Bank Negara Indonesia (BBNI IJ) On a roll; U/G to BUY

Raise TP to IDR11,000 on improving profitability

Upgrade BBNI to BUY from HOLD with a higher TP of IDR11,000 as we rollforward our valuation to FY24E P/BV of 1.2x with a higher long-term ROE of 14.6% (from 14.4%). We believe BBNI's renewed focus on prudent banking will build a strong foundation for future growth. We raise our FY23-25E earnings by 1.3%/0.9%/2.9% as we are more upbeat on its profitability. Downside risks to our call include: 1) stagnant net interest margin, and 2) worsening loan quality.

Earnings fuelled by lower credit cost

7M23 bank-only earnings of IDR12.1t (+14% YoY) was driven by cuts in its provision expense despite PPOP being flat. We believe with its ample NPL coverage of 303% in 1H23, credit cost will continue to improve as we target it to reach 1.4%/1.3% in FY23E/24E. This should allow BBNI to sustain earnings growth momentum while margins are contracting.

Poised for long-term growth

BBNI's fresh focus on corporate lending should build a healthy foundation for future growth. With better loan quality, interest income will be more consistent and lower cost of credit is needed. BBNI can also create a lending ecosystem for corporate employee payroll loans which will induce higher yields. With this, we improve our outlook on 1) loan growth improvement in FY24/25E to 8.7%/9.0% (from 8.4%/8.4%) and 2) profitability to increase in the long-term with FY24E/25E NIMs of 4.8%/4.9% (from 4.8%/4.8%).

Attractive upside ahead

Currently, BBNI is trading at a discount at 1.1x FY24E P/BV (-1SD of its 10year mean), reflecting low expectations by investors. However, with our growth assumption ROE will increase to 15.2%/15.3%/15.6% in FY23/24/25E. Furthermore, we expect dividend pay-out ratio of 40% to be sustainable going forward. Using this assumption, BBNI offers net dividend yields of 4.4%/4.9%/5.5% in FY23/24/25E as of current prices. We believe this helps offset of any downside risk to the share price.

FYE Dec (IDR b)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	56,540	62,171	67,077	74,275	82,686
Pre-provision profit	31,168	34,110	35,725	38,961	43,386
Core net profit	10,899	18,312	21,082	23,728	26,761
Core EPS (IDR)	584	982	1,130	1,272	1,435
Core EPS growth (%)	232.2	68.0	15.1	12.5	12.8
Net DPS (IDR)	131	354	408	459	517
Core P/E (x)	11.6	9.4	8.4	7.4	6.6
P/BV (x)	1.0	1.3	1.2	1.1	1.0
Net dividend yield (%)	1.9	3.8	4.3	4.9	5.5
Book value (IDR)	6,514	7,162	7,936	8,718	9,703
ROAE (%)	9.5	14.4	15.0	15.3	15.6
ROAA (%)	1.2	1.8	2.0	2.1	2.2
Consensus net profit	-	-	21,207	23,615	26,785
MIBG vs. Consensus (%)	-	-	(0.6)	0.5	(0.1)

Jeffrosenberg Chenlim Jeffrosenberg.lim@maybank.com (62) 21 8066 8680 Faiq Asad Faiq.asad@maybank.com (62) 21 8066 8692



[Prior:HOLD]

 Share Price
 IDI

 12m Price Target
 IDI

 Previous Price Target
 IDI

IDR 9,450 IDR 11,000 (+16%) IDR 9,500

Company Description

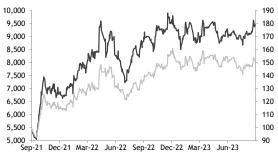
PT Bank Negara Indonesia Tbk is a state-owned enterprise bank that provides general banking services, specializing in wholesale banking operations

Statistics

52w high/low (IDR)	9,900/8,425
3m avg turnover (USDm)	15.6
Free float (%)	41.2
Issued shares (m)	18,648
Market capitalisation	IDR176.2T
	USD11.5B
Major shareholders:	

Government of Indonesia 58.8%

Price Performance



BNI - (LHS, IDR) BNI / Jakarta Composite Index - (RHS, %)

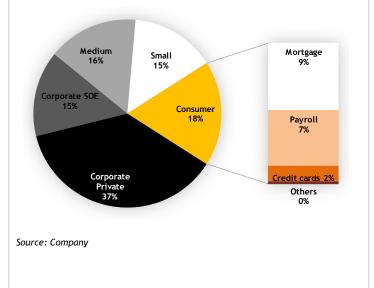
	-1M	-3M	-12M
Absolute (%)	4	2	7
Relative to index (%)	3	(1)	12
Source: FactSet			

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Value Proposition

- Creating shareholder value through BBNI's key role in supporting Indonesia's economic growth by focusing on loans for investment and working capital.
- Improved risk management with sufficient buffer to ride out near-term economic turbulence.
- Through business chain model in loan expansion and digital initiatives, the bank is eyeing an even stronger deposit franchise.

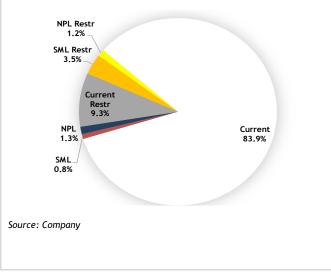
Loan composition (1H23)



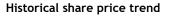
Financial Metrics

- CASA sustained at 69%, which will support sustainable NIM growth as BBNI further refines loan quality.
- BBNI loan book quality has been improving, resulting in lower provision expense and reduced loans at risk to only 16% by 1Q23.
- Lending appetite has started to decline as BBNI has a conservative outlook. This may result in interest income growth slowing down, but provisions should be reduced.

Loan quality (1H23)



Price Drivers





Source: Company, Maybank IBG Research

- 1. News broke that KRAS group's IDR5.4t debt to BBNI has to be restructured.
- 2. Concerns about rising credit cost due to economic slowdown amid Covid-19.
- 3. Discounted valuation at -2SD despite positive progress in Covid-19 vaccination programme and stronger fundamental ratios triggered a rally in the share price.
- 4. Commodity trade windfall produced positive catalyst for banking industry.
- 5. Fed was perceived to be more hawkish than expected due to elevated inflation.

Swing Factors

Upside

- Early settlement of large-size restructured loans.
- Significant gain in payroll market share, which would support both loans and CASA expansion.
- Continued asset quality improvement will keep credit cost low.

Downside

- Unsuccessful restructuring of loans that have not been fully provisioned, which leads to higher-than expected credit cost.
- Fierce competition in corporate lending, which could add pressure on margins.

Jeffrosenberg.lim@maybank.com

ESG@MAYBANK IBG

Jeffrosenberg.lim@maybank.com

Risk Rating & Score ¹	Medium (25.7)
Score Momentum ²	+0.2
Last Updated	10 Feb 2023
Controversy Score ³	2
(Updated: Aug 2022)	

Business Model & Industry Issues

- BBNI received a rating of "A" in the MSCI ESG Ratings assessment.
- The bank encourages its corporate debtors in the CPO industry to adopt environmentally friendly planting practices. In addition, it is also paying attention to the social aspects of palm oil financing, including mapping plantation areas to avoid an overlap with surrounding communities and conservation areas. This is done to support Indonesia's commitment in developing a sustainable palm oil industry, as well as preventing financial risks that will also impact social and environmental aspects.
- BBNI displays no exceptional risks not typical of a big bank for ESG. The bank's earnings are principally driven by its domestic operations, while offshore branch contributions are relatively insignificant at this stage. This domestic concentration reduces its overall environment and corporate governance issues, in our view.

Material E issues

- BBNI refrains from giving credit to projects or businesses that are harmful to the environment. As of FY22, sustainable financing reached 29.6% of its total loan portfolio.
- The bank promotes environmentally friendly operations such as energy and water saving. It uses solar cells '(it has a capacity of 2,200 watts) and wastewater treatment (capacity of 125 m3/day) in its Plaza BBNI BSD branch.
- Paper usage is reduced through document digitalization in customer transactions, and in the bank's daily operation.
- BBNI also participates in land rehabilitation and promotes conservation programmes for endangered animals in Indonesia.

Material S issues

- There are 27,170 female employees, or 52% of total employees across Indonesia.
- In 2022, BBNI employed 33 disabled people. The bank has also installed 3,222 ATMs for customers with disabilities throughout Indonesia.
- CSR activities cover education, and social welfare improvement programmes.
- The bank's community development programme was IDR100b or 0.44% of its FY22 consolidated PBT.

Key G metrics and issues

- The government owns 60% of BBNI's series B shares.
- The government also owns one series A share, which gives it privileges including: 1) the right to approve the following matters: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the BOD/BOC, d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- Shareholders' meeting is BBNI's highest decision-making body. The BOD is an executive body responsible for the daily operations of BBNI. Meanwhile, BOC is a nonexecutive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2022, BBNI's BOC comprised of 10 members (10 males):
 7 independent commissioners (IC), and 3 non-IC and the president commissioner.
- The BOD has 12 members (9 males, 3 females): 11 non independent directors and the CEO.
- The bank's BOC and BOD's bonus for FY22 was IDR273.3b or 1.2% of its consolidated PBT.
- BBNI has not had any material accounting, tax or regulatory issues in the past 6 years. Additionally, there were no material deals in the past that were against the interest of public shareholders.
- BBNI is audited by PwC, replacing Ernst & Young that had audited the bank since 2016.

<u>Resk Rating & Score</u> - 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. <u>Score Momentum</u> - 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. <u>3Controversy Score</u> - 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).

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	Quantitative Parameters (Score: 50)								
	Particulars	Unit	2020	2021	2022	BBCA IJ (2022)			
	Scope 1 GHG emissions	tCO2e	1,295	1,171	122	806			
	Scope 2 GHG emissions	tCO2e	30,979	28,339	295,209	136,996			
	Total	tCO2e	32,274	29,510	295,331	137,802			
	Scope 3 GHG emissions	tCO2e	N/A	N/A	13,392,779	4,918			
	Total	tCO2e	32,274	29,510	13,688,110	142,720			
Е	GHG intensity (Scope 1 and 2)	tCO2e/emp	1.19	1.09	10.87	5.6			
5	Exposure to coal, mining & plantation	%	13.8%	12 .9 %	14.8%	6.3%			
	Electricity consumption	MWh	41,807	38,244	274,854	156,040			
	Electricity intensity	MWh/emp	1.54	1.41	10.12	8			
	Water consumption	m3	193,833	18,115	305,582	302,646			
	Paper consumption	ton	136	139	142	296			
	Green, Social, sustainable products & services	IDRt	143	172.4	182.9	183			
						-			
	% of women in workforce	%	51.8%	52.0%	52.0%	61.4%			
	% of women in management roles	%	30.0%	25.0%	30.0%	60.6%			
S	Policy, data & framework breaches	number	0	0	0	0			
	Financing to underserved communities	IDRb	N/A	93.0	100.0	143.1			
	Turnover rate	%	2.0%	1.6%	1.5%	2.9%			
		~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~		0.40%	2 2 (2)	-			
	Board salary as % of reported net profit	%	1.80%	0.60%	0.36%	1.60%			
G	Independent members on the BoC	%	60%	70%	70%	60%			
	Profits distributed to shareholders	% of NPAT	25%	25%	40%	62%			
	Female directors on the BoD	%	25%	25%	25%	17%			
	0		(5						

Qualitative parameters (Score: 80)

a) is there an ESG policy in place and is there is a standalone ESG Committee or is it part of the Risk committee?

Yes, BNI established an ESG sub-committee that is responsible for the integration of sustainable financing in business.

b) Does the company follow the TCFD framework for ESG reporting? Is it a signatory to responsible banking initiatives or other such initiatives?

The bank has implemented some TCFD framework and plans to fully integrate it in its reporting.

c) Does the company capture or plan to capture Scope 3 emissions including from financing activities?

Yes, the bank captures emissions from financing activities.

d) Does the bank have no deforestation, no peat, no exploitation (NDPE) policies in place?

Yes, the bank requires customers to align with no deforestation policies. The bank also requires RSPO/ISPO certificates for palm oil debtors.

e) Is there a social impact commitment in place?

Yes. BBNI has spent IDR100b to reduce social and environment impact.

Target (Score: 50)						
Particulars	Target	Achieved				
GHG Emission Reduction by 29% in 2030	29 %	N/A				
Sustainable Financing Portfolio to reach % of total loan	N/A	28.5%				
Increase female in management roles	N/A	30%				
Net zero carbon by	2060	N/A				
Impact						
NA						
Overall Score: 58						
As per our ESG matrix, Bank Negara Indonesia (Persero) (BBNI IJ) has an overall score of 58.						

ESG score	Weights	Scores	Final Score
uantitative	50%	50	25
Qualitative	25%	80	20
arget	25%	50	13
5			
Total			58



Fig 1: BBNI bank-only 7M23 earnings

BBNI Bank only								
Income Statement (IDR b)	Jul-22	Jun-23	Jul-23	%MoM	%YoY	7M22	7M23	%YoY
Interest Income	4,473	4,988	5,580	11.9%	24.8%	30,084	35,459	17.9%
Interest Expense	1,031	1,651	1,768	7.0%	71.4%	6,828	11,322	65.8%
Net Interest Income	3,442	3,337	3,813	14.3%	10.8%	23,256	24,137	3.8%
PPOP	2,760	3,225	3,125	-3.1%	13.2%	20,155	20,206	0.3%
Provision	823	999	805	-19.4%	-2.3%	7,225	5,318	-26.4%
Net Profit	1,562	1,800	1,882	4.6%	20.5%	10,647	12,124	13. 9 %
Balance Sheet (IDR t)								
Total Loans & Financing	605	646	647	0.2%	6.9 %			
Total Asset	913	990	949	-4.1%	3.9%			
Total Deposit	682	758	720	-5.0%	5.5%			
Current Account	245	301	286	-4.9%	16.9%			
Savings Account	225	230	227	-1.2%	1.0%			
Time Deposit	213	227	207	-8.8%	-2.9%			
Ratios				MoM (bps)	YoY (bps)			YoY (bps)
LDR	88.7	85.2	89.8	461	117	88.7	89.8	117
CASA	68.7	70.0	71.2	122	248	68.7	71.2	248
NIM	4.4	4.0	4.6	56	19	4.5	4.4	-4
COC	1.6	1.8	1.4	-35	-15	2.0	1.3	-70
ROAA	1.9	2.1	2.2	9	17	2.0	2.1	17
ROAE	14.6	15.3	15.9	57	50	15.0	15.5	50

Source: Company, Maybank IBG Research

Fig 2: Forecast changes

Forecasts Changes		Old			New			Changes	
Torecasts changes	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Income Statement (IDR b)									
Net interest income	47,240	51,846	55,759	46,592	51,441	56,556	-1.4%	-0.8%	1.4%
PPOP	34,586	38,476	42,451	35,725	38,961	43,386	3.3%	1.3%	2.2%
Provision	8,840	9,198	10,279	9,644	9,606	10,279	9.1%	4.4%	0.0%
Net Profit	20,812	23,667	26,006	21,082	23,728	26,761	1.3%	0.3%	2.9%
Balance Sheet (IDR t)									
Total Loans	690	748	820	698	759	827	1.1%	1.4%	0.8%
Total Deposits	779	837	940	814	874	940	4.5%	4.5%	0.0%
Ratios (%)									
NIM	4.70	4.79	4.78	4.64	4.75	4.85	-0.06%	-0.04%	0.07%
NPL	2.30	2.20	2.40	2.30	2.11	1.96	0.00%	-0.09%	-0.44%
ROAA	2.00	2.10	2.10	2.02	2.10	2.21	0.02%	0.00%	0.11%
ROAE	14.20	14.50	14.90	15.19	15.25	15.56	0.99%	0.75%	0.66%

Source: Maybank IBG Research

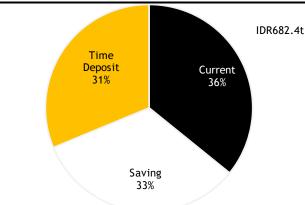
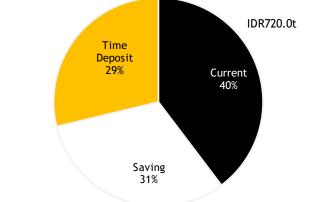


Fig 3: Bank-only third-party funds 7M22





Source: Company, Maybank IBG Research

Source: Company, Maybank IBG Research

30%

25%

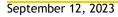
20%

15%

10%

5%

2018





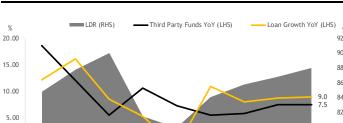
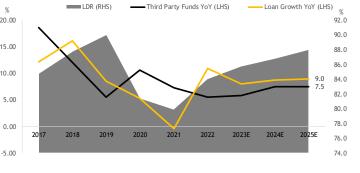
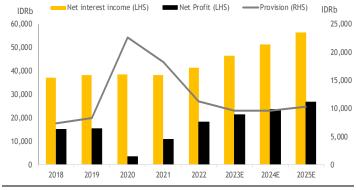


Fig 7: Loans-at-risk (LAR) and NPL gross improvement forecast

Fig 5: BBNI loans and third-party funds growth





Source: Company, Maybank IBG Research

5%

4%

3%

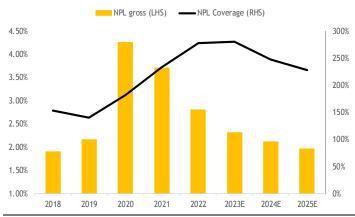
2%

1%

2025E

Fig 6: BBNI earnings forecast

Fig 8: NPL gross and NPL coverage forecast



Source: Company, Maybank IBG Research

2020

2021

2022

2023E

2024E

2019

Source: Company, Maybank IBG Research

Source: Company, Maybank IBG Research

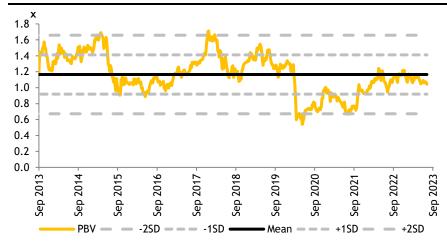
BBNI loans and financing (IDR t) % of total 1,000.0 12.0% 10.5% 10.0% 9.9% 9.8% 9.8% 9.6% 9.2% 800.0 10.0% 646.2 650.8 584.9 582.4 555.7 8.0% 600.0 512.0 440.7 6.0% 400.0 4.0% 200.0 2.0% 0.0% 2017 2018 2019 2020 2021 2022 1H23

Source: Maybank IBG Research

Fig 9: BBNI's market share of loans



Fig 10: BBNI's forward P/BV over 10 years



Source: Bloomberg, Maybank IBG Research



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	11.6	9.4	8.4	7.4	6.6
Core FD P/E (x)	11.6	9.4	8.4	7.4	6.6
P/BV (x)	1.0	1.3	1.2	1.1	1.0
P/NTA (x)	0.1	0.2	0.2	0.2	0.1
Net dividend yield (%)	1.9	3.8	4.3	4.9	5.5
INCOME STATEMENT (IDR b)					
Interest income	50,025.9	54,658.7	64,314.8	69,808.1	75,183.4
Interest expense	(11,779.2)	(13,338.0)	(17,723.0)	(18,367.2)	(18,626.9)
Net interest income	38,246.7	41,320.7	46,591.7	51,440.9	56,556.5
Net insurance income	1,109.3	1,551.5	1,551.5	1,551.5	1,706.7
Net fees and commission	8,943.4	9,738.2	8,950.9	9,880.0	12,218.7
Other income	8,240.4	9,560.7	9,982.7	11,402.1	12,203.9
Total non-interest income	18,293.1	20,850.5	20,485.1	22,833.6	26,129.3
Operating income	56,539.9	62,171.1	67,076.9	74,274.5	82,685.8
Staff costs	(11,195.3)	(12,456.0)	(14,324.4)	(16,329.8)	(17,962.8)
Other operating expenses	(14,176.9)	(15,605.4)	(17,027.4)	(18,984.0)	(21,336.9)
Operating expenses	(25,372.2)	(28,061.4)	(31,351.8)	(35,313.9)	(39,299.8)
Pre-provision profit	31,167.7	34,109.7	35,725.0	38,960.7	43,386.0
Loan impairment allowances	(18,297.2)	(11,210.9)	(9,643.8)	(9,606.3)	(10,279.2)
Pretax profit	12,551.0	22,686.7	26,081.3	29,354.3	33,106.8
Income tax	(1,573.9)	(4,204.7)	(4,833.8)	(5,440.4)	(6,135.9)
Minorities	(78.5)	(169.7)	(165.1)	(185.8)	(209.5)
Reported net profit	10,898.5	18,312.3	21,082.4	23,728.2	26,761.4
Core net profit	10,898.5	18,312.3	21,082.4	23,728.2	26,761.4
BALANCE SHEET (IDR b)					
Cash & deposits with banks	35,222.4	31,549.9	32,286.7	33,660.3	35,139.7
Sec. under resale agreements	22,011.0	16,631.3	6,043.0	3,413.0	3,413.0
Derivatives financial assets	494.2	685.2	685.2	685.2	685.2
Dealing securities	0.0	0.0	19,630.4	28,651.8	29,911.1
Available-for-sale securities	0.0	0.0	113,856.5	106,421.1	111,098.3
Investment securities	0.0	0.0	23,556.5	24,558.7	25,638.1
Loans & advances	582,436.2	646,188.3	697,883.4	758,599.2	826,873.2
Central bank deposits	139,003.8	132,311.4	106,338.0	104,144.1	111,356.3
Fixed assets	26,883.0	26,548.9	26,158.7	25,851.7	23,900.5
Intangible assets	0.0	752.3	752.3	752.3	752.3
Other assets	158,787.2	175,169.5	63,301.3	81,173.6	85,406.8
Total assets	964,837.7	1,029,836.9	1,090,492.1	1,167,911.3	1,254,174.5
Deposits from customers	729,168.6	769,269.0	813,717.5	874,331.9	939,896.9
Deposits from banks & FIs	12,887.1	14,843.8	14,843.8	14,843.8	14,843.8
Derivatives financial instruments	109.9	775.1	813.9	854.6	897.3
Other liabilities	96,152.1	104,751.3	106,480.3	108,468.6	110,556.4
Total liabilities	838,317.7	889,639.2	935,855.5	998,498.9	1,066,194.4
Share capital	25,857.6	26,065.1	26,065.1	26,065.1	26,065.1
Reserves	95,623.8	107,493.7	121,932.6	136,522.5	154,880.8
Shareholders' funds	121,481.4	133,558.7	147,997.7	162,587.6	180,945.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	5,038.6	6,638.9	6,638.9	6,824.7	7,034.2
Total equity	126,520.0	140,197.7	154,636.6	169,412.3	187,980.1
Total liabilities & equity	964,837.7	1,029,836.9	1,090,492.1	1,167,911.3	1,254,174.5

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	(1.0)	8.0	12.8	10.4	9.9
Non-interest income	27.3	14.0	(1.8)	11.5	14.4
Operating expenses	4.8	10.6	11.7	12.6	11.3
Pre-provision profit	8.3	9.4	4.7	9.1	11.4
Core net profit	232.2	68.0	15.1	12.5	12.8
Gross loans	(0.4)	10.9	8.0	8.7	9.0
Customer deposits	7.3	5.5	5.8	7.4	7.5
Total assets	8.2	6.7	5.9	7.1	7.4
Profitability (%)					
Non-int. income/Total income	32.4	33.5	30.5	30.7	31.6
Average lending yields	5.66	5.74	6.40	6.45	6.45
Average cost of funds	1.49	1.58	2.00	1.94	1.84
Net interest margin	4.67	4.81	4.64	4.75	4.85
Cost/income	44.9	45.1	46.7	47.5	47.5
Liquidity (%)					
Loans/customer deposits	73.0	77.5	80.2	82.2	84.1
Asset quality (%)					
Net NPL	0.0	0.0	0.0	0.0	0.0
Gross NPL	3.7	2.8	2.3	2.1	2.0
(SP+GP)/average gross loans	3.2	1.8	1.4	1.3	1.3
Loan loss coverage	233.8	279.1	279.8	247.2	227.4
Capital adequacy (%)					
CET1	17.4	17.5	16.9	17.2	18.3
Tier 1 capital	18.7	18.8	18.0	18.2	19.3
Risk-weighted capital	20.7	20.6	19.7	19.9	21.0
Returns (%)					
ROAE	9.5	14.4	15.0	15.3	15.6
ROAA	1.2	1.8	2.0	2.1	2.2
Shareholders equity/assets	12.6	13.0	13.6	13.9	14.4

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

Dr Zamros DZULKAFLI Malaysia | Philippines (603) 2082 6818 zamros.d@maybank-ib.com

Erica TAY China | Thailand (65) 6231 5844 erica.tay@maybank.com

Brian LEE Shun Rong Indonesia | Singapore | Vietnam (65) 6231 5846 brian.lee1@maybank.com

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

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

FΧ

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

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

LOH Yan Jin (603) 2297 8687 lohyanjin.loh@maybank-ib.com • Ports • Shipping • Automotive

Arvind JAYARATNAM (603) 2297 8692 arvind.jayaratnam@maybank.com • Petrochemicals • Technology

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

Fiorenzo de JESUS (63) 2 8849 8846 fiorenzo.dejesus@maybank.com • Utilities

Alexa Mae CARVAJAL (63) 2 8849 8838 alexamae.carvajal@maybank.com • Consumer • Gaming • Property • REITs

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 • REITs

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

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

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

Adi WICAKSONO (62) 21 8066 8686 Adi.Wicaksono@maybank.com • Plantations

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 8182 loi.nguyen@maybank.com • Property

Nguyen Thanh Hai (84 28) 44 555 888 ext 8081 thanhhai.nguyen@maybank.com • Industrials

Nguyen Thanh Lam (84 28) 44 555 888 ext 8086 thanhlam.nguyen@maybank.com • Retail Research

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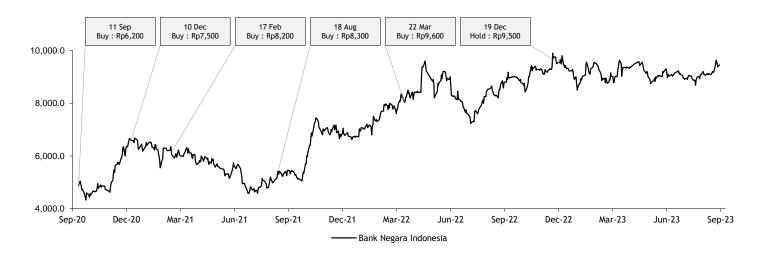
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🌏 Malaysia

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

📀 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 📀 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 Greg Smith gsmith@maybank.com 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

www.maybank.com/investment-banking www.maybank-keresearch.com