

Dialog Group (DLG MK)

1HFY23 results on track

Maintain BUY and MYR4.90 TP

1HFY23 earnings made up 43% of our FY estimate and we expect its YoY strength in FY23 to continue be driven by its upstream ops in TH and lower opex. Developing Pengerang to its full potential remains its key agenda. Its Phase 3 ops is expected to gained traction post pandemic. All in, we remain positive of its operational/financial strength & management acumen. Our TP is SOP-based.

Snapshot of 1HFY23 results

Dialog reported core net profit of MYR129m in 2QFY23, which took its 1H23 core earnings to MYR259m (+2% YoY). The YoY strength was largely due to higher associate profits (+28%), arising from its upstream ops acquisition, namely the 50%-owned Pan Orient Energy Corp (POEC). This was partly offset by continued high overall project and operation costs.

TH's POEC to drive FY23's growth

Our earnings estimates are unchanged. The YoY growth in FY23 (+19%) will be fueled by: (i) contribution of its POEC and (ii) lower opex, as the pandemic-led and supply chain issues dissipate. Based on our back-of-envelope calculations, the expected payback period for the former is relatively low, at 2-4 years, based on a conservative crude oil profit of USD10-USD20/bbl.

Pengerang development is key to its LT growth

Developing Pengerang to its full potential remains its long-term key agenda. Its Phase 3 project (earmarked for long-term downstream/dedicated terminals ops) is gaining traction post pandemic and will anchor the Group's growth over the next 10-15 years. Dialog has been actively engaging with multiple prospects (post-pandemic) to invest there. It has no intention to sell and monetise its real estate there for a quick gain. Pengerang aside, it will also expand its terminal businesses in Tj. Langsat, by adding a 24k m³ storage capacity for renewable energy (RE) products (low-carbon fuel alternatives); its first foray into the RE segment. The engineering/ construction of this new plant is expected to be completed by 4Q 2024.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,610	2,319	2,393	2,525	2,640
EBITDA	656	750	792	830	865
Core net profit	546	506	605	658	709
Core EPS (sen)	9.7	9.0	10.7	11.7	12.6
Core EPS growth (%)	(7.3)	(7.3)	19.5	8.8	7.7
Net DPS (sen)	3.1	3.4	4.1	4.4	4.8
Core P/E (x)	29.9	23.7	24.1	22.1	20.5
P/BV (x)	3.2	2.2	2.4	2.3	2.1
Net dividend yield (%)	1.1	1.6	1.6	1.7	1.9
ROAE (%)	12.4	10.5	11.5	11.6	11.6
ROAA (%)	7.2	6.0	6.7	7.0	7.2
EV/EBITDA (x)	26.5	17.5	19.5	18.4	17.4
Net gearing (%) (incl perps)	9.3	9.3	4.5	0.5	net cash
Consensus net profit	-	-	571	629	666
MIBG vs. Consensus (%)	-	-	5.8	4.7	6.5

Liaw Thong Jung
tjliaw@maybank-ib.com
(603) 2297 8688

BUY

Share Price	MYR 2.58
12m Price Target	MYR 4.90 (+90%)
Previous Price Target	MYR 4.90

Company Description

The largest tank terminal operators in Malaysia with EPC works

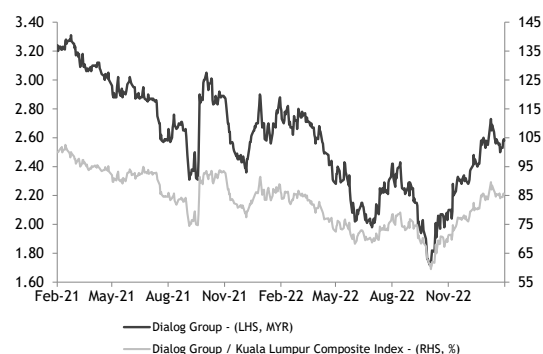
Statistics

52w high/low (MYR)	2.82/1.71
3m avg turnover (USDm)	2.7
Free float (%)	65.3
Issued shares (m)	5,646
Market capitalisation	MYR14.6B USD3.3B

Major shareholders:

Employees Provident Fund	14.2%
Kumpulan Wang Persaraan	9.2%
Wide Synergy Sdn. Bhd.	7.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	24	(8)
Relative to index (%)	2	21	(1)

Source: FactSet

Summary Results Table

FY Jun (MYR m)	Quarterly					Cumulative		
	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY
Turnover	797.0	544.5	46.4	711.7	12.0	1,508.7	1,049.9	43.7
EBITDA	120.1	130.0	(7.7)	119.9	0.1	240.0	265.6	(9.6)
Int. expense	(17.5)	(6.8)	NM	(16.4)	6.5	(33.9)	(13.9)	NM
Associates	97.4	68.4	42.4	84.1	15.8	181.5	141.9	28.0
Exceptional item	(1.7)	2.2	NM	(3.9)	(57.1)	(5.5)	3.0	NM
Pretax profit	139.9	139.5	0.3	127.4	9.8	267.3	282.2	(5.3)
Tax	(8.8)	(11.3)	(22.0)	(7.2)	23.1	(16.0)	(23.0)	(30.4)
Minority interest	(3.9)	(0.3)	NM	5.6	NM	1.6	(2.5)	NM
Net profit	127.2	127.9	(0.6)	125.8	1.1	252.9	256.7	(1.5)
Net profit Ex EI	128.8	125.7	2.5	129.7	(0.6)	258.5	253.7	1.9
<i>EBITDA margin (%)</i>	15.1	23.9	(8.8)	16.8	(1.8)	15.9	25.3	(9.4)
<i>Tax rate (%)</i>	6.3	8.1	(1.8)	5.6	0.7	6.0	8.2	(2.2)
	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY
Turnover	797.0	544.5	46.4	711.7	12.0	1,508.7	1,049.9	43.7
- Malaysia	446.2	291.6	53.0	411.1	8.5	857.3	574.1	49.3
- Overseas	350.8	252.9	38.7	300.6	16.7	651.4	475.8	36.9
Pretax profit	139.9	139.5	0.3	127.4	9.8	267.3	282.2	(5.3)
- Malaysia	18.3	69.5	(73.6)	31.1	(41.0)	49.5	120.8	(59.1)
- Overseas	24.1	1.6	NM	12.2	98.3	36.3	19.5	86.5
- Associates	97.4	68.4	42.4	84.1	15.8	181.5	141.9	28.0
Pretax margin (%)	17.6	25.6	(8.1)	17.9	(0.3)	17.7	26.9	(9.2)
- Malaysia	4.1	23.8	(19.7)	7.6	(3.5)	5.8	21.0	(15.3)
- Overseas	6.9	0.6	6.3	4.1	2.8	5.6	4.1	1.5

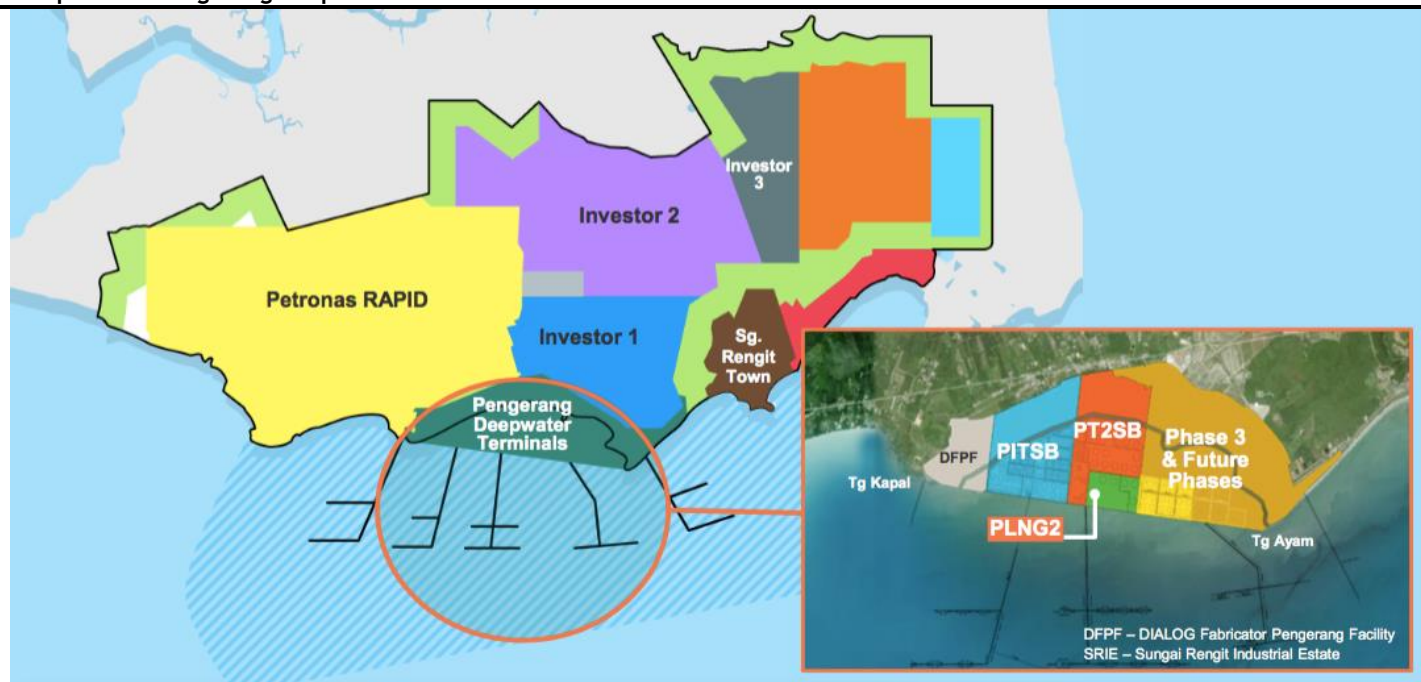
Source: Company, Maybank IBG Research

Dialog's SOP valuation

Operations	(MYR'm)	MYR/shr	Details
- Kertih	666.8	0.12	397k cu m; 30% stake (<u>dedicated terminal</u>)
- Langsat	2,008.3	0.36	647k-947k cu m; 100% stake (<u>independent terminal</u>)
- Pengerang I'dent Terminals (PITSB); SPV1	1,265.3	0.22	Phase 1: 1,300k cu m; 45.9% stake; MYR2.0b project cost (<u>independent terminal</u>)
- Pengerang Terminals (TWO) (PT2SB); SPV2	2,380.7	0.42	Phase 2A: 1,300k cu m; 25% stake; MYR6.3b project cost (<u>dedicated terminal</u>)
- Pengerang LNG (TWO) (PLNG2); SPV3	1,672.6	0.30	Phase 2B: Regas: 3.5m tpa capacity; 400k m ³ LNG storage; 25% stake (<u>dedicated terminal</u>)
- PITSB expansion; SPV4	1,186.6	0.21	Phase 1E: 400k- 1,000k cu m; 45.9% stake; MYR1.2b project cost (<u>independent terminal</u>)
- Pengerang SPV5 (for BP Singapore)	1,491.3	0.26	Phase 3: 430k cu m; 90% stake (<u>dedicated terminal</u>)
- Pengerang future SPVs	5,301.5	0.94	New phases: 2,000k cu m; 90% stake (<u>independent terminal</u>)
- Pengerang future SPVs	7,325.3	1.30	New phases: 2,000k cu m; 50% stake (<u>dedicated terminal</u>)
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Tank terminal ops	23,298.4	4.13	
Halliburton Bayan Petroleum S/B	74.1	0.01	1H19 (YE Dec) BV; 95% stake, OSC up to 2036
Dialog Resources S/B	273.9	0.05	FY18 (YE Dec) BV; 20% stake at 3 PSCs - D35/D21/J4 up to 2034
EPCC, other services	1,602.3	0.28	MYR2b replenishment p.a.; 6% net margin; 12x PE multiple
Maintenance-related services	1,837.4	0.33	MYR700m replenishment; 15% net margin; 15x PE multiple
Land @ Pengerang	1,306.8	0.23	600 acres of greenfield land near RAPID/ reclaimed land valued at MYR50 psf
Net debt	(981.2)	(0.17)	FY21 (incl MYR499m perps).
SOP	27,411.6	4.86	Share base: 5,640.7m (<i>rounded up to MYR4.90</i>)

Source: Maybank IBG Research

Snapshot of Pengerang deepwater terminals



1,200 acres

Next to Major International **Commercial Centre**

Potentially Serving **3 Billion** population base in the region

Source: Company

Tank terminal capacity

Operations	Stake (%)	Capacity (m ³)	Comment
Existing: (a)			
Kertih	30%	400,000	
DTL 1 & 2	100%	650,000	
DTL 3	100%	120,000	120,000 came onstream in FY20
PITSB	46%	1,730,000	430,000 was added in FY20
PT2SB	25%	1,300,000	
PLNG2	25%	400,000	
		4,600,000	
Expansion: (b)			
DTL3	100%	85,000	from mid-2022
Phase 3A	90%	430,000	BP SG, came onstream in mid-2021
		515,000	
Total (a) + (b)		5,115,000	

1-year forward PER



Source: Company, Maybank IBG Research

1-year forward PBV



Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	35.4	29.1	24.1	22.1	20.5
Core P/E (x)	29.9	23.7	24.1	22.1	20.5
P/BV (x)	3.2	2.2	2.4	2.3	2.1
P/NTA (x)	3.8	2.5	2.8	2.6	2.4
Net dividend yield (%)	1.1	1.6	1.6	1.7	1.9
FCF yield (%)	nm	1.8	2.7	2.9	3.1
EV/EBITDA (x)	26.5	17.5	19.5	18.4	17.4
EV/EBIT (x)	40.5	25.7	27.9	25.8	24.0
INCOME STATEMENT (MYR m)					
Revenue	1,609.9	2,319.0	2,393.3	2,525.1	2,639.5
EBITDA	656.4	750.3	792.4	829.8	864.7
Depreciation	(226.7)	(239.2)	(239.2)	(239.2)	(239.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	429.7	511.0	553.2	590.6	625.5
Net interest income / (exp)	(26.4)	(40.1)	(78.0)	(74.4)	(71.4)
Associates & JV	227.4	251.6	273.4	296.9	320.6
Exceptionals	(2.6)	1.9	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	595.0	550.3	748.5	813.1	874.7
Income tax	(51.9)	(44.4)	(116.0)	(126.0)	(135.6)
Minorities	0.1	2.1	(27.8)	(28.8)	(29.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	543.1	508.0	604.8	658.3	709.2
Core net profit	545.7	506.1	604.8	658.3	709.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,453.4	1,840.3	1,979.9	2,128.6	2,295.4
Accounts receivable	620.7	859.9	887.4	936.3	978.7
Inventory	43.7	73.5	75.8	80.0	83.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3,349.4	3,350.2	3,311.0	3,271.7	3,232.5
Intangible assets	835.1	807.1	807.1	807.1	807.1
Investment in Associates & JVs	1,504.8	1,535.6	1,759.0	2,005.8	2,276.4
Other assets	170.2	380.5	380.5	380.5	380.5
Total assets	7,977.2	8,847.1	9,200.7	9,610.0	10,054.2
ST interest bearing debt	297.7	337.2	350.0	350.0	350.0
Accounts payable	747.5	740.7	764.4	806.5	843.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,637.9	2,026.9	1,903.3	1,813.3	1,732.0
Other liabilities	95.0	90.0	90.0	90.0	90.0
Total Liabilities	2,778.3	3,194.6	3,107.5	3,059.6	3,014.9
Shareholders Equity	5,096.6	5,553.3	5,966.3	6,394.7	6,853.8
Minority Interest	102.3	99.1	126.9	155.7	185.6
Total shareholder equity	5,198.9	5,652.5	6,093.1	6,550.4	7,039.4
Total liabilities and equity	7,977.2	8,847.1	9,200.7	9,610.0	10,054.2
CASH FLOW (MYR m)					
Pretax profit	595.0	550.3	748.5	813.1	874.7
Depreciation & amortisation	226.7	239.2	239.2	239.2	239.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	160.9	(264.2)	(6.2)	(10.9)	(9.5)
Cash taxes paid	(51.9)	(44.4)	(116.0)	(126.0)	(135.6)
Other operating cash flow	(358.9)	78.8	(273.4)	(295.9)	(318.6)
Cash flow from operations	571.7	559.7	592.2	619.5	650.3
Capex	(784.9)	(347.2)	(200.0)	(200.0)	(200.0)
Free cash flow	(213.2)	212.5	392.2	419.5	450.3
Dividends paid	(180.3)	(184.7)	(191.8)	(229.8)	(250.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	24.5	428.5	(110.8)	(90.0)	(81.3)
Other invest/financing cash flow	581.9	(69.3)	50.0	50.0	50.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	213.0	387.0	139.6	149.7	168.8

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(30.1)	44.0	3.2	5.5	4.5
EBITDA growth	(7.6)	14.3	5.6	4.7	4.2
EBIT growth	(17.0)	18.9	8.2	6.8	5.9
Pretax growth	(20.4)	(7.5)	36.0	8.6	7.6
Reported net profit growth	(13.8)	(6.5)	19.0	8.8	7.7
Core net profit growth	(7.2)	(7.3)	19.5	8.8	7.7
Profitability ratios (%)					
EBITDA margin	40.8	32.4	33.1	32.9	32.8
EBIT margin	26.7	22.0	23.1	23.4	23.7
Pretax profit margin	37.0	23.7	31.3	32.2	33.1
Payout ratio	32.2	37.8	38.0	38.0	38.0
DuPont analysis					
Net profit margin (%)	33.7	21.9	25.3	26.1	26.9
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.6	1.6	1.5	1.5	1.5
ROAE (%)	12.4	10.5	11.5	11.6	11.6
ROAA (%)	7.2	6.0	6.7	7.0	7.2
Liquidity & Efficiency					
Cash conversion cycle	(108.2)	(57.9)	(31.9)	(28.8)	(28.4)
Days receivable outstanding	197.6	114.9	131.4	130.0	130.6
Days inventory outstanding	25.3	14.8	18.0	17.5	17.5
Days payables outstanding	331.1	187.6	181.3	176.3	176.5
Dividend cover (x)	3.1	2.6	2.6	2.6	2.6
Current ratio (x)	2.0	2.4	2.5	2.6	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.8	3.0	3.1	3.3
Net gearing (%) (incl perps)	9.3	9.3	4.5	0.5	net cash
Net gearing (%) (excl. perps)	9.3	9.3	4.5	0.5	net cash
Net interest cover (x)	16.3	12.7	7.1	7.9	8.8
Debt/EBITDA (x)	2.9	3.2	2.8	2.6	2.4
Capex/revenue (%)	48.8	15.0	8.4	7.9	7.6
Net debt/ (net cash)	482.3	523.8	273.4	34.7	(213.4)

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

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

Alan Lau
(65) 6320 1378
alankau@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, CFA
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
• Media

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 5849 ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837 kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

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

Krishna GÜHA
(65) 6231 5842 krishna.guha@maybank.com
• REITs

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

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvaja@maybank.com
• Consumer

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 • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Richard SUHERMAN
(62) 21 8066 8683
richard.suherman@maybank.com
• Metals & Mining

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Satriawan Haryono, CEWA, 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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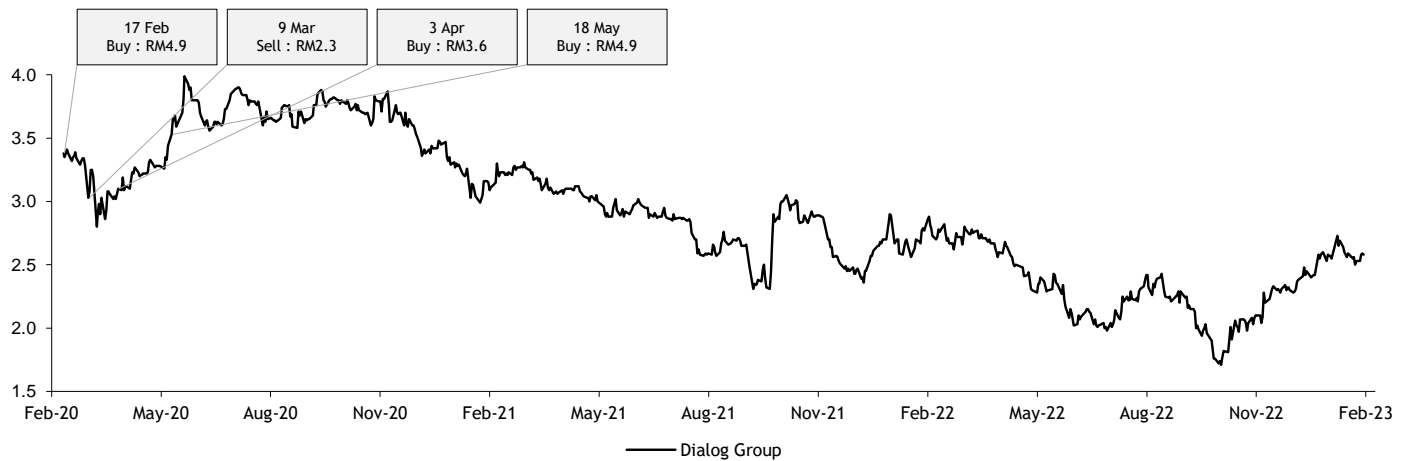
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Malaysia

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