Maybank Investment Bank

Shariah Compliant

Logistics

Malaysia

Westports Holdings (WPRTS MK)

Value has emerged

BUY *[Prior:HOLD]*

Share Price	MYR 3.24
12m Price Target	MYR 3.68 (+13%)
Previous Price Target	*MYR 3.68*

U/G to BUY

We maintain our earnings forecasts and DCF-TP of MYR3.68 (WACC: 8.7%, LTG: 2%) for Westports. However, we U/G the stock to BUY as we believe that value has emerged with a total upside of >10%, following its recent share price decline. Despite persistent challenges in global trade, we are confident on Westports' ability to navigate through them. Its mid to long term prospects remain supported by rising FDIs in Malaysia and continued intra-Asia trade growth potential.

3Q23 expectation

Westports' 2Q23 container throughput grew +8% YoY (1H23: +7%) and we expect this growth momentum to sustain into 3Q, to meet our +6% YoY for FY23E. Having said that, 3Q profitability could be weighed down by higher operating costs, including labour and fuel costs, the latter in-line with the surge in USD-based MOPS and unfavourable forex. Also, higher electricity cost (ICPT hike to 17sen/kWh from 3sen) will impact bottomline. Labour/fuel/electricity costs made up 34%/18%/7% of opex in 1H23.

Pulau Carey port will not cannibalize Westports

The 3rd port development in Port Klang i.e. in Pulau Carey, per Budget 2024 on 13 Oct, is a 30-year development. Catering for conventional cargo initially (Phase 1), Pulau Carey will support Port Klang's capacity alongside Westports 2.0 expansion. Pulau Carey Phase 2's 30m TEUs container capacity is only expected to commence in 2043, the earliest, after Westports 2.0 reaches full utilisation by late 2030s. This ensures synergy, rather than competition between the ports in Port Klang.

Optimistic on its resilience and strategic foresight

We are optimistic on Westports' outlook, supported by continued growth in intra-Asia trade, while rising FDIs in Malaysia will support its gateway volume growth. Westports' net gearing of 0.15x end-FY22 provides ample debt headroom and its strong free cash flow of MYR800+m p.a., we estimate, reduces the possibility of sizeable dilution in potential equity call to fund Westport 2.0 estimated to cost c.MYR1b initially in capex.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,978	2,055	2,170	2,216	2,261
EBITDA	1,287	1,188	1,291	1,328	1,350
Core net profit	737	673	785	824	815
Core EPS (sen)	21.6	19.8	23.0	24.2	23.9
Core EPS growth (%)	7.0	(8.6)	16.6	4.9	(1.0)
Net DPS (sen)	17.8	15.4	17.3	18.1	17.9
Core P/E (x)	18.7	19.2	14.1	13.4	13.5
P/BV (x)	4.4	4.0	3.2	3.0	2.8
Net dividend yield (%)	4.4	4.0	5.3	5.6	5.5
ROAE (%)	27.1	21.9	23.3	23.1	21.6
ROAA (%)	13.8	12.6	14.8	15.5	15.2
EV/EBITDA (x)	11.2	11.3	8.8	8.4	8.1
Net gearing (%) (incl perps)	18.0	14.9	9.1	3.7	net cash
Consensus net profit	-	-	715	767	810
MIBG vs. Consensus (%)	-	-	9.8	7.5	0.7

Loh Yan Jin
lohyanjin.loh@maybank-ib.com
(603) 2297 8687

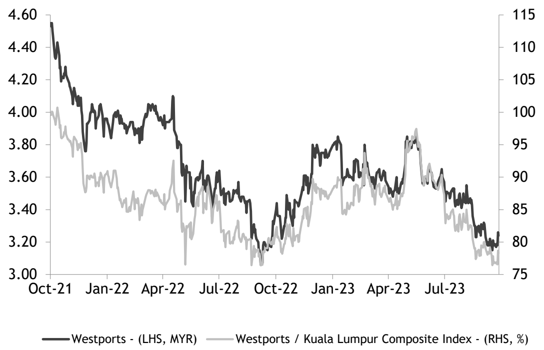
Company Description

Westports Holdings Bhd is a key transhipment port at Straits of Malacca and is also a key port in Malaysia serving the Klang Valley area.

Statistics

52w high/low (MYR)	3.85/3.15
3m avg turnover (USDm)	1.8
Free float (%)	21.1
Issued shares (m)	3,410
Market capitalisation	MYR11.0B
	USD2.3B
Major shareholders:	
Pembinaan Redzai Sdn. Bhd.	42.4%
South Port Investment Holdings Ltd.	23.5%
Employees Provident Fund	9.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(11)	(3)
Relative to index (%)	(0)	(13)	(3)

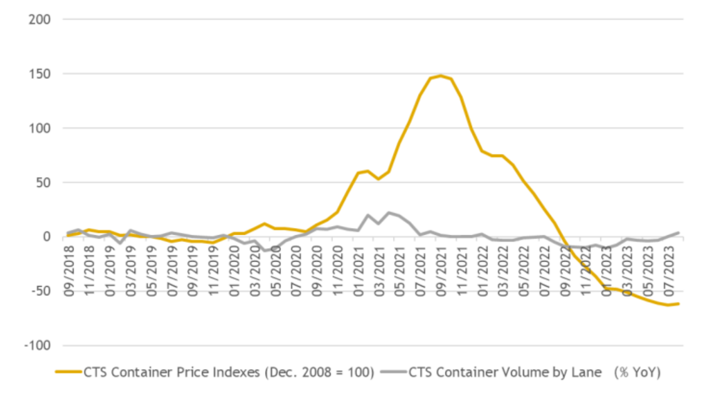
Source: FactSet

Global container outlook remains mixed

Global container volume experienced a notable uptick, rising by 3.7% YoY in Aug 2023 compared to a mere 0.1% YoY growth in July. This breaks 11 months of volume contraction since Aug 2022. Prior to Aug 2022, there were 5 consecutive months of volume contraction from Mar 2022, followed by a brief improvement in July 2022 (+0.2%) (Figure 2). For Jan-Aug 2023, global container volume contracted 3% YoY.

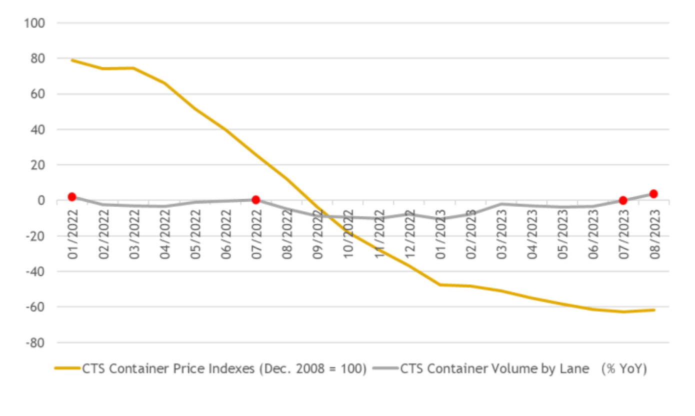
Aug 2023's uptick suggests a potential end to inventory destocking in the US. However, this optimism is not uniform. Unlike in the past, the expected pre-Golden Week rush was absent, which has led to lackluster shipping freight rates. Furthermore, an increased number of blank sailings was observed, extending beyond the Golden Week holiday. This situation implies a grim outlook for December throughput at North European container ports.

Figure 1: Global container traffic and rate growth (5Y historical)



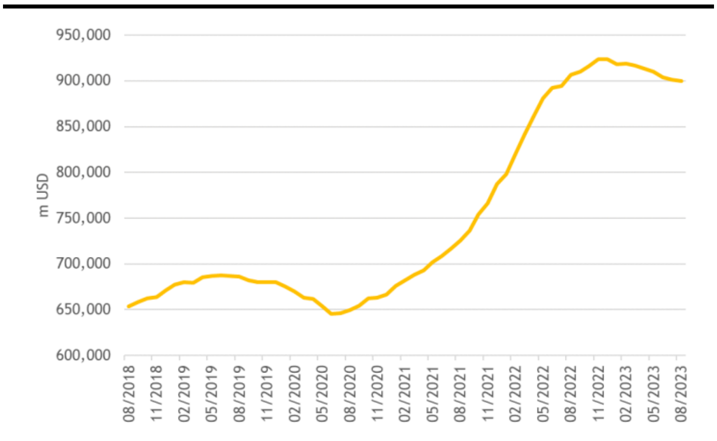
Source: Bloomberg, CTS

Figure 2: Global container traffic and rate growth (since 2022) – red mark indicating positive growth



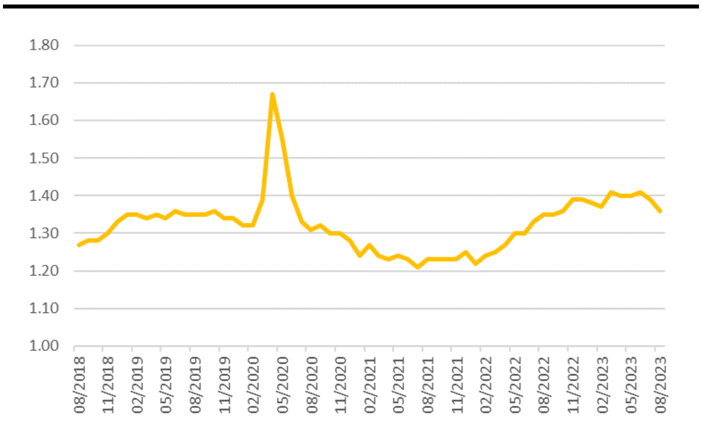
Source: Bloomberg, CTS

Figure 3: US merchant wholesalers monthly inventories



Source: Factset, U.S. Census Bureau

Figure 4: Merchant wholesalers: Inventories to sales ratio



Source: FRED, U.S. Census Bureau

Expect Westports to navigate through

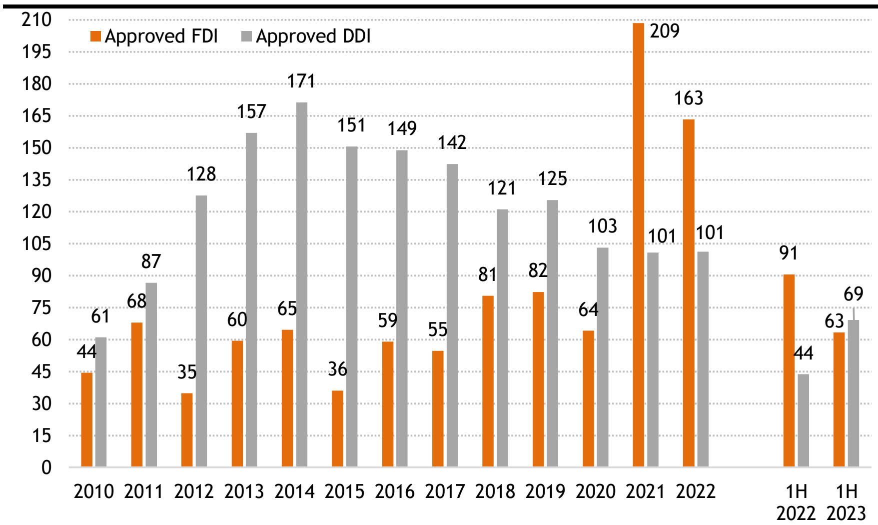
Despite a mixed outlook in global container trade over the near term, we expect Westports to navigate through these challenges. We continue to expect a robust +6% YoY growth in Westports' container throughput in FY23 (FY22: -3%), comprising +10% YoY in gateway volume (FY22: +9%) and +3% YoY in transhipment (FY22: -10%). This aligns with the company's guidance of high single-digit growth for FY23. Our channel checks indicate that Westports' 3Q container throughput should sustain its growth momentum, after the +7% YoY recorded in 1H23.

To recap, Westports' 1H23 container throughput growth (+7% YoY) was underpinned by several factors: (i) strong gateway cargoes (+12% YoY), spurred by substantial foreign direct investments (FDIs) in recent years; (ii) a regain of its market share after the flash floods in late 2021 which impacted 1H22 throughput; (iii) a low base in 2022 due to pandemic-induced disruptions (China was still in a lockdown in 2022); and (iv) the repositioning of empty boxes, which outpaced laden boxes growth in 1H23, which further bolstered the port's performance.

Over the medium term, we expect Westports to sustain its throughput growth based on the following reasons:

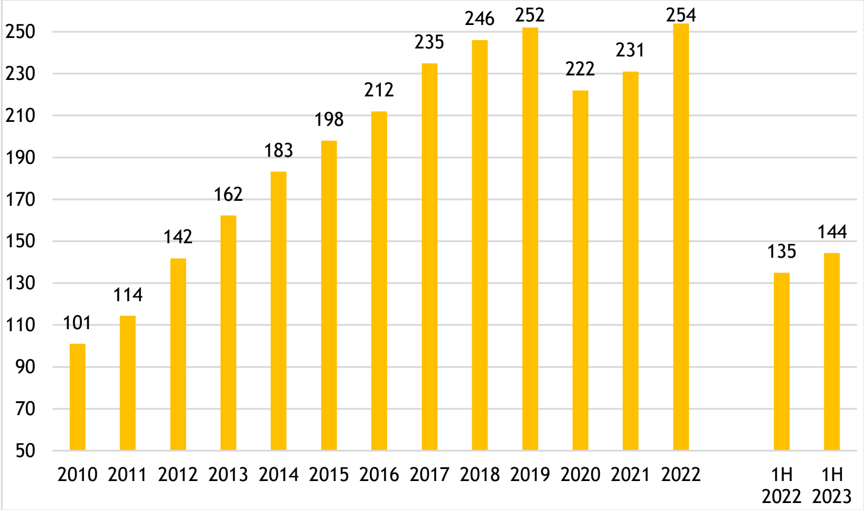
(i) **Record level of committed FDIs post the pandemic.** Committed FDIs post-pandemic (Figure 5) should feed onto Westports' throughput growth as the new manufacturing capacities commence operations in 2024/2025. Our existing +2% YoY container throughput growth forecast for Westports in FY24E thus has upside potential. For the medium-to-longer term, we expect the FDI growth momentum to continue, supported by new Government initiatives like the New Industrial Master Plan (NIMP) 2030, aimed to raise product/economic complexity, and the National Energy Transition Roadmap (NETR), which should drive more green-energy powered type of investments. The rising FDI momentum will also support new domestic direct investments (DDI), expanding the external trade eco-system.

Figure 5 (a): Malaysia's investment growth momentum post-pandemic, MYR'b



Source: MIDA, CEIC, Maybank IBG Economics Team (chart)

Figure 5 (b): Malaysia's investment growth momentum post-pandemic, MYR'b



Source: MIDA, Department of Statistics, CEIC, Maybank IBG Economics Team (chart)

(ii) **Continued healthy growth in intra-Asia container trade.** This considers that China will remain a manufacturing powerhouse and ASEAN countries' GDP will continue to expand, supported by a large population base. Asian/ ASEAN's participation in global and regional trade will thus continue to rise.

(iii) **Further increases in container shipping services in the region,** alongside new vessel deliveries ahead. During the pandemic, vessels were redirected to more profitable long-haul routes to capitalize on surging freight rates. As demand for long-haul routes waned and intra-Asia demand remained robust post-pandemic, these capacities have since been redirected back to the region. This shift is evidenced by a 28% YoY jump in container vessel calls at Westports in 1H23, despite lower containers handled per vessel. We view this trend positively as these capacities would capture volume growth once demand rebounds, further enhancing Westports' prospects.

Westports 2.0 concession to finalise soon

Westports has received the Cabinet's green light in Aug 2023 for its 2.0 expansion plan, which will nearly double its current capacity of 14m TEUs to 27m TEUs over the next decade. This will involve 8 new container terminals, i.e. CT10-17. The concession for Westports 2.0 is anticipated to be finalized soon, to be followed by fundraising activities to fund the capex, estimated at c.MYR1b initially, which is expected to start a year after the concession conclusion.

The development of 8 new container berths, each spanning over 600 meters in length, will be undertaken in two phases with Phase 1 to comprise CT10-CT13, and Phase 2 to comprise CT14-CT17. Westports 2.0 will also see a total container yard of 260 ha (vs. 240 ha now).

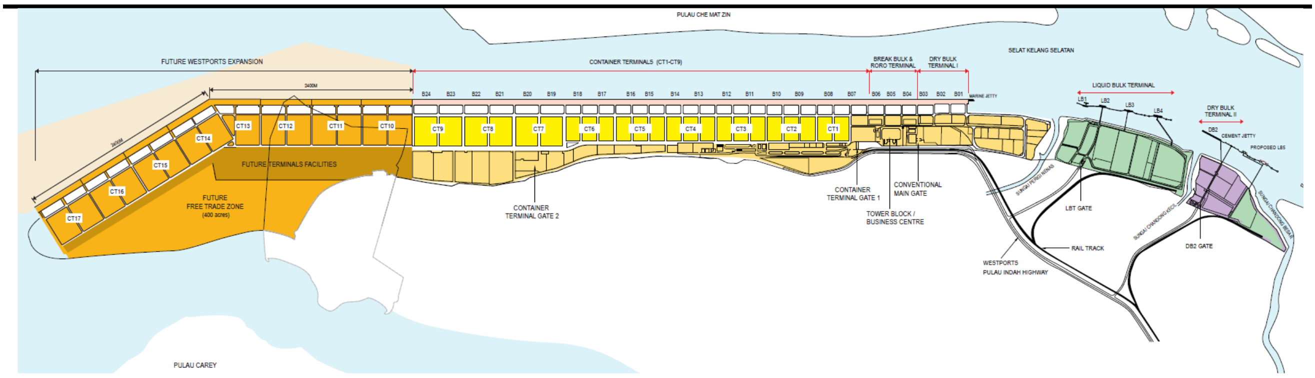
Figure 6: Development timeline for Westports 2.0

Year	Expansion
1	Land reclamation and capital dredging
2	Wharf construction
3	Yard construction
4	Target to commence operation at CT10

Source: Company

Westports 2.0 will be funded via a mix of debt, internal funds and new equity issuances (e.g. private placement, rights issues). We estimate Westports has a debt headroom of c.MYR1b based on its net gearing of 0.12x as at end-2Q23 (it has an existing MYR2b sukuk programme with an unutilized portion of MYR1.15b). As for internal funding, we estimate MYR800+m free cash flow p.a. in FY23E and beyond. Its yearly net cash accumulation could be higher if it implements a dividend reinvestment programme (vs. cash dividend of MYR500+m p.a. in FY21-22).

Figure 7: Westports 2.0 container terminal expansion



Source: Company

Pulau Carey should not cannibalize Westports

The upcoming Pulau Carey deep-sea port development is expected to take 30 years to complete, and the development is divided into three phases: Phase 1A (earliest commencement by 2025), Phase 1B (to commence in 2036), Phase 2 (to commence in 2043), and Phase 3 (to commence in 2052) (*source: Conversation with the Transport Malaysia at Invest Malaysia 2023 Conference in Mar 2023* [link]).

In Phase 1, the port will focus on conventional cargo, such as dry bulk and liquid bulk, rather than container cargo. This will complement Port Klang's limited conventional cargo capacity. Beyond Phase 1, new container capacity will be built (estimated 30m TEUs) at Pulau Carey as Westports' container utilisation rate is expected to reach full capacity by late 2030s, even after including Westports 2.0's capacity. Hence, Pulau Carey port development is not expected to create unnecessary competition between the existing neighboring ports in Port Klang. In sum, the new Pulau Carey port will enable Port Klang to remain the primary gateway port in the region over the longer term.

U/G to BUY

We upgrade the stock to BUY as we believe that value has emerged with a total upside of >10%, following its recent share price decline. Operation wise, we are also increasingly optimistic on Westports premised on continued 1) FDIs to sustain its gateway container volume growth, and 2) growth in the intra-Asia trade to support higher transhipment throughput. In addition, Westports' strong balance sheet with a low net gearing level will lend support to its Westports 2.0 expansion.

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Westports. Abrupt changes to trading routes or a substantial slowdown in the global economy may lead to lower container throughput and hence earnings for Westports. An unfavourable outcome of the pending Westports 2.0 concession agreement or unexpected delays in scheduled tariff hikes will also lead to a dampening of future earnings growth.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	18.0	17.8	14.1	13.4	13.5
Core P/E (x)	18.7	19.2	14.1	13.4	13.5
P/BV (x)	4.4	4.0	3.2	3.0	2.8
P/NTA (x)	4.4	4.0	3.2	3.0	2.8
Net dividend yield (%)	4.4	4.0	5.3	5.6	5.5
FCF yield (%)	5.7	5.5	7.8	8.1	7.9
EV/EBITDA (x)	11.2	11.3	8.8	8.4	8.1
EV/EBIT (x)	14.0	14.6	10.8	10.3	10.1
INCOME STATEMENT (MYR m)					
Revenue	1,977.8	2,055.4	2,170.5	2,215.5	2,261.5
EBITDA	1,287.0	1,187.8	1,290.8	1,327.8	1,350.3
Depreciation	(174.6)	(178.9)	(180.4)	(183.5)	(186.2)
Amortisation	(84.2)	(85.7)	(84.7)	(82.5)	(80.3)
EBIT	1,028.3	923.3	1,052.3	1,088.6	1,083.8
Net interest income /(exp)	(61.7)	(52.3)	(50.2)	(37.4)	(30.6)
Associates & JV	(0.4)	(0.4)	(0.4)	1.0	1.0
Exceptionals	71.4	(14.1)	0.0	0.0	0.0
Other pretax income	2.1	87.5	18.4	17.9	18.8
Pretax profit	1,039.5	943.9	1,020.1	1,070.1	1,073.0
Income tax	(231.3)	(244.4)	(234.6)	(246.1)	(257.5)
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	808.2	699.6	785.5	823.9	815.5
Core net profit	736.9	673.5	785.5	823.9	815.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	656.0	552.1	594.0	645.5	756.4
Accounts receivable	296.3	210.1	224.3	229.8	235.4
Inventory	5.4	5.4	5.4	5.4	5.4
Property, Plant & Equip (net)	1,727.2	1,775.8	1,798.0	1,829.6	1,858.4
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	2,730.4	2,738.3	2,678.0	2,607.4	2,538.9
Total assets	**5,415.3**	**5,281.7**	**5,299.6**	**5,317.6**	**5,394.5**
ST interest bearing debt	199.1	148.8	148.8	148.8	148.8
Accounts payable	146.6	195.3	200.8	202.9	205.1
LT interest bearing debt	1,021.3	891.5	762.5	633.4	504.3
Other liabilities	922.0	772.0	717.0	656.0	656.0
Total Liabilities	**2,288.4**	**2,007.3**	**1,828.9**	**1,640.9**	**1,514.0**
Shareholders Equity	3,126.9	3,274.4	3,470.7	3,676.7	3,880.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**3,126.9**	**3,274.4**	**3,470.7**	**3,676.7**	**3,880.6**
Total liabilities and equity	**5,415.3**	**5,281.7**	**5,299.6**	**5,317.6**	**5,394.5**
CASH FLOW (MYR m)					
Pretax profit	1,039.5	943.9	1,020.1	1,070.1	1,073.0
Depreciation & amortisation	258.8	264.5	265.1	265.9	266.5
Adj net interest (income)/exp	57.3	48.2	46.1	33.3	26.5
Change in working capital	1.9	34.9	(8.7)	(3.4)	(3.5)
Cash taxes paid	(204.2)	(319.7)	(234.6)	(246.1)	(257.5)
Other operating cash flow	0.0	0.0	0.0	1.0	1.0
Cash flow from operations	1,161.5	952.6	1,092.1	1,124.9	1,110.1
Capex	(370.9)	(246.1)	(235.0)	(235.0)	(235.0)
Free cash flow	790.6	706.4	857.1	889.8	875.1
Dividends paid	(510.5)	(552.1)	(589.1)	(618.0)	(611.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(150.7)	(175.8)	(125.0)	(125.0)	(125.0)
Other invest/financing cash flow	(113.3)	(108.0)	(101.0)	(94.4)	(26.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	16.1	(129.5)	41.9	52.5	111.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.7	3.9	5.6	2.1	2.1
EBITDA growth	8.2	(7.7)	8.7	2.9	1.7
EBIT growth	10.7	(10.2)	14.0	3.4	(0.4)
Pretax growth	20.2	(9.2)	8.1	4.9	0.3
Reported net profit growth	23.5	(13.4)	12.3	4.9	(1.0)
Core net profit growth	7.0	(8.6)	16.6	4.9	(1.0)
Profitability ratios (%)					
EBITDA margin	65.1	57.8	59.5	59.9	59.7
EBIT margin	52.0	44.9	48.5	49.1	47.9
Pretax profit margin	52.6	45.9	47.0	48.3	47.4
Payout ratio	75.0	75.0	75.0	75.0	75.0
DuPont analysis					
Net profit margin (%)	40.9	34.0	36.2	37.2	36.1
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.7	1.6	1.5	1.4	1.4
ROAE (%)	27.1	21.9	23.3	23.1	21.6
ROAA (%)	13.8	12.6	14.8	15.5	15.2
Liquidity & Efficiency					
Cash conversion cycle	(53.3)	(50.6)	(66.7)	(68.1)	(66.7)
Days receivable outstanding	52.3	44.3	36.0	36.9	37.0
Days inventory outstanding	3.5	3.1	2.9	2.9	2.8
Days payables outstanding	109.1	98.0	105.6	107.8	106.5
Dividend cover (x)	1.3	1.3	1.3	1.3	1.3
Current ratio (x)	1.3	1.4	1.3	1.5	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.6	2.9	3.2	3.6
Net gearing (%) (incl perps)	18.0	14.9	9.1	3.7	net cash
Net gearing (%) (excl. perps)	18.0	14.9	9.1	3.7	net cash
Net interest cover (x)	16.7	17.7	21.0	29.1	35.4
Debt/EBITDA (x)	0.9	0.9	0.7	0.6	0.5
Capex/revenue (%)	18.8	12.0	10.8	10.6	10.4
Net debt/ (net cash)	564.4	488.3	317.2	136.7	(103.3)

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 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.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, 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
• 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 • 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

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 • Property
• 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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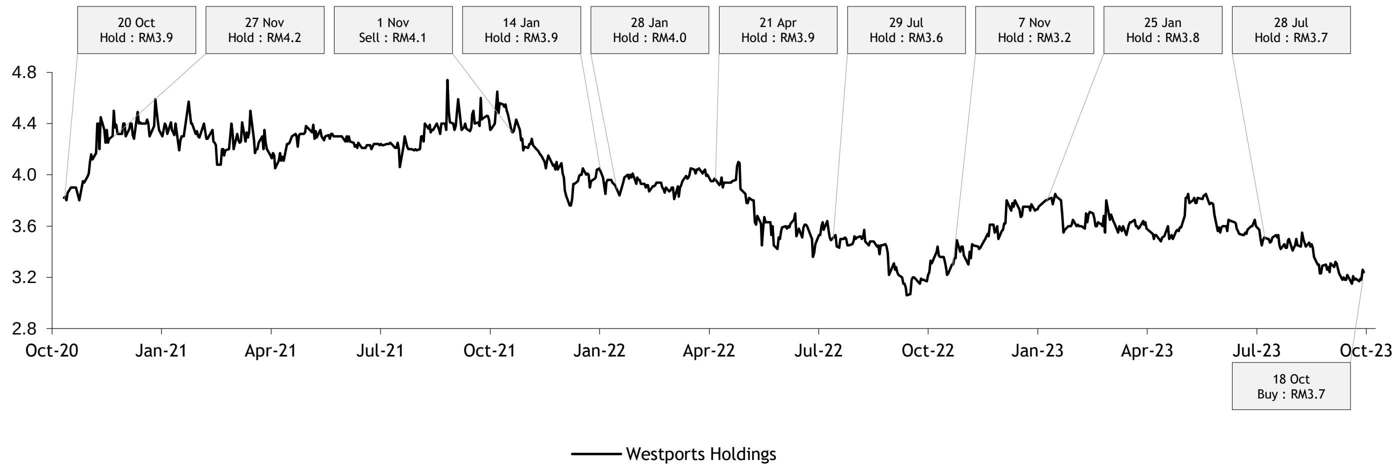

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Malaysia

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

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

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

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

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

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

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)

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

Sales Trading

Indonesia
Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

London
Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

Philippines
Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

India
Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com