

## Dialog Group (DLG MK)

# Recovering post-pandemic

### Maintain BUY and MYR4.90 TP

9MFY23 results came in below our expectation, which led to a 6%-12% cut in earnings. We see this as a temporary setback as it recovers from the pandemic setback (supply chain & cost disruptions), remaining positive of its operational/financial strength & management acumen. Developing Pengerang to its full potential remains its key agenda. Our TP is SOP-based.

### Snapshot of 9MFY23 results

3QFY23 core net profit of MYR132m (+3% QoQ; +1% YoY) took 9MFY23 core earnings to MYR391m; 63% of our FY estimates. We deem this to be below estimate, for the expectation was for a sequential double-digit earnings growth. In our view, the sub-par QoQ performance was still largely due to the higher project (materials, inflation) and operational (manpower) costs in MY (PBT margin fell 1.4-ppts). Conversely, the performance at its associate ops (largely its independent tank terminal ops) is improving, underpinned by the higher QoQ ASP (>SGD6/m<sup>3</sup> a month) and utilization (>90%). Profitability at its 50% TH upstream ops too is also strengthening (+8% QoQ).

### Cut earnings, LT outlook intact

Our 6%-12% cut in FY23-25 earnings largely reflects the higher opex outlook on cost (supply chain) issues, thus moderating the 3-year net profit CAGR growth to 9% (vs. 12% previously). Its latest M&A, the TH upstream POEC, is delivering to expectation. In our view, 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.

### Steadfast in developing Pengerang

Developing Pengerang to its full potential remains its long-term key agenda. Its Phase 3 project (earmarked for LT downstream/ dedicated terminals ops) is gaining traction and will anchor the Group's LT growth. 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 m<sup>3</sup> storage capacity for renewable energy (RE) products (low-carbon fuel alternatives); its first foray into the RE segment. Construction of this new plant is expected to be completed by 4Q24.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,610	2,319	2,393	3,005	3,040
EBITDA	656	750	537	569	633
Core net profit	546	506	531	581	663
Core EPS (sen)	9.7	9.0	9.4	10.3	11.7
Core EPS growth (%)	(7.3)	(7.3)	4.9	9.5	14.1
Net DPS (sen)	3.1	3.4	3.6	3.9	4.5
Core P/E (x)	29.9	23.7	23.4	21.4	18.7
P/BV (x)	3.2	2.2	2.1	2.0	1.8
Net dividend yield (%)	1.1	1.6	1.6	1.8	2.0
ROAE (%)	12.4	10.5	10.2	10.4	11.1
ROAA (%)	7.2	6.0	5.9	6.2	6.8
EV/EBITDA (x)	26.5	17.5	25.1	23.6	21.1
Net gearing (%) (incl perps)	9.3	9.3	7.7	6.6	4.3
Consensus net profit	-	-	563	616	663
MIBG vs. Consensus (%)	-	-	(5.7)	(5.6)	(0.1)

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

# BUY

Share Price	MYR 2.20
12m Price Target	MYR 4.90 (+123%)
Previous Price Target	MYR 4.90

### Company Description

The largest tank terminal operators in Malaysia with EPC works

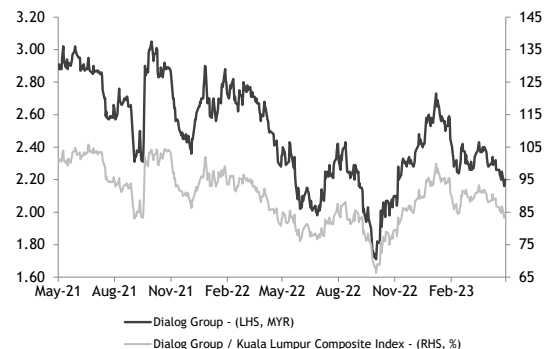
### Statistics

52w high/low (MYR)	2.73/1.71
3m avg turnover (USDm)	1.9
Free float (%)	63.6
Issued shares (m)	5,646
Market capitalisation	MYR12.4B USD2.7B

### Major shareholders:

Employees Provident Fund	14.8%
Kumpulan Wang Persaraan	9.8%
Wide Synergy Sdn. Bhd.	7.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(10)	(6)
Relative to index (%)	(5)	(7)	2

Source: FactSet

Fig 1: Summary Results Table

FY Jun (MYR m)	Quarterly					Cumulative		
	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Turnover	802.8	593.4	35.3	797.0	0.7	2,311.5	1,643.4	40.7
EBITDA	126.0	148.4	(15.1)	120.1	5.0	366.0	413.9	(11.6)
Int. expense	(20.5)	(6.9)	>100	(17.5)	17.2	(54.3)	(20.8)	NM
Associates	103.4	55.2	87.5	97.4	6.2	285.0	197.0	44.6
Exceptional item	(1.5)	2.6	NM	(1.7)	(9.3)	(7.0)	5.6	NM
<b>Pretax profit</b>	<b>141.2</b>	<b>141.5</b>	<b>(0.2)</b>	<b>139.9</b>	<b>0.9</b>	<b>408.5</b>	<b>423.6</b>	<b>(3.6)</b>
Tax	(7.2)	(10.5)	(31.2)	(8.8)	(18.6)	(23.2)	(33.5)	(30.6)
Minority interest	(3.2)	2.1	NM	(3.9)	17.8	(1.6)	(0.4)	NM
<b>Net profit</b>	<b>130.8</b>	<b>133.1</b>	<b>(1.7)</b>	<b>127.2</b>	<b>2.9</b>	<b>383.7</b>	<b>389.8</b>	<b>(1.5)</b>
<b>Net profit Ex EI</b>	<b>132.3</b>	<b>130.5</b>	<b>1.4</b>	<b>128.8</b>	<b>2.7</b>	<b>390.8</b>	<b>384.1</b>	<b>1.7</b>
<i>EBITDA margin (%)</i>	<i>15.7</i>	<i>25.0</i>	<i>(9.3)</i>	<i>15.1</i>	<i>0.6</i>	<i>15.8</i>	<i>25.2</i>	<i>(9.4)</i>
<i>Tax rate (%)</i>	<i>5.1</i>	<i>7.4</i>	<i>(2.3)</i>	<i>6.3</i>	<i>(1.2)</i>	<i>5.7</i>	<i>7.9</i>	<i>(2.2)</i>
	<b>3Q23</b>	<b>3Q22</b>	<b>% YoY</b>	<b>2Q23</b>	<b>% QoQ</b>	<b>9M23</b>	<b>9M22</b>	<b>% YoY</b>
<b>Turnover</b>	<b>802.8</b>	<b>593.4</b>	<b>35.3</b>	<b>797.0</b>	<b>0.7</b>	<b>2,311.5</b>	<b>1,643.4</b>	<b>40.7</b>
- Malaysia	472.2	381.9	23.6	446.2	5.8	1,329.4	956.0	39.1
- Overseas	330.6	211.5	56.3	350.8	(5.8)	982.1	687.3	42.9
<b>Pretax profit</b>	<b>141.2</b>	<b>141.5</b>	<b>(0.2)</b>	<b>139.9</b>	<b>0.9</b>	<b>408.5</b>	<b>423.6</b>	<b>(3.6)</b>
- Malaysia	12.8	88.3	(85.4)	18.3	(30.0)	62.3	209.1	(70.2)
- Overseas	28.0	(2.0)	(1,526.3)	24.1	15.9	64.3	17.5	267.1
- Associates	100.4	55.2	82.0	97.4	3.1	282.0	197.0	43.1
<b>Pretax margin (%)</b>	<b>17.6</b>	<b>23.8</b>	<b>(6.2)</b>	<b>17.6</b>	<b>0.0</b>	<b>17.7</b>	<b>25.8</b>	<b>(8.1)</b>
- Malaysia	2.7	23.1	(20.4)	4.1	(1.4)	4.7	21.9	(17.2)
- Overseas	8.5	(0.9)	9.4	6.9	1.6	6.5	2.5	4.0

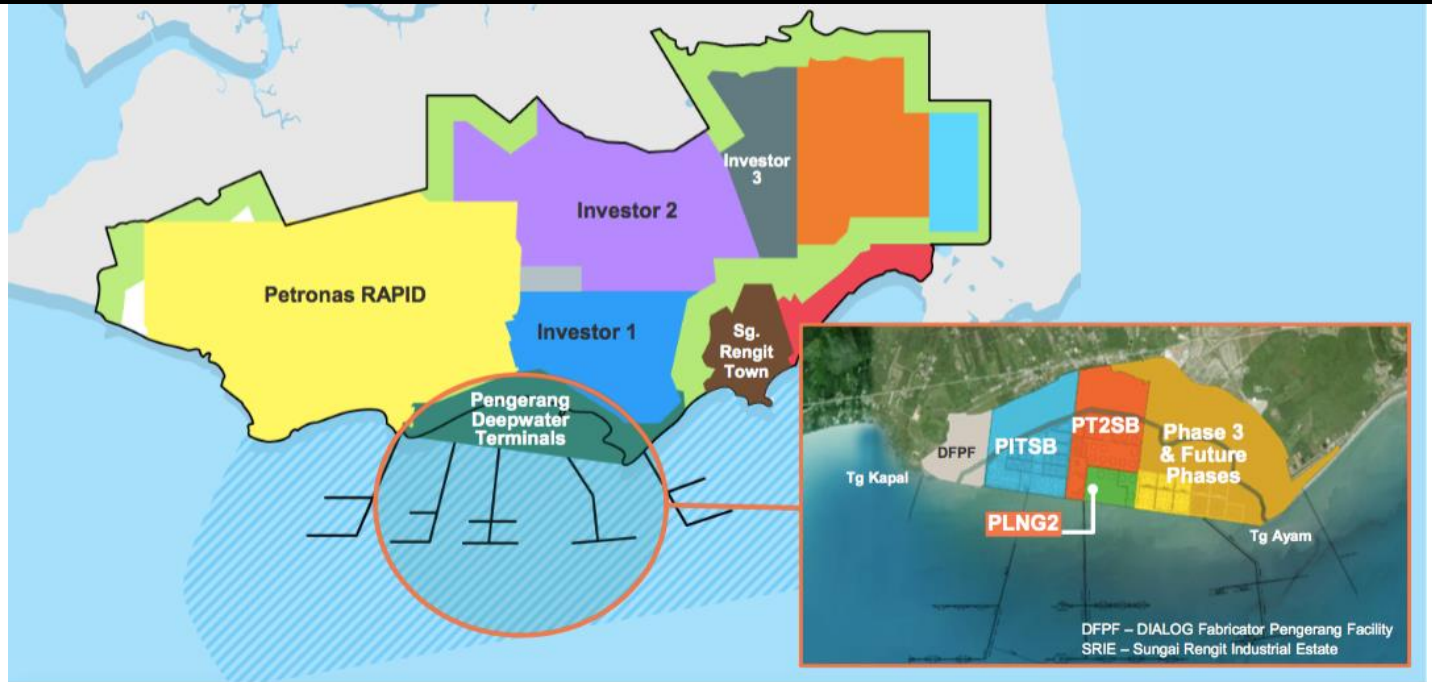
Source: Company, Maybank IBG Research

Fig 2: 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 l'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 <sup>3</sup> 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> )
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).
<b>SOP</b>	<b>27,411.6</b>	<b>4.86</b>	Share base: 5,640.7m (rounded up to MYR4.90)

Source: Maybank IBG Research

Fig 3: 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

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	35.4	29.1	23.4	21.4	18.7
Core P/E (x)	29.9	23.7	23.4	21.4	18.7
P/BV (x)	3.2	2.2	2.1	2.0	1.8
P/NTA (x)	3.8	2.5	2.4	2.3	2.1
Net dividend yield (%)	1.1	1.6	1.6	1.8	2.0
FCF yield (%)	nm	1.8	1.7	1.5	2.4
EV/EBITDA (x)	26.5	17.5	25.1	23.6	21.1
EV/EBIT (x)	40.5	25.7	45.2	40.8	33.9

**INCOME STATEMENT (MYR m)**

Revenue	1,609.9	2,319.0	2,393.3	3,005.1	3,039.5
EBITDA	656.4	750.3	537.4	568.8	632.7
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	298.2	329.6	393.5
Net interest income / (exp)	(26.4)	(40.1)	(78.0)	(74.4)	(71.4)
Associates & JV	227.4	251.6	361.4	384.9	408.6
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	581.5	640.1	730.7
Income tax	(51.9)	(44.4)	(47.1)	(54.4)	(62.1)
Minorities	0.1	2.1	(3.8)	(4.8)	(5.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	543.1	508.0	530.7	580.9	662.7
Core net profit	545.7	506.1	530.7	580.9	662.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,453.4	1,840.3	1,793.8	1,741.4	1,785.7
Accounts receivable	620.7	859.9	887.4	1,114.3	1,127.0
Inventory	43.7	73.5	75.8	95.2	96.3
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	1,847.0	2,181.8	2,540.4
Other assets	170.2	380.5	380.5	380.5	380.5
<b>Total assets</b>	<b>7,977.2</b>	<b>8,847.1</b>	<b>9,102.6</b>	<b>9,592.0</b>	<b>9,969.6</b>
ST interest bearing debt	297.7	337.2	350.0	350.0	350.0
Accounts payable	747.5	740.7	764.4	959.8	970.8
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
<b>Total Liabilities</b>	<b>2,778.3</b>	<b>3,194.6</b>	<b>3,107.5</b>	<b>3,212.9</b>	<b>3,142.6</b>
Shareholders Equity	5,096.6	5,553.3	5,892.2	6,271.4	6,713.3
Minority Interest	102.3	99.1	102.9	107.7	113.6
<b>Total shareholder equity</b>	<b>5,198.9</b>	<b>5,652.5</b>	<b>5,995.0</b>	<b>6,379.1</b>	<b>6,826.9</b>
<b>Total liabilities and equity</b>	<b>7,977.2</b>	<b>8,847.1</b>	<b>9,102.6</b>	<b>9,592.0</b>	<b>9,969.6</b>

**CASH FLOW (MYR m)**

Pretax profit	595.0	550.3	581.5	640.1	730.7
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)	(50.8)	(2.9)
Cash taxes paid	(51.9)	(44.4)	(47.1)	(54.4)	(62.1)
Other operating cash flow	(358.9)	78.8	(361.4)	(383.9)	(406.6)
Cash flow from operations	571.7	559.7	406.1	390.3	498.4
Capex	(784.9)	(347.2)	(200.0)	(200.0)	(200.0)
Free cash flow	(213.2)	212.5	206.1	190.3	298.4
Dividends paid	(180.3)	(184.7)	(191.8)	(201.7)	(220.7)
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
<b>Net cash flow</b>	<b>213.0</b>	<b>387.0</b>	<b>(46.5)</b>	<b>(51.4)</b>	<b>46.3</b>

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(30.1)	44.0	3.2	25.6	1.1
EBITDA growth	(7.6)	14.3	(28.4)	5.8	11.2
EBIT growth	(17.0)	18.9	(41.7)	10.5	19.4
Pretax growth	(20.4)	(7.5)	5.7	10.1	14.2
Reported net profit growth	(13.8)	(6.5)	4.5	9.5	14.1
Core net profit growth	(7.2)	(7.3)	4.9	9.5	14.1
<b>Profitability ratios (%)</b>					
EBITDA margin	40.8	32.4	22.5	18.9	20.8
EBIT margin	26.7	22.0	12.5	11.0	12.9
Pretax profit margin	37.0	23.7	24.3	21.3	24.0
Payout ratio	32.2	37.8	38.0	38.0	38.0
<b>DuPont analysis</b>					
Net profit margin (%)	33.7	21.9	22.2	19.3	21.8
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	10.2	10.4	11.1
ROAA (%)	7.2	6.0	5.9	6.2	6.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(108.2)	(57.9)	(62.1)	(38.4)	(41.7)
Days receivable outstanding	197.6	114.9	131.4	119.9	132.7
Days inventory outstanding	25.3	14.8	21.3	17.4	19.2
Days payables outstanding	331.1	187.6	214.8	175.8	193.7
Dividend cover (x)	3.1	2.6	2.6	2.6	2.6
Current ratio (x)	2.0	2.4	2.3	2.2	2.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.9	2.8	2.9	3.0	3.2
Net gearing (%) (incl perps)	9.3	9.3	7.7	6.6	4.3
Net gearing (%) (excl. perps)	9.3	9.3	7.7	6.6	4.3
Net interest cover (x)	16.3	12.7	3.8	4.4	5.5
Debt/EBITDA (x)	2.9	3.2	4.2	3.8	3.3
Capex/revenue (%)	48.8	15.0	8.4	6.7	6.6
Net debt/ (net cash)	482.3	523.8	459.5	421.9	296.3

Source: Company; Maybank IBG Research

## Research Offices

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(603) 2297 8682  
suhaimi\_ili@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.thu@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  
alantau@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  
winsonphoon@maybank.com

**SE THO Mun Yi, CFA**  
(603) 2074 7606  
munyi.st@maybank-ib.com

### PORTFOLIO STRATEGY

**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 GUHA**  
(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.carvajal@maybank.com  
• Consumer

### THAILAND

**Chak REUNGSINPINYA** *Head of Research*  
(66) 2658 5000 ext 1399  
chak.reungsinpinya @maybank.com  
• Strategy • Energy

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 5000 ext 1395  
jesada.t@maybank.com  
• Banking & Finance

**Wasu MATTANAPOTCHANART**  
(66) 2658 5000 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

### 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 8663  
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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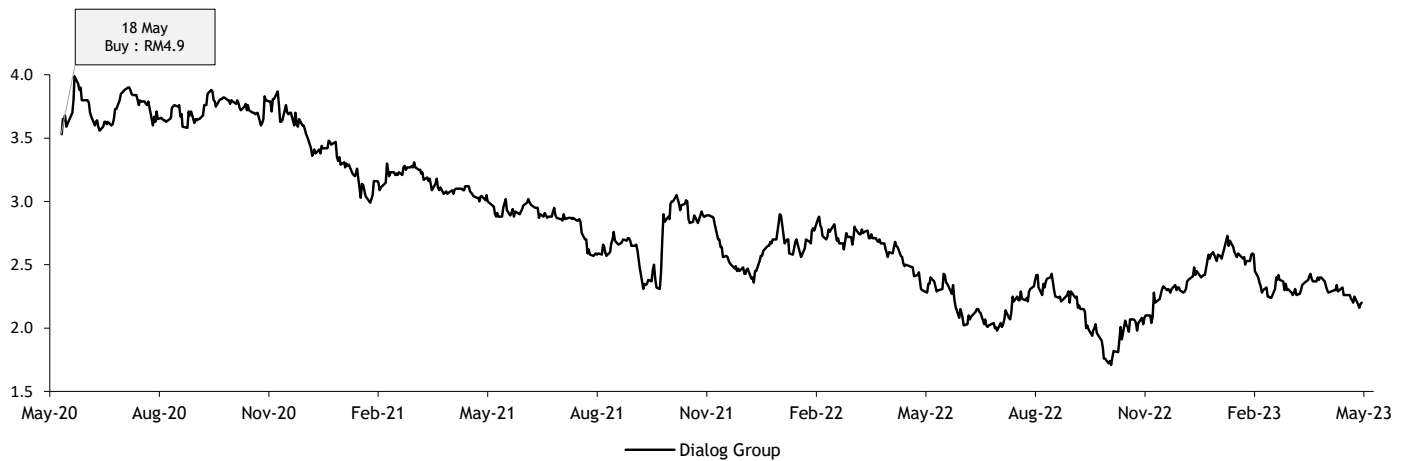
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 **Malaysia**

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, 22<sup>nd</sup> 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,  
20<sup>th</sup> - 21<sup>st</sup> 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, 11<sup>th</sup> 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**
**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.com  
Tel: (44) 207-332-0221

**India**

Sanjay Makhija  
sanjaymakhija@maybank.com  
Tel: (91)-22-6623-2629

[www.maybank.com/investment-banking](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)