Maybank Kim Eng

REITs

Singapore

Frasers Hospitality Trust (FHT SP)

Supportive Valuations

BUY

Share Price	SGD 0.75
12m Price Target	SGD 0.85 (+15%)
Previous Price Target	*SGD 0.85*

Slow quarter, dragged by currency headwinds

FHT's 2Q19 DPU was in line with both MKE and consensus estimates; DPU fell 11.5% YoY on a weaker performance at its portfolios in Australia, Malaysia and Japan. This was exacerbated by depreciation in their respective currencies, which contributed to a 53%/40% decline in their gross revenues/NPIs. Our forecasts are unchanged and our DDM-based TP stays at SGD0.85 (COE: 7.4%, LTG: 2.0%). We reiterate BUY with the shares undervalued vs. historical mean and peers at 0.8x FY19E P/B. For now, a re-rating could be led from a potential portfolio reshuffle, given tight cap rates for Sofitel Wentworth Sydney and positive yield-spreads in Europe, supported by its low 34.1% gearing and sponsor's growing AUM.

S'pore stable amid micro-market supply pressures

Its Singapore operations were stable in 2Q19 with GOR/GOP at +0.9%/-0.7% YoY. RevPAR rose 2.2% YoY to SGD253 on stronger occupancies, up from 84.3% to 88.7% mainly at its Fraser Suites serviced residence units. Competitive pressures from new supply in the Bugis micro-market (Andaz and JW Marriott) coupled with the reopening of 329 rooms at the Swissotel post its AEI has pushed down RevPARs at Intercontinental Hotel by more than 4% YoY, according to management. We see a muted near-term RevPAR growth outlook as new supply gets absorbed.

Australia weak - Sydney remains difficult

The Australian portfolio, at 47.0% of its gross revenue and 40.0% of NPI, saw GOR/ NPI fall 4.0%/ 6.1% YoY. RevPARs declined 5.4% YoY on the back of lower ADRs and occupancy. We believe that Sydney's trading backdrop remains challenging against new room supply, at 5.7% YoY p.a. over the next 3 years and ahead of an estimated 4.0% YoY in tourist arrivals.

Catalyst from capital-recycling opportunities

Supply-side headwinds in Australia should prompt management to recycle its assets (a third of its AUM) into Europe with stronger growth fundamentals, as they target expansion opportunities from both sponsor's ROFR assets and third-party deals. A successful transaction at a 4.0-4.5% cap rate for the Sofitel Wentworth Sydney could result in a SGD110-150m gain, based on our estimates to fund other deals.

FYE Sep (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	159	156	158	166	174
Net property income	120	117	130	137	143
Core net profit	98	75	98	104	109
Core EPU (cts)	5.4	4.0	5.2	5.5	5.7
Core EPU growth (%)	(14.8)	(25.3)	30.7	5.3	3.6
DPU (cts)	5.1	4.8	4.9	5.2	5.4
DPU growth (%)	11.5	(6.9)	3.4	4.6	3.9
P/NTA (x)	0.9	0.8	0.8	0.8	0.7
DPU yield (%)	6.9	6.8	6.6	6.9	7.2
ROAE (%)	11.6	4.5	5.1	5.0	4.9
ROAA (%)	4.2	3.0	3.8	3.9	3.9
Debt/Assets (x)	0.32	0.33	0.32	0.30	0.29
Consensus DPU	-	-	4.8	5.0	5.1
MKE vs. Consensus (%)	-	-	2.3	2.9	5.0

Chua Su Tye
chuasutye@maybank-ke.com.sg
(65) 6231 5842

Company Description

Frasers Hospitality Trust engages in the investment of income-producing hospitality real estate and real estate related assets.

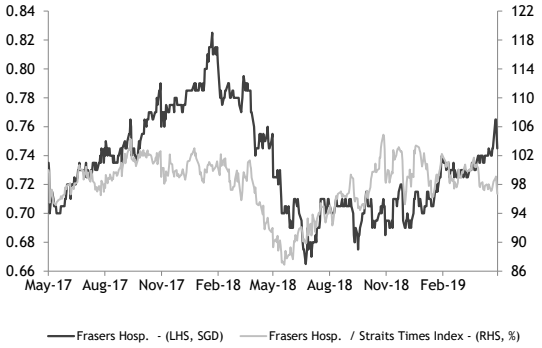
Statistics

52w high/low (SGD)	0.77/0.67
3m avg turnover (USDm)	0.4
Free float (%)	37.4
Issued shares (m)	1,869
Market capitalisation	SGD1.4B
	USD1.0B

Major shareholders:

Tcc Group Investments Ltd.	37.8%
Frasers Property Ltd.	23.2%
Metro Holdings Ltd.	1.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	1	(1)
Relative to index (%)	(3)	(6)	5

Source: FactSet

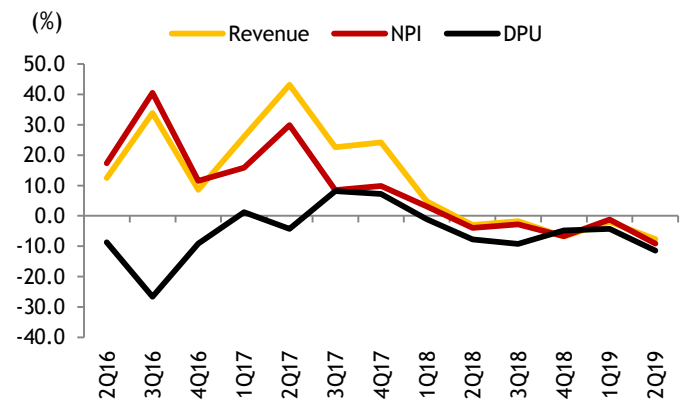
Fig 1: Summary financials 2Q19A comparison

FYE 31 Mar	2Q18 (SGD m)	1Q19 (SGD m)	2Q19 (SGD m)	Change (% YoY)	(% QoQ)	YTD19 (SGD m)	% of FYE	FY19E (SGD m)
Gross revenue	**37.5**	**40.6**	**34.6**	**(7.6)**	**(14.8)**	**75.3**	**47.6**	**158.0**
Property expenses	(9.7)	(9.6)	(9.4)	(3.4)	(1.6)	(19.0)	68.5	(27.7)
Net property income	**27.7**	**31.1**	**25.2**	**(9.1)**	**(18.8)**	**56.3**	**43.2**	**130.3**
Borrowing costs	(4.9)	(5.0)	(5.1)	2.7	0.5	(10.1)	48.3	(20.9)
Distributable income to unitholders	**20.9**	**23.7**	**18.7**	**(10.4)**	**(21.1)**	**42.4**	**45.6**	**92.9**
Distribution per unit (SGD cts)	**1.11**	**1.25**	**0.98**	**(11.5)**	**(21.5)**	**2.2**	**45.2**	**4.95**
NAV per unit (SGD)	0.80	0.75	0.76					
Aggregate leverage (%)^	33.1	34.4	34.1	100	(30)			
All-in financing cost (%)^	2.7	2.5	2.6	(10)	10			
Singapore Occupancy (%)^	84.3	82.0	88.7	440	670			
RevPAR growth (%)	(4.1)	(1.8)	2.2					
NPI margin (%)^	74.0	76.5	72.8	(120)	(364)			

^Change in basis points

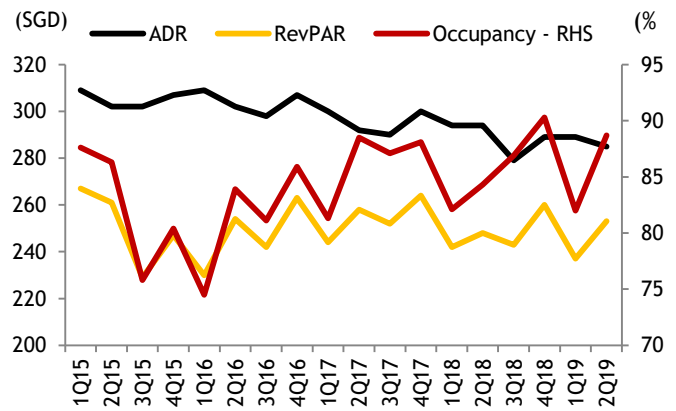
Source: Company data, Maybank Kim Eng

Fig 2: Revenue, NPI and DPU growth - weak and exacerbated by currency headwinds



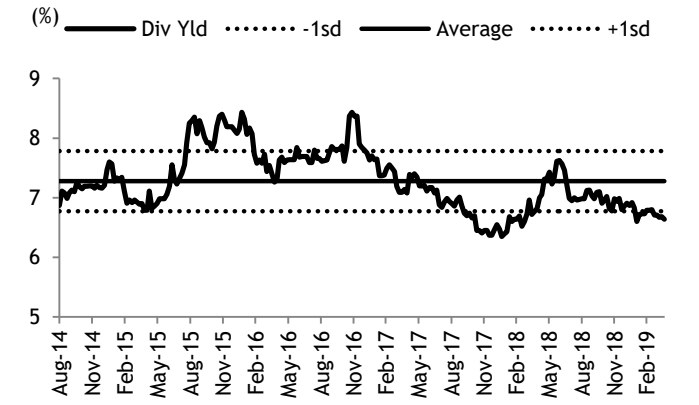
Source: Company data

Fig 3: Singapore ADR, RevPAR and occupancy has stabilised against strong supply in micro-market



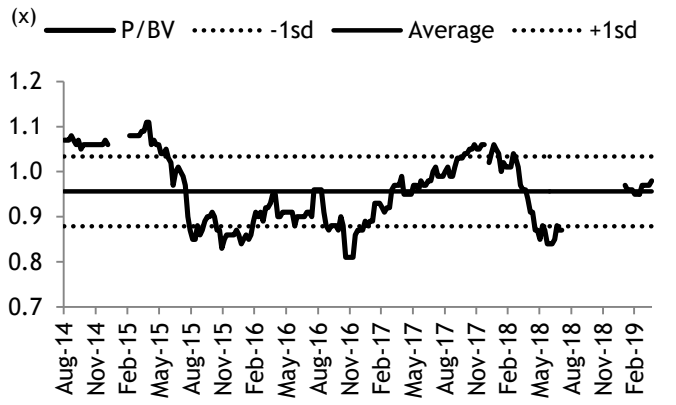
Source: Company data

Fig 4: DPU yields have been compressed by recent acquisitions to 1SD below their 4-year avg.



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: P/BV has fallen despite growth in AUM but should expand as RevPARs improve



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 6: S-REITs valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%) 17	18	19E	20E	Gearing (D/A) (%)
Retail							**15.5**	**30.2**			**1.07**	**5.3**	**5.4**	**5.6**	**5.7**	**32**
Capita Mall Trust (CMT)	Hold	2.42	2.40	(0.8)	4.8	4.0	8.9	24.1	65	2.04	1.19	4.6	4.8	4.8	5.2	34
Frasers Ctr Trust (FCT)	Buy	2.39	2.60	8.8	5.7	14.5	2.2	3.2	58	2.08	1.15	4.9	5.5	5.7	5.8	29
Starhill Global (SGREIT)	Hold	0.76	0.70	(7.9)	6.3	(1.6)	1.7	2.0	63	0.90	0.84	6.5	6.0	6.3	6.3	36
SPH REIT	Hold	1.03	1.05	1.9	5.5	7.4	2.7	1.0	25	0.94	1.10	5.4	5.4	5.5	5.7	30
Retail & Office							**10.5**	**30.2**			**1.05**	**5.0**	**26.4**	**5.2**	**5.4**	**36**
Suntec REIT (SUN)	NR	1.85					5.0	14.0	62	2.09	0.88	5.4	5.5	5.5	5.7	39
Mapletree Comm. (MCT)	Hold	1.93	1.80	(6.7)	4.9	(1.9)	5.6	16.1	66	1.60	1.21	4.7	47.4	4.9	5.1	33
Office							**14.2**	**41.8**			**0.90**	**6.3**	**6.2**	**6.2**	**6.1**	**35**
CapitaLand Comm. (CCT)	NR	1.94					7.3	27.1	70	1.82	1.07	4.5	4.6	4.6	4.6	35
Keppel REIT (KREIT)	NR	1.22					4.2	10.5	52	1.38	0.88	4.7	5.1	5.2	5.4	36
Frasers Comm. (FCOT)	NR	1.48					1.3	3.6	74	1.57	0.94	6.6	6.6	6.5	6.5	29
OUE Comm. (OUECT)	NR	0.50					1.4	0.6	24	0.71	0.70	9.4	8.7	8.4	7.9	39
Industrial							**25.5**	**71.1**			**1.17**	**6.6**	**6.6**	**6.7**	**6.8**	**37**
Ascendas REIT (AREIT)	Buy	3.00	3.20	6.7	5.5	12.2	9.3	30.0	81	2.13	1.41	5.3	5.3	5.5	5.8	37
Mapletree Ind. (MINT)	Buy	2.06	2.25	9.2	6.2	15.4	4.2	9.2	68	1.51	1.37	5.7	5.9	6.2	6.6	36
Mapletree Log. (MLT)	Hold	1.48	1.40	(5.4)	5.6	0.2	5.4	20.5	68	1.17	1.27	5.2	5.4	5.6	5.7	38
Cache Logistics Trust	Buy	0.76	0.88	15.8	8.0	23.8	0.8	2.0	90	0.66	1.15	8.7	7.8	8.0	8.3	36
AIMS AMP (AAREIT)	Buy	1.42	1.50	5.6	7.2	12.9	1.0	0.6	72	1.34	1.06	6.9	7.2	7.2	7.3	34
Keppel DC REIT (KDCREIT)	NR	1.51					2.0	5.6	75	1.05	1.44	4.7	5.1	5.3	5.6	33
ESR REIT	NR	0.53					1.7	2.3	58	0.47	1.13	7.2	7.5	7.7	8.1	42
Soilbuild BS REIT	NR	0.61					0.6	0.5	66	0.62	0.97	9.4	8.3	8.3	n.a.	39
Sabana SC Ind. REIT	NR	0.42					0.4	0.3	68	0.57	0.73	n.a.	n.a.	n.a.	n.a.	34
Hospitality & Residential							**9.6**	**11.0**			**0.95**	**6.3**	**6.3**	**6.5**	**6.9**	**36**
Ascott Res. Trust (ART)	Hold	1.20	1.25	4.2	6.0	10.2	2.6	3.7	55	1.22	0.98	6.2	6.0	6.0	6.2	37
CDL HT (CDLHT)	Buy	1.60	1.80	12.5	6.1	18.6	1.9	3.0	62	1.53	1.05	5.8	5.8	6.1	6.4	34
OUE HT (OUEHT)	NR	0.72					1.3	1.3	52	0.75	0.95	7.1	7.1	7.5	8.1	39
Far East HT (FEHT)	Buy	0.66	0.80	21.2	6.6	27.8	1.3	1.8	40	0.87	0.76	6.0	6.5	6.6	7.1	40
Frasers HT (FHT)	Buy	0.77	0.85	11.1	6.5	17.6	1.4	0.6	38	0.75	1.01	6.3	6.3	6.5	6.8	34
Ascendas HT (AHT)	NR	0.93					1.1	0.7	64	0.98	0.95	n.a.	n.a.	n.a.	n.a.	33
Offshore REITs							**18.6**	**28.4**			**0.92**	**7.7**	**7.4**	**7.6**	**7.8**	**34**
Sasseur REIT	Buy	0.80	0.90	13.2	7.8	21.1	0.9	1.1	21	0.91	0.87	n.a.	7.5	7.8	8.1	29
Mapletree Greater China	NR	1.36					4.3	10.7	67	1.32	1.03	5.5	5.6	5.7	5.7	39
CapitaLand Retail China	NR	1.51					1.5	2.7	62	1.59	0.95	6.7	7.0	7.1	7.4	35
Fortune REIT (HKD)	NR	10.18					3.4	0.7	72	16.61	0.61	5.0	5.1	5.2	5.6	21
Lippo Malls Ind. RT	NR	0.22					0.6	0.9	63	0.30	0.73	15.8	12.1	12.1	12.6	34
Manulife REIT (USD)	Buy	0.87	1.00	14.9	6.8	21.8	1.5	1.1	91	0.83	1.05	6.8	7.0	6.8	7.1	37
Keppel_KBS US REIT	NR	0.75					0.8	0.5	75	0.89	0.84	n.a.	8.0	8.4	8.5	38
IREIT Global	NR	0.77					0.5	0.2	31	0.75	1.02	n.a.	n.a.	n.a.	n.a.	37
BHG Retail REIT	NR	0.71					0.4	0.0	37	0.81	0.87	n.a.	n.a.	n.a.	n.a.	31
Frasers Log. & Ind. (FLT)	NR	1.18					2.4	10.0	73	0.92	1.29	6.5	5.8	5.9	5.9	36
EC World REIT	NR	0.79					0.6	0.3	41	0.87	0.90	7.6	n.a.	n.a.	n.a.	35
Cromwell REIT (EUR)	NR	0.49					1.6	0.4	33	0.53	0.92	n.a.	8.6	9.4	9.3	33
Healthcare							**2.5**	**3.8**			**1.24**	**6.7**	**6.7**	**6.9**	**6.9**	**36**
Parkway Life REIT	NR	2.89					1.7	1.5	64	1.88	1.54	4.6	4.3	4.5	4.5	38
First REIT	NR	0.97					0.8	2.3	61	1.02	0.95	8.9	9.1	9.3	9.3	35
Total REITs							**96**	**216**			**1.02**	**6.5**	**7.8**	**6.7**	**6.8**	**35**
S-REIT yield spread														**2.4**		
FSTREI Index														4.6		
SGS 10Y bond yield														2.2		

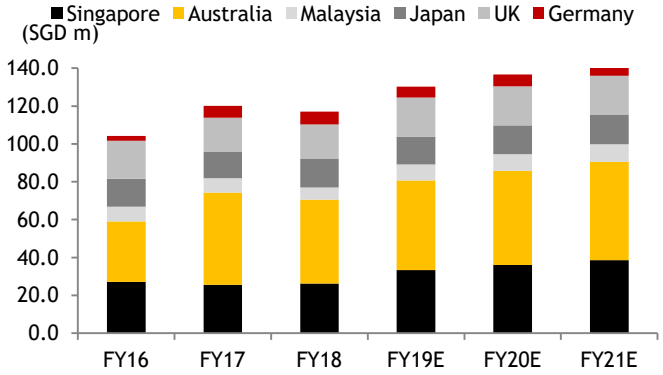
Prices as of 30 Apr 2019. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- 15 assets valued at SGD2.4b in prime locations in gateway cities in Asia, Australia and Europe. Comprise nine hotels and six serviced residences with a total of 3,914 rooms.
- Sponsor Frasers Property is a diversified real-estate player with SGD27.7 AUM as of end-Dec 2018. Owns & operates more than 24,000 serviced apartments / hotel rooms.
- Strategic partner TCC Group is among Southeast Asia's largest conglomerates.
- Organic growth led by recovery in Singapore's hotel RevPAR & new contributions from Australia, Germany.
- Acquisition growth to be supported by low 34.4% gearing and sponsor's visible ROFR pipeline.

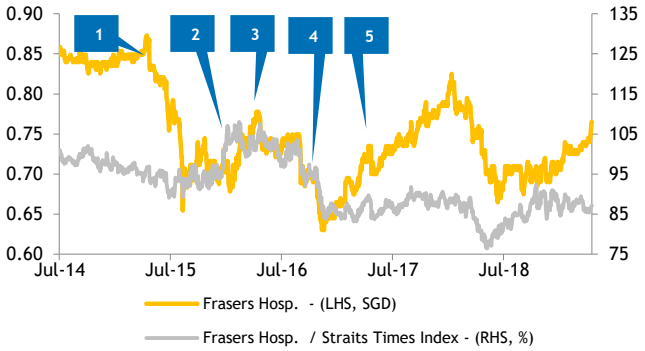
NPI profile (FY16-21E)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



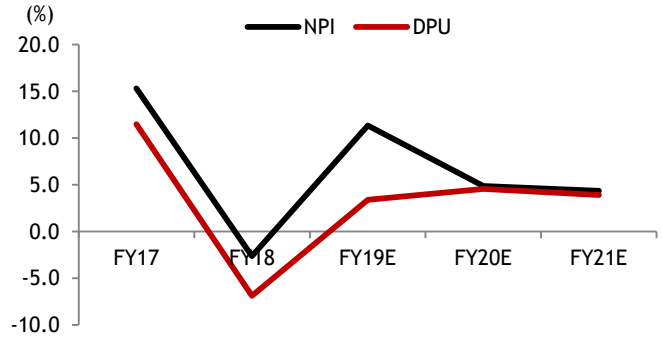
Source: Company, FactSet, Maybank Kim Eng

1. May-15: Announced first acquisition post-IPO of AUD224m (SGD231m) for a 75-year leasehold interest in Sofitel Sydney Wentworth, via SGD123m equity fund raising.
2. Feb-16: Completed SGD26m AEI at Intercontinental Singapore, with hotel inventory back to 403 rooms.
3. May-16: Raised SGD100m from perpetual securities at 4.45% to acquire 328-room Maritim Hotel Dresden for EUR58.4m (SGD90.4m) at 6.8% NPI yields.
4. Sep-16: Launched 32-for-100 renounceable rights which raised SGD266.3m in gross proceeds, to acquire the 380-room Novotel Melbourne on Collins.
5. Mar-17: Announced JPY4.25b (SGD53.1m) AEI for the retail component of ANA Crowne Plaza.

Financial Metrics

- We expect occupancies across its hotel portfolio to remain well-supported by strong leisure demand.
- We forecast stronger RevPARs for Singapore, Melbourne, Japan, Germany and the UK to mitigate weaker Sydney and Malaysia operations.
- DPUs to recover in FY19 after weakness in FY18 helped by rising contributions from Intercontinental Singapore and acquisitions in Australia and Germany.

NPI and DPU growth profile



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- Earlier-than-expected pick-up in corporate demand.
- Better-than-anticipated RevPAR.
- Accretive acquisitions where cap rates exceed cost of funds, or divestments at low cap rates which unlock asset values.

Downside

- Sizeable increases in hotel and SR room supply without corresponding growth in demand.
- Deterioration in global economy, resulting in declines in RevPARs.
- Significant volatility in FX rates could impede hedging efforts and affect DPU.
- Sharper-than-expected rise in interest rates could increase cost of debt and hit earnings, with higher cost of capital lowering valuations.

chuasutye@maybank-ke.com.sg

FYE 30 Sep	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	14.6	14.6	15.1	14.4	13.9
P/BV (x)	0.9	0.8	0.8	0.8	0.7
P/NTA (x)	0.9	0.8	0.8	0.8	0.7
DPU yield (%)	6.9	6.8	6.6	6.9	7.2
FCF yield (%)	8.3	8.6	8.4	8.7	9.0
INCOME STATEMENT (SGD m)					
Revenue	158.7	155.9	158.0	166.2	173.9
Net property income	**120.2**	**117.0**	**130.3**	**136.7**	**142.6**
Management and trustee fees	(12.4)	(13.0)	(15.6)	(16.5)	(17.3)
Net financing costs	(19.1)	(20.6)	(20.9)	(21.5)	(22.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	110.3	(2.2)	0.0	0.0	0.0
Other pretax income/expenses	0.4	0.5	0.5	0.5	0.5
Pretax profit	**194.5**	**76.6**	**89.2**	**94.1**	**98.7**
Income tax	(28.9)	(5.9)	(6.6)	(7.0)	(7.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	1.0	2.0	2.0
Total return avail to unitholders	**165.6**	**70.8**	**82.5**	**87.1**	**91.3**
Distributable inc to unitholders	93.5	89.4	92.9	98.0	102.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	79.8	77.1	77.1	77.1	77.1
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	267.3	248.4	248.4	248.4	248.4
Inverstment properties	2,172.1	2,151.9	2,276.0	2,410.9	2,539.1
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	14.7	17.3	17.3	17.3	17.3
Total assets	**2,533.9**	**2,494.7**	**2,618.8**	**2,753.7**	**2,881.9**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	18.0	15.6	15.6	15.6	15.6
LT interest bearing debt	810.9	835.0	835.0	835.0	835.0
Other liabilities	98.8	91.5	91.5	91.5	91.5
Total Liabilities	**927.7**	**942.2**	**942.2**	**942.2**	**942.2**
Shareholders Equity	1,606.2	1,552.5	1,676.6	1,811.6	1,939.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**1,606.2**	**1,552.5**	**1,676.6**	**1,811.6**	**1,939.8**
Total liabilities and equity	**2,533.9**	**2,494.7**	**2,618.8**	**2,753.7**	**2,881.9**
CASH FLOW (SGD m)					
Cash flow from operations	**113.4**	**112.8**	**117.8**	**123.4**	**128.7**
Capex	(0.4)	(0.7)	0.0	0.0	0.0
Acquisitions & investments	(246.9)	(26.2)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.5	0.5	0.5
CF from investing activities	**(247.3)**	**(26.9)**	**0.5**	**0.5**	**0.5**
Dividends paid	(89.6)	(92.1)	(92.9)	(98.0)	(102.7)
Interest expense	(17.8)	(20.7)	(20.9)	(21.5)	(22.0)
Change in debt	0.6	30.2	0.0	0.0	0.0
Equity raised / (purchased)	263.2	0.0	0.0	0.0	0.0
Other financial activities	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)
CF from financing activities	**152.0**	**(87.1)**	**(118.3)**	**(123.9)**	**(129.2)**
Effect of exchange rate changes	**(2.8)**	**(1.5)**	**0.0**	**0.0**	**0.0**
Net cash flow	**15.4**	**(2.7)**	**0.0**	**0.0**	**0.0**

FYE 30 Sep	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	28.4	(1.8)	1.4	5.2	4.6
Net property income growth	15.3	(2.6)	11.3	4.9	4.4
Core net profit growth	13.0	(23.5)	31.3	6.2	4.5
Distributable income growth	10.0	(4.4)	3.9	5.5	4.8
Profitability ratios (%)					
Net property income margin	75.7	75.1	82.5	82.2	82.0
Core net profit margin	61.7	48.0	62.3	62.9	62.8
Payout ratio	95.7	119.4	94.5	93.8	94.1
DuPont analysis					
Total return margin (%)	nm	45.4	52.2	52.4	52.5
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.5	1.5
ROAE (%)	11.6	4.5	5.1	5.0	4.9
ROAA (%)	4.2	3.0	3.8	3.9	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.6	2.8	2.9	3.1
Net gearing (%) (excl. perps)	45.5	48.8	45.2	41.8	39.1
Net interest cover (x)	5.4	4.8	5.2	5.4	5.5
Debt/EBITDA (x)	7.9	8.4	7.6	7.3	6.9
Capex/revenue (%)	0.2	0.5	0.0	0.0	0.0
Net debt/ (net cash)	731.2	757.9	757.9	757.9	757.9
Debt/Assets (x)	0.32	0.33	0.32	0.30	0.29

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head of 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

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 | Thailand
(65) 6231 5844
leejuye@maybank-ke.com.sg

Linda LIU
Singapore | Vietnam
(65) 6231 5847
lindaliu@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

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

FX

Saktiandi SUPAAT
Head of 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) 6812 8807
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
• Glove • Ports • Shipping • Healthcare

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

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

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

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

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Media • Plantations

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

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

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

Thilan WICKRAMASINGHE
(65) 6231 5840 thilanw@maybank-ke.com.sg
• Banks

SZE Jia Min
(65) 6231 5845 jiamin@maybank-ke.com.sg
• Consumer

INDIA

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

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

Vishal PERIWAL
(91) 22 6623 2605
vishalperiwal@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 • Conglomerates

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

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

Kayzer LLANDA
(63) 2 849 8839
Kayzer_llanda@maybank-atrke.com
• Utilities

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 • Services

Teerapol Udomvej, CFA
(66) 2658 6300 ext 1394
teerapol.U@maybank-ke.co.th
• Healthcare

Ekachai TARAPORNTIP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

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

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

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

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

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanaphat.s@maybank-ke.co.th
• Media • Electronics

Sorrabhol VIRAMETEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorrabhol.V@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Kritsapong PATAN
(66) 2658 5000 ext 1310
kritsapong.p@maybank-ke.co.th
• Chartist

Apisit PATTARASAKOLKIAT
(66) 2658 5000 ext 1405
Apisit.p@maybank-ke.co.th
• Chartist

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 of 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

QUAN Trong Thanh
(84 28) 44 555 888 x 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

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 of 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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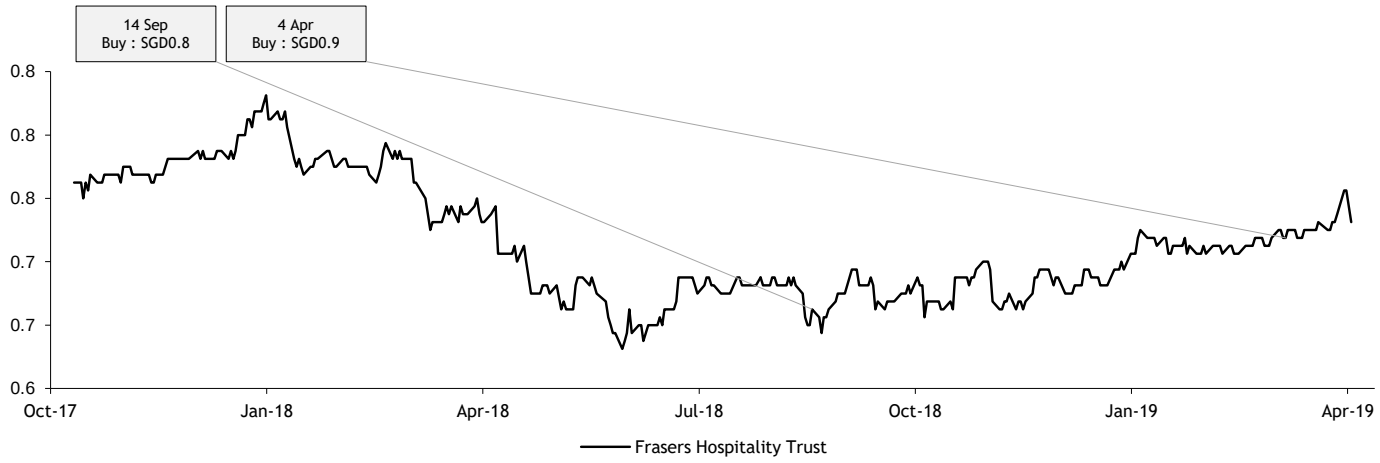

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Malaysia
Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

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

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

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

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

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

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

Indonesia
Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

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

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

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

London
Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

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

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