

Leong Hup International (LHIB MK)

The stars are aligning

Maintain BUY with a higher TP of MYR0.85

LHIB's 2H24 outlook remains positive with stable poultry demand across its key countries of operations, coupled with FX tailwinds. Adjusting for lower Indonesia poultry ASPs and USD/MYR assumptions, our FY24E-FY26E earnings are raised by 2%-7%, deriving a higher MYR0.85 TP (+3sen), based on unchanged 9x FY25E PER (mean). Valuation remains undemanding with the stock trading at just 8x 12M fwd. PER with 3+% yield. Maintain BUY.

Stable demand and supply in Malaysia and Vietnam

Based on channel checks, we understand that Jul-Sep 2024 poultry demand and supply dynamics has balanced out in Malaysia and Vietnam, which has in turn, stabilised both countries' broiler and day-old-chick (DOC) ASPs. However, Indonesia's broiler and DOC ASPs are believed to have remained weak due to prolonged effects from the Government's directive for industry wide culling activities. Note that sales from Indonesia, Malaysia and Vietnam cumulatively accounts for c.84% of group sales at end-2Q24.

Beneficiary of the strengthening MYR

With the sharp recovery of MYR esp. in 3Q24 (MYRUSD: +14.4%), FX cost savings may begin to flow through from 3Q24 onwards, after the group has run down its higher cost inventory levels for corn and soybean. LHIB typically holds 3 months inventory of its feed raw materials. Our sensitivity analysis suggests that every 10sen appreciation of MYR vs. USD on a full-year basis from our base case assumption (2024-25E: 4.50 average) will lift our FY24/FY25E earnings by c.+12% p.a.

Raising earnings estimates by 2%-7%

We expect 3Q-4Q24 earnings to be stronger on the back of steady group sales volume and potential FX cost savings. We raise FY24E/FY25E/FY26E earnings estimates by 7%/5%/2% on imputing for weaker Indonesia poultry ASPs, and revising USDMYR assumption to 4.40 (from 4.50 p.a. previously).

| FYE Dec (MYR m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|-------|-------|-------|-------|-------|
| Revenue | 9,043 | 9,540 | 9,084 | 9,259 | 9,473 |
| EBITDA | 765 | 1,043 | 1,004 | 1,060 | 1,093 |
| Core net profit | 219 | 302 | 321 | 345 | 353 |
| Core EPS (sen) | 6.0 | 8.3 | 8.8 | 9.5 | 9.7 |
| Core EPS growth (%) | 156.3 | 37.8 | 6.3 | 7.7 | 2.2 |
| Net DPS (sen) | 0.0 | 3.0 | 2.6 | 2.8 | 2.9 |
| Core P/E (x) | 8.3 | 6.8 | 8.5 | 7.9 | 7.8 |
| P/BV (x) | 0.9 | 0.9 | 1.1 | 1.0 | 0.9 |
| Net dividend yield (%) | 0.0 | 5.3 | 3.5 | 3.8 | 3.9 |
| ROAE (%) | 11.5 | 14.2 | 13.6 | 13.3 | 12.4 |
| ROAA (%) | 3.4 | 4.6 | 4.4 | 4.1 | 3.9 |
| EV/EBITDA (x) | 6.2 | 4.5 | 5.7 | 5.2 | 5.0 |
| Net gearing (%) (incl perps) | 91.5 | 65.6 | 67.7 | 52.1 | 46.0 |
| Consensus net profit | - | - | 314 | 331 | 348 |
| MIBG vs. Consensus (%) | - | - | 2.1 | 4.5 | 1.5 |

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

BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 0.75 |
| 12m Price Target | MYR 0.85 (+17%) |
| Previous Price Target | MYR 0.82 |

Company Description

The company is an integrated poultry player with operations across Malaysia, Singapore, Indonesia, Vietnam and the Philippines

Statistics

| | |
|------------------------|-----------|
| 52w high/low (MYR) | 0.77/0.52 |
| 3m avg turnover (USDm) | 1.2 |
| Free float (%) | 27.4 |
| Issued shares (m) | 3,650 |
| Market capitalisation | MYR2.7B |
| | USD649M |

Major shareholders:

| | |
|---------------------------------|-------|
| Emerging Glory Sdn. Bhd. | 52.8% |
| Concordant Investments Pte Ltd. | 9.0% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 16 | 18 | 38 |
| Relative to index (%) | 19 | 17 | 20 |

Source: FactSet

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Tear Sheet Insert

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jade.tam@maybank-ib.com

| | |
|--|---------------|
| Risk Rating & Score ¹ | 48.5 (Severe) |
| Score Momentum ² | 0.0 |
| Last Updated | 27 Apr 2024 |
| Controversy Score ³ (Updated: N/A) | N/A |

Business Model & Industry Issues

- As one of the largest poultry producers in ASEAN, LHIB’s main ESG concerns are concentrated around waste management, biosecurity, food safety and quality control. The group actively monitors its waste generation and engages licensed contractors for proper waste disposal while also ensuring that water wastes are treated before being released into public water systems.
- To minimise biosecurity risks, LHIB has stringent biosecurity controls at its poultry farms to prevent the spread and/or outbreak of disease. LHIB also ensures the health and safety of its food products by adhering to international food safety standards and obtaining all required industry certifications.
- Overall, LHIB’s ESG strategy is comparable to its industry peers; we believe additional ESG-related disclosures within the poultry industry and long-term targets/commitments will allow investors to better monitor LHIB’s progress in improving its ESG factors.

Material E issues

- LHIB aims to lower its environmental impact by practising responsible waste management across all five of its regional operations.
- For hazardous waste, the group engages with qualified and licensed contractors to handle and safely dispose hazardous materials generated at their farms. Hazardous waste is mostly generated at LHIB’s feedmill operations and includes various types of acids, used oils, coal waste, etc.
- The group also uses external contractors to remove/clean hazardous chemicals off selected equipment from their medicine and vitamin plants to be re-used.
- Non-hazardous waste (i.e. poultry manure) is chemically treated and converted into fertiliser to be re-sold and donated to the community. LHIB also manages its poultry flock in closed-house systems to lower odour problems in the surrounding community.
- LHIB has on-site water treatment plants. All waste water generated from its plant operations are treated to remove large particles, harmful chemicals and biological substances that could contaminate public water system.

Material S issues

- In FY22, staff gender composition comprised of 73% male and 27% female out of a total 12,522 staff. Foreign workers make up 25% of its workforce.
- Being one of the largest poultry producers in Malaysia, health and safety of its food products are critical to uphold consumer confidence. Hence, LHIB implements extensive food safety controls which include risk assessment, hazard analysis, traceability procedures and hygiene controls.
- LHIB adopts stringent biosecurity measures to minimize the risk of disease outbreaks at its farms. The group has imposed restricted access to its poultry farms and feedmills and requires staff members to undergo thorough sanitisation before coming into contact with its livestock.
- For better control over biosecurity and climate factors, 98% of LHIB’s poultry flock are kept in closed-housed systems.
- Relevant staff members involved within LHIB’s livestock and feedmill operations receive training on food safety and quality control on an annual basis, at minimum.

Key G metrics and issues

- LHIB’s Board comprises 11 Directors: 5 Independent Non-Executive Directors, and 6 Non-Independent Executive Directors (including the Chairman).
- All 6 Non-Independent Executive Directors are related and have direct and indirect interest in LHIB through the group’s major shareholder, Emerging Glory (52.8% shareholding).
- The group’s Independent Director representation is at 45%, below the 50% level recommended by the Malaysian Code on Corporate Governance (MCCG).
- The Chairman of the Board and CEO positions are held by separate individuals.
- The Board has a male:female ratio of 73:27 which is below the recommended industry practise of at least 30% female Board representation.
- The Audit Committee is comprised solely of Independent Non-Executive Directors.
- The group CEO’s total remuneration package amounted to MYR7.1m in FY22 (2.2% of LHIB’s FY22 pre-tax profit).
- LHIB was listed on Bursa Malaysia Exchange in 2019 and is currently being audited by Pricewaterhouse Coopers PLT.
- LHIB is required to enter into significant recurring related party transactions involving various parts of its poultry farming business (i.e. sale & purchase of animal feed, poultry livestock, etc.) for its day-to-day operations, with its subsidiaries and associate companies. This amounted to c.13% of LHIB’s revenue in 2019.
- In 2018, 13 fresh chicken suppliers (including LHIB) were fined a total of SGD27m (LHIB’s portion: SGD11.4m) for anti-competitive practices by the Competition and Consumer Commission of Singapore.
- In 2023, 5 feed producers in Malaysia (including LHIB), were fined a total of MYR415.5m (LHIB’s portion: MYR157.5m) for manipulating the price of feed between early-2020 to mid-2022. LHIB is planning to appeal the MyCC’s decision in the Competition Appeal Tribunal.

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: 28) | | | | | | |
|--|---|------------|-----------|-----------|-----------|----------------|
| | Particulars | Unit | 2020 | 2021 | 2022 | QLG MK (FY23) |
| E | Scope 1 emissions | tonnes | NA | NA | NA | 35,510 |
| | Scope 2 emissions | tonnes | NA | NA | NA | 107,310 |
| | Total | tonnes | NA | NA | NA | 142,820 |
| | Scope 3 emissions | tonnes | NA | NA | NA | NA |
| | Total | tonnes | NA | NA | NA | 142,820 |
| | GHG intensity (Scope 1 and 2) | tCO2e/MYRm | NA | NA | NA | 26.75 |
| | Energy intensity | GJ/MYRm | NA | NA | NA | 1896.58 |
| | Solar power generated | kWh | NA | NA | 54,924 | NA |
| | Water withdrawal intensity | m3/MYRm | NA | NA | NA | 569.9 |
| | Total wastewater generated | '000 m3 | NA | NA | NA | NA |
| Chicken manure to fertiliser conversion rate | % | NA | NA | NA | 93.7% | |
| S | % of women in workforce | % | 22.5% | 26.6% | 27.0% | 39.1% |
| | % of women in management roles | % | 30.8% | 27.3% | 20.0% | 11% |
| | Lost time injury frequency (LTIF) rate | per m hrs | NA | NA | NA | 0.66 |
| | Total training hours per employee | hour | NA | NA | 15.1 | 23.29 |
| G | MD/CEO salary as % of reported net profit | % | 1.7% | 2.1% | 0.8% | 0.3% |
| | Board salary as % of reported net profit | % | 10.0% | 10.2% | 5.5% | 5.9% |
| | Independent directors on the Board | % | 46.2% | 45.5% | 45.5% | 58.3% |
| | Female directors on the Board | % | 30.8% | 27.3% | 27.3% | 41.7% |

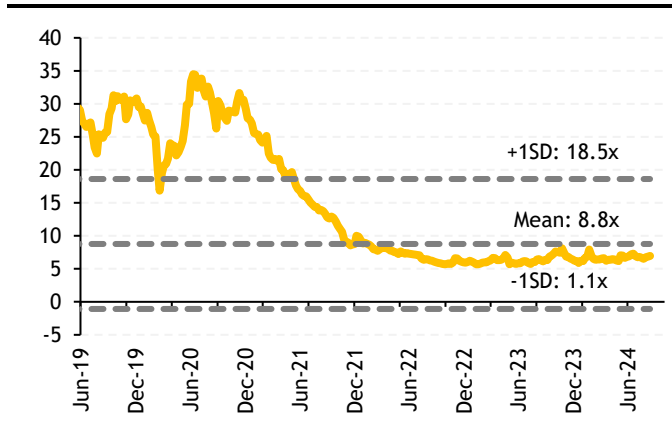
| Qualitative Parameters (Score: 17) | |
|---|--|
| a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? | <i>No. LHIB has a sustainability statement as required under the listing agreement of Bursa Malaysia. The ultimate responsibility of sustainability strategies and practices rests with the Board. The CEO and COO oversee the implementation of these strategies.</i> |
| b) Is the senior management salary linked to fulfilling ESG targets? | <i>No.</i> |
| c) Does the company follow the Task Force for Climate-Related Financial Disclosures (TCFD) framework for ESG reporting? | <i>No.</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>LHIB has implemented a responsible framework on hazardous and non-hazardous waste management across group operations. It has set up onsite waste water treatment plants across its countries of operations, with the exception of Singapore, where waste water treatment is managed by third party service providers. LHIB also uses a closed house system for flock management and better biosecurity.</i> |
| g) Does carbon offset form part of the net zero/carbon neutrality target of the company? | <i>No.</i> |

| Target (Score: 0) | | |
|--|--------|----------|
| Particulars | Target | Achieved |
| LHIB currently does not have any formal ESG and net zero targets | NA | NA |
| Impact | | |
| NA | | |
| Overall Score: 18 | | |
| As per our ESG matrix, Leong Hup International has an overall score of 18. | | |

| ESG score | Weights | Scores | Final Score |
|--------------|---------|--------|-------------|
| Quantitative | 50% | 28 | 14 |
| Qualitative | 25% | 17 | 4 |
| Target | 25% | 0 | 0 |
| Total | | | 18 |

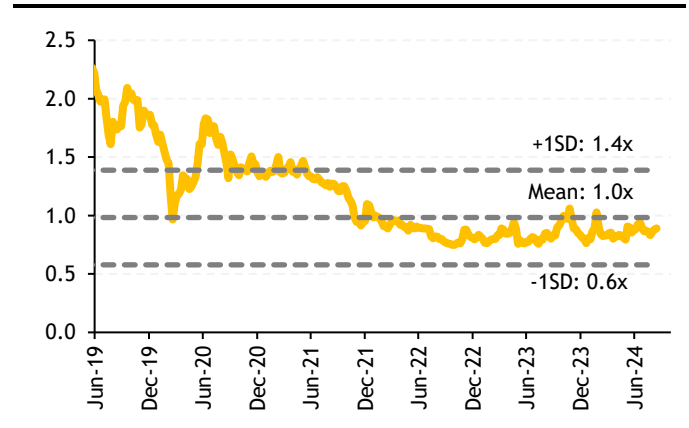
As per our ESG assessment, LHIB lacks transparency in key ESG metrics and long-term emission targets. For these reasons, LHIB's overall ESG score is 18, which makes its ESG rating below average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: Forward PER



Source: Bloomberg, Maybank IBG Research

Fig 2: Forward PBV



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for LHIB. The group is subject to market volatility in selling prices as well as demand-supply imbalances, both in feed and poultry. Moreover, poultry is vulnerable to disease and epidemic outbreaks that could further exacerbate demand-supply imbalances.

Appendix I

Methodology of our proprietary ESG scoring methodology.

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

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

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

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 8.5 | 6.6 | 8.5 | 7.9 | 7.8 |
| Core P/E (x) | 8.3 | 6.8 | 8.5 | 7.9 | 7.8 |
| P/BV (x) | 0.9 | 0.9 | 1.1 | 1.0 | 0.9 |
| P/NTA (x) | 0.9 | 1.0 | 1.2 | 1.0 | 1.0 |
| Net dividend yield (%) | 0.0 | 5.3 | 3.5 | 3.8 | 3.9 |
| FCF yield (%) | 12.7 | 33.3 | 6.1 | 17.0 | 7.1 |
| EV/EBITDA (x) | 6.2 | 4.5 | 5.7 | 5.2 | 5.0 |
| EV/EBIT (x) | 10.3 | 6.5 | 8.5 | 7.6 | 7.4 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 9,042.7 | 9,539.5 | 9,084.3 | 9,259.2 | 9,473.0 |
| EBITDA | 765.3 | 1,043.4 | 1,003.7 | 1,060.0 | 1,093.1 |
| Depreciation | (260.4) | (276.2) | (284.1) | (295.0) | (304.9) |
| Amortisation | (40.9) | (43.2) | (43.5) | (43.5) | (43.5) |
| EBIT | 464.0 | 724.0 | 676.1 | 721.5 | 744.7 |
| Net interest income /(exp) | (137.9) | (169.6) | (163.9) | (176.5) | (189.1) |
| Associates & JV | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Pretax profit | 326.6 | 554.7 | 512.5 | 545.3 | 555.9 |
| Income tax | (82.7) | (124.9) | (115.4) | (122.8) | (125.2) |
| Minorities | (25.0) | (128.1) | (76.3) | (77.0) | (77.8) |
| Reported net profit | 218.9 | 301.7 | 320.8 | 345.5 | 353.0 |
| Core net profit | 218.9 | 301.7 | 320.8 | 345.5 | 353.0 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 840.3 | 699.5 | 1,755.1 | 2,379.1 | 2,731.8 |
| Accounts receivable | 649.9 | 729.4 | 685.6 | 756.6 | 719.0 |
| Inventory | 1,025.9 | 978.8 | 1,101.5 | 1,028.0 | 1,154.3 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 2,784.5 | 2,730.3 | 3,135.2 | 3,240.5 | 3,335.9 |
| Intangible assets | 99.2 | 102.5 | 102.2 | 101.9 | 101.6 |
| Investment in Associates & JVs | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 |
| Other assets | 1,190.8 | 1,284.4 | 1,267.2 | 1,256.5 | 1,248.6 |
| Total assets | 6,592.1 | 6,526.6 | 8,048.6 | 8,764.2 | 9,292.9 |
| ST interest bearing debt | 2,022.9 | 1,615.3 | 2,262.2 | 2,429.8 | 2,597.4 |
| Accounts payable | 358.9 | 359.6 | 270.7 | 374.5 | 286.7 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 1,187.6 | 1,022.0 | 1,702.6 | 1,817.8 | 1,933.0 |
| Other liabilities | 433.0 | 575.0 | 548.0 | 558.0 | 567.0 |
| Total Liabilities | 4,002.6 | 3,571.5 | 4,783.0 | 5,179.8 | 5,383.5 |
| Shareholders Equity | 2,005.0 | 2,236.7 | 2,470.9 | 2,712.7 | 2,959.8 |
| Minority Interest | 584.5 | 718.4 | 794.8 | 871.8 | 949.6 |
| Total shareholder equity | 2,589.6 | 2,955.1 | 3,265.6 | 3,584.5 | 3,909.3 |
| Total liabilities and equity | 6,592.1 | 6,526.6 | 8,048.6 | 8,764.2 | 9,292.9 |
| CASH FLOW (MYR m) | | | | | |
| Pretax profit | 326.6 | 554.7 | 512.5 | 545.3 | 555.9 |
| Depreciation & amortisation | 301.2 | 319.4 | 327.5 | 338.5 | 348.4 |
| Cash taxes paid | (82.7) | (124.9) | (115.4) | (122.8) | (125.2) |
| Other operating cash flow | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 509.4 | 902.8 | 567.1 | 864.5 | 595.6 |
| Capex | (280.6) | (215.9) | (400.0) | (400.0) | (400.0) |
| Free cash flow | 228.8 | 686.9 | 167.1 | 464.5 | 195.6 |
| Dividends paid | (0.7) | (77.0) | (96.2) | (103.6) | (105.9) |
| Equity raised / (purchased) | 0.0 | 0.0 | 5.4 | 0.0 | 0.0 |
| Change in Debt | (361.8) | (696.3) | 1,327.5 | 282.8 | 282.8 |
| Other invest/financing cash flow | (1.6) | 51.3 | (15.2) | (19.4) | (19.4) |
| Net cash flow | (135.4) | (35.0) | 1,388.5 | 624.3 | 353.1 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 26.4 | 5.5 | (4.8) | 1.9 | 2.3 |
| EBITDA growth | 42.8 | 36.3 | (3.8) | 5.6 | 3.1 |
| EBIT growth | 83.9 | 56.0 | (6.6) | 6.7 | 3.2 |
| Pretax growth | 132.7 | 69.9 | (7.6) | 6.4 | 1.9 |
| Reported net profit growth | 156.3 | 37.8 | 6.3 | 7.7 | 2.2 |
| Core net profit growth | 156.3 | 37.8 | 6.3 | 7.7 | 2.2 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 8.5 | 10.9 | 11.0 | 11.4 | 11.5 |
| EBIT margin | 5.1 | 7.6 | 7.4 | 7.8 | 7.9 |
| Pretax profit margin | 3.6 | 5.8 | 5.6 | 5.9 | 5.9 |
| Payout ratio | 0.0 | 36.3 | 30.0 | 30.0 | 30.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 2.4 | 3.2 | 3.5 | 3.7 | 3.7 |
| Revenue/Assets (x) | 1.4 | 1.5 | 1.1 | 1.1 | 1.0 |
| Assets/Equity (x) | 3.3 | 2.9 | 3.3 | 3.2 | 3.1 |
| ROAE (%) | 11.5 | 14.2 | 13.6 | 13.3 | 12.4 |
| ROAA (%) | 3.4 | 4.6 | 4.4 | 4.1 | 3.9 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 56.9 | 56.9 | 62.3 | 62.3 | 62.3 |
| Days receivable outstanding | 25.4 | 26.0 | 28.0 | 28.0 | 28.0 |
| Days inventory outstanding | 46.5 | 48.2 | 49.2 | 49.2 | 49.2 |
| Days payables outstanding | 15.0 | 17.3 | 14.9 | 14.9 | 14.9 |
| Dividend cover (x) | nm | 2.8 | 3.3 | 3.3 | 3.3 |
| Current ratio (x) | 1.2 | 1.3 | 1.5 | 1.5 | 1.6 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.6 | 1.8 | 1.7 | 1.7 | 1.7 |
| Net gearing (%) (incl perps) | 91.5 | 65.6 | 67.7 | 52.1 | 46.0 |
| Net gearing (%) (excl. perps) | 91.5 | 65.6 | 67.7 | 52.1 | 46.0 |
| Net interest cover (x) | 3.4 | 4.3 | 4.1 | 4.1 | 3.9 |
| Debt/EBITDA (x) | 4.2 | 2.5 | 4.0 | 4.0 | 4.1 |
| Capex/revenue (%) | 3.1 | 2.3 | 4.4 | 4.3 | 4.2 |
| Net debt/ (net cash) | 2,370.2 | 1,937.8 | 2,209.6 | 1,868.5 | 1,798.5 |

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) 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

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

Nur Natasha ARIZA
(603) 2297 8691
natashaariza.aizarizal@maybank-ib.com
• Healthcare

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 • SMIDs

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs • Industrials

Hussaini SAIFEE
(65) 6231 5837
hussaini.saifee@maybank.com
• Telcos • Internet

PHILIPPINES

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

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

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

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

Paulina MARGARETA
(62) 21 8066 8690
paulina.tjoa@maybank.com
• Autos • Healthcare

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

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

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

THAILAND

Chak REUNGSINPINYA Head of Research
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAUSDIN, 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

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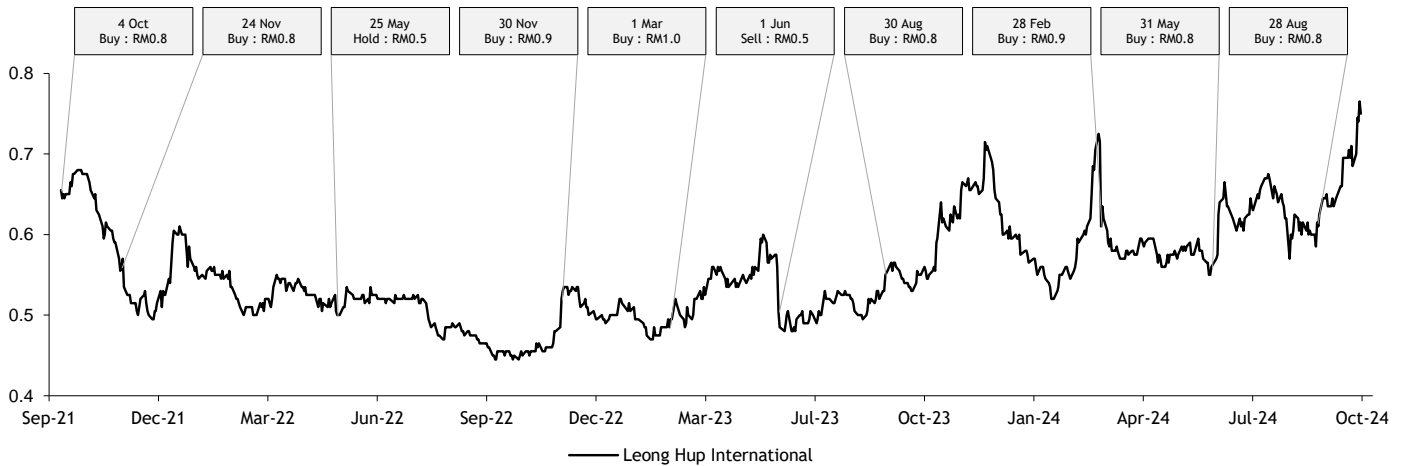
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Malaysia

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