

# Frasers Hospitality Trust (FHT SP)

## A generally upbeat 2H23

### FY23 DPU in line; maintain BUY

FHT posted 2HFY23 revenue of SGD61.0m (c.-2%HoH/+18%YoY). FY23 DPU of SGD2.4426cts forms 101% of our FY23 forecast. FY23 revenue/NPI rose by c.44%/50% on a same-store basis, excluding Sofitel Sydney Wentworth that was divested in Apr'22. Travel demand proved robust in 2H23, shown by continued RevPAR growth in most markets. Looking ahead, while a strong event pipeline and recovery tailwinds are likely to support RevPAR, we expect growth from room rates and occupancy to gradually normalize.

### RevPAR continues to grow in 2H23

Japan and UK assets showed the strongest RevPAR growth in 2H23 due to higher occupancy (+15ppt HoH), and ADR (+20% HoH), respectively. Singapore and Malaysia assets both saw ADR growth (7%/6% HoH), accompanied by robust occupancy (+2/3ppt). There was a softer performance (-12% in ADR) in Australian assets, partially offset by largely resilient occupancy (+2ppt). This was led by tepid corporate and group demand in Melbourne, on top of new hotel openings of over 4,000 keys in the past 24 months. While FHT's occupancy in 2H23 rose 3-27ppt YoY across its portfolio, occupancy is still shy of pre-pandemic levels by 2-15ppt. Overall, RevPAR in all markets is 2-12% ahead of 4Q19 levels.

### Upcoming debt refinancing

Gearing is at 34% as of Sep'23, with 75.5% borrowing hedged to a fixed rate. COD inched up by 10bps to 3.1% in 4QFY23. The upcoming refinancing of SGD149.3m consists of 67%/13%/20% SGD/MYR/JPY-denominated loans/bonds. As the refinancing exercise is in Jul'24, we don't expect the full impact from higher COD until FY25E. A relatively stable JPY base rate could also cushion the increase from SGD/MYR-denominated loans, part of which carry fixed interest rates of 3.08%/4.85% currently. In the medium term, management is comfortable to bring gearing up to 40%, by deploying the SGD420m debt headroom (assuming 45% threshold). FHT hedges the fixed portion of its room revenue in foreign currency, which management estimates to be SGD30m.

### Trimming TP, maintain BUY

We lower our FY24-25E revenue estimates by c.6-8% and rolled forward our valuation base to FY26E. In view of upcoming additional supply in FHT's key markets (Edinburgh, Kuala Lumpur and Dresden), we see FHT entering a more competitive environment in FY24, against the backdrop of normalizing RevPAR growth. Nonetheless, strong event pipeline and recovery tailwinds should underpin growth. We lower our DPU by c.3-6% for FY24E-25E and trim TP to SGD0.53 from SGD0.54. Maintain BUY.

FYE Sep (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	96	123	127	131	133
Net property income	70	91	94	96	98
Core net profit	26	52	9	9	12
Core EPU (cts)	1.3	2.7	0.5	0.5	0.6
Core EPU growth (%)	31.1	104.1	(83.1)	7.4	30.4
DPU (cts)	1.6	2.4	2.5	2.5	2.6
DPU growth (%)	66.4	49.1	1.6	1.2	5.3
P/NTA (x)	0.7	0.8	0.8	0.8	0.8
DPU yield (%)	3.4	4.8	4.8	4.8	5.1
ROAE (%)	3.7	7.3	3.8	3.9	4.1
ROAA (%)	1.2	2.5	0.4	0.5	0.6
Debt/Assets (x)	0.36	0.34	0.34	0.34	0.34
Consensus DPU	-	-	2.6	2.7	na
MIBG vs. Consensus (%)	-	-	(2.9)	(7.1)	na

Li Jialin

jialin.li@maybank.com

(65) 6231 5845

# BUY

Share Price	SGD 0.52
12m Price Target	SGD 0.53 (+8%)
Previous Price Target	SGD 0.54

### Company Description

Frasers Hospitality invests in income-producing hospitality real estate and related assets.

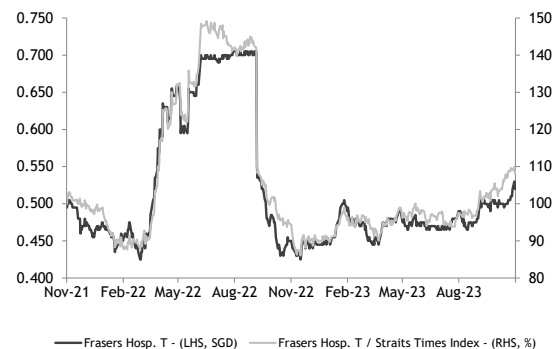
### Statistics

52w high/low (SGD)	0.53/0.43
3m avg turnover (USDm)	0.6
Free float (%)	36.5
Issued shares (m)	1,926
Market capitalisation	SGD1.0B
	USD739M

### Major shareholders:

Tcc Group Investments Ltd.	36.7%
Frasers Property Ltd.	25.8%
Metro Holdings Ltd.	0.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	6	16
Relative to index (%)	4	10	14

Source: FactSet

### Terms defined

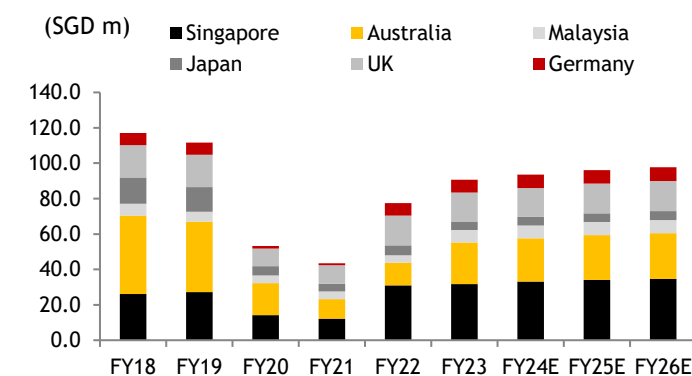
ADR: Average daily rate  
MICE: Meetings, Incentives, Conferences & Exhibitions  
RevPAR: Revenue per available room  
COD: Cost of debt  
NPI: Net property income  
GOR: Gross operating revenue  
GOP: Gross operating profit

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Tear Sheet Insert

## Value Proposition

- 14 assets valued at SGD1.9b in prime locations in gateway cities in Asia, Australia and Europe. Comprised of eight hotels and six serviced residences with a total of 3,477 keys.
- Defensive portfolio: FHT records a fair value gain of SGD50m in FY23.
- Sponsor Frasers Property is a diversified real-estate player with SGD47.3b AUM as of May-23. Owns & operates more than 17,000 serviced apartments / hotel rooms.
- Strategic partner TCC Group is among Southeast Asia’s largest conglomerates.
- In the medium term, management is comfortable to bring gearing up to 40%, by deploying the SGD420m debt headroom (assuming 45% threshold).

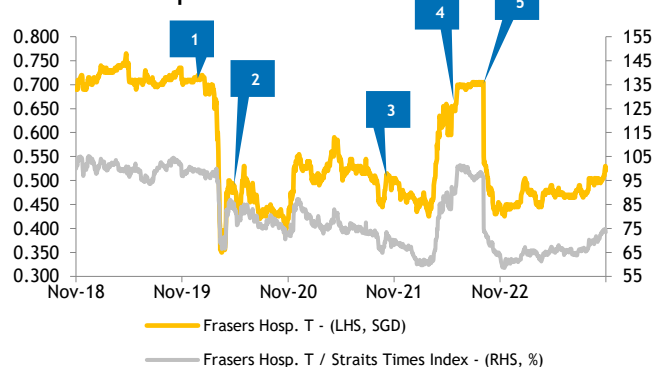
### NPI breakdown



Source: Company, Maybank IBG Research

## Price Drivers

### Historical share price trend



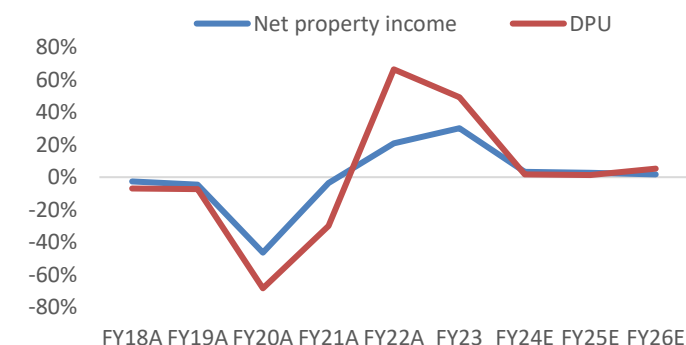
Source: FactSet

- Feb-20: Outbreak of Covid-19 pandemic.
- May-20: Gradual easing of restrictions in Sydney.
- Oct-21: Announces divestment of Sofitel Sydney Wentworth for AUD305.0m (SGD309.1m) at 4.1%/3.3% FY19/FY21 NPI yield.
- Jun-22: Announces the proposed privatisation of FHT by way of a trust scheme of arrangement with a scheme consideration of SGD0.700 in cash per scheme stapled security.
- Sep-22: FHT held EGM to seek approval from shareholders for the proposed privatisation, which was not passed at the meeting. FHT remains listed on SGX-ST.

## Financial Metrics

- DPU continued to recover in FY23E, underpinned by robust travel demand.
- We expect occupancies across its hotel portfolio to continue to recover, nearing pre-pandemic levels due to strong leisure demand.
- We forecast stable RevPARs across its key markets.
- Acquisition growth prospects uncertain amid high interest costs environment. Potential opportunities likely to come from Japan.

### NPI and DPU growth



Source: Maybank IBG Research

## Swing Factors

### Upside

- Better-than-anticipated RevPAR across markets.
- Stronger pickup in MICE demand in Japan.
- Accretive acquisitions where cap rates exceed cost of funds, or divestments at low cap rates which unlock asset values.

### Downside

- Sizeable increases in hotel and serviced residence room supply without corresponding growth in demand.
- Deterioration in global economy, resulting in decline in RevPARs.
- Significant volatility in FX rates could impede hedging efforts and affect DPU.
- Sharper-than-expected rise in interest rates could increase cost of debt and hit earnings, with higher cost of capital lowering valuations.

[jialin.li@maybank.com](mailto:jialin.li@maybank.com)

# ESG@MAYBANK IBG

jialin.li@maybank.com

Risk Rating & Score <sup>1</sup>	12.8 (Low)
Score Momentum <sup>2</sup>	-1.4
Last Updated	22 Nov 2022
Controversy Score <sup>3</sup> (Updated: 22 Nov 2022)	1

## Business Model & Industry Issues

- FHT draws on its available pool of funds to invest in hospitality real estate, undertake asset enhancements, and redevelop properties to optimise value for its unitholders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are closely regulated by the MAS under Singapore’s code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with strong representation by members with international experience, essential in our view, as its overseas portfolio is a sizeable growth platform.
- Introduced near to long-term sustainability targets in 2020 to align with its sponsor, including achieving BCA Green Mark (Gold) certification for 80% and to green finance the majority of its assets by 2024, as well as to be net zero carbon by 2050.
- It had expanded reporting to cover 14 properties since FY18, excluding Maritim Hotel Dresden (given master lease limitations) and participated for a 2nd time in the Global Real Estate Sustainability Benchmark Assessment 2020 to maintain a score of 60 and 2-star rating. At the asset level, five UK properties are enrolled in the globally recognised Green Tourism programme.

### Material E issues

- Its InterContinental Singapore was certified BCA Green Mark GoldPLUS (in FY18), while three UK serviced residences and the Park International London were awarded Bronze and Frasers Edinburgh Silver by the Green Tourism programme.
- While carbon emissions and energy and water consumption fell 25.0% YoY, 21.7% YoY and 23.8% YoY in FY20 due to significantly lower occupancies, their intensities rose 19.1% YoY, 24.4% YoY and 20.4% YoY, as utilities were essential to maintain key amenities across its properties.
- Reiterated its targets to achieve energy and water intensity cuts of 3.0% and 1.5% pa. for the portfolio from 2018-24. Expanded waste reporting in FY20 to 10 (from 8 in FY19) of its sponsored-managed properties, and to raise this to 14 assets by end 2021, while establishing a recycling target.

### Key G metrics and issues

- Its six Frasers-branded serviced residences and two London hotels, the Park Western Cromwell and Park International, are managed by its sponsor, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high - it does not comprise any members with executive functions, and 4 of its 6 members, including the Chairman are independent.
- Management fee structure, with base fee at 0.3% of its deposited property, performance fee at 5.5% pa of distributable income, and acquisition and disposal fee at 1.0% and 0.5% deal value, is comparable to peers.
- The cumulative remuneration of its key management team, including the CEO, has represented

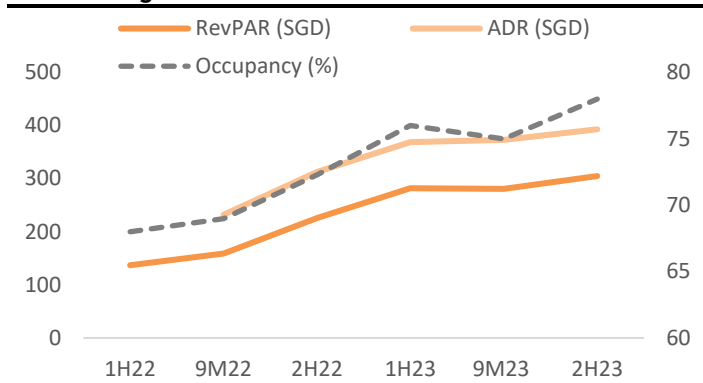
### Material S issues

- Front-office excellence training, and epitome training and grooming conducted for all staff at FHT-managed properties, while new, existing staff at InterContinental Singapore trained on chain’s approach to hospitality, and new hires and Novotel Melbourne undergo Peopleology service training prior to employment.
- Guests’ feedback is collated from in-room, post-stay surveys and travel service platforms to monitor service satisfaction, while independent mystery shopper audits are deployed by external parties to assess service quality.
- Recorded an average of 49 training hours per employee in FY20, above the 40-hour group-level target.
- Gender diversity is high, with female representation at 75% amongst all employees (in FY20), and two-thirds at the management level.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

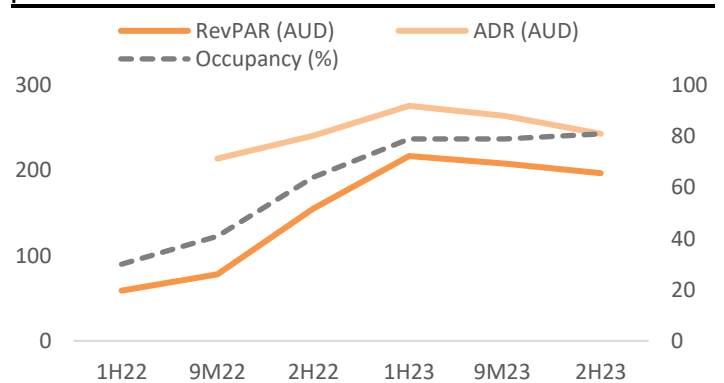
# 1. Focus charts

**Fig 1: Singapore market: higher occupancy underpins RevPAR amid slowing ADR**



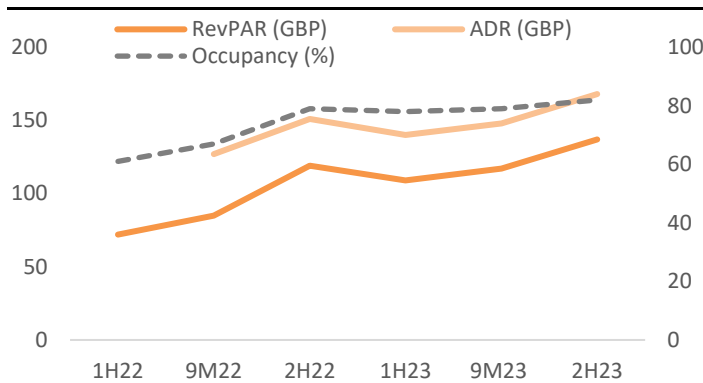
Source: Company, Maybank IBG Research

**Fig 2: Australia market: occupancy remains resilient as ADR pulls back in 2H23**



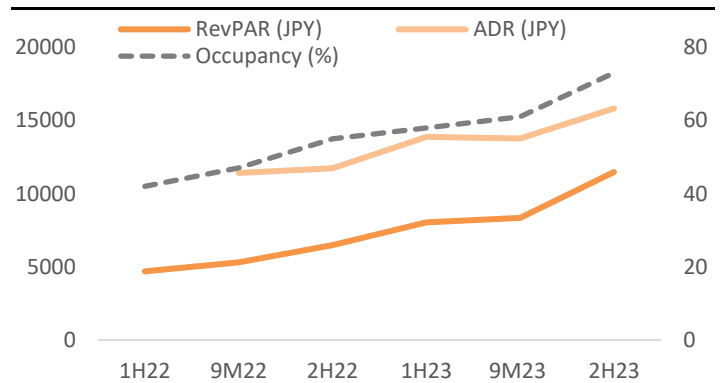
Source: Company, Maybank IBG Research

**Fig 3: UK market: ADR continues to drive RevPAR growth**



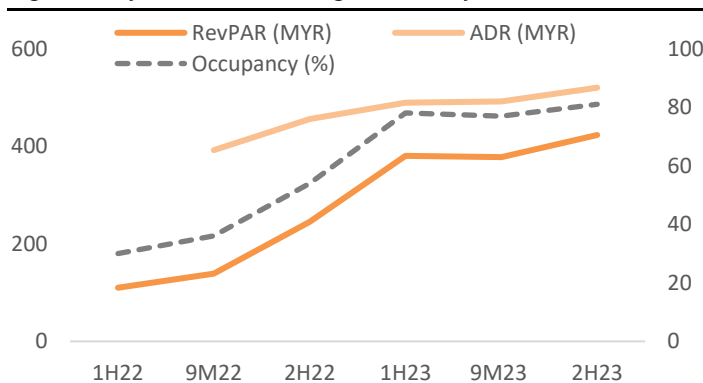
Source: Company, Maybank IBG Research

**Fig 4: Japan market showed stronger recovery in FY23**



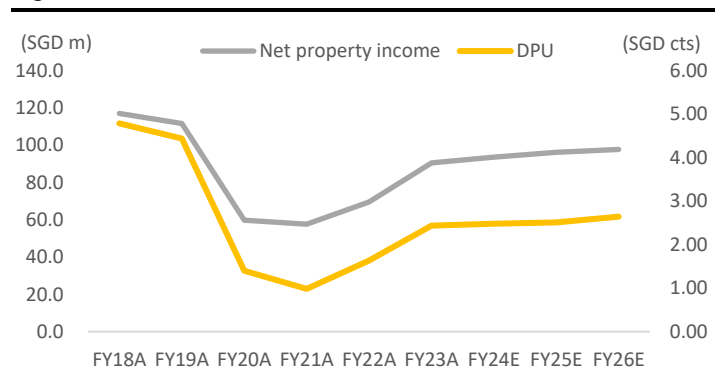
Source: Company, Maybank IBG Research

**Fig 5: Malaysia market: stronger recovery in FY22**



Source: Company, Maybank IBG Research

**Fig 6: NPI and DPU forecasts**



Source: Maybank IBG Research

## 2. Financial highlights

Fig 7: 2H23 DPU is c.-7% HoH due to lower revenue and higher borrowing costs

(SGD m)	2H23	1H23	2H22	% YoY	% HoH
Gross revenue	61	62.2	51.8	17.9%	(2.0%)
Property expenses	(15.7)	(17.0)	(13.8)	13.5%	(7.5%)
Net property income	45.3	45.2	37.9	19.5%	0.1%
Borrowing costs	(11.8)	(9.0)	(11.6)	1.8%	30.4%
Total distributable income	25.2	27.1	19.9	26.5%	(6.9%)
Distribution to equity holders	22.7	24.4	17.9	26.4%	(6.9%)
DPU (Scts)	1.1777	1.3	0.9	26.4%	(6.9%)
NAV per unit (SGD)	0.6638	0.64	0.65	2.6%	3.4%
Aggregate leverage (%)	34	35.0	36.4		
All-in financing cost (%)	3.1	2.9	2.3		
NPI margin (%)	74.3	72.7	73.3		

Source: Company, Maybank IBG Research

Fig 8: Continued growth in GOR from most markets, except for Australia. HoH, GOP pulls back in both Singapore and Australia.

(LC m)	GOR					GOP					Margin (%)				
	2H23	1H23	2H22	HoH	YoY	2H23	1H23	2H22	HoH	YoY	2H23	1H23	2H22	HoH	YoY
Singapore	54.8	50.6	40.7	8%	35%	20.1	21.8	16.5	(8%)	21.8%	36.7	43.1	40.5	(6)	(4)
Australia	36.6	39.3	32.7	(7%)	12%	15.5	19.4	13.9	(20%)	11.5%	42.3	49.4	42.5	(7)	(0)
UK	16.7	13.2	14.4	27%	16%	6.8	5.5	7.2	24%	-5.6%	40.7	41.7	50.0	(1)	(9)
Japan	2223.5	1823.8	1532.7	22%	45%	512.1	438.5	339.8	17%	50.7%	23.0	24.0	22.2	(1)	1
Malaysia	48.7	44.8	29.7	9%	64%	16.9	14.6	6.3	16%	168.3%	34.7	32.6	21.2	2	13
Germany	7.7	5.7	6.4	35%	20%	3.2	2	2.7	60%	18.5%	41.6	35.1	42.2	6	(1)

Source: Company, Maybank IBG Research

## 3. Operational highlights

Fig 9: RevPAR growth moderates in 2H23

	2H23	2H22	4Q19	% YoY	% Pre Covid
<b>RevPAR (LC)</b>					
Singapore	305	226	273	35.0%	112
Australia	197	155	191	27.1%	103
UK	137	119	128	15.1%	107
Japan	11477	6494	11209	76.7%	102
Malaysia	423	245	409	72.7%	103
<b>Occupancy (%)</b>					
Singapore	78	72.3	92.5	5.7	-15
Australia	81	64	86.2	17.0	-5
UK	82	79	93.3	3.0	-11
Japan	73	55	75.1	18.0	-2
Malaysia	81	54	89.9	27.0	-9
<b>ADR (LC)</b>					
Singapore	393	313	286	25.6%	137
Australia	243	241	222	0.8%	109
UK	168	151	137	11.3%	123
Japan	15818	11738	14918	34.8%	106
Malaysia	520	456	455	14.0%	114

Source: Maybank IBG Research

\*4Q19 data represents pre-pandemic RevPAR performances

## 4. Forecast changes

Fig 10: Forecast revisions

	FY24E (old)	FY25E (old)	FY24E (New)	FY25E (New)	FY24E (% change)	FY25E (% change)
Revenue (SGDm)	136.0	142.1	127.4	131.0	(6.3)	(7.8)
NPI (SGDm)	101.1	104.5	93.6	96.1	(7.4)	(8.0)
Distribution to unitholders (SGDm)	49.4	52.2	47.7	48.3	(3.5)	(7.4)
DPU (SG cts)	2.54	2.67	2.48	2.51	(2.6)	(6.0)

Source: Maybank IBG Research

We lower our FY24-25 revenue forecasts by c.6-8% as we expect growth to moderate and a more competitive operating environment entering into FY24.

We lower our FY24-25 DPU forecasts by c.3-6%, after adjusting our interest expense estimates. We adjusted our borrowing cost estimates as the re-financing takes place in Jul'24 (3 months before Sep year-end) and the JPY base rate could lend some stability to the overall cost of debts.

We roll forward our valuation base to FY26E.

## 5. Valuation

We value FHT using a 3-stage dividend discount model. We factor in a higher risk free rate (3.3%) while applied beta of 0.67 based on 52-weeks adjusted data.

We lower our FY23/24E DPU forecasts by c.3-6%.

Lower top-line estimates (c.6.3%/7.8% for FY24/25E) are partially cushioned by adjusted interest expense.

These factors result in a slightly lower TP of SGD0.53.

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Price/DPU(x)	29.3	20.7	21.0	20.7	19.7
P/BV (x)	0.7	0.8	0.8	0.8	0.8
P/NTA (x)	0.7	0.8	0.8	0.8	0.8
DPU yield (%)	3.4	4.8	4.8	4.8	5.1
FCF yield (%)	3.0	7.7	8.3	7.5	7.8
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	95.9	123.2	127.4	131.0	133.3
<b>Net property income</b>	<b>69.6</b>	<b>90.5</b>	<b>93.6</b>	<b>96.1</b>	<b>97.8</b>
Management and trustee fees	(9.2)	(9.6)	(9.4)	(9.5)	(6.3)
Net financing costs	(21.6)	(20.9)	(21.4)	(19.6)	(19.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	24.2	0.1	0.0	0.0	0.0
Other pretax income/expenses	0.5	1.6	1.6	1.6	1.6
<b>Pretax profit</b>	<b>57.0</b>	<b>53.2</b>	<b>55.8</b>	<b>60.1</b>	<b>64.9</b>
Income tax	(10.5)	(10.7)	(11.2)	(12.1)	(13.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	2.0	0.0	0.0	0.0	0.0
<b>Total return avail to unitholders</b>	<b>46.6</b>	<b>91.6</b>	<b>48.3</b>	<b>49.0</b>	<b>51.8</b>
Core net profit	25.5	52.1	8.8	9.4	12.3
Distributable inc to unitholders	31.5	47.0	47.7	48.3	50.9
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	123.9	88.1	99.8	105.1	110.8
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	215.9	210.0	210.0	210.0	210.0
Investment properties	1,683.2	1,720.7	1,686.5	1,686.5	1,686.5
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	62.6	54.2	54.2	54.2	54.2
<b>Total assets</b>	<b>2,085.6</b>	<b>2,073.0</b>	<b>2,050.4</b>	<b>2,055.8</b>	<b>2,061.5</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	19.3	20.3	20.3	20.3	20.3
LT interest bearing debt	756.7	701.5	701.5	701.5	701.5
Other liabilities	63.6	72.7	72.7	72.7	72.7
<b>Total Liabilities</b>	<b>839.7</b>	<b>794.6</b>	<b>794.6</b>	<b>794.6</b>	<b>794.6</b>
Shareholders Equity	1,245.9	1,278.5	1,255.9	1,261.2	1,266.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,245.9</b>	<b>1,278.5</b>	<b>1,255.9</b>	<b>1,261.2</b>	<b>1,266.9</b>
<b>Total liabilities and equity</b>	<b>2,085.6</b>	<b>2,073.0</b>	<b>2,050.4</b>	<b>2,055.8</b>	<b>2,061.5</b>
<b>CASH FLOW (SGD m)</b>					
<b>Cash flow from operations</b>	<b>28.3</b>	<b>75.2</b>	<b>83.0</b>	<b>75.5</b>	<b>78.4</b>
Capex	(0.3)	(0.4)	0.0	0.0	0.0
Acquisitions & investments	298.5	(3.9)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	3.2	13.9	1.6	1.6	1.6
<b>CF from investing activities</b>	<b>301.5</b>	<b>9.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
Dividends paid	(29.0)	(42.3)	(47.7)	(48.3)	(50.9)
Interest expense	(20.4)	(19.4)	(21.4)	(19.6)	(19.6)
Change in debt	(226.8)	(51.4)	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(276.2)</b>	<b>(113.1)</b>	<b>(69.2)</b>	<b>(68.0)</b>	<b>(70.5)</b>
<b>Effect of exchange rate changes</b>	<b>(7.8)</b>	<b>(3.6)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>45.7</b>	<b>(31.9)</b>	<b>15.5</b>	<b>9.2</b>	<b>9.5</b>

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	12.1	28.5	3.4	2.8	1.7
Net property income growth	20.7	30.1	3.3	2.7	1.7
Core net profit growth	31.3	104.1	(83.1)	7.4	30.4
Distributable income growth	66.7	49.1	1.6	1.2	5.3
<b>Profitability ratios (%)</b>					
Net property income margin	72.6	73.5	73.4	73.4	73.3
Core net profit margin	26.6	42.3	6.9	7.2	9.2
Payout ratio	123.4	90.2	nm	nm	nm
<b>DuPont analysis</b>					
Total return margin (%)	48.6	74.4	37.9	37.4	38.9
Gross revenue/Assets (x)	0.0	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.6	1.6	1.6	1.6
ROAE (%)	3.7	7.3	3.8	3.9	4.1
ROAA (%)	1.2	2.5	0.4	0.5	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.6	2.6	2.6	2.6
Net gearing (%) (excl. perps)	50.8	48.0	47.9	47.3	46.6
Net interest cover (x)	2.5	3.5	3.6	4.0	4.3
Debt/EBITDA (x)	14.0	9.1	8.7	8.5	8.0
Capex/revenue (%)	0.3	0.4	0.0	0.0	0.0
Net debt/ (net cash)	632.8	613.4	601.7	596.4	590.7
Debt/Assets (x)	0.36	0.34	0.34	0.34	0.34

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  
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

**WONG Chew Hann, CA Head of Research**  
(603) 2297 8686  
wchewh@maybank-ib.com  
• Equity Strategy  
• Non-Bank Financials (stock exchange)  
• Construction & Infrastructure

**Anand PATHMAKANTHAN**  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com  
• Equity Strategy

**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)

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

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

**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 Head of Research**  
(63) 2 8849 8843  
rachelleen.rodriquez@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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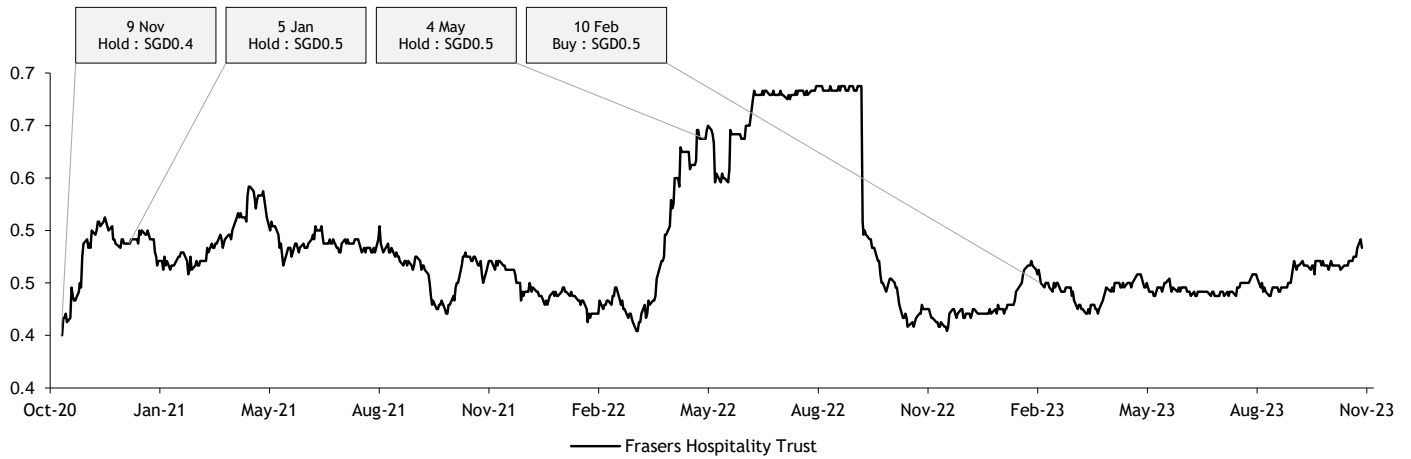
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 **Malaysia**

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

 **Indonesia**

PT Maybank Sekuritas Indonesia  
Sentral Senayan III, 22<sup>nd</sup> 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,  
20<sup>th</sup> - 21<sup>st</sup> 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, 11<sup>th</sup> 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](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)