY	
Revenue	1,134.0	1,066.1	6.4	1,204.6	(5.9)	3,364.4	3,205.2	5.0	3Q14 : QoQ decline mainly from property development.
EBIT	151.9	74.9	102.9	134.0	13.4	395.6	277.5	42.5	
Finance costs	(5.1)	(6.3)	(17.9)	(10.2)	(49.6)	(23.2)	(26.7)	(13.2)	Net gearing was unchanged at 0.31x as at Sep 2014.
Other income	38.5	49.4	(22.1)	109.6	(64.9)	188.5	205.9	(8.4)	
Pretax profit	185.2	118.2	56.7	233.6	(20.7)	561.0	453.2	23.8	
Pretax profit before EI	190.8	159.4	19.7	177.1	7.8	516.4	434.5	18.8	
Taxation	(21.8)	(16.6)	31.5	(44.9)	(51.3)	(97.1)	(75.4)	28.8	
Minority int	(19.7)	(8.5)	133.2	(6.2)	218.7	(33.7)	(23.8)	41.5	
Net profit	143.7	93.1	54.3	182.5	(21.3)	430.2	354.0	21.5	
Net profit ex-EI	149.3	124.4	20.0	126.0	18.5	385.6	325.4	18.5	9M14: Within expectations, 77% of our full-year estimate.
Exceptional (pretax)	(5.6)	(41.2)	(86.4)	56.5	(109.9)	44.6	18.7	138.5	
	3Q14	3Q13	+/-ppts	2Q14	+/-ppts	9M14	9M13	+/-ppts	
EBIT margin (%)	13.4	7.0	6.4	11.1	2.3	11.8	8.7	3.1	
PBT margin (%) - ex EI	16.8	15.0	1.9	14.7	2.1	15.3	13.6	1.8	
Tax rate (%)	11.8	14.0	(2.3)	19.2	(7.4)	17.3	16.6	0.7	
<b>SEGMENTAL</b>	3Q14	3Q13	% YoY	2Q14	% QoQ	9M14	9M13	%YoY	
Revenue	1,134.0	1,066.1	6.4	1,204.6	(5.9)	3,364.4	3,205.2	5.0	3Q14 : YoY and QoQ decline on slower progress in billings. Sunway locked in MYR951m in effective property sales in 9M14 or 73% of its effective sales target of MYR1.3b for 2014; on track. Unbilled sales were MYR2.1b or 1.08x of our 2015 property revenue forecast.
- Prop devt	178.0	260.3	(31.6)	301.7	(41.0)	702.0	749.9	(6.4)	
- Prop invt	151.8	137.1	10.7	146.0	4.0	434.0	412.4	5.2	3Q14: YoY and QoQ growth were due to additional rental income from the newly completed Sunway Pinnacle and Monash University campus extension as well as higher revenue from the leisure and hospitality divisions.
- Construction	488.2	376.5	29.7	426.1	14.6	1,273.0	1,178.7	8.0	Outstanding orderbook stood at MYR3.3b (33% internal: 67% external) as at Sep 2014.
- Trading	159.4	151.9	4.9	162.1	(1.7)	470.5	453.1	3.8	YTD job wins were MYR881m, just 35% of its MYR2.5b target due to the delay in a building job award.
- Quarry	56.3	47.1	19.5	57.7	(2.5)	162.2	147.2	10.2	
- Invtd Hldgs	0.0	(1.1)	(102.9)	0.0	(3.1)	0.1	(0.3)	(123.2)	
- Others	100.3	94.3	6.4	111.1	(9.6)	322.6	264.2	22.1	

Table 1: Quarterly summary table - Sunway (continued)

<u>SEGMENTAL</u>	Quarterly					Cumulative			
	3Q14	3Q13	% YoY	2Q14	% QoQ	9M14	9M13	%YoY	
<b>EBIT</b>	<b>151.9</b>	<b>74.9</b>	<b>102.9</b>	<b>134.0</b>	<b>13.4</b>	<b>395.6</b>	<b>277.5</b>	<b>42.5</b>	<p>3Q14: YoY and QoQ growth was due to better operating margin (+21ppt YoY, +25ppt QoQ).</p> <p>3Q14: YoY and QoQ growth was due to higher revenue and higher contributions from SunREIT.</p> <p>3Q14: YoY growth was due to higher profit contribution from the precast division while QoQ decline was due to the provision of MYR3.5m for compensation of SILK Highway and rectification costs for Rihan Heights.</p>
- Prop devt	79.1	62.0	27.6	58.0	36.4	189.2	131.9	43.5	
- Prop invt	31.2	21.8	42.7	26.7	16.9	77.9	72.6	7.3	
- Construction	21.8	15.4	41.6	25.7	(15.0)	78.5	58.4	34.3	
- Trading	10.8	11.7	(7.4)	11.0	(1.5)	30.9	36.3	(14.9)	
- Quarry	6.7	5.2	27.9	9.2	(27.5)	20.3	16.8	20.4	
- Invt Hldgs	(9.3)	(46.4)	(79.9)	(7.4)	25.3	(27.2)	(53.9)	(49.6)	
- Others	11.7	5.1	129.7	11.0	6.4	26.0	15.4	68.5	
<b>EBIT margin (%)</b>	<b>13.4</b>	<b>7.0</b>	<b>6.4</b>	<b>11.1</b>	<b>2.3</b>	<b>11.8</b>	<b>8.7</b>	<b>3.1</b>	
- Prop devt	44.5	23.8	20.6	19.2	25.2	27.0	17.6	9.4	
- Prop invt	20.5	15.9	4.6	18.3	2.3	17.9	17.6	0.3	
- Construction	4.5	4.1	0.4	6.0	(1.6)	6.2	5.0	1.2	
- Trading	6.8	7.7	(0.9)	6.8	0.0	6.6	8.0	(1.4)	
- Quarry	11.8	11.1	0.8	15.9	(4.1)	12.5	11.4	1.1	
- Others	11.6	5.4	6.2	9.9	1.8	8.1	5.8	2.2	

Sources: Company, Maybank KE

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Key Metrics</b>					
P/E (reported) (x)	7.8	3.7	11.1	10.0	9.8
Core P/E (x)	11.9	11.5	11.1	10.0	9.8
P/BV (x)	1.2	1.0	1.0	0.9	0.8
P/NTA (x)	1.2	1.0	1.0	0.9	0.8
Net dividend yield (%)	1.9	3.1	1.8	2.0	1.9
FCF yield (%)	4.6	19.6	10.0	10.8	11.1
EV/EBITDA (x)	8.6	11.2	11.0	9.9	9.4
EV/EBIT (x)	9.1	3.4	11.5	10.3	9.9

**INCOME STATEMENT (MYR m)**

Revenue	3,876.8	4,733.7	5,542.6	6,010.2	6,064.7
Gross profit	535.1	563.1	666.7	753.7	717.3
EBITDA	535.1	563.1	666.7	753.7	717.3
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	504.2	1,823.6	639.7	722.9	682.6
Net interest income / (exp)	(77.5)	(102.4)	(50.3)	(51.8)	(38.7)
Associates & JV	301.2	172.5	184.2	162.6	189.6
Exceptionals	0.0	0.7	0.0	0.0	0.0
Other pretax income	0.4	0.0	0.0	0.0	0.0
Pretax profit	728.2	1,894.3	773.6	833.7	833.5
Income tax	(128.5)	(120.9)	(193.4)	(208.4)	(208.4)
Minorities	(67.4)	(273.0)	(79.7)	(68.3)	(59.6)
Perpetual securities	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	532.3	1,500.5	500.5	556.9	565.5
Core net profit	350.6	482.7	500.5	556.9	565.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,140.2	1,519.1	1,330.8	1,252.9	1,907.6
Accounts receivable	1,400.1	1,402.6	1,402.6	1,402.6	1,402.6
Inventory	626.0	622.9	729.3	790.8	798.0
Property, Plant & Equip (net)	806.9	857.9	1,009.2	1,139.5	1,273.6
Intangible assets	318.7	319.9	319.9	319.9	319.9
Investment in Associates & JVs	1,553.2	2,284.0	2,284.0	2,284.0	2,284.0
Other assets	2,899.8	4,105.9	4,805.0	5,349.5	5,475.4
<b>Total assets</b>	<b>8,744.9</b>	<b>11,112.3</b>	<b>11,880.7</b>	<b>12,539.1</b>	<b>13,461.2</b>
ST interest bearing debt	782.7	1,804.9	1,804.9	1,804.9	1,804.9
Accounts payable	1,605.1	2,154.0	2,522.1	2,734.9	2,759.7
LT interest bearing debt	1,964.2	990.6	990.6	990.6	990.6
Other liabilities	524.0	511.0	511.0	511.0	511.0
<b>Total Liabilities</b>	<b>4,876.4</b>	<b>5,460.1</b>	<b>5,828.2</b>	<b>6,041.0</b>	<b>6,065.8</b>
Shareholders Equity	3,558.4	5,334.9	5,735.3	6,180.8	7,078.1
Minority Interest	310.0	317.3	317.3	317.3	317.3
<b>Total shareholder equity</b>	<b>3,868.4</b>	<b>5,652.2</b>	<b>6,052.6</b>	<b>6,498.1</b>	<b>7,395.4</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>8,744.9</b>	<b>11,112.3</b>	<b>11,880.7</b>	<b>12,539.1</b>	<b>13,461.2</b>

**CASH FLOW (MYR m)**

Pretax profit	728.2	1,894.3	773.6	833.7	833.5
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(71.8)	198.3	(50.3)	(51.8)	(38.7)
Change in working capital	0.0	295.7	0.0	0.0	0.0
Cash taxes paid	(92.8)	(127.3)	(193.4)	(208.4)	(208.4)
Other operating cash flow	0.0	(1,167.4)	0.0	0.0	0.0
Cash flow from operations	191.2	1,093.6	556.4	603.7	620.6
Free cash flow	191.2	1,093.6	556.4	603.7	620.6
Dividends paid	(38.9)	(344.3)	(157.7)	(100.1)	(111.4)
Equity raised / (purchased)	0.0	727.5	0.0	0.0	724.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(278.5)	(1,022.6)	(587.1)	(581.5)	(578.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(126.2)	454.2	(188.3)	(77.9)	654.8

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	3.7	22.1	17.1	8.4	0.9
EBITDA growth	34.5	5.2	18.4	13.0	(4.8)
EBIT growth	35.8	261.7	(64.9)	13.0	(5.6)
Pretax growth	43.6	160.1	(59.2)	7.8	(0.0)
Reported net profit growth	44.0	181.9	(66.6)	11.3	1.5
Core net profit growth	7.2	37.7	3.7	11.3	1.5
<b>Profitability ratios (%)</b>					
EBITDA margin	13.8	11.9	12.0	12.5	11.8
EBIT margin	13.0	38.5	11.5	12.0	11.3
Pretax profit margin	18.8	40.0	14.0	13.9	13.7
Payout ratio	14.6	11.5	20.0	20.0	18.9
<b>DuPont analysis</b>					
Net profit margin (%)	13.7	31.7	9.0	9.3	9.3
Revenue/Assets (x)	0.4	0.4	0.5	0.5	0.5
Assets/Equity (x)	2.5	2.1	2.1	2.0	1.9
ROAE (%)	10.7	10.9	9.0	9.3	8.5
ROAA (%)	4.2	4.9	4.4	4.6	4.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(7.4)	(1.8)	nm	nm	nm
Days receivable outstanding	115.9	106.6	91.1	84.0	83.3
Days inventory outstanding	54.2	53.9	nm	nm	nm
Days payables outstanding	177.6	162.2	nm	nm	nm
Dividend cover (x)	6.9	8.7	5.0	5.0	5.3
Current ratio (x)	1.6	1.2	1.3	1.4	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	2.0	2.0	2.1	2.2
Net debt/equity (%)	45.2	23.9	25.5	25.0	12.5
Net interest cover (x)	6.5	17.8	12.7	13.9	17.6
Debt/EBITDA (x)	5.1	5.0	4.2	3.7	3.9
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,606.7	1,276.4	1,464.7	1,542.6	887.9

Source: Company; Maybank

## Research Offices

### REGIONAL

**WONG Chew Hann, CA**  
Regional Head of Institutional Research  
(603) 2297 8686 wchewh@maybank-ib.com

**ONG Seng Yeow**  
Regional Head of Retail Research  
(65) 6432 1453  
ongsengyeow@maybank-ke.com.sg

**Alexander GARTHOFF**  
Institutional Product Manager  
(852) 2268 0638  
alexgarthoff@kimeng.com.hk

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Singapore | Malaysia  
(603) 2297 8682  
suhaimi\_ilias@maybank-ib.com

**Luz LORENZO**  
Philippines  
(63) 2 849 8836  
luz\_lorenzo@maybank-atrke.com

**Tim LEELAHAPHAN**  
Thailand  
(662) 658 1420 tim.l@maybank-ke.co.th

**JUNIMAN**  
Chief Economist, BI  
Indonesia  
(62) 21 29228888 ext 29682  
Juniman@bankbii.com

### MALAYSIA

**WONG Chew Hann, CA Head of Research**  
(603) 2297 8686 wchewh@maybank-ib.com  
• Strategy • Construction & Infrastructure

**Desmond CH'NG, ACA**  
(603) 2297 8680  
desmond.chng@maybank-ib.com  
• Banking & Finance

**LIAW Thong Jung**  
(603) 2297 8688 tliaw@maybank-ib.com  
• Oil & Gas - Regional • Shipping

**ONG Chee Ting, CA**  
(603) 2297 8678 ct.ong@maybank-ib.com  
• Plantations - Regional

**Mohshin AZIZ**  
(603) 2297 8692 mohshin.aziz@maybank-ib.com  
• Aviation - Regional • Petrochem

**YIN Shao Yang, CPA**  
(603) 2297 8916 samuel.y@maybank-ib.com  
• Gaming - Regional • Media

**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 & REITs

**LEE Yen Ling**  
(603) 2297 8691 lee.yl@maybank-ib.com  
• Building Materials • Glove Producers

**CHAI Li Shin, CFA**  
(603) 2297 8684 lishin.c@maybank-ib.com  
• Plantation • Construction & Infrastructure

**Ivan YAP**  
(603) 2297 8612 ivan.yap@maybank-ib.com  
• Automotive

**LEE Cheng Hooi Regional Chartist**  
(603) 2297 8694  
chenghooi.lee@maybank-ib.com

**Tee Sze Chiah Head of Retail Research**  
(603) 2297 6858 szechiah.t@maybank-ib.com

### HONG KONG / CHINA

**Howard WONG Head of Research**  
(852) 2268 0648  
howardwong@kimeng.com.hk  
• Oil & Gas - Regional

**Alexander LATZER**  
(852) 2268 0647  
alexanderlatzer@kimeng.com.hk  
• Metals & Mining - Regional

**Jacqueline KO, CFA**  
(852) 2268 0633 jacquelineko@kimeng.com.hk  
• Consumer Staples & Durables

**Ka Leong LO, CFA**  
(852) 2268 0630 kll@kimeng.com.hk  
• Consumer Discretionary & Auto

**Karen KWAN**  
(852) 2268 0640 karenkw@kimeng.com.hk  
• Property & REITs

**Osbert TANG, CFA**  
(86) 21 5096 8370  
osberttang@kimeng.com.hk  
• Transport & Industrials

**Ricky WK NG, CFA**  
(852) 2268 0689 rickyng@kimeng.com.hk  
• Utilities & Renewable Energy

**Steven ST CHAN**  
(852) 2268 0645 stevenchan@kimeng.com.hk  
• Banking & Financials - Regional

**Warren LAU**  
(852) 2268 0644  
warrenlau@kimeng.com.hk  
• Technology - Regional

### INDIA

**Jigar SHAH Head of Research**  
(91) 22 6632 2632  
jigar@maybank-ke.co.in  
• Oil & Gas • Automobile • Cement

**Anubhav GUPTA**  
(91) 22 6623 2605  
anubhav@maybank-ke.co.in  
• Metal & Mining • Capital Goods • Property

**Urmil SHAH**  
(91) 22 6623 2606 urmil@maybank-ke.co.in  
• Technology • Media

**Vishal MODI**  
(91) 22 6623 2607 vishal@maybank-ke.co.in  
• Banking & Financials

### SINGAPORE

**NG Wee Siang Head of Research**  
(65) 6231 5838 ngweesiang@maybank-ke.com.sg  
• Banking & Finance

**Gregory YAP**  
(65) 6231 5848 gyap@maybank-ke.com.sg  
• SMID Caps - Regional  
• Technology & Manufacturing • Telcos

**YEAK Chee Keong, CFA**  
(65) 6231 5842  
yeakcheekeong@maybank-ke.com.sg  
• Offshore & Marine

**Derrick HENG**  
(65) 6231 5843 derrickheng@maybank-ke.com.sg  
• Transport (Land, Shipping & Aviation)

**WEI Bin**  
(65) 6231 5844 weibin@maybank-ke.com.sg  
• Commodity • Logistics • S-chips

**John CHEONG**  
(65) 6231 5845 johncheong@maybank-ke.com.sg  
• Small & Mid Caps • Healthcare

**TRUONG Thanh Hang**  
(65) 6231 5847 hang.truong@maybank-ke.com.sg  
• Small & Mid Caps

### INDONESIA

**Wilianto IE Head of Research**  
(62) 21 2557 1125  
wilianto.ie@maybank-ke.co.id  
• Strategy

**Rahmi MARINA**  
(62) 21 2557 1128  
rahmi.marina@maybank-ke.co.id  
• Banking & Finance

**Aurellia SETIABUDI**  
(62) 21 2953 0785  
aurellia.setiabudi@maybank-ke.co.id  
• Property

**Isnapura ISKANDAR**  
(62) 21 2557 1129  
isnaputra.iskandar@maybank-ke.co.id  
• Metals & Mining • Cement

**Pandu ANUGRAH**  
(62) 21 2557 1137  
pandu.anugrah@maybank-ke.co.id  
• Infrastructure • Construction • Transport

**Janni ASMAN**  
(62) 21 2953 0784  
janni.asman@maybank-ke.co.id  
• Cigarette • Healthcare • Retail

### PHILIPPINES

**Luz LORENZO Head of Research**  
(63) 2 849 8836  
luz\_lorenzo@maybank-atrke.com  
• Strategy  
• Utilities • Conglomerates • Telcos

**Lovell SARREAL**  
(63) 2 849 8841  
lovel\_sarreal@maybank-atrke.com  
• Consumer • Media • Cement

**Rommel RODRIGO**  
(63) 2 849 8839  
rommel\_rodrigo@maybank-atrke.com  
• Conglomerates • Property • Gaming  
• Ports/ Logistics

**Katherine TAN**  
(63) 2 849 8843  
kat\_tan@maybank-atrke.com  
• Banks • Construction

**Ramon ADVIENTO**  
(63) 2 849 8845  
ramon\_adviento@maybank-atrke.com  
• Mining

### THAILAND

**Maria LAPIZ Head of Institutional Research**  
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399  
Maria.L@maybank-ke.co.th  
• Consumer / Materials

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 6300 ext 1394  
Jesada.T@maybank-ke.co.th  
• Financial Services

**Kittisorn PRUITIPAT, CFA, FRM**  
(66) 2658 6300 ext 1395  
Kittisorn.P@maybank-ke.co.th  
• Real Estate

**Sittichai DUANGRATTANACHAYA**  
(66) 2658 6300 ext 1393  
Sittichai.D@maybank-ke.co.th  
• Services Sector

**Sukit UDOMSIRIKUL Head of Retail Research**  
(66) 2658 6300 ext 5090  
Sukit.u@maybank-ke.co.th

**Mayuree CHOWVIKARN**  
(66) 2658 6300 ext 1440  
mayuree.c@maybank-ke.co.th  
• Strategy

**Padon VANNARAT**  
(66) 2658 6300 ext 1450  
Padon.v@maybank-ke.co.th  
• Strategy

**Surachai PRAMUALCHAROENKIT**  
(66) 2658 6300 ext 1470  
Surachai.p@maybank-ke.co.th  
• Auto • Conmat • Contractor • Steel

**Suttatip PEERASUB**  
(66) 2658 6300 ext 1430  
suttatip.p@maybank-ke.co.th  
• Media • Commerce

**Sutthichai KUMWORACHAI**  
(66) 2658 6300 ext 1400  
sutthichai.k@maybank-ke.co.th  
• Energy • Petrochem

**Termporn TANTIVIVAT**  
(66) 2658 6300 ext 1520  
termporn.t@maybank-ke.co.th  
• Property

**Jaroonpan WATTANAWONG**  
(66) 2658 6300 ext 1404  
jaroonpan.w@maybank-ke.co.th  
• Transportation • Small cap

**Chatchai JINDARAT**  
(66) 2658 6300 ext 1401  
chatchai.j@maybank-ke.co.th  
• Electronics

### VIETNAM

**LE Hong Lien, ACCA**  
Head of Institutional Research  
(84) 8 44 555 888 x 8181  
lien.le@maybank-kimeng.com.vn  
• Strategy • Consumer • Diversified • Utilities

**THAI Quang Trung, CFA, Deputy Manager,**  
Institutional Research  
(84) 8 44 555 888 x 8180  
trung.thai@maybank-kimeng.com.vn  
• Real Estate • Construction • Materials

**Le Nguyen Nhat Chuyen**  
(84) 8 44 555 888 x 8082  
chuyen.le@maybank-kimeng.com.vn  
• Oil & Gas

**NGUYEN Thi Ngan Tuyen, Head of Retail Research**  
(84) 8 44 555 888 x 8081  
tuyen.nguyen@maybank-kimeng.com.vn  
• Food & Beverage • Oil&Gas • Banking

**TRINH Thi Ngoc Diep**  
(84) 4 44 555 888 x 8208  
diep.trinh@maybank-kimeng.com.vn  
• Technology • Utilities • Construction

**TRUONG Quang Binh**  
(84) 4 44 555 888 x 8087  
binh.truong@maybank-kimeng.com.vn  
• Rubber plantation • Tyres and Tubes • Oil&Gas

**PHAM Nhat Bich**  
(84) 8 44 555 888 x 8083  
bich.pham@maybank-kimeng.com.vn  
• Consumer • Manufacturing • Fishery

**NGUYEN Thi Sony Tra Mi**  
(84) 8 44 555 888 x 8084  
mi.nguyen@maybank-kimeng.com.vn  
• Port operation • Pharmaceutical  
• Food & Beverage

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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

### Philippines

Maybank ATR Kim Eng Securities Inc.  
17/F, Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 849 8888  
Fax: (63) 2 848 5738

### South Asia Sales Trading

Kevin Foy  
Regional Head Sales Trading  
kevinfoy@maybank-ke.com.sg  
Tel: (65) 6336-5157  
US Toll Free: 1-866-406-7447

#### Malaysia

Rommel Jacob  
rommeljacob@maybank-ib.com  
Tel: (603) 2717 5152

#### Indonesia

Hariato Liong  
hariato.liong@maybank-ke.co.id  
Tel: (62) 21 2557 1177

#### New York

Andrew Dacey  
adacey@maybank-keusa.com  
Tel: (212) 688 2956

#### Vietnam

Tien Nguyen  
thuytien.nguyen@maybank-kimeng.com.vn  
Tel: (84) 44 555 888 x8079

### Singapore

Maybank Kim Eng Securities Pte Ltd  
Maybank Kim Eng Research Pte Ltd  
50 North Canal Road  
Singapore 059304

Tel: (65) 6336 9090

### Hong Kong

Kim Eng Securities (HK) Ltd  
Level 30,  
Three Pacific Place,  
1 Queen's Road East,  
Hong Kong

Tel: (852) 2268 0800  
Fax: (852) 2877 0104

### Thailand

Maybank Kim Eng Securities  
(Thailand) Public Company Limited  
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)

### North Asia Sales Trading

Alex Tsun  
alextsun@kimeng.com.hk  
Tel: (852) 2268 0228  
US Toll Free: 1 877 837 7635

#### Thailand

Tanasak Krishnasreni  
Tanasak.K@maybank-ke.co.th  
Tel: (66)2 658 6820

#### London

Simon Lovekin  
simonl@maybank-ke.co.uk  
Tel: (44)-207-626-2828

#### India

Manish Modi  
manish@maybank-ke.co.in  
Tel: (91)-22-6623-2601

#### Philippines

Keith Roy  
keith\_roy@maybank-atrke.com  
Tel: (63) 2 848-5288

### London

Maybank Kim Eng Securities  
(London) Ltd  
5<sup>th</sup> Floor, Aldermay House  
10-15 Queen Street  
London EC4N 1TX, UK

Tel: (44) 20 7332 0221  
Fax: (44) 20 7332 0302

### Indonesia

PT Maybank Kim Eng Securities  
Plaza Bapindo  
Citibank Tower 17<sup>th</sup> Floor  
Jl Jend. Sudirman Kav. 54-55  
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188  
Fax: (62) 21 2557 1189

### Vietnam

Maybank Kim Eng 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

### New York

Maybank Kim Eng Securities USA  
Inc  
777 Third Avenue, 21st Floor  
New York, NY 10017, U.S.A.

Tel: (212) 688 8886  
Fax: (212) 688 3500

### India

Kim Eng Securities India Pvt Ltd  
2nd Floor, The International 16,  
Maharishi Karve Road,  
Churchgate Station,  
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600  
Fax: (91) 22 6623 2604

### Saudi Arabia

*In association with*  
**Anfaal Capital**  
Villa 47, Tujjar Jeddah  
Prince Mohammed bin Abdulaziz  
Street P.O. Box 126575  
Jeddah 21352

Tel: (966) 2 6068686  
Fax: (966) 26068787