

## Public Bank (PBK MK)

## 1Q23 within expectations

## HOLD maintained

Public Bank's 1Q23 results were within expectations. NIM compressed much more than anticipated, but this was offset in part by much lower credit costs. We trim our FY23-25E net profit forecasts by 1-3%, largely on the back of lower NIM expectations. Correspondingly, we lower our TP to MYR4.30 from MYR4.60m on a lower FY23 PBV target of 1.7x (ROE: 13%) from 1.8x previously. HOLD maintained.

## Within expectations

Public Bank's 1Q23 core net profit of MYR1.71b (+23% YoY, +0% QoQ) was within expectations at 25% of our full year forecast and consensus. Operating profit rose 5% YoY on the back of a 2bps YoY NIM improvement to 2.26%, loan growth of 5% YoY and positive JAWS. Credit cost was practically nil, leading to a 10% YoY jump in pretax profit, while net profit rose 23% YoY in the absence of Cukai Makmur. QoQ operating profit however fell 15% YoY due to a hefty 32bps QoQ NIM compression from a high of 2.58% in 4Q22.

## Slight deterioration in asset quality

The group's gross impaired loans (GIL) jumped 24% QoQ or by MYR384m, attributed due to a property development loan in Hong Kong. There was also an uptick in the group's residential and commercial property impaired loans but the group's GIL ratio remains impeccable at 0.52% end-Mar 2023. Credit cost was exceptionally low at just 0.002% in 1Q23 versus 0.1% in FY22 as borrowers graduated from the loan repayment assistance programme. Loan loss coverage (LLC) was healthy at 239.6% including regulatory reserves. Overlays currently remain at about MYR1.8b.

## FY23 targets broadly intact

These include: a) loan growth of 4-5% (1Q23: 5%; MIBG: 4.8%), b) >10bps NIM compression (1Q23: -13bps vs 2.39% in FY22; MIBG: -16bps from -14bps before); c) <10bps credit cost (1Q23: 0bps; MIBG: 7bps from 10bps); d) 12-13% ROE (1Q23: 13.6%; MIBG: 13%). We have lowered our NIM assumptions, partially buffered by lower credit cost assumptions - our FY23/24/25E earnings forecasts are marginally lowered by 3%/2%/1% respectively.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	12,544	13,438	13,383	13,984	14,650
Pre-provision profit	8,579	9,203	8,943	9,339	9,791
Core net profit	5,657	6,119	6,715	7,008	7,344
Core EPS (MYR)	0.29	0.32	0.35	0.36	0.38
Core EPS growth (%)	7.7	8.2	9.7	4.4	4.8
Net DPS (MYR)	0.15	0.17	0.19	0.19	0.20
Core P/E (x)	14.3	13.7	11.2	10.8	10.3
P/BV (x)	1.7	1.7	1.4	1.3	1.3
Net dividend yield (%)	3.7	3.9	4.9	4.9	5.1
Book value (MYR)	2.48	2.59	2.75	2.92	3.10
ROAE (%)	11.9	12.4	13.0	12.7	12.6
ROAA (%)	1.2	1.3	1.3	1.3	1.3
Consensus net profit	-	-	6,823	7,111	7,471
MIBG vs. Consensus (%)	-	-	(1.6)	(1.4)	(1.7)

Desmond Ch'ng, BFP, FCA  
desmond.chng@maybank-ib.com  
(603) 2297 8680

## HOLD

Share Price	MYR 3.89
12m Price Target	MYR 4.30 (+11%)
Previous Price Target	MYR 4.60

## Company Description

Public Bank is a leading retail bank with a dominant market share in the residential property, commercial property and auto financing segments.

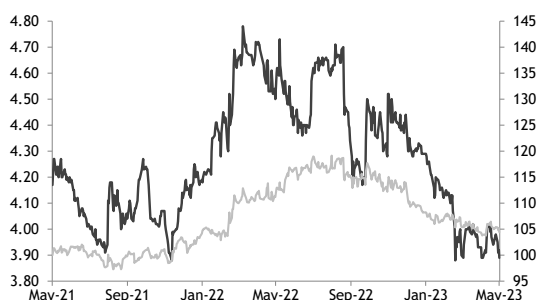
## Statistics

52w high/low (MYR)	4.73/3.88
3m avg turnover (USDm)	13.0
Free float (%)	60.3
Issued shares (m)	19,411
Market capitalisation	MYR75.5B
	USD16.4B

## Major shareholders:

Consolidated Teh Holdings Sdn. Bhd.	21.6%
Employees Provident Fund	15.1%
Kumpulan Wang Persaraan	4.1%

## Price Performance



— Public Bank - (LHS, MYR) — Public Bank / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	(6)	(15)
Relative to index (%)	0	(3)	(7)

Source: FactSet

## Public Bank results summary

	Quarterly					Cumulative		
FYE Dec (MYR m)	1Q23	1Q22	% YoY	4Q22	% QoQ	3M23	3M22	% YoY
Interest income	4,329.2	3,361.1	28.8	4,211.4	2.8	4,329.2	3,361.1	28.8
Interest expense	(2,069.8)	(1,256.8)	64.7	(1,753.9)	18.0	(2,069.8)	(1,256.8)	64.7
<b>Net interest income</b>	<b>2,259.4</b>	<b>2,104.3</b>	<b>7.4</b>	<b>2,457.5</b>	<b>(8.1)</b>	<b>2,259.4</b>	<b>2,104.3</b>	<b>7.4</b>
Islamic banking income	397.1	402.3	(1.3)	591.6	(32.9)	397.1	402.3	(1.3)
Non-interest income	646.6	642.3	0.7	601.1	7.6	646.6	642.3	0.7
<b>Operating income</b>	<b>3,303.1</b>	<b>3,148.9</b>	<b>4.9</b>	<b>3,650.2</b>	<b>(9.5)</b>	<b>3,303.1</b>	<b>3,148.9</b>	<b>4.9</b>
Operating expenses	(1,094.2)	(1,044.9)	4.7	(1,040.3)	5.2	(1,094.2)	(1,044.9)	4.7
<b>Operating Profit</b>	<b>2,209.0</b>	<b>2,104.0</b>	<b>5.0</b>	<b>2,609.9</b>	<b>(15.4)</b>	<b>2,209.0</b>	<b>2,104.0</b>	<b>5.0</b>
Loan loss provisions	(1.5)	(99.7)	(98.5)	(90.0)	(98.3)	(1.5)	(99.7)	(98.5)
Other provisions	1.7	(2.3)	NM	(6.1)	NM	1.7	(2.3)	NM
Associates & JVs	(0.2)	(1.7)	(90.7)	7.1	(102.3)	(0.2)	(1.7)	(90.7)
<b>Pretax Profit</b>	<b>2,209.0</b>	<b>2,000.3</b>	<b>10.4</b>	<b>2,520.9</b>	<b>(12.4)</b>	<b>2,209.0</b>	<b>2,000.3</b>	<b>10.4</b>
Taxation	(486.0)	(587.5)	(17.3)	(799.9)	(39.2)	(486.0)	(587.5)	(17.3)
Minority Interest	(9.0)	(14.3)	(36.6)	(7.3)	23.3	(9.0)	(14.3)	(36.6)
<b>Net profit</b>	<b>1,714.0</b>	<b>1,398.6</b>	<b>22.6</b>	<b>1,713.7</b>	<b>0.0</b>	<b>1,714.0</b>	<b>1,398.6</b>	<b>22.6</b>
<b>Recurring net profit</b>	<b>1,714.0</b>	<b>1,398.6</b>	<b>22.6</b>	<b>1,713.7</b>	<b>0.0</b>	<b>1,714.0</b>	<b>1,398.6</b>	<b>22.6</b>
EPS (sen)	8.8	7.2	22.5	8.8	0.3	8.8	7.2	22.5
DPS (sen)	-	-	-	5.0	nm	0.0	0.0	-
Cost-to-income (%)	33.1	33.2	(0.1)	28.5	16.2	33.1	33.2	(0.1)
Tax rate (%)	22.0	29.4	(7.4)	31.7	(9.7)	22.0	29.4	(7.4)
<b>Pretax segmental</b>								
Hire purchase	166.8	100.6	65.8	362.2	(54.0)	166.8	100.6	65.8
Retail	1,042.0	1,044.0	(0.2)	1,047.8	(0.6)	1,042.0	1,044.0	(0.2)
Corporate lending	145.2	153.5	(5.4)	135.6	7.1	145.2	153.5	(5.4)
Treasury and capital market	27.2	79.4	(65.7)	86.5	(68.6)	27.2	79.4	(65.7)
Investment banking	13.4	18.4	(27.3)	8.9	50.1	13.4	18.4	(27.3)
Share broking and fund mgt	192.6	202.0	(4.6)	200.0	(3.7)	192.6	202.0	(4.6)
Overseas operations	179.7	149.6	20.2	185.6	(3.2)	179.7	149.6	20.2
Head office	452.2	259.9	74.0	484.0	(6.6)	452.2	259.9	74.0
Adjustments	(9.9)	(5.3)	85.9	3.2	NM	(9.9)	(5.3)	85.9
Less: Unallocated expenses	-	-	-	0.0	-	0.0	0.0	-
Less: Amort of intangibles	-	-	-	0.0	-	0.0	0.0	-
Add: Associates' contributions	(0.2)	(1.7)	(90.7)	7.1	NM	(0.2)	(1.7)	(90.7)
<b>Pretax profit</b>	<b>2,209.0</b>	<b>2,000.3</b>	<b>10.4</b>	<b>2,520.9</b>	<b>(12.4)</b>	<b>2,209.0</b>	<b>2,000.3</b>	<b>10.4</b>
<b>Balance sheet (RM m)</b>	<b>Mar 23</b>	<b>Mar 22</b>	<b>YoY chg</b>	<b>Dec 22</b>	<b>QoQ chg</b>	<b>Mar 23</b>	<b>Dec 22</b>	<b>YTD chg</b>
Gross loans & advances	381,591	362,732	5.2	376,892	1.2	381,591	376,892	1.2
Net loans & advances	377,304	358,673	5.2	372,583	1.3	377,304	372,583	1.3
Deposits from customers	403,660	384,752	4.9	394,719	2.3	403,660	394,719	2.3
Gross LDR (%)	94.5	94.3	0.3	95.5	(1.0)	94.5	95.5	(1.0)
Gross impaired loans	1,968	1,061	85.5	1,584	24.3	1,968	1,584	24.3
			<b>ppt chg</b>		<b>ppt chg</b>			<b>ppt chg</b>
Gross impaired loans ratio (%)	0.52	0.29	0.22	0.42	0.10	0.5	0.42	0.1
Loan loss coverage	217.8	382.5	(164.7)	272.0	(54.2)	217.8	272.0	(54.2)

Source: Bank

## Key highlights

### ~2% of domestic loans still under repayment assistance

Domestic loans under repayment assistance (RA) have declined from 4% of domestic loans end-Dec 2022 to just over 2% currently.

### Loan growth of 5% YoY

Group loan growth was 5% YoY end-Mar 2023 versus 5.3% YoY end-Dec 2022. Domestic loan growth held up at 5.4% YoY versus 5.2% end-Dec 2022. This is slightly faster than management's domestic loan growth target of 4-5% for FY23, which is maintained. Domestic mortgages rose 6.9% YoY while auto HP rose 9.3% YoY. Commercial property lending increased at a slower pace of 1.9% YoY, of which lending to SMEs grew 1.3% YoY.

### Deposit growth of 4.9% YoY

Group deposit growth was 4.9% YoY, with faster domestic deposit growth of 5.6% YoY, led by fixed deposit growth of 7.3% YoY. Demand deposits rose just 1.5% but savings deposits contracted 5.2%. On an annualized basis, domestic deposit growth was a faster 10.2% and the group's loan/deposit ratio improved to 94.5% from 95.5% end-Dec 2022.

### Net interest margin (NIM) contracted

NIM contracted as expected in 1Q23 to 2.26% - down 32bps QoQ from an all-time high of 2.58% in 4Q22. NIM contracted 13bps against an average NIM of 2.39% in 2022. Management maintains its guidance for a double-digit NIM compression in FY23 and sees ongoing compression in the next one to two quarters.

### NOII declined flat YoY

NOII was flat YoY in 1Q23. Fee income contracted 3% YoY on the back of lower unit trust income, though this was buffered by stronger income from stockbroking (+27% YoY). Investment income jumped 39% YoY while forex was 7% higher YoY.

### Operating expenses rose 4.7% YoY

Operating expenses rose 4.7% YoY in 1Q23, with personnel cost increase of 3.8% YoY. Establishment and admin costs rose at a faster pace of 6.1% and 12.6% YoY respectively. The group's cost/income ratio was relatively stable YoY at 33.1% though higher than the average of 31.5% in FY22.

### Asset quality

The group's gross impaired loans (GIL) jumped 24% QoQ or by MYR384m, attributed mainly to a corporate loan in Hong Kong (in the property development sector), but this loan is adequately secured, according to management. There was also an uptick in the group's residential and commercial property impaired loans. However, the group's GIL ratio remains impeccable at 0.52% end-Mar 2023 versus 0.42% end-Dec 2022.

## Strong provision levels

Credit cost was exceptionally low at 0.002% in 1Q23 versus 0.1% in FY22 and this was largely due to borrowers coming off the loan repayment assistance programme, which enabled the release of previously assigned provisions. Loan loss coverage (LLC) was healthy at 217.8%, 239.6% including regulatory reserves. Overlays currently remain at about MYR1.8b.

## Capital ratios stable

The group's CET1 ratio was stable QoQ at 14.6% end-Mar 2023, with a total capital ratio of 17.7%. Its Liquidity Coverage Ratio continues to be comfortable at 137%.

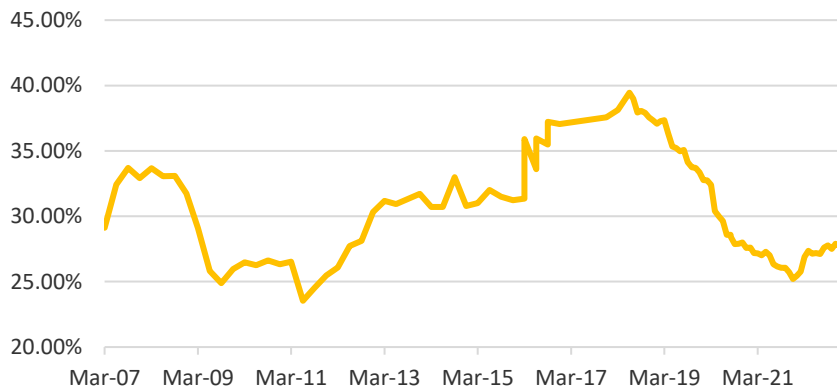
## ROE target of 12-13%

Management maintains its expectations for ROE of 12-13% for FY23. This compares against an ROE of 13.6% in 1Q23.

## Risk statement

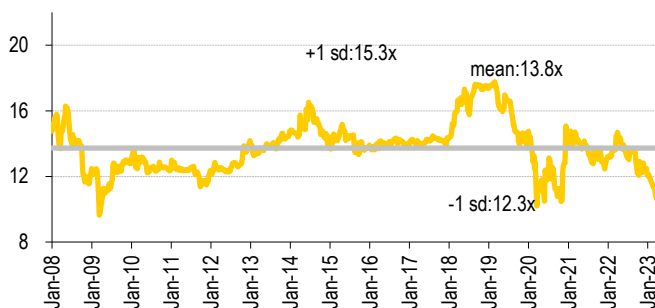
As the third largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group's operating performance. Predominantly a retail bank, any slowdown in domestic consumption would adversely affect loan demand.

**Fig 2: Public Bank's foreign shareholding (26.1% end-Mar 2023)**



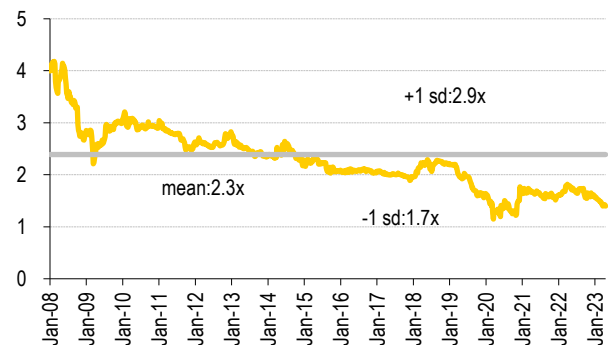
Source: Bank, Maybank IBG Research

**Fig 3: Public Bank: One-year forward rolling PER (x)**



Source: Bank, Maybank IBG Research

**Fig 4: Public Bank: One-year forward rolling P/BV (x)**



Source: Bank, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Core P/E (x)	14.3	13.7	11.2	10.8	10.3
Core FD P/E (x)	14.3	13.7	11.2	10.8	10.3
P/BV (x)	1.7	1.7	1.4	1.3	1.3
P/NTA (x)	1.8	1.8	1.5	1.4	1.3
Net dividend yield (%)	3.7	3.9	4.9	4.9	5.1
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	13,474.6	14,931.9	16,188.8	16,995.4	17,766.6
Interest expense	(5,159.5)	(5,765.0)	(7,348.4)	(7,800.4)	(8,151.5)
<b>Net interest income</b>	<b>8,315.0</b>	<b>9,166.9</b>	<b>8,840.4</b>	<b>9,195.0</b>	<b>9,615.1</b>
Islamic banking income	1,613.7	1,857.2	2,005.8	2,126.1	2,253.7
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,264.7	961.1	2,006.6	2,099.6	2,194.0
Other income	1,351.1	1,453.1	529.9	563.0	587.3
<b>Total non-interest income</b>	<b>2,615.8</b>	<b>2,414.2</b>	<b>2,536.5</b>	<b>2,662.6</b>	<b>2,781.3</b>
<b>Operating income</b>	<b>12,544.5</b>	<b>13,438.2</b>	<b>13,382.7</b>	<b>13,983.6</b>	<b>14,650.1</b>
Staff costs	(2,896.2)	(3,043.8)	(3,196.0)	(3,355.8)	(3,523.6)
Other operating expenses	(1,069.1)	(1,191.6)	(1,244.2)	(1,288.8)	(1,335.4)
<b>Operating expenses</b>	<b>(3,965.3)</b>	<b>(4,235.4)</b>	<b>(4,440.1)</b>	<b>(4,644.5)</b>	<b>(4,859.0)</b>
<b>Pre-provision profit</b>	<b>8,579.2</b>	<b>9,202.9</b>	<b>8,942.5</b>	<b>9,339.1</b>	<b>9,791.1</b>
Loan impairment allowances	(1,201.2)	(365.6)	(270.1)	(282.6)	(295.3)
Other allowances	(5.9)	(13.2)	0.0	0.0	0.0
Associates & JV income	(5.5)	6.9	7.3	7.7	8.0
<b>Pretax profit</b>	<b>7,366.6</b>	<b>8,831.1</b>	<b>8,679.7</b>	<b>9,064.1</b>	<b>9,503.8</b>
Income tax	(1,636.7)	(2,661.4)	(1,909.5)	(1,994.1)	(2,090.8)
Minorities	(73.3)	(50.1)	(55.6)	(61.8)	(68.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>5,656.5</b>	<b>6,119.5</b>	<b>6,714.5</b>	<b>7,008.2</b>	<b>7,344.4</b>
<b>Core net profit</b>	<b>5,656.5</b>	<b>6,119.5</b>	<b>6,714.5</b>	<b>7,008.2</b>	<b>7,344.4</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	17,530.6	21,766.9	22,855.2	23,998.0	25,197.9
Sec. under resale agreements	0.0	4.2	4.4	4.6	4.9
Derivatives financial assets	140.4	446.6	0.0	0.0	0.0
Dealing securities	1,016.0	949.3	968.3	987.7	1,007.4
Available-for-sale securities	79,415.4	80,437.5	85,263.8	90,379.6	95,802.4
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	354,052.5	372,583.1	392,890.1	410,480.2	428,867.3
Central bank deposits	1,222.2	6,882.4	8,191.5	8,557.4	8,939.8
Investment in associates/JVs	115.4	120.2	127.5	135.1	143.2
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	2,577.1	2,483.9	2,558.4	2,635.2	2,714.2
Intangible assets	2,459.4	2,539.0	2,539.0	2,539.0	2,539.0
Other assets	4,210.4	5,049.6	5,212.5	5,382.9	5,561.0
<b>Total assets</b>	<b>462,739.5</b>	<b>493,262.8</b>	<b>520,610.8</b>	<b>545,099.7</b>	<b>570,777.2</b>
Deposits from customers	380,394.2	394,718.8	417,968.2	436,681.1	456,241.9
Deposits from banks & FIs	8,123.8	13,774.8	14,463.6	15,186.8	15,946.1
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	17,465.6	23,899.9	24,562.9	25,312.1	26,158.7
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	7,330.5	9,343.4	8,876.9	9,879.2	10,922.6
<b>Total liabilities</b>	<b>413,314.0</b>	<b>441,737.0</b>	<b>465,871.6</b>	<b>487,059.1</b>	<b>509,269.3</b>
Share capital	9,417.7	9,417.7	9,417.7	9,417.7	9,417.7
Reserves	38,745.0	40,761.6	43,959.1	47,241.2	50,680.6
Shareholders' funds	48,162.7	50,179.2	53,376.8	56,658.9	60,098.2
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	1,262.7	1,346.6	1,362.4	1,381.8	1,409.6
Total equity	49,425.4	51,525.8	54,739.2	58,040.6	61,507.9
<b>Total liabilities &amp; equity</b>	<b>462,739.5</b>	<b>493,262.8</b>	<b>520,610.8</b>	<b>545,099.7</b>	<b>570,777.2</b>

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	15.8	10.2	(3.6)	4.0	4.6
Non-interest income	(7.3)	(7.7)	5.1	5.0	4.5
Operating expenses	1.4	6.8	4.8	4.6	4.6
Pre-provision profit	15.9	7.3	(2.8)	4.4	4.8
Core net profit	7.7	8.2	9.7	4.4	4.8
Gross loans	3.6	5.3	4.8	4.5	4.5
Customer deposits	4.0	3.8	5.9	4.5	4.5
Total assets	2.5	6.6	5.5	4.7	4.7
<b>Profitability (%)</b>					
Non-int. income/Total income	20.9	18.0	19.0	19.0	19.0
Average lending yields	3.38	3.62	3.72	3.72	3.72
Average cost of funds	1.53	1.66	2.00	2.01	2.01
Net interest margin	2.22	2.39	2.23	2.22	2.22
Cost/income	31.6	31.5	33.2	33.2	33.2
<b>Liquidity (%)</b>					
Loans/customer deposits	93.1	94.4	94.0	94.0	94.0
<b>Asset quality (%)</b>					
Net NPL	0.2	0.3	0.2	0.2	0.2
Gross NPL	0.3	0.4	0.3	0.3	0.3
(SP+GP)/average gross loans	0.3	0.1	0.1	0.1	0.1
Loan loss coverage	360.7	272.0	202.4	209.7	216.7
<b>Capital adequacy (%)</b>					
CET1	14.9	14.6	14.2	14.4	14.6
Tier 1 capital	14.9	14.6	14.3	14.5	14.7
Risk-weighted capital	18.1	17.6	16.8	16.9	17.0
<b>Returns (%)</b>					
ROAE	11.9	12.4	13.0	12.7	12.6
ROAA	1.2	1.3	1.3	1.3	1.3
Shareholders equity/assets	10.4	10.2	10.3	10.4	10.5

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  
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 8466  
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  
alanlau@maybank.com

**Shaun Lim**  
(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

**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 8691  
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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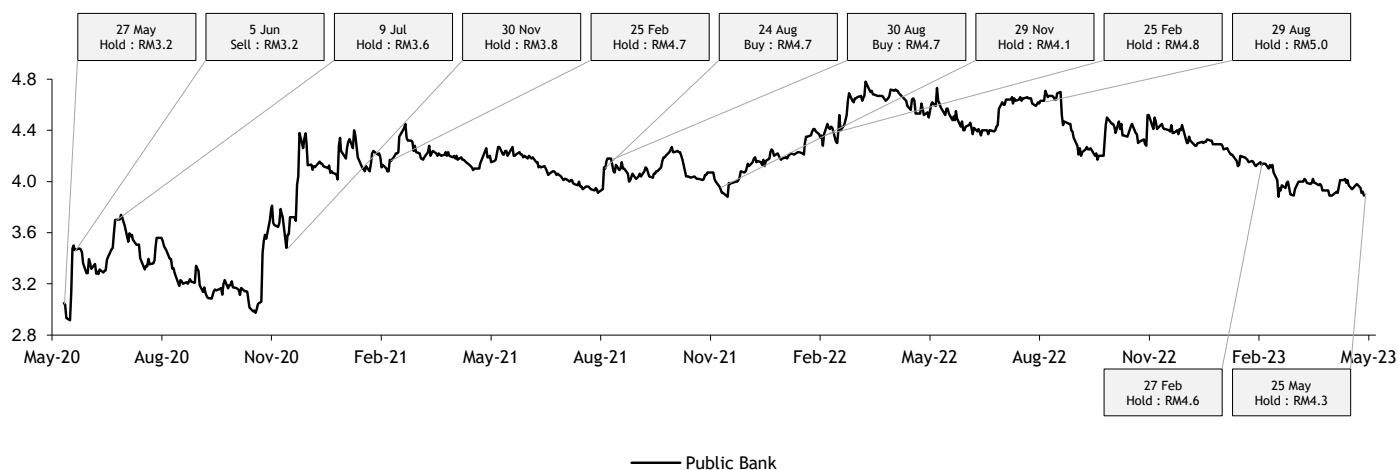
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### Malaysia

**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, 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)