

CelcomDigi (CDB MK)

Second year of integration

Sequentially lower earnings

1Q24 results were in line with our expectation, but possibly below consensus. CelcomDigi's investment thesis revolves mainly around realising merger synergies - which are significant (MYR8b NPV over 5 years) but back-loaded. Maintain HOLD with an unchanged DCF-based TP of MYR4.50. We prefer Axiata (AXIATA MK, BUY, CP: MYR2.84, TP: MYR3.50) in the telco space.

Results in line with our expectation

CelcomDigi's 1Q24 net profit of MYR376m (+18% YoY, -13% QoQ) represents 24%/18% of our/consensus full-year forecasts respectively. The sequential net profit decline was due to a combination of lower revenue, normalisation of D&A and credit loss allowance (writebacks in 4Q24), partly offset by sequentially lower taxes in 1Q24. A 3.5sen DPS was declared for the quarter (unchanged QoQ), representing >100% payout.

Service revenue decline

1Q24 service revenue was down 2.4% QoQ (and down 1.2% YoY), due to sequential contraction across all segments. Prepaid saw lower average subscribers on stable ARPU, while postpaid saw higher average subscribers offset by lower ARPU. Meanwhile, 1Q24 costs were lower sequentially on seasonally lower device costs and the absence of impairments, partly offset by an increase in staff cost (VSS-related) and normalisation of credit loss allowance. Consequently, 1Q24 EBITDA margin was 1.0ppt higher QoQ at 42.0%.

Maintain HOLD

The retention of the enlarged mobile customer base remains an important area of focus for management. FY24 guidance of stable EBIT (reported) on low single digit service revenue growth is maintained. Our earnings forecasts and MYR4.50 TP (DCF-based assuming 8.1% WACC and 2% LT growth) are unchanged. Management continues to aim for delivery of c.MYR8b (NPV) worth of merger synergies by 2027.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	6,773	12,682	12,826	12,979	13,130
EBITDA	3,012	5,919	5,964	6,360	7,287
Core net profit	763	1,552	1,581	2,373	2,982
Core EPS (sen)	9.4	13.2	13.5	20.2	25.4
Core EPS growth (%)	(37.1)	40.8	1.8	50.1	25.7
Net DPS (sen)	12.2	13.2	12.8	18.2	22.9
Core P/E (x)	42.6	30.8	29.7	19.8	15.7
P/BV (x)	2.9	2.9	2.9	2.8	2.8
Net dividend yield (%)	3.1	3.2	3.2	4.6	5.7
ROAE (%)	9.1	9.5	9.6	14.3	17.7
ROAA (%)	3.4	4.2	4.3	6.5	8.1
EV/EBITDA (x)	15.4	10.2	10.0	9.4	8.2
Net gearing (%) (incl perps)	83.8	76.6	75.4	75.1	72.7
Consensus net profit	-	-	2,009	2,255	2,361
MIBG vs. Consensus (%)	-	-	(21.3)	5.2	26.3

Tan Chi Wei, CFA
chiwei.t@maybank-ib.com
(603) 2297 8690

HOLD

Share Price	MYR 4.00
12m Price Target	MYR 4.50 (+16%)
Previous Price Target	MYR 4.50

Company Description

CelcomDigi is a leading mobile telecommunication company in Malaysia.

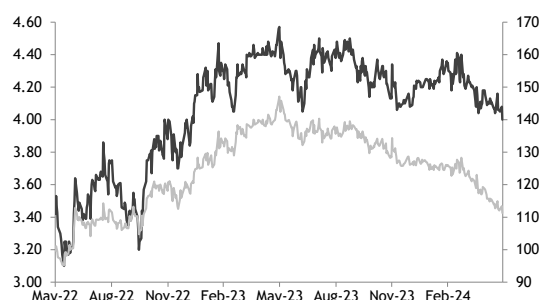
Statistics

52w high/low (MYR)	4.57/4.00
3m avg turnover (USDm)	2.2
Free float (%)	22.7
Issued shares (m)	11,732
Market capitalisation	MYR46.9B USD10.0B

Major shareholders:

Axiata Group Bhd.	33.1%
Telenor ASA	33.1%
Employees Provident Fund	9.8%

Price Performance



— CelcomDigi - (LHS, MYR) — CelcomDigi / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(8)	(10)
Relative to index (%)	(7)	(12)	(22)

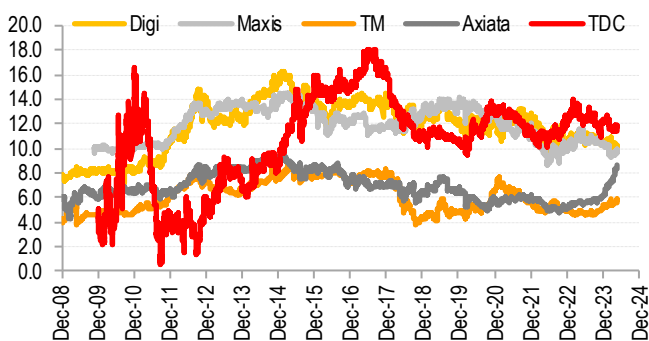
Source: FactSet

Fig 1: Summary Results Table - DiGi.Com

FY Dec (MYR m)	Quarterly				
	1Q24	1Q23	%YoY	4Q23	%QoQ
Revenue	3,154.2	3,180.3	(0.8)	3,274.8	(3.7)
EBITDA	1,326.0	1,511.4	(12.3)	1,343.7	(1.3)
EBIT	557.2	594.0	(6.2)	798.0	(30.2)
Net interest expense	(132.6)	(141.2)	(6.1)	(125.3)	5.8
Pre-tax profit	427.3	460.3	(7.2)	680.0	(37.2)
Tax	(56.2)	(139.5)	(59.7)	(240.6)	(76.6)
Minority Interests	5.4	(2.9)	N/A	(4.3)	N/A
Reported Net Profit	376.5	317.9	18.4	435.1	(13.5)
Service revenue	2,671.0	2,703.0	(1.2)	2,737.0	(2.4)
EBITDA margin (chg in ppts)	42.0	47.5	(5.5)	41.0	1.0
Reported EPS (sen)	3.2	2.7	18.4	3.7	(13.5)
Net DPS (sen)	3.5	3.2	9.4	3.5	0.0
Net cash/(debt)	(12,547.1)	(13,214.5)	(5.1)	(12,599.9)	(0.4)
Gearing (%)	76.9	81.7		77.1	
Capex	316.2	106.4	197.2	1,032.6	(69.4)
Operations					
Prepaid	1Q24	1Q23	%YoY	4Q23	%QoQ
Subscribers, period end (m)	13.3	13.5	(1.0)	13.5	(1.2)
Net additions (m)	-0.16	0.15	N/A	-0.13	22.9
Subscribers, average (m)	13.4	13.4	0.1	13.5	(1.1)
ARPU (MYR/month)	28.0	28.0	0.0	28.0	0.0
Revenue	1,125.8	1,124.4	0.1	1,138.1	(1.1)
Postpaid	1Q24	1Q23	%YoY	4Q23	%QoQ
Subscribers, period end (m)	7.0	6.7	4.1	6.9	0.9
Net additions (m)	0.06	0.05	13.0	0.07	(17.6)
Subscribers, average (m)	7.0	6.7	4.0	6.9	1.0
ARPU (MYR/month)	64.0	69.0	(7.2)	66.0	(3.0)
Revenue	1,338.0	1,386.7	(3.5)	1,366.4	(2.1)

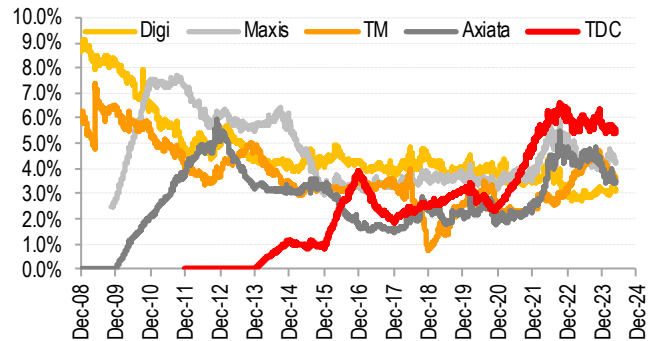
Source: Company, Maybank IBG Research

Fig 2: EV/EBITDA - Malaysia telcos



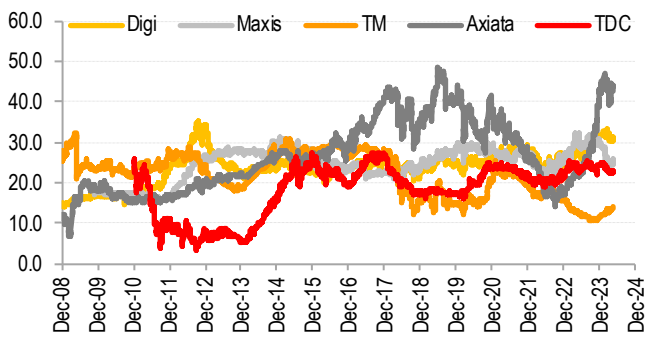
Source: Bloomberg, Maybank IBG Research

Fig 3: Net dividend yield - Malaysia telcos



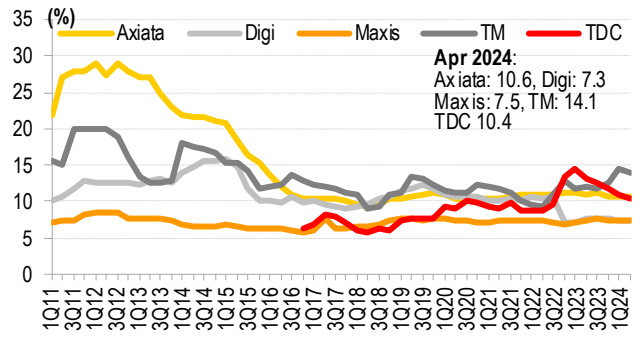
Source: Bloomberg, Maybank IBG Research

Fig 4: PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

Fig 5: Foreign shareholding



Source: Companies

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for CelcomDigi. Competitive developments, such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to CelcomDigi’s earnings.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	39.4	32.4	29.7	19.8	15.7
Core P/E (x)	42.6	30.8	29.7	19.8	15.7
P/BV (x)	2.9	2.9	2.9	2.8	2.8
P/NTA (x)	(4.8)	(5.3)	(5.2)	(5.3)	(5.5)
Net dividend yield (%)	3.1	3.2	3.2	4.6	5.7
FCF yield (%)	5.9	8.3	6.9	7.7	9.5
EV/EBITDA (x)	15.4	10.2	10.0	9.4	8.2
EV/EBIT (x)	31.5	22.5	21.7	15.6	12.7
INCOME STATEMENT (MYR m)					
Revenue	6,773.3	12,682.2	12,825.7	12,978.9	13,129.7
EBITDA	3,011.6	5,919.0	5,964.0	6,359.7	7,287.0
Depreciation	(1,544.7)	(3,230.1)	(3,221.6)	(2,522.5)	(2,597.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,466.8	2,688.9	2,742.3	3,837.1	4,689.5
Net interest income / (exp)	(248.5)	(539.0)	(569.0)	(564.2)	(570.0)
Associates & JV	0.0	31.0	31.0	31.0	31.0
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	1,218.4	2,180.9	2,204.4	3,304.0	4,150.5
Income tax	(454.7)	(614.0)	(608.5)	(916.4)	(1,153.5)
Minorities	(0.2)	(14.6)	(15.0)	(15.0)	(15.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	763.5	1,552.3	1,580.9	2,372.6	2,982.1
Core net profit	763.5	1,552.3	1,580.9	2,372.6	2,982.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,220.8	397.0	517.5	372.0	543.5
Accounts receivable	2,573.8	2,764.2	2,811.1	2,666.9	2,518.0
Inventory	164.4	246.7	253.0	239.0	183.5
Property, Plant & Equip (net)	6,408.8	6,127.3	6,021.5	6,316.1	6,237.1
Intangible assets	25,951.4	25,395.1	25,429.3	25,462.2	25,493.7
Investment in Associates & JVs	0.0	171.0	202.0	233.1	264.1
Other assets	1,223.5	1,325.6	1,325.6	1,325.6	1,325.6
Total assets	37,542.7	36,426.8	36,560.0	36,614.7	36,565.3
ST interest bearing debt	4,139.3	2,227.5	2,227.5	2,227.5	2,227.5
Accounts payable	4,096.7	4,862.8	4,901.9	4,704.4	4,341.8
LT interest bearing debt	10,747.9	10,769.4	10,769.4	10,769.4	10,769.4
Other liabilities	2,244.0	2,108.0	2,108.0	2,108.0	2,108.0
Total Liabilities	21,228.2	19,968.1	20,007.1	19,809.7	19,447.0
Shareholders Equity	16,211.7	16,347.7	16,426.8	16,664.0	16,962.2
Minority Interest	102.7	111.0	126.0	141.0	156.0
Total shareholder equity	16,314.4	16,458.8	16,552.8	16,805.1	17,118.3
Total liabilities and equity	37,542.7	36,426.8	36,560.0	36,614.7	36,565.3
CASH FLOW (MYR m)					
Pretax profit	1,218.4	2,180.9	2,204.4	3,304.0	4,150.5
Depreciation & amortisation	1,544.7	3,230.1	3,221.6	2,522.5	2,597.5
Adj net interest (income)/exp	248.5	539.0	569.0	564.2	570.0
Change in working capital	(258.2)	(475.2)	(14.2)	(39.2)	(158.2)
Cash taxes paid	(338.9)	(666.6)	(608.5)	(916.4)	(1,153.5)
Other operating cash flow	402.7	933.4	(31.0)	(31.0)	(31.0)
Cash flow from operations	2,817.2	5,741.7	5,341.2	5,404.0	5,975.3
Capex	(885.1)	(1,774.6)	(2,100.0)	(1,800.0)	(1,500.0)
Free cash flow	1,932.2	3,967.1	3,241.2	3,604.0	4,475.3
Dividends paid	(1,010.8)	(1,501.6)	(1,501.8)	(2,135.3)	(2,683.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	2,414.4	(1,221.8)	0.0	0.0	0.0
Other invest/financing cash flow	(2,319.2)	(2,061.6)	(1,619.0)	(1,614.2)	(1,620.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,016.6	(817.9)	120.4	(145.5)	171.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.9	87.2	1.1	1.2	1.2
EBITDA growth	0.0	96.5	0.8	6.6	14.6
EBIT growth	(15.2)	83.3	2.0	39.9	22.2
Pretax growth	(19.6)	79.0	1.1	49.9	25.6
Reported net profit growth	(34.3)	103.3	1.8	50.1	25.7
Core net profit growth	(34.3)	103.3	1.8	50.1	25.7
Profitability ratios (%)					
EBITDA margin	44.5	46.7	46.5	49.0	55.5
EBIT margin	21.7	21.2	21.4	29.6	35.7
Pretax profit margin	18.0	17.2	17.2	25.5	31.6
Payout ratio	129.8	99.8	95.0	90.0	90.0
DuPont analysis					
Net profit margin (%)	11.3	12.2	12.3	18.3	22.7
Revenue/Assets (x)	0.2	0.3	0.4	0.4	0.4
Assets/Equity (x)	2.3	2.2	2.2	2.2	2.2
ROAE (%)	9.1	9.5	9.6	14.3	17.7
ROAA (%)	3.4	4.2	4.3	6.5	8.1
Liquidity & Efficiency					
Cash conversion cycle	(479.3)	(470.4)	(499.7)	(526.0)	(624.4)
Days receivable outstanding	97.7	75.8	78.2	76.0	71.1
Days inventory outstanding	28.9	26.3	31.2	32.5	34.1
Days payables outstanding	605.8	572.4	609.1	634.4	729.5
Dividend cover (x)	0.8	1.0	1.1	1.1	1.1
Current ratio (x)	0.5	0.5	0.5	0.5	0.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.8	1.8	1.9
Net gearing (%) (incl perps)	83.8	76.6	75.4	75.1	72.7
Net gearing (%) (excl. perps)	83.8	76.6	75.4	75.1	72.7
Net interest cover (x)	5.9	5.0	4.8	6.8	8.2
Debt/EBITDA (x)	4.9	2.2	2.2	2.0	1.8
Capex/revenue (%)	13.1	14.0	16.4	13.9	11.4
Net debt/ (net cash)	13,666.4	12,599.9	12,479.5	12,624.9	12,453.5

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.thuhuon@maybank.com

LEE Jia Yu
(65) 6231 5843
jiayu.lee@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, 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, 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

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

Hussaini SAIFEE
(65) 6231 5837
hussaini.saifee@maybank.com
• Telcos

PHILIPPINES

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

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

Michel ALONSO
(63) 2 5322 5007
michelxavier.alonso@maybank.com
• Conglomerates

THAILAND

Chak REUNGSINPINYA Head of Research
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSIDIN, 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 AMORNSANK
(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 • Materials

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
thanht. 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
thanhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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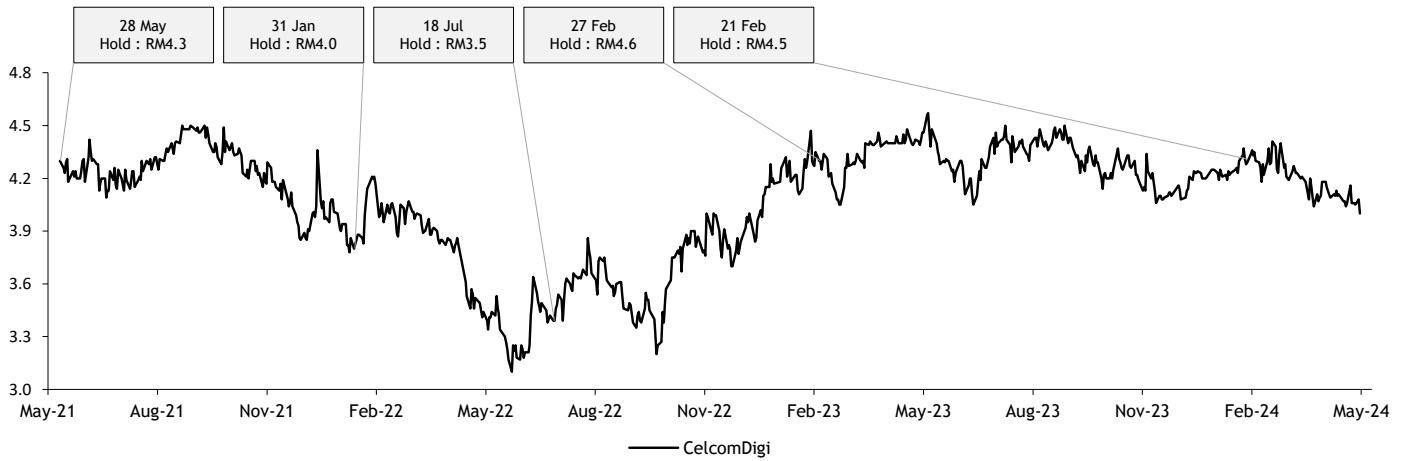
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Malaysia

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
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