

IOI Corporation (IOI MK)

3QFY22 missed expectations on forward sales done earlier

Expect better earnings delivery in 4QFY22

3QFY22 core PATMI missed our/ consensus expectations mainly on lower-than-expected CPO ASP achieved and higher-than-expected taxes. We expect 4QFY22 to be better QoQ driven mainly by stronger upstream earnings (on higher output and ASP). Following our EPS revisions, IOI remains a BUY with unchanged TP of MYR4.87 on 22x CY23E EPS, at -15D of 5Y mean.

3Q core PATMI missed expectations

3QFY22 core PATMI of MYR351m (-19% YoY, -26% QoQ) brings 9MFY22 core PATMI to MYR1,112m (+29% YoY) which met just 63%/64% of our/consensus full-year estimates. Despite higher 3Q CPO ASP achieved of MYR5,064/t (+58% YoY, +11% QoQ), it was 10% below benchmark 3M FCPO price, which implies IOI had forward sold a portion of its output much earlier. And its 3Q group effective tax rate was also high at 32% on *Cukai Makmur*. To a lesser extent, 3Q core results were also dragged by net inventory write down (MYR20m) and FV loss on other investments (MYR18m). Operationally, 3Q's upstream EBIT rose 160% YoY to MYR416m (-20% QoQ) mainly on higher CPO ASP and FFB output (+9% YoY, -22% QoQ).

Absence of Loder's one-off gain reported last year

As for its downstream ops, 3Q EBIT weakened to MYR46m (-57% YoY, -75% QoQ) despite higher revenue (+44% YoY, -1% QoQ) as refining margins fell (but mitigated by better oleo contribution). 3Q performance was also dragged by a FV loss on derivatives of MYR17m (3QFY21 FV gain: MYR43m, 2QFY22 FV gain: MYR55m). As for associates, contributions fell to MYR84m (-76% YoY, +143% QoQ) mainly due to the absence of a share of Loder's one-off gain on sales of its refinery (MYR268m) reported in 3QFY21.

FY23E core PATMI cut by 9%

Following the weaker 3QFY22 results, we cut our FY22E core PATMI by 9% mainly to factor in lower net CPO ASP of MYR4,768/t (-5%) and higher effective taxes of 30% (from 28%) for FY22E. We make no changes to our FY23E-24E core PATMI forecasts.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,802	11,252	15,021	13,058	12,108
EBITDA	1,347	1,550	2,611	2,173	1,967
Core net profit	799	1,252	1,622	1,452	1,321
Core EPS (sen)	12.7	20.0	25.9	23.2	21.1
Core EPS growth (%)	8.3	57.2	29.5	(10.5)	(9.0)
Net DPS (sen)	8.0	10.5	15.5	13.9	12.7
Core P/E (x)	34.1	18.8	17.0	19.0	20.9
P/BV (x)	2.9	2.4	2.6	2.5	2.3
Net dividend yield (%)	1.8	2.8	3.5	3.2	2.9
ROAE (%)	6.5	14.4	15.7	13.3	11.5
ROAA (%)	4.8	7.3	8.9	7.7	6.8
EV/EBITDA (x)	22.4	17.3	11.9	13.9	15.0
Net gearing (%) (incl perps)	27.8	28.4	27.9	19.0	12.9
Consensus net profit	-	-	1,697	1,493	1,310
MKE vs. Consensus (%)	-	-	(4.4)	(2.8)	0.9

Ong Chee Ting, CA
ct.ong@maybank-ib.com
(603) 2297 8678

BUY

Share Price	MYR 4.40
12m Price Target	MYR 4.87 (+14%)
Previous Price Target	MYR 4.87

Company Description

IOI Corp engages in the cultivation of oil palm and manufacturing of oleochemicals, specialty oils and fats, and processed palm oil.

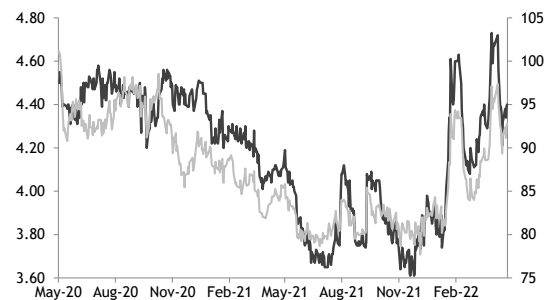
Statistics

52w high/low (MYR)	4.73/3.61
3m avg turnover (USDm)	6.3
Free float (%)	34.9
Issued shares (m)	6,285
Market capitalisation	MYR27.7B
	USD6.3B

Major shareholders:

LEE SHIN CHENG FAMILY	49.8%
Employees Provident Fund	10.9%
Permodalan Nasional Bhd.	8.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(5)	8
Relative to index (%)	5	(1)	10

Source: FactSet

Abbreviation

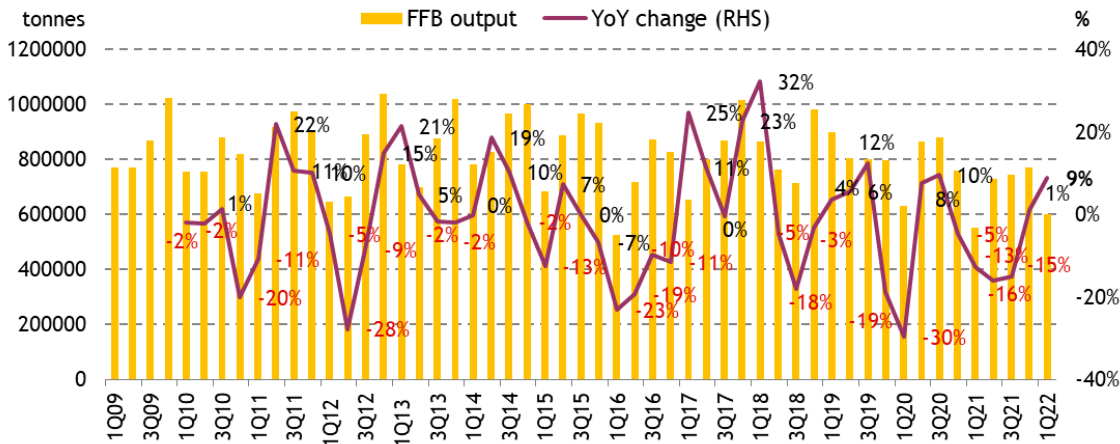
ASP = Average selling price
EBIT = Earnings before interest and taxes
FV = Fair Valuation
PATMI = Profit after tax and minority interests

Fig 1: IOI Corporation results summary

1FYE June (MYR m)	Quarterly					Cumulative		
	3QFY22	3QFY21	%YoY	2QFY22	%QoQ	9MFY22	9MFY21	%YoY
Revenue	4,097.9	2,860.1	43.3	4,112.3	(0.4)	11,842.6	7,792.0	52.0
EBIT	466.3	185.8	151.0	643.7	(27.6)	1,522.7	715.5	112.8
FV of biological assets	18.0	10.4	73.1	(11.6)	NA	28.0	18.9	48.1
FX translation gain/(loss) on debt	46.4	(38.4)	NA	29.7	56.2	49.8	155.4	(68.0)
Share of Associates & Joint Entities	84.3	350.0	(75.9)	34.7	142.9	188.5	469.6	(59.9)
Interest income	4.9	10.0	(51.0)	9.6	(49.0)	23.9	29.8	(19.8)
Finance cost	(39.0)	(41.9)	(6.9)	(39.6)	(1.5)	(118.7)	(123.1)	(3.6)
Pre-tax profit	580.9	475.9	22.1	666.5	(12.8)	1,694.2	1,266.1	33.8
Tax	(159.5)	(73.2)	117.9	(158.7)	0.5	(475.3)	(217.8)	118.2
Minority Interests	(10.2)	(1.4)	628.6	(13.1)	(22.1)	(35.4)	(13.4)	164.2
PATMI	411.2	401.3	2.5	494.7	(16.9)	1,183.5	1,034.9	14.4
Core PATMI *	351.1	431.8	(18.7)	473.8	(25.9)	1,112.4	865.1	28.6
Adjusted for *:								
Net FV (gain)/loss on biolog'l assets	(13.7)	(7.9)	73.1	8.8	NA	(21.3)	(14.4)	48.1
Unr'd FX (gain)/loss on foreign debt	(46.4)	38.4	NA	(29.7)	56.2	(49.8)	(155.4)	(68.0)
Segmental								
	3QFY22	3QFY21	%YoY	2QFY22	%QoQ	9MFY22	9MFY21	%YoY
Revenue								
Plantation (upstream)	799.1	477.4	67.4	924.6	(13.6)	2,484.3	1,707.8	45.5
Resource-based (downstream)	3,971.1	2,753.5	44.2	3,996.0	(0.6)	11,502.9	7,498.6	53.4
Others	7.2	3.5	105.7	2.9	148.3	14.0	11.0	27.3
Eliminations	(679.5)	(374.3)	81.5	(811.2)	(16.2)	(2,158.6)	(1,425.4)	51.4
Total revenue	4,097.9	2,860.1	43.3	4,112.3	(0.4)	11,842.6	7,792.0	52.0
EBIT								
Plantation (upstream)	415.6	159.7	160.2	522.4	(20.4)	1,345.8	700.8	92.0
Resource-based (downstream)	46.4	108.0	(57.0)	183.3	(74.7)	263.9	113.5	132.5
Others	4.3	(81.9)	NA	(62.0)	NA	(87.0)	(98.8)	(11.9)
Total EBIT	466.3	185.8	151.0	643.7	(27.6)	1,522.7	715.5	112.8
EBIT margin (%)			+ ppt		+ ppt			+ ppt
EBIT margin - Plantation	52.0	33.5	18.6	56.5	(4.5)	54.2	41.0	13.1
EBIT margin - Resource-based	1.2	3.9	(2.8)	4.6	(3.4)	2.3	1.5	0.8
Overall	11.4	6.5	4.9	15.7	(4.3)	12.9	9.2	3.7
Operational								
Mature hectares (ha)	141,259	143,111	(1.3)	144,837	(2.5)	141,259	143,111	(1.3)
FFB production (t)	599,691	550,524	8.9	769,145	(22.0)	2,115,143	2,189,968	(3.4)
FFB yield (t/ha)	4.3	4.0	7.6	5.4	(21.7)	15.0	15.6	(4.0)
OER (%)	20.7	20.9	(0.8)	21.7	(4.5)	21.5	21.3	0.6
CPO production - own (t)	124,239	114,968	8.1	166,914	(25.6)	453,698	467,120	(2.9)
CPO production (t)	129,507	121,316	6.8	149,891	(13.6)	471,823	482,513	(2.2)
CPO ASP (MYR/t)	5,064	3,211	57.7	4,565	10.9	4,518	2,888	56.4

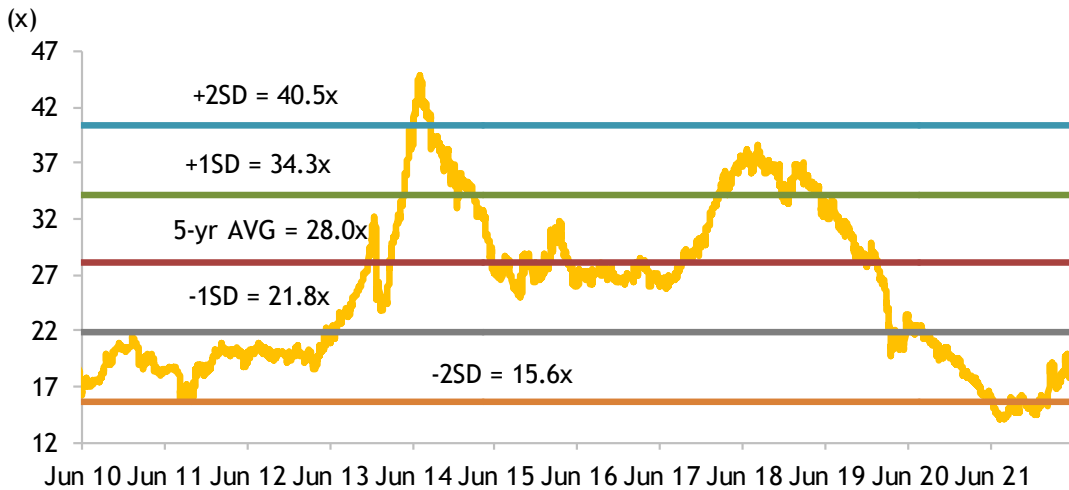
Sources: Company, Maybank IBG Research

Fig 2: IOI's quarterly FFB output (since 2009)



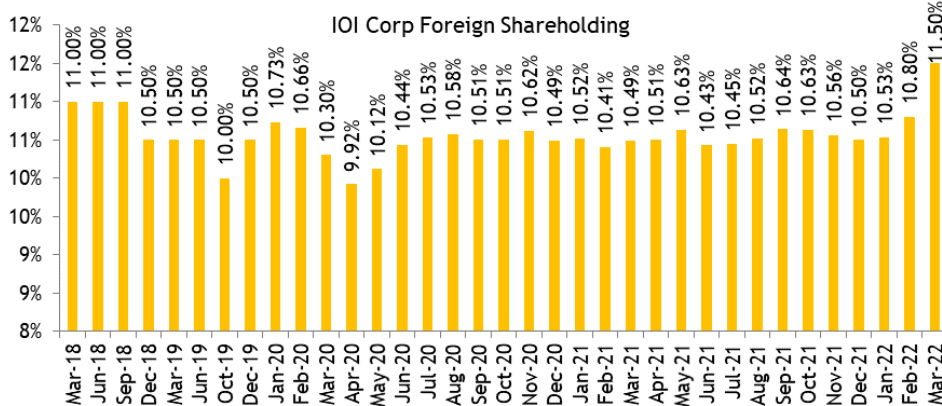
Note: X-axis denotes calendar quarter; Sources: Company

Fig 3: IOI's 12M forward PER



Sources: Bloomberg, Maybank IBG Research

Fig 4: IOI's foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, target price and rating for IOI Corporation. Key risks to the palm oil sector and IOI are: (i) weather anomalies resulting in poorer-than-expected output growth; (ii) lower-than-expected CPO price achieved; (iii) negative policies imposed by import countries; (iv) unfriendly policies imposed by the Malaysian and Indonesian government on upstream or downstream segments; (v) sharply lower crude oil prices, which makes palm biodiesel demand not viable; and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	44.8	19.4	17.0	19.0	20.9
Core P/E (x)	34.1	18.8	17.0	19.0	20.9
P/BV (x)	2.9	2.4	2.6	2.5	2.3
P/NTA (x)	3.1	2.5	2.7	2.5	2.4
Net dividend yield (%)	1.8	2.8	3.5	3.2	2.9
FCF yield (%)	1.7	0.8	3.0	6.1	4.9
EV/EBITDA (x)	22.4	17.3	11.9	13.9	15.0
EV/EBIT (x)	30.8	22.5	14.0	17.1	19.1
INCOME STATEMENT (MYR m)					
Revenue	7,802.2	11,251.7	15,021.4	13,058.2	12,107.9
EBITDA	1,347.3	1,550.4	2,610.6	2,173.3	1,967.0
Depreciation	(365.9)	(360.5)	(399.4)	(411.0)	(422.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	981.4	1,189.9	2,211.2	1,762.3	1,544.3
Net interest income / (exp)	(103.3)	(126.2)	(129.3)	(128.2)	(100.1)
Associates & JV	143.3	528.8	212.8	282.4	288.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(194.7)	147.3	0.0	0.0	0.0
Pretax profit	826.7	1,739.8	2,294.6	1,916.6	1,733.2
Income tax	(225.0)	(323.5)	(624.6)	(424.9)	(375.5)
Minorities	(0.8)	(22.0)	(48.0)	(40.1)	(36.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	600.9	1,394.3	1,622.1	1,451.6	1,321.4
Core net profit	798.8	1,252.3	1,622.1	1,451.6	1,321.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,313.0	2,024.9	1,864.1	2,701.4	3,316.1
Accounts receivable	815.8	1,427.2	1,905.4	1,656.3	1,535.8
Inventory	1,001.4	1,296.6	1,731.0	1,504.8	1,395.3
Property, Plant & Equip (net)	8,531.8	8,596.2	8,696.8	8,685.7	8,663.1
Intangible assets	424.2	423.4	423.4	423.4	423.4
Investment in Associates & JVs	2,727.0	3,144.5	3,250.9	3,392.1	3,536.6
Other assets	918.4	742.9	742.9	742.9	742.9
Total assets	16,731.6	17,655.7	18,614.4	19,106.6	19,613.1
ST interest bearing debt	917.5	3,918.8	3,918.8	3,918.8	3,918.8
Accounts payable	657.1	767.8	1,025.0	891.1	826.2
LT interest bearing debt	4,051.4	1,037.0	1,016.3	995.9	976.0
Other liabilities	1,535.0	1,618.0	1,643.0	1,669.0	1,695.0
Total Liabilities	7,160.9	7,341.3	7,603.1	7,474.7	7,416.3
Shareholders Equity	9,296.2	10,005.4	10,654.2	11,234.9	11,763.4
Minority Interest	274.5	309.0	357.0	397.1	433.3
Total shareholder equity	9,570.7	10,314.4	11,011.2	11,632.0	12,196.8
Total liabilities and equity	16,731.6	17,655.7	18,614.4	19,106.6	19,613.1
CASH FLOW (MYR m)					
Pretax profit	826.7	1,739.8	2,294.6	1,916.6	1,733.2
Depreciation & amortisation	365.9	360.5	399.4	411.0	422.6
Adj net interest (income)/exp	103.3	126.2	129.3	128.2	100.1
Change in working capital	(216.2)	(743.2)	(655.3)	341.3	165.2
Cash taxes paid	(192.2)	(294.7)	(624.6)	(424.9)	(375.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	875.1	652.7	1,330.7	2,089.7	1,756.7
Capex	(419.1)	(453.2)	(500.0)	(400.0)	(400.0)
Free cash flow	456.0	199.5	830.7	1,689.7	1,356.7
Dividends paid	(534.2)	(532.5)	(973.2)	(871.0)	(792.8)
Equity raised / (purchased)	(66.4)	(72.4)	0.0	0.0	0.0
Change in Debt	(93.0)	71.2	(20.7)	(20.3)	(19.9)
Other invest/financing cash flow	(46.7)	47.1	2.4	38.9	70.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(284.3)	(287.1)	(160.8)	837.4	614.6

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.6	44.2	33.5	(13.1)	(7.3)
EBITDA growth	4.9	15.1	68.4	(16.8)	(9.5)
EBIT growth	7.3	21.2	85.8	(20.3)	(12.4)
Pretax growth	(5.3)	110.5	31.9	(16.5)	(9.6)
Reported net profit growth	(4.9)	132.0	16.3	(10.5)	(9.0)
Core net profit growth	8.2	56.8	29.5	(10.5)	(9.0)
Profitability ratios (%)					
EBITDA margin	17.3	13.8	17.4	16.6	16.2
EBIT margin	12.6	10.6	14.7	13.5	12.8
Pretax profit margin	10.6	15.5	15.3	14.7	14.3
Payout ratio	83.6	47.2	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	7.7	12.4	10.8	11.1	10.9
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.6
Assets/Equity (x)	1.8	1.8	1.7	1.7	1.7
ROAE (%)	6.5	14.4	15.7	13.3	11.5
ROAA (%)	4.8	7.3	8.9	7.7	6.8
Liquidity & Efficiency					
Cash conversion cycle	52.0	53.3	59.8	72.9	70.1
Days receivable outstanding	36.7	35.9	39.9	49.1	47.5
Days inventory outstanding	52.2	45.8	48.6	58.3	55.5
Days payables outstanding	36.9	28.4	28.8	34.5	32.9
Dividend cover (x)	1.2	2.1	1.7	1.7	1.7
Current ratio (x)	2.7	1.1	1.2	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.4	2.4	2.6	2.6
Net gearing (%) (incl perps)	27.8	28.4	27.9	19.0	12.9
Net gearing (%) (excl. perps)	27.8	28.4	27.9	19.0	12.9
Net interest cover (x)	9.5	9.4	17.1	13.8	15.4
Debt/EBITDA (x)	3.7	3.2	1.9	2.3	2.5
Capex/revenue (%)	5.4	4.0	3.3	3.1	3.3
Net debt/ (net cash)	2,655.9	2,930.9	3,071.0	2,213.3	1,578.7

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

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

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

LEE Ju Ye
Singapore | Thailand | Indonesia
(65) 6231 5844
leejuye@maybank.com

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

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Brian LEE Shun Rong
(65) 6231 5846
brian.lee1@maybank.com

Luong Thu Huong
(65) 62315 8467
hana.thuhoang@maybank.com

FX

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

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

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

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

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

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

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

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

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

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

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

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property • Glove

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

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Construction • Renewable Energy • REITs

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

Shafiq KADIR
(603) 2297 8691
msshafiqk.abkadir@maybank-ib.com
• Healthcare • Software

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping

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

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

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

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank.com
• Technology

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

Kelvin TAN
(65) 6231 5837 kelvintan1@maybank.com
• Telcos

Samuel TAN
(65) 6231 5843 samuel.tan@maybank.com
• Technology

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

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

Miguel SEVIDAL
(63) 2 8849 8844
miguel.sevidal@maybank.com
• REITs • Property

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.dejesus@maybank.com
• Utilities

VIETNAM

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

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

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

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

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

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer

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

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Chartist

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigars@maybank.com
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 21 4223 2606 neerav@maybank.com
• Software Technology • Telcos

Vikram RAMALINGAM
(91) 21 4223 2607
vikram@maybank.com
• Automobile • Media

INDONESIA

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank.com
• Banking & Finance

Willy GOUTAMA
(62) 21 8066 8500
willygoutama@maybank.com
• Consumer

Satriawan, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
maria.l@maybank.com
• Strategy • Consumer • Materials • Services

Jesada TECHAUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank.com
• Banking & Finance

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
vanida.g@maybank.com
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
yuwaneep@maybank.com
• Services • Healthcare

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank.com
• Transportation • Small cap

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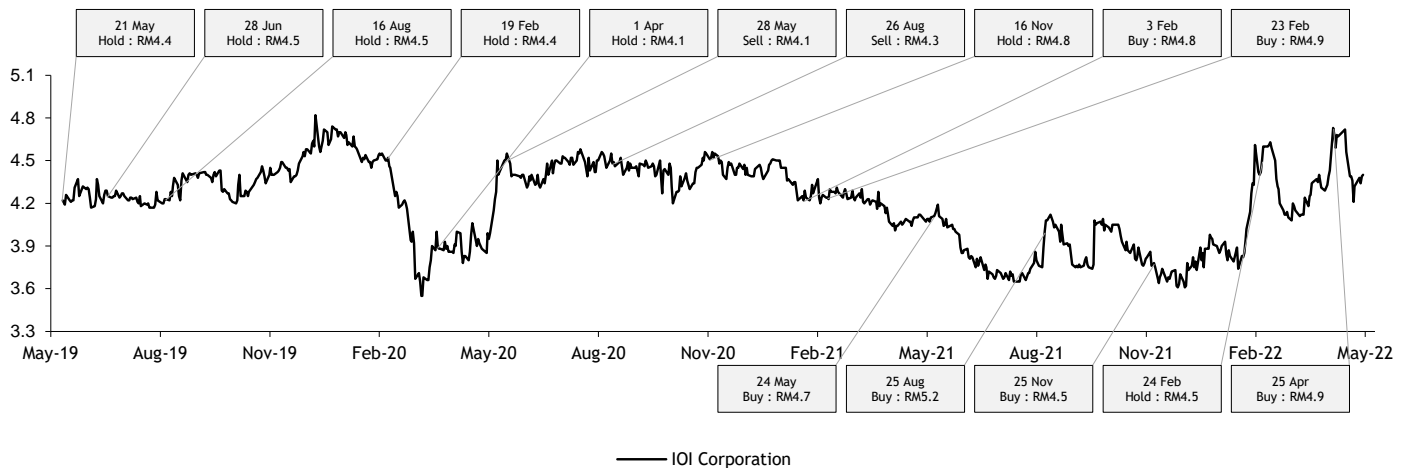
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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194
Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

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

Tel: (65) 6336 9090

Hong Kong

MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

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

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

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

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

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

New York

Maybank Securities USA Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

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

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

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

Philippines

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

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

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

Vietnam

Maybank Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank.com
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

New York

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

Philippines

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

London

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

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629