

Perdana Petroleum (PETR MK)

Share Price: MYR1.83

MCap (USD): 0.4B

Malaysia

Target Price: MYR2.55 (+39%)

ADTV (USD): 1.4M

Oil & Gas

BUY

(unchanged)

1H14 results in line

- 1H14 core earnings made up 46/48% of our/consensus' full year forecasts.
- Perdana offers a strong growth story, undemanding valuations with a GO element.
- Maintain BUY and MYR2.55 TP, on 15x FY15 PER with much upside potential.

What's New

2Q14's core net profit of MYR24m (+8% QoQ; +82% YoY) took 1H14 earnings to MYR46m (+91% YoY). The QoQ growth was driven by: (i) higher vessel utilisation (+4-ppt to 93%); (ii) full 3-months/maiden contributions from two new 300pax accommodation work barges (AWBs) - Protector/Resolute; and (iii) lower admin costs.

What's Our View

Our forecasts are unchanged. Some 88% of Perdana's OSVs are on long-term charters with utilisation levels sustaining >90% in 2014-16. Perdana has one of the youngest fleet profiles in the domestic market, averaging 4.5 years and it is the largest AWB player (fleet-wise) in the region.

Expansion-wise, it will take delivery of one 300-pax AWB by 4Q14, targeted for Shell's CEOR job, and two 500-pax AWBs in 1H16. It has the option to add two more 500-pax AWBs in 2H16.

Net debt/gearing stood at MYR546m/0.9x as at Jun'14. Perdana stressed that it would continue to advocate growth over Shariah compliant status, for which it will not meet come the next review in Nov'14. For this, major shareholder LTH will likely have to sell down its 8.6% strategic stake, which if sold to another existing shareholder, Dayang (which has 24.5%), would trigger a General Offer (GO). Management owns about 10% of the Company.

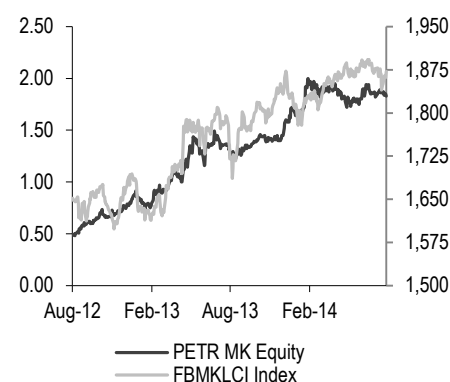
Overall, Perdana is our top OSV pick. It is a growth stock (34% 3-year NP CAGR) with undemanding valuations (sub-10x FY16 PER), and an alternative to Ezion, for a brownfield development play.

FYE Dec (MYR m)	FY12A	FY13A	FY14F	FY15F	FY16F
Sales	259.5	274.6	359.2	381.2	437.7
EBITDA	33.1	114.6	167.4	184.7	219.5
Core net profit	(7.1)	61.7	99.7	122.0	149.7
Core EPS (sen)	(1.0)	8.5	13.7	16.8	20.6
Core EPS growth (%)	(81.8)	(964.7)	61.7	22.4	22.7
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
BVPS (MYR)	0.63	0.77	0.91	1.08	1.29
Core P/E (x)	(186.3)	21.5	13.3	10.9	8.9
EV/EBITDA (x)	62.2	17.9	12.3	11.1	9.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	2.9	2.4	2.0	1.7	1.4
Net debt/equity (%)	45.7	91.2	89.1	62.5	53.9
ROAE (%)	(1.6)	11.0	15.1	15.6	16.0
ROAA (%)	1.5	8.7	10.5	10.4	11.3
Chg in net profit (%)	-	-	-	-	-

Key Data

Shariah status	YES
52w high/low (MYR)	2.01/1.186
Free float (%)	46.9
Issued shares (m)	738
Market capitalization	MYR1.4B
Major shareholders:	
Dayang Enterprise	24.5%
LTH	8.6%
EPF	5.6%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	(1.6)	5.8	34.2
Relative to country (%)	(1.6)	6.6	28.9

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	8	0	1
	Maybank	Consensus	% +/-
Target Price (MYR)	2.55	2.31	10.3
2014 Net Profit (MYR m)	100	97	2.9
2015 Net Profit (MYR m)	122	114	6.9

Source: Bloomberg; Maybank

Liaw Thong Jung
(603) 2297 8688
tjliaw@maybank-ib.com

Ivan Yap
(603) 2297 8612
ivan.yap@maybank-ib.com

Summary results table

FY Dec (MYR'm)	Quarterly results					Cumulative results		
	2Q14	2Q13	% YoY	1Q14	% QoQ	6M14	6M13	% YoY
Turnover	88.6	71.7	23.6	87.3	1.5	175.8	128.4	36.9
EBITDA	48.0	21.6	122.1	42.0	14.4	90.0	37.4	140.5
Int. expense	(12.6)	(3.1)	NM	(8.9)	41.1	(21.5)	(6.4)	238.0
Int. income	1.6	3.6	n.a.	2.3	(30.0)	3.9	10.2	(62.0)
EI	(0.1)	(0.1)	1.8	(0.2)	(70.3)	(0.3)	0.0	NM
Pretax profit	24.1	15.3	57.7	22.4	8.0	46.5	28.5	63.3
Tax	(0.1)	(1.8)	(92.5)	(0.3)	(62.4)	(0.5)	(3.7)	(86.9)
Minority interest	0.0	(0.4)	NM	0.0	NM	0.0	(0.6)	NM
Net profit	24.0	13.2	82.4	22.0	9.1	46.0	24.3	89.7
Recurring net profit	24.1	13.2	82.0	22.2	8.4	46.3	24.2	91.1
			<i>+/-ppt</i>		<i>+/-ppt</i>			
EBITDA margin (%)	54.2	30.2	24.0	48.1	6.1	51.2	29.1	22.0
PBT margin (%)	27.3	21.4	5.9	25.6	1.6	26.4	(17.0)	43.5
Tax rate (%)	0.5	11.5	(10.9)	1.6	(1.0)	1.0	12.9	(11.8)

Sources: Company, Maybank KE

Visible business model; strong asset quality

Perdana Petroleum is currently in a very strong position. Its asset quality is commendable, comprising: (i) two 5k bhp AHTS, (ii) five 10k bhp AHTS, (iii) one 12k bhp AHTS, (iv) two 169pax workboats, and (v) seven 241-300pax AWBs. Based on its AWB fleet, Perdana is arguably the regional market leader in the segment.

88% of OSVs are on long-term contracts

A total of 15 of its 17 OSVs are on long-term charters (10 OSVs have 5+1 year contracts) with an outstanding order backlog of MYR1.3b. Overall fleet utilisation is above 90% and should be sustainable over the next 36 months, at the very least. All the OSVs are working offshore Malaysia waters.

Has one of the youngest fleets in the market

Perdana also has one of the youngest fleet profiles in the domestic market, averaging 4.5 years. It has expressed the intention to rejuvenate its fleet should a good opportunity arises. Of the 17 units, one OSV (Perdana Enterprise, a 241pax AWB) is 13 years old, built in 2001.

The ability to sell this well-serving OSV at the prevailing market price would instantly lower its fleet's age profile to 3.9 years. Enterprise is currently chartered to UMW OG on a 2+1 contract, up to Feb 2017.

Perdana's fleet profile

Vessel name	Type; DP	Year built	Client	On sales & leaseback	Contract Tenure/ (extension)
Petra Frontier	5,220bhp AHTS; DP1	2008	Spot	No	Spot
Petra Ranger	5,220bhp AHTS; DP1	2009	Spot	No	Spot
Petra Adventurer	10,800bhp AHTS; DP2	2008	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Traveller	10,800bhp AHTS; DP2	2008	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Horizon	10,880bhp AHTS; DP2	2008	Talisman	No	Dec 13 - Dec 14/(15)
Petra Voyager	10,880bhp AHTS; DP2	2009	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Expedition	10,800bhp AHTS; DP2	2009	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Marathon	12,240bhp AHTS; DP2	2010	Murphy	No	Jul 12 - Jun 15
Petra Enterprise	241 pax AWB	2001	Ocean Pro Off - PCSB	No	Mar 14 - Feb 16/(17)
Petra Superior	300 pax AWB	2010	Carigali-Hess	No	Nov14/Feb 15
Petra Odyssey	300 pax AWB	2011	Dayang/ Shell	No	Aug 13 - Jul 18/(19)
Perdana Excelsior	300 pax AWB	2013	Dayang/ Shell	No	Aug 13 - Jul 18/(19)
Perdana Endurance	300 pax AWB	2013	Dayang/ Shell	No	Aug 13 - Jul 18/(19)
Perdana Protector	300 pax AWB	2013	Dayang/ Shell	No	Jul 19
Perdana Resolute	300 pax AWB	2013	Dayang/ Shell	No	Jul 19
Petra Liberty	169 pax workboat	2009	Alam	No	Oct13/Sep 14
Petra Sovereign	169 pax workboat	2010	Dayang/ Shell	No	Aug 13 - Jul 18/(19)

Sources: Company, Maybank KE

Business direction

Four OSVs are currently on a sales & leaseback model, which Perdana has indicated its intention to take onto its balance sheet in the future (2015/16). Contractually, the option to exercise this can only be legally done in the seventh year of operations. Undertaking this exercise for these four OSVs would boost its P&L, resulting in cost savings of MYR4m-6m p.a..

On an expansion drive

Perdana's fleet size will grow to 18 units (current: 17) by end-2014 once it takes delivery of a committed new 300pax AWB, Perdana Emerald, by Oct 2014. Notwithstanding that, it will also receive one 500pax AWB in 1Q16 and another in 2Q16.

Perdana's OSVs under construction

Vessel name	Type	Year built
Perdana Emerald	300 pax AWB	Oct'14
SK 317	500 pax AWB	1Q16
SK 318	500 pax AWB	2Q16
SK 319 (option)	500 pax AWB	3Q16
SK 320 (option)	500 pax AWB	4Q16

Sources: Company, Maybank KE

Riding on multiple opportunities in the market

There are multiple charter opportunities for Perdana's upcoming new AWBs. In terms of priority, the smaller AWB has been earmarked for Shell's chemical EOR project, the first of its kind in Malaysia, while the bigger units are targeted for domestic/overseas opportunities.

Strong tender pipelines

Vessel type /bollard pull (BP)	No. of units	Client	Contract duration	Exp. commence date
5k bhp AHTS (60MT)	2	PCSB	2+1 yr	NA
	2	Shell	5M + 3M	3Q14
	1	Talisman	18M + 6M	2Q14
	Market survey	PCSB	NA	NA
	Market survey	Shell	NA	NA
10k bhp DP2 AHTS (120 MT)	1	Petrofac	19M + 12M	NA
	1	Petrofac	1 yr	NA
	Market survey	PCSB	NA	NA
	Market survey	Shell	5 yr	NA
12k bhp AHTS (150MT-160MT)	2	Mubadala	1M+2M	3Q14
	2	Murphy	1 yr	2Q14
	1	Murphy	1 yr	3Q14
	1	EMEPMI	1 yr	4Q14
	2	Talisman	1 yr	NA
	Market survey	JX Nippon	1 yr	4Q14 & 2Q15
	Market survey	PCSB	NA	NA
Workboat (80 pax)	4	PCSB	NA	NA
Workboat (100 pax)	2	PCSB	NA	NA
Workboat/ floatel/ self-propelled accom	Market survey	PCSB	NA	NA
Workbarge (300 pax)	1	Shell	30m	1Q05
Liftboat	Market survey	PCSB	NA	NA
PSV	Market survey	PCSB	NA	NA

Sources: Company, Maybank KE

500pax AWB - an emerging market trend

Perdana's upcoming 500pax AWB is a new variant in the market, an in-house design that was conceptualised over a 6-month period. Perdana opines that this vessel will be in high demand in the market for varying reasons (e.g. day rates). The current trend is for 400pax AWBs.

A comparison between a 500pax AWB and a 300pax AWB

Specification	500 pax AWB	300 pax AWB
Accommodation quarters	<ul style="list-style-type: none"> 500 pax MLC compliant 	<ul style="list-style-type: none"> 300 pax Non-MLC compliant
Deck space	<ul style="list-style-type: none"> 22,000sqf 	<ul style="list-style-type: none"> 16,000 sqf
Cost	<ul style="list-style-type: none"> USD42m (USD84k per pax) 	<ul style="list-style-type: none"> USD30m(USD100k per pax)
Economy of scale	<ul style="list-style-type: none"> Uses less crew for a bigger AWB 30 crews; 1 crew to every 17 pax 	<ul style="list-style-type: none"> Uses bigger crew vs. 500 pax AWB 25 crews; 1 crew to every 12 pax

Sources: Company, Maybank KE

Balancing growth with balance sheet discipline

Based on our assessment, taking delivery of these three new OSVs in 2014 (1 unit) and 2016 (2 units) would still result in a healthy net gearing level of 0.5x by end-FY16. With its high utilisation level and long term charters, we estimate Perdana to be in a positive free cashflow position in FY15-16.

As such, Perdana, in our view, has the capacity to exercise the option for the remaining two OSVs, which have 3Q16 and 4Q16 delivery periods, should the need arise. We are also not ruling out a fundraising exercise in 2016 should Perdana decide to further strengthen its balance sheet.

Non-Shariah compliant come Nov 2014 review

While Perdana continues to be Shariah compliant, it will be out of the list come the next review, which is due in Nov 2014. More than 33% of its debt will be non-Islamic and its future debts will be of offshore financing structure (i.e. non-Islamic conventional loans).

Perdana has stressed that it will strive for earnings growth and shareholder value to compensate for not being Shariah compliant, which we concur. Converting some of its loans to Islamic debt would result in higher interest expense considering that the funding cost of Islamic debt (6%-7%) is higher than offshore financing's 3%-4%.

Share overhang or strategic block for a GO?

Perdana's non-Shariah compliance could see the exit of Lembaga Tabung Haji (LTH) as a shareholder. LTH is the second largest shareholder in Perdana, with an 8.6% stake.

We are not ruling out a Mandatory General Offer (MGO) scenario. LTH selling its entire stake to Dayang Enterprise (DEHB MK; Not Rated) would trigger a GO. Dayang is the largest shareholder in Perdana with a 24.5% stake currently. Acquiring LTH's entire 8.6% in Perdana would raise Dayang's stake to 33.4% (GO threshold: 33%). Management collectively holds a 10% stake in Perdana.

Strong earnings growth profile

We expect Perdana to deliver a 41% 2-year net profit CAGR (2013-15). Perdana is our Top Pick for the OSV sector. It has a very visible earnings growth profile, improving balance sheet and GO angle to boot. Alternatively, shareholders can consider Perdana as an alternative to Ezion (EZI SP; BUY; TP SGD2.85). Both operate in the brownfield sector deploying AWBs and liftboats.

A comparison between an AWB and a liftboat

AWB	Comparable matrix	Liftboat
30m - 42m (new unit)	Cost (USD)	50m (conversion) - 120m (new unit)
25k - 40k	DCR (USD)	40k-120k
No	Self-propelled?	Yes and self-elevating
Requires 1-2 AHTs (DCR of USD7-8k) to tug / 300mt	Marine speed/ crane size	Not required / up to 750mt
300 - 500 pax (scaleable)	Accommodation size	Up to 260 pax (restricted by size)
32k - 50k sq ft	Deck space	Up to 25k sq ft
Up to 400ft	Water depth operations	Up to 220 ft
Uses 8-point mooring system	Stability	Similar to a jack-up rig function
South East Asia, suited for organised subsea pipelines	Geography usage	GoM, Europe, Middle East, suited for haphazard/ disorganised subsea pipelines

Sources: Company, Maybank KE

INCOME STATEMENT (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Revenue	274.6	359.2	381.2	437.7
EBITDA	114.6	167.4	184.7	219.5
Depreciation & Amortisation	(30.6)	(30.5)	(31.5)	(32.5)
Operating Profit (EBIT)	84.0	136.9	153.2	187.0
Interest (Exp)/Inc	(18.6)	(34.3)	(29.1)	(35.2)
Associates	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0
Pre-Tax Profit	65.4	104.6	128.2	157.8
Tax	(3.4)	(3.9)	(4.2)	(5.1)
Minority Interest	(0.3)	0.0	0.0	0.0
Net Profit	61.7	99.7	122.0	149.7
Recurring Net Profit	61.7	99.7	122.0	149.7
Revenue Growth %	5.8%	30.8%	6.1%	14.8%
EBITDA Growth (%)	246.9%	46.0%	10.3%	18.8%
EBIT Growth (%)	980.6%	63.0%	11.9%	22.1%
Net Profit Growth (%)	NA	61.7%	22.4%	22.7%
Recurring Net Profit Growth	NA	61.7%	22.4%	22.7%
Tax Rate %	5.2%	3.8%	3.2%	3.2%

CASH FLOW (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Profit before taxation	61.7	99.7	122.0	149.7
Depreciation	30.6	30.5	31.5	32.5
Net interest	18.6	34.3	29.1	35.2
Working capital change	33.1	(8.1)	(1.7)	(4.3)
Cash tax paid	(3.4)	(3.9)	(4.2)	(5.1)
Others (incl'd exceptional)	(46.1)	(80.6)	(24.9)	(30.1)
Cash flow from operations	94.5	71.9	151.8	178.0
Capex	(480.6)	(147.8)	(50.0)	(188.2)
Disposal/(purchase)	0.0	0.0	0.0	0.0
Others	79.9	0.0	0.0	0.0
Cash flow from investing	(400.7)	(147.8)	(50.0)	(188.2)
Debt raised/(repaid)	323.2	187.6	(35.0)	153.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0
Dividends (paid)	0.0	0.0	0.0	0.0
Interest payments	2.0	2.5	3.2	3.9
Others	1.2	(2.5)	(3.2)	(3.9)
Cash flow from financing	326.4	187.6	(35.0)	153.2
Change in cash	20.2	111.6	66.8	143.0

BALANCE SHEET (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Fixed Assets	961.6	1,079.9	1,100.4	1,259.1
Other LT Assets	27.5	27.5	27.5	27.5
Cash/ST Investments	61.0	171.6	236.5	376.4
Other Current Assets	182.5	194.4	197.2	204.3
Total Assets	1,232.6	1,473.5	1,561.6	1,867.3
ST Debt	114.1	127.0	127.0	127.0
Other Current Liabilities	41.6	45.5	46.6	49.4
LT Debt	459.8	634.5	599.5	752.7
Other LT Liabilities	4.8	4.8	4.8	4.8
Minority Interest	(0.2)	(0.2)	(0.2)	(0.2)
Shareholders' Equity	562.2	661.9	783.9	933.6
Total Liabilities-Capital	1,182.3	1,473.5	1,561.6	1,867.3
Share Capital (m)	725.9	725.9	725.9	725.9
Gross Debt/(Cash)	573.9	761.5	726.5	879.7
Net Debt/(Cash)	512.9	589.9	490.0	503.2
Working Capital	87.7	193.6	260.1	404.3

RATES & RATIOS

FY Dec	2013A	2014F	2015F	2016F
EBITDA Margin %	41.7%	46.6%	48.5%	50.2%
Op. Profit Margin %	30.6%	38.1%	40.2%	42.7%
Net Profit Margin %	22.5%	27.8%	32.0%	34.2%
ROE %	11.0%	15.1%	15.6%	16.0%
ROA %	5.0%	6.8%	7.8%	8.0%
Net Margin Ex. El %	22.5%	27.8%	32.0%	34.2%
Dividend Cover (x)	nm	nm	nm	nm
Interest Cover (x)	(4.5)	(4.0)	(5.3)	(5.3)
Asset Turnover (x)	0.2	0.2	0.2	0.2
Asset/Debt (x)	2.1	1.9	2.1	2.1
Debtors Turn (days)	63.3	36.4	39.4	37.9
Creditors Turn (days)	42.6	30.5	34.4	34.2
Inventory Turn (days)	5.1	6.5	10.1	10.0
Net Gearing %	91.2	89.1	62.5	53.9
Debt/ EBITDA (x)	5.0	4.5	3.9	4.0
Debt/ Market Cap (x)	0.4	0.6	0.5	0.6

Research Offices

REGIONAL

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) 6432 1453
ongsengyeow@maybank-ke.com.sg

Alexander GARTHOFF
Institutional Product Manager
(852) 2268 0638
alexgarthoff@kimeng.com.hk

ECONOMICS

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

Luz LORENZO
Philippines
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com

Tim LEELAHAPHAN
Thailand
(662) 658 1420 tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, BII
Indonesia
(62) 21 29228888 ext 29682
Juniman@bankbii.com

Josua PARDEDE
Economist / Industry Analyst, BII
Indonesia
(62) 21 29228888 ext 29695
JPardede@bankbii.com

MALAYSIA

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

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 - Regional • Shipping

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 & REITs

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

CHAI Li Shin
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

KANG Chun Ee
(603) 2297 8675 chunee@maybank-ib.com
• Consumer

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

LEE Cheng Hooi *Regional Chartist*
(603) 2297 8694
chenghooi.lee@maybank-ib.com

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

HONG KONG / CHINA

Howard WONG *Head of Research*
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - Regional

Alexander LATZER
(852) 2268 0647
alexanderlatzer@kimeng.com.hk
• Metals & Mining - Regional

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

Ka Leong LO, CFA
(852) 2268 0630 kll@kimeng.com.hk
• Consumer Discretionary & Auto

Karen KWAN
(852) 2268 0640 karenkw@kimeng.com.hk
• Property & REITs

Osbert TANG, CFA
(86) 21 5096 8370
osberttang@kimeng.com.hk
• Transport & Industrials

Ricky WK NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Utilities & Renewable Energy

Simon QIAN, CFA
(852) 2268 0634
simonqian@kimeng.com.hk
• Telecom & Internet

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials

Warren LAU
(852) 2268 0644
warrenlau@kimeng.com.hk
• Technology - Regional

William YANG
(852) 2268 0675
williamyang@kimeng.com.hk
• Technology - Regional

INDIA

Jigar SHAH *Head of Research*
(91) 22 6632 2632
jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605
anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

Urmil SHAH
(91) 22 6623 2606 urmil@maybank-ke.co.in
• Technology • Media

SINGAPORE

NG Wee Siang *Head of Research*
(65) 6432 1467 ngweesiang@maybank-ke.com.sg
• Banking & Finance

Gregory YAP
(65) 6432 1450 gyap@maybank-ke.com.sg
• SMID Caps - Regional
• Technology & Manufacturing • Telcos

ONG Kian Lin
(65) 6432 1470 ongkianlin@maybank-ke.com.sg
• S-REITs

YEAK Chee Keong, CFA
(65) 6432 1460
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG
(65) 6432 1446 derrickheng@maybank-ke.com.sg
• Transport (Land, Shipping & Aviation)

WEI Bin
(65) 6432 1455 weibin@maybank-ke.com.sg
• Commodity • Logistics • S-chips

John CHEONG
(65) 6432 1461 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

TRUONG Thanh Hang
(65) 6432 1451 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

INDONESIA

Wilianto IE *Head of Research*
(62) 21 2557 1125
wilianto.ie@maybank-ke.co.id
• Strategy

Rahmi MARINA
(62) 21 2557 1128
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 2953 0785
aurellia.setiabudi@maybank-ke.co.id
• Property

Isnaputra ISKANDAR
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Metals & Mining • Cement

Pandu ANUGRAH
(62) 21 2557 1137
pandu.anugrah@maybank-ke.co.id
• Infrastructure • Construction • Transport

Janni ASMAN
(62) 21 2953 0784
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Luz LORENZO *Head of Research*
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

Lovell SARREAL
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

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

Ramon ADVIENTO
(63) 2 849 8845
ramon_adviento@maybank-atrke.com
• Mining

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Consumer / Materials

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1394
Jesada.T@maybank-ke.co.th
• Financial Services

Kittisorn PRUITIPAT, CFA, FRM
(66) 2658 6300 ext 1395
Kittisorn.P@maybank-ke.co.th
• Real Estate

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 6300 ext 5090
Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKARAN
(66) 2658 6300 ext 1440
mayuree.c@maybank-ke.co.th
• Strategy

Padon VANNARAT
(66) 2658 6300 ext 1450
Padon.v@maybank-ke.co.th
• Strategy

Surachai PRAMUALCHARONKIT
(66) 2658 6300 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 6300 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 6300 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 6300 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 6300 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Chatchai JINDARAT
(66) 2658 6300 ext 1401
chatchai.j@maybank-ke.co.th
• Electronics

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84) 844 55 58 88 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified • Utilities

THAI Quang Trung, CFA, Deputy Manager,
Institutional Research
(84) 844 55 58 88 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen
(84) 844 55 58 88 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen, *Head of Retail Research*
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRINH Thi Ngoc Diep
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

TRUONG Quang Binh
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

PHAM Nhat Bich
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

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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

 **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

 **South Asia Sales Trading**

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

Malaysia

Rommel Jacob
rommeljacob@maybank-
ib.com
Tel: (603) 2717 5152

Indonesia

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

New York

Andrew Dacey
adacey@maybank-
keusa.com
Tel: (212) 688 2956

Vietnam

Tien Nguyen
thuytien.nguyen@maybank-
kimeng.com.vn
Tel: (84) 44 555 888 x8079

 **Singapore**

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
9 Temasek Boulevard
#39-00 Suntec Tower 2
Singapore 038989

Tel: (65) 6336 9090
Fax: (65) 6339 6003

 **Hong Kong**

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

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

 **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)

 **North Asia Sales Trading**

Alex Tsun
alextsun@kimeng.com.hk
Tel: (852) 2268 0228
US Toll Free: 1 877 837 7635

Thailand

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

London

Simon Lovekin
simonl@maybank-ke.co.uk
Tel: (44)-207-626-2828

India

Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines

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

 **London**

Maybank Kim Eng Securities
(London) Ltd
5th Floor, Aldermary House
10-15 Queen Street
London EC4N 1TX, UK

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

 **Indonesia**

PT Maybank Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

 **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

 **New York**

Maybank Kim Eng Securities USA
Inc
777 Third Avenue, 21st Floor
New York, NY 10017, 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

 **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