

Sime Darby Plantation (SDPL MK)

A substantial one-off land disposal gain for FY23E?

Potentially higher DPS in FY23E

We are positive on the potential disposal of Sungai Kapar estate (near Bandar Bukit Raja in Klang) measuring 948.826 acres for MYR618m; equivalent to MYR1.61m per ha or -MYR14.95psf (before conversion). By our rough estimation, the disposal is likely to net SDPL a one-off gain of MYR519m-535m or 7.5-7.7sen/sh. Keeping HOLD and RNAV-TP of MYR4.42 on 0.4x RNAV peg. We prefer KLK MK (BUY, CP: MYR22.34, TP: MYR28.10).

SDPR exercising a call option agreed back in 2017

Sime Darby Property (SDPR MK, BUY, CP: MYR0.485, TP: MYR0.54) announced that it has issued a notice to SDPL to exercise a call option under the Call Option Agreement (OCA; see overleaf for a quick recap of the OCA following the demerger of Sime Darby in 2017 into 3 separate and independent listed entities with distinct businesses) to acquire the Sungai Kapar Estate in Selangor measuring 948.826 acres (of freehold agri land) at a purchase price of MYR618m; equivalent of MYR1.61m per ha or -MYR14.95psf (before conversion). This is the market value based on valuation conducted by Jones Lang Wootton, the independent valuer jointly appointed by SDPR and SDPL based on agricultural status with development potential.

Shareholders' approval will be required

Upon execution of the sale and purchase agreement (SPA) between SDPR and SDPL, the approval of shareholders will be required at an EGM to be convened. This transaction is deemed a related party transaction. If successful, we believe this transaction may complete by early FY23E.

Potential one-off net gain of MYR519m-535m

Assuming the land is currently sitting in the books at MYR0.50-1.00psf, we estimate that SDPL will likely pocket a one-off net disposal gain of MYR519m-535m after netting off 10% RGPT as well as other costs. This translates to 7.5sen-7.7sen/sh in incremental non-recurring EPS (or +30%-31% of our FY23E EPS). We make no change to our forecast for now.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	13,081	18,695	18,388	18,501	18,844
EBITDA	2,856	5,064	5,198	4,046	3,880
Core net profit	999	2,384	2,503	1,735	1,582
Core EPS (sen)	14.5	34.5	36.2	25.1	22.9
Core EPS growth (%)	1,022.4	137.5	5.0	(30.7)	(8.8)
Net DPS (sen)	11.6	20.3	24.1	15.0	13.7
Core P/E (x)	34.4	10.9	12.1	17.5	19.2
P/BV (x)	2.5	1.7	1.9	1.8	1.7
Net dividend yield (%)	2.3	5.4	5.5	3.4	3.1
ROAE (%)	8.8	15.6	17.6	10.4	9.1
ROAA (%)	3.5	8.1	8.1	5.5	5.0
EV/EBITDA (x)	14.5	6.4	6.9	8.7	8.9
Net gearing (%) (incl perps)	40.4	32.8	25.7	21.2	18.6
Consensus net profit	-	-	2,579	1,916	1,594
MKE vs. Consensus (%)	-	-	7.7	(9.5)	(0.8)

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

HOLD

Share Price	MYR 4.39
12m Price Target	MYR 4.42 (+6%)
Previous Price Target	MYR 4.42

Company Description

SDPL is an integrated plantation company with the largest oil palm planted area, and largest CPO and CSPO producer in the world.

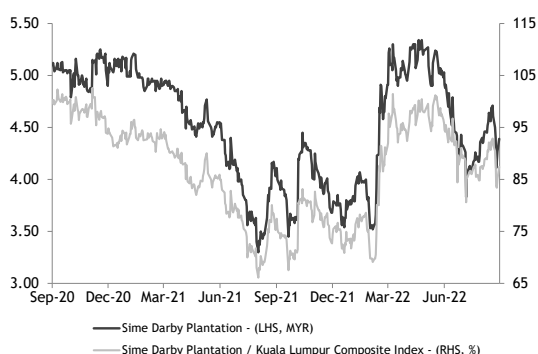
Statistics

52w high/low (MYR)	5.34/3.45
3m avg turnover (USDm)	4.0
Free float (%)	48.0
Issued shares (m)	6,916
Market capitalisation	MYR30.4B USD6.8B

Major shareholders:

Permodalan Nasional Berhad (total)	57.0%
EPF	14.9%
KWAP	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(13)	5
Relative to index (%)	0	(10)	12

Source: FactSet

A recap of the call option agreement with Sime Darby Property (SDPR)

Option to sell 11,806 acres to SDPR over 5 years (+3 years extension)

On 25 Aug 2017, SDPL entered into the several Call Option Agreements (OCA) with Sime Darby Property (SDPR) pursuant to which SDPR was granted call options to purchase the following identified parcels of lands, at any time during the option period (i.e. 5 years, with an option to extend for another 3 years, commencing from the listing date of SDPR (ie. 30 Nov 2017).

The purchase price will be determined by an agreed independent valuer subject to the terms and conditions of the respective agreements, which include, among others, the prior approval of shareholders. The agreed independent valuer shall value the land based on agricultural status with development potential, using the methodology as it may determine. The option is granted for a nominal consideration of MYR10.

- (i) 1,862 acres of land located within Kulai A estate and 3,186 acres within Kulai B estate in Johor;
- (ii) 2,000 acres of land located within Sepang estate in Selangor;
- (iii) **993 acres of land located within Sungai Kapar estate in Selangor;**
- (iv) 2,000 acres of land located within West Estate, Carey Island, Jugra Kuala Langat in Selangor;
- (v) 485 acres of land located within Lothian estate in Selangor;
- (vi) 864 acres of land located within Byram estate in Pulau Pinang;
- (vii) 268 acres of land located within Ainsdale West estate in Negeri Sembilan;
and
- (viii) 148 acres of land located within Bukit Selarong estate in Kedah.

Collectively, these estates measure ~11,806 acres (or ~4,780 ha) in size.

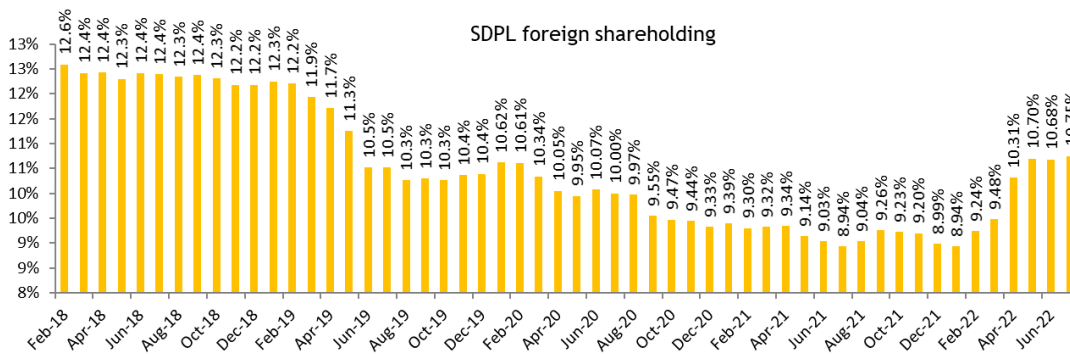
Fig 1: SDPL - Revised Net Asset Value (RNAV)

FYE Dec	Status	Size Hectare	Estimated Market price MYR psf	Estimated Market Value MYR 'm	Remarks MYR per hectare (equivalent)
Selangor	Freehold	36,153*	5.00	19,449	537,966
Malacca	Freehold	14,779*	2.00	3,180	215,186
Negeri Sembilan	Freehold	36,020*	2.00	7,751	215,186
Johor	Freehold	54,518*	1.50	8,799	161,390
Pahang	Freehold	9,336*	1.00	1,004	107,593
Perak	Freehold	37,155*	1.50	5,996	161,390
Kedah	Freehold	18,885*	1.00	2,032	107,593
Value of estates with property development potential		206,846*		48,212	
	** Adj EBIT FY12/23	Adj EBIT less tax	Target multiple		
Plantation (MYR 'm)	1,745	1,326	25x	33,147	
Downstream (MYR 'm)	256	195	12x	2,337	
Associate/ JV company (BV)				393	
Cash				1,355	As at 31 Dec 2022
Debt				(6,248)	As at 31 Dec 2022
Perpetual Sukuk				(2,231)	As at 31 Dec 2022
Minority Interest				(474)	As at 31 Dec 2022
Total RNAV (MYR 'm)				76,490	
No of shares ('m)				6,916	
RNAV per share				11.06	
At 0.4x RNAV				4.42	

Source: Company, Maybank IBG Research; *Freehold land per annual report

** Annualised and adjusted to exclude EBIT of estates with property development potential to avoid double counting

Fig 2: SDPL's foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Sime Darby Plantation (SDPL). Key risks to the palm oil sector and SDPL 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, Indonesian, Papua New Guinea and EU governments on upstream or downstream segments; (v) sharply lower crude oil prices which makes palm biodiesel demand not viable; (vi) weaker competing oil prices (like soybean and rapeseed); and (vii) sanctions by key customers following audit findings and assessment by *Impactt*.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	29.0	13.0	10.9	17.5	19.2
Core P/E (x)	34.4	10.9	12.1	17.5	19.2
P/BV (x)	2.5	1.7	1.9	1.8	1.7
P/NTA (x)	3.2	2.1	2.3	2.1	2.1
Net dividend yield (%)	2.3	5.4	5.5	3.4	3.1
FCF yield (%)	3.1	7.7	9.5	6.6	5.1
EV/EBITDA (x)	14.5	6.4	6.9	8.7	8.9
EV/EBIT (x)	25.3	8.6	9.3	13.3	14.5

INCOME STATEMENT (MYR m)

Revenue	13,081.0	18,695.0	18,388.1	18,501.2	18,844.0
EBITDA	2,855.5	5,064.0	5,197.8	4,046.3	3,880.5
Depreciation	(1,224.5)	(1,329.0)	(1,355.2)	(1,423.2)	(1,491.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,631.0	3,735.0	3,842.6	2,623.1	2,389.4
Net interest income / (exp)	(99.0)	(74.0)	(69.3)	(40.8)	(21.4)
Associates & JV	4.0	35.0	15.0	15.0	15.0
Exceptionals	455.0	(94.0)	275.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,991.0	3,602.0	4,063.3	2,597.3	2,383.0
Income tax	(466.0)	(1,109.0)	(1,056.5)	(671.4)	(615.7)
Minorities	(53.0)	(112.0)	(104.5)	(66.9)	(61.4)
Perpetual securities	(125.0)	(124.0)	(124.3)	(124.3)	(124.3)
Discontinued operations	(162.0)	0.0	0.0	0.0	0.0
Reported net profit	1,185.0	2,257.0	2,778.0	1,734.7	1,581.6
Core net profit	999.0	2,383.6	2,503.0	1,734.7	1,581.6

BALANCE SHEET (MYR m)

Cash & Short Term Investments	309.0	589.0	1,355.3	1,878.4	2,065.2
Accounts receivable	1,442.6	2,074.6	2,015.1	2,027.5	2,065.1
Inventory	1,569.0	2,466.0	2,357.7	2,099.4	2,403.4
Property, Plant & Equip (net)	17,283.0	17,211.0	17,365.8	17,452.6	17,471.4
Intangible assets	2,789.0	2,819.0	2,819.0	2,819.0	2,819.0
Investment in Associates & JVs	78.0	378.0	393.0	408.0	423.0
Other assets	4,849.4	4,800.4	4,800.4	4,800.4	4,800.4
Total assets	28,320.0	30,338.0	31,106.4	31,485.4	32,047.5
ST interest bearing debt	2,329.0	2,274.0	2,074.0	1,874.0	1,674.0
Accounts payable	609.2	1,228.2	1,047.9	933.1	1,068.2
LT interest bearing debt	4,561.0	4,174.0	4,174.0	4,174.0	4,174.0
Other liabilities	4,551.0	4,803.0	4,803.0	4,803.0	4,803.0
Total Liabilities	12,050.0	12,479.0	12,098.7	11,783.9	11,719.0
Shareholders Equity	13,655.0	15,191.0	16,302.2	16,996.1	17,628.7
Minority Interest	384.0	437.0	474.5	474.4	468.9
Total shareholder equity	14,039.0	15,628.0	16,776.7	17,470.5	18,097.5
Perpetual securities	2,231.0	2,231.0	2,231.0	2,231.0	2,231.0
Total liabilities and equity	28,320.0	30,338.0	31,106.4	31,485.4	32,047.5

CASH FLOW (MYR m)

Pretax profit	1,991.0	3,602.0	4,063.3	2,597.3	2,383.0
Depreciation & amortisation	1,224.5	1,329.0	1,355.2	1,423.2	1,491.1
Adj net interest (income)/exp	99.0	74.0	69.3	40.8	21.4
Change in working capital	(241.0)	(855.0)	(12.6)	131.1	(206.4)
Cash taxes paid	(103.0)	(614.0)	(1,056.5)	(671.4)	(615.7)
Other operating cash flow	(503.5)	(72.0)	0.0	0.0	0.0
Cash flow from operations	2,431.0	3,439.0	4,403.7	3,506.0	3,058.4
Capex	(1,360.0)	(1,440.0)	(1,510.0)	(1,510.0)	(1,510.0)
Free cash flow	1,071.0	1,999.0	2,893.7	1,996.0	1,548.4
Dividends paid	(379.0)	(1,005.0)	(1,733.8)	(1,107.8)	(1,015.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,063.0)	(591.0)	(200.0)	(200.0)	(200.0)
Perpetual securities distribution	(125.0)	(124.0)	(124.3)	(124.3)	(124.3)
Other invest/financing cash flow	360.0	50.0	(69.3)	(40.8)	(21.4)
Effect of exch rate changes	14.0	27.0	0.0	0.0	0.0
Net cash flow	(136.0)	329.0	766.3	523.1	186.7

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.4	42.9	(1.6)	0.6	1.9
EBITDA growth	73.8	77.3	2.6	(22.2)	(4.1)
EBIT growth	273.2	129.0	2.9	(31.7)	(8.9)
Pretax growth	693.2	80.9	12.8	(36.1)	(8.3)
Reported net profit growth	nm	90.5	23.1	(37.6)	(8.8)
Core net profit growth	1,022.4	138.6	5.0	(30.7)	(8.8)
Profitability ratios (%)					
EBITDA margin	21.8	27.1	28.3	21.9	20.6
EBIT margin	12.5	20.0	20.9	14.2	12.7
Pretax profit margin	15.2	19.3	22.1	14.0	12.6
Payout ratio	67.2	62.1	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	9.1	12.1	15.1	9.4	8.4
Revenue/Assets (x)	0.5	0.6	0.6	0.6	0.6
Assets/Equity (x)	2.1	2.0	1.9	1.9	1.8
ROAE (%)	8.8	15.6	17.6	10.4	9.1
ROAA (%)	3.5	8.1	8.1	5.5	5.0
Liquidity & Efficiency					
Cash conversion cycle	87.4	76.2	88.0	91.7	85.3
Days receivable outstanding	36.9	33.9	40.0	39.3	39.1
Days inventory outstanding	80.3	77.7	90.8	94.2	83.2
Days payables outstanding	29.8	35.4	42.8	41.9	37.0
Dividend cover (x)	1.5	1.6	1.7	1.7	1.7
Current ratio (x)	1.1	1.4	1.6	1.8	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.4	2.6	2.7	2.7
Net gearing (%) (incl perps)	40.4	32.8	25.7	21.2	18.6
Net gearing (%) (excl. perps)	46.9	37.5	29.2	23.9	20.9
Net interest cover (x)	16.5	50.5	55.4	64.3	111.7
Debt/EBITDA (x)	2.4	1.3	1.2	1.5	1.5
Capex/revenue (%)	10.4	7.7	8.2	8.2	8.0
Net debt/ (net cash)	6,581.0	5,859.0	4,892.7	4,169.6	3,782.8

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_iliass@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) 6231 8467
hana.thuhoang@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@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, CFA
(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

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 8699
rahmi.marina@maybank.com
• Banking & Finance

Willy GOUTAMA
(62) 21 8066 8500
willygoutama@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

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

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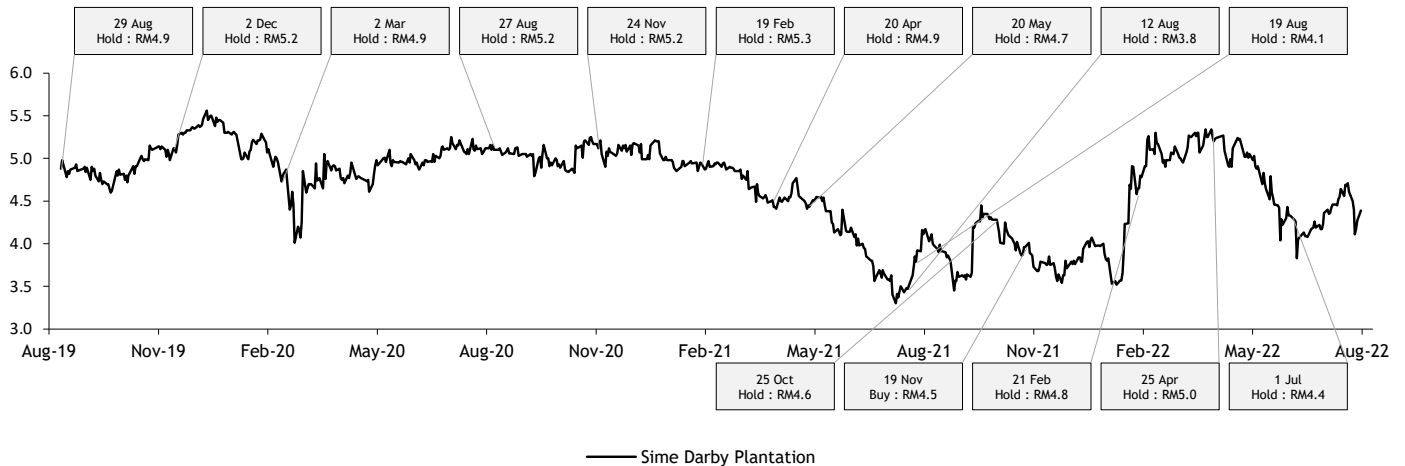
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Historical recommendations and target price: Sime Darby Plantation (SDPL MK)



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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 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 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

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

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