

UMS Holdings (UMSH SP)

Brighter prospects; U/G to BUY

BUY

[Prior:HOLD]

Share Price SGD 1.25
 12m Price Target SGD 1.44 (+20%)
 Previous Price Target SGD 1.16

Key client raises guidance; increasing TP to SGD1.44

UMS' key customer AMAT raised its 4Q23 revenue and profit guidance recently. UMS should benefit as AMT's inventory levels should be depleted at a faster rate, increasing the chances of a rebound in components orders in FY24E. UMS' performance in FY23E has been dismal due to fewer orders. UMS also renewed its integrated system contract with its key customer until end-2025 and received an in-principle agreement with a new customer for a three-year contract with a renewal option. Given better prospects, we upgrade UMS to BUY from HOLD, based on a higher 11x FY24E P/E (from 9x), resulting in a higher TP of SGD1.44.

2H23 likely to be weak, similar to 1H23

1H23 revenue dropped by 9% YoY to SGD155m, with PATMI declining 27% YoY to SGD29m due to a lower gross margin of 46.3% from 51.7% in 2Q22 - mainly due to the weaker USD and lower machine utilisation rates. We expect 2H23 to remain equally weak as its key customer is unlikely to ramp up orders this year.

Benefiting from the ramp-up of a new customer

UMS has received an in-principle agreement with a new customer whom we believe to be LAM Research for a three-year contract with a renewal option. UMS conservatively expects SGD30m contribution in FY24 and SGD300m top-line contributions pa in the next 3-5 years. If all goes well, FY24E could potentially be a good year for UMS.

Better prospects plus attractive 4.5% yield

As its future looks more secured, UMS should benefit from a recovery in the semi-con industry in FY24E. Dividends were raised by 20% to SGD1.2 cents for 2Q23, which is positive for shareholders and we can expect a yield of 4.5% for FY24.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	271	372	317	364	382
EBITDA	92	120	96	126	137
Core net profit	53	98	62	87	93
Core EPS (cts)	8.0	14.8	9.4	13.1	14.0
Core EPS growth (%)	15.4	85.4	(36.6)	39.8	6.7
Net DPS (cts)	4.4	6.0	5.0	5.6	5.6
Core P/E (x)	19.1	8.0	13.3	9.5	8.9
P/BV (x)	3.7	2.3	2.3	2.0	1.7
Net dividend yield (%)	2.9	5.1	4.0	4.5	4.5
ROAE (%)	20.1	31.9	17.6	22.1	20.3
ROAA (%)	14.2	21.3	12.6	16.1	15.1
EV/EBITDA (x)	11.0	6.5	7.7	6.2	4.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	61	81	85
MIBG vs. Consensus (%)	-	-	2.1	8.1	9.2

Jarick Seet
 jarick.seet@maybank.com
 (65) 6321 5848

Company Description

UMS manufactures high precision components and modules found in front-end semiconductor equipment

Statistics

52w high/low (SGD)	1.34/0.87
3m avg turnover (USDm)	3.8
Free float (%)	69.2
Issued shares (m)	671
Market capitalisation	SGD838.2M
	USD615M

Major shareholders:

LUONG ANDY	16.3%
GN JONG YUH	4.7%
The Vanguard Group, Inc.	1.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	23	(5)
Relative to index (%)	5	22	(4)

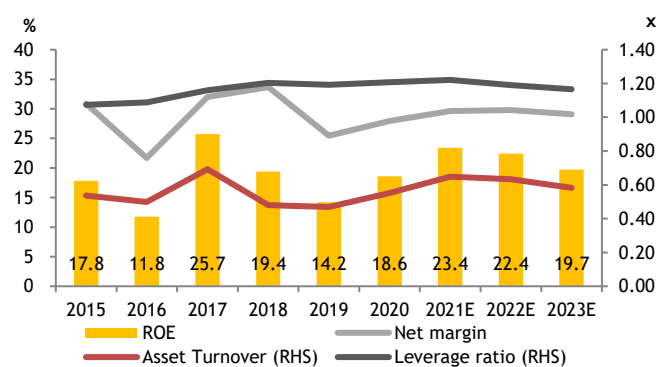
Source: FactSet

ESG@MAYBANK IBG
 Tear Sheet Insert

Value Proposition

- Precision metals engineering firm - specialises in assembling modules and precision engineering for components for front-end semiconductor equipment.
- Has entrenched relationship with key customer Applied Materials, a market leader for wafer fab equipment.
- Through subsidiary JEP, UMS is expanding precision metals engineering to non-semiconductor sectors, such as aerospace, which sees tailwinds from outsourcing trends.

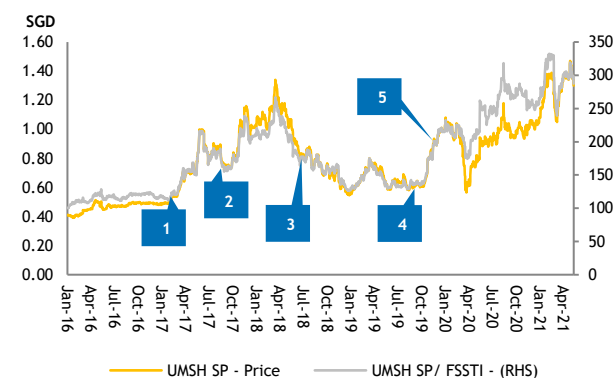
UMS' Du Pont ROE



Source: Company

Price Drivers

Historical share price trend



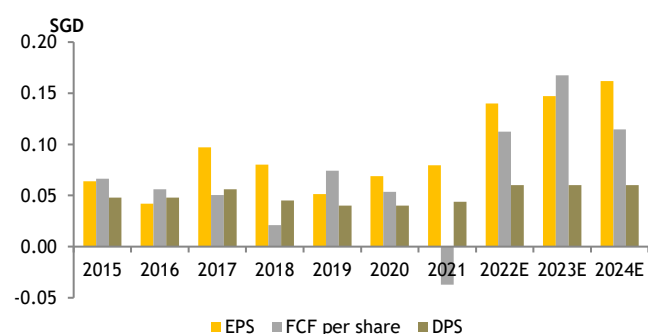
Source: Company, Maybank IBG Research

1. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
2. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
3. Customer AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
4. AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.
5. UMS rallied through much of 2020-21 on the back of strong Wafer Fab Equipment demand globally.

Financial Metrics

- UMS has a strong track record of maintaining a net cash balance sheet to tide itself through cycles.
- We expect FCF and balance sheet to support dividends over forecast period.

EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Stronger-than-expected revenue momentum following capacity expansion in FY22E.
- Better-than-expected contributions from Kalf Engineering, Starke and JEP.
- Better-than-expected costs control, which in turn supports margins.

Downside

- Higher-than-expected labour costs, or if UMS faces difficulties expanding workforce to cope with strong order momentum.
- Lower-than-expected margins due to negative operating leverage if volume falls.
- Lower-than-expected dividends may spook yield investors. UMS has a quarterly dividend policy and a track record of strong cash flow generation.

ESG@MAYBANK IBG

jarick.seet@maybank.com

Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- Based on stakeholders’ feedback, governance, economic performance, product compliance and customer privacy and satisfaction are the most important factors to both UMS and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees’ wellbeing and equal opportunities; ii) governance: conflicts of interest; and iii) environmental: fines for non-compliance of environmental laws and regulations.
- In 2020, UMS did not incur any significant fines related to environmental laws, and there were no reported incidences of discrimination, whistleblowing, bribery or corruption.
- Human capital is a key input in driving UMS’ capabilities vs. competitors. UMS believes in talent management to nurture employees, provide equal opportunities, and recognise and reward achievements to boost retention.

Material E issues

- UMS’ environmental exposure is through energy, water and inputs. In 2021, UMS did not incur any significant fines for non-compliance with environmental laws and regulations.
- For its manufacturing process, UMS’ target for energy intensity is ≤ 0.13 KWH/revenue. In 2020/21, UMS’ performance was 0.1558/0.1306 respectively.
- UMS has taken steps to control water flow in its special process lines, and have switched to NEWater from PUB water. It has a water intensity target of ≤ 0.0012 m3/revenue. In 2020/21, UMS’ performance were 0.0014/0.0011 respectively.
- Hazardous waste largely consists of chemicals and oily water removed from production processes. These are disposed of in compliance with regulations. Where possible all retrieved metal chip and scraps, as well as packaging are recycled.
- Most delivery trucks are in compliance with EURO V standard.

Key G metrics and issues

- The board has five directors, of which one is the founder, executive chairman and CEO (Andy Luong), and three are independent, non-executive (60%). One is an executive director who is also UMS’ financial controller (Stanley Loh).
- The audit, nominating, and remuneration committees are chaired by independent directors.
- Workshops on business ethics, anti-bribery compliance and enterprise risk management are held to educate employees on good corporate governance. Guidance is also provided for common ethical issues such as conflicts of interest and confidential information.
- In 2021, UMS did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.
- In 2021, key management personnel accounted for 31% (FY20: 21%).
- In 2012, UMS adopted a policy to declare dividends every quarter. The form and frequency depends on UMS’ economic performance and financial position, as well as current and future needs.

Material S issues

- UMS’ workforce is 592 strong across Singapore and Malaysia as at end-2021. UMS is an equal-opportunity employer and values talent retention. Outstanding employees are rewarded for achievements.
- UMS adopts a localisation strategy for overseas operations to ensure on-the-ground teams have a good grasp of local socio-political and cultural sensitivities. In 2021, locals accounted for 46% of employees based in Malaysia and 50% of managerial positions. 25% of managerial employees are female.
- In 2021, there were no reports of discrimination or exploitative labour practices.

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).

Quantitative parameters (Score: 38)						
	Particulars	Unit	2019	2020	2021	AEM SP (2021)
E	Scope 1 GHG emissions	tCO2e	NA	NA	NA	15
	Scope 2 GHG emissions	tCO2e	NA	NA	NA	8082
	Total	tCO2e	NA	NA	NA	8097
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	Total	tCO2e	NA	NA	NA	8097
	GHG intensity (Scope 1 and 2)	KgCO2e/emp kWh/unit of sales	NA	NA	NA	0.014
	Energy consumption	M2/unit of sales	0.02	0.01	0.13	0.02
	Water consumption	Metric tonnes	0.04	0.03	0.0011	0.09
S	Recycled waste generated	tonnes	NA	NA	50	50
	% of women in workforce	%	NA	NA	NA	35.0%
	Economic value generated and distributed	SGD'000	33,600	36,500	53,100	89,181
	New employees hired by gender (women)	%	NA	NA	NA	34.0%
	Total training hours	%	NA	NA	NA	71%
G	Key operations assessed for risks related to corruption	%	100	100	100	100
	MD/CEO salary as % of reported net profit	%	5.95%	7.52%	13.39%	0.04%
	Board salary as % of reported net profit	%	2.89%	2.63%	1.84%	0.05%
	Independent directors on the Board	%	60%	60%	60%	57%
	Female directors on the Board	%	20%	20%	20%	14%

Qualitative Parameters (Score: 50)	
a)	Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee? <i>Yes, the UMS board, supported by the Risk Advisory Committee and Safety Subcommittee, looks at sustainability issues as part of its strategic formulation, determines the material Environmental, Social and Governance factors, and oversees the management and monitoring of these factors.</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>Yes. The BSC KPIs include maintaining rigorous corporate governance standards and minimizing risks</i>
c)	Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>No</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>No</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>In every office, in every manufacturing process, efforts to reduce energy consumption are being practiced and are producing results. UMS works only with government-licensed waste collection vendors to ensure that disposal processes are in compliance with government regulation. Most of its delivery trucks are in compliance with the EURO V standard, which helps to reduce the emission of CO2 and other gases.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>No</i>

Target (Score: 66.7)			
Particulars		Target	Achieved
Energy Intensity (KWH/Revenue)		0.13	0.1306
Water Intensity (m2/Revenue) < than		0.0012	0.0011
Briefings to present quarterly and FY results		100%	100%
Carbon neutrality/net zero		NA	NA
Impact			
NA			
Overall score: 48			
As per our ESG matrix, UMS Holdings (UMSH SP) has an overall score of 48.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	38	19
Qualitative	25%	50	13
Target	25%	67	17
Total			48

As per our ESG assessment, UMSH SP has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics as well as qualitative parameters. UMS's overall ESG score is 48, which makes its ESG rating below average in our view (average ESG rating = 50)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	15.2	8.1	13.3	9.5	8.9
Core P/E (x)	19.1	8.0	13.3	9.5	8.9
P/BV (x)	3.7	2.3	2.3	2.0	1.7
P/NTA (x)	3.7	2.3	2.3	2.0	1.7
Net dividend yield (%)	2.9	5.1	4.0	4.5	4.5
FCF yield (%)	nm	5.4	15.2	0.4	21.6
EV/EBITDA (x)	11.0	6.5	7.7	6.2	4.5
EV/EBIT (x)	12.7	7.5	9.8	7.5	5.4
INCOME STATEMENT (SGD m)					
Revenue	271.2	372.4	316.5	364.0	382.2
EBITDA	92.2	120.0	96.4	126.0	137.1
Depreciation	(12.4)	(15.6)	(20.8)	(21.6)	(22.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	79.8	104.4	75.6	104.4	114.8
Net interest income / (exp)	(0.8)	(0.9)	(0.7)	(0.7)	(0.7)
Associates & JV	0.4	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	79.4	103.5	74.9	103.7	114.1
Income tax	(21.8)	(1.2)	(7.9)	(10.9)	(14.3)
Minorities	(4.5)	(3.8)	(4.6)	(5.5)	(6.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	53.1	98.5	62.5	87.3	93.2
Core net profit	53.1	98.5	62.5	87.3	93.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	65.4	61.7	154.6	120.5	285.3
Accounts receivable	67.2	78.7	60.1	119.4	69.0
Inventory	87.1	110.7	58.6	123.3	63.7
Property, Plant & Equip (net)	116.7	135.4	129.7	118.0	128.0
Intangible assets	88.6	88.3	88.3	88.3	88.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	11.8	13.5	13.5	13.5	13.5
Total assets	436.8	488.2	504.8	583.0	647.9
ST interest bearing debt	11.6	11.5	11.5	11.5	11.5
Accounts payable	56.1	56.7	41.3	64.0	44.2
LT interest bearing debt	22.7	18.4	18.4	18.4	18.4
Other liabilities	42.0	33.0	32.0	32.0	32.0
Total Liabilities	132.5	119.8	102.7	125.5	105.7
Shareholders Equity	276.3	340.5	369.6	419.6	497.7
Minority Interest	27.9	27.9	32.5	37.9	44.5
Total shareholder equity	304.3	368.4	402.1	457.5	542.3
Total liabilities and equity	436.8	488.2	504.8	583.0	647.9
CASH FLOW (SGD m)					
Pretax profit	79.4	103.5	74.9	103.7	114.1
Depreciation & amortisation	12.4	15.6	20.8	21.6	22.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(45.2)	(15.5)	53.5	(101.3)	90.1
Cash taxes paid	1.8	(8.0)	(7.9)	(10.9)	(14.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	48.0	95.6	141.3	13.2	212.2
Capex	(72.8)	(52.8)	(15.0)	(10.0)	(32.3)
Free cash flow	(24.8)	42.9	126.3	3.2	179.9
Dividends paid	(29.3)	(33.4)	(33.3)	(37.3)	(37.3)
Equity raised / (purchased)	0.0	3.1	0.0	0.0	0.0
Change in Debt	14.7	(7.2)	0.0	0.0	0.0
Other invest/financing cash flow	52.9	(3.4)	0.0	0.0	0.0
Effect of exch rate changes	(2.2)	(5.1)	0.0	0.0	0.0
Net cash flow	11.3	(3.1)	93.0	(34.2)	142.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.9	37.3	(15.0)	15.0	5.0
EBITDA growth	96.6	30.1	(19.7)	30.8	8.8
EBIT growth	103.5	30.8	(27.6)	38.1	10.0
Pretax growth	64.0	30.4	(27.6)	38.4	10.0
Reported net profit growth	45.6	85.4	(36.6)	39.8	6.7
Core net profit growth	15.4	85.4	(36.6)	39.8	6.7
Profitability ratios (%)					
EBITDA margin	34.0	32.2	30.4	34.6	35.9
EBIT margin	29.4	28.0	23.9	28.7	30.0
Pretax profit margin	29.3	27.8	23.7	28.5	29.8
Payout ratio	55.2	40.6	53.4	42.8	40.1
DuPont analysis					
Net profit margin (%)	19.6	26.4	19.7	24.0	24.4
Revenue/Assets (x)	0.6	0.8	0.6	0.6	0.6
Assets/Equity (x)	1.6	1.4	1.4	1.4	1.3
ROAE (%)	20.1	31.9	17.6	22.1	20.3
ROAA (%)	14.2	21.3	12.6	16.1	15.1
Liquidity & Efficiency					
Cash conversion cycle	143.9	152.4	157.8	167.7	167.7
Days receivable outstanding	60.2	70.5	78.9	88.8	88.8
Days inventory outstanding	198.1	190.7	187.4	187.4	187.4
Days payables outstanding	114.4	108.8	108.5	108.5	108.5
Dividend cover (x)	1.8	2.5	1.9	2.3	2.5
Current ratio (x)	2.5	3.1	4.3	4.2	6.3
Leverage & Expense Analysis					
Asset/Liability (x)	3.3	4.1	4.9	4.6	6.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	106.4	117.2	108.0	149.1	nm
Debt/EBITDA (x)	0.4	0.2	0.3	0.2	0.2
Capex/revenue (%)	26.8	14.2	4.7	2.7	8.5
Net debt/ (net cash)	(31.1)	(31.8)	(124.7)	(90.5)	(255.4)

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 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.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

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

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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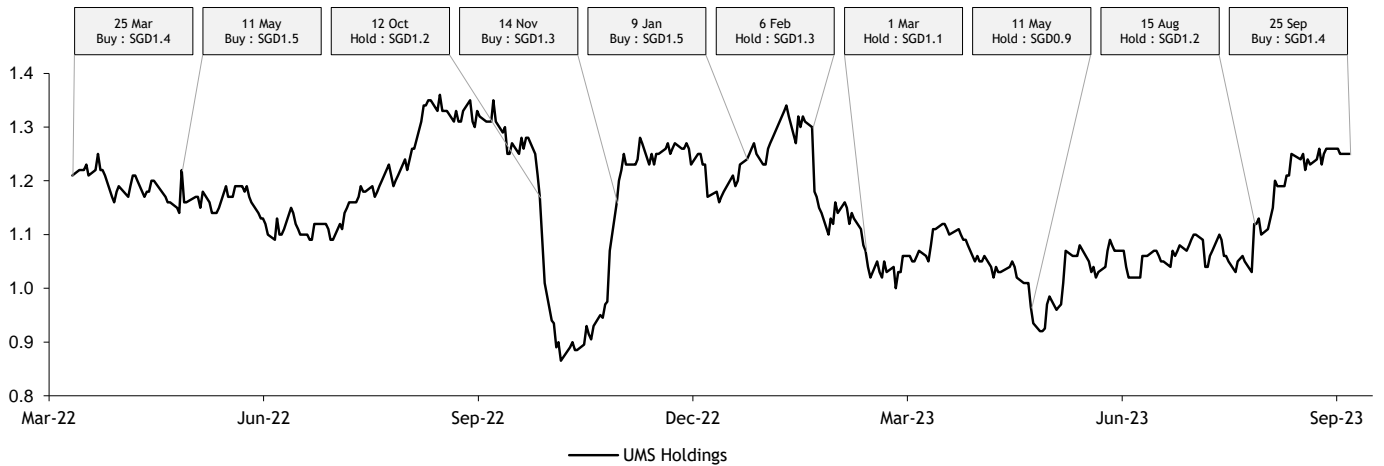
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 **Malaysia**

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