

# Srinanaporn Marketing (SNNP TB)

## Strong sales prompts earnings revisions

### Revising up earnings forecasts and TP to THB21.20

We are revising up our FY22 and FY23 earnings forecasts by 2% and 5% to reflect stronger-than-expected sales growth in 3Q22. Both domestic and overseas sales are likely to show healthy growth due to the recovery in consumption, successful new product (NPD) launches including Jele Chewy and expansion of the distribution channel. Its new factory in Vietnam should provide growth opportunities from next year onwards. We roll forward valuations to FY23E, resulting in a higher DCF-based TP (7.3% WACC 7.3% and 3% growth) of THB21.20 from THB18.80. Maintain BUY.

### Expect record sales again in 3Q22E

SNNP's strong sales momentum in 2Q22 continued in 3Q22 due to the reopening, a wider distribution channel overseas and good market response to NPDs. The company re-launched one of its flagship Jele Beautie drinks in Thailand in early Sep'22 and consumers' response was good. SNNP is the No.1 brand with 76% share of the ready-to-drink Jelly drinks market. We estimate 3Q22 domestic and overseas sales grew QoQ and YoY to a record.

### Higher 3Q22 gross margin likely

3Q22E GPM likely rose QoQ as the labour constraint has eased since late-2Q22. Higher production volume likely also enhanced production efficiency. Re-launching of Jele Beautie with new packaging (smaller size but same price) should increase GPM given less raw materials and packaging used. Increase in advertising expense for NPD is as planned, resulting in well-managed expenses.

### Expect strong 3Q22E profit, followed by peak 4Q22E

We estimate strong 3Q22E earnings, with more than 60% YoY growth. 4Q22E profit should be the peak of the year, thanks to seasonal factors. SNNP's factory in Vietnam will commence operation in Oct'22 as planned and should support sales growth from FY23E onwards; this is coupled with cost savings from lower raw material and logistics costs. We expect negligible impact from the 6.6% increase in the minimum wage effective 1 October, 2022 as labour accounts for only 10-12% of costs while SNNP has installed new packing machines to reduce the number of workers required.

FYE Dec (THB m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,393	4,358	5,163	5,871	6,470
EBITDA	381	618	796	909	1,016
Core net profit	94	308	471	567	646
Core EPS (THB)	0.11	0.32	0.49	0.59	0.67
Core EPS growth (%)	(61.5)	187.7	52.6	20.6	13.9
Net DPS (THB)	0.00	0.24	0.38	0.36	0.38
Core P/E (x)	na	37.0	35.7	29.6	26.0
P/BV (x)	na	4.0	5.6	5.3	4.9
Net dividend yield (%)	na	2.0	2.2	2.0	2.2
ROAE (%)	53.8	28.6	16.1	18.3	19.6
ROAA (%)	2.3	7.6	10.7	11.8	12.6
EV/EBITDA (x)	50.3	18.7	21.2	18.5	16.3
Net gearing (%) (incl perps)	457.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	462	538	604
MKE vs. Consensus (%)	-	-	1.8	5.5	7.0

Suttatip Peerasub  
suttatip.p@maybank.com  
(66) 2658 6300 ext 1430

## BUY

Share Price	THB 17.50
12m Price Target	THB 21.20 (+21%)
Previous Price Target	THB 18.80

### Company Description

SNNP is a manufacturer and distributor of beverage and snack products. It has operations in CLMV.

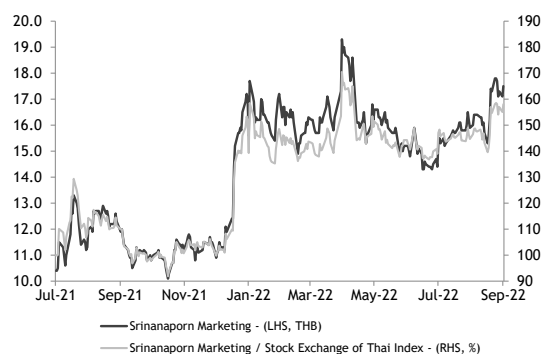
### Statistics

52w high/low (THB)	19.30/10.10
3m avg turnover (USDm)	1.9
Free float (%)	28.5
Issued shares (m)	960
Market capitalisation	THB16.8B
	USD454M

### Major shareholders:

Concord I. Capital Limited	20.6%
Ascend I. Holding Co., Ltd	14.6%
Thakorn Chaisathaporn	10.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	10	15	47
Relative to index (%)	10	10	44

Source: FactSet

## Value Proposition

- One of the leading beverage and snack makers in Thailand with a diversified product portfolio and strong brands. Its top sellers, fish snack and jelly, approximately 35% and 30% of revenue, are ranked No.1 in their segments.
- It exports to 35 destinations and has production facilities in Thailand and Cambodia. Strong overseas growth potential driven by expansion of production base to Vietnam since 2H22.
- High efficiency from own factories, raw material cost management and comprehensive distribution network allows for higher profit margins. Product premiumisation strategy could enhance gross margin.
- Upside potential after successful entry into Indonesia.

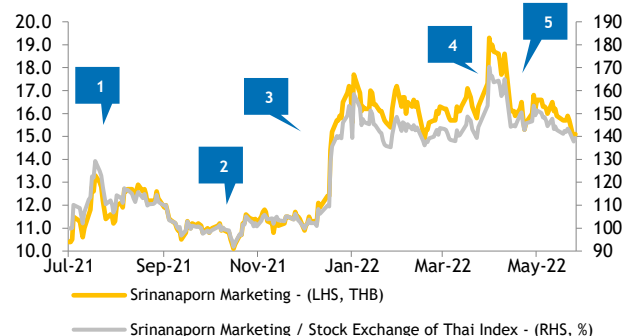
### Market leader with strong market share in FY21



Source: Company

## Price Drivers

### Historical share price trend



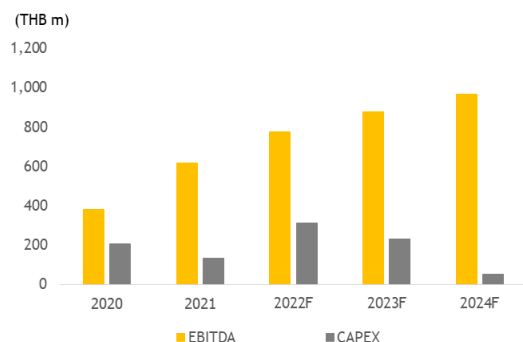
Source: Company, MST

1. Gained interest from retail and institutional investors following the IPO.
2. Share price correction despite no fresh news.
3. Consensus upgraded TP to reflect growth overseas and solid earnings momentum in 4Q21.
4. Positive sentiment as consumption recovers.
5. Profit-taking as fully valued.

## Financial Metrics

- Increasing profitability, with estimated net margin to reach 9.3% in FY22 due to high-margin NPDs that are premium products, such as Jele Chewy, and growing economies of scale.
- Strong balance sheet with net cash position since FY21.
- Expected to generate EBITDA of more than THB700m per year starting from FY22E due to greater cost efficiency and expanding markets.
- Capex of THB850m during FY21-25 to be financed mainly by internal cash flow.

### EBITDA to fund expansion



Source: Company, MST

## Swing Factors

### Upside

- Better-than-expected response to NPDs
- Falling raw material price.
- Extremely successful overseas operations.

### Downside

- High volatility or surging raw material prices.
- Lockdown in Thailand and / or ASEAN countries.
- Stiff competition leads to aggressive promotions.

Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- SNNP is a consumer product manufacturer, and it places great importance on the quality and safety of products throughout the production and distribution process.
- The company has developed the quality of the supply chain, ranging from raw material procurement process, efficient use of resources, workflow development, product and service development, adding value and developing employee potential.
- SNNP emphasises the most efficient use of natural resources. The company reuses by-products or leftovers from production as much as possible. It has a standard waste treatment system to treat waste from production processes and an accurate assessment of the environmental management system. It promotes innovation and operates business with social responsibility and considering the rights of all stakeholders.

## Material E issues

- Installed solar rooftops on three manufacturing plants that generates up to 1,766 kilowatts of solar power, reducing energy costs. CO<sub>2</sub> emissions is also reduced by 1,270,944 KgCO<sub>2</sub>e per year compared to 2019.
- SNNP will install more solar roofs to achieve further reduction of CO<sub>2</sub> emissions by another 170,000 KgCO<sub>2</sub>e per year.
- Other measures considered to reduce electricity consumption such as using alternative technologies like installing an inverter system, changing light bulb types, adjusting the freezer temperature that combined can reduce CO<sub>2</sub> emissions from 2019 to 316,240 KgCO<sub>2</sub>e per year.
- Reduce the use of packaging that can potentially reduce CO<sub>2</sub> emissions from 2019, totalling 217,287 KgCO<sub>2</sub>e per year.
- SNNP is implementing a carbon footprint project to measure the efficiency of CO<sub>2</sub> emissions.
- Undertaking water reduction projects and reusing treated water, which reduces water usage by 1,047 cubic meters per month.

## Material S issues

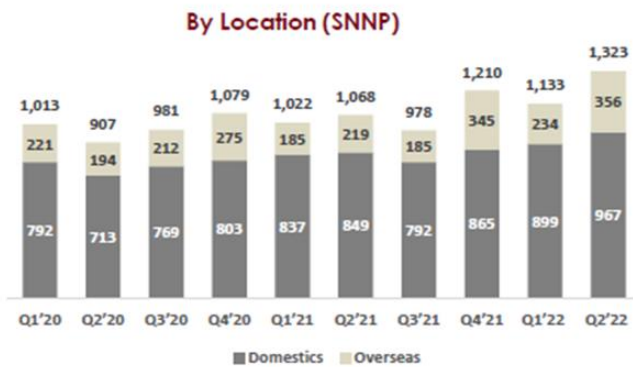
- Develop a good working and factory environment for employees. In addition, there is regular staff training. In 2019 and 2020, the rate of employee training was 53.33% and 12.89% of total employees, respectively (decreased because of the Covid outbreak).
- The company has a diverse workforce. There are male employees: females in the proportion of 4: 6 and Thai employees: foreigners in the proportion of 4: 6. In 2021, the company hired 33 people with disabilities, accounting for 1.1% of the total 2,900 employees.
- Improve management efficiency, covering production procurement, delivery and after-sales activities by implementing a full cycle of PDCA (Plan-Do-Check-Act).
- Set up an ISO22000 system to raise the level of product quality acceptance to support the export of products and the establishment of GMP and HACCP systems.

## Key G metrics and issues

- SNNP has a nine-member board of directors, comprising four executive directors, five non-executive directors, of who four are independent directors. One of the directors is a woman.
- In 2021, directors' monetary remuneration totalled THB2.0m or 0.5% of 2021 net profit. Executives' remuneration is THB40.3m or 9.2% of net profit. Four directors and executives of the company were allocated common shares at the IPO price totalling 1.72 million shares, representing 0.72% of the number of the IPO shares.
- The company recognises the role and responsibilities of the board of directors as an organisation leader that creates sustainable value for the business. The objectives and major goals of the business are set for sustainability and an effective committee is reinforced, including recruiting and developing senior executives and personnel management.
- Promote innovation and business with social and environmental responsibility. It also considers the rights of all stakeholders, i.e. shareholders, employees, business partners, customers, creditors, competitors and society.
- Ensuring that there is an appropriate risk management and internal control system, maintain financial credibility and disclosure. Encourages participation and communication with shareholders.

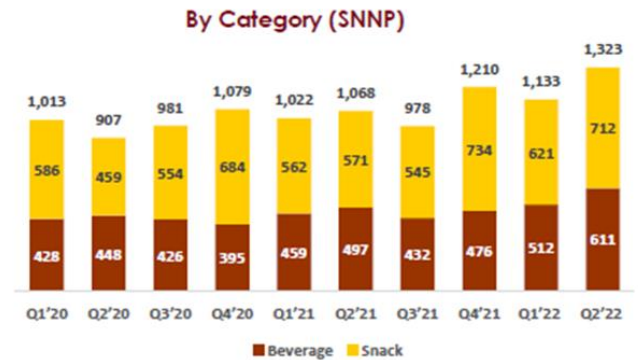
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Figure 1: Record high domestic and overseas sales



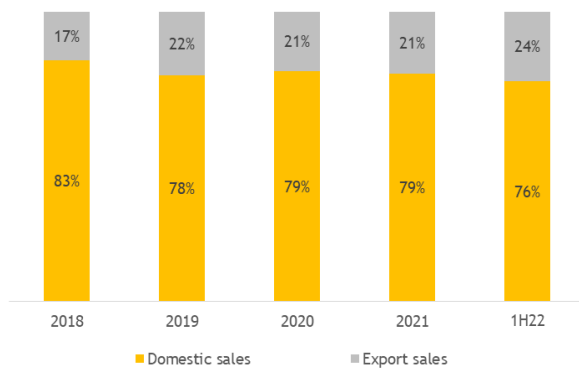
Source: Company reports

Figure 2: Strong growth in beverage sales driven by Jele brand



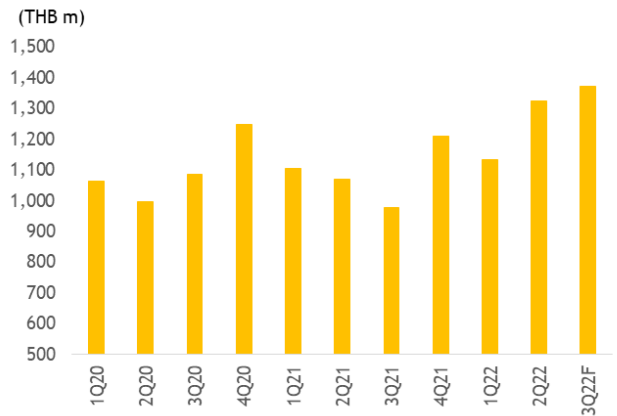
Source: Company reports

Figure 3: Increasing sales contribution from overseas



Source: Company reports, MST

Figure 4: Expect sales to reach new high, driven by both domestic and overseas markets



Source: Company reports, MST

Figure 5: Re-launch of Jele Beautie with new packaging and smaller size but same price



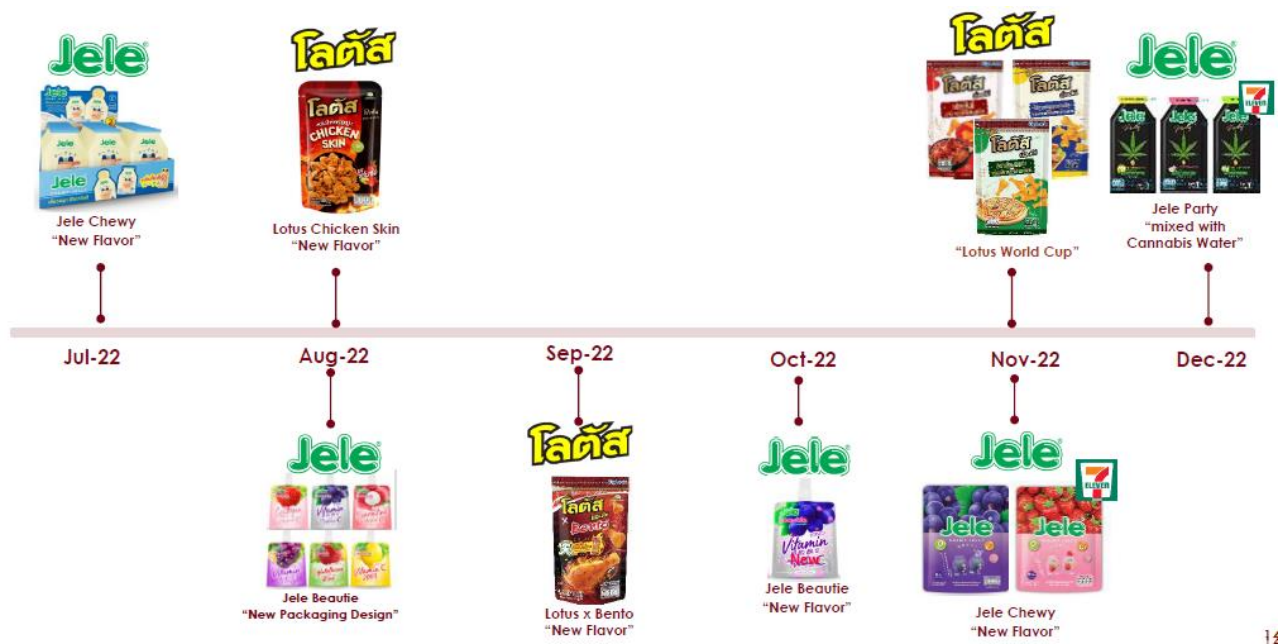
Source: Company reports

Figure 6: New packaging of Jele Beautie; same size and unchanged price



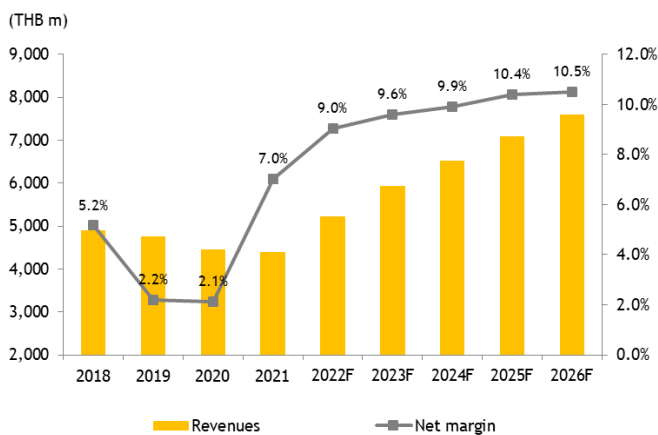
Source: Company reports, MST

Figure 7: NPDs launched in 2H22 such as Jele Chewy new flavour, Lotus x Bento new flavour and Jele Party mixed with cannabis water



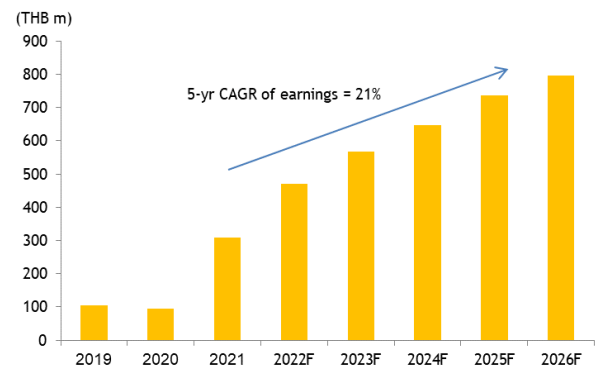
Source: Company reports

Figure 8: Resilient revenue growth coupled with higher net margin



Source: Company reports, MST

Figure 9: Projected 5-year earnings CAGR of 21%



Source: Company reports, MST



FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	na	25.3	35.7	29.6	26.0
Core P/E (x)	na	37.0	35.7	29.6	26.0
P/BV (x)	na	4.0	5.6	5.3	4.9
P/NTA (x)	na	4.0	5.6	5.3	4.9
Net dividend yield (%)	na	2.0	2.2	2.0	2.2
FCF yield (%)	na	1.0	2.4	3.1	6.1
EV/EBITDA (x)	50.3	18.7	21.2	18.5	16.3
EV/EBIT (x)	nm	25.9	27.4	23.8	20.8
<b>INCOME STATEMENT (THB m)</b>					
Revenue	4,392.9	4,357.9	5,162.6	5,870.5	6,470.0
EBITDA	380.9	617.7	796.0	909.3	1,015.6
EBIT	174.8	445.0	615.7	706.2	795.6
Net interest income / (exp)	(81.1)	(40.3)	(1.8)	(4.4)	(5.7)
Associates & JV	0.0	(26.1)	(22.8)	4.0	12.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	93.7	378.7	591.1	705.7	802.5
Income tax	(19.5)	(85.8)	(122.8)	(140.3)	(158.0)
Minorities	19.6	15.5	2.3	2.0	1.7
Discontinued operations	0.0	128.7	0.0	0.0	0.0
Reported net profit	93.8	437.2	470.6	567.4	646.2
Core net profit	93.8	308.4	470.6	567.4	646.2
<b>BALANCE SHEET (THB m)</b>					
Cash & Short Term Investments	173.2	162.1	267.6	364.8	666.2
Accounts receivable	1,030.7	1,126.3	1,306.5	1,427.7	1,585.8
Inventory	418.4	412.1	533.0	540.8	640.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,233.5	2,204.4	2,336.3	2,363.6	2,196.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	137.1	114.3	118.3	130.8
Other assets	120.6	110.4	110.8	111.1	111.4
<b>Total assets</b>	<b>3,976.2</b>	<b>4,152.3</b>	<b>4,668.5</b>	<b>4,926.2</b>	<b>5,332.0</b>
ST interest bearing debt	1,682.4	10.1	85.6	148.2	135.6
Accounts payable	967.5	876.7	1,131.5	1,150.2	1,336.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	596.5	0.0	0.0	0.0	0.0
Other liabilities	269.0	175.0	196.0	187.0	192.0
<b>Total Liabilities</b>	<b>3,515.8</b>	<b>1,061.6</b>	<b>1,412.7</b>	<b>1,485.1</b>	<b>1,664.2</b>
Shareholders Equity	221.0	2,837.7	3,001.0	3,184.2	3,408.4
Minority Interest	239.4	253.0	254.8	256.9	259.4
<b>Total shareholder equity</b>	<b>460.4</b>	<b>3,090.7</b>	<b>3,255.8</b>	<b>3,441.1</b>	<b>3,667.8</b>
<b>Total liabilities and equity</b>	<b>3,976.2</b>	<b>4,152.3</b>	<b>4,668.5</b>	<b>4,926.2</b>	<b>5,332.0</b>
<b>CASH FLOW (THB m)</b>					
Pretax profit	93.7	378.7	591.1	705.7	802.5
Depreciation & amortisation	206.2	172.7	180.3	203.1	220.0
Adj net interest (income)/exp	81.1	40.3	1.8	4.4	5.7
Change in working capital	177.1	(211.7)	(57.1)	(103.9)	(74.6)
Cash taxes paid	(19.5)	(85.8)	(122.8)	(140.3)	(158.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	337.2	244.1	720.3	755.4	1,074.8
Capex	(205.7)	(134.0)	(312.2)	(230.3)	(53.4)
Free cash flow	131.5	110.1	408.1	525.0	1,021.4
Dividends paid	0.0	(96.0)	(307.3)	(384.1)	(422.0)
Equity raised / (purchased)	0.0	2,138.1	0.0	0.0	0.0
Change in Debt	(351.5)	(2,268.8)	75.5	62.6	(12.6)
Other invest/financing cash flow	161.2	105.4	(70.7)	(106.3)	(285.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(58.8)	(11.1)	105.5	97.2	301.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(6.7)	(0.8)	18.5	13.7	10.2
EBITDA growth	5.7	62.1	28.9	14.2	11.7
EBIT growth	(11.3)	154.7	38.4	14.7	12.7
Pretax growth	(17.9)	304.3	56.1	19.4	13.7
Reported net profit growth	(10.4)	366.0	7.7	20.6	13.9
Core net profit growth	(10.4)	228.8	52.6	20.6	13.9
<b>Profitability ratios (%)</b>					
EBITDA margin	8.7	14.2	15.4	15.5	15.7
EBIT margin	4.0	10.2	11.9	12.0	12.3
Pretax profit margin	2.1	8.7	11.4	12.0	12.4
Payout ratio	0.0	52.7	77.5	60.5	56.6
<b>DuPont analysis</b>					
Net profit margin (%)	2.1	10.0	9.1	9.7	10.0
Revenue/Assets (x)	1.1	1.0	1.1	1.2	1.2
Assets/Equity (x)	18.0	1.5	1.6	1.5	1.6
ROAE (%)	53.8	28.6	16.1	18.3	19.6
ROAA (%)	2.3	7.6	10.7	11.8	12.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	29.5	32.2	34.1	33.1	34.0
Days receivable outstanding	91.1	89.1	84.8	83.8	83.8
Days inventory outstanding	46.2	46.6	45.1	45.1	45.1
Days payables outstanding	107.8	103.4	95.8	95.8	95.0
Dividend cover (x)	nm	1.9	1.3	1.7	1.8
Current ratio (x)	0.6	1.8	1.7	1.8	1.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	3.9	3.3	3.3	3.2
Net gearing (%) (incl perps)	457.3	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	457.3	net cash	net cash	net cash	net cash
Net interest cover (x)	2.2	11.1	nm	nm	140.2
Debt/EBITDA (x)	6.0	0.0	0.1	0.2	0.1
Capex/revenue (%)	4.7	3.1	6.0	3.9	0.8
Net debt/ (net cash)	2,105.7	(151.9)	(182.0)	(216.7)	(530.6)

Source: Company; Maybank IBG Research

## 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  
fatinnabila.mohdzaini@maybank-ib.com

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

**Luong Thu Huong**  
(65) 6231 8467  
hana.thuluong @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**  
Head of Fixed Income  
(65) 6340 1079  
winsonphoon@maybank.com

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

### PORTFOLIO STRATEGY

**CHAN Han Chin**  
(603) 2297 8888  
hanchin.chan@maybank-ib.com

**ONG Seng Yeow**  
(65) 6231 5839  
ongsengyeow@maybank.com

### MIBG SUSTAINABILITY RESEARCH

**Jigar SHAH**  
Head of Sustainability Research  
(91) 22 4223 2632  
jigars@maybank.com

**Neerav DALAL**  
(91) 22 4223 2606  
neerav@maybank.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

### 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  
• 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

**Eugene HOO Yee Hui**  
(603) 2082 6819  
eugene.hoo@maybank.com

**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

**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 • Gaming

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

### 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

### INDONESIA

**Jeffrosenberg CHENLIM** *Head of Research*  
(62) 21 8066 8680  
Jeffrosenberg.lim@maybank.com  
• Strategy

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

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

**Etta Rusdiana PUTRA**  
(62) 21 8066 8683  
etta.putra@maybank.com  
• Telcos

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

### VIETNAM

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

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

**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 Discretionary

**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 Staples

**Nguyen Le Tuan Loi**  
(84 28) 44 555 888 ext 8088  
loi.nguyen@maybank.com  
• Industrials

**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



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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,  
20<sup>th</sup> - 21<sup>st</sup> 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, 22<sup>nd</sup> 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, 11<sup>th</sup> 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.com/investment-banking](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)