

Carlsberg Brewery Malaysia (CAB MK)

Weathering through

Maintain BUY with an unchanged TP of MYR21.00

CAB's overall volume growth may be hindered by ongoing challenges in consumer sentiment, but given its recent product price increase and more favourable raw material ASPs, the group has more breathing room to defend margins. Hence, we keep our earnings estimates. Maintain BUY with an unchanged DCF-TP of MYR21.00 (WACC: 8%, LT growth: 3%) with decent FY24E yield of 4.7%.

Sales mix update

CAB's 1Q24 revenue growth (+3% YoY) was dominated by mainstream category sales (*Carlsberg Green Label & Carlsberg Smooth Draught*), particularly in off-trade channels where consumers stocked up on canned beer during CNY. 1Q24 premium category sales however eased YoY. CAB remains committed to growing its premium presence in Malaysia and it expects premium volume to improve in the subsequent quarters on higher A&P engagement and better on-trade sales. CAB has a c.80:20 sales mix ratio between mainstream and premium sales, we suspect.

Fitting Sapporo into the market

Following CAB's switch to *Sapporo* beers (1 Jan 2024 onwards, from *Asahi*), Malaysia modern-on trade channels were the quickest to transition to *Sapporo* kegs while aluminium cans for off-trade channels were only rolled out in Feb 2024 given additional branding and packaging needed for promotion. We understand that *Sapporo's* Malaysia sales volume has since grown to >50% of *Asahi's* previous volume in Malaysia. However, Singapore volumes will take a longer time to recover as CAB only managed to secure off-trade distribution rights for *Sapporo*, compared to its former *Asahi* distribution contract which included both on & off-trade distribution.

Expecting softer sequential earnings

Sequential earnings are expected to be weaker as volumes normalise post-CNY festivities and post front-loading activities (pre-price hikes) in 1Q24. Potential lift in consumer disposable income (eg. EPF Account 3 withdrawal) may also have a muted impact on the brewers given lower product affordability (due to price hikes, and higher 8% SST). That said, group margins should hold up better on stable raw material ASPs. Our financial model has imputed for industry volume growth of +3% p.a..

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,412	2,261	2,298	2,416	2,539
EBITDA	471	461	449	470	492
Core net profit	327	316	322	340	357
Core EPS (sen)	106.8	103.3	105.2	111.2	116.7
Core EPS growth (%)	58.3	(3.2)	1.8	5.7	4.9
Net DPS (sen)	88.0	93.0	94.7	100.1	105.0
Core P/E (x)	21.4	18.7	18.1	17.1	16.3
P/BV (x)	47.4	25.7	24.0	21.0	18.6
Net dividend yield (%)	3.8	4.8	5.0	5.3	5.5
ROAE (%)	176.7	173.7	136.3	130.8	121.0
ROAA (%)	38.9	30.4	30.8	30.7	30.1
EV/EBITDA (x)	14.9	12.8	13.0	12.4	11.8
Net gearing (%) (incl perps)	16.7	9.4	9.8	net cash	net cash
Consensus net profit	-	-	337	355	376
MIBG vs. Consensus (%)	-	-	(4.6)	(4.3)	(5.1)

Jade Tam

jade.tam@maybank-ib.com
(603) 2297 8687

BUY

Share Price	MYR 19.04
12m Price Target	MYR 21.00 (+15%)
Previous Price Target	MYR 21.00

Company Description

Carlsberg Brewery Malaysia Bhd. is engaged in the manufacturing, marketing and distribution of both alcoholic and non-alcoholic beverages.

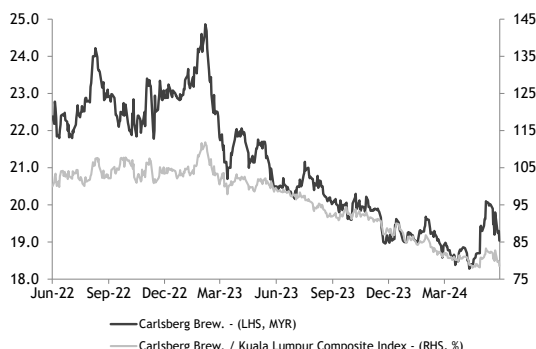
Statistics

52w high/low (MYR)	21.16/18.28
3m avg turnover (USDm)	0.8
Free float (%)	45.7
Issued shares (m)	306
Market capitalisation	MYR5.8B USD1.2B

Major shareholders:

Carlsberg A/S	51.0%
Great Eastern Life Assurance Co. Ltd.	3.2%
AIA Bhd.	2.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	2	(7)
Relative to index (%)	(3)	(3)	(21)

Source: FactSet

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jade.tam@maybank-ib.com

Risk Rating & Score ¹	15.5 (Low)
Score Momentum ²	0.0
Last Updated	27 Apr 2024
Controversy Score ³ (Updated: 14 Jun 2022)	2 - Business Ethics incidents (acc. & tax)

Business Model & Industry Issues

- CAB's main ESG concern surrounds its high dependency of water throughout its brewing process, especially when climate change, pollution and growing consumption continue to deplete the world's natural water resources.
- With this, CAB has committed to lowering its water and carbon footprint through various water management programmes along with optimisation and upgrades to its plant operations for more efficient use of natural resources.
- CAB stands by its core values in advocating for safe consumption of its products. However, rising incidences of irresponsible drinking has resulted in growing pressure for stricter regulations to be imposed on the brewery industry.
- Key ESG issues are currently being addressed by its global sustainability roadmap in order to lessen its environmental impact (carbon footprint & water conservation) and to ensure safe consumption of its products.
- CAB is a constituent member of the FTSE4GOOD Bursa Malaysia Index.

Material E issues

- CAB follows a sustainability roadmap 'Together Towards Zero and Beyond' with six ambitions, including the reduction of its carbon footprint and water waste. Main environmental targets to be achieved by 2022 are outlined below.
- To have Zero carbon emissions at breweries by 2030, and net zero across entire value chain by 2040. In 2023, CAB has reduced emissions by 33% compared to 2015 levels.
- Strive towards more efficient energy usage by using 100% renewable sources to generate power for its breweries by 2030 through solar power, biomass & biogas, doing away with the usage of coal, and implementing 100% low-climate impact cooling.
- To achieve industry-leading water efficiency, reducing water usage to 2.0hl / hl of beverage by 2030. In 2023, CAB has improved water efficiency to 3.3hl, a reduction of 18% vs 2021 (4.0hl).
- Target for 30% of raw materials to be sustainably sourced by 2030, and 100% by 2040.
- To achieve 100% of packaging to be recyclable and renewable by 2030. Also strives for 90% of bottles and cans to be collected and recycled by 2030.

Material S issues

- With fatalities on the rise from drink-driving, CAB publicly advocates for responsible drinking through dedicated marketing campaigns (eg. #CelebrateResponsibly).
- CAB carries the responsible drinking symbol, messaging and age restriction label on 100% of its products.
- CAB targets 100% availability of alcohol-free brews for business-to-business customers by 2030. 3 of CAB's brews are alcohol-free at present as at end-Dec 2023.
- By 2030, CAB aspires to reach zero lost-time accidents at its plant. In 2023, CAB recorded 2 lost-time accidents and 1 recordable work-related injury.

Key G metrics and issues

- CAB's board of directors (BOD) comprises of 7 directors - 3 Independent Directors (including the chairman), 3 Non-Independent Non-Executive Directors and the group Managing Director (MD) who is an Executive Director.
 - CAB only has 43% independent representation on its board which is below the recommended practise for a majority of independent members. CAB has no plans to revise its board composition for now.
 - In 2023, the male:female ratio on the BOD was 71:29. This is slightly below the recommended practise for at least 30% women directors for large companies.
 - Independent directors on CAB's audit committee consist of 2 out of 3 members (vs. Industry practise of solely independent directors).
 - The chairman and MD positions are held by separate individuals.
 - The current MD's remuneration package for 2023 was c.MYR5.0m (c.1.2% of group pre-tax profit).
 - CAB has disclosed the top four senior management remuneration but not on a named basis due to confidentiality reasons.
 - Messrs PricewaterhouseCoopers PLT has been the group's external auditors since 2017.
- Recurring related party transactions occur in relation to royalty payments, purchase of materials and products, and sales of goods and services. Royalty payments typically account for c.1.9% of group revenue.

¹**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. ²**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. ³**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: 43)						
	Particulars	Unit	2021	2022	2023	HEIM MK (2023)
E	Scope 1 GHG emissions	tCO2e	NA	4,824	4,346	6,375
	Scope 2 GHG emissions	tCO2e	NA	9,892	9,884	10,600
	Total	tCO2e	NA	14,716	14,230	16,975
	Scope 3 emissions	tCO2e	NA	NA	NA	1,310
	Total	tCO2e	NA	14,716	14,230	18,285
	Water usage efficacy	hl/hl	4.00	3.50	3.3	3.4
	Share of renewable energy usage	%	NA	100%	100%	100%
	Electricity usage	kWh/hl	10.6	10.0	11.0	9.4
	Total waste generated	Tonne	NA	25,500	25,743	32,632
	Water recovered and reused	%	23,039	66,424	19,740	NA
S	% of women in workforce	%	25.7%	NA	NA	30.0%
	% of women in management roles	%	35.0%	38.0%	63.0%	38.0%
	Lost-time incident rate (LTIR)	Rate	0.0	0.0	0.4	0.4
G	MD/CEO salary as % of reported net profit	%	1.9%	1.2%	1.5%	1.8%
	Board salary as % of reported net profit	%	2.0%	1.4%	1.7%	2.0%
	Independent directors on the Board	%	43%	43%	43%	43%
	Female directors on the Board	%	29%	29%	29%	43%

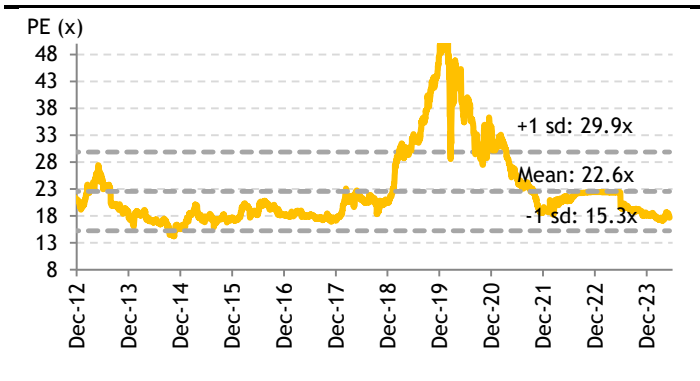
Qualitative Parameters (Score: 50)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes, it has an established sustainability framework. The management team is responsible for the governance, management, and reporting on the group's sustainability agenda within their respective business functions, led by the managing director and overseen by the board.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No.</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>CAB has made efforts to reduce its emission through various methods, including the purchase of green technologies. The group replaced 18 Liquid Propane Gas forklifts with fully electric ones. It also uses zero coal, using natural gas and biogas for its wastewater treatment plant instead. In terms of water, CAB implemented reverse osmosis technology in its water treatment plant, enabling the recycling of 13% of water loss. CAB contributes zero waste to landfill since November 2022.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce carbon emissions at breweries to zero by 2030 vs 2015 baseline	0%	73%
30% reduction in beer-in-hand carbon footprint by 2030 vs 2015 baseline	30%	33%
Zero lost-time accidents (LTA) by 2030 (days)	0	0
Water usage efficacy of 2.0 hectolitres per hectolitre of beer produced by 2030	2.0	3.3
Impact		
NA		
Overall Score: 59		
As per our ESG matrix, Carlsberg Malaysia has an overall score of 59.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	43	21
Qualitative	25%	50	13
Target	25%	100	25
Total			59

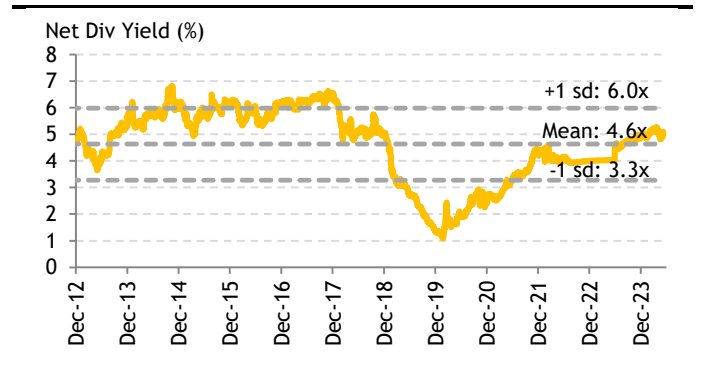
As per our ESG assessment, Carlsberg Malaysia has an established ESG framework with internal policies for net-zero carbon emission targets in the long-term. The group however falls behind in its governance scoring in relation to recommended practises from the Malaysian Code on Corporate Governance (MCCG). Carlsberg Malaysia's overall ESG score is 59, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: One-year forward PER



Source: Company, Maybank IBG Research

Fig 2: One-year forward net dividend yield



Source: Company, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for CAB. Unfavourable regulatory environment (eg. excise tax shocks) and a spike in raw material prices may impact CAB’s earnings. Additionally, a sharp appreciation of MYR against SGD would also negatively affect its earnings, for about 30-35% of its sales are denominated in SGD (through its Singapore operations).

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - ‘0’ for data not available, ‘+1’ for improving trajectory, positive change, ‘Yes’, better than peers or a positive number if historical is not available and ‘-1’ for declining trajectory, negative change, ‘No’, lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	21.2	19.6	18.1	17.1	16.3
Core P/E (x)	21.4	18.7	18.1	17.1	16.3
P/BV (x)	47.4	25.7	24.0	21.0	18.6
P/NTA (x)	48.9	26.3	23.9	21.1	18.6
Net dividend yield (%)	3.8	4.8	5.0	5.3	5.5
FCF yield (%)	3.8	4.6	5.2	5.8	6.1
EV/EBITDA (x)	14.9	12.8	13.0	12.4	11.8
EV/EBIT (x)	16.5	14.9	15.2	14.2	13.4
INCOME STATEMENT (MYR m)					
Revenue	2,412.5	2,260.9	2,298.1	2,415.7	2,539.3
EBITDA	471.5	461.3	449.2	469.7	491.9
Depreciation	(41.7)	(56.7)	(56.3)	(61.5)	(60.7)
Amortisation	(4.7)	(5.8)	(6.6)	1.4	(0.7)
EBIT	425.1	398.8	386.4	409.5	430.5
Net interest income / (exp)	(2.2)	(5.2)	(5.1)	(5.0)	(4.8)
Associates & JV	21.5	23.5	25.0	25.0	25.0
Exceptionals	9.5	(11.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	444.4	417.1	406.3	429.5	450.7
Income tax	(119.5)	(82.2)	(77.2)	(81.6)	(85.6)
Minorities	(7.8)	(7.6)	(7.5)	(7.9)	(8.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	317.0	327.3	321.6	340.0	356.8
Core net profit	326.5	316.0	321.6	340.0	356.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	91.3	95.0	93.0	135.8	179.3
Accounts receivable	447.0	384.8	391.1	411.1	432.2
Inventory	124.4	97.5	102.7	108.0	113.5
Property, Plant & Equip (net)	306.7	322.2	363.8	358.8	357.6
Intangible assets	4.6	5.2	(1.1)	0.5	0.1
Investment in Associates & JVs	66.9	88.6	98.5	108.3	118.1
Other assets	17.3	23.9	23.9	23.9	23.9
Total assets	1,058.2	1,017.3	1,071.9	1,146.4	1,224.7
ST interest bearing debt	116.9	117.1	118.2	118.2	118.2
Accounts payable	721.4	605.6	637.8	670.4	704.7
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	66.0	60.0	60.0	60.0	60.0
Total Liabilities	904.1	782.7	816.0	848.6	882.9
Shareholders Equity	147.7	229.1	242.9	276.9	312.6
Minority Interest	6.5	5.5	13.0	20.9	29.2
Total shareholder equity	154.1	234.6	255.9	297.8	341.8
Total liabilities and equity	1,058.2	1,017.3	1,071.9	1,146.4	1,224.7
CASH FLOW (MYR m)					
Pretax profit	444.4	417.1	406.3	429.5	450.7
Depreciation & amortisation	46.4	62.4	62.9	60.2	61.4
Adj net interest (income)/exp	2.2	5.2	5.1	5.0	4.8
Change in working capital	28.8	(45.7)	20.6	7.4	7.7
Cash taxes paid	(104.9)	(96.1)	(77.2)	(81.6)	(85.6)
Other operating cash flow	(2.4)	(17.0)	(25.0)	(25.0)	(25.0)
Cash flow from operations	414.5	325.9	392.7	395.4	414.0
Capex	(147.8)	(54.4)	(87.3)	(56.6)	(59.5)
Free cash flow	266.8	271.5	305.4	338.9	354.5
Dividends paid	(333.3)	(266.0)	(307.8)	(306.0)	(321.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	82.1	(2.7)	0.0	0.0	0.0
Other invest/financing cash flow	4.4	5.5	5.4	5.5	5.7
Effect of exch rate changes	1.6	4.0	0.0	0.0	0.0
Net cash flow	21.5	12.4	3.0	38.4	39.1

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.1	(6.3)	1.6	5.1	5.1
EBITDA growth	55.0	(2.2)	(2.6)	4.5	4.7
EBIT growth	72.2	(6.2)	(3.1)	6.0	5.1
Pretax growth	71.2	(6.2)	(2.6)	5.7	4.9
Reported net profit growth	57.7	3.2	(1.7)	5.7	4.9
Core net profit growth	58.3	(3.2)	1.8	5.7	4.9
Profitability ratios (%)					
EBITDA margin	19.5	20.4	19.5	19.4	19.4
EBIT margin	17.6	17.6	16.8	17.0	17.0
Pretax profit margin	18.4	18.4	17.7	17.8	17.7
Payout ratio	84.9	86.9	90.0	90.0	90.0
DuPont analysis					
Net profit margin (%)	13.1	14.5	14.0	14.1	14.0
Revenue/Assets (x)	2.3	2.2	2.1	2.1	2.1
Assets/Equity (x)	7.2	4.4	4.4	4.1	3.9
ROAE (%)	176.7	173.7	136.3	130.8	121.0
ROAA (%)	38.9	30.4	30.8	30.7	30.1
Liquidity & Efficiency					
Cash conversion cycle	(49.4)	(67.8)	(59.4)	(60.5)	(60.5)
Days receivable outstanding	43.4	66.2	60.8	59.8	59.8
Days inventory outstanding	22.6	26.9	23.1	23.1	23.1
Days payables outstanding	115.5	161.0	143.2	143.3	143.3
Dividend cover (x)	1.2	1.2	1.1	1.1	1.1
Current ratio (x)	0.7	0.8	0.7	0.8	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.3	1.3	1.4	1.4
Net gearing (%) (incl perps)	16.7	9.4	9.8	net cash	net cash
Net gearing (%) (excl. perps)	16.7	9.4	9.8	net cash	net cash
Net interest cover (x)	nm	76.6	76.4	81.3	89.6
Debt/EBITDA (x)	0.2	0.3	0.3	0.3	0.2
Capex/revenue (%)	6.1	2.4	3.8	2.3	2.3
Net debt/ (net cash)	25.7	22.0	25.1	(17.6)	(61.2)

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.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
alantau@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) 6231 5831
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
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 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 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
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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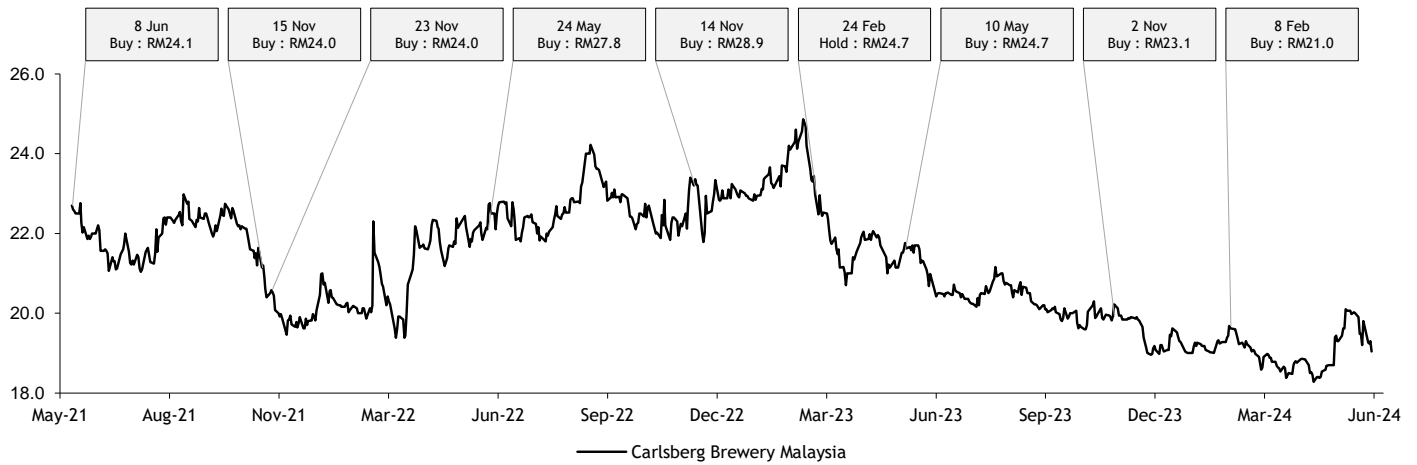
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Malaysia

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
 Tel: (62) 21 2557 1188

Philippines

Keith Roy
 keith_roy@maybank.com
 Tel: (63) 2 5322 3184

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