May 21, 2015

# MRCB-Quill REIT (QUIL MK)

| | | | |
|---|---|---|---|
| Share Price: MYR1.16 | MCap (USD): 214M | Malaysia | **HOLD** (Unchanged) |
| Target Price: MYR1.17 (+1%) | ADTV (USD): 0.1M | REITs | |

## Earnings on track

- **1Q15 core net profit of MYR8.3m (+1.4% YoY) was in line.**
- **Full earnings contribution from Platinum Sentral from 2Q15 onwards; high gearing of 44% could entail fundraising.**
- **Maintain HOLD, earnings and MYR1.17 TP.**

### What's New

MRCB-Quill REIT's (MQReit; formerly known as Quill Capita Trust) 1Q15 core net profit was MYR8.3m (+1.4 YoY, -2.7% QoQ), meeting 14%/16% of our/consensus full-year estimates. This is within our expectation as we anticipate full earnings contribution from Platinum Sentral (PS) from 2Q15 onwards. In contrast, 1Q15 only had two days of earnings contribution from PS. MQReit's 1Q15 YoY earnings growth was mainly due to higher rental rates but was also largely offset by higher repair and maintenance costs.

On 15 Apr 2015, MQReit paid an interim distribution of MYR7.3m (1.1sen/share of enlarged unit base) for the period of 1 Jan 2015 to 23 Mar 2015, prior to its new unit issuance and private placement exercises. Going forward, we expect the trust to continue its bi-annual distribution policy. We are, however, taking a more conservative view and tone down our FY15-17 net profit payout forecasts to 95% p.a. (from 100%) for now.

### What's Our View

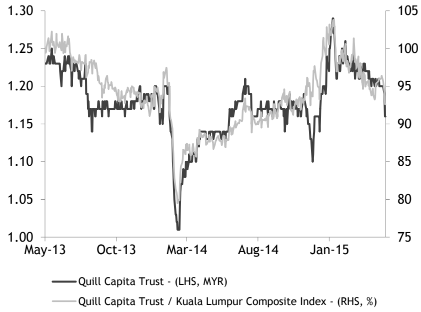
With the entry of a new substantial shareholder (31%), MQReit could benefit by having a larger asset injection pipeline. The acquisition of PS, however, could entail further fundraising as MQReit's net gearing is at a new high of 44% (end-Mar 2015). Meanwhile, we remain cautious on MQReit's near-term earnings outlook as demand for office space has remained soft. HOLD for favourable FY15/16 net yields of 6.5%/6.7%. Our DCF-based TP of MYR1.17 is unchanged.

| FYE Dec (MYR m) | FY13A | FY14A | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| Revenue | 68.9 | 70.2 | 113.9 | 124.4 | 126.5 |
| Net property income | 53.2 | 53.3 | 91.9 | 103.0 | 104.7 |
| Distributable income | 34.5 | 34.2 | 57.9 | 59.9 | 61.7 |
| DPU (sen) | 7.5 | 7.5 | 7.5 | 7.7 | 8.0 |
| DPU growth (%) | 0.0 | 0.0 | (0.8) | 3.5 | 2.9 |
| Price/DPU(x) | 15.4 | 15.4 | 15.5 | 15.0 | 14.5 |
| P/BV (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| DPU yield (%) | 6.5 | 6.5 | 6.5 | 6.7 | 6.9 |
| ROAE (%) | 6.9 | 7.5 | 8.0 | 6.6 | 6.8 |
| ROAA (%) | 4.3 | 4.7 | 4.7 | 3.7 | 3.8 |
| Debt/Assets (x) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |

### Key Data

| | |
|---|---|
| 52w high/low (MYR) | 1.29/1.10 |
| 3m avg turnover (USDm) | 0.1 |
| Free float (%) | 57.8 |
| Issued shares (m) | 661 |
| Market capitalization | MYR767.2M |
| Major shareholders: | |
| -CapitaLand Commercial Trust | 17.7% |
| -Quill Land Sdn. Bhd. | 7.4% |
| -Quill Properties Sdn. Bhd. | 7.0% |

### Share Price Performance




| | 1 Mth | 3 Mth | 12 Mth |
|---|---|---|---|
| Absolute(%) | (3.3) | (5.7) | 1.8 |
| Relative to index (%) | (1.3) | (5.8) | 5.8 |

### Maybank vs Market

| | Positive | Neutral | Negative |
|---|---|---|---|
| Market Recs | 3 | 1 | 0 |
| | **Maybank** | **Consensus** | **% +/-** |
| Target Price (MYR) | 1.17 | 1.35 | (13.2) |
| 2015 DPU (sen) | 8.3 | 8.8 | (5.2) |
| 2016 DPU (sen) | 8.6 | 9.2 | (6.9) |

*Source: FactSet; Maybank*

Kevin Wong
(603) 2082 6824
kevin.wong@maybank-ib.com

Wong Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com

### MRCB-Quill REIT: Results summary table

| | | | Quarterly | | |
|---|---|---|---|---|---|
| **FY Dec (MYR m)** | **1QFY15** | **1QFY14** | ***%YoY*** | **4QFY14** | ***%QoQ*** |
| Gross rental income | 18.6 | 17.2 | *8.3* | 18.2 | *2.3* |
| Net property income | 13.7 | 13.0 | *5.1* | 13.4 | *2.0* |
| **Pretax profit** | **8.3** | **8.2** | ***1.4*** | **14.6** | ***(43.4)*** |
| Tax | 0.0 | 0.0 | *NA* | 0.0 | *NA* |
| **Net profit ^** | **8.3** | **8.2** | ***1.4*** | **14.6** | ***(43.4)*** |
| **Net profit ex-EI / realised** | **8.3** | **8.2** | ***1.4*** | **8.5** | ***(2.7)*** |
| | | | | | |
| Realised EPU (sen) | 2.1 | 2.1 | *0.0* | 2.2 | *(4.1)* |
| **Gross DPU (sen) #** | 1.1 | 0.0 | ***NA*** | 4.3 | ***(74.4)*** |
| | | | | | |
| | **1QFY15** | **1QFY14** | ***+/- ppt*** | **4QFY14** | ***+/- ppt*** |
| *Net property margin (%)* | *73.5* | *75.7* | *(2.2)* | *73.8* | *(0.3)* |
| *Net income ex-EI margin (%)* | *44.5* | *47.5* | *(3.0)* | *46.8* | *(2.3)* |

*^ 4QFY14 net profit includes MYR6.1m of revaluation gain*

*# 1.1sen DPU in 1QFY15 (based on enlarged unit base) was prior to new unit issuance and private placement exercises, and entrance of MRCB; MQReit has a bi-annual distribution policy*

*Source: Trust, Maybank KE*

| FYE 31 Dec | FY13A | FY14A | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| **Key Metrics** | | | | | |
| Price/DPU(x) | 15.4 | 15.4 | 15.5 | 15.0 | 14.5 |
| P/BV (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| P/NTA (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| DPU yield (%) | 7.2 | 7.2 | 7.2 | 7.4 | 7.6 |
| FCF yield (%) | 10.3 | 8.9 | 9.7 | 9.3 | 0.0 |
| | | | | | |
| **INCOME STATEMENT (MYR m)** | | | | | |
| Gross revenue | 68.9 | 70.2 | 113.9 | 124.4 | 126.5 |
| **Net property income** | **53.2** | **53.3** | **91.9** | **103.0** | **104.7** |
| Net financing costs | (12.9) | (13.3) | (21.7) | (30.1) | (29.9) |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 2.1 | 6.1 | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total return before tax** | **36.6** | **40.3** | **57.9** | **59.9** | **61.7** |
| Income tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total return avail to unitholders | 36.6 | 40.3 | 57.9 | 59.9 | 61.7 |
| **Distributable inc to unitholders** | **34.5** | **34.2** | **57.9** | **59.9** | **61.7** |
| | | | | | |
| **BALANCE SHEET (MYR m)** | | | | | |
| Cash & Short Term Investments | 30.9 | 23.3 | 20.5 | 29.7 | 28.7 |
| Accounts receivable | 2.6 | 6.1 | 6.1 | 6.1 | 6.1 |
| Property, Plant & Equip (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inverstment properties | 825.6 | 837.7 | 1,582.7 | 1,587.7 | 1,592.7 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total assets** | **859.1** | **867.1** | **1,609.4** | **1,623.5** | **1,627.6** |
| ST interest bearing debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts payable | 11.7 | 12.2 | 12.2 | 12.2 | 12.2 |
| LT interest bearing debt | 304.9 | 305.1 | 665.1 | 665.1 | 665.1 |
| Other liabilities | 10.1 | 9.8 | 26.1 | 37.3 | 38.2 |
| **Total Liabilities** | **326.7** | **327.1** | **703.5** | **714.6** | **715.6** |
| Shareholders Equity | 533.5 | 541.3 | 905.9 | 908.9 | 912.0 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total shareholder equity** | **533.5** | **541.3** | **905.9** | **908.9** | **912.0** |

| FYE 31 Dec | FY13A | FY14A | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| **Key Ratios** | | | | | |
| **Growth ratios (%)** | | | | | |
| Gross revenue growth | (0.8) | 1.9 | 62.1 | 9.3 | 1.6 |
| Total return before tax growth | (8.7) | 9.9 | 43.7 | 3.5 | 2.9 |
| Total return growth | (8.7) | 9.9 | 43.7 | 3.5 | 2.9 |
| Distributable income growth | (8.7) | 9.9 | 43.7 | 3.5 | 2.9 |
| | | | | | |
| **Profitability ratios (%)** | | | | | |
| Total return before tax margin | 53.2 | 57.3 | 50.8 | 48.2 | 48.8 |
| Payout ratio | 80.3 | 73.0 | 85.5 | 85.5 | 85.5 |
| | | | | | |
| **DuPont analysis** | | | | | |
| Total return margin (%) | 53.2 | 57.3 | 50.8 | 48.2 | 48.8 |
| Gross revenue/Assets (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Assets/Equity (x) | 1.6 | 1.6 | 1.8 | 1.8 | 1.8 |
| ROAE (%) | 6.9 | 7.5 | 8.0 | 6.6 | 6.8 |
| ROAA (%) | 4.3 | 4.7 | 4.7 | 3.7 | 3.8 |
| | | | | | |
| **Liquidity & Efficiency** | | | | | |
| Days receivable outstanding | 31.0 | 22.4 | 19.4 | 17.8 | 17.5 |
| Days payables outstanding | 262.9 | 254.1 | 200.9 | 205.8 | 202.3 |
| Dividend cover (x) | 1.2 | 1.4 | 1.2 | 1.2 | 1.2 |
| Current ratio (x) | 2.0 | 2.0 | 0.9 | 0.9 | 0.8 |
| | | | | | |
| **Leverage & Expense Analysis** | | | | | |
| Asset/Liability (x) | 2.6 | 2.7 | 2.3 | 2.3 | 2.3 |
| Net debt/equity (%) | 51.4 | 52.1 | 71.2 | 69.9 | 69.8 |
| Net interest cover (x) | 3.7 | 3.6 | 3.7 | 3.0 | 3.1 |
| Debt/EBITDA (x) | 6.4 | 6.4 | 8.4 | 7.4 | 7.4 |
| Capex/revenue (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/ (net cash) | 274.0 | 281.8 | 644.6 | 635.4 | 636.4 |

*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) 6432 1453
ongsengyeow@maybank-ke.com.sg

## 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

## HONG KONG / CHINA

**Howard WONG** *Head of Research*
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - *Regional*

**Alexander LATZER**
(852) 2268 0647
alexanderlatzer@kimeng.com.hk
• Metals & Mining – *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

**Jessica NG**
(852) 2268 0678 jessicang@kimeng.com.hk
• Utilities & Renewable Energy

**Ka Leong LO, CFA**
(852) 2268 0630 kllo@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

**Ricky WK NG, CFA**
(852) 2268 0689 rickyng@kimeng.com.hk
• Utilities & Renewable Energy

**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 6632 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

**Ritesh POLADIA**
(91) 22 6623 2612 ritesh@maybank-ke.co.in
• Media & Entertainment

## SINGAPORE

**NG Wee Siang** *Head of Research*
(65) 6231 5838 ngweesiang@maybank-ke.com.sg
• Banking & Finance

**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 joshuatan@maybank-ke.com.sg
• REITs (Retail, Industrial)

**WEI Bin**
(65) 6231 5844 weibin@maybank-ke.com.sg
• Commodity • Logistics • S-chips

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

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

## INDONESIA

**Wilianto IE** *Head of Research*
(62) 21 2557 1125
wilianto.ie@maybank-ke.co.id
• Strategy

**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

**Isnaputra ISKANDAR**
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Metals & Mining • Cement

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

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

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

## PHILIPPINES

**Luz LORENZO** *Head of Research*
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

**Lovell SARREAL**
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

**Rommel RODRIGO**
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

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

**Ramon ADVIENTO**
(63) 2 849 8845
ramon_adviento@maybank-atrke.com
• Mining

**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 CHOWVIKRAN**
(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

**Chatchai JINDARAT**
(66) 2658 6300 ext 1401
chatchai.j@maybank-ke.co.th
• Electronics

## VIETNAM

**NGUYEN Thi Ngan Tuyen,** *Head of Retail Research*
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

**TRINH Thi Ngoc Diep**
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

**PHAM Nhat Bich**
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

**NGUYEN Thi Sony Tra Mi**
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

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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

## London
**Maybank Kim Eng Securities (London) Ltd**
5th Floor, Aldermary House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

## 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

## 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

## Indonesia
**PT Maybank Kim Eng Securities**
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

## 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) 6336-5157
US Toll Free: 1-866-406-7447

### Malaysia
Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

### Indonesia
Harianto Liong
harianto.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

## North Asia Sales Trading
Alex Tsun
alextsun@kimeng.com.hk
Tel: (852) 2268 0228
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


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