

Singapore Technology

POSITIVE

 [Unchanged]

Sticking with our guns

Plenty to like post 1Q21

We remain Positive on the sector and prefer companies with WFE exposure as these are beneficiaries of current chip shortages. Barring material extension/ incremental restrictions of the tightened MCO in Malaysia, we see immaterial impact on companies in our coverage. Positive read-across from Applied Materials infers demand sustainability for this semicon equipment spending cycle. We also raise Frencken's TP to SGD2.00 on unchanged 14.5x FY21E P/E, as we factor in better than expected earnings momentum.

Analyst

Gene Lih Lai, CFA
(65) 6231 5832
laigenelih@maybank.com

Frencken - Capturing strong momentum

We raise FY21-22E EPS by 15-19% to capture better than expected business momentum. Semicon is a beneficiary of wafer fab equipment (WFE) growth and new products. Analytical and medical should enjoy post-Covid-19 normalisation. We think there is upside potential in Industrial automation particularly if customer Seagate needs to expand capacity amid current HDD shortages. We also see components shortages in auto/ analytical/ medical as a key risk.

AEM - Underappreciated drivers

AEM bought back shares, and director James Toh raised his stake in May-20 (see Fig.3). While these amounts are not large, AEM's buyback/ insider purchase have historically signaled stronger future prospects. We believe system level test's proposition in solving many test challenges arising from increasingly complex chips that enable inflections in 5G/AI/edge remain underappreciated. As such we look forward to a realignment of cyclical and structural drivers from 2H21 and 2022.

UMS - Earnings drivers robust

According to Applied Materials (key customer), chipmakers are providing multi-year spending guidance for the first time in history. This infers demand sustainability in this cycle. Our checks suggest UMS' earnings trajectory remains robust from semiconductor spending tailwinds, and as such we conclude that the stake sale by chairman and CEO Mr. Andy Luong (from 20.4% to 16.4%) to be unrelated to UMS' fundamentals. At 11.7x FY21E P/E, UMS is trading at the lower end of its upcycle range of 11-16x.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							21E	22E	21E	22E	21E	22E
Venture	VMS SP	4,194	Buy	19.07	22.00	19	16.0	14.0	2.0	1.9	3.9	3.9
AEM Holdings	AEM SP	755	Buy	3.55	5.56	58	12.8	8.9	3.7	2.8	2.0	2.8
UMS Holdings	UMSH SP	567	Buy	1.40	1.80	32	11.7	10.4	2.5	2.2	2.9	2.9
Frencken Group	FRKN SP	563	Buy	1.75	2.00	17	12.7	11.1	2.0	1.8	2.4	2.7
Valuetronics	VALUE SP	206	Hold	0.63	0.58	(3)	10.0	12.2	1.2	1.1	4.1	3.3

Raising TP for Frencken

Fig 1: Forecast revisions

	FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	734.0	687.6	6.7	780.2	709.5	10.0
Gross profit (SGDm)	128.5	118.9	8.0	141.2	126.2	11.9
EBIT (SGDm)	72.3	64.8	11.5	83.0	72.3	14.8
EBITDA (SGDm)	95.0	87.6	8.5	107.2	96.5	11.1
Core net profit (SGDm)	58.7	51.0	15.1	67.5	57.0	18.5
EPS (SGD)	0.14	0.12	15.1	0.16	0.13	18.5
			Chg (ppt)			Chg (ppt)
Gross material margin	17.5%	17.3%	0.2	18.1%	17.8%	0.3
SGA as % of sales	8.2%	8.3%	-0.1	8.1%	8.3%	-0.2

Source: Maybank Kim Eng

We raise FY21-22E EPS by 15-19% to factor in stronger than expected business momentum. Our assessment of its outlook by sub-segments/ topics are as follows:

- **Semicon:** Driven not only by WFE strength, but also by a healthy funnel of new products. Customers are also telegraphing sustained demand, which is likely to reduce cyclical risks, in our view.
- **Analytical and Medical:** Two analytical customers are exhibiting recovery, while the return of elective surgeries is boosting medical equipment sales. In that regard, positive vaccination rates globally is a catalyst.
- **Industrial automation:** Current base of revenues is healthy. However, the upside potential is if customer Seagate requires material capacity expansion, in our view. In this regard, we note that HDD is currently experiencing shortages, and there are new crypto applications that uses HDD for farming. This may lead to stronger demand for HDDs.
- **Automotive:** While Frencken expects 1H21 to be sequentially softer than 2H20, this was partially because of an exceptionally strong 4Q20. For now, we expect quarterly run-rate resembling 1Q20 throughout the rest of FY21 to be achievable, barring a worsening of components shortage in the supply chain.
- **Components shortage dynamics:** Semiconductor is currently a beneficiary of chip shortages, and industrial automation may be a beneficiary of HDD shortages. These collectively make up around half of FY21E revenue. What is not clear yet is if components shortages might spread into analytical and medical supply chains. As such, this is a key risk to watch out for, in our view.
- **Inflation and pass-through:** Most if not all increases in raw material costs can be passed through. Some of these are straightforward and embedded in contracts, while others are tabulated and to be subsequently claimed from customers.

Recent buybacks/ insider trades

Fig 2: Buybacks/ insider trades post 1Q21 reporting season

Date(s)	Corporate	Individual	Action	Quantity	Avg price
7-May to 14-May	AEM	N.A	Buyback	545,000	3.46
14-May	AEM	James Toh (Director)	Purchase in open market	100,000	3.35
17-May	Frencken	Gooi Soon Chai (Chairman)	Purchase in open market	200,000	1.43
17-May	Frencken	Dennis Au (CEO)	Purchase in open market	100,000	1.42
20-May to 21-May	UMS	Andy Luong (Chairman and CEO)	Disposal in open market	21,400,000	1.35

Source: SGX filings

Impact of tightened MCO in Malaysia

We largely see minimal impact from tightened MCO in Malaysia during 25-May to 7-Jun 2021. During this time, factories are also subjected to a 60% worker cap. We estimate <2% impact to FY21E revenues for companies under coverage.

Furthermore, there are mitigating measures. Most companies are tweaking/ implementing more shifts so that the 60% cap is adhered to while aiming to reduce disruption. We also do not rule out the possibility of companies catching up with production at a later date this year. The key risk is a material extension/ incremental restrictions of tightened MCO.

Fig 3: Est. share of production in Malaysia and impact to FY21E revenue.

Company	Est. Malaysia share of production	Est. impact to FY21E revenue
Venture	70.0%	1.6%
UMS	75.0%	1.7%
AEM	33.0%	0.8%
Frencken	20.0%	0.5%
Aztech	20.0%	0.5%

Note: This estimation does not take into account any mitigating measures that corporates might implement, nor does it factor in additional complications that may arise during tightened MCO.

Source: Maybank Kim Eng, Companies

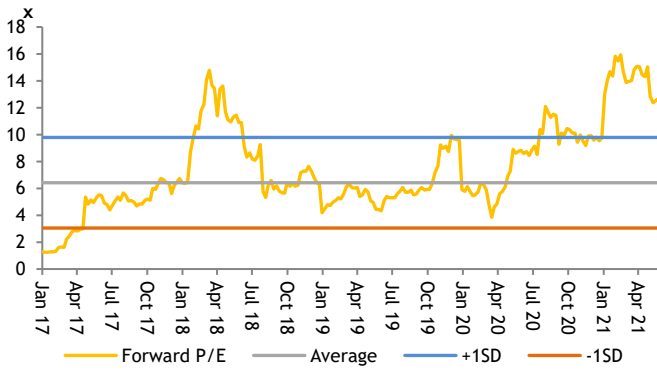
Singapore technology stocks PEG and trading bands

Fig 4: Singapore technology sector stocks and PEG

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	Mcap USDm	P/E (x)				3Y EPS CAGR (%)	PEG (x) FY1 PE/ 3Y EPS CAGR
						Act	FY1	FY2	FY3		
Aztech	AZTECH SP	Buy	1.86	1.29	754	14.3	12.4	9.2	7.6	23.3	0.5
Venture Corp	VMS SP	Buy	22.00	19.07	4,197	18.7	16.1	14.1	11.7	16.7	1.0
Valuetronics	VALUE SP	Hold	0.58	0.63	206	8.4	9.9	12.0	11.2	-9.1	-1.1
AEM	AEM SP	Buy	5.56	3.55	757	10.1	12.9	8.9	7.6	10.0	1.3
UMS	UMSH SP	Buy	1.80	1.40	567	20.6	11.7	10.4	10.2	26.3	0.4
Frencken	FRKN SP	Buy	2.00	1.75	564	15.9	12.7	11.1	11.0	16.3	0.8
Nanofilm	NANO SP	NR	-	5.41	2,703	54.4	42.3	33.9	28.9	23.5	1.8
Micro-Mechanics	MMH SP	NR	-	3.11	327	29.5	23.2	21.0	22.7	9.1	2.5
Average						27.4	22.3	18.5	15.9	18.7	1.2

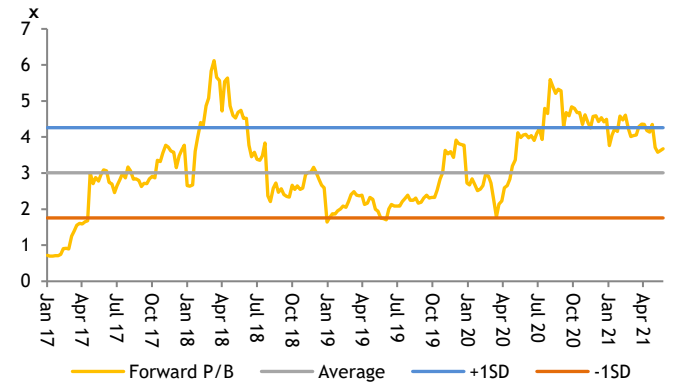
Source: Maybank Kim Eng, FactSet

Fig 5: AEM forward P/E band



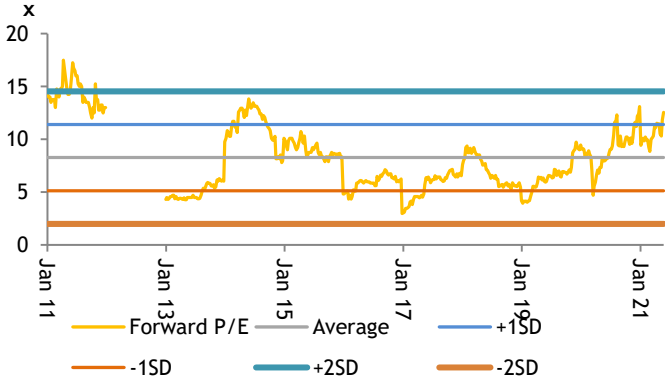
Source: Maybank Kim Eng, FactSet

Fig 6: AEM forward P/B band



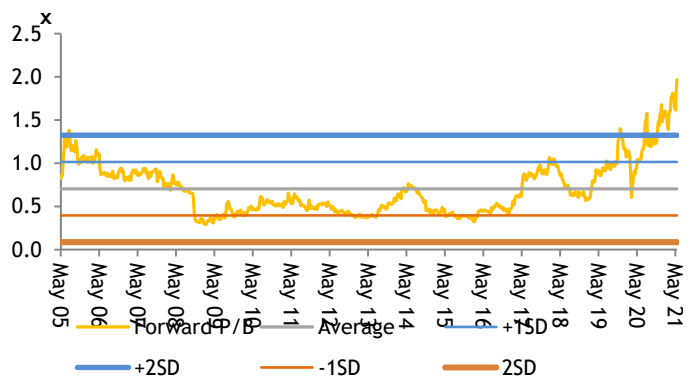
Source: Maybank Kim Eng, FactSet

Fig 7: Frencken forward P/E band



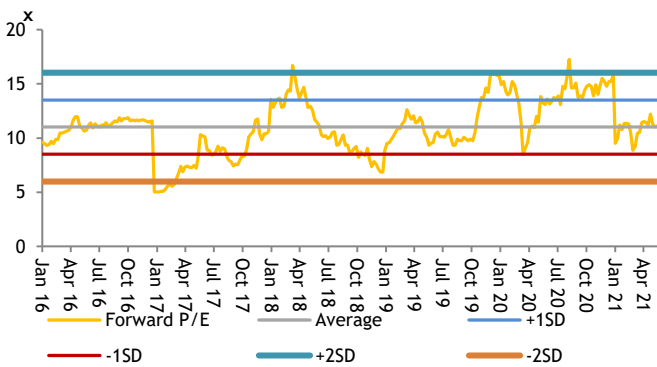
Source: Maybank Kim Eng, FactSet

Fig 8: Frencken forward P/B band



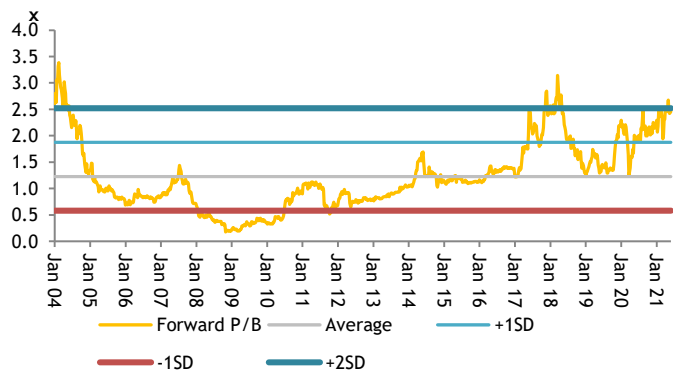
Source: Maybank Kim Eng, FactSet

Fig 9: UMS forward P/E band



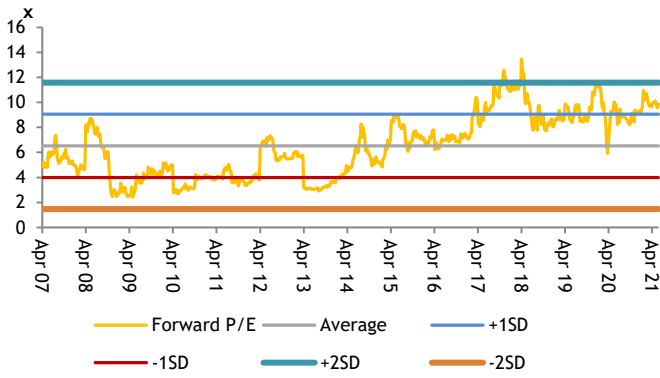
Source: Maybank Kim Eng, FactSet

Fig 10: UMS forward P/B band



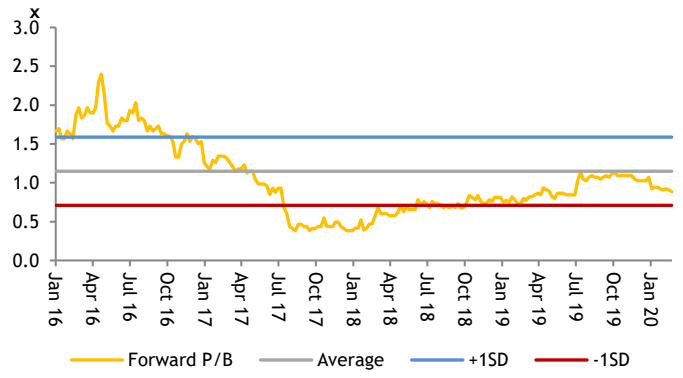
Source: Maybank Kim Eng, FactSet

Fig 11: Valuetronics forward P/E band



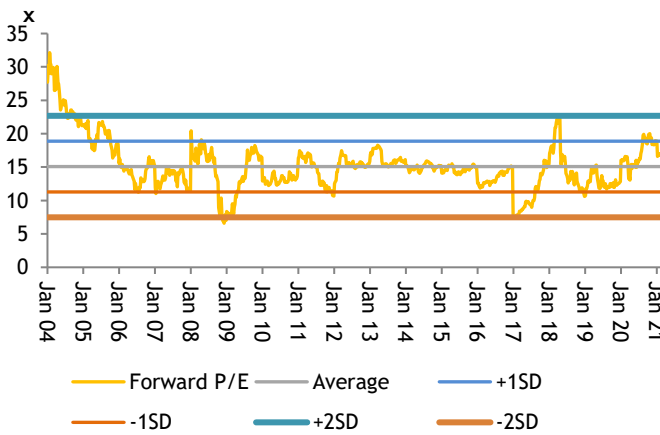
Source: Maybank Kim Eng, FactSet

Fig 12: Valuetronics forward P/B band



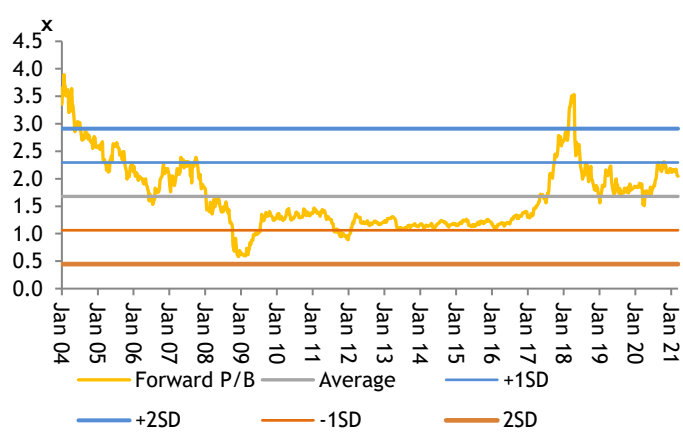
Source: Maybank Kim Eng, FactSet

Fig 13: Venture forward P/E band



Source: Maybank Kim Eng, FactSet

Fig 14: Venture forward P/B band



Source: Maybank Kim Eng, FactSet

Frencken financials and ratios

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	6.4	9.1	12.7	11.1	11.0
Core P/E (x)	8.4	11.4	12.7	11.1	11.0
Core FD P/E (x)	8.4	11.5	12.7	11.1	11.1
P/BV (x)	1.3	1.7	2.0	1.8	1.6
P/NTA (x)	1.3	1.7	2.0	1.8	1.6
Net dividend yield (%)	3.2	2.6	2.4	2.7	2.7
FCF yield (%)	22.4	8.1	3.2	8.6	6.2
EV/EBITDA (x)	4.0	5.7	6.7	5.5	5.1
EV/EBIT (x)	5.5	7.7	8.8	7.1	6.7

INCOME STATEMENT (SGD m)

Revenue	659.2	620.6	734.0	780.2	798.2
EBITDA	80.5	80.1	95.0	107.2	110.4
Depreciation	(21.1)	(21.1)	(22.7)	(24.2)	(26.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	59.4	58.9	72.3	83.0	84.3
Net interest income / (exp)	(1.3)	(0.8)	(0.4)	(0.4)	(0.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(4.2)	(6.2)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	53.9	51.9	71.9	82.6	83.9
Income tax	(11.3)	(8.8)	(12.9)	(14.9)	(15.1)
Minorities	(0.2)	(0.2)	(0.2)	(0.2)	(1.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	42.4	42.8	58.7	67.5	67.6
Core net profit	46.5	49.1	58.7	67.5	67.6

BALANCE SHEET (SGD m)

Cash & Short Term Investments	122.4	174.5	181.0	225.1	250.7
Accounts receivable	97.6	98.7	134.6	130.5	132.0
Inventory	140.7	143.2	162.0	160.1	170.1
Property, Plant & Equip (net)	92.1	99.8	102.1	102.9	127.9
Intangible assets	17.5	11.7	11.7	11.7	11.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	35.9	36.0	36.0	36.0	36.0
Total assets	506.2	563.8	627.4	666.2	728.3
ST interest bearing debt	53.1	67.3	67.3	67.3	67.3
Accounts payable	87.8	80.1	102.4	93.7	107.3
LT interest bearing debt	0.2	0.0	0.0	0.0	0.0
Other liabilities	67.0	80.0	80.0	80.0	80.0
Total Liabilities	208.0	227.5	249.8	241.1	254.7
Shareholders Equity	295.4	334.0	375.1	422.3	469.6
Minority Interest	2.8	2.3	2.5	2.7	3.9
Total shareholder equity	298.2	336.3	377.6	425.0	473.6
Total liabilities and equity	506.2	563.8	627.4	666.2	728.3

CASH FLOW (SGD m)

Pretax profit	53.9	51.9	71.9	82.6	83.9
Depreciation & amortisation	21.1	21.1	22.7	24.2	26.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	33.6	1.1	(32.5)	(2.6)	2.1
Cash taxes paid	(9.4)	(5.9)	(12.9)	(14.9)	(15.1)
Other operating cash flow	4.2	6.2	0.0	0.0	0.0
Cash flow from operations	103.4	74.4	49.2	89.3	96.9
Capex	(15.8)	(28.9)	(25.0)	(25.0)	(51.0)
Free cash flow	87.5	45.5	24.2	64.3	45.9
Dividends paid	(9.1)	(12.8)	(17.6)	(20.3)	(20.3)
Equity raised / (purchased)	0.6	0.8	0.0	0.0	0.0
Change in Debt	(15.5)	14.1	0.0	0.0	0.0
Other invest/financing cash flow	6.4	5.9	0.0	0.0	0.0
Effect of exch rate changes	0.0	(0.3)	0.0	0.0	0.0
Net cash flow	69.9	53.3	6.5	44.1	25.6

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.3	(5.8)	18.3	6.3	2.3
EBITDA growth	12.6	(0.5)	18.7	12.8	2.9
EBIT growth	31.7	(0.7)	22.7	14.8	1.6
Pretax growth	34.2	(3.8)	38.6	14.9	1.6
Reported net profit growth	41.1	1.1	37.1	14.9	0.2
Core net profit growth	37.1	5.4	19.7	14.9	0.2
Profitability ratios (%)					
EBITDA margin	12.2	12.9	12.9	13.7	13.8
EBIT margin	9.0	9.5	9.8	10.6	10.6
Pretax profit margin	8.2	8.4	9.8	10.6	10.5
Payout ratio	30.0	34.2	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	6.4	6.9	8.0	8.7	8.5
Revenue/Assets (x)	1.3	1.1	1.2	1.2	1.1
Assets/Equity (x)	1.7	1.7	1.7	1.6	1.6
ROAE (%)	15.1	13.6	16.6	16.9	15.2
ROAA (%)	9.6	9.2	9.9	10.4	9.7
Liquidity & Efficiency					
Cash conversion cycle	97.2	97.5	93.7	96.7	94.7
Days receivable outstanding	58.3	56.9	57.2	61.2	59.2
Days inventory outstanding	93.8	99.2	90.7	90.7	90.7
Days payables outstanding	54.9	58.7	54.2	55.2	55.2
Dividend cover (x)	3.3	2.9	3.3	3.3	3.3
Current ratio (x)	2.0	2.0	2.1	2.3	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.5	2.5	2.8	2.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	45.9	70.3	nm	nm	nm
Debt/EBITDA (x)	0.7	0.8	0.7	0.6	0.6
Capex/revenue (%)	2.4	4.7	3.4	3.2	6.4
Net debt/ (net cash)	(69.2)	(107.1)	(113.6)	(157.7)	(183.3)

Source: Company; Maybank

Research Offices

ECONOMICS

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

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

LEE Ju Ye
Singapore | Thailand | Indonesia
(65) 6231 5844
leejuye@maybank.com

Linda LIU
Singapore | Vietnam |
Cambodia | Myanmar | Laos
(65) 6231 5847
lindaliu@maybank.com

Dr Zamros DZULKAFI
(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
(603) 2297 1347
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

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

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, ACA
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

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

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

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

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

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

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

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
• Petrochemicals

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

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

Fahmi FARID
(603) 2297 8676 fahmi.farid@maybank-ib.com
• Software

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
• Chartist

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

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

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

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

Kareen CHAN
(65) 6231 5926 kareench@maybank.com
• Transport • Telcos • Consumer

Eric ONG
(65) 6231 5924 ericong@maybank.com
• SMIDs

Matthew SHIM
(65) 6231 5929
matthewshim@maybank.com
• Retail Research

PHILIPPINES

Jacqui De JESUS *Head of Research*
(63) 2 8849 8844
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Romel LIBO-ON
(63) 2 8849 8844
romel_libo-on@maybank-atrke.com
• Property • Telcos

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank-kimeng.com.vn
• Strategy • Technology

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

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8085
dung.nguyen@maybank-kimeng.com.vn
• Utilities • Property

Tran Thi Thu Thao
(84 28) 44 555 888 ext 8180
thao.tran@maybank-kimeng.com.vn
• Industrials

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Retail Research

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

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigars@maybank.com
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 4223 2606 neerav@maybank.com
• Software Technology • Telcos

Kshitiz PRASAD
(91) 22 4223 2607
kshitiz@maybank.com
• Banks

Vikram RAMALINGAM
(91) 22 4223 2607
vikram@maybank.com
• Automobile • Media

INDONESIA

Isnapputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnapputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement
• Autos • Consumer • Utility

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

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank-ke.co.id
• Consumer

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

Jesada TECHAUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

Kaushal LADHA, CFA
(66) 2658 6300 ext 1392
kaushal.l@maybank-ke.co.th
• Oil & Gas - Regional
• Petrochemicals - Regional
• Utilities

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
vanida.g@maybank-ke.co.th
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
yuwanee.p@maybank-ke.co.th
• Services • Healthcare

Ekachai TARAPORN TIP *Head of Retail Research*
(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
• Food & Beverage • Commerce

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

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

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

Theerasate PROMPONG
(66) 2658 5000 ext 1400
theerasate.p@maybank-ke.co.th
• Equity Portfolio Strategist

Apiwat TAVESIRIVATE
(66) 2658 5000 ext 1310
apiwat.t@maybank-ke.co.th
• Chartist and TFXE

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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 8849 8888
Fax: (63) 2 8848 5738

 **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

 **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

 **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**

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

 **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

 **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
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
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

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

 **Saudi Arabia**

In association with
Anfaal Capital
Ground Floor, KANOO Building
No.1 - Al-Faisaliyah, Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423