

Food Empire Holdings (FEH SP)

Facing headwinds; D/G to HOLD

Wait for the storm to pass; lowering TP to SGD1.02

1H24 revenue rose 13.6% YoY to USD225.2m, but PATMI declined by 12.8% YoY to USD23.2m, less than we expected, mainly due to short-term price disruption in Russia and higher raw material prices. Improvement in 2H24 is likely to be only marginal, and it's unlikely to turn around until FY25E. We cut our FY24/25 PATMI forecasts by 11.2% and 11.3%, respectively, and downgrade FEH to HOLD from BUY with a lower TP of SGD1.02 (10x FY24E P/E) from SGD1.30 while we await the short-term headwinds to clear.

Higher coffee bean prices and inventory hurt margins

As expected, higher coffee bean prices reduced 1H24 margins. Meanwhile, customers' high inventory levels caused price disruptions across the country and there were more promotions to clear stock. As a result, FEH has to offer customers discounts, which may further impact margins. FEH needs to wait for stock to be depleted or worked down before it can raise prices, which is likely to be in FY25E. As a result, improvement in 2H24E is likely to be flat/marginal.

Special dividends likely to be cut

FEH rewarded shareholders with a total dividend of SGD0.10, half of which comprises of special dividends for FY23. With earnings facing some headwinds and capex plans needed for its 2 new factories in FY25E, we do not expect special dividends in FY24E and dividends are likely to be halved to SGD0.05/share, representing a yield of 5.5%.

Better wait for headwinds to clear

FEH's business model has proven resilient and we are confident in management's execution ability. As a result, we prefer to wait for short-term headwinds to clear and downgrade FEH to HOLD.

FYE Dec (USD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	398	426	475	499	523
EBITDA	54	70	59	62	66
Core net profit	45	57	47	49	51
Core EPS (cts)	8.3	10.4	8.6	8.9	9.4
Core EPS growth (%)	129.2	25.3	(17.3)	4.3	5.7
Net DPS (cts)	3.2	10.0	4.0	4.2	4.5
Core P/E (x)	5.7	8.3	8.7	8.3	7.9
P/BV (x)	0.9	1.6	1.3	1.2	1.1
Net dividend yield (%)	6.8	11.7	5.5	5.7	6.0
ROAE (%)	23.8	19.7	15.6	15.3	14.6
ROAA (%)	12.5	14.4	11.1	10.7	10.5
EV/EBITDA (x)	3.1	5.3	5.6	5.2	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	53	58	61
MIBG vs. Consensus (%)	-	-	(11.2)	(16.0)	(15.6)

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

Eric Ong
ericong@maybank.com
(65) 6231 5849

HOLD

[Prior:BUY]

Share Price SGD 0.98
12m Price Target SGD 1.02 (+15%)
Previous Price Target SGD 1.30

Company Description

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

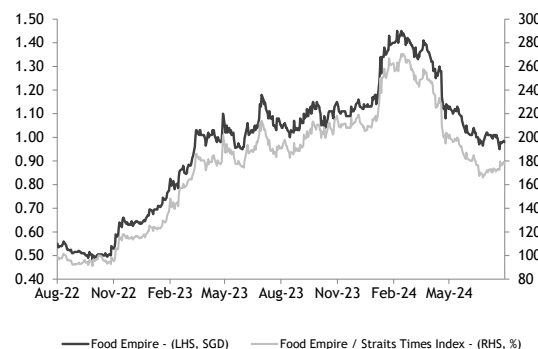
Statistics

52w high/low (SGD) 1.45/0.95
3m avg turnover (USDm) 0.4
Free float (%) 30.6
Issued shares (m) 548
Market capitalisation SGD537.1M
USD407M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(13)	(9)
Relative to index (%)	6	(11)	(8)

Source: FactSet

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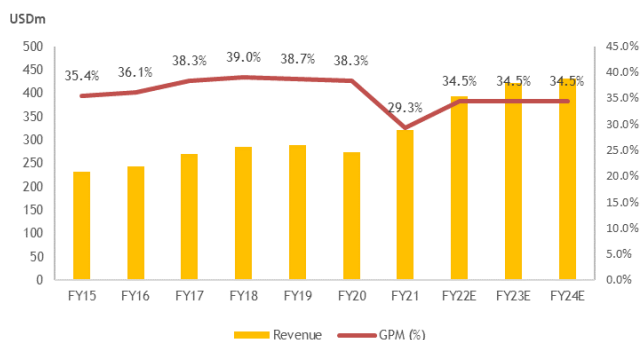
Value Proposition

- 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 8.6x FY24E P/E, a huge discount to global peers at an average of 27x.

- Robust balance sheet.
- Clear ESG policies and strategies.

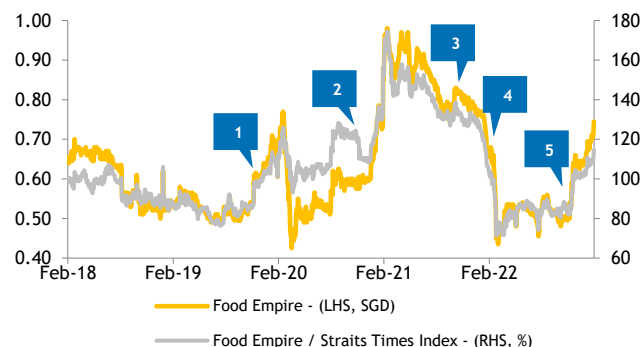
Revenue and GPM



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



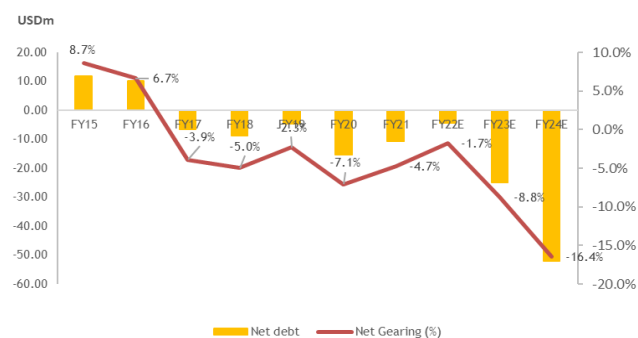
Source: Company, Maybank IBG Research

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 ¹	Not Rated
Score Momentum ²	na
Last Updated	na
Controversy Score ³	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 hold 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.

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: 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
	Total	tCO2e	875	800	876	79,256
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	Total	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>Changed 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
Impact		
NA		
Overall Score: 60		
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
Total			60

As per our ESG assessment, FEH has an established framework, internal policies, and tangible medium/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 our forecasts

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (USDm)	474.8	474.8	0.0	498.6	498.6	0.0	523.5	523.5	0.0
Gross profit (USDm)	134.8	142.4	-5.3	141.6	149.6	-5.3	148.7	157.0	-5.3
PBT	59.9	67.5	-11.3	62.5	70.5	-11.3	66.0	74.4	-11.3
NPAT	46.7	52.6	-11.3	48.7	54.9	-11.3	51.4	58.0	-11.3
PATMI	46.7	52.6	-11.2	48.7	54.9	-11.3	51.5	58.0	-11.2
			Chg (ppt)			Chg (ppt)			Chg (ppt)
PBT margin	12.6%	14.2%	-1.6	12.5%	14.1%	-1.6	12.6%	14.2%	-1.6
Net margin	9.8%	11.1%	-1.2	9.8%	11.0%	-1.2	9.8%	11.1%	-1.2

Source: Maybank IBG Research

Fig 2: 1H24 results

FYE Dec	1H24	2H23	1H23	YoY Chg	QoQ Chg	FYE	As a % of FYE
	USDm	USDm	USDm	(%)	(%)	USDm	(%)
Revenue	225.2	227.5	198.2	13.6	-1.0	474.8	47.4
Gross Profit	67.6	71.9	69.5	-2.7	-6.0	142.4	47.5
Net Profit	23.2	29.8	26.6	-12.8	-22.1	52.6	44.1
EBITDA margin	16.2%	20.0%	20.8%	-4.6	-3.9		
GP Margin	30.0%	31.6%	35.1%	-5.0	-1.6		
Net margin	10.3%	13.1%	13.4%	-3.1	-2.8		

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	3.7	7.2	8.7	8.3	7.9
Core P/E (x)	5.7	8.3	8.7	8.3	7.9
P/BV (x)	0.9	1.6	1.3	1.2	1.1
P/NTA (x)	1.0	1.6	1.4	1.2	1.1
Net dividend yield (%)	6.8	11.7	5.5	5.7	6.0
FCF yield (%)	22.8	8.1	4.8	7.1	7.9
EV/EBITDA (x)	3.1	5.3	5.6	5.2	4.8
EV/EBIT (x)	3.1	5.3	5.6	5.2	4.8
INCOME STATEMENT (USD m)					
Revenue	398.4	425.7	474.8	498.6	523.5
EBITDA	54.3	70.4	59.1	62.5	66.0
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	59.1	62.5	66.0
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	59.9	62.5	66.0
Income tax	(10.6)	(16.0)	(13.3)	(13.8)	(14.6)
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	46.7	48.7	51.5
Core net profit	45.1	56.5	46.7	48.7	51.5
BALANCE SHEET (USD m)					
Cash & Short Term Investments	125.6	131.3	112.1	117.3	124.8
Accounts receivable	31.5	38.2	59.2	62.1	65.3
Inventory	74.0	76.7	93.1	97.8	102.7
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	29.9	29.8	29.7
Total assets	381.5	402.9	437.4	470.0	506.8
ST interest bearing debt	13.5	15.0	15.0	15.0	15.0
Accounts payable	48.4	49.8	72.3	73.3	77.0
LT interest bearing debt	24.8	21.4	21.4	21.4	21.4
Other liabilities	19.0	22.0	28.0	27.0	26.0
Total Liabilities	105.9	108.4	136.7	136.9	139.3
Shareholders Equity	276.7	295.6	302.0	334.3	368.8
Minority Interest	(1.1)	(1.1)	(1.2)	(1.2)	(1.3)
Total shareholder equity	275.6	294.5	300.8	333.1	367.5
Total liabilities and equity	381.5	402.9	437.4	470.0	506.8
CASH FLOW (USD m)					
Pretax profit	70.7	72.5	59.9	62.5	66.0
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)	(14.8)	(6.1)	(4.3)
Cash taxes paid	(9.1)	(12.7)	(13.3)	(13.8)	(14.6)
Other operating cash flow	(9.7)	(0.4)	0.0	0.0	0.0
Cash flow from operations	72.8	50.6	29.4	38.9	42.2
Capex	(13.8)	(12.5)	(10.0)	(10.0)	(10.0)
Free cash flow	59.0	38.1	19.4	28.9	32.2
Dividends paid	(8.6)	(17.3)	(40.4)	(16.4)	(17.0)
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	(19.2)	5.2	7.5

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.2	6.9	11.5	5.0	5.0
EBITDA growth	107.5	29.6	(16.0)	5.7	5.7
EBIT growth	107.5	29.6	(16.0)	5.7	5.7
Pretax growth	168.7	2.5	(17.3)	4.3	5.7
Reported net profit growth	208.2	(6.0)	(17.3)	4.3	5.7
Core net profit growth	131.3	25.3	(17.3)	4.3	5.7
Profitability ratios (%)					
EBITDA margin	13.6	16.5	12.5	12.5	12.6
EBIT margin	13.6	16.5	12.5	12.5	12.6
Pretax profit margin	17.7	17.0	12.6	12.5	12.6
Payout ratio	29.2	96.6	47.3	47.3	47.3
DuPont analysis					
Net profit margin (%)	15.1	13.3	9.8	9.8	9.8
Revenue/Assets (x)	1.0	1.1	1.1	1.1	1.0
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	23.8	19.7	15.6	15.3	14.6
ROAA (%)	12.5	14.4	11.1	10.7	10.5
Liquidity & Efficiency					
Cash conversion cycle	65.2	62.8	62.2	66.7	67.9
Days receivable outstanding	32.3	29.4	36.9	43.8	43.8
Days inventory outstanding	95.0	95.5	89.9	96.3	96.3
Days payables outstanding	62.1	62.1	64.6	73.4	72.2
Dividend cover (x)	3.4	1.0	2.1	2.1	2.1
Current ratio (x)	3.4	3.4	2.8	2.9	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	3.6	3.7	3.2	3.4	3.6
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	0.6	0.6	0.6
Capex/revenue (%)	3.5	2.9	2.1	2.0	1.9
Net debt/ (net cash)	(87.3)	(94.9)	(75.7)	(80.9)	(88.4)

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

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
(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

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE Head of Research
(65) 6231 5840
thilanw@maybank.com
• Strategy • Consumer
• Banking & Finance - Regional

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.saiffee@maybank.com
• Telcos • Internet

PHILIPPINES

Kervin Laurence SISAYAN Head of Research
(63) 2 5322 5005
kervin.sisayan@maybank.com
• Strategy • Banking & Finance

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

Germaine GUIINTO
(63) 2 5322 5006
germaine.guinto@maybank.com
• Utilities

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

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 8688
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

William JEFFERSON
(62) 21 8066 8687
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

Hasan BARAKWAN
(62) 21 8066 2694
hasan.barakwan@maybank.com
• Metals & Mining

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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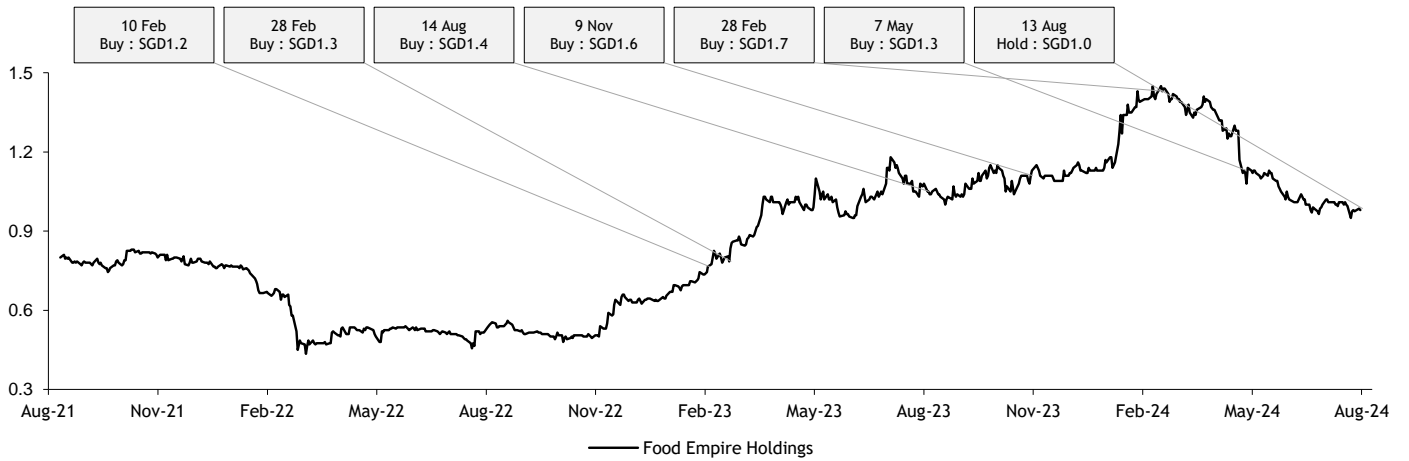
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 **Malaysia**

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