

OCBC Bank (OCBC SP)

Executing amidst volatility

Growth slowing, dividends resilient. Maintain HOLD

OCBC 9M23 earnings were ahead of MIBG/Street expectations. Largely, this is being driven by NIMs, which are now peaking. While NIMs should stay elevated in a higher-for-longer interest rate backdrop, interest income growth is likely to see resistance as loan growth stalls. Non-interest income remains volatile, thus may not sufficient to offset. Nevertheless, we expect dividend yields upwards of 6% in 2023-25E supported by strong capital. Maintain HOLD.

Peaking NIMs. Noll prospects remain unclear

All of the NII expansion QoQ was delivered by higher NIMs. However, sequential momentum is slowing from a peak of 2.31% in 4Q22 to 2.27% now. Management claims Sep exit NIM is at 2.23% pointing to further slowdown. With most of the loan book already re-priced and credit demand low (loans flat QoQ), overall margin trajectory could trend downwards going forward. To be clear, despite weakening, overall NIMs should still be higher than any point of 2010-22 given higher for longer interest rates. 3Q23 Noll remained volatile with weaker insurance and trading. Fees were a bright spot, rising +7% QoQ from better WM. However, whether this signals a sustained recovery is too soon to say.

Asset quality well supported. Strong provisions

NPLs fell to the lowest level since 2015 at 1.0%. Significant upgrades in Malaysia and Greater China are key contributors. Management claims no systemic risks are apparent. However, specific provisions increased 4.2x QoQ. This was across multiple sectors (we note 13% of loans in commercial real estate). High rates should result in more pressure on asset quality going forward, in our view. We expect NPLs to rise to 1.3% in 2024E. Nevertheless, we have lowered provisioning charges by 14% for 2023E, based on current run-rates. Provisioning coverage stands at 139% - the highest since 2014. CET1 is at 14.8%. Combined, this provides significant cushion for asset quality risks going forward, we believe.

Visible dividends. Raise TP to SGD13.83. HOLD

Following 3Q23, we have raised 2023-25E core-earnings by 1-2%. We roll forward our multi-stage DDM (COE 8.9%, 3% terminal) and raise TP to SGD13.83 from SGD13.60. Management reiterates a minimum 50% dividend payout. We think there is potential to surprise on the upside, given strong CET1 levels and capital upgrades once BASEL IV is implemented in 2024E. Indeed, we forecast dividend yields > 6% in 2023-25E. Nevertheless, with limited headroom for earnings growth, maintain HOLD.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	10,596	11,675	12,835	13,368	13,910
Pre-provision profit	5,729	6,545	7,570	7,822	8,055
Core net profit	4,858	5,748	6,893	7,084	7,454
Core EPS (SGD)	1.1	1.3	1.5	1.6	1.7
Core EPS growth (%)	34.9	18.2	19.9	2.8	5.2
Net DPS (SGD)	0.5	0.7	0.8	0.8	0.8
Core P/E (x)	10.5	9.5	8.5	8.3	7.9
P/BV (x)	1.0	1.0	1.0	1.0	0.9
Net dividend yield (%)	4.6	5.6	6.1	6.0	6.3
Book value (SGD)	11.72	11.81	12.65	13.54	14.47
ROAE (%)	9.7	11.2	12.9	12.4	12.2
ROAA (%)	0.9	1.0	1.2	1.2	1.2
Consensus net profit	-	-	7,157	7,200	7,312
MIBG vs. Consensus (%)	-	-	(3.7)	(1.6)	1.9

Thilan Wickramasinghe
thilanw@maybank.com
(65) 6231 5840

HOLD

Share Price	SGD 13.06
12m Price Target	SGD 13.83 (+6%)
Previous Price Target	SGD 13.60

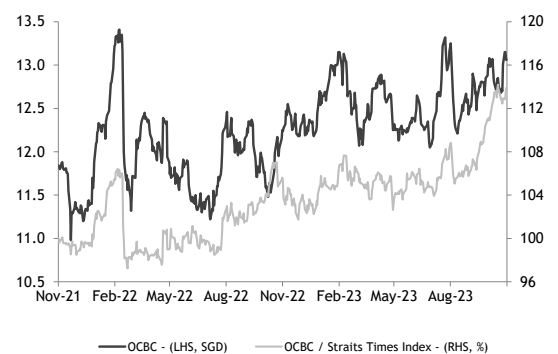
Statistics

52w high/low (SGD)	13.32/12.05
3m avg turnover (USDm)	41.0
Free float (%)	72.3
Issued shares (m)	4,257
Market capitalisation	SGD55.6B
	USD41.0B

Major shareholders:

LEE FAMILY /OCBC/	21.9%
Lee Foundation	4.3%
The Vanguard Group, Inc.	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(1)	7
Relative to index (%)	3	5	8

Source: FactSet

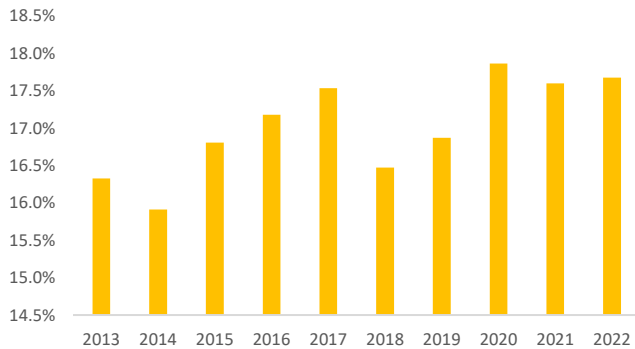
Glossary

NII - Net interest income
Noll - Non interest income
NIM - Net interest margin
WM - Wealth Management

Value Proposition

- Second-largest Singapore bank by assets. Present in Malaysia, Indonesia and Greater China.
- Acquired ING’s Asia Private Bank and Barclays’s wealth units in HK and Singapore to build up wealth management.
- 87.8%-owned subsidiary Great Eastern is a leader in Singapore life insurance.
- Bought Wing Hang Bank (WHB) in HK in 2014 to strengthen its presence in Pearl River Delta. Execution risks remain due to fierce competition
- Strongest capital levels amongst the local banks

OCBC CAR (%)

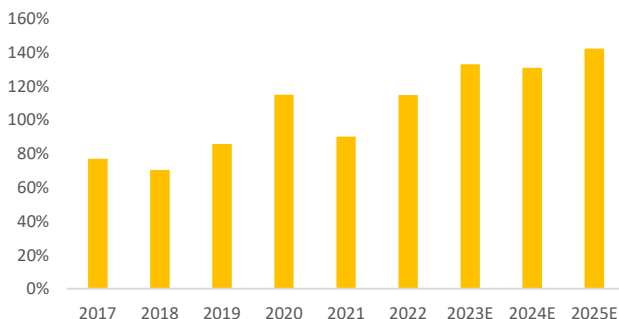


Source: Company

Financial Metrics

- NIMs are set to decelerate expanding +11bps YoY in 2023E following a +38bps increase in 2022 from higher funding costs and ceilings on loan yields
- NPL levels are set to stay healthy. Expect decline to 1.0% in 2023E and then tick up to 1.2% in 2024E
- Credit charges could reach 23bps in 2024E following levels of 20bps in 2022 in step with rising NPLs
- Overall ROEs should strengthen to 12.1% on average in 2023-25E from strategic plan execution. Upside risks exists

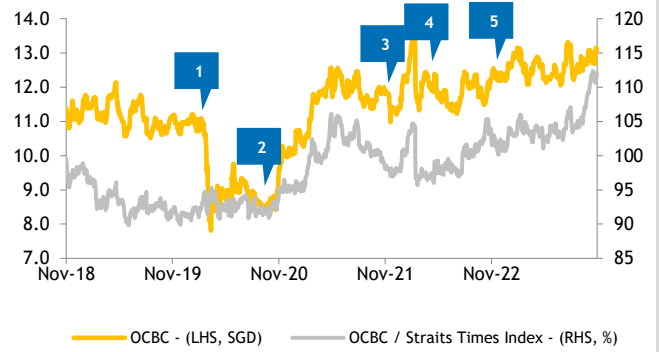
Provisioning cover



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Start of the Covid-19 pandemic
2. Vaccine optimism driven recovery
3. Fed rate hike expectations
4. Rising inflation, rates driven worries on growth
5. NIM expansion expectations from higher for longer interest rates

Swing Factors

Upside

- Execution of ‘One Group’ strategic plan could drive upside to ROEs in the medium term
- Better than expected recovery in North Asia should drive better loan volume and margin outlook
- Accretive acquisitions in the banking, wealth or insurance space in focus markets

Downside

- Increasing macro-volatility resulting in faster than expected asset quality and investment holding declines
- Potential IT system breakdowns or cyberattacks leading to regulatory sanctions
- Slower pick up in wealth management could have drive weaker fees

3Q23 Results summary

Fig 1: 3Q23 results summary

SGDm	3Q23	3Q22	YoY (%)	2Q22	QoQ (%)	Comments
Net interest income	2,456	2,099	17	2,389	3	Largely driven by NIM growth with limited vol contribution
Non-interest income	973	932	4	1,066	(9)	Some improvements in fees from wealth, while insurance weaker
Total income	3,429	3,031	13	3,455	(1)	
Total expenses	(1,340)	(1,278)	5	(1,329)	1	Some increases in staff and tech costs.
Profit before allowances (PPOP)	2,089	1,753	19	2,126	(2)	
Allowances for credit and other losses	(184)	(154)	19	(252)	(27)	Higher SPs, offset somewhat by GP write-back
Associates	254	256	(1)	250	2	Stable
Profit before tax	2,133	1,829	17	2,098	2	
Core Net Profit	1,810	1,491	21	1,710	6	9M23 78% MIBG, 76% of Street
Reported Net profit	1,810	1,491	21	1,710	6	
NIM (Reported) %	2.27%	2.06%	21	2.26%	1	Asset re-pricing from rate hikes and some run off in FDs
Cost/ income ratio	39.1%	42.2%	(310)	38.5%	60	Improved revenues and better cost management
Net Loans	294,330	299,831	(1.8)	293,532	0.3	Flat loan growth across markets due to high rates
Deposits	369,432	352,728	4.7	372,462	(0.8)	Slight improvement in CASA QoQ, Lower FDs
Gross NPL (%)	1.0%	1.2%	(20)	1.1%	(10)	Reversal in classifications and limited systemic distress

Source: Company data, Maybank IBG Research

Key assumption changes

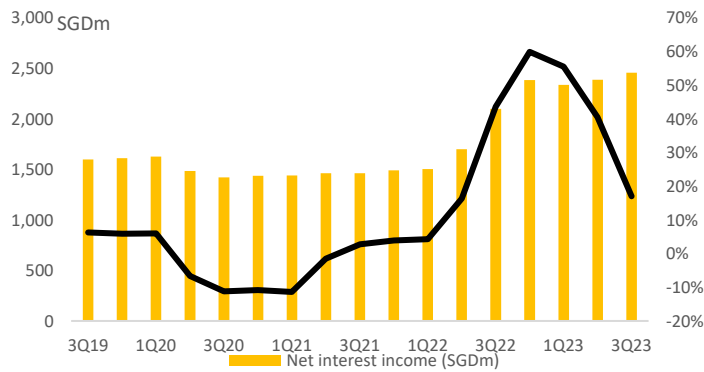
Fig 2: Key assumption changes

	2023E			2024E			2025E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	8,526	8,489	0%	8,742	8,777	0%	9,086	9,121	0%
Non-interest income	4,346	4,346	0%	4,591	4,591	0%	4,789	4,789	0%
Total Income	12,872	12,835	0%	13,333	13,368	0%	13,875	13,910	0%
Total Expenses	(5,265)	(5,265)	0%	(5,645)	(5,546)	-2%	(5,956)	(5,855)	-2%
PPOP	7,606	7,570	0%	7,688	7,822	2%	7,919	8,055	2%
Allowance for credit and other losses	(658)	(569)	-14%	(690)	(687)	0%	(490)	(487)	-1%
PBT	8,025	8,077	1%	8,160	8,297	2%	8,684	8,823	2%
Core-Net Profit	6,847	6,893	1%	6,965	7,084	2%	7,334	7,454	2%
NIM	1.96%	1.96%	(1)	1.92%	1.93%	1	1.91%	1.91%	1
Gross Loans	301,135	294,848	-2%	313,941	303,417	-3%	330,238	318,791	-3%
Deposits	365,395	365,395	0%	382,979	382,979	0%	401,643	401,643	0%
Gross NPL (%)	1.15%	1.13%	(1)	1.22%	1.26%	4	1.14%	1.18%	3

Source: Maybank IBG Research

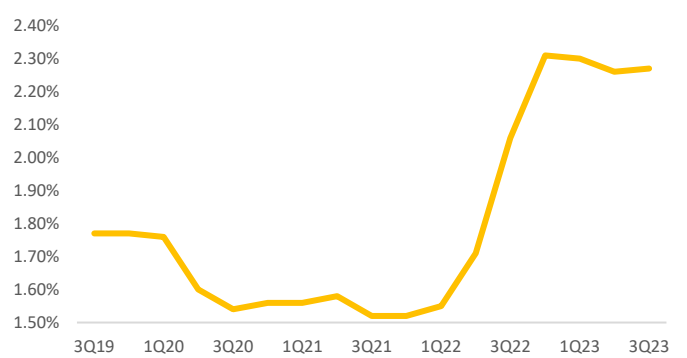
Focus charts

Fig 3: Net interest income YoY (%)



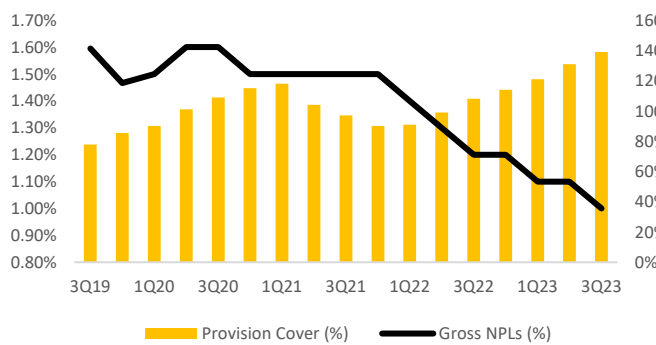
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



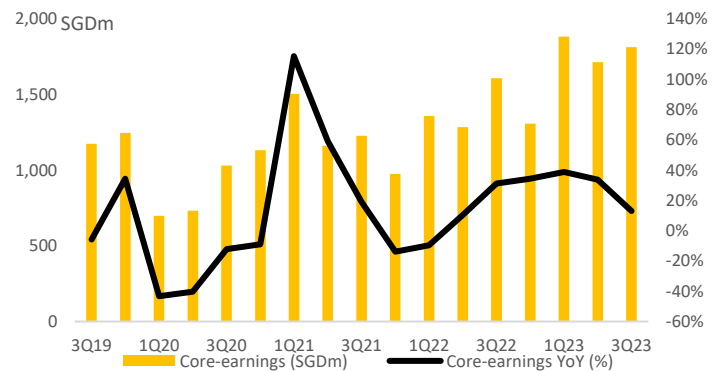
Source: Company data, Maybank IBG Research

Fig 5: Gross NPLs and provision cover



Source: Company data, Maybank IBG Research

Fig 6: Core-earnings YoY (%)



Source: Company data, Maybank IBG Research

Detailed assumptions

Fig 7: Detailed assumptions

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Balance Sheet								
Loan growth y-o-y (%)	9%	3%	1%	8%	2%	0%	3%	5%
Corporate Loan growth y-o-y (%)	13%	6%	3%	8%	4%	0%	3%	5%
Consumer Loan growth y-o-y (%)	2%	-3%	-2%	9%	-2%	0%	3%	5%
Deposit growth y-o-y (%)	4%	3%	4%	9%	2%	4%	5%	5%
CASA Deposit growth y-o-y (%)	-2%	7%	30%	14%	-16%	-5%	3%	21%
Cash and balances with central banks as a % of Deposits	6%	8%	8%	8%	10%	13%	14%	14%
Loan to Deposit Ratio (%)	87.2%	87.4%	84.9%	84.6%	84.3%	80.7%	79.2%	79.4%
Profit & Loss								
Net Interest Margin - Adjusted (%)	1.63%	1.70%	1.55%	1.46%	1.84%	1.96%	1.93%	1.91%
Net Interest income growth y-o-y (%)	8.6%	7.5%	-5.8%	-1.9%	31.3%	10.4%	3.4%	3.9%
Non-interest income growth y-o-y (%)	-7.1%	19.1%	-8.1%	13.6%	-15.9%	9.0%	5.6%	4.3%
PPOP growth y-o-y (%)	0.1%	13.7%	-8.6%	2.4%	14.2%	15.7%	3.3%	3.0%
PBT growth y-o-y (%)	8.9%	4.5%	-28.2%	36.4%	22.2%	16.4%	2.7%	6.3%
Cost to Income Ratio (%)	44.5%	43.7%	44.8%	45.9%	43.9%	41.0%	41.5%	42.1%
Dividend Payout on core-profits (%)	41%	48%	40%	49%	53%	52%	50%	50%
Asset Quality								
Gross NPL (%)	1.5%	1.5%	1.5%	1.5%	1.2%	1.1%	1.3%	1.2%
Provision coverage (GP+SP+RLAR/NPA) (%)	70%	86%	115%	90%	114%	133%	131%	142%
Credit charge (Allowance for credit losses/gross loans) (%)	0.12%	0.34%	0.77%	0.31%	0.20%	0.19%	0.23%	0.16%
NPA growth y-o-y (%)	13.6%	-1.4%	3.1%	8.3%	-19.6%	-4.1%	14.1%	-1.9%
Capital								
CET1 ratio (%)	14.0%	14.9%	15.2%	15.5%	15.2%	14.6%	15.1%	15.3%
Tier-1 ratio (%)	14.8%	15.6%	15.8%	16.0%	15.9%	15.3%	15.9%	16.1%
Total Capital ratio (%)	16.5%	16.9%	17.9%	17.6%	17.7%	17.4%	17.6%	17.8%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	10.5	9.5	8.5	8.3	7.9
Core FD P/E (x)	10.5	9.5	8.5	8.3	7.9
P/BV (x)	1.0	1.0	1.0	1.0	0.9
P/NTA (x)	1.1	1.1	1.1	1.0	1.0
Net dividend yield (%)	4.6	5.6	6.1	6.0	6.3
INCOME STATEMENT (SGD m)					
Interest income	7,425.0	11,590.0	13,666.8	14,058.5	14,643.6
Interest expense	(1,570.0)	(3,902.0)	(5,177.7)	(5,281.5)	(5,522.4)
Net interest income	5,855.0	7,688.0	8,489.0	8,777.0	9,121.1
Net insurance income	1,334.0	1,189.0	1,070.1	1,123.6	1,179.8
Net fees and commission	2,245.0	1,851.0	1,943.6	2,099.0	2,204.0
Other income	1,162.0	947.0	1,332.4	1,368.2	1,405.4
Total non-interest income	4,741.0	3,987.0	4,346.0	4,590.9	4,789.1
Operating income	10,596.0	11,675.0	12,835.0	13,367.9	13,910.3
Staff costs	(3,028.0)	(3,233.0)	(3,297.7)	(3,363.6)	(3,430.9)
Other operating expenses	(1,839.0)	(1,897.0)	(1,967.5)	(2,182.1)	(2,424.4)
Operating expenses	(4,867.0)	(5,130.0)	(5,265.2)	(5,545.7)	(5,855.3)
Pre-provision profit	5,729.0	6,545.0	7,569.9	7,822.2	8,055.0
Loan impairment allowances	(873.0)	(584.0)	(568.6)	(687.2)	(487.1)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	824.0	978.0	1,075.8	1,161.9	1,254.8
Pretax profit	5,680.0	6,939.0	8,077.0	8,296.8	8,822.7
Income tax	(648.0)	(1,057.0)	(1,050.0)	(1,078.6)	(1,235.2)
Minorities	(174.0)	(134.0)	(134.0)	(134.0)	(134.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,858.0	5,748.0	6,893.0	7,084.2	7,453.5
Core net profit	4,858.0	5,748.0	6,893.0	7,084.2	7,453.5
BALANCE SHEET (SGD m)					
Cash & deposits with banks	53,381.0	65,210.0	80,263.6	87,149.3	91,803.9
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	9,267.0	15,605.0	15,761.1	15,761.1	15,761.1
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	71,286.0	67,377.0	72,697.7	79,503.1	82,820.8
Loans & advances	286,281.0	291,467.0	290,890.7	298,909.9	313,953.5
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	6,170.0	6,340.0	6,340.0	6,340.0	6,340.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	4,307.0	4,246.0	4,246.0	4,246.0	4,246.0
Intangible assets	4,774.0	4,643.0	4,643.0	4,643.0	4,643.0
Other assets	106,721.0	105,068.0	106,118.7	107,179.9	108,251.7
Total assets	542,187.0	559,956.0	580,960.7	603,732.3	627,819.9
Deposits from customers	342,395.0	350,081.0	365,394.8	382,979.4	401,642.5
Deposits from banks & FIs	8,239.0	10,046.0	11,050.6	11,271.6	11,497.0
Derivatives financial instruments	9,070.0	16,048.0	16,048.0	16,048.0	16,048.0
Subordinated debt	2,730.0	3,484.0	3,484.0	3,484.0	3,484.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	17,385.0	18,454.0	19,376.7	20,345.5	21,362.8
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	108,030.0	107,175.0	107,175.0	107,175.0	107,175.0
Total liabilities	487,849.0	505,288.0	522,529.1	541,303.5	561,209.4
Share capital	18,040.0	18,048.0	18,048.0	18,048.0	18,048.0
Reserves	33,425.0	33,343.0	37,106.7	41,103.8	45,285.5
Shareholders' funds	51,465.0	51,391.0	55,154.7	59,151.8	63,333.5
Preference shares	1,198.0	1,696.0	1,696.0	1,696.0	1,696.0
Minority interest	1,675.0	1,581.0	1,581.0	1,581.0	1,581.0
Total equity	54,338.0	54,668.0	58,431.7	62,428.8	66,610.5
Total liabilities & equity	542,187.0	559,956.0	580,960.7	603,732.3	627,819.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	(1.9)	31.3	10.4	3.4	3.9
Non-interest income	13.6	(15.9)	9.0	5.6	4.3
Operating expenses	7.1	5.4	2.6	5.3	5.6
Pre-provision profit	2.4	14.2	15.7	3.3	3.0
Core net profit	35.5	18.3	19.9	2.8	5.2
Gross loans	8.4	1.8	(0.0)	2.9	5.1
Customer deposits	8.7	2.2	4.4	4.8	4.9
Total assets	4.0	3.3	3.8	3.9	4.0
Profitability (%)					
Non-int. income/Total income	44.7	34.1	33.9	34.3	34.4
Average lending yields	1.86	2.78	3.15	3.09	3.07
Average cost of funds	0.44	1.04	1.33	1.29	1.29
Net interest margin	1.46	1.84	1.96	1.93	1.91
Net income margin	45.85	49.23	53.70	52.99	53.58
Cost/income	45.9	43.9	41.0	41.5	42.1
Liquidity (%)					
Loans/customer deposits	83.6	83.3	79.6	78.0	78.2
Asset quality (%)					
Net NPL	0.3	(0.0)	(0.2)	(0.3)	(0.4)
Gross NPL	1.5	1.2	1.1	1.3	1.2
Net NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.3	0.2	0.2	0.2	0.2
Loan loss coverage	90.0	114.5	132.7	130.7	142.1
Capital adequacy (%)					
CET1	15.5	15.2	14.6	15.1	15.3
Tier 1 capital	16.0	15.9	15.3	15.9	16.1
Risk-weighted capital	17.6	17.7	17.4	17.6	17.8
Returns (%)					
ROAE	9.7	11.2	12.9	12.4	12.2
ROAA	0.9	1.0	1.2	1.2	1.2
Shareholders equity/assets	9.5	9.2	9.5	9.8	10.1

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
fionallim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsenyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

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.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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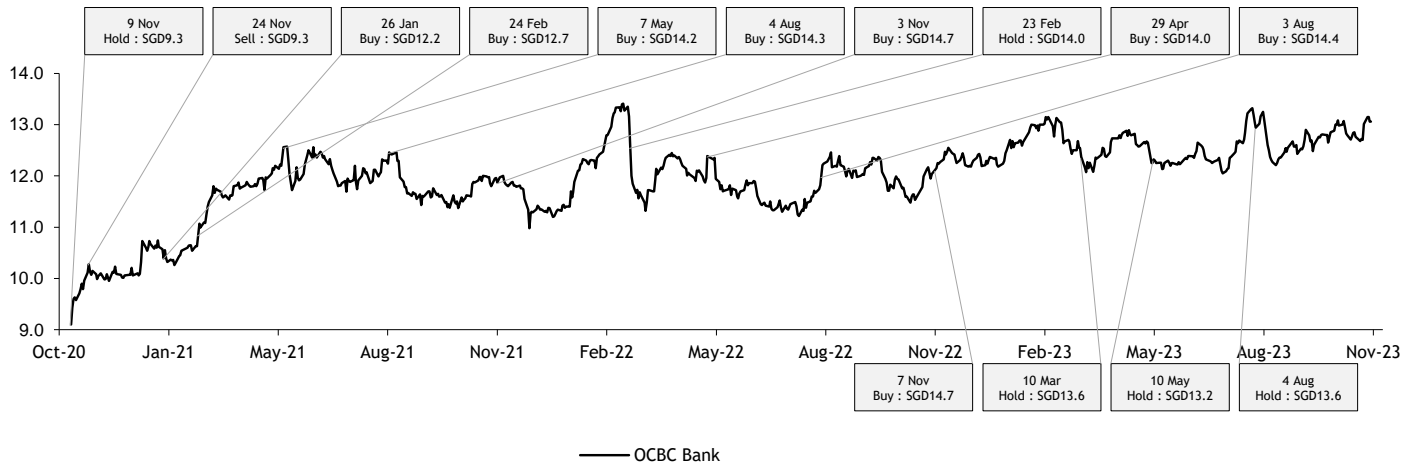
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 **Malaysia**

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

 **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