

M1 (M1 SP)

On The Block Again

Up for sale; maintain HOLD

Keppel Corp (KEP SP, Not Rated) and Singapore Press Holdings (SPH SP, Not Rated) are reportedly considering a sale of their indirect and direct M1 stakes. Their combined holding represents the largest voting block of 33% in the telco. Maintain forecasts and DCF-based (WACC 4.1%, LTG 1%) TP of SGD1.63, pending a transaction and details of any buyer(s). Maintain HOLD as the stock is at fair value based on current known prospects. NetLink (NETLINK SP, SGD0.79, BUY, TP SGD0.93) is our preferred pick among Singapore telcos for its defensive business that should be supportive of healthy dividend yields.

Two out of three

Recall that between Mar and Jul 2017, M1's three major shareholders evaluated and ultimately rejected offers for their stakes. At the date prior to their share-sale cancellation, M1's share price was SGD2.10 (15x FY17 P/E). In this new round of consideration, its shareholder, Keppel T&T (KPTT SP, Not Rated), is also up for possible sale by Keppel Corp. On the other hand, it appears that Axiata (AXIATA MK, MYR4.68, HOLD, TP MYR4.60) is not, this time, as it has not made any disclosure.

Who could it be?

Thus far, there have been no indications of interested parties. Back in 2017, newswires claimed that China Mobile (941 HK, HKD76.25, HOLD, TP HKD77.00) and global private-equity funds were among those keen. A new shareholder could alter M1's business strategy and balance sheet, in our view.

Risks remain the same

With TPG (TPM AU, Not Rated) still a dark horse until it launches services in 4Q18, industry implications remain uncertain. We acknowledge that the valuation that a potential new shareholder ascribes to M1 could be a stock catalyst in the short term.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,061	1,071	1,073	1,047	1,035
EBITDA	312	307	294	268	261
Core net profit	150	133	128	94	75
Core FDEPS (cts)	16.1	14.2	13.7	10.0	8.1
Core FDEPS growth(%)	(15.5)	(11.5)	(3.6)	(26.8)	(19.5)
Net DPS (cts)	12.9	11.4	10.9	8.0	7.2
Core FD P/E (x)	12.2	12.5	11.9	16.2	20.2
P/BV (x)	4.5	3.9	3.2	3.0	3.0
Net dividend yield (%)	6.6	6.4	6.7	4.9	4.4
ROAE (%)	36.7	32.9	28.0	19.0	14.9
ROAA (%)	13.4	11.0	10.1	7.0	5.4
EV/EBITDA (x)	7.1	6.7	6.4	7.7	7.9
Net gearing (%) (incl perps)	96.7	94.1	75.1	107.7	103.2
Consensus net profit	-	-	128	111	90
MKE vs. Consensus (%)	-	-	0.2	(16.0)	(16.0)

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

HOLD

Share Price	SGD 1.63
12m Price Target	SGD 1.63 (-0%)
Previous Price Target	SGD 1.63

Company Description

M1 is the third largest wireless operator in Singapore that is expanding its presence in fixed broadband and enterprise segments.

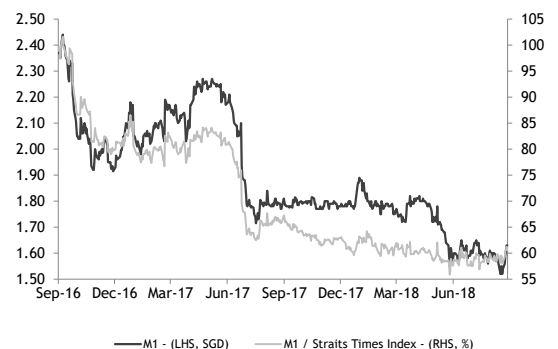
Statistics

52w high/low (SGD)	1.89/1.52
3m avg turnover (USDm)	0.9
Free float (%)	37.6
Issued shares (m)	937
Market capitalisation	SGD1.5B
	USD1.1B

Major shareholders:

Axiata Investments (Singapore) Ltd.	28.8%
Keppel Telecommunications & Transportati	19.4%
Singapore Press Holdings Ltd.	13.5%

Price Performance



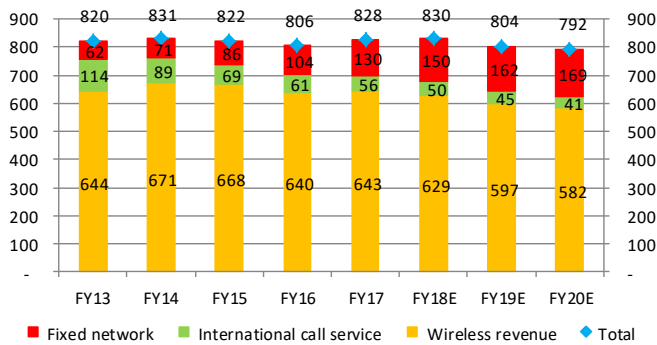
	-1M	-3M	-12M
Absolute (%)	4	4	(8)
Relative to index (%)	4	7	(8)

Source: FactSet

Value Proposition

- Historically, the purest play in the Singapore wireless sector but has been expanding more meaningfully into fixed broadband and enterprise segments.
- The high growth phase of wireless has passed and wireless data cannibalization of voice and SMS is stifling growth.
- Seeking to tap into Smart Nation projects to enhance its enterprise service revenues and track record.

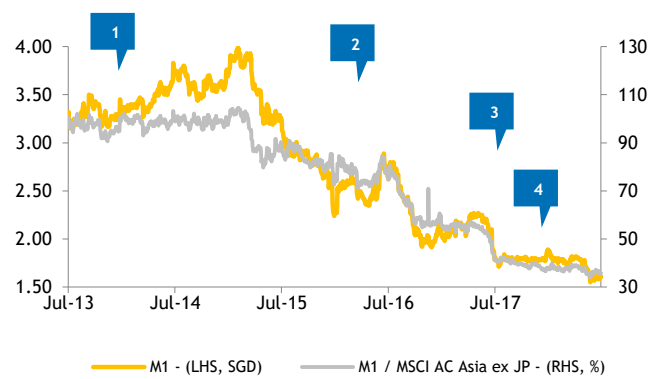
M1's service revenue breakdown (SGD m)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



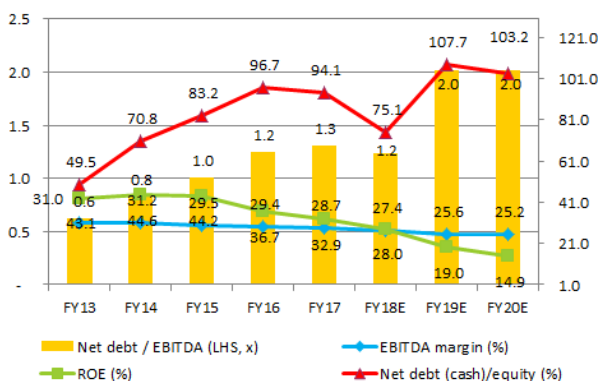
Source: Company, Maybank Kim Eng, FactSet

- Industry re-rating on the back of the launch of 4G services that led to the end of unlimited data plan competition and a move to tiered data plans.
- Proposals for fourth mobile license issuance began to drive an industry de-rating.
- New spectrum auction entry of TPG followed by additional frequency won during general spectrum auction (GSA) continues domino effect.
- Soft 2Q17 results and cancellation of shareholder review weakened share price further.

Financial Metrics

- We assume competition from new players will manifest in tariff plan pressure similar to the 3G price war period in 2009-2012. We assume M1's wireless service revenues decrease by a 3% CAGR over 2017-2020E.
- We forecast 9% CAGR over 2017-2020E for fixed network revenue that will help offset wireless and international call revenue pressure.
- Despite our overall service revenue decline assumptions from 2018E to 2020E, the balance sheet is still able to sustain cash dividends at the committed 80% payout level for 2018E-19E and even increase this to 90% in 2020E as it remains within its debt covenants.

Balance sheet still able to support payout



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- A benign competitive environment or a hasty retreat by new entrants would be an unexpected surprise.
- Growth in fixed network via fixed broadband and/or enterprise could provide earnings surprises in the medium to long term.
- Any takeover interest by a new entrant or TPG could trigger a sector re-rating.

Downside

- Should TPG resort to handset subsidies to poach subscribers an escalation in incumbents' own efforts could take place.
- Higher-than-expected capex pressure as a result of competition and/or 5G rollout.
- Risks of a more rapid decline in wireless voice, SMS and roaming as data adoption gains momentum.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	15.1	13.9	11.9	16.3	20.2
Core P/E (x)	12.2	12.6	11.9	16.3	20.2
Core FD P/E (x)	12.2	12.5	11.9	16.2	20.2
P/BV (x)	4.5	3.9	3.2	3.0	3.0
P/NTA (x)	4.7	4.0	3.2	3.1	3.1
Net dividend yield (%)	6.6	6.4	6.7	4.9	4.4
FCF yield (%)	9.8	7.1	9.7	nm	5.8
EV/EBITDA (x)	7.1	6.7	6.4	7.7	7.9
EV/EBIT (x)	11.9	11.7	11.6	16.9	20.3

INCOME STATEMENT (SGD m)

Revenue	1,060.9	1,071.1	1,072.6	1,046.8	1,034.7
EBITDA	312.2	307.2	293.5	268.0	261.0
Depreciation	(126.8)	(129.9)	(131.5)	(145.8)	(159.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	185.4	177.3	162.0	122.2	101.1
Net interest income / (exp)	(6.7)	(9.9)	(8.1)	(9.5)	(10.4)
Associates & JV	0.0	(0.3)	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	178.6	167.1	153.9	112.8	90.7
Income tax	(28.9)	(30.1)	(26.2)	(19.2)	(15.4)
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	149.7	137.0	127.8	93.6	75.3
Core net profit	149.7	132.5	127.8	93.6	75.3

BALANCE SHEET (SGD m)

Cash & Short Term Investments	11.0	46.5	87.4	58.9	22.6
Accounts receivable	192.1	215.7	163.5	159.6	157.7
Inventory	23.0	49.8	49.9	48.7	48.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	881.0	905.8	903.0	1,102.3	1,097.5
Intangible assets	14.3	14.9	14.9	14.9	14.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	25.3	36.2	36.2	36.2	36.2
Total assets	1,146.7	1,268.9	1,254.9	1,420.5	1,377.1
ST interest bearing debt	151.0	0.0	0.0	0.0	0.0
Accounts payable	198.3	240.7	171.6	167.5	165.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	250.0	450.0	450.0	600.0	550.0
Other liabilities	144.0	149.0	151.0	151.0	151.0
Total Liabilities	743.3	840.1	772.2	918.1	866.1
Shareholders Equity	403.4	428.8	482.7	502.4	510.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	403.4	428.8	482.7	502.4	510.9
Total liabilities and equity	1,146.7	1,268.9	1,254.9	1,420.5	1,377.1

CASH FLOW (SGD m)

Pretax profit	178.6	167.1	153.9	112.8	90.7
Depreciation & amortisation	126.8	129.9	131.5	145.8	159.9
Adj net interest (income)/exp	6.7	9.9	8.1	9.5	10.4
Change in working capital	61.2	(17.6)	(15.8)	1.0	0.5
Cash taxes paid	(33.2)	(24.4)	(24.7)	(19.2)	(15.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	335.1	259.0	275.6	268.8	243.8
Capex	(220.2)	(160.5)	(128.7)	(345.0)	(155.2)
Free cash flow	114.9	98.5	146.9	(76.3)	88.6
Dividends paid	(142.3)	(103.2)	(106.0)	(102.2)	(74.9)
Equity raised / (purchased)	(18.6)	(8.7)	0.0	0.0	0.0
Change in Debt	47.2	49.0	0.0	150.0	(50.0)
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1.0	35.5	40.9	(28.5)	(36.3)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.3)	1.0	0.1	(2.4)	(1.2)
EBITDA growth	(8.6)	(1.6)	(4.4)	(8.7)	(2.6)
EBIT growth	(16.9)	(4.4)	(8.6)	(24.6)	(17.3)
Pretax growth	(18.2)	(6.5)	(7.8)	(26.8)	(19.5)
Reported net profit growth	(16.1)	(8.5)	(6.7)	(26.8)	(19.5)
Core net profit growth	(16.1)	(11.5)	(3.6)	(26.8)	(19.5)
Profitability ratios (%)					
EBITDA margin	29.4	28.7	27.4	25.6	25.2
EBIT margin	17.5	16.5	15.1	11.7	9.8
Pretax profit margin	16.8	15.6	14.4	10.8	8.8
Payout ratio	80.3	80.4	80.0	80.0	90.0
DuPont analysis					
Net profit margin (%)	14.1	12.8	11.9	8.9	7.3
Revenue/Assets (x)	0.9	0.8	0.9	0.7	0.8
Assets/Equity (x)	2.8	3.0	2.6	2.8	2.7
ROAE (%)	36.7	32.9	28.0	19.0	14.9
ROAA (%)	13.4	11.0	10.1	7.0	5.4
Liquidity & Efficiency					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	66.3	68.5	63.6	55.6	55.2
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	1.2	1.2	1.2	1.3	1.1
Current ratio (x)	0.6	1.2	1.5	1.4	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.6	1.5	1.6
Net gearing (%) (incl perps)	96.7	94.1	75.1	107.7	103.2
Net gearing (%) (excl. perps)	96.7	94.1	75.1	107.7	103.2
Net interest cover (x)	27.7	17.9	20.0	12.9	9.8
Debt/EBITDA (x)	1.3	1.5	1.5	2.2	2.1
Capex/revenue (%)	20.8	15.0	12.0	33.0	15.0
Net debt/ (net cash)	390.0	403.5	362.6	541.1	527.4

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
• 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
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
• 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
krisapong.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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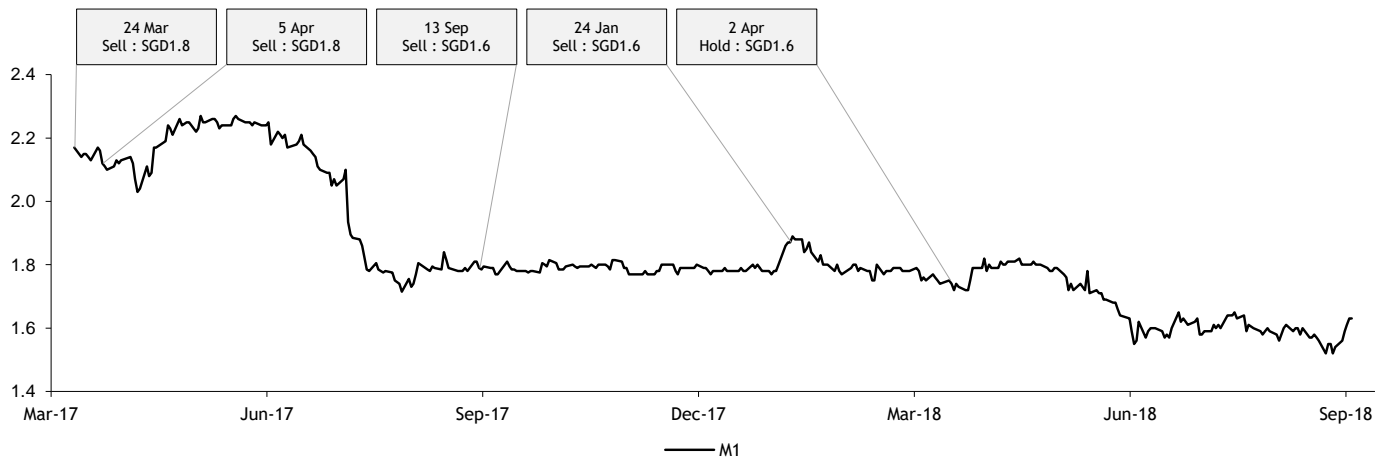
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Malaysia

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,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)


North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

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, 22nd 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