

# Malaysia Consumer

# NEUTRAL

 (Unchanged)

## Ears on the ground

- Our price study shows that C-store products are priced at a premium of up to 15% over the products in mini-marts, supermarkets, and petro marts.
- Price premium is largely justified by convenience offered but there is room for pricing to narrow over time as economies of scale improve.
- What is more critical for C-stores such as 7EM would be margin enhancement from a shift away from low margin to higher margin product and services. HOLD maintained on 7EM (TP: MYR1.50, fair valuations for now).

### Analyst

Liew Wei Han  
(603) 2297 8676  
wei.han.l@maybank-ib.com

## What's New

We conducted a limited price study on merchandise sold at C-stores, mini-markets, supermarkets and petro marts located in the vicinity of our office, the objective of which was to gauge the price gap of on-the-go products sold at these different outlets. C-stores here refer to 7-11 Malaysia (7EM) and Mynews.com stores.

Of the listed retailers, we cover 7-11 Malaysia, (SEM MK, HOLD, TP: MYR1.50) and AEON Co M (AEON MK, HOLD, TP: MYR2.85).

## What's Our View

Our findings revealed that average product prices (MKE-selected items; refer to page 4) in C-stores are about 15.1%/13.3%/4.8% higher than mini-marts/supermarkets/petro marts. On a standalone basis, 7EM's merchandise are just about 12.7%/11.0%/2.6% higher, largely justified by the fact that its stores carry higher fixed operating costs for the convenience of staying opened 24/7.

We do think that there is room for the price disparity to narrow over time as economies of scale increase alongside store count growth but pricing aside, 7EM's vast store network accords it the ability to launch more effective nationwide A&P and promotional campaigns to drive sales.

What is more critical for C-stores such as 7EM, in our view, is that there is a more rapid shift away from low margin products to higher margin ones as soon as possible. As it stands, we estimate that low margin tobacco still accounts for a high 36% of total merchandise sales while food & services (higher margins) make up just about 10%. Management has been rolling out fresh/frozen food products throughout its stores and the company now has 164 Quick Win Food Stores and Next-Gen stores (8.8% of total stores).

In-store services, which carry a 100% gross profit margin, have also been broadened to include Touch n'Go top-up services as well as bill payment services for SYABAS (water), Telekom and Astro. Nevertheless, such services currently account for just about 3.5% of total sales and there is room for further expansion here.

## Apple vs apple or orange?

### Store segments under study

In the price study, we have included convenience stores (7EM, Mynews.com), mini-marts (KK Super Mart, 99 Speedmart), hypermarkets (Aeon, Aeon Big, Cold Storage) and petro marts (BHPetromart-BHP, Select-Shell, Mesra-Petronas). Of all the stores, we believe that only 7EM and KK Super Mart operate around the clock.

We do stress that one of the limitations of this study is the limited sample size, in that we focused solely on the outlets around our office area in Bangsar/Midvalley City. Nevertheless, due to the close proximity of the stores to one another, we do think that the price points should be fairly representative of the level of competition in the vicinity.

### A quick look at store counts

In the convenience store (C-store) space, 7EM's leading position is undisputed with about 1,879 stores nationwide currently, while Mynews.com has about 190. Mynews.com's stores are located mainly in shopping malls and train stations in major city areas such as Klang Valley, Johor and Penang, which does mean that most, if not all, are not opened 24 hours, unlike 7EM's stores. 7EM's stores, meanwhile, are also more pervasive in presence and are located nationwide.

KK Super Mart is typically deemed to be a mini-mart but its distinguishing feature is that it is opened 24 hours and would thus rival 7EM in this aspect. Nevertheless, it too has just about 190 stores.

99 Speedmart is also deemed to be a mini-mart but while it is not opened 24 hours, it has the largest network of all the mini-marts, with more than 700 outlets.

In the petro mart space, Petronas' Kedai Mesra is the undisputed leader with about 700 such stores across its petrol stations nationwide.

### Findings: C-stores premiums of x%?

Our findings revealed that the average selling prices (MKE-selected items; refer to page 4) in C-stores (blend between 7EM and Mynews.com) are about 15.1% higher than in mini-marts, 13.3% higher than in hypermarkets and 4.8% higher than in petro marts.

We think a certain level of price premium is justifiable as C-stores (i) more often stand to capitalize on impulse buys at high traffic locations, (ii) have fixed operating costs that are generally higher (eg. longer opening hours), (iii) have possibly less purchasing power for inventories compared to larger supermarket chains by volume.

What we do find, however, is that the selling prices for items at Mynews.com tend to be higher than 7EM's, thus skewing average selling prices upwards. This, we believe, is likely a function of the location of

#### C-store price premiums over...

Mini-mart	15.1%
Hypermarket	13.3%
Petrol Mart	4.8%

Source: Company, Maybank KE  
\*Not representative of all stores

Mynews.com stores in areas where rentals are higher eg malls and transportation hubs. Nevertheless, it is also likely that because of the high traffic at these locations, Mynews.com is able to price its products at a larger premium.

On a standalone basis (ex Mynews.com), our observation is that 7EM's merchandise are priced only 12.7% higher than those in mini-marts, 11.0% higher than hypermarkets' and just a mere 2.6% higher than petro marts'. This premium level is fairly decent, in our view, given the cost of operating the stores on a 24-hour basis.

**7EM price premiums over..**

Mini-mart	12.7%
Hypermarket	11.0%
Petrol Mart	2.6%

*Source: Company, Maybank KE  
\*Not representative of all stores*

**7EM's sales mix has to shift**

Much as a price premium may be justified for the conveniences offered by C-stores, we do think that there is room for the price disparity to narrow over time as economies of scale increase alongside store count growth. Our Thailand research counterpart points out that 7-11 stores in Thailand under CP ALL, are generally priced at a 0-15% premium to hypermarkets over a wider range of merchandise.

Besides competing on price, there is vast opportunity for C-stores such as 7EM to improve on and differentiate its product offerings through creative A&P and by targeting the youth population.

Moreover, there is the need to shift the product mix away from low margin products to higher margin ones. We estimate that in its 1H15 results, tobacco contributed about 36% of 7EM's total merchandise sales, with food and services coming in slightly below 10%. Tobacco may be the largest contributor to sales but it is also carries the lowest margins.

Including snacks and beverages, 7EM's F&B portion of merchandise sales works out to be over 40%, we estimate, but then again, CPALL derives more than 70% of its merchandise sales from F&B.

7EM has been expanding its fresh food range but these are mainly on offer at Quick Win Food Store (QWFS) and Next Gen Store. As a recap, QWFS and Next Gen Store have more complete food service infrastructure and a wider selection of goods and products.

To recall, in 2Q15, 7EM saw a jump from 99 to 164 (QoQ) QWFS and Next Gen stores (5.5% to 8.8% of total store mix). The effort to make food more readily available (eg. fresh and frozen food) coupled with creative A&P and the focus on expansion of in-store services could mean that 7EM will eventually see margin improvements in the medium term.

7EM has also been trying to broaden its in-store services offerings and todate, it has rolled out Touch n' Go top-up services across all its stores nationwide and it has also tied up with SYABAS (water), Telekom and Astro for bill payment services at its stores. Next in line are potential tie-ups for the payment of electricity.

In-store services currently account for just about 3.5% of total sales but profit margins here are 100% versus just about 25% for merchandise. As such, the ability to increase contributions from this segment would have a positive impact on the group's earnings, given the full flowthrough of revenue to bottomline.

Price data (undiscounted list price at certain stores in Bangsar, Kuala Lumpur and its immediate suburbs)

	Note	Convenience stores		Mini-mart		Hypermarket			Petrol Mart		
		7-11	My news.com	KK Super Mart	99 Speedmart	Aeon	Aeon Big	Cold Storage	BHPetromart - BHPetrol	Select - Shell	Mesra - Petronas
<b>Store count</b>		<b>1,854</b>	<b>&gt;190</b>	<b>&gt;190</b>	<b>&gt;700</b>	<b>29</b>	<b>28</b>	<b>17</b>	<b>&gt;190</b>	<b>&gt;250</b>	<b>&gt;700</b>
Mineral water (600ml)	Branded	1.90	2.20	1.38	1.00	1.30	1.30	1.69	-	-	1.60
	House	1.60	1.80	1.00	0.53	0.60	0.60	0.84	1.80	1.50	1.27
Coke (can;320ml)		2.15	2.50	1.48	1.40	1.30	1.45	1.72	2.00	2.25	1.90
Fresh milk/ 1 litre	HL	8.25	9.00	7.31	6.79	7.50	6.45	7.32	7.60	8.70	8.20
Bun		0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Candy	Lozenges	4.55	4.60	3.70	3.39	3.90	3.70	3.70	3.70	4.40	3.70
	Mint	6.15	6.50	5.19	5.15	5.70	5.60	5.69	6.00	6.25	5.90
Chocolate bar		3.40	3.90	2.65	2.50	2.65	2.55	2.49	3.00	3.40	3.00
Instant noodle cup		2.55	2.70	1.91	1.75	1.85	1.75	2.10	2.30	2.75	2.12
Cigarettes	VFM	12.30	12.30	12.30	12.30	12.30	12.30	12.30	12.30	12.30	12.30
Cigarettes	Premium	13.80	13.80	13.80	13.80	13.80	13.80	13.80	13.80	13.80	13.80
Beer (can;320ml)	Tiger	8.50	10.50	7.31	5.60	7.90	7.60	5.99	-	-	-
	Carlsberg	8.35	10.10	7.31	5.60	6.90	6.90	5.49	-	-	-
Toothpaste (colgate)		6.15	5.50	5.83	4.45	4.25	4.25	5.50	3.20	6.55	-
Ice (packet)		2.45	2.10	1.80	1.50	-	1.55	2.43	-	-	-
Newspaper		1.20	1.20	1.20	-	-	-	-	1.20	1.20	1.20
Fresh brewed Coffee (machine)		3.00	3.70	-	-	-	-	-	-	-	-

Source: Company Websites, Various, Maybank KE

\*Italic - common goods available in all stores

Total price and average MKE-selected basket price (MYR)

	Convenience stores		Mini-mart		Hypermarket			Petrol Mart		
	7-11	My news.com	KK Super Mart	99 Speedmart	Aeon	Aeon Big	Cold Storage	BHPetromart - BHPetrol	Select - Shell	Mesra - Petronas
Total price of common goods available in all stores	55.60	57.95	50.19	48.46	50.45	49.05	50.81	53.35	56.20	53.04
Average	56.78		49.33		50.10			54.20		

Source: Various, Maybank KE

Sector summary table

Company	Share Price (MYR)	Market Cap (MYR m)	Target Price (MYR)	PE		Div Yield		ROE		P/BV		EPS CAGR
				CY15 (x)	CY16 (x)	CY15 (%)	CY16 (%)	CY15 (%)	CY16 (%)	CY15 (x)	CY16 (x)	CY14-16 (%)
BAT	62.38	17,811	63.00	19.0	19.0	5.1	5.5	175.3	168.5	32.7	31.5	1.8
Nestle	72.02	16,889	68.00	29.1	27.6	3.3	3.5	73.8	76.1	21.2	20.8	5.4
Aeon	2.86	4,015	2.85	24.2	20.0	1.4	1.6	9.0	10.3	2.1	2.0	(6.1)
QL Resources	4.20	5,242	4.00	25.6	23.1	1.2	1.2	13.9	14.0	3.5	3.1	13.2
Guinness	13.32	4,024	14.00	18.6	18.2	5.4	5.5	57.4	58.1	10.4	9.8	3.6
Carlsberg	11.60	3,568	12.20	17.2	16.4	5.8	6.0	66.7	69.2	11.2	10.4	1.0
MSM	4.94	3,473	5.50	12.6	12.6	5.2	4.9	13.8	12.6	1.7	1.6	3.6
7-Eleven	1.48	1,803	1.50	30.8	25.1	1.6	2.0	23.6	25.7	6.7	5.9	12.0
Padini	1.39	914	1.35	10.8	9.5	7.2	7.2	20.3	21.3	2.2	2.0	6.3
Oldtown	1.34	605	1.45	12.7	11.5	4.4	4.8	13.1	13.4	1.7	1.5	5.0
<b>Simple average</b>				<b>20.1</b>	<b>18.3</b>	<b>4.1</b>	<b>4.2</b>	<b>46.7</b>	<b>46.9</b>	<b>9.3</b>	<b>8.9</b>	<b>4.6</b>

Source: Bloomberg, Maybank KE

Regional consumer peer comparison

Company	B'berg Code	Shr px (local)	Mkt cap (USD'm)	PER (x)		EV/EBITDA (x)		Div Yield (%)		ROE (%)		3Y EPS ^	PEG
				CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CAGR (%)	(x)
<b>CONVENIENCE STORE OPERATORS</b>													
CP ALL	CPALL TB	49.5	12,394	33.7	27.1	19.6	17.3	1.9	2.2	37.6	39.4	26.1	1.3
President	2912 TT	206.5	6,575	24.8	22.4	11.8	10.8	3.3	3.5	30.8	31.8	4.5	5.5
Tw Familymart	5903 TT	206.0	1,408	32.1	27.2	13.2	11.1	2.6	3.2	27.8	32.4	17.0	1.9
Modern	MDRN IJ	182.0	58	24.9	27.4	8.0	8.1	1.1	1.3	2.5	2.2	(2.9)	(8.6)
<b>Simple average</b>				<b>28.9</b>	<b>26.0</b>	<b>13.1</b>	<b>11.8</b>	<b>2.2</b>	<b>2.5</b>	<b>24.7</b>	<b>26.4</b>	<b>11.2</b>	<b>0.0</b>
<b>Mkt cap wtd avg</b>			<b>20,436</b>	<b>30.7</b>	<b>25.6</b>	<b>16.6</b>	<b>14.8</b>	<b>2.4</b>	<b>2.7</b>	<b>34.7</b>	<b>36.4</b>	<b>18.4</b>	<b>2.7</b>
<b>DEPARTMENTAL STORES / SUPERMARKETS / HYPERMARKETS</b>													
Dairy Farm	DFI SP	6.0	8,140	18.0	16.3	12.9	11.7	3.8	4.0	29.8	29.7	4.0	4.6
Big C	BIGC TB	199.5	4,588	20.8	18.7	12.4	11.4	1.4	1.7	17.5	17.3	10.2	2.0
Siam Makro	MAKRO TB	38.5	5,151	32.0	26.9	20.7	17.3	2.3	2.7	42.4	43.8	18.7	1.7
Matahari	LPPF IJ	16,850.0	3,400	26.3	21.7	18.4	15.8	1.8	2.3	n.m.	n.m.	24.4	1.1
Robinson RH	RRHI PM	71.5	2,131	22.4	19.5	14.1	12.0	0.7	0.9	10.5	11.1	17.1	1.3
Robinson DS	ROBINS TB	39.0	1,207	20.1	17.3	10.0	8.9	2.4	2.8	16.5	17.4	14.8	1.4
Sumber Alfaria	AMRT IJ	585.0	1,680	40.2	31.1	11.7	10.0	0.8	0.9	16.2	17.1	17.7	2.3
Mitra Adiperkasa	MAPI J	3,000.0	344	23.6	12.4	7.0	5.8	0.2	0.4	8.0	13.7	100.7	0.2
Ramayana	RALS IJ	570.0	280	13.6	12.2	4.4	3.9	4.6	4.0	9.4	9.5	0.2	70.4
<b>Simple average</b>				<b>24.1</b>	<b>19.6</b>	<b>12.4</b>	<b>10.8</b>	<b>2.0</b>	<b>2.2</b>	<b>20.0</b>	<b>21.2</b>	<b>23.1</b>	<b>10.5</b>
<b>Mkt cap wtd avg</b>			<b>26,921</b>	<b>24.1</b>	<b>20.5</b>	<b>14.7</b>	<b>12.9</b>	<b>2.3</b>	<b>2.6</b>	<b>22.1</b>	<b>22.4</b>	<b>14.0</b>	<b>3.1</b>
<b>BLENDED VALUATIONS</b>													
<b>Simple average</b>				<b>26.5</b>	<b>22.8</b>	<b>12.8</b>	<b>11.3</b>	<b>2.1</b>	<b>2.4</b>	<b>22.3</b>	<b>23.8</b>	<b>17.1</b>	<b>5.2</b>
<b>Mkt cap wtd avg</b>			<b>47,357</b>	<b>26.9</b>	<b>22.7</b>	<b>15.6</b>	<b>13.7</b>	<b>2.4</b>	<b>2.6</b>	<b>27.5</b>	<b>28.4</b>	<b>15.9</b>	<b>2.9</b>

Source: Bloomberg, Maybank KE ^3-year EPS CAGR from CY14-CY17

## Research Offices

### REGIONAL

**Sadiq CURRIMBHOY**  
Regional Head, Research & Economics  
(65) 6231 5836 sadiq@maybank-ke.com.sg

**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) 6231 5839  
ongsengyeow@maybank-ke.com.sg

**TAN Sin Mui**  
Director of Research  
(65) 6231 5849 sinmui@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, BII  
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

**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 Services - Regional

**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

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

**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 • Semiconductor • Technology

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

**LIEW Wei Han**  
(603) 2297 8676 weihan.l@maybank-ib.com  
• Consumer Staples

**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

**Cheah Chong Ling**  
(603) 2297 8767 chongling.c@maybank-ib.com

### HONG KONG / CHINA

**Howard WONG** *Head of Research*  
(852) 2268 0648  
howardwong@kimeng.com.hk  
• Oil & Gas - 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

**Mitchell KIM**  
(852) 2268 0634 mitchellkim@kimeng.com.hk  
• Internet & Telcos

**Osbert TANG, CFA**  
(86) 21 5096 8370  
osberttang@kimeng.com.hk  
• Transport & Industrials

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

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

### INDIA

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

**Neerav DALAL**  
(91) 22 6623 2606 neerav@maybank-ke.co.in  
• Software Technology • Telcos

### SINGAPORE

**Gregory YAP**  
(65) 6231 5848 gyap@maybank-ke.com.sg  
• SMID Caps  
• 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 • Property • REITs (Office)

**Joshua TAN**  
(65) 6231 5850 joshuat@maybank-ke.com.sg  
• REITs (Retail, Industrial)

**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

**Isnapura ISKANDAR** *Head of Research*  
(62) 21 2557 1129  
isnaputra.iskandar@maybank-ke.co.id  
• Strategy • Metals & Mining • Cement

**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

**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\_rodriago@maybank-atrke.com  
• Conglomerates • Property • Gaming  
• Ports/ Logistics

**Katherine TAN**  
(63) 2 849 8843  
kat\_tan@maybank-atrke.com  
• Banks • Construction

**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

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

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

**Mayuree CHOWVIKIAN**  
(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

### 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) 8 44 555 888 x 8208  
diep.trinh@maybank-kimeng.com.vn  
• Technology • Utilities • Construction

**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

**TRUONG Quang Binh**  
(84) 8 44 555 888 x 8087  
binh.truong@maybank-kimeng.com.vn  
• Rubber plantation • Tyres and Tubes • Oil&Gas



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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,  
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**

Andrew Lee  
andrewlee@kimeng.com.hk  
Tel: (852) 2268 0283  
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  
5<sup>th</sup> 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 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**

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