

# CIMB Group Holdings (CIMB MK)

## Decent contributions from Singapore

### CIMBS to contribute 10-12% of group earnings

That CIMB Singapore (CIMBS) contributes to over 10% of CIMB Group's earnings is impressive, especially since this has been achieved with just one branch. It is envisaged that the bank will contribute to a stable 10-12% of group earnings over the long term. We maintain a BUY on CIMB with an unchanged earnings forecast and our TP of MYR9.20 is maintained (CY25E PBV of 1.3x; ROE: 11.2%).

### Growth strategies

CIMBS' growth strategies include a) optimizing its deposit structure for further CASA growth, and thus lower funding costs; b) reshaping its portfolio towards higher returns in wealth management, treasury, and the SME sector; c) driving cost efficiencies, d) strengthening credit risk for better asset quality and lower credit cost; and e) investing in human capital.

### Much opportunity for growth

Areas for future growth include a) increasing regional flows, leveraging on CIMB's strong regional franchise, b) higher SME penetration, given its low ~1% market share presently, c) higher wealth management contributions especially through bancassurance, d) capturing the Malaysian market in Singapore.

### ROEs of 15-17% over longer term

CIMBS' ROE expanded from 13% in FY19 to 17.7% in FY23, and management expects to sustain ROEs of 15-17% over the longer term. Expectations are that a) NIMs can be sustained even amid falling interest rates, given that the bank can leverage up on its very liquid balance sheet (LDR 68%), and b) there is room to further drive cost efficiencies through digitalisation, fee income growth and treasury operations. The offset is that recoveries are expected to trail off and that a more normalized credit cost would be 30-40bps over the longer term.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	19,838	21,014	22,361	23,458	24,677
Pre-provision profit	10,492	11,149	12,049	12,670	13,379
Core net profit	5,440	6,981	7,731	8,211	8,687
Core EPS (MYR)	0.52	0.65	0.72	0.77	0.81
Core EPS growth (%)	12.5	25.5	10.7	6.2	5.8
Net DPS (MYR)	0.26	0.43	0.47	0.42	0.45
Core P/E (x)	11.1	8.9	11.4	10.7	10.1
P/BV (x)	1.0	0.9	1.2	1.2	1.1
Net dividend yield (%)	4.5	7.4	5.7	5.1	5.5
Book value (MYR)	5.86	6.41	6.67	7.02	7.39
ROAE (%)	9.0	10.7	11.1	11.2	11.3
ROAA (%)	0.8	1.0	1.0	1.1	1.1
Consensus net profit	-	-	7,681	8,425	8,698
MIBG vs. Consensus (%)	-	-	0.6	(2.5)	(0.1)

Desmond Ch'ng, BFP, FCA  
desmond.chng@maybank-ib.com  
(603) 2297 8680

# BUY

Share Price	MYR 8.25
12m Price Target	MYR 9.20 (+12%)
Previous Price Target	MYR 9.20

### Company Description

CIMB Group Holdings engages in the provision of consumer and investment banking services. It holds a majority stake in PT CIMB Niaga.

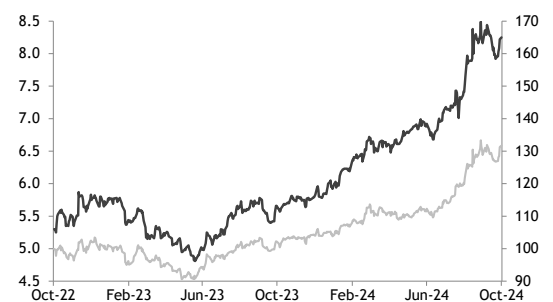
### Statistics

52w high/low (MYR)	8.49/5.57
3m avg turnover (USDm)	50.0
Free float (%)	63.1
Issued shares (m)	10,704
Market capitalisation	MYR88.3B
	USD20.6B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	21.6%
Employees Provident Fund	14.8%
Permodalan Nasional Bhd.	9.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	16	46
Relative to index (%)	2	15	29

Source: FactSet

# 1. Investment thesis

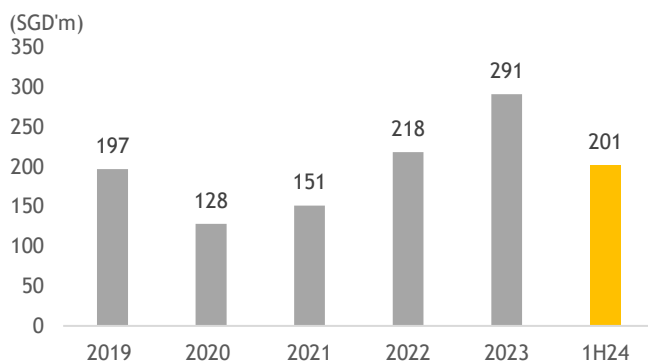
## 1.1 Contribution to CIMB Group has grown

CIMB Singapore (CIMBS) went through a difficult patch in FY20, when it was beset by loan defaults, particularly in the O&G sector, which resulted in the bank reporting a loss of SGD348m in FY20.

Since then, under new management, the bank has not only recovered, its contribution to CIMB Group has ballooned over time. CIMBS today contributes to 15% of 1H24 group pretax profit (from 7% in FY19), 10% of group loans (from 8%), and 14% of total deposits (from 10%).

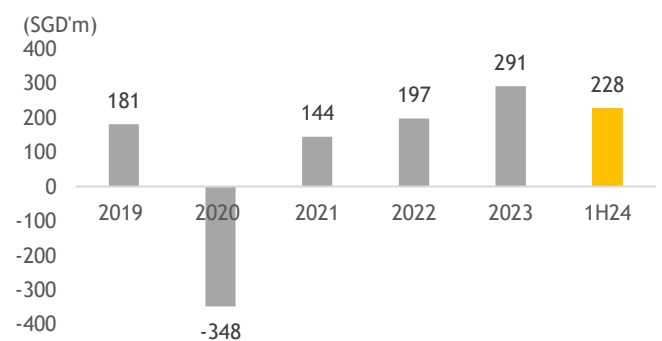
And all of this has been achieved with just one branch.

**Fig 1: CIMB Singapore's pre-provision operating profit**



Source: Bank

**Fig 2: CIMB Singapore's pretax profit**



Source: Bank

## 1.2 Healthy ratios

CIMBS' financial ratios today are looking much healthier than they were back in FY20. Margins have improved significantly and the bank's balance sheet is highly liquid with a loan/deposit ratio of just 67.8%. Efficiencies have stepped up with a lower cost/income ratio of just 43% and asset quality is now stronger with a GIL ratio of 0.8%, with more than adequate coverage (loan loss coverage of 159%).

**Fig 3: CIMB Singapore's key financial ratios**

	FY20	1H24
Net interest margin (NIM)	0.93%	1.41%
Loan/deposit ratio (LDR)	81.8%	67.8%
CASA ratio	59.9%	48.7%
Non-interest income (NOII) ratio	47.7%	47.4%
Cost/income ratio	65.9%	43.1%
GIL ratio	3.8%	0.8%
Credit cost (bps)	379	(33)
Loan loss coverage	92%	159%

Source: Bank

## 2. Vision and strategy

CIMBS' vision in Singapore is to be a niche challenger bank, and its strategies in the past and present include:

- Optimizing its deposit structure
- Reshaping its portfolio towards higher returns in wealth management, treasury, and the SME sector
- Driving cost efficiencies
- Strengthening credit risk and
- Investing in human capital

### 2.1 Optimizing its deposit structure

Over time, CIMBS' deposit base has shifted away from consumer/wholesale based funding towards more commercial segment based funding, where the CASA ratio is higher at 73% versus 43% for consumer and 46% for wholesale. Commercial CASA now accounts for 35% of total CASA, and has contributed to much improved interest margins for the bank.

### 2.2 Reshaping its portfolio

The focus here has been to shift the bank's business towards segments that yield higher returns. Aside from commercial banking, the emphasis has also been on growing its treasury division as well as private wealth management.

### 2.3 Driving cost efficiencies

In FY21, the number of personnel was streamlined from 1,300 staff in FY20 to 900. Other cost saving initiatives have included a) the regionalisation of selected middle and back office functions and contact centre to its HQ in Malaysia, b) digitalisation of customer-facing portals and end-to-end workflows to reduce cost-to-serve, and business process reengineering and automation for greater staff productivity.

### 2.4 Strengthening credit risk

The bank has reshaped its credit portfolio by:

- Pivoting to more granular and secured lending through consumer and SME
- Mitigated SME/ME credit risk with government guarantees
- Exited structured trade and commodity finance
- Reduced exposures to O&G and commodity trading and customers that are thinly capitalized, or that are not part of the CIMB network/GLCs.

### 2.5 Investing in human capital

The bank engages extensively with its people and invests in leadership and capability development. It upskills and reskills its workforce and has embedded recognition into its rewards schemes. That efforts have borne fruit is reflected in its Organization Health Index score, which has since risen from the bottom quartile (56) to top quartile (80).

### 3. Looking forward

#### 3.1 To capture regional flows

With the CIMB group's strong regional franchise, CIMBS is well-positioned as a hub to capture regional flows be it a) through the SG-MY corridor, b) regional wealth through preferred and private banking, and/or c) wholesale cross-sell, with ASEAN Network names accounting for ~40% of its corporate banking portfolio.

#### 3.2 To drive SME exposure

Singapore has about 310k SMEs, and CIMBS has just about 2.4% market share in terms of the number of customers and ~1% market share of SME loans. There is, as such, much room for expansion in this segment, which offers higher yields and returns. Its competitive advantages include a) accessible online banking, b) competitive pricing with no TT charges for transfers across the CIMB network and c) industry-leading credit decision turnaround times for SME loans.

#### 3.3 To drive its bancassurance business

CIMBS' open architecture platform allows it to team up with multiple insurers, of which it has seven currently. They include NTUC, AIA, Manulife, Singlife and Tokio Marine. The growth in its banca business is part of its wealth management strategy and as it stands, its market share has since expanded from just 2.2% in FY20 to 6.0% in 1H24, in terms of life insurance weighted premiums.

#### 3.4 To capture the Malaysian market in Singapore

It is said that there are 1.13m Malaysians working in Singapore. The number of Malaysian customers with CIMBS has since expanded from 68k in FY20 to 215k in 1H24. With increased cooperation and growth along the SG-MY corridor, CIMBS is well-poised to further expand its market share.

### 4. Financial targets

#### 4.1 Sustained ROEs of 15-17%

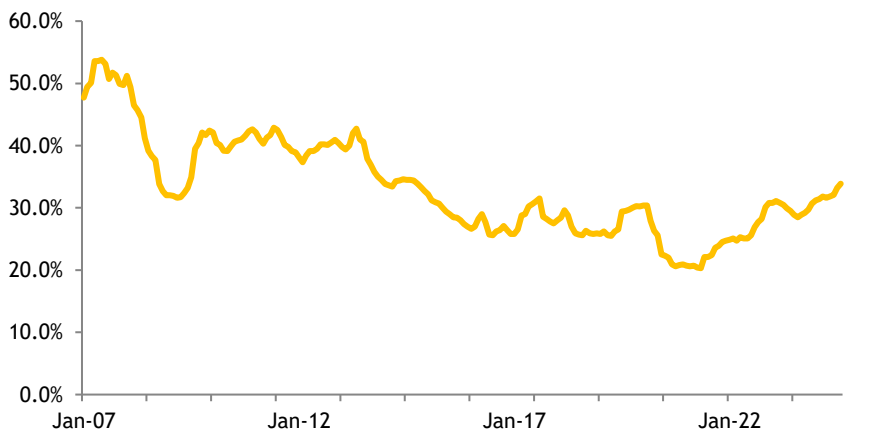
Moving forward, management looks to sustain ROEs of 15-17% for CIMBS, and for the bank to contribute a stable 10-12% of CIMB group's earnings over the long term. Expectations are that:

- NIMs can be sustained even in a falling interest rate environment, given that the bank has a very liquid balance sheet, that can be leveraged on, with the potential to take its LDR to >80% from 68% currently.
- There is room to further drive cost efficiencies through digitalisation, fee income growth and treasury operations.
- The offset is that recoveries are expected to trail off and that a more normalized credit cost would be 30-40bps over the longer term.

## 5. Risk statement

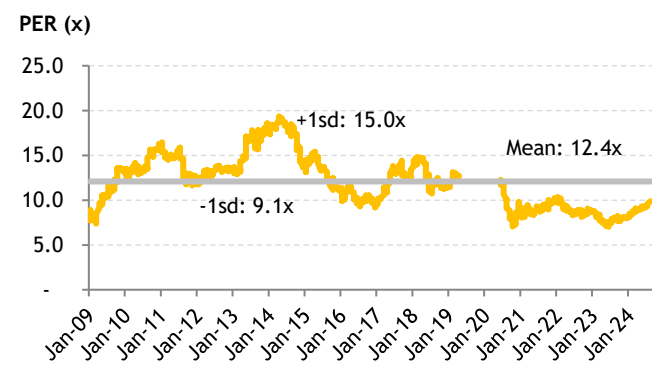
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on themgroup’s operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility in the region would have a bearing on overall operations. Further decreases in Indonesia’s interest rates could squeeze margins in the near term, while the weakening of the IDR could impact the translation of Niaga’s earnings.

**Fig 4: CIMB Group’s foreign shareholding (Aug 2024: 33.9%)**



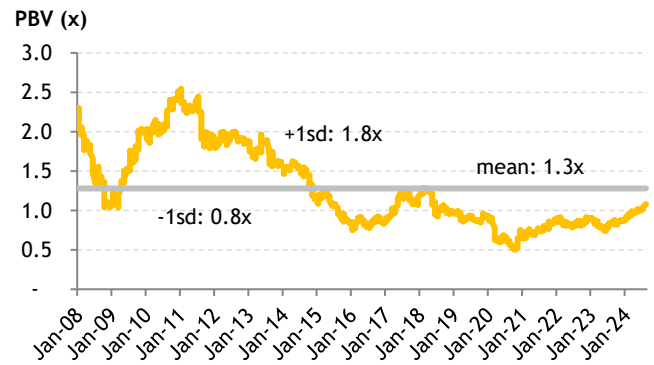
Source: Company

**Fig 5: CIMB Group: One-year forward rolling PER (x)**



Source: Bloomberg data, Maybank IBG Research

**Fig 6: CIMB Group: One-year forward rolling P/BV**



Source: Bloomberg data, Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Core P/E (x)	11.1	8.9	11.4	10.7	10.1
Core FD P/E (x)	11.1	9.0	11.4	10.7	10.1
P/BV (x)	1.0	0.9	1.2	1.2	1.1
P/NTA (x)	1.1	1.0	1.4	1.3	1.3
Net dividend yield (%)	4.5	7.4	5.7	5.1	5.5
<b>INCOME STATEMENT (MYR m)</b>					
Interest income	18,645.8	25,110.5	27,478.7	28,512.1	29,615.2
Interest expense	(7,016.1)	(14,026.8)	(15,597.3)	(16,036.8)	(16,526.2)
<b>Net interest income</b>	<b>11,629.6</b>	<b>11,083.7</b>	<b>11,881.5</b>	<b>12,475.2</b>	<b>13,089.0</b>
Islamic banking income	3,999.8	4,260.3	4,601.2	4,969.3	5,366.8
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	2,206.0	2,234.1	2,345.8	2,463.1	2,586.2
Other income	2,002.1	3,436.4	3,532.5	3,550.3	3,634.6
<b>Total non-interest income</b>	<b>4,208.1</b>	<b>5,670.4</b>	<b>5,878.3</b>	<b>6,013.4</b>	<b>6,220.8</b>
<b>Operating income</b>	<b>19,837.6</b>	<b>21,014.5</b>	<b>22,360.9</b>	<b>23,457.9</b>	<b>24,676.6</b>
Staff costs	(5,539.4)	(5,935.9)	(6,292.0)	(6,669.6)	(7,069.7)
Other operating expenses	(3,806.1)	(3,929.2)	(4,019.5)	(4,118.8)	(4,227.7)
<b>Operating expenses</b>	<b>(9,345.5)</b>	<b>(9,865.1)</b>	<b>(10,311.6)</b>	<b>(10,788.3)</b>	<b>(11,297.4)</b>
<b>Pre-provision profit</b>	<b>10,492.1</b>	<b>11,149.4</b>	<b>12,049.3</b>	<b>12,669.5</b>	<b>13,379.2</b>
Loan impairment allowances	(1,952.7)	(1,534.4)	(1,446.8)	(1,421.3)	(1,485.6)
Other allowances	(208.5)	(57.0)	(100.0)	(100.0)	(100.0)
Associates & JV income	40.2	(17.2)	1.7	7.9	10.2
<b>Pretax profit</b>	<b>8,371.1</b>	<b>9,540.7</b>	<b>10,504.3</b>	<b>11,156.1</b>	<b>11,803.8</b>
Income tax	(2,778.1)	(2,378.6)	(2,615.6)	(2,777.9)	(2,939.1)
Minorities	(153.1)	(181.1)	(157.8)	(167.6)	(177.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>5,439.9</b>	<b>6,980.9</b>	<b>7,730.9</b>	<b>8,210.6</b>	<b>8,687.4</b>
<b>Core net profit</b>	<b>5,439.9</b>	<b>6,981.0</b>	<b>7,730.9</b>	<b>8,210.6</b>	<b>8,687.4</b>
<b>BALANCE SHEET (MYR m)</b>					
Cash & deposits with banks	47,105.3	37,980.1	34,182.1	35,891.2	37,685.7
Sec. under resale agreements	9,751.3	9,707.7	10,678.5	11,746.3	12,920.9
Derivatives financial assets	18,072.2	15,644.9	14,080.4	14,784.4	15,523.6
Dealing securities	33,200.3	48,622.7	49,109.0	49,600.0	50,096.0
Available-for-sale securities	123,209.8	150,221.7	157,732.7	165,619.4	173,900.4
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	394,557.2	429,450.0	450,706.7	471,077.8	492,369.7
Central bank deposits	10,905.1	11,511.4	13,231.4	13,755.3	14,331.3
Investment in associates/JVs	2,467.0	2,396.5	2,401.7	2,407.3	2,413.2
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	2,656.3	2,716.6	2,852.4	2,995.1	3,144.8
Intangible assets	8,181.0	8,390.9	8,390.9	8,390.9	8,390.9
Other assets	16,616.0	16,929.6	20,434.2	20,797.3	21,167.6
<b>Total assets</b>	<b>666,721.2</b>	<b>733,572.2</b>	<b>763,800.1</b>	<b>797,065.0</b>	<b>831,944.3</b>
Deposits from customers	446,634.6	482,426.2	500,785.2	520,528.0	542,257.3
Deposits from banks & FIs	34,189.2	40,283.2	42,297.4	44,412.2	46,632.9
Derivatives financial instruments	17,460.5	16,077.2	14,469.5	15,193.0	15,952.6
Subordinated debt	11,014.5	11,134.0	11,134.0	11,134.0	11,134.0
Other securities in issue	9,918.2	12,921.0	12,921.0	12,921.0	12,921.0
Other borrowings	44,188.0	59,085.2	64,217.8	69,848.2	76,025.7
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	39,532.3	41,806.4	45,136.7	46,332.7	46,245.3
<b>Total liabilities</b>	<b>602,937.4</b>	<b>663,733.3</b>	<b>690,961.6</b>	<b>720,369.1</b>	<b>751,168.9</b>
Share capital	29,094.5	29,094.5	29,094.5	29,094.5	29,094.5
Reserves	33,396.7	39,232.4	42,078.0	45,772.8	49,682.2
Shareholders' funds	62,491.2	68,327.0	71,172.6	74,867.4	78,776.7
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,092.6	1,311.9	1,465.8	1,628.5	1,798.7
Total equity	63,783.9	69,838.9	72,838.4	76,695.9	80,775.4
<b>Total liabilities &amp; equity</b>	<b>666,721.2</b>	<b>733,572.2</b>	<b>763,800.1</b>	<b>797,065.0</b>	<b>831,944.3</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	6.9	(4.7)	7.2	5.0	4.9
Non-interest income	8.5	34.8	3.7	2.3	3.4
Operating expenses	(0.8)	5.6	4.5	4.6	4.7
Pre-provision profit	18.3	6.3	8.1	5.1	5.6
Core net profit	17.0	28.3	10.7	6.2	5.8
Gross loans	7.7	8.3	5.0	4.5	4.5
Customer deposits	3.2	8.0	3.8	3.9	4.2
Total assets	7.2	10.0	4.1	4.4	4.4
<b>Profitability (%)</b>					
Non-int. income/Total income	21.2	27.0	26.3	25.6	25.2
Average lending yields	3.82	4.58	4.65	4.66	4.66
Average cost of funds	1.57	2.85	2.95	2.91	2.86
Net interest margin	2.51	2.22	2.22	2.26	2.29
Cost/income	47.1	46.9	46.1	46.0	45.8
<b>Liquidity (%)</b>					
Loans/customer deposits	88.3	89.0	90.0	90.5	90.8
<b>Asset quality (%)</b>					
Net NPL	1.5	1.2	1.7	1.7	1.7
Gross NPL	3.3	2.7	3.2	3.2	3.2
(SP+GP)/average gross loans	0.5	0.4	0.3	0.3	0.3
Loan loss coverage	93.1	97.0	83.7	83.7	83.7
<b>Capital adequacy (%)</b>					
CET1	14.2	14.5	14.9	15.3	15.6
Tier 1 capital	15.1	15.1	15.5	15.9	16.2
Risk-weighted capital	18.0	18.2	18.5	18.8	18.9
<b>Returns (%)</b>					
ROAE	9.0	10.7	11.1	11.2	11.3
ROAA	0.8	1.0	1.0	1.1	1.1
Shareholders equity/assets	9.4	9.3	9.3	9.4	9.5

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

### 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  
joserafael.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 TECHAHUSDIN, CFA**  
(66) 2658 5000 ext 1395  
jesada.t@maybank.com  
• Banking & Finance

**Wasu MATTANAPOTCHANART**  
(66) 2658 5000 ext 1470  
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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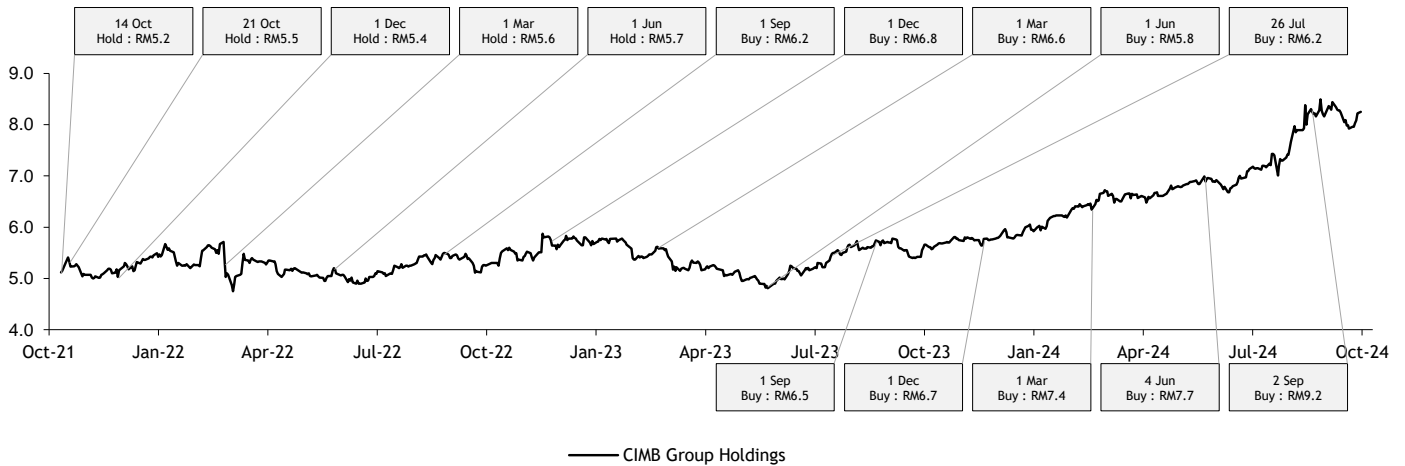
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### Malaysia

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, 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

[www.maybank.com/investment-banking](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)