

V.S. Industry (VSI MK)

In recovery mode

Results within expectations; maintain BUY

VSI's 1QFY23 results came in within expectations, at 23%/24% of ours/consensus' full-year forecasts respectively. We maintain our earnings estimates and TP of MYR1.15, derived by pegging VSI's fully-diluted FY24E EPS of 8sen to a PER of 14.4x (at -0.5SD to its 5-year PER average), with the -0.5SD peg to reflect the increasing economic risks globally.

1QFY23 CNP soared by 82% YoY

VSI's 1QFY23 core net profit (CNP) soared by 82% YoY to MYR64m, after excluding positive one-off amounting to MYR4m, which consists of some forex losses and gain from PPE disposal. The earnings surge was mainly due to operational recovery from labour/component shortages and higher sales orders from existing customers, including the new models win from Customer X, which only commenced production in 4QFY22. QoQ, VSI's CNP was down by 22%, largely dragged by higher interest expense and tax expenses.

Geographical performances breakdown

Geographically, sales have improved significantly for its Malaysia and Indonesia segment, by +62% YoY and +33% YoY respectively, thanks to higher orders/production. The reverse was observed in the Singapore segment (a new disclosure from the current quarter, acting as a marketing arm for the Malaysia operations), which saw its sales falling -29% YoY. Likewise, sales from China have shrunk significantly by -59% YoY, we believe largely due to the China lockdown and business consolidation. On a positive note, losses in China have narrowed, thanks to the consolidation effort to streamline the operations.

BUY on better visibility in operational recovery

We believe VSI has finally cruised through the pandemic-led disruptions (ie. labour and raw material shortages), and operations are slowly recovering with the arrival of foreign labour and normalising supply chain. While we remain cautious on headwinds such as inflationary pressure and consumer spending slowdown, which could drag VSI's future earnings, we believe these have been largely reflected in our conservative forecasts at this juncture. Maintain BUY on better visibility in operational recovery.

FYE Jul (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,002	3,914	4,230	4,680	5,038
EBITDA	439	333	521	599	659
Core net profit	270	201	277	343	394
Core FDEPS (sen)	7.1	4.9	6.5	8.0	9.1
Core FDEPS growth(%)	156.7	(31.8)	34.2	22.2	13.8
Net DPS (sen)	3.7	2.2	2.9	3.6	4.1
Core FD P/E (x)	19.4	20.8	14.3	11.7	10.3
P/BV (x)	2.6	1.8	1.5	1.4	1.3
Net dividend yield (%)	2.7	2.2	3.1	3.9	4.4
ROAE (%)	13.1	8.0	12.2	13.9	14.7
ROAA (%)	8.4	5.3	6.8	8.0	8.6
EV/EBITDA (x)	12.2	13.0	7.5	6.3	5.5
Net gearing (%) (incl perps)	1.2	13.8	7.5	3.3	net cash
Consensus net profit	-	-	271	321	358
MKE vs. Consensus (%)	-	-	2.3	7.0	10.0

Loh Yan Jin

lohyanjin.loh@maybank-ib.com

(603) 2297 8687

BUY

Share Price	MYR 0.94
12m Price Target	MYR 1.15 (+27%)
Previous Price Target	MYR 1.15

Company Description

V.S. Industry Bhd is the 26th largest EMS provider in the world by revenue, ranked according to Manufacturing Market Insider in 2020.

Statistics

52w high/low (MYR)	1.37/0.79
3m avg turnover (USDm)	0.9
Free float (%)	65.1
Issued shares (m)	3,848
Market capitalisation	MYR3.6B
	USD813M

Major shareholders:

Kumpulan Wang Persaraan	8.8%
BEH KIM LING	7.7%
BEH HWEE SZE	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	16	(6)	(28)
Relative to index (%)	14	(6)	(28)

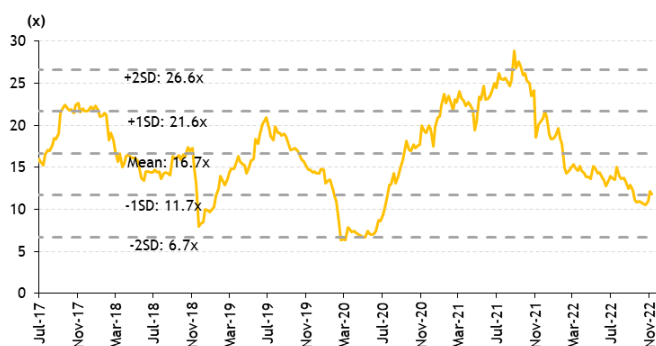
Source: FactSet

Figure 1: V.S. Industry results summary

FY Jul (MYR m)	Quarterly results					Cumulative results		
	1Q23	4Q22	%QoQ	1Q22	%YoY	3M23	3M22	%YoY
Turnover	1,294.3	1,004.4	28.9	968.0	33.7	1,294.3	968.0	33.7
EBIT	87.5	36.9	>100	52.9	65.5	87.5	52.9	65.5
Interest expense	(8.2)	(3.9)	>100	(2.9)	>100	(8.2)	(2.9)	>100
Interest income	1.5	0.4	>100	0.9	64.1	1.5	0.9	64.1
Associate	0.0	0.8	(95.5)	(0.6)	NM	0.0	(0.6)	NM
Pre-tax profit	80.9	34.2	>100	50.3	60.8	80.9	50.3	60.8
Taxation	(21.6)	(12.4)	73.6	(12.5)	72.1	(21.6)	(12.5)	72.1
Minority interest	1.4	12.8	(88.9)	1.6	(13.6)	1.4	1.6	(13.6)
Net profit	60.7	34.6	75.6	39.4	54.1	60.7	39.4	54.1
Exceptional items	3.6	47.3	(92.4)	(4.0)	NM	3.6	(4.0)	NM
Core net profit	64.3	81.9	(21.5)	35.4	81.6	64.3	35.4	81.6
	1Q23	4Q22	+/- ppt	1Q22	+/- ppt	3M23	3M22	+/- ppt
Core net profit margin (%)	5.0	8.2	(3.2)	3.7	1.3	5.0	3.7	1.3
Tax rate (%)	26.7	36.4	(9.7)	24.9	1.8	26.7	24.9	1.8
	1Q23	4Q22	%QoQ	1Q22	%YoY	3M23	3M22	%YoY
Revenue (MYR m)	1,294.3	1,004.4	28.9	968.0	33.7	1,294.3	968.0	33.7
Malaysia	1,007.7	908.3	10.9	621.8	62.1	1,007.7	621.8	62.1
Indonesia	105.9	75.4	40.5	79.4	33.4	105.9	79.4	33.4
China	13.1	12.4	4.9	31.9	(59.1)	13.1	31.9	(59.1)
Others	167.6	8.2	>100	234.8	(28.6)	167.6	234.8	(28.6)
	1Q23	4Q22	%QoQ	1Q22	%YoY	3M23	3M22	%YoY
Pretax profit (MYR m)	80.9	34.2	>100	50.9	58.9	80.9	50.9	58.9
Malaysia	77.7	58.6	32.5	50.4	54.3	77.7	50.4	54.3
Indonesia	4.8	(0.1)	NM	2.1	>100	4.8	2.1	>100
China	(2.8)	(22.2)	(87.4)	(3.2)	(11.8)	(2.8)	(3.2)	(11.8)
Others	1.1	(2.1)	NM	1.6	(29.1)	1.1	1.6	(29.1)
	1Q23	4Q22	+/- ppt	1Q22	+/- ppt	3M23	3M22	+/- ppt
Pretax profit margins (%)	7.7	6.5	1.3	8.1	(0.4)	7.7	8.1	(0.4)
Malaysia	7.7	6.5	1.3	8.1	(0.4)	7.7	8.1	(0.4)
Indonesia	4.6	NM	NM	2.7	1.9	4.6	2.7	1.9
China	NM	NM	NM	NM	NM	NM	NM	NM

Source: Company, Maybank IBG Research

Figure 2: VSI's 12M forward PER (currently trades at 11.8x)



Source: Bloomberg, Maybank IBG Research

Figure 3: VSI's 12M forward P/BV (currently trades at 1.5x)



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for VSI. Key risks are: (i) weaker-than-expected consumer demand for VSI assembled products (on weakening economics outlook); (ii) lower-than-expected costs pass through (as the mechanism depends on the company's negotiation with its clients); (iii) persistent operational disruptions from labour issues and/or components shortage (on new rounds of China lockdown); and (iv) USD/MYR forex volatility (we estimate for every +/-1% change in USD/MYR, bottom line impact is +/-0.5%).

FYE 31 Jul	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	19.1	27.5	12.8	10.4	9.0
Core P/E (x)	19.1	19.1	12.8	10.4	9.0
Core FD P/E (x)	19.4	20.8	14.3	11.7	10.3
P/BV (x)	2.6	1.8	1.5	1.4	1.3
P/NTA (x)	2.6	1.8	1.5	1.4	1.3
Net dividend yield (%)	2.7	2.2	3.1	3.9	4.4
FCF yield (%)	nm	2.2	7.1	7.6	9.7
EV/EBITDA (x)	12.2	13.0	7.5	6.3	5.5
EV/EBIT (x)	15.8	20.5	10.5	8.3	6.9

INCOME STATEMENT (MYR m)

Revenue	4,002.3	3,914.1	4,229.8	4,680.2	5,037.5
EBITDA	438.6	333.1	521.0	598.7	658.8
Depreciation	(99.1)	(118.7)	(145.7)	(140.3)	(135.4)
Amortisation	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
EBIT	337.1	212.0	372.9	456.2	521.0
Net interest income / (exp)	(7.3)	(9.7)	(33.8)	(29.8)	(28.5)
Associates & JV	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	329.1	201.8	338.6	425.8	492.1
Income tax	(87.5)	(51.5)	(81.3)	(102.2)	(118.1)
Minorities	3.7	19.8	19.8	19.8	19.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	245.3	170.1	277.2	343.5	393.8
Core net profit	269.7	201.2	277.2	343.5	393.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	402.4	278.6	415.2	485.9	643.4
Accounts receivable	992.1	1,093.1	1,181.3	1,307.1	1,406.9
Inventory	633.8	925.7	967.2	1,064.1	1,141.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	989.5	1,214.5	1,168.8	1,128.5	1,092.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	577.8	469.2	433.7	427.8	418.0
Total assets	3,595.6	3,981.1	4,166.2	4,413.5	4,701.6
ST interest bearing debt	318.8	478.6	478.6	478.6	478.6
Accounts payable	844.2	860.4	899.0	989.0	1,060.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	109.4	125.2	125.2	96.2	96.2
Other liabilities	106.0	153.0	153.0	153.0	153.0
Total Liabilities	1,378.1	1,617.2	1,655.9	1,716.8	1,788.6
Shareholders Equity	2,040.5	2,193.2	2,359.6	2,565.6	2,801.9
Minority Interest	177.0	170.7	150.8	131.0	111.1
Total shareholder equity	2,217.5	2,363.9	2,510.4	2,696.6	2,913.1
Total liabilities and equity	3,595.6	3,981.1	4,166.2	4,413.5	4,701.6

CASH FLOW (MYR m)

Pretax profit	329.1	201.8	338.6	425.8	492.1
Depreciation & amortisation	101.5	121.1	148.1	142.6	137.7
Adj net interest (income)/exp	7.3	9.7	33.8	29.8	28.5
Change in working capital	(266.9)	(105.3)	(85.2)	(124.6)	(95.9)
Cash taxes paid	(87.5)	(44.3)	(81.3)	(102.2)	(118.1)
Other operating cash flow	(167.1)	0.5	0.5	0.5	0.5
Cash flow from operations	(83.6)	183.4	354.5	371.9	444.8
Capex	(227.3)	(100.0)	(100.0)	(100.0)	(99.0)
Free cash flow	(310.9)	83.4	254.5	271.9	345.8
Dividends paid	(105.7)	(84.0)	(110.9)	(137.4)	(157.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	19.2	0.0	0.0	(29.0)	0.0
Other invest/financing cash flow	(18.1)	(36.7)	(36.7)	(34.8)	(30.8)
Effect of exch rate changes	19.1	44.1	0.0	0.0	0.0
Net cash flow	(396.4)	6.8	106.9	70.7	157.5

FYE 31 Jul	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	23.4	(2.2)	8.1	10.6	7.6
EBITDA growth	93.5	(24.1)	56.4	14.9	10.0
EBIT growth	149.9	(37.1)	75.9	22.3	14.2
Pretax growth	159.3	(38.7)	67.8	25.8	15.6
Reported net profit growth	172.5	(30.7)	62.9	23.9	14.7
Core net profit growth	157.8	(25.4)	37.8	23.9	14.7
Profitability ratios (%)					
EBITDA margin	11.0	8.5	12.3	12.8	13.1
EBIT margin	8.4	5.4	8.8	9.7	10.3
Pretax profit margin	8.2	5.2	8.0	9.1	9.8
Payout ratio	56.2	49.4	40.0	40.0	40.0
DuPont analysis					
Net profit margin (%)	6.1	4.3	6.6	7.3	7.8
Revenue/Assets (x)	1.1	1.0	1.0	1.1	1.1
Assets/Equity (x)	1.8	1.8	1.8	1.7	1.7
ROAE (%)	13.1	8.0	12.2	13.9	14.7
ROAA (%)	8.4	5.3	6.8	8.0	8.6
Liquidity & Efficiency					
Cash conversion cycle	60.5	88.5	103.3	102.1	103.4
Days receivable outstanding	84.1	95.9	96.8	95.7	97.0
Days inventory outstanding	50.0	80.0	92.9	90.6	91.7
Days payables outstanding	73.6	87.4	86.4	84.2	85.3
Dividend cover (x)	1.8	2.0	2.5	2.5	2.5
Current ratio (x)	1.9	1.8	1.9	2.0	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.5	2.5	2.6	2.6
Net gearing (%) (incl perps)	1.2	13.8	7.5	3.3	net cash
Net gearing (%) (excl. perps)	1.2	13.8	7.5	3.3	net cash
Net interest cover (x)	46.0	21.9	11.0	15.3	18.3
Debt/EBITDA (x)	1.0	1.8	1.2	1.0	0.9
Capex/revenue (%)	5.7	2.6	2.4	2.1	2.0
Net debt/ (net cash)	25.8	325.2	188.6	88.8	(68.6)

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.thuhoang@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan Lau
(65) 6320 1378
alanelau@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winston PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winstonphoon@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.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

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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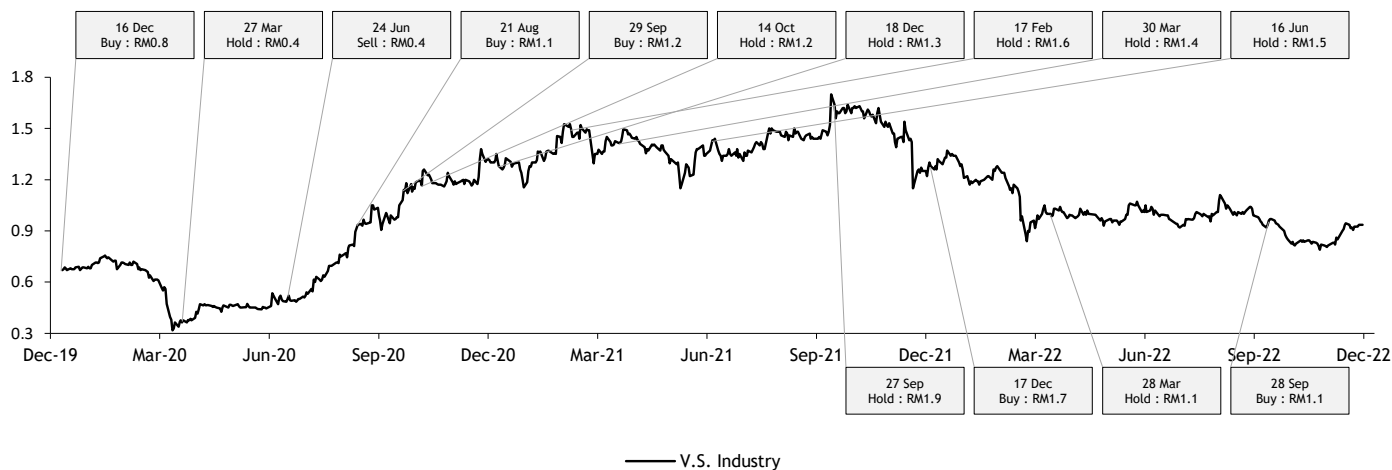
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Malaysia

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