

Sunway Construction Group (SCGB MK)

3Q16: Slightly behind

BUY

Share Price MYR 1.62
 12m Price Target MYR 1.80 (+11%)
 Previous Price Target MYR 1.80

Maintain BUY

SCG's 9M16 results came in slightly behind our forecast due to slower-than-expected construction works recognition and lower precast margin. We trim our FY16/FY17/FY18 net profit forecasts by 5.0%/0.3%/0.8% after tweaking for works recognition and lowering precast EBIT margin assumption. We remain positive on SCG with its strong outstanding orderbook of MYR4.8b which should provide for decent earnings growth ahead. The stock stays our top mid-cap BUY in the construction sector.

Slower construction works recognition

3Q16 net profit of MYR31m (+21% YoY, flattish QoQ) brought 9M16 net profit to MYR92m (-7% YoY), meeting 68%/67% of ours/consensus full-year forecasts. The slight shortfall came from both the construction and precast segments. YoY, 3Q16 construction works recognition was slower due to the completion of the Sunway Pyramid Phase 3 and Afiniti Medini mixed development project which recorded substantial revenue in 3Q15. However, construction EBIT margin rose 7.1ppts YoY (+3.2ppts QoQ).

Precast margin affected by competition

Despite precast revenue increasing by 42% YoY (+14% QoQ) in 3Q16 on the back of higher sales volume, EBIT for the segment was lower at MYR13m (-40% YoY, -26% QoQ). EBIT margin fell 21.1ppts YoY (-8.5ppts QoQ) in the same quarter from stiffer competition which has led to lower sale prices. As such, we lower our FY16/FY17/FY18 precast EBIT margin assumption by 1.0ppts to reflect this. We also marginally tweak our forecasts on construction works recognition. Our FY16/FY17/FY18 net profit forecasts are lowered by 5.0%/0.3%/0.8% respectively.

Looking forward to 2017

SCG's outstanding orderbook of MYR4.8b, of which MYR2.6b was won this year, will support earnings growth moving into 2017. Total wins YTD has exceeded its internal target of MYR2.5b for 2016 (2015: MYR2.6b) while we have imputed MYR3b wins. Additionally, it is still eyeing jobs from the KVLRT 3, TRX and Gemas-JB double track rail. Sunway Bhd's property development projects will also continue to contribute to SCG's forward orderbook. No change to our TP of MYR1.80 pegged to 14x FY17 PER.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,881	1,917	2,330	2,528	2,437
EBITDA	151	178	196	241	250
Core net profit	114	128	128	164	172
Core EPS (sen)	8.8	9.9	9.9	12.7	13.3
Core EPS growth (%)	20.9	11.9	0.4	28.1	4.4
Net DPS (sen)	30.5	4.0	3.5	4.4	4.6
Core P/E (x)	18.3	16.4	16.3	12.7	12.2
P/BV (x)	6.3	4.6	3.9	3.3	2.8
Net dividend yield (%)	18.9	2.5	2.1	2.7	2.9
ROAE (%)	26.3	32.6	26.0	28.0	24.6
ROAA (%)	8.4	9.2	8.1	9.4	9.2
EV/EBITDA (x)	na	8.7	8.8	6.7	6.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	135	157	173
MKE vs. Consensus (%)	-	-	(5.0)	4.6	(0.8)

Wong Chew Hann
 wchewh@maybank-ib.com
 (603) 2297 8686

Adrian Wong
 adrian.wkj@maybank-ib.com
 (603) 2297 8675

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

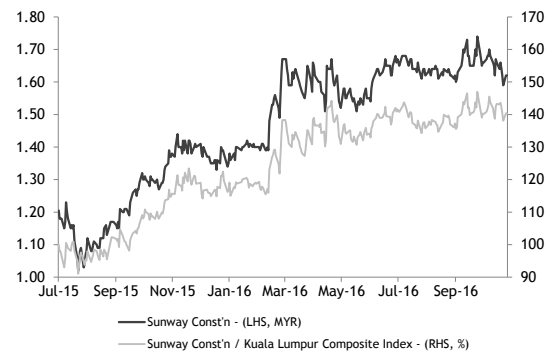
Statistics

52w high/low (MYR)	1.74/1.33
3m avg turnover (USDm)	0.7
Free float (%)	38.2
Issued shares (m)	1,293
Market capitalisation	MYR2.1B USD474M

Major shareholders:

Sunway Bhd.	54.4%
Sungei Way Corp. Sdn. Bhd.	6.8%
CHEAH FOOK LING	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	1	21
Relative to index (%)	(5)	4	23

Source: FactSet

Results summary table

FY Dec (RM m)	Quarterly results					Cumulative		
	3Q16	3Q15	% YoY	2Q16	% QoQ	9M16	9M15	% YoY
Turnover	381.1	450.3	(15.4)	430.3	(11.4)	1,235.7	1,446.6	(14.6)
EBIT	39.6	28.2	40.1	37.6	5.2	112.5	108.7	3.5
Net interest	0.8	2.0	(57.5)	0.5	63.9	3.5	2.7	29.0
Pre-tax profits	40.4	30.1	34.0	38.1	6.0	116.0	111.4	4.2
Tax	(9.1)	(4.9)	87.2	(6.8)	34.0	(24.4)	(13.9)	75.4
Minority Interests	(0.1)	0.5	NM	(0.0)	NM	(0.2)	0.4	NM
Net profit	31.1	25.7	21.0	31.3	(0.4)	91.5	97.9	(6.6)
	3Q16	3Q15	+/- ppt	2Q16	+/- ppt	9M16	9M15	+/- ppt
EBIT margin (%)	10.4	6.3	4.1	8.7	1.6	9.1	7.5	1.6
Pretax margin (%)	10.6	6.7	3.9	8.9	1.7	9.4	7.7	1.7
Tax rate (%)	22.6	16.2	6.4	17.9	4.7	21.0	12.5	8.5
Revenue	3Q16	3Q15	% YoY	2Q16	% QoQ	9M16	9M15	% YoY
Construction	301.3	394.0	(23.5)	360.5	(16.4)	1,035.6	1,246.4	(16.9)
Precast concrete	79.8	56.3	41.7	69.8	14.4	200.1	200.2	(0.1)
Total	381.1	450.3	(15.4)	430.3	(11.4)	1,235.7	1,446.6	(14.6)
EBIT								
Construction	27.1	7.5	259.8	20.7	30.6	71.7	51.6	38.8
Precast concrete	12.5	20.7	(39.8)	16.9	(26.0)	40.9	57.1	(28.4)
Total	39.6	28.2	40.4	37.6	5.3	112.5	108.7	3.5
EBIT margin (%)	3Q16	3Q15	+/- ppt	2Q16	+/- ppt	9M16	9M15	+/- ppt
Construction	9.0	1.9	7.1	5.8	3.2	6.9	4.1	2.8
Precast concrete	15.6	36.8	(21.1)	24.2	(8.5)	20.4	28.5	(8.1)
Total	10.4	6.3	4.1	8.7	1.6	9.1	7.5	1.6

Source: Maybank Kim Eng, Company

Sunway Construction: Orderbook of MYR4.8b

At end-Sept 2016	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 1, V4 (Sec 17 to Semantan)	1,173	47
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang) #	1,213	1,181
KVMRT 2, V201 - Advance Works #	53	53
Coastal Highway Southern Link	170	46
Building		
Putrajaya Parcel F	1,610	1,252
KLCC (NEC + Package 2 & 2a)	646	274
HUKM (MEP works) #	66	66
International School of KL #	268	268
Others	92	17
Internal		
Sunway Velocity 2 Mall & Link Bridge	370	33
Sunway Velocity Hotel & Office #	113	47
Sunway Velocity Medical Centre #	185	156
Sunway Geo Retail Shops & Flexi Suites	153	15
Sunway medical Centre 3 (sub & superstructure)	167	51
Sunway Medical Centre 4 (2 towers) #	428	412
Sunway Iskandar - Citrine Svc Apt	213	54
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	174
Sunway Iskandar 88 Units Shoplots	57	57
Sunway Iskandar - Emerald Residences	175	146
Sunway Iskandar - Retail Complex	100	100
Others	239	44
Precast	903	305
TOTAL	8,638	4,798

Secured in 2016 YTD; Source: Company

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	na	12.6	16.3	12.7	12.2
Core P/E (x)	18.3	16.4	16.3	12.7	12.2
P/BV (x)	6.3	4.6	3.9	3.3	2.8
P/NTA (x)	6.3	4.7	3.9	3.3	2.8
Net dividend yield (%)	18.9	2.5	2.1	2.7	2.9
FCF yield (%)	6.6	10.1	7.5	8.0	6.9
EV/EBITDA (x)	na	8.7	8.8	6.7	6.1
EV/EBIT (x)	na	11.4	11.0	8.0	7.4
INCOME STATEMENT (MYR m)					
Revenue	1,880.7	1,916.9	2,329.6	2,528.4	2,437.0
Gross profit	395.4	403.0	424.9	480.1	492.9
EBITDA	151.2	178.2	195.5	241.4	249.6
Depreciation	(41.6)	(41.9)	(39.0)	(40.3)	(42.1)
EBIT	109.6	136.3	156.5	201.2	207.4
Net interest income / (exp)	0.7	4.5	6.6	9.5	12.4
Associates & JV	30.4	(0.1)	0.0	0.0	0.0
Exceptionals	10.6	0.0	0.0	0.0	0.0
Pretax profit	151.3	140.8	163.1	210.7	219.9
Income tax	(26.5)	(13.0)	(34.8)	(46.3)	(48.2)
Minorities	0.1	0.0	0.0	0.0	0.0
Reported net profit	124.8	127.7	128.3	164.3	171.6
Core net profit	114.2	127.7	128.3	164.3	171.6
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	291.6	390.5	503.0	613.8	698.3
Accounts receivable	737.9	834.8	851.1	908.8	881.5
Inventory	20.2	17.3	26.1	28.1	26.6
Property, Plant & Equip (net)	178.7	162.5	167.8	175.6	179.7
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	24.2	0.0	0.0	0.0	0.0
Other assets	16.0	106.4	106.4	106.4	106.4
Total assets	1,272.2	1,515.1	1,658.0	1,836.3	1,896.2
ST interest bearing debt	135.1	136.8	136.8	136.8	136.8
Accounts payable	791.3	913.3	972.7	1,044.2	992.6
LT interest bearing debt	0.1	0.0	0.0	0.0	0.0
Other liabilities	17.0	13.0	13.0	13.0	13.0
Total Liabilities	943.9	1,063.5	1,122.9	1,194.4	1,142.8
Shareholders Equity	333.5	451.0	534.4	641.3	752.8
Minority Interest	(5.2)	0.6	0.6	0.6	0.6
Total shareholder equity	328.3	451.7	535.1	641.9	753.4
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,272.2	1,515.1	1,658.0	1,836.3	1,896.2
CASH FLOW (MYR m)					
Pretax profit	151.3	140.8	163.1	210.7	219.9
Depreciation & amortisation	41.6	41.9	39.0	40.3	42.1
Adj net interest (income)/exp	0.7	4.5	6.6	9.5	12.4
Change in working capital	14.1	111.7	34.3	11.8	(22.9)
Cash taxes paid	(28.5)	(29.6)	(34.8)	(46.3)	(48.2)
Other operating cash flow	4.7	(33.4)	(6.6)	(9.5)	(12.4)
Cash flow from operations	183.9	236.0	201.6	216.4	190.9
Capex	(45.7)	(24.3)	(44.3)	(48.0)	(46.3)
Free cash flow	138.2	211.7	157.4	168.4	144.6
Dividends paid	(428.0)	(70.0)	(44.9)	(57.5)	(60.1)
Change in Debt	46.5	1.6	0.0	0.0	0.0
Other invest/financing cash flow	394.3	(25.3)	0.0	0.0	0.0
Net cash flow	151.0	118.0	112.5	110.9	84.5

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	1.9	21.5	8.5	(3.6)
EBITDA growth	34.2	17.9	9.7	23.5	3.4
EBIT growth	56.8	24.4	14.8	28.5	3.1
Pretax growth	68.4	(7.0)	15.9	29.2	4.4
Reported net profit growth	86.5	2.3	0.4	28.1	4.4
Core net profit growth	20.9	11.9	0.4	28.1	4.4
Profitability ratios (%)					
EBITDA margin	8.0	9.3	8.4	9.5	10.2
EBIT margin	5.8	7.1	6.7	8.0	8.5
Pretax profit margin	8.0	7.3	7.0	8.3	9.0
Payout ratio	nm	40.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.7	5.5	6.5	7.0
Revenue/Assets (x)	1.5	1.3	1.4	1.4	1.3
Assets/Equity (x)	3.8	3.4	3.1	2.9	2.5
ROAE (%)	26.3	32.6	26.0	28.0	24.6
ROAA (%)	8.4	9.2	8.1	9.4	9.2
Liquidity & Efficiency					
Cash conversion cycle	(10.6)	(50.5)	(43.9)	(47.2)	(51.3)
Days receivable outstanding	168.3	147.7	130.3	125.3	132.2
Days inventory outstanding	5.5	4.5	4.1	4.8	5.1
Days payables outstanding	184.4	202.7	178.2	177.2	188.6
Dividend cover (x)	0.3	2.5	2.9	2.9	2.9
Current ratio (x)	1.1	1.3	1.3	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.4	1.5	1.5	1.7
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)	na	na	na	na	na
Debt/EBITDA (x)	0.9	0.8	0.7	0.6	0.5
Capex/revenue (%)	2.4	1.3	1.9	1.9	1.9
Net debt/ (net cash)	(156.4)	(253.6)	(366.1)	(477.0)	(561.5)

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_iliass@maybank-ib.com

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

JUNIMAN
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

MALAYSIA

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

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

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

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

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

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

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

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

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

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

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

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

HONG KONG / CHINA

Howard WONG *Head of Research*
(852) 2268 0648
howardwong@kimeng.com.hk
• Strategy
• 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
• Insurance

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

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

INDIA

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

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

Abhijeet KUNDU
(91) 22 6623 2628 abhijeet@maybank-ke.co.in
• Consumer

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

SINGAPORE

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

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)

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

Michael BENGSON *Head of Research*
(63) 2 849 8840
michael_bengson@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

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 • 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
yupapan.p@maybank-ke.co.th
• Oil & Gas

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1395
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Vorapoj Hongpinoy
(66) 2658 6300 ext 1392
Vorapoj.h@maybank-ke.co.th
• Real Estate & Contractors

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 PRAMUALCHAROENKIT
(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

Jarooppan WATTANAWONG
(66) 2658 6300 ext 1404
jarooppan.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
• Port operation • Pharmaceutical
• Food & Beverage

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

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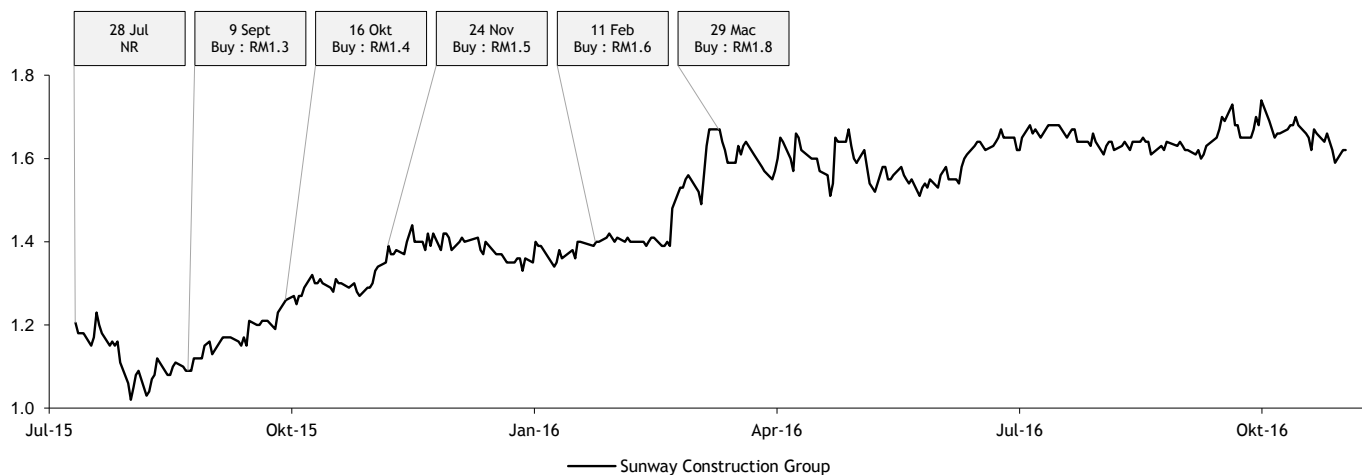
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Malaysia

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

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) 6636-3620
US Toll Free: 1-866-406-7447

Malaysia

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

Indonesia

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

New York

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

Vietnam

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

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,
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

Thailand

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

London

Scott Kinnear-Nock
SKinnear-nock@maybank-ke.co.uk
Tel: (44) 207-332-0221

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
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 8066 8500
Fax: (62) 21 8066 8501

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