

# MY Property Sector

## NEUTRAL

(unchanged)

### Towering oversupply

- We remain cautious on Iskandar Malaysia's (IM) medium-term outlook post-site visit last week.
- Concerns remain on an oversupply situation in IM hotspots due to aggressive launches; we prefer Klang Valley instead.
- Maintain Neutral; Eco World (ECW MK; Not Rated) could be the new bellweather in the property sector.

### What's New

During our pre-Invest ASEAN 2014 conference site visit to IM last week, we found that Malaysian developers are shifting their focus to township developments/business parks to avoid direct competition with the foreign developers.

The Chinese developers we met during the trip are still very aggressive in property launches (as well as pricing) and many of them are looking to launch rather similar products (apartments, hotels, retail and office spaces) by 2H14. There may be one or two more land sales to foreign developers in IM, we were told.

### What's Our View

Findings from this recent site visit reaffirm our cautious feel on the increasingly crowded IM area. Massive supply of apartments/retail spaces in hotspots like Nusajaya and Danga Bay may cause decimate property values over the medium term.

To avoid direct competition with the foreign developers, some Malaysian developers have also started shifting their focus away from the hotspots towards the suburbs like the Kulai and Senai areas where there is still strong demand for affordable housing.

We prefer Klang Valley over IM, geographically. Having said that, investors' interest could return to developers with projects in IM on reignited development of the JB-Singapore rapid transit system. The listing of Iskandar Waterfront Holdings in 4Q14 could also re-rate other existing players in IM.

### Analysts

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

### Research coverage: valuation basis

	Price @ 9 Apr	RNAV (MYR)	Valuation (P/RNAV)	
			Current	MKE
Glomac	1.07	1.99	0.54	0.60
Mah Sing	2.24	3.21	0.70	0.79
SP Setia	2.97	4.78	0.62	0.70
Sunway	2.96	4.81	0.62	0.58
UEMS	2.27	4.15	0.55	0.51

Source: Maybank KE

### Remaining GDV and landbank in Iskandar Malaysia (IM)

Company	Remaining landbank (acres)	Remaining GDV (MYR b)	% of total GDV
Glomac	92	0.9	16
Mah Sing	1,638	6.7	24
SP Setia	838	8.4	12
Sunway	1,858	16.1	51
UEM Land	6,030	48.8	61

Source: Maybank KE

### Property sector (developers) - Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/BV (x)	P/BV (x)	ROE (%)	ROE (%)	Net yield (%)
		MYR	MYR m	MYR	CY13F	CY14F	CY15F	CY13F	CY14F	CY13F	CY14F	CY14F
UEMS	Hold	2.27	10,300.0	2.12	17.5	17.5	18.6	1.8	1.7	9.6	9.0	1.9
SP Setia	Hold	2.97	7,302.4	3.35	16.4	14.5	11.7	1.3	1.3	7.7	8.7	4.1
Sunway	Hold	2.96	5,101.6	2.79	9.7	10.2	9.9	0.9	0.9	9.0	8.7	2.0
Mah Sing	Hold	2.24	3,185.1	2.54	12.9	8.9	7.3	1.7	1.5	14.4	16.2	4.5
Glomac	Hold	1.07	777.7	1.20	7.9	6.9	5.6	0.9	0.8	11.7	12.2	4.3
<b>Simple avg</b>			<b>5,333.3</b>		<b>12.9</b>	<b>11.6</b>	<b>10.6</b>	<b>1.3</b>	<b>1.2</b>	<b>10.5</b>	<b>11.0</b>	<b>3.3</b>

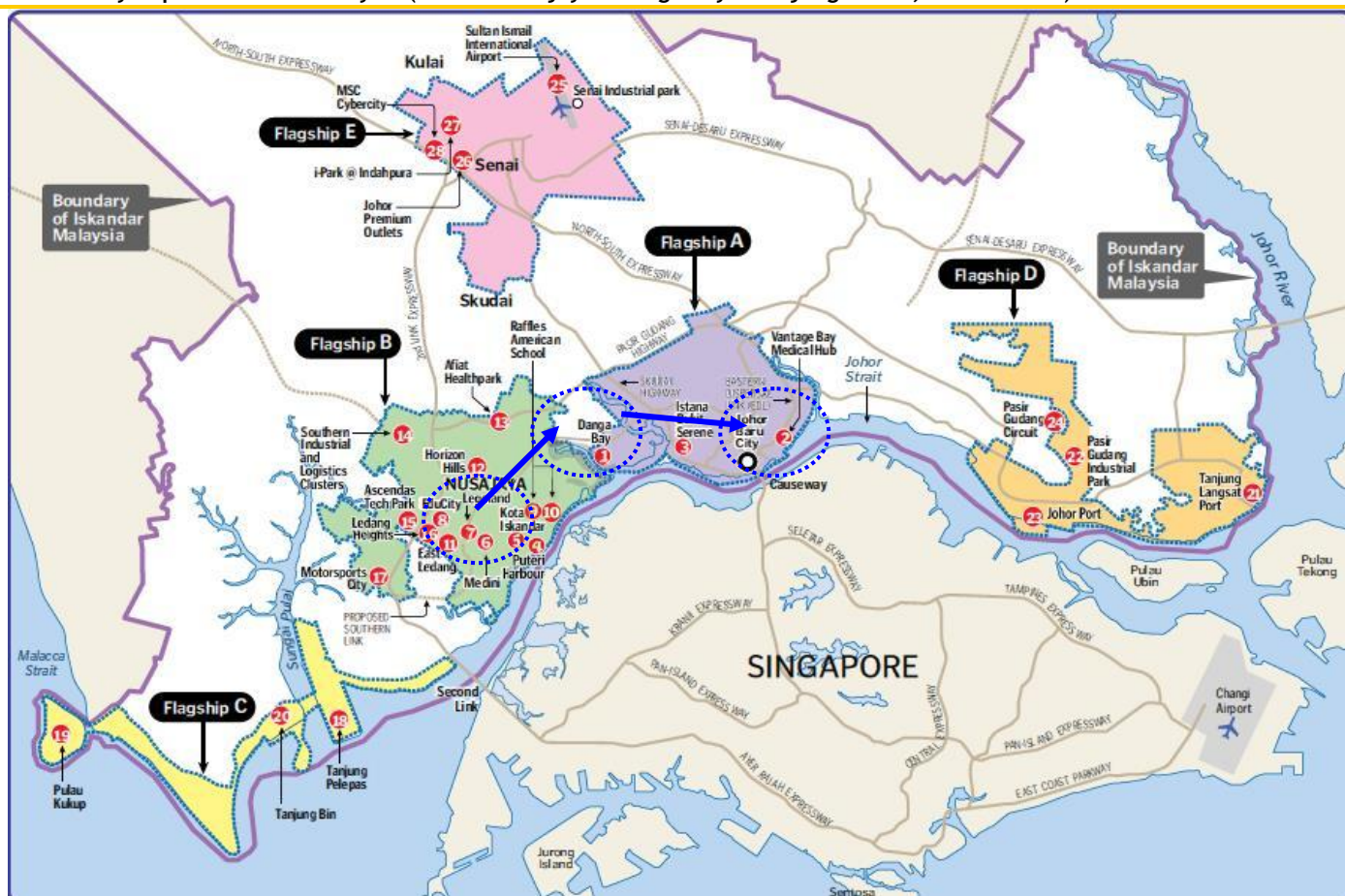
Source: Maybank KE

## A trip down-under ... in Peninsular

We hosted a group of Malaysian/Singaporean investors for a day trip to Iskandar Malaysia (IM) last week. Having visited familiar sites like UEMS' Nusajaya and Iskandar Waterfront's Danga Bay in the past, the focus of this trip was on the Chinese developers. We visited:

- 1) Chinese developers' projects including Hao Yuan Investment's (Singapore-based but is said to be controlled by shareholders from mainland China), Country Garden's and Guangzhou R&F's (GZRF) projects at Danga Bay and Tanjung Puteri areas;
- 2) Eco World Development's (ECW) Eco Botanic (a township development next to EduCity) at Nusajaya;
- 3) UEMS-Ascendas' Nusajaya Techpark (a 40:60 UEMS JV with Ascendas; MYR3.7b in total GDV; MYR380-460psf pricing for ready built facilities) which is currently conducting private previews with the responses so far being very encouraging;
- 4) Other catalytic projects such as EduCity, Legoland, Medini CBD, Pinewood studio, Marlborough College and Puteri Harbour at Nusajaya-Medini area.

Our one-day trip to Iskandar Malaysia (Medini-Nusajaya - Danga Bay - Tanjung Puteri, 31 Mar 2014)



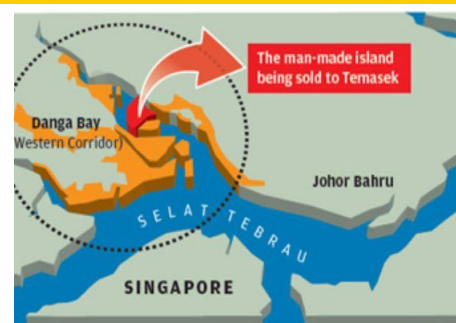
Source: Google

### Competition is intensifying

Despite the new property cooling measures and softening in housing demand, Hao Yuan and GZRF remain aggressive and are set to launch their IM projects by 2H14. Despite their huge clientele base in China (for GZRF), their key target markets remain the Malaysians and Singaporeans, we understand. This came as sort of a surprise to us to some extent as we previously thought that they will focus more on the mainland Chinese.

Judging from the planned launches (serviced apartments, hotels, office and retail spaces) by Country Garden, Hao Yuan, GZRF, CapitaLand and Greenland Group, the hotspot areas i.e. Danga Bay and Tanjung Puteri could be flooded with an enormous supply of high-rise mixed development projects, inducing price volatility. For instance, GZRF plans to launch 15 blocks of 35-storey apartment buildings under phase 1 in 2H14 which implies an enormous 3,150 units of apartments assuming 6 units per floor.

### CapitaLand's Danga Bay project will be launched by 2H14



Source: Starbiz

### Our findings : Aggressive property launches in 2H14; foreign developers flooding the market with rather similar product types

Company	Location	Landbank (acres)	Price psf (MYR)	Remarks
Greenland Group (China-based)	Danga Bay	148	464.7	A JV with Iskandar Waterfront Holdings (IWH);  Mixed development (hotels, serviced apartment and residences); GFA: 2.3m sqm
Hao Yuan Investment Pte Ltd (Singapore-based but major shareholders are from mainland China, we understand)	Danga Bay	37	991.0	High-end residential, commercial and retail properties worth MYR8b in GDV;  To be launched by 2H14 with pricing at around MYR1,000-1,500 psf;  This is a 60:40 JV between Hao Yuan (Singapore-based) and IWH; Hao Yuan is believed to be a China-linked company registered in Singapore.
Guangzhou R&F Properties (China-based)	Tanjung Puteri	116	890.6	With an estimated saleable floor area of 3.5m sq.ft.;  GZRF has started the earth works for its sales gallery and is currently finalising the pricing and layout plans for its Tanjung Puteri project called Princess Cove;  Phase 1 of Princess Cove will comprise 15 blocks of 35-storey apartment and retail units; to be launched by 2H14.
Country Garden (China-based)	Danga Bay, Pendas Medini	55 (Danga Bay); a few thousand acres of land at Pendas, Medini	375.7	Danga Bay: MYR10b in GDV; the project comprises a marina and marina club, hotel, serviced apartments (MYR850-1,300psf) and retail spaces; 4-year development period; Of the 60% booked units, 30% has signed SPA;  Pendas: It will be a JV project with Kumpulan Prasarana Rakyat Johor, KPRJ; development period is about 20 years.
Zhuoda Real Estate Group (china-based)	Medini	18.0	291.2	A 80:20 JV with Iskandar Investment Berhad (IIB);  The project is called, Paradiso Nuova Medini, has an estimated GDV of MYR2.6b; 382 units of luxury condominium development
CapitaLand (Singapore-based)	Danga Bay	70.0	262.5	GDV is estimated at around MYR8b;  The land will be developed into a waterfront residential community comprising high-rise and landed homes as well as a marina, shopping mall, restaurants, serviced residences, offices and recreational facilities; Phase 1 will be launched by Aug 2014.

Source: Media, Companies



## More foreign developers are coming, strengthening their foothold in IM

Our discussions with the salespeople and corporate representatives revealed that Iskandar Waterfront Holdings (IWH; Not Listed) is currently in talks with several foreign developers in selling some of its land (could be around Danga Bay area) and will likely seal the deals in the near term.

Meanwhile, Country Garden and Kumpulan Prasarana Rakyat Johor (KPRJ; a unit of the Johor government) have drawn out plans for a massive reclamation project (a few thousand acres; still in negotiation) to build luxury homes near Pendas (source: Starbiz). There are no further details at this juncture but we were told that the project would last for 20 years (versus Country Garden's 9,300 units at Danga Bay spreading over 4 years). Sunway is currently one of the largest land owners in the Pendas area (1,079 acres worth MYR18b in total GDV; HOLD with MYR2.79 TP).

### Country Garden could emerge as the largest land owner in Pendas, IM



Source: Starbiz

## Local developers are retreating from hotspots and high-rise

Our on-going discussions with Malaysian developers reveal that many have turned cautious on the medium-term outlook of the Johor property market, especially in the overcrowded mixed use and high-rise residential project spaces. To avoid direct competition with the foreign developers, Malaysian developers are either switching their focus to township/business parks/land sale (due to low holding costs for the land vs. foreign developers) or moving out to the suburbs such as Kulai and Senai to meet the strong demand for affordable housing.

UEMS has diversified and replenished its landbank outside of the increasingly-crowded Nusajaya by swapping 500 acres of its land in Gerbang Nusajaya with KL Kepong (KLK MK; HOLD; MYR24.00 TP) for the latter's 2,500 acres of land in Kulai while Glomac has recently acquired 174.2 acres of leasehold land in Kulai to meet local buyers demand. ECW will continue to focus on township (mostly landed) and industrial property segments. The company remains tight-lipped on its restructuring plan that could involve strategic land injections from its major shareholder.

## Recommendations

We remain cautious on the increasingly crowded developments at Iskandar Malaysia. Massive supply of apartments/retail spaces in hotspots like the Nusajaya and Danga Bay areas may cause a market implosion that would decimate property values over the medium term. Without synchronised planning and control by the authorities, the Iskandar property market could be deluged by a massive supply of high-rise mixed development projects, inducing price volatility. This may affect **UEMS (UEMS MK; HOLD; MYR2.12 TP)** and **Sunway (SWB MK; HOLD; MYR2.79 TP)**'s medium-term outlook as most of their landbank are located at the hotspot areas.

We prefer Klang Valley over Iskandar Malaysia geographically given the imminent approval of the KVMRT2 line and RRIM government land awards. More importantly, the strong population growth potential in Greater KL (+43% to 10m by 2020) offers more sustainable demand for properties. **Glomac is our preferred pick (GLMC MK; HOLD; MYR1.20 TP)** for its large exposure in affordable housing. Meanwhile, RTO-themed **Eco World Development (ECW MK; Not Rated)** could attract attention and become the new bellweather for the property sector.

Having said that, investors' interest could return to developers with projects in IM on the finalization of the JB-Singapore rapid transit system. Also, the listing of IWH in 2H14 could re-rate other existing players in IM.

For the overall property sector, we are still Neutral. We think now is still not the time to BUY into the sector which may not have fully digested the impact of property cooling measures introduced during the National Budget 2014 in Oct 2013, which are only beginning to impact buying. In addition, our economics team has brought forward its expectations of a 25-50 bps rise in the benchmark overnight policy rate to 2H14, from 2015. Regardless of the actual timeline, a higher interest rate environment is imminent as cost of living rises as the government unwinds subsidies and the country races towards its 2020 aspiration.

Presently, property stocks under our coverage are trading at 0.54-0.70x P/RNAV, according to our estimates. Against existing backdrop, a more opportune time to pick up on selected stocks could be at 0.4-0.6x P/RNAV which are slightly above their recent valuation troughs.

Photos from our one-day site visits, 31 Mar 2014

The pre-site visit was well attended by 35 investors



Source: Maybank KE

Pinewood Studios



Source: Maybank KE

Pinewood Studios - What is the movie in the making?



Source: Maybank KE

Presentation by Ascendas on Nusajaya Techpark (MYR3.7b GDV)



Source: Maybank KE

Presentation by Eco World's CEO - Dato Chang on Iskandar Malaysia property market outlook



Source: Maybank KE

GZRF's Princess Cove at Tanjung Puteri



Source: Maybank KE



Briefing by GZRF's representatives



Source: Maybank KE

GZRF has started the earthworks for its sales gallery at Tanjung Puteri



Source: Maybank KE

Country Garden's Danga Bay project



Source: Maybank KE

Tourist buses in front of Country Garden's sales gallery (mostly Chinese tourists) on 30 Mar 2014 (Sunday)



Source: Maybank KE

Briefing at Hao Yuan office for its Danga Bay project



Source: Maybank KE

Hao Yuan project will be launched by 2H14



Source: Maybank KE

Our one-day trip in Iskandar Malaysia (Medini-Nusajaya, Danga Bay, Tanjung Puteri)



Source: Maybank KE



## Research Offices

### REGIONAL

**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

**Alexander GARTHOFF**  
Institutional Product Manager  
(852) 2268 0638  
alexgarthoff@kimeng.com.hk

### 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  
(662) 658 1420 tim.l@maybank-ke.co.th

**JUNIMAN**  
Chief Economist, BII  
Indonesia  
(62) 21 29228888 ext 29682  
Juniman@bankbii.com

**Josua PARDEDE**  
Economist / Industry Analyst, BII  
Indonesia  
(62) 21 29228888 ext 29695  
JPardede@bankbii.com

### MALAYSIA

**WONG Chew Hann, CA Head of Research**  
(603) 2297 8686 wchewh@maybank-ib.com  
• Strategy • Construction & Infrastructure

**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 - Regional • Shipping

**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 & REITs

**LEE Yen Ling**  
(603) 2297 8691 lee.yl@maybank-ib.com  
• Building Materials • Glove Producers

**CHAI Li Shin**  
(603) 2297 8684 lishin.c@maybank-ib.com  
• Plantation • Construction & Infrastructure

**KANG Chun Ee**  
(603) 2297 8675 chunee@maybank-ib.com  
• Consumer

**Ivan YAP**  
(603) 2297 8612 ivan.yap@maybank-ib.com  
• Automotive

**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

**Jacqueline KO, CFA**  
(852) 2268 0633 jacquelineko@kimeng.com.hk  
• Consumer

**Karen KWAN**  
(852) 2268 0640 karenkwon@kimeng.com.hk  
• Property & REITs

**Osbert TANG, CFA**  
(852) 21 5096 8370  
osberttang@kimeng.com.hk  
• Transport & Industrials

**Philip TSE, CFA FRM**  
(852) 2268 0643 philiptse@kimeng.com.hk  
• Property & REITs

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

**Simon QIAN, CFA**  
(852) 2268 0634  
simonqian@kimeng.com.hk  
• Telecom & Internet

**Steven ST CHAN**  
(852) 2268 0645 stevenchan@kimeng.com.hk  
• Banking & Financials

**Warren LAU**  
(852) 2268 0644  
warrenlau@kimeng.com.hk  
• Technology - Regional

**William YANG**  
(852) 2268 0675  
williamyang@kimeng.com.hk  
• Technology - Regional

### INDIA

**Jigar SHAH Head of Research**  
(91) 22 6623 2601  
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

**Urmil SHAH**  
(91) 22 6623 2606 urmil@maybank-ke.co.in  
• Technology • Media

### SINGAPORE

**NG Wee Siang Head of Research**  
(65) 6432 1467 ngweesiang@maybank-ke.com.sg  
• Banking & Finance

**Gregory YAP**  
(65) 6432 1450 gyap@maybank-ke.com.sg  
• SMD Caps - Regional  
• Technology & Manufacturing • Telcos

**Wilson LIEW**  
(65) 6432 1454 wilsonliew@maybank-ke.com.sg  
• Property Developers

**ONG Kian Lin**  
(65) 6432 1470 ongkianlin@maybank-ke.com.sg  
• S-REITs

**James KOH**  
(65) 6432 1431 jameskoh@maybank-ke.com.sg  
• Consumer - Regional

**YEAK Chee Keong, CFA**  
(65) 6432 1460  
yeakcheekeong@maybank-ke.com.sg  
• Offshore & Marine

**Derrick HENG**  
(65) 6432 1446 derrickheng@maybank-ke.com.sg  
• Transport (Land, Shipping & Aviation)

**WEI Bin**  
(65) 6432 1455 weibin@maybank-ke.com.sg  
• Commodity • Logistics • S-chips

**John CHEONG**  
(65) 6432 1461 johncheong@maybank-ke.com.sg  
• Small & Mid Caps • Healthcare

### INDONESIA

**Willianto IE Head of Research**  
(62) 21 2557 1125  
willianto.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

**Anthony YUNUS**  
(62) 21 2557 1136  
anthony.yunus@maybank-ke.co.id  
• Consumer • Poultry

**Isnapura 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  
• Infrastructure • Construction • Transport

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

### PHILIPPINES

**Luz LORENZO Head of Research**  
(63) 2 849 8836  
luz\_lorenzo@maybank-atrke.com  
• Strategy

**Laura Dy-LIACCO**  
(63) 2 849 8840  
laura\_dyliaccco@maybank-atrke.com  
• 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

### THAILAND

**Maria LAPIZ Head of Institutional Research**  
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399  
Maria.L@maybank-ke.co.th  
• Consumer / Materials

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 6300 ext 1394  
Jesada.T@maybank-ke.co.th  
• Financial Services

**Kittisorn PRUITIPAT, CFA, FRM**  
(66) 2658 6300 ext 1395  
Kittisorn.P@maybank-ke.co.th  
• Real Estate

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

**Sukit UDOMSIRIKUL Head of Retail Research**  
(66) 2658 6300 ext 5090  
Sukit.u@maybank-ke.co.th

**Mayuree CHOWVIKARAN**  
(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

**Woraphon WIROONSRI**  
(66) 2658 6300 ext 1560  
woraphon.w@maybank-ke.co.th  
• Banking & Finance

**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

**LE Hong Lien, ACCA**  
Head of Institutional Research  
(84) 844 55 58 88 x 8181  
lien.le@maybank-kimeng.com.vn  
• Strategy • Consumer • Diversified • Utilities

**THAI Quang Trung, CFA, Deputy Manager,**  
Institutional Research  
(84) 844 55 58 88 x 8180 trung.thai@maybank-  
kimeng.com.vn  
• Real Estate • Construction • Materials

**TRUONG Thanh Hang**  
(84) 844 55 58 88 x 8085 hang.truong@maybank-  
kimeng.com.vn  
• Consumer

**Le Nguyen Nhat Chuyen**  
(84) 844 55 58 88 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

**NGUYEN Trung Hoa, Dy Head of Retail Research**  
(84) 8 44 555 888 x 8088  
hoa.nguyen@maybank-kimeng.com.vn  
• Macro • Steel • Real estate

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

**TRUONG Quang Binh**  
(84) 4 44 555 888 x 8087  
binh.truong@maybank-kimeng.com.vn  
• Rubber plantation • Tyres and Tubes • Oil&Gas

**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

## 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  
kevinfoy@maybank-ke.com.sg  
Tel: (65) 6336-5157  
US Toll Free: 1-866-406-7447

## Singapore

Maybank Kim Eng Securities Pte Ltd  
Maybank Kim Eng Research Pte Ltd  
9 Temasek Boulevard  
#39-00 Suntec Tower 2  
Singapore 038989

Tel: (65) 6336 9090  
Fax: (65) 6339 6003

## 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

## 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)

## North Asia Sales Trading

Alex TSUN  
alextsun@kimeng.com.hk  
Tel: (852) 2268 0228  
US Toll Free: 1 877 837 7635

## London

Maybank Kim Eng Securities  
(London) Ltd  
6/F, 20 St. Dunstan's Hill  
London EC3R 8HY, UK

Tel: (44) 20 7621 9298  
Dealers' Tel: (44) 20 7626 2828  
Fax: (44) 20 7283 6674

## Indonesia

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

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

## Vietnam

*In association with*  
Maybank Kim Eng Securities JSC  
1st Floor, 255 Tran Hung Dao St.  
District 1  
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888  
Fax : (84) 838 38 66 39

## 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

## 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