

ESR-LOGOS REIT (EREIT SP)

Steady progress

New-economy play with low ESG risk

ELOG scores 53 under our expanded ESG 2.0 methodology, which is above the average of 50. ELOG has a progressive sustainability framework. We believe improvements in information disclosure and more ambitious long-term targets could help ELOG obtain a higher score. Maintain BUY and TP of SGD0.55 (COE: 6.5%, LTG: 2%).

Making steady progress in ESG

ELOG is making steady progress as its Scope 2 GHG emissions, energy and water consumption fell in FY21. We note lower solar power generation in FY21 due to hardware malfunctioning, and expect maintenance to be completed in FY22. Female board representation is low at 10% compared to MLT's 33% (MLT SP, SGD1.55, BUY), while independent director ratio dropped to 40% in FY21 from 50% in FY20. Improvement in board gender diversity and independence could enhance its "S" and "G" scores.

Ahead of ESG targets

ELOG reduced energy intensity of multi-tenanted buildings (MTBs) by 14% in FY21, against annual reduction target of 1%. We believe more aggressive ESG targets pertaining to energy and water saving could improve the scores. Notably, ELOG is the only industrial S-REIT setting water certification targets. It targets to certify all MTBs under the PUB Water Efficiency Building (WEB) programme by FY23, and has achieved 94% in end-2021. Under the PUB WEB programme, premises are projected to lower water consumption by c.5% with the help of water efficient fittings and controlled flow rates/flush volumes.

Maintain BUY and TP of SGD0.55

ELOG's all-in cost of debt fell to 2.97% post-merger with ARA LOGOS, and management targets a solid credit rating in 2H22 to further reduce the cost. We see SGD958.5m debt headroom and SGD35.3m divestment gain from 2 JKB supporting ELOG's acquisition of Sakura Distribution Center in Japan (for SGD183.5m). A 50bps increase in cost of borrowing will negatively impact DPU by 0.7%.

| FYE Dec (SGD m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|-----------------------|--------|-------|-------|-------|-------|
| Revenue | 230 | 241 | 344 | 402 | 429 |
| Net property income | 164 | 173 | 241 | 283 | 304 |
| Core net profit | 99 | 114 | 167 | 205 | 214 |
| Core EPU (cts) | 2.5 | 2.8 | 2.8 | 2.8 | 3.0 |
| Core EPU growth (%) | (22.5) | 11.9 | 1.6 | (0.8) | 7.9 |
| DPU (cts) | 2.8 | 3.0 | 3.0 | 3.0 | 3.1 |
| DPU growth (%) | (30.2) | 6.7 | 0.1 | 0.6 | 2.4 |
| P/NTA (x) | 1.0 | 1.2 | 0.9 | 0.9 | 0.9 |
| DPU yield (%) | 7.1 | 6.2 | 8.1 | 8.1 | 8.3 |
| ROAE (%) | 5.9 | 6.9 | 7.3 | 6.9 | 7.4 |
| ROAA (%) | 3.1 | 3.5 | 3.7 | 3.5 | 3.7 |
| Debt/Assets (x) | 0.44 | 0.42 | 0.32 | 0.32 | 0.32 |
| Consensus DPU | - | - | 3.0 | 3.0 | 3.1 |
| MKE vs. Consensus (%) | - | - | (0.3) | 0.3 | (0.4) |

Li Jialin
jialin.li@maybank.com
(65) 6231 5845

BUY

| | |
|-----------------------|-----------------|
| Share Price | SGD 0.37 |
| 12m Price Target | SGD 0.55 (+56%) |
| Previous Price Target | SGD 0.55 |

Company Description

ESR-LOGOS REIT operates as a real estate investment trust company, which invests in income-producing industrial properties.

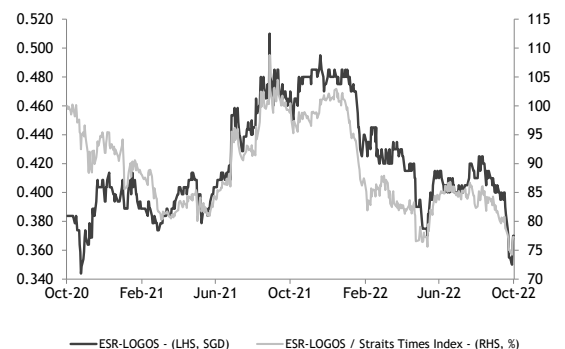
Statistics

| | |
|------------------------|-----------|
| 52w high/low (SGD) | 0.50/0.35 |
| 3m avg turnover (USDm) | 3.0 |
| Free float (%) | 78.9 |
| Issued shares (m) | 6,685 |
| Market capitalisation | SGD2.5B |
| | USD1.7B |

Major shareholders:

| | |
|------------------------|-------|
| TONG JIN QUAN | 10.5% |
| ESR Singapore Pte Ltd. | 5.0% |
| TONG YULOU | 3.3% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | (9) | (8) | (21) |
| Relative to index (%) | (7) | (9) | (23) |

Source: FactSet

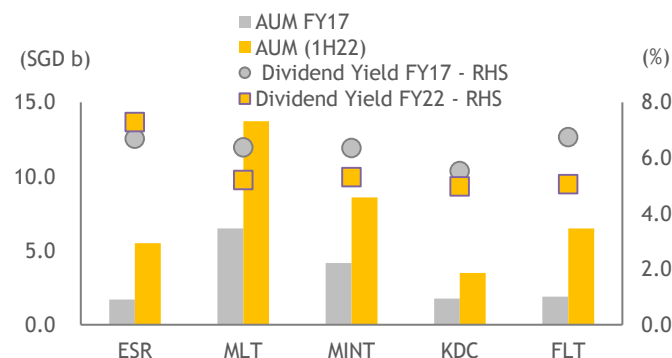
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Value Proposition

- Singapore industrial REIT underpinned by AUM growth and 8.4% dividend yield, with potential for share price upward adjustment.
- Material portfolio exposure to logistics/warehousing (44% of FY22E revenue) and high-spec (13%) assets, set to capitalize on the sector's buoyant demand.
- Diversified footprints in Australia and sizeable portfolio (SGD748m in 1H22), well positioned to benefit from strong demand in Australian logistics/warehousing market.
- Potential credit rating to lower cost of borrowing and further support accretive acquisitions.

Management sticks to AEI strategy, upgrading general industrial assets into higher-value high-spec space.

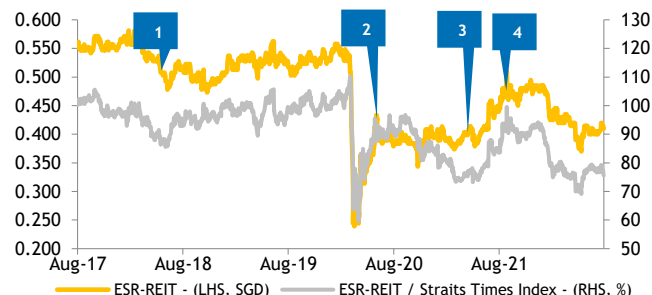
ELOG's 8.4% yield likely to compress following growth in AUM



Source: Company

Price Drivers

Historical share price trend



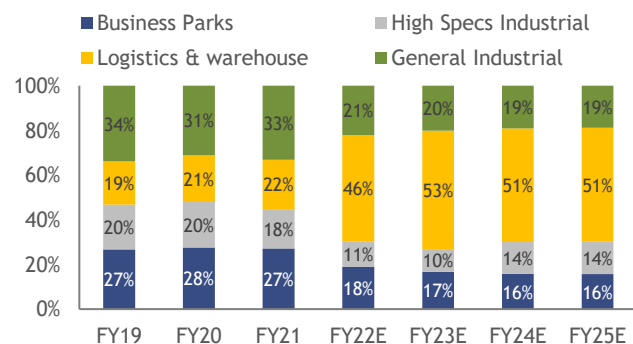
Source: Company, Maybank IBG Research

1. **May-18:** Announced merger with Viva Industrial Trust (VIT) at SGD0.96/VIT unit (paid 10% in cash; remainder in new ESR shares at SGD0.54/unit) to create fourth largest industrial S-REIT with SGD3b AUM.
2. **Jul-20:** Announced merger with Sabana REIT (SBREIT) via share swap (0.94x exchange ratio) to raise portfolio size and trading liquidity. Rejected by SBREIT unitholders (in Dec-20) due to disagreement of valuation.
3. **May-21:** Announced maiden overseas acquisition - 10% stake in ESR Australia's AUD1b logistics portfolio for AUD60.5m at 6.7% cap rate, fully funded via debt. Also raised SGD100m via private placement (SGD0.372/unit) for acquisition of new logistics asset (46A Tanjong Penjuru). Planned to raise additional SGD50m via preferential offer in Aug-21.
4. **Aug-21:** Announced merger with ARA LOGOS REIT via way of a trust scheme of arrangement, at an implied gross exchange ratio of 1.970x.

Financial Metrics

- Dividend yield is attractive at 8.4% as we re-base our figures on an enlarged AUM of SGD5.5b, and strong rental reversions within its logistics/warehouse and general industrial segment (FY21E: +6%). Expect occupancies to remain steady 94% in the future and for further DPU growth to be driven by more accretive acquisitions and AEI in logistics and high-spec segments (MKE FY22E: ~57% of revenue). Refinanced all debt expiring in FY22, with new WADE of 3.2 years and reduced interest cost of 2.97% as of 1H22 (4Q21: 3.31%).

NPI forecast



Source: Company

Swing Factors

Upside

- Accretive acquisitions.
- Sooner than expected completion of AEI assets and/or stronger leasing demand.
- Further increase in overall leasing demand, driving improvements in both occupancy and rental reversions.
- Signing of new tenants to drive up occupancy at underleased properties.

Downside

- Slowdown in economic activity or structural changes in supply chain norm in Singapore or Australia, reducing demand for L&W assets, given sizeable exposure.
- Termination of long-term leases causing loss of income.
- Weaker-than-expected leasing demand for business parks and general industrial assets, resulting in falling occupancy and rents.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings.

jialin.li@maybank.com

| | |
|----------------------------------|----|
| Risk Rating & Score ¹ | na |
| Score Momentum ² | na |
| Last Updated | na |
| Controversy Score ³ | na |

Business Model & Industry Issues

- EREIT draws on its available pool of funds to invest in industrial real estate, carry out asset enhancements and redevelop properties to optimise value for its unitholders. Its activities relating to permissible investments, leverage limits, and annual reporting requirements are regulated by the MAS under Singapore's code on collective investment schemes.
- The manager successfully maintained employee and tenant satisfaction at 78%/81% respectively despite the pandemic, whilst maintaining zero Covid-19 cases or work-related injuries and staying in compliance with social-economic laws and regulations.

Material E issues

- Implemented Environmental Policy and Green Procurement Policy in FY20. The former outlines the manager's sustainability focuses.
- Reduced grid electricity consumption and consumption intensity by 5.5% YoY and 9.7% respectively in FY20.
- Installed rooftop solar panels on 12 properties under ELOG Solar Harvesting Programme. Targets 50% increase target in solar power generation by 2025 (from base year 2019).
- Targets net zero carbon for certain Singapore properties by 2030. 30/32 multi-tenanted buildings were "Water Efficiency Building" certified, up from 22 as of 2019, with water intensity also reduced by 6%.
- Targets GMC for all buildings undergoing AEI from 2019 onwards. Targets for GRESB benchmark through continued submission. Obtained ISO14001:2015 on Environmental Management System certification.
- No incidents of non-compliance with environmental regulations and laws.

Material S issues

- Zero Covid-19 cases or work-related injuries amongst employees by applying strict workplace safety measures.
- Zero material incidents of non-compliance with socio economic laws and regulations.
- Employee satisfaction at 81% with a response rate of 94%.
- Transition to bi-weekly online activities such as workout classes and health talks helped cure social disconnect.
- Manager purchased cash vouchers from F&B tenants to help provide a boost in sales under COVID-19 Care Initiative.
- Grew tenant satisfaction from 69% in 2018 to 78% in 2021.
- 69% of employees are female, including Chairperson Ms. Stefanie Yuen Thio.

Key G metrics and issues

- Sponsor ESR Cayman (~14.4% stake) provides a strong and visible pipeline of assets and support, particularly for the REIT's growth ambitions outside of Singapore.
- Board comprises 8 directors (seven men; one woman), a sole CEO and executive director (Adrian Chui), three independent non-executives and three non-executives.
- Independent Chairman Stephanie Yuen Thio and other independent directors are unrelated to any members of management.
- Remuneration committee comprises 3 non-executive directors, mostly independent except for Mr. Jeffrey Perlman, whom is also Chairman of ESR Cayman.
- Audit Committee is mostly independent, comprising 3 non-executives.
- Management fee structure is in line with peers, with 0.5% base fee of deposited properties, 25% performance fee based on DPU growth (subject to high watermark), 0.5% divestment and 1% acquisition fee.
- Pay-out ratio averaged -98.2% since listing, consistently above the 90% minimum threshold.

¹**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. ²**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. ³**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).

| Quantitative parameters (Score:32) | | | | | | |
|---|---|-----------|--------|--------|--------|---------------|
| | Particulars | Unit | 2019 | 2020 | 2021 | MLT SP (2021) |
| E | Scope 1 GHG emissions | tCO2e | N/A | N/A | N/A | 1341 |
| | Scope 2 GHG emissions | tCO2e | 17,747 | 16,239 | 15,344 | 11003 |
| | Total | tCO2e | 17,747 | 16,239 | 15,344 | 12344 |
| | Scope 3 GHG emissions | tCO2e | N/A | N/A | N/A | N/A |
| | Total | tCO2e | 17747 | 16239 | 15344 | 12344 |
| | GHG intensity | kgCO2e/m2 | 141 | 122 | 110 | 2.37 |
| | Energy intensity (grid electricity consumption) | kWh/sqm | 345 | 298 | 269 | 6.2 |
| | Renewable energy generated as % consumption | % | 5.5 | 4.9 | 5.0 | 63 |
| | Water intensity | m3/m2 | 3.5 | 3.2 | 3.0 | 0.102 |
| | Waste recycled | % | 15.5 | 19.2 | 15.6 | N/A |
| Cases of environmental non-compliance | number | 0 | 0 | 0 | 18.3 | |
| Green financing as a % of total borrowing | % | N/A | N/A | N/A | 0 | |
| Green certified properties | number | 6 | 4 | 8 | 16.1 | |
| S | % of women in workforce | % | 68 | 67 | 69 | 59 |
| | % of women in management roles | % | N/A | N/A | N/A | N/A |
| | Number of accidents | number | 2 | 1 | 2 | 0 |
| | Recordable work injury rate | % | N/A | 1.17 | 2.18 | 0 |
| G | MD/CEO salary as % of reported net profit | % | N/A | N/A | N/A | N/A |
| | Board salary as % of reported net profit | % | 0.7 | 0.72 | 0.56 | 0.16 |
| | Independent directors on the Board | % | 50 | 50 | 40 | 58.3 |
| | Female directors on the Board | % | 10 | 10 | 10 | 33 |

| Qualitative parameters (Score: 50) | |
|------------------------------------|--|
| a) | is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>Yes - it has a Sustainability Committee led by the CEO, responsible for the execution and monitoring of ESG policies, complementing ESR Group's environmental considerations.</i> |
| b) | is the senior management salary linked to fulfilling ESG targets? <i>No - as of FY21, sustainability KPIs were not part of the performance appraisals.</i> |
| c) | Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>Yes</i> |
| d) | Does the company do green leasing or has plans to start green leasing or participate in GRESB real estate assessment? <i>Yes - in 2021, the company did its first submission of GRESB Real Estate Assessment</i> |
| e) | What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>(1) It implemented a new target on solar energy to achieve its goal of lower carbon emissions. (2) The Manager conducted an environmental risk management assessment in line with Monetary Authority of Singapore's (MAS) guidelines and an assessment of climate-related risks, in line with the TCFD framework. (3) Providing additional e-waste recycling bins on a voluntary basis for tenants and the general public since 2019, and working closely with e-waste vendors.</i> |
| g) | Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>No</i> |

| Target (Score: 100) | | | |
|--|--|----------|------------|
| Particulars | | Target | Achieved |
| Reduce energy consumption for MTBs in 2023 vs 2019 baseline | | 5% | 13% |
| Annual reduction of energy intensity for MBTs | | 1% | 14% |
| Increase solar power generation by 2025 vs 2019 baseline | | 50% | N/A |
| Annual reduction of water intensity for MTBs vs 2019 baseline | | 2% | 9% |
| Obtain Water Efficiency Building (WEB) certifications for MTBs by 2023 | | 100% | 93.8% |
| Obtain new WEB for MTBs per year | | 10% | 25% |
| No incidents of non-compliance with environmental regulations and laws | | Maintain | Maintained |
| Impact | | | |
| NA | | | |
| Overall score: 53 | | | |
| As per our ESG matrix, ESR-LOGOS REIT (ELOG) has an overall score of 53. | | | |

| ESG score | Weights | Scores | Final Score |
|--------------|---------|--------|-------------|
| Quantitative | 50% | 32 | 16 |
| Qualitative | 25% | 50 | 13 |
| Target | 25% | 100 | 25 |
| Total | | | 53 |

ESR has attained an above-average score of 53 based on our aggregated quantitative/qualitative/target-based approach, and we see room for improvements in its ESG metrics, such as GHG emission, "S" and "G" metrics. Further disclosure could be a plus. We also encourage ESR to review and set more ambitious targets given its stellar achievements in FY21.

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|----------------|----------------|------------------|----------------|----------------|
| Key Metrics | | | | | |
| Price/DPU(x) | 14.1 | 16.1 | 12.4 | 12.3 | 12.0 |
| P/BV (x) | 1.0 | 1.2 | 0.9 | 0.9 | 0.9 |
| P/NTA (x) | 1.0 | 1.2 | 0.9 | 0.9 | 0.9 |
| DPU yield (%) | 7.1 | 6.2 | 8.1 | 8.1 | 8.3 |
| FCF yield (%) | 11.6 | 8.3 | 24.6 | 13.8 | 11.1 |
| INCOME STATEMENT (SGD m) | | | | | |
| Revenue | 229.9 | 241.3 | 343.6 | 401.8 | 428.8 |
| Net property income | 164.2 | 173.3 | 240.6 | 282.6 | 304.1 |
| Management and trustee fees | (23.3) | (17.6) | (30.9) | (30.9) | (30.9) |
| Net financing costs | (53.1) | (51.4) | (49.7) | (58.8) | (60.9) |
| Associates & JV | 3.0 | 7.7 | 4.7 | 5.3 | 5.6 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income/expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 90.8 | 112.0 | 164.7 | 198.2 | 218.0 |
| Income tax | (0.0) | (2.2) | (3.2) | (3.9) | (4.3) |
| Minorities | (6.9) | (6.9) | (15.2) | (15.2) | (15.2) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total return avail to unitholders | 87.1 | 105.5 | 157.1 | 190.0 | 209.4 |
| Core net profit | 99.1 | 113.6 | 167.1 | 205.0 | 214.4 |
| Distributable inc to unitholders | 99.0 | 114.4 | 167.1 | 205.0 | 214.4 |
| BALANCE SHEET (SGD m) | | | | | |
| Cash & Short Term Investments | 18.1 | 24.2 | 340.2 | 470.8 | 528.7 |
| Accounts receivable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment properties | 3,119.1 | 3,146.0 | 4,941.0 | 4,941.0 | 4,941.0 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 38.0 | 40.7 | 365.3 | 365.3 | 365.3 |
| Other assets | 12.2 | 118.9 | 134.4 | 59.2 | 59.2 |
| Total assets | 3,187.4 | 3,329.8 | 5,780.9 | 5,836.3 | 5,894.2 |
| ST interest bearing debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts payable | 62.3 | 64.3 | 90.2 | 90.2 | 90.2 |
| LT interest bearing debt | 1,405.6 | 1,409.4 | 1,860.4 | 1,860.4 | 1,860.4 |
| Other liabilities | 121.3 | 106.9 | 693.8 | 693.8 | 693.8 |
| Total Liabilities | 1,589.3 | 1,580.7 | 2,644.4 | 2,644.4 | 2,644.4 |
| Shareholders Equity | 1,447.0 | 1,598.0 | 2,733.2 | 2,788.5 | 2,846.4 |
| Minority Interest | 151.1 | 151.1 | 403.4 | 403.4 | 403.4 |
| Total shareholder equity | 1,598.1 | 1,749.1 | 3,136.6 | 3,191.9 | 3,249.8 |
| Total liabilities and equity | 3,187.4 | 3,329.8 | 5,780.9 | 5,836.3 | 5,894.2 |
| CASH FLOW (SGD m) | | | | | |
| Cash flow from operations | 161.4 | 152.8 | 509.1 | 348.8 | 284.7 |
| Capex | (0.0) | (0.0) | (0.4) | (0.0) | (0.0) |
| Acquisitions & investments | (10.9) | (149.3) | (2,287.6) | 0.0 | 0.0 |
| Disposal of FA & investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend income from associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investing cash flow | 4.8 | 0.0 | 4.7 | 5.3 | 5.6 |
| CF from investing activities | (6.1) | (149.3) | (2,283.3) | 5.3 | 5.6 |
| Dividends paid | (84.2) | 40.5 | 115.1 | (164.8) | (171.6) |
| Interest expense | (52.8) | (52.4) | (49.7) | (58.8) | (60.9) |
| Change in debt | (14.0) | 16.6 | 451.0 | 0.0 | 0.0 |
| Equity raised / (purchased) | 0.0 | 0.0 | 1,090.1 | 0.0 | 0.0 |
| Other financial activities | (1.9) | (2.1) | 0.0 | 0.0 | 0.0 |
| CF from financing activities | (152.9) | 2.6 | 1,606.4 | (223.5) | (232.5) |
| Effect of exchange rate changes | 0.0 | (0.0) | 483.9 | 0.0 | 0.0 |
| Net cash flow | 2.4 | 6.1 | 316.1 | 130.5 | 57.9 |

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (9.1) | 4.9 | 42.4 | 17.0 | 6.7 |
| Net property income growth | (12.6) | 5.5 | 38.9 | 17.4 | 7.6 |
| Core net profit growth | (25.2) | 14.6 | 47.2 | 22.7 | 4.6 |
| Distributable income growth | (23.5) | 15.6 | 46.1 | 22.7 | 4.6 |
| Profitability ratios (%) | | | | | |
| Net property income margin | 71.4 | 71.8 | 70.0 | 70.3 | 70.9 |
| Core net profit margin | 43.1 | 47.1 | 48.6 | 51.0 | 50.0 |
| Payout ratio | 113.2 | 108.0 | 106.4 | 107.9 | 102.4 |
| DuPont analysis | | | | | |
| Total return margin (%) | 37.9 | 43.7 | 45.7 | 47.3 | 48.8 |
| Gross revenue/Assets (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Assets/Equity (x) | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 |
| ROAE (%) | 5.9 | 6.9 | 7.3 | 6.9 | 7.4 |
| ROAA (%) | 3.1 | 3.5 | 3.7 | 3.5 | 3.7 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.0 | 2.1 | 2.2 | 2.2 | 2.2 |
| Net gearing (%) (excl. perps) | 86.8 | 79.2 | 48.5 | 43.5 | 41.0 |
| Net interest cover (x) | 2.7 | 3.0 | 4.2 | 4.3 | 4.5 |
| Debt/EBITDA (x) | 10.0 | 9.1 | 8.9 | 7.4 | 6.8 |
| Capex/revenue (%) | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Net debt/ (net cash) | 1,387.5 | 1,385.3 | 1,520.2 | 1,389.6 | 1,331.8 |
| Debt/Assets (x) | 0.44 | 0.42 | 0.32 | 0.32 | 0.32 |

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
leejuy@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, FCA
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

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

Jarick SEET
(65) 6231 5848 jarick.seet@maybank.com
• Technology

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.rodriquez@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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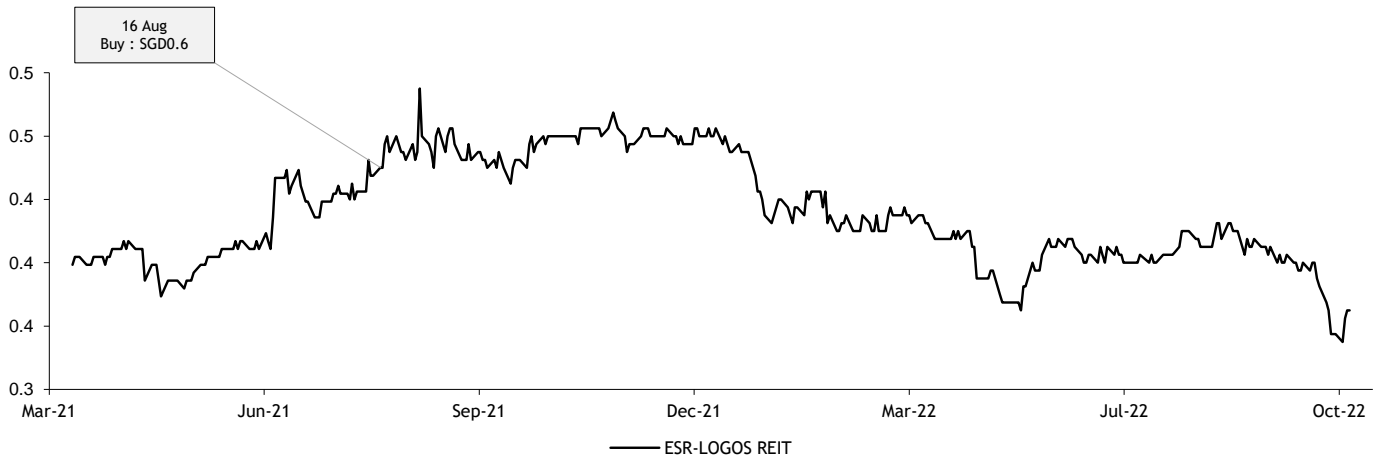
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 **Malaysia**

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

 **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

 **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)

 **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

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

 **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

 **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

 **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

 **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

 **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

www.maybank.com/investment-banking
www.maybank-keresearch.com