

# Inari Amertron (INRI MK)

## 4QFY24: Another tough year

### HOLD maintained with a lower TP

Inari's delivered a subdued set of results in 4QFY24 as it grappled with margin compression, primarily from efforts to diversify its customer base. We introduce FY27E and lower our earnings estimates for FY25-26E by 5%-10%. Our TP is also lowered to MYR3.30 (-10sen) as we roll-forward valuations to FY26E. Our TP is now pegged to 29x FY26E PER, at LT mean (from 32x FY25E PER, +0.5SD previously). Risk-reward remains balanced.

### Results below expectations

Excluding lumpy one-offs (+MYR13.8m), Inari's 4QFY24 core net profit (CNP) came in at MYR68.5m (+4% YoY, -7% QoQ). Cumulatively, 12MFY24 CNP of MYR314.2m (-3% YoY) came in below expectations at 93% of ours/street's FY24E respectively. Despite turnover growth of 11% YoY in 4Q, the shortfall was primarily due to margin compression. A 1.4sen interim DPS (-30% YoY) was declared, taking total FY24 DPS to 7.7sen (FY23: 8.2 sen).

### Margin compression despite top-line growth

On a full-year basis, Inari's FY24 revenue growth (+9% YoY) was underpinned by double-digit growth in its RF (+15%) and Opto (+12%) segments, albeit offset by weakness in its Generic (-18%) segment. Collectively, RF/Opto/Generic accounted for 61%/33%/6% of FY24 group turnover (vs. 59%/33%/8% in FY23). EBIT margins declined 5ppts in FY24, on (i) increased electricity costs, (ii) lower realized FX gains (MYR3.9m vs. MYR12.3m in FY23), and (iii) unfavourable product mix from margin-dilutive new product introduction (NPI) initiatives. Positively, Inari's FY24 CNP margin contraction (-2.7ppts) was less pronounced owing to lower tax charges (-68% YoY; ETR @ 3%), from a slew of investment tax incentives.

### RF growth to be offset by NPI gestation

Premised on favourable prospects of a smartphone replacement cycle from Inari's key customer's AI-enabled flagship launches in 2HCY24, we expect RF growth momentum to remain positive in FY25. However, we expect Inari's NPI initiatives to continue posing a near-to-medium drag on its margins. As such, we conservatively lower FY25-26E CNP by 5%/10% each.

FYE Jun (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,354	1,479	1,721	1,883	2,051
EBITDA	410	369	504	547	594
Core net profit	325	314	384	424	467
Core EPS (sen)	8.5	8.2	10.0	11.1	12.2
Core EPS growth (%)	(19.8)	(3.3)	22.3	10.4	10.1
Net DPS (sen)	8.2	7.7	8.5	9.4	10.4
Core P/E (x)	32.3	45.1	33.6	30.4	27.6
P/BV (x)	4.0	5.3	4.7	4.6	4.5
Net dividend yield (%)	3.0	2.1	2.5	2.8	3.1
ROAE (%)	12.7	11.4	14.3	15.3	16.4
ROAA (%)	11.1	10.5	12.4	13.2	14.0
EV/EBITDA (x)	21.2	33.0	21.5	19.7	18.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	413	471	na
MIBG vs. Consensus (%)	-	-	(6.9)	(9.9)	na

Anand Pathmakanthan  
anand.pathmakanthan@maybank-ib.com  
(603) 2297 8783

Arvind Jayaratnam  
arvind.jayaratnam@maybank.com  
(603) 2297 8692

# HOLD

Share Price MYR 3.37  
12m Price Target MYR 3.30 (+0%)  
Previous Price Target MYR 3.40

### Company Description

Inari Amertron is the biggest semiconductor player in M'sia and one of Broadcom's top OSAT providers in the thriving wireless division.

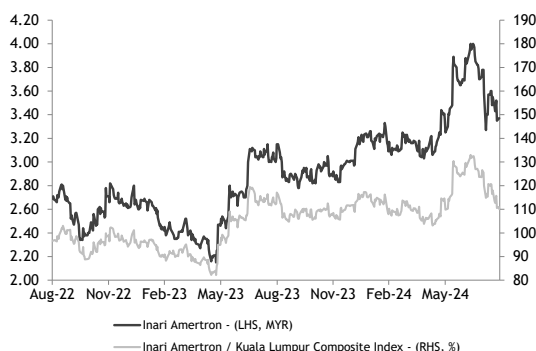
### Statistics

52w high/low (MYR)	4.00/2.78
3m avg turnover (USDm)	11.2
Free float (%)	71.0
Issued shares (m)	3,733
Market capitalisation	MYR12.6B
	USD2.9B

### Major shareholders:

Insas Bhd.	13.7%
Employees Provident Fund	10.3%
Kumpulan Wang Persaraan	9.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	(1)	11
Relative to index (%)	(10)	(2)	(2)

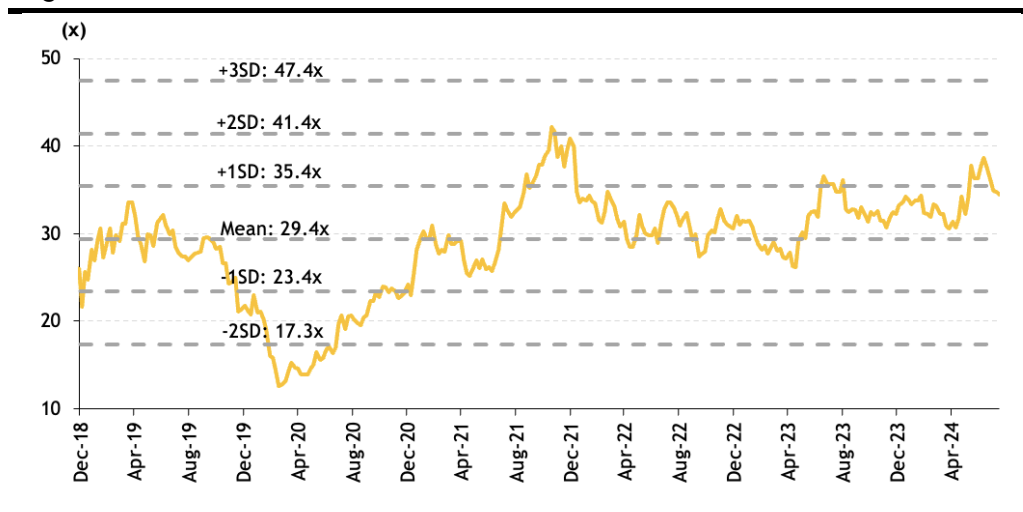
Source: FactSet

Fig. 1: Inari’s 4QFY24 Results summary table

FY Jun (MYR m)	Quarterly					Cumulative		
	4Q24	3Q24	%QoQ	4Q23	%YoY	12M24	12M23	%YoY
Turnover	333.1	347.6	(4.2)	298.8	11.5	1,478.7	1,354.0	9.2
EBIT ex E.I.	49.2	60.3	(18.4)	56.0	(12.3)	259.5	304.8	(14.9)
Interest expense	(0.8)	(0.5)	62.6	(0.9)	(16.7)	(1.9)	(1.9)	3.8
Pre-tax profit	53.2	76.8	(30.7)	72.6	(26.7)	310.1	355.8	(12.9)
Taxation	1.0	(2.9)	nm	(4.4)	nm	(10.0)	(30.8)	(67.5)
Minority interest	0.4	(0.2)	nm	(1.9)	nm	0.1	(1.5)	nm
Net profit	54.7	73.7	(25.8)	66.3	(17.5)	300.2	323.5	(7.2)
E.I.	13.8	(0.4)	nm	(0.3)	nm	14.0	1.4	nm
Core net profit	68.5	73.3	(6.5)	66.0	3.7	314.2	324.9	(3.3)
	4Q24	3Q24	+/- ppt	4Q23	+/- ppt	12M24	12M23	+/- ppt
EBIT (ex-EI) margin (%)	14.8	17.3	(2.6)	18.8	(4.0)	17.6	22.5	(5.0)
Core net profit margin (%)	20.6	21.1	(0.5)	22.1	(1.5)	21.3	24.0	(2.7)

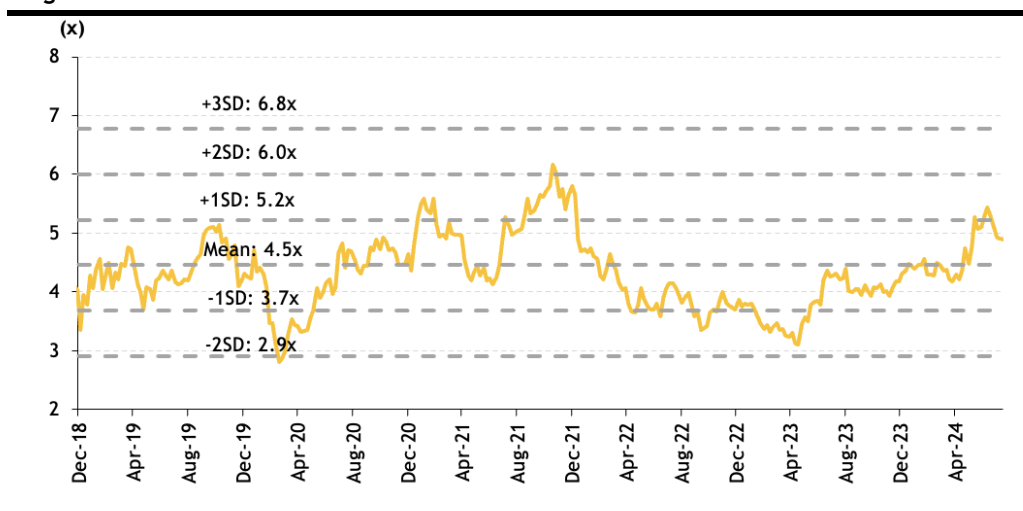
Source: Company, Maybank IBG Research

Fig. 2: Inari’s 12M forward PER band



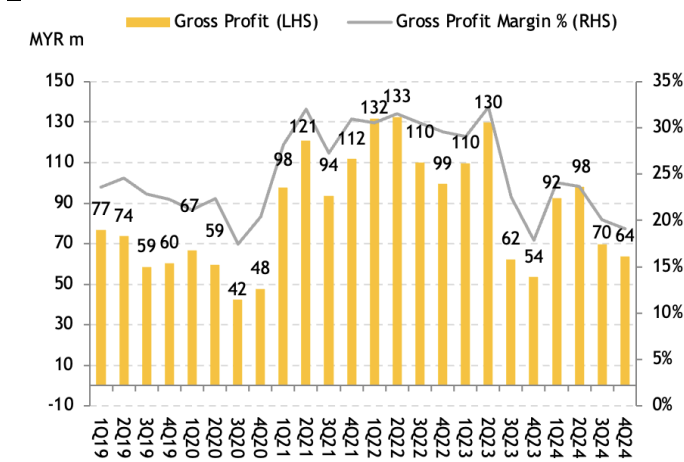
Source: Bloomberg, Maybank IBG Research

Fig. 3: Inari’s 12M forward PBV band



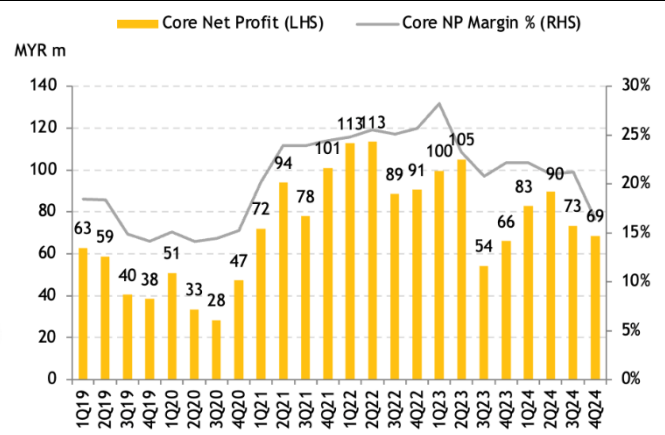
Source: Bloomberg, Maybank IBG Research

**Fig. 4: Inari’s quarterly gross profit & GP margin**



Source: Company, Maybank IBG Research

**Fig. 5: Inari’s quarterly core net profit & NP margin**



Source: Company, Maybank IBG Research

### Risk statement

There are several risk factors for our earnings estimates, target price and rating for Inari. A sharp downturn in the global markets for electronics, especially smartphones, will affect the demand for components that Inari produces for its key clients (i.e. Broadcom and OSRAM). Design-in and design-out of components related to Inari’s current production will also affect revenue and earnings. Additionally, forex volatility, especially USD/MYR, will affect Inari’s earnings, as >95% of its revenue and c.50% of its COGS are USD-denominated.

FYE 30 Jun	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
P/E (reported) (x)	30.4	39.4	33.6	30.4	27.6
Core P/E (x)	32.3	45.1	33.6	30.4	27.6
P/BV (x)	4.0	5.3	4.7	4.6	4.5
P/NTA (x)	4.0	5.3	4.7	4.6	4.5
Net dividend yield (%)	3.0	2.1	2.5	2.8	3.1
FCF yield (%)	1.4	3.0	2.7	3.1	3.4
EV/EBITDA (x)	21.2	33.0	21.5	19.7	18.0
EV/EBIT (x)	28.6	49.5	27.3	24.4	21.8
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	1,354.0	1,478.7	1,720.8	1,882.8	2,051.2
EBITDA	410.2	368.6	503.7	547.2	594.2
Depreciation	(106.7)	(123.1)	(107.1)	(105.6)	(104.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	303.5	245.5	396.6	441.6	489.8
Net interest income / (exp)	52.9	66.7	24.5	25.2	26.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	355.8	310.1	421.0	466.8	515.8
Income tax	(30.8)	(10.0)	(36.6)	(42.4)	(48.4)
Minorities	(1.5)	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	323.5	300.2	384.4	424.4	467.5
Core net profit	324.9	314.2	384.4	424.4	467.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	1,831.0	2,026.9	2,086.0	2,159.7	2,239.1
Accounts receivable	411.0	293.3	329.2	357.3	386.5
Inventory	183.2	190.2	214.8	233.3	252.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	509.0	500.0	492.9	487.3	482.9
Intangible assets	2.5	2.5	2.5	2.5	2.5
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	30.0	30.0	30.0	30.0	30.0
<b>Total assets</b>	<b>2,966.8</b>	<b>3,042.8</b>	<b>3,155.3</b>	<b>3,270.1</b>	<b>3,393.3</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	276.1	290.6	311.5	327.3	343.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	84.0	92.0	113.0	133.0	153.0
<b>Total Liabilities</b>	<b>360.6</b>	<b>382.9</b>	<b>424.1</b>	<b>460.1</b>	<b>496.6</b>
Shareholders Equity	2,602.6	2,656.4	2,727.7	2,806.4	2,893.2
Minority Interest	3.5	3.5	3.5	3.5	3.5
<b>Total shareholder equity</b>	<b>2,606.2</b>	<b>2,659.9</b>	<b>2,731.2</b>	<b>2,810.0</b>	<b>2,896.7</b>
<b>Total liabilities and equity</b>	<b>2,966.8</b>	<b>3,042.8</b>	<b>3,155.3</b>	<b>3,270.1</b>	<b>3,393.3</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	355.8	310.1	421.0	466.8	515.8
Depreciation & amortisation	106.7	123.1	107.1	105.6	104.4
Adj net interest (income)/exp	(51.1)	(22.0)	(24.5)	(25.2)	(26.1)
Change in working capital	(148.4)	125.3	(39.6)	(30.8)	(32.0)
Cash taxes paid	(58.3)	(28.7)	(36.6)	(42.4)	(48.4)
Other operating cash flow	0.1	0.0	0.0	0.0	0.0
Cash flow from operations	255.9	529.8	451.9	499.1	539.9
Capex	(113.0)	(100.0)	(100.0)	(100.0)	(100.0)
Free cash flow	142.9	429.8	351.9	399.1	439.9
Dividends paid	(301.1)	(282.7)	(312.9)	(345.4)	(380.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	20.0	20.0	20.0	20.0	20.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(138.2)</b>	<b>167.1</b>	<b>59.0</b>	<b>73.7</b>	<b>79.4</b>

FYE 30 Jun	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(12.5)	9.2	16.4	9.4	8.9
EBITDA growth	(21.8)	(10.1)	36.7	8.6	8.6
EBIT growth	(28.3)	(19.1)	61.5	11.4	10.9
Pretax growth	(20.3)	(12.9)	35.8	10.9	10.5
Reported net profit growth	(17.3)	(7.2)	28.1	10.4	10.1
Core net profit growth	(19.8)	(3.3)	22.3	10.4	10.1
<b>Profitability ratios (%)</b>					
EBITDA margin	30.3	24.9	29.3	29.1	29.0
EBIT margin	22.4	16.6	23.0	23.5	23.9
Pretax profit margin	26.3	21.0	24.5	24.8	25.1
Payout ratio	97.2	98.3	85.0	85.0	85.0
<b>DuPont analysis</b>					
Net profit margin (%)	23.9	20.3	22.3	22.5	22.8
Revenue/Assets (x)	0.5	0.5	0.5	0.6	0.6
Assets/Equity (x)	1.1	1.1	1.2	1.2	1.2
ROAE (%)	12.7	11.4	14.3	15.3	16.4
ROAA (%)	11.1	10.5	12.4	13.2	14.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	52.6	55.6	36.5	40.1	42.4
Days receivable outstanding	90.1	85.7	65.1	65.6	65.3
Days inventory outstanding	59.5	58.2	58.8	59.9	60.0
Days payables outstanding	97.1	88.3	87.5	85.4	82.9
Dividend cover (x)	1.0	1.0	1.2	1.2	1.2
Current ratio (x)	7.3	7.3	7.2	7.2	7.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	8.2	7.9	7.4	7.1	6.8
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)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	8.3	6.8	5.8	5.3	4.9
Net debt/ (net cash)	(1,831.0)	(2,026.9)	(2,086.0)	(2,159.7)	(2,239.1)

Source: Company; Maybank IBG Research

## Research Offices

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(603) 2297 8682  
suhaimi\_iliasmaybank-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) 6230 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 8788  
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

**Jeffrorenberg CHENLIM Head of Research**  
(62) 21 8066 8680  
jeffrorenberg.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

**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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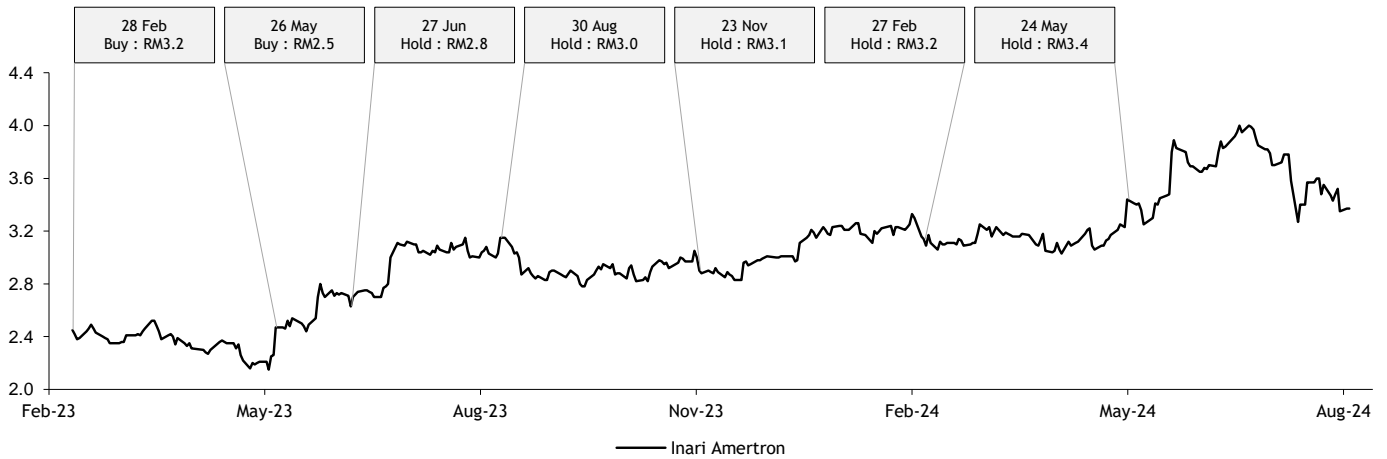
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### Malaysia

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, 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

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