



Thai Market Compass

MARKET STRATEGY | Thailand

Notes from marketing trip

- We find Singapore-based investors are NEUTRAL to O/W on the SET while Hong Kong-based investors are mostly U/W held back by valuations and political risk.
- Common question is what could bring the market down. With foreign investors still out of the market, it will be the movement of domestic liquidity among various asset classes within the country; right now equity remains the most lucrative.
- The strategy we presented focuses on 1H15 as we expect government spending to step up to revive the weakening economy. A good no. of investors are skeptical, judgment based on lack of concrete achievements in the past 5-6 months despite strong commitment. Still, our identified winning sectors - bank, ICT, autoparts, renewable energy and contractors - received fair hearing as well as our Top BUYs: KBANK, ADVANC, SAT, STEC, SPCG. Where we hear some dissent is on our U/W view on energy & petrochems.

The liquidity puzzle

Most of the 40 foreign funds we met on our marketing trip last week are now more accepting that the SET's resilience stems from flush domestic liquidity that has nowhere to go. The market rally has no decisive fundamental support yet even as we see earnings revision turning mildly positive, but the equity market remains the most viable asset class in Thailand. Lack of investment alternatives will keep the SET invested. As we approach the YE, deployment of LTF & RMF as well as window dressing could push the SET higher. If interest rates stay low (or go lower) we will have the "yield chasers" coming to the market in 1Q15, we believe. Invested funds struggle between lofty valuations and anemic growth; some are starting to scour the unloved sectors.

Government spending a must and the only driver

Stimulus, by way of rolling out the infrastructure plans faster and implementation of new initiatives such as the push towards Digital Economy and SME Support Program is now a must, we think. Falling prices amid weakening demand is a dangerous combination. We remain convinced that the junta government is committed to political reform and reviving economic growth. Thus, we expect action in 2015 and recommend investors to pick companies that could benefit from government spending. Our Top BUYs are KBANK, ADVANC, SAT, STEC and SPCG.

Stock picks and valuation

Stock	Beta	Mkt cap (USDm)	Liquidity (USDm)	Price (local)	TP (local)	U/D Side (%)	NP Gr %		PER		P/B (x)		ROE		Div yield	
							14E	15E	14E	15E	14E	15E	14E	15E	14E	15E
Winning sectors																
Top Buy																
ADVANC	1.1	21,391	38.2	233.0	320.0	37.3	1.4	17.4	18.8	16.0	14.3	13.2	75.9	82.0	5.2	6.1
KBANK	1.1	17,367	31.9	235.0	265.0	12.8	13.9	8.0	11.9	11.1	2.2	1.9	19.4	18.8	1.7	1.8
SAT	1.3	240	0.5	18.3	22.0	20.2	(38.4)	28.4	13.1	10.2	1.5	1.4	11.6	13.4	2.5	3.2
SPCG	1.7	708	2.6	24.8	27.6	11.3	231.5	38.3	13.9	10.0	3.4	2.8	24.5	28.0	3.6	5.0
STEC	1.7	1,224	10.3	26.0	31.0	19.2	4.4	2.8	26.3	25.7	4.7	4.2	19.0	17.9	1.5	1.6
Neutral sectors																
Top Picks																
BGH	1.1	8,754	14.9	18.3	23.0	25.7	11.9	28.8	40.7	31.6	6.4	5.5	15.6	17.7	1.0	1.3
ERW	1.4	343	1.7	4.5	6.0	33.9	Loss	Profit	NM	24.9	2.6	2.4	(1.0)	9.5	0.0	0.0
KCE	0.9	715	2.2	41.0	49.5	20.7	54.0	10.2	12.7	11.5	4.3	3.4	33.6	29.9	2.8	3.1
LPN	1.3	1,098	4.0	24.1	27.0	12.0	0.2	39.9	15.3	10.9	3.4	2.8	21.6	27.9	3.3	4.6
WHA	1.7	1,064	3.2	35.8	47.0	31.5	(10.9)	24.6	26.5	21.3	7.2	5.9	27.2	28.1	1.9	2.5
Laggards sectors																
Top Sell																
PTTGC	0.8	8,632	20.4	62.0	64.0	3.2	(14.4)	13.7	9.8	8.6	1.1	1.0	11.4	12.0	4.6	5.2
TOP	0.8	2,851	5.4	45.3	50.0	10.5	(60.9)	101.8	22.7	11.3	1.0	1.0	4.5	8.6	2.9	4.4

Source: Bloomberg, MKE-JSR calculations

Analyst

Maria Lapiz
(662) 257 0520
Maria.l@maybank-ke.co.th

SET performs in 2014



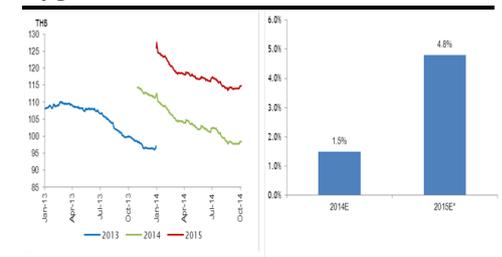
Date closing 7 Nov: SET = 1578.37 Source: Bloomberg

2015 multiples not as stretchy...

	EPS 14 (LC)	%Chg YoY	EPS 15 (LC)	%Chg YoY	15PE (x)	15PB (x)	15Div Yield
Thailand	110	2%	119	9%	13.3	2.2	3.6%
Thailand MKE	107	1%	118	10%	13.3	2.2	3.6%
Indonesia	306	42%	359	17%	13.9	2.5	2.2%
MSCI x JP	45	0%	50	12%	11.3	1.3	2.9%
Malaysia	109	4%	119	10%	15.3	2.0	3.4%
Philippines	355	4%	410	16%	17.6	2.6	2.1%
Singapore	230	0%	249	8%	13.2	1.2	3.5%

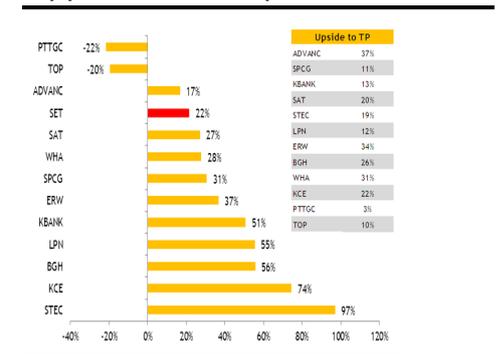
Date closing 7 Nov: SET = 1578.37 Source: Bloomberg

...as earnings revisions for 2015 tilts to upgrades



Source: Bloomberg

Top picks and their YTD performance

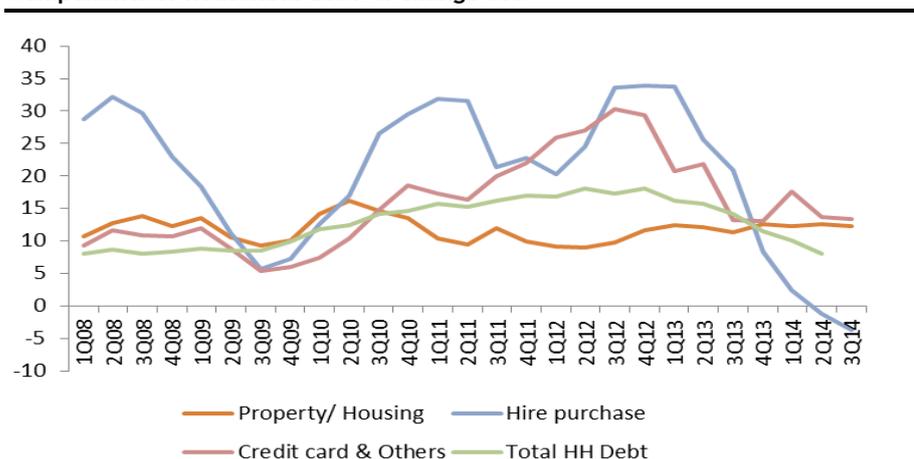


Feedback from the marketing trip

Little interest on the underpinnings of the weak economy

The story is probably well told. Some investors ask about the household debt not because it rose to 83.5% of GDP in 2Q14 from 82.8% in 1Q14 but more to see whether growth in auto loans have started to moderate. Auto loans ballooned due to the First Car Policy that was rolled out in the late 2011- after the major flooding of Central Thailand - and lasted until 2013.

Components of household debt: % change YoY

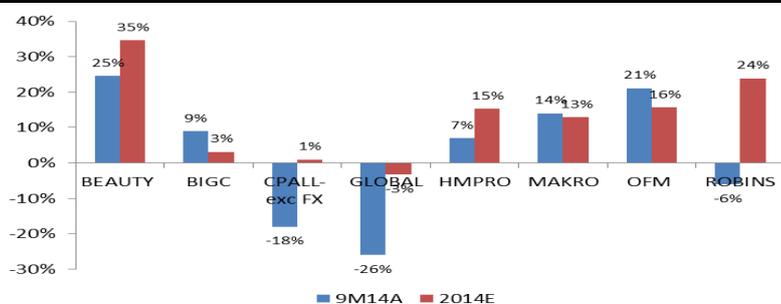


Source: BOT and NESDB

The surprising trend is that auto loans have been contracting for two quarters now. This encourages us to think the woes besetting the auto sector will be fading soon. Autoparts maker, SAT, one of our top buys is chosen as a potential indirect beneficiary of the government’s policy to enhance the efficiency of the farming sector. Normalization and then recovery of the passenger car and commercial vehicle market will not hurt its outlook.

What drove the household debt higher is the continued high growth in property/housing loans and credit card & other loans. Rising credit card loans amid slow consumption is more concerning, in our view, as it could be a reflection of increasing number of households living paycheck to paycheck. Our neutral stance on the commerce sector is widely endorsed but maybe that view is optimistic. We highlighted to investors how the sector lagged market’s growth expectations.

Commerce sector’s performance lagged full-year growth expectations



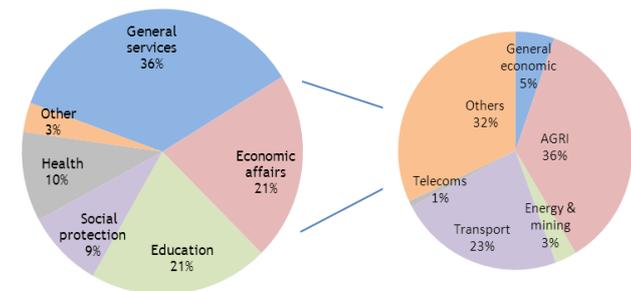
Sources: SET, MKE-ISR calculations

Many asked why implementation of initiatives is so slow?

In the early days post-coup there was a sense of strong commitment to address the slowing economy dragged by the prolonged political conflict and paralyzed government. However, six months have passed and there is nothing visible yet, be it in deploying a higher proportion of the fiscal budget to stimulus measures to infrastructure bidding.

Government budget FY14/15 - 30% to be disbursed in 1Q

... 13% has been disbursed as at the end of Oct



Source: Budget Bureau



Source: Budget Bureau

We explained that the situation has more to do with the value platform that the junta government has embraced - No Corruption, High Transparency. This platform requires change of leadership in several government agencies and state enterprises. This takes time but we believe that new government machinery is nearly in place so we are expecting faster pace of implementation.

Programs announced in the early post-coup days

THB bn	Gross Amount	Ex-fixed cost
Short term stimulus from carry over budgets and farm support	365	365
Infrastructure		
Carry over from 4Q14	60	9
Listed for 1H15	525	79
Government budget - 30% disbursement 1Q FY14/15	771	193
Total	1,720	645
As % of nominal GDP	13.9%	5.2%

Source: Compiled from press, MKE-ISR estimates

Infrastructure projects listed for bidding in 1H15

Projects Carried Over from 4Q14	Description	Value (THBm)	Status
Double Track : Klong 19-Khaeng Khoi	Contract 1 : Double Track (Cha Choeng Sao - Wihan Daeng), Chord Lines	10,184	
	Contract 2 : Double Track (Wihan Daeng - Buu Yai Section), Railway Turner	621	
Suvarnabhumi Airport Phase 2	Contract 1 : Extension on the west-side of the existing Passenger Terminal Building	39,046	
	Contract 2 : Construction of Midfield Satellite Terminal	7,087	
	Contract 3 : System design and construction of utilities	2,565	
Sub-Total		59,503	
Targeted for Bidding in 1H15			
Dual track		37,355	Continuation since 2005
Mass transit	BMA		
- Dark green line	BMA	58,590	Continuation
- Pink line	BMA - 21km underground, 3km above ground	56,691	Continuation
- Orange line	BMA - 30.4km	110,117	Budget up from 2003 estimate THB73b
- Red line	BMA	48,619	Continuation
- Airport Link extension	BMA	39,176	Continuation
Motorway		28,440	Continuation
- Bang Pa In to Korat (Nakhon Ratchasima)	147 km to the northeast city of Korat		
- Pattaya-Map Ta Phut	55 km from the Industrial town	84,600	Budget up from 2003 estimate THB31.3b
Airport expansion		11,600	Continuation
- Suvarnabhumi Remaining of Phase 2	BMA	13,805	In AOT's pipeline since 2005
- Don Muang	BMA	7,000	Continuation
Expressway		18,646	Continuation
Water management			
- Dredging Chao Phraya River	Multiple points increase depth from up to 2m	10,000	From 2012 plan
Total Value		584,142	

Sources: Compiled from Press

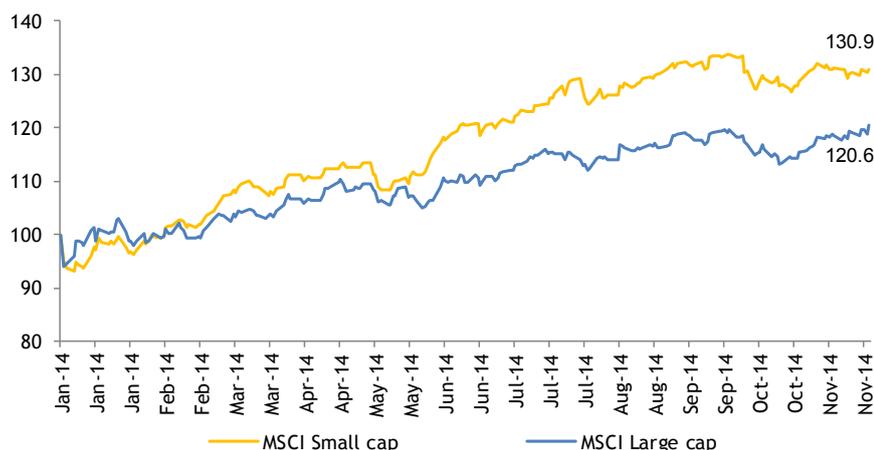
Election - keeping the faith

The junta government initially promised there will be an election sometime in 3Q15. Recently there was noise that the Martial law will remain in place for longer and the election postponed. We maintain our base-case scenario that an election will happen as initially promised - in 3Q15.

Will the index go higher?

This was the most difficult question. We believe the SET will close higher as investors' mood is likely to remain positive anticipating positive announcements relating to the various government initiatives. In addition, we will have LTF and RMF funds deployed nearing YE as well as the normal window dressing to support the index. As mutual funds tend to invest in large cap stocks, BigCaps could move higher relative to SmallCaps. In addition, the SmallCap sector is under some pressure because of a regulatory move by the Stock Exchange Authority trying to cool down high speculative activities.

Small caps outperformed large caps - based on MSCI



Source: Bloomberg

Company/industry specific issues

- 1) Increasing cases of leveraged acquisitions could be a sign of a frothy market. CPALL's high premium offer for Siam Makro shares is now to be followed by ROJNA increasing its stake in Ticon Industrial Connections to 49% and WHA acquiring Hemaraj Land and Development. We believe these are just a few cases and far from the norm. Bangkok Dusit Medical Services (BGH) turned away from buying the listed, Bangkok-based, single campus hospitals because valuation was too high.
- 2) Why so negative on energy & petrochemicals? Because we do not believe that listed energy companies and petrochemicals have inherent strength that can make them overcome the falling crude oil prices. These entities are just processors with products that are mainly commodity grade. Although it looks like olefin is strong and that aromatics recovered in 3Q14 - these product groups will

succumb to lower benchmark prices in a matter of time. That has always been the case before when the price slump lasted more than two quarters.

- 3) We sense a strong interest in PTT as a beneficiary of energy reform. We argue that after having taken the first step to adjust the gas prices, the government will step back before making the next move. This has been the way the government has operated in the past. So the benefit that PTT is supposed to get upon full liberalization of prices will be long in coming.
- 4) Is the weak yen going to be an issue for FDI in Thailand? At these levels we do not think so as we believe that the “resource” argument of the Japanese FDI is more powerful than currency. That said, we recognize that Thailand is no longer the only Japanese FDI destination in the ASEAN region as the domestic economies of bigger countries - by population - such as Indonesia, Philippines and Vietnam appear ready to enter the next stage of their development. We still argue, though, that Thailand still possesses many attributes that make it a viable production hub for exports destined to the Asia Pacific market.

The year ahead, play the policy

Stock picks and valuations

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Closing price 7 November Source: Company, SET, KELIVE, MKE-ISR

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

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 ct.wei.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

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

Elliott KING
(852) 2268 0635
elliottking@kimeng.com.hk
• Gaming

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

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

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

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

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
• SMID Caps - Regional
• Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG
(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
• 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
• 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

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.quang@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

London

Simon Lovekin
simonl@maybank-ke.co.uk
Tel: (44)-207-626-2828

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