

First Resources (FR SP)

ESG 2.0: Lagging long term “E” targets

Progressing slowly but surely

FR has made commendable progress the past 2 years in its “E” initiatives but still lags peers in setting medium and long term “E” targets/commitments. Under our ESG 2.0 proprietary review update, FR has a marginally below average score of 45. Maintain HOLD on FR with an unchanged TP of SGD1.46 on 10x FY24 PER. We prefer BAL SP (BUY, CP: SGD0.75, TP: SGD0.78).

Reducing emissions; but lacking long term “E” targets

Over the past 2 years, FR has made improvements in its GHG disclosures, which included disclosing Scope 1 & 2 emissions at the group level (and not just operating units). In 2024, its plans to disclose its Scope 3 emissions. FR has a Sustainability Policy (since 2015) which sets out its commitments on “no deforestation” and “no new planting on peatland of any depth” in addition to zero burning policy. Although FR lags peers in its long term reduction emission targets, it has added methane capture plants to cut emissions, totalling 8 now with 2 more under construction. FR has also increased its conservation area to 24,465 ha (+22% compared to 2 years ago). It targets to rehabilitate 20 ha of conservation areas. From 2016 to 2022, FR planted ~36,000 trees over 120 ha of area.

100% RSPO certification target by 2026 intact

FR retained its plan to attain 100% RSPO certification by 2026. Over the past 2 years, it has steadily increased its RSPO / ISPO certified plantation area to 36%/76% (2023); on track. In terms of traceability, FR achieved 100% traceability to plantation for 3rd party CPO and PK suppliers in 2023.

Commendable “S” and “G” initiatives

FR works with indigenous and local communities through various plasma scheme partnerships which presently has >16,000 plasma smallholders. In areas it operates, FR also implements community development programmes centred on education, healthcare, infrastructure and alternative livelihoods to drive positive socio-economic impact. In 2023, FR contributed IDR25.8b (or USD1.7m) to the communities. As for “G”, we noticed a jump in the composition of independent directors to 62.5% (from 57% at end-2023) in 2024, and female board representation also rose sharply to 37.5% (from 14% at end-2023).

FYE Dec (USD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,225	981	915	925	939
EBITDA	479	245	299	296	313
Core net profit	334	146	174	167	181
Core EPS (cts)	21.2	9.3	11.1	10.6	11.6
Core EPS growth (%)	125.1	(55.9)	18.9	(4.2)	8.6
Net DPS (cts)	11.0	4.7	5.6	5.3	5.8
Core P/E (x)	5.2	11.6	10.1	10.5	9.7
P/BV (x)	1.3	1.3	1.3	1.2	1.1
Net dividend yield (%)	10.0	4.3	5.0	4.8	5.2
ROAE (%)	25.9	11.1	12.9	11.6	11.9
ROAA (%)	18.0	8.1	9.4	8.5	8.8
EV/EBITDA (x)	3.5	7.6	6.5	6.1	5.4
Net gearing (%) (incl perps)	net cash	5.3	5.0	net cash	net cash
Consensus net profit	-	-	180	179	195
MIBG vs. Consensus (%)	-	-	(3.6)	(7.1)	(7.4)

Ong Chee Ting, CA
ct.ong@maybank-ib.com
(603) 2297 8678

HOLD

Share Price	SGD 1.46
12m Price Target	SGD 1.46 (+4%)
Previous Price Target	SGD 1.46

Company Description

First Resources Ltd. engages in the cultivation of oil palms in Indonesia. It also operates palm oil refinery and biodiesel processing facilities.

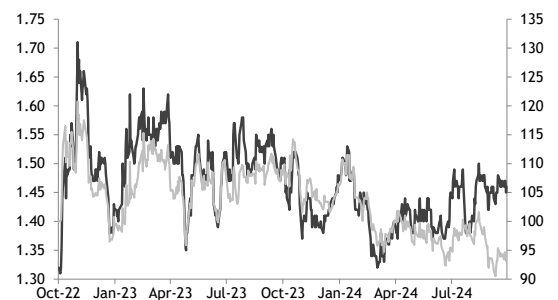
Statistics

52w high/low (SGD)	1.53/1.32
3m avg turnover (USDm)	0.8
Free float (%)	26.3
Issued shares (m)	1,584
Market capitalisation	SGD2.3B
	USD1.8B

Major shareholders:

TMF Group BV	64.7%
King Fortune Trust	5.6%
Fidelity/ FMR / Abigail	4.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	1	(3)
Relative to index (%)	2	(1)	(14)

Source: FactSet

ESG@MAYBANK IBG

ct.ong@maybank-ib.com

Risk Rating & Score ¹	31.3 (High)
Score Momentum ²	0.0
Last Updated	27 Apr 2024
Controversy Score ³ (Updated: 23 Aug 2024)	3- Ops (land use & biodiversity) incidents

Business Model & Industry Issues

- FR is an integrated oil palm player with 213,421 ha of oil palm area (about -2.9x the size of Singapore) in Indonesia of which 177,930 ha are nucleus planted and another 35,491 ha are plasma area. It also has a very small rubber plantation in addition to refinery, kernel crushing, and biodiesel plants.
- Operations are mainly spread across Riau, West Kalimantan and East Kalimantan with over 27,700 workers. This naturally exposes FR to multiple ESG risks including natural disasters, deforestation, labour practises, supply chain monitoring, and governance and corruption.
- Besides providing a steady supply of FFB to FR for processing at its mills, the plasma programme helps provide income for local communities, including local contractors, suppliers and other spill over businesses. And to help drive positive socio-economic impact where FR operates, it also implements community development programmes centred on education, healthcare, infrastructure and alternative livelihoods. A large proportion of FR’s workforce is from local communities.
- FR scores slightly below-average in our proprietary scoring methodology (see next page) with an overall score of 45/100.

Material E issues

- In 2015, FR launched its policy on sustainable palm oil which sets out its commitments to No Deforestation, No Peat, No Exploitation (NDPE). Since then, there has been no new planting on peatland of any depth. It has a strict zero burning policy. FR has identified 24,465 ha of land as conservation areas (which included 7,058 ha HCV area).
- It has maintained 100% traceability to the mills (achieved since 2017) and plantations for FFB processed at its mills (since 2020). In 2023, it achieved 100% traceability to plantation for 3rd party CPO and PK suppliers;
- In 2023, 36% of its plantation area (2021: 15%), and 6 mills (out of 19) are RSPO certified. It aims to certify another 4 mills integrated with plantations under RSPO in 2024.
- In 2023, 76% of its estates (2021: 49%), and 14 mills (out of 19) are ISPO certified. It is planning to achieve ISPO certification for 3 mills integrated with plantations by 2024.
- As for GHG emission reduction initiatives, FR is currently has 8 methane capture plants, and constructing 2 more.

Material S issues

- FR works with indigenous and local communities through various plasma scheme partnerships. There are presently 16,071 plasma smallholders (2022: 15,712). These plasma smallholders can profit by selling their FFB harvests to FR at government-determined prices.
- FR phased out the use of paraquat in 2020, replacing it with more environmentally-friendly alternatives.
- FR has two distinct mechanisms for reporting concerns or complaints: (1) whistleblowing procedure and (2) grievance procedure. Both mechanisms are open to external and internal stakeholders.
- FR is now resolving 3 ongoing complaints filed with RSPO.
- All children of employees working in FR’s estates are provided education at its schools. In 2023, FR contributed over IDR25.8b to its communities (of which IDR21.0b was to support the education of children).

Key G metrics and issues

- As at 30 Dec 2023, the Board comprised 7 members: 4 independent non-executive directors (INED; 57%), 1 non-independent non-executive director (NINED) and 2 executive directors (ED).
- The Fangiono family, being the major shareholder with 67%-equity stake (8 Mar 2024), is represented by two EDs. One of them, Mr Ciliandra Fangiono, is the CEO. Besides the 2 EDs, there are no other immediate family members whose remuneration exceeded SGD100,000 in FY23.
- Infinite Capital Fund Ltd, being another substantial shareholder with a 5.7%-equity stake (8 Mar 2024), is represented by a NINED.
- The Board sets the strategic direction of the group and is primarily responsible for the protection and enhancement of long-term shareholder value and returns. FR has a diverse board composition in terms of core competencies.
- The Board has established the (i) Audit committee (AC), (ii) Nominating Committee (NC), and (iii) Remuneration Committee (RC) in discharging its responsibilities.
- The Board, led by the Chairman, has oversight of sustainability matters and receives regular updates on important sustainability issues. Responsibility for the day-to-day implementation of its sustainability policy is delegated to the Head of Sustainability, who reports directly to the CEO.
- The CEO’s total remuneration package for FY23 was 1.4% of core net profits (5-yr avg: 1.0%).
- There is presently three female board member (or 37.5% of Board) as at end-Sept 2024, from just one female (or 14%) as at end-2023. Women make up 23% of group workforce.
- Ernst & Young has been its external auditor the past 9 years but its audit partner has been rotated thrice.
- There have been no questionable related-party transactions for the recent past five 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).

Quantitative parameters (Score: 27)						
	Particulars	Unit	2021	2022	2023	IOI MK (FY6/23)
E	Scope 1 GHG emissions	m tCO2e	N/A	N/A	0.89	2.8
	Scope 2 GHG emissions	m tCO2e	N/A	N/A	0.02	0.0
	GHG e.reduct'ns (carbons sequestration, etc)	m tCO2e	N/A	N/A	N/A	-1.7
	Total	m tCO2e	N/A	N/A	0.91	1.1
	Scope 3 GHG emissions	m tCO2e	N/A	N/A	N/A	6.7
	Total	m tCO2e	N/A	N/A	N/A	7.8
	GHG emissions intensity (all operating units)	tCO2e/t	N/A	N/A	0.93	1.4
	GHG emissions intensity (PT MSSP mill)	tCO2e/t	0.710	N/A	N/A	N/A
	GHG emissions intensity (PT SAM-1)	tCO2e/t	0.810	N/A	N/A	N/A
	Share of renewable energy use in operations	%	31%	30%	35%	55%
	Water consumption intensity	m3/t of FFB	0.95	0.92	0.94	1.18
	Organic waste repurposed / reused	'mil t	3.99	4.14	4.24	0.51
	Proportion of RSPO-certified plantation area	%	15%	34%	36%	94%
	Total area set aside for conservation (includes HCV area)	ha	19,972	24,465	24,465	9,103
S	% of women in workforce	%	18.0%	19.6%	23.0%	29.0%
	% of women in management roles	%	9.5%	9.6%	7.7%	22.0%
	Recordable work related injury rate	No. / m hrs	72.5	59.8	74.9	483.56
	Work-related fatalities	number	2.0	7.0	4.0	5.0
	Permanent work-related injuries	number	-	2.0	1.0	N/A
G	MD/CEO salary as % of reported net profit	%	0.78%	0.47%	1.41%	2.00%
	Board salary (excl. ED) as % of rep'd net profit	%	0.40%	0.20%	0.35%	0.10%
	Independent directors on the Board	%	57%	57%	57%	67%
	Female directors on the Board	%	14%	14%	14%	44%

Qualitative Paramaters (Score: 83)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	Yes, it has a Sustainable Policy and the Head of Sustainability, who is responsible for the day-to-day implementation of FR's sustainability policy, reports directly to the CEO. The Head of Sustainability is supported by a team of skilled experts from across its business.
b) Is the senior management salary linked to fulfilling ESG targets?	Yes
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	Yes
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	No
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	In addition to zero-burning policy and no deforestation commitment, other commitments include protecting, conserving and/or rehabilitating High Carbon Stock forests, High Conservation Value areas, peatlands, etc. Waste from its mills is mostly reused as fertilisers or fuel.
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	Yes. Among others, FR implemented conservation, restoration, rehabilitation, and tree-planting projects on an ongoing basis.

Target (Score: 43)		
Particulars	Target	Achieved
Targets water consumptions of 1.0m3/t of FFB processed (m3/t)	1.0m3	Yes; 0.94
Initiate Scope 3 emission disclosures in 2024	2024	N/A
100% traceability to plantation for its 3 rd party suppliers	100%	Yes
100% RSPO certification for its mills by 2026	100%	32%; on track
Continue to rehabilitate another 20 ha of conservation area (ongoing)	20 ha	Yes; >20 ha
Zero work-related fatalities (ongoing)	Zero	No; 4 in 2023
Zero permanent work-related injuries (ongoing)	Zero	No; 1 in 2023
Impact		
NA		
Overall score: 45		
As per our ESG matrix, First Resources (FR SP) has an overall score of 45.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	27	13
Qualitative	25%	83	21
Target	25%	43	11
Total			45

As per our ESG assessment, FR has an established framework, and internal sustainable policies but needs to make headway in improving its quantitative "E" disclosures and achieving zero work-related fatalities and injuries targets. FR's overall ESG score is 45, which makes its ESG rating marginally below average in our view (average ESG rating = 50; refer to Appendix 1 for our ESG Assessment Scoring).

Appendix 1

Methodology of our proprietary ESG scoring

We have evaluated 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 sub-parameters is divided by the total number of sub-parameter to receive the final score of that segment. The inputs of each 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.

Risk statement

There are several risk factors to our earnings estimate, price target, and rating for First Resources (FR). Key risks to the palm oil sector and FR are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Indonesian government on upstream or downstream segments, (v) sharply lower crude oil prices which make palm biodiesel demand not viable, (vi) weaker competing oil prices (such as for soybean and rapeseed), and (vii) RSPO membership suspension if allegations over deforestation claims via shadow company turns out to be true - see [press release link](#) by FR on its website [the Complaint Progress can be followed via [RSPO's Complaints Portal website](#)].

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	6.0	11.9	10.1	10.5	9.7
Core P/E (x)	5.2	11.6	10.1	10.5	9.7
P/BV (x)	1.3	1.3	1.3	1.2	1.1
P/NTA (x)	1.4	1.4	1.4	1.3	1.2
Net dividend yield (%)	10.0	4.3	5.0	4.8	5.2
FCF yield (%)	13.4	nm	5.0	11.6	12.5
EV/EBITDA (x)	3.5	7.6	6.5	6.1	5.4
EV/EBIT (x)	3.9	9.4	7.9	7.7	6.7

INCOME STATEMENT (USD m)

Revenue	1,225.4	980.6	915.5	925.0	938.7
EBITDA	478.6	244.9	298.8	296.0	312.7
Depreciation	(49.3)	(45.7)	(54.4)	(59.0)	(59.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	429.4	199.2	244.4	237.0	253.2
Net interest income / (exp)	(7.3)	2.5	(0.2)	(3.1)	0.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(11.5)	(1.1)	0.0	0.0	0.0
Other pretax income	16.9	(3.6)	0.0	0.0	0.0
Pretax profit	427.5	197.0	244.2	233.9	253.9
Income tax	(88.4)	(44.6)	(61.0)	(58.5)	(63.5)
Minorities	(13.9)	(7.0)	(9.2)	(8.8)	(9.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	325.2	145.4	174.0	166.6	180.9
Core net profit	334.1	146.3	174.0	166.6	180.9

BALANCE SHEET (USD m)

Cash & Short Term Investments	440.3	162.9	163.0	282.2	409.9
Accounts receivable	98.5	42.7	71.5	72.2	73.3
Inventory	137.0	119.8	118.9	123.3	125.0
Property, Plant & Equip (net)	843.4	1,115.4	1,221.8	1,189.8	1,161.2
Intangible assets	100.8	102.8	102.8	102.8	102.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	212.8	231.3	231.3	231.3	231.3
Total assets	1,832.7	1,774.8	1,909.3	2,001.7	2,103.4
ST interest bearing debt	93.3	111.7	111.7	111.7	111.7
Accounts payable	80.7	84.8	100.5	104.2	105.6
LT interest bearing debt	202.4	126.0	126.0	126.0	126.0
Other liabilities	57.0	51.0	76.0	75.0	78.0
Total Liabilities	433.8	373.1	414.1	417.0	421.7
Shareholders Equity	1,309.7	1,303.4	1,390.4	1,473.7	1,564.2
Minority Interest	89.2	98.4	104.8	110.9	117.6
Total shareholder equity	1,398.9	1,401.8	1,495.2	1,584.6	1,681.7
Total liabilities and equity	1,832.7	1,774.8	1,909.3	2,001.7	2,103.4

CASH FLOW (USD m)

Pretax profit	427.5	197.0	244.2	233.9	253.9
Depreciation & amortisation	49.3	45.7	54.4	59.0	59.5
Adj net interest (income)/exp	7.3	(2.5)	0.2	3.1	(0.7)
Change in working capital	(75.4)	153.5	49.4	35.0	38.9
Cash taxes paid	(94.0)	(80.0)	(61.0)	(58.5)	(63.5)
Other operating cash flow	11.5	1.1	0.0	0.0	0.0
Cash flow from operations	326.2	314.8	287.1	272.5	288.1
Capex	(94.0)	(382.2)	(200.0)	(70.0)	(70.0)
Free cash flow	232.1	(67.4)	87.1	202.5	218.1
Dividends paid	(86.6)	(171.1)	(87.0)	(83.3)	(90.4)
Equity raised / (purchased)	(8.0)	(4.4)	0.0	0.0	0.0
Change in Debt	(122.9)	(111.2)	0.0	0.0	0.0
Other invest/financing cash flow	42.1	30.8	0.0	0.0	0.0
Effect of exch rate changes	(4.4)	0.5	0.0	0.0	0.0
Net cash flow	52.3	(322.8)	0.1	119.2	127.7

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.7	(20.0)	(6.6)	1.0	1.5
EBITDA growth	70.6	(48.8)	22.0	(0.9)	5.6
EBIT growth	87.5	(53.6)	22.7	(3.0)	6.8
Pretax growth	73.8	(53.9)	24.0	(4.2)	8.6
Reported net profit growth	101.8	(55.3)	19.7	(4.2)	8.6
Core net profit growth	124.8	(56.2)	18.9	(4.2)	8.6
Profitability ratios (%)					
EBITDA margin	39.1	25.0	32.6	32.0	33.3
EBIT margin	35.0	20.3	26.7	25.6	27.0
Pretax profit margin	34.9	20.1	26.7	25.3	27.0
Payout ratio	53.4	50.7	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	26.5	14.8	19.0	18.0	19.3
Revenue/Assets (x)	0.7	0.6	0.5	0.5	0.4
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.3
ROAE (%)	25.9	11.1	12.9	11.6	11.9
ROAA (%)	18.0	8.1	9.4	8.5	8.8
Liquidity & Efficiency					
Cash conversion cycle	47.9	52.5	42.4	41.5	41.6
Days receivable outstanding	26.3	25.9	22.4	28.0	27.9
Days inventory outstanding	71.6	74.8	89.1	87.2	88.2
Days payables outstanding	50.0	48.2	69.2	73.7	74.5
Dividend cover (x)	1.9	2.0	2.0	2.0	2.0
Current ratio (x)	3.7	1.9	1.7	2.2	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	4.2	4.8	4.6	4.8	5.0
Net gearing (%) (incl perps)	net cash	5.3	5.0	net cash	net cash
Net gearing (%) (excl. perps)	net cash	5.3	5.0	net cash	net cash
Net interest cover (x)	59.1	na	nm	76.3	na
Debt/EBITDA (x)	0.6	1.0	0.8	0.8	0.8
Capex/revenue (%)	7.7	39.0	21.8	7.6	7.5
Net debt/ (net cash)	(144.6)	74.9	74.7	(44.5)	(172.2)

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_iliast@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFLI
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
joserafaal.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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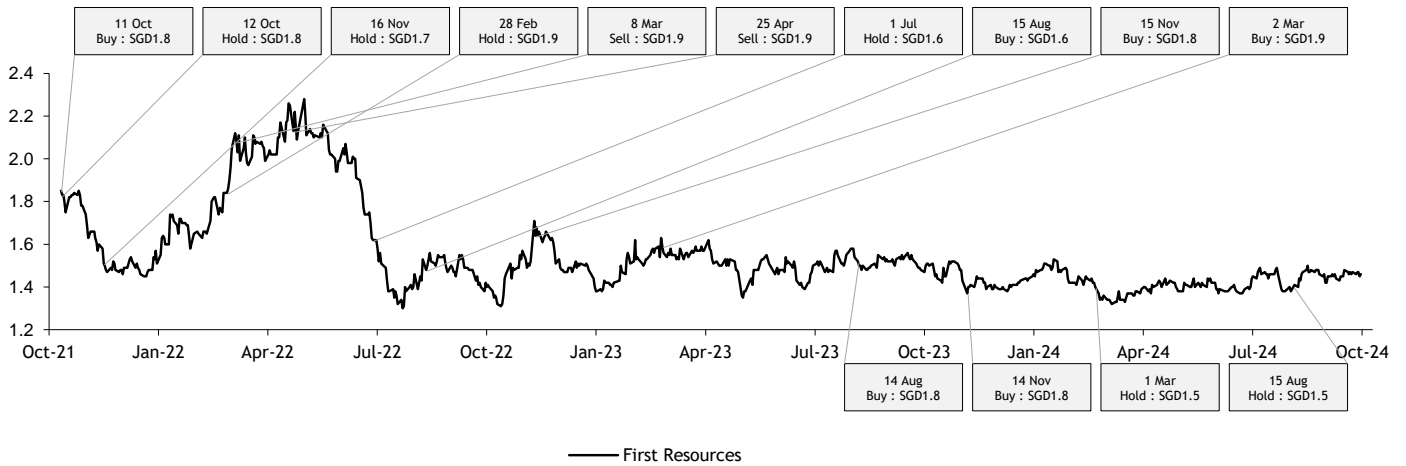
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 **Malaysia**

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