

Hartalega (HART MK)

Look beyond 1HFY25 earnings for stronger growth

Below expectations, expect stronger 2H earnings

HART's 2QFY25 core net profit of MYR30.8m (+14% YoY, -6% QoQ) was below our and consensus estimates, primarily due to the sudden strengthening of MYR against USD in July-Sep 2024. However, 2HFY25E earnings should improve, driven by higher sales volume, increased ASP and stabilising USD/MYR rate. We revise our FY25-27E earnings forecasts by -13% to +41% and TP to MYR4.31 (+3sen; on unchanged 3x CY26E P/B). BUY.

2QFY25 hit by forex losses

Excluding a MYR34.5m unrealised forex loss, MYR17.2m fair value gain and MYR5.6m inventory write-down reversal, 2QFY25 core net profit was MYR30.8m (+13.6% YoY, -6% QoQ), bringing 1HFY25 core net profit to MYR63.7m (+1.2x YoY), at 35%/33% of our/consensus' FY25E. Earnings were weaker than expected due to higher operating costs from new production line ramp-up and substantial realised forex losses (MYR17.4m) offset by deferred tax income. This was despite QoQ improvement in sales volume (+16%) and ASP (+3% in USD). Utilisation rate improved to 90%, from 78% in 1QFY25. A first interim net DPS of 0.56sen was declared.

Key highlights from results concall

1) Sales remain strong into 3QFY25E, driven by inventory replenishing activities and a shift of orders from China to M'sia due to quality issues. Sales increased further in late Oct 2024 following US announcement of new tariffs on China-made gloves in Sep 2024, 2) Utilisation rate is expected to remain high at 75-85% based on 37b pcs p.a. capacity with further potential capacity expansion depending on market conditions, 3) ASP is anticipated to rise to USD22-23/k pcs in 3QFY25E (+2-7% QoQ). Jan 2025 will provide a clearer view of ASP trend as China glove makers' response to US tariffs become evident.

Earnings adjustments

We adjust our FY25/26/27 earnings by -12.9%/+41.4%/+9.6% on factoring in: i) capacity of 35b/39.5b/42b pcs (from 36b/37.5b/40b) and ii) MYR4.50/USD exchange rate (previously MYR4.55). HART's balance sheet remains strong with MYR1.3b in net cash (MYR0.38/sh) as at end-Sep 2024. HART remains our top BUY in the glove sector, and we see it as the primary beneficiary of higher tariffs imposed by the US on China glove makers. In 2QFY25, 56.7% of HART's revenue was derived from US (50% in 1QFY25).

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	2,410	1,838	2,657	3,119	3,317
EBITDA	(20)	178	297	476	451
Core net profit	162	50	160	293	270
Core FDEPS (sen)	4.7	1.5	4.7	8.5	7.9
Core FDEPS growth(%)	(95.0)	(69.2)	220.0	83.0	(7.8)
Net DPS (sen)	0.0	0.4	2.8	5.1	4.7
Core FD P/E (x)	40.2	nm	71.2	38.9	42.2
P/BV (x)	1.4	2.0	2.4	2.3	2.3
Net dividend yield (%)	0.0	0.1	0.8	1.6	1.4
ROAE (%)	(4.8)	0.3	3.4	6.1	5.5
ROAA (%)	2.8	0.9	3.0	5.4	4.8
EV/EBITDA (x)	nm	45.2	33.7	20.9	21.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	191	290	383
MIBG vs. Consensus (%)	-	-	(16.3)	1.2	(29.4)

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

BUY

Share Price	MYR 3.32
12m Price Target	MYR 4.31 (+31%)
Previous Price Target	MYR 4.28

Company Description

Hartalega is the world's largest nitrile medical gloves producer.

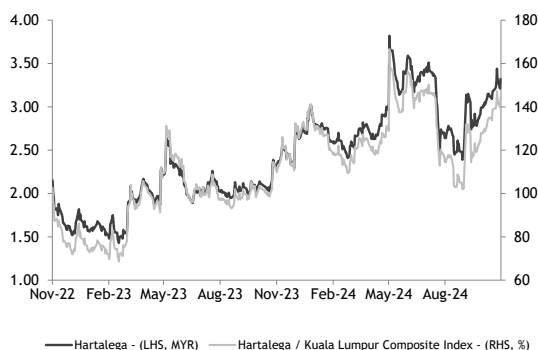
Statistics

52w high/low (MYR)	3.82/2.28
3m avg turnover (USDm)	5.1
Free float (%)	42.7
Issued shares (m)	3,428
Market capitalisation	MYR11.4B
	USD2.6B

Major shareholders:

Hartalega Industries Sdn. Bhd.	34.3%
Employees Provident Fund	8.6%
BNP Paribas Wealth Management	5.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	23	42
Relative to index (%)	13	23	27

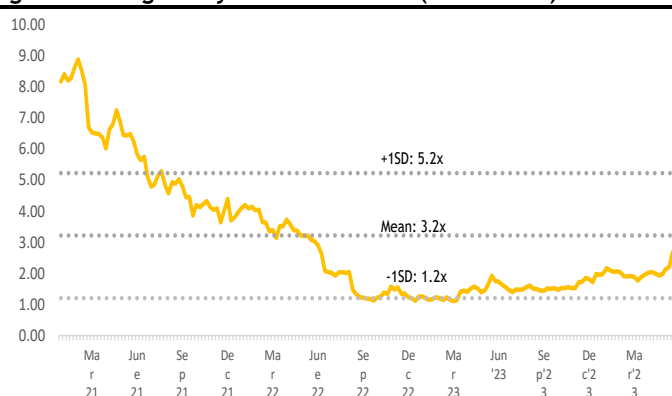
Source: FactSet

Fig 1: Hartalega: Results summary table

FY Mar (MYR m)	2QFY25	2QFY24	% YoY	1QFY25	% QoQ	6MFY25	6MFY24	% YoY
Turnover	652.1	452.1	44.2	583.8	11.7	1,235.9	892.1	38.5
EBITDA	(10.7)	70.5	>-100	76.3	>-100	65.6	60.5	8.5
Depreciation and Amortisation	(35.8)	(32.7)	(9.4)	-34.2	(4.7)	(69.9)	(65.3)	(7.1)
EBIT	(37.1)	37.8	>-100	42.2	>-100	5.0	(4.8)	>+100
Net interest exp	11.9	13.3	(10.8)	11.2	6.2	23.1	26.9	(14.2)
Unrealised forex gain/(loss)	(34.5)	(2.2)	>-100	1.1	>-100	(33.4)	(6.4)	>-100
Fair value change on derivatives	17.2	4.6	273.5	-1.6	>+100	15.6	2.0	>+100
One-off items	(4.9)	(1.8)	>-100	-0.4	>-100	(5.4)	(49.1)	89.1
Pre-tax profit	(47.5)	35.5	>-100	41.1	>-100	(6.3)	(9.2)	31.3
Tax	56.1	(6.7)	>+100	-9.2	>-100	46.8	(13.1)	>+100
Minority Interest	0.0	(1.2)	>+100	0.0	13.6	0.0	(2.5)	>+100
Net profit	8.6	27.7	(68.9)	31.9	(73.0)	40.6	(24.8)	>+100
Core net profit	30.8	27.2	13.6	32.9	(6.1)	63.7	28.7	>+100
Margins and tax rate			+/- ppt		+/- ppt			+/- ppt
EBITDA margin (%)	(1.6)	15.6	(17.2)	13.1	(14.7)	5.3	6.8	(1.5)
EBIT margin (%)	(7.1)	8.4	(15.5)	7.2	(14.4)	(0.3)	(0.5)	0.2
Pretax margin (%)	(7.3)	7.9	(15.1)	7.0	(14.3)	(0.5)	(1.0)	0.5
Tax rate (%)	118.1	18.8	99.4	22.4	95.7	741.5	(142.6)	884.1
Operating metrics			% YoY		% QoQ			% YoY
Effective capacity (b pieces)	7.6	10.5	(27.2)	7.6	0.0	15.3	21.0	(27.2)
Plant utilisation rate (%)	90.0	44.0	104.5	78.0	15.4	83.5	42.2	97.7
Sales volume (b pieces)	6.8	4.6	47.8	5.9	15.3	12.8	8.9	43.9

Source: Company, Maybank IBG Research

Fig 2: Hartalega's 1-year forward PBV (2021-2024)



Source: Bloomberg, Company data, Maybank IBG Research

Risk factors

Risk factors for our earnings estimates, target price and rating for HART are: (i) aggressive capacity expansion from the China glove makers; (ii) an aggressive pricing strategy from Chinese producers due to their relatively lower production costs supported by lower energy costs; (iii) spikes in raw material prices that are unable to be fully passed on; and (iv) prolonged price wars and oversupply issues.

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	nm	617.6	70.8	38.7	42.0
Core P/E (x)	40.0	187.8	70.8	38.7	42.0
Core FD P/E (x)	40.2	nm	71.2	38.9	42.2
P/BV (x)	1.4	2.0	2.4	2.3	2.3
P/NTA (x)	1.4	2.0	2.4	2.4	2.3
Net dividend yield (%)	0.0	0.1	0.8	1.6	1.4
FCF yield (%)	nm	nm	0.5	2.1	2.3
EV/EBITDA (x)	nm	45.2	33.7	20.9	21.8
EV/EBIT (x)	nm	nm	62.1	29.5	32.1
INCOME STATEMENT (MYR m)					
Revenue	2,409.6	1,837.6	2,657.1	3,119.2	3,316.6
EBITDA	(20.0)	177.7	296.9	476.3	450.7
Depreciation	(163.0)	(132.0)	(136.0)	(140.0)	(144.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(183.0)	45.7	160.9	336.3	306.6
Net interest income / (exp)	35.2	53.0	59.5	58.8	58.2
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	(214.4)	38.7	220.3	395.1	364.8
Income tax	(24.4)	(18.7)	(52.9)	(94.8)	(87.6)
Minorities	3.7	(7.3)	(7.3)	(7.3)	(7.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(235.1)	12.7	160.1	292.9	269.9
Core net profit	162.4	50.0	160.1	292.9	269.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,724.5	1,427.4	1,421.1	1,517.0	1,641.9
Accounts receivable	323.5	386.3	356.7	418.7	445.2
Inventory	232.4	385.7	256.3	300.8	319.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,943.1	1,901.0	1,845.0	1,785.0	1,720.9
Intangible assets	42.6	45.2	45.2	45.2	45.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,038.9	1,111.7	1,368.8	1,429.4	1,488.9
Total assets	5,304.9	5,257.3	5,293.1	5,496.1	5,662.1
ST interest bearing debt	87.3	62.3	62.3	62.3	62.3
Accounts payable	252.7	316.1	278.7	327.2	347.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	62.3	4.3	6.1	36.1	66.1
Other liabilities	244.0	230.0	230.0	230.0	230.0
Total Liabilities	646.6	612.8	577.1	655.6	706.3
Shareholders Equity	4,640.1	4,648.0	4,712.1	4,829.2	4,937.2
Minority Interest	18.3	(3.4)	3.9	11.2	18.6
Total shareholder equity	4,658.4	4,644.6	4,715.9	4,840.4	4,955.8
Total liabilities and equity	5,304.9	5,257.3	5,293.1	5,496.1	5,662.1
CASH FLOW (MYR m)					
Pretax profit	(214.4)	38.7	220.3	395.1	364.8
Depreciation & amortisation	163.0	132.0	136.0	140.0	144.0
Adj net interest (income)/exp	(35.7)	(53.1)	(59.5)	(58.8)	(58.2)
Change in working capital	118.6	(146.9)	(103.1)	(58.1)	(24.8)
Cash taxes paid	(442.3)	(32.7)	(52.9)	(94.8)	(87.6)
Other operating cash flow	374.1	6.7	0.0	0.0	0.0
Cash flow from operations	(36.8)	(55.2)	140.9	323.3	338.3
Capex	(18.5)	(46.7)	(80.0)	(80.0)	(80.0)
Free cash flow	(55.3)	(101.9)	60.9	243.3	258.3
Dividends paid	(239.2)	0.0	(96.1)	(175.8)	(162.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(102.1)	(91.6)	30.0	30.0	30.0
Other invest/financing cash flow	(257.5)	(108.4)	(1.1)	(1.7)	(1.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(654.1)	(301.9)	(6.2)	95.8	124.9

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(69.5)	(23.7)	44.6	17.4	6.3
EBITDA growth	nm	nm	67.1	60.4	(5.4)
EBIT growth	nm	nm	252.1	109.0	(8.8)
Pretax growth	nm	nm	468.8	79.3	(7.7)
Reported net profit growth	nm	nm	1,158.5	83.0	(7.8)
Core net profit growth	(95.0)	(69.2)	220.1	83.0	(7.8)
Profitability ratios (%)					
EBITDA margin	nm	9.7	11.2	15.3	13.6
EBIT margin	nm	2.5	6.1	10.8	9.2
Pretax profit margin	nm	2.1	8.3	12.7	11.0
Payout ratio	0.0	94.0	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	nm	0.7	6.0	9.4	8.1
Revenue/Assets (x)	0.5	0.3	0.5	0.6	0.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	(4.8)	0.3	3.4	6.1	5.5
ROAA (%)	2.8	0.9	3.0	5.4	4.8
Liquidity & Efficiency					
Cash conversion cycle	55.3	74.6	54.1	41.1	43.1
Days receivable outstanding	55.4	69.5	50.3	44.7	46.9
Days inventory outstanding	52.5	63.9	51.6	41.1	43.3
Days payables outstanding	52.6	58.8	47.8	44.8	47.1
Dividend cover (x)	nm	1.1	1.7	1.7	1.7
Current ratio (x)	6.7	5.9	6.1	5.9	6.0
Leverage & Expense Analysis					
Asset/Liability (x)	8.2	8.6	9.2	8.4	8.0
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)	5.2	na	na	na	na
Debt/EBITDA (x)	nm	0.4	0.2	0.2	0.3
Capex/revenue (%)	0.8	2.5	3.0	2.6	2.4
Net debt/ (net cash)	(1,574.9)	(1,360.8)	(1,352.7)	(1,418.6)	(1,513.5)

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_iliase@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.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

Amirul RUSYDY, CMT
(603) 2297 8694
rusydy.azizi@maybank-ib.com
• Chartist

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

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.saifree@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 REUNGSIKPINYA Head of Research
(66) 2658 5000 ext 1399
chak.reungsinkpinya@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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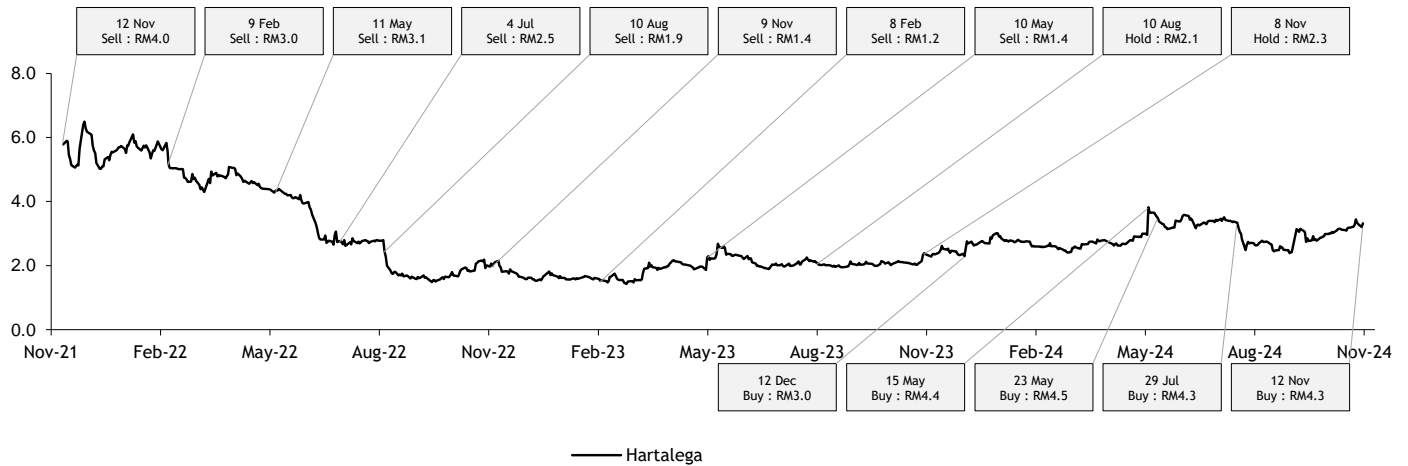
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Malaysia

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

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