

# MRCB-Quill REIT (MQREIT MK)

## 3Q20 in-line, DPU yield remains strong

### Maintain BUY with 8.7% net yield

3Q20 and 9M20 earnings were in-line, with the latter at 73%/81% of our/consensus' FY20 estimates. We maintain our FY20-22E earnings and DDM-TP of MYR1.20 (Ke: 7.2%, LT: 1%). We continue to favour MQREIT's stable rental income from its long-term tenants. MQREIT also currently offers a strong 8.7% FY21E net DPU yield (95% DPR). Maintain BUY.

### Led by higher rental income and lower expenses

3Q20 net profit grew 22% YoY and 13% QoQ to MYR21.5m, taking 9M20 earnings to MYR60.3m (+13% YoY). YoY, 3Q20 earnings growth was driven by: (i) higher rental income from improved average rent, positive rental reversions/rental step-ups and improved occupancies at several assets (namely Menara Shell, Wisma TechnipFMC and Tesco Building Penang), and (ii) lower opex (i.e. utilities). Furthermore, 3Q20 earnings were also lifted by lower finance costs from floating rate debt (-15% YoY or MYR1.4m). Notably, portfolio occupancy was 91% (+2ppt YoY), with Menara Shell and Platinum Sentral at 99% (+3ppt YoY) and 84% (-4ppt YoY) respectively.

### Estimates unchanged

Our FY20-22E net profit forecasts are intact. Notably, no rental support was provided since end-2Q20. However, MQREIT would continue to assess the necessity of rental assistance for upcoming months/quarters, namely for their retail tenants at Plaza Mont Kiara, Menara Shell and Platinum Sentral (aggregate of c.4% of portfolio NLA). This is mainly due to the ongoing Conditional Movement Control Order (9 Nov to 6 Dec 6) which adversely affects footfall traffic at these properties.

### Outlook intact; solely organic growth for now

We expect earnings to be supported by its assets with long-term tenants, i.e. Platinum Sentral, Menara Shell, QB1, QB4, QB2 and Tesco Building. These assets contribute c.51% to our FY20-22E revenue. Meanwhile, we are not expecting any near-term asset acquisitions.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	173	162	166	169	173
Net property income	134	123	131	132	133
Core net profit	85	72	83	85	86
Core EPU (sen)	7.9	6.7	7.7	8.0	8.0
Core EPU growth (%)	(4.1)	(14.8)	14.8	3.0	0.7
Net DPU (sen)	7.3	6.1	6.6	6.8	6.8
Net DPU growth (%)	(3.7)	(15.8)	7.9	3.0	0.7
P/NTA (x)	0.8	0.8	0.6	0.6	0.6
Net DPU yield (%)	6.9	6.1	8.3	8.6	8.6
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	5.9	6.1	6.3
MKE vs. Consensus (%)	-	-	11.1	11.1	9.1

## BUY

Share Price	MYR 0.80
12m Price Target	MYR 1.20 (+59%)
Previous Price Target	MYR 1.20

### Company Description

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

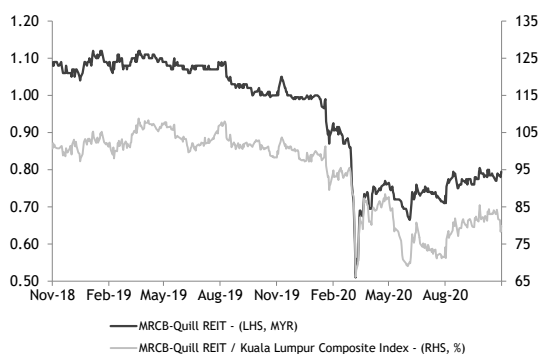
### Statistics

52w high/low (MYR)	1.05/0.51
3m avg turnover (USDm)	0.1
Free float (%)	55.2
Issued shares (m)	1,072
Market capitalisation	MYR852.1M
	USD207M

### 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	12	(21)
Relative to index (%)	(2)	11	(19)

Source: FactSet

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

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY20	3QFY19	%YoY	2QFY20	%QoQ	9MFY20	9MFY19	%YoY
Gross revenue	42.1	39.9	5.4	40.1	4.9	123.9	120.1	3.2
<b>Net property income</b>	<b>32.7</b>	<b>30.2</b>	<b>8.5</b>	<b>31.0</b>	<b>5.8</b>	<b>96.0</b>	<b>91.3</b>	<b>5.1</b>
Interest income	0.6	0.7	(10.1)	0.5	16.3	1.8	2.1	(16.3)
Fair value gains/(loss)	-	-	NM	-	NM	-	-	NM
Finance costs	(8.3)	(9.7)	(14.6)	(8.9)	(6.6)	(26.8)	(29.3)	(8.7)
Other expenses/gains	(3.6)	(3.5)	1.8	(3.5)	1.9	(10.6)	(10.6)	0.4
<b>Pretax profit</b>	<b>21.5</b>	<b>17.6</b>	<b>21.8</b>	<b>19.1</b>	<b>12.6</b>	<b>60.3</b>	<b>53.5</b>	<b>12.8</b>
Tax	-	-	NM	-	NM	-	-	NM
<b>Net profit</b>	<b>21.5</b>	<b>17.6</b>	<b>21.8</b>	<b>19.1</b>	<b>12.6</b>	<b>60.3</b>	<b>53.5</b>	<b>12.8</b>
<b>Net profit ex-EI</b>	<b>21.5</b>	<b>17.6</b>	<b>21.8</b>	<b>19.1</b>	<b>12.6</b>	<b>60.3</b>	<b>53.5</b>	<b>12.8</b>
EPU ex-EI (sen)	2.0	1.6	21.8	1.8	12.6	5.6	5.0	12.8
<b>Gross DPU (sen)</b>	<b>-</b>	<b>-</b>	<b>NM</b>	<b>3.4</b>	<b>NM</b>	<b>3.4</b>	<b>3.4</b>	<b>0.0</b>
	3QFY20	3QFY19	+/- ppt	2QFY20	+/- ppt	9MFY20	9MFY19	+/- ppt
Net property margin (%)	77.9	75.6	2.2	77.2	0.7	77.5	76.0	1.5
Net income ex-EI margin (%)	51.1	44.2	6.9	47.6	3.5	48.7	44.6	4.2

Sources: Trust

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for MQREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for MQREIT. 19% of MQREIT's total NLA is due for lease renewal in 2020 while 54% of MQREIT's total debt is based on floating rates. Another earnings risk would be if the impact from COVID-19 becomes prolonged.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
Price/DPU(x)	14.6	16.3	12.0	11.7	11.6
P/BV (x)	0.8	0.8	0.6	0.6	0.6
P/NTA (x)	0.8	0.8	0.6	0.6	0.6
DPU yield (%)	7.6	6.8	9.2	9.5	9.6
FCF yield (%)	10.0	11.1	13.5	13.9	14.0

**INCOME STATEMENT (MYR m)**

Revenue	173.4	162.1	166.5	169.1	172.7
<b>Net property income</b>	<b>133.7</b>	<b>122.8</b>	<b>130.8</b>	<b>132.5</b>	<b>133.0</b>
Management and trustee fees	(14.9)	(14.4)	(14.5)	(14.5)	(14.6)
Net financing costs	(36.3)	(36.4)	(33.6)	(32.7)	(32.6)
Exceptionals	(3.2)	(36.7)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>79.3</b>	<b>35.4</b>	<b>82.7</b>	<b>85.2</b>	<b>85.8</b>
Income tax	(6.1)	(6.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>73.1</b>	<b>29.1</b>	<b>82.7</b>	<b>85.2</b>	<b>85.8</b>
Core net profit	84.7	72.1	82.7	85.2	85.8
Distributable inc to unitholders	87.1	73.0	82.7	85.2	85.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	85.8	63.3	64.2	67.2	71.0
Accounts receivable	5.6	5.8	5.9	6.0	6.1
Property, Plant & Equip (net)	0.3	0.4	2.0	3.6	5.1
Investment properties	2,158.7	2,125.2	2,125.2	2,125.2	2,125.2
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	20.9	19.1	19.1	19.1	19.1
<b>Total assets</b>	<b>2,271.4</b>	<b>2,213.7</b>	<b>2,216.4</b>	<b>2,221.1</b>	<b>2,226.6</b>
ST interest bearing debt	0.0	332.7	332.7	332.7	332.7
Accounts payable	15.8	15.7	14.3	14.7	15.9
LT interest bearing debt	853.7	503.0	503.0	503.0	503.0
Other liabilities	29.6	38.8	38.8	38.8	38.8
<b>Total Liabilities</b>	<b>899.1</b>	<b>890.2</b>	<b>888.8</b>	<b>889.2</b>	<b>890.4</b>
Shareholders Equity	1,372.3	1,323.5	1,327.6	1,331.9	1,336.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,372.3</b>	<b>1,323.5</b>	<b>1,327.6</b>	<b>1,331.9</b>	<b>1,336.2</b>
<b>Total liabilities and equity</b>	<b>2,271.4</b>	<b>2,213.7</b>	<b>2,216.4</b>	<b>2,221.1</b>	<b>2,226.6</b>

**CASH FLOW (MYR m)**

<b>Cash flow from operations</b>	<b>113.3</b>	<b>118.8</b>	<b>114.8</b>	<b>118.4</b>	<b>119.7</b>
Acquisitions & investments	(4.1)	(2.3)	(1.7)	(1.7)	(1.7)
Disposal of FA & investments	28.0	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	3.7	2.7	3.2	3.2	3.4
<b>CF from investing activities</b>	<b>27.6</b>	<b>0.4</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>
Dividends paid	(89.8)	(78.0)	(78.6)	(81.0)	(81.5)
Interest expense	(39.2)	(38.5)	(36.8)	(35.9)	(35.9)
Change in debt	0.0	(19.0)	0.0	0.0	0.0
Equity raised / (purchased)	4.0	0.0	0.0	0.0	0.0
Other financial activities	(0.0)	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(125.0)</b>	<b>(135.5)</b>	<b>(115.4)</b>	<b>(116.9)</b>	<b>(117.5)</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>0.0</b>
<b>Net cash flow</b>	<b>15.9</b>	<b>(16.3)</b>	<b>0.9</b>	<b>3.0</b>	<b>3.9</b>

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(3.7)	(6.5)	2.7	1.6	2.1
Net property income growth	(4.5)	(8.1)	6.5	1.3	0.4
Core net profit growth	(3.8)	(14.8)	14.8	3.0	0.7
Distributable income growth	(5.8)	(16.1)	13.3	3.0	0.7
<b>Profitability ratios (%)</b>					
Net property income margin	77.1	75.8	78.6	78.3	77.0
Core net profit margin	48.8	44.5	49.7	50.4	49.7
Payout ratio	106.6	225.2	85.5	85.5	85.5
<b>DuPont analysis</b>					
Total return margin (%)	42.2	18.0	49.7	50.4	49.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.3	2.2	6.2	6.4	6.4
ROAA (%)	3.7	3.2	3.7	3.8	3.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	56.0	58.4	58.1	57.7	57.2
Net interest cover (x)	3.3	3.0	3.5	3.6	3.6
Debt/EBITDA (x)	7.2	7.7	7.2	7.1	7.0
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	767.9	772.5	771.6	768.6	764.7
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank

## Research Offices

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(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 | Thailand  
(65) 6231 5844  
leejuye@maybank-ke.com.sg

**Linda LIU**  
Singapore | Vietnam  
(65) 6231 5847  
lindaliu@maybank-ke.com.sg

**Dr Zamros DZULKAFI**  
(603) 2082 6818  
zamros.d@maybank-ib.com

**Ramesh LANKANATHAN**  
(603) 2297 8685  
ramesh@maybank-ib.com

**William POH**  
(603) 2297 8683  
william.poh@maybank-ib.com

### FX

**Saktiandi SUPAAT**  
Head of FX Research  
(603) 2292 1379  
saktiandi@maybank.com.sg

**Christopher WONG**  
(65) 6320 1347  
wongkl@maybank.com.sg

**TAN Yanxi**  
(65) 6320 1378  
tanyx@maybank.com.sg

**Fiona LIM**  
(65) 6320 1374  
fionalim@maybank.com.sg

### STRATEGY

**Anand PATHMAKANTHAN**  
ASEAN  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

### FIXED INCOME

**Winson PHOON, ACA**  
(65) 6812 8807  
winsonphoon@maybank-ke.com.sg

**SE THO Mun Yi**  
(603) 2074 7606  
munyi.st@maybank-ib.com

### REGIONAL EQUITIES

**Anand PATHMAKANTHAN**  
Head of Regional Equity Research  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

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

**ONG Seng Yeow**  
Research, Technology & Innovation  
(65) 6231 5839  
ongsengyeow@maybank-ke.com.sg

### MALAYSIA

**Anand PATHMAKANTHAN** *Head of Research*  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com  
• Strategy

**Desmond CH'NG, BFP, FCA**  
(603) 2297 8680  
desmond.chng@maybank-ib.com  
• Banking & Finance

**LIAW Thong Jung**  
(603) 2297 8688 tjliaw@maybank-ib.com  
• Oil & Gas Services- Regional  
• Automotive

**ONG Chee Ting, CA**  
(603) 2297 8678 ct.ong@maybank-ib.com  
• Plantations - Regional

**YIN Shao Yang, CPA**  
(603) 2297 8916 samuel.y@maybank-ib.com  
• Gaming - Regional  
• Media • Aviation

**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  
• Petrochemicals

**Kevin WONG**  
(603) 2082 6824 kevin.wong@maybank-ib.com  
• REITs • Technology

**Jade TAM**  
(603) 2297 8687 jade.tam@maybank-ib.com  
• Consumer Staples & Discretionary

**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  
• Chartist

**Amirah AZMI**  
(603) 2082 8769 amirah.azmi@maybank-ib.com  
• Retail Research

### SINGAPORE

**Thilan WICKRAMASINGHE** *Head of Research*  
(65) 6231 5840 thilanw@maybank-ke.com.sg  
• Banking & Finance - Regional  
• Consumer

**CHUA Su Tye**  
(65) 6231 5842 chuasutye@maybank-ke.com.sg  
• REITs - Regional

**LAI Gene Lih, CFA**  
(65) 6231 5832 laigenelih@maybank-ke.com.sg  
• Technology • Healthcare

**Kareen CHAN**  
(65) 6231 5926 kareench@maybank-ke.com.sg  
• Transport

**TAN Chin Poh** *Head of Retail Research*  
(65) 6231 5928 chinpoh@maybank-ke.com.sg

**Eric ONG**  
(65) 6231 5924 ericong@maybank-ke.com.sg  
• Retail Research

**Matthew SHIM**  
(65) 6231 5929  
matthewshim@maybank-ke.com.sg  
• Retail Research

### INDIA

**Jigar SHAH** *Head of Research*  
(91) 22 4223 2632 jigars@maybank.com  
• Strategy • Oil & Gas • Automobile • Cement

**Neerav DALAL**  
(91) 22 4223 2606 neerav@maybank.com  
• Software Technology • Telcos

**Kshitiz PRASAD**  
(91) 22 4223 2607  
kshitiz@maybank.com  
• Banks

**Vikram RAMALINGAM**  
(91) 22 4223 2607  
vikram@maybank.com  
• Automobile • Media

### INDONESIA

**Isnaptutra ISKANDAR** *Head of Research*  
(62) 21 8066 8680  
isnaptutra.iskandar@maybank-ke.co.id  
• Strategy • Metals & Mining • Cement  
• Autos • Consumer • Utility

**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

**Willy GOUTAMA**  
(62) 21 8066 8500  
willy.goutama@maybank-ke.co.id  
• Consumer

### PHILIPPINES

**Jacqui De JESUS**  
(63) 2 8849 8844  
jacquiannekelly.dejesus@maybank-atrke.com  
• Strategy • Conglomerates

**Romel LIBO-ON**  
(63) 2 8849 8844  
romel\_libo-on@maybank-atrke.com  
• Property

**Fredrick De GUZMAN**  
(63) 2 8849 8847  
fredrickdaniel.deguzman@maybank.com  
• Consumer

**Bernadine B BAUTISTA**  
(63) 2 8849 8847  
bernadine.bautista@maybank.com  
• Utilities

**Rachelleen RODRIGUEZ**  
(63) 2 8849 8843  
rachelleen.rodriquez@maybank.com  
• Banking & Finance

### 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

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 6300 ext 1395  
jesada.t@maybank-ke.co.th  
• Banking & Finance

**Kaushal LADHA, CFA**  
(66) 2658 6300 ext 1392  
Kaushal.l@maybank-ke.co.th  
• Oil & Gas - Regional  
• Petrochemicals - Regional

**Vanida GEISLER, CPA**  
(66) 2658 6300 ext 1394  
Vanida.G@maybank-ke.co.th  
• Property

**Yuwane PROMMAPORN**  
(66) 2658 6300 ext 1393  
Yuwane.P@maybank-ke.co.th  
• Services

**Ekachai TARAPORNITP** *Head of Retail Research*  
(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  
• Food & Beverage • Commerce

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

**Thanatphat SUKSRICHAVALIT**  
(66) 2658 5000 ext 1401  
thanatphat.s@maybank-ke.co.th  
• Media • Electronics

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

**Theerasate PROMPONG**  
(66) 2658 5000 ext 1400  
theerasate.p@maybank-ke.co.th  
• Equity Portfolio Strategist

**Apiwat TAVESIRIVATE**  
(66) 2658 5000 ext 1310  
apiwat.t@maybank-ke.co.th  
• Chartist and TFXE

### VIETNAM

**Quan Trong Thanh**  
(84 28) 44 555 888 ext 8184  
thanh.quan@maybank-kimeng.com.vn  
• Banks

**Hoang Huy, CFA**  
(84 28) 44 555 888 ext 8181  
hoanghuy@maybank-kimeng.com.vn  
• Strategy

**Le Nguyen Nhat Chuyen**  
(84 28) 44 555 888 ext 8082  
chuyen.le@maybank-kimeng.com.vn  
• Oil & Gas

**Nguyen Thi Sony Tra Mi**  
(84 28) 44 555 888 ext 8084  
mi.nguyen@maybank-kimeng.com.vn  
• Consumer

**Tyler Manh Dung Nguyen**  
(84 28) 44 555 888 ext 8180  
dung.nguyen@maybank-kimeng.com.vn  
• Utilities • Property

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

**Nguyen Thanh Lam**  
(84 28) 44 555 888 ext 8086  
thanhlam.nguyen@maybank-kimeng.com.vn  
• Technical Analysis

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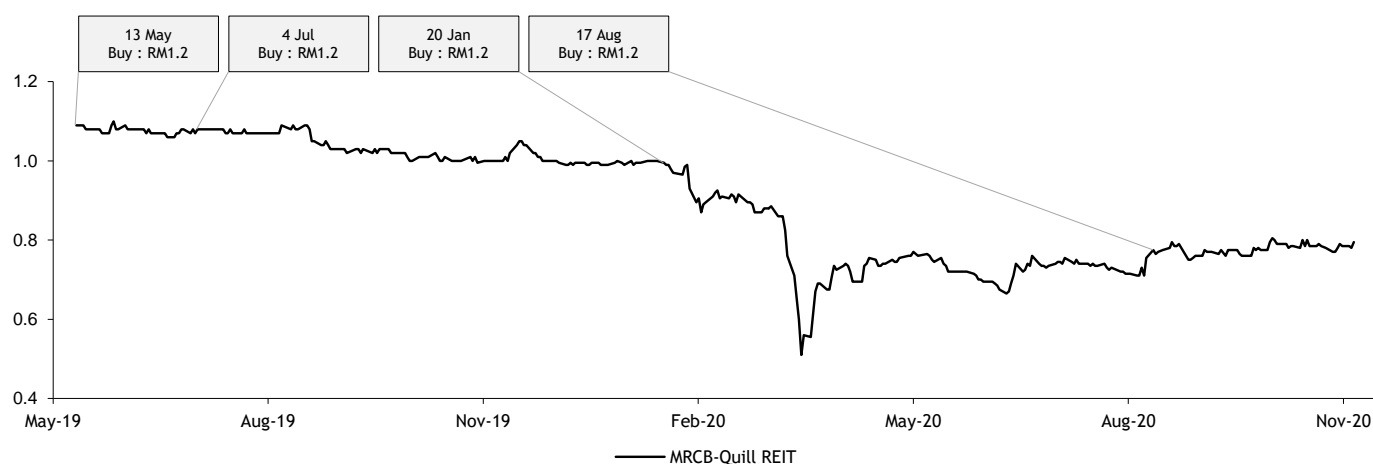
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## Historical recommendations and target price: MRCB-Quill REIT (MQREIT MK)



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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

### 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, 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

### 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  
1101, 11<sup>th</sup> floor, A Wing, Kanakia  
Wall Street, Chakala, Andheri -  
Kurla Road, Andheri East,  
Mumbai City - 400 093, 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 8849 8888  
Fax: (63) 2 8848 5738

### 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)

### 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**  
Ground Floor, KANOO Building  
No.1 - Al-Faisaliyah, Madina Road,  
P.O.Box 126575 Jeddah 21352  
Kingdom of Saudi Arabia

Tel: (966) 920023423

### 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

### North Asia Sales Trading

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

#### Indonesia

Iwan Atmadjaja  
iatmadjaja2@bloomberg.net  
(62) 21 8066 8555

#### 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

#### London

Greg Smith  
gsmith@maybank-ke.co.uk  
Tel: (44) 207-332-0221

#### India

Sanjay Makhija  
sanjaymakhija@maybank-ke.co.in  
Tel: (91)-22-6623-2629