MRCB-Quill REIT (MQREIT MK)

3Q17: Within estimates

BUY

Share Price	MYR 1.27
12m Price Target	MYR 1.35 (+6%)
Previous Price Target	*MYR 1.35*

REITs

Malaysia

Maintain BUY

3Q17 results were in-line. The stronger YoY earnings were driven by the addition of Menara Shell's contributions, positive rental reversions and sustained portfolio occupancy rate. We tweak our FY17 earnings forecast by -2% but maintain our MYR1.35 TP (cost of equity: 7.5%) due to marginal impact to our DDM valuation. Among the M-REITs within our coverage, MQREIT continues to offer the highest CY18 net DPU yield of 6.0%, vs. the sector average's 5.4%.

Double-digit YoY growth on track

3Q17 net profit was MYR21.4m (+40% YoY, -3% QoQ), bringing 9M17 earnings to MYR66.6m (+45% YoY) at 72%/74% of our/consensus' full-year estimate. YoY, 3Q17's bottomline was driven by (i) additional rental income contribution from Menara Shell (since Dec 2016), (ii) positive rental reversions at QB3, Wisma Technip, QB5 and QB2, (iii) sustained portfolio occupancy rate at 97% (unchanged YoY). This, however, was partly pulled backed by (iv) additional opex post injection of Menara Shell, and (v) higher financing costs attributed to new borrowings to fund its asset acquisition. QoQ earnings, however, eased marginally due to higher opex from some ad hoc expenses (i.e. repair works).

Marginal forecast tweak

We nudge down FY17's earnings forecast by 2% as we realign our assumptions to account for the marginally higher opex. However, we are keeping our FY18-19 forecasts intact.

Current portfolio is resilient

We remain positive on MQREIT's resilient earnings which are backed by assets with long-term tenants (i.e. Platinum Sentral and Menara Shell). There could also be a larger upside to MQREIT's earnings growth from Menara Shell as our initial assumptions are conservative.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	115	132	185	187	192
Net property income	90	102	137	141	145
Core net profit	54	59	90	95	97
Core EPU (sen)	8.2	9.0	8.4	8.8	9.0
Core EPU growth (%)	(6.7)	9.6	(5.9)	4.0	2.5
Net DPU (sen)	6.9	7.5	7.4	7.6	7.7
Net DPU growth (%)	(8.1)	8.8	(2.0)	3.4	0.4
P/NTA (x)	0.9	0.6	1.0	1.0	1.0
Net DPU yield (%)	5.5	5.9	5.8	6.0	6.0
ROAE (%)	8.4	5.6	6.6	6.9	7.1
ROAA (%)	4.3	3.0	3.9	4.1	4.2
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37
Consensus Net DPU	-	-	7.1	7.2	7.6
MKE vs. Consensus (%)	-	-	4.0	5.6	1.6

Company Description

MRCB-Quill REIT engages in the investment in commercial properties which are mainly located in the Klang Valley.

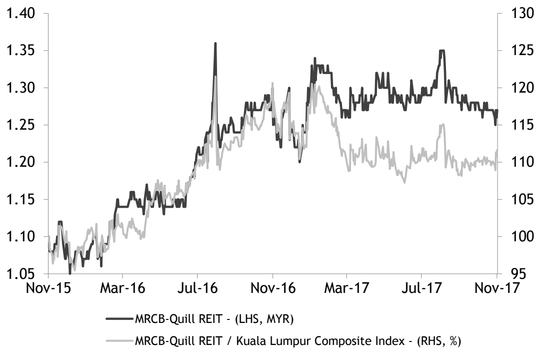
Statistics

52w high/low (MYR)	1.35/1.20
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,068
Market capitalisation	MYR1.4B
	USD325M

Major shareholders:

Malaysian Resources Corp. Bhd.	19.3%
CapitaLand Commercial Trust	11.0%
Employees Provident Fund	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(5)	2
Relative to index (%)	1	(2)	(4)

Source: FactSet

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

Fig 1: Results summary table

	Quarterly					Cumulative		
FY Dec (MYR m)	**3QFY17**	**3QFY16**	***%YoY***	**2QFY17**	***%QoQ***	**9MFY17**	**9MFY16**	***%YoY***
Gross revenue	44.8	32.5	*37.9*	45.1	*(0.6)*	135.5	97.7	*38.6*
Net property income	**34.3**	**25.5**	***34.3***	**34.9**	***(1.8)***	**105.3**	**76.7**	***37.4***
Interest income	0.7	0.5	*57.3*	0.6	*15.1*	1.8	1.2	*48.6*
Fair value gains	-	-	*n.m.*	-	*n.m.*	-	-	*n.m.*
Finance costs	(10.0)	(8.1)	*22.8*	(9.8)	*1.1*	(29.5)	(23.9)	*23.3*
Other expenses	(3.7)	(2.7)	*38.3*	(3.7)	*0.7*	(11.1)	(8.1)	*35.9*
Pretax profit	**21.4**	**15.2**	***40.4***	**22.0**	***(3.0)***	**66.6**	**45.9**	***45.2***
Tax	-	-	*n.m.*	-	*n.m.*	-	-	*n.m.*
Net profit	**21.4**	**15.2**	***40.4***	**22.0**	***(3.0)***	**66.6**	**45.9**	***45.2***
Net profit ex-EI	**21.4**	**15.2**	***40.4***	**22.0**	***(3.0)***	**66.6**	**45.9**	***45.2***
EPU ex-EI (sen)	2.0	2.3	*(13.0)*	2.3	*(11.5)*	6.4	6.9	*(7.2)*
Gross DPU (sen)	**-**	**-**	***n.m.***	**4.2**	***n.m.***	**4.2**	**4.2**	***0.0***
	3QFY17	**3QFY16**	***+/- ppt***	**2QFY17**	***+/- ppt***	**9MFY17**	**9MFY16**	***+/- ppt***
Net property margin (%)	76.5	78.6	*(2.1)*	77.4	*(1.0)*	77.8	78.5	*(0.7)*
Net income ex-EI margin (%)	47.7	46.9	*0.8*	48.9	*(1.2)*	49.2	46.9	2.2

Sources: Trust, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
Price/DPU(x)	18.3	16.8	17.2	16.6	16.5
P/BV (x)	0.9	0.6	1.0	1.0	1.0
P/NTA (x)	0.9	0.6	1.0	1.0	1.0
DPU yield (%)	6.1	6.6	6.5	6.7	6.7
FCF yield (%)	10.4	12.5	10.1	9.5	9.9
INCOME STATEMENT (MYR m)					
Revenue	115.2	131.8	185.1	187.5	192.0
Net property income	**90.3**	**102.3**	**137.3**	**141.3**	**144.7**
Management and trustee fees	(9.8)	(12.4)	(9.5)	(9.6)	(9.7)
Net financing costs	(26.5)	(30.7)	(37.3)	(37.1)	(37.6)
Exceptionals	6.7	3.6	0.0	0.0	0.0
Pretax profit	**60.7**	**62.8**	**90.4**	**94.5**	**97.4**
Income tax	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**60.7**	**62.8**	**90.4**	**94.5**	**97.4**
Distributable inc to unitholders	54.0	59.2	90.4	94.5	97.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	44.9	54.1	57.6	49.3	45.4
Accounts receivable	5.6	17.6	24.8	25.1	25.7
Property, Plant & Equip (net)	0.2	0.2	9.5	18.7	27.9
Inverstment properties	1,569.8	2,222.0	2,222.0	2,222.0	2,222.0
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	4.7	3.4	3.4	3.4	3.4
Total assets	**1,625.2**	**2,297.3**	**2,317.2**	**2,318.5**	**2,324.4**
ST interest bearing debt	188.9	189.1	189.1	189.1	189.1
Accounts payable	13.6	28.4	46.0	44.4	45.5
LT interest bearing debt	500.8	662.5	662.5	662.5	662.5
Other liabilities	18.1	57.7	57.7	57.7	57.7
Total Liabilities	**721.4**	**937.6**	**955.3**	**953.7**	**954.8**
Shareholders Equity	903.9	1,359.7	1,362.0	1,364.8	1,369.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**903.9**	**1,359.7**	**1,362.0**	**1,364.8**	**1,369.7**
Total liabilities and equity	**1,625.2**	**2,297.3**	**2,317.2**	**2,318.5**	**2,324.4**
CASH FLOW (MYR m)					
Cash flow from operations	**87.0**	**105.0**	**138.3**	**129.9**	**135.8**
Acquisitions & investments	(752.2)	(648.9)	(9.3)	(9.4)	(9.6)
Disposal of FA & investments	27.3	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(1.5)	1.6	2.7	2.9	2.5
CF from investing activities	**(726.4)**	**(647.2)**	**(6.6)**	**(6.5)**	**(7.1)**
Dividends paid	(38.7)	(56.9)	(88.2)	(91.7)	(92.5)
Interest expense	(28.9)	(36.4)	(40.0)	(40.0)	(40.0)
Change in debt	389.0	164.0	0.0	0.0	0.0
Equity raised / (purchased)	342.0	487.9	0.0	0.0	0.0
Other financial activities	(2.4)	(7.3)	0.0	0.0	0.0
CF from financing activities	**661.0**	**551.4**	**(128.2)**	**(131.7)**	**(132.5)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**21.6**	**9.2**	**3.5**	**(8.3)**	**(3.9)**

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.0	14.4	40.5	1.3	2.4
Net property income growth	69.3	13.3	34.2	2.9	2.4
Core net profit growth	58.1	9.6	52.7	4.5	3.0
Distributable income growth	58.1	9.5	52.9	4.5	3.0
Profitability ratios (%)					
Net property income margin	78.4	77.6	74.2	75.4	75.4
Core net profit margin	46.9	44.9	48.9	50.4	50.7
Payout ratio	75.5	79.4	87.7	87.3	85.5
DuPont analysis					
Total return margin (%)	52.7	47.7	48.9	50.4	50.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	8.4	5.6	6.6	6.9	7.1
ROAA (%)	4.3	3.0	3.9	4.1	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.5	2.4	2.4	2.4
Net gearing (%) (excl. perps)	71.3	58.7	58.3	58.8	58.9
Net interest cover (x)	3.0	2.9	3.4	3.5	3.6
Debt/EBITDA (x)	8.6	9.5	6.7	6.5	6.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	644.9	797.5	794.0	802.3	806.1
Debt/Assets (x)	0.42	0.37	0.37	0.37	0.37

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849
sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
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
(603) 2074 7176
winsonphoon@maybank-ib.com

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

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

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, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy
• 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

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

NG Li Hiang
(65) 6231 5840 nglihiang@maybank-ke.com.sg
• Banks

HONG KONG / CHINA

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

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

Ning MA, CFA
(852) 2268 0672 ningma@kimeng.com.hk
• Insurance

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*

Bonny WENG
(852) 2268 0644 bonnyweng@kimeng.com.hk
• Technology – *Regional*

Tony REN, CFA
(852) 2268 0640 tonyren@kimeng.com.hk
• Healthcare & Pharmaceutical

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

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

Isnaputra 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

Adhi TASMIN
(62) 21 8066 8694
adhi.tasmin@maybank-ke.co.id
• Plantations

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

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 • Ind. Estates
• Oil & Gas • Telcos

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector • Transport • Property • Telcos

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1394
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Ornmongkol TANTITANATORN
(66) 2658 6300 ext 1395
ornmongkol.t@maybank-ke.co.th
• Oil & Gas

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 5000 ext 5090
Sukit.u@maybank-ke.co.th

Ekachai TARAPORNTIP *Deputy Head*
66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

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

Sutthichai KUMWORACHAI
(66) 2658 5000 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

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

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

Poonpat CHAIKUMHAN, CFA
(66) 2658 5000 ext 1511
poonpat.c@maybank-ke.co.th
• Electronics • ICT

Sorrabhol VIRAMETEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorrabhol.V@maybank-ke.co.th
• Food, Transportation

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

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84) 8 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,
Deputy Head, Institutional Research
(84) 8 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

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

TRUONG Quang Binh,
Deputy Head, Retail Research
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres and Tubes • Oil&Gas

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

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

NGUYEN Thanh Lam
(84) 4 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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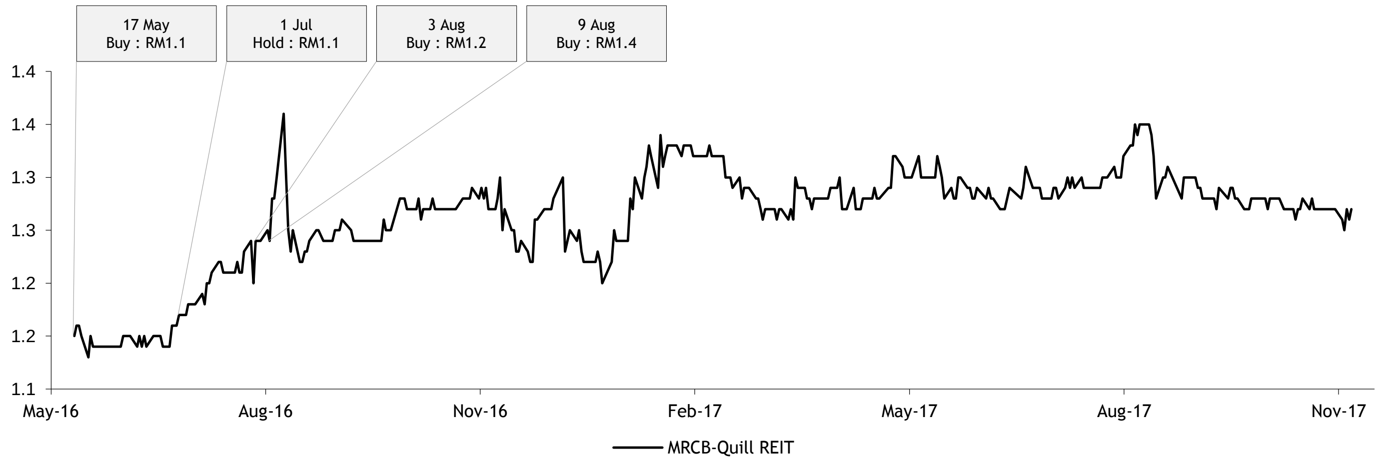
Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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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
PNB House
77 Queen Victoria Street
London EC4V 4AY, 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
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

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

Malaysia
Joann Lim
joann.lim@maybank-ib.com
Tel: (603) 2717 5166

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

New York
James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Vietnam
Patrick Mitchell
patrick.mitchell@maybank-kimeng.com.vn
Tel: (84)-8-44-555-888 x8080

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

Thailand
Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

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

Philippines
Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

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