

Aurelius Technologies (ATECH MK)

Improving margins to support earnings recovery

Positive post results briefing; maintain BUY

We came away from ATECH's results briefing feeling positive. We maintain our forecasts and MYR3.13 TP based on 20x CY24E PER (20% above sector's avg.) on positive outlook with the end of customer destocking, indicating growth returning in the EMS industry. Key briefing takeaways include a surge in short notice orders signaling demand recovery (this is expected to sustain), successful acquisition of new customers and start of production for new products. Maintain BUY.

Experienced surge in short notice orders

In 2QFY24, ATECH experienced a surge in short notice orders, which continued with a recent MYR40m rush order (yet to be included in the reported orderbook as at 18 Sep 2023), expected to be delivered within the next few months. Previously, customer lead time was 6-12M. While some lines utilization remains sub-optimal, specific lines like for C&I and O&G related products have to operate at 7 days/week. Stronger margins are anticipated due to improved product mix and streamlined operations.

Realising efforts in expanding customer/product base

ATECH has gained 2 new customers in video telematics and insulation monitoring devices (IMD) for EV/charging stations in 2QFY24. While their earnings contribution are currently small, this diversification aligns with the group's strategy to expand its customer base and product offerings. The onboarding of a new automotive customer is progressing as planned, with mass production anticipated in FY25E upon P5 completion. This customer is expected to contribute 30-40% to revenue at mass production.

Well-positioned to capture future growth

Despite 1HFY24 challenges, we remain optimistic about ATECH's prospects, projecting a 30% CAGR in earnings over the next three years. Improvements in customer destocking are expected by 4QFY23, bolstered by expansion initiatives and new customers/new products roll out. ATECH is well-positioned to benefit from supply chain diversification and local E&E FDIs as it advances up the value chain.

FYE Jan (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	367	482	538	694	1,009
EBITDA	37	56	63	89	133
Core net profit	24	41	47	62	89
Core EPS (sen)	6.1	10.5	12.0	15.8	22.6
Core EPS growth (%)	53.1	71.0	14.8	31.2	43.1
Net DPS (sen)	0.9	2.0	6.0	7.9	11.3
Core P/E (x)	35.0	24.8	21.2	16.2	11.3
P/BV (x)	4.2	4.4	3.0	2.8	2.5
Net dividend yield (%)	0.4	0.8	2.4	3.1	4.4
ROAE (%)	15.6	17.2	16.8	17.8	23.0
ROAA (%)	7.0	9.9	10.3	11.2	12.7
EV/EBITDA (x)	23.7	18.9	15.9	12.1	8.6
Net gearing (%) (incl perps)	18.9	19.4	0.6	19.2	33.3
Consensus net profit	-	-	45	60	89
MIBG vs. Consensus (%)	-	-	4.1	4.0	(0.1)

Loh Yan Jin

lohyanjin.loh@maybank-ib.com

(603) 2297 8687

BUY

Share Price	MYR 2.55
12m Price Target	MYR 3.13 (+26%)
Previous Price Target	MYR 3.13

Company Description

Aurelius Technologies Bhd. provides manufacturing solutions for industrial electronic products.

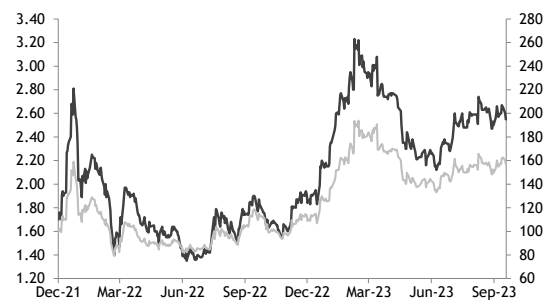
Statistics

52w high/low (MYR)	3.23/1.55
3m avg turnover (USDm)	0.4
Free float (%)	30.2
Issued shares (m)	394
Market capitalisation	MYR1.0B USD213M

Major shareholders:

Main Stream Holdings Sdn Bhd	22.1%
Main Stream Ltd	21.3%
Lee Chong Yeow (Deceased)	8.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	8	42
Relative to index (%)	0	6	40

Source: FactSet

New products rollout to support volume growth

Production volume for Customer F has been rather unchanged QoQ in 2QFY24, averaging >1m pcs/month. The slower than expected pick up in production rate was largely due to a slowdown in end customers' demand. However, on a positive note, Customer F has shifted more end-customers' shipments to ATECH. ATECH has commenced manufacturing 5G communication modules for IoT and automotive components, aligning with its focus on new product rollout, which is anticipated to drive volume increases in 2HFY24E.

Capacity expansion plan updates

ATECH reaffirms its delivery timeline for the two general-use SMT lines in FY25E and Line 8 for Customer F in 4QFY24E. To recap, these lines were initially slated for 2QFY24 deliveries, but they were delayed due to market demand slowdown caused by customers' destocking activities in 1QFY24. ATECH's P5 expansion is progressing as planned, with the land acquisition agreement signed on 10 May 2023, and construction completion targeted in 2024.

Orderbook continues to improve from a low in 4QFY23

ATECH's orderbook continues to improve to MYR322m (as of 18 Sep-2023), up from MYR288m (as of 19 Jun 2023), driven by rising demand across most customers, notably in the Communication and IoT (C&I) and oil & gas (O&G) segments. This uptick has come from customers' stock replenishment and new product launches, with some customers advancing their future orders for early deliveries.

Meanwhile, the shift from "Just-In-Case" to "Just-In-Time" inventory management persists; this continues to challenge production planning due to shorter raw material sourcing lead time. Despite this, ATECH plans to selectively increase its inventory levels to support accelerated deliveries as it manages higher turnover from the shorter order lead times.

Embarking on sustainability agenda

In Aug 2023, its 30th anniversary, ATECH launched its sustainability initiative, vowing to achieve net-zero emissions by 2050 and support the global 30x30 goal to preserve 30% of the planet for nature by 2030. The group further demonstrated its commitment by installing two electric vehicle (EV) charging stations on its premises, and providing free EV charging for employees and visitors to promote clean energy use in transportation.

Additionally, ATECH successfully implemented its rooftop solar project, unlocking up to 2.5783 MWp power capacity with a capital expenditure of MYR7.55m. The system, energized on 13 Sep 2023, is expected to yield an annual savings of approximately MYR1.5m in electricity cost.

Figure 1: Free EV charging facilities installed for employees and visitors


Source: Company

Figure 2: Rooftop solar installed on P1-P3


Source: Company

Future plans

Going forward, ATECH remains focused on advancing its IoT and semiconductor component segments while optimizing its product mix to prioritize higher-margin products, thereby boosting profitability. The group is committed to driving new product initiatives (NPIs) and acquiring new customers and product orders to sustain future growth. Currently, ATECH is in active discussions with potential customers in the video, IoT, and automotive components related products.

Figure 3: EMS peers table

Company	Mkt Cap (MYR'm)	Share Price (LCY)	PER (x)			Hist Avg 5 Yr	P/BV (x) CY23	ROE (%) CY23	CAGR (%) 3Y CNP	PEG (x)
			CY23	CY24	CY25					
V.S. INDUSTRY	3,921	1.02	18.8	15.1	13.1	19.5	1.8	9.3	17%	0.9
ATA IMS	421	0.35	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
SKP RESOURCES	1,555	1.00	12.9	11.5	9.6	15.6	1.7	13.2	5%	2.3
UCHI TECHNOLOGIES	1,580	3.46	16.5	15.7	13.8	14.9	6.9	44.1	-3%	-4.8
PIE INDUSTRIAL	1,144	2.98	16.6	14.9	14.9	17.5	1.9	11.3	3%	4.7
AURELIUS TECHNOLOGIES	1,044	2.65	22.3	17.2	12.1	NA	4.0	16.7	30%	0.5
Simple Average			16.2	14.3	12.9	16.9	3.1	19.5	6%	0.8
Weighted Average			16.1	13.8	12.2	16.7	2.6	16.2	9%	0.5

Source: Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for ATECH. Key risks are: (i) weaker-than-expected demand from customers in view of rising inflation and geopolitical risks; (ii) lower-than-expected costs pass through (as the mechanism depends on the group's negotiation with its clients); and (iii) operational disruptions from labour issues and/or component shortages.

FYE 31 Jan	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	38.9	18.5	21.2	16.2	11.3
Core P/E (x)	35.0	24.8	21.2	16.2	11.3
P/BV (x)	4.2	4.4	3.0	2.8	2.5
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	0.4	0.8	2.4	3.1	4.4
FCF yield (%)	nm	0.1	nm	nm	nm
EV/EBITDA (x)	23.7	18.9	15.9	12.1	8.6
EV/EBIT (x)	27.9	22.4	18.8	14.1	9.8
INCOME STATEMENT (MYR m)					
Revenue	367.4	482.4	538.3	694.0	1,008.7
EBITDA	37.2	56.3	63.4	89.0	133.0
Depreciation	(5.6)	(8.7)	(10.0)	(13.0)	(16.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	31.6	47.6	53.4	76.0	116.6
Net interest income / (exp)	(3.6)	(3.3)	(2.3)	(3.0)	(5.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(2.1)	(4.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	25.9	40.3	51.2	73.0	111.1
Income tax	(3.9)	(3.0)	(3.9)	(11.0)	(22.2)
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	22.0	37.2	47.3	62.1	88.9
Core net profit	24.1	41.2	47.3	62.1	88.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	76.3	48.9	64.3	46.3	80.3
Accounts receivable	90.6	131.8	147.1	189.7	275.7
Inventory	133.5	101.7	112.6	144.0	209.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	84.0	115.4	154.2	198.0	196.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	27.0	20.8	22.2	26.2	34.1
Total assets	411.4	418.6	500.4	604.2	795.7
ST interest bearing debt	98.5	72.9	51.5	90.4	168.1
Accounts payable	75.5	73.7	81.6	104.3	151.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	15.9	20.9	14.8	25.9	48.2
Other liabilities	20.0	20.0	20.0	20.0	20.0
Total Liabilities	209.9	187.0	167.4	240.2	387.2
Shareholders Equity	201.4	231.6	333.0	364.0	408.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	201.4	231.6	333.0	364.0	408.4
Total liabilities and equity	411.4	418.6	500.4	604.2	795.7
CASH FLOW (MYR m)					
Pretax profit	25.9	40.3	51.2	73.0	111.1
Depreciation & amortisation	5.6	8.7	10.0	13.0	16.4
Adj net interest (income)/exp	3.4	3.2	2.3	3.0	5.5
Change in working capital	(18.6)	(9.5)	(19.7)	(55.2)	(111.9)
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.7	3.5	0.0	0.0	0.0
Cash flow from operations	11.2	41.0	36.9	19.2	(7.7)
Capex	(33.4)	(39.9)	(48.8)	(56.8)	(15.0)
Free cash flow	(22.2)	1.1	(11.9)	(37.5)	(22.7)
Dividends paid	(0.6)	(7.2)	(23.7)	(31.0)	(44.4)
Equity raised / (purchased)	98.6	0.0	77.7	0.0	0.0
Change in Debt	(19.7)	(14.1)	(27.5)	50.0	100.0
Other invest/financing cash flow	(8.6)	(1.2)	0.7	0.6	1.1
Effect of exch rate changes	(0.0)	(1.3)	0.0	0.0	0.0
Net cash flow	47.5	(22.8)	15.4	(18.0)	34.0

FYE 31 Jan	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.5	31.3	11.6	28.9	45.3
EBITDA growth	38.3	51.4	12.6	40.3	49.5
EBIT growth	41.1	50.6	12.3	42.3	53.4
Pretax growth	45.4	55.5	27.0	42.7	52.1
Reported net profit growth	46.0	69.0	27.0	31.2	43.1
Core net profit growth	53.1	71.0	14.8	31.2	43.1
Profitability ratios (%)					
EBITDA margin	10.1	11.7	11.8	12.8	13.2
EBIT margin	8.6	9.9	9.9	11.0	11.6
Pretax profit margin	7.1	8.4	9.5	10.5	11.0
Payout ratio	16.4	21.2	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	6.0	7.7	8.8	8.9	8.8
Revenue/Assets (x)	0.9	1.2	1.1	1.1	1.3
Assets/Equity (x)	2.0	1.8	1.5	1.7	1.9
ROAE (%)	15.6	17.2	16.8	17.8	23.0
ROAA (%)	7.0	9.9	10.3	11.2	12.7
Liquidity & Efficiency					
Cash conversion cycle	139.8	119.7	116.0	108.7	103.2
Days receivable outstanding	93.4	83.0	93.3	87.3	83.0
Days inventory outstanding	113.5	100.3	82.6	77.3	73.3
Days payables outstanding	67.1	63.6	59.8	56.0	53.1
Dividend cover (x)	6.1	4.7	2.0	2.0	2.0
Current ratio (x)	1.8	1.9	2.4	2.0	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.2	3.0	2.5	2.1
Net gearing (%) (incl perps)	18.9	19.4	0.6	19.2	33.3
Net gearing (%) (excl. perps)	18.9	19.4	0.6	19.2	33.3
Net interest cover (x)	8.7	14.3	23.6	25.3	21.1
Debt/EBITDA (x)	3.1	1.7	1.0	1.3	1.6
Capex/revenue (%)	9.1	8.3	9.1	8.2	1.5
Net debt/ (net cash)	38.0	44.9	2.0	70.0	136.0

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 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
fionallim@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
ongsenyeow@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

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas Services

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) 2 8849 8848
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
• Utilities

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

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 • Internet • Construction

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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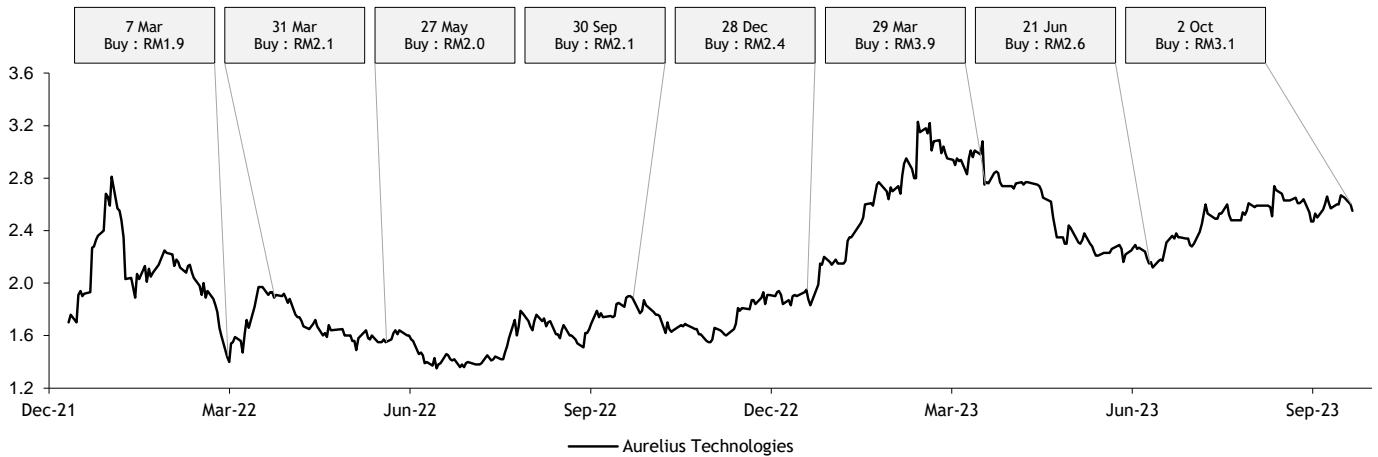
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Malaysia

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

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