

Hong Kong Banks

NEUTRAL (Unchanged)

Mar15: Impact from stock market

- Rallying stock market prompted strong HKD deposit growth.
- Banks have turned cautious towards risky China loans.
- Asset quality of small banks should be better than large banks in 2015. Keep NEUTRAL with DSB & DSF as top BUYs.

What's New

Migration from RMB to HKD deposits. Total RMB deposits (including CDs issued) fell 4.5% MoM to CNY1.06t in Mar 2015, accounting for 11.4% of total deposits. The expectation of RMB depreciation and the rallying HK stock market have triggered migration towards HKD deposits. HKD deposits (including CDs issued) grew 6.7% MoM in Mar 2015. HKD funding cost eased from 0.36% in Feb 2015 to 0.33% in Mar 2015. However, as banks have competed vigorously for RMB deposits, we expect NIM decline of 4-5bps for HK banks in 1Q15 (1.38% in 4Q14). With the rallying stock market, we expect further migration towards HKD deposits in the near term. This, together with capital inflow to HK (increase in aggregate balance of HKD71.5b in Apr 2015) and the cut in RMB deposit rate, should help revive NIM of HK banks in 2Q15.

Cautious in loan growth. Total loans grew 3.6% MoM (+11.7% YoY) in Mar 2015. Excluding IPO loans (HKD200b), total loans grew 0.8% MoM (+8.8% YoY). Trade finance fell 2.8% MoM (-11.7% YoY) in Mar 2015, reflecting weaker external trade activities in China. Offshore loans also grew slower by 1% MoM given a slowdown in direct China loans. Key growth drivers of domestic loans were residential mortgages, property lending & consumer finance. However, there were more refinancing activities in mortgages in Mar 2015. Perhaps some individuals have pledged their properties for loans to invest in stock market. Overall, banks have turned more cautious on risky loans. We expect sector loan growth will moderate to 10% in 2015.

Mixed picture in asset quality. Based on our channel checks, asset quality of large banks remained weak in 1Q15 as they have more exposures to direct China loans. Impairment charges of these loans in 1Q15 were higher than 4Q14. Small banks like DSB and CHB saw stable asset quality in 1Q15 given they have cleaned up their China loan book in 2014. Still, with benign asset quality of HK loans, we expect limited rise in credit costs of HK-listed banks in 2015.

What's Our View

Maintain NEUTRAL view. We expect core net profit of Hong Kong-listed banks will grow by 4-30% YoY in 2015 given healthy loan and net fees growth & stable credit costs. Still, current valuations of most banks look demanding. DSB and DSF remain as our Top Picks.

Analysts

Steven ST Chan
(852) 2268 0645
stevenchan@kimeng.com.hk

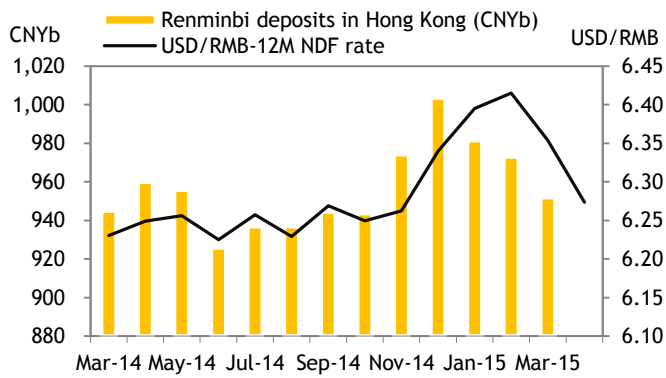
Ning Ma
(852) 2268 0672
ningma@kimeng.com.hk

Financial summary of Hong Kong-listed banks (share prices as of 30 Apr 2015)

Name	BB code	Rating	SP (HKD)	TP (HKD)	Upside (%)	Net profit (HKDm)			PER (x)			P/BV (x)			ROE (%)			Yield (%)		
						2014	2015F	2016F	2014	2015F	2016F	2014	2015F	2016F	2014	2015F	2016F	2014	2015F	2016F
BEA	23 HK	HOLD	33.70	32.50	-3.6%	6,331	6,288	7,162	12.4	13.2	12.1	1.15	1.09	1.04	9.6	8.5	8.8	3.3	2.9	3.3
BOCHK	2388 HK	HOLD	30.15	32.55	7.9%	24,577	27,370	31,014	13.0	11.6	10.3	1.80	1.67	1.55	14.6	14.9	15.6	3.7	3.9	4.9
CHB	1111 HK	BUY	23.05	23.00	-0.2%	2,742	985	1,152	3.7	10.2	8.7	1.18	1.10	1.02	33.8	11.2	12.1	22.2	3.4	4.0
DSB	2356 HK	BUY	16.90	20.20	19.5%	2,034	2,221	2,575	11.4	10.7	9.2	1.19	1.10	1.01	11.0	10.7	11.4	2.1	2.3	2.7
DSF	440 HK	BUY	54.55	65.35	19.8%	1,727	1,891	2,249	10.3	9.7	8.1	0.96	0.89	0.83	9.7	9.6	10.6	2.3	2.6	3.1
HSB	11 HK	SELL	151.30	115.35	-23.8%	15,131	19,455	18,773	19.1	14.9	15.4	2.08	1.97	1.88	12.3	13.6	12.5	3.7	3.7	3.7
HSBC	5 HK	SELL	76.95	60.00	-22.0%	13,115	13,756	14,081	14.3	13.8	13.5	1.00	0.97	0.94	7.0	7.1	7.1	5.1	4.3	4.4
SCB	2888 HK	HOLD	128.00	124.00	-3.1%	2,513	3,501	4,099	16.1	11.6	9.9	0.88	0.85	0.83	5.4	7.4	8.5	5.1	5.7	6.2

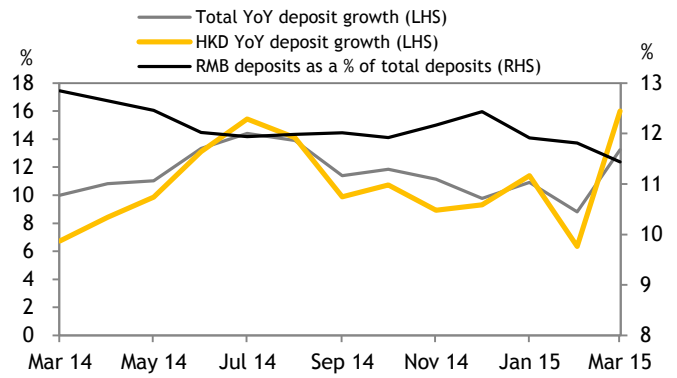
*Net profit has excluded dividends to preference shares and is denominated in USDm Source: Company data, Maybank Kim Eng

Figure 1: RMB deposits in HK and USD/RMB NDF rate



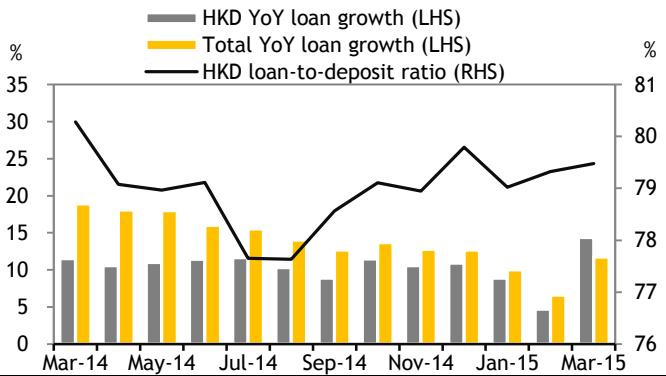
Source: HKMA, Maybank Kim Eng

Figure 2: Deposit mix, HKD and total deposit growth



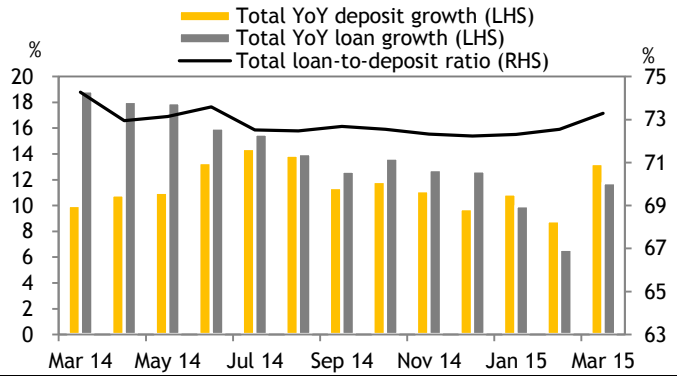
Source: HKMA, Maybank Kim Eng

Figure 3: HKD loan growth; LDR and total loan growth



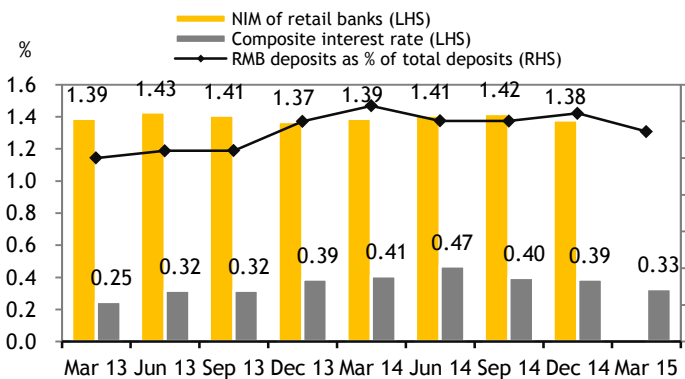
Source: HKMA, Maybank Kim Eng

Figure 4: LDR, loan growth and deposit growth



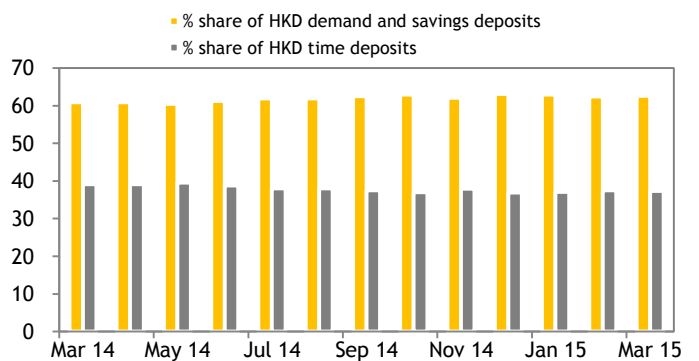
Source: HKMA, Maybank Kim Eng

Figure 5: NIM, composite interest rate and share of RMB deposits in Hong Kong



Source: HKMA, Maybank Kim Eng

Figure 6: HKD deposit mix



Source: HKMA, Maybank Kim Eng

Figure 7: Net interest margin forecasts for Hong Kong-listed banks (%)

	2012	2013	1H14	2H14	2014	2015F	2016F
BEA	1.67	1.92	1.79	1.75	1.77	1.72	1.73
BOCHK	1.60	1.68	1.74	1.69	1.72	1.68	1.70
CHB	1.10	1.26	1.52	1.64	1.58	1.64	1.67
DSB	1.54	1.79	1.79	1.73	1.76	1.72	1.72
HSB	1.85	1.89	1.92	1.88	1.90	1.88	1.90
HSBC	2.32	2.13	1.95	1.93	1.94	1.92	1.90
SCB	2.23	2.12	2.06	1.80	1.93	1.77	1.77

Source: Company data, Maybank Kim Eng

Figure 8: Loan breakdown by sector

	2009	2010	2011	2012	2013	2014	Mar-14*	Jun-14*	Sep-14*	Dec-14*	Mar 15*
Manufacturing	(13.7)	28.2	17.5	(5.4)	20.0	25.0	7.3	6.7	7.2	1.8	(3.9)
Transportation	(2.5)	11.1	14.6	12.3	14.3	5.3	2.9	2.6	(1.8)	1.6	(1.3)
Property-related	(0.0)	20.5	10.3	1.8	6.8	6.9	2.8	1.6	0.8	1.5	1.4
Wholesale & retail trade	(1.1)	52.5	36.7	12.7	18.3	13.4	5.6	5.4	7.9	(5.6)	1.0
Financial concerns	(34.3)	26.0	16.2	1.6	18.1	19.5	12.0	3.3	1.2	2.0	(0.7)
Other corporate loans	12.0	25.8	8.4	15.1	11.4	36.1	20.1	18.2	(4.5)	0.4	35.7
Residential mortgages	7.4	14.1	6.7	7.6	3.9	8.4	1.0	2.1	2.3	2.8	2.7
Other personal loans	(1.8)	15.2	14.3	14.5	16.6	15.4	5.0	2.3	2.1	5.2	3.2
Trade finance	(6.1)	56.7	26.9	10.1	43.8	(1.4)	12.3	2.4	0.2	(14.5)	4.2
Total domestic loans	(2.4)	23.3	13.8	7.2	13.8	12.0	6.6	4.4	1.4	(0.7)	5.5
Total offshore loans	11.6	50.3	41.6	16.2	21.4	14.2	3.7	1.7	3.3	4.8	3.2
Total loans	0.1	28.6	20.2	9.6	15.9	12.7	5.7	3.6	1.9	0.9	4.8
Loan-to-deposit ratio	51.5	61.6	66.9	67.1	70.4	72.2	74.3	73.6	72.7	72.2	73.3
Nominal GDP growth	(2.8)	7.1	8.9	5.3	4.7	5.3	5.0	6.2	5.7	4.6	N/A

* Figures refer to QoQ comparison

Source: HKMA, Maybank Kim Eng

Figure 9: Loan growth forecasts for HK-listed banks (% YoY)

	2012	2013	1H14	2H14	2014	2015F	2016F
BEA	19.9	6.1	11.2	15.6	9.4	10.4	10.8
BOCHK	19.1	14.1	11.3	10.3	12.0	10.3	9.4
CHB	15.7	9.0	(5.2)	15.1	26.2	14.5	13.9
DSB	27.3	11.2	6.6	13.7	7.4	8.5	8.5
HSB	36.9	1.6	11.5	9.3	12.4	11.3	11.4
HSBC	6.1	(2.1)	5.8	(0.6)	(2.0)	3.3	3.4
SCB	21.9	10.3	4.7	4.0	(2.5)	(2.8)	(0.6)

Source: Company data, Maybank Kim Eng

Figure 10: Development of offshore Chinese renminbi business in Hong Kong

	2012	2013	YoY %	2014	YoY %	1Q15	YoY %
Offshore RMB trade settlement handled by Hong Kong banks (CNY b)	2,632.5	3,841.0	45.9	6,258.3	62.9	1,626.1	9.2
Total Offshore RMB trade settlement in China (CNY b)	2,940.0	4,630.0	57.5	6,550.0	41.5	1,650.0	0.0
% share	89.5	83.0		95.5		98.6	
RMB customer deposits in Hong Kong (CNY b)*	603.0	860.5	42.7	1,003.6	16.6	952.0	0.7
RMB certificates of deposits issued in Hong Kong (CNY b)*	117.3	192.5	64.1	154.7	(19.6)	109.2	(48.7)
Total RMB deposits in Hong Kong (CNY b)*	720.3	1,053.0	46.2	1,158.3	10.0	1,061.2	(8.3)
RMB bond outstanding in Hong Kong (CNY b)*#	237.2	310.0	30.7	380.5	22.7	374.0	(1.7)
Outstanding RMB loans (CNY b)*#	79.0	115.6	46.3	188.0	62.6	217.6	15.7
Foreign direct investment in China (USD b)	111.7	117.6	5.3	119.6	1.7	34.9	10.6
Overseas direct investment from China (USD b)	77.2	90.2	16.8	102.9	14.1	25.8	29.6

*Figures refer to YTD % change

#Refer to figures at end-Feb 2015

Source: HKMA, PBOC, Maybank Kim Eng

Figure 11: Key financial data of Hong Kong-listed banks

	BEA	BOCHK	CHB	DSB	DSF	HSB	HSBC*	SCB*
Pre-provisional profit (HKDm)								
2014	8,383	31,310	864	2,038	2,233	20,594	19,999	7,290
2015E	8,649	34,333	1,081	2,252	2,557	21,661	20,890	6,757
2016E	9,656	38,838	1,261	2,511	2,925	23,580	21,400	7,170
YoY % change								
2014	9.3	10.9	30.8	10.6	13.0	8.6	(23.3)	(15.1)
2015E	3.2	9.7	25.1	10.5	14.5	5.2	4.5	(7.3)
2016E	11.6	13.1	16.6	11.5	14.4	8.9	2.4	6.1
Net profit (HKDm)								
2014	6,331	24,577	2,742	2,034	1,727	15,131	13,115	2,513
2015E	6,288	27,370	985	2,221	1,891	19,455	13,756	3,501
2016E	7,162	31,014	1,152	2,575	2,249	18,773	14,081	4,099
YoY % change								
2014	0.8	10.4	392.0	15.8	15.2	(43.3)	(16.1)	(37.0)
2015E	(0.7)	11.4	(64.1)	9.2	9.5	28.6	4.9	39.3
2016E	13.9	13.3	16.9	15.9	19.0	(3.5)	2.4	17.1
EPS (HKD)								
2014	2.72	2.32	6.30	1.49	5.29	7.91	0.69	1.02
2015E	2.56	2.59	2.26	1.58	5.64	10.18	0.72	1.42
2016E	2.79	2.93	2.65	1.84	6.71	9.82	0.73	1.66
YoY % change								
2014	(2.0)	10.4	392.0	17.4	13.8	(43.3)	(18.0)	(37.8)
2015E	(6.1)	11.4	(64.1)	6.5	6.7	28.6	3.5	38.5
2016E	9.0	13.3	16.9	15.9	19.0	(3.5)	2.4	17.1
DPS (HKD)								
2014	1.11	1.12	5.12	0.36	1.25	5.60	0.50	0.85
2015E	0.98	1.16	0.79	0.39	1.41	5.60	0.43	0.93
2016E	1.12	1.47	0.93	0.46	1.68	5.60	0.44	1.02
YoY % change								
2014	0.1	10.9	989.3	9.1	2.5	1.8	2.0	(1.2)
2015E	(11.5)	4.0	(84.5)	9.2	12.8	-	(14.1)	10.0
2016E	13.9	25.9	16.9	15.9	19.0	-	2.4	10.0
Loan growth (%)								
2014	9.4	12.0	26.2	7.4	7.4	12.4	(2.0)	(2.5)
2015E	10.4	10.3	14.5	8.5	8.5	11.3	3.3	(2.8)
2016E	10.8	9.4	13.9	8.5	8.5	11.4	3.4	(0.6)
Net interest margin (%)								
2014	1.77	1.72	1.58	1.76	1.73	1.90	1.94	1.93
2015E	1.72	1.68	1.64	1.72	1.68	1.88	1.92	1.77
2016E	1.73	1.70	1.67	1.72	1.66	1.90	1.90	1.77
Cost-income ratio (%)								
2014	54.0	29.3	52.8	51.1	51.7	31.8	67.3	60.2
2015E	54.0	28.7	48.1	50.3	50.0	31.9	66.6	61.1
2016E	52.5	27.5	45.6	49.2	48.3	31.8	66.7	59.5
Credit cost (%)								
2014	0.23	0.11	(0.06)	0.52	0.52	0.18	0.41	0.73
2015E	0.21	0.11	0.13	0.46	0.46	0.22	0.42	0.64
2016E	0.18	0.10	0.12	0.40	0.40	0.19	0.44	0.55
Core teir-1 CAR (%)								
2014	11.8	12.3	9.6	11.4	11.4	15.6	10.9	10.5
2015E	13.1	12.6	9.2	11.3	11.3	15.9	11.0	11.5
2016E	12.9	12.8	8.8	11.4	11.4	15.2	11.0	11.9

*Figures are denominated in USD and USDm

Source: Company data, Maybank Kim Eng

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
(66) 2658 6300 ext 1420
tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, Bil
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 • 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, CFA
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

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

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

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

Ka Leong LO, CFA
(852) 2268 0630 kll@kimeng.com.hk
• Consumer Discretionary & Auto

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

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
warrentlau@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

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
• SMD Caps - Regional
• 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 (Land, Shipping & Aviation)

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

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 • Telcos

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

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

Mayuree CHOWVIKARN
(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

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

THAI Quang Trung, CFA, Deputy Manager,
Institutional Research
(84) 8 44 555 888 x 8180
thai.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

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
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

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
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,
20th - 21st 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

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

London

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

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

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

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

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