

Sunway (SWB MK)

Dragged by lockdown

Profit fell short but sales above expectations

Sunway's 2Q21 net profit of MYR70.5m (+19x YoY) was below expectations but 6MFY21 property sales of MYR1.6b were above. Sunway has raised its FY21 sales target by +38% to MYR2.2b. We adjust our net profit forecasts by -32% to +7% to factor in the disruptions arose from the lockdown as well as a higher FY21 sales target. We raise our TP to MYR1.73 (+4sen; on 0.8x FY22 PBV) after we roll over our base year for valuation. D/G to SELL. Our preferred picks for the sector: ECW, SPSB.

Dragged by lockdown

Sunway's 2Q21 net profit was MYR70.5m (+19x YoY, +21% QoQ), lifting 6MFY21 net earnings to MYR129m (+1.2x YoY), at 28%/37% of our/consensus estimates - below expectations. We reckon that the earnings gap was due to limited operating capacity at project/factory's sites on stricter SOPs during the National Recovery plan phase 1 (NRP1)/EMCO that led to slower progress billing and sales. Net gearing was 0.57x in end 2Q21, from 0.53x in end 1Q21.

Raises FY21 sales target by +38%

Sunway has locked-in MYR1.64b in property sales in 6M21, exceeding its initial sales target of MYR1.6b. Given the strong responses on its new launches in both KL and Singapore, Sunway has raised its FY21 sales target by +38% to MYR2.2b (effective: MYR1.9b). Effective unbilled sales were MYR3.1b as at end-June 2021 (2.6x FY22F property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; MYR1.66 TP) has secured MYR158m worth of jobs in 2Q21 (1Q21: MYR462m), increasing its outstanding orderbook to MYR4.8b as at end-June 2021.

Earnings adjustments

We adjust our FY21/22/23 net profit forecasts for Sunway by -32%/-0.2%/+7% to factor in: 1) the imposition of NRP1 and EMCO in early July 21 and 2) higher effective sales assumption of MYR1.9b (+19%) for FY21. Our RNAV/sh is however lowered to MYR2.41 (-5sen) after taking into account the change in TP for SCG (-6sen).

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,780	3,833	4,411	6,602	7,331
EBITDA	570	251	465	824	980
Core net profit	635	395	314	561	685
Core EPS (sen)	13.0	8.0	6.3	11.3	13.8
Core EPS growth (%)	13.9	(38.9)	(20.5)	78.4	22.1
Net DPS (sen)	9.1	1.5	1.9	3.4	4.1
Core P/E (x)	13.8	20.2	28.4	15.9	13.0
P/BV (x)	1.0	0.8	0.9	0.9	0.9
Net dividend yield (%)	5.1	0.9	1.1	1.9	2.3
ROAE (%)	8.7	4.0	3.3	5.7	6.7
ROAA (%)	2.9	1.9	1.5	2.5	2.9
EV/EBITDA (x)	27.3	56.0	31.5	16.7	14.8
Net gearing (%) (incl perps)	60.9	51.0	46.6	37.2	42.7
Consensus net profit	-	-	353	478	568
MKE vs. Consensus (%)	-	-	(10.9)	17.4	20.7

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

SELL

[Prior:HOLD]

Share Price MYR 1.80
 12m Price Target MYR 1.73 (-4%)
 Previous Price Target MYR 1.69

Company Description

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

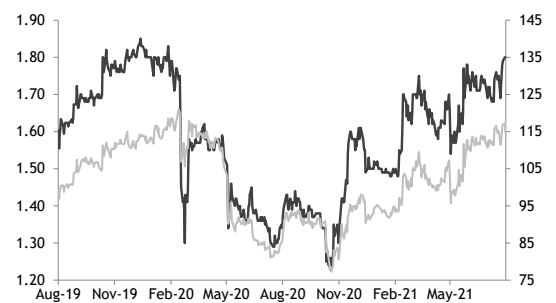
Statistics

52w high/low (MYR)	1.80/1.23
3m avg turnover (USDm)	1.4
Free float (%)	26.7
Issued shares (m)	4,934
Market capitalisation	MYR8.9B
	USD2.1B

Major shareholders:

Active Equity Sdn. Bhd.	60.1%
Employees Provident Fund	8.5%
AIA Bhd.	2.7%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	5	6	33
Relative to index (%)	5	9	37

Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	2Q21	2Q20	%YoY	1Q21	%QoQ	6M21	6M20	%YoY
Revenue	967.9	556.6	73.9	1,016.7	-4.8	1,984.7	1,528.1	29.9
- Property dev	147.4	68.1	>+100	97.2	51.7	244.5	207.3	17.9
- Property inv	62.3	55.5	12.3	58.7	6.2	121.0	189.8	-36.3
- Construction	218.1	92.6	>+100	321.4	-32.2	539.4	310.6	73.7
- Trading	198.9	141.1	40.9	224.5	-11.4	423.4	335.3	26.3
- Quarry	70.5	31.9	>+100	77.2	-8.8	147.7	106.0	39.3
- Healthcare	200.6	125.1	60.3	170.6	17.6	371.2	274.3	35.3
- Others	70.2	42.3	65.9	67.1	4.5	137.3	104.7	31.2
PBIT	36.5	8.7	>+100	49.1	-25.6	85.5	76.2	12.2
Finance costs	19.9	-9.8	>+100	14.5	37.4	34.4	-21.5	>+100
Other income	22.6	0.2	>+100	23.6	-4.4	46.2	37.8	22.3
Pretax profit	79.0	-0.9	>+100	87.2	-9.4	166.2	92.6	79.5
- Property dev	22.9	20.0	14.2	20.7	10.6	43.6	52.8	-17.6
- Property inv	-16.0	-37.8	57.7	-16.9	-5.0	-32.9	-8.7	>-100
- Construction	8.6	6.6	31.5	27.7	-68.8	36.3	29.1	24.6
- Trading	10.0	6.0	64.7	12.2	-18.6	22.2	6.3	>+100
- Quarry	-0.5	-1.5	62.7	3.1	>-100	2.5	1.5	68.7
- Healthcare	27.5	-16.0	>+100	14.0	96.5	41.5	-20.5	>+100
- Others	26.6	21.8	22.1	26.4	0.8	53.0	32.0	65.8
Pretax profit ex-EI	79.0	15.6	>+100	87.2	-9.4	87.2	109.1	-20.1
Taxation	-7.9	-14.5	-45.9	-16.8	53.2	-24.7	-32.2	23.4
Minority interest*	-0.6	-4.9	-87.9	-11.9	95.0	-12.5	-18.4	31.8
Net profit	70.5	-20.4	>+100	58.5	20.7	129.0	42.0	>+100
Net profit ex-EI	70.5	-3.9	>+100	58.5	20.7	129.0	58.5	>+100
Exceptional item (pretax)	0.0	16.5	n.a.	0.0	n.a.	0.0	16.5	n.a.
	2Q21	2Q20	+/- ppt	1Q21	+/- ppt	6M21	6M20	+/- ppt
Pretax margin (%)	8.2	-0.2	8.3	8.6	-0.4	8.4	7.1	1.2
- Property dev	15.5	29.4	-13.9	21.3	-5.8	17.8	25.5	-7.7
- Property inv	-25.7	-68.2	42.5	-28.7	3.0	-27.2	-4.6	-22.6
- Construction	4.0	7.1	-3.1	8.6	-4.7	6.7	9.4	-2.7
- Trading	5.0	4.3	0.7	5.4	-0.4	5.2	1.9	3.4
- Quarry	-0.8	-4.6	3.8	4.0	-4.7	1.7	1.4	0.3
- Healthcare	13.7	-12.8	26.5	8.2	5.5	11.2	-7.5	18.6
- Others	37.9	51.5	-13.6	39.3	-1.4	38.6	30.5	8.1
Tax rate (%)	-10.0	-93.3	83.4	-19.3	9.3	-14.8	-29.5	14.7

Source: Company

Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
1. Landbank - MARKET VALUE					
Sunway Semenyih	70%	526.1	572.9	128.0	311.5
Suncity Ipoh	96%	336.4	58.6	58.7	(0.1)
Sunway Integrated Resort	100%	7.7	4.8	8.3	(3.5)
Sunway Tower KL 1	100%	1.9	122.8	28.3	94.5
Sunway JB, Bukit Lenang	80%	49.9	54.3	134.5	(64.1)
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	1175.1	596.6	347.1
Sub-total (1)					794.8
2. Active developments - WACC (10.5-13.1%)					
	Stake				(MYR m)
South Quay	100%				288.9
Sunway Cheras	100%				1.5
Sunway Damansara	60%				2.1
Bangi	100%				2.8
Casa Kiara III	80%				14.7
Sunway Velocity	85%				111.7
Penang projects	100%				22.8
Wonderland Business Park, Australia	31%				1.4
Singapore Sembawang	100%				2.3
Mount Sophia	30%				7.7
Sunway Iskandar -leasehold (Medini)	51%				273.5
Kelana Jaya	100%				51.4
Industrial projects at Kelana Jaya and Subang	100%				10.9
Sunway Velocity extension	50%				79.6
Belfield	100%				99.6
Kajang	100%				35.6
Subang	100%				62.2
Wangsamaju	55%				21.1
PKNS Kota Damansara	60%				27.5
Sub-total (2):					1,116.8
3. Investment properties - MARKET VALUE					
	Stake		MV	BV	Surplus
			(MYR m)	(MYR m)	(MYR m)
Sunway Velocity Mall	59%		1,600	1,172	252.3
Sub-total (3)					252.3

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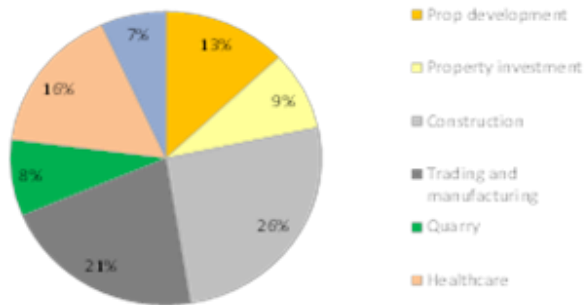
	Surplus (MYR m)
4. Other businesses or assets	
Valuation for SunREIT on Maybank IB's MYR1.30 TP	(33.0)
Valuation for SCG based on Maybank IB's MYR1.66 TP	1,017.6
Healthcare (30x 2021 PER)	1,822.2
Building material (10x 2021 PER)	137.4
Trading (10x 2021 PER)	190.1
Sub-total (4)	3,134.4
Grand total = (1) + (2) + (3) + (4)	5,298.4
Shareholders' funds (MYR m) - Dec 2020	9,534.6
Proceeds from warrants (MYR1.56 exercise price; expiring in Oct 2024)	1,044.4
RNAV (MYR m)	15,877.4
Number of shares (m)	4,934.0
Number of warrants (m)	669.5
ICPS	977.8
FD RNAV/share (MYR)	2.41

Source: Maybank KE

Value Proposition

- A conglomerate with core business in property development and 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 41% stake in SunREIT (SREIT MK, SELL, TP: MYR1.30) and 55% in SCG (SCGB MK, HOLD, TP: MYR1.66).

PBT (FY20) breakdown by businesses

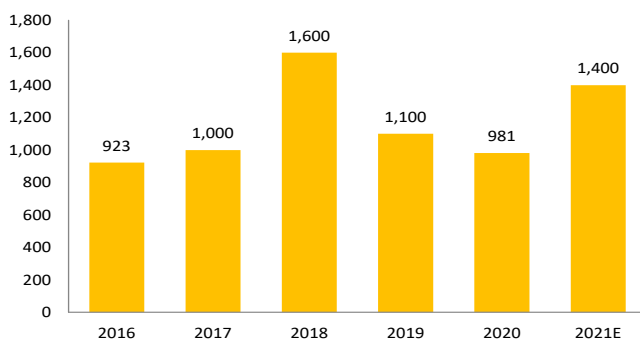


Source: Company

Financial Metrics

- Effective unbilled sales (property) stood at MYR2.8b (or 3.8x our FY21F property revenue) as at end-Mar 21.
- Sunway targets to achieve MYR1.6b in property sales in 2021 (effective sales: MYR1.4b).

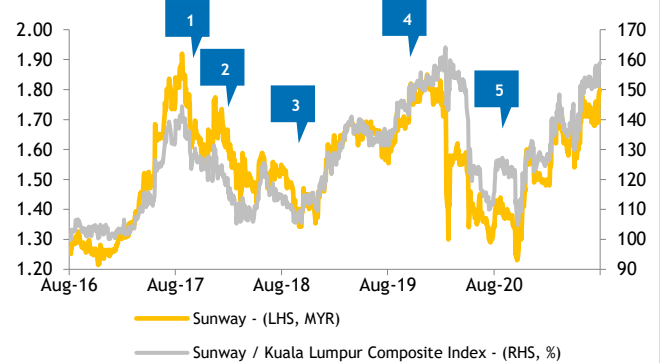
Sunway's effective sales trend (actual and target) (MYRm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. June 2017: Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.
2. 1H18: Weak sentiment on property stocks pre-GE14.
3. 2H18: Weak sentiment on property stocks pre Budget 2019.
4. 2019: Better sentiment on construction stocks (including SCG) after the revival of the ECRL project.
5. 2020: Proposed fund raising via the issuance of ICPS.

Swing Factors

Upside

- Potential stake sale in of healthcare unit (*source: thesundaily.my*).
- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business under SCG.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Country/currency risks as Sunway has property projects in Singapore and China.

weisum@maybank-ib.com

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	11.4	20.7	28.4	15.9	13.0
Core P/E (x)	13.8	20.2	28.4	15.9	13.0
P/BV (x)	1.0	0.8	0.9	0.9	0.9
P/NTA (x)	1.0	0.8	0.9	0.9	0.8
Net dividend yield (%)	5.1	0.9	1.1	1.9	2.3
FCF yield (%)	nm	0.7	5.3	11.3	nm
EV/EBITDA (x)	27.3	56.0	31.5	16.7	14.8
EV/EBIT (x)	27.3	56.0	38.8	18.8	16.5
INCOME STATEMENT (MYR m)					
Revenue	4,780.3	3,833.3	4,411.1	6,601.8	7,331.3
EBITDA	570.1	250.8	464.7	824.1	980.0
Depreciation	0.0	0.0	(87.9)	(93.6)	(99.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	570.1	250.8	376.8	730.5	880.6
Net interest income / (exp)	34.0	28.5	(135.5)	(118.2)	(133.8)
Associates & JV	261.2	230.0	163.0	149.5	150.3
Exceptionals	(79.1)	47.9	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	865.3	509.3	404.3	761.8	897.1
Income tax	(78.4)	(102.0)	(56.6)	(106.7)	(125.6)
Minorities	(77.7)	(47.7)	(33.4)	(94.6)	(86.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	709.2	359.6	314.3	560.6	684.7
Core net profit	635.3	395.4	314.3	560.6	684.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,554.7	2,237.3	2,608.5	3,470.8	2,693.5
Accounts receivable	3,014.9	2,440.6	2,808.5	4,203.2	4,667.7
Inventory	2,102.1	2,101.5	2,418.2	3,619.2	4,019.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,749.0	2,611.4	3,119.5	3,313.0	3,512.4
Intangible assets	331.6	350.8	350.8	350.8	350.8
Investment in Associates & JVs	4,085.1	4,346.2	5,323.3	3,416.9	4,025.9
Other assets	6,657.1	7,031.7	4,955.1	4,955.1	4,955.1
Total assets	21,494.6	21,119.4	21,583.8	23,329.0	24,224.5
ST interest bearing debt	7,024.8	5,132.5	5,132.5	5,132.5	5,132.5
Accounts payable	2,670.9	2,456.9	2,827.3	4,231.4	4,698.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,273.7	2,373.7	2,373.7	2,373.7	2,373.7
Other liabilities	1,092.0	824.0	750.0	750.0	750.0
Total Liabilities	12,061.0	10,787.6	11,083.3	12,487.4	12,955.0
Shareholders Equity	8,389.3	9,534.6	9,703.3	10,044.4	10,472.3
Minority Interest	1,044.3	797.2	797.2	797.2	797.2
Total shareholder equity	9,433.6	10,331.8	10,500.5	10,841.6	11,269.5
Total liabilities and equity	21,494.6	21,119.4	21,583.8	23,329.0	24,224.5
CASH FLOW (MYR m)					
Pretax profit	865.3	509.3	404.3	761.8	897.1
Depreciation & amortisation	0.0	0.0	87.9	93.6	99.4
Adj net interest (income)/exp	167.4	141.2	(135.5)	(118.2)	(133.8)
Change in working capital	(354.2)	66.8	675.2	877.3	(794.8)
Cash taxes paid	(94.0)	(60.0)	(56.6)	(106.7)	(125.6)
Other operating cash flow	100.0	170.5	0.0	0.0	0.0
Cash flow from operations	684.6	827.7	975.4	1,507.9	(57.8)
Capex	(1,337.6)	(768.0)	(500.0)	(500.0)	(500.0)
Free cash flow	(653.0)	59.7	475.4	1,007.9	(557.8)
Dividends paid	(305.9)	(253.6)	(104.2)	(145.6)	(219.5)
Equity raised / (purchased)	(86.2)	(21.0)	0.0	0.0	0.0
Change in Debt	(974.7)	(792.3)	0.0	0.0	0.0
Other invest/financing cash flow	(292.0)	(321.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(2,311.9)	(1,328.7)	371.2	862.2	(777.3)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(11.6)	(19.8)	15.1	49.7	11.0
EBITDA growth	(4.1)	(56.0)	85.3	77.3	18.9
EBIT growth	(4.1)	(56.0)	50.2	93.9	20.5
Pretax growth	3.4	(41.1)	(20.6)	88.4	17.7
Reported net profit growth	9.9	(49.3)	(12.6)	78.4	22.1
Core net profit growth	13.9	(37.8)	(20.5)	78.4	22.1
Profitability ratios (%)					
EBITDA margin	11.9	6.5	10.5	12.5	13.4
EBIT margin	11.9	6.5	8.5	11.1	12.0
Pretax profit margin	18.1	13.3	9.2	11.5	12.2
Payout ratio	62.5	20.7	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	14.8	9.4	7.1	8.5	9.3
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.6	2.2	2.2	2.3	2.3
ROAE (%)	8.7	4.0	3.3	5.7	6.7
ROAA (%)	2.9	1.9	1.5	2.5	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	2.0	1.9	1.9	1.9
Net gearing (%) (incl perps)	60.9	51.0	46.6	37.2	42.7
Net gearing (%) (excl. perps)	60.9	51.0	46.6	37.2	42.7
Net interest cover (x)	na	na	2.8	6.2	6.6
Debt/EBITDA (x)	14.6	nm	16.2	9.1	7.7
Capex/revenue (%)	28.0	20.0	11.3	7.6	6.8
Net debt/ (net cash)	5,743.8	5,268.9	4,897.7	4,035.5	4,812.7

Source: Company; Maybank

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

Linda LIU
Singapore | Vietnam |
Cambodia | Myanmar | Laos
(65) 6231 5847
lindaliu@maybank.com

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

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

FX

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

Christopher WONG
(65) 6320 1347
wongckl@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, ACA
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi
(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, CFA
(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

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

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Fahmi FARID
(603) 2297 8676 fahmi.farid@maybank-ib.com
• Software

Syifaa' Nur FARAH
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Construction

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Ports • Shipping
• Petrochemicals

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
• 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 • Healthcare

Kareen CHAN
(65) 6231 5926 kareench@maybank.com
• Transport • Telcos • Consumer

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

Matthew SHIM
(65) 6231 5929
matthewshim@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

Benedict CLEMENTE
(63) 2 8849 8846
benedict.clemente@maybank.com
• Utilities

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

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank-kimeng.com.vn
• Strategy • Technology

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

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8085
dung.nguyen@maybank-kimeng.com.vn
• Utilities • Property

Tran Thi Thu Thao
(84 28) 44 555 888 ext 8180
thao.tran@maybank-kimeng.com.vn
• Industrials

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Retail Research

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

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-ke.co.id
• Banking & Finance

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank-ke.co.id
• Consumer

Farah OKTAVIANI
(62) 21 8066 8691
farah.oktaviani@maybank-ke.co.id
• Construction

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

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

Kaushal LADHA, CFA, CESGA
(66) 2658 6300 ext 1392
Kaushal.L@maybank-ke.co.th
• Oil & Gas - Regional
• Petrochemicals - Regional
• Utilities

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank-ke.co.th
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P@maybank-ke.co.th
• Services • Healthcare

Ekachai TARAPORNITP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

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

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

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

Thanaphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanaphat.s@maybank-ke.co.th
• Media • Electronics

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

Theerasate PROMPONG
(66) 2658 5000 ext 1400
theerasate.p@maybank-ke.co.th
• Equity Portfolio Strategist

Apiwat TAVESIRIVATE
(66) 2658 5000 ext 1310
apiwat.t@maybank-ke.co.th
• Chartist and TFXE

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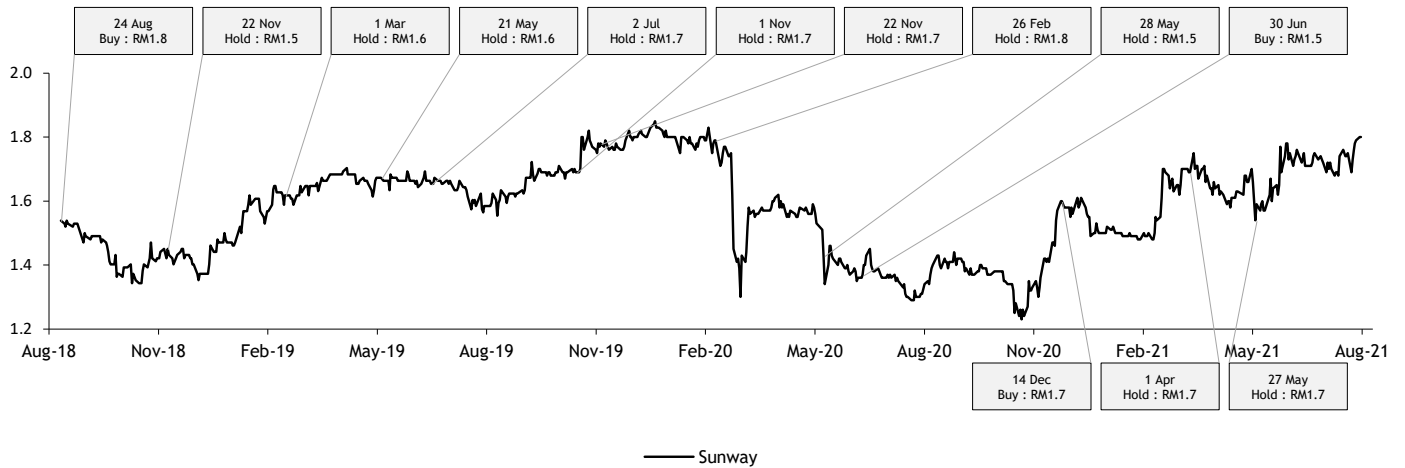
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 **Malaysia**

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 8849 8888
Fax: (63) 2 8848 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

Indonesia

Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

New York

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

Philippines

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

 **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

London

Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

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

 **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
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

 **Saudi Arabia**

In association with
Anfaal Capital
Ground Floor, KANOO Building
No.1 - Al-Faisaliyah, Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423