

## Bumi Armada (BAB MK)

# Ex one-offs, 4Q23 was in line with ours but above consensus

### 4Q23 CNP in line. Maintain BUY, TP MYR0.66

BArmada's 4Q23 results came in within our expectations. Post-results, we tweak our FY24-25E earnings forecasts by 1% p.a. for housekeeping. With: i) its Kraken FPSO now back on track; and ii) final acceptance expected to happen for its 30%-owned Armada Sterling V as ONGC has achieved first oil in its KG-DWN-98/2 development, we think that the worst is now behind the group. Maintain BUY with an unchanged SOP-based TP of MYR0.66.

### Back to status quo in 4Q23 (+25% QoQ, +2% YoY)

4Q23 core net profit of MYR226.2m (+25% QoQ, +2% YoY) brought cumulative FY23 core earnings to MYR662.4m (-20% YoY) - which came in within our expectations but above consensus at 103%/109% of ours/consensus full-year forecasts, respectively. The QoQ strength was primarily due to the recovery in Kraken's uptime as the FPSO achieved 100% production on 7 Aug 2023, bringing the asset back on track, but was partially mitigated by lower JV and associate earnings - which we believe is due to Armada Sterling V incurring lay-up costs but having not yet commenced charter hire. We note that the vessel commenced its inaugural offload of the stored processed oil on 25 Feb 2024. However, ONGC has not made payments on recent invoices and efforts are being made to expedite payment of the outstanding amounts.

### Balance sheet continues to improve

BArmada successfully reduced its net gearing yet again for the 15<sup>th</sup> consecutive quarter to 0.65x as at 4Q23 (from a peak of 2.95x in 1Q20) through healthy cash flows from its floating assets and disposals of its non-core assets (i.e. Armada Claire FPSO and completely exiting the OSV business) over the past quarters. We foresee BArmada's balance sheet to continue improving over the next few quarters with its strong OCFs to: i) reduce its finance costs; and ii) make room for debt financing for its other ventures in the near future.

### Expecting record high core net profit in FY24E

With Kraken back to status quo operations and our expectations of BBC recognition for its 30%-owned Armada Sterling V FPSO beginning Apr 2024, we forecast a record-high core net profit of MYR853m in FY24E, which translates into a strong 29% YoY growth. Maintain BUY.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,406	2,133	2,141	1,412	1,412
EBITDA	1,369	905	1,228	935	870
Core net profit	828	662	853	636	638
Core EPS (sen)	14.0	11.2	14.4	10.7	10.8
Core EPS growth (%)	16.4	(20.0)	28.7	(25.4)	0.3
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	3.4	4.4	3.6	4.8	4.8
P/BV (x)	0.6	0.5	0.5	0.4	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	16.1	6.1	14.0	9.3	8.5
ROAA (%)	7.0	5.8	7.6	5.6	5.6
EV/EBITDA (x)	5.4	7.2	4.6	5.2	4.9
Net gearing (%) (incl perps)	91.6	65.4	42.6	27.4	17.0
Consensus net profit	-	-	798	630	na
MIBG vs. Consensus (%)	-	-	6.9	1.0	na

Jeremie Yap

jeremie.yap@maybank-ib.com

(603) 2297 8688

# BUY

Share Price	MYR 0.52
12m Price Target	MYR 0.66 (+26%)
Previous Price Target	MYR 0.66

### Company Description

Bumi Armada engages in the operations, engineering, and maintenance services to oil and gas companies.

### Statistics

52w high/low (MYR)	0.72/0.42
3m avg turnover (USDm)	2.0
Free float (%)	55.6
Issued shares (m)	5,923
Market capitalisation	MYR3.1B
	USD646M

### Major shareholders:

KRISHNAN TATPARANANDAM ANANDA	34.6%
Permodalan Nasional Bhd.	12.6%
Norges Bank Investment Management	4.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(3)	(10)
Relative to index (%)	(9)	(10)	(16)

Source: FactSet

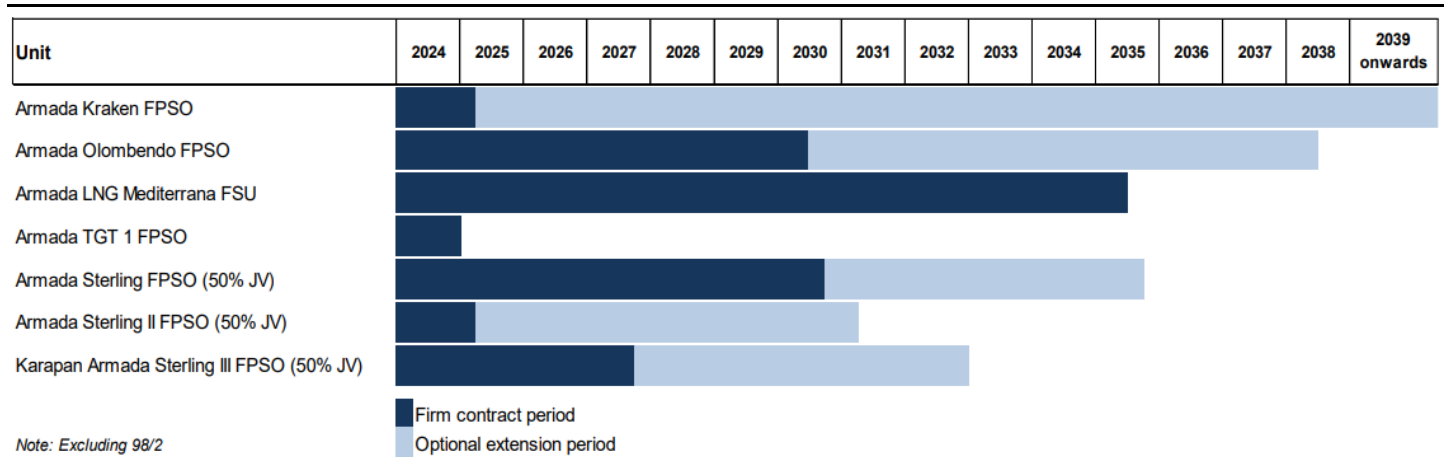
Fig 1: Results Review

FYE December	4Q23	4Q22	YoY	3Q23	QoQ	FY23	FY22	YTD-YoY
Revenue	623.0	605.0	3%	524.8	19%	2,133.1	2,405.5	-11%
Cost of Sales	(218.0)	(331.8)	-34%	(283.5)	-23%	(1,090.9)	(1,346.8)	-19%
Gross Profit	405.0	273.2	48%	241.3	68%	1,042.2	1,058.7	-2%
Other operating income	13.9	13.8	1%	33.4	-58%	145.7	58.2	150%
Operating expenses	(510.6)	(35.1)	1353%	(51.7)	887%	(616.2)	(90.4)	582%
Operating profit/(loss)	(91.7)	251.9	-136%	223.0	-141%	571.7	1,026.5	-44%
Finance costs	(80.0)	(99.4)	-19%	(83.0)	-4%	(338.4)	(366.7)	-8%
Share of JV and associates	(3.1)	39.6	-108%	25.1	-113%	62.8	49.2	28%
Profit/(loss) before taxation	(174.8)	192.1	-191%	165.0	-206%	296.1	709.0	-58%
Taxation	0.1	19.7	-100%	(0.3)	-122%	(3.1)	15.7	-120%
Profit after tax	(174.8)	211.8	-183%	164.8	-206%	293.0	724.7	-60%
MI	(9.3)	1.1	-927%	(13.0)	-29%	(39.0)	(7.8)	403%
Net profit	(165.5)	210.7	-179%	177.8	-193%	332.1	732.4	-55%
Exceptional Items	391.6	12.0	3164%	3.4	11580%	330.4	95.5	246%
Core net profit	226.2	222.7	2%	181.1	25%	662.4	827.9	-20%
<b>Margins</b>			<b>+/- ppts</b>		<b>+/- ppts</b>			<b>+/- ppts</b>
Gross Profit Margin	65.0%	45.2%	19.9	46.0%	19.0	48.9%	44.0%	4.8
EBIT Margin	-14.7%	41.6%	(56.3)	42.5%	(57.2)	26.8%	42.7%	(15.9)
PBT Margin	-28.1%	31.7%	(59.8)	31.4%	(59.5)	13.9%	29.5%	(15.6)
PAT Margin	-28.1%	35.0%	(63.1)	31.4%	(59.4)	13.7%	30.1%	(16.4)
PATAMI Margin	-26.6%	34.8%	(61.4)	33.9%	(60.4)	15.6%	30.4%	(14.9)
Core Net Profit Margin	36.3%	36.8%	(0.5)	34.5%	1.8	31.1%	34.4%	(3.4)
Effective Tax Rate	0.0%	-10.3%	10.3	0.2%	(0.1)	1.0%	-2.2%	3.3

Source: Company, Maybank IBG Research

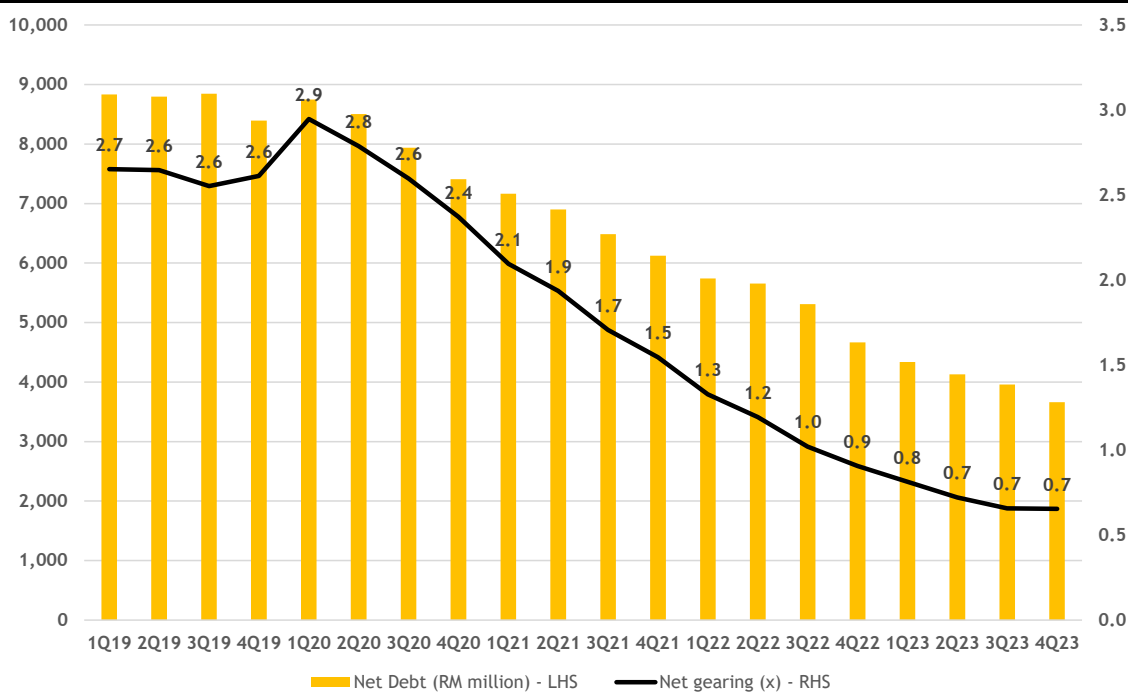
FY23 results were adjusted for: i) MYR18.4m gain on disposal of JV; ii) MYR60.7m gain on disposal of PPE; iii) MYR4.0m insurance claims; iv) MYR514.4m impairment of PPE (mostly Kraken); v) MYR40.0m net reversal of impairment of trade receivables and amount due from JV; vi) MYR26.9m net forex loss; vii) MYR1.7m FV loss on ineffective portion of CF hedges; viii) MYR70.0m one-off income due to resolution of outstanding issues with EnQuest; and ix) MYR20.0m reversal of accrued costs for its discontinued operations.

Fig 2: Charter Period for Bumi Armada's floating assets



Source: Maybank IBG Research

Fig 1: Net Debt and Net Gearing (from 1Q20 - current)



Source: Company, Maybank IBG Research

## SOP-based Target Price of MYR0.66

Fig 4: Sum of Parts Valuation for Bumi Armada

Assets	Location	Equity value (MYRm)	Value/share (MYR)	Basis
Armada Kraken FPSO	North Sea, UK	1,447.0	0.24	NPV: WACC @ 7.3% (firm + full extension)
Armada Olombendo FPSO	Angola	3,370.3	0.57	NPV: WACC @ 7.3% (firm + full extension)
Armada LNG Mediterrana FSU	Malta	318.1	0.05	NPV: WACC @ 7.3% (firm)
Armada TGT1 FPSO	Vietnam	66.1	0.01	NPV: WACC @ 7.3% (full extension)
Armada Sterling I (50% JV)	India	680.7	0.12	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling II (50% JV)	India	289.6	0.05	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling III (49% JV)	Indonesia	461.7	0.08	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling V (30% JV)	India	907.5	0.15	NPV: WACC @ 7.3% (firm + full extension)
<b>Sub-total</b>		<b>7,540.9</b>		
Net debt		-3,649.8		
<b>Total</b>		<b>3,891.1</b>		
No. of shares		5,918.0		
<b>Target Price (MYR/share)</b>		<b>0.66</b>		

Source: Maybank IBG Research

## Risk statement

There are several risk factors that may impact our earnings estimates, target price and BUY rating for Bumi Armada. Key risks include: (i) any unplanned shutdown for its floating assets; and (ii) a termination of any of its FPSO/FSU's leasing contracts.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	3.5	10.0	4.1	5.4	5.4
Core P/E (x)	3.4	4.4	4.1	5.4	5.4
P/BV (x)	0.6	0.5	0.5	0.5	0.4
P/NTA (x)	0.6	0.5	0.5	0.5	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	53.7	38.9	26.6	23.0	18.1
EV/EBITDA (x)	5.4	7.2	5.0	5.6	5.3
EV/EBIT (x)	7.3	11.3	6.8	8.4	7.8

**INCOME STATEMENT (MYR m)**

Revenue	2,405.5	2,133.1	2,140.9	1,411.8	1,411.8
EBITDA	1,369.2	905.2	1,227.7	935.1	869.8
Depreciation	(342.7)	(333.5)	(333.5)	(308.5)	(273.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,026.5	571.7	894.2	626.6	596.4
Net interest income / (exp)	(366.7)	(338.4)	(239.5)	(209.2)	(179.0)
Associates & JV	49.2	62.8	198.3	219.0	219.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	709.0	296.1	853.1	636.4	636.4
Income tax	15.7	(3.1)	(17.1)	(12.7)	(12.7)
Minorities	7.8	39.0	16.7	12.5	12.5
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Discontinued operations	0.0	0.0	0.0	0.0	1.0
Reported net profit	732.4	332.1	852.7	636.1	637.1
Core net profit	827.9	662.4	852.7	636.1	638.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	838.8	704.7	1,074.4	1,322.3	1,400.4
Accounts receivable	539.7	703.6	706.2	465.7	465.7
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	1.0
Property, Plant & Equip (net)	4,011.5	3,256.3	2,972.8	2,714.3	2,490.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,070.0	1,173.2	1,371.5	1,590.5	1,809.5
Other assets	5,265.8	5,278.4	5,278.4	5,278.4	5,277.4
<b>Total assets</b>	<b>11,726.0</b>	<b>11,116.1</b>	<b>11,403.2</b>	<b>11,371.1</b>	<b>11,444.7</b>
ST interest bearing debt	1,018.4	2,273.3	2,273.3	2,273.3	2,273.3
Accounts payable	499.4	309.4	310.6	204.8	204.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4,486.4	2,081.3	1,531.3	981.3	431.3
Other liabilities	626.0	873.0	873.0	873.0	873.0
<b>Total Liabilities</b>	<b>6,630.5</b>	<b>5,536.5</b>	<b>4,987.6</b>	<b>4,331.9</b>	<b>3,781.9</b>
Shareholders Equity	5,146.5	5,671.8	6,524.5	7,160.6	7,796.7
Minority Interest	(51.0)	(92.2)	(108.9)	(121.4)	(133.9)
<b>Total shareholder equity</b>	<b>5,095.6</b>	<b>5,579.6</b>	<b>6,415.6</b>	<b>7,039.2</b>	<b>7,662.9</b>
<b>Total liabilities and equity</b>	<b>11,726.0</b>	<b>11,116.1</b>	<b>11,403.2</b>	<b>11,371.1</b>	<b>11,444.7</b>

**CASH FLOW (MYR m)**

Pretax profit	709.0	296.1	853.1	636.4	636.4
Depreciation & amortisation	342.7	333.5	333.5	308.5	273.5
Adj net interest (income)/exp	364.4	330.6	0.0	0.0	0.0
Change in working capital	300.1	(303.9)	(199.8)	(84.3)	(219.0)
Cash taxes paid	0.1	1.2	(17.1)	(12.7)	(12.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,428.8	988.6	969.7	847.8	678.1
Capex	98.0	151.4	(50.0)	(50.0)	(50.0)
Free cash flow	1,526.8	1,140.0	919.7	797.8	628.1
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,747.3)	(1,335.7)	(550.0)	(550.0)	(550.0)
Other invest/financing cash flow	167.3	25.7	0.0	0.0	0.0
Effect of exch rate changes	48.6	35.9	0.0	0.0	0.0
Net cash flow	(4.5)	(134.1)	369.7	247.8	78.1

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	11.2	(11.3)	0.4	(34.1)	0.0
EBITDA growth	(3.9)	(33.9)	35.6	(23.8)	(7.0)
EBIT growth	7.1	(44.3)	56.4	(29.9)	(4.8)
Pretax growth	6.2	(58.2)	188.1	(25.4)	0.0
Reported net profit growth	11.1	(54.7)	156.8	(25.4)	0.2
Core net profit growth	16.6	(20.0)	28.7	(25.4)	0.3
<b>Profitability ratios (%)</b>					
EBITDA margin	56.9	42.4	57.3	66.2	61.6
EBIT margin	42.7	26.8	41.8	44.4	42.2
Pretax profit margin	29.5	13.9	39.8	45.1	45.1
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	30.4	15.6	39.8	45.1	45.1
Revenue/Assets (x)	0.2	0.2	0.2	0.1	0.1
Assets/Equity (x)	2.3	2.0	1.7	1.6	1.5
ROAE (%)	16.1	6.1	14.0	9.3	8.5
ROAA (%)	7.0	5.8	7.6	5.6	5.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	100.4	104.9	118.5	149.4	118.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	133.2	133.5	89.1	116.8	89.2
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.1	0.6	0.7	0.7	0.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	2.0	2.3	2.6	3.0
Net gearing (%) (incl perps)	91.6	65.4	42.6	27.4	17.0
Net gearing (%) (excl. perps)	91.6	65.4	42.6	27.4	17.0
Net interest cover (x)	2.8	1.7	3.7	3.0	3.3
Debt/EBITDA (x)	4.0	4.8	3.1	3.5	3.1
Capex/revenue (%)	nm	nm	2.3	3.5	3.5
Net debt/ (net cash)	4,665.9	3,649.8	2,730.1	1,932.3	1,304.2

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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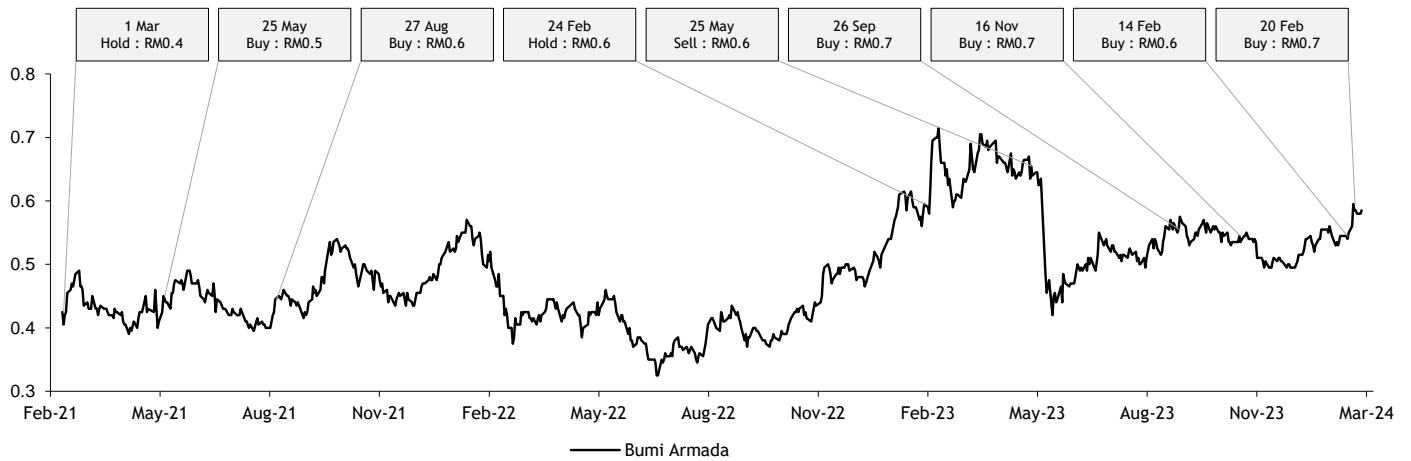
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### Malaysia

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)