# Maybank IB Research

# WCT Holdings (WCTHG MK)

# 1Q16: Construction outshine

## Maintain BUY

WCT's 1Q16 core net profit was in line. Higher contribution from its construction division and retail mall JVs offset lower earnings from property. Clinching a major construction job would re-rate the stock. Our earnings forecasts are unchanged. Maintain BUY on WCT at MYR2.30 TP.

# Headline profit dragged by forex loss

1Q16 headline net profit of MYR9m (-73% YoY, -87% QoQ) included MYR23m unrealised forex loss. Excluding that, 1Q16 core net profit of MYR32m (+117% YoY, -38% QoQ) met 24%/20% of our/consensus full-year forecasts. JV contributions from Paradigm KJ mall and Gateway@KLIA2 mall increased 4.8x YoY (-41% QoQ) due to lower depreciation cost at the Gateway@KLIA2 mall after MAHB's head lease was extended in Nov 2015.

# Strong construction earnings growth

1Q16 construction EBIT excluding forex loss also tripled YoY (+2.5x QoQ) on stronger core EBIT margins that doubled to 7.1% (+3.5 ppt YoY, +4.7ppt QoQ) and higher construction works recognition (+51% YoY, -16% QoQ). Elsewhere, property development 1Q16 EBIT fell 29% YoY (+72% QoQ) as EBIT margin was lower YoY at 19.9% (-9.4ppt YoY, +0.2ppt QoQ) although progress billings increased 5% YoY (+70% QoQ).

# Solid orderbook

WCT's solid outstanding construction orderbook of MYR3.9b (of which MYR134m was secured this year) would drive earnings growth. Potential job wins could emanate from major infrastructure projects (KVMRT 2, KVLRT 3, SUKE and DASH) and key property development projects (TRX and Kwasa Land). Our TP of MYR2.30 is SOP-based.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,662	1,668	2,250	2,401	2,343
EBITDA	147	146	242	257	265
Core net profit	112	129	135	147	151
Core EPS (sen)	10.3	11.3	11.2	12.2	12.6
Core EPS growth (%)	(44.9)	9.6	(0.4)	8.7	3.1
Net DPS (sen)	6.2	4.2	4.2	4.2	4.2
Core P/E (x)	16.5	15.1	15.1	13.9	13.5
P/BV (x)	0.8	0.7	0.8	0.7	0.7
Net dividend yield (%)	3.7	2.5	2.5	2.5	2.5
ROAE (%)	5.1	5.3	5.1	5.3	5.3
ROAA (%)	1.9	2.0	1.9	2.0	2.0
EV/EBITDA (x)	21.6	27.1	16.9	16.2	15.7
Net debt/equity (%)	66.4	78.9	73.9	73.6	69.2
Consensus net profit	-	-	156	171	192
MKE vs. Consensus (%)	-	-	(13.7)	(14.1)	(21.4)

Chai Li Shin, CFA lishin.c@maybank-ib.com (603) 2297 8684

# **BUY**

Share Price MYR 1.70

12m Price Target MYR 2.30 (+35%)

Previous Price Target MYR 2.30

## **Company Description**

WCT engages in engineering and construction, property development and property investments.

# Statistics

Shariah status	Yes
52w high/low (MYR)	1.73/1.13
3m avg turnover (USDm)	0.9
Free float (%)	77.5
Issued shares (m)	1,258
Market capitalisation	MYR2.1B
	USD519M

# Major shareholders:

17.3%
9.0%
7.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	6	(1)
Relative to index (%)	8	9	9

Source: FactSet

WCT results summary table

	Quarterly				
FY Dec (MYR m)	1Q16	1Q15	% YoY	4Q15	% QoQ
Turnover	485.0	351.6	37.9	522.2	(7.1)
EBIT	29.5	59.3	(50.3)	66.2	(55.5)
Interest expense	(13.4)	(20.0)	(32.9)	2.9	NM
Associates	9.2	3.5	162	15.0	(39.1)
Pre-tax profits	25.2	42.7	(41.1)	84.1	(70.0)
Tax	(15.1)	(9.4)	59.5	(15.4)	(2.0)
Minority Interests	(1.3)	(0.1)	NM	0.2	NM
Net profit	8.8	33.2	(73.4)	68.9	(87.2)
Net profit (ex-forex, ex-EI)	32.0	14.8	117	51.2	(37.6)
	1Q16	1Q15	+/- ppt	4Q15	+/- ppt
EBIT margin (%)	6.1	16.9	(10.8)	12.7	(6.6)
Pretax margin (%)	5.2	12.2	(7.0)	16.1	(10.9)
Tax rate (%)	59.8	22.1	37.7	18.3	41.5
Revenue:	1Q16	1Q15	% YoY	4Q15	% QoQ
Construction	378.1	249.9	51.3	451.1	(16.2)
Property devt	92.0	87.3	5. <i>4</i>	54.1	70.0
Property investment	14.9	14.4	3.3	17.0	(12.5)
Total	485.0	351.6	37.9	522.2	(7.1)
<u>EBIT</u>					
Construction	3.7	27.4	(86)	(19.2)	(119.5)
Property devt	18.3	25.6	(28.5)	10.6	72.1
Property investment	7.4	6.3	18.8	16.7	(55.4)
Total	29.5	59.3	(50.3)	8.2	260.6
EBIT margin (%)	1Q16	1Q15	+/- ppt	4Q15	+/- ppt
Construction	1.0	11.0	(10.0)	(4.2)	5.2
Property devt	19.9	29.3	(9.4)	19.6	0.2
Property investment	50.1	43.6	6.5	98.4	(48.3)
Total	6.1	16.9	(10.8)	1.6	4.5

Source: Company

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics	45.4			42.0	42.5
P/E (reported) (x)	15.4	8.9	15.1	13.9	13.5
Core P/E (x)	16.5	15.1	15.1	13.9	13.5
P/BV (x)	0.8	0.7	0.8	0.7	0.7
P/NTA (x)	0.8	0.8	0.8	0.7	0.7
Net dividend yield (%)	3.7	2.5	2.5	2.5	2.5
FCF yield (%)	nm	nm	5.7	3.1	4.8
EV/EBITDA (x)	21.6	27.1	16.9	16.2	15.7
EV/EBIT (x)	22.9	28.7	17.5	16.7	16.2
INCOME STATEMENT (MYR m)					
Revenue	1,662.2	1,667.9	2,250.2	2,400.5	2,342.6
Gross profit	225.4	192.7	262.4	280.0	272.6
EBITDA	147.5	145.7	242.0	256.9	264.9
Depreciation	(8.2)	(8.1)	(8.5)	(8.9)	(9.3)
EBIT	139.3	137.6	233.5	248.0	255.6
Net interest income /(exp)	(27.1)	(44.1)	(75.7)	(74.2)	(75.0)
Associates & JV	15.4	88.2	25.3	28.0	30.0
Exceptionals	23.5	89.8	0.0	0.0	0.0
Pretax profit	151.1	271.6	183.1	201.9	210.6
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Income tax Minorities	(28.5)	(54.9) 2.5	(41.9)	(46.0)	(47.8)
	(2.1)		(6.4)	(9.4)	(11.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	120.5	219.1	134.8	146.5	151.1
Core net profit	112.3	129.3	134.8	146.5	151.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	950.8	524.3	494.0	332.2	249.9
Accounts receivable	1,022.2	1,155.9	1,672.3	1,784.0	1,740.9
Inventory	90.7	153.9	110.0	117.3	114.5
Property, Plant & Equip (net)	237.4	288.4	429.9	571.0	711.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	527.7	664.0	673.7	683.9	694.6
Other assets	3,372.2	3,975.6	3,975.6	3,975.6	3,975.6
Total assets	6,201.1	6,762.1	7,355.5	7,463.9	7,487.1
ST interest bearing debt	584.1	520.4	420.4	320.4	220.4
Accounts payable	1,025.0	936.3	1,538.7	1,641.5	1,601.9
LT interest bearing debt	1,846.4	2,072.8	2,072.8	2,072.8	2,072.8
Other liabilities	465.0	575.0	575.0	575.0	575.0
Total Liabilities	3,920.4	4,104.7	4,607.0	4,609.8	4,470.2
Shareholders Equity	2,227.9	2,620.6	2,705.2	2,801.6	2,952.7
Minority Interest	52.8	36.8	43.2	52.6	64.2
Total shareholder equity	2,280.7	2,657.4	2,748.4	2,854.1	3,016.9
Total liabilities and equity	6,201.1	6,762.1	7,355.5	7,463.9	7,487.1
CASH FLOW (MYR m)					
Pretax profit	151.1	271.6	183.1	201.9	210.6
Depreciation & amortisation	8.2	8.1	8.5	8.9	9.3
Adj net interest (income)/exp	27.1	44.1	75.7	74.2	75.0
Change in working capital	(586.9)	(823.6)	41.9	(24.7)	1.1
Cash taxes paid	(28.5)	(54.9)	(41.9)	(46.0)	(47.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(429.0)	(554.9)	267.3	214.2	248.1
Capex	(71.2)	(59.1)	(150.0)	(150.0)	(150.0)
Free cash flow	(500.2)	(613.9)	117.3	64.2	98.1
Dividends paid	(48.8)	(50.2)	(50.2)	(50.2)	0.0
Equity raised / (purchased)	(50.4)	0.0	0.0	0.0	0.0
Change in Debt	498.3	162.7	(100.0)	(100.0)	(100.0)
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Other invest/financing cash flow	170.0	16.1	(75.7)	(74.2)	(75.0)

May 25, 2016

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	0.4	0.3	34.9	6.7	(2.4)
EBITDA growth	(47.8)	(1.2)	66.1	6.2	3.1
EBIT growth	(48.9)	(1.2)	69.7	6.2	3.1
Pretax growth	(40.6)	79.7	(32.6)	10.3	4.3
Reported net profit growth	(39.0)	81.8	(38.5)	8.7	3.1
Core net profit growth	(44.0)	15.1	4.3	8.7	3.1
Profitability ratios (%)					
EBITDA margin	8.9	8.7	10.8	10.7	11.3
EBIT margin	8.4	8.2	10.4	10.3	10.9
Pretax profit margin	9.1	16.3	8.1	8.4	9.0
Payout ratio	56.2	21.9	37.2	34.2	33.2
DuPont analysis					
Net profit margin (%)	7.3	13.1	6.0	6.1	6.4
Revenue/Assets (x)	0.3	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.8	2.6	2.7	2.7	2.5
ROAE (%)	5.1	5.3	5.1	5.3	5.3
ROAA (%)	1.9	2.0	1.9	2.0	2.0
Liquidity & Efficiency					
Cash conversion cycle	15.5	25.6	26.0	8.5	9.0
Days receivable outstanding	228.6	235.1	226.2	259.2	270.8
Days inventory outstanding	20.8	29.8	23.9	19.3	20.2
Days payables outstanding	234.0	239.3	224.1	270.0	282.0
Dividend cover (x)	1.8	4.6	2.7	2.9	3.0
Current ratio (x)	1.7	1.8	1.6	1.6	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.7
Net debt/equity (%)	66.4	78.9	73.9	73.6	69.2
Net interest cover (x)	5.1	3.1	3.1	3.3	3.4
Debt/EBITDA (x)	16.5	17.8	10.3	9.3	8.7
Capex/revenue (%)	4.3	3.5	6.7	6.2	6.4
Net debt/ (net cash)	1,479.7	2,068.9	1,999.2	2,061.1	2,043.4

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 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

(66) 2658 6300 ext 1420 tim.l@maybank-ke.co.th

# NAMINUL

Chief Economist, BII Indonesia (62) 21 29228888 ext 29682

Juniman@bankbii.com

### 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

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

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

(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

LEE Cheng Hooi Regional Chartist (603) 2297 8694

chenghooi.lee@maybank-ib.com

Tee Sze Chiah Head of Retail Research (603) 2297 6858 szechiah.t@maybank-ib.com

Cheah Chong Ling (603) 2297 8767 chongling.c@maybank-ib.com

### HONG KONG / CHINA

Howard WONG Head of Research (852) 2268 0648

howardwong@kimeng.com.hk · Oil & Gas - Regional

Benjamin HO (852) 2268 0632 benjaminho@kimeng.com.hk • Consumer & Auto

### Jacqueline KO, CFA

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

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

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

Ning MA (852) 2268 0672 ningma@kimeng.com.hk

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

Gaming

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

Warren LAU (852) 2268 0644 warrenlau@kimeng.com.hk

Technology - Regional

### INDIA

# Jigar SHAH Head of Research

(91) 22 6623 2632 jigar@maybank-ke.co.in

• Oil & Gas • Automobile • Cement

### Anubhay GUPTA

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

## Vishal MOD

(91) 22 6623 2607 vishal@maybank-ke.co.in

Banking & Financials

### Abhiieet KUNDU

(91) 22 6623 2628 abhijeet@maybank-ke.co.in

Neerav DALAL

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

# SINGAPORE

Gregory YAP (65) 6231 5848 gyap@maybank-ke.com.sg

# • SMID Caps • Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA (65) 6231 5842

yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

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

(65) 6231 5850 joshuatan@maybank-ke.com.sg • REITs (Retail, Industrial)

# John CHEONG, CFA

(65) 6231 5845 johncheong@maybank-ke.com.sg • Small & Mid Caps • Healthcare

Ng Li Hiang (65) 6231 5840 nglihiang@maybank-ke.com.sg Banks

### **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

### Pandu ANUGRAH

(62) 21 8066 8688 pandu. anugrah@maybank-ke.co.id • Infra • Construction • Transport• Telcos

# Janni ASMAN (62) 21 8066 8687

janni.asman@maybank-ke.co.id • Cigarette • Healthcare • Retail

### Adhi TASMIN

(62) 21 8066 8694 adhi.tasmin@maybank-ke.co.id
• Plantations

# Anthony LUKMAWIJAYA (62) 21 8066 8690

anthony.lukmawijaya@maybank-ke.co.id

• Aviation

## **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

Michael BENGSON (63) 2 849 8840 michael\_bengson@maybank-atrke.com

Conglomerates

Jaclyn JIMENEZ (63) 2 849 8842 jaclyn\_jimenez@maybank-atrke.com • Consumer

THAILAND Maria LAPIZ Head of Institutional Research

Dir (66) 2257 0250 | (66) 2658 6300 ext 1399 Maria.L@maybank-ke.co.th • Consumer • Materials • Ind. Estates

# Sittichai DUANGRATTANACHAYA

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

Services Sector • Transport

# Yupapan POLPORNPRASERT (66) 2658 6300 ext 1394

apan.p@maybank-ke.co.th Oil & Gas

Tanawat RUENBANTERNG

(66) 2658 6300 ext 1395 Tanawat.R@maybank-ke.co.th • Banks & Diversified Financials Sukit UDOMSIRIKUL Head of Retail Research

# (66) 2658 6300 ext 5090 Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKRAN (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 PRAMUALCHAROENKIT

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

### Suttatio 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

# VIETNAM

LE Hong Lien, ACCA Head of Institutional Research (84) 8 44 555 888 x 8181

lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified • Utilities THAI Quang Trung, CFA, Deputy Manager,

Institutional Research

# (84) 8 44 555 888 x 8180 trung.thai@maybank-kimeng.com.vn • Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen (84) 8 44 555 888 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

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

TRUONG Quang Binh (84) 4 44 555 888 x 8087

· Port operation · Pharmaceutical Food & Beverage

binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

### APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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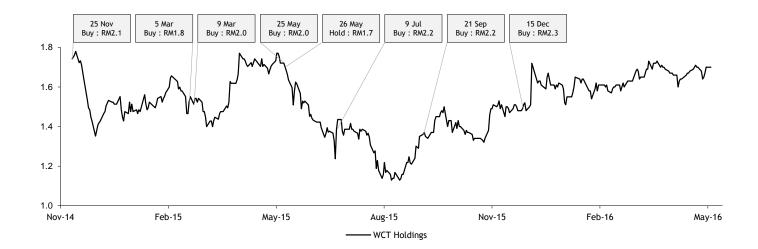
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# Historical recommendations and target price: WCT Holdings (WCTHG MK)



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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 50 North Canal Road Singapore 059304

Tel: (65) 6336 9090

# 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, 20<sup>th</sup> - 21<sup>st</sup> Floor, Rama 1 Road Pathumwan, Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales) Tel: (66) 2 658 6801 (research)

# North Asia Sales Trading

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

## Thailand

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

## 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 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, 22<sup>nd</sup> Floor Jl. Asia Afrika No. 8 Gelora Bung Karno, Senayan Jakarta 10270, Indonesia

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

# 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 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

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