

# ST Engineering (STE SP)

Share Price: SGD3.22

Target Price: SGD3.60 (+12%)

MCap (USD): 7.1B

ADTV (USD): 7M

Singapore  
Industrials

# BUY

 (Unchanged)

## Cyclical Upturn Still Within Sight

- 3Q15 missed, with 9M15 at 68.8% of our FY15F.
- Blamed on prolonged softness in aerospace & weak shipbuilding. Guidance cut to lower YoY PBT for 2015. We cut EPS by 11-16% for this & lower marine contributions.
- TP down 6% to SGD3.60, based on 20x FY16 P/E (10-year average), in view of stronger FY17 growth expected. Maintain BUY for potential rebound in aircraft MRO work.

### Guidance cut

3Q15 net income of SGD133.3m (+9.9% YoY, +6.6% QoQ) missed, with 9M at just 68.8% of our FY15F. Expectations of a stronger 2H15 did not materialise, attributed to prolonged softness in its aerospace MRO business and shipbuilding weakness. Group order backlog dwindled to SGD12.2b from SGD12.4b in 2Q15. Management cut its guidance and now expects 2015 PBT to be lower YoY, from its earlier guidance of a flat year and reiterates its intention for sustainable dividend payout of 75-80%.

### We cut EPS; Marine could stay weak

We cut our FY15-17 EPS by 12%/16%/11% to reflect the above as well as lower marine contributions given a lack of new orders. Margins have also been cut across the board as cost pressure persists.

### BUY ahead of cyclical upturn

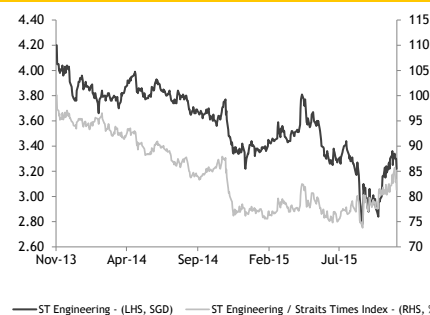
While our new forecasts imply a smaller EPS rebound next year, we believe that a cyclical rebound in aircraft maintenance workload remains in the works. Airlines are likely to increase capacity in response to lower oil prices and slow down their fleet retirement. These should drive a pick-up in maintenance workloads. We shave our TP from SGD3.85 to SGD3.60, based on 20x FY16 EPS, the 10-year P/E mean. This is in view of expectations for higher EPS growth in FY17. Maintain BUY.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	6,633.2	6,539.4	6,260.0	6,573.8	7,094.6
EBITDA	815.3	720.5	700.8	780.0	875.3
Core net profit	580.8	532.0	495.4	556.9	638.7
Core EPS (cts)	18.7	17.1	15.9	17.9	20.6
Core EPS growth (%)	(0.2)	(8.7)	(6.8)	12.7	14.7
Net DPS (cts)	15.0	15.0	12.8	13.5	15.4
Core P/E (x)	17.2	18.8	20.2	17.9	15.6
P/BV (x)	4.7	4.7	4.7	4.3	3.9
Net dividend yield (%)	4.7	4.7	4.0	4.2	4.8
ROAE (%)	29.0	25.0	23.4	25.1	26.2
ROAA (%)	6.9	6.2	6.0	6.6	7.3
EV/EBITDA (x)	14.4	14.1	13.2	11.7	10.4
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

### Key Data

52w high/low (SGD)	3.81/2.77
3m avg turnover (USDm)	7.3
Free float (%)	48.5
Issued shares (m)	3,122
Market capitalization	SGD10.1B
Major shareholders:	
-Temasek Holdings Pte Ltd.	49.8%
-Aberdeen Asset Management (Asia) Ltd.	9.1%
-Capital Research & Management Co.	5.0%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	4.5	(1.2)	(12.5)
Relative to index (%)	0.2	4.4	(4.8)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	8	4	0
	Maybank Consensus		% +/-
Target Price (SGD)	3.60	3.42	5.4
'15 PATMI (SGDm)	495	529	(6.4)
'16 PATMI (SGDm)	557	549	1.4

Source: FactSet; Maybank

Derrick Heng, CFA  
(65) 6231 5843  
derrickheng@maybank-ke.com.sg

Figure 1: Quarterly profit and loss

FYE 31 Dec	3Q14	2Q15	3Q15	Change		YTD15	% of FY	FY15E
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)	(SGD m)		(SGD m)
Revenue	1,552.9	1,545.1	1,500.0	(2.9)	(3.4)	4,556.4	68.9	6,610.0
EBITDA	183.9	195.8	167.9	(14.3)	(8.7)	518.2	63.4	816.9
D&A	(41.0)	(45.4)	(47.4)	4.2	15.4	(137.2)	76.7	(178.9)
EBIT	142.9	150.4	120.5	(19.9)	(15.6)	381.0	59.7	638.0
Net interest income/(expense)	(7.6)	(11.5)	12.0	(204.7)	(259.2)	0.5	(4.0)	(13.7)
Other items	4.7	5.4	6.8	26.2	44.5	32.9	86.7	38.0
Associates & JVs	11.6	14.2	15.4	8.0	31.9	40.7	101.9	40.0
PBT	151.7	158.5	154.7	(2.4)	2.0	463.7	66.0	702.3
Taxation	(31.6)	(34.0)	(22.3)	(34.5)	(29.5)	(75.3)	58.9	(127.7)
MI	1.2	0.4	0.8	85.8	(31.6)	(0.3)	2.6	(10.0)
Net income	121.3	125.0	133.3	6.6	9.9	388.2	68.8	564.5

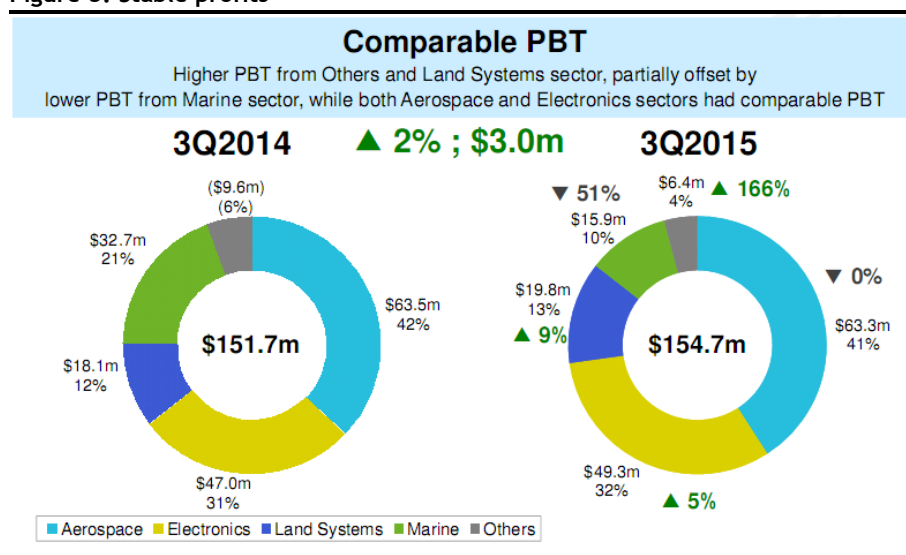
Source: Company, Maybank KE

Figure 2: Flat sales

Comparable Revenue						
\$m	3Q2015	%	3Q2014	%	Change	
Aerospace	506	34	470	30	▲	8%
Electronics	429	28	354	23	▲	21%
Land Systems	319	21	357	23	▼	11%
Marine	205	14	336	22	▼	39%
Others	41	3	36	2	▲	14%
Group	1,500	100	1,553	100	▼	3%

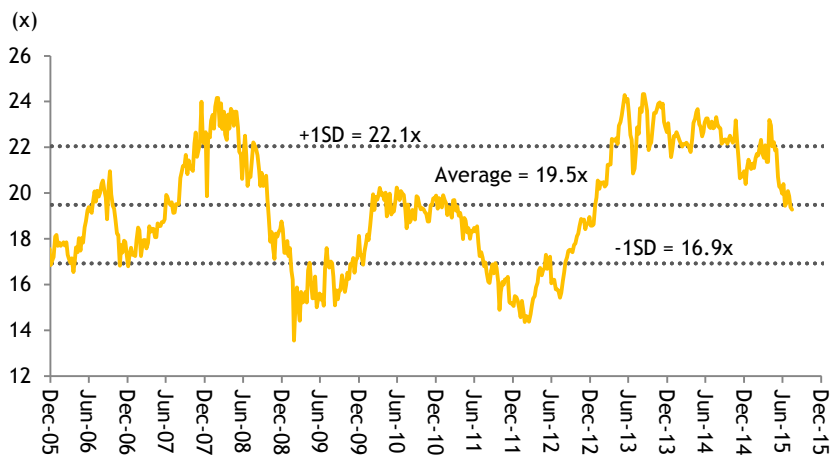
Source: Company

Figure 3: Stable profits



Source: Company

Figure 4: Forward P/E



Source: Bloomberg, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	17.2	18.8	20.2	17.9	15.6
Core P/E (x)	17.2	18.8	20.2	17.9	15.6
P/BV (x)	4.7	4.7	4.7	4.3	3.9
P/NTA (x)	6.8	6.9	6.9	6.0	5.2
Net dividend yield (%)	4.7	4.7	4.0	4.2	4.8
FCF yield (%)	6.1	3.9	8.8	4.6	4.7
EV/EBITDA (x)	14.4	14.1	13.2	11.7	10.4
EV/EBIT (x)	17.5	18.5	17.7	15.2	13.1

**INCOME STATEMENT (SGD m)**

Revenue	6,633.2	6,539.4	6,260.0	6,573.8	7,094.6
EBITDA	815.3	720.5	700.8	780.0	875.3
Depreciation	(142.0)	(170.5)	(178.9)	(182.2)	(185.9)
EBIT	673.2	550.0	521.9	597.8	689.4
Net interest income / (exp)	(8.8)	(1.6)	9.0	(4.7)	(1.4)
Associates & JV	31.1	57.2	50.0	60.0	65.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	34.2	45.2	38.0	40.0	40.0
Pretax profit	729.7	650.7	618.9	693.1	793.0
Income tax	(138.1)	(113.7)	(113.4)	(126.2)	(144.2)
Minorities	(10.7)	(5.0)	(10.0)	(10.0)	(10.0)
Perpetual securities	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	580.8	532.0	495.4	556.9	638.7
Core net profit	580.8	532.0	495.4	556.9	638.7

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	2,064.7	1,590.0	1,949.0	2,056.4	2,098.6
Accounts receivable	1,889.2	1,934.0	1,663.6	1,747.0	1,885.4
Inventory	1,807.5	1,802.1	1,629.7	1,698.4	1,823.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,520.4	1,577.5	1,614.8	1,648.5	1,691.1
Intangible assets	638.4	671.0	659.9	649.0	638.3
Investment in Associates & JVs	462.1	478.4	488.4	500.4	513.4
Other assets	324.3	266.3	266.3	266.3	266.3
<b>Total assets</b>	<b>8,706.6</b>	<b>8,319.3</b>	<b>8,271.6</b>	<b>8,566.0</b>	<b>8,916.3</b>
ST interest bearing debt	434.3	74.7	74.7	74.7	74.7
Accounts payable	1,629.7	1,696.5	1,675.4	1,746.1	1,874.3
LT interest bearing debt	961.4	955.2	955.2	955.2	955.2
Other liabilities	3,421.0	3,328.0	3,328.0	3,328.0	3,328.0
<b>Total Liabilities</b>	<b>6,446.7</b>	<b>6,054.7</b>	<b>6,033.5</b>	<b>6,104.2</b>	<b>6,232.5</b>
Shareholders Equity	2,116.2	2,132.2	2,104.7	2,327.3	2,548.4
Minority Interest	143.7	132.4	133.4	134.4	135.4
<b>Total shareholder equity</b>	<b>2,259.9</b>	<b>2,264.6</b>	<b>2,238.1</b>	<b>2,461.7</b>	<b>2,683.8</b>
<b>Total liabilities and equity</b>	<b>8,706.6</b>	<b>8,319.3</b>	<b>8,271.6</b>	<b>8,566.0</b>	<b>8,916.3</b>

**CASH FLOW (SGD m)**

Pretax profit	729.7	650.7	618.9	693.1	793.0
Depreciation & amortisation	142.0	170.5	178.9	182.2	185.9
Adj net interest (income)/exp	8.8	1.6	(9.0)	4.7	1.4
Change in working capital	112.0	(79.4)	421.6	(81.5)	(134.9)
Cash taxes paid	(110.0)	(132.8)	(113.4)	(126.2)	(144.2)
Other operating cash flow	137.6	122.9	63.4	66.2	79.2
Cash flow from operations	910.2	600.7	1,047.0	612.4	636.1
Capex	(339.0)	(250.1)	(205.0)	(205.0)	(217.8)
Free cash flow	557.6	336.7	813.3	379.4	394.3
Dividends paid	(521.3)	(498.9)	(498.6)	(334.3)	(417.7)
Equity raised / (purchased)	52.1	17.3	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	28.2	(393.5)	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	27.2	20.9	15.6	34.3	41.6
Effect of exch rate changes	17.7	(0.3)	0.0	0.0	0.0
Net cash flow	220.0	(458.3)	359.0	107.4	42.2

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.0	(1.4)	(4.3)	5.0	7.9
EBITDA growth	2.5	(11.6)	(2.7)	11.3	12.2
EBIT growth	2.3	(18.3)	(5.1)	14.5	15.3
Pretax growth	2.0	(10.8)	(4.9)	12.0	14.4
Reported net profit growth	0.8	(8.4)	(6.9)	12.4	14.7
Core net profit growth	0.8	(8.4)	(6.9)	12.4	14.7
<b>Profitability ratios (%)</b>					
EBITDA margin	12.3	11.0	11.2	11.9	12.3
EBIT margin	10.1	8.4	8.3	9.1	9.7
Pretax profit margin	11.0	10.0	9.9	10.5	11.2
Payout ratio	80.1	87.8	80.2	75.0	75.0
<b>DuPont analysis</b>					
Net profit margin (%)	8.8	8.1	7.9	8.5	9.0
Revenue/Assets (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	4.1	3.9	3.9	3.7	3.5
ROAE (%)	29.0	25.0	23.4	25.1	26.2
ROAA (%)	6.9	6.2	6.0	6.6	7.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	98.7	105.2	103.4	93.4	92.2
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.2	1.1	1.2	1.3	1.3
Current ratio (x)	1.4	1.4	1.4	1.5	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.4	1.4
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	76.6	nm	na	nm	nm
Debt/EBITDA (x)	1.7	1.4	1.5	1.3	1.2
Capex/revenue (%)	5.1	3.8	3.3	3.1	3.1
Net debt/ (net cash)	(669.0)	(560.1)	(919.1)	(1,026.5)	(1,068.7)

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 kll@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

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

**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, CFA**  
(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 isnapura.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\_rodriago@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 CHOWVIKARN**  
(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) 8 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