

# Riverstone Holdings (RSTON SP)

Share Price: SGD1.78

MCap (USD): 474M

Singapore

Target Price: SGD2.12 (+19%)

ADTV (USD): 0.2M

Industrials

**BUY**

(Unchanged)

## Positive expansions & currency boost

- Expansions of Phase 2 & 3 are on track. Four out of six lines in Phase 2 have commenced production and the outstanding two lines are expected to start by Oct 15.
- Orders have been secured for the entire new capacity, up to end 2015. Positive outlook for next year on strong orders and currency boost.
- Maintain BUY & SGD2.12 TP. Catalysts from possible actions to boost stock liquidity and better-than-expected earnings.

### Site visit to expanding Taiping plants in Malaysia

We attended a site visit to Riverstone's new facilities, hosted by the company on 9 Oct 15 in Taiping, Malaysia. The program was well attended by c.10 sell side analysts. During the visit, we saw 1) Phase 1 facility, which started full production in 4Q14; 2) Phase 2 facility, is expected to complete in Oct-15, four out of six lines have commenced operations and two more are undergoing trial production; 3) Phase 3 facility, which is currently under construction and should be commissioned in 3Q16.

There is no change to Riverstone's plan to expand its production capacity in 5 phases of 1b pa., from 2014-18. By 2018, Riverstone's capacity would increase to 8.2b, from 5.2b in end-2015.

### Strong demand and currency boost; Maintain BUY

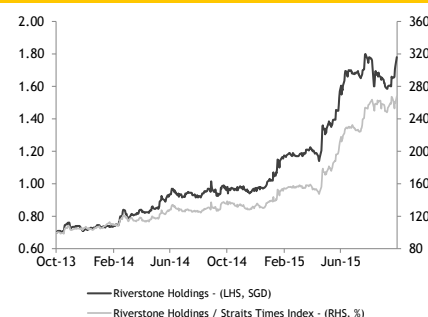
Importantly, management reaffirmed that orders have been fully secured for its existing and new capacity, up to end-2015. Furthermore, there should be no issue filling up the entire 2016 capacity as demand looks to be outpacing the additional supply. Certain orders may even have to be turned down due to capacity constraints and customers diversification strategy. Cleanroom gloves, which made up of c.70% of Riverstone's profit, are enjoying almost the full benefit of USD strength due to lack of competition. Riverstone has even secured new customers from Vietnam. On the other hand, ASP for the healthcare gloves has softened against rising competition. As a result, part of the currency benefit had to be passed on. Maintain BUY and TP of SGD2.12, this is at a slight discount to the average 21x target for its peers, for smaller size.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	357.9	399.3	583.9	675.6	776.6
EBITDA	91.0	99.7	153.3	174.9	195.7
Core net profit	55.5	68.0	106.2	123.6	139.1
Core EPS (sen)	14.9	18.3	28.6	33.3	37.5
Core EPS growth (%)	24.8	22.5	56.2	16.3	12.6
Net DPS (sen)	6.8	6.9	11.4	13.3	15.0
Core P/E (x)	35.3	28.8	18.4	15.9	14.1
P/BV (x)	6.1	5.3	4.5	3.8	3.3
Net dividend yield (%)	1.3	1.3	2.2	2.5	2.8
ROAE (%)	19.2	19.6	26.3	26.2	25.2
ROAA (%)	15.9	16.6	22.2	22.1	21.4
EV/EBITDA (x)	6.2	8.8	12.2	10.6	9.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

### Key Data

52w high/low (SGD)	1.80/0.94
3m avg turnover (USDm)	0.2
Free float (%)	28.4
Issued shares (m)	371
Market capitalization	SGD660.8M
Major shareholders:	
-Wong Teek Son	50.7%
-Lee Wai Keong	11.6%
-Wong Teck Choon	4.0%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	7.6	6.0	83.5
Relative to index (%)	3.6	15.9	97.3

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	4	2	0
	Maybank Consensus		% +/-
Target Price (SGD)	2.12	2.09	1.2
'15 PATMI (MYRm)	106	116	(8.4)
'16 PATMI (MYRm)	124	124	(0.3)

Source: FactSet; Maybank

John Cheong  
(65) 6231 5845  
johncheong@maybank-ke.com.sg

Figure 1: Phase 1 production lines - in operation



Source: Maybank KE

Figure 2: Phase 2 production line - to be completed soon



Source: Maybank KE

Figure 3: Gloves stripping station



Source: Maybank KE

Figure 4: Finished products waiting to be delivered



Source: Maybank KE

Figure 5: Finished products waiting to be delivered



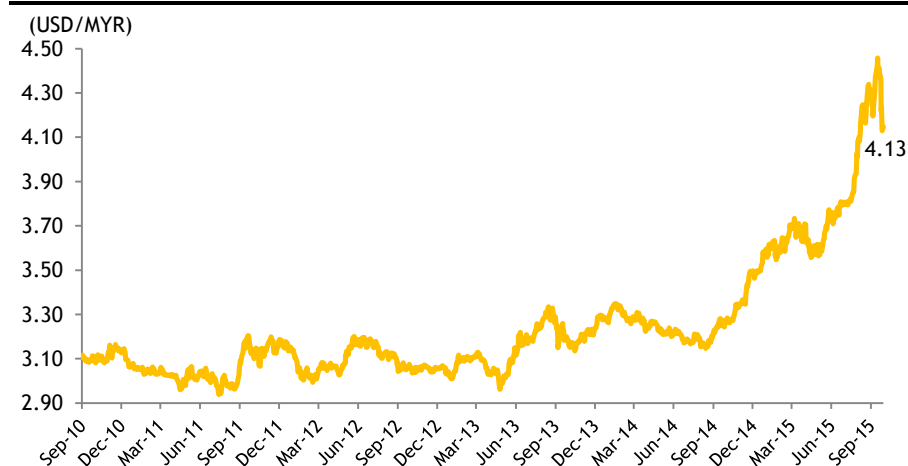
Source: Maybank KE

Figure 6: Phase 3 building under construction



Source: Maybank KE

**Figure 7: USD/MYR is near to its 5-year high**  
Riverstone has 3-6% net earnings exposure to USD



Source: Bloomberg

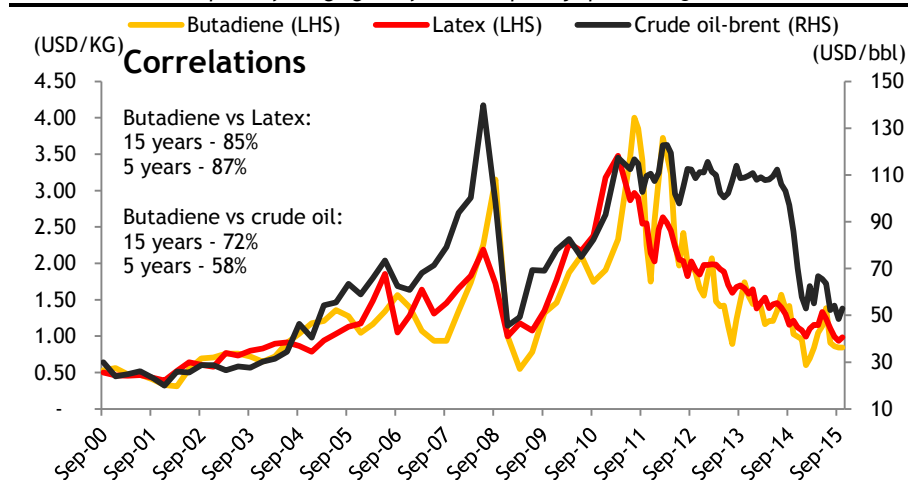
70-80% of its revenue - about 50% hedged - vs 40-50% of its cost of sales - is denominated in USD.

**Figure 2: Maybank's FX USD/MYR forecasts**  
Expected to average 3.91 in FY15, up 19.6% YoY

Forecast	1Q15	2Q15	3Q15	4Q15E	1Q16E	2Q16E	3Q16E
USD/MYR	3.62	3.65	4.41	4.35	4.40	4.20	4.10

Source: Bloomberg, Maybank FX Monthly (Sep 2015)

**Figure 8: Input prices remain in check**  
Butadiene and latex prices falling again after a temporary spike in 2Q15.



Source: Bloomberg

90% of Riverstone's gloves are made from nitrile. Its main raw material, butadiene, is a substitute for latex & a by-product of crude oil/natural gas.

Butadiene prices rose in 2Q15 due to temporary shortages from plant maintenance.

We estimate 0.3% EPS sensitivity to every 1% change in its raw-material prices.

**Figure 9: Valuation comparisons**  
Riverstone offers better EPS growth prospects and ROEs at lower P/E and EV/EBITDA valuations

	Rec	Curr	Share price* (LC)	Target price (LC)	Market cap (USD m)	P/E (x)		EBITDA margin (%)	3Y EPS CAGR (%)	EV/EBITDA (x)		ROE (%)		Div yield (%)
						FY15E	FY16E			FY15E	FY15E	FY15E	FY16E	
Riverstone	BUY	SGD	1.78	2.12	474	18.4	15.9	26.3	27.0	12.2	4.5	26.3	26.2	2.2
<b>Malaysia's top four</b>														
Hartalega	HOLD	MYR	4.79	4.25	1,898	28.2	22.8	29.5	19.4	18.5	5.6	20	20.6	1.6
Kossan Rubber	BUY	MYR	8.13	8.30	1,256	25.4	22.6	19.7	20.1	15.9	5.8	22.0	22.8	1.4
Top Glove	BUY	MYR	8.29	9.10	1,243	20.2	19.3	16.5	14.0	12.5	3.3	16.7	17.3	2.4
Supermax	NR	MYR	2.05	n/a	332	12.7	9.8	12.5	6.7	9.5	1.3	10.5	10.4	2.6
<b>Average excl Supermax*</b>						<b>24.6</b>	<b>21.6</b>	<b>21.9</b>	<b>17.8</b>	<b>15.6</b>	<b>4.9</b>	<b>19.6</b>	<b>20.2</b>	<b>1.8</b>
<b>Competitors</b>														
Ansell Ltd	NR	AUD	18.7	n/a	2,116	15.7	14.9	16.9	3.9	9.1	2.3	14.4	13.8	3.2
Kimberly Clark	NR	USD	114.73	n/a	41,793	20.0	18.6	21.6	3.7	12.1	46.3	258.2	170.0	3.0
<b>Average</b>						<b>17.9</b>	<b>16.8</b>	<b>19.3</b>	<b>3.8</b>	<b>10.6</b>	<b>24.3</b>	<b>136.3</b>	<b>91.9</b>	<b>3.1</b>

\* To derive our industry average, we exclude Supermax, which has been trading at undemanding valuations due to political factors.

As of market close on 12 Oct 2015

Source: Bloomberg, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	32.9	27.6	18.4	15.9	14.1
Core P/E (x)	35.3	28.8	18.4	15.9	14.1
P/BV (x)	6.1	5.3	4.5	3.8	3.3
P/NTA (x)	6.1	5.3	4.5	3.8	3.3
Net dividend yield (%)	1.3	1.3	2.2	2.5	2.8
FCF yield (%)	2.1	nm	2.6	3.2	4.8
EV/EBITDA (x)	6.2	8.8	12.2	10.6	9.3
EV/EBIT (x)	7.9	10.9	15.0	12.8	11.2

**INCOME STATEMENT (MYR m)**

Revenue	357.9	399.3	583.9	675.6	776.6
Gross profit	97.8	108.9	164.0	190.5	215.5
EBITDA	91.0	99.7	153.3	174.9	195.7
Depreciation	(19.0)	(19.4)	(28.8)	(30.0)	(32.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	72.0	80.4	124.6	144.9	163.0
Net interest income / (exp)	0.7	0.8	0.4	0.5	0.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	72.6	81.1	125.0	145.4	163.7
Income tax	(14.6)	(10.2)	(18.7)	(21.8)	(24.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	58.0	71.0	106.2	123.6	139.1
Core net profit	55.5	68.0	106.2	123.6	139.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	114.0	79.4	88.7	102.4	141.5
Accounts receivable	62.5	86.7	102.4	118.5	136.2
Inventory	35.7	42.1	65.6	75.8	87.6
Property, Plant & Equip (net)	153.4	227.6	258.8	303.8	331.0
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	14.9	4.9	2.1	2.1	2.1
<b>Total assets</b>	<b>380.5</b>	<b>440.8</b>	<b>517.6</b>	<b>602.5</b>	<b>698.5</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	39.3	50.4	69.0	79.7	92.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	19.0	19.0	13.0	13.0	13.0
<b>Total Liabilities</b>	<b>57.8</b>	<b>69.2</b>	<b>82.3</b>	<b>93.1</b>	<b>105.5</b>
Shareholders Equity	322.7	371.6	435.3	509.5	592.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>322.7</b>	<b>371.6</b>	<b>435.3</b>	<b>509.5</b>	<b>592.9</b>
<b>Total liabilities and equity</b>	<b>380.5</b>	<b>440.8</b>	<b>517.6</b>	<b>602.5</b>	<b>698.5</b>

**CASH FLOW (MYR m)**

Pretax profit	72.6	81.1	125.0	145.4	163.7
Depreciation & amortisation	19.0	19.4	28.8	30.0	32.7
Change in working capital	(2.1)	(25.2)	(20.5)	(15.5)	(17.1)
Cash taxes paid	(10.3)	(14.8)	(18.7)	(21.8)	(24.6)
Other operating cash flow	0.3	1.6	(3.1)	(0.5)	(0.7)
Cash flow from operations	80.2	62.8	111.8	138.1	154.8
Capex	(40.0)	(75.6)	(60.0)	(75.0)	(60.0)
Free cash flow	40.3	(12.6)	51.8	63.1	94.8
Dividends paid	(22.5)	(25.4)	(42.5)	(49.4)	(55.7)
Equity raised / (purchased)	31.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(40.7)	(74.4)	(60.0)	(75.0)	(60.0)
Effect of exch rate changes	1.9	2.4	0.0	0.0	0.0
Net cash flow	50.0	(34.6)	9.3	13.7	39.2

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	15.5	11.6	46.2	15.7	14.9
EBITDA growth	41.8	9.6	53.7	14.1	11.9
EBIT growth	49.9	11.7	55.0	16.3	12.5
Pretax growth	50.3	11.7	54.1	16.3	12.6
Reported net profit growth	46.2	22.4	49.7	16.3	12.6
Core net profit growth	42.2	22.5	56.2	16.3	12.6
<b>Profitability ratios (%)</b>					
EBITDA margin	25.4	25.0	26.3	25.9	25.2
EBIT margin	20.1	20.1	21.3	21.4	21.0
Pretax profit margin	20.3	20.3	21.4	21.5	21.1
Payout ratio	42.4	36.1	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	16.2	17.8	18.2	18.3	17.9
Revenue/Assets (x)	0.9	0.9	1.1	1.1	1.1
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	19.2	19.6	26.3	26.2	25.2
ROAA (%)	15.9	16.6	22.2	22.1	21.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	46.0	59.9	53.2	56.1	56.3
Days receivable outstanding	60.6	67.3	58.3	58.8	59.0
Days inventory outstanding	45.7	48.2	46.2	52.4	52.4
Days payables outstanding	60.3	55.6	51.2	55.2	55.2
Dividend cover (x)	2.4	2.8	2.5	2.5	2.5
Current ratio (x)	4.8	3.7	3.6	3.6	3.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	6.6	6.4	6.3	6.5	6.6
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	11.2	18.9	10.3	11.1	7.7
Net debt/ (net cash)	(114.0)	(79.4)	(88.7)	(102.4)	(141.5)

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\_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

**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

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

**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

**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 klo@kimeng.com.hk  
• Consumer Discretionary & Auto

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

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

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

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

**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

**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)

**Joshua TAN**  
(65) 6231 5850 joshuat@maybank-ke.com.sg  
• REITs (Retail, Industrial)

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

**TRUONG Thanh Hang**  
(65) 6231 5847 hang.truong@maybank-ke.com.sg  
• Small & Mid Caps

### INDONESIA

**Isnapura ISKANDAR** *Head of Research*  
(62) 21 2557 1129  
isnaputra.iskandar@maybank-ke.co.id  
• Strategy • Metals & Mining • Cement

**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

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

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

**Adhi TASMIN**  
(62) 21 2557 1209  
adhi.tasmin@maybank-ke.co.id  
• Plantations

### 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

**Arabelle MAGHIRANG**  
(63) 2 849 8838  
arabelle\_maghirang@maybank-atrke.com  
• Banks

### 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

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

**Mayuree CHOWVIKIRAN**  
(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

**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  
• 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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**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**

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**

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  
5<sup>th</sup> Floor, Aldermay 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 17<sup>th</sup> 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