

RHB Bank (RHBBANK MK)

3Q23 results above our expectations

HOLD maintained

RHB's 3Q23 results were above our expectations and we upgrade FY23/24/25E earnings by 4%/1%/3% respectively. We expect FY24 earnings growth to be relatively subdued, on the assumption that credit cost normalizes after the write-back of COVID overlays in 2Q23. We maintain our TP of MYR6.20 on an FY24E PBV of 0.8x (FY24E ROE: 9.1%).

Above our expectations

RHB's 3Q23 core net profit of MYR650m (-7% YoY, -20% QoQ) took 9M23 core net profit to MYR2.2b (+16% YoY) - above our expectations (81% of full-year) but within consensus (77%). The variance was largely due to still buoyant non-interest income (NOII) (+38% QoQ).

Some positives and negatives

Positively, NIM stabilized and rose 3bps QoQ in 3Q23, while NOII remained strong. Operating expenses were under control, contracting 3% YoY in 3Q23 (up 3% YoY in 9M23). On the flip side, CASA contracted 4% YTD while credit cost normalized after the hefty write-back in 2Q23. The group's impaired loans are up 20% YTD, while loan loss coverage declined to 75% end-Sep 2023 (104% including regulatory reserves) from 83% end-June 2023. Associate losses rose due to start-up losses at its 40%-owned digital bank.

ROE guidance lowered

Management has raised its FY23 loan growth guidance to 5-5.5% (MIBG: 5.1%) from 4-5% on expectations of higher corporate drawdowns in 4Q23. It has lowered its year-end CASA ratio to 27-28% from 30% previously, and raised its GIL ratio guidance to 1.7-1.8% from 1.5%. Cost/income ratio (CIR) is guided at 47-47.5% (MIBG: 47.2%) from 44.6% previously. NIM guidance of 1.8-1.9% is maintained (MIBG: 1.87%), while gross credit cost is expected to be 20-25bps (MIBG: 24bps). FY23 ROE guidance has been lowered to 10% from 11% (MIBG: 9.6%).

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	8,034	8,309	7,477	7,974	8,461
Pre-provision profit	4,511	4,592	3,948	4,309	4,630
Core net profit	3,055	2,708	2,879	2,907	3,164
Core EPS (MYR)	0.76	0.68	0.67	0.66	0.71
Core EPS growth (%)	32.5	(11.4)	(1.2)	(0.7)	7.1
Net DPS (MYR)	0.40	0.40	0.33	0.33	0.36
Core P/E (x)	7.0	8.6	8.4	8.4	7.8
P/BV (x)	0.8	0.9	0.8	0.7	0.7
Net dividend yield (%)	7.4	6.9	6.0	5.9	6.4
Book value (MYR)	6.76	6.77	7.22	7.44	7.68
ROAE (%)	11.1	9.5	9.6	9.1	9.5
ROAA (%)	1.1	0.9	0.9	0.9	0.9
Consensus net profit	-	-	2,817	2,920	3,121
MIBG vs. Consensus (%)	-	-	2.2	(0.5)	1.4

Desmond Ch'ng, BFP, FCA
desmond.chng@maybank-ib.com
(603) 2297 8680

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Share Price	MYR 5.57
12m Price Target	MYR 6.20 (+11%)
Previous Price Target	MYR 6.20

Company Description

RHB Capital provides integrated financial services such as commercial banking, Islamic banking, investment banking, and stock broking, among others.

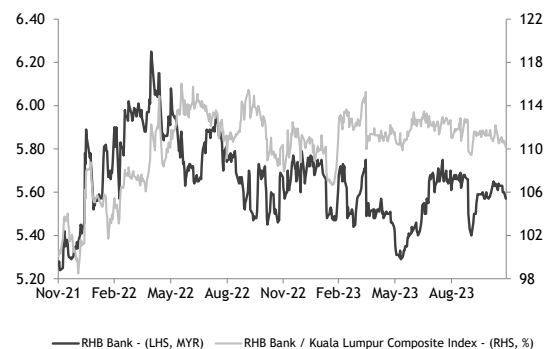
Statistics

52w high/low (MYR)	5.79/5.29
3m avg turnover (USDm)	4.6
Free float (%)	45.6
Issued shares (m)	4,286
Market capitalisation	MYR23.9B
	USD5.1B

Major shareholders:

Employees Provident Fund	41.0%
OSK Holdings Bhd.	10.2%
Permodalan Nasional Bhd.	6.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(1)	(2)
Relative to index (%)	(1)	(2)	0

Source: FactSet

Figure 1: RHB Bank: Results

FYE Dec (MYR m)	Quarterly					Cumulative		
	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Interest income	2,432.2	1,937.9	25.5	2,316.9	5.0	6,979.6	5,203.8	34.1
Interest expense	(1,516.6)	(835.5)	81.5	(1,424.2)	6.5	(4,287.2)	(2,080.3)	106.1
Net interest income	915.6	1,102.4	(16.9)	892.7	2.6	2,692.4	3,123.6	(13.8)
Islamic banking income	607.7	593.2	2.4	671.9	(9.6)	1,832.9	1,703.7	7.6
Non-interest income	435.9	461.1	(5.5)	314.9	38.4	1,221.2	1,093.0	11.7
Operating income	1,959.2	2,156.7	(9.2)	1,879.5	4.2	5,746.4	5,920.2	(2.9)
Operating expenses	(908.4)	(932.2)	(2.5)	(943.4)	(3.7)	(2,708.4)	(2,622.8)	3.3
Operating Profit	1,050.8	1,224.6	(14.2)	936.0	12.3	3,038.0	3,297.4	(7.9)
Loan loss provisions	(156.9)	(192.3)	(18.4)	131.5	NM	(71.4)	(364.8)	(80.4)
Other provisions	0.0	(0.0)	-	0.0	Nm	-	(20.0)	-
Associates & JVs	(14.6)	0.0	-	(4.4)	-	(19.0)	-	NM
Pretax Profit	879.3	1,032.2	(14.8)	1,063.1	(17.3)	2,947.6	2,912.6	1.2
Taxation	(228.4)	(336.3)	(32.1)	(253.4)	(9.8)	(724.4)	(1,003.9)	(27.8)
Discontinued operations	0.0	0.0	-	0.0	na	-	-	-
Minority interest	(0.9)	(0.5)	94.0	(1.0)	(6.2)	(2.9)	(1.0)	>100
Net profit	649.9	695.4	(6.5)	808.7	(19.6)	2,220.3	1,907.7	16.4
Recurring net profit	649.9	695.4	(6.5)	808.7	(19.6)	2,220.3	1,907.7	16.4
EPS (sen)	15.1	16.5	(8.2)	19.0	(20.4)	521.9	45.7	>100
Net DPS (sen)	0.0	0.0	-	15.0	-	15.0	15.0	-
Cost-to-income (%)	46.4	43.2	3.1	50.2	(3.8)	47.1	44.3	2.8
Tax rate (%)	26.0	32.6	(6.6)	23.8	2.1	24.6	34.5	(9.9)
Balance sheet (MYR m)	Sep 23	Sep 22	YoY chg	Jun 23	QoQ chg	Sep22	Dec 22	YTD Chg
Gross loans & advances	219,395	209,740	4.6	214,192	2.4	219,395	212,200	3.4
Net loans & advances	216,343	205,703	5.2	211,204	2.4	216,343	208,379	3.8
Deposits from customers	258,662	226,937	14.0	253,473	2.0	258,662	228,406	13.2
			ppt chg		ppt chg			ppt chg
Gross LDR	84.8	92.4	(7.6)	84.5	0.3	84.8	92.9	(8.7)
Gross impaired loans	3,931.3	3,296.9	19.2	3,512	11.9	3,931.3	3,289	19.5
Gross impaired loans ratio	1.8	1.6	0.2	1.6	0.2	1.8	1.5	0.2
Loan loss coverage	75.0	118.1	(43.1)	82.5	(7.5)	75.0	112.8	(37.8)

Source: Bank, Maybank IBG Research

Key highlights

Loan growth: Group loans expanded 3.4% YTD and 4.6% YoY. Domestic loan growth was more subdued, averaging just 1.7% YTD (2.6% YoY). Although consumer and SME loans expanded 4% and 3.9% YTD respectively, wholesale banking loans contracted 4.5% YTD. Positively, overseas loans grew at a robust pace of 14.4% YTD, with loan growth of 16.8% YTD in Singapore and 9.6% YTD in Cambodia. Given expectations of lumpy corporate drawdowns (in financials, O&G and transportation & storage) in 4Q23, management has, in fact, raised its loan growth guidance to 5-6% for FY23 versus 4-5% previously.

Deposit growth: Total deposits rose 4% YTD and 4.7% YoY. CASA, however, contracted 4.3% YTD. Domestic CASA improved slightly by 2.3% YTD but overseas CASA contracted by a hefty 33% YTD. As a result, the group's CASA ratio was a lower 26.9% in Sep 2023 versus 27.6% in June 2023. The group's loan/deposit ratio stood at 92.9% while its liquidity coverage ratio was 144.8%.

Net interest margin (NIM): The group's NIM improved 3bps QoQ to 1.85% in 3Q23. 9M23 NIM averaged 1.85%, down 39bps from 2.24% in FY22. This is within management's guidance of 1.80-1.90% for the year.

Non-interest income (NOII): 3Q23 NOII contracted 5.5% YoY but 9M23 NOII rose 11.7% YoY. 9M23 net fee income contracted 5% YoY but this was compensated by MTM investment gains (versus losses in 9M22) and higher realised investment gains, which more than compensated for lower forex income in 9M23. At this stage, 4Q23 investment/trading income is trending positively relative to 3Q23.

Operating expenses: 9M23 expenses rose 3.3% YoY. Establishment and marketing expenses rose at a faster clip of 6.1% and 7.8% YoY respectively, relative to personnel expense growth of 2.5% YoY, while admin expenses contracted 1% YoY. The group's cost/income ratio rose to 47.1% in 9M23 versus 44.7% in FY22.

Asset quality. The group's gross impaired loans (GIL) rose 12% QoQ to MYR3.9b end-Sep 2023 and are up 20% YTD. This has been attributed to higher overseas impairment in Cambodia (wholesale and retail trade sectors) and Thailand (manufacturing and wholesale/retail). On the domestic consumer front, the GIL ratio for mortgages and auto financing have continued to rise, but where it is seeing a more pronounced uptick is for its SME (30% under credit guarantee programmes) and commercial (from the property development segment) GIL ratios. The former rose from 2.98% end-Dec 2022 to 3.4% end-Sep 2023, while the latter has risen from 1.22% to 2.43%.

Credit cost: There was a net write-back (-0.19%) in 2Q23, as management wrote back its COVID related overlays (the bank still has about MYR557m of macro overlays). Credit cost nevertheless normalized to 30bps in 3Q23, resulting in a total credit cost of 7bps in 9M23 - normalized gross credit cost of 24bps. This is in line with management's previous gross credit cost guidance of 25-30bps - management now guides for gross credit cost of 20-25bps.

Loan loss coverage was a lower 75% end-Sep 2023 (104.6% including regulatory reserves), and this compares to 82.5%, 108.5% including regulatory reserves, end-June 2023.

Associate losses widen. Associate losses widened to MYR14.6m in 3Q23 from MYR4.4m in 2Q23, attributed to start-up losses at its 40%-owned digital bank.

Capital ratios: The group's CET1 ratio declined to 16.2% end-Sep 2023 from 16.7% end-June 2023 and to 14.9% from 15.1% at the bank level.

Figure 2: Foreign shareholding in RHB Bank (15.75% end-Oct 2023)

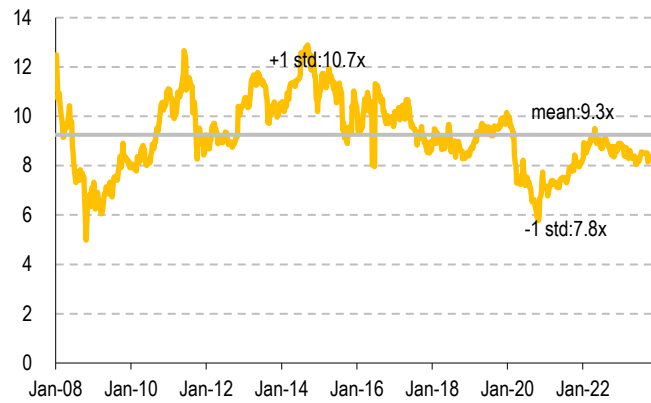


Source: Bank

Risk statement

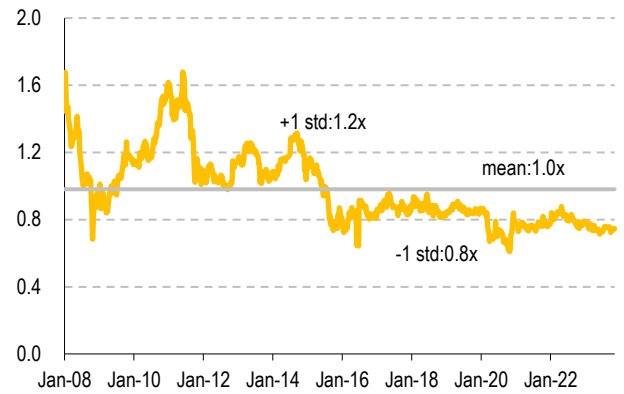
As the fourth largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance and hence potentially our estimates, rating, and target price. Volatility in the O&G sector could result in asset quality issues for both its Malaysia and Singapore loan exposures.

Figure 3: One-year forward rolling PER (x)



Source: Bloomberg, Maybank IBG Research

Figure 4: One-year forward rolling P/BV (x)



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	7.0	8.6	8.4	8.4	7.8
Core FD P/E (x)	7.0	8.6	8.4	8.4	7.8
P/BV (x)	0.8	0.9	0.8	0.7	0.7
P/NTA (x)	0.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	7.4	6.9	6.0	5.9	6.4

INCOME STATEMENT (MYR m)

Interest income	6,328.5	7,382.0	7,395.5	7,663.1	7,904.7
Interest expense	(2,266.5)	(3,207.5)	(4,209.6)	(4,296.7)	(4,424.6)
Net interest income	4,062.0	4,174.5	3,185.9	3,366.4	3,480.2
Islamic banking income	2,095.1	2,398.1	2,589.9	2,797.1	3,020.9
Net insurance income	235.0	209.0	219.4	230.4	241.9
Net fees and commission	1,094.3	866.5	823.2	864.3	907.5
Other income	547.1	660.8	658.8	715.4	810.1
Total non-interest income	1,876.4	1,736.2	1,701.4	1,810.1	1,959.6
Operating income	8,033.6	8,308.8	7,477.2	7,973.5	8,460.6
Staff costs	(2,137.7)	(2,250.2)	(2,137.7)	(2,233.9)	(2,345.6)
Other operating expenses	(1,384.7)	(1,466.6)	(1,391.3)	(1,431.1)	(1,484.7)
Operating expenses	(3,522.4)	(3,716.8)	(3,529.0)	(3,665.0)	(3,830.3)
Pre-provision profit	4,511.2	4,591.9	3,948.2	4,308.5	4,630.3
Loan impairment allowances	(737.2)	(421.2)	(118.7)	(449.5)	(437.4)
Other allowances	(0.3)	(0.0)	0.0	0.0	0.0
Associates & JV income	0.0	0.1	(33.6)	(26.8)	(21.5)
Pretax profit	3,773.6	4,170.8	3,795.9	3,832.2	4,171.5
Income tax	(905.6)	(1,458.8)	(911.0)	(919.7)	(1,001.2)
Minorities	(4.7)	(4.3)	(5.8)	(5.8)	(6.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,863.3	2,707.7	2,879.1	2,906.7	3,164.0
Core net profit	3,055.3	2,707.7	2,879.1	2,906.7	3,164.0

BALANCE SHEET (MYR m)

Cash & deposits with banks	23,318.1	19,787.2	15,910.8	15,910.8	15,910.8
Sec. under resale agreements	0.0	101.3	109.4	118.1	127.6
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	2,778.2	3,089.4	3,243.9	3,406.1	3,576.4
Available-for-sale securities	59,102.4	65,980.4	71,258.8	74,821.8	78,562.9
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	194,896.6	208,378.6	218,943.7	228,577.2	238,634.6
Central bank deposits	635.0	3,429.6	6,393.7	6,666.0	6,949.2
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,191.3	1,212.9	1,237.1	1,261.9	1,287.1
Intangible assets	3,348.9	3,414.5	3,414.5	3,414.5	3,414.5
Other assets	4,270.9	5,377.5	5,458.5	5,542.3	5,629.2
Total assets	289,541.5	310,771.3	325,970.3	339,718.6	354,092.2
Deposits from customers	219,313.9	228,405.8	236,246.2	245,696.0	255,523.8
Deposits from banks & FIs	23,406.8	24,593.9	25,577.6	26,600.7	27,664.8
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	3,221.9	2,867.1	2,867.1	2,867.1	2,867.1
Other securities in issue	3,646.4	3,841.2	4,441.2	4,441.2	4,441.2
Other borrowings	4,636.0	13,722.5	14,326.8	14,961.3	15,627.5
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	7,286.0	8,572.5	11,294.4	12,470.9	13,692.6
Total liabilities	261,510.9	282,002.9	294,753.2	307,037.2	319,817.0
Share capital	7,612.6	8,145.6	8,145.6	8,145.6	8,145.6
Reserves	20,385.7	20,590.5	23,033.4	24,492.0	26,079.4
Shareholders' funds	27,998.3	28,736.1	31,179.0	32,637.6	34,225.0
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	32.2	32.3	38.1	43.9	50.3
Total equity	28,030.5	28,768.4	31,217.1	32,681.5	34,275.2
Total liabilities & equity	289,541.5	310,771.3	325,970.3	339,718.6	354,092.2

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	21.5	2.8	(23.7)	5.7	3.4
Non-interest income	(13.8)	(7.5)	(2.0)	6.4	8.3
Operating expenses	4.0	5.5	(5.1)	3.9	4.5
Pre-provision profit	18.7	1.8	(14.0)	9.1	7.5
Core net profit	32.5	(11.4)	6.3	1.0	8.9
Gross loans	6.7	6.9	5.1	4.4	4.4
Customer deposits	7.8	4.1	3.4	4.0	4.0
Total assets	6.8	7.3	4.9	4.2	4.2
Profitability (%)					
Non-int. income/Total income	23.4	20.9	22.8	22.7	23.2
Average lending yields	3.02	3.39	3.29	3.31	3.31
Average cost of funds	1.17	1.52	1.91	1.92	1.90
Net interest margin	2.19	2.28	1.90	1.95	1.97
Cost/income	43.8	44.7	47.2	46.0	45.3
Liquidity (%)					
Loans/customer deposits	88.9	91.2	92.7	93.0	93.4
Asset quality (%)					
Net NPL	0.8	0.7	1.0	1.0	1.0
Gross NPL	1.5	1.5	1.8	1.8	1.8
(SP+GP)/average gross loans	0.4	0.2	0.1	0.2	0.2
Loan loss coverage	122.4	112.8	100.5	100.5	100.5
Capital adequacy (%)					
CET1	17.2	16.9	15.0	15.3	15.5
Tier 1 capital	17.2	16.9	15.2	15.4	15.6
Risk-weighted capital	19.8	19.3	17.2	17.4	17.5
Returns (%)					
ROAE	11.1	9.5	9.6	9.1	9.5
ROAA	1.1	0.9	0.9	0.9	0.9
Shareholders equity/assets	9.7	9.2	9.6	9.6	9.7

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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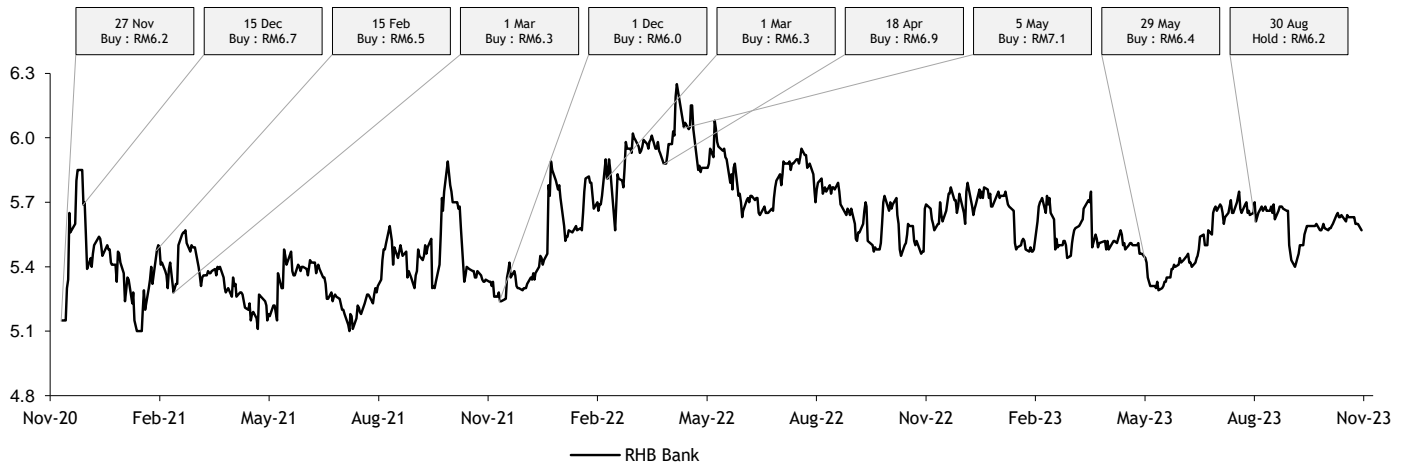
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Malaysia

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, 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