

Regional Plantations

NEUTRAL

[Unchanged]

2H22 Outlook: In rebuilding supplies mode

Weather still key in determining near term supply

Oil World and *USDA*, in their preliminary forecasts, are both projecting the stock-to-usage ratios of edible oils to be relatively ample the next 12 months. Still, July and Aug are crucial weather months for oilseeds developments in the Northern Hemisphere as another round of crop failure may tighten supplies yet again and keep edible oils prices elevated for another 6-12 months. Barring any weather anomaly, we expect CPO price to be weaker HoH in 2H22. We maintain our NEUTRAL call. We upgrade FR to Hold (from Sell) following recent sell-down while keeping IOI and KLK as our preferred BUYs.

A perfect storm led to record CPO ASP in 1H22...

A confluence of factors formed the perfect storm that lifted 1M FCPO to a historic high of MYR8,163/t (or USD1,944/t) on 1 Mar and 1H22 CPO ASP to MYR6,309/t. These factors included (1) tight CPO supply as output fell short of market expectations in 4Q21 which extended into the low seasonal crop cycle in 1Q22; (2) deteriorated South American crop prospects in 1Q22 due to La Nina; (3) spike in crude oil prices due to geopolitical tensions; (4) disrupted sunflower oil exports from the Black Sea region due to Russia-Ukraine conflict; and (5) Indonesia restriction on palm oil exports since 27 Jan (which included a 3-weeks ban) that disrupted exports flow.

...but this perfect storm has likely passed

Looking ahead, we believe the perfect storm that pushed 1H22 prices to record levels is nearly over. La Nina, which has decimated oilseed crops the last two years leading to tightened supplies, is forecasted to end as most international climate models surveyed expect a return to neutral ENSO condition soon. While parts of the world suffered pockets of dryness, La Nina brought ample rainfall to Malaysia and Indonesia the past two years. This provided a conducive environment for palm oil crop recovery in 2022 and we believe palm oil supply will hit its seasonal peak in 2H22. Further, in response to global high prices of oilseeds and disrupted trade due to protectionist measures and Russia-Ukraine war, we expect planting acreage to be boosted the world over. With favourable weather, we should anticipate record harvest of oilseeds over the next 12 months and this thesis is also supported by *Oil World* and *USDA* in their output projection over the next 12 months (Figs.1-6).

2H22 price outlook: brace for lower HoH price

We expect 2H22 CPO price to be weaker HoH on seasonal palm oil output recovery; possibly trending down towards the MYR4,000/t price level by year end. This is premised on relatively good weather in the Northern Hemisphere that will boost crop yield in 2H22 and pressure oilseeds prices. But with climate volatility, this assumption is constantly being challenged. We are keeping our 2022E and 2023E CPO ASP forecasts of MYR5,000/t and MYR3,400/t respectively. As we expect CPO price to trend lower the next six months, our preferred picks are integrated players with relatively lower cost of production (such as KLK and IOI) as they typically exhibit greater earnings resilience compared to pure growers given the latter's earnings are more sensitive to CPO price movement. We also take this opportunity to refresh our stock calls and target prices - see Fig.14.

Analyst

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

Regional CPO price forecast

	2022E	2023E
	MYR/t	MYR/t
Full year avg (FOB)	5,000	3,400
<u>MDEX / MPOB prices:</u>		
3M CPO price (30 June)	4,910	
YTD (30 June) 3M CPO ASP	5,869	
YTD (30 June) spot CPO ASP	6,309	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px 30 Jun	Tgt px
<u>MY listed</u>			LCY	LCY
KL Kepong	KLK	Buy	21.94	28.10
IOI Corp	IOI	Buy	3.84	4.21
<u>SG listed</u>				
First Res.	FR	Hold	1.63	1.62

Source: Maybank IBG Research

Terms used in this note:

ASP - Average Selling Price
CPO - Crude Palm Oil
FCPO - Futures Crude Palm Oil
ID - Indonesia/ Indonesian
LCY - Local currency
mt - million tonnes
MY - Malaysia/ Malaysian
PO - Palm Oil
SBO - Soybean oil
t - tonnes
YTD - Year-to-date

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
Sime Darby Plant	SDPL MK	6,778	Hold	4.32	4.42	8	10.5	17.2	1.8	1.8	5.7	3.5
IOI Corp	IOI MK	5,561	Buy	3.90	4.21	12	15.1	16.8	2.3	2.2	4.0	3.6
KL Kepong	KLK MK	5,420	Buy	22.10	28.10	32	10.8	15.7	1.9	1.8	5.0	3.8
First Resources	FR SP	1,844	Hold	1.62	1.62	6	7.9	9.8	1.4	1.3	6.3	5.1
Genting Plant	GENP MK	1,305	Hold	6.41	6.40	6	10.1	16.0	1.1	1.0	6.0	3.7
Bumitama Agri	BAL SP	815	Buy	0.65	0.78	27	6.0	6.7	1.0	1.0	6.6	6.0
Swk Oil Palms	SOP MK	551	Hold	4.09	4.01	2	4.8	8.2	0.7	0.7	4.1	3.7
Boustead Plant	BPLANT MK	407	Hold	0.80	0.87	13	5.7	14.9	0.6	0.6	17.6	4.0
Ta Ann	TAH MK	402	Hold	3.98	4.06	13	5.7	8.8	1.0	1.0	10.6	6.8
TSH Resources	TSH MK	332	Hold	1.06	0.98	(2)	8.3	11.9	0.8	0.8	5.7	2.5
TH Plantations	THP MK	121	Sell	0.61	0.55	(9)	4.6	11.5	0.7	0.7	0.0	0.0

Brace for record harvest of oilseeds over the next 12 months (weather permitting)

In response to global high prices of oilseeds and disrupted global trade due to protectionist measures and Russia-Ukraine war, we expect planting acreage to be boosted the world over (perhaps with the exception of Ukraine). With favourable weather, we should anticipate record harvest over the next 12 months.

In its latest June 2022 issue, *Oil World* has introduced its preliminary Oct/Sept 2022/23F marketing year forecast, projecting a recovery in the stock-to-usage ratio (SUR) of 19.6% for palm oil (2021/22F: 19.2%, 2020/21: 16.1%), and 13.7% (2021/22F: 13.3%, 2020/21: 12.8%) for global 17 oils and fats (Figs.1,3). Likewise, the global 10 oilseeds' SUR is projected to improve YoY to 19.2% (2021/22F: 17.6%, 2020/21: 19.3%) for Oct/Sept 2022/23F marketing year (Figs.2,4). A similar recovery trend is also forecasted by USDA (Figs.5-6).

Fig.1: 17 Oils and Fats (O&F) - World Balance (million tonnes)

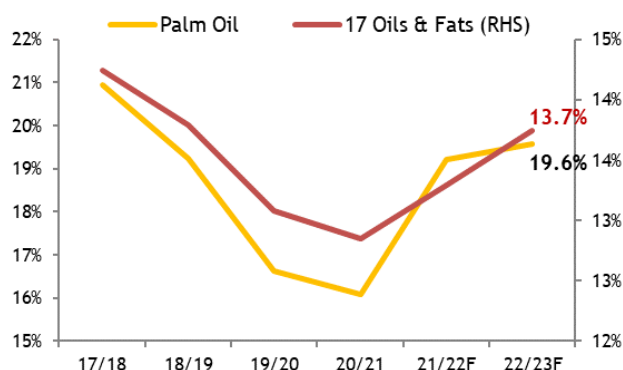
	October / September				
	18/19	19/20	20/21	21/22F	22/23F
Opening stocks	32.7	32.9	31.3	31.0	32.1
Production	239.3	238.0	240.3	243.5	250.6
Change	2.1%	-0.5%	1.0%	1.3%	2.9%
Imports	97.0	96.3	96.0	90.0	95.7
Exports	97.7	96.5	95.5	90.5	96.1
Consumption	238.4	239.4	241.1	241.8	248.2
Change	4.0%	0.4%	0.7%	0.3%	2.7%
Ending stocks	32.9	31.3	31.0	32.1	34.11
Stocks-to-usage ratio	13.8%	13.1%	12.8%	13.3%	13.7%

Source: Oil World

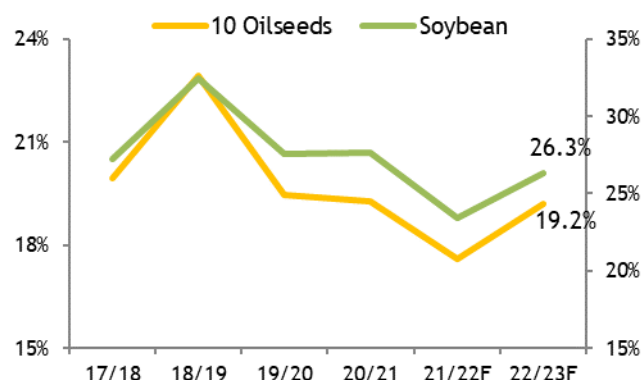
Fig.2: 10 Oilseeds: World Supply and Demand (million tonnes)

	October / September				
	18/19	19/20	20/21	21/22F	22/23F
Opening stocks	113.1	130.5	113.7	113.4	104.4
Production	586.5	567.0	588.3	584.7	620.5
Thereof Soybeans	362.6	360.2	364.4	351.3	385.1
Sunseed	51.9	55.7	50.5	57.8	51.9
Rapeseed	65.7	63.0	66.7	65.4	72.8
Cottonseed	42.5	43.3	40.2	41.8	42.1
Groundnuts (shelled basis)	31.1	31.8	33.1	34.4	33.5
Palm kernel & Copra	23.1	22.1	22.5	23.7	24.1
Sesame, Lin & Castor	9.7	11.0	10.8	10.4	11.0
Total supplies	699.6	697.5	702.0	698.1	724.9
Disappearance	569.1	583.8	588.6	593.7	608.3
Ending stocks	130.5	113.7	113.4	104.4	116.7
Stocks-to-usage ratio	22.9%	19.5%	19.3%	17.6%	19.2%

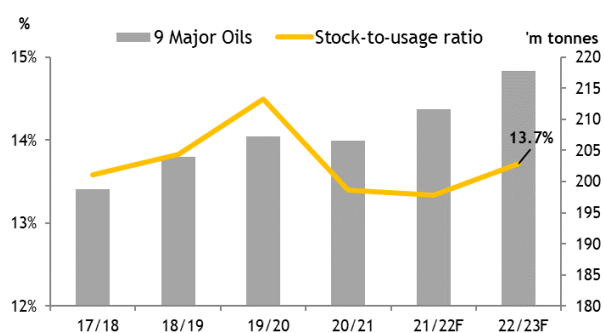
Source: Oil World

Fig.3: Stock-to-usage ratio (SUR) of 17 global oils & fats, & palm oil


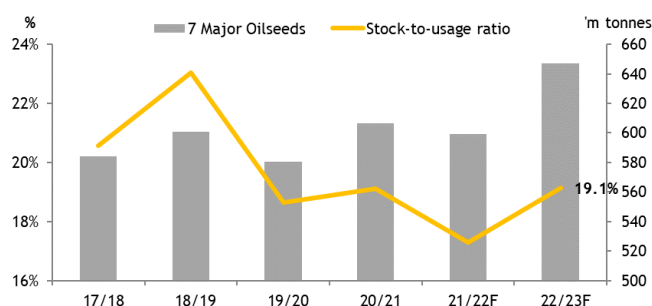
Source: Oil World

Fig.4: SUR of 10 Global Oilseeds & Soybean


Source: Oil World

Fig.5: Stock-to-usage ratio (SUR) and output of 9 major oils


Source: FAS USDA

Fig.6: Stock-to-usage ratio (SUR) and output of 7 major oilseeds


Source: FAS USDA

No major surprises from USDA Acreage Report

According to *USDA's Acreage Report* published on 30 June (Fig.7), the planted area for corn came in within trade expectations but soybean was ~2% below trade expectations. Corn plantings totalled 89.921m acres (-3.7% YoY) while soybean plantings came in at 88.325m acres (+1.3 YoY). Benchmarked against *USDA's Prospective Plantings* report published in March (based on US farmers' survey), the planted area was just 0.5% higher for corn but -2.9% lower for soybean.

Overall, we believe the USDA Acreage Report came in within market expectations. With these planted areas in place and assuming a normalized weather outlook, the USA should deliver stronger YoY crops.

[Note: USDA highlighted in the report that at the time of compiling the survey results, there were 15.81m acres of soybean left to be planted nationally (2021: 9.84m acres left to be planted) and 4.03m acres of corn left to be planted (2021: 2.18m acres)].

Fig.7: USDA 2022 Acreage ('millions of acres planted)

	USDA June 30, 2022	Analysts' Average Estimate	USDA 2021	YoY Change %	USDA (planting intentions on Mar 2022)
Corn	89.921	89.861	93.357	-3.7%	89.49
Soybeans	88.325	90.446	87.195	+1.3%	90.955
All Wheat	47.092	47.017	46.703	+0.8%	47.351
Crops Area Planted (Total)	316.281		317.157	-0.3%	

Sources: USDA, Reuters

Fig.8: USA's June 1, 2022 Crop Reserves ('billions of bushels)

	USDA June 1, 2022	Analysts' Average	USDA June 1, 2021	YoY Change %
Corn	4.346	4.343	4.111	+5.7%
Soybeans	0.971	0.965	0.769	+26.3%
All Wheat	0.660	0.655	0.845	-21.9%

Sources: USDA, Reuters

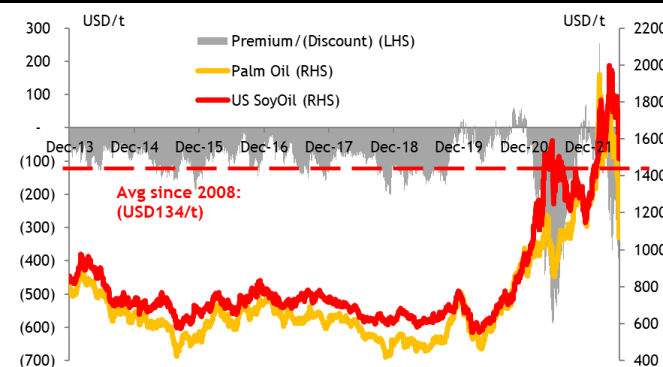
Maintaining our 2022E CPO ASP forecast of MYR5,000/t

1M FCPO price has come off sharply in the month of June to MYR5,088/t (30 June). As at 30 June, 1M FCPO is 38% off its peak on 1 March. The correction came earlier than we expected on a confluence of factors: (1) Indonesia lifted its export ban on 23 May leading to anticipation of a sudden gush in available global palm oil supplies as oil tanks are reportedly "overflowing" now; (2) to top that, there is also expectation of a seasonal pick up in CPO output in Malaysia and Indonesia in 2H22; (3) weather has been conducive in 2Q and hence the Northern Hemisphere planting has been progressing well (as confirmed by *USDA's Acreage Report*), fuelling concern over potentially strong YoY rebound in crops. Recall that last two year's oilseed crops were decimated by bad weather; (4) recent aggressive interest rate hike by the US Fed (with potentially more to come) has also dampened overall market sentiment.

We expect 2H22 CPO price to be weaker HoH on seasonal palm oil output recovery; possibly trending down to the MYR4,000/t price level by year end. With relatively good weather in the Northern Hemisphere, a normalized crop yield in 2H22 will pressure oilseeds prices. We are keeping our 2022E and 2023E CPO ASP assumptions at MYR5,000/t and MYR3,400/t respectively.

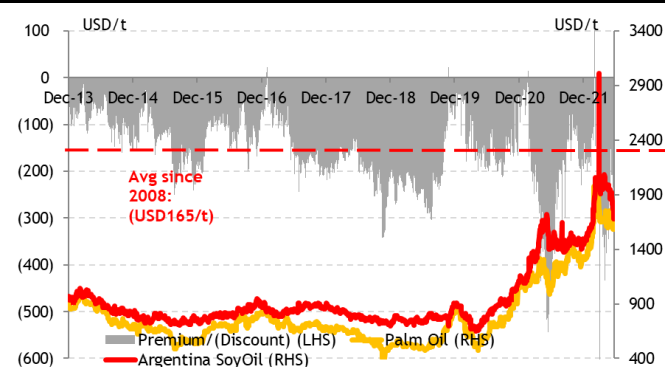
CPO price downside is presently supported by the present wide discount to other key vegetable oils such as soyoil and rapeseed oil (see Figs.7-10). And of late, the POGO (ie palm oil- gas oil) spread has turned more favourable with CPO price trading at USD68/t (on 29 June) discount to gas oil; possibly fuelling demand for discretionary biodiesel blend. The last time the POGO spread was favourable was back in 2018-2019 (Fig.11).

Fig.7: 1M palm oil price discount to US soybean oil at USD448/t (29 June 2022)



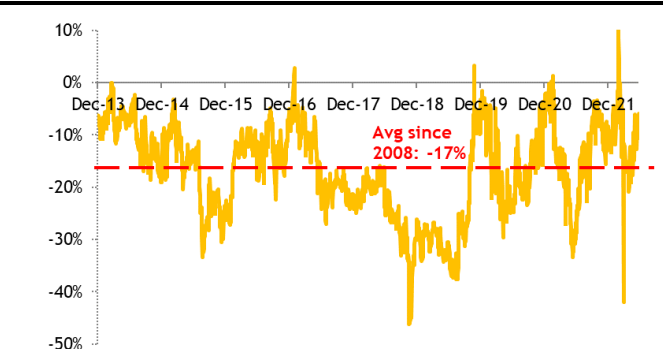
Source: Bloomberg

Fig.8: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD115/t (29 June 2022)



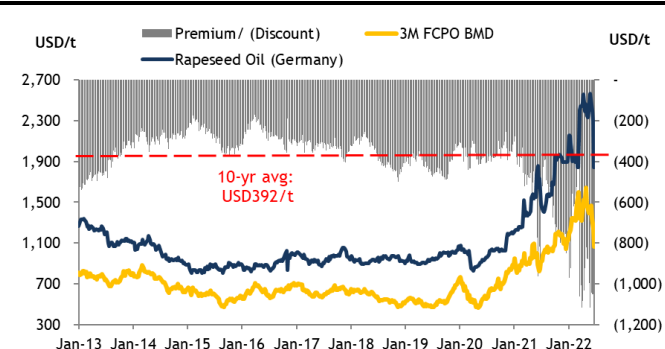
Source: Bloomberg

Fig.9: Palm oil price discount (in %) to Argentina soybean oil at 7% (29 June 2022)



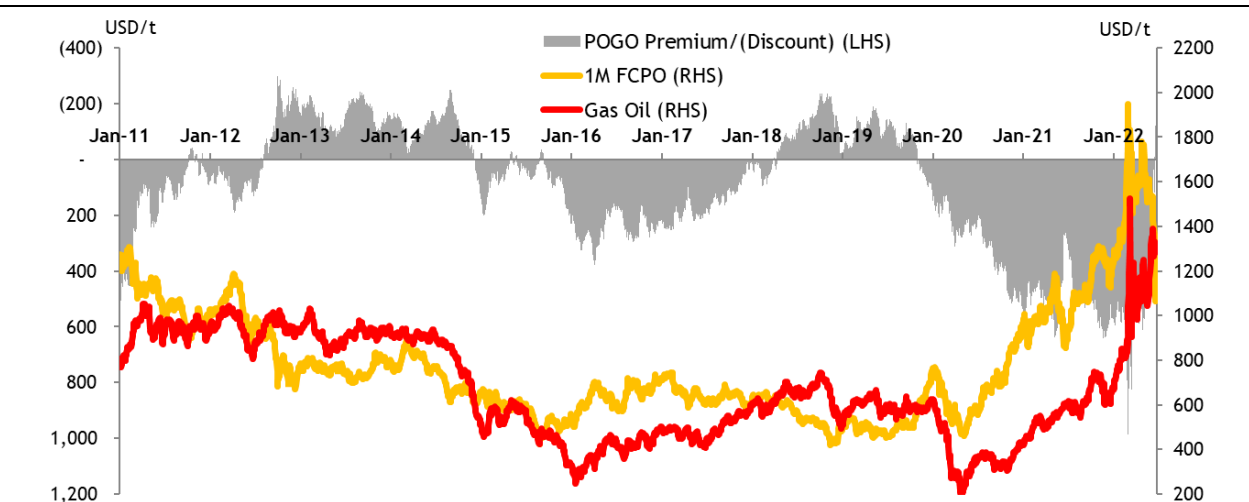
Source: Bloomberg

Fig.10: Palm Oil price premium to Germany rapeseed oil at USD781/t (24 June 2022)



Source: Bloomberg (quoted weekly)

Fig.11: Palm Oil-Gas Oil (POGO) is favourable with palm oil trading at USD68/t (29 June) discount to gas oil



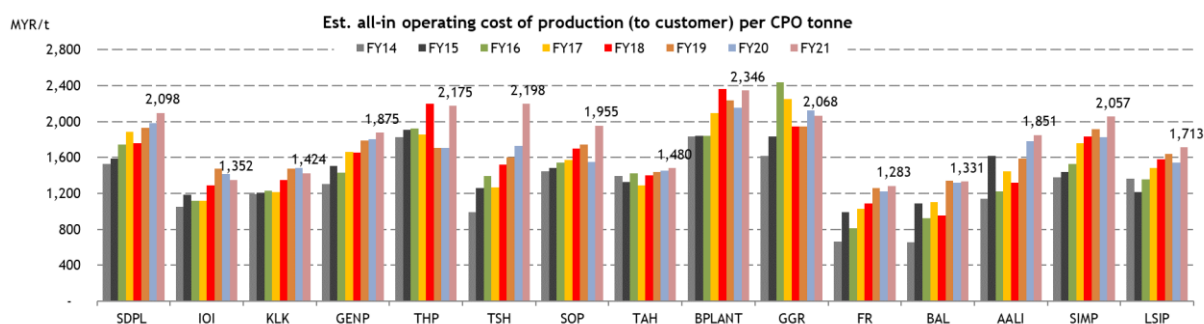
Source: Bloomberg

Promulgating a defensive strategy for 2H22

As we expect CPO price to trend lower the next 6-12 months, integrated players such as KLK and IOI typically exhibit greater earnings resilience compared to pure growers as the latter's earnings are more sensitive to CPO price movement. Companies with relatively lower operating cost structure as measured by all-in operating cost of production (to customer) per CPO tonne are also least sensitive to CPO price movements.

Efficient growers should weather lower CPO ASP better. In FY21, the industry's average all-in operating cost of production (to customer) was estimated at ~MYR1,900/t (Fig.12). For FY22E, higher fertiliser cost and new minimum wage in Malaysia (effective 1 May 2022) are likely to push the cost base higher. Based on our estimate, the industry's operating cost is likely to be less than MYR2,500/t for FY22E, while still giving some good margins for the more efficient growers such as IOI MK, KLK MK, TAH MK, FR SP and BAL SP.

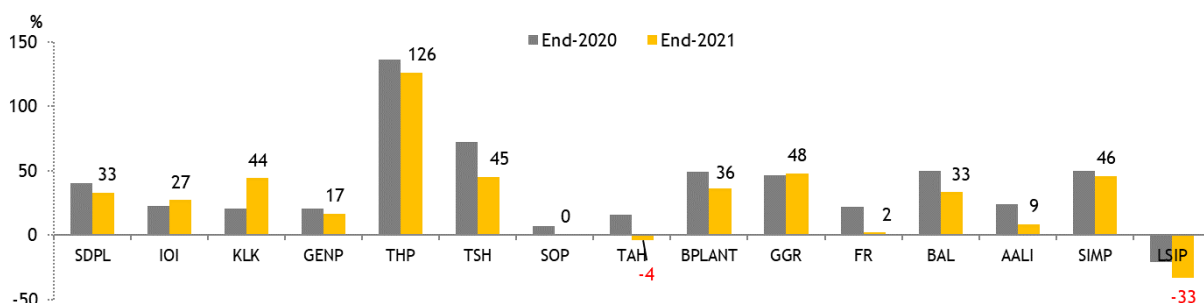
Fig. 12: Estimated all-in operating cost of production (to customer) per CPO tonne



Sources: Company, MIBG estimates

Be mindful of companies with high net gearing. Companies with the least gearing, preferably in net cash position, will offer the best downside protection against rising interest cost and/or falling CPO price. TAH MK and LSIP IJ are in net cash positions whereas SOP MK and FR SP have low net gearing of less than 10% (Fig.13) as at end-2021. In general, most companies we observed have manageable net gearing of less than 0.5x with the exception of THP MK which has high net gearing at above 1x. Amid falling CPO price and potential for further hikes in interest rate, investors ought to stay clear of stocks with high net gearing.

Fig. 13: Net gearing of planters in the region



Sources: Company, MIBG estimates

Sector picks: We are keeping our earnings forecasts as we maintain our 2022E and 2023E CPO ASP assumptions at MYR5,000/t and MYR3,400/t respectively. Stocks under our coverage are presently valued based on forward FY23 EPS, which better reflects longer-term sustainable prices and values. The KL Plantation Index has fallen 22% from its recent peak, and wiped out nearly all of this year's gains (Fig.17). While valuations are relatively more attractive now, especially the SMID caps, the high likelihood of further rate hikes by the Fed may continue to weigh on interest in the sector as the market turns risk-off, at least in the near term. Besides the Fed rate policy, the other key price determinant factor to watch for is weather development in the Northern Hemisphere, especially in July-Aug months. Any potential threat to crop yield due to unforeseen bad weather may once again ignite oilseeds and edible oils prices higher, and lift CPO price along with it.

Having said the above, we take this opportunity to refresh our stock calls and target prices after the recent market sell-off. A summary of changes to our target prices and stock calls are tabulated in Fig.14. Across the board, we have lowered the valuation basis to reflect market risk-off and regulatory risk in Indonesia. In terms of key changes, we now raise FR SP to HOLD (CP: SGD1.63, TP: SGD1.62) as we believe FR's sell-down has largely priced in the regulatory risk in Indonesia.

Overall, we maintain our NEUTRAL call on the sector. Our preferred BUYs are KLK MK and IOI MK. We have dropped BAL SP as one of our preferred BUYs due to regulatory risk in Indonesia relating to continuing uncertainty with regards to its export policy that has led to industry's tanks "overflowing" which in turn is hurting domestic CPO price in Indonesia. However, we believe this issue is temporary and that domestic CPO price will probably improve by late-July or early-Aug.

Fig. 14: Target prices and stocks calls for plantation stocks under coverage

BBG ticker	FYE	Stock call (Old)	Stock call (New)	Share price 30June MYR	Target price (Old) MYR	Target price (New) MYR	Stock price upside %	Valuation basis (Old)	Valuation basis (New)
<u>Malaysia listed</u>		MYR	MYR	A		B	B/A		
S.Darby Plant	SDPL	Dec	Hold	4.33	4.97	4.42	2	0.45x RNAV-TP	0.4x RNAV-TP on uncertainty over US CBP's Findings on forced labour impact on its EU operations and to reflect Indonesia's regulatory risk
KL Kepong	KLK	Sept	Buy	21.94	30.90	28.10	28	22x FY23 PER (-0.55SD 5Y mean)	20x FY23 PER (-0.75SD 5Y mean). We lower the PER peg to be reflect Indonesia's regulatory risk given 55% of its planted area is in Indonesia.
IOI Corp	IOI	June	Buy	3.84	4.87	4.21	10	22x CY23 PER (-1SD 5Y mean)	19x CY23 PER (-1.5SD 5Y mean) in line with peers' valuations
Genting Plantation	GENP	Dec	Hold	6.45	8.40	6.40	(0)	21x FY23 PER (-1SD 8Y mean)	16x FY23 PER (-1.5SD 8Y mean). We lower the PER peg to better reflect Indonesia's regulatory risk given ~60% of its planted area is in Indonesia
Sarawak Oil Palms	SOP	Dec	Hold	4.01	6.52	4.01	0	13x FY23 PER (5Y mean)	8x FY23 PER (-0.5SD 5Y mean) on market risk-off and waning SMID cap interest
Ta Ann	TAH	Dec	Hold	3.98	5.87	4.06	2	13x FY23 PER (-0.55SD 5Y mean)	9x FY23 PER (-1SD 5Y mean) on market risk-off and waning SMID cap interest
TSH Resources	TSH	Dec	Hold	1.06	1.43	0.98	(8)	16x FY23 PER (-0.75SD 5Y mean)	11x FY23 PER (-1SD 5Y mean). We lower the PER peg to be reflect Indonesia's regulatory risk given 85% of its planted area is in Indonesia. At 11x FY23 PER, this better reflects valuation of SMID cap peers
Boustead Plantations	BPLANT	Dec	Hold	0.83	1.03	0.87	5	RNAV-TP	Lower RNAV-TP as we cut the valuation of its past prime Sarawak estates of 10,285 ha that are earmarked for sale
TH Plantations	THP	Dec	Sell	0.61	0.73	0.55	(10)	0.8x FY23 PBV (5Y mean)	0.6x FY23 PBV (-1SD 5Y mean) on weakened earnings prospects given its high operating cost and high net gearing of >1x
<u>SG listed</u>		SGD	SGD	SGD	SGD	SGD			
First Resources	FR	Dec	Sell	1.63	1.94	1.62	(0)	12x FY23 PER (-1SD 5Y mean)	10x FY23 PER (-1.5SD 5Y mean) due to Indonesia's regulatory risk
Bumitama Agri	BAL	Dec	Buy	0.67	0.98	0.78	16	10x FY23 PER (5Y mean)	8x FY23 PER (-0.5SD 5Y mean) due to Indonesia's regulatory risk

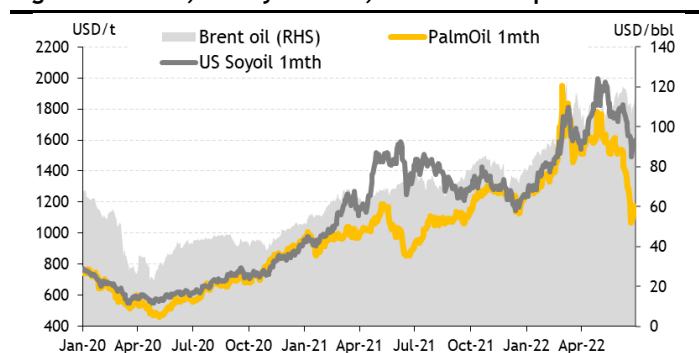
Source: Maybank IBG Research

Fig. 15: Geographical exposure (by oil palm planted area) for stocks under coverage

Company	Malaysia (%)	Indonesia (%)	Others (%)	Remarks
SDPL MK - Sime Darby Plantation	51	33	16	Integrated player
IOI MK - IOI Corporation	88	12	-	Integrated player
KLK MK - KL Kepong	43	55	2	Integrated player
GENP MK - Genting Plantations	41	59	-	Integrated player
THP MK - TH Plantations	97	3	-	
SOP MK - Sarawak Oil Palms	100	-	-	Integrated player
TAH MK - Ta Ann Holdings	100	-	-	
TSH MK - TSH Resources	15	85	-	
BPLANT MK - Boustead Plantations	100	-	-	
FR SP - First Resources	-	100	-	Integrated player
BAL SP - Bumitama Agri	-	100	-	

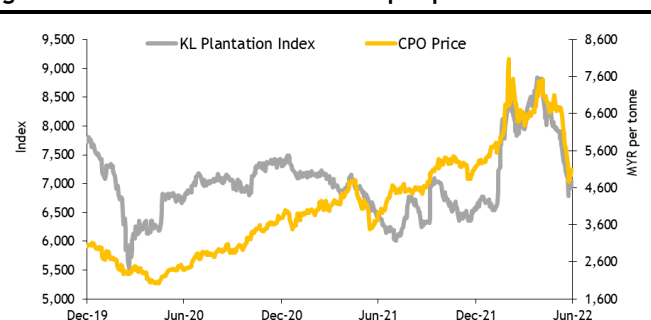
Source: Companies

Fig. 16: Palm oil, US soybean oil, and Brent oil prices



Source: Bloomberg

Fig. 17: KL Plantation Index vs CPO spot price



Source: Bloomberg

Risk statement

There are several risk factors that may affect our sector view, earnings estimates, price targets, and ratings of stocks under coverage. Key risks to the sector and companies are:

Upside risks: (i) Weaker-than-expected production recovery of palm oil and other vegetable oils in 2H22; (ii) Brent crude oil price inches closer to USD150/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions persisting into 2H22; (iv) Unfriendly government policies at producing or exporting countries; and (v) the Russia-Ukraine war extending into 2H22.

Downside risks: (i) Reversal of Brent crude oil price to sharply below USD80/barrel; (ii) Negative policies imposed by importing countries; (iii) Unfriendly government policies at producing or exporting countries; (iv) Production in 2022 turns out much stronger than expected; (v) Global demand turns out to be weaker than expected on demand destruction; and (vi) Weaker competing oil prices (like soybean and rapeseed).

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ili@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 DZULKAFI
(603) 2082 6818
zamros.d@maybank-ib.com

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

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

Luong Thu Huong
(65) 62315 8467
hana.thuluong @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, CFA
(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 • Industrials

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) 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.com
• Banking & Finance

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

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

THAILAND

Jesada TECHAHUSDIN, 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
Yuwanee.P@maybank.com
• Services • Healthcare

Wasu MATTANAPOTCHANART
(66) 2658 6300 ext 1392
wasu.m@maybank.com
• Telcos

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

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

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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