

Top Glove (TOPG MK)

Challenging... but remains hopeful

Core losses lower than expected; U/G to HOLD

TOPG's 4QFY23 core net loss of MYR89m (from MYR116m/91m net loss in 3QFY23/4QFY22) was lower than expected. FY23 plant utilisation rate remained low at <25% (95b pcs total capacity), while blended ASP declined by -5% QoQ. We raise FY24-25 loss projections and introduce FY26 forecast, expecting a turnaround in FY26. Our new TP is MYR0.77 (-3sen) on an unchanged 1.1x FY24E PBV (-1SD to mean). U/G to HOLD as risk-reward has become more balanced post kitchen sinking exercises.

Lower losses resulting from cost cutting measures

Excluding MYR374m -ve one-offs (including MYR389m asset impairment), TOPG's 4QFY23 core net loss was MYR89m, leading to a cumulative core net loss of MYR494m for FY23 (versus MYR165m core net profit in FY22); the latter at 84%/95% of MIBG/consensus FY23 net loss forecasts of MYR586m/521m. We attribute the better set of 4QFY23 results to lower-than-expected operating costs. Including MYR1.2b perpetual sukuk, TOPG's net gearing was unchanged at 0.13x in end-Aug 2023.

Key takeaways from results concall

1) Core EBITDA has returned to the black in 4QFY23 thanks to ongoing cost-optimization initiatives including manpower restructuring and temporary ceasing of operations at some factories as well as lower raw material and natural gas costs, 2) TOPG expects sales volume to pick up as customers' inventories are near depletion, and 3) despite the prevalent excess capacity issue in the industry, TOPG remains confident that ASP will likely trend up in the coming quarters on restocking activities and higher raw material costs (e.g. nitrile latex).

Earnings adjustments

We expect losses to continue into FY24 (+3%) and FY25 (MYR64m revised net loss projection, from MYR98m net profit) and TOPG to only turnaround in FY26. This is after factoring in: i) actual FY23 results, ii) lower plant utilisation rate of 35%/45%, from 40%/54% for FY24/25E, and iii) MYR4.50/USD exchange rate, from MYR4.20/USD. Our preferred picks for the sector are Kossan (KRI MK; CP: MYR1.34; TP: MYR1.47; HOLD) and Hartalega (HART MK; CP: MYR2.07; TP: MYR2.12; HOLD) given their stronger balance sheet, backed by net cash of 77sen/sh and 52sen/sh, respectively.

FYE Aug (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	5,572	2,257	3,882	4,733	5,608
EBITDA	630	(120)	30	304	562
Core net profit	165	(494)	(267)	(64)	127
Core EPS (sen)	2.0	(6.2)	(3.3)	(0.8)	1.6
Core EPS growth (%)	(98.0)	nm	nm	nm	nm
Net DPS (sen)	1.2	0.0	0.0	0.0	0.8
Core P/E (x)	40.1	nm	nm	nm	47.7
P/BV (x)	1.0	1.0	1.1	1.1	1.1
Net dividend yield (%)	1.5	0.0	0.0	0.0	1.1
ROAE (%)	3.9	(18.0)	(5.8)	(1.5)	2.9
ROAA (%)	1.8	(6.5)	(3.8)	(0.9)	1.8
EV/EBITDA (x)	9.7	nm	nm	19.4	10.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1	180	na
MIBG vs. Consensus (%)	-	-	(25,720.6)	(135.7)	na

Wong Wei Sum, CFA

weisum@maybank-ib.com

(603) 2297 8679

HOLD

[Prior:SELL]

Share Price MYR 0.76
12m Price Target MYR 0.77 (+3%)
Previous Price Target MYR 0.80

Company Description

Top Glove is the world's biggest glove manufacturer with a balanced product mix in latex/nitrile examination gloves and non-examination gloves.

Statistics

52w high/low (MYR)	1.22/0.63
3m avg turnover (USDm)	7.0
Free float (%)	61.4
Issued shares (m)	8,208
Market capitalisation	MYR6.2B USD1.3B

Major shareholders:

LIM WEE CHAI	27.2%
Firstway United Corp.	6.8%
Bank of Singapore Ltd.	2.7%

Price Performance



— Top Glove - (LHS, MYR) — Top Glove / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(11)	12
Relative to index (%)	(1)	(13)	12

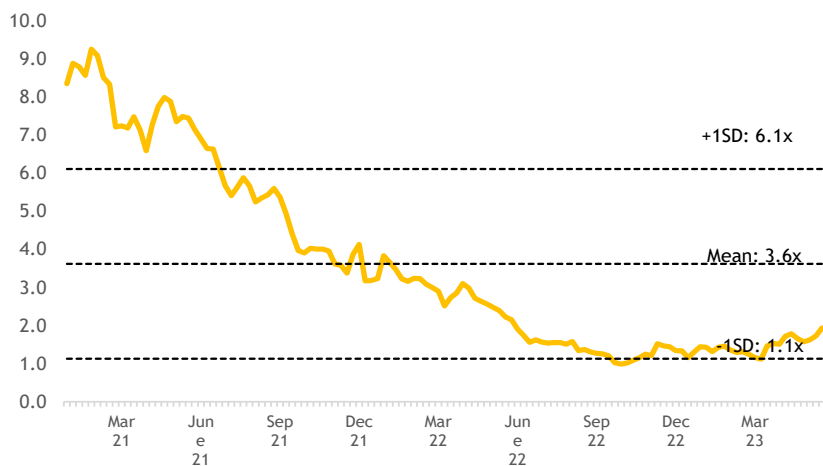
Source: FactSet

Fig 1: Top Glove's quarterly results

FY Aug (MYR m)	Quarterly					Cumulative		
	4QFY23	4QFY22	% YoY	3QFY23	% QoQ	FY23	FY22	%YoY
Turnover	475.9	989.9	-51.9	530.6	-10.3	2,257.0	5,572.3	-59.5
EBITDA	-9.1	7.9	>-100	-47.6	80.8	-141.5	679.3	>-100
Depreciation	-77.7	-89.7	13.4	-88.8	12.5	-343.0	-348.2	1.5
EBIT	-86.8	-81.8	-6.1	-136.4	36.3	-484.5	331.2	>-100
Net interest expense	-1.1	4.0	>-100	0.6	>-100	3.4	19.8	-82.7
Associates	0.0	-1.4	NA	-2.7	NA	-3.1	-3.7	15.4
Pretax profit	-461.9	-51.1	>-100	-138.5	>-100	-898.0	358.4	>-100
Tax	7.9	-1.3	>+100	18.2	-56.7	11.0	-76.8	>+100
Minority interest	2.6	1.1	>+100	1.5	73.2	6.9	-5.9	>+100
Perpetual Sukuk	-11.7	-11.7	0.0	-11.7	0.0	-46.6	-50.2	7.1
PATMI	-463.1	-63.0	>-100	-130.6	>-100	-926.6	225.6	>-100
Core PATMI	-89.2	-91.1	2.1	-115.6	22.9	-493.7	164.7	>-100
			+/- ppt		+/- ppt			+/- ppt
EBITDA margin (%)	-1.9	0.8	-2.7	-9.0	7.1	-6.3	12.2	-18.5
Core PATMI margin (%)	-18.7	-9.2	-9.5	-21.8	3.0	-21.9	3.0	-24.8
Tax rate (%)	1.7	-2.6	4.3	13.1	-11.4	1.2	21.4	-20.2

Source: Company

Fig 2: Top Glove's 1-year forward PBV (2021-2023)



Source: Bloomberg, Company data, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for TOPG. Abrupt changes in the momentum of input costs (i.e. latex, NBR) and intense competition may lead to lower earnings for TOPG. Additionally, sharp appreciation of MYR against USD will also negatively affect its earnings, for almost the entire group revenue is derived in USD.

FYE 31 Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	70.6	nm	nm	nm	47.7
Core P/E (x)	40.1	nm	nm	nm	47.7
P/BV (x)	1.0	1.0	1.1	1.1	1.1
P/NTA (x)	1.1	1.2	1.3	1.3	1.3
Net dividend yield (%)	1.5	0.0	0.0	0.0	1.1
FCF yield (%)	nm	nm	nm	2.5	5.8
EV/EBITDA (x)	9.7	nm	nm	19.4	10.1
EV/EBIT (x)	21.7	nm	nm	nm	23.6
INCOME STATEMENT (MYR m)					
Revenue	5,572.3	2,257.0	3,881.7	4,732.8	5,607.6
EBITDA	629.8	(119.6)	29.6	304.1	561.9
Depreciation	(348.4)	(343.0)	(310.3)	(316.1)	(321.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	281.4	(462.7)	(280.7)	(12.0)	239.9
Net interest income / (exp)	19.9	3.4	(6.7)	(6.5)	(6.3)
Associates & JV	(3.7)	(5.8)	(5.8)	(5.8)	(5.8)
Exceptionals	60.8	(433.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	358.4	(898.0)	(293.2)	(24.2)	227.9
Income tax	(76.8)	11.0	70.4	5.8	(54.7)
Minorities	(5.9)	6.9	2.1	0.6	0.2
Perpetual securities	(50.2)	(46.6)	(46.6)	(46.6)	(46.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	225.6	(926.6)	(267.3)	(64.4)	126.8
Core net profit	164.7	(493.7)	(267.3)	(64.4)	126.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	950.9	944.6	776.1	867.5	1,096.3
Accounts receivable	258.8	196.3	180.3	219.8	260.4
Inventory	575.3	300.2	400.7	488.6	578.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,522.2	3,931.7	3,721.4	3,505.2	3,283.3
Intangible assets	1,005.3	864.5	864.5	864.5	864.5
Investment in Associates & JVs	9.4	3.6	3.6	3.6	3.6
Other assets	794.9	840.1	1,041.3	1,044.5	1,043.7
Total assets	8,116.7	7,080.8	6,987.8	6,993.6	7,130.7
ST interest bearing debt	306.1	540.4	676.1	676.1	676.1
Accounts payable	459.4	283.7	320.0	390.2	462.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	93.0	14.1	14.1	14.1	14.1
Other liabilities	465.0	324.0	328.0	329.0	332.0
Total Liabilities	1,323.5	1,162.1	1,338.5	1,409.3	1,484.5
Shareholders Equity	5,579.2	4,707.2	4,439.8	4,375.4	4,437.5
Minority Interest	38.3	35.9	33.8	33.2	33.0
Total shareholder equity	5,617.5	4,743.0	4,473.6	4,408.6	4,470.5
Perpetual securities	1,175.7	1,175.7	1,175.7	1,175.7	1,175.7
Total liabilities and equity	8,116.7	7,080.8	6,987.8	6,993.6	7,130.7
CASH FLOW (MYR m)					
Pretax profit	358.4	(898.0)	(293.2)	(24.2)	227.9
Depreciation & amortisation	348.4	343.0	310.3	316.1	321.9
Adj net interest (income)/exp	(723.5)	185.3	6.7	6.5	6.3
Change in working capital	90.5	71.0	(109.2)	(56.2)	(56.8)
Cash taxes paid	0.0	0.0	70.4	5.8	(54.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	178.8	131.1	(9.3)	253.7	450.3
Capex	(954.3)	(297.0)	(100.0)	(100.0)	(100.0)
Free cash flow	(775.5)	(165.9)	(109.3)	153.7	350.3
Dividends paid	(547.3)	0.0	0.0	0.0	(64.6)
Equity raised / (purchased)	0.5	0.8	0.0	0.0	0.0
Perpetual securities	(169.8)	(46.6)	(46.6)	(46.6)	(46.6)
Change in Debt	(18.9)	141.5	0.0	0.0	0.0
Other invest/financing cash flow	26.3	22.7	(14.4)	(15.7)	(10.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(428.2)	(158.2)	(170.3)	91.4	228.9

FYE 31 Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(65.9)	(59.5)	72.0	21.9	18.5
EBITDA growth	(94.0)	nm	nm	926.8	84.7
EBIT growth	(97.2)	nm	nm	nm	nm
Pretax growth	(96.4)	nm	nm	nm	nm
Reported net profit growth	(97.1)	nm	nm	nm	nm
Core net profit growth	(97.9)	nm	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	11.3	nm	0.8	6.4	10.0
EBIT margin	5.1	nm	nm	nm	4.3
Pretax profit margin	6.4	nm	nm	nm	4.1
Payout ratio	43.7	0.0	0.0	0.0	51.0
DuPont analysis					
Net profit margin (%)	4.0	nm	nm	nm	2.3
Revenue/Assets (x)	0.7	0.3	0.6	0.7	0.8
Assets/Equity (x)	1.5	1.5	1.6	1.6	1.6
ROAE (%)	3.9	(18.0)	(5.8)	(1.5)	2.9
ROAA (%)	1.8	(6.5)	(3.8)	(0.9)	1.8
Liquidity & Efficiency					
Cash conversion cycle	56.0	43.6	22.1	22.6	23.2
Days receivable outstanding	30.5	36.3	17.5	15.2	15.4
Days inventory outstanding	68.7	48.4	33.2	36.6	38.6
Days payables outstanding	43.2	41.1	28.6	29.3	30.8
Dividend cover (x)	2.3	nm	nm	nm	2.0
Current ratio (x)	2.1	1.8	1.6	1.7	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	6.1	6.1	5.2	5.0	4.8
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)	na	135.3	na	na	38.4
Debt/EBITDA (x)	0.6	nm	nm	2.3	1.2
Capex/revenue (%)	17.1	13.2	2.6	2.1	1.8
Net debt/ (net cash)	(551.8)	(390.1)	(85.8)	(177.2)	(406.1)

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.thuhuong@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, CFA
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
• Equity Strategy
• 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 • Automotive • Technology (EMS)

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

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

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
• 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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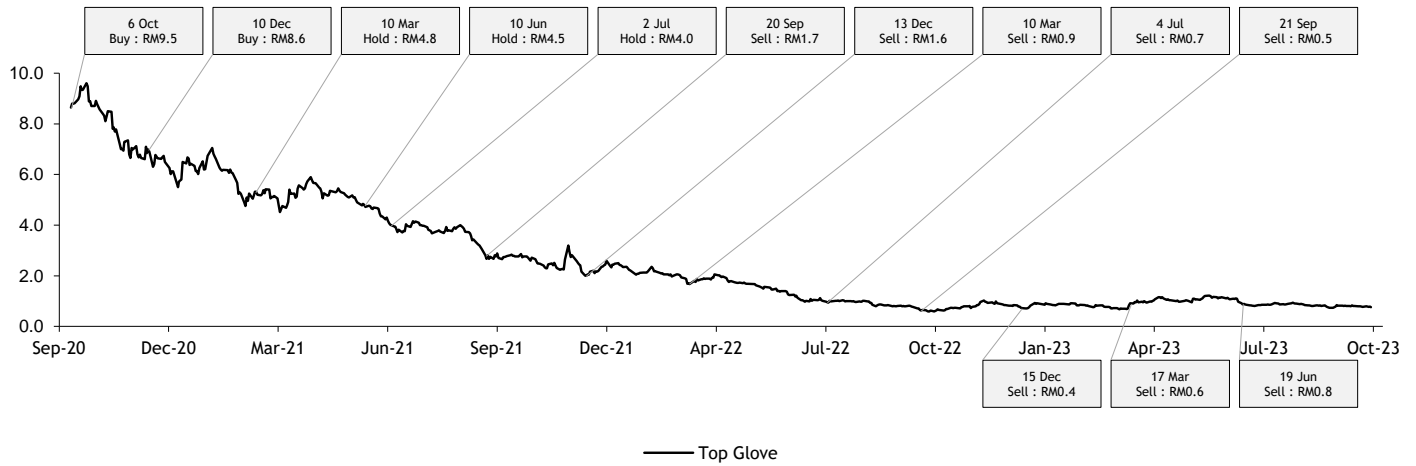
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Malaysia

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
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