

StarHub (STH SP)

2Q24: A decent pickup

Decent delivery, led by enterprise services

2Q24 NPAT (ex DÇrypt) increased 9% YoY/8% QoQ. Reported NPAT is tracking at 50%/49% of MBIG/Street full-year forecasts. 2Q service revenue increased 3% YoY/5% QoQ, led by strong enterprise services but partially offset by a softer consumer segment. Mobile revenue declined 4% YoY but stabilized QoQ. Enterprise services remain the key growth driver, posting 11% YoY/QoQ growth in revenue, mainly led by cybersecurity services. EBITDA (ex DÇrypt) grew by a healthy 2% YoY/9% QoQ. Starhub declared SGD3c in interim dividends but we see potential for a bigger final dividend, translating to a 6% annualized dividend yield. BUY.

Firm enterprise; signs of consumer-side stability

Enterprise services was mainly led by the cybersecurity division posting 13% YoY/16% QoQ revenue growth followed by the managed services division posting 38% YoY/3% QoQ growth. The consumer side remained soft owing to elevated competition and shift to SIM-only plans. That said, we see early signs of stability with all divisions within the consumer segment posting stable QoQ revenue. Mobile revenue declined 4% YoY/flat QoQ owing to post-paid ARPU declining, while churn levels as well inched up to 1.1% in 2Q from less than 1% in previous quarters. Higher churn was attributed to a bigger shift in SIM-only plans, which management sees as not concerning. Broadband revenue declined 2% YoY/flat QoQ. The company said this space is hyper-competitive. Costs were well-managed allowing for 2% YoY/9% QoQ EBITDA growth and margins uptick.

Key take-away from the post results analyst call

Cybersecurity revenues grew strongly, but EBITDA losses widened in 1H24. Management noted there are strong growth tailwinds within the space, which it is tapping into by investing back in growth. It will focus on profitability once the growth tailwinds soften. On the upcoming 700MHz spectrum allocation & payments, management noted that 5G is mostly rolled out while market conditions have changed (higher competition and industry revenues are down vs. 2018 level when spectrum bidding took place). As such, utility of the 700MHz spectrum has reduced, in our view. Starhub has to pay SGD282m to the regulator for the 700MHz spectrum.

Maintain BUY

Maintain BUY and DCF-based TP of SGD1.44. We forecast earnings to expand by 10% CAGR over 2023-26E as chunky Dare+ investments come off next year. Mobile industry consolidation remains a potential catalyst. (Dare+ is a special investment initiative spanning 2022-25)

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,327	2,373	2,419	2,476	2,526
EBITDA	417	468	485	513	539
Core net profit	70	150	161	185	200
Core FDEPS (cts)	4.0	8.6	9.3	10.7	11.5
Core FDEPS growth(%)	(53.3)	114.6	7.7	14.8	7.7
Net DPS (cts)	5.0	6.7	7.0	7.4	7.8
Core FD P/E (x)	25.9	12.9	13.9	12.1	11.2
P/BV (x)	3.4	3.4	3.7	3.3	3.0
Net dividend yield (%)	4.8	6.0	5.5	5.7	6.0
ROAA (%)	2.2	4.9	5.3	6.1	6.5
EV/EBITDA (x)	6.3	6.0	6.4	6.4	5.8
Net gearing (%) (incl perps)	84.2	90.4	84.6	101.9	81.8
Consensus net profit	-	-	160	179	199
MIBG vs. Consensus (%)	-	-	0.7	3.5	0.5

Hussaini Saiffee
hussaini.saiffee@maybank.com
(65) 6231 5837

BUY

Share Price	SGD 1.29
12m Price Target	SGD 1.44 (+17%)
Previous Price Target	SGD 1.44

Company Description

Starhub is the 2nd largest wireless service and largest pay TV operator in Singapore

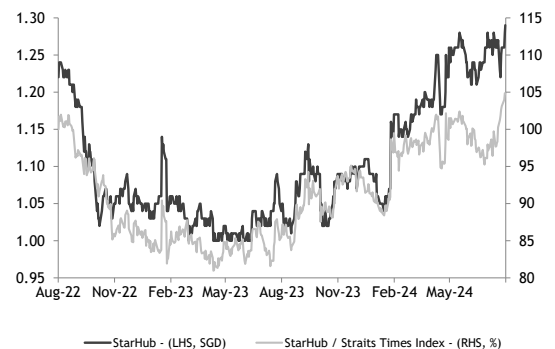
Statistics

52w high/low (SGD)	1.29/1.01
3m avg turnover (USDm)	0.8
Free float (%)	34.2
Issued shares (m)	1,732
Market capitalisation	SGD2.2B
	USD1.7B

Major shareholders:

Singapore Technologies Telemedia Pte Ltd	55.8%
Nippon Telegraph & Telephone Corp.	9.9%
The Vanguard Group, Inc.	0.9%

Price Performance



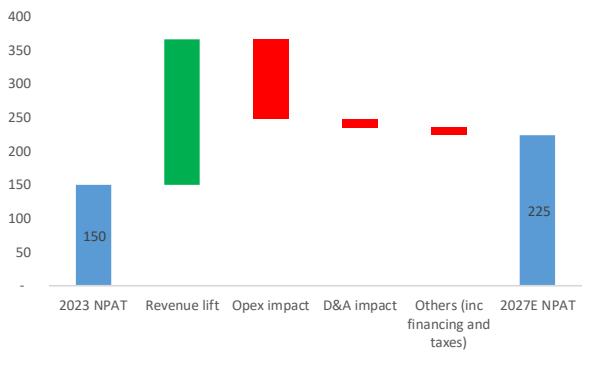
	-1M	-3M	-12M
Absolute (%)	2	2	24
Relative to index (%)	10	4	24

Source: FactSet

Value Proposition

- The company is undergoing a Dare+ investment cycle. As the investment comes off from 2025, we expect a boost in earnings (10% 2023-26E CAGR) and FCF (28% 2023-26E CAGR).
- A four-player Singapore mobile space remains ripe for consolidation and Starhub is better placed to drive consolidation. We see 23-43% earnings accretion for Starhub in the event it moves to acquire M1 (Not Listed).
- Dividend yield has been a key investment thesis. StarHub paid a SGGD6.7 cent dividend for 2023, implying 6% yield. Yields are sustainable and expected to improve as Dare+ investments come off.

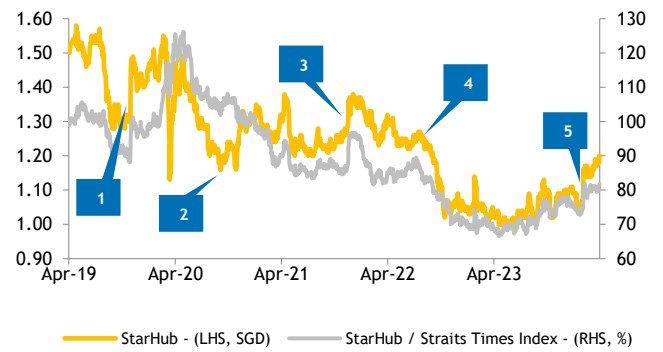
NPAT trajectory as Dare+ benefits are realized (SGD m)



Source: Company data

Price Drivers

Historical share price trend



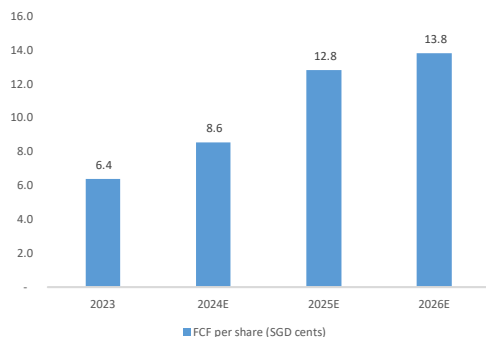
Source: Company, Maybank IBG Research

1. Consistent dividend payout kept share price generally stable.
2. Covid impact leading to roaming and tourist SIM linked revenues taking a hit.
3. Management outlines Dare+ initiative.
4. 1H22 results. Earnings decline 10% YoY, FCF fell 66% owing to Dare+ investments.
5. Better-than-expected FY23 results. Starhub pays higher-than-expected dividends.

Financial Metrics

- Pre-paid mobile ARPUs could remain under pressure owing to elevated competition from Simba. Expect better Enterprise revenues on the back of Dare+ initiatives and strong cybersecurity growth.
- We expect margins to improve 1ppt over 2023-26E as Starhub realizes Dare+ linked opex rationalization and expect capex/sales to decline from 11% in 2023 to 9% in 2026E.
- Expect FCF per share to improve from 6.4 cents in 2023 to 13.8 cents in 2026E.

Starhub FCF/per share trajectory



Source: Company data

Swing Factors

Upside

- Market consolidation in the mobile segment leading to competitive rationality as seen with other markets.
- Realization of targeted Dare+ synergies leading to NPAT hitting SGD230m by 2027E from SGD150m in 2023.
- Expansion in dividend yield alongside improvement in FCF yield alongside realization of targeted Dare+ synergies.

Downside

- Industry fails to consolidate, leading to no change in mobile competition trajectory while competition in fixed broadband escalates.
- Starhub margins don't expand and capex intensity doesn't contract post Dare+ investment cycle.
- Faster-than-expected shift in consumer preference towards Over-The-Top players such as Netflix.

hussaini.saifee@maybank.com

Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- StarHub is most exposed to cyber security and personal-data-leakage risks given the nature of its business.
- That said, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act, as well as sector specific cyber security requirements imposed by the Infocomm Media Development Authority. Audits are also performed to verify its compliance on an on-going basis.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.
- As StarHub is in the business of connectivity, it is supporting youth, social and digital inclusion. The telco donated >SGD1m to 15 voluntary welfare organisations and non-profit organisations to support disadvantaged groups in the areas of digital inclusion and employability through community investment.
- StarHub displays no exceptional risks for a telco operator for ESG and it's in line with other peers in tackling ESG issues.

Material E issues

- Carbon tax was introduced in 2019 on large direct emitters, which indirectly led to an increase in StarHub's energy costs.
- Achieved 16.3% reduction in Scope 1 and 2 GHG emissions from 2021, putting them on track for our 2030 target.
- Achieved interim target of 14% energy use from renewable sources.
- Achieved target of recycling 100% of ICT e-waste from corporate office and warehouse.
- Reduced total water consumption by 20.2% in 2023 from 2022 levels.

Key G metrics and issues

- Board consists of 55% independent & non-executive directors, of which 27% are female.
- Independent directors chair the nomination and audit, investment and remuneration committees.
- There were no incidents of non-compliance pertaining to marketing communications, fraud, corruption, anti-competitive and anti-trust behaviours in 2023 .
- At the most basic level, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.

Material S issues

- Maintained zero incidents of non-compliance regarding the health and safety impact of our products and services.
- 27% of the board and 41% of the workforce are female. It also has a whistleblowing programme to escalate employee concerns.
- 17,865 hours of training were provided to 97% of its employees.
- Reached more than 4,180 beneficiaries with donations, with staff contributing more than 1,215 volunteering hours.
- Adopted an inaugural Board Diversity Policy in 2022 and set a new target to maintain a minimum of 25% female representation on the Board within the next 3-5 years.

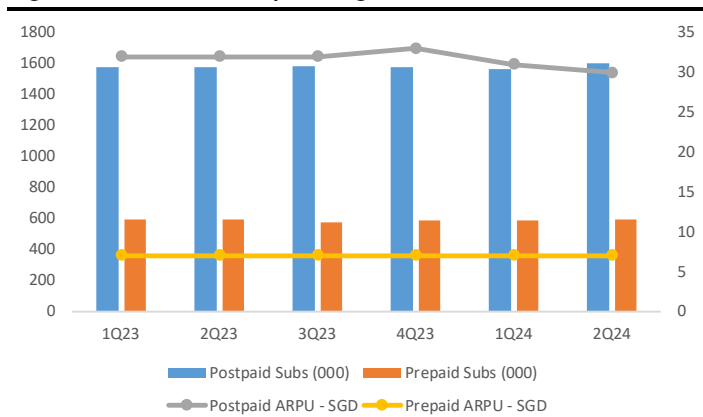
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven 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).

Fig 1: Starhub 2Q24 financial summary

SGD m	2Q23	1Q24	2Q24	YoY	QoQ	Comments
Revenue						
Mobile	151	145	145	-4%	0%	
Broadband	63	61	62	-2%	0%	
Entertainment	57	55	55	-4%	0%	
Enterprise	197	198	220	11%	11%	
Service revenue	467	459	480	3%	5%	
Total Revenue	540	545	551	2%	1%	1H24 at 46% of MIBG and street full year estimates
EBITDA	116	108	118	2%	9%	1H24 at 46% of MIBG and and 48% of street full year estimates
Margins	21.4%	19.9%	21.4%			
Service EBITDA	108	101	113	5%	12%	
Service EBITDA margins	23.1%	22.1%	23.6%			
NPAT (inc Dcrypt)	38	39	41	9%	5%	1H24 at 50% of MIBG and and 49% of street full year estimates
NPAT (ex Dcrypt)	40	40	43	9%	8%	
FCF	19	87	15	-21%	-83%	

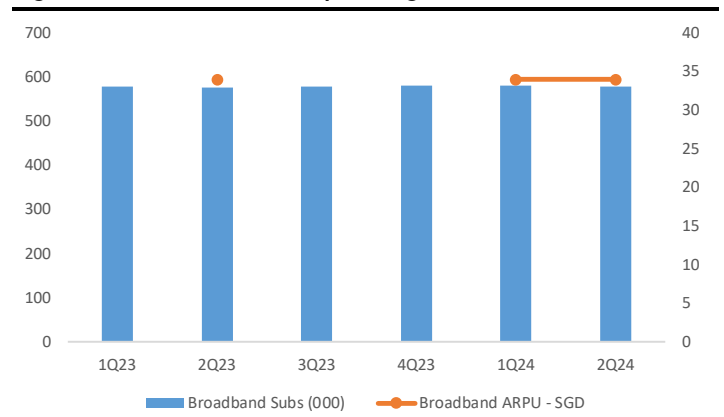
Source: Maybank IBG Research, Company data

Fig 2: Mobile business operating details



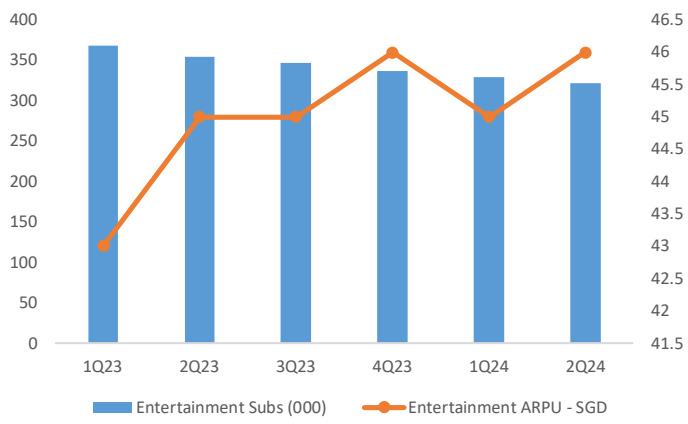
Source: Company data

Fig 3: Broadband business operating details



Source: Company data

Fig 4: Entertainment business operating details



Source: Company data

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	33.6	12.1	13.8	12.0	11.2
Core P/E (x)	25.7	12.8	13.8	12.0	11.2
Core FD P/E (x)	25.9	12.9	13.9	12.1	11.2
P/BV (x)	3.4	3.4	3.7	3.3	3.0
P/NTA (x)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
Net dividend yield (%)	4.8	6.0	5.5	5.7	6.0
FCF yield (%)	7.9	5.8	5.8	10.2	10.9
EV/EBITDA (x)	6.3	6.0	6.4	6.4	5.8
EV/EBIT (x)	17.0	12.3	12.9	12.2	11.0

INCOME STATEMENT (SGD m)

Revenue	2,327.3	2,373.1	2,418.7	2,476.0	2,525.6
EBITDA	417.0	467.5	485.0	512.6	539.3
Depreciation	(262.3)	(241.1)	(245.8)	(246.0)	(253.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	154.7	226.4	239.2	266.6	285.7
Net interest income / (exp)	(65.7)	(33.2)	(33.3)	(32.0)	(35.7)
Associates & JV	4.1	3.6	3.6	3.6	3.6
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	93.1	196.8	209.5	238.2	253.6
Income tax	(23.3)	(50.8)	(52.0)	(56.7)	(57.9)
Minorities	7.6	(3.8)	(3.8)	(3.8)	(3.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	62.2	149.8	161.3	185.3	199.6
Core net profit	69.8	149.8	161.3	185.3	199.6

BALANCE SHEET (SGD m)

Cash & Short Term Investments	573.9	502.0	471.6	248.9	358.8
Accounts receivable	400.9	418.0	426.0	436.1	444.9
Inventory	66.4	46.9	47.8	48.9	49.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	631.4	607.8	640.2	586.1	528.2
Intangible assets	809.4	754.9	754.9	1,036.9	1,036.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	652.0	705.3	705.3	705.3	705.3
Total assets	3,134.0	3,034.9	3,045.8	3,062.2	3,124.0
ST interest bearing debt	136.6	11.3	11.3	11.3	11.3
Accounts payable	823.7	709.1	722.7	725.0	724.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,013.6	1,128.2	1,088.2	1,048.2	1,048.2
Other liabilities	476.0	481.0	482.0	483.0	483.0
Total Liabilities	2,449.9	2,329.7	2,304.0	2,266.9	2,267.0
Shareholders Equity	530.7	568.5	608.9	666.1	731.7
Minority Interest	153.4	136.7	132.9	129.1	125.3
Total shareholder equity	684.1	705.2	741.8	795.2	857.0
Total liabilities and equity	3,134.0	3,034.9	3,045.8	3,062.2	3,124.0

CASH FLOW (SGD m)

Pretax profit	93.1	196.8	209.5	238.2	253.6
Depreciation & amortisation	262.3	241.1	245.8	246.0	253.6
Adj net interest (income)/exp	65.7	33.2	33.3	32.0	35.7
Change in working capital	(10.0)	(58.1)	4.7	(9.0)	(10.3)
Cash taxes paid	(23.3)	(50.8)	(52.0)	(56.7)	(57.9)
Other operating cash flow	86.8	72.2	72.2	72.2	72.2
Cash flow from operations	383.7	358.6	408.0	418.5	439.0
Capex	(159.6)	(172.3)	(278.1)	(191.9)	(195.7)
Free cash flow	142.3	110.7	129.9	226.6	243.3
Dividends paid	(110.8)	(86.4)	(121.5)	(127.6)	(134.0)
Equity raised / (purchased)	0.0	(0.1)	0.0	0.0	0.0
Change in Debt	(20.1)	(20.5)	(39.3)	(39.3)	0.7
Other invest/financing cash flow	(377.3)	(124.2)	(73.2)	(352.5)	(73.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(284.1)	(44.8)	(104.2)	(292.9)	36.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	13.9	2.0	1.9	2.4	2.0
EBITDA growth	(42.1)	12.1	3.7	5.7	5.2
EBIT growth	(67.5)	46.4	5.7	11.4	7.2
Pretax growth	(51.1)	111.4	6.5	13.7	6.5
Reported net profit growth	(58.4)	140.8	7.7	14.8	7.7
Core net profit growth	(53.3)	114.6	7.7	14.8	7.7
Profitability ratios (%)					
EBITDA margin	17.9	19.7	20.1	20.7	21.4
EBIT margin	6.6	9.5	9.9	10.8	11.3
Pretax profit margin	4.0	8.3	8.7	9.6	10.0
Payout ratio	138.9	77.3	75.3	68.9	67.2
DuPont analysis					
Net profit margin (%)	2.7	6.3	6.7	7.5	7.9
Revenue/Assets (x)	0.7	0.8	0.8	0.8	0.8
Assets/Equity (x)	5.9	5.3	5.0	4.6	4.3
ROAE (%)	na	na	na	na	na
ROAA (%)	2.2	4.9	5.3	6.1	6.5
Liquidity & Efficiency					
Cash conversion cycle	(156.7)	(160.2)	(143.7)	(142.9)	(140.3)
Days receivable outstanding	61.0	62.1	62.8	62.7	62.8
Days inventory outstanding	18.1	17.7	14.6	14.7	14.9
Days payables outstanding	235.8	240.0	221.2	220.3	218.0
Dividend cover (x)	0.7	1.3	1.3	1.5	1.5
Current ratio (x)	1.2	1.4	1.4	1.2	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.3	1.4	1.4
Net gearing (%) (incl perps)	84.2	90.4	84.6	101.9	81.8
Net gearing (%) (excl. perps)	84.2	90.4	84.6	101.9	81.8
Net interest cover (x)	2.4	6.8	7.2	8.3	8.0
Debt/EBITDA (x)	2.8	2.4	2.3	2.1	2.0
Capex/revenue (%)	6.9	7.3	11.5	7.7	7.7
Net debt/ (net cash)	576.3	637.5	627.8	810.6	700.6

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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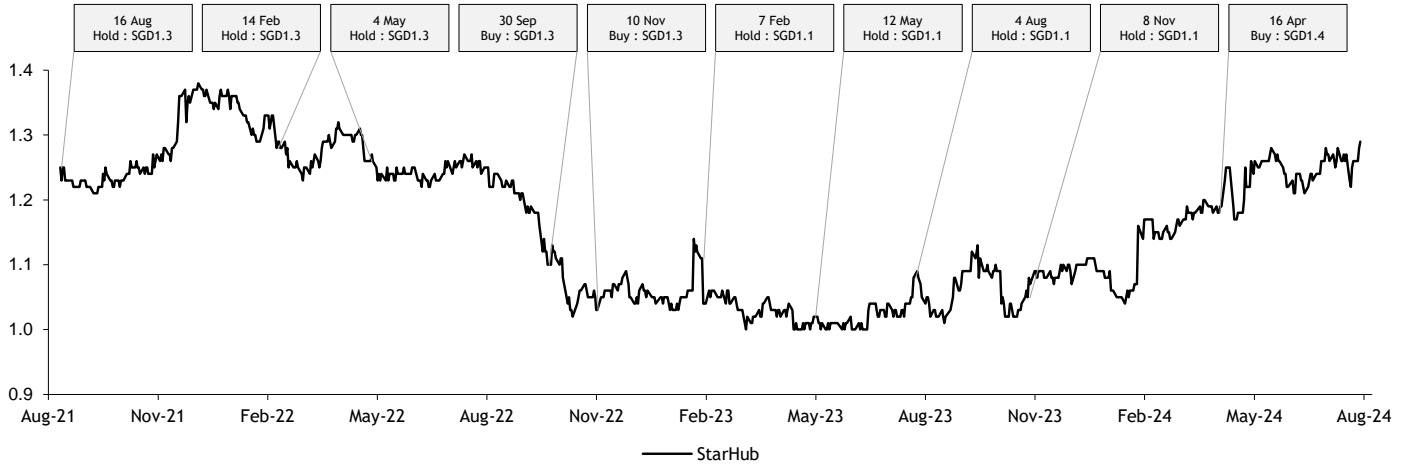
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 **Malaysia**

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