

DiGi.com (DIGI MK)

Navigating challenges

HOLD

Share Price MYR 4.25
 12m Price Target MYR 4.30 (+5%)
 Previous Price Target MYR 4.30

Still holding up

1H21 results were in line with our/consensus forecasts as 2Q21 earnings held up with the aid of the government-led data/device subsidy program. Management is mindful of potential near-term postpaid challenges, but is maintaining its FY21 guidance for now. Maintain HOLD with an unchanged DCF-based TP of MYR4.30. We prefer TM (T MK, BUY, CP: MYR6.10, TP: MYR7.40) in the space.

Results in line

Digi's 2Q21 net profit of MYR280m (-3% YoY, +6% QoQ) brings 1H21 net profit to MYR545m (-12% YoY), 47% of both our and consensus full-year forecasts respectively. 2Q21 revenue was supported by the government-led data/device subsidy program (PRIHATIN) for the B40 segment, without which, a sequential contraction could have occurred. A second interim DPS of 3.6sen was declared (-3% YoY, +6% QoQ), again representing c.100% payout ratio.

Supported by government-led subsidy program

2Q21 service revenue was largely stable sequentially (+0.2% QoQ and 1.7% YoY) on marginal growth at both prepaid (lower subscribers, higher ARPU) and postpaid (higher subscribers, lower ARPU). Digi noted strong take-up for its PRIHATIN prepaid and postpaid bundles, which also led to increased device sales and thus higher reported revenue. Meanwhile, costs were higher sequentially on higher COGS (increased device sales). Consequently, 2Q21 EBITDA margin contracted by 1.6ppt QoQ to 45.9%.

Maintain HOLD

As the movement restrictions continue, management is mindful of potential near-term challenges in postpaid (channel restrictions, collection challenges). Management is maintaining its FY21 guidance (low-single digit revenue decline and mid-single digit EBITDA decline). Our earnings forecasts and MYR4.30 TP (DCF-based assuming 6.8% WACC, 2% LT growth, and includes possible cost synergies) are unchanged.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,297	6,153	6,033	5,950	5,904
EBITDA	3,301	3,077	2,956	2,915	2,893
Core net profit	1,433	1,221	1,157	1,100	1,075
Core EPS (sen)	18.4	15.7	14.9	14.2	13.8
Core EPS growth (%)	(7.0)	(14.8)	(5.3)	(4.9)	(2.4)
Net DPS (sen)	18.2	15.6	14.9	14.2	13.8
Core P/E (x)	24.2	26.4	28.6	30.0	30.8
P/BV (x)	52.5	53.1	54.5	54.5	54.5
Net dividend yield (%)	4.1	3.8	3.5	3.3	3.3
ROAE (%)	215.0	192.9	190.9	181.6	177.4
ROAA (%)	20.0	14.9	14.1	13.5	13.2
EV/EBITDA (x)	11.9	12.1	13.0	13.2	13.3
Net gearing (%) (incl perps)	710.9	849.9	869.3	881.5	883.3
Consensus net profit	-	-	1,160	1,232	1,323
MKE vs. Consensus (%)	-	-	(0.3)	(10.7)	(18.8)

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

Company Description

Digi is a leading mobile telecommunication company in Malaysia.

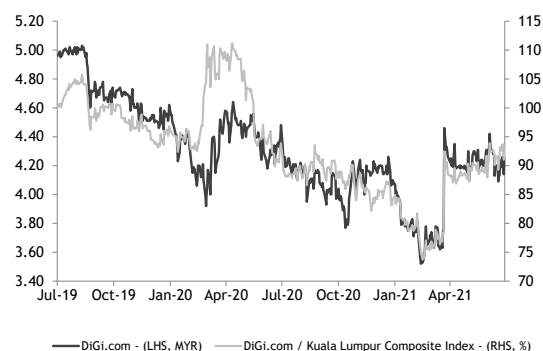
Statistics

52w high/low (MYR)	4.48/3.52
3m avg turnover (USDm)	3.3
Free float (%)	33.3
Issued shares (m)	7,775
Market capitalisation	MYR33.0B USD7.8B

Major shareholders:

Telenor ASA	49.0%
Employees Provident Fund	14.9%
Permodalan Nasional Bhd.	10.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	0	(3)
Relative to index (%)	2	6	0

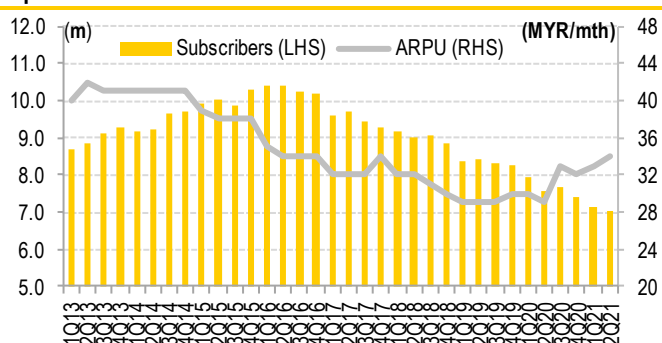
Source: FactSet

Summary Results Table - DiGi.Com

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q21	2Q20	%YoY	1Q21	%QoQ	1H21	1H20	%YoY
Revenue	1,618.5	1,452.5	11.4	1,550.2	4.4	3,168.7	3,012.7	5.2
EBITDA	743.6	769.8	(3.4)	736.5	1.0	1,480.1	1,525.3	(3.0)
EBIT	418.9	442.2	(5.3)	427.4	(2.0)	846.3	891.6	(5.1)
Net interest expense	(46.2)	(65.0)	(29.0)	(68.8)	(32.9)	(115.0)	(78.9)	45.7
Pre-tax profit	372.7	377.3	(1.2)	358.5	4.0	731.3	812.7	(10.0)
Tax	(92.8)	(89.2)	4.0	(93.7)	(0.9)	(186.6)	(192.7)	(3.2)
Minority Interests	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Reported Net Profit	279.9	288.0	(2.8)	264.8	5.7	544.7	620.0	(12.1)
Service revenue	1,340.0	1,317.0	1.7	1,337.0	0.2	2,677.0	2,704.0	(1.0)
EBITDA margin (chg in ppts)	45.9	53.0	(7.1)	47.5	(1.6)	46.7	50.6	(3.9)
Reported EPS (sen)	3.6	3.7	(2.8)	3.4	5.7	7.0	8.0	(12.1)
Net DPS (sen)	3.6	3.7	(2.7)	3.4	5.9	7.0	7.9	(11.4)
Net cash/(debt)	(4,900.9)	(4,638.4)	5.7	(5,103.9)	(4.0)	(4,900.9)	(4,638.4)	5.7
Gearing (%)	808.3	758.7		863.9		808.3	758.7	
Capex	191.6	181.0	5.9	155.1	23.6	346.7	322.6	7.4
Operations								
Prepaid	2Q21	2Q20	%YoY	1Q21	%QoQ	1H21	1H20	%YoY
Subscribers, period end (m)	7.0	7.6	(7.4)	7.2	(1.8)	7.0	7.6	(7.4)
Net additions (m)	(0.13)	(0.36)	(64.1)	(0.24)	(46.0)	(0.37)	(0.66)	(44.5)
Subscribers, average (m)	7.1	7.8	(8.7)	7.3	(2.5)	7.5	8.1	(8.0)
ARPU (MYR/month)	34.0	29.0	17.2	33.0	3.0	32.2	28.8	11.8
Revenue	723.8	675.9	7.1	720.6	0.4	1,444.4	1,404.8	2.8
Postpaid	2Q21	2Q20	%YoY	1Q21	%QoQ	1H21	1H20	%YoY
Subscribers, period end (m)	3.2	3.0	5.0	3.1	3.1	3.2	3.0	5.0
Net additions (m)	0.10	(0.03)	N/A	0.05	90.0	0.15	0.00	N/A
Subscribers, average (m)	3.1	3.0	3.0	3.1	2.4	3.1	3.0	4.6
ARPU (MYR/month)	64.0	68.0	(5.9)	65.0	(1.5)	64.5	70.4	(8.4)
Revenue	602.4	621.5	(3.1)	597.7	0.8	1,200.1	1,252.1	(4.2)

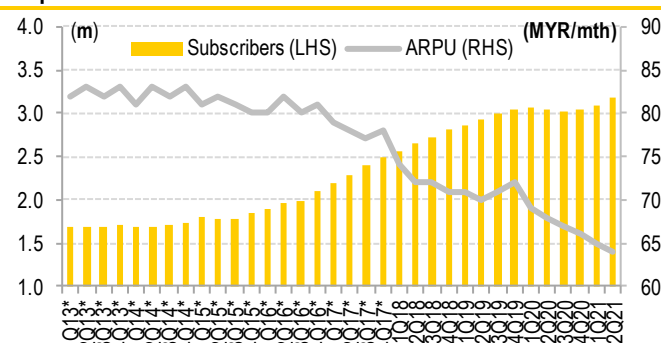
Source: Company, Maybank KE

Prepaid subscribers and ARPU



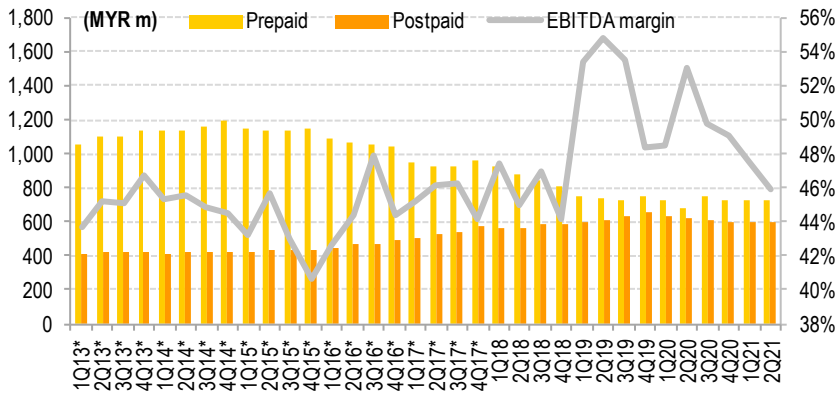
Source: Company, Maybank KE

Postpaid subscribers and ARPU



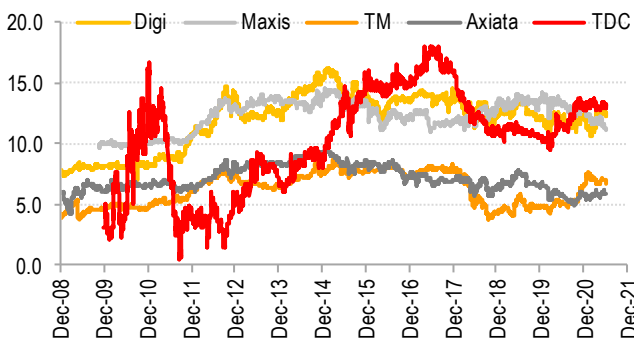
*Pre-MFRS15, Source: Company, Maybank KE

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



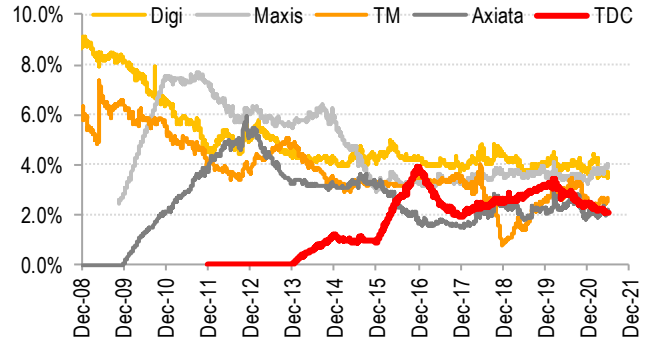
*Pre-MFRS15, Source: Company, Maybank KE

EV/EBITDA - Malaysia telcos



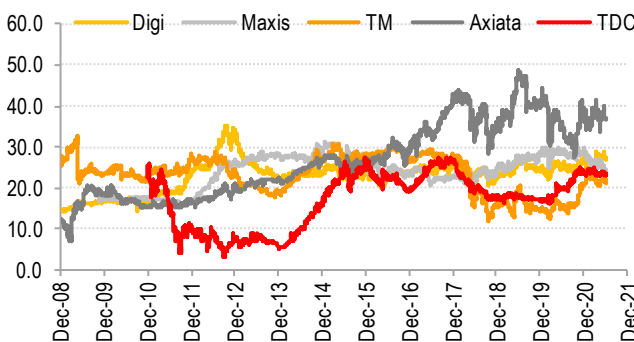
Source: Bloomberg, Maybank KE

Net dividend yield - Malaysia telcos



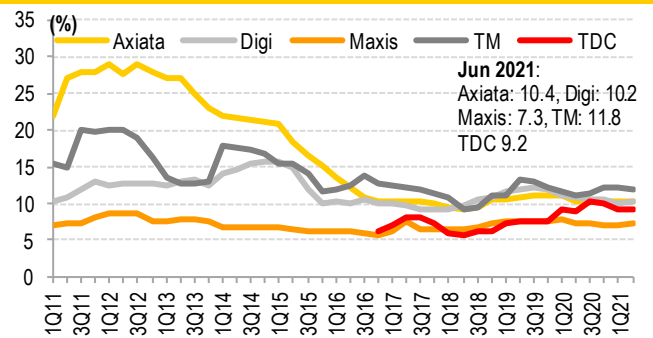
Source: Bloomberg, Maybank KE

PER - Malaysia telcos



Source: Bloomberg, Maybank KE

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	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	25.6	27.0	28.6	30.0	30.8
Core P/E (x)	24.2	26.4	28.6	30.0	30.8
P/BV (x)	52.5	53.1	54.5	54.5	54.5
P/NTA (x)	(15.5)	(12.0)	(12.2)	(12.2)	(12.1)
Net dividend yield (%)	4.1	3.8	3.5	3.3	3.3
FCF yield (%)	4.6	6.0	5.3	5.3	5.4
EV/EBITDA (x)	11.9	12.1	13.0	13.2	13.3
EV/EBIT (x)	18.7	20.7	22.1	23.1	23.6
INCOME STATEMENT (MYR m)					
Revenue	6,297.4	6,152.7	6,033.0	5,949.7	5,903.7
EBITDA	3,301.0	3,077.2	2,956.2	2,915.3	2,892.8
Depreciation	(1,197.4)	(1,272.6)	(1,225.2)	(1,254.8)	(1,264.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,103.7	1,804.7	1,731.0	1,660.5	1,628.6
Net interest income / (exp)	(211.3)	(182.6)	(209.0)	(212.5)	(214.7)
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	1,892.3	1,622.0	1,522.0	1,448.0	1,413.9
Income tax	(459.4)	(401.1)	(365.3)	(347.5)	(339.3)
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	1,433.0	1,221.0	1,156.7	1,100.5	1,074.5
Core net profit	1,433.0	1,221.0	1,156.7	1,100.5	1,074.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	457.7	302.9	185.3	111.4	100.6
Accounts receivable	1,300.5	1,037.8	1,024.8	1,010.6	1,002.8
Inventory	90.5	137.2	139.6	137.7	136.6
Property, Plant & Equip (net)	2,852.8	2,883.1	2,983.5	3,007.8	2,975.8
Intangible assets	2,900.4	3,280.0	3,304.4	3,325.2	3,343.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	547.5	544.8	544.8	544.8	544.8
Total assets	8,149.4	8,185.7	8,182.3	8,137.5	8,103.7
ST interest bearing debt	688.8	774.5	774.5	774.5	774.5
Accounts payable	2,067.9	1,738.3	1,734.9	1,690.0	1,656.3
LT interest bearing debt	4,461.0	4,677.5	4,677.5	4,677.5	4,677.5
Other liabilities	272.0	390.0	390.0	390.0	390.0
Total Liabilities	7,489.5	7,579.9	7,576.5	7,531.6	7,497.9
Shareholders Equity	660.0	605.9	605.9	605.9	605.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	660.0	605.9	605.9	605.9	605.9
Total liabilities and equity	8,149.4	8,185.7	8,182.3	8,137.5	8,103.7
CASH FLOW (MYR m)					
Pretax profit	1,892.3	1,622.0	1,522.0	1,448.0	1,413.9
Depreciation & amortisation	1,197.4	1,272.6	1,225.2	1,254.8	1,264.2
Adj net interest (income)/exp	211.3	182.6	209.0	212.5	214.7
Change in working capital	(656.6)	(402.8)	7.2	(28.7)	(24.9)
Cash taxes paid	(574.9)	(393.0)	(365.3)	(347.5)	(339.3)
Other operating cash flow	290.8	398.1	0.0	0.0	0.0
Cash flow from operations	2,360.3	2,679.5	2,598.1	2,539.1	2,528.6
Capex	(750.1)	(736.1)	(850.0)	(800.0)	(750.0)
Free cash flow	1,610.2	1,943.5	1,748.1	1,739.1	1,778.6
Dividends paid	(1,446.2)	(1,275.1)	(1,156.7)	(1,100.5)	(1,074.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	574.1	(88.3)	0.0	0.0	0.0
Other invest/financing cash flow	(656.0)	(735.9)	(709.0)	(712.5)	(714.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	82.1	(155.9)	(117.6)	(73.9)	(10.7)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.5)	(2.3)	(1.9)	(1.4)	(0.8)
EBITDA growth	10.3	(6.8)	(3.9)	(1.4)	(0.8)
EBIT growth	(3.9)	(14.2)	(4.1)	(4.1)	(1.9)
Pretax growth	(9.0)	(14.3)	(6.2)	(4.9)	(2.4)
Reported net profit growth	(7.0)	(14.8)	(5.3)	(4.9)	(2.4)
Core net profit growth	(7.0)	(14.8)	(5.3)	(4.9)	(2.4)
Profitability ratios (%)					
EBITDA margin	52.4	50.0	49.0	49.0	49.0
EBIT margin	33.4	29.3	28.7	27.9	27.6
Pretax profit margin	30.0	26.4	25.2	24.3	23.9
Payout ratio	98.8	99.3	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	22.8	19.8	19.2	18.5	18.2
Revenue/Assets (x)	0.8	0.8	0.7	0.7	0.7
Assets/Equity (x)	12.3	13.5	13.5	13.4	13.4
ROAE (%)	215.0	192.9	190.9	181.6	177.4
ROAA (%)	20.0	14.9	14.1	13.5	13.2
Liquidity & Efficiency					
Cash conversion cycle	(465.6)	(350.1)	(311.0)	(310.4)	(304.5)
Days receivable outstanding	84.1	68.4	61.5	61.6	61.4
Days inventory outstanding	19.0	26.6	32.3	32.8	32.7
Days payables outstanding	568.7	445.2	404.8	404.8	398.5
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.7	0.6	0.6	0.5	0.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	710.9	849.9	869.3	881.5	883.3
Net gearing (%) (excl. perps)	710.9	849.9	869.3	881.5	883.3
Net interest cover (x)	10.0	9.9	8.3	7.8	7.6
Debt/EBITDA (x)	1.6	1.8	1.8	1.9	1.9
Capex/revenue (%)	11.9	12.0	14.1	13.4	12.7
Net debt/ (net cash)	4,692.1	5,149.2	5,266.8	5,340.7	5,351.4

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
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanx@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
(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

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

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

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigar@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

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
• Retail Research

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

INDONESIA

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

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
(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 TARAPORN TIP *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

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanatphat.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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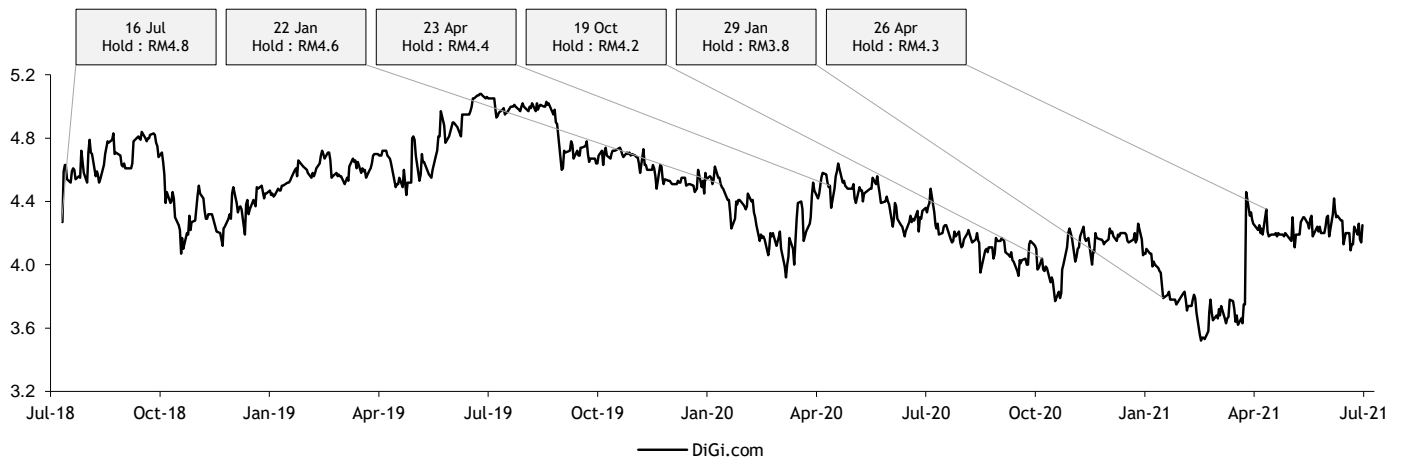
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Malaysia

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