

Asian Pay Television Trust (APTT SP)

Not Rated

Share Price

SGD 0.34

Still In Adjustment Period

Regulated monopoly with no fixed rates of returns

Asian Pay TV Trust (APTT) wholly owns Taiwan Broadband Communications (TBC), which is a virtual cable-TV monopoly in five service areas in Taiwan. TBC provides basic cable pay TV, premium digital and cable broadband services. Given its positioning, its basic pay TV rates are annually regulated in each area. But unlike NetLink Trust's (NETLINK SP, SGD0.785, Buy, TP SGD0.93) returns which are determined by a set pre-tax WACC formula, there is no guaranteed regulatory return for APTT. A more conservative approach to gearing since the beginning of 2018 has led to lower though undisclosed DPU guidance for 2019E.

Cross-selling opportunities for organic growth

Covering 1.2m homes in its service areas, of which 760k are on its basic cable TV service, it sees ample opportunities for cross-selling its premium digital cable TV and cable broadband services. Currently, only 25% and 27% of its basic cable subscribers have signed up for these two respective services. Full digitisation of set-top boxes was only achieved in 2017.

Challenging environment

Given similar pricing points, the launch of unlimited wireless data plans by mobile operators could create substitution risks for TBC's fixed broadband services. Rising viewership of streaming services on wireless and fixed broadband may also subdue demand for traditional pay TV services.

Leverage & payout guidance

A generous policy of 100% FCF payouts coupled with hefty capex of more than 20% of revenue per quarter since 3Q14 resulted in a Jun 2018 net debt to EBITDA ratio of 7x and interest cover of 3.4x. Although 2018-19E capex guidance is lower YoY, the board has guided for more conservative gearing and thus, lower DPUs for 2019E.

FYE Dec (SGD m)	FY13A	FY14A	FY15A	FY16A	FY17A
Revenue	185	319	332	319	335
EBITDA	112	196	203	191	203
Core net profit	45	114	45	60	36
Core EPS (cts)	3.1	8.0	3.1	4.2	2.5
Core EPS growth (%)	nm	153.5	(60.6)	32.2	(38.8)
Net DPS (cts)	8.9	8.3	8.3	6.5	6.5
Core P/E (x)	23.6	10.8	20.4	9.0	23.2
P/BV (x)	0.8	1.0	0.7	0.4	0.7
Net dividend yield (%)	12.1	9.6	12.9	17.3	11.0
ROAE (%)	3.4	8.8	3.6	4.9	3.0
ROAA (%)	1.8	4.6	1.8	2.2	1.3
EV/EBITDA (x)	17.1	11.3	10.1	9.3	10.7
Net gearing (%) (incl perps)	64.6	76.7	91.9	101.4	111.6

Luis Hilado
luishilado@maybank-ke.com.sg
(65) 6231 5848

Company Description

Asian Pay Television Trust operates as a business trust, which focuses on a pay-TV and cable broadband business in Taiwan.

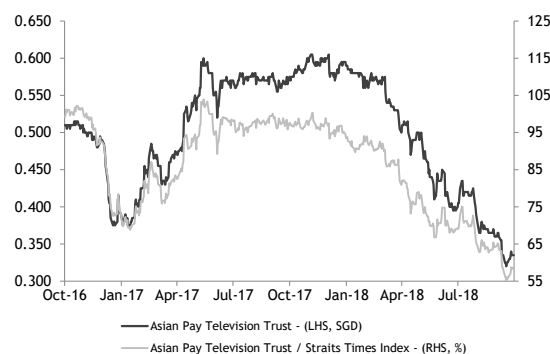
Statistics

52w high/low (SGD)	0.61/0.32
3m avg turnover (USDm)	0.7
Free float (%)	94.8
Issued shares (m)	1,437
Market capitalisation	SGD481.3M USD348M

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma	7.9%
Hong Han Investment Co. Ltd.	3.0%
Value Partners Ltd.	2.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(15)	(41)
Relative to index (%)	(9)	(16)	(39)

Source: FactSet

Terms mentioned:

FCF - free cash flow
DPU - distribution per unit

Company Profile

Business

- Owns 100% of Taiwan Broadband Communications (TBC), the sole cable TV operator in five franchise areas in Taiwan. TBC covers over 1.2m homes, of which 760k subscribe to basic cable TV.
- Cross-selling opportunities within group. Around 79% of 1H18 revenue was from basic cable while the remainder on premium digital pay TV and cable broadband.
- Over 100 channels on basic cable TV with significant local content not available on other platforms.
- Premium digital cable TV service provides up to 77 additional channels with a 25% penetration of basic subscriber base in 2Q18. All subscribers have been upgraded to digital set-top boxes.
- Hybrid fibre coaxial cable broadband service capable of up to 500Mbps speeds. Around 27% penetration of basic subscriber base.

Company milestones

- Listed as a business trust on SGX on 29 May 2013 with TBC as its seed asset.
- TBC currently serves South Taoyuan, Hsinchu County, North and South Miaoli and Taichung City. On 26 Jun 2013, it received approval from National Communications Commission of Taiwan to expand into Greater Taichung. Although broadband services began here in 4Q14, content negotiations delayed pay TV's commercial launch. This remains unresolved.
- Cable Law amendments approved in Dec 2015 called for the shutdown of analogue broadcasting by 2017/18 and switch to digital broadcasting. This led to higher capex in 2016-17.
- Full deployment of digital TV set-top boxes achieved by end-2017; ahead of competitors.

Board and senior management

- Board of six members comprises four independent directors, including Chairman. CEO also serves as Executive Director.

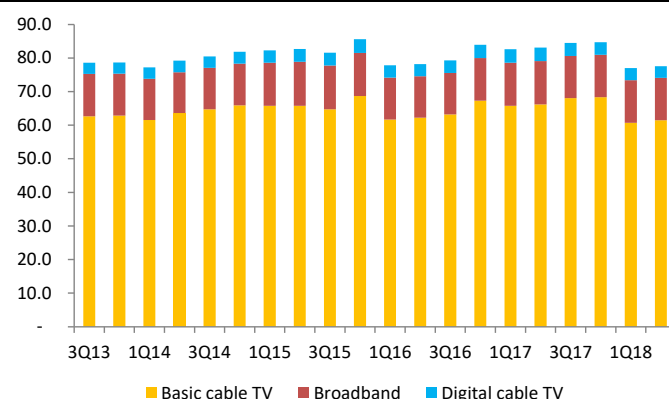
Brian McKinley (CEO) - Appointed CEO in 2017 after serving as CFO at the Trustee-Manager level since APTT's listing in 2013. Began his career in 1995 at PricewaterhouseCoopers where he worked for a number of years before moving to telecommunications industry and financial services.

Somnath Adak (CFO) - Appointed in 2017 with full executive responsibilities over financial accounting and reporting. Immediately prior to his role in APTT, was Financial Controller of Macquarie Group.

Yong Lum Sung (Chairman, Independent Director) - Appointed in 2013. Prior roles included COO at StarHub and President of Singapore Cable Vision.

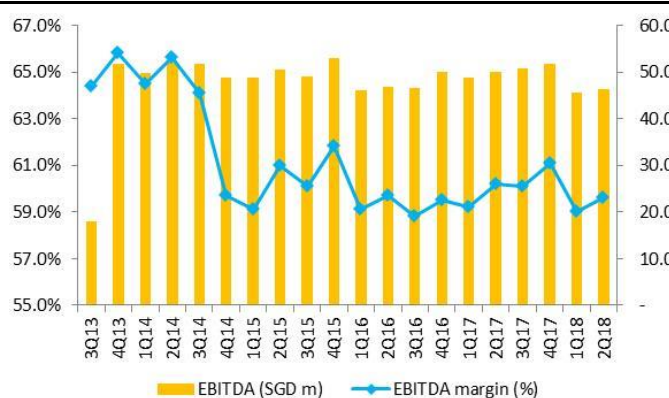
Quarterly results

Fig 1: Quarterly revenue coming under pressure from wireless- broadband competition



Source: Company data

Fig 2: The above is reflected in margins

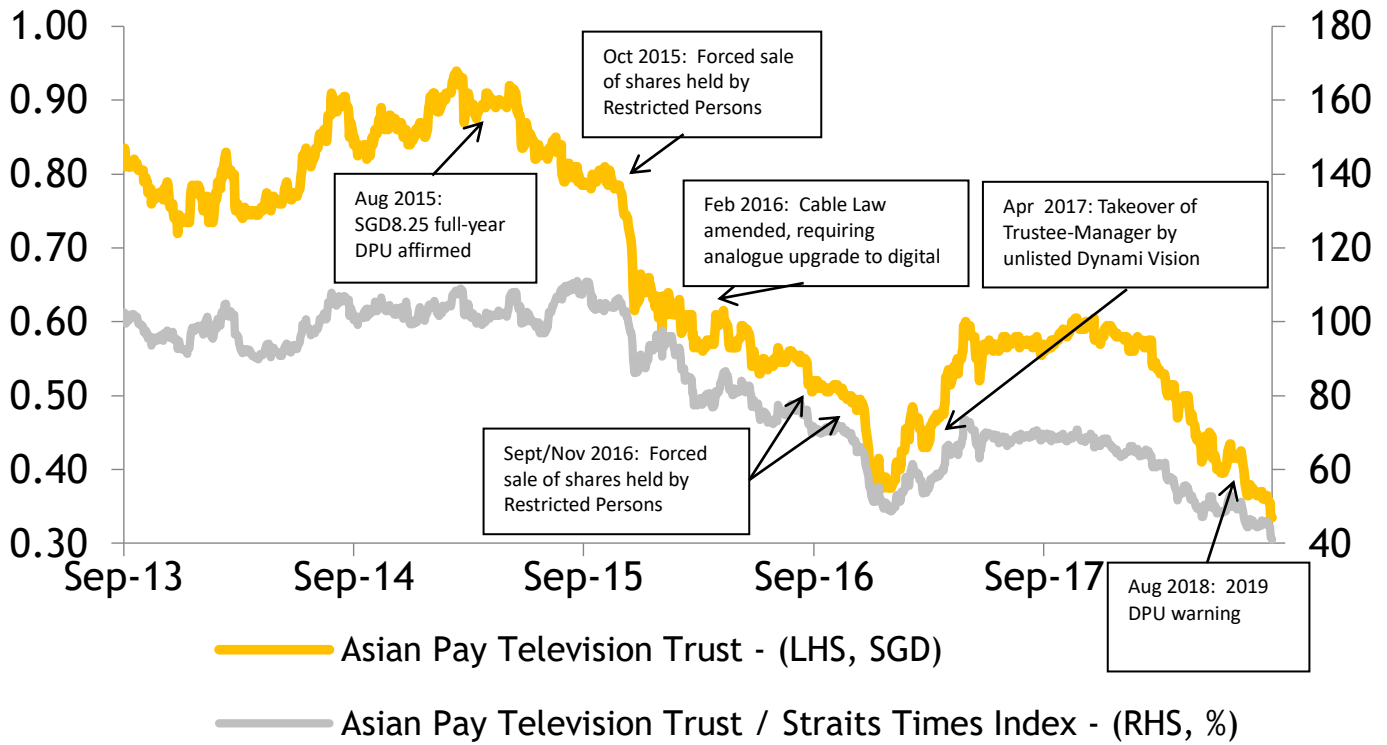


Source: Company data

Source: Company

Share-price history

Fig 3: Trying times



Source: FactSet, Company data

SWOT analysis

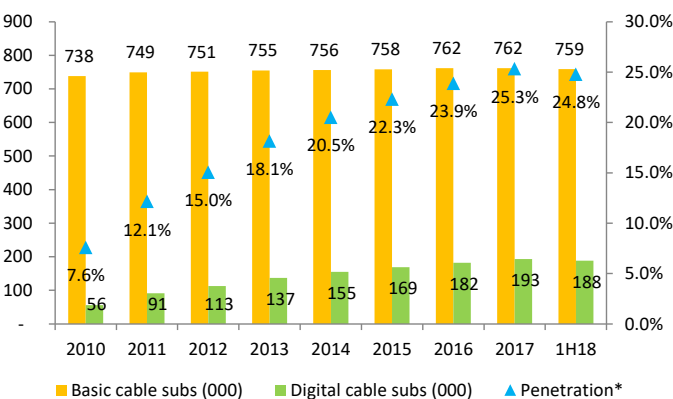
Fig 4: SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Populations and households in its five service areas have been growing faster than Taiwan’s national averages, at 4% and 6%, respectively, in 2010-16. • High recurring revenue with 85% sourced from paid-in-advance subscription fees. • Unique commercial arrangements with local content providers keep costs low, though advertising revenue is primarily kept by its providers. 	<ul style="list-style-type: none"> • Basic cable pay TV rates are regulated by local authorities with no guaranteed rates of returns. • Capex to sales, although off its 2016-17 elevated levels, remains at over 20%. • With operations in Taiwan but listed in Singapore, the trust may not be receiving an optimal audience and analyst coverage.
Opportunities	Threats
<ul style="list-style-type: none"> • Recent upgrade in its cable broadband speed to 500Mbps from 300Mbps improves its competitive advantage against its primary competitor that offers higher monthly fees for slower speeds. (Fig 9). • Multiple products offer cross-selling opportunities and retention capabilities. Also, its premium digital cable TV and cable broadband rates are not regulated unlike basic cable. • Following full digitisation of all subscriber set-top boxes, potential for cross-selling of premium digital TV subscriptions that were only 25% of base in Jun 2018. 	<ul style="list-style-type: none"> • Unlimited wireless data plans gaining popularity and creating price competition for fixed broadband. Also gives users access to alternative content (e.g. streaming services). For example, Chunghwa Telecom (2412 TW, Not Rated) and FarEasTone (4904 TW, Not Rated) have unlimited wireless data plans at TWD850 and TWD775 a month vs TBC’s highest-end fixed broadband plan at TWD789. • Eventual launch of 5G services by wireless operators could result in even more viable broadband substitutes for cable broadband. • Competition from online content piracy.

Source: Maybank Kim Eng

Financial snapshot

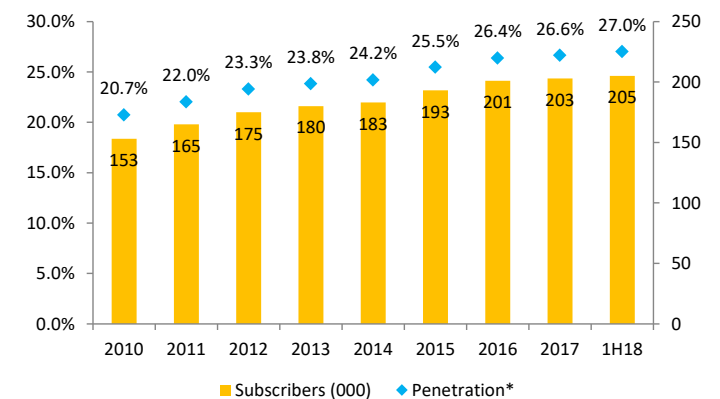
Fig 5: Basic cable and digital cable TV subscribers: digital adoption hit an impasse in 1H18



Source: Company data

* Basic cable TV subscribers also subscribed to digital cable TV service

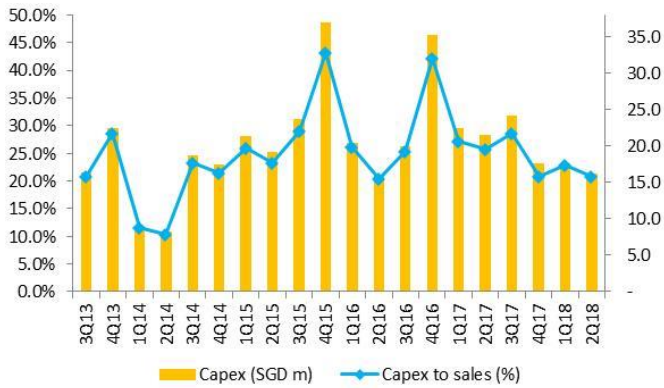
Fig 6: Broadband adoption by basic cable TV subscribers offers cross-selling opportunities



Source: Company data

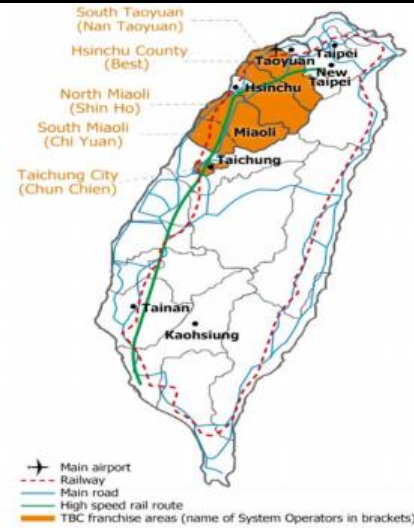
* Basic cable TV subscribers also subscribed to broadband service

Fig 7: Quarterly capex peaked in 2015-16 but remains over 20% of revenue



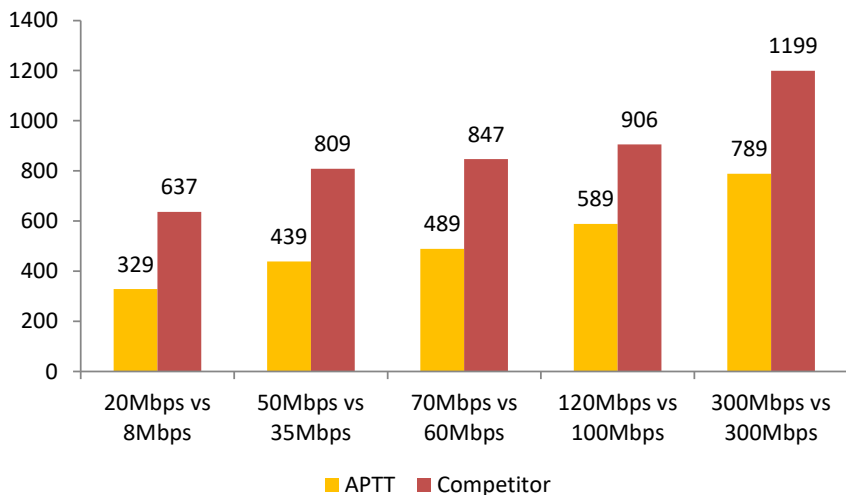
Source: Company data

Fig 8: Franchise areas in Northern and Central Taiwan where populations and households are growing faster than national averages



Source: Company data

Fig 9: APTT's fixed broadband is cheaper (TWD / month) on an absolute and per Mbps basis



Source: Company data

Valuation and risks

FactSet only has two consensus estimates for up to 2019E. A -4% revenue CAGR has been forecast for 2017-19E vs APTT's 2% CAGR in 2014-2017. This is likely on the back of competition from wireless-broadband competitors. Profits are thus expected to fall by an 11% CAGR over 2017-19E. But with management flagging a lower DPU in 2019E, consensus estimates a steeper -27% DPU CAGR relative to profits over 2017-19E. 1H18 revenue and profit were 50% and 62% of full-year consensus estimates.

APTT trades at 34x 2018E and 17x 2019E consensus earnings. As a business trust which with similar distribution mandate structure to REITs, P/Es may not be an appropriate valuation methodology. Rather, yields and DPU growth may be more relevant. Despite expectations of a DPU decline, the

trust is expected to generate yields of 19% and 10% for 2018E and 2019E. In comparison, telco service providers, other business trusts and overseas infrastructure funds (Fig 10) are expected to yield 5-10%. Still, generally higher gearing may be behind recent investor caution, as implied by its share-price correction. Also, the actual level of its DPU cut in 2019E has yet to be disclosed, likely creating an overhang on whether the consensus estimate is adequate.

Fig 10: Valuation comparison

	Rating	Share price (loc curr)	Year-end	FY18E P/E (x)	FY19E P/E (x)	FY20E P/E (x)	FY18E yield (%)	FY19E yield (%)	FY20E yield (%)	FY18E gearing (%)	FY19E gearing (%)
NetLink (NETLINK SP)	BUY	0.79	Mar	59.9	44.0	43.7	4.1	5.9	6.1	13.3	15.3
Singapore telco service providers											
SingTel (ST SP)	HOLD	3.21	Mar	14.6	16.4	16.1	6.4	5.5	5.5	33.4	34.7
StarHub (STH SP)	BUY	1.97	Dec	15.1	16.4	20.5	8.2	5.1	5.1	298.4	335.8
M1 (M1 SP)	HOLD	2.10	Dec	15.4	21.0	26.1	5.2	3.8	3.5	75.1	107.7
Singapore business trusts											
Accordia Golf (AGT SP)	NR	0.54	Mar	8.9	8.0	7.7	7.4	9.8	10.6	52.6	51.3
Asian Pay TV (APTT SP)	NR	0.34	Dec	33.5	16.8	na	19.4	10.4	na	125.1	128.9
Hutchison Port Holdings (HPHT SP)	NR	0.26	Dec	24.1	25.4	23.9	9.0	8.9	9.2	54.6	55.7
Overseas infrastructure funds											
Bharti Infratel (BHIN IN)	NR	259.85	Mar	20.7	20.6	18.9	4.8	4.7	4.8	(32.7)	(24.4)
Keppel Infrastructure Trust (KIT SP)	NR	0.50	Dec	63.5	33.3	24.8	7.5	7.5	na	na	na
Tower Bersama Infra. (TBIG IJ)	NR	5,300	Dec	23.3	20.0	17.1	3.1	3.4	3.9	641.3	634.5
Jasmine Internet Infra. (JASIF TB)	NR	10.40	Dec	10.3	9.8	9.5	8.9	9.0	9.7	(4.1)	19.1

Source: Company data, Maybank Kim Eng, FactSet, Bloomberg

Fig 11: Growth and value propositions

Growth	Value
<ul style="list-style-type: none"> Service areas have higher population and household growth than Taiwan's national averages. This provides subscriber growth potential. Cross-selling digital pay TV and cable broadband services to basic cable TV subscribers. Competition from unlimited wireless broadband players could affect pricing and revenue. 	<ul style="list-style-type: none"> Historical distribution of 100% of distributable FCF. More recently, indicated that 2019 DPU could be lower in order to strengthen balance sheet. FactSet consensus estimates imply nearly a halving of yields in 2019E vs 2018E. Possibility of unit buybacks as management believes the trust is currently undervalued.

Source: Company, Maybank Kim Eng

Risks:

- Online pirated content is a free substitute for pay TV, although TBC's local content is a significant part of its value proposition to households.
- Basic cable TV tariffs are regulated by the authorities in each service area. Minimum quality of service standards applies but there are no formulas to protect cable operators' returns such as inflation-adjustment factors.
- Potential substitution of fixed broadband services by 5G deployed by wireless operators. On the other hand, there could be opportunities to sell fibre backhaul to such operators.

FYE 31 Dec	FY13A	FY14A	FY15A	FY16A	FY17A
Key Metrics					
P/E (reported) (x)	26.3	10.2	26.6	13.3	20.9
Core P/E (x)	23.6	10.8	20.4	9.0	23.2
P/BV (x)	0.8	1.0	0.7	0.4	0.7
P/NTA (x)	(1.2)	(1.3)	(0.9)	(0.5)	(0.7)
Net dividend yield (%)	12.1	9.6	12.9	17.3	11.0
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	17.1	11.3	10.1	9.3	10.7
EV/EBIT (x)	22.1	15.0	12.9	12.6	15.6

INCOME STATEMENT (SGD m)

Revenue	185.0	318.7	332.2	319.2	334.8
Gross profit	108.1	182.9	195.4	178.1	176.6
EBITDA	112.2	196.4	203.2	191.5	202.9
Depreciation	(25.4)	(48.7)	(44.6)	(55.7)	(63.2)
Amortisation	(0.7)	(3.6)	(12.4)	0.0	(5.4)
EBIT	86.9	147.7	158.6	142.5	139.7
Net interest income / (exp)	(24.6)	(46.1)	(83.4)	(62.1)	(67.4)
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	62.7	97.8	71.2	83.5	65.1
Income tax	(17.3)	16.9	(25.8)	(23.5)	(28.3)
Minorities	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	45.1	114.3	45.2	59.7	36.4
Core net profit	45.1	114.3	45.2	59.7	36.4

BALANCE SHEET (SGD m)

Cash & Short Term Investments	96.3	74.9	61.1	59.1	66.8
Accounts receivable	11.9	12.2	18.1	16.5	12.0
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	149.5	175.7	242.8	291.4	320.9
Intangible assets	2,238.2	2,223.4	2,283.4	2,367.7	2,391.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	9.7	3.0	2.5	2.7	2.2
Total assets	2,505.6	2,489.2	2,607.8	2,737.4	2,792.9
ST interest bearing debt	6.2	17.7	8.8	12.3	14.9
Accounts payable	15.2	16.1	16.6	17.3	18.0
LT interest bearing debt	943.5	1,036.0	1,183.4	1,295.0	1,379.9
Other liabilities	220.0	144.0	168.0	182.0	190.0
Total Liabilities	1,184.6	1,213.3	1,376.7	1,506.9	1,603.1
Shareholders Equity	1,318.7	1,273.5	1,228.8	1,228.2	1,187.5
Minority Interest	2.3	2.3	2.3	2.3	2.3
Total shareholder equity	1,321.1	1,275.8	1,231.1	1,230.6	1,189.8
Total liabilities and equity	2,505.6	2,489.2	2,607.8	2,737.4	2,792.9

CASH FLOW (SGD m)

Pretax profit	62.7	97.8	71.2	83.5	65.1
Depreciation & amortisation	26.0	52.4	57.0	0.0	68.6
Adj net interest (income)/exp	(22.5)	(40.1)	(49.7)	(52.3)	(56.0)
Change in working capital	(29.2)	(0.1)	(0.6)	8.4	7.0
Cash taxes paid	2.3	55.3	27.1	13.2	19.1
Other operating cash flow	15.9	(65.6)	29.4	8.9	25.4
Cash flow from operations	57.3	97.7	118.8	132.9	132.3
Capex	(43.9)	(82.8)	(94.4)	(101.2)	(99.1)
Free cash flow	(54.3)	(119.0)	(86.1)	(68.0)	(46.9)
Dividends paid	(69.0)	(147.3)	(116.8)	(102.4)	(93.4)
Equity raised / (purchased)	1,017.3	0.0	0.0	0.0	0.0
Change in Debt	(137.2)	110.3	82.0	69.3	71.3
Other invest/financing cash flow	(707.0)	27.2	40.3	49.2	39.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	96.2	(21.7)	(13.6)	(1.8)	7.7

FYE 31 Dec	FY13A	FY14A	FY15A	FY16A	FY17A
Key Ratios					
Growth ratios (%)					
Revenue growth	(40.1)	72.2	4.2	(3.9)	4.9
EBITDA growth	(40.7)	75.0	3.4	(5.8)	5.9
EBIT growth	(40.5)	70.0	7.4	(10.1)	(2.0)
Pretax growth	(0.1)	56.1	(27.2)	17.3	(22.1)
Reported net profit growth	68.8	153.3	(60.5)	32.1	(38.9)
Core net profit growth	68.8	153.3	(60.5)	32.1	(38.9)
Profitability ratios (%)					
EBITDA margin	60.7	61.6	61.2	60.0	60.6
EBIT margin	47.0	46.3	47.7	44.6	41.7
Pretax profit margin	33.9	30.7	21.4	26.2	19.4
Payout ratio	nm	103.6	nm	156.6	nm
DuPont analysis					
Net profit margin (%)	24.4	35.9	13.6	18.7	10.9
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.9	2.0	2.1	2.2	2.4
ROAE (%)	3.4	8.8	3.6	4.9	3.0
ROAA (%)	1.8	4.6	1.8	2.2	1.3
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	26.8	13.6	16.4	19.5	15.3
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	71.1	41.5	43.0	43.2	40.2
Dividend cover (x)	0.4	1.0	0.4	0.6	0.4
Current ratio (x)	0.5	0.8	0.8	0.7	0.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.1	1.9	1.8	1.7
Net gearing (%) (incl perps)	64.6	76.7	91.9	101.4	111.6
Net gearing (%) (excl. perps)	64.6	76.7	91.9	101.4	111.6
Net interest cover (x)	3.5	3.2	1.9	2.3	2.1
Debt/EBITDA (x)	8.5	5.4	5.9	6.8	6.9
Capex/revenue (%)	23.7	26.0	28.4	31.7	29.6
Net debt/ (net cash)	853.4	978.8	1,131.1	1,248.2	1,328.0

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

(603) 2297 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
• 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

Adrian WONG

(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Healthcare

Jade TAM

(603) 2297 8687 jade.tam@maybank-ib.com
• Media • Building Materials

Mohd Hafiz Hassan

(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Small & Mid Caps

TEE Sze Chiah

Head of Retail Research

(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan Raja Abdullah, MSTA, CFE

(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

(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

Sonija LI, CFA, FRM

(852) 2268 0641 sonijali@kimeng.com.hk
• Gaming

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 vishalperiwa@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

Katherine TAN

(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

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

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
ormongkol.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
• Energy • Petrochem

Suttatip PEERASUB

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

Temporn TANTIVIVAT

(66) 2658 5000 ext 1520
temporn.t@maybank-ke.co.th
• Property

Jaroopan WATTANAWONG

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

Sorrbahol VIRAMETEEKUL

Head of Digital Research
(66) 2658 5000 ext 1550
sorrbahol.v@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT

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

Kritsapong PATAN

(66) 2658 5000 ext 1310
kritisapong.p@maybank-ke.co.th
• Chartist

Apisit PATTARASAKOLKIAT

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

VIETNAM

LE Hong Lien, ACCA

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

THAI Quang Trung, CFA,

Deputy Head, Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen

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

NGUYEN Thi Ngan Tuyen,

Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

TRUONG Quang Binh,

Deputy Head, Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep

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

NGUYEN Thi Sony Tra Mi

(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam

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

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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


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


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


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


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


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)


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


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


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


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