

# Marco Polo Marine (MPM SP)

## Opportunity to accumulate

### Maintain BUY and TP of SGD0.09

MPM's recent share price weakness (-20% since Apr 2024) does not appear to be related to its fundamentals. In fact, the outlook for MPM has improved as chartering rates continue to rise. Its first CTV was delivered to South Korea this week and is already in operation. We still expect the CSOV for Taiwan to come on stream in Oct'24, with no delays and that utilisation across its fleet will remain high. This would make up for the drop in repairs and maintenance revenue from its yard, which is now recovering. As a result, maintain BUY and TP of SGD0.09, based on 11.2x FY24E P/E.

### First CTV operational in South Korea

MPM's subsidiary, PKR Offshore, in Taiwan signed an agreement to charter CTVs in APAC to support windfarm customer Siemens Gamesa's offshore wind projects in Taiwan and South Korea. We expect MPM to start supplying 2 CTVs by end-2024 and eventually grow to a sizable fleet of 10-15 CTVs within 4-5 years. Each CTV is likely to cost about USD5m and generate up to USD1.7m pa at an average 80% utilisation rate. We expect gross profit of USD1.1-1.3m/pa/vessel, which would be significant if the fleet size grows. MPM's first CTV is already operational in South Korea and it's likely to add another by the end of 2024.

### No delay in CSOV - likely operational in Oct'24

MPM's CSOV, which is under construction at its shipyard in Batam, is scheduled for delivery in Sep'24 and will be deployed in Taiwan for a Vestas project in early Oct'24. Management said utilisation is likely to reach >85% in the first 2 years and it has already been pre-booked by Vestas and other customers at average rates higher than we initially forecast.

### Share price weakness a golden opportunity

WE believe MPM has strengthened its strategic relationship with Vestas, especially in Taiwan, and Vestas should remain a core charter partner. Key catalysts include: 1) potential new vessels with long-term contracts with Vestas, and new clients; 2) completion of construction of CSOV; and 3) strong FY24E earnings growth. Trading at just 7.7x FY24E P/E, MPM remains undervalued vs global/regional peers at 15x and 25x on average.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	86	127	150	177	210
EBITDA	32	41	38	48	57
Core net profit	22	23	29	38	46
Core EPS (cts)	0.6	0.6	0.8	1.0	1.2
Core EPS growth (%)	49.1	(2.0)	30.1	28.8	20.8
Net DPS (cts)	0.0	0.0	0.1	0.1	0.1
Core P/E (x)	6.6	8.3	8.0	6.2	5.2
P/BV (x)	1.0	1.0	1.1	0.9	0.8
Net dividend yield (%)	0.0	0.0	1.6	1.6	1.6
ROAE (%)	17.2	14.6	16.0	17.4	17.6
ROAA (%)	13.4	10.8	11.9	13.3	13.8
EV/EBITDA (x)	3.7	3.7	5.1	3.5	2.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	na	na	na
MIBG vs. Consensus (%)	-	-	na	na	na

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

# BUY

Share Price	SGD 0.06
12m Price Target	SGD 0.09 (+38%)
Previous Price Target	SGD 0.09

### Company Description

Marco Polo Marine is a reputable operator in the region. It charters, builds, converts, maintains and repairs vessels.

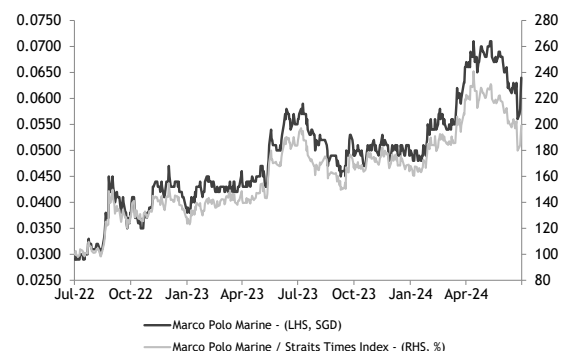
### Statistics

52w high/low (SGD)	0.07/0.05
3m avg turnover (USDm)	0.9
Free float (%)	60.3
Issued shares (m)	3,683
Market capitalisation	SGD235.7M
	USD174M

### Major shareholders:

Apricot Capital Pte Ltd. (SG)	16.2%
Aleph Tav Ltd.	8.1%
Penguin International Ltd.	8.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(3)	16
Relative to index (%)	(7)	(8)	9

Source: FactSet

### Abbreviations explained

CTV - Crew transfer vessel  
CSOV - Commissioning service operation vessel

### Other companies mentioned in this report

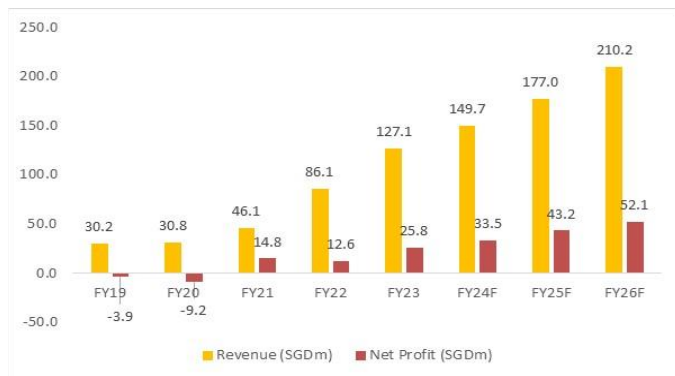
Vestas (VWS CPH, CP DKK177, not rated)  
Siemens Gamesa RE (SGREN, EUR18.06, not rated)

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## Value Proposition

- MPM is a growing integrated marine logistics group in Southeast Asia.
- MPM is benefiting from strong demand from both the O&G and renewable energy sectors for its chartering services as well as ship repair and maintenance.
- MPM has recovered since its restructuring in 2017 and is now riding the boom in chartering demand.
- MPM pivoted to serve offshore windfarms in Taiwan, and aims to grow in this space as well as chartering vessels to other renewable operators in the region.
- Trading at just 7.7x FY24E P/E with a forecast FY23-26 NPAT CAGR of 26.5% from rising utilisation and charter rates, we believe MPM is significantly undervalued.

### Revenue and NPAT forecasts (SGDm)

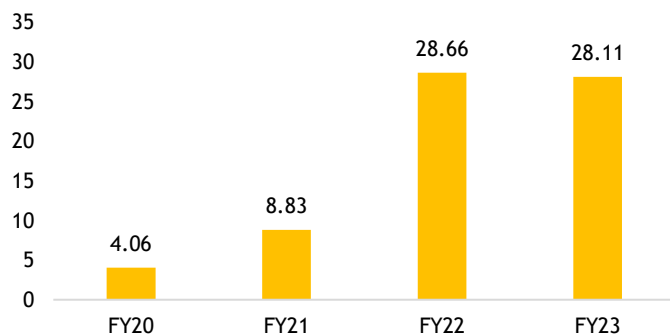


Source: Maybank IBG Research

## Financial Metrics

- We expect chartering and ship repair revenue to continue to increase strongly due to stronger demand and higher rates.
- The new CSOV should contribute about 15-20% NPAT growth YoY in FY25E.
- MPM likely to continue to acquire vessels to service the offshore windfarm operators in Taiwan as demand is increasing due to new project launches around the region.
- We also expect increasing dividends as profitability rises.
- Operating cash flow should remain positive, unless there's huge capex for acquiring vessels.

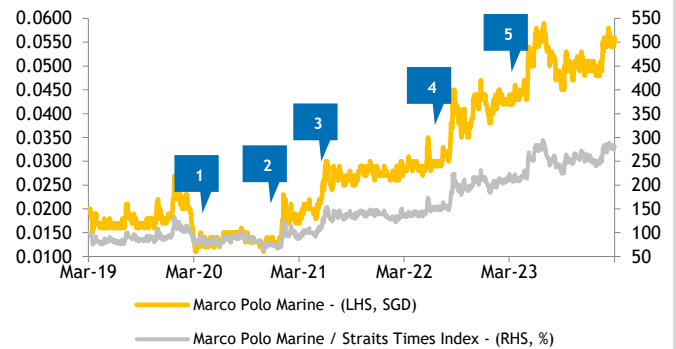
### Strong net cash from operations (SGD m)



Source: Company, Maybank Research

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

- Oil price crash and Covid led to share price decline.
- Turnaround to profitability.
- Charter rates and utilisation started to pick up, leading to strong profitability.
- Strong results reported, with charter rates rising YoY for 2 years in a row. Utilisation rate of vessels also increased, from 50-60% to 70-80% for FY23.
- Announced that its new CSOV has signed a 3-year take up by its key windfarm customer, Vestas.

## Swing Factors

### Upside

- MPM is trading at just 6.9x FY24E P/E, a significant discount to global and regional peers (average of 15x-25x).
- Rising charter rates and utilisation of vessels should continue to boost NPAT growth by 30% YoY in FY24E.
- Contributions from new CSOV should bump up FY25E NPAT growth.
- Potential new long-term contract may lead to acquisitions to service offshore renewable players around the region.
- Shipyards expansion will lead to increase in capacity to capture the high demand for its repair business.

### Downside

- Global recession or slowdown could lead to a drop in charter rates and demand for vessels.
- Decline in oil price will affect sentiment in the vessel chart and building sector.
- Conflict between China and Taiwan could impact charter operations.

[jarick.seet@maybank.com](mailto:jarick.seet@maybank.com)

**Fig 1: Loading of the CTV, MP Corus,**



Source: Company

**Fig 2: MPM's CTV, MP Corus, put into service**



Source: Company

Fig 3: MPM's CTV, MP Corus, put into service in South Korea



Source: Company

(MPM SP, CP SGDO.06, BUY, TP SGDO.09, Logistics)

**INCOME STATEMENT (SGD m)**

Revenue	86.1	127.1	149.7	177.0	210.2
EBITDA	32.1	41.1	38.4	48.2	57.4
EBIT	23.4	30.8	34.4	44.2	53.4
Net interest income /(exp)	(0.1)	(0.3)	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	9.4	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	23.3	30.5	34.4	44.2	53.4
Income tax	(1.2)	(4.7)	(0.8)	(1.1)	(1.3)
Minorities	0.0	3.2	4.2	5.4	6.5
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	22.0	22.6	29.4	37.8	45.7
Core net profit	22.0	22.6	29.4	37.8	45.7

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	53.5	63.1	74.9	106.6	144.2
Accounts receivable	17.4	22.8	38.6	45.6	54.1
Inventory	1.6	8.4	8.4	8.4	8.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	94.7	92.8	92.8	92.8	92.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	20.9	42.0	48.0	52.5	58.4
<b>Total assets</b>	<b>188.1</b>	<b>229.1</b>	<b>262.6</b>	<b>305.8</b>	<b>357.9</b>
ST interest bearing debt	1.0	1.0	1.0	1.0	1.0
Accounts payable	12.0	15.0	15.0	15.0	15.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2.3	1.3	1.3	1.3	1.3
Other liabilities	18.0	20.0	20.0	20.0	20.0
<b>Total Liabilities</b>	<b>33.4</b>	<b>37.7</b>	<b>37.7</b>	<b>37.7</b>	<b>37.7</b>
Shareholders Equity	151.7	183.9	217.4	260.6	312.7
Minority Interest	12.8	16.1	20.2	25.6	32.0
<b>Total shareholder equity</b>	<b>164.4</b>	<b>199.9</b>	<b>237.6</b>	<b>286.2</b>	<b>344.8</b>
<b>Total liabilities and equity</b>	<b>188.1</b>	<b>229.1</b>	<b>262.6</b>	<b>305.8</b>	<b>357.9</b>

**CASH FLOW (SGD m)**

Pretax profit	23.3	30.5	34.4	44.2	53.4
Depreciation & amortisation	8.7	10.3	4.0	4.0	4.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	28.7	28.1	21.8	40.1	47.6
Capex	(4.6)	(32.4)	(4.0)	(4.0)	(4.0)
Free cash flow	24.1	(4.3)	17.8	36.1	43.6
Dividends paid	(1.4)	(1.1)	(3.7)	(3.7)	(3.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.5	7.5	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.5	7.5	0.0	0.0	0.0
Other invest/financing cash flow	7.1	8.2	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	31.3	11.3	11.8	31.7	37.6

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	86.7	47.7	17.8	18.3	18.7
EBITDA growth	45.5	28.2	(6.7)	25.8	19.1
EBIT growth	51.8	31.6	11.6	28.7	20.8
Pretax growth	52.3	31.0	12.7	28.7	20.8
Reported net profit growth	49.1	2.5	30.1	28.7	20.8
Core net profit growth	49.1	2.5	30.1	28.7	20.8
<b>Profitability ratios (%)</b>					
EBITDA margin	37.2	32.3	25.6	27.2	27.3
EBIT margin	27.2	24.2	22.9	25.0	25.4
Pretax profit margin	27.0	24.0	22.9	25.0	25.4
Payout ratio	0.0	0.0	12.5	9.7	8.1
<b>DuPont analysis</b>					
Net profit margin (%)	25.6	17.8	19.6	21.4	21.7
Revenue/Assets (x)	0.5	0.6	0.6	0.6	0.6
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.1
ROAE (%)	17.2	14.6	16.0	17.4	17.6
ROAA (%)	13.4	10.8	11.9	13.3	13.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	11.3	19.3	47.7	62.5	65.7
Days receivable outstanding	61.4	56.9	73.8	85.6	85.4
Days inventory outstanding	8.8	22.1	32.8	29.0	24.8
Days payables outstanding	59.0	59.8	59.0	52.0	44.5
Dividend cover (x)	nm	nm	8.0	10.3	12.4
Current ratio (x)	2.6	3.3	4.3	5.5	6.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	5.6	6.1	7.0	8.1	9.5
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)	nm	100.6	nm	nm	nm
Debt/EBITDA (x)	0.1	0.1	0.1	0.0	0.0
Capex/revenue (%)	5.3	25.5	2.7	2.3	1.9
Net debt/ (net cash)	(50.3)	(60.8)	(72.7)	(104.3)	(142.0)

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

**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) 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**  
(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 • Internet

### 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

**Nontapat SAHAKITPINYO**  
(66) 2658 5000 ext 2352  
nontapat.sahakitpinyo@maybank.com  
• Healthcare

### 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

**Jocelyn SANTOSO**  
(62) 21 8066 8689  
jocelyn.santoso@maybank.com  
• Consumer

**Adi WICKAKSONO**  
(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

## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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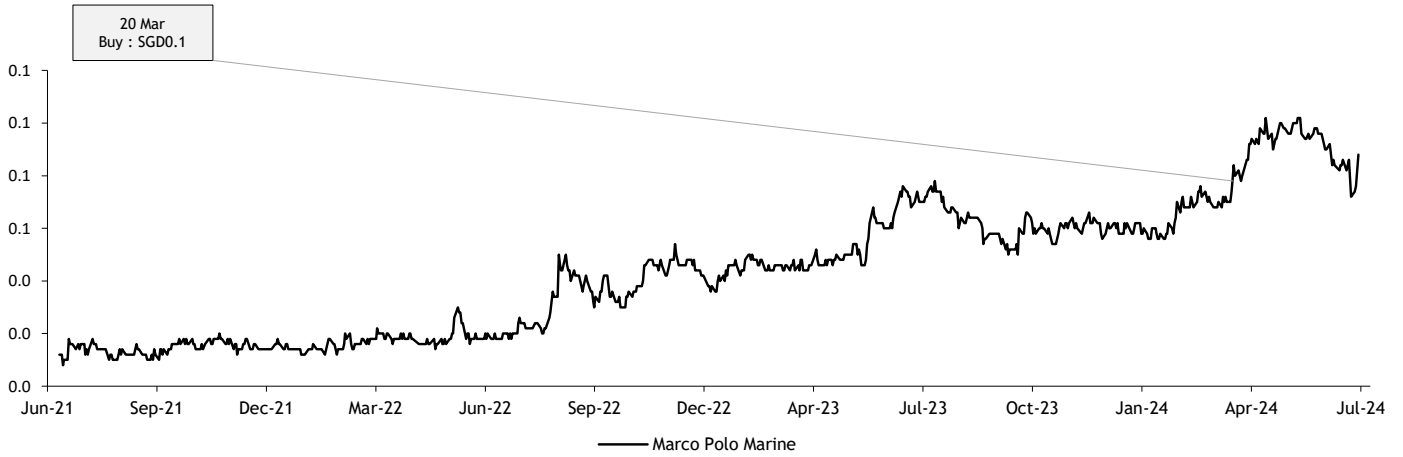
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 **Malaysia**

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  
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](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)