

Sunway (SWB MK)

Diversification bearing fruits

Results in line but sales above

Sunway's 1H18 core net profit of MYR262m was within our expectation. 1H18 locked-in effective property sales of MYR800m were however above expectations. At construction, SCG is on track to meet its 2018 job win target of MYR1.5b-2b. We adjust our earnings forecasts by -3% to -5%. Our RNAV-TP is unchanged at MYR1.85 (0.7x P/RNAV). Maintain BUY.

Earnings on track

Excluding MYR59m fair value gain from the revaluation of SunREIT's (SREIT MK; BUY; MYR1.85 TP) properties, Sunway reported a core net profit of MYR140m (+0.7% YoY, +15% QoQ) which lifted 1H18 core net profit to MYR262m (+6.5% YoY), accounting for 45%/43% of our (in-line) and consensus (below) full-year estimates. Earnings are seasonally stronger in the 2H. It declared a first interim DPS of 3.5 sen (+17% YoY).

Property sales beat expectations

In 1H18, Sunway has locked in MYR800m in effective property sales, meeting 80% of its 2018 target of MYR1b, thanks to the strong sales achieved in *Rivercove Residences* (RR). Unbilled property sales stood at MYR1.4b end-Jun 2018. There are signs of demand improvement in its Malaysian projects post-GE14. *Sunway Geo Lake Residences* and *Citrine Lakehomes* have received good take up/bookings of 60% and 70% respectively. Elsewhere, 54%-owned SCG's (SCGB MK; HOLD; MYR2.30 TP) YTD job wins of MYR854m are on track to meet its MYR1.5b-2b target for 2018. YTD wins have lifted its outstanding orderbook to MYR5.8b.

Maintain BUY

We adjust our FY18/19/20 earnings forecasts by -5%/-3%/-5% to factor in a higher property sales assumption of MYR1.2b for 2018 (+15%) but zero-earnings recognition for RR due to the change in accounting policy under MFRS15. Our RNAV/share estimate is largely intact at MYR2.65. We see earnings risk at construction, from the KVLRT 3 project on potentially a lower contract value and longer construction period. Every 10% reduction in contract value could result in 1-2% earnings downgrade for Sunway.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,656	5,375	6,357	6,837	7,597
EBITDA	0	0	885	988	1,076
Core net profit	547	566	547	621	666
Core FDEPS (sen)	11.9	11.7	11.3	12.9	13.8
Core FDEPS growth(%)	(12.1)	(1.5)	(3.3)	13.4	7.2
Net DPS (sen)	5.4	6.0	5.1	5.8	6.2
Core FD P/E (x)	10.8	13.5	13.8	12.1	11.3
P/BV (x)	0.8	1.0	0.9	0.9	0.8
Net dividend yield (%)	4.2	3.8	3.3	3.7	4.0
ROAE (%)	8.4	8.4	6.8	7.5	7.7
ROAA (%)	3.2	2.9	2.8	3.2	3.2
EV/EBITDA (x)	nm	nm	16.2	14.6	13.6
Net gearing (%) (incl perps)	40.5	45.2	70.0	69.2	68.1
Consensus net profit	-	-	603	650	698
MKE vs. Consensus (%)	-	-	(9.2)	(4.5)	(4.6)

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

BUY

Share Price	MYR 1.56
12m Price Target	MYR 1.85 (+19%)
Previous Price Target	MYR 1.85

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

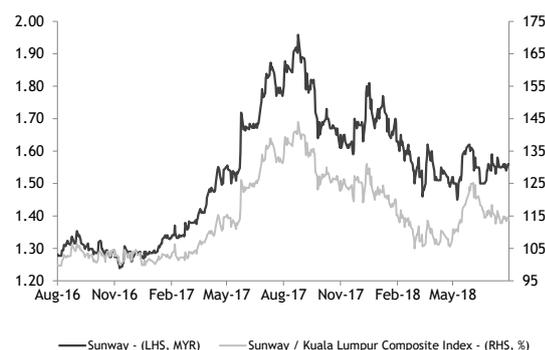
Statistics

52w high/low (MYR)	1.96/1.45
3m avg turnover (USDm)	0.8
Free float (%)	33.4
Issued shares (m)	1,732
Market capitalisation	MYR2.7B
	USD660M

Major shareholders:

Sungei Way Corp. Sdn. Bhd.	49.8%
Permodalan Nasional Bhd.	7.2%
Employees Provident Fund	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	3	(13)
Relative to index (%)	(2)	5	(14)

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	2Q18	2Q17	%YoY	1Q18	%QoQ	1H18	1H17	%YoY
Revenue	1,287.1	1,240.5	3.8	1,308.4	(1.6)	2,595.5	2,329.3	11.4
- Property dev	88.7	273.7	(67.6)	132.3	(33.0)	221.0	414.4	(46.7)
- Property inv	216.7	207.4	4.5	220.0	(1.5)	436.7	394.3	10.8
- Construction	449.7	310.9	44.6	443.7	1.3	893.4	627.7	42.3
- Trading	286.4	226.0	26.7	278.3	2.9	564.7	471.2	19.8
- Quarry	57.9	58.7	(1.4)	50.0	15.8	107.9	98.9	9.1
- Others	0.8	(0.2)	>+100	0.8	8.6	1.6	1.6	(1.7)
EBIT	166.0	192.8	(13.9)	130.0	27.7	296.0	308.0	(3.9)
- Property dev	44.0	63.2	(30.3)	17.6	>+100	61.6	73.7	(16.4)
- Property inv	54.1	41.1	31.7	59.3	(8.7)	113.4	87.1	30.2
- Construction	46.2	37.3	23.8	38.8	19.0	85.0	75.5	12.6
- Trading	16.4	13.9	17.8	14.0	17.6	30.4	26.5	14.8
- Quarry	3.6	4.2	(14.6)	2.2	60.1	5.8	5.1	14.2
- Others	(20.0)	1.0	>-100	(16.7)	19.6	(36.7)	(2.5)	>+100
Finance costs	(12.8)	(18.7)	(31.7)	(7.6)	67.7	(20.4)	(25.5)	(19.8)
Other income	89.0	96.1	(7.4)	38.5	>+100	127.5	139.2	(8.4)
Pretax profit	242.2	270.2	(10.3)	160.9	50.6	403.1	421.8	(4.4)
Pretax profit-EI	183.0	213.4	(14.2)	160.9	13.8	343.9	365.0	(5.8)
Taxation	(26.5)	(38.1)	(30.6)	(23.4)	13.0	(49.9)	(65.4)	(23.7)
Minority interest	(16.3)	(36.0)	(54.6)	(15.6)	4.9	(31.9)	(53.5)	(40.3)
Net profit	199.4	196.1	1.7	121.9	63.6	321.4	302.9	6.1
Net profit ex-EI	140.2	139.3	0.7	121.9	15.0	262.2	246.1	6.5
Exceptional item (pretax)	59.2	56.8	4.2	0.0	NA	59.2	56.8	4.2
	2Q18	2Q17	+/- ppt	1Q18	+/- ppt	1H18	1H17	+/- ppt
EBIT margin (%)	12.9	15.0	(2.1)	9.9	3.0	11.4	13.2	(1.8)
- Property dev	49.6	23.1	26.5	13.3	36.3	27.9	17.8	10.1
- Property inv	25.0	19.8	5.2	26.9	(2.0)	26.0	22.1	3.9
- Construction	10.3	12.0	(1.7)	8.8	1.5	9.5	12.0	(2.5)
- Trading	5.7	6.2	(0.4)	5.0	0.7	5.4	5.6	(0.2)
- Quarry	6.1	7.1	(1.0)	4.4	1.7	5.4	5.1	0.2
- Others	11.6	15.1	(3.5)	8.1	3.5	9.8	14.0	(4.1)
Tax rate (%)	14.5	17.9	(3.4)	14.5	(0.1)	14.5	17.9	(3.4)

Source: Company

Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	346.8	128.0	153.2
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	56.6	28.3	28.3
Sunway JB, Bukit Lenang	80%	64.8	50.8	134.5	(67.0)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	705.1	596.6	65.1
Sub-total:					301.8

2. Active developments - WACC: 10.5-13.1%

	Stake			(MYR m)
South Quay	80%			247.2
Sunway Cheras	100%			1.7
Sunway Damansara	60%			15.3
Sunway Kayangan	100%			0.0
Sunway Duta	60%			4.5
Bangi	100%			5.8
Sunway Melawati	100%			7.6
Casa Kiara III	80%			12.6
Sunway Alam Suria	50%			0.4
Sunway Velocity	85%			123.1
Penang projects	100%			40.5
Wonderland Business Park, Australia	31%			3.5
Singapore Yi Shun	30%			2.5
Singapore Sembawang	100%			4.1
Thomson/Irrawady	30%			45.1
Mount Sophia	30%			36.5
Sunway Iskandar -leasehold (Medini)	51%			309.6
Kelana Jaya	100%			101.2
Industrial projects at Kelana Jaya and Subang	100%			26.8
Sunway Velocity extension	50%			58.3
Belfield	100%			82.6
Kajang	100%			27.2
Subang	100%			41.9
Wangsamaju	100%			42.5
Sub-total:				1,240.7

3. Investment properties - MV

	Stake	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Velocity Mall	59%	1,600	1,172	252.3
Sunway University Campus	100%	481	481	0.0
Sunway Pinnacle	100%	351	351	0.0
Monash University	100%	303	303	0.0
Sunway Giza	60%	60	60	0.0
Sub-total:				252.3

4. Other businesses or assets

37.3% stake in SunREIT on Maybank IB's MYR1.85 TP	571.2
54.4% stake in SCG based on Maybank IB's MYR2.30 TP	1,467.8
Healthcare (20x 2018 PER)	720.0
Building material (10x 2018 PER)	386.7
Trading (10x 2018 PER)	575.5

Grand total:

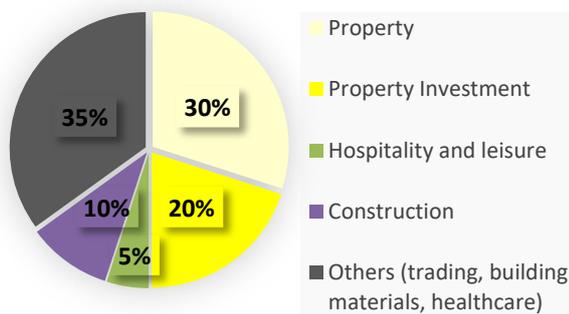
Shareholders fund (MYR m) - Dec 2017	7,839.9
Proceeds from warrants (MYR1.86 exercise price; expired in Oct 2024)	1,171.7
RNAV (MYR m)	14,527.7
Number of shares (m)	4,852.5
Number of warrants (m)	630.0
FD RNAV/share (MYR)	2.65
Target price (MYR) - based on 0.70x RNAV	1.85

Source: Maybank KE

Value Proposition

- A conglomerate with businesses in other sectors comprising property investment, construction, building materials, leisure and healthcare.
- Property development landbank is located throughout Malaysia. Sunway also has property projects in Singapore (in partnership with Hoi Hup), India and China.
- Sunway also owns a 37% stake in SunREIT (SREIT MK, BUY, TP: MYR1.85) and 54% in SCG (SCGB MK, HOLD, TP: MYR2.30). Sunway intends to grow its healthcare business and list the healthcare unit by 2022.
- Slower property development contribution to earnings would be partially cushioned by steady dividend income from SunREIT and earnings from SCG.

PATAMI (FY17) breakdown by businesses

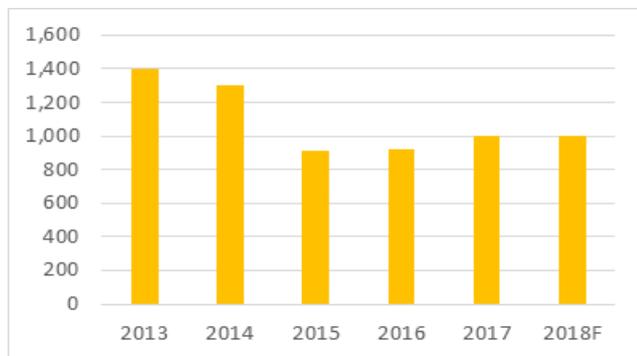


Source: Company

Financial Metrics

- We expect -3% core earnings growth in FY18 due to the change in earnings recognition for Rivercove Residences project but earnings should pick up in 2019 and 2010 supported by its construction and REIT businesses, improving property sales and MYR1.4b in unbilled sales (property) as at Jun 2018.
- Sunway targets to achieve MYR1b effective property sales in 2018 (flat YoY).

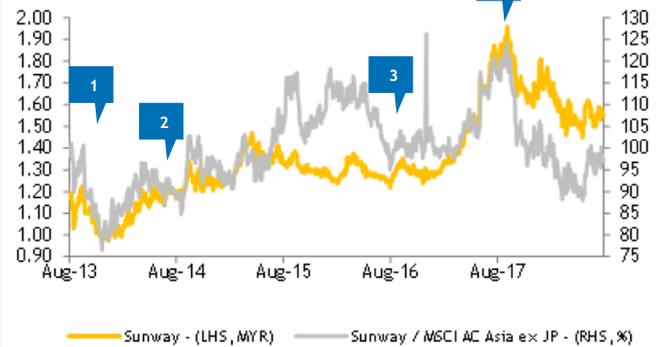
Sunway's sales trend (MYRm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Share prices of property developers with exposure in Iskandar Malaysia gained traction especially after record high land selling prices to mainland Chinese developers. Sunway is one of the largest land owners in Iskandar Malaysia.
2. Property stocks were hit by stricter property measures announced during Budget 2014.
3. Property demand slowed, while concerns over the supply glut in Iskandar Malaysia surfaced.
4. Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.

Swing Factors

Upside

- Earlier-than-expected listing of its healthcare unit.
- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Earnings risks at its construction business on the cost-down of KVLRT 3 project.
- Country/currency risks as Sunway has property projects in Singapore and China.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	10.0	11.9	13.7	12.1	11.3
Core P/E (x)	10.7	13.5	13.7	12.1	11.3
Core FD P/E (x)	10.8	13.5	13.8	12.1	11.3
P/BV (x)	0.8	1.0	0.9	0.9	0.8
P/NTA (x)	0.7	0.9	0.9	0.9	0.8
Net dividend yield (%)	4.2	3.8	3.3	3.7	4.0
FCF yield (%)	1.9	nm	nm	1.1	1.7
EV/EBITDA (x)	nm	nm	16.2	14.6	13.6
EV/EBIT (x)	13.9	17.9	17.0	15.4	14.3
INCOME STATEMENT (MYR m)					
Revenue	4,655.6	5,375.4	6,356.8	6,837.1	7,597.5
Gross profit	0.0	0.0	884.7	988.4	1,076.0
EBITDA	0.0	0.0	884.7	988.4	1,076.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	715.1	686.6	841.8	941.3	1,024.4
Net interest income / (exp)	(48.0)	(22.6)	(185.2)	(188.5)	(199.0)
Associates & JV	191.9	218.1	186.6	203.3	197.7
Exceptionals	55.4	71.7	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	859.0	882.2	843.1	956.2	1,023.2
Income tax	(140.4)	(149.4)	(202.4)	(229.5)	(245.6)
Minorities	(132.7)	(93.3)	(93.4)	(105.8)	(112.1)
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	585.9	639.5	547.4	620.8	665.5
Core net profit	547.4	566.3	547.4	620.8	665.5
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	4,080.1	4,426.6	2,094.3	1,932.8	2,783.1
Accounts receivable	1,891.5	2,220.8	2,220.8	2,220.8	2,220.8
Inventory	670.0	681.3	805.7	866.6	963.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,879.9	2,050.5	1,554.2	1,700.8	1,851.9
Intangible assets	344.7	311.8	311.8	311.8	311.8
Investment in Associates & JVs	3,229.9	3,709.7	3,526.5	3,526.5	3,526.5
Other assets	6,655.9	6,806.9	8,909.9	9,347.9	9,842.0
Total assets	18,752.0	20,207.7	19,423.3	19,907.3	21,499.1
ST interest bearing debt	4,860.0	4,911.0	4,910.5	4,910.5	4,910.5
Accounts payable	2,438.2	2,906.8	1,887.3	2,029.9	2,255.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,556.8	3,348.3	3,348.6	3,348.6	4,348.6
Other liabilities	664.0	554.0	476.0	476.0	476.0
Total Liabilities	10,518.7	11,720.3	10,622.6	10,765.1	11,990.9
Shareholders Equity	7,469.7	7,844.1	8,157.4	8,498.8	8,864.9
Minority Interest	763.5	643.3	643.3	643.3	643.3
Total shareholder equity	8,233.2	8,487.5	8,800.7	9,142.2	9,508.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	18,752.0	20,207.7	19,423.3	19,907.3	21,499.1
CASH FLOW (MYR m)					
Pretax profit	859.0	882.2	843.1	956.2	1,023.2
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	282.1	148.7	(185.2)	(188.5)	(199.0)
Change in working capital	(251.2)	(235.6)	0.0	0.0	0.0
Cash taxes paid	(108.7)	(175.0)	(202.4)	(229.5)	(245.6)
Other operating cash flow	(250.3)	20.5	0.0	0.0	0.0
Cash flow from operations	668.1	779.9	497.9	584.8	629.7
Capex	(556.2)	(1,033.9)	(500.0)	(500.0)	(500.0)
Free cash flow	111.8	(254.0)	(2.1)	84.8	129.7
Dividends paid	(260.8)	(276.3)	(294.6)	(246.3)	(279.4)
Equity raised / (purchased)	538.1	112.5	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,427.4	1,240.5	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1,246.8)	(389.8)	0.0	0.0	0.0
Effect of exch rate changes	6.6	(2.3)	0.0	0.0	0.0
Net cash flow	576.3	430.7	(296.7)	(161.5)	(149.7)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.7	15.5	18.3	7.6	11.1
EBITDA growth	nm	na	nm	11.7	8.9
EBIT growth	4.1	(4.0)	22.6	11.8	8.8
Pretax growth	(7.7)	2.7	(4.4)	13.4	7.0
Reported net profit growth	(20.0)	9.2	(14.4)	13.4	7.2
Core net profit growth	(7.3)	3.5	(3.3)	13.4	7.2
Profitability ratios (%)					
EBITDA margin	0.0	0.0	13.9	14.5	14.2
EBIT margin	15.4	12.8	13.2	13.8	13.5
Pretax profit margin	18.5	16.4	13.3	14.0	13.5
Payout ratio	42.0	45.2	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	12.6	11.9	8.6	9.1	8.8
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.4
Assets/Equity (x)	2.5	2.6	2.4	2.3	2.4
ROAE (%)	8.4	8.4	6.8	7.5	7.7
ROAA (%)	3.2	2.9	2.8	3.2	3.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.8	1.8	1.8
Net gearing (%) (incl perps)	40.5	45.2	70.0	69.2	68.1
Net gearing (%) (excl. perps)	40.5	45.2	70.0	69.2	68.1
Net interest cover (x)	14.9	30.4	4.5	5.0	5.1
Debt/EBITDA (x)	nm	nm	9.3	8.4	8.6
Capex/revenue (%)	11.9	19.2	7.9	7.3	6.6
Net debt/ (net cash)	3,336.8	3,832.8	6,164.8	6,326.3	6,475.9

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

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) 6231 5839
ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849
sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | China
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore
(65) 6231 5844
leejuye@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh.l@maybank-ib.com

FX

Saktiandi SUPAAT
Head, FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

Leslie TANG
(65) 6320 1378
leslietang@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631
williechan@kimeng.com.hk

FIXED INCOME

Winson Phoon, ACA
(65) 6231 5831
winsonphoon@maybank-ke.com.sg

Se Tho Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

MALAYSIA

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

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

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services - Regional

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

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

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

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

Adrian WONG
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Healthcare

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Media • Building Materials

Mohd Hafiz Hassan
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Small & Mid Caps

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan Raja Abdullah, MSTA, Cfte
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy • Industrials
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Property • REITs (Office)

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

LAI Gene Lih
(65) 6231 5832 laigenetih@maybank-ke.com.sg
• Technology

HONG KONG / CHINA

Mitchell KIM *Head of Research*
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Christopher WONG
(852) 2268 0652
christopherwong@kimeng.com.hk
• HK & China Properties

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

Ricky NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Regional Renewables
• HK & China Properties

Stefan CHANG, CFA
(852) 2268 0675 stefanchang@kimeng.com.hk
• Technology - Regional

Tony REN, CFA
(852) 2268 0640 tonyren@kimeng.com.hk
• Healthcare & Pharmaceutical

Wendy LI
(852) 2268 0647 wendyli@kimeng.com.hk
• Consumer & Auto

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

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

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 6623 2605 vishalperiwa@maybank-ke.co.in
• Infrastructure

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN
(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Minda OLONAN *Head of Research*
(63) 2 849 8840
minda_olonan@maybank-atrke.com
• Strategy

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Conglomerates • Ports

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

Romel LIBO-ON
(63) 2 849 8844
romel_libo-on@maybank-atrke.com
• Property

Kayzer Llanda
(63) 2 849 8838
Kayzer_Llanda@maybank-atrke.com
• Utilities

THAILAND

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

Amornrat CHEEVAVICHAWALKUL
(66) 2658 6300 ext 1393
Amornrat.C@maybank-ke.co.th
• Oil & Gas

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1394
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Ornmongkol TANTITANATORN
(66) 2658 6300 ext 1395
ormmongkol.t@maybank-ke.co.th
• Power & Utilities • Infrastructure

Surachai PRAMUALCHAROENKIT
Head of Retail Research
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Ekachai TARAPORNITIP *Deputy Head*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Suthichai KUMWORACHAI *Deputy Head*
(66) 2658 5000 ext 1400
suthichai.k@maybank-ke.co.th
• Energy • Petrochem

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Termporn TANTIVIVAT
(66) 2658 5000 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroontan WATTANAWONG
(66) 2658 5000 ext 1404
jaroontan.w@maybank-ke.co.th
• Transportation • Small cap

Sorabhol VIRAMETEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorabhol.v@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84 28) 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,
Deputy Head, Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84 28) 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen,
Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRUONG Quang Binh,
Deputy Head, Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep
(84 28) 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

NGUYEN Thi Sony Tra Mi
(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam
(84 28) 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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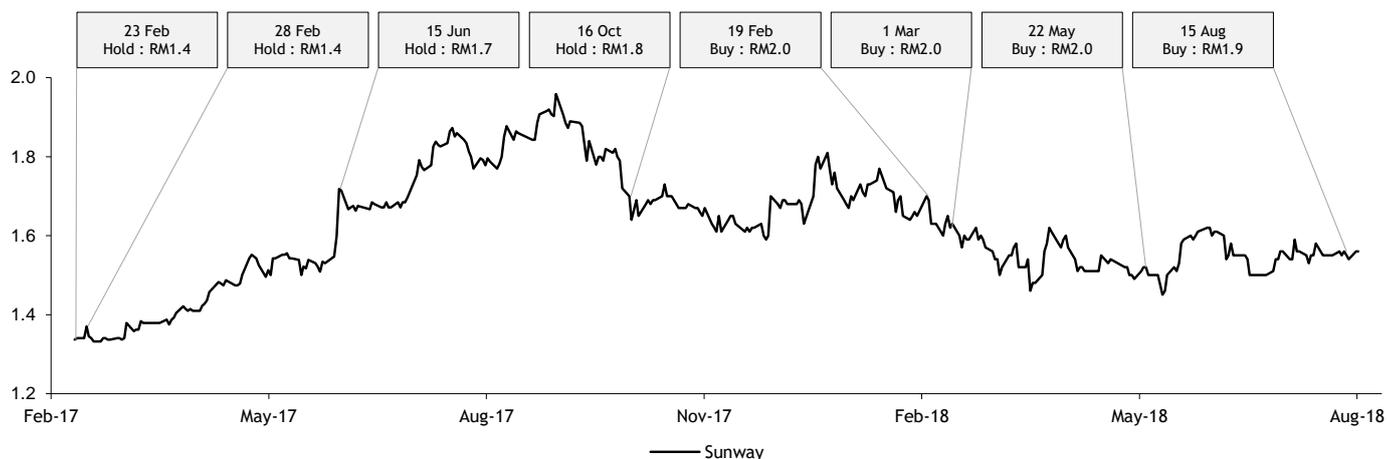
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 **Malaysia**

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

 **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) 6636-3620
US Toll Free: 1-866-406-7447

Malaysia

Joann Lim
joann.lim@maybank-ib.com
Tel: (603) 2717 5166

Indonesia

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

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Vietnam

Patrick Mitchell
patrick.mitchell@maybank-kimeng.com.vn
Tel: (84)-8-44-555-888 x8080

 **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
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
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,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

 **North Asia Sales Trading**

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand

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

London

Mark Howe
mhowe@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629

Philippines

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

 **London**

Maybank Kim Eng 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 Kim Eng Securities
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

 **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
400 Park Avenue, 11th Floor
New York, New York 10022,
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