

ITMAX System Bhd (ITMAX MK)

Makes further in-roads in Johor

TP raised to MYR2.10; BUY maintained

As momentum picks up in Johor, we turn bullish on ITMAX's LT prospects. We revise FY24/25E CNPs higher by 13% respectively and our TP to MYR2.10 (+23%) on a higher 24.4x FY24E PER, i.e. a 20% premium to the simple PER average of its peers (10% previously). We opine the higher premium is justified, underpinned by (i) its niche position as one of select few domestic providers of AI-enabled CCTVs; and (ii) strong 3-year (FY22-25E) CNP CAGR of 33%, translating to a PEG of just 0.8x at our TP.

Secures 2nd major LOA in Johor

ITMAX's 65%-subsidiary, Southmax S/B, has secured a second letter of award (LOA) for CCTVs in Johor, this time with the Iskandar Puteri town council (MBIP). The contract sum of MYR111.2m (spanning 15 years to Sep 2038) will cover the provision of 500 CCTVs on a rental model as well as 34 traffic controllers (TCs) to the district. Recall, the first LOA on 18 Sep was with the Johor Bahru city council (contract sum: MYR105.3m).

Well-placed to provide additional services

We are optimistic on its prospects of securing CCTV LOAs for the remaining two town councils (Pasir Gudang, Kulai) in due course. There is also further scope for LOA awards in the remaining 12 Johor districts, we believe. Complementing its CCTV rollout, its recent acquisition of smart parking outfit Aim-Force Software S/B could further synergise the suite of products offered to Johor town councils. This includes the provision of parking fee collection services utilising AI-enabled CCTV number plate recognition.

Revising forecasts on expanded scope of work

Accounting for a potential expansion in the scope of work (beyond CCTV provision) that ITMAX could potentially secure in Johor, we raise our earnings by 13% for FY24/25E respectively. This is underpinned by our estimates of (i) an increase in number of CCTV units installed in Johor for FY24/25E by c.1,000 to 2,600 units; and (ii) the provision of parking fee collection service for c.30k bays. Maintain BUY on favourable risk-reward.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	80	107	149	215	257
EBITDA	48	74	101	144	171
Core net profit	29	45	66	95	113
Core EPS (sen)	2.8	4.3	6.4	9.2	11.0
Core EPS growth (%)	130.7	52.3	47.3	44.3	19.9
Net DPS (sen)	0.0	0.8	1.3	1.7	2.0
Core P/E (x)	na	32.8	27.4	19.0	15.9
P/BV (x)	na	5.1	5.3	4.4	3.7
Net dividend yield (%)	na	0.6	0.7	1.0	1.2
ROAE (%)	69.1	23.9	20.8	25.3	25.2
ROAA (%)	21.4	16.0	15.8	19.9	20.4
EV/EBITDA (x)	38.6	17.9	16.4	11.4	9.4
Net gearing (%) (incl perps)	83.6	net cash	net cash	net cash	net cash
Consensus net profit	-	-	65	74	86
MIBG vs. Consensus (%)	-	-	0.0	27.3	31.9

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

Arvind Jayaratnam
arvind.jayaratnam@maybank.com
(603) 2297 8692

BUY

Share Price	MYR 1.75
12m Price Target	MYR 2.10 (+21%)
Previous Price Target	MYR 1.71

Company Description

Itmax System Bhd. engages in providing video surveillance and analytics services.

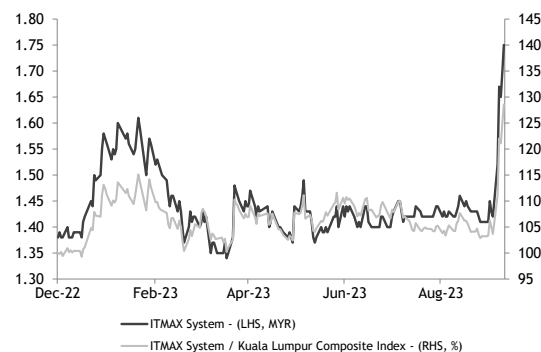
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.5
Free float (%)	31.0
Issued shares (m)	1,028
Market capitalisation	MYR1.8B USD384M

Major shareholders:

Sena Holdings Sdn. Bhd.	51.3%
BINTI ZAINAL ABIDIN AFINALIZA	17.6%
Kenanga Investors Bhd.	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	23	24	na
Relative to index (%)	23	19	na

Source: FactSet

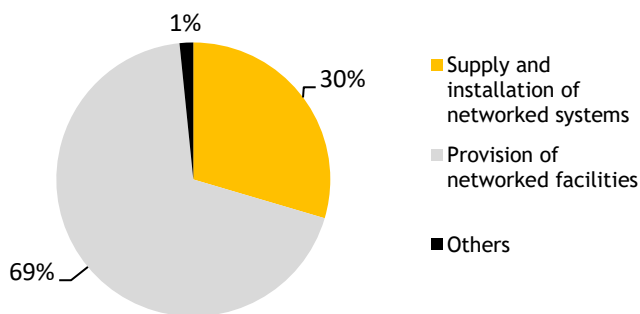
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Tear Sheet Insert

Value Proposition

- ITMAX provides a niche exposure in the *video surveillance and smart city* industry through its end-to-end smart solutions.
- Starting as an M&E contractor, ITMAX now provides enhanced smart city solutions supported by its technical expertise and extensive network infrastructure.
- The traffic/video surveillance industry in Malaysia is relatively nascent in comparison to other developed cities.
- ITMAX is pursuing clientele diversification through tendering for more non-DBKL contracts, while expanding its R&D capabilities to broaden its solutions to the market.

Revenue by business segment - FY22

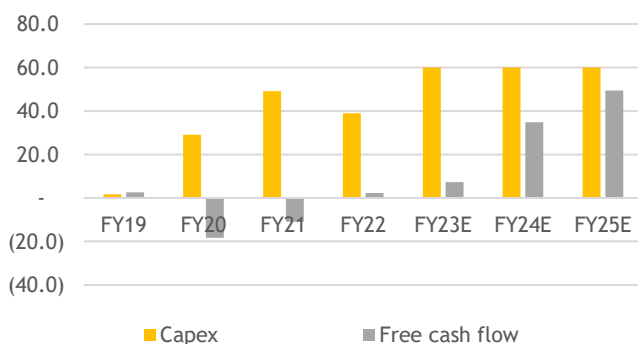


Source: Company

Financial Metrics

- ITMAX is growing its recurring revenue business through the increase in surveillance cameras under circulation. This provides a much higher operating margin in comparison to its supply & installation business.
- EBITDA margin was just 8% in FY19 but has since ballooned to 59% in FY22 with increasing contributions from its higher margin recurring business.
- Free cash flow was in negative territory in FY20-21 as a result of incremental capex incurred to roll out the assets required for the network surveillance business. Free cash flow turned positive in FY22, aided by its recent IPO proceeds and we expect it to remain positive on the back of improving operating cashflow generation.

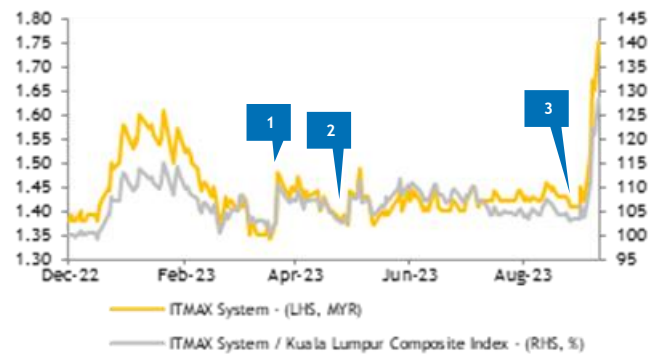
ITMAX's net cash flow (MYR'm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Received a 3-year, MYR57m contract extension for street lighting system in Kuala Lumpur.
- The state of Johor approved the acquisition of 1,500 smart CCTVs for installation in 3 major cities in the state.
- Receives first two LOAs for CCTV installation in Johor from MJB (Johor Bahru) and MBIP (Iskandar Puteri).

Swing Factors

Upside

- Continuous variation orders on its video surveillance contract with DBKL to add more cameras under circulation and AI features.
- Adoption of similar video surveillance solutions by other states and municipals in Peninsular and East Malaysia.
- Roll-out of smart surveillance solutions for more commercial players.
- Stronger-than-expected orderbook replenishment across all its business segments.

Downside

- Loss of existing contracts with DBKL to another competitor.
- Higher-than-expected cost drag related to its expansionary initiatives.
- Significant reduction in DBKL's operating budget that may impede continuity of existing contracts, as well as potentially variation orders.

ESG@MAYBANK IBG

desmond.chng@maybank-ib.com

Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³ (Updated: NA)	NA

Business Model & Industry Issues

- ITMAX is a leading solution provider in the field of Public Space Networked Systems, therefore the group is constantly dealing with increased velocity of data usages as it expands its operational footprint.
- Its business operations are therefore susceptible to data leakages and breaches, hence cyber security measures i.e. anti-virus software and firewall system are therefore of paramount importance. Its customer's data is protected under Personal Data Protection Act (PDPA) 2010.
- Its smart city solutions also promote sustainable solutions i.e. the use of more energy-efficient LED street lights, intelligent traffic monitoring system to reduce traffic congestion, and monitoring of illegal rubbish dumping through its cameras.
- The group refers to the Global Reporting Initiative's (GRI) Sustainability Reporting Standards for its sustainability statement. It has yet to form a medium-term roadmap on its sustainability journey.

Material E issues

- Its smart city solutions i.e. the installation of LED street lights, intelligent traffic system, as well as using AI cameras for enhanced monitoring of river water levels and illegal rubbish dumping, help in reducing overall energy consumption and achieve lower carbon footprint.
- At the group level, total electricity consumption in FY22 rose by 0.15% YoY to 142,267 kWh, while water consumption rose by 9.3% to 108 m³ due to higher staff count, the return of staff to office premises post pandemic, as well as an increased number of projects involved.

Material S issues

- ITMAX employed 152 staff as at end-FY22, of which 29% were women (FY21: 24%). 34% were below 30 years of age, 58% between 30 and 50 years, and 8% above 50 years.
- The group provides professional training on safety and workplace communication in order to enhance personal development and soft skills of the staff. It also provides internship and university collaboration programmes with local institutions.
- ITMAX also organised seminars with the community to spread awareness on green, sustainable cities using technologies.

Key G metrics and issues

- The Board consist of 8 members, in which 4 are Independent Non-Executive Directors (INEDs), and 4 are female directors. There are 3 representatives in each of the nomination and remuneration committee, all of which are INEDs.
- The major shareholders i.e. Tan Sri Tan and Datin Afinaliza are both represented on the Board.
- KPMG PLT is the company's auditor.
- The group's Managing Director and Chief Executive Officer, William Tan received MYR746k in total compensation in FY22, representing 1.8% of the group's headline PAT.
- There were no material contracts of the company and its subsidiaries that involved the directors and major shareholders' interests in FY22.
- Its systems and processes are certified with International Organisation for Standardisation ("ISO") 9001:2015, which governs the standards for quality management system.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Risk Statement

There are several risk factors that could negatively impact our earnings forecasts, target price and recommendation on ITMAX System. These include a high dependency on non-recurring project-based contracts and large single customer (DBKL). Although it has subsisting contracts and a long working relationship with its key customer, failure to replenish its orderbook could adversely affect earnings.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	na	35.2	27.8	19.0	15.9
Core P/E (x)	na	32.8	27.4	19.0	15.9
P/BV (x)	na	5.1	5.3	4.4	3.7
P/NTA (x)	na	5.2	5.4	4.4	3.6
Net dividend yield (%)	na	0.6	0.7	1.0	1.2
FCF yield (%)	na	0.2	0.4	2.5	3.8
EV/EBITDA (x)	38.6	17.9	16.4	11.4	9.4
EV/EBIT (x)	44.1	21.0	19.1	13.1	10.8
INCOME STATEMENT (MYR m)					
Revenue	79.8	107.3	149.2	215.0	257.4
EBITDA	47.8	73.5	101.4	143.7	171.2
Depreciation	(6.1)	(10.7)	(14.3)	(18.4)	(22.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	41.8	62.9	87.1	125.3	149.0
Net interest income / (exp)	(0.9)	(2.6)	0.1	0.9	2.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(3.9)	(0.7)	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	40.9	56.3	86.4	126.2	151.2
Income tax	(11.7)	(15.7)	(21.6)	(31.5)	(37.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.2	40.6	64.8	94.6	113.4
Core net profit	29.2	44.5	65.6	94.6	113.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	30.0	217.6	197.0	209.3	242.7
Accounts receivable	15.4	18.3	25.5	36.7	43.9
Inventory	10.6	8.4	22.3	31.7	38.0
Property, Plant & Equip (net)	95.2	127.3	173.0	214.6	252.4
Intangible assets	1.0	3.8	3.8	3.8	3.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	11.0	16.5	16.5	16.5	16.5
Total assets	163.1	391.9	438.2	512.7	597.3
ST interest bearing debt	19.8	19.0	19.0	19.0	19.0
Accounts payable	26.1	15.8	24.4	36.9	44.0
LT interest bearing debt	55.2	56.5	41.5	26.5	11.5
Other liabilities	8.0	15.0	15.0	15.0	15.0
Total Liabilities	109.2	106.1	99.7	97.3	89.4
Shareholders Equity	53.9	285.8	338.4	409.1	492.5
Minority Interest	0.0	0.0	0.0	6.3	15.4
Total shareholder equity	53.9	285.8	338.4	415.4	507.9
Total liabilities and equity	163.1	391.9	438.2	512.7	597.3
CASH FLOW (MYR m)					
Pretax profit	40.9	56.3	86.4	126.2	151.2
Depreciation & amortisation	6.1	10.7	14.3	18.4	22.2
Adj net interest (income)/exp	0.9	2.6	(0.1)	(0.9)	(2.2)
Change in working capital	(4.8)	(24.8)	(12.4)	(8.1)	(6.4)
Cash taxes paid	(6.1)	(8.5)	(21.6)	(31.5)	(37.8)
Other operating cash flow	1.1	4.8	0.7	0.0	0.0
Cash flow from operations	38.3	41.3	67.4	105.0	129.2
Capex	(49.2)	(39.0)	(60.0)	(60.0)	(60.0)
Free cash flow	(10.9)	2.3	7.4	45.0	69.2
Dividends paid	(6.0)	(8.0)	(13.0)	(17.7)	(20.9)
Equity raised / (purchased)	0.0	203.9	0.0	0.0	0.0
Change in Debt	35.8	(2.5)	(15.0)	(15.0)	(15.0)
Other invest/financing cash flow	(8.1)	(11.9)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	10.8	183.8	(20.6)	12.3	33.4

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	67.8	34.5	39.1	44.1	19.7
EBITDA growth	143.0	53.7	37.8	41.8	19.1
EBIT growth	137.9	50.4	38.6	43.8	18.9
Pretax growth	132.2	37.6	53.5	46.0	19.9
Reported net profit growth	130.7	38.9	59.7	46.0	19.9
Core net profit growth	130.7	52.3	47.3	44.3	19.9
Profitability ratios (%)					
EBITDA margin	60.0	68.5	67.9	66.8	66.5
EBIT margin	52.4	58.6	58.4	58.3	57.9
Pretax profit margin	51.3	52.5	57.9	58.7	58.7
Payout ratio	0.0	20.0	20.0	18.7	18.4
DuPont analysis					
Net profit margin (%)	36.6	37.8	43.4	44.0	44.1
Revenue/Assets (x)	0.5	0.3	0.3	0.4	0.4
Assets/Equity (x)	3.0	1.4	1.3	1.3	1.2
ROAE (%)	69.1	23.9	20.8	25.3	25.2
ROAA (%)	21.4	16.0	15.8	19.9	20.4
Liquidity & Efficiency					
Cash conversion cycle	(271.8)	(140.7)	(7.7)	20.3	16.1
Days receivable outstanding	73.8	56.5	52.8	52.0	56.4
Days inventory outstanding	183.0	164.1	198.3	237.0	250.1
Days payables outstanding	528.5	361.4	258.9	268.8	290.3
Dividend cover (x)	nm	5.0	5.0	5.4	5.4
Current ratio (x)	1.3	6.5	5.3	4.8	5.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	3.7	4.4	5.3	6.7
Net gearing (%) (incl perps)	83.6	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	83.6	net cash	net cash	net cash	net cash
Net interest cover (x)	48.7	24.1	na	na	na
Debt/EBITDA (x)	1.6	1.0	0.6	0.3	0.2
Capex/revenue (%)	61.7	36.4	40.2	27.9	23.3
Net debt/ (net cash)	45.1	(142.1)	(136.6)	(163.9)	(212.2)

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUAH Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFI
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.thuhoang@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

Winston PHOON, FCA
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

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

Fiozeno de JESUS
(63) 2 8849 8846
fiozeno.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 WICKAKSONO
(62) 21 8066 8686
Adi.Wickaksono@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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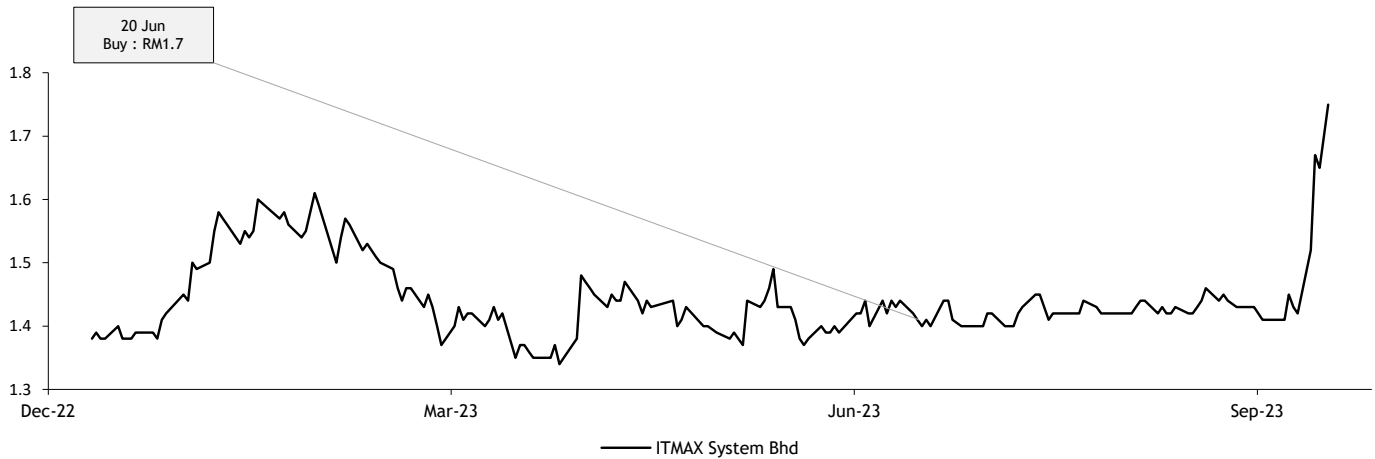
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Malaysia

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

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

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
www.maybank-keresearch.com