

Capital A (CAPITALA MK)

AirAsia Cambodia a potential beneficiary of Belt & Road?

Maintain BUY call and MYR0.84 SOP-based TP

CAPITALA has proposed to set up a 51%-owned JV in Cambodia, AirAsia Cambodia (AAC). We are unsure if it will be profitable right away but note that Cambodian-Chinese relations are close as exemplified by the many Belt & Road investments in Cambodia. AAC could capitalise on that relationship. Perhaps that is why AAC is slated to commence operations in late-2023, when many believe China will reopen its borders. Maintain earnings estimates, BUY call and MYR0.84 SOP-based TP for now.

To venture into Cambodia via 51%-owned JV

CAPITALA/Sivilai Asia (Not Listed) plans to invest 51%/49% of the issued and paid-up capital (PUC) of a Cambodian JV to be incorporated as AirAsia (Cambodia) Co. Ltd. (AAC). If approved, AAC will operate as a low cost carrier based in Cambodia. CAPITALA will also execute a Brand License Agreement with AAC in return for a fee. AAC is expected to commence operations in late 2023 with 2 A321s and eventually expand to 15 A321s. A321s can accommodate 236 passengers and fly $\leq 6,000$ km.

Initial investment small; profitable right away?

The fully PUC of AAC is anticipated to be \geq USD25m (CAPITALA share: USD12.8m). The initial capital will be USD5m (CAPITALA share: USD2.6m) and will be injected in 3 tranches from the present day until a month before operations commence. Given the small initial capital, we do not foresee this JV negatively impacting CAPITALA's cash flows. CAPITALA CEO, Tony Fernandes was quoted as saying that AAC will generate profits in its first year of operations.

Maintain earnings estimates for now

Yet, Mr. Fernandes statement is not without merit. **One**, staff costs in Cambodia is low even by ASEAN standards. **Two**, lease rates for A321s are 5-15% cheaper relative to pre-COVID (Fig. 1). **Third**, there is not much competition from other Cambodian airlines. Cambodian airlines operate only 20 aircraft (Fig. 2). **Four**, there is a large Chinese diaspora in Cambodia working in Belt & Road projects and textiles. In 2019, there were c.500 China-Cambodia flights weekly (China-Malaysia: 389).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,274	1,836	7,349	13,402	16,409
EBITDAR	(1,492)	(967)	(253)	2,427	3,330
Core net profit	(3,484)	(2,759)	(2,890)	(700)	258
Core FDEPS (sen)	(104.2)	(72.9)	(47.0)	(10.6)	5.4
Core FDEPS growth(%)	nm	nm	nm	nm	nm
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core FD P/E (x)	nm	nm	nm	nm	11.1
P/BV (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(71.7)	(89.8)	(376.6)	76.2	(22.6)
ROAA (%)	(15.3)	(13.8)	(14.8)	(3.8)	1.5
EV/EBITDAR (x)	nm	nm	nm	9.7	6.0
Net gearing (%) (incl perps)	nm	nm	nm	nm	nm
Consensus net profit	-	-	(2,700)	(276)	368
MKE vs. Consensus (%)	-	-	(5.5)	(154.1)	(29.9)

Yin Shao Yang
samuel.y@maybank-ib.com
(603) 2297 8916

BUY

Share Price	MYR 0.60
12m Price Target	MYR 0.84 (+41%)
Previous Price Target	MYR 0.84

Company Description

AirAsia Group is Asia's foremost low cost carrier with operations in Malaysia, Thailand, Indonesia and Philippines.

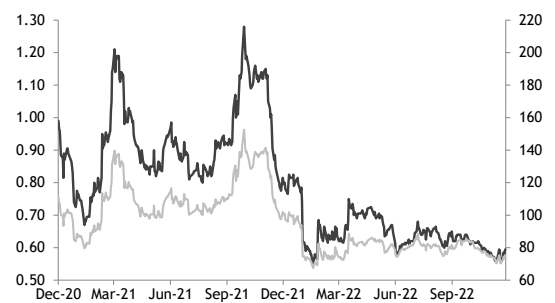
Statistics

52w high/low (MYR)	0.83/0.55
3m avg turnover (USDm)	0.6
Free float (%)	49.5
Issued shares (m)	4,162
Market capitalisation	MYR2.5B USD562M

Major shareholders:

Tune Air Sdn Bhd	12.4%
Tune Live Sdn. Bhd.	12.2%
Positive Boom Ltd.	8.0%

Price Performance



— Capital A - (LHS, MYR) — Capital A / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	3	(8)	(24)
Relative to index (%)	0	(7)	(23)

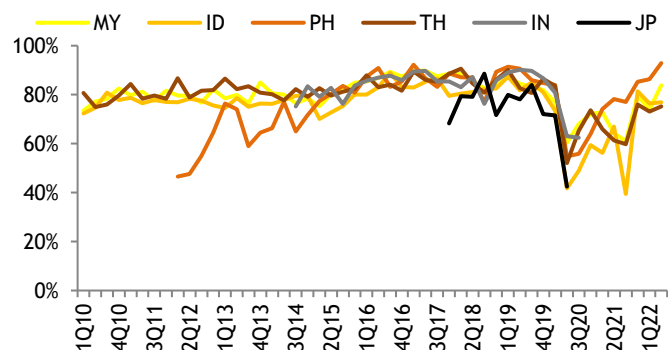
Source: FactSet

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Tear Sheet Insert

Value Proposition

- Asia's leading low cost carrier with highest market share, largest fleet size and most extensive route network.
- Operates in 4 countries after exiting Japan and India, which provides unrivalled route network reach.
- Lowest unit cost airline in the world. Management is very ambitious, cost conscious and forward-thinking.
- Growing middle class in Asia fuelling growth in demand for air travel.
- Won the coveted 'World's Best LCC' award for a record 13 times in a row by Skytrax.

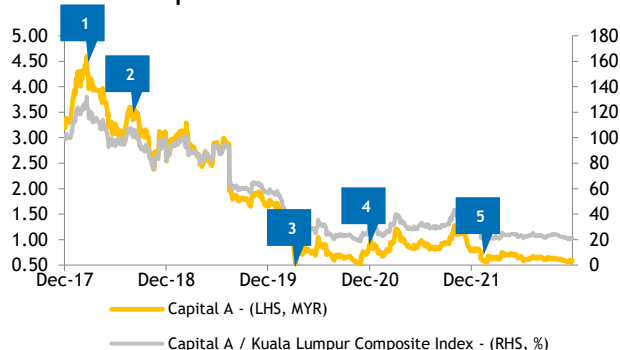
AirAsia passengers load factor by country



Source: Company

Price Drivers

Historical share price trend



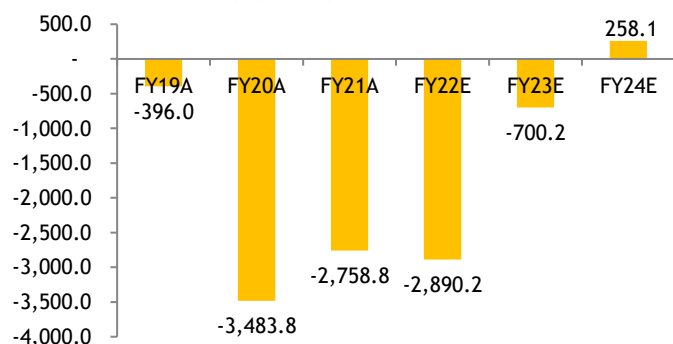
Source: Company, Maybank IBG Research

1. CAPITALA announced record dividends which provided a catalyst to its share price.
2. Market de-rated following the outcome of the 14th General Election (May 2018).
3. COVID-19 pandemic struck Malaysia. CAPITALA grounded most of its fleet in late-Mar 2020.
4. Pfizer, Moderna and AstraZeneca announced that they have developed effective COVID-19 vaccines.
5. CAPITALA classified as a PN17 listed issuer by Bursa Malaysia.

Financial Metrics

- Best financial indicator is core net profit ex disposal gains, forex and fair value changes, and deferred taxation.
- Still forecast FY22E/FY23E core net loss as passengers carried will be limited by measured aircraft redeployment.
- Forecast FY24E to generate net profit on passengers carried recovering and average fares rising.
- Sensitive to fuel price movement, a USD1 per barrel change in fuel price will move earnings by MYR10m-MYR30m.
- Balance sheet as at end-4Q21 in a net debt position of MYR1.11b if ex-finance lease liabilities.

Core net profit/(loss) (MYRm)



Source: Company (historical), Maybank IBG Research (forecasts)

Swing Factors

Upside

- Policy changes - visa requirement relaxations and tourist friendly events drive passenger traffic growth.
- Less competition - COVID-19 pandemic has caused competitors to reduce capacity and raise prices.
- Financial assistance - will enable CAPITALA to fill temporary liquidity gaps and survive.

Downside

- Exogenous events - SARS; MH370, MH17 & AK8501 tragedies; and COVID-19 negatively impacted passenger traffic growth.
- Fuel prices - they are volatile and there is no certainty that they will be hedged at low levels.
- Weak MYR - 60-70% of operating costs are USD denominated.

ESG@MAYBANK IBG

samuel.y@maybank-ib.com

Risk Rating & Score ¹	32.1 (High)
Score Momentum ²	-3.3
Last Updated	16 Mar 2022
Controversy Score ³ (Updated: 4 Feb 2022)	2 - Customer Incidents, Business Ethics Incidents, Governance Incidents

Business Model & Industry Issues

- Being an airline, CAPITALA may not be deemed as environmentally friendly but it operates Airbus A320 family aircraft which are already fuel efficient. It will gradually replace its entire fleet with the even more fuel efficient A321neo aircraft.
- As at end-FY21, only 35% of staff are female but this is not entirely unexpected as operational functions (e.g. engineering) tend to be filled by males.
- An especially positive point is that CAPITALA supported staff that were laid off during the COVID-19 pandemic and even established an academy to retrain staff in technology and IT.
- To be sure, some senior managers have made headlines for the wrong reasons but to be fair, no misconduct has been proven to date. However, CAPITALA's decision to enter and exit Japan twice raised eyebrows.
- In all, we rate CAPITALA's ESG credentials as moderate. CAPITALA was included in the FTSE4GOOD Bursa Malaysia Index in Dec 2020.

Material E issues

- As at end-FY21, operated 168 Airbus A320, 40 Airbus A320neo, 4 Airbus A321neo and 1 Airbus A330ceo.
- Will gradually replace entire fleet with Airbus A321neo which is 10-15% more fuel efficient than the Airbus A320.
- Carbon intensity ratio (CIR) was up 7% YoY to 94gCO₂/RPK in FY21 due to less RPK flown.
- Fuel consumption/100RPK was up 7% YoY to 3.78 litres in FY21 due to shorter stage lengths.
- CIR and fuel efficiency to normalise as RPK and stage length recover due to the COVID-19 pandemic easing.
- Targets carbon neutral growth (relative to 2019 as the base line year) and net zero CO₂ emissions by 2050.
- Plans to incorporate sustainable aviation fuel and introduce carbon offsetting options.
- Partners TRAFFIC to raise awareness of illegal wildlife trafficking in the aviation sector.

Material S issues

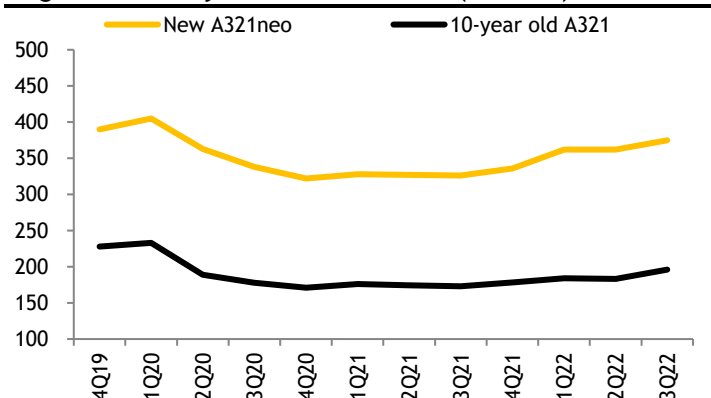
- Trained 71% of staff on-line to recognise the signs of human trafficking on board and respond appropriately.
- Hosted its first international webinar, "The Role of Airline Staff as Frontliners in the Fight Against Human Trafficking" and joined ICAO's Anti-Trafficking Working Group.
- Flew 410 rescue and repatriation flights to bring >15,000 individuals home in FY20.
- MYR10.5m spent on training staff in FY21 (-22% YoY) despite the group having generated a huge net loss.
- Launched Redbeat Academy in Oct 2020 to retrain staff in technology and IT.
- As at end-FY21, only 35% of staff is female. Skewed by males in operational functions (e.g. engineering).
- Through AirAsia Foundation, supported 28 social enterprises benefitting >10,000 individuals as at end-FY21.

Key G metrics and issues

- BOD comprises Non-Independent Executive Chairman (NIEC), Non-Independent Executive Director & Chief Executive Officer (NIED & CEO), Non-Independent Non-Executive Director (NINED) and 3 Independent Non-Executive Directors (INED). Independent Directors made up 50% of its BOD size, meeting the minimum of Malaysian Code on Corporate Governance's recommendation.
- Only 1 of the 6 BOD members is a woman, Surina Binti Shukri, short of the 30% recommendation. She is an INED.
- Major shareholders, Tune Air and Tune Live are represented on the BOD by the NIEC and NIED & CEO.
- There are 3 BOD committees (i.e. Audit, Nomination & Remuneration and Risk Management).
- The Audit and Nomination & Remuneration Committees are chaired by INEDs.
- The Risk Management Committee, however, is chaired by the NINED.
- FY21 directors' remuneration surged 170% YoY despite generating heavy losses still.
- Ernst & Young PLT is the independent auditor since 2017. The predecessor was PricewaterhouseCoopers PLT.
- Fined by Malaysian Aviation Commission for charging processing fees in FY19 and FY20 (MYR2.2m total) and advertising misleading airfares in FY18 (MYR160k).
- Fined by Malaysia Competition Commission for entering into a collaboration agreement with Malaysia Airlines (MYR10m) in FY14.
- India's Central Bureau of Investigation (CBI) filed a case against the NIED & CEO over alleged violation of norms in getting international flying licenses in FY18.
- The NIED & CEO has not responded to the CBI's case to date.
- The NIEC and NIED & CEO were implicated in a bribery case involving Airbus in FY20. Both were later cleared.
- Ventured into Japan twice. AirAsia Japan consumed >MYR400m in investments but never generated an annual profit. AirAsia Japan filed for bankruptcy in Oct 2020.

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).

Figure 1: Monthly lease rates of A321s (USD'000)



Source: IBA

Figure 2: Fleet profile of Cambodian airlines

Airline	ATR72	A319	A320	A321
Bassaka Air	-	-	2	-
Cambodia Angkor Air	2	-	2	1
Cambodia Airways	-	3	3	-
JC International Airlines	-	-	1	-
Lanmei Airlines	-	-	2	2
Sky Angkor Airlines	-	-	1	1
Total	2	3	11	4

Source: planespotters.net

Figure 3: CAPITALA valuation

	FY24E	PER (X)	Value	Value/shr	Comment
Airline net profit with RCUIDS interest expenses added back	447.8	8.0	3,582.6	0.60	
AirAsia X			-	-	assume nil
Tune Protect Group			29.8	0.00	14% of market capitalisation
Proceeds from warrants			649.7	0.11	MYR1.00 exercise price
Proceeds from ESOS			112.6	0.02	MYR0.743 exercise price
Aviation business (A)			4,374.6	0.73	
airasia SuperApp			4,328.6	0.72	96% of USD1.0b valuation
Teleport			1,333.5	0.22	99% of USD300m valuation
Digital business (B)			5,662.1	0.94	
Total (C=A+B)			10,036.7	1.67	
(50% discount) (D=CX-50%)			-5,018.3	-0.84	
SOP (E=C+D)			5,018.3	0.84	

Source: Maybank Investment Banking Group

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	nm	9.6
Core P/E (x)	nm	nm	nm	nm	9.6
Core FD P/E (x)	nm	nm	nm	nm	11.1
P/BV (x)	nm	nm	nm	nm	nm
P/NTA (x)	(1.6)	(0.7)	(0.4)	(0.3)	(0.3)
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	27.1	52.7
EV/EBITDAR (x)	nm	nm	nm	9.7	6.0
EV/EBIT (x)	nm	nm	nm	28.6	11.7

INCOME STATEMENT (MYR m)

Revenue	3,274.4	1,836.2	7,349.0	13,402.2	16,409.3
EBITDAR	(1,491.8)	(967.2)	(253.0)	2,426.9	3,329.7
Depreciation	(2,073.0)	(1,820.6)	(1,573.8)	(1,605.8)	(1,605.8)
EBIT	(3,564.8)	(2,816.6)	(1,826.7)	821.1	1,723.9
Net interest income / (exp)	(597.7)	(644.5)	(976.1)	(1,052.9)	(1,018.6)
Associates & JV	(63.5)	(45.2)	(523.6)	(139.0)	(70.9)
Exceptionals	(1,325.2)	(68.7)	40.7	0.0	0.0
Pretax profit	(5,551.3)	(3,575.0)	(3,285.7)	(370.8)	634.4
Income tax	(17.8)	(5.0)	(4.6)	(4.6)	(4.6)
Minorities	776.3	729.7	440.8	(324.8)	(371.7)
Reported net profit	(5,111.7)	(2,991.1)	(2,849.5)	(700.2)	258.1
Core net profit	(3,483.8)	(2,758.8)	(2,890.2)	(700.2)	258.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	533.3	1,256.8	1,144.9	1,727.3	2,934.4
Accounts receivable	1,537.7	832.5	649.4	649.4	649.4
Inventory	141.4	153.6	153.6	153.6	153.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,085.6	933.5	818.8	704.1	589.4
Intangible assets	640.6	833.5	833.5	833.5	833.5
Investment in Associates & JVs	484.1	438.9	675.2	536.3	465.4
Other assets	15,443.1	15,581.2	14,622.9	13,156.8	11,674.6
Total assets	19,865.8	20,029.9	18,898.3	17,760.9	17,300.3
ST interest bearing debt	4,263.5	4,793.0	3,854.6	4,189.6	4,392.4
Accounts payable	2,508.9	2,308.9	2,308.9	2,308.9	2,308.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	9,460.7	11,812.2	14,719.7	13,629.4	12,336.2
Other liabilities	7,203.0	7,539.0	7,530.0	7,524.0	7,524.0
Total Liabilities	23,435.6	26,452.8	28,413.7	27,651.7	26,561.3
Shareholders Equity	(1,214.3)	(3,382.3)	(6,034.0)	(6,734.2)	(6,476.0)
Minority Interest	(2,355.5)	(3,040.6)	(3,481.4)	(3,156.6)	(2,785.0)
Total shareholder equity	(3,569.8)	(6,422.9)	(9,515.4)	(9,890.8)	(9,261.0)
Total liabilities and equity	19,865.8	20,029.9	18,898.3	17,760.9	17,300.3

CASH FLOW (MYR m)

Pretax profit	(5,551.3)	(3,575.0)	(3,285.7)	(370.8)	634.4
Depreciation & amortisation	2,073.0	1,820.6	1,573.8	1,605.8	1,605.8
Adj net interest (income)/exp	549.9	552.0	726.2	726.6	692.4
Change in working capital	(800.3)	209.2	(10.5)	(33.8)	(33.8)
Cash taxes paid	(25.3)	(4.6)	(12.9)	(11.2)	(4.6)
Other operating cash flow	1,585.7	320.1	482.9	139.0	70.9
Cash flow from operations	(2,168.2)	(677.7)	(526.2)	2,055.6	2,965.0
Capex	(100.5)	(50.1)	(50.0)	(50.0)	(50.0)
Free cash flow	(3,148.9)	(1,151.6)	(1,367.3)	671.9	1,304.5
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	336.5	0.0	0.0	0.0
Change in Debt	(412.5)	733.9	340.0	(1,448.2)	(1,748.9)
Other invest/financing cash flow	589.8	431.3	124.3	25.1	41.0
Effect of exch rate changes	65.0	(69.7)	0.0	0.0	0.0
Net cash flow	(2,026.4)	704.1	(111.9)	582.4	1,207.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(72.4)	(43.9)	300.2	82.4	22.4
EBITDAR growth	nm	nm	nm	nm	37.2
EBIT growth	nm	nm	nm	nm	110.0
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
Profitability ratios (%)					
EBITDAR margin	nm	nm	nm	18.1	20.3
EBIT margin	nm	nm	nm	6.1	10.5
Pretax profit margin	nm	nm	nm	nm	3.9
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	nm	1.6
Revenue/Assets (x)	0.2	0.1	0.4	0.8	0.9
Assets/Equity (x)	nm	nm	nm	nm	nm
ROAE (%)	(71.7)	(89.8)	(376.6)	76.2	(22.6)
ROAA (%)	(15.3)	(13.8)	(14.8)	(3.8)	1.5
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.3	0.3	0.3	0.3	0.4
Leverage & Expense Analysis					
Asset/Liability (x)	0.8	0.8	0.7	0.6	0.7
Net gearing (%) (incl perps)	nm	nm	nm	nm	nm
Net gearing (%) (excl. perps)	nm	nm	nm	nm	nm
Net interest cover (x)	na	na	na	0.8	1.7
Debt/EBITDAR (x)	nm	nm	nm	7.3	5.0
Capex/revenue (%)	3.1	2.7	0.7	0.4	0.3
Net debt/ (net cash)	13,190.8	15,348.4	17,429.5	16,091.7	13,794.2

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
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, 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

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

Florenzo de JESUS
(63) 2 8849 8846
florenzo.dejesus@maybank.com
• Utilities

THAILAND

Malcolm LUI, CFA Head of Research
(66) 2658 6300 ext 1399
malcolm.lui@maybank.com
• Strategy

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank.com
• Banking & Finance

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 • 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

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

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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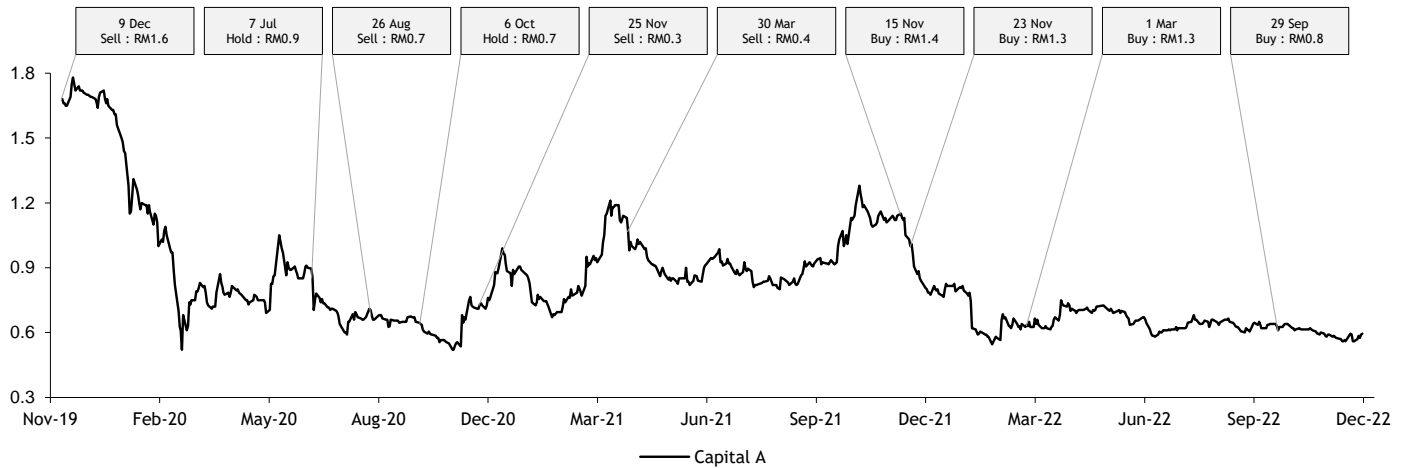
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Malaysia

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)

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

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

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