Wilmar International (WIL SP) A longer wait; D/G to HOLD

Weaker growth & prices may pressure vols & margins

Wilmar's 1H22 PAT (excluding one-offs) beat Street and was in-line with MIBG. Growth was primarily driven by higher upstream palm oil prices, where downside risks to ASPs are increasing. Concurrently, downstream demand and margin recovery may take longer in a backdrop of recession and prolonged Chinese lockdowns. We lower TP to SGD4.47 from SGD6.56 and downgrade to HOLD. We see limited near-term catalysts for re-rating. Prefer BAL for stronger growth, valuations and yield.

CPO price driven growth likely to moderate

We estimate 70% of 1H22 YoY PBT growth was from higher CPO prices in the Plantations & Sugar Milling segment. Improving supply conditions, better outlook for substitutes & potential flow of Indonesian inventories (which is in oversupply domestically), could dampen prices going forward. MIBG expects average CPO prices to retreat -32% YoY in 2023E. Even after such a price fall, CPO prices would be still be higher than the past 8-years (barring 2021). In the current inflationary backdrop this may drive demand destruction. We have lowered 2022-24E segment volumes by 21-27%.

Downstream prospects face recession, slower China

Typically, WIL's integrated business model would offset upstream margin squeeze with downstream expansion. However, in the current backdrop of recession, inflation and prolonged lockdowns in China, upside here may be limited, in our view. Management claims that in Food Products, ASP increases have not kept pace with rising input costs. 1H22 PBT/ton here fell 22% YoY after excluding the one-off gains from the Adani Wilmar IPO. The industrial oriented Tropical Oils segment saw volumes fall 9% YoY. While Management claims that crush margins are improving from their bottoms, demand growth is slow. Indeed, crush capacity utilisation is just over 50%. With significant uncertainty around China's eventual re-opening plus regional markets and Europe facing slowdown and recessions, our adjustments to volumes and margins lowers 2022-24E NPAT by 1-11%.

New TP: SGD4.47. Downgrade to HOLD. Prefer BAL

We roll forward our valuations to 2023E. Our blended DCF (WACC 5.3%, 1% terminal growth) and peer PE (target PE 29x vs. 24x after mark-to-market valuations) have been lowered to SGD4.47 from SGD6.56. We have lowered the peer weighting in our blend to 10% (c. 20%) given the massive discount WIL trades to its own listed parts elsewhere. We see limited catalysts for the stock to re-rate until better clarity on Chinese re-opening and global growth comes. Downgrade to HOLD. Prefer BAL (BAL SP, SGD0.63, BUY, TP: SGD0.98) from a strong output outlook, valuations and yield.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	50,527	65,794	76,001	71,063	73,843
EBITDA	3,338	3,885	4,175	4,080	4,565
Core net profit	1,534	1,890	1,918	1,794	2,044
Core FDEPS (cts)	24.1	29.7	30.2	28.2	32.2
Core FDEPS growth(%)	18.3	23.2	1.5	(6.5)	13.9
Net DPS (cts)	19.5	15.5	16.3	15.3	17.4
Core FD P/E (x)	14.6	10.3	10.3	11.1	9.7
P/BV (x)	1.2	1.0	0.9	0.9	0.8
Net dividend yield (%)	5.5	5.0	5.2	4.9	5.6
ROAE (%)	8.6	9.7	10.2	8.3	9.0
ROAA (%)	3.1	3.4	3.2	3.0	3.4
EV/EBITDA (x)	13.6	12.5	12.0	11.7	10.3
Net gearing (%) (incl perps)	95.6	116.9	116.2	101.6	93.6
Consensus net profit	-	-	1,791	1,858	2,036
MKE vs. Consensus (%)	-	-	16.9	(3.4)	0.4

Thilan Wickramasinghe thilanw@maybank.com (65) 6231 5840



HOLD

[Prior:BUY]

Share Price	SGD 4.30
12m Price Target	SGD 4.47 (+4%)
Previous Price Target	SGD 6.56

Company Description

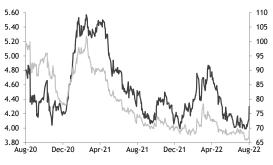
Wilmar International Ltd. is an investment holding company, which engages in the processing, merchandising, and distribution of agricultural products

Statistics

52w high/low (SGD)	4.87/3.99
3m avg turnover (USDm)	20.4
Free float (%)	29.3
Issued shares (m)	6,403
Market capitalisation	SGD27.5B
	USD20.0B
Major shareholders:	
Archer-Daniels-Midland Co.	21.9%
PPB Group Bhd.	18.3%
Longhlin Asia Ltd.	7.2%

Price Performance

Wilmar Int'l - (LHS, SGD)



	-1M	-3M	-12M
Absolute (%)	7	(2)	(4)
Relative to index (%)	2	0	(7)
Source: FactSet			

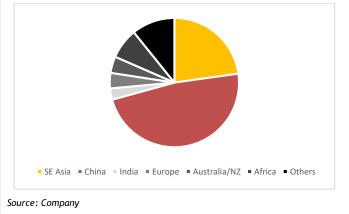


Wilmar Int'l / Straits Times Index - (RHS, %)

Value Proposition

- Over 90% of WIL's revenues are generated in high growth emerging markets, including China, India, SE Asia and Africa
- The group has built market leading positions and brands in essential food items and staples including cooking oil, flour, rice, sugar, animal feed in these markets
- A 30-year execution track record has seen it get access to scarce upstream production assets, such as palm oil plantations and sugar mills, and port-based, processing assets such as soybean crushing facilities and sugar mills and downstream distribution logistics
- Their integrated supply chains allows for better margin management and scale

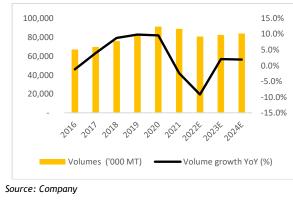
WIL revenue by geography 2021



Financial Metrics

- Expect overall capex to remain elevated in the near to medium term as the Group invests in new facilities as well as central kitchen business. We forecast capex in the USD2.0-2.3bn range in 2022-24E
- Expect adjusted gearing (stripping out near cash inventories) to fall to 59% un 2024E vs. 70% in 2021
- Overall volumes could decline 9.2% YoY given China lockdowns and demand destruction in 2022E, while 2023E should see a 2% YoY recovery

Group volumes



Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 1. Profit warning on trading losses in soybeans plus lower sugar production in Australia due to drought
- 2. Fears of African Swine Flu combined with US-China trade tensions
- 3. Start of the Covid-19 pandemic
- 4. Increased news flow of YKA listing in China
- 5. Higher palm oil price outlook

Swing Factors

Upside

- A faster than expected lifting of Chinese lockdowns and reopening
- Holding company gap closing between parent and its listing in China and India
- Monetisation of a new product under R&D through their investments in biotechnology, clinical nutrition, AI may result in upside surprise
- •

Downside

- Revocation of licenses, operating bans, activism due to ESG related issues can have a material downside impact
- Limiting credit facilities or imposing utilization restrictions by lenders may have a significant impact
- Government policy changes such as export bans and tariffs restricting supply chain operations

thilanw@maybank.com

1H22 Results summary

Fig 1: 1H22 results summary

USDm	1H22	1H21	YoY (%)	2H21	HoH(%)	Comments
Revenue	36,134	29,534	22	36,259	(0)	Higher commodity prices and increased sales from food products, feed and industrials
Cost of Sales	(32,445)	(26,203)	24	(32,40 0)	0	Higher input costs
Gross Profit	3,689	3,332	11	3,860	(4)	
EBITDA	2,003	1,719	17	2,166	(7)	Largely driven by higher upstream ASPs
EBIT	1,434	1,167	23	1,574	(9)	
Net finance income	(164)	(112)	47	(142)	16	Lower effective interest rates on deposits
Share of results of JVs & Associates	153	139	10	80	91	Stronger performance in African palm oil plantations
Other pre-tax income	13	21	(40)	37	(66)	Mark-to-market changes in investment portfolio
PBT	1,436	1,216	18	1,550	(7)	
Profit after tax	1,105	866	28	1,201	(8)	
Core Net profit	989	751	32	1,139	(13)	49% of MIBG, 54% of Street 2022E
Exceptionals	176	-		-		Gain from the dilution of interest in Adani Wilmar in 1Q22
Net Profit	1,165	751	55	1,139	2	
Total volumes ('000 MT)	40,586	41,601	(2)	47,119	(14)	Weaker sugar and tropical oils volumes
PBT per Metric Tonne (USD/MT)						
Food Products	25	32	(22)	17	48	Tigher consumer margins from higher input costs
Feed & Industrial Products	20	18	11	27	(25)	Improving crush margins after bottoming out
Plantation and Sugar Milling	219	78	182	119	84	Higher CPO prices

Source: Company data, Maybank IBG Research

Key estimate changes

Fig 2: Key estimate changes

		2022E			2023E			2024E	
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	71,834	76,001	6%	76,166	71,063	-7%	79,053	73,843	-7%
Cost of Sales	(61,699)	(65,983)	7%	(63,374)	(58,633)	-7%	(63,719)	(58,586)	-8%
Gross Profit	10,135	10,018	-1%	12,792	12,430	-3%	15,334	15,257	-1%
EBITDA	4,292	4,175	-3%	4,443	4,080	-8%	4,644	4,565	-2%
Profit from segmental operations	2,786	2,631	-6%	2,778	2,450	-12%	2,857	2,816	-1%
Food Products	716	682	-5%	757	751	-1%	801	787	-2%
Feed and Industrial Products	1,457	1,062	-27%	1,472	1,138	-23%	1,516	1,509	0%
Plantation and Sugar Milling	562	833	48%	495	511	3%	484	468	-3%
Others	55	59	6%	59	55	-7%	61	57	-7%
Income tax	(749)	(710)	-5%	(747)	(664)	-11%	(767)	(757)	-1%
Core Net profit	2,024	1,918	-5%	2,018	1,794	-11%	2,073	2,044	-1%
Capex	2,500	2,500	0%	2,300	2,300	0%	2,000	2,000	0%
Food Products									
Sales volume ('000)	29,139	27,759	-5%	29,927	28,314	-5%	30,438	28,792	-5%
PBT/MT	24.6	24.6	0%	25.3	26.5	5%	26.3	27.3	4%
Feed and Industrial Products									
Sales volume ('000)	55,268	48,765	-12%	56,373	49,740	-12%	57,500	50,735	-12%
PBT/MT	26.4	21.8	-17%	26.1	22.9	-12%	26.4	29.7	13%
Plantation and Sugar Milling									
Sales volume ('000)	5,551	4,033	-27%	5,434	4,119	-24%	5,314	4,195	-21%
PBT/MT	101.2	206.6	104%	91.1	123.9	36%	91.1	111.6	22%

Source: Maybank IBG Research

Key assumptions

Fig 3: Key assumptions

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Tropical Oils								
Revenue growth	7%	-6%	-9%					
Sales volume growth	-1%	5%	12%					
PBT/tonne growth	-42%	30%	47%					
Oilseeds & Grains								
Revenue growth	11%	13%	-4%					
Sales volume growth	13%	12%	-1%					
PBT/tonne growth	157%	8%	-26%					
Sugar								
Revenue growth	-18%	-16%	17%					
Sales volume growth	-8%	7%	16%					
PBT/tonne growth	-121%	387%	-102%					
Food Products								
(reclassified)								
Revenue growth				22%	25%	9 %	10%	5%
Sales volume growth				12%	4%	-2%	2%	2%
PBT/tonne growth				6%	-43%	2%	8%	3%
Feed and Industr	ial Products							
	reclassified)							
Revenue growth				20%	34%	8%	-15%	3%
Sales volume growth				11%	-5%	-11%	2%	2%
PBT/tonne growth				14%	67%	-5%	5%	30%
Plantation and Sugar Milling (reclassified)							
Revenue growth				2%	69 %	127%	-29%	2%
Sales volume growth				-11%	-3%	-26%	2%	2%
PBT/tonne growth				-386%	457%	100%	-40%	-10%
Operating expenses	-7.7%	5.8%	1.3%	29.6%	28.9%	54.0%	36.5%	25.0%
growth								
Finance income yield (%)	3.1%	4.3%	4.2%	4.0%	3.2%	3.2%	3.2%	3.2%
Finance expense cost (%)	2.6%	3.5%	3.8%	2.8%	2.0%	2.5%	2.5%	2.5%
Effective Tax (%)	18.1%	21.7%	21.9%	26.8%	25.3%	25.3%	25.3%	25.3%
Dividend payout ratio (%)	39%	43%	45%	58%	39%	40%	40%	40%
Borrowing								
Short term	81%	76%	77%	74%	77%	77%	77%	77%
Long term	19%	24%	23%	26%	23%	23%	23%	23%

Source: Company data, Maybank IBG Research

Valuation

DCF

Fig 4: DCF

Valuation												
Risk Free rate	2.5%											
Expected market return	6.5%											
Beta	1.12											
COE	9.8%											
Long term cost of debt	6.0%											
Long term debt:equity	80%											
2019E Tax rate	27%											
WACC	5.5%											
Terminal growth	1.0%											
	0	1	2	3	4	5	6	7	8	9	10	15
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	ТМ
Profit before Tax	2,625	2,991	2,463	1,953	1,826	1,909	1,934	1,947	1,913	1,927	1,942	
PBT growth YoY (%)	-6%	14%	-18%	-21%	-7%	5%	1%	1%	-2%	1%	1%	
Operating Cashflow	3,452	3,846	3,534	3,197	2,374	2,100	2,127	2,141	1,855	1,869	1,884	
Changes to working capital	1,733	(281)	8	61	61	61	61	61	61	61	61	
Capex	(2,300)	(2,000)	(2,000)	(1,950)	(1,100)	(800)	(800)	(800)	(500)	(500)	(500)	
Free cash flow to firm	2,885	1,565	1,542	1,308	1,334	1,361	1,388	1,402	1,416	1,430	1,444	33,638
FCF growth YoY (%)	-325%	-46%	-1%	-15%	2%	2%	2%	1%	1%	1%	1%	1%
Enterprise value	31,808											
Net debt excluding near cash inventories	14,769											
Fair value	17,039											
Weighted avg. shares outstanding ('000)	6,347											
Fair value per share (USD)	2.68											
USDSGD FX	0.726											
Fair value per share (SGD)	3.70											

Source: Maybank IBG Research

Peer basket

Fig 5: Peer valuation

Ticker	Name	Listing	Price	Market Cap	1-yr FWD PE	Rating	Revenue Weighting
			(LCY)	(USD bn)	(x)		
China							
000876 CH Equity	New Hope Liuhe Co Ltd	China	15.10	10.08	11.2	Not Rated	
600438 CH Equity	Tongwei Co Ltd	China	49.77	33.20	13.4	Not Rated	
300999 CH Equity	Yihai Kerry Arawana Holdings	China	47.67	38.30	34.3	Not Rated	
Mkt C	ap Weighted Average				22.9		50%
Developed Mkts							
2002 JT Equity	Nisshin Seifun Group	Japan	1596	3.65	22.0	Not Rated	
GLEN LN Equity	Glencore	UK	459.75	73.11	6.0	Not Rated	
ADM US Equity	ADM	US	82.02	45.98	13.4	Not Rated	
BG US Equity	Bunge	US	95.05	14.44	8.2	Not Rated	
	ap Weighted Average				9.2		10%
Emerging Mkts							
INDF IJ Equity	Indofood Sukses TBK	Indonesia	6650	3.92	6.6	BUY	
OLAM SP Equity	Olam International	Singapore	1.61	4.50	9.7	Not Rated	
GGR SP Equity	Golden Agri	Singapore	0.28	2.58	6.2	Not Rated	
AWLTD IN Equity	Adani Wilmar	India	692.8	11.3	76.3	Not Rated	
Mkt C	ap Weighted Average				42.5		40%
Weighte	ed Average Target PE				29.4	х	
2023E EPS					0.283	USD	
Target share price					8.31	USD	
USDSGD FX					0.726		
Peer baske	t driven target price				11.44		

Source: Maybank IBG Research

Blended valuation

Fig 6: Target price

Blended Target Price	SGD	Weighting
Mulit-stage DCF (WACC 5.3%, 1% terminal)	3.70	90%
Peer basket driven TP (29x PE target)	11.44	10%
Blended TP	4.47	
Upside/Downside (%)	8%	
PE at TP (2023E)	11.5	
PB at TP (2023E)	0.9	

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24
Key Metrics					
P/E (reported) (x)	12.3	11.8	9.5	11.0	9.1
Core P/E (x)	14.6	10.3	10.3	11.0	9.1
Core FD P/E (x)	14.6	10.3	10.3	11.1	9.1
P/BV (x)	1.2	1.0	0.9	0.9	0.8
P/NTA (x)	1.7	1.3	1.3	1.2	1.1
Net dividend yield (%)	5.5	5.0	5.2	4.9	5.
FCF yield (%)	nm	nm	nm	14.6	7.9
EV/EBITDA (x)	13.6	12.5	12.0	11.7	10.
EV/EBIT (x)	19.8	17.7	16.5	17.1	14.9
INCOME STATEMENT (USD m)					
Revenue	50,526.8	65,793.6	76,000.6	71,062.9	73,842.
EBITDA	3,338.0	3,884.5	4,175.2	4,079.5	4,565.
Depreciation	(1,055.4)	(1,143.2)	(1,145.2)	(1,284.1)	(1,411.6
Amortisation	0.0	0.0	0.0	0.0	0.
EBIT	2,282.5	2,741.3	3,030.1	2,795.4	3,153.
Net interest income / (exp)	(231.3)	(253.1)	(457.2)	(403.9)	(396.3
Associates & JV	202.2	219.5	175.3	175.3	175.
Exceptionals	0.0	0.0	175.6	0.0	0.
Other pretax income	57.6	58.2	58.2	58.2	58.
Pretax profit	2,311.1	2,765.9	2,982.0	2,625.0	2,990.
Income tax	(620.1)	(699.6)	(709.9)	(664.0)	(756.5
Minorities	(156.9)	(175.9)	(178.4)	(166.9)	(190.2
Discontinued operations	0.0	0.0	0.0	0.0	0.
Reported net profit	1,534.1	1,890.4	2,093.7	1,794.1	2,044.
Core net profit	1,534.1	1,890.4	1,918.1	1,794.1	2,044.
BALANCE SHEET (USD m)					
Cash & Short Term Investments	2,706.2	2,692.5	955.5	2,775.0	3,041.
Accounts receivable	5,277.9	6,833.4	7,893.5	7,380.7	7,669.
Inventory	9,436.2	11,738.7	13,217.0	11,744.8	11,735.
Property, Plant & Equip (net)	12,806.2	14,230.7	15,005.0	16,020.9	16,609.
Intangible assets	5,445.7	5,393.9	5,393.9	5,393.9	5,393.
Investment in Associates & JVs	3,350.5	3,506.5	3,506.5	3,506.5	3,506.
Other assets	11,997.4	14,322.7	13,592.9	13,009.0	12,542.
Total assets	51,020.0	58,718.4	59,564.4	59,830.9	60,497.
ST interest bearing debt	17,145.9	22,291.8	21,864.6	21,437.4	21,010.
Accounts payable	1,613.4	2,009.1	2,262.1	2,010.1	2,008.
LT interest bearing debt	6,003.6	6,822.6	6,691.9	6,561.1	6,430.
Other liabilities	4,874.0	4,993.0	4,993.0	4,993.0	4,993.
Total Liabilities	29,636.7	36,116.1	35,811.2	35,001.2	34,441.
Shareholders Equity	18,882.4	19,923.9	21,074.7	22,151.2	23,377.
Minority Interest	2,501.0	2,678.5	2,678.5	2,678.5	2,678.
Total shareholder equity Total liabilities and equity	21,383.3 51,020.0	22,602.3 58,718.4	23,753.2 59,564.4	24,829.7 59,830.9	26,056. 60,497.
	51,020.0	30,710.4	37,304.4	37,030.7	00,477.0
CASH FLOW (USD m)					
Pretax profit	2,311.1	2,765.9	2,982.0	2,625.0	2,990.
Depreciation & amortisation	1,055.4	1,143.2	1,145.2	1,284.1	1,411.
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.
Change in working capital	(2,578.9)	(3,462.5)	(2,285.4)	1,733.1	(280.9
Cash taxes paid	(620.1)	(699.6)	(709.9)	(664.0)	(756.5
Other operating cash flow	216.4	(182.9)	260.5	207.2	199.
Cash flow from operations	383.9	(435.9)	1,392.4	5,185.5	3,564.
Capex	(1,976.0)	(2,526.8)	(2,500.0)	(2,300.0)	(2,000.0
Free cash flow	(1,592.1)	(2,962.6)	(1,107.6)	2,885.5	1,564.
Dividends paid	(618.6)	(968.3)	(767.2)	(717.7)	(817.7
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.
Change in Debt	886.8	(642.4)	171.8	25.9	(90.9
Other invest/financing cash flow	1,916.9	4,559.7	141.5	(374.2)	(389.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.
Net cash flow	593.0	(13.6)	(1,561.4)	1,819.5	266.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.5	30.2	15.5	(6.5)	3.9
EBITDA growth	19.0	16.4	7.5	(2.3)	11.9
EBIT growth	18.3	20.1	10.5	(7.7)	12.8
Pretax growth	36.1	19.7	7.8	(12.0)	13.9
Reported net profit growth	22.7	23.2	10.8	(14.3)	13.9
Core net profit growth	18.6	23.2	1.5	(6.5)	13.9
Profitability ratios (%)					
EBITDA margin	6.6	5.9	5.5	5.7	6.2
EBIT margin	4.5	4.2	4.0	3.9	4.3
Pretax profit margin	4.6	4.2	3.9	3.7	4.1
Payout ratio	80.7	52.0	49.5	54.0	54.0
DuPont analysis					
Net profit margin (%)	3.0	2.9	2.8	2.5	2.8
Revenue/Assets (x)	1.0	1.1	1.3	1.2	1.2
Assets/Equity (x)	2.7	2.9	2.8	2.7	2.6
ROAE (%)	8.6	9.7	10.2	8.3	9.0
ROAA (%)	3.1	3.4	3.2	3.0	3.4
Liquidity & Efficiency					
Cash conversion cycle	90.4	87.0	91.3	102.2	96.5
Days receivable outstanding	33.9	33.1	34.9	38.7	36.7
Days inventory outstanding	69.7	65.0	68.1	76.6	72.1
Days payables outstanding	13.2	11.1	11.7	13.1	12.3
Dividend cover (x)	1.2	1.9	2.0	1.9	1.9
Current ratio (x)	1.2	1.1	1.1	1.1	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.7	1.7	1.8
Net gearing (%) (incl perps)	95.6	116.9	116.2	101.6	93.6
Net gearing (%) (excl. perps)	95.6	116.9	116.2	101.6	93.6
Net interest cover (x)	9.9	10.8	6.6	6.9	8.0
Debt/EBITDA (x)	6.9	7.5	6.8	6.9	6.0
Capex/revenue (%)	3.9	3.8	3.3	3.2	2.7
Net debt/ (net cash)	20,443.3	26,421.9	27,601.0	25,223.5	24,399.3

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@mavbank-ib.com

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

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

FΧ

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

• Chartist

(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

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

Richard SUHERMAN (62) 21 8066 8691 richard.suherman@maybank.com • Metals & Mining

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

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

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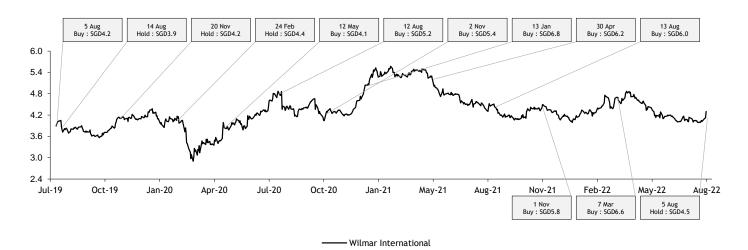
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👩 Malaysia

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

e 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

📀 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 Rov

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

📀 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

🐔 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)

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

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

👩 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

🌏 Vietnam

Maybank Securities Limited Floor 10, Pearl 5 Tower, 5 Le Quy Don Street, Vo Thi Sau Ward, District 3 Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888 Fax : (84) 28 38 271 030

👩 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

www.maybank-ke.com | www.maybank-keresearch.com