

UMS Holdings (UMSH SP)

A safe-haven amid uncertainty

Positive FY23E outlook

UMS's 6-month outlook remains robust with a large order backlog from its key customer. Management said that a slightly weaker forecast by its key customer is unlikely to impact its performance. It also plans to ramp up production from the middle of 2023 at its new Penang factory with orders from a second key customer. As a result, we expect a strong 4Q22E and raise our PATMI estimates by 3% for FY23E, resulting in a higher TP of SGD1.47 (from SGD1.34) pegged to a higher 8.5x (from 8.0x) FY23E P/E, similar to our peg for its semicon peer AEM.

High possibility of a new large customer

Construction of the new 300,000 sqft Penang factory was on schedule for completion by end-2022 and UMS aims to start production from the middle of 2023. Management says it is in active discussion with a potential new semi-con customer who will likely absorb the plant's entire output. Judging from the fact that it made the investment, we reckon there is a high probability of success and this would help UMS diversify away from its single-largest customer, which currently generates more than 80% of its revenue.

Attractive yield of 4.9% for FY23E

UMS has generally rewarded its shareholders attractively in terms of dividends and we expect its dividend to increase as its performance continue to improve. All in all, we expect an attractive 4.9% yield for both FY22E and FY23E.

Resilient growth despite weaker sector outlook

With the next 6 months orders remaining strong and the potential gain of a new customer, we feel more positive on UMS's outlook despite the current challenges facing the semi-con space. As UMS's valuation remains attractive at 7.1x FY23E P/E, we are optimistic that its positive earnings going forward will continue to rerate its share price positively.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	164	271	372	416	462
EBITDA	47	92	144	157	174
Core net profit	46	53	106	115	128
Core EPS (cts)	6.9	8.0	15.9	17.3	19.2
Core EPS growth (%)	37.9	15.4	99.4	8.7	11.3
Net DPS (cts)	4.0	4.4	6.0	6.0	6.0
Core P/E (x)	12.5	19.1	7.7	7.1	6.4
P/BV (x)	2.3	3.7	2.4	2.0	1.6
Net dividend yield (%)	4.6	2.9	4.9	4.9	4.9
ROAE (%)	14.7	20.1	34.2	30.3	27.8
ROAA (%)	15.4	14.2	22.8	21.0	19.9
EV/EBITDA (x)	11.6	11.0	5.5	4.5	3.8
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	106	107	120
MKE vs. Consensus (%)	-	-	(0.6)	7.3	6.3

Jarick Seet jarick.seet@maybank.com (65) 6321 5848

BUY

Share Price SGD 1.23
12m Price Target SGD 1.47 (+25%)
Previous Price Target SGD 1.34

Company Description

UMS manufactures high precision components and modules found in front-end semiconductor equipment

Statistics

52w high/low (SGD)	1.44/0.87
3m avg turnover (USDm)	5.2
Free float (%)	69.2
Issued shares (m)	671
Market capitalisation	SGD824.8 <i>N</i>
	USD616M

Major shareholders:

LUONG ANDY	16.3%
GN JONG YUH	4.7%
The Vanguard Group, Inc.	1.8%

Price Performance



——UMS Holdings - (LHS, SGD) ——UMS Holdings / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(3)	(4)	(15)
Relative to index (%)	(4)	(8)	(18)

Source: FactSet



Co. Reg No: 198700034E MICA (P): 099/03/2012

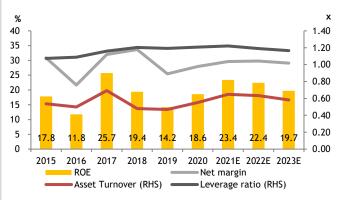
UMS Holdings

Maybank

Value Proposition

- Precision metals engineering firm specialises in assembling modules and precision engineering for components for frontend semiconductor equipment.
- Has entrenched relationship with key customer Applied Materials, a market leader for wafer fab equipment.
- Through subsidiary JEP, UMS is expanding precision metals engineering to non-semiconductor sectors such as aerospace, which sees tailwinds from outsourcing trends.

UMS Du Pont ROE

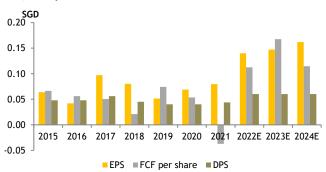


Source: Company

Financial Metrics

- Core EPS growth of 34%/15% in FY21/22E, driven by sustained investments from chipmakers globally.
- UMS has a strong track record of maintaining a net cash balance sheet to tide through cycles.
- FCF and balance sheet are expected to support dividends over forecast period.

EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 1. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
- 2. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
- 3. AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
- AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.
- 5. UMS rallied through much of 2020-21 on the back of strong WFE demand globally.

Swing Factors

Upside

- Stronger than expected revenue momentum following capacity expansion in FY22E
- Better-than-expected contributions from Kalf Engineering, Starke and JEP.
- Better-than-expected cost control, which in turn supports margins.

Downside

- Higher than expected labour costs, or if UMS faces difficulties expanding workforce to cope with strong order momentum
- Weaker-than-expected margins due to negative operating leverage if volume falls.
- Lower-than-expected dividends may spook yield investors. UMS has a quarterly dividend policy and a track record of strong cash flow generation.

jarick.seet@maybank.com

UMS Holdings





jarick.seet@maybank.com

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

Business Model & Industry Issues

- Based on stakeholders' feedback, governance, economic performance, product compliance and customer privacy and satisfaction are the most important factors to both UMS and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees' wellbeing and equal opportunities; ii) governance: conflicts of interest; and iii) environmental: fines for non-compliance of environmental laws and regulations.
- In 2020, UMS did not incur any significant fines related to environmental laws, and there were no reported incidences of discrimination, whistleblowing, bribery or corruption.
- Human capital is a key input in driving UMS' capabilities vs. competitors. UMS believes in talent management to nurture employees, provide equal opportunities, and recognise and reward achievements to boost retention.

Material E issues

- UMS' environmental exposure is through energy, water and inputs. In 2021, UMS did not incur any significant fines for non-compliance with environmental laws and regulations.
- For its manufacturing process, UMS' target for energy intensity is ≤0.13 KWH/revenue. In 2020/21, UMS' performance was 0.1558/0.1306 respectively.
- UMS has taken steps to control water flow in its special process lines, and have switched to NEWater from PUB water. It has a water intensity target of ≤0.0012 m3/revenue. In 2020/21, UMS' performance were 0.0014/0.0011 respectively.
- Hazardous waste largely consists of chemicals and oily water removed from production processes. These ar disposed of in compliance with regulations. Where possible all retrieved metal chip and scraps, as well as packaging are recycled.
- Most delivery trucks are incompliance with EURO V standard.

Material S issues

- UMS' workforce is 592 strong across Singapore and Malaysia as at end-2021. UMS is an equal-opportunity employer and values talent retention. Outstanding employees are rewarded for achievements.
- UMS adopts a localisation strategy for overseas operations to ensure on-the-ground teams have a good grasp of local socio-political and cultural sensitivities. In 2021, locals accounted for 46% of employees based in Malaysia and 50% of managerial positions. 25% of managerial employees are
- In 2021, there were no reports of discrimination or exploitative labour practices.

Key G metrics and issues

- The board has five directors, of which one is the founder, executive chairman and CEO (Andy Luong), and three are independent, non-executive (60%). One is an executive director who is also UMS' financial controller (Stanley Loh).
- The audit, nominating, and remuneration committees are chaired by independent directors.
- Workshops on business ethics, anti-bribery compliance and enterprise risk management are held to educate employees on good corporate governance. Guidance is also provided for common ethical issues such as conflicts of interest and confidential information.
- In 2021, UMS did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.
- In 2021, key management personnel accounted for 31% (FY20: 21%).
- In 2012, UMS adopted a policy to declare dividends every quarter. The form and frequency depends on UMS' economic performance and financial position, as well as current and future needs.

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. **25core** 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. **3controversy 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).

January 9, 2023 3



	Quantitative Parameters (Score: 38)								
	Particulars	Unit	2019	2020	2021	AEM SP (2021)			
	Scope 1 GHG emissions	tC02e	NA	NA	NA	15			
	Scope 2 GHG emissions	tC02e	NA	NA	NA	8082			
	Total	tC02e	NA	NA	NA	8097			
	Scope 3 GHG emissions	tC02e	NA	NA	NA	NA			
	Total	tC02e	NA	NA	NA	8097			
Е	GHG intensity (Scope 1 and 2)	KgCO2e/emp	NA	NA	NA	0.014			
-		kWh/unit of							
	Energy consumption	sales	0.02	0.01	0.13	0.02			
		M2/unit of							
	Water consumption	sales	0.04	0.03	0.0011	0.09			
		Metric							
	Recycled waste generated	tonnes	NA	NA	50	50			
	% of women in workforce	%	NA	NA	NA	35.0%			
S	Economic value generated and distributed	SGD'000	33,600	36,500	53,100	89,181			
3	New employees hired by gender (women)	%	NA	NA	NA	34.0%			
	Total training hours	%	NA	NA	NA	71%			
	Key operations assessed for risks related to								
	corruption	%	100	100	100	100			
	MD/CEO salary as % of reported net profit	%	5.95%	7.52%	13.39%	0.04%			
	Board salary as % of reported net profit	%	2.89%	2.63%	1.84%	0.05%			
G	Independent directors on the Board	%	60%	60%	60%	57%			
	Female directors on the Board	%	20%	20%	20%	14%			

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? Yes, the UMS board, supported by the Risk Advisory Committee and Safety Subcommittee, looks at sustainability issues as part of its strategic formulation, determines the material Environmental, Social and Governance factors, and oversees the management and monitoring of these factors.
- b) is the senior management salary linked to fulfilling ESG targets?

Yes. The BSC KPIs include maintaining rigorous corporate governance standards and minimizing risks

- c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? No
- d) Does the company have a mechanism to capture Scope 3 emissions which parameters are captured? No
- e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

In every office, in every manufacturing process, efforts to reduce energy consumption are being practiced and are producing results. UMS works only with government-licensed waste collection vendors to ensure that disposal processes are in compliance with government regulation. Most of its delivery trucks are in compliance with the EURO V standard, which helps to reduce the emission of CO2 and other gases.

f) Does carbon offset form part of the net zero/carbon neutrality target of the company? No

Target (Score: 66.7)		
Particulars	Target	Achieved
Energy Intensity (KWH/Revenue)	0.13	0.1306
Water Intensity (m2/Revenue) < than	0.0012	0.0011
Briefings to present quarterly and FY results	100%	100%
Carbon neutrality/net zero	NA	NA
Impact		
NA		
Overall Score: 48		
As per our ESG matrix, UMS Holdings (UMSH SP) has an overall score of 48.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	38	19
Qualitative	25%	50	13
Target	25%	67	17
Total			48

As per our ESG assessment, UMSH SP has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics as well as qualitative parameters. UMS's overall ESG score is 48, 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: Changes in estimates

		FY22E			FY23E			FY24E	
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	371.6	348.0	6.8	416.2	407.1	2.2	461.9	447.9	3.1
Gross profit (SGDm)	206.6	190.5	8.5	226.7	221.9	2.2	249.4	241.8	3.1
EBIT (SGDm)	125.7	112.4	11.9	137.3	133.6	2.8	153.5	147.6	4.0
EBITDA (SGDm)	144.1	130.7	10.2	156.7	153.0	2.4	173.7	167.9	3.5
Core net profit (SGDm)	105.9	93.4	13.4	115.1	111.7	3.0	128.1	122.8	4.3
EPS (SGD)	0.159	0.140	13.4	0.173	0.168	3.0	0.192	0.184	4.3
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	53.0%	53.0%	0.0	54.5%	54.5%	0.0	54.0%	54.0%	0.0
Staff cost as % of sales	12.0%	12.0%	0.0	12.5%	12.5%	0.0	12.5%	12.5%	0.0

Source: Maybank IBG Research

January 9, 2023 5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	13.7	15.2	7.7	7.1	6.4
Core P/E (x)	12.5	19.1	7.7	7.1	6.4
P/BV (x)	2.3	3.7	2.4	2.0	1.6
P/NTA (x)	2.3	3.7	2.4	2.0	1.6
Net dividend yield (%)	4.6	2.9	4.9	4.9	4.9
FCF yield (%)	7.8	nm	9.0	16.4	10.2
EV/EBITDA (x)	11.6	11.0	5.5	4.5	3.8
EV/EBIT (x)	13.9	12.7	6.3	5.1	4.3
INCOME STATEMENT (SGD m)					
Revenue	164.4	271.2	371.6	416.2	461.9
EBITDA	46.9	92.2	144.1	156.7	173.7
Depreciation	(7.7)	(12.4)	(18.3)	(19.4)	(20.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	39.2	79.8	125.7	137.3	153.5
Net interest income /(exp)	(0.4)	(0.8)	(0.7)	(0.7)	(0.7)
Associates & JV	0.1	0.4	0.0	0.0	0.0
Exceptionals	9.5	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
•	48.4	79.4	125.0	136.6	152.8
Pretax profit					
Income tax	(2.6)	(21.8)	(13.1)	(14.3)	(16.0)
Minorities	0.2	(4.5)	(6.0)	(7.2)	(8.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.5	53.1	105.9	115.1	128.1
Core net profit	46.0	53.1	105.9	115.1	128.1
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	53.8	65.4	99.5	194.2	237.7
Accounts receivable	23.5	67.2	85.5	96.9	130.9
Inventory	53.9	87.1	94.5	102.7	118.5
Property, Plant & Equip (net)	56.3	116.7	113.3	109.0	98.7
Intangible assets	80.1	88.6	88.6	88.6	88.6
Investment in Associates & JVs	35.4	0.0	0.0	0.0	0.0
Other assets	6.6	11.8	11.8	11.8	11.8
Total assets	309.5	436.8	493.3	603.1	686.2
ST interest bearing debt	15.7	11.6	11.6	11.6	11.6
Accounts payable	25.4	56.1	43.3	70.9	57.2
LT interest bearing debt	3.8	22.7	22.7	22.7	22.7
Other liabilities	12.0	42.0	40.0	40.0	40.0
Total Liabilities	56.6	132.5	117.1	144.7	131.0
Shareholders Equity	251.3	276.3	342.2	417.3	505.4
Minority Interest	1.7	27.9	33.9	41.1	49.8
Total shareholder equity	252.9	304.3	376.2	458.5	555.2
Total liabilities and equity	309.5	436.8	493.3	603.1	686.2
CASH FLOW (SGD m)					
Pretax profit	48.4	79.4	125.0	136.6	152.8
Depreciation & amortisation	7.7	12.4	18.3	19.4	20.3
·	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp					
Change in working capital	3.0	(45.2)	(41.1)	8.0	(63.5)
Cash taxes paid	(2.1)	1.8	(13.1)	(14.3)	(16.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	56.9	48.0	89.1	149.7	93.5
Capex	(11.7)	(72.8)	(15.0)	(15.0)	(10.0)
Free cash flow	45.2	(24.8)	74.1	134.7	83.5
Dividends paid	(26.7)	(29.3)	(40.0)	(40.0)	(40.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	6.6	14.7	0.0	0.0	0.0
Other invest/financing cash flow	4.0	52.9	0.3	0.0	0.0
Effect of exch rate changes	(9.7)	(2.2)	0.0	0.0	0.0
	19.4	11.3	34.4	94.6	

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.7	64.9	37.0	12.0	11.0
EBITDA growth	16.1	96.6	56.2	8.8	10.8
EBIT growth	17.0	103.5	57.6	9.2	11.7
Pretax growth	40.5	64.0	57.5	9.3	11.8
Reported net profit growth	12.0	45.6	99.4	8.7	11.3
Core net profit growth	37.1	15.4	99.4	8.7	11.3
Profitability ratios (%)					
EBITDA margin	28.5	34.0	38.8	37.7	37.6
EBIT margin	23.8	29.4	33.8	33.0	33.2
Pretax profit margin	29.4	29.3	33.7	32.8	33.1
Payout ratio	73.1	55.2	37.8	34.8	31.2
DuPont analysis					
Net profit margin (%)	22.2	19.6	28.5	27.7	27.7
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.7
Assets/Equity (x)	1.2	1.6	1.4	1.4	1.4
ROAE (%)	14.7	20.1	34.2	30.3	27.8
ROAA (%)	15.4	14.2	22.8	21.0	19.9
Liquidity & Efficiency					
Cash conversion cycle	194.1	143.9	163.7	157.8	167.7
Days receivable outstanding	49.9	60.2	74.0	78.9	88.8
Days inventory outstanding	247.5	198.1	198.2	187.4	187.4
Days payables outstanding	103.3	114.4	108.5	108.5	108.5
Dividend cover (x)	1.4	1.8	2.6	2.9	3.2
Current ratio (x)	2.8	2.5	3.8	3.9	5.5
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.3	4.2	4.2	5.2
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	98.7	106.4	nm	nm	nm
Debt/EBITDA (x)	0.4	0.4	0.2	0.2	0.2
Capex/revenue (%)	7.1	26.8	4.0	3.6	2.2
Net debt/ (net cash)	(34.2)	(31.1)	(65.2)	(159.9)	(203.4)

Source: Company; Maybank IBG Research

January 9, 2023 7

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 leejuye@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.thuhuong @maybank.com

Saktiandi SUPAAT (65) 6320 1379 saktiandi@maybank.com

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

(65) 6320 1378 alanlau@maybank.com

(65) 6320 1371 shaunlim@maybank.com

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@mavbank-ib.com

ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

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

Neerav DALAL (91) 22 4223 2606

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

ΜΑΙ ΔΥSΙΔ

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

(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

Amirah AZMI (603) 2082 8769 amirah.azmi@maybank-ib.com

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

• RFITs

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

Danhne S7F

(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

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

Ftta 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

Chartist

Nguyen Thanh Lam

(84 28) 44 555 888 ext 8086 thanhlam.nguyen@maybank.com

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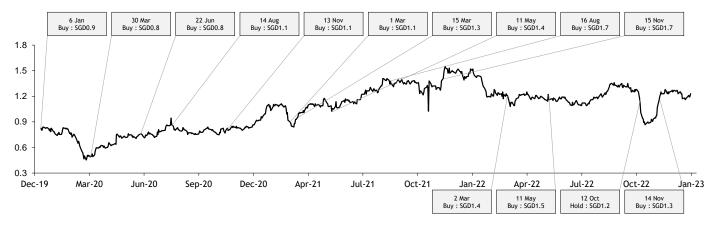
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----- UMS Holdings

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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

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