

Vietnam Retail

On the mend

POSITIVE

[Unchanged]

Maintain POSITIVE view; focus on retail leaders

Easing macro headwinds (i.e. interest rate cuts) and the government's growing steps to boost economic growth should increase disposable income and improve confidence, leading to a clearer recovery in domestic consumption in 2024. We maintain a POSITIVE view on the sector, underpinned by the rising consumerism cycle over the next decade and substantial room for modern retailers to consolidate market share. Our Top Picks are the leaders in each sub-segment, including: MWG and PNJ. We also see Digiworld (DGW VN, CP VND58,500, not rated) as an interesting idea among small caps. Investors should also look at FPT Retail (FRT VN, CP VND95,100, not rated), which is emerging as a leading pharmaceutical retailer in Vietnam.

Bottoming out

On top of more positive economic growth expectations for 4Q23 onwards, we see early signs of consumer sentiment improving in 2Q23, based on Kantar's survey (Fig 5). In Sep'23, we note retail sales picked up 7.5% YoY and 1.9% MoM, the strongest growth in five months. On the corporate side, MWG, PNJ and DGW showed green shoots of recovery in late 2Q23 and we expect this momentum to continue. This suggests the worst for the retail sector could have occurred in 2Q23, and it may be on the mend. FY24E earnings of listed retailers and wholesalers expect to surge by 62% YoY, driven by sector leader MWG (+255% YoY). Consumption recovery should help sales and profit margins improve in FY24.

Long-term prospects unchanged

Easing macro headwinds bode well for consumption recovery in FY24E onwards. Over the next decade, we believe Vietnam's consumerism will remain in a strong growth cycle, underpinned by: 1) positive economic prospects supporting rising incomes; and 2) favourable demographics as it has a large and young population, and an expanding middle-affluent consumer group. Given the fragmented retail landscape, entrenched players will lead the transition from traditional to modern trade, especially in grocery, which is the largest category in Vietnam's retail sales and also the most under-penetrated by modern trade. Other potential growth segments include pharmacy and jewellery.

Recovery expectations drove up stock prices; leaders still have long-term upside potential

The ICT/CE segment was hardest hit and the impact on retailers' bottom-lines was even worse than expected, due to an aggressive price war. Still, ICT/CE-related stocks rebounded strongly with YTD returns of 13-67%, beating the VN-Index (+12%). This was mostly due to retail investors, who dominate with >80% of market liquidity, excitedly building up expectations for a 2H23 recovery. Based on FY23E earnings, most ICT/CE-related stocks are trading at high P/E levels, i.e. close to or exceeding the 3-year highs. But looking forward to FY24, we see more reasonable valuations at 3-year means, such as MWG. For other segments, PNJ is still undemanding and offers the best risk-reward ratio among retail stocks.

Analyst

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com

Abbreviations explained:

ICT: Information and communication technologies
CE: Consumer electronics
TGDD/DMX: The Gioi Di Dong/ Dien May Xanh - the two chains selling ICT/CE products of MWG
BHX: Bach Hoa Xanh - the grocery chain of MWG
GPM: Gross profit margin

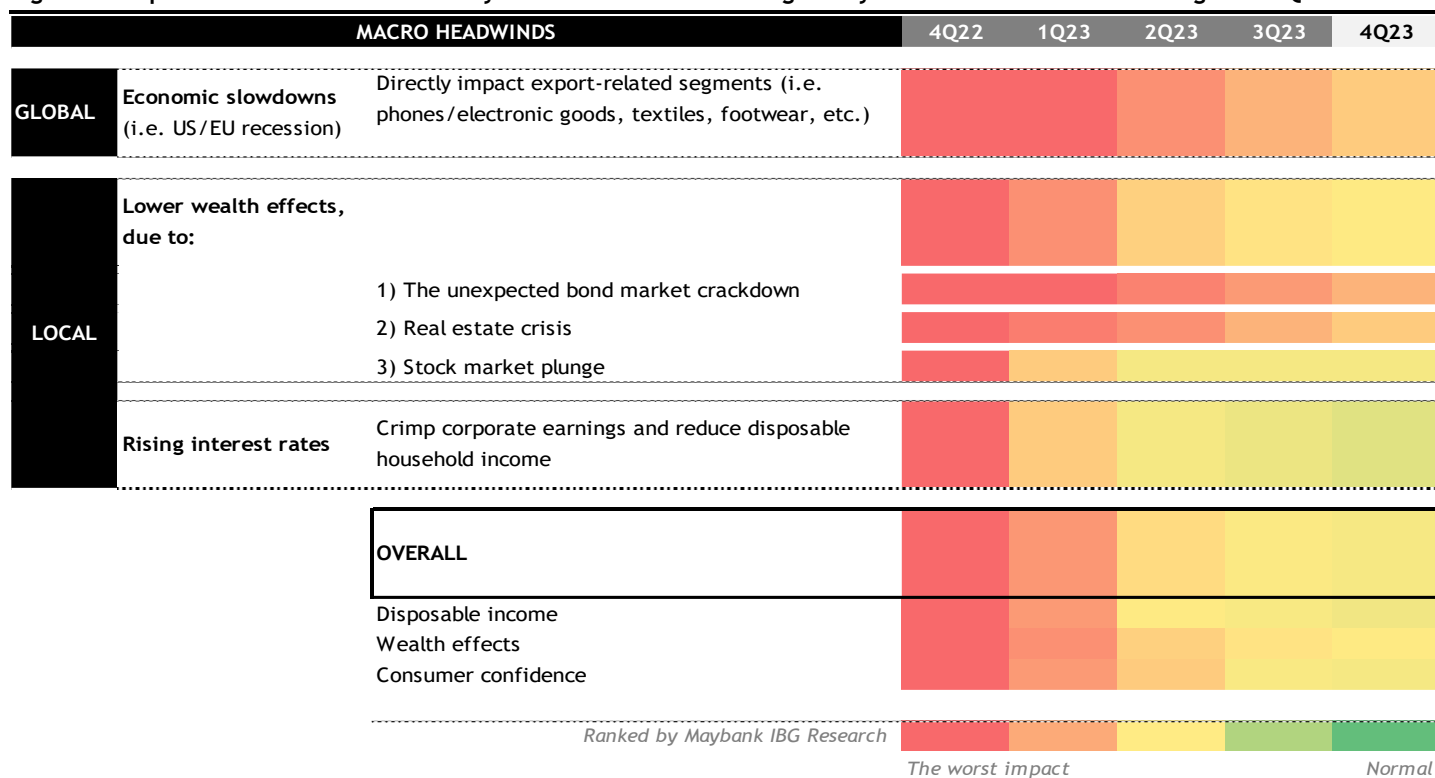
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
Mobile World	MWG VN	2,930	Buy	48,850	58,155	21	76.4	21.9	2.7	2.9	2.0	3.1
Phu Nhuan Jewel	PNJ VN	1,090	Buy	79,500	98,000	23	13.9	11.5	2.8	2.4	2.5	2.5

1. Bottoming out

As expected, macro headwinds have started to ease thanks to the government's quick policy pivot and actions to save the economy from falling into a long cyclical downturn, such as interest rate cuts, VAT rate reduction of 2% and solutions to support the real estate and export-related sectors, etc.

Below is our heat map to visualize the easing of key macro headwinds that emerged in 4Q22 and hurt the economy as well as consumption since then.

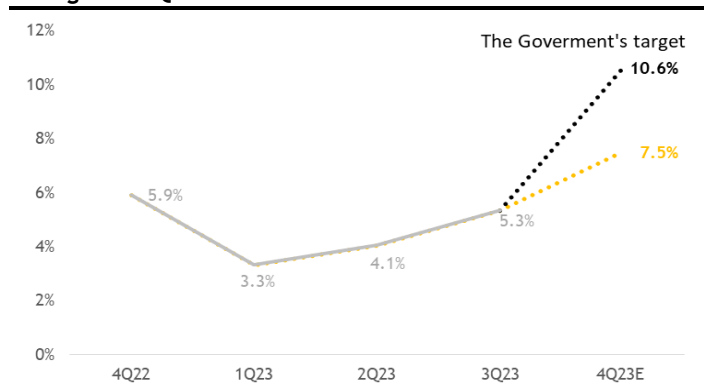
Fig 1: We expect the worst of the economy is behind thanks to easing of key macro headwinds that emerged in 4Q22



Source: Maybank IBG Research

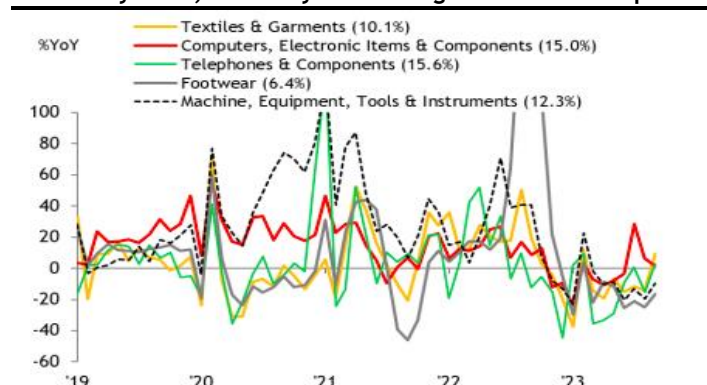
The government is prioritising boosting economic growth after the disappointing 9M23 GDP growth of just 4.2% vs the 2023 target of 6.5%. Accelerating public investment, coupled with a pick-up in exports in Sep'23, could mean higher GDP growth in 4Q23.

Fig 2: GDP picked up since 2Q23 and expect to accelerate stronger in 4Q23E



Source: GSO, CEIC, Maybank IBG Research

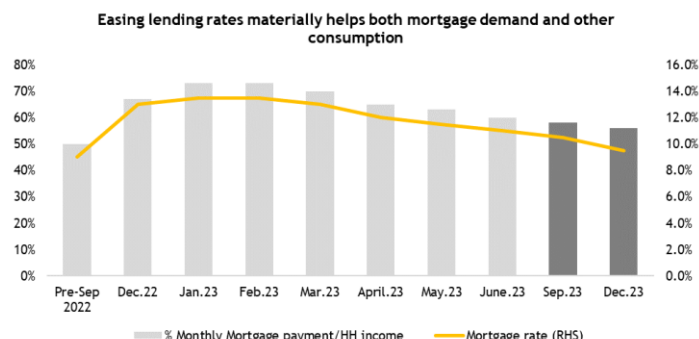
Fig 3: Exports rebounded notably in Sep'23, first expansion since early 2023, driven by textiles & garments and telephones



Source: CEIC (Numbers in brackets refer to the share of total exports in 2022)

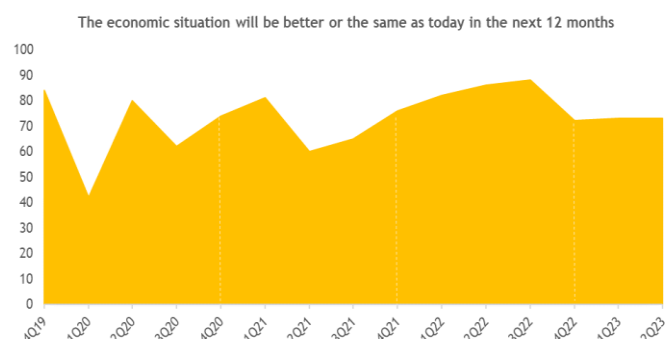
These developments should help strengthen disposable income and consumer confidence, leading to recovery in overall consumption from 4Q23 onwards, in our view.

Fig 4: Easing of lending rates materially increases households' disposable income



Source: Maybank IBG Research

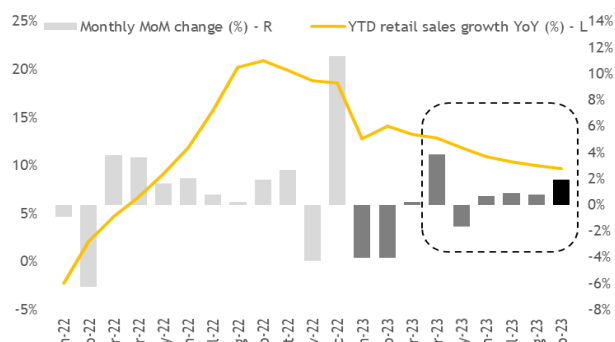
Fig 5: Consumer sentiment in 2Q23 slightly improved, according to Kantar's survey, due to easing macro headwinds



Source: Kantar's survey, Maybank IBG Research

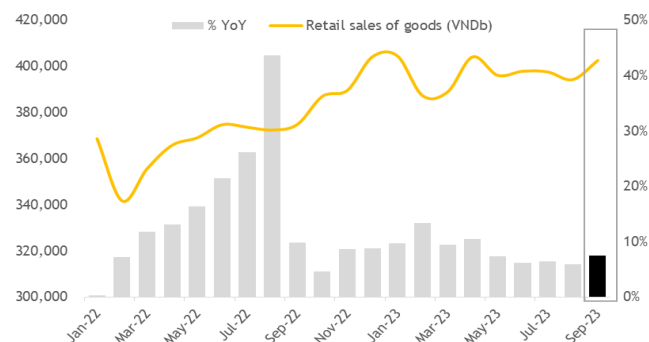
In Sep'23, we started to see some pick-up in growth in total retail sales and retail sales of goods, the strongest growth in the past 5 months. This suggests the worst could be behind us in 2Q23 and recovery is ahead.

Fig 6: Sep'23 retail sales showed better MoM improvement



Source: GSO, CEIC, Maybank IBG Research

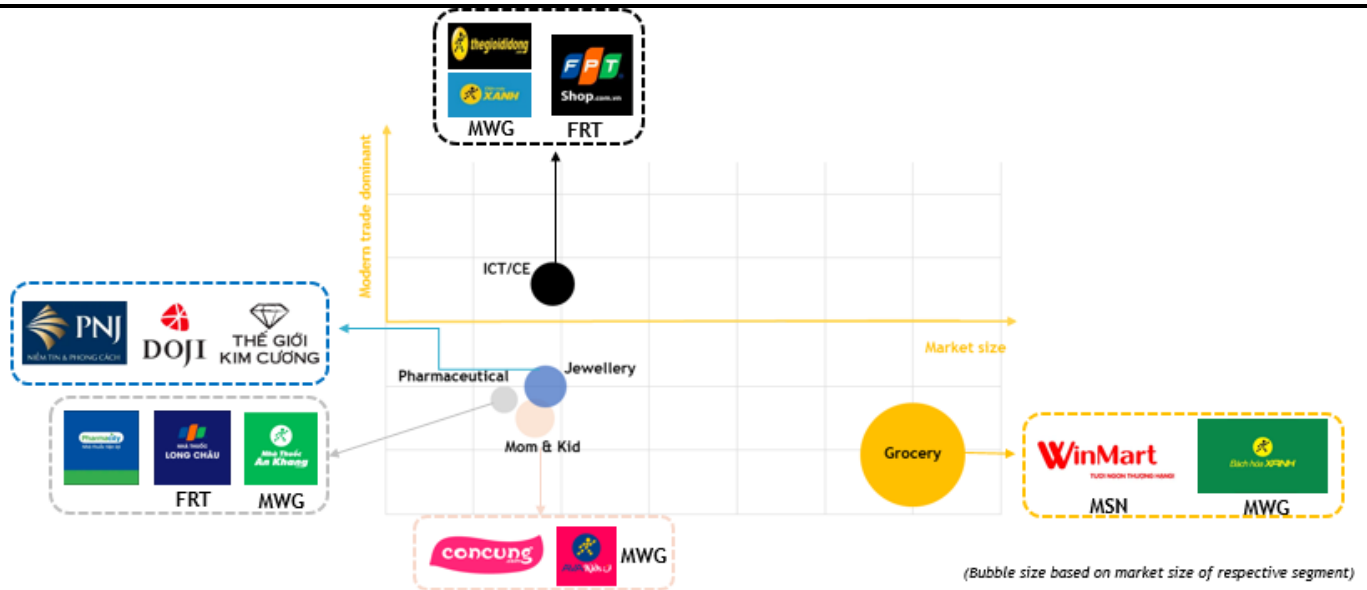
Fig 7: YoY growth of retail sales of goods picked up in Sep'23



Source: Company, Maybank IBG Research

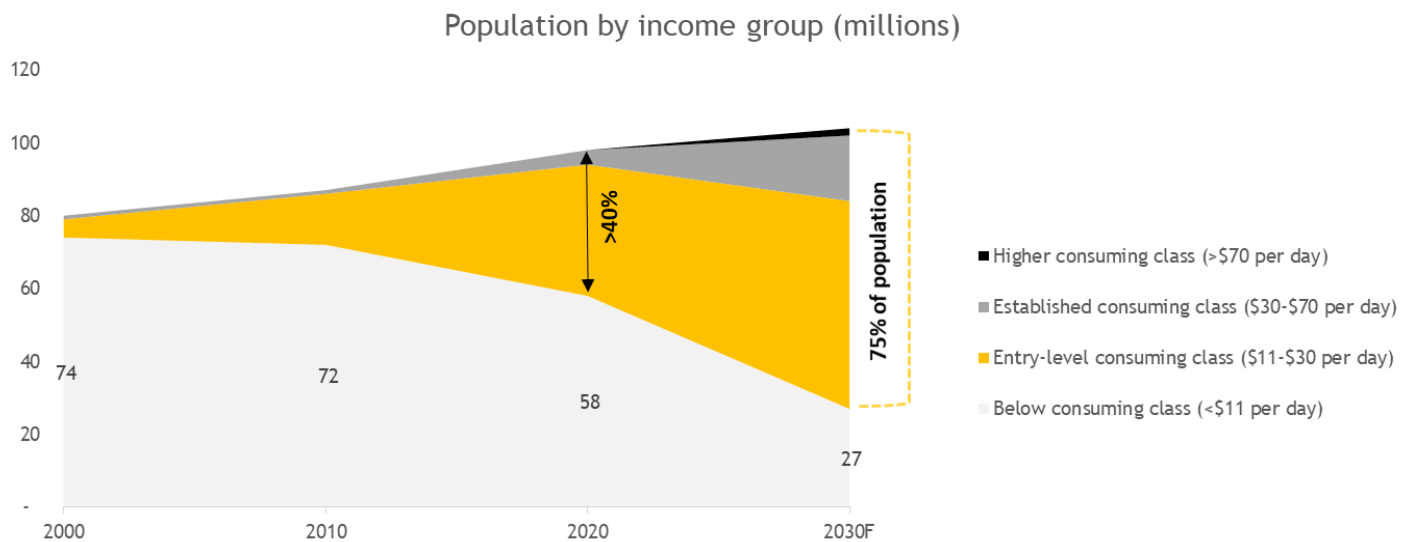
The easing of macro headwinds bodes well for consumption recovery in FY24E onwards. Over the next decade, we believe Vietnam's consumerism will remain in a strong growth cycle, mainly underpinned by: 1) positive economic prospects supporting rising incomes; and 2) favourable demographics as it has a large and young population and an expanding middle-affluent consumer group. Given the fragmented retail landscape, the top players will lead the transition from traditional to modern trade, especially in grocery, which is the largest category in Vietnam's retail sales but also the most under-penetrated in terms of modern trade. Other potential growth segments are pharmacy and jewellery.

Fig 8: Expansion of modern trade is key long-term growth driver



Source: Maybank IBG Research collects and estimates

Fig 9: The consumer base has grown rapidly and expect 75% of Vietnam's population will join the consumer class by 2030



Source: Mc Kinsey Global Institute analysis, Maybank IBG Research

2. FY24E valuations look more reasonable on strong earnings recovery outlook

2.1 Recovery expectations drive stock prices up

In our late 2022 sector report we theorised the worst impact expected in FY23 had likely been priced in, and we thus recommended accumulating retail stocks in 1H23 for value-investing. Although we had expected demand to weaken, we underestimated the impact of the squeeze in profit margins on ICT/CE retailer as the price war was much more aggressive than we had anticipated.

Still, the ICT/CE-related stocks have since rebounded strongly, with YTD returns of +13-67%, beating the benchmark VN-Index (+12%) with small-cap/high-beta stocks the leaders. This was mostly due to retail investors (who dominate with >80% of total market liquidity) excitedly building up expectations of a 2H23 recovery, based on: 1) early signs of easing of macro headwinds; 2) green shoots of recovery in MWG (the sector leader); and 3) year-end high season for laptops/mobile phone sales, backed by back-to-school spending and the new iPhone launch, etc.

Meanwhile, large caps like PNJ (with more solid operating performance) and MSN (its business was less impacted) still underperformed sector peers, due to: 1) foreign outflow pressure; and 2) retail investors' lack of interest in large caps.

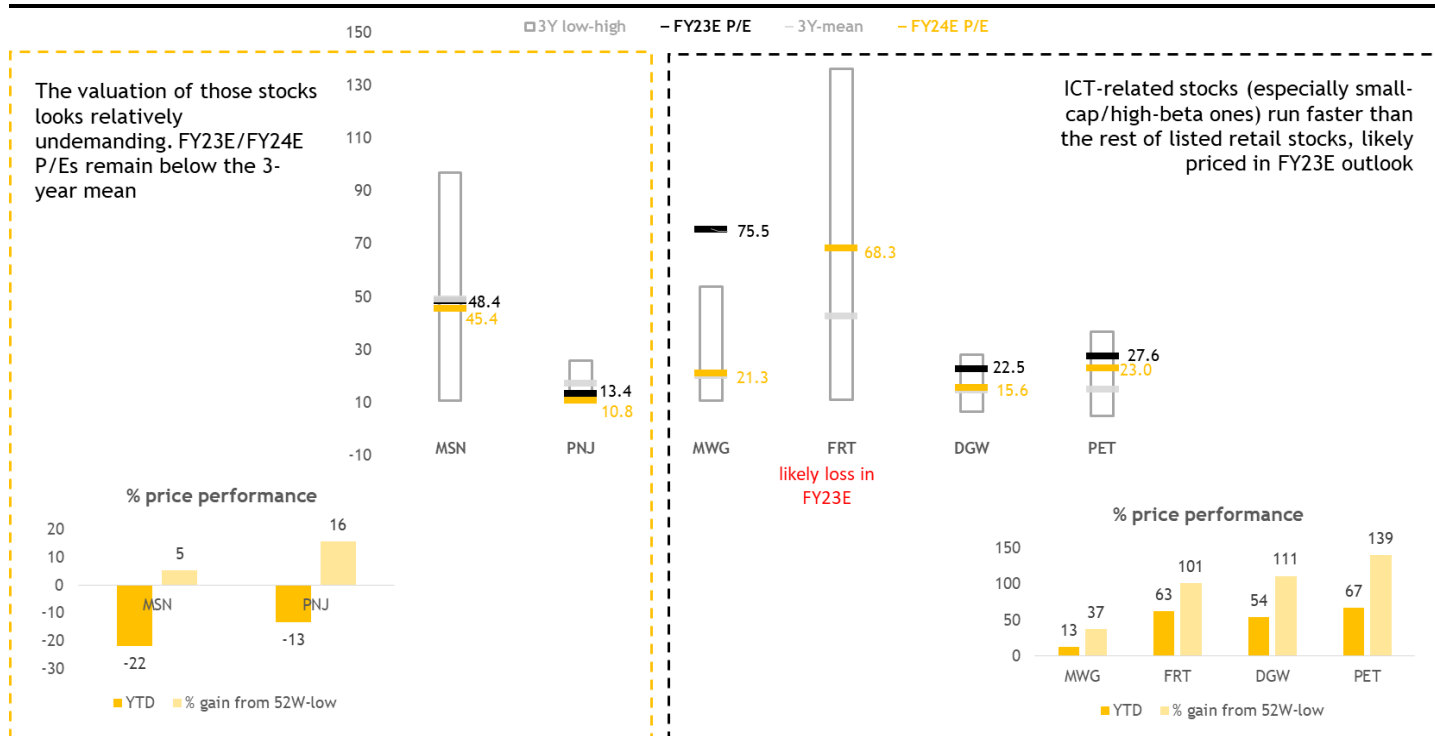
Fig 10: Share price performance of listed retailers & wholesalers vs the VN-Index

Price performance (%)	MSN	MWG	PNJ	FRT	DGW	PET	VN-Index
<i>Beta (x)</i>	1.1	1.3	0.9	1.4	1.6	1.8	
<i>Market cap (USDm)</i>	4,265	2,897	1,049	545	397	113	
1Y	(16.1)	(16.7)	1.2	67.4	(1.0)	2.9	5.0
YTD	(21.8)	12.6	(13.2)	62.5	53.6	66.8	12.1
6M	(5.6)	23.5	1.6	75.2	83.5	30.1	5.4
3M	(4.3)	11.8	7.4	30.9	34.9	(0.1)	0.2
1M	(12.1)	(12.2)	(3.8)	15.0	(3.2)	(12.2)	(9.4)
% drop from 52W-high	(33.9)	(22.5)	(18.0)	(1.5)	(17.6)	(20.4)	(10.1)
% gain from 52W-low	5.2	37.0	15.6	101.3	110.9	139.4	29.2
% drop from the recent peak	(49.8)	(38.1)	(18.4)	(2.8)	(33.2)	(59.3)	(26.5)

Source: Company, Bloomberg, Maybank IBG Research (Data updated as of Oct 6, 2023)

Based on FY23E earnings outlook, most ICT/CE-related stocks are trading at high P/E levels, i.e. close to or exceeding 3-year highs. But looking to FY24E earnings, we see more reasonable valuations on par with 3-year means.

Fig 11: Share price performance and P/E's of listed retailers



Source: Company, Bloomberg, Maybank IBG Research (Data updated as of Oct 6, 2023 - PNJ/MWG: our forecasts, others: Bloomberg's consensus forecasts)

FY24E earnings of listed retailers and wholesalers expect to surge by c.62% YoY, driven by sector leader MWG (+255% YoY).

As noted, we expect consumption to recover in FY24 and this should help to ease the current price war. Therefore, we expect profit margins of ICT/CE retailers to improve in FY24. MWG has been increasing its market share in the ICT/CE segment and recovering ahead of the overall market. Therefore, we believe the company will continue to lead the recovery in FY24. Additionally, MWG has its own support from improvement in its grocery business (BHX), which we expect will turn profitable in late-FY23.

With better economic growth, we think leading retailers will resume or accelerate store expansion to capture the long-term growth in demand, especially in segments with under-penetrated modern trade, such as grocery and pharmaceutical.

Fig 12: Bottom-line growth of listed retailers and wholesalers

NPAT-MI growth (YoY)	MSN	MWG	PNJ	FRT	DGW	PET	Sector, aggregated
2018	58%	31%	32%	20%	40%	-14%	43%
2019	13%	33%	24%	-39%	48%	8%	19%
2020	-78%	2%	-10%	-88%	62%	12%	-40%
2021	224%	25%	-4%	1695%	145%	93%	70%
2022	-11%	-16%	76%	-12%	4%	-49%	-5%
2023E	-40%	-77%	5%	(loss)	-37%	-26%	-48%
2024E	7%	255%	24%	n/a	44%	20%	62%

Source: Company, Bloomberg, Maybank IBG Research (Data updated as of Oct 6, 2023)

Note: PNJ, MWG are our forecasts while others are based on Bloomberg's consensus forecasts

2.2 Stock picks: focus on leaders in each sub-segment

We prefer leaders in their respective sub-segments with strong competitive advantages to lead the recovery in FY24 and the market growth in the long run. As a result, **MWG** and **PNJ** remain our Top Picks. Of which, **PNJ** currently offers the best risk-to-reward ratio. We also see **DGW** as an interesting proxy for small caps.

Risk to our call would be slower-than-expected recovery. If this happens, short-term reactions to weak 3Q23E results could mean better entry levels for long-term investors.

Investors should also monitor **FRT**, which has emerged as a leading pharmaceutical retailer in Vietnam.

Fig 13: Summary of potential key catalysts of listed retailers and wholesalers

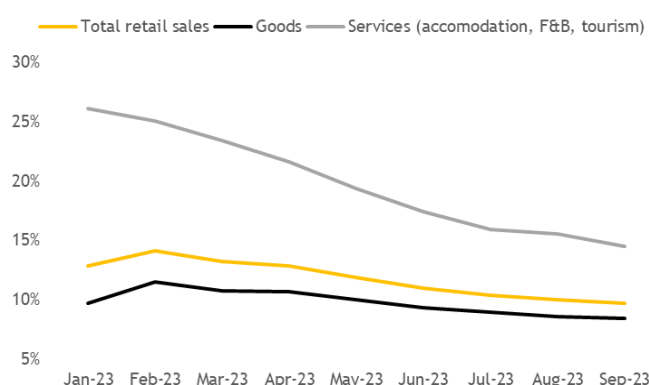
Company	Ticker	Marketcap (USDm)	FY24E P/E (x)	3Y-mean P/E (x)	Net gearing (%)	Segment exposure					Key potential catalysts		
						Grocery	ICT/CE	Jewellery	Mom & Kid	Pharmacy	Consumption recovery	Expanding market share	Deal-related
Retailers													
Masan Group	MSN	4,265	45.4	49.0	146.0	Winmart						On-going retail network expansion helps to capture the long-term transition from traditional to modern grocery chains	The potential IPO of the retail business (The Crown X) in 2025
Mobile World	MWG	2,897	21.3	20.1	6.1	BHX	TGDD/DMX		AVAKid	An Khang	X	Kept expanding market share in ICT/CE segment despite challenges. Additionally, BHX is also the leading minimart chain, and thus, beneficiary from the rising modern-trade penetration	Strategic sale of BHX (a maximum of 20% stake) could happen in 2024
Phu Nhuan Jewellery	PNJ	1,049	10.8	17.3	19.0	PNJ					X	Continuing to lead the conversion from unbranded to branded jewellery	
FPT Retail	FRT	545	68.3	42.6	170.7	FPT Shop				Long Chau	X	The pharmacy chain, Long Chau, expanded fast to capture demand shifting from traditonal stores	
Wholesalers													
Digiworld	DGW	397	15.6	14.8	46.6	some beverages SKUs	X				X		
Petrosetco	PET	113	23.0	15.0	37.9	X					X		

Source: Maybank IBG Research collects and estimates (Note: PNJ, MWG are our forecasts while others are based on Bloomberg's consensus forecasts)

3. Appendix: YTD sector performance review

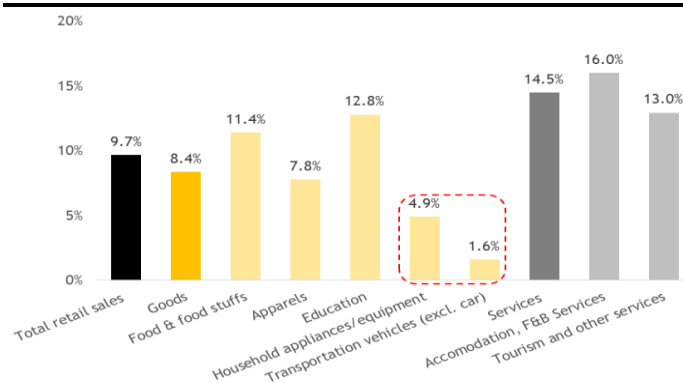
Rising macro headwinds (both global and domestic) hurt Vietnamese incomes, especially those in the export and real estate-related sectors), the wealth effect as well as consumer confidence since late 3Q22. However, 9M23 retail sales remained quite resilient with nominal and real growth of 9.7% and 7.3% YoY, respectively. Services (including accommodation, F&B and tourism) posted stronger growth of 14.5% YoY, backed by the ongoing recovery in tourism post-Covid. On the other hand, retail sales of goods (c.78% of total retail sales) grew by 8.4% YoY, of which, essential goods maintained solid growth while demand for discretionary segments was weaker, especially in segments that are already highly penetrated by consumers, such as ICT/CE, etc.

Fig 14: Retail sales continued to grow, but decelerated



Source: GSO, CEIC, Maybank IBG Research

Fig 15: 9M23 retail sales growth YoY by segment

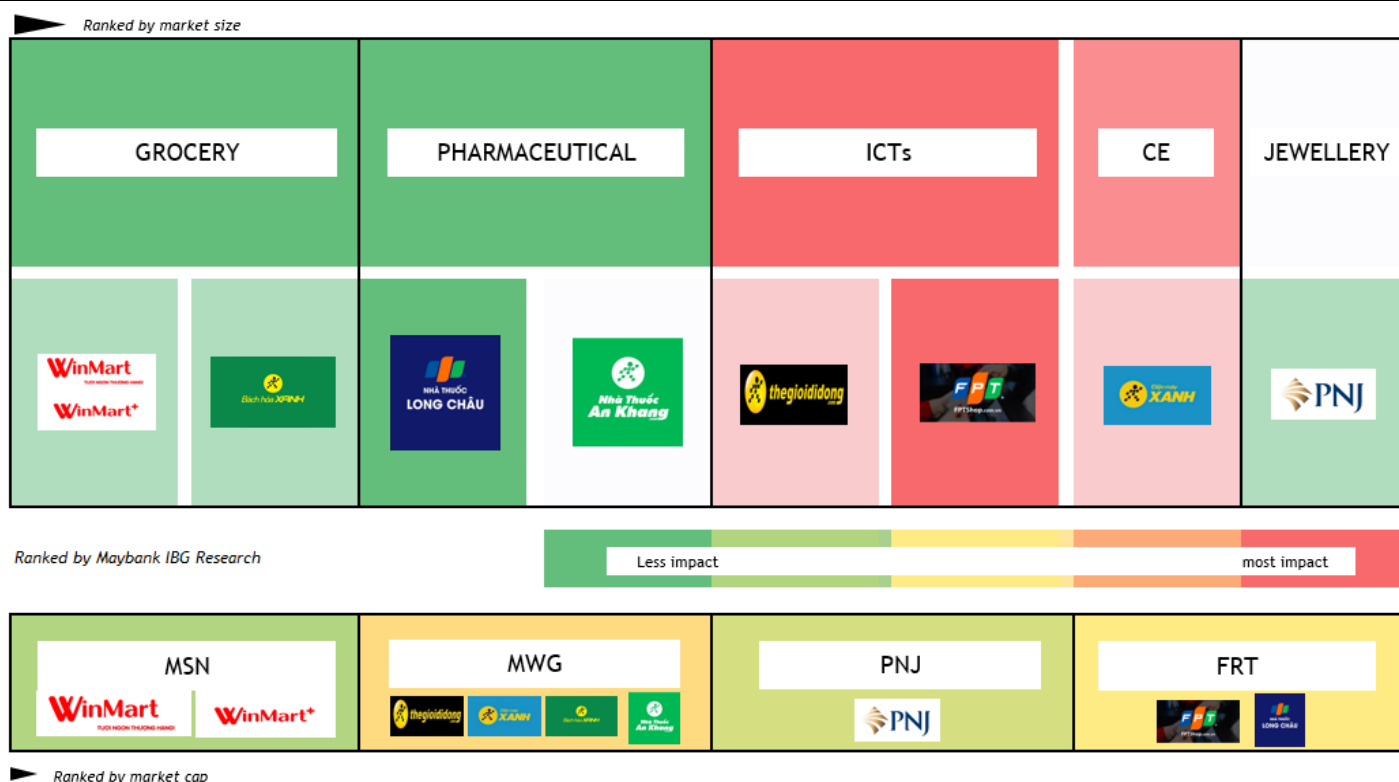


Source: GSO, Maybank IBG Research

For listed retailers, 1H23 performance was in line with our view since late 2022, as depicted in the heat map below (Fig16), particularly:

- The ICT/CE segment was hit the hardest. The impact on the bottom-line of retailers in this segment was even worse than we had expected, due to an aggressive price war among retailers amid weakening demand and high inventory since 4Q22. 2Q23 witnessed the worst earnings for MWG and FRT, the two largest ICT/CE retailers. Specifically, MWG reported 2Q23 net profit of only VND17b/USD0.07m (-99% YoY/-18% QoQ) while the No.2 player FRT suffered a significant loss of VND219b in 2Q23 (vs -VND5b in 1Q23). These results are the companies' worst since listing for both MWG and FRT.
- Grocery/pharmaceuticals fared quite well and the conversion from traditional to modern trade continued.
- PNJ delivered outstanding top and bottom-line performance among listed retailers. As mentioned in our previous reports, PNJ's target market is mid to high-end consumers who still have strong purchasing power. We believe PNJ will continue to leverage its competitive advantage to expand market share further as unbranded jewellery makes up more than 70% of Vietnam's market.

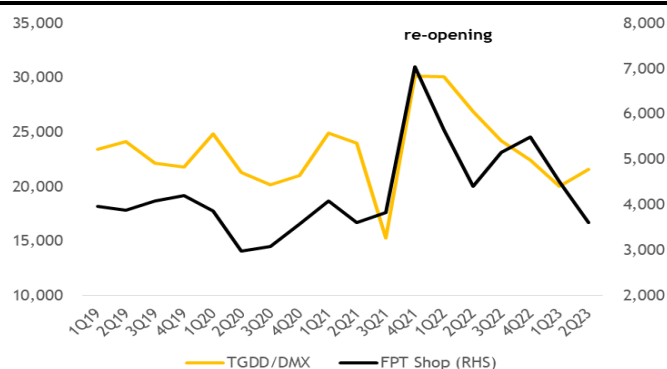
Fig 16: FY23E top-line impact ranked by sub-segment and company



Source: Maybank IBG Research (Updated as of Dec 30, 2022)

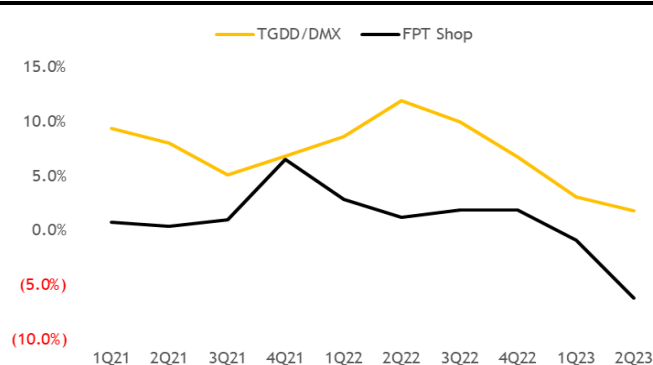
1. Sub-segment ranking: we consider 3 factors: i) type of goods, essentials or discretionary consumer goods; ii) penetration rate of Vietnamese consumers' spending package; and iii) consumerism trend.
2. For each retail chain, we factor in: i) target customer; and ii) competitive advantage as well as market position.
3. For each company, we incorporate all sub-segments in which they participate.

Fig 17: ICT/CE sales of the two largest retailers: MWG (via TGDD/DMX) and FRT (via FPT Shop)



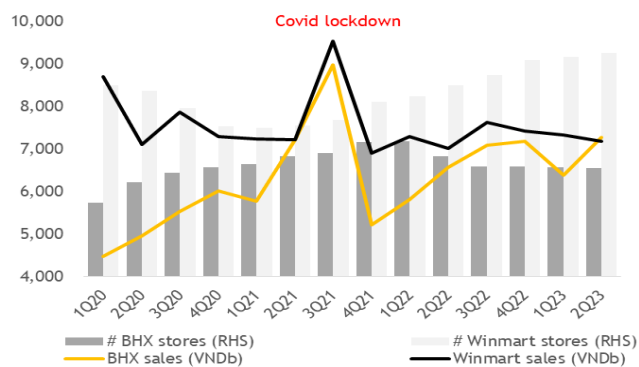
Source: Companies, Maybank IBG Research (Unit: VNDb)

Fig 18: EBIT margin of TGDD/DMX vs FPT Shop squeezed due to an aggressive price war amid weakening demand



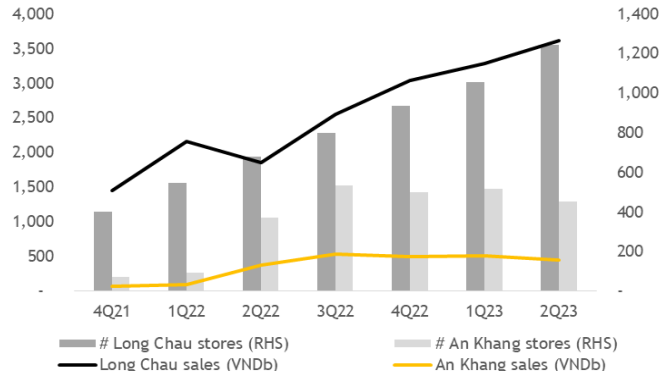
Source: Companies, Maybank IBG Research

Fig 19: Grocery sales of BHX and Winmart appeared less impacted by current macro headwinds



Source: Companies, Maybank IBG Research

Fig 20: Pharmacy chains, especially Long Chau performed well amid weakening demand



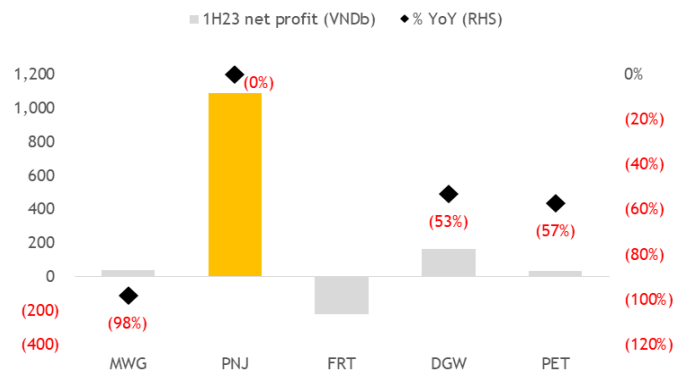
Source: Company, Maybank IBG Research

Fig 21: PNJ's retail sales remained at all-time high levels since the re-opening, and only cooled down in 2Q23 (the low season)



Source: Company, Maybank IBG Research

Fig 22: PNJ outperformed the sector in protecting profits in 1H23 amid macro challenges



Source: Companies, Maybank IBG Research

Research Offices

ECONOMICS

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

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

Dr Zamros DZULKAFLI
Indonesia | 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.thu@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, CFA
(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 • 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 • Technology • REITs
• Consumer Discretionary

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

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

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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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