

# Food Empire Holdings (FEH SP)

## And now for the cream on top

### TP raised to SGD1.68 - Maintain BUY

FEH logged another record FY with core NPAT surging 25.3% to USD56.5m while revenue rose 6.9% to USD425.7m, driven by stronger demand from markets like CIS, SEA and South Asia. Management declared a record SGD0.10/sh dividend, a 250% YoY increase from FY22. Going forward, its non-dairy creamer expansion should add about USD20-50m of revenues in the next 1-2 years after it ramps up while demand from its core markets is likely to remain strong. As a result, we raise our FY24/25 PATMI estimates by 17.3% and 14.5%, resulting in our TP rising to SGD1.68 from SGD1.60, pegged to an 11x FY24 P/E. Maintain BUY

### Back-to-back record years and more to come

Revenue grew steadily by 6.9% YoY to USD425.7m due to strong demand from its CIS, SEA and South Asia markets which grew YoY by 21.1%, 9.6% and 24.1%, respectively. Gross and net margins also improved to 33.2% from 29.8% a year ago and 13.3% from 11.3%. Going forward, the non-dairy creamer expansion could potentially add USD20-40m of revenue in the next 1-2 years with a net margin of between 8-10%. In addition, demand from core markets remains strong which should drive revenue growth of 5-10% consistently YoY. As a result, we expect a better FY24E which implies another record FY for Food Empire.

### Record dividend SGD0.10 - 7% FY23 yield

Management declared a record dividend of SGD0.10, made up of ordinary dividend of SGD0.05/sh and a special dividend of SGD0.05/sh, up 250% from SGD0.04. We think that this level of dividends is sustainable if performance continues to improve as, even at SGD0.10/sh, it represents a 70% NPAT pay-out ratio. FEH has a strong net cash balance sheet and generates strong operating cash flow which makes the possibility of continuing to reward shareholders with more dividends more likely.

### Share buybacks likely to continue

FEH's business model has proven resilient and we are confident in management's execution capability. Management still believes FEH is undervalued at 9.5x FY24 P/E and we believe the share buybacks will likely continue despite the share price performing well.

FYE Dec (USD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	398	426	475	499	523
EBITDA	54	70	79	83	88
Core net profit	45	57	62	65	68
Core EPS (cts)	8.3	10.4	11.3	11.8	12.5
Core EPS growth (%)	129.2	25.3	9.5	4.5	5.5
Net DPS (cts)	3.2	10.0	11.0	11.4	12.1
Core P/E (x)	5.7	8.3	9.5	9.1	8.6
P/BV (x)	0.9	1.6	1.9	1.7	1.6
Net dividend yield (%)	6.8	11.7	10.1	10.6	11.2
ROAE (%)	23.8	19.7	20.2	19.7	19.6
ROAA (%)	12.5	14.4	14.6	14.2	14.2
EV/EBITDA (x)	3.1	5.3	6.4	6.1	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	58	62	na
MIBG vs. Consensus (%)	-	-	6.0	3.6	na

Jarick Seet  
jarick.seet@maybank.com  
(65) 6321 5848

Eric Ong  
ericong@maybank.com  
(65) 6231 5924

# BUY

Share Price	SGD 1.45
12m Price Target	SGD 1.68 (+21%)
Previous Price Target	SGD 1.60

### Company Description

Food Empire Holdings Ltd. operates as a global branding and manufacturing company in the food and beverage sector.

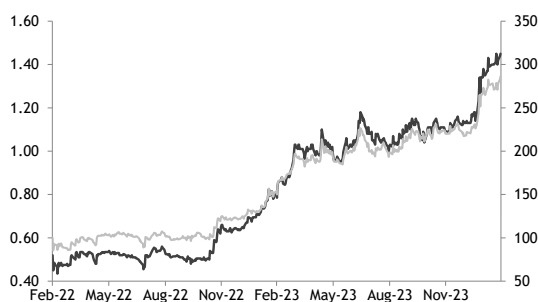
### Statistics

52w high/low (SGD)	1.45/0.79
3m avg turnover (USDm)	0.8
Free float (%)	30.6
Issued shares (m)	548
Market capitalisation	SGD794.7M USD592M

### Major shareholders:

SALIM ANTHONI	24.1%
TAN GUEK MING	12.5%
NAIR SUDEEP	12.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	8	31	80
Relative to index (%)	8	27	85

Source: FactSet

### Abbreviations explained

CIS - Commonwealth of Independent States markets include Russia, Belarus, Kazakhstan and other former Soviet states.

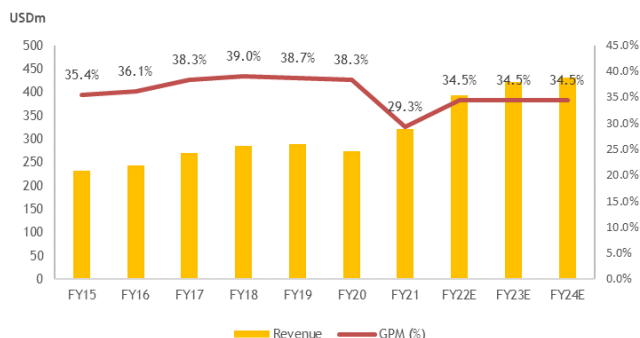
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## Value Proposition

- Market leader of 3-in-1 coffee in Russia.
- Growing steadily in new markets like Vietnam and other Southeast Asian countries.
- Fully integrated with the freeze dry coffee plant in India. Relatively high barriers to entry and brand recognition by end-consumers. Trading at just 8.2x FY23E P/E, a huge discount to global peers at an average of 27x.
- Robust balance sheet %.
- Clear ESG policies and strategies.

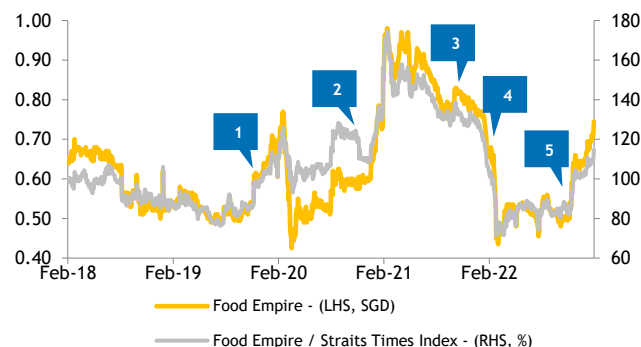
### Revenue and GPM



Source: Company, Maybank IBG Research

## Price Drivers

### Historical share price trend



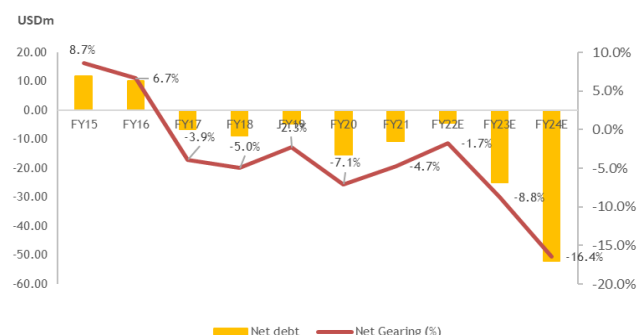
Source: Company, Maybank IBG Research

1. In Sep'19, FEH bagged its inaugural Sustainability Award as Winner under the "Small Cap" category.
2. In Dec'20, the Group further expanded its manufacturing facility in India.
3. In Oct'21, FEH was awarded The Enterprise Award 2020/21 under The Singapore Business Awards.
4. In Feb'22, Russia launched a military invasion of Ukraine, causing supply chain disruptions and FX volatility.
5. In Aug'22, FEH was recognised as one of the Top 100 "Most Valuable Singaporean Brands" by Brand Finance, with brand value of USD101m.

## Financial Metrics

- Improvement in margins due to new policies and price increases.
- Revenue continued to grow progressively in key existing and new markets.
- Positive cash flow notwithstanding self-funded capex plans and generous annual dividends.

### Net cash and gearing ratio



Source: Company, Maybank IBG Research

## Swing Factors

### Upside

- End of the Russia--Ukraine war.
- Continued strong growth in other markets and revenue diversification away from Russia.
- An attractive takeover target by bigger F&B players or private equity funds.

### Downside

- Escalation of the Russian war will likely hurt its business.
- Higher raw material prices and Ruble depreciation are negative for earnings.
- New competitors entering the market might temporarily dilute its market share.

# ESG@MAYBANK IBG

Jarick.seet@maybank.com

Risk Rating & Score <sup>1</sup>	Not Rated
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- As a food manufacturing company, the Group places a significant emphasis on ensuring that its products are healthy and safe for consumption. Any mismanagement of the products can result in a loss of reputation, financial penalties and possible breach of product safety laws in affected market.
- Given the challenging operating environment, FEH has taken measures to deal with high freight prices, supply chain disruptions, as well as inflationary cost pressures, amongst other external issues that had to be managed.
- The economic sanctions imposed on Russia has resulted in severe supply chain disruptions and currency exchange rate volatility. If the conflict between Russia and Ukraine escalates, this could potentially threaten the Group’s business outlook as these two key markets contributed about 45% of its total revenue in FY21.

### Material E issues

- The profitability and production capacity of the Group’s coffee plant faces severe climate risk as yields can be impacted by the direct increase in temperatures, instability in precipitation as well as increases in pests in the regions where coffee is grown.
- To manage carbon footprint, FEH implemented several energy conservation initiatives at facility-level across its operations. It also seeks to align its energy and emissions management with the various country-specific energy regulations and policies.
- Given the issues of water scarcity, FEH has taken steps to enforce the efficient & responsible use of water throughout its operations. The Group tries to utilize water at every step of its value chain to avoid straining water supply and to rebalance the ecosystem.

### Material S issues

- The food safety and quality policies are constantly reviewed to ensure that they satisfy new regulatory requirements and customer preferences. These policies ensure that it continues to produce good quality products at country level to ensure compliance with local regulations.
- In 2021, Vietnam accounted for most of its new hires and turnovers which largely occurred within its sales division. It is an industry trend in Vietnam for sales jobs to have a high turnover rate due to the demographics of individuals.
- FEH built a COVID-19 testing and vaccination centre at its Vietnam plant to provide free vaccination & testing services for its employees. The facility also served as a temporary isolation centre for those exposed to COVID-19 patients.

### Key G metrics and issues

- The board has eight directors, including the Executive Chairman, the CEO/Executive Director and six independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board is made up of 87.5% males and hence, we believe there is room to improve the diversity and composition of its Board, with the future appointment of a female member.
- Executive Chairman, Tan Wang Cheow and CEO Sudeep Nair holds about 22.5% and 11.27% stakes in the company respectively.
- Institutional investor, FMR LLC is a substantial shareholder and owns about 8% interest in the company.
- The external auditor is Ernst & Young LLP.
- Country-specific safety management systems and committees are put in place to provide greater flexibility in responding to different regulations on health and safety in every country in which it operates.
- There were no cases of non-compliance with all applicable laws and regulations concerning consumer health and safety in its Vietnam plant.
- To reduce market-concentration risks, FEH has diversified into different markets in Asia over the years. In 2021, the turnover of its Southeast Asia market accounted for c.30% of total revenues.

<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).

Quantitative Parameters (Score: 53)						
	Particulars	Unit	2019	2020	2021	SSG SP (2021)
E	Scope 1 GHG emissions	tCO2e	59	23	15	28,044
	Scope 2 GHG emissions	tCO2e	816	777	861	51,212
	<b>Total</b>	tCO2e	875	800	876	79,256
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	<b>Total</b>	tCO2e	875	800	876	79,256
	GHG intensity (Scope 1 and 2)	tonnes CO2/tonnes of product	0.147	0.105	0.093	0.040
	Direct Energy consumption	GJ/Tonnes of product	0.08	0.04	0.03	341,385.00
	Electrical Energy consumption	MWh	1,049.00	999.00	978.00	292,301.00
Water purchased	m3	NA	12,171	11,934	222,468	
S	% of women in workforce	%	42.6%	41.4%	36.2%	44.0%
	Economic value generated and distributed	USDm/SGDm	289	273	321	1,370
	Total training hours by gender (women)	Hours	NA	424.75	144	1535
	Turnover rate	%	53.5%	52.3%	51.0%	23.0%
	Direct training hours	%	NA	NA	NA	NA
Key operations assessed for risks related to corruption	%	100	100	100	100	
G	MD/CEO salary as % of reported net profit	%	4.86%	3.78%	5.17%	4.33%
	Board salary as % of reported net profit	%	15.70%	13.77%	20.68%	0.30%
	Independent directors on the Board	%	43%	43%	50%	50%
	Female directors on the Board	%	14%	14%	13%	30%

Qualitative Parameters (Score: 67)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	<i>Yes. The Food Empire Sustainability Committee reports directly to top management. The committee includes sustainability coordinators from its headquarters in Singapore as well as from Vietnam and Russia.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>A change in forklift equipment from diesel-based machines to electricity-based machines since April 2020. As forklifts were previously the primary source of fuel use within Food Empire factories, the change resulted in significantly reduced scope 1 emissions.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No</i>

Target (Score: 67)		
Particulars	Target	Achieved
100% of workers receive at least one safety training annually	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0
Carbon neutrality/net zero	Nil	Nil
100% of workers receive at least one safety training annually	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0
<b>Impact</b>		
NA		
<b>Overall Score: 60</b>		
As per our ESG matrix, Food Empire Holdings (FEH SP) has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	53	26
Qualitative	25%	67	17
Target	25%	67	17
<b>Total</b>			<b>60</b>

As per our ESG assessment, FEH has an established framework, internal policies, and tangible mid-/long-term targets but needs to make headway in improving its quantitative "S" and "G" metrics. FEH's overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Changes in estimates

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (USDm)	474.8	443.6	7.0	498.6	465.8	7.0	523.5	500.0	4.7
Gross profit (USDm)	154.3	135.3	14.1	162.0	142.1	14.1	170.1	160.0	6.3
PBT	79.4	62.1	27.9	82.9	66.4	24.9	87.5	82.0	6.7
NPAT	61.8	52.7	17.3	64.6	56.4	14.5	68.1	60.0	13.6
PATMI	61.9	52.8	17.3	64.6	56.5	14.5	68.2	60.0	13.7
			Chg (ppt)			Chg (ppt)			Chg (ppt)
PBT margin	16.7%	14.0%	2.7	16.6%	14.3%	2.4	16.7%	16.4%	0.3
Net margin	13.0%	11.9%	1.1	13.0%	12.1%	0.8	13.0%	12.0%	1.0

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	3.7	7.2	9.5	9.1	8.6
Core P/E (x)	5.7	8.3	9.5	9.1	8.6
P/BV (x)	0.9	1.6	1.9	1.7	1.6
P/NTA (x)	1.0	1.6	1.9	1.8	1.7
Net dividend yield (%)	6.8	11.7	10.1	10.6	11.2
FCF yield (%)	22.8	8.1	4.9	6.7	7.2
EV/EBITDA (x)	3.1	5.3	6.4	6.1	5.8
EV/EBIT (x)	3.1	5.3	6.4	6.1	5.8
<b>INCOME STATEMENT (USD m)</b>					
Revenue	398.4	425.7	474.8	498.6	523.5
EBITDA	54.3	70.4	78.6	82.9	87.5
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	54.3	70.4	78.6	82.9	87.5
Net interest income / (exp)	(1.2)	0.8	0.8	0.0	0.0
Associates & JV	2.7	1.3	0.0	0.0	0.0
Exceptionals	15.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	70.7	72.5	79.4	82.9	87.5
Income tax	(10.6)	(16.0)	(17.6)	(18.3)	(19.4)
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	60.1	56.5	61.9	64.6	68.2
Core net profit	45.1	56.5	61.9	64.6	68.2
<b>BALANCE SHEET (USD m)</b>					
Cash & Short Term Investments	125.6	131.3	121.5	116.6	112.8
Accounts receivable	31.5	38.2	59.2	62.1	65.3
Inventory	74.0	76.7	87.8	92.2	96.8
Property, Plant & Equip (net)	101.3	103.3	121.7	141.6	163.0
Intangible assets	8.3	8.8	8.8	8.8	8.8
Investment in Associates & JVs	11.8	12.6	12.6	12.6	12.6
Other assets	29.0	32.0	32.0	32.0	32.0
<b>Total assets</b>	<b>381.5</b>	<b>402.9</b>	<b>443.6</b>	<b>465.8</b>	<b>491.3</b>
ST interest bearing debt	13.5	15.0	15.0	15.0	15.0
Accounts payable	48.4	49.8	67.2	69.1	72.6
LT interest bearing debt	24.8	21.4	21.4	21.4	21.4
Other liabilities	19.0	24.0	24.0	24.0	24.0
<b>Total Liabilities</b>	<b>105.9</b>	<b>110.2</b>	<b>127.6</b>	<b>129.5</b>	<b>133.0</b>
Shareholders Equity	276.7	295.6	317.1	337.5	359.5
Minority Interest	(1.1)	(1.1)	(1.2)	(1.2)	(1.3)
<b>Total shareholder equity</b>	<b>275.6</b>	<b>294.5</b>	<b>315.9</b>	<b>336.3</b>	<b>358.3</b>
<b>Total liabilities and equity</b>	<b>381.5</b>	<b>404.7</b>	<b>443.6</b>	<b>465.8</b>	<b>491.3</b>
<b>CASH FLOW (USD m)</b>					
Pretax profit	70.7	72.5	79.4	82.9	87.5
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	1.2	(0.8)	0.0	0.0	0.0
Change in working capital	11.0	(16.4)	(14.7)	(5.5)	(4.3)
Cash taxes paid	(9.1)	(12.7)	(17.6)	(18.3)	(19.4)
Other operating cash flow	(9.7)	(0.4)	0.0	0.0	0.0
Cash flow from operations	72.8	50.6	38.8	49.3	52.4
Capex	(13.8)	(12.5)	(10.0)	(10.0)	(10.0)
Free cash flow	59.0	38.1	28.8	39.3	42.4
Dividends paid	(8.6)	(17.3)	(40.4)	(44.2)	(46.2)
Equity raised / (purchased)	0.6	0.0	0.0	0.0	0.0
Change in Debt	(11.3)	(1.9)	(0.0)	0.0	0.0
Other invest/financing cash flow	26.0	(12.2)	1.8	0.0	0.0
Effect of exch rate changes	(0.5)	(1.0)	0.0	0.0	0.0
Net cash flow	65.0	5.7	(9.8)	(4.9)	(3.8)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	24.2	6.9	11.5	5.0	5.0
EBITDA growth	107.5	29.6	11.7	5.5	5.5
EBIT growth	107.5	29.6	11.7	5.5	5.5
Pretax growth	168.7	2.5	9.5	4.5	5.5
Reported net profit growth	208.2	(6.0)	9.5	4.5	5.5
Core net profit growth	131.3	25.3	9.5	4.5	5.5
<b>Profitability ratios (%)</b>					
EBITDA margin	13.6	16.5	16.6	16.6	16.7
EBIT margin	13.6	16.5	16.6	16.6	16.7
Pretax profit margin	17.7	17.0	16.7	16.6	16.7
Payout ratio	29.2	96.6	96.6	96.6	96.6
<b>DuPont analysis</b>					
Net profit margin (%)	15.1	13.3	13.0	13.0	13.0
Revenue/Assets (x)	1.0	1.1	1.1	1.1	1.1
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	23.8	19.7	20.2	19.7	19.6
ROAA (%)	12.5	14.4	14.6	14.2	14.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	65.2	62.8	63.6	67.2	67.9
Days receivable outstanding	32.3	29.4	36.9	43.8	43.8
Days inventory outstanding	95.0	95.5	92.4	96.3	96.3
Days payables outstanding	62.1	62.1	65.7	72.9	72.2
Dividend cover (x)	3.4	1.0	1.0	1.0	1.0
Current ratio (x)	3.4	3.4	3.0	2.9	2.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.6	3.7	3.5	3.6	3.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	44.3	na	na	nm	nm
Debt/EBITDA (x)	0.7	0.5	0.5	0.4	0.4
Capex/revenue (%)	3.5	2.9	2.1	2.0	1.9
Net debt/ (net cash)	(87.3)	(94.9)	(85.1)	(80.2)	(76.4)

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  
fionallim@maybank.com

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

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

### STRATEGY

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

### FIXED INCOME

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

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

### PORTFOLIO STRATEGY

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

### MIBG SUSTAINABILITY RESEARCH

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

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

### REGIONAL EQUITIES

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

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

### MALAYSIA

**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

**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 • Industrials

### PHILIPPINES

**Rachelleen RODRIGUEZ, CFA Head of Research**  
(63) 2 5322 5007  
rachelleen.rodriguez@maybank.com  
• Banking & Finance • Transport • Telcos  
• Utilities

**Daphne SZE**  
(63) 2 5322 5008  
daphne.sze@maybank.com  
• Consumer

**Raffy MENDOZA**  
(63) 2 5322 5010  
joserafael.mendoza@maybank.com  
• Property • REITs • Gaming

### 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

**Boonyakorn AMORNANSANK**  
(66) 2658 5000 ext 1394  
boonyakorn.amornsank@maybank.com  
• Services

### 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

**Paulina MARGARETA**  
(62) 21 8066 8690  
paulina.tjoa@maybank.com  
• Autos

**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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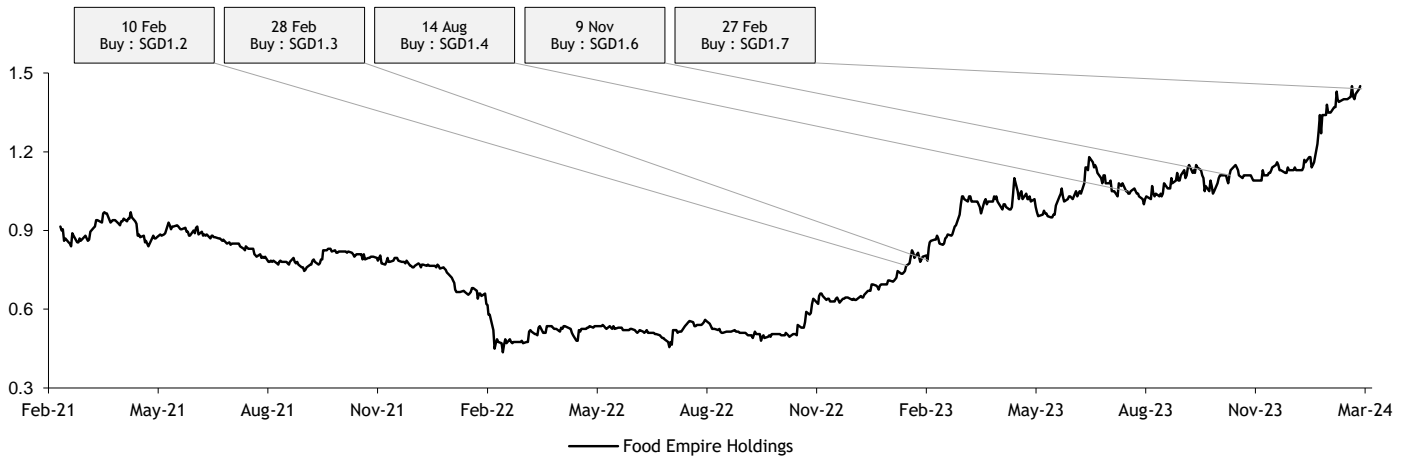
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 **Malaysia**

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)