

RCE Capital Bhd (RCE MK)

Consistent earnings delivery largely priced in

Maintain HOLD call and MYR1.75 TP

3QFY23 and 9MFY23 earnings were within our expectations. NPF and credit cost continue to moderate as expected after the 1QFY23 spike. Financing growth decelerated in 3QFY23 but ought to re-accelerate in 4QFY23 after civil servants receive their increments and bonuses. Going forward, we expect quarterly earnings to be similar to that of 3QFY23. We maintain our earnings estimates, HOLD call and MYR1.75 TP which is premised on end-CY23E target P/BV of 1.5x.

Results within our expectations

3QFY23 net profit of MYR35.2m (+1% YoY, -4% QoQ) brought 9MFY23 net profit to MYR103.9m (+2% YoY) which was at 76% of our FY estimate. As a secondary check, 9MFY23 revenue of MYR241m (+7% YoY) was at 73% of our FY estimate. No dividends were declared in the current quarter but we had expected this as they are traditionally declared in 2QFY and 4QFY.

NPF and credit cost concerns moderating

We note that 3QFY23 financing growth decelerated to 1% QoQ (2QFY23: +3% QoQ, FYTD: +5%). After NPF/credit cost ratio spiked in 1QFY23 at 4.0%/1.7% due to teachers and academics resigning en masse, they continued to moderate in 3QFY23 at 3.9%/1.1%. 3QFY23 net gearing surged 42ppts QoQ but recall that this was due to the huge 18sen special DPS that was paid on 30 Dec 2022.

Earnings estimates unchanged

We maintain our FY23 financing growth forecast of +8% as financing growth ought to accelerate in 4QFY23 after civil servants receive their increments and bonuses. We also note that upward pressure on cost of funds as benchmarked by Malaysian Government Securities 10-year yields and Overnight Policy Rate (OPR) has eased (Fig. 2 & 3). Thus, we expect future quarterly earnings to be similar to that of 3QFY23.

FYE Mar (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	232	239	263	258	269
Pre-provision profit	183	189	208	203	211
Core net profit	125	133	137	137	142
Core FDEPS (MYR)	0.18	0.18	0.18	0.18	0.19
Core FDEPS growth(%)	5.8	3.3	0.7	(0.4)	4.2
Net DPS (MYR)	0.07	0.11	0.28	0.10	0.11
Core FD P/E (x)	7.6	10.2	10.1	10.2	9.7
P/BV (x)	1.2	1.6	1.7	1.6	1.5
Net dividend yield (%)	5.1	5.8	15.1	5.4	5.7
Book value (MYR)	1.13	1.19	1.10	1.19	1.28
ROAE (%)	17.2	16.2	16.4	16.3	15.8
ROAA (%)	5.1	5.1	5.0	4.8	4.7
Consensus net profit	-	-	137	138	145
MIBG vs. Consensus (%)	-	-	0.5	(1.2)	(1.6)

Yin Shao Yang
samuel.y@maybank-ib.com
(603) 2297 8916

HOLD

Share Price	MYR 1.85
12m Price Target	MYR 1.75 (-0%)
Previous Price Target	MYR 1.75

Company Description

RCE Capital is principally involved in the provision of general financing services.

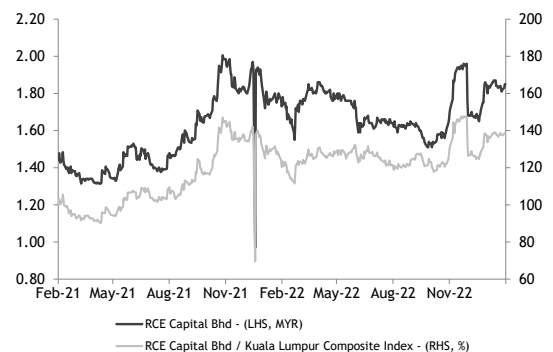
Statistics

52w high/low (MYR)	1.96/1.51
3m avg turnover (USDm)	0.2
Free float (%)	30.7
Issued shares (m)	741
Market capitalisation	MYR1.4B USD312M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	53.2%
Rockwills International Group Bhd	4.5%
Khai Yoon Woo	2.2%

Price Performance



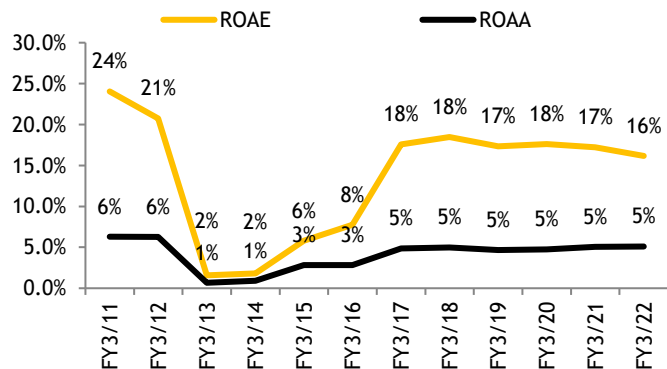
	-1M	-3M	-12M
Absolute (%)	(1)	11	7
Relative to index (%)	0	9	15

Source: FactSet

Value Proposition

- RCE Capital provides personal financing, the ultimate customers being civil servants.
- With a gross financing balance of just MYR2.0b, we estimate that its market share is only 2%.
- Non-performing financing kept in check thanks to non-discretionary direct salary deductions.
- Competitive advantage lies in fast financing processing turnaround time of 48 hours.
- ROE generation surpasses that of the average for the overall banking industry.

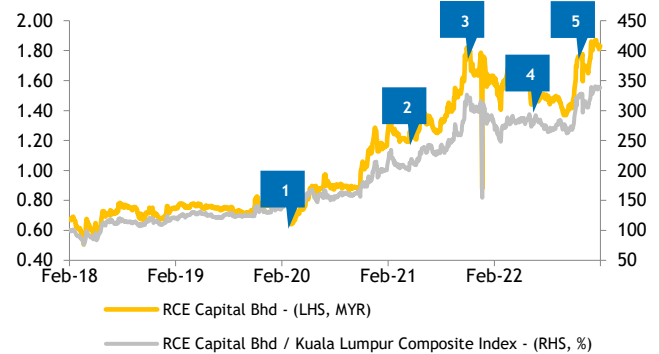
ROE and ROA



Source: Company

Price Drivers

Historical share price trend



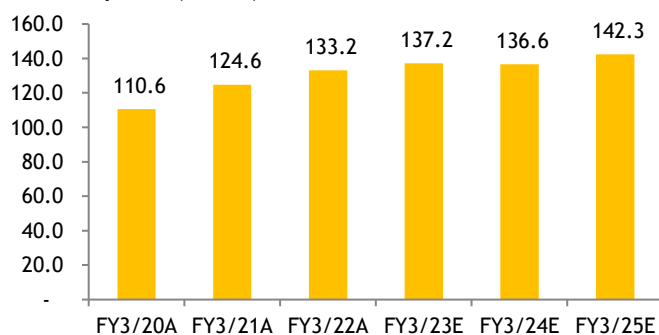
Source: Company, Maybank IBG Research

1. Movement Control Order lengthened time to process new customers applications, resulting in less financing disbursed.
2. 2QFY3/21 net profit grew 21% YoY to a record high of MYR33.0m.
3. Announced share DPS of 1 treasury share for 20 shares held and bonus issue of 19 shares for 21 shares held.
4. Bank Negara Malaysia raised Overnight Policy Rate by 25bps for the first time since Jul 2020.
5. Announced a huge special DPS of 18sen and higher-than-expected interim DPS of 5sen.

Financial Metrics

- Introduced better credit scoring model in 2013. We forecast gross financing CAGR of 5% p.a. over the next three years.
- Average cost of funds is rising but so is average financing yields.
- Asset quality better than before. New financing are smaller in size (<MYR20k) and RCE's NPF ratios are low (<2%).
- Forecast stable three-year forward core net profit CAGR of 2% p.a.
- There is room for dividends to surprise to the upside as its DPR policy is only 20-40%.

Core net profit (MYRm)



Source: Company (historicals), Maybank IBG Research (forecasts)

Swing Factors

Upside

- Easing competition - competitors have been reducing their exposure to personal financing.
- Lower cost of funds - we estimate that every 25bps reduction in cost of funds will accrete 3% to earnings.
- Access to CCRIS - if RCE Capital gains access to CCRIS, it can better assess customers' total indebtedness.

Downside

- High household debt - Household debt to GDP is elevated at >80% and may crimp customers' repayment ability.
- Need to leverage - RCE Capital cannot take deposits and thus, has to assume debt to finance its financing.
- Asset-liability duration mismatch - customers' repayment may not match RCE's debt repayment.

samuel.y@maybank-ib.com



Figure 1: Summary Results Table

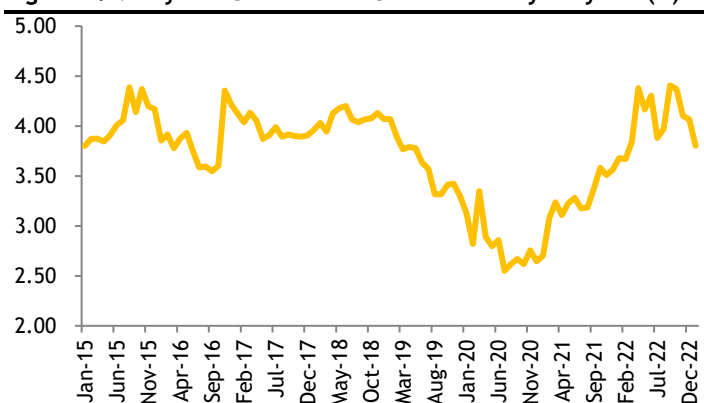
FY Mar (MYRm)	3QFY3/23	3QFY3/22	% YoY	2QFY3/23	% QoQ	9MFY3/23	9MFY3/22	% YoY
Interest/profit income	70.1	69.0	1.5	71.0	(1.3)	210.2	204.3	2.9
Other revenue	11.5	7.9	45.7	10.8	6.5	30.7	20.5	50.1
Revenue	81.6	76.9	6.1	81.8	(0.2)	241.0	224.8	7.2
Other income (includes interest income)	7.3	5.5	32.6	6.3	15.2	19.3	14.7	31.3
Interest/profit expense applicable to revenue	-22.8	-19.9	14.2	-21.6	5.6	-64.7	-60.2	7.5
Directors' remuneration and staff costs	-9.4	-9.9	(4.9)	-5.7	65.7	-21.1	-21.5	(1.7)
Allowances for impairment loss on receivables, net	-5.5	-1.9	193.8	-6.9	(20.3)	-20.5	-5.7	261.2
Depreciation of plant and equipment and right-of-use asset	-0.9	-0.9	0.9	-0.9	3.2	-2.7	-2.6	1.8
Other expenses	-4.2	-3.4	23.4	-4.5	(6.1)	-13.6	-13.5	0.8
Finance costs	-0.1	-0.1	(12.1)	-0.1	3.6	-0.2	-0.2	(15.8)
Profit before tax	46.1	46.4	(0.6)	48.6	(5.2)	137.5	135.8	1.3
Taxation	-10.9	-11.7	(6.6)	-12.0	(9.5)	-33.6	-34.2	(1.8)
Net profit	35.2	34.7	1.4	36.5	(3.7)	103.9	101.6	2.3
Financing & loans receivables, gross	1,978.5	1,862.1	6.3	1,957.6	1.1	1,978.5	1,862.1	6.3
(Allowance for impairment)	-119.6	-115.2	3.8	-120.2	(0.5)	-119.6	-115.2	3.8
Financing & loans receivables, net	1,859.0	1,747.0	6.4	1,837.4	1.2	1,859.0	1,747.0	6.4
	3QFY3/23	3QFY3/22	+/- ppt	2QFY3/23	+/- ppt	9MFY3/23	9MFY3/20	+/- ppt
Tax rate (%)	23.6	25.1	(1.5)	24.8	(1.1)	24.4	25.2	(0.8)
Gross NPF ratio (%)	3.9	3.8	0.1	4.0	(0.1)	3.9	3.8	0.1
Financing & loans loss coverage ratio (%)	153.7	162.5	(8.8)	154.0	(0.3)	153.7	162.5	(8.8)
Net gearing (%)	156.5	122.8	33.7	114.1	42.4	156.5	122.8	33.7

Source: Company

Results analysis

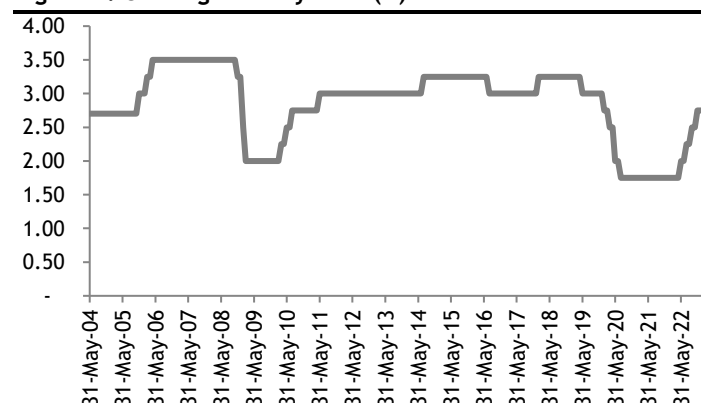
- 3QFY23 net profit was only 1% higher YoY as higher early settlement and interest income YoY were offset by higher interest/profit expense and credit cost YoY.
- 3QFY23 net profit was 4% lower QoQ due to higher staff costs QoQ driven by employee share options expense incurred but was moderated by lower credit cost QoQ.
- 9MFY23 net profit was only 2% higher YoY as higher fee and early settlement income YoY was offset by substantially higher credit cost YoY due to teacher and academic staff resigning en masse in 1QFY23.

Figure 2: Malaysian Government Securities 10 year yield (%)



Source: Bloomberg

Figure 3: Overnight Policy Rate (%)



Source: Bloomberg

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	7.5	10.1	9.9	9.9	9.5
Core FD P/E (x)	7.6	10.2	10.1	10.2	9.7
P/BV (x)	1.2	1.6	1.7	1.6	1.5
P/NTA (x)	1.3	1.6	1.8	1.6	1.5
Net dividend yield (%)	5.1	5.8	15.1	5.4	5.7
INCOME STATEMENT (MYR m)					
Islamic banking income	204.4	206.4	213.2	222.0	231.0
Other income	27.4	33.0	50.2	36.4	37.8
Total non-interest income	231.8	239.4	263.4	258.4	268.9
Operating income	231.8	239.4	263.4	258.4	268.9
Staff costs	(26.3)	(26.6)	(29.3)	(29.6)	(30.8)
Other operating expenses	(22.7)	(24.0)	(26.0)	(26.2)	(27.1)
Operating expenses	(49.0)	(50.6)	(55.4)	(55.8)	(57.9)
Pre-provision profit	182.8	188.8	208.1	202.5	210.9
Other allowances	(15.6)	(11.5)	(25.4)	(20.7)	(21.5)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	167.2	177.2	182.7	181.8	189.4
Income tax	(42.6)	(44.1)	(45.4)	(45.2)	(47.1)
Reported net profit	124.6	133.2	137.2	136.6	142.3
Core net profit	124.6	133.2	137.2	136.6	142.3
BALANCE SHEET (MYR m)					
Cash & deposits with banks	597.9	800.5	740.0	804.4	871.6
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Financing and advances	1,775.4	1,818.0	1,954.5	2,030.5	2,109.6
Fixed assets	7.3	6.4	6.3	6.2	6.1
Intangible assets	47.3	47.3	47.3	47.3	47.3
Other assets	62.8	53.0	53.0	53.0	53.0
Total assets	2,490.7	2,725.3	2,801.1	2,941.5	3,087.7
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	1,187.4	1,310.0	1,310.0	1,310.0	1,310.0
Other borrowings	252.9	342.0	485.3	562.2	642.5
Other liabilities	276.3	201.2	201.5	201.4	201.8
Total liabilities	1,716.7	1,853.2	1,996.7	2,073.6	2,154.3
Share capital	188.0	200.7	200.7	200.7	200.7
Reserves	586.0	671.4	603.7	667.2	732.7
Shareholders' funds	774.0	872.1	804.4	867.9	933.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	774.0	872.1	804.4	867.9	933.4
Total liabilities & equity	2,490.7	2,725.3	2,801.1	2,941.5	3,087.7

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	na	na	na	na	na
Non-interest income	4.8	3.3	10.1	(1.9)	4.1
Operating expenses	(0.4)	3.3	9.5	0.8	3.7
Pre-provision profit	6.3	3.3	10.2	(2.7)	4.1
Core net profit	12.7	6.8	3.1	(0.4)	4.2
Gross loans	1.4	1.8	8.0	4.0	4.0
Customer deposits	na	na	na	na	na
Total assets	2.5	9.4	2.8	5.0	5.0
Profitability (%)					
Non-int. income/Total income	100.0	100.0	100.0	100.0	100.0
Cost/income	21.1	21.1	21.0	21.6	21.5
Liquidity (%)					
Loans/customer deposits	na	na	na	na	na
Asset quality (%)					
Gross NPF	4.0	3.8	4.0	4.0	4.0
Capital adequacy (%)					
CET1	na	na	na	na	na
Tier 1 capital	na	na	na	na	na
Risk-weighted capital	na	na	na	na	na
Returns (%)					
ROAE	17.2	16.2	16.4	16.3	15.8
ROAA	5.1	5.1	5.0	4.8	4.7
Shareholders equity/assets	31.1	32.0	28.7	29.5	30.2

Source: Company; Maybank IBG Research

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.com

LEE Ju Ye
Singapore | Thailand | Indonesia
(65) 6231 5844
leejuy@maybank.com

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

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Brian LEE Shun Rong
(65) 6231 5846
brian.lee1@maybank.com

Luong Thu Huong
(65) 6231 8467
hana.thu@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

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

Alan Lau
(65) 6320 1378
alankau@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

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

FIXED INCOME

Winson PHOON, CFA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

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

PORTFOLIO STRATEGY

CHAN Han Chin
(603) 2297 8888
hanchin.chan@maybank-ib.com

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.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

MALAYSIA

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

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

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 • Non-Bank Financials

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 • Glove

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

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Petrochemicals • Technology

Shafiq KADIR, CFA
(603) 2297 8691
msshafiqk.abkadir@maybank-ib.com
• Healthcare • Software

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping

Eugene HOO Yee Hui
(603) 2082 6819
eugene.hoo@maybank.com
• Media

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com
• Retail Research

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.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849 ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837 kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848 jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842 krishna.guha@maybank.com
• REITs

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Miguel SEVIDAL
(63) 2 8849 8844
miguel.sevidal@maybank.com
• REITs • Property • Gaming

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.dejesus@maybank.com
• Utilities

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer

THAILAND

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank.com
• Banking & Finance

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P@maybank.com
• Services • Healthcare

Wasu MATTANAPOTCHANART
(66) 2658 6300 ext 1392
wasu.m@maybank.com
• Telcos

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank.com
• Transportation • Small cap

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
Jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Richard SUHERMAN
(62) 21 8066 8691
richard.suherman@maybank.com
• Metals & Mining

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos

William Jefferson W
(62) 21 8066 8663
william.jefferson@maybank.com
• Property

Satriawan Haryono, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

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

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

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8088
loi.nguyen@maybank.com
• Industrials

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank.com
• Retail Research

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Chartist

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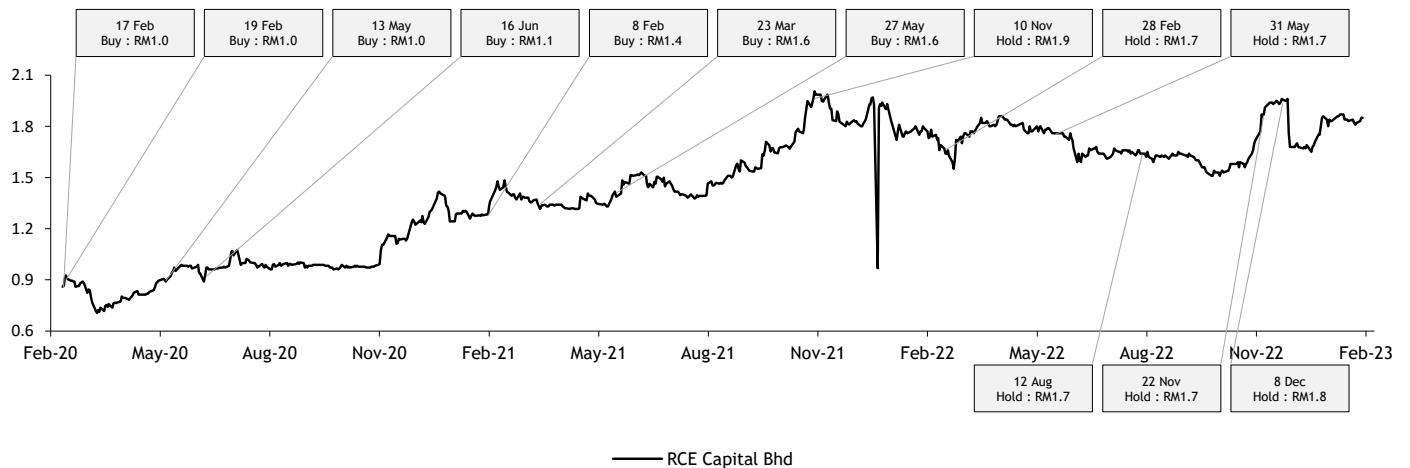
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Malaysia

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

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia
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

Thailand

Maybank Securities (Thailand) PCL
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)

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd
1101, 11th 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

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

Hong Kong

MIB Securities (Hong Kong)
Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

Philippines

Maybank 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

Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank.com
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

Philippines

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

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com