

Top Glove (TOPG MK)

Expanded ESG assessment

Unable to pass on higher compliance costs

We introduce TOPG's expanded ESG tear sheet and assign a below average overall score of 47 (over 100) based on its aggregated quantitative/qualitative/target-based metrics. TOPG has been actively enhancing its human rights and labour practices post the US CBP ban on allegations related to human rights and labour management back in 2020. We maintain our earnings forecasts, MYR0.35 TP (13x CY24E PER) and SELL.

Comparing with Sustainalytics' ESG risk score

We find TOPG's ESG-related policies and framework adequate. Its overall ESG score of 47 is below average on our ESG rating dragged by its quantitative "E" on rising GHG, carbon emission, natural gas, water and energy consumption intensity. Our ESG scoring is similar to Sustainalytics' score of TOPG's ESG risks at 24.4, putting it on the 'Medium' risk category. TOPG's Sustainalytics' ESG score is lower than its peer HART MK (SELL, CP: MYR1.82, TP: MYR1.43) at 16.6 but on par with KRI MK (SELL; CP: MYR1.15, TP: MYR1.03) at 20, which is also in the 'Medium' risk category.

Taking human rights seriously

TOPG has been actively implementing multiple initiatives towards improving social compliance practices, according to international best practices. In FY22, TOPG conducted 59 social compliance audits on SMETA, BSCI and Customer Code of Conduct to demonstrate its commitment to safeguard the human rights of its employees. TOPG has revamped its recruitment and due diligence (DD) policy in Jan 2021 and run open tender for foreign worker recruitments and conducted thorough DD on the selection of ethical recruitment agencies. It plans to invest e.MYR232m to improve accommodation for its workers. Two of the planned hostels have been completed in Dec 2022. These higher compliance costs are however, unable to be passed on given the current gloves oversupply situation.

Unlikely to turn around in the short term

Near-term outlook remains challenging due to low plant utilisation rate of 30% (on effective capacity) no thanks to on-going inventory depletion activities at the customers' end and stiff competition especially from the China counterparts. For now, TOPG will focus on strengthening/optimising its cost structure and temporarily shut down old/inefficient factories.

FYE Aug (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	16,361	5,573	4,210	6,059	6,472
EBITDA	10,467	698	44	755	844
Core net profit	7,895	236	(323)	204	257
Core EPS (sen)	98.2	2.9	(3.9)	2.5	3.1
Core EPS growth (%)	321.2	(97.1)	nm	nm	25.9
Net DPS (sen)	63.8	1.2	0.0	1.2	1.6
Core P/E (x)	4.1	28.0	nm	37.3	29.6
P/BV (x)	4.4	1.0	1.2	1.2	1.1
Net dividend yield (%)	16.0	1.5	0.0	1.3	1.7
ROAE (%)	141.4	4.1	(5.9)	3.8	4.7
ROAA (%)	85.1	2.6	(4.1)	2.6	3.2
EV/EBITDA (x)	2.9	8.7	168.8	9.7	8.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(155)	185	313
MKE vs. Consensus (%)	-	-	(108.2)	10.2	(18.1)

Wong Wei Sum, CFA
weisum@maybank-ib.com
(603) 2297 8679

SELL

Share Price	MYR 0.93
12m Price Target	MYR 0.35 (-61%)
Previous Price Target	MYR 0.35

Company Description

Top Glove is the world's biggest glove manufacturer with a balanced product mix in latex/nitrile examination gloves and non-examination gloves.

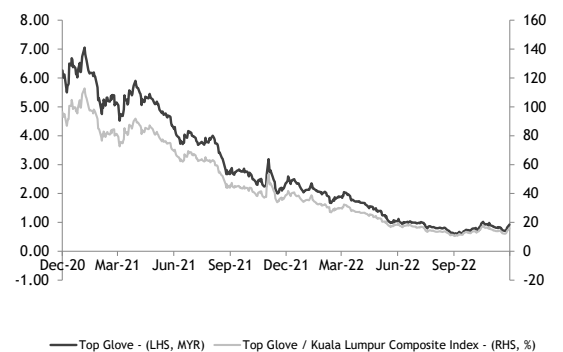
Statistics

52w high/low (MYR)	2.59/0.59
3m avg turnover (USDm)	13.6
Free float (%)	57.1
Issued shares (m)	8,207
Market capitalisation	MYR7.6B
	USD1.7B

Major shareholders:

LIM WEE CHAI	27.1%
Firstway United Corp.	6.8%
Employees Provident Fund	4.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	52	(61)
Relative to index (%)	2	45	(59)

Source: FactSet

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Tear Sheet Insert

Risk Rating & Score ¹	Medium (24.4)
Score Momentum ²	-1.7
Last Updated	31 Mar 2022
Controversy Score ³ (Updated: 20 Sep 2021)	4 - Human rights (employee) incidents

Business Model & Industry Issues

- Top Glove has retained its inclusion on Dow Jones Sustainability Indices (DJSI) for four consecutive years and is ranked top 3% (as at 21 Oct 2022) in the Healthcare Equipment & Supplies industry. It also ranked top 16% amongst the healthcare sector on the FTSE Russell ESG Ratings. Further, it is also the 1st Malaysian glove maker to be included in the 2022 Bloomberg Gender Equality Index.
- In July 2020, the US CBP banned products made by two of Top Glove's subsidiaries, Top Glove S/B and TG Medical S/B on indicative evidence of forced labour practices, including debt bondage, excessive overtime, abusive working and living conditions, and retention of identity documents. However, on 10 Sep 2021, US CBP modified the Finding (lifted the ban) on Top Glove and the company has been allowed to resume exporting its products to the US.
- However, in view of the current oversupply situation, Top Glove is no longer able to pass on related rising social compliance cost.
- Top Glove scores below-average in our proprietary scoring methodology (see next page) with an overall score of 47/100.

Material E issues

- Targets to reduce electricity consumption intensity by 10% to 7.76kWh/k pcs gloves by FY25 (from FY22). Solar power system implemented at 8 factories with capacity of 5.34 MWP in FY22.
- Targets to reduce carbon emission intensity by 10% to 0.0176 MT/k pcs gloves by FY25 (from FY22).
- Targets to reduce natural gas consumption by 10% by FY25 (from FY22) to 0.279 MMBtu/k pcs gloves.
- Targets to reduce municipal water consumption intensity by 34% to 0.151 cu.m/k pcs gloves by FY25 (from FY21). Has a Reverse Osmosis Water Treatment Plant which treats wastewater discharged from the surrounding factories and channels the treated water back to the factories. Every factory is also equipped with on-site wastewater recycling facilities.
- Targets to reduce generation of scheduled waste by 13% by FY25 to 0.14kg/k pcs gloves (from FY21). Complies with Malaysia's Department of Environment's effluent management requirements.

Material S issues

- Since Jan 2019, Top Glove implemented a Zero Cost Recruitment Policy to ensure that its migrant workers are not charged recruitment fees and are not in debt bondage.
- Regular hostel inspection is conducted twice a month and any non-compliance is immediately rectified. Investing e. MYR232m to improve accommodation for 11,404 employees, with two of the planned hostels (MYR111m capex; 2,716 pax capacity) have been completed in Dec 2022.
- In FY22, Top Glove conducted 59 social compliance audits on SMETA, BSCI and Customer Code of Conduct. 75% of its factories audited achieved "A" rating under Amfori Business Social Compliance Initiatives (BSCI)(target: 100%) while 96% factories audited achieved not more than 10 Non-compliance (NCs)/factory under Sedex Member Ethical Trade Audit (SMETA) (target: 90%).
- Of its 19,066 workforce in FY22, 31%/50% were female/in leadership positions.

Key G metrics and issues

- The current Board consists of 12 members, out of which, 7 members (or 58% of Board, minimum requirement is 50%) are Independent Non-Executive Directors (INEDs).
- In FY22, female representation on the Board was 36% (FY21: 42%; minimum requirement is 30%).
- As at Nov 2022, Tan Sri Lim Wee Chai's family, the largest substantial shareholder, holds c.36% stake in Top Glove and has 2 Board seats (or 17% of Board representation).
- Total directors' remuneration was 5.4% of FY22 group net profit (FY21: 0.1%).
- Ernst & Young has been Top Glove's external auditor for more than 15 years.
- Its nomination and remuneration committee is made up of 4 INEDs.
- It has an audit committee made up of 3 INEDs.
- It also has a risk and investment committee with 2 executive directors, 1 NINED and 6 INEDs.
- The company has a Whistleblowing Policy in place since 2010.
- In 2017, Top Glove acquired two small glove factories (A1 Glove Sdn Bhd and Titi Glove Sdn Bhd) for MYR39m cash. The acquisitions were deemed related party because both vendors were mainly owned by Dato' Lim Kwee Fatt, the brother of Tan Sri Lim Wee Chai. The acquisition price was fair given the one year forward P/E of c.10x (below Top Glove's 18x then) and also below the independent valuer's ascertained market value of MYR61m.

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: 11)						
	Particulars	Unit	FY8/20	FY8/21	FY8/22	HARTA MK (FY22)
E	Scope 1 emissions	tCO2e	834,371	869,646	666,458	521,681
	Scope 2 emissions	tCO2e	296,600	315,311	261,962	136,705
	Total	tCO2e	1,130,971	1,184,956	928,420	658,386
	Scope 3 emissions	tCO2e	192.5	0.2	21,907.6	NA
	Total	tCO2e	1,131,163.0	1,184,956.5	950,327.4	NA
	GHG intensity (Scope 1 and 2)	tCO2e/rev RMm	156.3	72.4	166.6	83.5
	Electricity consumption intensity	kWh/1,000 pcs gloves	6.83	6.94	8.62	8.12
	Water consumption intensity	cu. M/1,000 pcs gloves	0.28	0.29	0.36	0.17
	Natural gas consumption intensity	MMBTU/1,000 pcs gloves	0.29	0.29	0.31	0.34
	Carbon emission intensity	tCO2/1,000 pcs gloves	0.0166	0.0167	0.0195	0.023
	Total waste generated intensity	kg/1,000 pcs gloves	NA	0.16	0.15	0.51
	Non-hazardous waste recycled	%	NA	66.7	68.4	70.6
S	% of women in workforce	%	29	31	31	37
	% of women in management roles	%	53	52.0	50.0	33.3
	Proportion of locals as new hires	% (avg)	81	85	93	99
	Lost time injury frequency (LTIF) rate	Number (avg)	1.10	0.92	0.86	0.53
	Lives impacted by CSR outreach ('000)	number	58.9	63.2	55.5	43.2
G	MD/CEO salary as % of reported net profit	%	NA	NA	NA	0.1
	Board salary as % of reported net profit	%	0.5	0.1	5.4	0.3
	Independent directors on the Board	%	58	58	58	56
	Female directors on the Board	%	42	42	36	33

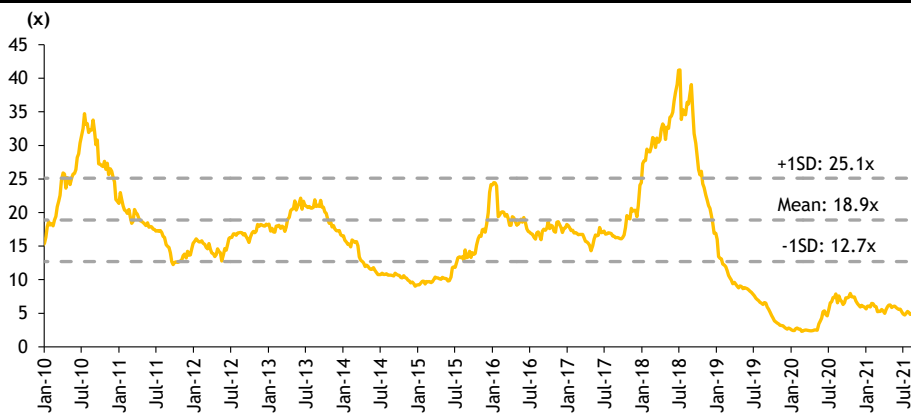
Qualitative Parameters (Score: 67)	
a)	Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>Yes. The Board is supported by the Board Sustainability Committee (BSC) which was established in March 2019. The BSC comprises four independent directors and is chaired by a Senior Independent Director.</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>Yes. 40% of management incentives/ remuneration pay linked to ESG metrics.</i>
c)	Is the company a signatory of or adheres to the UN Global Compact (UNGC) Initiative and has adopted TCFD reporting? <i>Yes.</i>
e)	Any major controversies that the company is involved in which has impacted its reputation? <i>Yes. In July 2020, the US CBP banned products made by two of Top Glove's subsidiaries, Top Glove S/B and TG Medical S/B on evidence of forced labour practices, including debt bondage, excessive overtime, abusive working and living conditions, and retention of identity documents. However, on 10 Sep 2021, US CBP modified the Finding (lifted the ban) on Top Glove and it is allowed to resume exporting its products to US.</i>
f)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>Energy efficiency: Replacing inefficient burners with advanced technology equipment, use of energy saving former and improve oven design as well as solar power projects. Water management: Two in-house water treatment plants to treat surface water into clean water that benefit 19 factories. Waste management: Innovate more green products and adopt circular economy to recover nitrile waste into new product such as rubber gasket, rubber sealant etc.</i>
g)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>Yes. Carbon emission avoidance through tree planting and rubber reclaiming projects.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce carbon emission intensity by 10% by 2025	0.0176/k pcs	0.020
Reduce electricity consumption intensity by 10% by 2025	7.76 kWh/k pcs	8.62
Reduce municipal water consumption intensity by 34% by 2025	0.151 cu.M/k pcs	0.22
Reduce scheduled waste intensity by 13% by 2025	0.140kg/k pcs	0.15
Divert disposal of scheduled waste from licensed landfill by 74% FY2021 as baseline	74%	68%
Achieve ISO 45001 Occupational Health & safety Management System certification for all factories	100%	14%
Impact		
NA		
Overall Score: 47		
As per our ESG matrix, Top Glove (TOPG MK) has an overall score of 47.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	11	5
Qualitative	25%	67	17
Target	25%	100	25
Total			47

As per our ESG assessment, TOPG has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. TOPG's overall ESG score is 47, which makes its ESG rating below average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: Top Glove's 1-year forward PER (2014-2018; pre-Covid-19)



Source: Bloomberg, company data, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for TOPG. Abrupt changes in the momentum of input costs (i.e. latex, NBR) and intense competition may lead to lower earnings for TOPG. Additionally, sharp appreciation of MYR against USD will also negatively affect its earnings, for almost the entire group revenue is derived in USD.

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Aug	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	6.2	67.4	nm	37.3	29.6
Core P/E (x)	4.1	28.0	nm	37.3	29.6
P/BV (x)	4.4	1.0	1.2	1.2	1.1
P/NTA (x)	5.1	1.1	1.4	1.4	1.3
Net dividend yield (%)	16.0	1.5	0.0	1.3	1.7
FCF yield (%)	19.7	nm	nm	3.3	5.5
EV/EBITDA (x)	2.9	8.7	168.8	9.7	8.4
EV/EBIT (x)	3.0	17.4	nm	21.7	17.4
INCOME STATEMENT (MYR m)					
Revenue	16,361.4	5,572.5	4,209.9	6,058.8	6,471.5
EBITDA	10,467.4	697.8	43.9	755.3	843.7
Depreciation	(308.7)	(348.2)	(398.6)	(418.1)	(437.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	10,158.8	349.7	(354.7)	337.1	405.9
Net interest income / (exp)	57.4	19.5	2.2	1.4	1.7
Associates & JV	2.6	(3.7)	(3.7)	(3.7)	(3.7)
Exceptionals	(185.0)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	10,033.8	365.5	(356.3)	334.9	403.9
Income tax	(2,209.8)	(73.2)	85.5	(80.4)	(96.9)
Minorities	(62.3)	(6.1)	(1.8)	(0.5)	(0.2)
Perpetual securities	(51.4)	(50.2)	(50.2)	(50.2)	(50.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7,710.3	236.0	(322.8)	203.8	256.6
Core net profit	7,895.3	236.0	(322.8)	203.8	256.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,508.7	950.4	649.9	741.9	983.4
Accounts receivable	685.6	236.1	178.4	256.7	274.2
Inventory	1,179.5	564.0	426.1	613.2	655.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,021.8	4,502.9	4,574.3	4,456.1	4,318.4
Intangible assets	1,008.8	1,005.3	1,005.3	1,005.3	1,005.3
Investment in Associates & JVs	13.1	9.4	5.7	1.9	(1.8)
Other assets	439.2	797.2	844.1	859.6	878.8
Total assets	9,856.6	8,065.3	7,683.7	7,934.9	8,113.3
ST interest bearing debt	312.7	306.1	336.2	336.2	337.2
Accounts payable	644.0	426.4	322.2	463.6	495.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	146.0	93.0	93.0	93.0	93.0
Other liabilities	1,374.0	435.0	449.0	456.0	473.0
Total Liabilities	2,476.3	1,260.7	1,200.1	1,348.8	1,398.8
Shareholders Equity	6,032.2	5,590.3	5,267.5	5,369.4	5,497.7
Minority Interest	52.8	38.6	40.4	40.9	41.1
Total shareholder equity	6,085.0	5,628.9	5,307.9	5,410.4	5,538.8
Perpetual securities	1,295.3	1,175.7	1,175.7	1,175.7	1,175.7
Total liabilities and equity	9,856.6	8,065.3	7,683.7	7,934.9	8,113.3
CASH FLOW (MYR m)					
Pretax profit	10,033.8	365.5	(356.3)	334.9	403.9
Depreciation & amortisation	308.7	348.2	398.6	418.1	437.8
Adj net interest (income)/exp	(3.5)	(4.4)	(2.2)	(1.4)	(1.7)
Change in working capital	(784.9)	60.4	91.4	(124.0)	(26.7)
Cash taxes paid	(1,841.1)	(719.4)	85.5	(80.4)	(96.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	7,700.2	135.5	220.8	550.9	720.1
Capex	(1,348.6)	(918.9)	(470.0)	(300.0)	(300.0)
Free cash flow	6,351.6	(783.4)	(249.2)	250.9	420.1
Dividends paid	(5,507.6)	(528.6)	0.0	(101.9)	(128.3)
Equity raised / (purchased)	57.9	0.5	0.0	0.0	0.0
Perpetual securities	(51.4)	(50.2)	(50.2)	(50.2)	(50.2)
Change in Debt	27.1	(138.5)	0.0	0.0	1.0
Other invest/financing cash flow	112.4	38.0	(3.2)	(6.8)	(1.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(439.0)	(432.1)	(302.6)	92.0	241.5

FYE 31 Aug	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	126.1	(65.9)	(24.5)	43.9	6.8
EBITDA growth	307.7	(93.3)	(93.7)	1,620.2	11.7
EBIT growth	335.6	(96.6)	nm	nm	20.4
Pretax growth	336.0	(96.4)	nm	nm	20.6
Reported net profit growth	313.0	(96.9)	nm	nm	25.9
Core net profit growth	322.9	(97.0)	nm	nm	25.9
Profitability ratios (%)					
EBITDA margin	64.0	12.5	1.0	12.5	13.0
EBIT margin	62.1	6.3	nm	5.6	6.3
Pretax profit margin	61.3	6.6	nm	5.5	6.2
Payout ratio	66.6	41.7	0.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	47.1	4.2	nm	3.4	4.0
Revenue/Assets (x)	1.7	0.7	0.5	0.8	0.8
Assets/Equity (x)	1.6	1.4	1.5	1.5	1.5
ROAE (%)	141.4	4.1	(5.9)	3.8	4.7
ROAA (%)	85.1	2.6	(4.1)	2.6	3.2
Liquidity & Efficiency					
Cash conversion cycle	23.1	56.1	28.3	21.6	24.8
Days receivable outstanding	16.3	29.8	17.7	12.9	14.8
Days inventory outstanding	45.6	68.3	43.3	35.7	41.0
Days payables outstanding	38.8	41.9	32.8	27.0	31.0
Dividend cover (x)	1.5	2.4	nm	2.0	2.0
Current ratio (x)	2.1	2.2	1.9	2.0	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	4.0	6.4	6.4	5.9	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	nm	na	na
Debt/EBITDA (x)	0.0	0.6	9.8	0.6	0.5
Capex/revenue (%)	8.2	16.5	11.2	5.0	4.6
Net debt/ (net cash)	(2,050.0)	(551.3)	(220.7)	(312.7)	(553.2)

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 DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

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

Luong Thu Huong
(65) 6231 8467
hana.thuluong@maybank.com

FX

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

Fiona LIM
(65) 6320 1374
fionallim@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
ongsenyeow@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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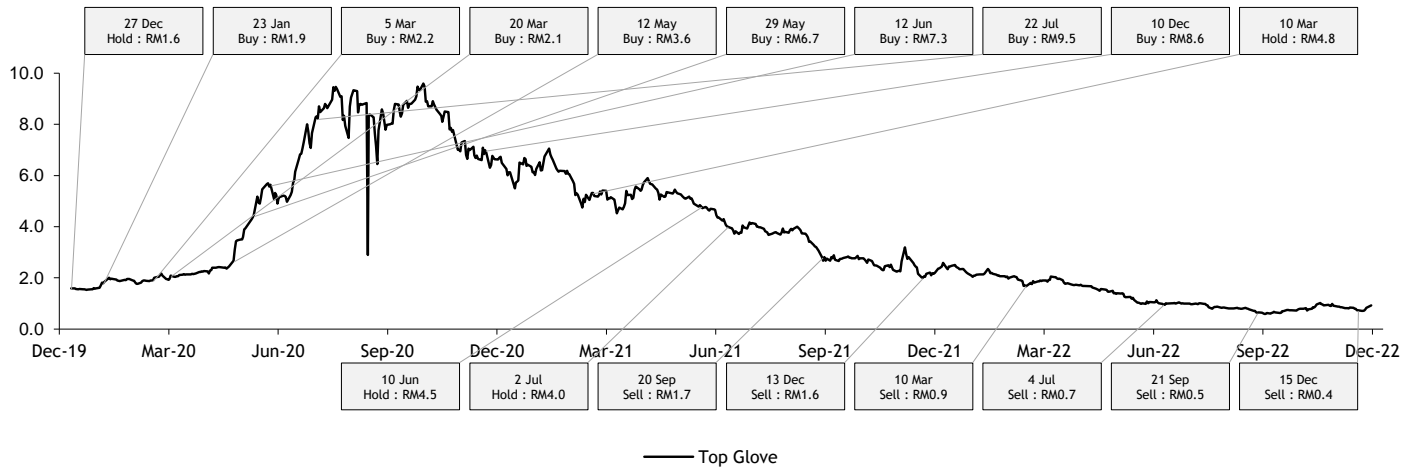
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Malaysia

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