

Bukit Sembawang (BS SP)

Solid Development Pipeline

Earnings at an upward inflection point; Maintain BUY

FY18 net profit of SGD55m was 66% ahead of our estimate due to a higher-than-expected profit margin. While the DPS cut was slightly negative, we believe BS can quickly pay down financing for its newly-acquired sites with the cash savings. We fine-tuned our model to incorporate recently acquired Makeway View, lowered estimates for Nim Collection on efficiency adjustments and revised the sales trajectory. We rolled forward our valuation basis and introduced FY21E. Our TP is unchanged at SGD8.55, based on a 20% discount to a revised RNAV of SGD10.71 (from SGD10.68). With a solid SGD2.6b development pipeline, we see BS's earnings at an inflection point. Maintain BUY.

FY18 ahead on strong margin; DPS cut mild negative

FY18 revenue of SGD98m was inline with our estimate. However, higher-than-expected EBITDA margin of 60% (MBKE estimate: 33%) led to the earnings exceeding our forecast. Management opted to conserve cash and declared a smaller DPS of 18 cts (FY17: 33 cts).

Acquired Makeway View at a reasonable price

In late Mar-18, BS acquired Makeway View, a prime freehold property near Newton Circus, which could add 154 units to its high-rise inventory. It met the vendor's asking price of SGD168m or SGD1,626 psf ppr (including estimated development charge of SGD21m). Compared to recent deals in the vicinity, the price paid was in line with that for Casa Contendere (SGD1,638 psf), but lower than for City Towers (SGD1,847 psf) and Dunearn Gardens (SGD1,914 psf). We have conservatively applied an ASP assumption of SGD2,600 psf, in line with transactions at 26 Newton, which was completed two years ago.

Plenty of stock to ride the recovering market

BS has a good mix of projects to ride the recovering housing market. For condominium projects, 8 Saint Thomas, Katong Park Towers and Makeway View have approximately 792 units in total, worth a combined GDV of SGD1.7b. For the landed housing segment, it has 295 units worth SGD0.9b from Watercove, Nim Collection (Ph 1 and 2) and Luxus Hills (Ph 8-10). Revenue recognition from these projects will drive a clear rebound in earnings over the next few years. Reiterate BUY.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	143	98	532	544	574
EBITDA	80	59	192	207	217
Core net profit	72	55	161	173	182
Core EPS (cts)	28.0	21.3	62.1	66.9	70.3
Core EPS growth (%)	(21.2)	(23.7)	190.7	7.8	5.0
Net DPS (cts)	33.0	18.0	18.0	33.0	33.0
Core P/E (x)	22.0	28.9	9.9	9.2	8.8
P/BV (x)	1.3	1.3	1.2	1.1	1.0
Net dividend yield (%)	5.3	2.9	2.9	5.3	5.3
ROAE (%)	5.6	4.4	12.3	12.2	11.8
ROAA (%)	5.0	4.0	10.5	10.5	11.4
EV/EBITDA (x)	15.1	24.3	8.9	6.8	4.7
Net gearing (%) (incl perps)	net cash	net cash	7.9	net cash	net cash
Consensus net profit	-	-	159	162	na
MKE vs. Consensus (%)	-	-	0.9	7.2	na

Derrick Heng, CFA
 derrickheng@maybank-ke.com.sg
 (65) 6231 5843

BUY

Share Price	SGD 6.17
12m Price Target	SGD 8.55 (+39%)
Previous Price Target	SGD 8.55

Company Description

Bukit Sembawang is a Singapore-based property developer well-known for its high quality landed homes and luxury condominiums.

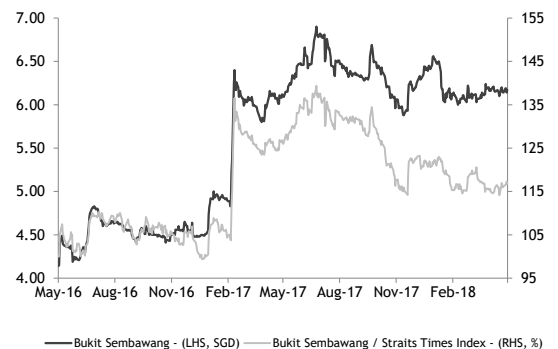
Statistics

52w high/low (SGD)	6.90/5.88
3m avg turnover (USDm)	0.7
Free float (%)	58.7
Issued shares (m)	259
Market capitalisation	SGD1.6B
	USD1.2B

Major shareholders:

Lee Family	41.3%
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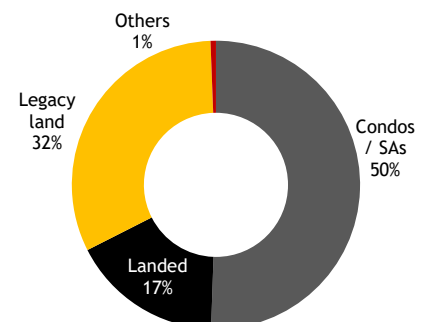
Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	1	1
Relative to index (%)	2	2	(7)

Source: FactSet

Exposure summary by asset value



Source: Maybank Kim Eng

Fig 1: Quarterly profit and loss

FYE 31 Mar	4Q17 (SGD m)	3Q18 (SGD m)	4Q18 (SGD m)	Change		FY18A (SGD m)	% of FY18E	FY18E (SGD m)
				(QoQ %)	(YoY %)			
Revenue	15.2	17.5	32.8	87.3	>100	98.1	89.2	110.0
EBITDA	3.1	10.0	24.7	>100	>100	59.2	162.0	36.5
D&A	(0.1)	(0.1)	(0.1)	(1.6)	(24.1)	(0.3)	262.0	(0.1)
EBIT	3.0	10.0	24.6	>100	>100	58.9	161.7	36.4
Net interest income/(expense)	1.2	0.5	0.5	(14.4)	(62.7)	2.9	78.7	3.7
Other items (recurring)	0.0	3.7	0.0	n.m.	n.m.	3.7	100.0	3.7
Other items (exceptionals)	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
Associates & JVs	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
PBT	4.3	14.2	25.1	76.2	>100	65.5	149.6	43.8
Taxation	(2.0)	(3.5)	(3.6)	1.7	78.3	(10.2)	149.4	(6.8)
MI	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
Net income	2.3	10.7	21.5	>100	>100	55.3	149.6	37.0
Less: Exceptionals	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	(3.7)
Net income, adj.	2.3	10.7	21.5	>100	>100	55.3	166.2	33.3

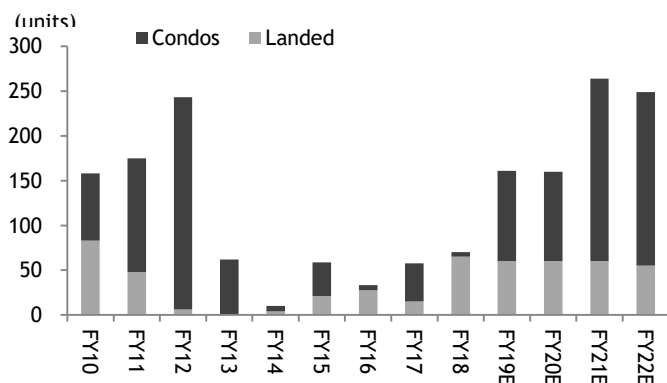
Source: Company, Maybank Kim Eng

Fig 2: Earnings revisions

Key financials	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	532	544	574	464	461	n.m.	15	18	n.m.
EBITDA	192	207	217	190	193	n.m.	1	7	n.m.
Net profit, adj.	161	173	182	159	162	n.m.	1	7	n.m.

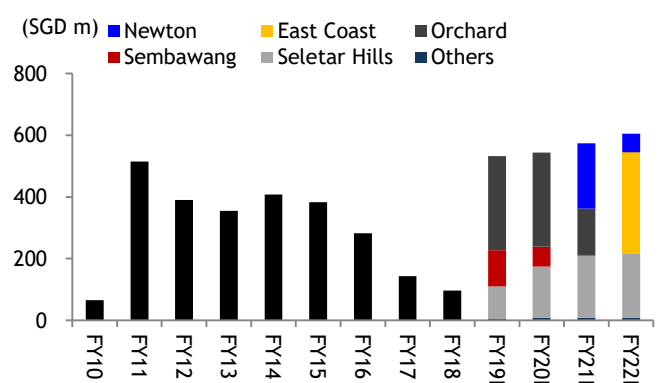
Source: Maybank Kim Eng

Fig 3: Bukit Sembawang's housing sales



Source: URA, Company, Maybank Kim Eng

Fig 4: Revenue recognition



Source: Company, Maybank Kim Eng estimates

Fig 5: RNAV of Bukit Sembawang

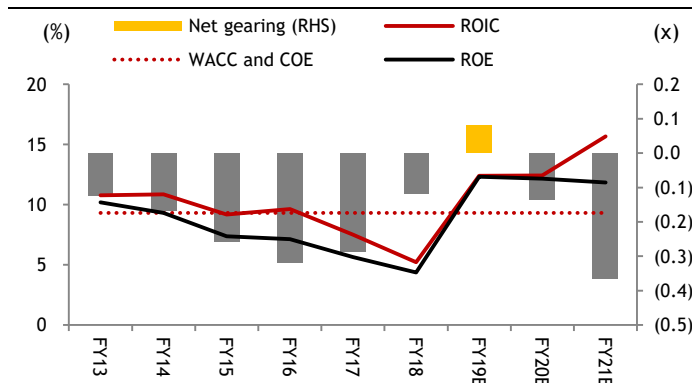
Valuation	2019E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	2,919	99.4	11.27	
Paterson Collection	359	12.2	1.39	Paterson Collection (SGD3,000 psf) is retained as serviced apartments.
Katong Park Towers	487	16.6	1.88	Katong Park Towers (SGD2,200 psf)
Makeway View	231	7.9	0.89	Makeway View (SGD2,600 psf)
Orchard / Telok Blangah area	407	13.9	1.57	8 St. Thomas (SGD2,800 psf). Almost fully-sold Skyline Residences.
Sembawang / Seletar Hills area	499	17.0	1.93	Luxus Hills, Nim Collection & Watercove.
Undeveloped land at market value	936	31.9	3.61	Approximately 1.1m sf of saleable land area.
Investment properties	18	0.6	0.07	
Gross asset value	2,937	100.0	11.34	
Less/Add: adjusted net liabilities/assets	(164)			SGD146m net cash (Mar-18)
RNAV	2,773			
Outstanding no. of shares (m)	259			
RNAV per share	10.71			vs BVPS of SGD4.82.
Target price	8.55			
RNAV discount (%)	(20)			

Source: Company, Maybank Kim Eng

Value Proposition

- Singapore-based residential developer. Started building landed homes in the 1950s and made a big push into high-end condominiums in the late 2000s.
- Concentrated proxy for Singapore’s residential market with almost all its assets in this market.
- Owns vast plots of land in Seletar Hills and Sembawang. Remaining parcels in Seletar Hills can possibly yield 1.1m sf of saleable area.
- We expect strong returns on capital as earnings rebound on stronger home sales in the next few years. FY19E ROE of 12% vs COE of 9%.

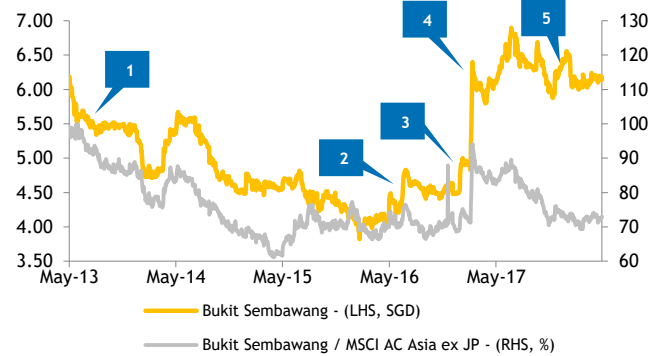
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



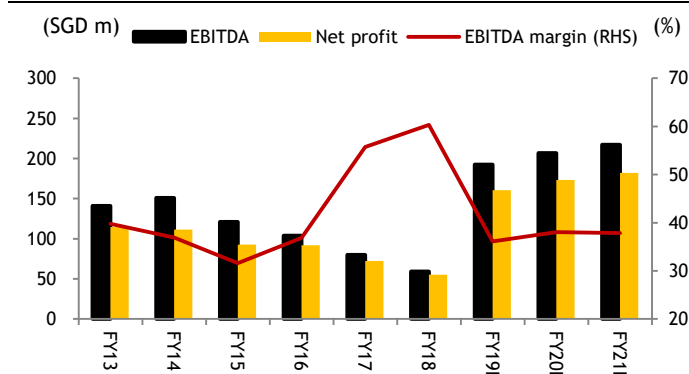
Source: Company, Maybank Kim Eng

1. Eighth round of cooling measures in Singapore in Jun 2013. Home sales weakened for three years before a 2017 rebound.
2. Resolved a long-standing dispute over Lot 12949A MK18. BS is now allowed to build homes on that land parcel by paying a differential premium.
3. Improving macro outlook in Singapore.
4. Government relaxed cooling measures in Mar 2017 for the first time since GFC.
5. Restocked high-rise inventory with enbloc purchase of Katong Park Towers and Makeway View in March 2018.

Financial Metrics

- With improving sentiment in Singapore’s residential market, we expect a rebound in sales volume.
- High EBITDA margins due to low-cost legacy land bank.
- Impending launches include luxury condominium 8 St Thomas and landed housing projects, Nim Collection and Luxus Hills.
- Recently acquired sites, Katong Park Towers and Makeway View, offer development pipeline in the medium term.
- We expect earnings to stage a cyclical rebound.

Earnings to rebound



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Rebound in home sales.
- Faster-than-expected monetisation of legacy land.
- Return of surplus capital to shareholders.

Downside

- Overpaying for land.
- Poor execution of development projects.
- Interest-rate spike could dampen demand for properties and drive down asset prices.
- Policy tightening.

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	16.5	29.4	9.9	9.2	8.8
Core P/E (x)	22.0	28.9	9.9	9.2	8.8
P/BV (x)	1.3	1.3	1.2	1.1	1.0
P/NTA (x)	1.3	1.3	1.2	1.1	1.0
Net dividend yield (%)	5.3	2.9	2.9	5.3	5.3
FCF yield (%)	2.2	nm	nm	22.3	28.8
EV/EBITDA (x)	15.1	24.3	8.9	6.8	4.7
EV/EBIT (x)	15.2	24.4	8.9	6.8	4.7

INCOME STATEMENT (SGD m)

Revenue	143.4	98.1	532.2	543.8	574.4
Gross profit	79.9	59.2	192.2	206.9	217.3
EBITDA	79.9	59.2	192.2	206.9	217.3
Depreciation	(0.3)	(0.3)	(0.1)	(0.1)	(0.1)
EBIT	79.6	58.9	192.1	206.8	217.2
Net interest income / (exp)	5.2	2.8	1.5	1.9	2.0
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	(5.0)	3.7	0.0	0.0	0.0
Pretax profit	79.7	65.5	193.6	208.7	219.2
Income tax	(7.3)	(10.2)	(32.9)	(35.5)	(37.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	72.5	55.3	160.7	173.2	181.9
Core net profit	72.5	55.3	160.7	173.2	181.9
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	365.4	145.6	188.3	200.2	576.4
Accounts receivable	24.5	61.3	10.0	30.0	40.0
Inventory	997.0	857.7	1,254.5	1,032.8	742.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.1	241.3	266.2	266.2	266.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	27.7	20.6	21.1	21.6	22.2
Total assets	1,414.7	1,326.6	1,740.1	1,550.9	1,647.4
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	111.8	76.6	80.0	60.0	60.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	296.0	0.0	0.0
Other liabilities	26.0	3.0	3.0	3.0	4.0
Total Liabilities	137.9	79.9	379.3	63.4	63.5
Shareholders Equity	1,276.8	1,246.7	1,360.8	1,487.4	1,583.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,276.8	1,246.7	1,360.8	1,487.4	1,583.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,414.7	1,326.6	1,740.1	1,550.9	1,647.4

CASH FLOW (SGD m)

Pretax profit	79.7	65.5	193.6	208.7	219.2
Depreciation & amortisation	0.3	0.3	0.1	0.1	0.1
Adj net interest (income)/exp	(5.2)	(2.8)	(1.5)	(1.9)	(2.0)
Change in working capital	(19.7)	(139.1)	(336.6)	184.2	279.7
Cash taxes paid	(24.5)	(26.1)	(32.9)	(35.5)	(37.3)
Other operating cash flow	5.0	(35.6)	0.0	0.0	0.0
Cash flow from operations	35.7	(137.9)	(177.3)	355.6	459.7
Capex	(0.2)	(1.1)	(25.0)	(0.1)	(0.1)
Free cash flow	35.6	(138.9)	(202.3)	355.5	459.6
Dividends paid	(85.4)	(85.4)	(46.6)	(46.6)	(85.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	296.0	(296.0)	0.0
Other invest/financing cash flow	3.3	4.6	(4.5)	(1.1)	2.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(46.5)	(219.7)	42.7	11.9	376.2

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(49.2)	(31.6)	442.3	2.2	5.6
EBITDA growth	(23.1)	(25.9)	224.8	7.7	5.0
EBIT growth	(23.2)	(26.0)	226.1	7.7	5.0
Pretax growth	(25.4)	(17.9)	195.6	7.8	5.0
Reported net profit growth	(21.2)	(23.7)	190.5	7.8	5.0
Core net profit growth	(21.2)	(23.7)	190.7	7.8	5.0
Profitability ratios (%)					
EBITDA margin	55.7	60.3	36.1	38.1	37.8
EBIT margin	55.5	60.0	36.1	38.0	37.8
Pretax profit margin	55.6	66.7	36.4	38.4	38.2
Payout ratio	117.9	84.3	29.0	49.3	47.0
DuPont analysis					
Net profit margin (%)	50.5	56.4	30.2	31.9	31.7
Revenue/Assets (x)	0.1	0.1	0.3	0.4	0.3
Assets/Equity (x)	1.1	1.1	1.3	1.0	1.0
ROAE (%)	5.6	4.4	12.3	12.2	11.8
ROAA (%)	5.0	4.0	10.5	10.5	11.4
Leverage & Expense Analysis					
Asset/Liability (x)	nm	nm	4.6	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	7.9	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	7.9	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	1.5	0.0	0.0
Capex/revenue (%)	0.1	1.1	4.7	0.0	0.0
Net debt/ (net cash)	(365.4)	(145.6)	107.7	(200.2)	(576.4)

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

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

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849
sinmui@kimeng.com.hk

ECONOMICS

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

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

LEE Ju Ye
Singapore
(65) 6231 5844
leejuye@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2297 8618
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh.l@maybank-ib.com

FX

Saktiandi SUPAAT
Head, FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

Leslie TANG
(65) 6320 1378
leslietang@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631
williechan@kimeng.com.hk

FIXED INCOME

Winson Phoon, ACA
(65) 6231 5831
winsonphoon@maybank-ke.com.sg

Se Tho Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

MALAYSIA

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

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

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services - Regional

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

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

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

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

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

Adrian WONG
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Healthcare

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Media • Building Materials

Mohd Hafiz Hassan
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Small & Mid Caps

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan Raja Abdullah, MSTA, Cfte
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy • Industrials
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Property • REITs (Office)

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

John CHEONG, CFA
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare • Transport

NG Li Hiang
(65) 6231 5840 nglhiang@maybank-ke.com.sg
• Banks

LAI Gene Lih
(65) 6231 5832 laigenetih@maybank-ke.com.sg
• Technology

HONG KONG / CHINA

Mitchell KIM *Head of Research*
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Christopher WONG
(852) 2268 0652
christopherwong@kimeng.com.hk
• HK & China Properties

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ricky NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Regional Renewables
• HK & China Properties

Sonija LI, CFA, FRM
(852) 2268 0641 sonijali@kimeng.com.hk
• Gaming

Stefan CHANG, CFA
(852) 2268 0675 stefanchang@kimeng.com.hk
• Technology - Regional

Tony REN, CFA
(852) 2268 0640 tonyren@kimeng.com.hk
• Healthcare & Pharmaceutical

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 6623 2605 vishalperiwa@maybank-ke.co.in
• Infrastructure

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN
(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Minda OLONAN *Head of Research*
(63) 2 849 8840
minda_olonan@maybank-atrke.com
• Strategy

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

Romel LIBO-ON
(63) 2 849 8844
romel_libo-on@maybank-atrke.com
• Property

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials •
Property/Ind. Estates • Oil & Gas • Telcos

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1394
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Ornmongkol TANTITANATORN
(66) 2658 6300 ext 1395
ormmongkol.t@maybank-ke.co.th
• Oil & Gas

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 5000 ext 5090
Sukit.u@maybank-ke.co.th

Ekachai TARAPORN TIP *Deputy Head*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 5000 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 5000 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroontan WATTANAWONG
(66) 2658 5000 ext 1404
jaroontan.w@maybank-ke.co.th
• Transportation • Small cap

Sorabhol VIRAMETEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorabhol.v@maybank-ke.co.th
• Food, Transportation
Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84 28) 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,
Deputy Head, Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84 28) 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen,
Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

TRUONG Quang Binh,
Deputy Head, Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep
(84 28) 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

NGUYEN Thi Sony Tra Mi
(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam
(84 28) 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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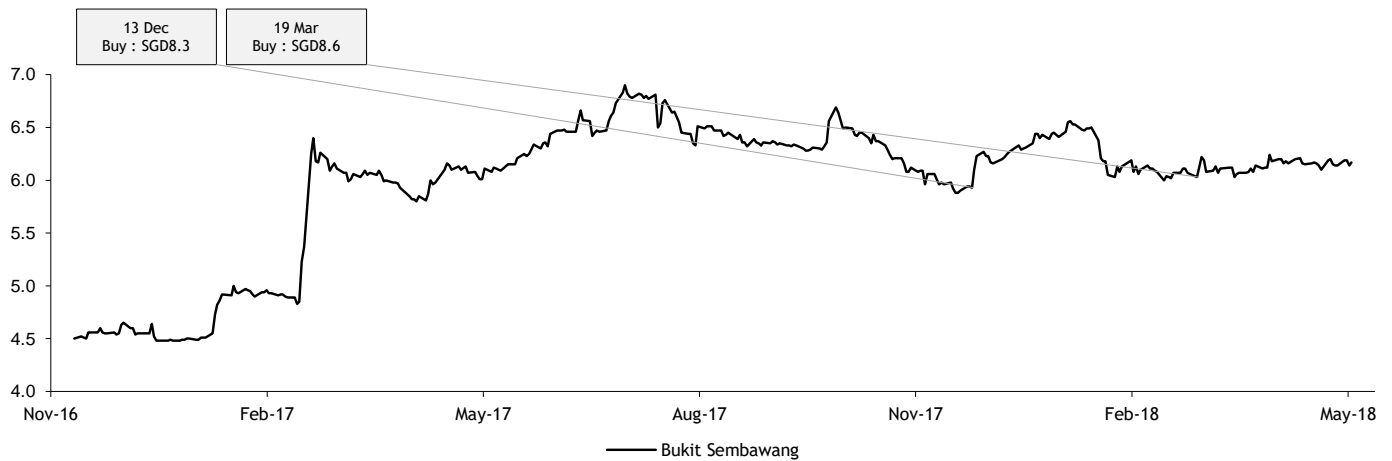
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Malaysia

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 Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090


Hong Kong

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104


London

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302


Indonesia

PT Maybank Kim Eng Securities
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


New York

Maybank Kim Eng Securities USA
Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500


India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604


Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738


Thailand

Maybank Kim Eng Securities
(Thailand) Public Company Limited
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)


Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030


Saudi Arabia

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787


South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447


North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Malaysia

Joann Lim
joann.lim@maybank-ib.com
Tel: (603) 2717 5166

Indonesia

Hariato Liong
hariato.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Vietnam

Patrick Mitchell
patrick.mitchell@maybank-kimeng.com.vn
Tel: (84)-8-44-555-888 x8080

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

London

Mark Howe
mhowe@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

www.maybank-ke.com | www.maybank-keresearch.com