

Kossan Rubber Industries (KRI MK)

ESG 2.0: Significant improvement in scoring

ESG scoring improves to above average, at 53/100

We revisited KRI's ESG disclosures following the release of its FY23 Annual and Corporate Governance Reports and assigned an above-average ESG score of 53 (out of 100), marking a significant improvement from its previous score of 38 (below average). However, more specific and measurable medium-term ESG targets would be well-received. We maintain our earnings forecasts, MYR2.57 TP (on 1.7x FY26E P/B). BUY.

Dragged by the quantitative "E" and "S" metrics

KRI's overall ESG score of 53 is above average in our rating but lower than its peers, TOPG (HOLD, CP: MYR1.08, TP: MYR1.08) at 56 (above average) and HART (BUY, CP: MYR3.27, TP: MYR4.28) at 64. KRI's score was affected by rising waste generation and lower recycling of non-hazardous waste, though this was offset by reductions in carbon emissions, water, energy and gas intensity. Additionally, KRI's board composition is less diverse as compared to those of TOPG and HART, which have more Independent Non-Executive Directors and female representation.

Launched Sustainability Strategy & Blueprint in FY23

In FY23, KRI introduced its Sustainability Strategy and Blueprint, improved its reporting mechanisms with enhanced tracking and monitoring, and launched the KOSSAN Sustainability Centre of Excellence (KSCE) to drive best practices across the business. KRI also implemented sustainability-related KPIs to encourage positive impact at the management level and alignment with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Despite these advancements in its sustainability infrastructure, KRI's ESG score lags its peers due to the absence of specific and measurable medium- and long-term ESG targets.

Maintaining earnings forecasts

KRI has the strongest balance sheet among glove makers under our coverage with MYR2.1b in net cash (80 sen/sh) as at end-2Q24. Backed by its strong balance sheet and technological know-how, KRI would be able to increase automation and digitalisation across its entire operation. This would result in higher productivity, lower headcount and better cost competitiveness.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,316	1,586	1,865	2,069	2,320
EBITDA	312	155	237	253	273
Core net profit	161	57	116	124	135
Core EPS (sen)	6.3	2.2	4.5	4.8	5.3
Core EPS growth (%)	(94.4)	(64.7)	104.3	6.5	9.4
Net DPS (sen)	2.5	4.0	4.0	4.0	4.0
Core P/E (x)	17.5	83.1	48.4	45.4	41.5
P/BV (x)	0.7	1.2	1.5	1.4	1.4
Net dividend yield (%)	2.3	2.2	1.8	1.8	1.8
ROAE (%)	4.0	0.4	3.0	3.2	3.5
ROAA (%)	3.4	1.3	2.8	3.0	3.2
EV/EBITDA (x)	2.7	17.2	14.8	13.8	12.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	121	160	206
MIBG vs. Consensus (%)	-	-	(4.0)	(22.7)	(34.5)

Wong Wei Sum, CFA
weisum@maybank-ib.com
(603) 2297 8679

BUY

Share Price	MYR 2.20
12m Price Target	MYR 2.57 (+19%)
Previous Price Target	MYR 2.57

Company Description

Kossan is among the world's biggest glove producers with production highly concentrated in the nitrile segment.

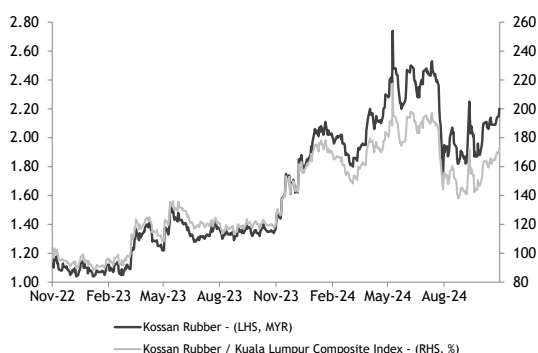
Statistics

52w high/low (MYR)	2.74/1.37
3m avg turnover (USDm)	2.9
Free float (%)	42.8
Issued shares (m)	2,558
Market capitalisation	MYR5.6B
	USD1.3B

Major shareholders:

Kossan Holdings Malaysia Sdn. Bhd.	34.9%
Abrdn Asia Ltd.	5.5%
Employees Provident Fund	5.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	17	26	64
Relative to index (%)	18	20	47

Source: FactSet

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Tear Sheet Insert

Risk Rating & Score ¹	13.4 (Low)
Score Momentum ²	-1.2
Last Updated	16 Oct 2024
Controversy Score ³ (Updated: 26 Sep 2024)	0 - No reported incidents

Business Model & Industry Issues

- Like other glove manufacturers, KRI relies on migrant workers, facing rising social compliance costs due to evolving welfare standards. With its strong balance sheet and technological expertise, KRI is positioned to increase automation and digitalization, boosting productivity, reducing headcount, and enhancing cost competitiveness.
- KRI is a constituent of the ESG-themed FTSE4Good Bursa Malaysia Index and the FTSE4Good Bursa Malaysia Shariah Index. It achieved an MSCI ESG rating of A and maintained WRAP Gold certification across all glove factories. KRI's CDP Climate Change and Water Security disclosure scores improved to C (up from D in FY22). Additionally, KRI received the Green Initiative Award at the Asia Corporate Excellence & Sustainability (ACES) Awards 2023.
- KRI scores above-average in our ESG proprietary scoring methodology (see next page) with an overall score of 53/100.

Material E issues

- In FY23, 96% of KRI plants have obtained the ISO 45001:2018 certification while 78% of KRI's plants have obtained the ISO 14001:2015 certification.
- Since 2022, KRI launched #StayLOW, a sustainability initiative under LD Technology™ that focuses on reducing health risks through hand protection innovations and supporting reforestation efforts. For every thousand pairs of LD Technology™ gloves sold, USD 5 cents go to the project fund, facilitating the planting of 1,201 trees in FY23, with an estimated 223.03 tonnes of CO₂ removed.
- 94.5% of KRI packaging sourced from recycled or recyclable materials.
- In FY23, there was zero incidents of non-compliance with environmental laws and regulations.

Material S issues

- Female representation was 23% of workforce in FY23 (FY22: 21%)
- As a founding member of the Responsible Glove Alliance (RGA), KRI remains committed to responsible recruitment and employment practices across the supply chain. The RGA unites glove buyers and suppliers to prevent, identify, and address forced labor in the industry.
- KRI maintains Zero Cost Recruitment Policy.
- In FY23, Lost Time Injury Frequency Rate improved to 1.07 (FY22: 1.48). There were 17 DOSH work-related recordable cases in FY23 (FY22: 30 cases).
- In FY23, KRI invested more than MYR575,000 in community development, impacting the lives of 21,368 beneficiaries.
- In FY23, KRI recorded zero substantiated complaints concerning human rights violation.

Key G metrics and issues

- Out of the total 9 members on the board, 4 members are Independent Non-Executive Directors (INEDs). This represents 44% of the board and is below the minimum requirement of 50% recommended by the Malaysian Code of Corporate Governance's (MCCG).
- One of the INEDs have served more than 9 years on the board.
- There are 2 female members on the Board, representing 22% (FY22: 22%) of the Board and below the minimum requirement of 30%.
- In FY23, KRI's Audit, Remuneration and Nominating Committees were chaired by INEDs which Risk Management Committee was chaired by 2INEDs and 1 NIED.
- In FY23, the remuneration package for the Board was MYR12.9m (-7% YoY; 23% of FY23 core net profit).
- KPMG has been KRI's external auditor for more than 10 years.
- KRI has Whistle-Blowing Policy in place.
- In FY2023, zero reported cases of bribery or corruption (FY22: zero).

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).

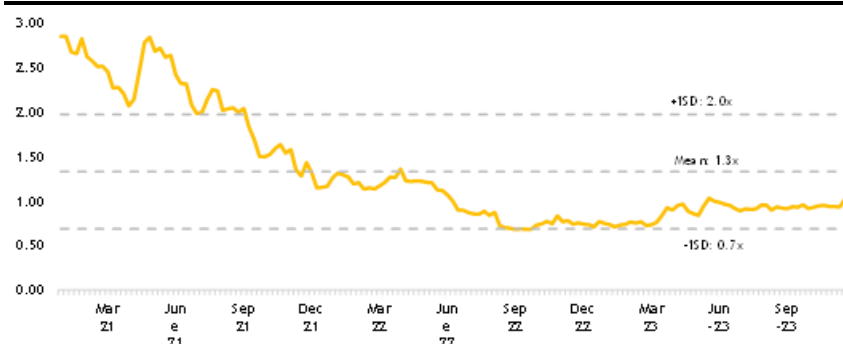
Quantitative Parameters (Score: 33)						
	Particulars	Unit	2021	2022	2023	HART MK (FY24)
E	Scope 1 emissions	tCO ₂ e	382,028	295,547	212,743	394,037
	Scope 2 emissions	tCO ₂ e	130,998	126,020	86,211	62,039
	Total	tCO₂e	513,026	421,568	298,953	456,076
	Scope 3 emissions	tCO ₂ e	NA	5250	5305	4,679.0
	Total	tCO₂e	513,026	426,818	304,258	460,755
	GHG intensity (Scope 1 and 2)	tCO ₂ e/rev RMm	77	182	189	248
	Electricity consumption intensity (gloves)	kWh/1,000 pcs gloves	7.78	9.40	8.23	5.17
	Water consumption intensity (gloves)	cu. M/1,000 pcs gloves	0.12	0.21	0.17	0.13
	Natural gas consumption intensity (gloves)	MMBTU/1,000 pcs gloves	0.33	0.36	0.32	0.36
	Carbon emission intensity (gloves)	tCO ₂ /1,000 pcs gloves	0.024	0.026	0.023	0.0220
S	Total waste generated intensity (gloves)	kg/1,000 pcs gloves	0.50	0.62	0.70	0.54
	Non-hazardous waste recycled	%	NA	69.7	63.2	76.8
	Proportion of women in the workforce	%	19.5	20.9	23.0	36
	Women in Sr management	%	33	33.5	34.0	38.0
	Proportion of locals as new hires	% (avg)	91	98	76	15
G	Lost time injury frequency (LTIF) rate		1.34	1.48	1.07	0.30
	Training hours per employee	number	11.5	18.9	20.9	13.1
	MD/CEO salary as % of reported net profit	%	0.3	2.7	7.4	3.6
	Board salary as % of reported net profit	%	0.9	8.6	22.7	11.6
	Independent directors on the Board	%	33	40	44	44
	Female directors on the Board	%	11	22	22	30

Qualitative Parameters (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?	<i>Yes - Kossan has launched its Sustainability Policy in 2022. Kossan has established the Kossan Sustainability Committee. In FY23, it launched the Kossan Sustainability Strategy and Blueprint.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes.</i>
c) Does the company follow the Task Force of Climate Related Disclosures (TCFD) framework for ESG reporting?	<i>No, but intends to adopt TCFD recommendations in the near future.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, Scope 3 captures waste, business travel and employee commuting.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Energy efficiency: Integrated solar panels into its manufacturing facilities. In FY23, KRI has installed solar panels with a total installed capacity of 4.3MW, an increase of 1.14MWp compared to FY22. Water mgmt: KRI optimizes plant processes and use an auto-dosing system for precise dosing, reducing water consumption. To minimize clean water extraction, it reuses tank water in manufacturing and treated wastewater for purposes like latex waste treatment and housekeeping. Waste mgmt: KRI incorporated new waste water technology such as Anoxic treatment and Moving Bed Biofilm Reactor (MBBR) process to drive quality improvements.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes - carbon emission avoidance through tree planting.</i>

Target (Score: 60)		
Particulars	Target	Achieved
Reduce GHG emissions by -45% by 2030	-45%	0%
To contribute to the nation's goal of attaining carbon neutral by 2050	2050	2050
Attaining ISO 45001 certifications for the occupational safety and health management systems it utilise in the factories	100%	96%
Achieved ISO 14001:2015 (Environmental Management Systems) certification for its manufacturing facilities	100%	78%
Zero Cost Recruitment Policy	100%	100%
Impact		
NA		
Overall Score: 53		
As per our ESG matrix, Kossan Rubber Industries (KRI MK) has an overall score of 53.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	33	17
Qualitative	25%	83	21
Target	25%	60	15
Total			53

As per our ESG assessment, KRI has an established framework, internal policies, and mid/long-term targets but needs to make headway in improving its quantitative "E" and "S" metrics YoY. KRI's overall ESG score is 53, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: Kossan's 1-year forward PBV (2021-2023)


Source: Bloomberg, Company data, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for KRI. Abrupt changes in the momentum of input costs (i.e. latex, NBR) and intense competition may lead to lower earnings for KRI. Additionally, sharp appreciation of MYR against USD will negatively affect its earnings, for almost the entire group revenue is derived in USD.

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)	23.5	242.0	48.4	45.4	41.5
Core P/E (x)	17.5	83.1	48.4	45.4	41.5
P/BV (x)	0.7	1.2	1.5	1.4	1.4
P/NTA (x)	0.7	1.2	1.5	1.5	1.4
Net dividend yield (%)	2.3	2.2	1.8	1.8	1.8
FCF yield (%)	nm	3.0	1.0	1.4	1.6
EV/EBITDA (x)	2.7	17.2	14.8	13.8	12.6
EV/EBIT (x)	4.5	68.9	30.8	28.1	25.2

INCOME STATEMENT (MYR m)

Revenue	2,316.2	1,585.9	1,865.2	2,068.5	2,320.0
EBITDA	311.7	154.9	236.6	253.5	273.5
Depreciation	(126.6)	(116.2)	(122.9)	(129.5)	(136.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	185.1	38.7	113.8	124.0	137.3
Net interest income / (exp)	27.8	37.0	42.8	43.1	43.7
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	212.9	35.8	156.6	167.0	181.0
Income tax	(53.6)	(18.7)	(37.6)	(40.1)	(43.4)
Minorities	(2.7)	(2.9)	(2.9)	(3.3)	(2.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	156.6	14.2	116.1	123.6	135.2
Core net profit	161.2	56.8	116.1	123.6	135.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,072.6	2,089.4	2,131.7	2,143.3	2,164.5
Accounts receivable	291.3	272.7	234.6	260.1	291.8
Inventory	287.1	234.4	231.2	256.4	287.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,356.9	1,293.9	1,271.1	1,241.5	1,205.3
Intangible assets	6.0	6.1	6.1	6.1	6.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	313.3	295.6	295.6	295.6	295.6
Total assets	4,327.1	4,192.1	4,170.2	4,203.1	4,250.8
ST interest bearing debt	70.6	9.8	(5.3)	(15.3)	(25.3)
Accounts payable	204.9	188.6	165.0	183.0	205.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.3	0.0	0.0	0.0	0.0
Other liabilities	153.0	129.0	129.0	129.0	129.0
Total Liabilities	429.2	327.8	289.0	297.0	309.3
Shareholders Equity	3,875.7	3,839.1	3,853.1	3,874.6	3,907.8
Minority Interest	22.3	25.2	28.1	31.4	33.7
Total shareholder equity	3,897.9	3,864.3	3,881.2	3,906.1	3,941.5
Total liabilities and equity	4,327.1	4,192.1	4,170.2	4,203.1	4,250.8

CASH FLOW (MYR m)

Pretax profit	212.9	35.8	156.6	167.0	181.0
Depreciation & amortisation	126.6	116.2	122.9	129.5	136.2
Adj net interest (income)/exp	(0.3)	0.0	(42.8)	(43.1)	(43.7)
Change in working capital	318.5	85.9	(45.0)	(32.8)	(40.5)
Cash taxes paid	(558.5)	(19.2)	(37.6)	(40.1)	(43.4)
Other operating cash flow	(14.1)	16.9	0.0	0.0	0.0
Cash flow from operations	91.5	239.0	154.0	180.6	189.5
Capex	(115.3)	(95.8)	(100.0)	(100.0)	(100.0)
Free cash flow	(23.7)	143.1	54.0	80.6	89.5
Dividends paid	(307.9)	(63.8)	(102.1)	(102.1)	(102.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(171.2)	(62.5)	(10.0)	(10.0)	(10.0)
Other invest/financing cash flow	(697.1)	(98.1)	42.8	43.1	43.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,199.9)	(81.3)	(15.2)	11.6	21.1

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(65.1)	(31.5)	17.6	10.9	12.2
EBITDA growth	(92.0)	(50.3)	52.8	7.1	7.9
EBIT growth	(95.1)	(79.1)	194.1	8.9	10.7
Pretax growth	(94.3)	(83.2)	336.8	6.7	8.3
Reported net profit growth	(94.5)	(90.9)	716.0	6.5	9.4
Core net profit growth	(94.4)	(64.8)	104.3	6.5	9.4
Profitability ratios (%)					
EBITDA margin	13.5	9.8	12.7	12.3	11.8
EBIT margin	8.0	2.4	6.1	6.0	5.9
Pretax profit margin	9.2	2.3	8.4	8.1	7.8
Payout ratio	40.8	nm	87.9	82.6	75.5
DuPont analysis					
Net profit margin (%)	6.8	0.9	6.2	6.0	5.8
Revenue/Assets (x)	0.5	0.4	0.4	0.5	0.5
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	4.0	0.4	3.0	3.2	3.5
ROAA (%)	3.4	1.3	2.8	3.0	3.2
Liquidity & Efficiency					
Cash conversion cycle	88.8	82.9	62.1	57.6	57.2
Days receivable outstanding	68.6	64.0	49.0	43.0	42.8
Days inventory outstanding	77.4	77.0	54.5	50.9	50.1
Days payables outstanding	57.2	58.1	41.4	36.4	35.8
Dividend cover (x)	2.4	0.1	1.1	1.2	1.3
Current ratio (x)	10.0	13.9	17.2	16.8	16.1
Leverage & Expense Analysis					
Asset/Liability (x)	nm	nm	nm	nm	nm
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)	0.2	0.1	nm	nm	nm
Capex/revenue (%)	5.0	6.0	5.4	4.8	4.3
Net debt/ (net cash)	(2,001.7)	(2,079.6)	(2,137.1)	(2,158.7)	(2,189.8)

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

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

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.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
Malaysia | Philippines
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuluong@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
alanlau@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

SOH Jing Ying
(603) 2074 7606
jingying.soh@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Anand PATHMAKANTHAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Equity Strategy

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

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 SAIREE
(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

Ronalyn Joyce LALIMO
(63) 2 5322 5009
rona.lalimo@maybank.com
• SMIDs

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

Jefffrosenberg CHENLIM Head of Research
(62) 21 8066 8680
jefffrosenberg.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

Faiq ASAD
(62) 21 8066 8692
faiq.asad@maybank.com
• Banking & Finance

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

THAILAND

Chak REUNGINSINPINYA 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 (Software) • REITs
• Property • Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor

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 • Property

Boonyakorn AMORNSANK
(66) 2658 5000 ext 1394
boonyakorn.amornsank@maybank.com
• Services (Hotels, Transport)

Nontapat SAHAKITPINYO
(66) 2658 5000 ext 2352
nontapat.sahakitpinyo@maybank.com
• Healthcare

Yugi TAKESHIMA
(66) 2658 5000 ext 1530
yugi.takeshima@maybank.com
• Technology (EMS & Semicon)

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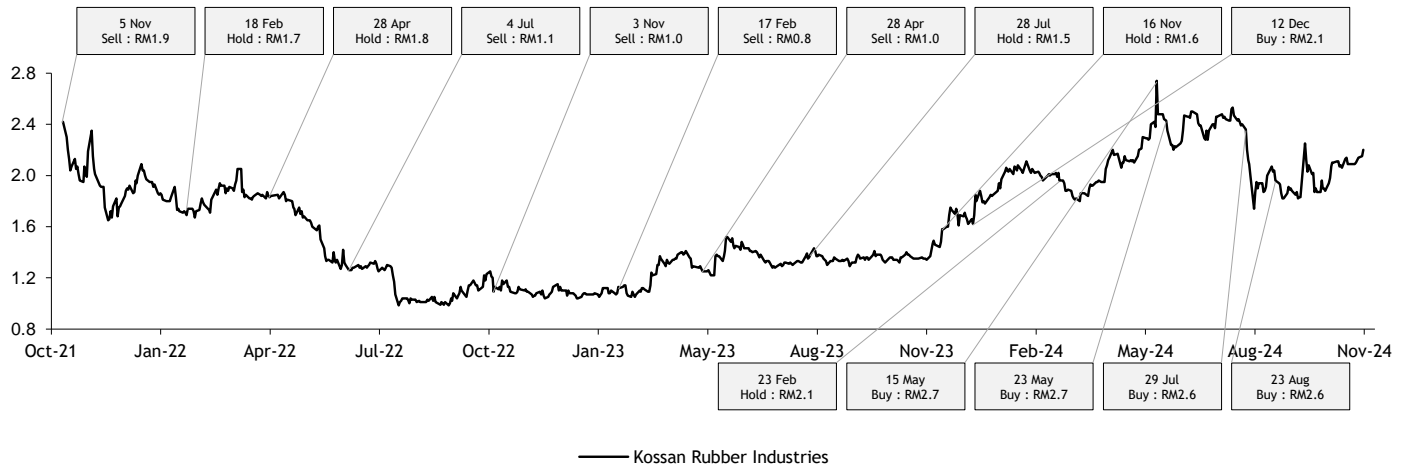
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Malaysia

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