

## Sasseur REIT (SASSR SP)

# Another strong quarter; 4Q18 should be even better

### Strong 3Q18 results, maintain BUY

Sasseur REIT reported another strong set of earnings with DPU of SGD1.542cts, 4.5% ahead of its IPO projection. Sales growth momentum was strong in 3Q18 at between 19-91% YoY, outpacing our 3-40% growth forecasts for its four outlet malls; we expect this to pick up into the seasonally-strongest 4Q. Our forecasts and DDM-based SGD0.90 TP (WACC: 10.7%, LTG: 3.0%) are unchanged. With downside protection from its risk-absorbing EMA structures, the risk to DPU lies to the upside given stronger-than-expected sales performance so far. BUY.

### Portfolio sales jumped 36% YoY

Total portfolio sales jumped 35.7% YoY to CNY1.13b (SGD222.1m) or 7.9% ahead of its IPO projection. Its NPI or rental income from embedded entrusted management agreements (EMAs) was SGD29.1m or 0.7% ahead of its forecast, while its DPU of SGD1.542cts was 4.5% ahead of the SGD1.476cts guidance. This is a seasonally strong quarter for sales - typically at 25% of the full year according to management, with higher sales per unit and per customer of fashion items in the autumn-winter season. We expect the momentum to pick up in 4Q to achieve 30% of full-year. 3Q18 DPU would have met 25.7% of our FY18 estimate provided for by the EMA structure resulting in an annualised DPU yield of 8.9%.

### Strong sales momentum across all four malls

All four outlet malls reported stronger performance ahead of its IPO projections. These were helped by successful anniversary activities in Sep 2018, which achieved first-day record sales growth of between +44% YoY to +139% YoY for the outlets. The sales growth during the quarter for the Hefei and Kunming outlets at +60.3% YoY and +91.1% YoY, respectively exceeded our 35% YoY and 40% YoY estimates. Meanwhile, the Chongqing outlets in their 11<sup>th</sup> year of operation, delivered 18.5% YoY sales growth, up from +16.5% YoY in the first quarter (28 Mar to 30 Jun). Portfolio occupancy was steady at 94.4%, with transitional vacancies arising from its annual tenant reshuffling efforts in Sep. We see steady improvement in occupancies on the back of stronger tenant sales growth.

### Sponsor pushing ahead on growth

Its sponsor, with a strengthening management track record, continues to eye opportunities to implement its 'N+1' super outlet business model into other third-party underperforming malls. As such, the Changsha outlet is targeted to open in 4Q, and it's amongst others in an expanding portfolio that could add to its medium-term ROFR pipeline.

FYE Dec (SGD m)	FY16A	FY17E	FY18E	FY19E
Revenue	89	107	115	124
Net property income	89	107	115	124
Core net profit	27	56	64	74
Core EPU (cts)	2.7	4.7	5.4	6.2
Core EPU growth (%)	na	75.0	15.2	14.7
DPU (cts)	2.7	4.7	5.4	6.2
DPU growth (%)	na	75.0	15.2	14.7
P/NTA (x)	na	0.8	0.8	0.8
DPU yield (%)	na	6.9	8.0	9.2
ROAE (%)	na	6.0	6.6	7.3
ROAA (%)	na	3.7	4.1	4.6
Debt/Assets (x)	0.35	0.35	0.33	0.33
Consensus DPU	-	4.7	4.6	6.3
MKE vs. Consensus (%)	-	0.4	16.9	(0.6)

Chua Su Tye

chuasutye@maybank-ke.com.sg

(65) 6231 5842

## BUY

Share Price	SGD 0.68
12m Price Target	SGD 0.90 (+32%)
Previous Price Target	SGD 0.90

### Company Description

Sasseur REIT focuses on real estate used primarily for retail outlet malls in Asia.

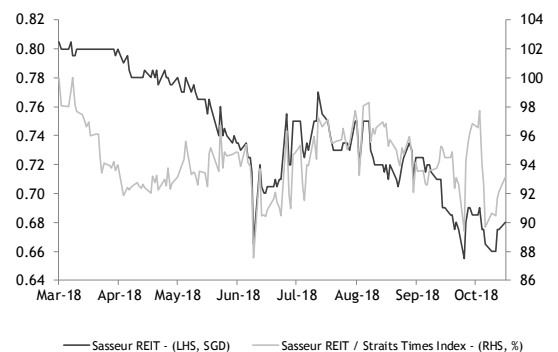
### Statistics

52w high/low (SGD)	na/na
3m avg turnover (USDm)	0.2
Free float (%)	40.5
Issued shares (m)	1,180
Market capitalisation	SGD802.6M
	USD581M

### Major shareholders:

XU VITO	58.1%
TMB Asset Management Co., Ltd.	2.2%
Catterton Management Co. LLC	1.4%

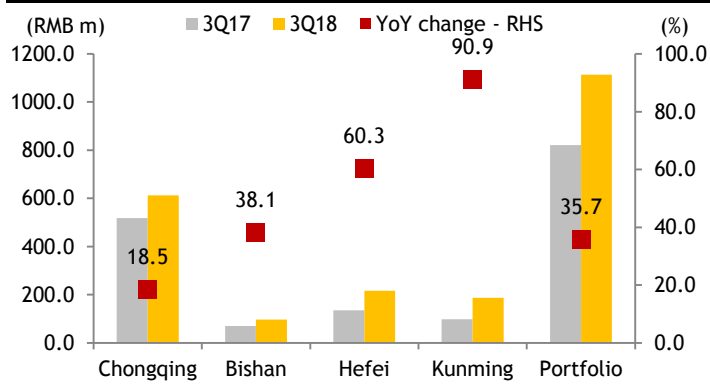
### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(10)	na
Relative to index (%)	(2)	(4)	na

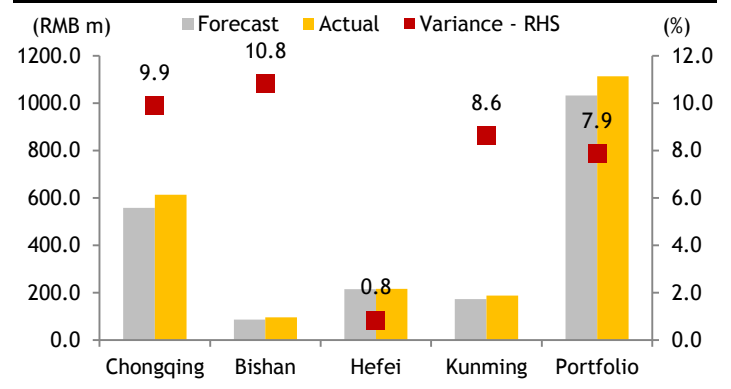
Source: FactSet

**Fig 1: Total portfolio sales jumped 35.7% YoY**



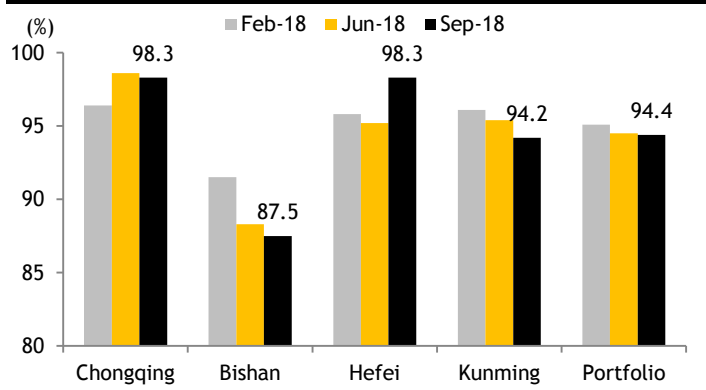
Source: Company data. 2017 figures are pro-forma

**Fig 2: ... and exceeded the company forecast by 7.9%**



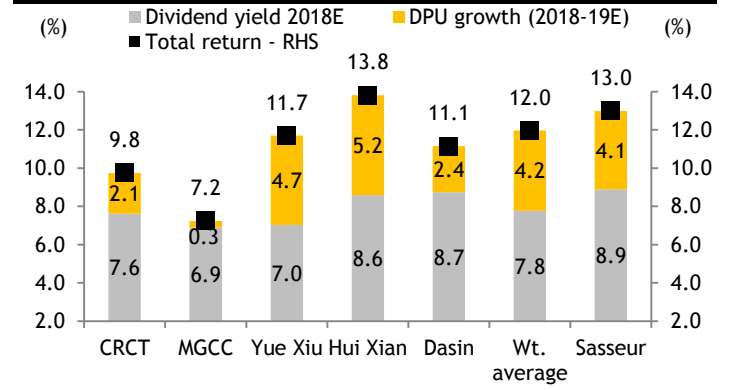
Source: Company data

**Fig 3: Portfolio occupancy steady; slight dips from transitional vacancies with the Sep annual tenant reshuffling exercise**



Source: Company data. 2017 figures are pro-forma

**Fig 4: It stacks up well amongst China-focused retail REITs on 2018E dividend yield and projected total return**



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: S-REIT valuation comparison

Company	Rating	Price	TP	Upside	Yield	Total	MC	ADTV	Free	BVPS	P/BV	Dividend yield (%)				Gearing
		(SGD)	(SGD)	(%)	(%)	return	(SGD b)	(SGD m)	Float	(SGD)	(x)	17	18E	19E	20E	(D/A)
<b>Retail</b>							<b>13.9</b>	<b>25.4</b>			<b>0.97</b>	<b>5.9</b>	<b>5.8</b>	<b>5.9</b>	<b>6.1</b>	<b>31</b>
Capita Mall Trust (CMT)	Hold	2.13	2.15	0.9	5.4	6.3	7.8	21.7	66	2.03	1.05	5.3	5.4	5.4	5.6	32
Frasers Ctr Trust (FCT)	Buy	2.16	2.55	18.1	5.5	23.6	2.0	1.7	58	2.08	1.04	5.5	5.5	5.7	6.0	29
Starhill Global (SGREIT)	Hold	0.68	0.65	(4.4)	6.7	2.3	1.5	1.2	65	0.91	0.75	7.2	6.7	7.0	7.0	36
SPH REIT	Hold	1.00	1.00	0.5	5.5	6.0	2.6	0.8	25	0.94	1.05	5.5	5.5	5.7	5.8	26
<b>Retail &amp; Office</b>							<b>9.4</b>	<b>19.0</b>			<b>0.97</b>	<b>5.6</b>	<b>5.7</b>	<b>5.7</b>	<b>5.9</b>	<b>37</b>
Suntec REIT (SUN)	Hold	1.75	1.94	10.9	5.8	16.7	4.7	9.7	72	2.08	0.84	5.7	5.8	5.8	6.0	38
Mapletree Comm. (MCT)	Hold	1.63	1.60	(1.8)	5.6	3.7	4.7	9.3	66	1.49	1.10	5.6	5.6	5.7	5.8	35
<b>Office</b>							<b>12.7</b>	<b>25.0</b>			<b>0.77</b>	<b>6.9</b>	<b>6.8</b>	<b>6.8</b>	<b>6.7</b>	<b>36</b>
CapitaLand Comm. (CCT)	Hold	1.69	1.80	6.5	5.3	11.8	6.3	17.3	70	1.81	0.93	5.1	5.3	5.3	5.3	35
Keppel REIT (KREIT)	Hold	1.13	1.19	5.3	5.5	10.8	3.9	5.3	53	1.40	0.81	5.0	5.5	5.7	5.8	39
Frasers Comm. (FCOT)	NR	1.36					1.2	1.7	74	1.60	0.85	7.2	7.1	7.1	7.1	28
OUE Comm. (OUECT)	NR	0.47					1.3	0.7	29	0.92	0.51	10.1	9.3	9.1	8.5	40
<b>Industrial</b>							<b>22.7</b>	<b>55.5</b>			<b>1.04</b>	<b>7.5</b>	<b>7.4</b>	<b>7.6</b>	<b>7.8</b>	<b>36</b>
Ascendas REIT (AREIT)	Buy	2.55	2.95	15.7	6.3	22.0	7.9	29.4	81	2.13	1.20	6.3	6.3	6.6	6.8	33
Mapletree Ind. (MINT)	Buy	1.86	2.20	18.3	6.8	25.1	3.5	5.7	68	1.46	1.28	6.3	6.8	7.2	7.5	36
Mapletree Log. (MLT)	Hold	1.22	1.30	6.6	6.5	13.0	4.4	8.9	69	1.13	1.08	6.3	6.5	6.6	6.7	38
Cache Logistics Trust	Buy	0.68	0.90	32.4	9.1	41.4	0.7	1.8	90	0.70	0.97	9.7	9.1	9.2	9.6	36
AIMS AMP (AAREIT)	Buy	1.30	1.50	15.4	8.1	23.5	0.9	1.5	87	1.37	0.95	7.5	8.1	8.1	8.1	34
Keppel DC REIT (KDCREIT)	NR	1.35					1.8	5.3	75	1.01	1.34	5.3	5.7	5.9	6.3	32
ESR REIT	NR	0.49					1.6	1.0	58	0.68	0.72	7.8	8.1	8.3	8.8	30
Soilbuild BS REIT	NR	0.58					0.6	0.7	66	0.64	0.90	9.9	8.7	8.8	n.a.	39
Sabana SC Ind. REIT	NR	0.40					0.4	0.3	72	0.53	0.76	n.a.	n.a.	n.a.	n.a.	39
<b>Hospitality &amp; Residential</b>							<b>8.7</b>	<b>7.0</b>			<b>0.85</b>	<b>6.8</b>	<b>6.8</b>	<b>7.1</b>	<b>7.4</b>	<b>36</b>
Ascott Res. Trust (ART)	Hold	1.07	1.15	7.5	6.7	14.2	2.3	1.8	55	1.23	0.87	7.0	6.7	6.8	6.9	36
CDL HT (CDLHT)	Buy	1.48	1.75	18.2	6.1	24.4	1.8	2.3	63	1.52	0.98	6.2	6.1	6.4	6.7	34
OUE HT (OUEHT)	NR	0.70					1.3	1.0	51	0.76	0.92	7.3	7.3	7.7	8.3	39
Far East HT (FEHT)	Buy	0.61	0.75	23.0	7.0	29.9	1.1	1.0	40	0.87	0.70	6.5	7.0	7.3	7.7	40
Frasers HT (FHT)	Buy	0.69	0.80	15.9	7.0	22.9	1.3	0.5	38	0.78	0.89	6.9	7.0	7.3	7.6	34
Ascendas HT (AHT)	NR	0.78					0.9	0.4	64	1.01	0.77	n.a.	n.a.	n.a.	n.a.	31
<b>Offshore REITs</b>							<b>15.2</b>	<b>15.4</b>			<b>0.85</b>	<b>8.2</b>	<b>7.9</b>	<b>8.2</b>	<b>8.3</b>	<b>35</b>
Sasseur REIT	Buy	0.68	0.90	33.3	8.9	42.2	0.8	0.3	22	0.91	0.74	n.a.	8.9	9.2	9.5	33
Mapletree Greater China	NR	1.11					3.5	6.8	69	1.33	0.84	6.7	6.9	6.9	7.0	39
CapitaLand Retail China	NR	1.38					1.4	1.4	62	1.71	0.81	7.3	7.6	7.8	8.1	36
Fortune REIT (HKD)	NR	8.75					3.0	0.4	72	16.09	0.54	5.8	6.0	6.1	6.5	27
Lippo Malls Ind. RT	NR	0.24					0.7	1.2	63	0.30	0.80	14.2	10.8	10.8	11.3	35
Manulife REIT (USD)	NR	0.78					1.4	1.2	93	0.83	0.94	7.6	7.3	7.9	8.1	37
Keppel_KBS US REIT	NR	0.59					0.5	0.4	86	0.89	0.66	n.a.	10.2	10.7	10.8	33
IREIT Global	NR	0.74					0.5	0.1	31	0.69	1.07	n.a.	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.66					0.3	0.0	37	0.83	0.79	n.a.	n.a.	n.a.	n.a.	33
Frasers Log. & Ind. (FLT)	NR	1.05					2.1	3.5	79	0.92	1.14	7.3	6.5	6.6	6.7	35
EC World REIT	NR	0.69					0.5	0.2	42	0.91	0.75	8.6	n.a.	n.a.	n.a.	31
Cromwell REIT (EUR)	NR	0.55					1.4	0.2	28	0.53	1.04	n.a.	7.6	8.4	8.2	35
<b>Healthcare</b>							<b>2.5</b>	<b>2.4</b>			<b>1.32</b>	<b>6.2</b>	<b>6.1</b>	<b>6.3</b>	<b>6.4</b>	<b>36</b>
Parkway Life REIT	NR	2.61					1.6	1.4	54	1.76	1.48	5.1	4.7	5.0	5.0	38
First REIT	NR	1.17					0.9	1.0	60	1.01	1.16	7.3	7.5	7.7	7.7	34
<b>Total REITs</b>							<b>85</b>	<b>150</b>			<b>0.93</b>	<b>7.1</b>	<b>7.0</b>	<b>7.2</b>	<b>7.3</b>	<b>35</b>
<b>S-REIT yield spread</b>																
FSTREI Index																2.6
SGS 10Y bond yield																5.2
																2.5

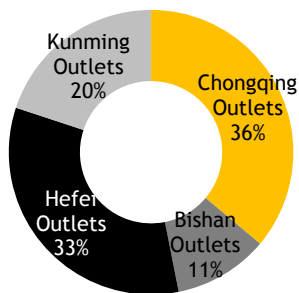
Prices as of 9 Nov 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

## Value Proposition

- Sponsor is an established operator of retail outlet malls backed by strategic shareholders, L Catterton Asia Advisers and Ping An Real Estate Company Ltd.
- REIT owns four outlet mall properties with 304,573 sqm in NLA and a total appraised value of CNYB7.34b (SGD1.48b) strategically located in China's fast-growing Tier-2 cities of Chongqing, Hefei and Kunming.
- Distributions protected on the downside with minimum rental guarantees until FY19, while embedded 10-plus-10-year entrusted management agreements (EMAs) enjoy growth upside from sales-based leases.
- Has ROFR to two properties owned by its sponsor, which could expand the portfolio GFA by 0.9x, and including three pipeline properties, could triple its initial total NLA.

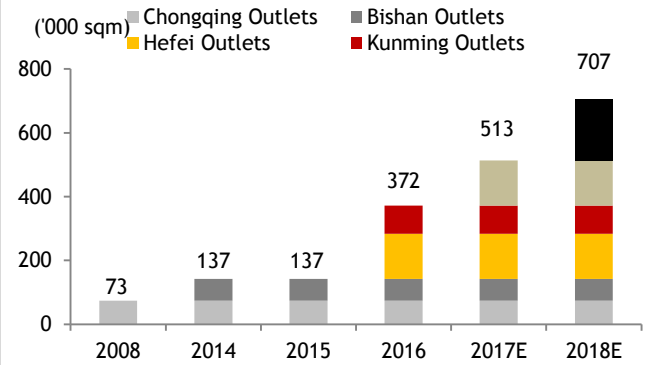
### Valuation breakdown (as of Sep 2017)



Source: Company

## Growth Pipeline

### Opening of outlet malls by GFA (2008-2018E)



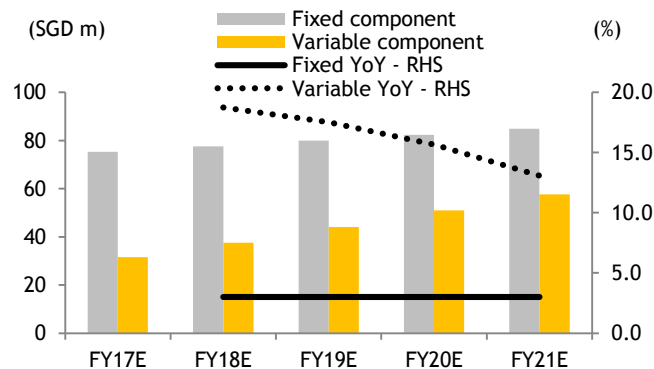
Source: Company, Maybank Kim Eng

1. Sasseur REIT has a ROFR to two properties owned by its sponsor - Xi'An Outlets Plaza and Guiyang Outlets Plaza. Both are expected to commence operations in 1H18.
2. Its sponsor also manages three pipeline properties owned by third parties in Hangzhou, Nanjing, and Changchun, and has been granted ROFR from each owner to acquire their respective properties, and will offer these to the REIT under similar ROFR terms.
3. Its portfolio GFA could expand by 335,000 sqm or 0.9x with the acquisition of the two ROFR properties and by 700,000 sqm with all five properties. This would triple the total NLA of its initial portfolio.
4. Acquisitions could be funded by debt, given substantial headroom. We estimate headroom at SGD700-850m on 40-45% aggregate leverage.

## Financial Metrics

- EMA resultant rent forecast at +7.4% CAGR from FY17-21E, with each property's sales growth based on its maturity profile; +30-40% for Hefei / Kunming properties, which opened in May 2016 / Dec 2016, compared to +3% for Chongqing which opened in 2008.
- 100.0% of available income for distribution is distributed for FY17E, FY18E and FY19E on a semi-annual basis. Distributions to be at least 90.0% over the longer term, from FY20 onwards.
- EMAs promise DPU yields of 7.5% / 7.8% for FY18 / FY19, implying +4.1% YoY growth in FY19.

### EMA resultant rent growth profile



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Stronger-than-expected growth in leasing demand for retail space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

### Downside

- Prolonged slowdown in economic activity and consumption expenditure could reduce demand for retail space, resulting in lower occupancy and rental rates.
- Termination of leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

FYE 31 Dec	FY16A	FY17E	FY18E	FY19E
<b>Key Metrics</b>				
Price/DPU(x)	na	14.4	12.5	10.9
P/BV (x)	na	0.9	0.8	0.8
P/NTA (x)	na	0.8	0.8	0.8
DPU yield (%)	na	6.9	8.0	9.2
FCF yield (%)	na	10.2	18.2	12.6
<b>INCOME STATEMENT (SGD m)</b>				
Revenue	89.4	106.9	115.1	124.0
<b>Net property income</b>	<b>89.4</b>	<b>106.9</b>	<b>115.1</b>	<b>124.0</b>
Management and trustee fees	(5.1)	(7.6)	(8.2)	(8.5)
Net financing costs	(24.2)	(25.2)	(26.5)	(26.7)
Associates & JV	0.0	0.0	0.0	0.0
Exceptionals	(2.5)	4.5	(4.0)	4.0
Other pretax income/expenses	0.6	1.9	0.4	1.4
<b>Pretax profit</b>	<b>44.7</b>	<b>79.0</b>	<b>75.3</b>	<b>92.9</b>
Income tax	(16.8)	(25.5)	(22.6)	(22.4)
Minorities	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0
<b>Total return avail to unitholders</b>	<b>27.3</b>	<b>55.7</b>	<b>64.3</b>	<b>74.4</b>
Distributable inc to unitholders	27.3	55.7	64.3	74.4
<b>BALANCE SHEET (SGD m)</b>				
Cash & Short Term Investments	68.5	64.6	65.5	66.3
Accounts receivable	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0
Investment properties	1,386.1	1,386.1	1,488.4	1,488.4
Intangible assets	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0
Other assets	52.3	52.3	52.3	52.3
<b>Total assets</b>	<b>1,506.9</b>	<b>1,503.0</b>	<b>1,606.2</b>	<b>1,607.1</b>
ST interest bearing debt	0.0	0.0	0.0	0.0
Accounts payable	15.9	16.7	17.5	18.4
LT interest bearing debt	527.2	522.6	522.6	522.6
Other liabilities	41.9	41.9	41.9	41.9
<b>Total Liabilities</b>	<b>585.0</b>	<b>581.1</b>	<b>582.0</b>	<b>582.9</b>
Shareholders Equity	921.8	921.8	1,024.2	1,024.2
Minority Interest	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>921.8</b>	<b>921.8</b>	<b>1,024.2</b>	<b>1,024.2</b>
<b>Total liabilities and equity</b>	<b>1,506.9</b>	<b>1,503.0</b>	<b>1,606.2</b>	<b>1,607.1</b>
<b>CASH FLOW (SGD m)</b>				
<b>Cash flow from operations</b>	<b>59.2</b>	<b>81.7</b>	<b>146.4</b>	<b>102.1</b>
Capex	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	1.9	0.4	1.4
<b>CF from investing activities</b>	<b>0.0</b>	<b>1.9</b>	<b>0.4</b>	<b>1.4</b>
Dividends paid	(18.2)	(55.7)	(70.7)	(74.5)
Interest expense	(21.1)	(27.1)	(26.9)	(28.1)
Change in debt	43.1	(4.7)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	347.7	0.0
Other financial activities	0.0	0.0	(396.0)	0.0
<b>CF from financing activities</b>	<b>3.8</b>	<b>(87.5)</b>	<b>(145.9)</b>	<b>(102.6)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>62.9</b>	<b>(3.9)</b>	<b>0.8</b>	<b>0.9</b>

FYE 31 Dec	FY16A	FY17E	FY18E	FY19E
<b>Key Ratios</b>				
<b>Growth ratios (%)</b>				
Revenue growth	na	19.6	7.7	7.7
Net property income growth	na	19.6	7.7	7.7
Core net profit growth	na	104.2	15.6	15.6
Distributable income growth	na	104.2	15.6	15.6
<b>Profitability ratios (%)</b>				
Net property income margin	100.0	100.0	100.0	100.0
Core net profit margin	30.5	52.1	55.9	60.0
Payout ratio	100.0	100.0	100.0	100.0
<b>DuPont analysis</b>				
Total return margin (%)	30.5	52.1	55.9	60.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.6
ROAE (%)	na	6.0	6.6	7.3
ROAA (%)	na	3.7	4.1	4.6
<b>Leverage &amp; Expense Analysis</b>				
Asset/Liability (x)	2.6	2.6	2.8	2.8
Net gearing (%) (excl. perps)	49.8	49.7	44.6	44.5
Net interest cover (x)	2.9	3.9	4.0	4.3
Debt/EBITDA (x)	7.4	5.3	5.0	4.6
Capex/revenue (%)	0.0	0.0	0.0	0.0
Net debt/ (net cash)	458.7	457.9	457.1	456.2
Debt/Assets (x)	0.35	0.35	0.33	0.33

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

### 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  
(65) 6231 5844  
leejuye@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, 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) 6231 5831  
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

#### Derrick HENG, CFA

(65) 6231 5843 derrickheng@maybank-ke.com.sg  
• Property • REITs (Office)

#### Luis HILADO

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

#### LAI Gene Lih, CFA

(65) 6231 5832 laigenelih@maybank-ke.com.sg  
• Technology

### HONG KONG / CHINA

#### Mitchell KIM

*Head of Research*  
(852) 2268 0634 mitchellkim@kimeng.com.hk  
• Internet & Telcos

#### Christopher WONG

(852) 2268 0652  
christopherwong@kimeng.com.hk  
• HK & China Properties

#### Jacqueline KO, CFA

(852) 2268 0633 jacquelineko@kimeng.com.hk  
• Consumer Staples & Durables

#### Ricky NG, CFA

(852) 2268 0689 rickyng@kimeng.com.hk  
• Regional Renewables  
• HK & China Properties

#### Stefan CHANG, CFA

(852) 2268 0675 stefanchang@kimeng.com.hk  
• Technology • Regional

#### Tony REN, CFA

(852) 2268 0640 tonyren@kimeng.com.hk  
• Healthcare & Pharmaceutical

#### Wendy LI

(852) 2268 0647 wendyli@kimeng.com.hk  
• Consumer & Auto

### 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

#### Isnapura 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

#### Ornmongkol TANTITANATORN

(66) 2658 6300 ext 1395  
ormmongkol.t@maybank-ke.co.th  
• Power & Utilities • Infrastructure

#### Surachai PRAMUALCHAROENKIT

*Head of Retail Research*  
(66) 2658 5000 ext 1470  
Surachai.p@maybank-ke.co.th  
• Auto • Conmat • Contractor • Steel

#### Ekachai TARAPORNITIP

*Deputy Head*  
(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

#### Suttatip PEERASUB

(66) 2658 5000 ext 1430  
suttatip.p@maybank-ke.co.th

#### Termporn TANTIVIVAT

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

#### Jaroontan WATTANAWONG

(66) 2658 5000 ext 1404  
jaroontan.w@maybank-ke.co.th

#### Sorrabhol VIRAMETEEKUL

*Head of Digital Research*  
(66) 2658 5000 ext 1550  
sorrabhol.v@maybank-ke.co.th

#### Wijit ARAYAPISIT

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

#### Kritsapong PATAN

(66) 2658 5000 ext 1310  
krisapong.p@maybank-ke.co.th

#### Apisit PATTARASAKOLKIAT

(66) 2658 5000 ext 1405  
apisit.p@maybank-ke.co.th

#### VIETNAM

#### LE Hong Lien, ACCA

*Head of Institutional Research*  
(84 28) 44 555 888 x 8181  
lien.le@maybank-kimeng.com.vn

#### THAI Quang Trung, CFA,

*Deputy Head, Institutional Research*  
(84 28) 44 555 888 x 8180  
trung.thai@maybank-kimeng.com.vn

#### LE Nguyen Nhat Chuyen

(84 28) 44 555 888 x 8082  
chuyen.le@maybank-kimeng.com.vn

#### NGUYEN Thi Ngan Tuyen,

*Head of Retail Research*  
(84 28) 44 555 888 x 8081  
tuyen.nguyen@maybank-kimeng.com.vn

#### TRUONG Quang Binh,

*Deputy Head, Retail Research*  
(84 28) 44 555 888 x 8087  
binh.truong@maybank-kimeng.com.vn

#### TRINH Thi Ngoc Diep

(84 28) 44 555 888 x 8208  
diep.trinh@maybank-kimeng.com.vn

#### NGUYEN Thi Sony Tra Mi

(84 28) 44 555 888 x 8084  
mi.nguyen@maybank-kimeng.com.vn

#### NGUYEN Thanh Lam

(84 28) 44 555 888 x 8086  
thanhlam.nguyen@maybank-kimeng.com.vn

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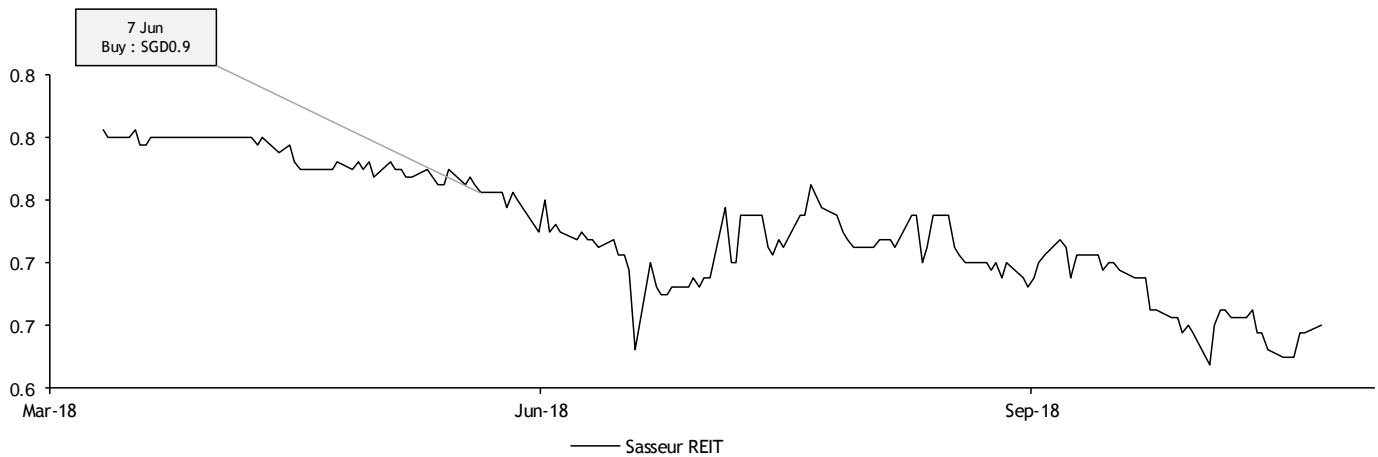
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**Malaysia**

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

**Indonesia**

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

**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,  
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

**London**

Mark Howe  
mhowe@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, 22<sup>nd</sup> 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  
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